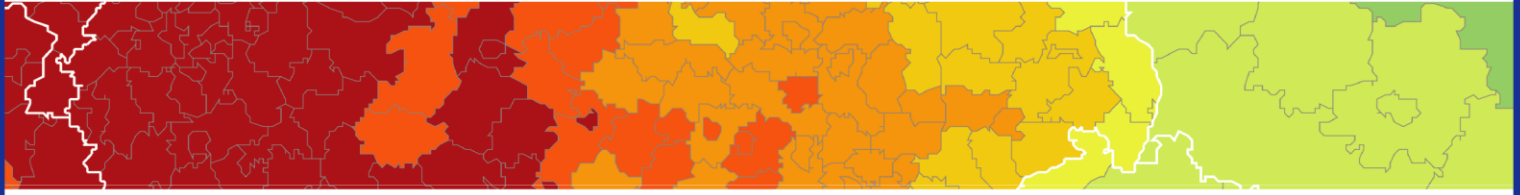


Inspire policy making by territorial evidence



# The World in Europe, global FDI flows towards Europe

## Case studies of best practices in FDI promotion

Applied Research

**Scientific Report**

March 2018

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The World in Europe,  
global FDI flows towards Europe

Case studies of best practices  
in FDI promotion



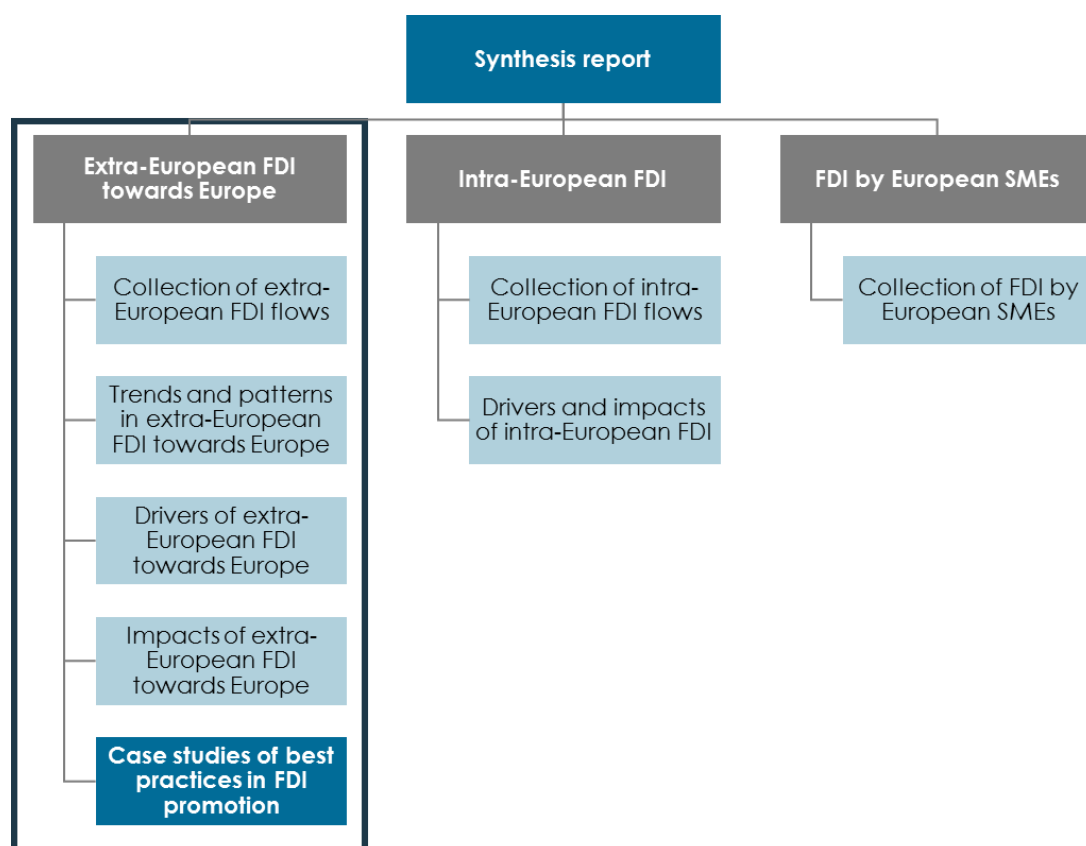
## Scope and introduction to the study

This scientific report is part of the study *The World in Europe, global FDI flows towards Europe*, and the overall objective of this part of the study is to analyse global FDI flows towards Europe (extra-European FDI). The insights gained in this report will be used to develop tailor-made policy recommendations that can help spur FDI into Europe. The final conclusions and recommendations from the study are summarised in the executive summary along with the findings from the other parts of the study.

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## Overview of deliveries in the study

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## Abbreviations

EC	European Commission
ESPON	European Territorial Observatory Network
EU	European Union
FDI	Foreign Direct Investment
FT database	fDi Markets database offered by the Financial Times
M&A	Mergers and Acquisitions
NUTS	Nomenclature of Territorial Units for Statistics

# 1 Introduction

Foreign direct investment (FDI) is considered as a key factor in fostering economic growth.<sup>1</sup> There is a common belief that the potential benefits of FDI such as regional technological advancement, local market growth and skill upgrading outweigh any negative effects such as crowding out of local firms and limited productivity spillovers. FDI does not come without pre-conditions, however, and its benefits will not be reaped automatically by the host country/region (Sun et al 2002). This is where the domestic regulatory framework of host countries comes into play and where the role of national policy makers becomes crucial.

The role of the ‘territorial dimension’ in growth and in policy making is currently high on the EU political agenda. Territorial capital distinguishes a region from other areas/territories and is determined by many factors including geographical location, size, quality of life or the agglomeration economies provided by its cities.

laSun et al. (2002) identify several components that make up an enabling environment for FDI. First, FDI requires a stable political and macroeconomic environment. Second, and closely related, is the importance of a sound policy and regulatory framework and efficient institutions to support its enforcement and uphold the relevant laws and regulations. Creating and maintaining a regulatory and administrative climate conducive to investment can have a huge impact on an investor’s location choices as well as predicting the extent to which FDI inflow will benefit the host country. Third, a good policy and regulatory framework should be complemented by adequate physical and social infrastructure. These include the quantity and quality of roads and communication systems, skilled labour and efficient public services. They are also important in realising the full potential of benefits associated with the presence of FDI. A detailed description of FDI drivers can be found in the scientific report on FDI drivers.

## 1.1 Policy for FDI attraction

In the absence of a common language through which to debate FDI attraction, policy discussions often become confused resulting in different conceptualisations of what constitutes a strategy for FDI promotion, FDI incentives, policy competition and the like.<sup>2</sup> The aim of policies for attracting FDI is to create an enabling environment for foreign investors using different incentives. UNCTAD (2003) defines incentives as ‘any measurable advantage accorded to specific enterprises or categories of enterprises by (or at the direction of) government’. However, use of different incentives is not necessarily a substitute for the pursuit of appropriate general policy measures. In certain cases, incentives may ‘serve either as a supplement to an

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<sup>1</sup> ESPON FDI (2018), *Main report: Extra-European FDI towards Europe*.

<sup>2</sup> OECD 2003.

already attractive enabling environment for investment or as a compensation for proven market imperfections that cannot be otherwise addressed'.<sup>3</sup>

The OECD (2003) identifies the following broad categories of FDI incentives:

- **Broadly-based FDI incentives.** A simple strategy that uses FDI incentives to increase the attractiveness of the host economy beyond what can be achieved through an enabling environment. Within this framework, two distinct categories are identified:
  - *Proactive policies* that aim to attract foreign investors by building on the advantages of the host economy's enabling environment. For example, providing financial support for relocation or covering the initial lossmaking period of an investment.
  - *Defensive strategies* that aim to match investment incentives on offer elsewhere.
- **Targeted strategies.** Most incentive-based FDI strategies are limited in scope and focus on specific aspects of the host economy. The following four strategies appear to be prevalent:
  - *Regionally oriented strategies.* These strategies aim to attract foreign enterprises to economically depressed areas, often in response to the closure of another plant. They may be crafted by national authorities or sub-national authorities may have sufficient freedom to pursue them on their own.
  - *Developing prioritised activities.* One of the main examples of such strategies is the establishment of export processing zones, which aim to integrate the host economy more closely into international trade flows.
  - *Building on particular advantages.* A classic example of this type of strategy is countries with an abundant workforce that benefit from labour intensive industries.
  - *Nurturing selected sectors.* Some countries and regions attempt to use FDI as an instrument to lay the foundations for completely new sectors in which they have no history or for developing "priority industries" in sectors where they were not previously regarded as having particular leverage. This strategy has, for example, been used in the case of high-tech industries, high-value segments of the service sectors and high added-value sound projects (e.g. machine tool-making, precision engineering).
- **Improvisation.** Not all FDI incentives are granted as part of specific or targeted programmes. In fact, in some of the most heavily publicised examples of incentivised FDI, a large degree of improvisation from the host area authorities has been observed. The generosity of the incentives used in these cases was largely owing to the sheer magnitude of the investment projects.

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<sup>3</sup> Ibid.

The effect, appropriateness and attractiveness of FDI incentives will depend on at least two aspects: 1) whether incentive schemes are operated by national or sub-national jurisdictions; 2) the territorial setting in which the policy objective is being pursued.<sup>4</sup> This implies a need for host governments to provide 'institutional preconditions in order to promote outward FDI because the institutional content and form might affect the cognition, behaviour and motivation of firms in their decision on whether or how to go abroad'.<sup>5</sup> The OECD (2003) divides FDI incentives into three major groups of tools the government uses to attract and sustain FDI inflows:

- **Regulatory FDI incentives** offer foreign companies derogation from national or sub-national rules or regulations, thus easing the *environmental, social and labour market requirements placed on investors*. Barbour (2005) defines these as non-fiscal incentives, for example, fast-track approval processes or exemptions from certain regulations. Generally, these policies promote investment and subsidies in order to grow certain sectors. However, as argued by the OECD (2001), regulatory incentives have different impact according to the type of firm and the sector of operations. For instance, regulatory concessions on labour or environment will not affect the cost base of large international firms whose investment is based on technological leadership in a sector (such as telecommunications, banking or aerospace). But these firms may rely on patents and brand names and thus depend upon intellectual property rules. The protection of unskilled labour does not present a problem to large international firms that require a skilled labour force and high labour standards may be a positive attraction to the extent that these are associated with public human capital investment.<sup>6</sup>
- **Financial FDI incentives** consist of direct contributions to the foreign company from the government and include grants, subsidised loans, loan guarantees, the participation of publicly funded venture capital in investments involving high commercial risks and government insurance at preferential rates.<sup>7</sup> Thomas (2007) argues that there are two reasons why authorities compete for FDI using location subsidies - 'their need for investment and the fact that capital is mobile'. To meet the first need, the governments negotiate the conditions of investment with foreign investors; while the second need, 'creates the competitive aspect of this relationship insofar as a given investment potentially could be located in more than one jurisdiction'.<sup>8</sup>

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<sup>4</sup> OECD 2003.

<sup>5</sup> Bannò 2010.

<sup>6</sup> OECD 2001.

<sup>7</sup> Bannò 2010.

<sup>8</sup> Thomas 2007.

- **Fiscal FDI incentives** are designed to reduce a firm's tax burden and include reduced corporate income tax rate, tax holidays, accelerated depreciation allowances on capital taxes, exemption from import duties and duty drawbacks on exports. Barbour (2005) defines fiscal incentives as direct 'cash' grants or tax breaks and identifies two types:
  - *Direct incentives*: cash payments and payments-in-kind (e.g. the provision of land/infrastructure to international companies)
  - *Indirect incentives*: reductions in the rate of direct taxation (e.g. tax holidays with reduced Corporate Income Tax (CIT) rates or investment tax credits).

## 1.2 FDI impact

National and regional authorities often face political pressure to attract FDI in order to maximize local employment outcomes and increase tax revenue. There is a general policy consensus about the necessity 'of attracting foreign direct investment (FDI) as a key to economic development' that leads to the conclusion that 'it is crucial to use incentives to gain FDI'.<sup>9</sup>

Despite mixed evidence from research, there is a common understanding that FDI has a positive impact on host economies. For instance, FDI facilitates knowledge and technology spillovers<sup>10</sup> as well as 'stimulat[ing] high-skilled employment activities'.<sup>11</sup> Other studies<sup>12</sup> suggest that foreign companies pay higher salaries compared to local ones and generate higher levels of productivity.<sup>13</sup> These effects are often country or sector-specific<sup>14</sup>, however, and a complete understanding of the impact of FDI on host economies requires a closer examination of the determinants of FDI as well as the factors that attract FDI to specific countries/regions.<sup>15</sup>

## 1.3 Objectives of the case studies

The development of case studies within the World in Europe project was designed to supplement quantitative analysis carried out within the other tasks. The main objectives of the case studies are to:

- analyse inward FDI flows and their relation to regional growth and competitiveness;
- identify examples of good practice in attracting FDI and integrating the attraction of foreign firms in regional development strategies.

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<sup>9</sup> Ibid.

<sup>10</sup> Haskel et al 2007.

<sup>11</sup> Biasi 2015.

<sup>12</sup> E.g. Girma et al. 2001.

<sup>13</sup> E.g. Lipsey 2004; Görg and Greenaway 2004.

<sup>14</sup> E.g. Stehrer and Woerz 2009.

<sup>15</sup> Blonigen 2005; Caves 1996; Biasi 2015.



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## Box 1 Aim of the case studies

The case studies aimed to create ***a series of narratives that would highlight successful integration of FDI attraction into regional development strategies in selected regions.***

This included:

- A. Close examination of the different ***territorial drivers*** and ***government incentives*** that affect FDI flows in selected regions. Although emphasis is placed on highlighting positive practices within the case studies regions, it was at times instructive to consider hindering factors and reflect on areas for improvement.
  
  - B. An analysis of ***the specific strategies*** and ***tools*** employed by the regional actors to maximize both intake of FDI and its benefits for the region (e.g. job creation, employment, economic growth and research and innovation) as well as the ***interaction between the territorial dimension and FDI strategies*** in the regions under analysis.
- 

### The findings from the case studies:

- Create an integrated narrative highlighting the way that FDI attraction is integrated into regional development strategies in selected regions.
- Develop a storyline around FDI drivers and enabling environments for FDI flows.
- Emphasise positive aspects of FDI attraction while at the same time leaving space for critical reflection that allows us to learn from these front-runners.
- Identify key messages relating to different territories and draw conclusions to inform the policy recommendations that will be made in Task 5.

## 1.4 Case list and selection criteria

The primary objective of case study selection was to present a mixture of cases that would reflect the various dimensions of European FDI, namely sectors, locations, levels of development, FDI drivers and FDI impacts. The following criteria were used to select case studies:

- **Location:** the case studies covers regions from different parts of Europe from the point of view of geography, history, economy, and wealth.
- **Sectors:** each case study considers sectors that have a high or increasing share in total FDI into the country/region.
- **Level of development:** different NUTS levels, urban and intermediate regions as well as more/and less-developed and transition regions are considered.
- **FDI drivers:** diverse FDI drivers covering fundamental factors (e.g. size and prosperity of the economy, geography etc.) and quality and cost factors (e.g. ease of doing business, infrastructure, R&D, business and labour costs etc.).

- **FDI impacts:** different transmission channels between the FDI and the regional economy (e.g. importance of FDI in national production, creation of new jobs, employment etc.).

To capture the variety of geographical location and territorial contexts, the following cases were selected for in-depth study (see Table 1 next page).

## 1.5 Methodology

The research approach combined desktop research (e.g. review of policy documents and previous reports) and phone interviews with relevant stakeholders. Five groups of stakeholders were identified:

- (1) National and regional investment promotion agencies;
- (2) Policy makers;
- (3) International private business investor;
- (4) Chambers of commerce, business associations, consultants etc.;
- (5) Local companies (e.g. suppliers to foreign companies).

In total, 30 semi-structured, in-depth interviews were conducted. Such interviews are based on a fixed framework of threads and topics, but the questions are not standardised. This technique has allowed us to collect much more detailed (and tailored) qualitative data than what is available through other data collection methods (e.g. surveys), increased comparability of responses (the same questions were answered) and significantly aided organisation and analysis of the data. However, a few limitations of this method have been identified:

- **Risk of personal bias:** the complexity of the issue studied may result in a variety of opinions and interpretations among the interviewees.
- **Standardised wording of questions:** creates little flexibility in relating the interview to specific settings as well as limits relevance of questions and answers.

Additionally, a small sample of cases – 7 regions – somewhat narrows the variety of approaches and understanding of different policy and operational approaches to FDI attraction that leverage and promote territorial endowments. Furthermore, although the focus was largely placed on extra-EU FDI flows, it was not easy to identify incentives specific for only this group of FDI as policies for FDI attraction (in selected cases) do not differentiate between the EU and extra-EU FDI flows.

**Table 1 Selected case studies**

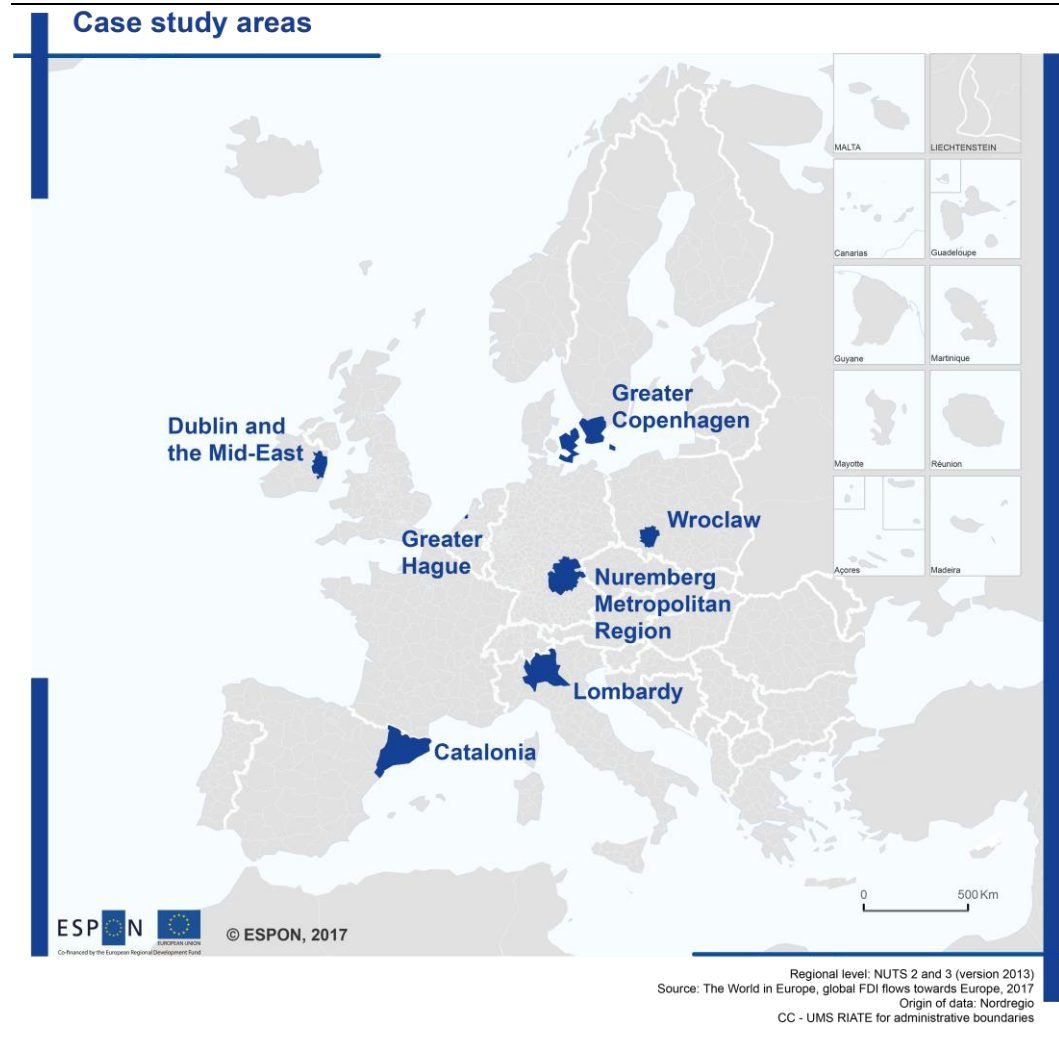
#	Country	Region	NUT S	Type of FDI	Top Sectors <sup>16</sup>	ESPON Regional typology <sup>17</sup>		Level of development	FDI strategy	Top Two FDI drivers	Main FDI impacts
1	Ireland	Dublin and the Mid-East Region	2	Greenfield	software and IT services, financial services, business services	Urban	Capital City Metro Region	More developed regions	Targeted: sectoral ecosystem development	Young, highly skilled workforce; culture and environment for doing business well aligned with the US	Direct and indirect job creation; new opportunities for indigenous companies; increased economic development capacity for the regions
2	Denmark	Greater Copenhagen	2	Greenfield	software and IT services, business services, pharmaceuticals	Predominantly urban & Intermediate	Predominantly capital city metropolitan	More developed & transition regions	Targeted: attracting R&D and innovation in niche markets	Centrally located in the Nordic context; high level of digitalisation	Job creation; new talent and productivity spill overs
3	Germany	Nuremberg Metropolitan Region	3	M&A	Manufacturing	Predominantly intermediate & rural	Predominantly non-metropolitan	Predominantly more developed & transition	Broadly-based: cluster development	Central location in the European market; presence of industrial actors with strong global position; highest density of engineers in Germany	Job creation; strengthening the clusters; talent attraction; strengthening transport hub; cultural exchanges
4	Poland	Wroclaw and the Lower Silesia Region	3	Greenfield	software and IT services, consumer electronics, electronic components	Urban & intermediate	Other metropolitan & non-metropolitan	More & less developed regions	Broadly-based: special economic zones & transition to knowledge-based economy	Highly skilled workforce (academic centre); optimal balance of cost and quality factors	Growth & unemployment reduction; knowledge spill overs & talent attraction; facilitated collaboration between local and foreign companies
5	The Netherlands	The Greater Hague	3	M&A	ICT	Urban	Metropolitan	More developed regions	Targeted: two-level targeted approach	Strategic location and excellent infrastructure; availability of various rulings	Direct and indirect job creation; attracting technology and regional brand building
6	Italy	Lombardy	2	M&A	Manufacturing, software and ICT, finance and business services	Predominantly urban & intermediate	Other metropolitan & non-metropolitan	More developed regions	Broadly-based & alignment between RIS3 & existing clusters	Availability of highly skilled labour force; Highly advanced manufacturing and entrepreneurship.	Job creation; attraction of talent; boost business competitiveness
7	Spain	Catalonia	2	Greenfield	software and IT services, business services, financial services	Predominantly intermediate	Non-metropolitan & metropolitan & other metropolitan	More developed regions	Targeted: fill in industry gaps & alignment with smart specialisation strategy	Strategic location and excellent logistics infrastructure; highly diversified traditional and emerging industries	Job creation; strengthening the value chains.

<sup>16</sup> By number of projects.

<sup>17</sup> ESPON Atlas.

## 1.6 Overview of case studies

### Map 1 Case study regions



**Note:** the respondents were asked to provide their feedback on each individual case used in this study to make sure that information presented in this scientific report is accurate.

## 2 Ireland: Dublin and the Mid-East Region

The table below presents a summary of the main characteristics of the Irish case – Dublin and the Mid-East Region. Due to the small size of the country and the holistic, nation-wide, approach of Ireland’s investment promotion agency, IDA Ireland, it is difficult to make distinctions between policy approaches at the geographical scales. As the capital, Dublin receives a large share of the county’s FDI however the material presented here is, in most cases, relevant to Ireland as a whole.

**Table 2 Summary of main characteristics of the Irish Case – Dublin and the Mid-East Region**

<b>Investment Typology</b>	Young, skilled workforce and a focus on realising regional development	
	-	+
<b>Economic &amp; territorial factors</b>	<ul style="list-style-type: none"> <li>Peripheral in a European context</li> </ul>	<ul style="list-style-type: none"> <li>Ease of access to the US</li> <li>Eurozone membership</li> <li>High quality of life</li> </ul>
	-	+
<b>Cost &amp; quality factors</b>	<ul style="list-style-type: none"> <li>New infrastructure required to support growth</li> </ul>	<ul style="list-style-type: none"> <li>Young, highly educated workforce</li> <li>Highly international environment</li> <li>Large presence of foreign companies</li> <li>Strong innovation profile</li> </ul>
<b>FDI policy approach</b>	Supporting regional development through FDI while retaining a strong capital city	
<b>FDI policy enablers/drivers</b>	<ul style="list-style-type: none"> <li><b>Regulatory:</b> Flexible labour laws</li> <li><b>Fiscal:</b> Low corporate tax rate; openness to trade</li> <li><b>Financial:</b> R&amp;D tax credit; tax relief for capital expenditure related to intangible assets and intellectual property</li> <li><b>Other:</b> High level of coordination between actors; comprehensive approach to skills policy</li> </ul>	
<b>FDI value-added</b>	<ul style="list-style-type: none"> <li>Job creation</li> <li>New Opportunities for indigenous companies</li> <li>Increased economic development capacity for regions</li> </ul>	

### 2.1 Context overview and existing investment framework

Ireland is a small but growing country, with 4.75 million inhabitants.<sup>18</sup> Its population has grown by 1.1 million since the early 90s and a similar rate of growth is expected over the next 20 years.<sup>19</sup> Regional reforms, effective as of January 1 2015, resulted in the formation of three Regional Assemblies, including the Eastern and Midland Regional Assembly that covers three sub-regions: (i) Dublin, (ii) the Eastern, and (iii) the Midland.<sup>20</sup> The Eastern and Midland Regional Assembly comprises of 36 elected Members nominated by the constituents of the 12 local authorities within the region.<sup>21</sup> Dublin is the economic centre of both the region and the

<sup>18</sup> 2016 figures, source: National Planning Framework (2017) Ireland 2040 Our Plan: Issues and Choices. Available at: <http://nfp.ie/wp-content/uploads/2017/02/Position-Paper-Issues-and-Choices-Ireland-2040-web.pdf> (accessed 11 May 2017).

<sup>19</sup> National Planning Framework (2017) Ireland 2040 Our Plan: Issues and Choices. Available at: <http://nfp.ie/wp-content/uploads/2017/02/Position-Paper-Issues-and-Choices-Ireland-2040-web.pdf> (accessed 11 May 2017).

<sup>20</sup> Interviewee 3-A.

<sup>21</sup> Interviewee 3-A.

country, accounting for 40 percent of the Irish population and 49 percent of the country's economic output.<sup>22</sup>

With respect to FDI, Ireland continues to punch above its weight, attracting more investment per capita than most other developed countries. In 2013, the country was ranked 10th in terms of FDI project inflows globally, ahead of countries such as Germany, Spain and the Netherlands. It was one of the few EU countries that experienced an increase in FDI inflows in 2012, reflecting a faster than average recovery from the financial crisis. Ireland's strong performance is also reflected in its top five European ranking in a number of sectors and activities, including shared services, medical devices, pharmaceuticals, contact centres, biotechnology, semiconductors and software/IT services.<sup>23</sup>

**Table 3 Extra-EU FDI flows to Dublin and the Mid-East 2003-2015**

Type of FDI and main countries of origin	Number of projects	Value (billion Euro, 2015 value)
Mergers and Acquisitions	415	28,778*
Greenfield Investments	625	18,194
Total	1,040	46,972
United States	799	31,257
Japan	33	6,536
United Arab Emirates	5	2,514
Australia	32	1,580
Bermuda	23	1,158
Canada	44	1,055

Note: \* 184 M&A projects without a deal value

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

## 2.2 Territorial factors impacting FDI flows

The table below presents an overview of the FDI drivers as observed in the case, including fundamental FDI drivers and cost and quality drivers. These can be understood as “territorial factors” in so far as they define the specific characteristics of the location with respect to FDI attractiveness.

<sup>22</sup> 2016 figures, source: National Planning Framework (2017) Ireland 2040 Our Plan: Issues and Choices. Available at: <http://npl.ie/wp-content/uploads/2017/02/Position-Paper-Issues-and-Choices-Ireland-2040-web.pdf> (accessed 11 May 2017).

<sup>23</sup> Ranking based on projects won.

**Table 4 FDI territorial drivers<sup>24</sup>**

<b>Fundamental FDI drivers</b>		
	-	+
<b>Geography and proximity</b>	Peripheral location (in a European context)	Ease of access to the US
<b>National market characteristics</b>		Eurozone membership; English speaking
<b>Strength of public institutions</b>		High level of cooperation and transparency
<b>Prosperity</b>		High quality of life
<b>Cost and quality drivers</b>		
<b>Infrastructure and accessibility</b>	New infrastructure required to support growth	
<b>Environment for doing business</b>		Low corporate tax rate (12.5%); openness to trade; Flexible labour laws; scores high on the IMD World Competitiveness Ranking
<b>Skill/education of workforce</b>		Young, highly educated workforce
<b>R&amp;D spending/innovation profile</b>		Strong innovator; R&D tax credit
<b>Agglomeration and clustering</b>		Strong presence of foreign companies; US tech company cluster

### 2.2.1 Territorial overview

Ireland could perhaps be considered peripheral in a European context however, any disadvantages associated with this appear to be offset by ease of access to the US. Not only is Dublin physically closer to the US than other European capitals, the US Preclearance Facility makes it possible to undertake all US immigration, customs and agriculture inspections at Dublin Airport prior to departure and be treated as a domestic passenger on arrival.<sup>25</sup> Ireland is one of only six countries in the world where this service is available (at both Dublin and Shannon airports), and the only country in Europe.<sup>26</sup> Being the only English speaking country in the Eurozone also gives Ireland a significant advantage when it comes to attracting FDI from the US. Cultural similarities are a big driver both in terms of culture in general and workplace culture (see Box 2).

Economic growth has been strong in recent years, despite the country being hit hard by the financial crisis in 2008. The Irish economy grew 5.2 per cent in 2016 – making it the fastest growing economy in the Eurozone.<sup>27</sup> The environment for doing business is also good, with competitive tax rates, flexible labour laws, openness to trade and an attractive environment in which to test new products.

*Given the size and multicultural character of the city, we have very active consumers so that serves as a test-bed for firms. It is very important for them to try their different*

<sup>24</sup> These are the drivers used in the scientific report, *Drivers of extra-European FDI towards Europe*.

<sup>25</sup> Dublin Airport (2017) US Preclearance Facility: A time saving service for US bound passengers. Available at: <https://www.dublinairport.com/at-the-airport/passenger-information/us-precleanance-facility> (accessed: 29 April 2017).

<sup>26</sup> U.S. Customs and Border Protection (2017) Preclearance Locations. Available at: <https://www.cbp.gov/border-security/ports-entry/operations/precleanance> (accessed 29 April 2017).

<sup>27</sup> IDA Ireland (2017) Economy. Available at: <http://www.idaireland.com/invest-in-ireland/ireland-economy/> (accessed 23 May 2017).

*products and new services. To give you an example, the games development industry.*<sup>28</sup>

Ireland's public institutions are characterised by a high level of cooperation and transparency. The country has a strong track record as a site of investment and performs well on a range of indicators from innovation and competitiveness to quality of life. For example, in the IMD World Competitiveness Ranking, 2016, Ireland scored 1<sup>st</sup> in the Eurozone; 3<sup>rd</sup> in the EU and 7<sup>th</sup> globally.<sup>29</sup> Particular areas of strength included: flexibility and adaptability of people are high when faced with new challenges; finance skills are readily available; the national culture is open to foreign ideas; foreign Investors are free to acquire control in domestic companies; and investment incentives are attractive to foreign investors.<sup>30</sup>

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## **Box 2 Slack Technologies**

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Slack Technologies is a US based company with over 650 employees spread across offices in San Francisco (headquarters), Vancouver, Toronto, London, Melbourne and New York City. The company's cloud-based collaboration tool, Slack, was launched in August 2014 and, as of January 31, 2017, had 5 million daily active users across the globe.<sup>31</sup>

Slack needed a European headquarters to serve its existing customer base in Europe, the Middle East and Africa and support the growth of these markets. The decision for a location was immediately narrowed down to Amsterdam and Dublin based on cultural fit, availability of talent and ease of doing business. Additional elements that made Dublin attractive included being the only English speaking country in the Eurozone and an employer friendly legal and regulatory framework comparable to that which the company enjoyed in the US.

Ultimately, the key factors that determined Dublin as the best place for Slack's European Headquarters were the high quality of the talent and the presence of other similar companies with great stories to tell about locating there. These factors are somewhat interrelated – the presence of other US technology companies provided assurance of access to a proven, appropriately skilled, workforce as the company grows. The cluster was also a great source of additional support when it came to the practical elements of setting up in a new city. IDA Ireland was the primary source of support with these matters and was found to be incredibly helpful.

One challenge for Slack was finding an office solution that met their current needs while at the same time offering a lease period that was realistic for such a young company. This raises an interesting challenge for planners – the presence of dynamic, young companies, like Slack, contributes to the desirability of a location but at the same time creates demand within the real estate market that can make things difficult for young companies. Following a successful collaboration with local architecture firm, ODOS, Slack is currently working to grow into its new office in downtown Dublin.

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<sup>28</sup> Interviewee 3. A map and timeline showing the development of the Irish games industry can be found here: <http://gamedevelopers.ie/irish-games-industry-map/> and here: <http://gamedevelopers.ie/timeline-of-the-irish-games-industry/>

<sup>29</sup> IDA (2016) Facts about Ireland. Available at: [http://www.idaireland.com/docs/publications/Facts\\_about\\_Ireland\\_2016](http://www.idaireland.com/docs/publications/Facts_about_Ireland_2016) (accessed: 29 April 2017).

<sup>30</sup> IDA (2016) Facts about Ireland. Available at: [http://www.idaireland.com/docs/publications/Facts\\_about\\_Ireland\\_2016](http://www.idaireland.com/docs/publications/Facts_about_Ireland_2016) (accessed: 29 April 2017).

<sup>31</sup> Interviewee 4-A.



## 2.2.2 Innovation profile

Dublin and the Mid-East Region<sup>32</sup> scores well on the European Commission's Regional Innovation Scoreboard, rated as a "strong innovator".<sup>33</sup> The region's relative strengths compared to the EU28 are in SMEs with marketing or organisational innovations, tertiary education attainment, and SMEs innovating in-house.<sup>34</sup>

Another area where the region, and Ireland as a whole, performs well is with respect to skills and talent. Ireland has the youngest population in Europe, with 33 percent of the population under 25 years of age.<sup>35</sup> The country also has a strong track record of attracting workers from abroad with foreign nationals making up a high portion of the population (17 per cent).<sup>36</sup> This puts it in a strong position to withstand the demographic challenges currently facing most OECD countries. Over half (52 per cent) of 25-34 year olds in Ireland have tertiary level education<sup>37</sup> and the region scores well on the Regional Competitiveness Index when it comes to basic education.<sup>38</sup> The country's reputation when it comes to talent also appeared to have a less-tangible element.

*Irish people tend to be very hardworking, entrepreneurial and creative. Those are the kind of attributes that we want to attract.*<sup>39</sup>

The region has strong clusters in the technology industry; financial services; biopharma, business investment and high-end manufacturing. These clusters contribute to an enabling environment for FDI for several reasons. First, the decision to locate in the city is aided by the presence of other similar companies that can vouch for the ease of doing business there. Second, the clusters open the door for collaboration between companies including indigenous companies, and between companies, research centres and higher education institutes. Third, the presence of other companies provides assurance that the required talent is present in the city.

## 2.2.3 Barriers, weaknesses and challenges

One area that presents a cause for concern in the region is infrastructure. Although the regional absorption capacity is acceptable for the moment, without substantial investment, this may change. In its submission to the consultation on the National Planning Framework, the Irish

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<sup>32</sup> Note: The regional innovation scoreboard takes the NUTS2 division, breaking Ireland into just two regions as opposed to the three that are formed through the national level division.

<sup>33</sup> European Commission (2016) Regional Innovation Scoreboard. Available at: [http://ec.europa.eu/growth/industry/innovation/facts-figures/regional\\_en](http://ec.europa.eu/growth/industry/innovation/facts-figures/regional_en) (accessed 23 May 2017).

<sup>34</sup> European Commission (2016) Regional Innovation Scoreboard. Available at: [http://ec.europa.eu/growth/industry/innovation/facts-figures/regional\\_en](http://ec.europa.eu/growth/industry/innovation/facts-figures/regional_en) (accessed 23 May 2017).

<sup>35</sup> IDA (2016) Facts about Ireland. Available at: [http://www.idaireland.com/docs/publications/Facts\\_about\\_Ireland\\_2016](http://www.idaireland.com/docs/publications/Facts_about_Ireland_2016) (accessed 29 April 2017).

<sup>36</sup> IDA (2016) Facts about Ireland. Available at: [http://www.idaireland.com/docs/publications/Facts\\_about\\_Ireland\\_2016](http://www.idaireland.com/docs/publications/Facts_about_Ireland_2016) (accessed 29 April 2017).

<sup>37</sup> OECD (2016), Education at a glance, accessible at: <http://www.oecd.org/edu/education-at-a-glance-19991487.htm>.

<sup>38</sup> Score of 85.9/100 and third out of 28 compared to regions with comparable GDP per capita. Source: European Commission (2016) Regional Competitiveness Index – Scorecards. Available at:

[http://ec.europa.eu/regional\\_policy/sources/docgener/work/rci2016\\_scorecards.pdf](http://ec.europa.eu/regional_policy/sources/docgener/work/rci2016_scorecards.pdf) (accessed 23 May 2017).

<sup>39</sup> Interviewee 4.

Business and Employers' Confederation (Ibec) calls for substantial infrastructure investments across the board, including housing, transport and service infrastructure (e.g. broadband, water, electricity). Ibec writes:

*An urgent focus must be placed on addressing the capacity issues to keep pace with growth. A key element in the future growth of the Capital and in attracting investment is the quality of its infrastructure. Current travel and transport trends are unsustainable with a significant impact on the quality of life of commuters. To accommodate growth we need to think differently into the future about the height of buildings and density. We must tackle the capacity issues in the short term. Failure to do so will erode future growth potential and productivity.<sup>40</sup>*

The submission also stressed the need to be prepared for increased property demand in Dublin following Brexit.<sup>41</sup> Preparing for the “next wave of investment” through infrastructure investment in the capital is high on the agenda for IDA Ireland, as is realising the potential of regions (at NUTS III level) throughout Ireland by actively promoting opportunities for investment outside of Dublin. Infrastructure development is also supported by the National Planning Framework, a cross Government approach to setting a vision to 2040 and strategy to deliver on a desired spatial pattern of development that will realise economic, environmental and social progress throughout the regions of Ireland. The framework will be finalised by the end of 2017 and is expected to inform effective and coordinated investment to deliver on objectives.

## **2.3 FDI policy framework**

### **2.3.1 Overarching strategy**

Attraction of FDI to Ireland is primarily handled by the country's investment promotion agency, IDA Ireland, and is characterised by a streamlined and professional approach. IDA Ireland is a semi-state agency operating under the auspices of the Department of Business Enterprise and Innovation. It employs over 250 people in offices in Ireland and around the world (see map). It provides a high level of practical support to companies, introducing them to the Irish business environment and all the relevant actors that they need to get started.

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<sup>40</sup> Irish Business and Employers' Confederation (2016) Building a better future: It's everyone's business: Ibec submission to the consultation on the National Planning Framework, p. 36. Available at: [https://www.ibec.ie/IBEC/Press/PressPublicationsdoclib3.nsf/vPages/Newsroom-national-planning-framework-must-redress-regional-imbalance-10-04-2017/\\$file/ibec+Submission+to+National+Planning+Framework+April+2017.pdf](https://www.ibec.ie/IBEC/Press/PressPublicationsdoclib3.nsf/vPages/Newsroom-national-planning-framework-must-redress-regional-imbalance-10-04-2017/$file/ibec+Submission+to+National+Planning+Framework+April+2017.pdf) (accessed 29 April 2017).

<sup>41</sup> At the time of writing, events relating to Brexit were still unfolding and as result have been considered outside of the scope of this study. Readers interested in Brexit in the context of FDI in Ireland are referred to IDA Ireland's press release on the subject: <http://www.idaireland.com/newsroom/ida-ireland-comment-on-le/> and Ibec's Brexit toolkit: <https://www.ibec.ie/IBEC/Press/PressPublicationsdoclib3.nsf/vPages/Newsroom-ibec-welcomes-draft-eu-guidelines-for-brexit-31-03-2017?OpenDocument?OpenDocument>.

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**Figure 1 IDA Ireland offices**

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Source: IDA

Although IDA Ireland is the “face” of Ireland to outside investors, cooperation between other actors involved in creating a good environment for FDI is also vital for success. This cooperation was considered by all research participants to be very high functioning and well developed and was consistently raised as a key enabling factor for the country’s FDI success.

*The feedback we get is that the level of cooperation that takes place in Ireland both within the industry and between the industry and government is very strong. It is quite unique. It is not that case in the US and would not be as well developed in the continental European countries either. So that is a strong unwritten strength. It is a very active collaboration.<sup>42</sup>*

IDA Ireland’s work is framed within the Policy Statement on Foreign Direct Investment in Ireland, set by its Parent Department of Business, Enterprise and Innovation (DBEI) (formerly jobs, Enterprise and Innovation) and the overarching national enterprise policy Enterprise 2025 that engages commitment from across Government to enhance the business environment. Its strategic plan *Winning: Foreign Direct Investment 2015-2019* has a strong focus on realising regional potential through growth outside the capital region. This in no way negates growth within the capital region – as the capital Dublin naturally attracts a large share of the FDI. Alongside Dublin’s continued growth, IDA Ireland has set ambitious targets for growth of 30-40

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<sup>42</sup> Interviewee 2.

per cent for each region outside the capital region. It is important to note that this strategy is not about simply funnelling companies into regional locations. IDA Ireland continues to suggest locations based on the best fit with the business needs of the company – and ultimately it is the company that makes the final investment decision.

What the strategy does do however is work to maximise the potential of regions outside the capital and ensure that the benefits of different locations are communicated effectively to investors. For example, IDA Ireland has increased its own presence in the regions and is collaborating with public and private actors to provide input on regional action plans driven by DBEI. It is also working to develop sectoral ecosystems by aligning IDA business sectors with regional strengths. This work occurs in close collaboration with companies (foreign and indigenous) and other stakeholders (e.g. Enterprise Ireland, Science Foundation Ireland).<sup>43</sup> In the first year of the strategy, there was a percentage change in jobs growth of between 2.4 per cent and 11.5 per cent in the regions outside the capital region while growth in the capital region remained steady at 6.8 per cent.<sup>44</sup>

With respect to sectors, the current strategy seeks to increase IDA Ireland's focus on global business services and high-value manufacturing.<sup>45</sup> Alongside this, it will also maintain focus on the following key sectors:

- Technology
- Media and content
- Business services
- Bio pharmaceuticals
- Medical devices
- Engineering
- Ingredients
- Financial services.

IDA Ireland delivers tailored value propositions and marketing messages to different sectors. It also supports the development of industry-based clusters. In some cases, there is a regional dimension to this clustering. For example, companies related to medical device are clustered around Galway, pharmaceutical companies are clustered around Cork. The ability to quickly adapt to the changing needs of companies and to accommodate new and emerging sectors is also an important part of the approach.

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<sup>43</sup> IDA Ireland (2015) Winning: Foreign Direct Investment 2015-2019. Available at: [http://www.idaireland.com/docs/publications/IDA\\_STRATEGY\\_FINAL.pdf](http://www.idaireland.com/docs/publications/IDA_STRATEGY_FINAL.pdf) (accessed 21 February 2017).

<sup>44</sup> IDA Ireland (2015) Annual Report and Accounts 2015. Available at: [http://www.idaireland.com/docs/annual-reports/2015/annual\\_report\\_2015.pdf](http://www.idaireland.com/docs/annual-reports/2015/annual_report_2015.pdf) (accessed 29 April 2017).

<sup>45</sup> IDA Ireland (2015) Winning: Foreign Direct Investment 2015-2019. Available at: [http://www.idaireland.com/docs/publications/IDA\\_STRATEGY\\_FINAL.pdf](http://www.idaireland.com/docs/publications/IDA_STRATEGY_FINAL.pdf) (accessed 21 February 2017).

### 2.3.2 Forms of government intervention

The table below shows several different forms of direct government intervention aimed at attracting FDI to Ireland. It should be noted that none of the policies and tools discussed here are specific to Dublin and the Mid-East Region – all apply across Ireland. It should also be noted that this is not intended to be an exhaustive list of all policies that affect FDI. Instead, it highlights those with the most direct relevance and that were raised consistently by research participants.

**Table 5 Existing FDI policy incentives**

<b>Regulatory</b>	<b>Financial</b>	<b>Fiscal</b>	<b>Other</b>
Flexible labour laws	R&D tax credit	Low corporate tax rate (12.5%)	National Skills Strategy
	Tax relief for capital expenditure related to intangible assets and intellectual property	Open trade policies	

Ireland has a competitive corporate tax rate (12.5 per cent) applicable to all active business or ‘trading’ income<sup>46, 47</sup>. Alongside this, flexible labour laws make it possible for companies to flex-up and flex-down according to need. This is particularly attractive to start-ups and companies where incoming work is subject to fluctuation. Since 2004, Ireland has also offered a 25 per cent R&D tax credit that can be offset against corporation tax. Irish tax law also allows for tax relief for capital expenditure related to intangible assets and intellectual property (e.g. patents, copy writes, authorisations to sell medicines).

In 2016, Ireland was the first country world-side to introduce an OECD compliant knowledge development box (KDB). The KDB, introduced in Budget 2016, forms part of Ireland’s competitive offering to continue to attract FDI and to support Irish owned companies to innovate and to compete effectively on international markets. The KDB complements the existing suite of initiatives and supports available to companies that undertake D&D activities in Ireland across the lifecycle of research and development – including R&D tax credits, RD&I grant supports, support for technology acquisition (S291A), significant state investments in National Research Centers and knowledge transfer infrastructures, and advisory supports for accessing Horizon 2020 funding – providing a competitive proposition for business investment.

With respect to indirect policy drivers, the country’s comprehensive, coordinated and targeted approach to skills policy stands out. Under its National Skills Strategy 2025, the Government has established a *Network of Regional Skills Fora*, with the aim of promoting cooperation

<sup>46</sup> A higher rate of 25% applies to non-trading income such as investment income rental income, net profits from foreign trades, and income from certain land dealings and oil, gas and mineral exploitations.

<sup>47</sup> IDA Ireland (2016) Taxation in Ireland. Available at: [http://www.idaireland.com/docs/publications/Taxation\\_2016.pdf](http://www.idaireland.com/docs/publications/Taxation_2016.pdf) (accessed 29 April 2017).

between employers and the education and training system.<sup>48</sup> A key element of this strategy is creating an employer base in each region that is matched with industry expertise. Each region has a skills manager who works closely with third level institutes and with industry to identify mismatches and support the development of new modules and courses to support these. This strong collaboration on skills has resulted in a highly responsive labour market.

*[The Regional Skills Manager] has a very close relation with industry and educational institutes and her job is to facilitate skills matching. If there is something that the industry requires and it is not there then the information is provided to the universities and they can begin to develop modules and courses to meet those needs. The idea is to make the labour market more responsive. So this has been a very proactive and hugely relevant policy.*<sup>49</sup>

Closely linked to this is the *Action plan to extend apprenticeships and traineeships in Ireland 2016-2020*. This plan seeks to diversify and grow the talent base by expanding opportunities for work-based learning, both with respect to the number of apprenticeships and traineeships available and by broadening the types of skills that can be acquired in this way.

Since the economic crisis, there has been a strong focus on economic growth in Ireland that has increasingly lead to other policy areas being viewed through an economic lens. This has resulted in a conscious effort to marry economic policy and spatial policy.

*Post-recession in Ireland there has been very much a focus on economic growth that has come to the forefront and become the principle consideration of a wide remit of policy making. That is permeating down to Local Governments in that they have been kind of reimagined as being at the forefront of economic growth. And in doing that a lot of the other policy streams have been given a much stronger economic focus. Regional planning for example, would have been spatially based, economic would have been one of the considerations along with physical, social, environmental. But now the economic strategy is at the forefront of our policy making, we have an enhanced economic role.*<sup>50</sup>

Although this broader economic approach does not target FDI specifically, streamlining of the policy making process with an economic perspective as the central consideration contributes to the creation of an enabling environment for FDI.

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<sup>48</sup> Network of Regional Skills Fora (2017) *Regional Skills: Partnership for Skills*. Available at: <http://www.regionalskills.ie/> (accessed 23 May 2017).

<sup>49</sup> Interviewee 3.

<sup>50</sup> Interviewee 3.

## 2.4 FDI impact

The most notable impact of FDI in Ireland is job creation. In 2016, 199,877 people were employed in IDA supported companies across Ireland.<sup>51</sup> Of those, 96,300 were in Dublin and the Mid-East Region.<sup>52</sup> The high value-added nature of the jobs created by FDI means that there is also a spillover effect with respect to job creation. This is evident with respect to service industries but also creates opportunities for native companies in the supply chain.

*Because of the FDI, there is now a really well developed sub-supply base that has developed in Ireland to support the multinationals and that is something that we are very proud of. The two coexist because they feed off each other essentially. So they are complimentary and they definitely don't compete with each other.*<sup>53</sup>

FDI companies support existing businesses as well as providing opportunities for the emergence of new businesses. For example, in the process-engineering sector there are now three multi-national Irish companies that grew on the back of the FDI companies that were operating in Dublin.<sup>54</sup>

As noted above, FDI has also presented an opportunity to realise regional potential. This has happened directly through companies setting up outside of Dublin. There are also indirect opportunities, for example, increased presence of high-income consumers living in or visiting Dublin as a springboard for tourism development in the Mid-East Region.<sup>55</sup>

## 2.5 Concluding remarks

The main territorial factors that determine Dublin and the Mid-East Region as a site of FDI investment are its young and highly skilled workforce, favourable business environment and cultural closeness to the US. The region is best suited to FDI that seeks access to the European market while at the same time operating in a highly international environment where English is the native language. The environment is also attractive to emerging companies, largely due to its flexible labour laws and access to a young and educated workforce. In keeping with this, the policy approach is characterised by a strong focus on skills and a highly collaborative and professional approach that quickly links investors with everything they need to get set-up. Thus, macroeconomic factors such as the small size of the national market and the relatively peripheral location of the country in a European context are balanced by a policy approach that

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<sup>51</sup> IDA Ireland (2015) Annual Report and Accounts 2015. Available at: [http://www.idaireland.com/docs/annual-reports/2015/annual\\_report\\_2015.pdf](http://www.idaireland.com/docs/annual-reports/2015/annual_report_2015.pdf) (accessed 29 April 2017).[http://www.idaireland.com/docs/annual-reports/2015/annual\\_report\\_2015.pdf](http://www.idaireland.com/docs/annual-reports/2015/annual_report_2015.pdf).

<sup>52</sup> IDA Ireland (2015) Annual Report and Accounts 2015. Available at: [http://www.idaireland.com/docs/annual-reports/2015/annual\\_report\\_2015.pdf](http://www.idaireland.com/docs/annual-reports/2015/annual_report_2015.pdf) (accessed 29 April 2017).

<sup>53</sup> Interviewee 1.

<sup>54</sup> Interviewee 3.

<sup>55</sup> Interviewee 3.

promotes the ease of doing business and access to talent. Ireland is also able to capitalise on its small size by pursuing a policy approach that allows FDI to contribute to regional economic development as part of cohesive regional spatial and economic strategies. Although it is too early to comment on the success of this approach, future research following the full implementation of IDA Ireland's current strategy would make an interesting contribution to knowledge about FDI potentials outside of capital regions and large cities.



### 3 Denmark: Greater Copenhagen Region

**Table 6 Summary of the main characteristics of the Danish case – Greater Copenhagen Region**

<b>Investment typology</b>	R&D and innovation, particularly life science and clean/green tech.	
<b>Economic &amp; territorial factors</b>	-	+
	<ul style="list-style-type: none"> <li>Relatively small domestic market <sup>56</sup></li> <li>Peripheral location in global terms</li> </ul>	<ul style="list-style-type: none"> <li>High value consumers (<i>GDP per capita in PPS: 127<sup>57</sup></i>)</li> <li>Well-functioning public sector</li> </ul>
<b>Cost and quality factors</b>	-	+
	<ul style="list-style-type: none"> <li>High business costs<sup>58</sup></li> </ul>	<ul style="list-style-type: none"> <li>High quality of life</li> <li>Highly skilled workforce</li> <li>High level of digitisation</li> <li>Life science cross-border cluster</li> <li>Competitive tax rates (<i>corporate tax rate - 22%</i>)</li> </ul>
<b>FDI policy approach</b>	<ul style="list-style-type: none"> <li>Attracting R&amp;D and innovation investments in niche markets;</li> <li>Clear integration of FDI strategy with national and regional development goals;</li> <li>Cross-border cooperation as a means to increase market potential.</li> </ul>	
<b>FDI policy enablers/drivers</b>	<ul style="list-style-type: none"> <li><b>Regulatory:</b> Indirect effect e.g. regulatory change 'Transition to biomass' has opened up new market opportunities</li> <li><b>Financial:</b> (Some) labour training subsidies</li> <li><b>Fiscal:</b> Export credit guarantee; R&amp;D tax credit scheme; competitive corporate tax rate (22%)</li> <li><b>Other enablers:</b> High levels of support through National Funding Programs and other research support foundations; green branding</li> </ul>	
<b>FDI value-added</b>	<ul style="list-style-type: none"> <li>Local job creation (<i>904 new jobs in 2015</i>)</li> <li>Talent attraction (<i>Talent Attraction Denmark initiative</i>)</li> </ul>	

#### 3.1 Context overview and existing investment framework

Greater Copenhagen region spans Eastern Denmark and Skåne in Southern Sweden. Copenhagen remains a favourite location for foreign investors seeking to establish in Denmark (accounting for about 85 per cent of FDI value).<sup>59</sup> The city's FDI performance rating is comparable to Stockholm but lags behind FDI hubs such as Dublin and Amsterdam (ranked in third and seventh place respectively in a list of the top cities in the world for attracting foreign direct investment 2016/17).

Job creation is the central motivation for attracting FDI to Greater Copenhagen Region – both jobs for Danish residents and jobs that will attract talent and in turn contribute to overall prosperity within the region. There is also a political desire to competitively position the region in an increasingly globalised world. Overall attitudes towards FDI are positive in Denmark – particularly when it comes to greenfield investments. With respect to M&A, although there is not a big fear of foreign companies coming in and taking over, there is acknowledgement that

<sup>56</sup> In terms of GDP, Greater Copenhagen is one of the largest regions in EU – EUR 192.6 M as for 2015. Source: Eurostat.

<sup>57</sup> Eurostat.

<sup>58</sup> Office and industrial space is relatively cheap in Greater Copenhagen region compared to other metropolitan areas in Europe; however, when it comes to labour costs then different mandatory social contributions should be considered when looking at general level of wage rates.

<sup>59</sup> Greater Copenhagen. Regional growth and development strategy 2016.

getting a company to the region is not enough: to ensure value creation for the region they must stay. Regional attractiveness plays a big role here.

**Table 7 Extra-EU FDI flows to Greater Copenhagen 2003-2015**

Type of FDI and main countries of origin	Number of projects	Value (billion Euro, 2015 value)
Mergers and Acquisitions	366	28,663*
Greenfield Investments	239	3,234
Total	605	31,898
United States	430	24,146
Japan	18	3,768
Bahrain	3	1,195
British Virgin Islands	7	780
South Korea	9	482

Note: \* 214 M&A projects without a deal value

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

### 3.2 Territorial factors impacting FDI flows

The table below presents an overview of the FDI drivers as observed in the case, including fundamental FDI drivers and cost and quality drivers. These can be understood as “territorial factors” in so far as they define the specific characteristics of the location with respect to FDI attractiveness.

**Table 8 FDI territorial drivers<sup>60</sup>**

Fundamental FDI drivers	
<b>Geography and proximity</b>	- peripheral region <sup>61</sup> / + part of a cross-border region
<b>National market characteristics</b>	small market / high income consumers
<b>Strength of public institutions</b>	high security, politically stable, low corruption, strong public sector
<b>Prosperity</b>	high quality of life
Cost and quality drivers	
<b>Infrastructure and accessibility</b>	- / + well-functioning infrastructure
<b>Environment for doing business</b>	high costs, low incentives
<b>Skill/education of workforce</b>	highly educated, high English proficiency
<b>R&amp;D spending/innovation profile</b>	R&D spending well above EU average, innovation leader, high level of digitisation
<b>Agglomeration and clustering</b>	life science cross-border cluster
<b>Unique to the region</b>	good cross sectoral collaboration, cross-border cooperation

<sup>60</sup> These are the drivers used in the scientific report, *Drivers of extra-European FDI towards Europe*.

<sup>61</sup> Central in the Nordic context (when compared to Oslo, Helsinki and Stockholm (to some extent)).

### 3.2.1 Territorial overview

Overall, territorial factors create a favourable environment for FDI within Greater Copenhagen Region. Although the Danish market is relatively small, the country is located within the Nordic Region, a market with 25 million, mostly high-income, consumers. The region offers high levels of security, a stable and highly transparent political and legal regime, and no, or at least very little, corruption. Residents of Copenhagen region enjoy a high quality of life, with access to well-functioning infrastructure and a good education system. The population is highly educated with a high level of English proficiency.

### 3.2.2 Research and innovation profile

Greater Copenhagen Region has a strong profile with respect to innovation. R&D spending as a share of GDP was over 5 per cent in 2013 (EU average 2 per cent)<sup>62</sup> and the region was classified as an “innovation leader” on the Regional Innovation Scoreboard in 2016.<sup>63</sup> The Nordic Region is also well known for its high penetration of digitisation (e.g. health care system, public institutions). This pre-condition offers a “living lab” in which companies can test new digital solutions. The region is also home to 19 science parks and innovation incubators and 17 universities and colleges of higher education.<sup>64</sup>

Greater Copenhagen Region has become an import centre for Life Sciences and is home to the cross-border cluster “Medicon Valley”. The cluster is made up of pharmaceutical, biotechnological and medtech companies who together employ approximately 40,000 people across the region.<sup>65</sup> The region also has a global strength within the energy sector, specifically cleantech and green tech solutions. Finally, the country’s historically strong welfare sector, alongside an openness to collaboration between public, private and academic sectors, creates unique opportunities to develop and implement new public sector solutions (e.g. in elderly care).

### 3.2.3 Main challenges and weaknesses

Potential barriers to investment attraction include the high cost of both set-up and ongoing operations (particularly salaries).<sup>66</sup> This, paired with a lack of fiscal incentives, may have a negative influence on Greater Copenhagen Region’s ability to compete with other European capitals for FDI. The region may also be considered peripheral in the European context.

Cross-border cooperation with Region Skåne presents both a challenge and a regional strength. Different rules and regulations hinder labour market integration – particularly for workers who are not EU citizens. Recently the law has been passed<sup>67</sup> that allows researchers

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<sup>62</sup> <http://www.nordregio.se/Templates/NordRegio/Pages/MapPage.aspx?id=4089&epslanguage=en>.

<sup>63</sup> Regional Innovation Scoreboard (2016).

<sup>64</sup> <http://www.greatercph.com/why>.

<sup>65</sup> <http://www.mediconvalley.com/about-medicon-valley>.

<sup>66</sup> Flexicurity aids scaling up and down of activities i.e. low risk of starting business in Greater Copenhagen.

<sup>67</sup> <http://www.newsosund.dk/ny-dansk-lov-loeser-problemer-for-internationale-ess-forskere/>.

working in the European Spallation Source (ESS)<sup>68</sup> to live and work in both countries. There are also ideological barriers, with genuine cross-border cooperation requiring a shift in thinking that has been stuck within a national framework for 600 years. On the positive side, cross-border collaboration offers access to a larger market and a larger talent pool. Increased cross-border collaboration between investment promotion agencies also increases Nordic potential for investment attraction by giving potential actors a choice between Sweden and Denmark.

### 3.3 FDI policy framework

#### 3.3.1 Overarching strategy

Greater Copenhagen region's approach to FDI is clearly integrated with national and regional development goals and its central focus is attracting R&D and innovation investments in niche markets. Markets have become increasingly consolidated over the past 10-15 years – a company no longer needs to do business in a country to access its market. One Nordic, or even Northern European office, is in many cases enough. The global competition for these head offices is harsh; therefore, Greater Copenhagen region has chosen instead to focus on **attracting R&D and innovation investments in niche markets** that capitalise on the region's strengths.

*The reason to have these people here is to co-create, co-innovate with people who are here. So you need to be in Denmark or Greater Copenhagen, working with researchers or other companies on the ground.*<sup>69</sup>

The Capital Region of Denmark's regional growth and development strategy is based on an ambitious political vision to create a green and innovative metropole region with high growth and quality of life, to be achieved through targeted investment within two frameworks 'Internationalisation' and 'Integrated labour market and business development' and four strategic growth areas:<sup>70</sup>

- Health-tech, medico, biotech, pharmacies and hospitals
- Green and clean-tech technologies
- Smart city solutions (IT sector, big data and urban management)
- Design and creative industries.

The strong integration of the region's FDI policy with these development goals is evident in the regions FDI attraction priorities – life science and clean/green tech. There is also considerable

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<sup>68</sup> The European Spallation Source (ESS) is a European Research Infrastructure Consortium (ERIC), a multi-disciplinary research facility based on the world's most powerful neutron source. More information at <https://europeanspallationsource.se/european-spallation-source>.

<sup>69</sup> Interviewee 6.

<sup>70</sup> Greater Copenhagen. Regional growth and development strategy 2016.

investment in IT and some small niches in the gaming industry and sound technology. As an example, one of Microsoft's biggest investments outside the US to date was in Greater Copenhagen region. The only non-knowledge-intensive sector attracting FDI in the region is the cargo hub in Kastrup.

Greater Copenhagen region applies '*niche finding*' approach in which it is world class by showcasing examples and start-ups coming out of existing clusters, world-leading technologies, research and the like. Such an approach helps to find and bring 'sector-specialists' into the regions that have knowledge about new developments within very specific area of expertise.

The region has a strong emphasis on collaborative and integrative governance processes covering business, government and universities. This triple helix approach has evolved over years requiring a commitment to collaboration processes and inter-sector solutions. National and regional investment promotion agencies work closely together to present and discuss formulation of FDI schemes at both national and regional level.

The regional growth and development strategy charts a course for future development in the capital region and is used by the regional investment promotion agency as a roadmap to sharpen the focus of their investment attracting activities. It is *one-to-one correlation* between the Capital Region of Denmark and Copenhagen Capacity: the politicians set the overall framework whereas the Investment Promotion Agency (IPA) operationalises objectives and hence regional (and national) policies.

The region offers world-class research facilities and a creative business environment with access to the markets of two countries. However, as noted above, labour market integration remains a challenge to allowing companies to cover the entire region. To address this challenge, Copenhagen Capacity, in cooperation with Invest in Skåne, has attempted to establish an internal *division of labour between* the two regions based on their competitive advantages (e.g. Swedish - automotive sector, biogas sector, packaging, ICT; Danish – life science, clean tech). As political and policy support for this work grows, it is hoped that it will lead to the expansion of opportunities for foreign investors.

Overall, Greater Copenhagen region's FDI strategy is characterised by strong integration with regional and national developments goals, a focus on niche markets to ensure a competitive advantage (combined with relatively low wage costs of high-skilled workers) and cross-border cooperation as an avenue to increased market potential.

### **3.3.2 Forms of government intervention**

The table below shows several different forms of government intervention aimed at attracting FDI to Greater Copenhagen region.

**Table 9 Existing FDI policy incentives**

<b>Regulatory</b>	<b>Financial</b>	<b>Fiscal</b>	<b>Other</b>
Indirect effect e.g. regulatory change ' <i>Transition to biomass</i> ' has opened up new market opportunities	(Some) Labour training subsidies	Export credit guarantee	National Funding Programs and other research support foundations
		R&D tax credit scheme	Green branding

Direct financial incentives to encourage companies to choose a particular location have not traditionally been characteristic of the Nordic countries. Despite this, it is possible to observe some policy incentives designed to enable the flow of FDI into Greater Copenhagen region. These include:

- *Indirect regulatory drivers/enablers.* Changes to or adjustment of existing regulations have opened up new market opportunities. For instance, currently Denmark is retrofitting older coal-fired plants into biomass plants to reduce emissions. This creates a real need for utilities to adapt to biomass handling (none of the local companies have the necessary expertise), paving the way for foreign investors to bring their knowledge and expertise.
- *Financial drivers/enablers.* Some job training subsidies are available as a means of establishing links between education and the labour market. However, there is very little demand on them.

*Fiscal drivers/enablers.* The Danish tax authorities have adopted a restrictive attitude toward structures aimed that would reduce the Danish tax base. However, the Danish Parliament has also introduced a number of specific tax initiatives that make it more attractive to invest in Danish companies and jobs. Corporate tax rate of 22 per cent combined with some tax reduction for expats offers a favourable investment climate for foreign investors. Researchers and key employees from abroad who are in high demand in Denmark can qualify for a special tax programme that reduces income tax rates to 25 per cent for up to 3 years, or 33 per cent for up to 5 years (not including ATP contributions and the 8 per cent labour market contributions). Furthermore, the R&D tax credit scheme is part of the government's growth plan for Denmark, which was proposed in April 2013. The R&D tax credit is volume-based and applies to all R&D expenditure that is targeted at developing significantly improved or new materials, products, mechanisms, systems or services. Accordingly, a large company is entitled to 125 per cent deduction of expenditure on research and a small company to 150 per cent. At the same time, however, if a company has a deficit then it is permitted to subtract the maximum of 60 per cent of that deficit in taxes - to avert tax speculation.

Another important enabler offered by the region is the export credit guarantee. Denmark's Export Credit Agency offers an export credit guarantee by raising financing

and insuring companies and banks against the potential financial and political risks of trading with other countries<sup>71</sup>.

- *Other drivers/enablers.* National funding Programmes such as Innovation Fund Denmark, Energy Technology Development and Demonstration Programme (EUDP) as well as private and semi-private foundations (e.g. The Novo Nordisk Foundation) that award grants for research within specific areas of expertise e.g. biomedicine, biotechnology. Additionally, 'green branding' also facilitates (targeted) business and talent attraction to the region.

Although Denmark does not offer low corporate tax rates or preferential tariff regimes, strategic policy enablers such as national support programs strengthen the *existing competitive innovation environment* to attract sector-specific and knowledge-intensive FDI to the region.

### 3.4 FDI impact

As noted above, the central motivation for FDI attraction is to **new create high-productivity jobs with spillover potential**. This happens in several ways.

*First*, FDI in the region has attracted new talent directly to the region. Given the fact that life science, clean/green tech and IT sectors were accorded priority status in regional growth and development strategy, FDI activities are strongly directed towards attracting capital and talent within those areas. Copenhagen Capacity (investment promotion agency) has started the *Talent Attraction Denmark* initiative with the aim to increase local skill-base through attraction of professional competences from abroad and thereby increase the FDI flow into the region. In 2014, Copenhagen Capacity helped more than 100 companies in Denmark attract international talents. Through *Copenhagen Goodwill Ambassador Programme* (consisting of 80 ambassadors in more than 30 countries), investment promotion agency is promoting Copenhagen internationally in order to attract foreign investors, companies and talents. Additionally, IBM, a world leading IT company, is currently expanding its portfolio in Denmark by creating a new *Innovation Centre* in Copenhagen focusing on intelligent IT solutions that will potentially attract more companies, investors and talents wishing to develop, innovate and test smart city solutions.

*Second*, new jobs have been created for workers in the existing Danish labour market. Foreign-owned companies play a significant role in the Danish economy as they generate one fifth of the total number of jobs and value added, and account for as much as one fourth of private sector exports. In total 904 new jobs were created through 30 successful investment cases in 2015, which are expected to result in at least 597 employment spillovers to local companies.<sup>72</sup>

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<sup>71</sup> <http://www.ekf.dk/en/about-ekf/Pages/EKF-and-export-credits-in-2-minutes.aspx>.

<sup>72</sup> Copenhagen Capacity 2016.

Compared to 2014, however, the number of investment cases has decreased slightly, while the number of jobs created increased by 14.5 per cent. The percentage of companies attracted within priority sectors is the following: life science 11 per cent, cleantech 12 per cent and ICT 19 per cent (although the number of created job within these sectors has decreased by 64 per cent in 2015).<sup>73</sup> This can perhaps be explained by a tendency for foreign companies to buy small, innovative companies in order to get access to their technology and later shut down the Danish operations due to cost.<sup>74</sup>

*Third*, FDI has created productivity spillovers to local companies within targeted sectors making them more dynamic and attractive places to work. To give an example, IBM has a wide range of innovative technologies (e.g. cognitive computing) developed for a specific domain or industry but they might lack the right domain expertise (e.g. health care, transportation etc.). In this case, they partner up with a local company that has the requisite skills. Such interaction between multinationals enterprises and local companies enhances productivity creating spillovers through knowledge and know-how exchange. However, there is still a clear need to better integrate FDI into local businesses (as many SMEs still perceive foreign investors only as competitors and not as a potential collaborators). Large companies such as Novo Nordisk need more competitors on the ground to carry out joint research projects with, attract more talent and improve knowledge and competence flows within the sector.

### **3.5 Concluding remarks**

Overall, territorial factors create a favourable environment for FDI within Copenhagen Region. Potential deterrents such as high taxes and high costs are offset by advantages such as political stability, high quality of life and access to high-value consumers. Access to a highly educated workforce and high levels of digitisation are particularly valuable to investors. As such, the region is most suited to FDI that requires a highly skilled workforce and an environment that is favourable to innovation. These types of investors are best placed to tap-in to the advantages offered by the region, thus justifying the cost of doing business there.

In keeping with this, Copenhagen Region's FDI strategy is characterised by a focus on attracting R&D and innovation investments in niche markets that capitalise on the region's strengths – in particular, life sciences and clean/green tech. Further, the approach addresses cross-border cooperation as an avenue to increased market potential and is well integrated with regional and national developments goals. By focusing on regional strengths, macroeconomic factors such as government stability, research and innovation, levels of education and economic growth are balanced by a policy approach that presents not only a solid value-proposition for investors but genuine FDI value-added for the region itself.

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<sup>73</sup> Ibid.

<sup>74</sup> Interviewee 9.



## 4 Germany: Nuremberg Metropolitan Region (Bavaria)

**Table 10 Summary of the main characteristics of the German case – Nuremberg Metropolitan Region in Bavaria**

<b>Investment typology</b>	-	+
<b>Economic &amp; territorial factors</b>	<ul style="list-style-type: none"> <li>Proximity to the Czech Republic (lower labour costs)</li> <li>Competition with other parts of Germany, including the Munich Metropolitan Region</li> <li>Challenges to attract talents</li> <li>Ageing society: increasing old-age dependency ratio</li> <li>Difficulties with German language</li> </ul>	<ul style="list-style-type: none"> <li>Strategic central location in Europe: accessibility to the European market; gateway to Eastern Europe</li> <li>Advantages of being located in Germany: large market, strong and stable economy</li> <li>Polycentric urban region with a diversity of dynamic territories: from urban to rural</li> <li>Competitive sub-regions (ranks between 32nd and 58<sup>th</sup><sup>75</sup>)</li> </ul>
<b>Cost and quality factors</b>	-	+
	<ul style="list-style-type: none"> <li>High corporate tax rate (30%)</li> <li>No tax cuts for companies in Germany</li> <li>Not the most competitive digital infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Good accessibility by air, rail, road and water</li> <li>Strong R&amp;D clusters</li> <li>Broad industrial base and hidden champions</li> <li>High quality of life: 1<sup>st</sup> in job, education and safety satisfaction, 2<sup>nd</sup> in life satisfaction in Germany<sup>76</sup></li> </ul>
<b>FDI policy approach</b>	Focus on innovation, R&D, SMEs, clusters, services and cross-cluster initiatives at several administrative levels	
<b>FDI policy enablers/ drivers</b>	<p><b>Regulatory:</b> Digitalisation strategy</p> <p><b>Financial:</b> Grants and loans targeted at SMEs (innovation and R&amp;D), recruitment and training support</p> <p><b>Fiscal:</b> Joint task for the improvement of regional economic structures</p> <p><b>Others:</b> Representative offices, delegation visits, services to new established foreign companies: free space (Nuremberg area), lawyer services, etc.</p>	
<b>FDI value-added</b>	Job creation, strengthening the clusters, talent attraction, strengthening transport hub, cultural exchanges	

### 4.1 Context overview and existing investment framework

Nuremberg Metropolitan Region (NMR) is a functional urban region and one of eleven European Metropolitan Regions of Germany. It has 3.5 million inhabitants in an area of 21,800km<sup>2</sup>, a GDP of approximately EUR 118 billion (2016) and access to roughly 27 million people within a 200km radius.<sup>77</sup> NMR is composed of 11 towns and cities and 23 districts located in Northern Bavaria, as well as one district located in Thuringia. NMR is the German metropolitan region with the highest economic growth (1.9 per cent), just ahead of the Munich Metropolitan Region and the other metropolitan region in Bavaria.<sup>78</sup> The polycentric structure of NMR results in a dynamic regional environment providing a variety of lifestyles from urban to rural. This has been a key factor in attracting the many successful SMEs in the area, which work in close cooperation with neighbouring global players.

<sup>75</sup> Regional Competitiveness Index (2016) for 263 European regions.

<sup>76</sup> OECD Regional Well-Being (2016).

<sup>77</sup> Nuremberg Metropolitan Region (2016).

<sup>78</sup> Nuremberg Metropolitan Region (2016a).

**Table 11 Extra-EU flows to NMR 2003-2015**

Type of FDI and main countries of origin	Number of projects	Value (billion Euro, 2015 value)
Mergers and Acquisitions	108	4,995*
Greenfield Investments	39	840
Total	147	5,835
United States	83	4,649
Japan	21	335
Canada	4	34
China	11	39
Australia	3	496

Note: \* 50 M&A projects without a deal value.

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

## 4.2 Territorial factors impacting FDI flows

The table below presents an overview of the FDI drivers as observed in the case, including fundamental FDI drivers and cost and quality drivers. These can be understood as “territorial factors” as far as they define the specific characteristics of the location with respect to FDI attractiveness.

**Table 12 FDI territorial drivers<sup>79</sup>**

<b>Fundamental FDI drivers</b>		
	-	+
<b>Geography and proximity</b>	Proximity to the Czech Republic	Central location in Europe Polycentric Nuremberg metropolitan region
<b>National market characteristics</b>		Large market
<b>Strength of public institutions</b>		Multi-level governance of the metropolitan regions
<b>Prosperity</b>		High quality of life High employment
<b>Cost and quality drivers</b>		
	-	+
<b>Infrastructure and accessibility</b>	Digitalisation level	Two global air hubs (Munich and Frankfurt airports) and Nuremberg International Airport European rail, road and water hub
<b>Environment for doing business</b>	High corporate tax (30%) no tax cuts for foreign companies in Germany	
<b>Skill/education of workforce</b>	Need for more talents	highly educated good English proficiency talents from local leading German universities Lower labour costs than competitors in Europe
<b>R&amp;D spending/innovation profile</b>		R&D spending well above EU average, innovation leader
<b>Agglomeration and clustering</b>		Broad industrial base Three clusters of global importance High number of hidden champions
<b>Unique to the region</b>	Competition in attraction of FDI between the sub-regions in Bavaria	Attractive cities and countryside

#### 4.2.1 Territorial overview

Nuremberg Metropolitan Region (NMR) benefits from its location within Europe, Germany and Bavaria. Within Europe, the region's central location provides easy access to the European market and its 400 million consumers. The location of the metropolitan region in Western Europe but at the gateway to Eastern Europe is particularly strategic. The region also benefits from its location in Germany, Europe's largest market, consisting of 80 million consumers in a strong and stable economic environment. Furthermore, Germany is attractive to extra-EU FDI flows thanks to the large number of global economic and industrial actors that operate there, its high-qualified workforce, low rates of unemployment and a reasonable cost of living. Germany ranks first in Europe and fourth globally in the 2016 A.T. Kearney FDI Confidence Index, its best performance since 2002.<sup>80</sup>

In the same ranking, Germany ranks in the top five markets for FDI in the industrial, service and IT sectors, being particularly strong in the latter. This high ranking in the index is highly correlated with strong consumer confidence, employment growth, low inflation and a relatively weak euro. NMR also benefits from its location in the State of Bavaria, a German federal state (Bundesland) with strong automotive, electrical engineering and mechanical engineering

<sup>79</sup> These are the drivers used in the scientific report, *Drivers of extra-European FDI towards Europe*.

<sup>80</sup> Survey of C-level executives and regional and business leaders in 27 countries on their likelihood of making a FDI over the next three years.

sectors at the global scale. Bavaria is also very strong within Germany in the industrial sectors of ICT, biotechnology as well as service sectors (e.g. insurance and financial services).

NMR benefits from well-developed transport infrastructure, both in the region its self and its direct surroundings. Nuremberg Airport is the 10th busiest in Germany with approximately 3.5 million passengers in 2016. NMR is also well connected within Germany and its neighbouring countries thanks to rail, road and water infrastructure, including Trans-European networks (TEN-T) and five international airports within a 200 km radius: Nuremberg, Munich, Stuttgart, Erfurt, and Frankfurt/Main. NMR is relatively close to Lufthansa hubs at both Munich International Airport (e.g. 2 hour by train from Nuremberg city) and Frankfurt International Airport (e.g. 2 hours by train from Nuremberg city). With 65 million passengers per year, Frankfurt Airport is the largest in Germany and the 4th busiest in Europe after London, Paris and Amsterdam with Munich Airport is the second largest in Germany and the ninth largest in Europe, in terms of passengers, with 42.3 million in 2016. The airport is also a hub for cargo flights: fourth in Germany and twelfth in Europe. This high level of connectivity also contributes to Bavaria's role as Germany's largest tourism destination. The situation is translated into a strong performance on an international ranking where Bavaria ranks tenth as a "large European region of the future".

#### **4.2.2 Research and innovation profile**

The functional metropolitan region of Nuremberg is comprised of a variety of territories ranging from dynamic polycentric urban areas to dynamic countryside. Its polycentric structure of medium sized cities (Nuremberg, Fürth, Erlangen, Bayreuth, and Bamberg) contributes to its high scores in quality of life rankings (2<sup>nd</sup> in Germany and 24<sup>th</sup> worldwide<sup>81</sup>). Middle Franconia, part of NMR, has Germany's highest density of engineers, more than 100,000 SMEs and 4 universities across its territory.<sup>82</sup> Important global players are present in the functional region, for example, Siemens, Adidas, Puma, Schwan-Stabilo-Cosmetics and Faber-Castell. NMR also has a high number of hidden champions, approximately 150, across its territory: they are generally small and medium-sized companies, mostly family-owned and managed for several generations and unknown to the wider public due to their positioning in the B2B (Business-to-Business) Market.

Three out of five of NMR's sub-regions are classified as innovation leaders (Middle Franconia, Upper Palatinate and Lower Franconia) and two as strong innovator (Upper Franconia and Thüringen) (Regional Innovation Scoreboard 2016). The key areas of the index where the sub-regions perform well include R&D expenditure in the business sector, SMEs innovating in-house, EPO patent applications, SMEs introducing product or process innovations, SMEs introducing marketing or organisational innovations and employment in knowledge-intensive

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<sup>81</sup> Mercer Quality of Living Rankings – 2016 city rankings.

<sup>82</sup> Nuremberg Metropolitan Region (2016).

activities. The region's performance in the Patent Innovation Index also provides evidence of strong innovation power in Middle Franconia, Upper Franconia and Upper Palatinate. The patent-innovation-index is double the German average.<sup>83</sup>

Seven clusters are identified in NMR, similar to the ones in Bavaria. Three of them are of global importance: the medicine/health cluster, the energy and environment cluster and the automation and production technology cluster. Further, four thematic specialisations cross-clusters (i.e. smart specialisation), are also identified: smart mobility, digital health economy, sustainable energy systems and connected production.

### **4.2.3 Main challenges and weaknesses**

Several barriers to attracting extra-EU FDI flows can be highlighted. They include a high corporate tax rate (30 per cent), no tax cuts for establishing a company in Germany and the close proximity to the Czech Republic where labour is cheaper. To a lesser extent, the competitiveness of the region with respect to digitalisation and the size of the talent pool may present challenges the attracting extra-EU investors. In fact, NMR and, more precisely, Nuremberg itself does not rank in the top 10 for cost effectiveness (mostly Eastern Europe) and business friendliness (mostly UK, Russia).<sup>84</sup>

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<sup>83</sup> Chamber of Industry and Commerce NMR (2014).

<sup>84</sup> FDiMagazine (2016).

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### Box 3 Ishigaki in Nuremberg

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Ishigaki is a worldwide active manufacturer in the field of filtration, solid/liquid separation and dewatering equipment. It was established in 1958 and has its headquarter in Tokyo and branches in China, US, Australia and Germany. The company has 302 patents.

Ishigaki Europe GmbH, established in 2016 in NMR, specialises in the manufacture and supply of Ishigaki innovative range of solid/liquid separation equipment in Europe, the Middle East and Africa. The company's decision to establish in Germany can mostly be attributed to its interest in accessing the European market. The choice of Bavaria over North Rhine-Westphalia can be explained by better transport infrastructure, better access to the Eastern and Central European markets and the relatively large Japanese community in the region. NMR area was chosen over the Munich area due to the more attractive conditions for SMEs (e.g. price of land). The presence of clusters in Bavaria was also an important factor in the decision.

Ishigaki learned of possibilities to invest in Bavaria through the representative offices of Bavaria in Tokyo. The Japanese company enjoyed assistance from NMR during the first 3 months of its establishment.

The main challenges of operating in NMR for this foreign company are attaining the visibility necessary to attract skilled workers and the German language. Establishing in an English-speaking country was not an option for the company because of the peripheral location of these countries within the European market, among other things.

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As with most European regions, NMR has an ageing population, resulting in a need for more labour in the health sector. The old age dependency ratio in NMR is increasing (20.2 per cent in 2010; 20.8 per cent in 2014<sup>85</sup>) and, although it is higher than Munich Metropolitan Region (19.3 per cent in 2014), it remains below the German average (34.5 per cent in 2016<sup>86</sup>). In a European context, this rate is above the EU28 average and Eurozone (29.3 per cent and 30.6 per cent respectively in 2016<sup>87</sup>). The shortage of talent in specific industries is also a weakness. Measures have been developed to address this, but it is an ongoing task requiring much effort:

*Companies are asking NMR to assist them in the search for experts from abroad (EU and extra-EU). The problem in Bavaria is not so much to attract the FDI but more to attract the labour force<sup>88</sup>.*

NMR, as with other parts of Germany, is not overly competitive when it comes to digitalisation (Germany ranked 11<sup>th</sup> in Europe for digitalisation in 2017<sup>89</sup>). Germany is performing relatively well on connectivity and human capital but lags behind with values below the European average

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<sup>85</sup> Deutsche metropolregionen website, 2017.

<sup>86</sup> German Federal Statistical Office of Germany, 2017.

<sup>87</sup> Eurostat.

<sup>88</sup> Interviewee 11.

<sup>89</sup> DG Connect (2017): Digital Economy and Society Index.

in digital public services and use of internet. Finally, the language barrier can also be a greater challenge in Germany compared to regions in Europe where the level of English is higher. Germany ranks eighth in Europe and ninth out of 72 non-native English language countries worldwide. The Netherlands and the Nordic countries occupy the highest ranks.<sup>90</sup>

## 4.3 FDI Policy Framework

### 4.3.1 Overarching strategy

The overarching strategy to attract extra-EU FDI and FDI in general, focuses on innovation and R&D as well as on the established clusters. The long-term goal is to improve the well-being of the population and create jobs for the inhabitants of the region. The strategies were developed at several administrative levels: the metropolitan level (e.g. Nuremberg Metropolitan Region), the State of Bavaria and the Federal State of Germany.

*We do not differentiate between extra-EU FDI and EU FDI to Bavaria. The main motivation of getting FDI to Bavaria is to create new jobs and to attract innovation.<sup>91</sup>*

**Nuremberg Metropolitan Region** strategy has been developed with politicians and economic leaders from Bavaria at the district level and mayors. The strategy is the product of a regional, multi-level governance structure that includes the economic, business, scientific and politic sectors working together to establish the guidelines for the economic, technological and scientific orientation of NMR.

Around 50 politicians, scientists, entrepreneurs and tourism and marketing experts set the rules for cooperation in the Charter 2005. They remain valid and urban and rural districts work together on equal terms in the region – all having one vote in the Council of the Metropolitan Region, regardless of their population or economic power.

In the fields of economy and science, the strategy is a model (*Leitbild*) for sustainable growth and employment in the region (“WaBe” stands for Wachstum and Beschäftigung: Growth and Employment). It establishes the framework in which the regional economy’s players network and promote the intensification and expansion of regional value chains and innovations. The document highlights seven clusters (or “strong sectors”), including three of global importance: the medicine/health cluster, the energy and environment cluster and the automation and production technology cluster.<sup>92</sup> The document also lists thematic specialisations for cross-cluster innovations such as smart mobility and digital health economy.

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<sup>90</sup> EFD EPI index.

<sup>91</sup> Interviewee 12.

<sup>92</sup> <http://www.metropolregionnuernberg.de/en/live-work/career/strong-sectors.html>.

Similar to the Joint Task of the Federal Ministry for Economic Affairs and Energy initiative, the cities of Nuremberg and Fürth have developed initiatives aimed at easing the establishment of the foreign companies on its territory. For instance, the NFX – Nürnberg Fürth for Excellence initiative offers, among other things, an office free-of-charge for up to 3 months to foreign companies that want to begin operating in the region. This program began in 2010 and 33 companies have negotiated a grant agreement during the six first years, contributing to the creation of 218 new jobs.

The **State of Bavaria** also has R&D grant programs targeted at SMEs. Since 1999, its business promotion agency, Invest in Bavaria, has supported foreign companies to set up or expand their activities in Bavaria (as well as domestic companies). Its sister institution, Bayern International, has a similar role but with a more export oriented approach/perspective. The agency provides services and produces a small number of publications that contribute to the successful establishment of foreign companies in Bavaria. The brochure “Bavaria. Funding and financing options for investors” (2016) is a good example of this work. It gives an overview of the programmes and funding possibilities for investors planning to set up or expand their activities in Bavaria. The funding listed in this brochure highlights the priority of funding investments and activities for both start-ups and innovation/research projects. The brochure lists topic-specific funding programmes, 7 in total, which are very similar to the cluster identified (e.g. medical lead projects, Bavarian Energy Research Programme). It also covers funding possibilities at other levels (e.g. the German Federal Government). It should also be highlighted that, since the mid-nineties, the State of Bavaria has established 28 representative offices worldwide. Nineteen are located outside Europe, including two in the United States and two in mainland China. Two of their missions are linked to FDI attraction, namely to advertise Bavaria as high-tech location and to advise potential investors.

The Bavarian Ministry of Economic Affairs and Media, Energy and Technology also contributes to attracting extra-EU FDI into Bavaria. Two concrete examples are the Bayern Digital Strategy, a cross-sectoral FDI policy priority (e.g. machinery, automotive, med-tech, etc.) that aims to improve digitalisation in the State of Bavaria.<sup>93</sup> The Ministry also developed a web-portal providing information and job offers targeted at qualified workforce globally.<sup>94</sup> A similar initiative has been developed by the Ministry focusing more on the main clusters in the region. Two of these publications are in English: biotechnology and sensor technologies.<sup>95</sup> These initiatives address the need to attract skilled workforce to the region of Bavaria.

At the state level, the **Federal State of Germany** is mostly involved by the way of incentive programmes through different public funding instruments.<sup>96</sup> It offers grants for investments, R&D, hiring personnel as well as public loans. These different incentive instruments can be

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<sup>93</sup> <https://www.stmwi.bayern.de/digitalisierung/bayern-digital>.

<sup>94</sup> <https://www.work-in-bavaria.de/en/employees>.

<sup>95</sup> <https://www.work-in-bavaria.de/en/employees/work/job-search>.

<sup>96</sup> <http://www.gtai.de/GTAI/Navigation/EN/Invest/Investment-guide/incentive-programs.html>.



combined. The Joint Task of the Federal Ministry for Economic Affairs and Energy “for Improving Regional Economic Structures” (Gemeinschaftsaufgabe, GRW), throughout Germany is one example, contributing to curbing regional disparities since 1969. It defines maximum possible incentive rates for all regions eligible for funding throughout Germany, where parts of Bavaria and NMR can get funding of up to 30 per cent of asset investments, depending on the size and the location of the company.

The federal R&D grants target SMEs in the high-tech sector (“High Tech Strategy”) and their innovation capacity and competitiveness (“Zentrales Innovationsprogramm Mittelstand” since 2008). Grants for hiring personnel from Germany’s Federal Employment Agency (Bundesagentur für Arbeit) and the German states are available throughout Germany. The grants offer a range of labour-related incentives programs designed to fit the different company needs when building a workforce (e.g. recruitment and training support). Finally, federal public loans, with below current market value interest rates, are provided by development banks. These are particularly attractive to SMEs. These public loans are accessible to foreign investors, subject to the same conditions available to investors from Germany, and aim to ease the acquisition of capital and financial long-term planning.

### 4.3.2 Forms of government intervention

The table below shows several different forms of government intervention aimed at attracting FDI to Nuremberg and Bavaria.

**Table 13 Existing FDI policy incentives**

<b>Regulatory</b>	<b>Financial</b>	<b>Fiscal</b>	<b>Other</b>
	Recruitment support	Joint Task for the Improvement of Regional Economic Structures	Representative offices
	Training support		Delegation visits
	R&D grants		Free office for 3 months services (e.g. advices, lawyers)
			Digitalisation strategy

## 4.4 FDI impact

Several impacts of (intra and) extra EU FDI flows have been highlighted during the interviews and the desktop research: economic and labour force related impacts and other impacts.

The main economic and labour force related impact is the creation of jobs. This measure is, however, hard to quantify. During 2012-2016, 2,550 jobs were created as a result of FDI (both intra and extra-EU).<sup>97</sup> The FDI policy of NMR also resulted in the attraction of both extra-EU companies and extra-EU talents, strengthening the existing clusters, consolidating the functional region as a hub (e.g. freight transport) and increasing the productivity of several

<sup>97</sup> Data provided by the Chamber of Industry and Commerce of NMR.

companies. Thus, new economic and labour force dynamics and the facilitation of knowledge exchange is making NMR more resilient to change.

Other impacts of FDI include making NMR more international – “putting it on the map” so to say. Cultural exchanges are an important part of the cooperation with extra-EU business region partners, for example, the Symphonic Orchestra of Nuremberg playing in Shenzhen, China, or the establishment of the first Confucius Institute in Nuremberg in 2005, the first in Germany. The tourism sector within NMR also benefits, as FDI flows into the region contribute to its overall attractiveness. Finally, the increase in extra-EU flows and tourists to Bavaria contribute to connect NMR to the rest of the world with a large number of global destinations via Munich International Airport.

#### **4.5 Concluding remarks**

The environment in Nuremberg Metropolitan Region is favourable to extra-EU FDI flows. Its main strengths are its location, both in the European and German context, its polycentric regional structure, its good accessibility, its qualified workforce, labour costs, the global clusters and its quality of life. Challenges are the lack of talent, the competition with other regions in Germany, the level of digitalisation and the German language. Finally, it is worth stating that NMR FDI strategy is not explicitly differentiated between intra and extra-EU FDI flows. However, several extra-EU activities do happen, for example, representative offices among others.

## 5 Poland: Wrocław and the Lower Silesia Region

The table below presents a summary of the main characteristics of the Polish case – Wrocław and the Lower Silesia Region. Although the broader context of the region was taken into account, it should be noted that, as the largest city and economic driver of the region, Wrocław is the primary focus of the case study.

**Table 14 Summary of the main characteristics of the Polish case - Wrocław and the Lower Silesia Region.**

<b>Investment typology</b>	Balance of cost and quality factors	
<b>Economic &amp; territorial factors</b>	-	+
	<ul style="list-style-type: none"> <li>• Low income consumers</li> <li>• High cost of living (in national context)</li> </ul>	<ul style="list-style-type: none"> <li>• Central European location</li> <li>• High quality of life (in national context)</li> <li>• Large market</li> </ul>
<b>Cost and quality factors</b>	-	+
	<ul style="list-style-type: none"> <li>• Limited direct air connections</li> <li>• Impact of demographic factors on labour market</li> <li>• Air pollution</li> </ul>	<ul style="list-style-type: none"> <li>• Well-developed infrastructure; international airport</li> <li>• Highly skilled workforce; foreign language proficiency; low unemployment</li> <li>• Academic centre</li> <li>• Presence of other foreign companies; good mix of production and service companies</li> </ul>
<b>FDI policy approach</b>	Transition to a knowledge based economy	
<b>FDI policy enablers/ drivers</b>	<ul style="list-style-type: none"> <li>• Strong political support for FDI attraction</li> <li>• Business-like approach to FDI attraction through an independent agency with a “one-stop-shop” approach to investor support</li> <li>• Providing equal support to foreign and native companies</li> </ul>	
<b>FDI value-added</b>	<ul style="list-style-type: none"> <li>• Substantial reduction in unemployment</li> <li>• Reduction in informal labour market (and associated increased tax base)</li> <li>• Spill-over of knowledge and innovation</li> <li>• Attraction of capital and talent to the city</li> </ul>	

### 5.1 Context overview and existing investment framework

The Lower Silesia Region is located in South-East Poland and has a population of 2,903,812 million.<sup>98</sup> Over one third or 1,206,621 of this population live within the Wrocław Agglomeration.<sup>99</sup> When compared to the national average, Wrocław has a higher GDP per capita, lower unemployment and, on average, its residents enjoy a higher wage.<sup>100</sup> The location has become increasingly attractive for investment in recent years. Located in the heart of Europe, Wrocław Agglomeration offers a unique business environment for investors who can benefit from its spatial, cultural and legal proximity to the developed economies of Western Europe. The City authorities offer comprehensive support to investors in the process of establishing their business in the region, and have also introduced a full set of post-investment activities to foster the company's local development and prosperity.

<sup>98</sup> Central Statistical Office of Poland (2016) Population. Size and structure by territorial division (as of June 30, 2016). Available at: <http://stat.gov.pl/en/topics/population/population/population-size-and-structure-by-territorial-division-as-of-june-30-2016,3,20.html> (accessed 27 April 2017).

<sup>99</sup> Invest in Wrocław (2016) Key Economic Data. Available at <http://www.invest-in-Wroclaw.pl/en/key-data/key-economic-data/> (accessed 27 April 2017).

<sup>100</sup> Invest in Wrocław (2016) Key Economic Data. Available at <http://www.invest-in-Wroclaw.pl/en/key-data/key-economic-data/> (accessed 27 April 2017).

At fDi Intelligence's inaugural fDi Strategy Awards, held in 2016, Wrocław Agglomeration Development Agency was awarded for its recruitment support and the academia-business links created through the city's Academic Hub, the first of its kind in Poland.<sup>101</sup> Wrocław was also ranked 5<sup>th</sup> globally for return on budget investment.<sup>102</sup> Moreover, the region is focused on assuring sustainable development and keeping a healthy balance between industrial and service sectors and for its diversified labour market and highly skilled professionals.

**Table 15 Extra-EU FDI flows to Wrocław 2003-2015**

Type of FDI and main countries of origin	Number of projects	Value (billion Euro, 2015 value)
Mergers and Acquisitions	38	599*
Greenfield Investments	111	4,784
Total	149	5,383
United States	90	2,000
South Korea	16	1,568
Japan	16	1,347
Australia	1	107
South Africa	1	80

Note: \* 11 M&A projects without a deal value.

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

## 5.2 Territorial factors impacting FDI flows

The table below presents an overview of the FDI drivers as observed in the case, including fundamental FDI drivers and cost and quality drivers. These can be understood as “territorial factors” as far as they define the specific characteristics of the location with respect to FDI attractiveness.

<sup>101</sup> fDi Intelligence (2016) fDi Strategy Awards 2016 – the winners. Available at: <http://www.fdiintelligence.com/Locations/fDi-Strategy-Awards-2016-the-winners> (accessed 23 May 2017).

<sup>102</sup> fDi Intelligence (2016) fDi Strategy Awards 2016 – the winners. Available at: <http://www.fdiintelligence.com/Locations/fDi-Strategy-Awards-2016-the-winners> (accessed 23 May 2017).

**Table 16 FDI territorial drivers<sup>103</sup>**

<b>Fundamental FDI drivers</b>		
	-	+
<b>Geography and proximity</b>		Central European location, proximity to Germany
<b>National market characteristics</b>	Low income in a European context	Large market
<b>Strength of public institutions</b>		Process of structural alignment following admission to the European Union
<b>Prosperity</b>	High cost of living (in Polish context)	High quality of life (in Polish context); culturally aligned with Europe
<b>Cost and quality drivers</b>		
	-	+
<b>Infrastructure and accessibility</b>	Limited direct air connections	Well-developed infrastructure; international airport; good road connections with Germany
<b>Environment for doing business</b>		Pro-business mayor; highly supportive IPA; academic centre
<b>Skill/education of workforce</b>	Potential negative impact of demographic shifts on labour supply	Highly skilled workforce; good foreign language skills (English, German); low unemployment
<b>R&amp;D spending/innovation profile</b>		Best technical university in Poland
<b>Agglomeration and clustering</b>		Strong presence of foreign companies; good access to business services
<b>Unique to the region</b>		Strong political support for FDI
<b>Other</b>	Air pollution	Diverse economy

### 5.2.1 Territorial overview

Understanding the territorial factors that shape FDI flows in Wrocław means thinking about what differentiates Poland in the EU context but also what differentiates Wrocław and the Lower Silesia Region in the Polish context. The Region's central European location and proximity to Germany is a big plus for manufacturing investment. It also means that geographically, no place in Europe is too far away. Poland is the largest country in central Europe. It has a sizable population with many big cities putting it in a good position to present several offers to a single investor in line with their criteria.

In the European context, Poland is still a relatively poor country. For example, the annual median equivalised net income is EUR 5,556, whereas the EU average is almost three times that at EUR 16,153.<sup>104</sup> Right next door, in Germany, the annual median equivalised net income is EUR 20,668.<sup>105</sup> Despite this gap, the talent pool in Wrocław is still relatively robust. In the Polish context, however, Wrocław is becoming more expensive when it comes to labour costs. As will be discussed below, this appears to be transforming the profile of investors rather than having a negative effect.

<sup>103</sup> These are the drivers used in the scientific report, *Drivers of extra-European FDI towards Europe*.

<sup>104</sup> European Commission (n.d.) Quality of life (QOL) – Data. Available at: <http://ec.europa.eu/eurostat/web/gdp-and-beyond/quality-of-life/data> (accessed 23 May 2017).

<sup>105</sup> European Commission (n.d.) Quality of life (QOL) – Data. Available at: <http://ec.europa.eu/eurostat/web/gdp-and-beyond/quality-of-life/data> (accessed 23 May 2017).

Wrocław is one of the highest ranked cities in Poland when it comes to quality of life and access to cultural attractions, and was named the European Capital of Culture in 2016.<sup>106</sup> The region has good infrastructure – one of the most well developed regions in Poland. Road networks allow for commuting within the region and provide a high level of connectivity with Germany and the city. Wrocław has an international airport, though it was noted that direct connections to other European cities are currently somewhat limited. Foreign language capacity in the region is quite high (mostly English and German). This is particularly pronounced among the student population, with almost 90 per cent proficient in English and over 40 per cent proficient in German.<sup>107</sup> In a survey of foreign investors conducted by Invest in Wrocław<sup>108</sup>, the size and quality of labour resources and the knowledge of foreign languages by residents/employees were found to be the most important factors determining investment attractiveness.<sup>109</sup>

### 5.2.2 Research and innovation profile

Availability of talent is perhaps the most important FDI driver for Wrocław. The possibilities for recruiting high-skilled labour make the region attractive for companies requiring white-collar workers. Wrocław is an academic centre and home of the best technical university in Poland, Wrocław University of Technology. The city has 100,000 students, 20,000 of whom graduate every year. The talent pool is large and diverse and, although unemployment is low (4.2 per cent),<sup>110</sup> people are always looking for new opportunities. People are also migrating from other regions (both daily and permanently).

Lower Silesia Region is classified as a “moderate Innovator” on the Regional Innovation Scoreboard 2016, a three percent increase since 2015.<sup>111</sup> Areas of strength when compared to the EU28 are in exports of medium and high tech products, employment in knowledge-intensive industries, and tertiary education attainment.

Wrocław has a larger than average presence of foreign companies. This is useful in assuring access to talent – knowing that there are other companies in the region doing similar work gives potential investors confidence that they will be able to find qualified workers, particularly when it comes to positions requiring higher skill levels. The region also has good access to business services. Political support for FDI within the city is strong. The current Mayor, Rafał Dutkiewicz, has a business background and has been working to promote FDI in the region since 2002.

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<sup>106</sup> Wrocław 2016 European City of Culture (2016) About ECOC. Available at: <http://www.Wroclaw2016.pl/about-ecoc> (accessed 27 April 2017).

<sup>107</sup> Invest in Wrocław (n.d.) Knowledge of foreign languages. Available at: <http://www.invest-in-Wroclaw.pl/en/key-data/education-and-knowledge/knowledge-of-foreign-languages/> (accessed 23 May 2017).

<sup>108</sup> Invest in Wrocław is a partnership between Wrocław Agglomeration Development Agency and JP Weber.

<sup>109</sup> Invest in Wrocław (n.d.) Investment attractiveness of the Wrocław Agglomeration – Survey. Available at: <http://www.invest-in-Wroclaw.pl/wp-content/uploads/2013/07/Czynniki-atrakcyjno%C5%9Bci-inwestycyjnej-EN.pdf> (accessed 12 February 2017).

<sup>110</sup> Polish National Statistics Office, as cited by Invest in Wrocław (n.d.). Unemployment. Available at: <http://www.invest-in-Wroclaw.pl/en/key-data/labour-market/unemployment/> (accessed 23 May 2017).

<sup>111</sup> [http://ec.europa.eu/growth/industry/innovation/facts-figures/regional\\_en](http://ec.europa.eu/growth/industry/innovation/facts-figures/regional_en).

### 5.2.3 Barriers, weaknesses and challenges

A significant challenge for Wrocław in the short to medium-term future will be maintaining the balance of cost and quality factors as the city grows. This is particularly relevant to quality of life. Cost of living in the city has increased recently, with the average cost of renting an apartment in Wrocław as compared to the average wage currently the highest in Poland (40 per cent).<sup>112</sup> This is a problem when trying to encourage mobility towards the city. It may also undermine the value of the academic centre as it makes it difficult for new graduates, not from Wrocław originally, to stay in the city following graduation if they do not find work immediately.

Demographic trends towards population ageing are having an impact on the supply side of the talent pool. This problem affects many developed countries and is neither specific to, nor particularly pronounced in Wrocław. The importance of the talent pool as an FDI driver perhaps elevates the need for active strategies to mitigate against this trend.

*From a talent perspective – there is no way that we can produce more people and launch them straight into the labour pool but the city and the country should be far more open, competitive and pro-active to attract foreign workers. We are an international company and we favour importing talent but out of 800 in our company we have only 10 per cent that are not having a Polish background.*<sup>113</sup>

Actively working to attract foreigners includes practical things like speeding up the process for work permits. It is also about integrating of those who have already moved to Poland by providing opportunities to learn the language and creating a more international environment in the city. Although, as noted above, a large portion of the Wrocław population are bi

## 5.3 FDI policy framework

### 5.3.1 Overarching strategy

In 2002, the Mayor of Wrocław created an investment promotion agency, making the city the first in Poland to have an individual unit to support FDI. The original aim was to reduce unemployment that, at the time, was 12 per cent in Wrocław and 14 per cent in the surrounding areas. Separating these operations from the city structured meant that it could be more flexible and more business oriented. This, alongside a politically supportive Mayor who spoke in a language business could understand, put the city in a strong position to capitalise on the benefits of its admission to the European Union on May 1, 2004.

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<sup>112</sup> Interviewee 19.

<sup>113</sup> Interviewee 19.

*With his skills ability and knowledge, Wrocław created a unit that would soon be an example to other cities. They were always one-step ahead. Starting in 2002 they created this critical mass of investment – the first one was 2004, Whirlpool that was \$150M US, 1,000 employees.*

The first major investment to come to the city was Whirlpool in 2004 (\$150M USD & 1,000 employees). This was followed in 2005 by the biggest post-war investment in the country's history made by LG (\$1B USD & 12,000 jobs).

*... This could all be put down to the fact that, for example, when other cities were bidding for investors, they were writing proposals that were nice but not in the business language. So that was the big competitive advantage of the first three four years. You had everything that an investor would need and you had the people who speak the language. And [the agency] is still there. The team is even more experienced. They have their own initiatives and they sell Wrocław and Poland very proactively.<sup>114</sup>*

Since 2007, the investment promotion agency has been known as Wrocław Agglomeration Development Agency (WADA). WADA has a “one-stop-shop” approach, meaning that, although they might not provide all the services directly, they can support companies to connect with all the support and information they require to set up an investment. Its aim is to provide flexibility, responding to the needs of investors as they arise with a “can-do” approach. WADA also provides ongoing support to companies once they are established, hosting events that bring people from different sectors and different types of businesses together.

WADA's overall approach to FDI has matured substantially in the years since its inception. In the beginning, the aim was simply to attract investment. Efforts were made to encourage companies that did invest to do more with respect to R&D or increasing the complexity of their work, but these activities by no means a pre-requisite. Now, the focus has very much shifted to attracting knowledge economy jobs. While the city will still present an offer to any company interested in investing, it does not compete aggressively for projects that require a high amount of manual labour.

This is partly because higher costs in the region compared to other parts of Poland make it difficult to be competitive for these projects – other regions can do it cheaper. It is also about positioning the region to attract jobs that will be less likely to leave when the inevitable development of the Polish economy further increases the cost of doing business. Wrocław is positioning itself to be the go-to Polish city for companies looking for technical skills, quality and innovation.

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<sup>114</sup> Interviewee 17.



*When they require technical skills, quality, innovation then we are the sweet spot for that. That is right now our approach. We do not compete for every project, especially when it is a high manual labour project. Manual labour goes where the labour is cheaper and the possibility of getting state assistance is higher.<sup>115</sup>*

At the same time, the profile of the different types of companies the region and the city aims to attract is quite broad. Priority sectors at the regional level including: machine industry (construction of machines); intelligent transportation (quite large things, manufacturing of automotive or aviation); chemical pharmaceuticals; IT in general; and advanced food processing. Priority sectors at the city level include IT, business services, automotive, whitegoods, and food processing. Machine construction and aviation are the potential growth sectors.

Another important component of WADA's approach is that neither the services, nor the incentives, are specifically targeted towards foreign investors. The agency exists as much to support the development of Polish business as to attract FDI. For SMEs, this support appears to be growing as both the city's economy and its FDI approach matures.

*Previously the city, especially local authorities, they were all focused on the big names like [names several multi-national companies]. It is great, the company will create place for 2,000 employees and they completely ignored small companies. But within the last 2-3 years, it changed dramatically. They see that those local companies they are more creative, produce more and they are not like only centres, service centres but they really produce something and they could expand. I would honestly say that now the city really support the SMEs in the region.<sup>116</sup>*

### 5.3.2 Forms of government intervention

The table below shows several different forms of government intervention aimed at attracting FDI to Wrocław. Most are not specific to the region and are available to varying degrees across Poland.

**Table 17 Existing FDI policy incentives**

<b>Regulatory</b>	<b>Financial</b>	<b>Fiscal</b>	<b>Other</b>
	Real Estate Tax Exemption	Special Economic Zone	Strong and supportive investment promotion
	Government grants		
	EU grants		

<sup>115</sup> Interviewee 16.

<sup>116</sup> Interviewee 18.

## Special Economic Zones

Special Economic Zones were created in the mid-90s to stimulate growth, address unemployment and attract foreign investment in areas that were negatively affected by economic transformation. Current Special Economic

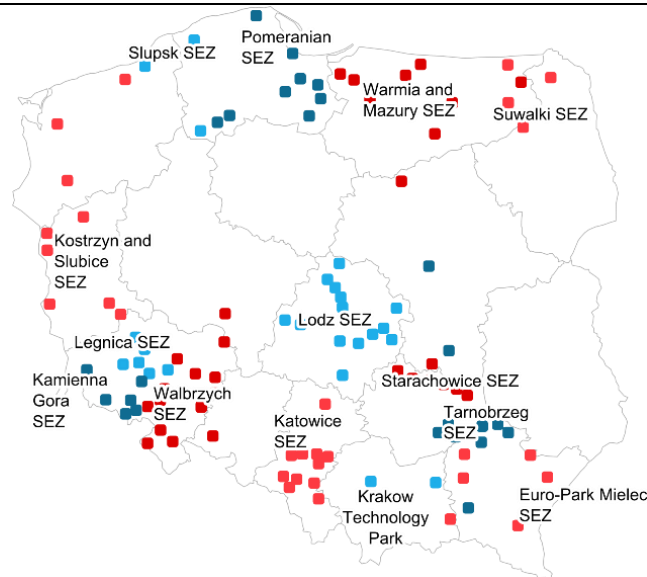
Zones are shown in the map below. Being in a Special Economic Zone gives enterprises access to support measures including:

- Income tax exemption
- Competitive land pricing
- Support with formal processes concerning the investment

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**Figure 2 Special Economic Zones in Poland**

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Source: Invest in Wrocław

There are four Special Economic Zones in the LSR and three in the Wrocław Agglomeration. Investors can also apply for a Special Economic Zone permit, which allows them to access Special Economic Zone privileges, despite operating outside of the Zone. For example, Wrocław is currently the largest area of the Legnica Special Economic Zone. Investors were interested in the region but they wanted to be in Wrocław, not in Legnica. Rather than losing the investment altogether, the Polish Government may choose to allow Special Economic Zone privileges to be applied to cover a property outside of the designated area.<sup>117</sup>

In some cases however, the value of Special Economic Zone privileges does not justify the work involved in setting up the exemption. Firstly, access to Special Economic Zone privileges require business operations and employment levels to be kept consistent for 3-5 years

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<sup>117</sup> Interviewee 16.

(depending on the size of the enterprise).<sup>118</sup> This is not necessarily desirable for service sector companies, which may require the flexibility to downsize in line with fluctuation of client needs. Second, the nature of the incentive (corporate income tax exemption) means that the cost of applying for the exemption is only justifiable in the case of companies with a large staff. Currently, manufacturing companies make up the large majority of those applying for access to Special Economic Zone privileges outside of the designated areas.<sup>119</sup>

Under current legislation, Special Economic Zones will cease to exist at the end of 2026.<sup>120</sup>

### ***Real Estate Tax Exemption***

Real Estate Tax Exemptions are currently the only fiscal incentive under the direct control of actors at the regional and local level. There are two ways the exemption can be applied:

1. **In the form of state aid** – a commune adopts a general resolution, which needs to be notified to the European Commission. After resolution is notified all new investors that implement projects compliant with conditions set in the general resolution are automatically granted with real estate tax exemptions of the maximum amount permitted in the resolution (following submission of a relevant application). This type of exemption is generally contingent on a certain number of jobs being created over a set period.
2. **In the form of de minimis aid** – a commune adopts a resolution that is not notified to European Commission. New investors that implement projects compliant with conditions set in the resolution may apply for de minimis aid in the form of real estate tax exemption. The exemption is granted upon individual approval of the commune and maximum value of exemptions cannot exceed EUR 200,000 gross over a period of three consecutive fiscal years.<sup>121</sup>

The second is the most common as it is easier to administer.

### ***Government Grants***

Government grants are awarded in agreement with the Ministry of Finance in line with the *Programme of support of Investments of considerable importance for Polish economy for years 2011-2020*. The programme prioritises, though is not limited to, investments in sectors deemed as high priority for the Polish economy such as:

- Automotive sector (in particular production of vehicle bodywork, trailers, vehicle parts and accessories as well as engines),

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<sup>118</sup>Invest in Wrocław (n.d.) Special Economic Zones. Available at: <http://www.invest-in-Wroclaw.pl/en/doing-business/incentives/special-economic-zones/> (accessed 23 May 2017).

<sup>119</sup> Interviewee 16.

<sup>120</sup> Interviewee 16.

<sup>121</sup> <http://www.invest-in-Wroclaw.pl/en/doing-business/incentives/real-estate-tax-exemption/>.

- Electronics – computers, radio, TV and telecom technology, chips and sub-assemblies (for automotive, energy, white goods and military sectors in particular),
- Aviation – airframe production, aircraft parts, accessories and engines manufacturing, aircraft repair and maintenance services,
- Biotechnology – especially for industrial and medical purposes,
- Modern services – IT, Business Processes Outsourcing, and telecommunication,
- Research and Development.<sup>122</sup>

The program only supports investments that, without aid, would not be considered in Poland. Grants can be used to cover employment costs (where new jobs are created) and investment costs.

The level of aid awarded varies based on the investment (see Table 5). Grants are paid out proportionately to the level of fulfilled obligations.

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**Table 18 Criteria determining size of government grant**

<b>Production-oriented projects</b>	<b>Service-oriented projects</b>
<ul style="list-style-type: none"> <li>• Jobs created</li> <li>• Proportion of employees with higher education</li> <li>• Location of the planned investment</li> <li>• Project expenditures</li> <li>• Sector</li> <li>• Desirability of manufactured goods on the markets</li> </ul>	<ul style="list-style-type: none"> <li>• Jobs created</li> <li>• Proportion of employees with higher education</li> <li>• Location of the planned investment</li> <li>• Complexity of the services provided</li> </ul>

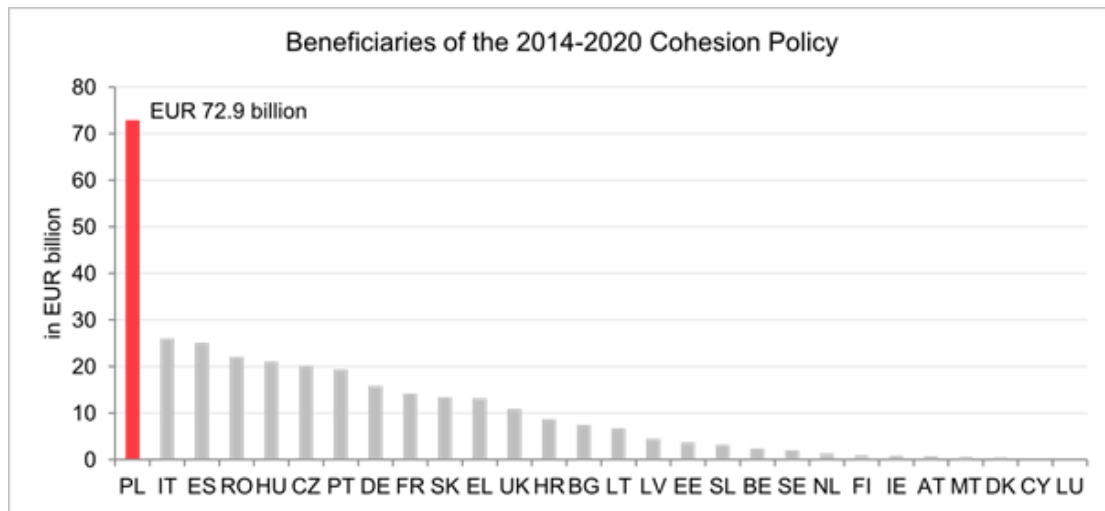
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<sup>122</sup> <http://www.invest-in-Wroclaw.pl/en/doing-business/incentives/government-grants/>.

### EU funds and grants

Poland, as the largest developing country in the EU, is currently the beneficiary of by far the largest amount of EU funds supporting business investment or expansion (see figure 4).

**Figure 3 Beneficiaries of the 2014-2020 Cohesion Policy**



Source: Invest in Poland

### Regional aid

An investor may pursue any combination of the government incentives described above. The total public support that an investment project may receive is, however, capped in line with the Regional Aid Map shown below. The maximum level of aid is calculated as: Eligible costs x Regional aid intensity score. In the case of Lower Silesia Region, the Regional aid intensity score is 25 per cent. The figures shown in the map are applicable from 2014-2020.

Notably, all those interviewed for the project downplayed the importance of direct fiscal incentives as a strategy for attracting FDI.

*[Incentives] are playing a role, but in my opinion, it is much smaller than it was. In an area where the general environment is bad an investor will not invest anyway or at least not without a large amount of incentive – maybe not reasonable. We are not playing with weak regions here so sometimes you need to have those cherries on top to make everything nicer in the spreadsheet. ... And being smart here is defining the opportunity where you can have the most using as low level of resources as possible. Because you*

can get almost any type of investors but some of them are just too expensive. And you just need to wait five years and you will have them for free.<sup>123</sup>

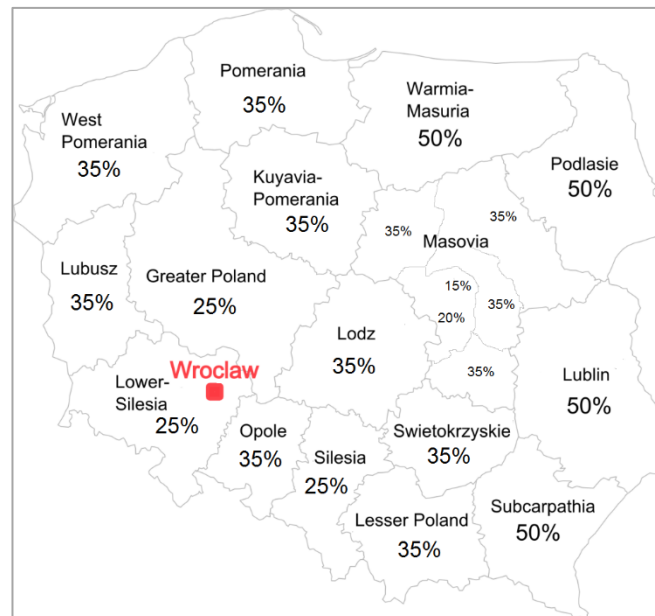
This is supported by the data. The three regions that attracted the most FDI between 2003 and 2015, Masovia (1), Lower Silesia (2) and Silesia (3)<sup>124</sup>, are also those with some of the lowest regional intensity scores. Conversely, the three regions that attracted the least FDI between 2003 and 2015, Warmia-Swietokrzyskie, Masuria and Podlasie<sup>125</sup>, have comparatively high regional intensity scores.

Again, it is important to note that all the incentives described above are available to both foreign and native companies in equal measure.

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### Figure 4 Regional aid map: Regional intensity by region

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Source: Invest in Wrocław

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<sup>123</sup> Interviewee 16.

<sup>124</sup> Based on deal value and number of projects.

<sup>125</sup> Based on deal value and number of projects.

## 5.4 FDI impact

FDI has contributed to a substantial reduction in unemployment in Wrocław from 11 per cent in 2004 to 4.2 per cent in 2015.<sup>126</sup> This rate is marginally lower than that of the capital, Warsaw (4.3 per cent) and lower than Krakow, the second city (5.3 per cent).<sup>127</sup> Unemployment in the region as a whole is higher (11 per cent), though still below the national average (11.7 per cent).<sup>128</sup> Alongside this, foreign companies have contributed to the overall economic development of the region and the city. In 2006 Wrocław Airport 500,000 passengers. In 2016, this figure was 2.4 million.<sup>129</sup>

Local companies have benefited from opportunities to supply industry, collaborate with foreign companies and from innovation spill over effects. As noted above, Polish companies also have the same access to incentives and support as FDI companies. When it comes to talent, although at times local companies may compete with foreign companies for talent, there is also an awareness that global brands attract talent to the city and that this has benefits for the market overall.

Perhaps the most interesting element of FDI impact in this case is what was referred to by one interviewee as “the civilizing of the labour market”. By this, he was referring to the role of FDI companies in reducing the size of the informal labour market.

*When LG came to Wrocław in 2005, they made a \$1B US investment and employed 12,000 people. Of course, Poland was very attractive to them because of the labour costs. Labour was at the time the main topic. So when they offered some jobs, people were saying it is not that attractive I will not go and work there – the grey zone was quite big at that time. And then, two years later, the people who started working for LG were able to get the credit from the banks. So they were getting new refrigerators, new cars. And the people working in the grey zone, maybe they had more money daily but they did not have the credit capacity. So LG is the example that drastically lowered the unemployment and almost reduced to zero the grey zone of the labour market.<sup>130</sup>*

The most important part of this shift was its effect on indigenous companies. Once workers understood the benefits of the formalised environment, indigenous companies needed to provide comparable conditions in order to compete for talent. The most tangible benefit of the shift was the increase in taxable income. As such, the growth in number of jobs was actually

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<sup>126</sup> Polish National Statistics Office, as cited by Invest in Wrocław (n.d.). Unemployment. Available at: <http://www.invest-in-wroclaw.pl/en/key-data/labour-market/unemployment/> (accessed 23 May 2017).

<sup>127</sup> Polish National Statistics Office, as cited by Invest in Wrocław (n.d.). Unemployment. Available at: <http://www.invest-in-wroclaw.pl/en/key-data/labour-market/unemployment/> (accessed 23 May 2017).

<sup>128</sup> Polish National Statistics Office, as cited by Invest in Wrocław (n.d.). Unemployment. Available at: <http://www.invest-in-wroclaw.pl/en/key-data/labour-market/unemployment/> (accessed 23 May 2017).

<sup>129</sup> Interviewee 16.

<sup>130</sup> Interviewee 17.

larger than the reduction in unemployment from a taxation point of view. Reduction of the informal labour market is also thought to have resulted in improved conditions for workers.<sup>131</sup>

## **5.5 Concluding remarks**

Overall, territorial factors create a favourable environment for FDI within both in Wrocław itself and in the LSR as a whole. The region's central European location and extensive talent pool coupled with the relatively low cost of doing business and the range of incentives available make the city an attractive value proposition for investors. The city is most suited to FDI that requires technical skills, quality and innovation. In particular, the city is ideal for investors that combine elements of old and new economy jobs, for example, highly automated manufacturing operations.

In keeping with this, the region's FDI policy approach is characterised by a focus on attracting investors that are looking for more than simply a low-cost way to do business in Europe. The approach prioritises the attraction of knowledge economy jobs that have a spillover effect to other sectors. This focus on high value-added activities ensures that FDI makes a positive contribution to regional development. It also protects the long-term economic future of the region by ensuring a critical mass of companies that are less likely to leave the region when the inevitable development of the Polish economy increases the cost of doing business.

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<sup>131</sup> Interviewee 17.



## 6 The Netherlands: the Greater Hague Region

**Table 19 Summary of the main characteristics of the Dutch case – the Greater Hague Region<sup>132</sup>**

Investment typology	Top sector approach: industry-specific, targeted incentives	
<b>Economic &amp; territorial factors</b>	-	+
	<ul style="list-style-type: none"> <li>Relatively small market</li> </ul>	<ul style="list-style-type: none"> <li>High value consumers (<i>GDP per capita</i> EUR 42,072<sup>133</sup>)</li> <li>Access to large consumer market (<i>close to Europe's 500 million consumers</i>)</li> <li>Digital Gateway</li> <li>Strategic location &amp; international accessibility</li> <li>Lack of corruption</li> </ul>
<b>Cost and quality factors</b>	-	+
	<ul style="list-style-type: none"> <li>High labour costs<sup>134</sup></li> <li>Rigid labour market in relation to hiring, termination and duration of work</li> <li>High taxes (<i>corporate tax rate 25%</i>)<sup>135</sup></li> <li>No tax breaks and subsidy, low incentives</li> <li>Insufficient availability of talent (i.e. specialists with specific ICT-knowledge)</li> </ul>	<ul style="list-style-type: none"> <li>Highly developed financial sector</li> <li>Advanced tax ruling system</li> <li>Well-educated and productive labour force</li> <li>Participation in global value chains</li> <li>Active pursuit of internationalisation strategy</li> <li>High quality of physical and communications infrastructure</li> <li>Industry cluster – Cyber Security Telecom</li> </ul>
<b>FDI policy approach</b>	<ul style="list-style-type: none"> <li>Two-level targeted approach – focus on key investment sectors</li> <li>FDI policies are integrated into national policy, specifically innovation and R&amp;D policies</li> </ul>	
<b>FDI policy enablers/ drivers</b>	<ul style="list-style-type: none"> <li><b>Regulatory:</b> Highly Skilled Migrant Schemes &amp; Expat Centres;</li> <li><b>Financial:</b> Practically none (some social subsidies in selected regions)</li> <li><b>Fiscal:</b> Advance Tax Ruling; Innovation box; R&amp;D Tax Credit; Favourable participation exemption regime; Tax relief schemes for environmentally friendly investments (MIA/Vamil) and sustainable energy (EIA)</li> <li><b>Other enablers:</b> Investment relation programs; Lobbying activities</li> </ul>	
<b>FDI value-added</b>	<ul style="list-style-type: none"> <li>Local direct/indirect job creation</li> <li>Technology attraction</li> <li>Regional brand building</li> </ul>	

### 6.1 Context overview and existing investment framework

The Hague<sup>136</sup> is the capital of the province of South Holland, the third largest city in the Netherlands, and seat of the Dutch government and the Supreme Court. An International City of Peace and Justice is home to more than 150 international organisations as well as many EU institutions, multinational companies and embassies. This, combined with the Netherlands long history of being a trading nation, gives the city a distinct international character — one that is noticeably different from Amsterdam – with more expatriates working and living in the city. Haaglanden has the largest concentration of international education and knowledge centres, including Delft University of Technology and University of Leiden.<sup>137</sup> Its international character and high quality of life make the region an excellent location for headquarter operations. The Hague is attractive to foreign ICT companies due to the proximity of political decision makers

<sup>132</sup> Given the size of the country and high level of urbanisation, the material presented here is, for the most part, relevant to the Netherlands as a whole.

<sup>133</sup> As for 2015\*, the latest data available. Statistics Netherlands.

<sup>134</sup> Eurostat (Labour costs in South Holland as for 2012: 40,857 EUR per employee per year (wages and salaries excluding apprentices)),

<sup>135</sup> Corporate tax rate as for 2017, <https://www.expatax.nl/tax-rates-2017>.

<sup>136</sup> Note: the whole area of Haaglanden is considered in this study.

<sup>137</sup> <https://investinholland.com/invest-in-holland-network/westholland-foreign-investment-agency-wfia/>.

for the telecom sector, i.e. the OPTA (the telecom regulating body) and several ministries. The city also hosts several headquarters of telephone service providers.<sup>138</sup>

However, given the high population density and high levels of urbanisation in the Netherlands, the country is branded on FDI market as one entity following the principle:

*'sell the Netherlands [as attractive location] for FDI and benefit from it regionally'.<sup>139</sup>*

As a relatively small economy, compared to its counterparts, the Netherlands depends heavily on overseas business activities and has a long tradition as a strong trading nation. It continues to play an important role in the world economy as a leading distribution centre for continental Europe. Due to its strategic location at Europe's front door, the Netherlands serves as the largest historical recipient of direct investment from the United States;<sup>140</sup> however, most investment flows pass through the Netherlands en route to another destination.<sup>141</sup> This does not diminish the strong outward orientation of the country, although most investments are not targeting the Dutch market.

The transition from the civil-servant city to being more business-oriented is particularly relevant for The Hague compared to other parts of the Netherlands and the focus is specifically placed on government-related sectors such as IT and Telecom and Oil and Gas.<sup>142</sup> An extensive network of world famous IT and Telecom companies exists in the whole West Holland region and especially in The Hague, supported by a sophisticated optic infrastructure, providing optimal conditions for connectivity. Moreover, the investment made by the city in the creation of the 'Next Generation Network' seeks to enable higher bandwidth internet connections.

Job creation (direct and indirect), technology attraction and regional brand building are the central motivations for attracting FDI to Haaglanden. Normally large cities and provinces in the Netherlands have enough autonomy in their FDI activities, yet they all cooperate under the national umbrella of the Investment Development Programme (implemented by the Netherlands Foreign Investment Agency (NIFA)).<sup>143</sup>

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<sup>138</sup> Former state monopolist - KPN, which has had The Hague as a home for many years – relocated its headquarters to Rotterdam in 2016.

<sup>139</sup> Interviewee 20.

<sup>140</sup> Although the number of investment projects rose from 62 to 76, the relative importance of the US as an investment nation declined slightly from 42% to 35%. Source: EY 2016.

<sup>141</sup> U.S. Department of State 2016.

<sup>142</sup> Interviewee 20.

<sup>143</sup> Interviewee 22.

**Table 20 Extra-EU FDI flows to Wrocław 2003-2015**

Type of FDI and main countries of origin	Number of projects	Value (billion Euro, 2015 value)
Mergers and Acquisitions	127	28,335*
Greenfield Investments	47	710
Total	174	29,046
United States	111	20,714
Mexico	9	4,859
Japan	6	1,270
Canada	12	706
United Arab Emirates	1	634

Note: \* 35 M&A projects without a deal value

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

## 6.2 Territorial factors impacting FDI flows

The table below presents an overview of the FDI drivers as observed in the case, including fundamental FDI drivers and cost and quality drivers. These can be understood as “territorial factors” as far as they define the specific characteristics of the location with respect to FDI attractiveness.

**Table 21 FDI territorial drivers<sup>144</sup>**

<b>Fundamental FDI drivers</b>		
	-	+
<b>Geography and proximity</b>		strategically/centrally positioned (a gateway to Europe)
<b>National market characteristics</b>	Relatively small market	close to large European market high value consumers
<b>Strength of public institutions</b>		high security, politically stable, low corruption, strong public sector
<b>Prosperity</b>		high quality of life
<b>Cost and quality drivers</b>		
	-	+
<b>Infrastructure and accessibility</b>		good logistics infrastructure between main markets
<b>Environment for doing business</b>	high taxes, no tax breaks and subsidy, low incentives	competitive fiscal climate
<b>Skill/education of workforce</b>	insufficient availability of talent (i.e. specialists with specific ICT-knowledge) high labour costs, rigid labour market	highly educated, multilingual (English, German, French)
<b>R&amp;D spending/innovation profile</b>	Modest R&D expenditures	strong innovator, digital gateway
<b>Agglomeration and clustering</b>		home to key science clusters within IT, life science and connectivity and innovation; participation in global value chain
<b>Unique to the region</b>		focus on internationalisation, branding the country as one unit, low internal competition

## 6.2.1 Territorial overview

The Hague Urban Region is centrally positioned – in the heart of Europe – with access to a consumer market of 500 million people with a purchasing power among the highest in the world. Although the Dutch market is rather small, its strategic position and good logistics infrastructure (i.e. short lead times) between main markets, such as the UK, Germany and France makes it exceptionally attractive to foreign investors. High levels of security, a stable and highly transparent political and legal regime, and no, or at least very little, corruption are important FDI attraction factors. The quality of life is considered rather well – it is among the top cities with a free business environment. According to the OECD regional well-being rankings,<sup>145</sup> this is a good place to live with high ratings in housing, travel connectivity and safety. In pursuit of internationalisation strategy, many international schools were established in The Hague making living and working environment more attractive for international companies and their staff members.<sup>146</sup>

<sup>144</sup> These are the drivers used in the scientific report, *Drivers of extra-European FDI towards Europe*.

<sup>145</sup> OECD Regional Well-Being (2016).

<sup>146</sup> Interviewee 20.

In the Greater Hague Region, the governments, private companies and knowledge institutes work closely together to create an innovative economic climate, ensure access to a large pool of highly educated and multilingual talent (especially ICT staff) and excellent infrastructure, which are highly valued by many foreign investors in important sectors, such as security and IT. As one responded stated:

*...many companies choose [the Netherlands] because of labour force – multilingual labour force; most of them speak English, many speak German or French...So it is easier for the company to set up a headquarter or selling office because people know their way around ... that goes especially for the US and Asian companies as they need people to cover markets within the EU and hire people that speak their languages.<sup>147</sup>*

However, the FDI location decision very much depends ‘on the business function the company is looking for’.<sup>148</sup> The figure below illustrates the relation between location factors and business functions of international companies.

**Figure 5 Location factors in relation to business functions of foreign companies<sup>149</sup>**

	central location	(logistics) infrastructure	labor force	taxation climate	international accessibility	costs of operation	availability suppliers/3PL	availability of land/real est.	energy supply	Quality of life
European Headquarters	High	High	High	High	High	Low	Low	Low	Low	High
Marketing & Sales	High	High	High	High	High	Low	Low	Low	Low	High
Shared Services	Low	High	High	High	Low	High	Low	Low	Low	High
Customer Services	High	High	High	Low	Low	High	High	Low	Low	Low

Source: Ibid and power point presentation provided by the Interviewee 22

In comparison to other EU countries, the Netherlands provides a competitive fiscal climate, with a strong focus on stimulating entrepreneurship and foreign direct investment. The Netherlands has a favourable tax system primarily ‘due to many trade deals ... to avoid double taxation’.<sup>150</sup> The Netherlands is a particular favourable location for foreign companies to set up European

<sup>147</sup> Interviewee 22.

<sup>148</sup> Interviewee 22.

<sup>149</sup> Ibid + power point presentation (provided by the interviewee).

<sup>150</sup> Interviewee 20.

headquarters due to various rulings, e.g. a special tax regime for expatriates – the so-called 30 percent ruling, providing up to 30 percent tax exemption for salaries of expatriates.

## **6.2.2 Research and innovation profile**

The region has a strong profile with respect to innovation. It is a strong innovator, showing relative strengths compared to the EU28 in Innovative SMEs collaborating with others, SMEs with product or process innovations, and SMEs innovating in house. Innovation performance, however, has decreased (-1 per cent) compared to two years ago.<sup>151</sup> Relative weaknesses are in Non-R&D innovation expenditures, Sales of new product innovations, and Public R&D expenditures (from an international perspective). This can be partially attributed to the overall structure of the Dutch economy as the services sector (normally with a low R&D intensity), accounts for a relatively large share of the Dutch economy.<sup>152</sup>

Although The Hague with its surroundings is the ICT & Telecom capital of the Netherlands, a certain specialisation of ICT activities can still be observed within the region. For instance, in The Hague, the dynamic urban milieu and the presence of so many clients attract the European headquarters of international ICT companies (although (new) media firms and small ICT firms are also present). ICT has a particular strong position in Delft, the home of the large Technical University that has an R&D Centre in this field, as well as several SMEs, some of them placed in commercial business centres. Zoetermeer is another location with a strong representation of software and IT consulting companies, which benefit from relatively good accessibility for interaction with clients all over the country.

The Hague, together with the Dutch security cluster The Hague Security Delta, has built a strong network of companies, governments and knowledge institutions. In order to achieve further growth of this hub, The Hague region organises, stimulates and invests in a wide range of activities in the area of IT and security.

Internationalisation plays a leading role in many parts of the Dutch society, e.g. in education, which has a strong emphasis on foreign languages. The Hague region is home to many excellent, high standard educational facilities, including the largest choice of international schools at both primary and secondary level.

## **6.2.3 Main challenges and weaknesses**

A few potential challenges to attracting FDI can be highlighted. One major issue that has emerged from the interviews is the inflexibility of the Dutch labour law. The Dutch protection of employees is far-reaching, and may sometimes impose severe restrictions on (foreign) employers, e.g. in connection with the termination of the employment agreement.<sup>153</sup> Maintaining

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<sup>151</sup> Regional Innovation Scoreboard (2016).

<sup>152</sup> Holland Trade and Invest (2016).

<sup>153</sup> Interviewee 22 and Interviewee 20.

and improving corporate tax competitiveness has also been highlighted as a potential challenge to FDI due to political uncertainty unleashed by Brexit and Donald Trump's victory in the US presidential elections. Finally, attracting talent (both internally and externally) as well as retaining highly skilled workers on a long-term basis (for at least next 20 years) is an important issue that national and regional authorities must deal with.<sup>154</sup>

## 6.3 FDI policy framework

### 6.3.1 Overarching strategy

The Invest in Holland Network is a collaborative team of the Netherlands Foreign Investment Agency, regional economic development agencies and several large cities. The network works to provide a continuum of free, confidential support services to new foreign investors, as well as existing foreign investors that already have operations in the Netherlands. The Holland Network connects potential investors to the right partners to assist with everything from recruiting talent to introducing companies to powerful public-private partnerships.<sup>155</sup>

The Dutch government has since 2012 introduced the "Top Sectors" policy, in areas of strategic importance, identifying areas where co-financed investments in R&D should be directed, in cooperation with academia and industry. This is part of the austerity measures implemented by the government. The "Top Sectors" policy identifies nine areas (*Chemicals, Agrifood, High Tech Systems, Life Sciences & Health and IT*) as key focus areas of the government's industrial policy.<sup>156</sup> Industry-specific, targeted investment incentives have long been a tool of Dutch economic policy to facilitate regional development, research and development (R&D), and other national socioeconomic goals. The "Top Sectors" programme aims to raise the quality of the knowledge-intensive industries and reach a top five ranking globally by 2020. Moreover, it aims to raise the R&D part of GDP to 2.5 percent by 2020 and to set up sector-specific Innovation Consortia with the participation of both public and private sectors with a budget over USD 500 million. The government has instituted a preferential policy in a joint effort with academia and the private sector, whereby over \$1 billion of additional funding is released for R&D and product innovation in the top sectors.<sup>157</sup> Although much coordination of investment support is performed at Ministry and NFIA level, several regional development agencies also participate in guiding both business and local authorities on the best use of regional development funds.

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<sup>154</sup> Interviewee 20.

<sup>155</sup> Interviewee 22.

<sup>156</sup> U.S. Department of State 2016.

<sup>157</sup> U.S. Department of State 2016.

In early 2015, the Netherlands Foreign Investment Agency (NFIA)<sup>158</sup> and its regional partners<sup>159</sup> joined forces under the Invest in Holland label. At the strategic level, most of the regions and large cities in the Netherlands have a lot of autonomy in terms of FDI activities: selecting priority areas and approaches to attracting FDI. At the operational level, however, they cooperate under the umbrella of the Investment Development Programme (implemented by NIFA) to jointly promote the Netherlands abroad as an attractive country to invest and set up business and benefit from it regionally.<sup>160</sup> The only exception are cases ‘*when a company like Tesla announces the construction of a huge manufacturing factory – so some of the regions will go autonomously to Tesla to promote themselves*’.<sup>161</sup>

The Hague cooperates with cities in the region in the West-Holland Foreign Investment Agency (WFIA). In 2016, the joint efforts of the NFIA, WFIA and the Innovation Quarter<sup>162</sup> resulted in 49 foreign investment projects. Both WFIA and Innovation Quarter take part in the network named ‘Invest in Holland’, and assisted the City Council of The Hague in the promotion of its attractive business climate to an international audience.<sup>163</sup> As a result of their efforts, 10 new companies from North America settled in the area in 2016, as compared to four in the previous year. The City of The Hague and its acquisition partners, the WFIA and Innovation Quarter have invested in building up networks in North America over the past two years, mostly in areas such as IT, Security, and business services. However, in comparison, 16 Chinese companies settled in The Hague in 2016, as the main investor for five consecutive years.<sup>164</sup>

Regional investment promotion agencies are organised as regional development agencies meaning that they do not just have FDI departments but also *development departments* enabling them to better integrate foreign companies into the Dutch business community. As an example, to advance the business climate in The Hague, special programmes are implemented involving visits to foreign companies that have been established in the region in the past, monitoring their progress, and making them aware of new legislative initiatives that may advance their business in the Netherlands. This information is then used for analysis of business climate. Compiled annually, these trends also send ‘signals’ to the policy makers of the regional government.<sup>165</sup>

The Hague and the surrounding area offer excellent infrastructure, supportive government authorities, venture capital and a dynamic business community as well as provides access to a large pool of highly educated talent. However, there are certain challenges related to insufficient availability of technical skills i.e. higher education specialists with specific ICT-

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<sup>158</sup> NFIA is headquartered in The Hague and has presence in the UK, Turkey, North America, Asia and the Middle East.

<sup>159</sup> Amsterdam inbusiness (aib), BOM Foreign Investments, East Netherlands Development Agency Oost NV, Holland International Distribution Council, InnovationQuarter (IQ), Invest in Zeeland, Invest Utrecht, Limburg Development and Investment Company (LIOF), NOM Foreign Direct Investment, Rotterdam Partners, the Development Agency Noord-Holland Noord (NHN), WestHolland Foreign Investment Agency (WFIA).

<sup>160</sup> Interviewee 22.

<sup>161</sup> Ibid.

<sup>162</sup> InnovationQuarter 2016.

<sup>163</sup> Ibid.

<sup>164</sup> Ibid.

<sup>165</sup> Interviewee 20.



knowledge in the labour market. Therefore, to facilitate labour migration and attract the high-level professionals, the Dutch government has an accelerated application procedure for highly skilled migrants or 'knowledge migrants'.

### 6.3.2 Forms of government intervention

The table below shows several different forms of government intervention aimed at attracting FDI to the Greater Hague Region. Most of the incentives, however, are not specific to the region and are available across the Netherlands.

**Table 22 Existing FDI policy incentives**

Regulatory	Financial	Fiscal	Other
Highly Skilled Migrant Scheme & Expat Centres	Practically none	Advance Tax Ruling	Investor Relation Programs
		Innovation Box	Lobbying activities
		R&D tax credit	
		Favourable participation exemption regime	
		Tax relief schemes for environmentally friendly investments (MIA/Vamil) and sustainable energy (EIA)	

At the regulatory level, major interventions focused on labour migration and avoiding high-skilled talent shortages. The Dutch government has initiated the Dutch Highly Skilled Migrant Programme (Kennismigrantenregeling), offering an attractive option for companies that need to hire personnel from non-EU countries.<sup>166</sup> The Expat Centres - a joint initiative of the Government, Municipalities and the Immigration and Naturalisation Services (IND)<sup>167</sup> – were set up to assist international companies, their international employees, and self-employed persons by offering a fast and easy procedure for Government formalities and provide information on the Netherlands. This initiative certainly creates a value for The Hague as the diplomatic and political capital of the Netherlands and has a large expat community, making The Hague and the Netherlands as a whole more attractive to international businesses.

*'The Netherlands is a developed country and international companies should value other advantages [except for regulatory and financial incentives] of the country like the infrastructure, qualified labour force and the like.'*<sup>168</sup>

Perhaps the most important intervention in the Dutch context is ensuring favourable fiscal conditions for foreign investors. *'One of the main reasons that companies (especially from the US) would look at the Netherlands as an investment destination (apart from infrastructure,*

<sup>166</sup> A short introduction to the Dutch Highly Skilled Migrant Scheme 2016.

<sup>167</sup> Invest in Holland 2016a The Expat Centers are located in Amsterdam, Rotterdam, The Hague, Eindhoven, Tilburg, Maastricht, Hengelo, Wageningen, Utrecht, and Groningen.

<sup>168</sup> Interviewee 22.

*education, location etc.) is fiscal climate...*<sup>169</sup> Certainty about future tax position<sup>170</sup> is of key importance to international investors. The Dutch attractive tax ruling policy includes the opportunity to obtain an Advance Tax Ruling (ATR) or an Advance Pricing Agreement (APA). Further, *R&D Tax Credit (WBSO)* allows companies performing particular R&D activities to benefit from a 32 per cent reduction (up to 40 per cent for start-ups) of the first EUR 350,000 in R&D wage costs and other R&D expenses and investments, and 16 per cent for those costs exceeding EUR 350,000. The Innovation Box is another feature allowing companies to benefit from a five percent effective income tax rate from intangible assets, which includes technological innovations developed by the Dutch taxpayer and for which an R&D tax credit has been received. The Innovation Credit risk-bearing loan from government may fund relevant project costs from 25 per cent to large companies to 45 per cent to SMEs and aims to support the development phase of a technically new product, process or service. This may include, for example, development of medical products requiring a clinical study. The maximum credit offered is EUR 10 million, the remainder being financed by the company's own funds.<sup>171</sup> Given that the Netherlands is a leading site for European headquarters, the government offers favourable participation exemption regime with the purpose to avoid double taxation when the profits of a subsidiary are distributed to its parent company.<sup>172</sup> Up to 36 per cent of the entrepreneurs' costs of an environmentally friendly investment is eligible for support through tax relief schemes named MIA/Vamil, when the investment is listed on the Environment List. Another tax relief scheme is the EIA – Energy Investment Allowance, for sustainable energy support, which provides companies that invest in energy-saving installations, or make use of sustainable energy, with tax reduction of a certain percentage of the profits of their invested sum from the year in which the goods are purchased.<sup>173</sup>

In addition to existing regulatory and fiscal interventions, regional IPAs use their smaller network to send the signals (i.e. investors feedback on business climate) to the Ministry of Economic Affairs as well as take more proactive actions such as approaching parliament members by themselves *‘to speed up things by dropping information to the left and to the right to the MPs and other stakeholders’*.<sup>174</sup> Another enabler is the Investor Relations Program that aims to make it easier for businesses to grow and thrive in the Netherlands.

## 6.4 FDI impact

Overall, foreign-owned companies play a significant role in the Dutch economy as they are responsible for 15 per cent of Dutch GDP.<sup>175</sup> The Netherlands has historically been strong in

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<sup>169</sup> Ibid.

<sup>170</sup> Invest in Holland 2017.

<sup>171</sup> Invest in Holland 2016.

<sup>172</sup> Invest in Holland 2017.

<sup>173</sup> Ibid.

<sup>174</sup> Interviewee 20.

<sup>175</sup> Interviewee 22 + power point presentation (provided by the interviewee).

attracting FDI, but it has recently been losing FDI share to other countries, primarily the UK.<sup>176</sup> Brexit might potentially reverse the situation (although there are no clear evidences of it yet). ICT sector is a leader with regard to attracting FDI: in 2015 the number of projects has increased from 26 (2014) to 38.<sup>177</sup> As noted above, the central motivation for FDI attraction in the Netherlands is to **create jobs, attract new technology and build regional brand**. This happens in several ways.<sup>178</sup>

*First*, attracting FDI to highly R&D and technology-intensive sectors enables the introduction of new technologies, products and services, which in turn lead to more competition and entrepreneurship. The enterprises located in or re-located to The Hague region get support to take advantage of each other's knowledge and networks. In 2016, companies such as the tech start-up Red Tulip Systems – providing solutions for safe communications and ID protection - and the social enterprise Samasource - helping to create opportunities for low-income people in impoverished areas by matching them with digital work.<sup>179</sup> Furthermore, Dutch companies benefit from new corporate and private cultures carried by international companies.<sup>180</sup> They usually spend more time and money on training employees compared to Dutch companies, are more actively involved in (inter)national networks and are responsible for more than half of the Dutch import and export value of goods and services.

*Second*, foreign multinational enterprises account for about 20 per cent of jobs in the Netherlands. One foreign multinational provides on average 82 jobs, approximately 30 times more than a domestic enterprise. Furthermore, foreign companies have proven to be a more stable job provider than Dutch (multinational) enterprises, and the jobs are generally higher paid.<sup>181</sup> To give an example, the arrival of the American listed engineering giant Jacobs in The Hague in 2016 brought an extra 1,100 jobs to the city. The company opened its new office in early 2017. Furthermore, foreign companies create larger *indirect effect* compared to Dutch companies: they create more extra (indirect) jobs with suppliers and service providers than Dutch companies (72 per cent).

*Third*, the existence of a large international community (which is partly built by people with diplomatic status) has established an additional channel for reaching out potential foreign investors. Through the 'diplomatic network' of the Netherlands abroad (i.e. embassies, consulates and the like) the information on investment possibilities in The Hague is communicated to those who are seeking to move/establish their businesses in Europe. Fundamentally, the idea behind it is to make use of existing diplomatic ties in *branding The*

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<sup>176</sup> American Chamber of Commerce in the Netherlands 2017.

<sup>177</sup> EY 2016.

<sup>178</sup> Interviewee 20, Interviewee 21 and Interviewee 22.

<sup>179</sup> Innovation quarter 2017.

<sup>180</sup> Interviewee 21 and Interviewee 22.

<sup>181</sup> American Chamber of Commerce in the Netherlands 2017.

*Hague as an attractive location for FDI.*<sup>182</sup> This approach is rather new and given the nature of the network – it is not always easy to get the right information through.

## **6.5 Concluding remarks**

International activities are extremely important for the Greater Hague Region and the whole country of the Netherlands. The Greater Hague Region and the Netherlands score well on educated workforce and infrastructure, but face some challenges when it comes to important factors such as labour regulations, and high government bureaucracy, especially compared to the UK and Ireland. A stronger focus on the ease of doing business would increase the competitiveness of the investment climate in the Netherlands.

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<sup>182</sup> Interviewee 20.

## 7 Italy: Lombardy Region

**Table 23 Summary of the main characteristics of the Italian case – the Lombardy Region**

<b>Investment typology</b>	Highly advanced manufacturing, and industries demanding highly skilled personnel	
<b>Economic &amp; territorial factors</b>	-	+
	<ul style="list-style-type: none"> <li>Intricate institutional structure</li> <li>Legal uncertainty<sup>183</sup></li> <li>Cultural factors resisting foreign investments</li> </ul>	<ul style="list-style-type: none"> <li>Large market</li> <li>Highly industrialised and diversified</li> <li>High value manufacturing</li> <li>Strong entrepreneurial culture (8 enterprises per 100 inhabitants)</li> </ul>
<b>Cost and quality factors</b>	-	+
	<ul style="list-style-type: none"> <li>High income taxes (23-43%)</li> </ul>	<ul style="list-style-type: none"> <li>Highly skilled human capital</li> <li>Not excessive corporate tax (dropped to 24% in 2017)</li> </ul>
<b>FDI policy approach</b>	<ul style="list-style-type: none"> <li>Attracting investment from a wide range of sectors.</li> <li>Coordinated FDI promotion efforts from national to regional levels</li> <li>Simplification of public administration by integrating procedures</li> </ul>	
<b>FDI policy enablers/drivers</b>	<ul style="list-style-type: none"> <li><b>Regulatory:</b> Industry is not heavily regulated Deregulation: flexibilization of labour market; flexible contract renewal; Deregulation of dismissal regime</li> <li><b>Financial:</b> Few financial incentives available from EU, national and regional levels for hiring employees, step-by-step support to private businesses, cluster activities, and for enhancing the collaboration among regional actors.</li> <li><b>Fiscal:</b> Tax concessions (regional tax on productive activities - IRAP, property tax, corporate tax - IRES, household wages, and for qualified labour moving to Italy), super-depreciation for investment, hyper-depreciation for high-tech machinery and equipment, R&amp;D tax credit.</li> <li><b>Other enablers:</b> "Land in Lombardy" programme- temporary free of cost office space in tech-parks</li> </ul>	
<b>FDI value-added</b>	<ul style="list-style-type: none"> <li>Job-creation</li> <li>Attraction of talent</li> <li>Boost business competitiveness (often by bringing companies and businesses back from the edge of bankruptcy)</li> </ul>	

### 7.1 Context overview and existing investment framework

Lombardy is the fourth most populated region in Europe and is home to over 9.9 million inhabitants or 16.5 per cent of the Italian population.<sup>184</sup> The region has a growing international community with over 270,000 foreign citizens of 152 different nationalities in Milan alone.<sup>185</sup> The region's economy represents 22 per cent of national GDP and is the fifth largest among European regions.<sup>186</sup> Lombardy's production system is one of the most developed in Europe and is characterised by its wide variety of industries ranging from traditional sectors to heavy and light industries.<sup>187</sup> Lombardy's intensive industrial tradition positions it as one of the 'four motors of Europe' alongside Auvergne-Rhône-Alpes, Baden-Württemberg and Catalonia. The high value manufacturing sector in particular cushioned the blow of the global financial crisis and, since 2008, the region has shown clear signs of recovery (FDI increased with 17 per cent in 2014<sup>188</sup>).

<sup>183</sup> Interviewee 23.

<sup>184</sup> Smart Specialization Strategy 2013 (updated 2015).

<sup>185</sup> Ministry of Economy and Finance. Italy is now and next. [http://www.ilfoglio.it/userUpload/ITALY\\_IS\\_NOW\\_AND\\_NEXT\\_ver3.pdf](http://www.ilfoglio.it/userUpload/ITALY_IS_NOW_AND_NEXT_ver3.pdf)

<sup>186</sup> Annual report 2016– Invest in Lombardy (p.7).

<sup>187</sup> Regional Innovation Monitor Plus: <https://ec.europa.eu/growth/tools-databases/regional-innovation-monitor/base-profile/lombardy>.

<sup>188</sup> Annual report 2016– Invest in Lombardy.

The region's capital, Milan, hosts a number of large industries and has the highest concentration of multinational companies in Europe.<sup>189</sup> Alongside this, Lombardy has one of the highest rates of entrepreneurship in Europe, with 8 enterprises per 100 inhabitants<sup>190</sup> almost all of which (>99 per cent) are SMEs.<sup>191</sup> Milan is also the base for the Italian Stock Exchange (one of the main stock markets in Europe) resulting in a strong service sector, particularly in terms of international trade and financial services..<sup>192</sup> Approximately 10,000 people employed in the financial sector in Milan alone.<sup>193</sup> Moreover, Milan's Trade Fair or *Expo* is one of the most important exhibitions (universal exposition) in Europe and is one key event driving the increase of FDI in recent years.<sup>194</sup>

Lombardy's potential for FDI attraction appears to be one of the highest in Europe for the 2016-2017 period, despite the region's relatively low volume of FDI attraction compared with its key European competitors.<sup>195</sup> The region is the "gateway to Italy", accounting for over 60 per cent of total national foreign investments.<sup>196</sup> In 2014, the main sectors attracting FDI in the region were textiles and consumer products, software and ICT services, business services, financial services, transport and storage.<sup>197</sup> In that year, 56 per cent of investments were made from other EU member states, whilst 23 per cent originated in North America and 11 per cent in Asia.<sup>198</sup> Table 7.2. provides a detailed account of extra-EU investments for the period 2003-2015.

The outstanding quality of Lombardy's labour force appears to be the most persistent factor in attracting foreign investors.<sup>199</sup> The 13 universities, some of which are internationally renowned for their prestige, as well as the research offer in the approximately 500 public and private R&D centres, provide a solid base for the preparation of highly competent professionals. Moreover, the professionalisation of Lombardy's labour force can be attributed to the excellent career opportunities offered by the many well-known companies that operate there.<sup>200</sup>

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<sup>189</sup> Ibid.

<sup>190</sup> Interviewee 24-A. Elaboration from Eurostat and data from the *Servizio studi e Statistica*- Chamber of Commerce.

<sup>191</sup> Regional Innovation Monitor Plus: <https://ec.europa.eu/growth/tools-databases/regional-innovation-monitor/base-profile/lombardy>.

<sup>192</sup> Ibid.

<sup>193</sup> Ministry of Economy and Finance. Italy is now and next. [http://www.ilfoglio.it/userUpload/ITALY\\_IS\\_NOW\\_AND\\_NEXT\\_ver3.pdf](http://www.ilfoglio.it/userUpload/ITALY_IS_NOW_AND_NEXT_ver3.pdf).

<sup>194</sup> Interviewee 23.

<sup>195</sup> Invest in Lombardy Annual Report 2016.

<sup>196</sup> Invest in Lombardy.

<sup>197</sup> Annual report 2016– Invest in Lombardy.

<sup>198</sup> Ibid.

<sup>199</sup> Interviewee 23; Interviewee 24; Interviewee 25; Interviewee 26.

<sup>200</sup> Interviewee 23.

**Table 24 Extra-EU FDI flows to Lombardy 2003-2015**

Type of FDI and main countries of origin	Number of projects	Value (billion Euro, 2015 value)
Mergers and Acquisitions	583	39,768*
Greenfield Investments	253	4,882
Total	836	44,650
United States	587	32,528
Libya	6	1,941
Russian Federation	10	1,925
China	30	1,811
Hong-Kong	14	1,476
Japan	30	914

Note: \* 269 M&A projects without a deal value.

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

## 7.2 Territorial factors impacting FDI flows

The table below presents an overview of the FDI drivers as observed in the case, including fundamental FDI drivers and cost and quality drivers. These can be understood as “territorial factors” in so far as they define the specific characteristics of the location with respect to FDI attractiveness.

**Table 25 FDI territorial drivers<sup>201</sup>**

<b>Fundamental FDI drivers</b>		
	-	+
<b>Geography and proximity</b>	FDI is absorbed mostly in the Milan Metropolitan Area.	Large market and proximity to other industrialised regions
<b>National market characteristics</b>		Large market
<b>Strength of public institutions</b>	Complex administrative structure	Strong support and free of charge by the investment promotion agency, positive political environment
<b>Prosperity</b>	High youth unemployment	High quality of life, strong economy
<b>Cost and quality drivers</b>		
	-	+
<b>Infrastructure and accessibility</b>	Insufficient access to web-infrastructures outside provincial capitals	Well-connected international airports (3), good rail and road infrastructure, and logistics facilities
<b>Environment for doing business</b>	High taxation (Yet corporate tax dropped from 27.5% to 24% in 2017)	Financial and fiscal incentives to hire young workers, and upgrade machinery,
<b>Skill/education of workforce</b>		Highly skilled human capital. 13 Universities; 500 research centres
<b>R&amp;D spending/innovation profile</b>	Insufficient spending (1.6% of the Regional GDP)	Moderate Innovator, efficient use of regional development funds, R&D spending, Start-ups
<b>Agglomeration and clustering</b>	Weak links between SMEs and between SMEs and large multinational companies <sup>202</sup>	9 recognized clusters: Aerospace, "Intelligent Factories", Agrifood, Mobility, Energy, Green Chemistry, Life Sciences, Living Environments and Smart Communities.
<b>Unique to the region</b>	Management approach of familial companies and sense of pride for national brands/companies are cultural aspects that may push away FDI	Strong entrepreneurial culture (8 enterprises per 100 inhabitants)

### 7.2.1 Territorial overview

A large market (approximately 10 million inhabitants), a highly industrialised and diversified economy, and the wide cultural and quality of life offer are some of the key reasons that make Lombardy attractive for foreign investment. Lombardy is also well positioned in terms of rail, road and logistics infrastructure and has three international airports. The cost of doing business in Lombardy, although above the EU-28 average, is relatively competitive compared to similarly industrialised regions. As an immediate reaction to the Eurozone crisis, Italy significantly lowered its corporate taxes. Prior to the crisis, corporate taxes stood at 33 per cent, dropping to 27.5 per cent in 2008 and once again to 24 per cent at the beginning of 2017. Income taxes and other labour costs are now relatively competitive compared to the Eurozone (EA-19) average, but remain higher than the EU-28 average.<sup>203</sup> Still, labour costs appear to be lower in Lombardy than in other major western European cities.<sup>204</sup> Furthermore, the region and the Italian State have implemented a number of financial and fiscal incentives that lower the costs for strategic investments.

Lombardy's diverse industrial sectors are the main economic driver of the region and act as a magnet for both FDI and talented workers. The region is renowned for its high value manufacturing, which has made it particularly resilient to the global economic crisis. However, keeping up with the demands of this sector with respect to technological infrastructure, research

<sup>201</sup> These are the drivers used in the scientific report, *Drivers of extra-European FDI towards Europe*.

<sup>202</sup> Annual Report 2016 – Invest in Lombardy.

<sup>203</sup> Eurostat: [http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Estimated\\_hourly\\_labour\\_costs\\_2015\\_\(EUR\)\\_V4.png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Estimated_hourly_labour_costs_2015_(EUR)_V4.png).

<sup>204</sup> Interviewee 24.



and education demands a high level of investment. Lombardy and the Italian State are currently supporting the transition towards Industry 4.0, a profound transformation of conventional industrial production to the digital age. Industries in Lombardy have to an extent adhered to this trend, however this still remains a major challenge, especially for industries located in peripheral areas, which still have insufficient access to 'optical fibres/lines'.<sup>205</sup> The region could also benefit from improvements to logistics.<sup>206</sup> Otherwise, Lombardy is relatively well positioned in terms of airport, rail, road and logistics infrastructure.<sup>207</sup>

Lombardy's more important asset when it comes to FDI attractiveness is its human capital. Although the percentage of people with tertiary education overall (19.3 per cent), falls below the EU28 average (30.1 per cent),<sup>208</sup> The situation is much more favourable with regard to the age-group of 30-34 (29.5 per cent).<sup>209</sup> The appeal of Lombardy's human capital appears to be strongest with respect to the technical skills offered by the regions many prestigious institutes, for example, the Polytechnic University of Milan (one of the 13 universities located in the region). These highly valued professions match the demands of Lombardy's production sector, which is heavily dependent on manufacturing industries. Additionally, Lombardy's labour force has the unique opportunity to develop skills beyond the academic sphere by undertaking an apprenticeship at one of the 500 public and private R&D centres and six technological parks<sup>210</sup> or through one of the many prominent industries in the region. Matching between students (from high schools and professional institutes) and companies/universities is facilitated by the cluster through a youth apprenticeship program, supported by the Regional Ministry for Education Training and Job and the Regional Bureau for Education.<sup>211</sup> Lombardy's human capital has been described as highly professional, 'reflexive and ready to be inserted in the labour market'.<sup>212</sup> This is perhaps connected to the strong entrepreneurial culture in Lombardy. Attributes relating to this culture include a high level of creativity, problem-solving skills and adaptivity to the wider macro-economic shifts and global trends (e.g. the global financial crisis).<sup>213</sup>

## 7.2.2 Research and innovation

Despite dropping from a strong innovator (2014) to moderate innovator (2016) on the Regional Innovation Scoreboard,<sup>214</sup> Lombardy still performs well on innovation overall. Regional strengths include: employment in knowledge-intensive industries, SMEs innovating in-house and exports of medium and high tech technologies/products.<sup>215</sup> In contrast, areas for improvement include: innovative SMEs collaborating with others, public R&D expenditures, and

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<sup>205</sup> Interviewee 23.

<sup>206</sup> Interviewee 25.

<sup>207</sup> Interviewee 23.

<sup>208</sup> Eurostat.

<sup>209</sup> Ibid.

<sup>210</sup> Interviewee 23.

<sup>211</sup> Interviewee 26.

<sup>212</sup> Interviewee 23.

<sup>213</sup> Interviewee 25.

<sup>214</sup> EU Commission, Regional Innovation Scoreboard (RIS 2016), <http://ec.europa.eu/DocsRoom/documents/17897>.

<sup>215</sup> Ibid.

tertiary education attainment.<sup>216</sup> The limited links between SMEs could be partly explained by the insufficient public expenditure in R&D (1.6 per cent of the regional GDP<sup>217</sup>), or by insufficient managerial capacity to engage in call applications<sup>218</sup>, or by cultural aspects.<sup>219</sup> Nevertheless, Lombardy's strong culture of entrepreneurship (8 enterprises per 100 inhabitants)<sup>220</sup> is a key asset for the region and clearly boosts the region's innovation profile. Moreover, newly established incentives are already working to engage SMEs directly in R&D<sup>221</sup>, which is expected to further boost innovation and collaboration. Lombardy also emerged as the second most efficient region in Europe in using EU regional structural funds for R&D in the period 2014-2020.<sup>222</sup> However, regional investment in R&D remains well below the ambition of 3 per cent of GDP, making up only 1.6 per cent of the regional GDP spending today.<sup>223</sup>

Lombardy has a large higher education system. There are 13 Universities located in the region, some of which are the most specialised and receive the biggest research budgets in Italy. Lombardy also has 500 private and public research centres in the field of life sciences **and six science parks** which are active in life-sciences, bio and nano-technologies, food and agriculture, among other fields.<sup>224</sup> There are nine recognised clusters<sup>225</sup> across Lombardy including aerospace, "intelligent factories", agri-food, mobility, energy, green chemistry, life sciences, living environments and smart communities. The cluster organisations match with the regional development strategy and the sectors of priority established in the Smart Specialisation Strategy.

### 7.2.3 Main challenges and weaknesses

One weakness in Lombardy, and in fact all levels of the public administration in Italy, is bureaucracy and the intricate institutional system.<sup>226</sup> There are numerous issues to be solved within the public administration, which makes attracting FDI difficult.<sup>227</sup> One of the main obstacles identified by foreign investors is uncertainty around timeframes for administrative procedures and permit approval.<sup>228</sup> This has number of repercussions, not the least on the expected costs of the investments.<sup>229</sup> One of the key problems is the Italian civil justice system which fails to provide clear rules and timeframes.<sup>230</sup> The Lombardy Region has limited influence over this however, as the responsibility for such procedures is placed at the national level.

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<sup>216</sup> Ibid.

<sup>217</sup> Annual report – Invest in Lombardy.

<sup>218</sup> Interviewee 25.

<sup>219</sup> Interviewee 23.

<sup>220</sup> Interviewee 24-A. Elaboration from Eurostat and data from the *Servizio studi e Statistica*- Chamber of Commerce.

<sup>221</sup> Interviewee 25.

<sup>222</sup> <http://www.infodata.ilsole24ore.com/2017/03/06/la-mappa-delle-regioni-utilizzano-al-meglio-gli-aiuti-ricerca-innovazione-competitivita/>.

<sup>223</sup> Invest in Lombardy Annual Report 2016.

<sup>224</sup> <http://www.en.regione.lombardia.it/cs/Satellite?c=Page&childpagename=Regione%2FPPage%2FENMILLayout&cid=1213583551365&p=1213583551365&pagename=RGNWrapper>.

<sup>225</sup> [http://www.s3.regione.lombardia.it/cs/Satellite?c=Page&childpagename=DG\\_Industria/MILLayout&cid=1213792091374&p=1213792091374&pagename=DG\\_INDWRapper](http://www.s3.regione.lombardia.it/cs/Satellite?c=Page&childpagename=DG_Industria/MILLayout&cid=1213792091374&p=1213792091374&pagename=DG_INDWRapper).

<sup>226</sup> Interviewee 23; Interviewee 24; Interviewee 26.

<sup>227</sup> Interviewee 26.

<sup>228</sup> Interviewee 23.

<sup>229</sup> Interviewee 23.

<sup>230</sup> Interviewee 23.

Nevertheless, the regional government has made significant efforts to assist foreign investors with administrative requirements through complimentary services provided by Invest in Lombardy, the regional investment promotion agency<sup>231</sup> as well as through coordination with the municipal governments within the region.<sup>232</sup>

Moreover, this study has identified issues connected to the business culture and other cultural features that represent a barrier for facilitating foreign investment in the region. Despite the clear benefits of the higher number of SMEs, there are several limitations connected to the small size of companies – 'SMEs struggle to collect resources, to establish contact with foreign investors, to transfer their expertise to the next generation and to scale-up'.<sup>233</sup> An additional complication is that most SMEs in Lombardy are family businesses: 'the main defect of a family business is that they want to keep control – [yet,] opening up to a foreign investors requires handing over part of the control and abandon the familial managerial approach'.<sup>234</sup> In addition, family businesses tend to lose an enormous managerial capacity as they fail to transfer the knowledge to the next generations – this explains their typically short life-span of two to three generations.<sup>235</sup>

Another cultural aspect that appears to deter foreign investments from Lombardy is the at times less than positive perception of FDI among the Italian people.<sup>236</sup> For instance, 'the acquisition of an iconic brand or company by a foreign investor has been often perceived by the public opinion as theft'.<sup>237</sup>

Nevertheless, Lombardy is currently experiencing a notable increase of FDI.<sup>238</sup> Some of the key factors contributing to this is urban planning work that seeks to improve urban amenities in Milan, as well as the 'Expo-effect'.<sup>239</sup> However, these investments are mostly limited to the metropolitan area of Milano while other parts of Lombardy struggle to attract foreigners and FDI.<sup>240</sup>

## **7.3 FDI policy framework**

### **7.3.1 Overarching strategy**

The Italian Trade Agency (ITA), which is the investment promotion agency at a national level, created a Foreign Investment Department at national level to streamline FDI governance and assist companies throughout the investment cycle. This included an important effort to strengthen the capacity of the offices of the ITA located in foreign cities by expanding their network and creating synergies between them and the embassies and consulates located in

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<sup>231</sup> Interviewee 24.

<sup>232</sup> Interviewee 23.

<sup>233</sup> Interviewee 23.

<sup>234</sup> Interviewee 23.

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<sup>236</sup> Interviewee 23.

<sup>237</sup> Interviewee 23.

<sup>238</sup> Interviewee 23.

<sup>239</sup> Interviewee 23.

<sup>240</sup> Interviewee 23.

foreign countries.<sup>241</sup> The ITA has the task of improving vertical coordination by sharing its strategy with sub-national level actors. To facilitate this, the ITA has a local contact point in every region for coordinating the investment process between the national and regional level. In this case, the regional investment promotion agency, Invest in Lombardy, is the contact point for vertical coordination with the ITA. In synergy with the ITA, Invest in Lombardy, is coordinating actions to promote FDI in the region abroad. The national government is also supporting a policy of internationalisation which includes dedicating effort and resources towards an increased presence at international fairs.

In 2012, the region of Lombardy has taken more specific action on FDI attraction with the launch of the Invest in Lombardy program.<sup>242</sup> Invest in Lombardy is a cooperation between the Lombardy Region, Unioncamere Lombardia (the association of the twelve public Chambers of Commerce of Lombardy) and Promos (the Special Agency of the Milan Chamber of Commerce for the promotion of international activities). The cooperation aims to assist international companies planning to set-up or expand business in Lombardy at every stage of their project. The main objective of this joint effort has been to promote existing investment opportunities in the region.

*[Establishing Invest in Lombardy was] the first attempt to systematize the support given to investors interested in operating in Lombardy, which up until today, investors have sought support from private agencies, professional firms, consultancy firms or industrial associations. There was a lack of direction from the public administration. This is what we are trying to achieve with Invest in Lombardy, which now has evolved further with the launch of the AttrACT project, which is an attempt to get the local administrations involved in FDI attraction.*<sup>243</sup>

AttrACT is a political measure launched this year by Lombardy Region and aimed at mapping 'ready-to-use investment opportunities', reducing bureaucracy and facilitating investment by taking concrete actions and providing fiscal incentives.<sup>244</sup> These measures are part of a wider goal to develop 'a regional network able to match Lombardy's assets with the global strategic needs of potential investing firms'.<sup>245</sup>

Until now, the strategy to attract FDI to the region has been to provide support to whoever asks for it, without focusing on any specific sector.<sup>246</sup> Currently, Lombardy Region is instead 'working on a new approach that aims at developing specific promotion actions in alignment with the sector of specialization of the 9 clusters that are located in the region'.<sup>247</sup> This ambition comes in close alignment with Lombardy's smart specialisation strategy (see fig. 7), which takes a place-based approach to regional development. With the recognition Cluster Tecnologici

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<sup>241</sup> Interviewee 23.

<sup>242</sup> Interviewee 23.

<sup>243</sup> Interviewee 23.

<sup>244</sup> Interviewee 24.

<sup>245</sup> Lombardy Region: AttrACT project: <http://www.investinlombardy.com/attract-accordi-attrattivita>.

<sup>246</sup> Ibid.

<sup>247</sup> Ibid.

Lombardi (CTL), the Lombardy region promotes the innovation ecosystem by favouring and supporting the aggregation of the different actors that are active in R&D, including companies, universities, research centres, public and private institutions and funding bodies.<sup>248</sup> Clusters are thought to be tools to assist with the process of matching the production system with new market opportunities within the areas of specialisation through the evolution of their traditional/mature industries into emerging industries.<sup>249</sup>

**Figure 6 Thematic alignment of the areas of specialisation in the Lombardy’s Smart Specialization Strategy, 2015 with the focus of the regional cluster organizations.**

Ambiti Cluster	Aree di Specializzazione						
	Aerospazio	Agro Alimentare	Eco industria	Industrie creative e culturali	Industria della salute	Manifattura avanzata	Mobilità sostenibile
Aerospazio	■						
Agri-food		■					
Chimica verde		■	■				
Energia e ambiente			■				
Fabbrica intelligente						■	
Mobilità							■
Scienza della vita					■		
Ambienti di vita			■	■	■		
Smart communities	■	■	■	■	■	■	■

Source: Invest in Lombardy

Another key issue on the agenda of the regional government is the streamlining of public administration by easing bureaucratic procedures and minimising uncertainty.<sup>250</sup> The legal uncertainty resulting from unclear regulations often translates into increased and unforeseeable costs for companies.<sup>251</sup> However, many of these administrative procedures cannot be solved at the regional level, such as issues with the civil justice which rests at the national level. Nevertheless, Invest in Lombardy makes a significant effort to assist foreign investors with administrative requirements through a free of charge service, as well as through coordination with the municipal governments within the region to develop a clear framework. This includes

<sup>248</sup>[http://www.s3.regione.lombardia.it/cs/Satellite?c=Page&childpagename=DG\\_Industria/MILayout&cid=1213792091374&p=1213792091374&pagename=DG\\_INDWRapper](http://www.s3.regione.lombardia.it/cs/Satellite?c=Page&childpagename=DG_Industria/MILayout&cid=1213792091374&p=1213792091374&pagename=DG_INDWRapper).

<sup>249</sup> Interviewee 26.

<sup>250</sup> Interviewee 23.

<sup>251</sup> Interviewee 23.

the time frames and costs that are to be expected when establishing an economic activity. This is the first step of a more ambitious goal carried out within the AttrACT project. Namely, “the *sportello unico per le imprese*, which provides a single contact-point within the public administration to assist investors with their documentation/procedures” and thus eliminates the need to establish contact with individual public institutions.<sup>252</sup>

More specifically, the state and region have paid particular attention to high value manufacturing.<sup>253</sup> However, maintaining the highest value manufacturing levels requires keeping up with technological and societal changes. For this reason, the region and the state are promoting the transition to Industry 4.0, entailing a profound transformation of industrial production by the integration of digital technologies and internet in conventional industry.

### 7.3.2 Forms of government intervention

The table below shows several different forms of government intervention aimed at attracting FDI to Lombardy Region.

**Table 26 Existing FDI policy incentives**

Regulatory	Financial	Fiscal	Other
Flexibilisation of labour market (flexible contract renewal) – Deregulation of dismissal regime	<b>Regional level:</b> “Dote Lavoro” funds for hiring new and vulnerable workers “Competitiveness commitment” financial support companies cluster activities	Industry 4.0 National Plan – incentives package to foster innovation (hyper- and super depreciation schemes for investments in technology; R&D tax credit, patent box on intangible assets, specific package for SMEs and start-ups)	“Land in Lombardy” programme provides free office space up to 3 months in selected technological parks and other centres of excellence
	<b>National level:</b> funds for upgrading machinery and equipment; R&D initiatives	Tax breaks: corporate tax (IRES), regional tax on productive activities (IRAP), property tax, Household wages, and for qualified workers moving to Italy	Apprenticeship programme: matching students with companies and universities
	<b>EU level:</b> ERDF Funds	Cuts up to 40% of social security contributions	Round tables with foreign companies established

The Italian government has recently launched the ‘Industry 4.0 National Plan’, a highly ambitious investment program containing a package of measures and incentives devoted to fostering innovation. ‘For decades, we have had the Sabatini law to fund the technological development and modernisation of companies - the renewal of industrial facilities. This has been the backbone of the Italian policy to support industry for many decades’.<sup>254</sup> However, the Industry 4.0 National Plan aims at revolutionising the industrial production by assuring the effective transition towards the industry 4.0 also known as fourth Industrial revolution. This in

<sup>252</sup> Interviewee 23.

<sup>253</sup> <https://www.bancaditalia.it/publicazioni/economie-regionali/2016/2016-0003/1603-lombardia.pdf>.

<sup>254</sup> Ibid.

turn, is expected to boost innovation and investment. The program includes several incentives to stimulate private investment in technologies, venture capital and start-ups, and support R&D and education programs among other measures.<sup>255</sup> It contains a package of public measures to ensure private investments and support large investments in innovation. A 50 per cent tax credit on R&D is offered as well as a Patent Box on all intangible assets (cutting corporate taxation by 50 per cent on relevant income).<sup>256</sup> The program introduces new 'hyper-depreciation and super-depreciation schemes', increasing the amortization for investments made in high-tech machinery and equipment technologies from 140 per cent to 250 per cent and extending super-depreciation in one year to all investments made in machinery and industrial assets.<sup>257</sup>

Furthermore, Credito d'Imposta is an incentive dedicated to R&D in which certified projects are compensated with fiscal incentives.<sup>258</sup> This incentive can be combined with the Industry 4.0 incentive to purchase machinery – 'these two are perhaps the most interesting measures for foreign companies to invest in Lombardy'.<sup>259</sup> Typically, R&D projects are set-up by a big company and a big university to which SMEs benefit indirectly, but are not directly involved in R&D.<sup>260</sup> However, "the interesting development with the Credito d'Imposta is that the SMEs are starting to get directly engaged in R&D, which is a great accelerator for interesting processes".<sup>261</sup>

More generally, the Italian government has amended the fiscal framework in Italy, releasing some of the fiscal burden to private investors across all sectors. As an immediate reaction to the Eurozone crisis, the corporate tax (IRES) dropped from 33 per cent to 27.5 per cent in 2008, and in 2017 it dropped again to 24 per cent.<sup>262</sup> Additionally, with the aim of tackling the low levels of R&D expenditure, the Stability Law 2015 introduced a broadly accessible fiscal incentive for R&D initiatives for the 2015-2019 period, offering a 25 per cent tax credit on incremental expenditure.<sup>263</sup> All businesses are eligible for this incentive, regardless of their sector of activity, including subsidiaries of foreign groups and Italian branches of foreign companies.<sup>264</sup> The Stability Law 2015 also abolished the Regional Tax on Productive Activities (IRAP) for new permanent contracts.<sup>265</sup> Further, the Stability Law 2016 introduced new fiscal incentives, such as the abolishment of the property taxation (IMU) on farmland and 'bolted equipment'.<sup>266</sup>

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<sup>255</sup> <http://www.sviluppoeconomico.gov.it/index.php/it/industria40>.

<sup>256</sup> Interviewee 24.

<sup>257</sup> Interviewee 24.

<sup>258</sup> Interviewee 25.

<sup>259</sup> Interviewee 25.

<sup>260</sup> Interviewee 25.

<sup>261</sup> Interviewee 25.

<sup>262</sup> <http://www.investinlombardyblog.com/en/2016/09/italys-attractiveness-is-one-of-the-goals-of-corporate-income-tax-lower-form-2017/>.

<sup>263</sup> <http://www.investinlombardyblog.com/en/2015/09/the-new-rd-tax-credit-introduced-by-the-2015-stability-law/>.

<sup>264</sup> Ibid.

<sup>265</sup> Italy FDI Trends and Opportunities. Presentation Italian Trade Agency, 2016.

<sup>266</sup> Ibid.

Additionally, the Italian government introduced hefty tax breaks for qualified workers moving to Italy. These include, a three-year exemption on 90 per cent of remuneration for professors and researchers, a five year tax exemption on 50 per cent of remuneration for managers and professionals, and 15 year substitute tax of EUR 100,000 on all foreign source of income.<sup>267</sup>

In terms of the regulatory framework, a significant effort has been made at the national level in recent years to amend the regulatory framework in order to make it more attractive for investors and promote economic activity. Some of the most relevant amendments are the deregulation of the dismissal regime, and the flexibilization of the labour market with changes in the contract renewal rules and cuts to social security contributions.<sup>268</sup> 'Companies are not heavily regulated – they don't receive many incentives, but the state is not intrusive in the activities of the industries'.<sup>269</sup>

### ***Regional Level***

The most important mechanisms in place to promote inward investments at the regional level include 'Dote Lavoro', 'Competitiveness Commitment' measures and 'AttrACT'.<sup>270</sup> Dote Lavoro is a regional fund for hiring unemployed workers, new workers entering the labour market and other members of society with high risk of social exclusion.<sup>271</sup> Competitiveness Commitment provides tailor-made step-by-step financial support (i.e. grants) to private companies.<sup>272</sup> This measure also makes it possible to engage in profitable collaborations with local institutions and to 'access highly specialised skills and R&D infrastructure'.<sup>273</sup> The AttrACT is a political measure launched by Lombardy Region aimed at boosting competitiveness. Besides mapping investment opportunities and reducing bureaucracy, AttrACT offers concrete actions to facilitate investments, which include fiscal incentives such as reduced local taxes.<sup>274</sup> Lombardy Region autonomously introduced several incentives to stimulate innovation and investment.<sup>275</sup> For instance, the IRAP was reduced especially for innovative start-ups.<sup>276</sup>

The region of Lombardy also supports cluster development, a key component of FDI attraction. Lombardy launched 2 specific calls for cluster initiatives; one for the 2014-2015 period designed to support the start-up phase aimed at developing the competitiveness of cluster organisations (EUR 1,000,000 of regional funds); and another for the 2016-2020 period to promote the consolidation of the clusters organisation (EUR 1,000,000 of European Regional Development Fund-ERDF funds).<sup>277</sup> Moreover, clusters have signed a memorandum of understanding with the Regional Ministry for Education Training and Job and the Regional Bureau for Education to

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<sup>267</sup> Ministry of Economy and Finance. Italy is now and next. [http://www.ilfoglio.it/userUpload/ITALY\\_IS\\_NOW\\_AND\\_NEXT\\_ver3.pdf](http://www.ilfoglio.it/userUpload/ITALY_IS_NOW_AND_NEXT_ver3.pdf).

<sup>268</sup> Italy FDI Trends and Opportunities. Presentation Italian Trade Agency, 2016.

<sup>269</sup> Interviewee 25.

<sup>270</sup> Interviewee 24-A.

<sup>271</sup> Interviewee 24-A.; <http://eurointerim.it/dote-unica-lavoro-lombardia>.

<sup>272</sup> Interviewee 24-A.

<sup>273</sup> Interviewee 24-A.

<sup>274</sup> Lombardy Region: AttrACT project: <http://www.investinlombardy.com/attract-accordi-attrattivita>.

<sup>275</sup> Interviewee 24-A.

<sup>276</sup> Interviewee 24-A.

<sup>277</sup> Interviewee 26.



facilitate young apprenticeship programme (education and training).<sup>278</sup> 'The clusters facilitate the matching between students (high schools-professional institutes) and companies/Universities to promote a first job experience through internships.'<sup>279</sup>

The "Land in Lombardy" programme promoted by Promos - Invest in Lombardy connects foreign companies, incubators, or research institutes with selected scientific and technological parks where they can receive free of charge office space for a short period<sup>280</sup> and up to three months.<sup>281</sup> During that time, they can test the market, work with the research institute or use the laboratories. Furthermore, an interesting mechanism of support for the incoming investments provided by Invest in Lombardy is the organisation of round-tables with foreign companies already established in the region. During these meetings companies present the status of their investments and receive support from Invest in Lombardy in different ways, such as finding a new location or requesting incentives for research.<sup>282</sup>

There are already a wide range of incentives in place for FDI attraction, 'but it risks not to be effectively communicated to the investors'.<sup>283</sup> Consequently, the region is working on systematic compilation of incentives offered at different levels, designed to attract the attention of foreign investors, in particular those not familiar with the Italian public administration.<sup>284</sup>

## 7.4 FDI Impact

FDI has a large impact in job-creation, attraction of talent and innovation.<sup>285</sup> Innovation, not only in terms of new products and business ideas, but also in creating an innovative culture. In certain industries, such as 'finance, fashion, design, life sciences, or ICT, Milano represents both a benchmark and an epicentre'.<sup>286</sup> Thus, the international environment developed around those industries benefits both the region and the companies.<sup>287</sup> Companies benefit from the available knowledge, networks and by being up to date with the latest developments and trends of an industry. Location, as in presence in Milano and getting the label 'Made in Italy' often represents an important branding/marketing strategy for foreign companies. At the same time, the region needs the presence of foreign companies to maintain its status as 'the place to be' for fashion and other key industries.

FDI also boosts business competitiveness, in some cases by bringing companies and businesses back from the edge of bankruptcy. This is partly by offering liquidity to the companies, but also by introducing new management models.<sup>288</sup>

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<sup>278</sup> Interviewee 26.

<sup>279</sup> Interviewee 26.

<sup>280</sup> Interviewee 24.

<sup>281</sup> <http://www.investinlombardy.com/our-services/land-in-lombardy>.

<sup>282</sup> Interviewee 24-A.

<sup>283</sup> Interviewee 23.

<sup>284</sup> Interviewee 23.

<sup>285</sup> Interviewee 23.

<sup>286</sup> Interviewee 24.

<sup>287</sup> Interviewee 24.

<sup>288</sup> Interviewee 23.

## **7.5 Concluding remarks**

Lombardy has an outstanding potential for attracting FDI into the region, both in well-established sectors and emerging industries. Its main strengths are the region's highly qualified workforce, strong, diverse and high-value industries, large market, competitive labour costs, innovation and investment in R&D. The region's main weaknesses are its complex administrative structure, legal uncertainty and in some cases, cultural conditions of home-grown companies that result in a cultural resistance to foreign intervention.

In coordination with the Italian Trade Agency, Lombardy has made a significant effort to streamline FDI promotion, thanks also to the Invest in Lombardy project. A wide range of financial and fiscal incentives are in place to support Industry 4.0, promote R&D and increase youth employment. Other mechanisms of support are in place for cluster development and matching students with companies to help them start their careers. Free office space is also offered to companies establishing in Lombardy for a short period of time and round table discussions are organised to allow companies to share their experiences and seek assistance. Despite the wide range of incentives on offer, developing a systematic framework for FDI attraction and a favourable business environment supported by a clear legal and administrative framework, remains a challenge for the region. FDI plays a key role in job-creation, attraction of talent and generating an innovative culture. In addition, it provides a much needed boost in competitiveness, offering liquidity to struggling companies.

## 8 Spain: Catalonia Region

**Table 27 Summary of the main characteristics of the Spanish case – Catalonia Region**

<b>Investment typology</b>	Diversified, competitive costs, good connectivity	
<b>Economic &amp; territorial factors</b>	-	+
	<ul style="list-style-type: none"> <li>Intricate institutional structure</li> <li>Missing high-speed rail connecting with rest the Europe (in construction)</li> </ul>	<ul style="list-style-type: none"> <li>Large market and access to a wider market across EU and the Mediterranean (400 million consumers)</li> <li>Strong and diverse economy (20% of National GDP)</li> <li>Highly industrialized</li> <li>Well-functioning infrastructure</li> <li>Hot spot for emerging companies around ICT</li> <li>Innovative, creative, entrepreneurial region</li> </ul>
<b>Cost and quality factors</b>	-	+
		<ul style="list-style-type: none"> <li>Competitive costs – wages, real-estate (office space, land, tourism and logistics facilities)</li> <li>Not excessive corporate taxes (25%)</li> <li>Highly skilled human resources</li> <li>High quality of life</li> </ul>
<b>FDI policy approach</b>	<ul style="list-style-type: none"> <li>Traditionally based on clearly defined sectorial policies. Now aims also at attracting investments that fill industry gaps.</li> <li>Close alignment with Smart Specialization Strategy</li> <li>Push towards advanced manufacturing and digitalization of industry (Industry 4.0)</li> <li>Emphasis on emerging industries e.g. 3D printing</li> <li>Investment promotion agency aids foreign investors and leads investment projects. Strong emphasis on after-caring.</li> </ul>	
<b>FDI policy enablers/drivers</b>	<ul style="list-style-type: none"> <li><b>Regulatory:</b> Environment regulations</li> <li><b>Financial:</b> Grants and loans for R&amp;D, Manufacturing, energy efficiency.</li> <li><b>Fiscal:</b> Tax deduction for R&amp;D (59%). Exemption corporate tax for foreign holding companies. 'Beckham law': Income tax reduction (25-40%) for highly skilled foreigners settling in Spain</li> <li><b>Other enablers:</b> Residence permit to foreigners (non-EU citizens) owning more than EUR 1'million in real estate in Spain</li> </ul>	
<b>FDI value-added</b>	<ul style="list-style-type: none"> <li>Job-creation: FDI employs 18% of the regional labour force</li> <li>FDI generates 41% (45% in 2016) of the regional exports</li> <li>Foreign professionals generate an ecosystem effect around technological industries</li> <li>Impact on value-chains – activate suppliers of goods and services</li> </ul>	

### 8.1 Context overview and existing investment framework

Catalonia is one of Spain's 17 autonomous regions, with a population of 7.5 million and a strategic location at the heart of the Mediterranean Sea area. The region produces 20 per cent of the national GDP and hosts 45 per cent of Spanish foreign multinational companies.<sup>289</sup> Catalonia is the nation's powerhouse (accounting for 23 per cent of Spanish industry) and one of the four so-called 'motors of Europe' together with Auvergne-Rhône-Alpes, Lombardy and Baden-Württemberg. Despite the presence of multinational companies and large industries, SMEs account for 99.8 per cent of Catalan companies.<sup>290</sup> Catalonia is a hub for FDI, in 2016, it was classified as 'the 4th region in Continental Western Europe in job creation, the 5th region in attracting the highest number of projects and the 6th region in investment volume'.<sup>291</sup> The

<sup>289</sup> Catalonia Trade & Investment.

<sup>290</sup> Ibid.

<sup>291</sup> Interviewee 27-A.

sectors that present the greatest opportunity for FDI in Catalonia are ICT, Logistics and Business Services.<sup>292</sup> Yet Catalonia also offers FDI opportunities in its traditionally strong business sectors, including: automotive, shared services centres, food, life sciences, chemical, ICT and logistics; as well as in emerging opportunities, such as Industry 4.0, big data, E-commerce, food services, connected and self-driving cars, mobile technologies, amongst others.<sup>293</sup>

Catalonia has a long tradition of FDI attraction that dates back to the early twentieth century.<sup>294</sup> Catalonia underwent its industrial revolution during the nineteenth century establishing an early stronghold as an industrial base with a well-trained working class.<sup>295</sup> Catalonia has since expanded its industrial sector and quickly became a major recipient of FDI. An important wave of FDI towards manufacturing industries came from Japanese investment in the consumer electronics, automotive and chemical industries between the 70s and the 90s.<sup>296</sup> More recently, FDI extended towards the financial sector, real estate and towards the food industry and tourism.<sup>297</sup> Moreover, an interesting development is the emergence of the digital technologies, and the Barcelona Mobile World Congress, which has positioned Barcelona as a hub for the mobile-phone and related technologies.<sup>298</sup> These developments are attracting a wave of venture capital led by young professionals, boosting the 'co-working' culture.<sup>299</sup> In 2015, Catalonia captured 53 per cent (and 71 per cent of the total value: EUR 277.2m) of all venture capital invested in Spain.<sup>300</sup>

During the economic crisis of 2007-2013, FDI dropped 72 per cent in Europe and about 47 per cent in Spain.<sup>301</sup> At the same time, Catalonia saw an increase in FDI of around 50 per cent.<sup>302</sup> Catalonia's diversified economy is one explanation for its resilience to the crisis, since FDI is spread across a number of sectors. However, the spike in FDI in Catalonia, despite the heavy impact of the crisis on the Spanish economy overall, is perhaps better explained by opportunistic investors taking advantage of the significant drop in real estate prices.<sup>303</sup> Closer examination of the sectoral distribution of FDI before and after the crisis (2002-2007 and 2008-2014), reveals a significant increase in the total share of investments in the service sector (from 44 per cent to 57 per cent) and a relatively small increase in the agriculture and construction sectors.<sup>304</sup> At the same time, the inflow of FDI from the manufacturing sector dropped from 51 per cent to 45 per cent of the total share of investments, representing an important decrease in the total value of investments for that sector. Moreover, during 2016, Catalonia experienced a

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<sup>292</sup> Interviewee 27-A.

<sup>293</sup> Interviewee 27-A.

<sup>294</sup> Interviewee 28.

<sup>295</sup> Interviewee 28.

<sup>296</sup> Interviewee 28.

<sup>297</sup> Interviewee 28.

<sup>298</sup> Interviewee 30.

<sup>299</sup> Interviewee 28.

<sup>300</sup> Invest in Catalonia: <http://catalonia.com/en/startups-in-catalonia/startup-ecosystem/venture-capital.jsp>.

<sup>301</sup> Foreign Direct Investment in Barcelona: A city Focused on Growth, Barcelona City Council, 2014.

<sup>302</sup> *Ibid.*

<sup>303</sup> Interviewee 28.

<sup>304</sup> Foreign Direct Investment in Barcelona: A city Focused on Growth, Barcelona City Council, 2014.

sudden increase in FDI originating in Latin America. One possible explanation for these investments, is the repatriation of capital from Spanish companies in response to the rising political and economic instability in Latin America.<sup>305</sup> It is too soon to determine the cause of these investments or whether they will continue to come over the following years.<sup>306</sup>

FDI attraction is a clear priority for the Government of Catalonia considering that approximately 18 per cent of the regional employment and 41 per cent (45 per cent in 2016) of the regional exports are generated by foreign companies.<sup>307</sup> Approximately 50-65 per cent of annual FDI is made by companies already established in the region.<sup>308</sup> Catalonia's FDI is heavily dependent on other EU members, accounting for around 80 per cent of the total investment.<sup>309</sup> However, in terms of number of projects attracted directly by the regional investment promotion agency, Catalonia Trade and Investment, 60 per cent of the total come from Europe, 17 per cent from USA, and 20 per cent from Asia.<sup>310</sup> When it comes to the total value of investment, Germany, France and Japan scored higher than the USA for the period of 2011-2016.<sup>311</sup> Other key investors from outside the EU are Switzerland, China, India, Hong Kong, Luxemburg, Canada, Israel, Turkey and Argentina (top-20 per number of projects).<sup>312</sup> Table 8.2 provides a picture of extra-EU FDI flows to Catalonia over a broader time-frame (2003-2015), distinguishing between mergers and acquisitions, and greenfield investments. The table also provides a list of the top-five countries where capital originated.

**Table 28 Extra-EU FDI flows to Catalonia 2003-2015**

Type of FDI and main countries of origin	Number of projects	Value (billion Euro, 2015 value)
Mergers and Acquisitions	250	11,970*
Greenfield Investments	418	11,728
Total	668	23,698
United States	373	11,583
Japan	90	3,784
Hong-Kong	19	2,732
Bermuda	13	742
Algeria	1	539

Note: \* 112 M&A projects without a deal value.

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

<sup>305</sup> Interviewee 30.

<sup>306</sup> Interviewee 30.

<sup>307</sup> Catalonia Trade & Investment Annual report 2015.

<sup>308</sup> Interviewee 27.

<sup>309</sup> Interviewee 30.

<sup>310</sup> Interviewee 27-A.

<sup>311</sup> Acció & Government of Catalonia: FDI Global Map 2016.

<sup>312</sup> Ibid.

## 8.2 Territorial factors impacting FDI flows

The table below presents an overview of the FDI drivers as observed in the case, including fundamental FDI drivers and cost and quality drivers. These can be understood as “territorial factors” in so far as they define the specific characteristics of the location with respect to FDI attractiveness.

**Table 29 FDI territorial drivers<sup>313</sup>**

<b>Fundamental FDI drivers</b>		
	-	+
<b>Geography and proximity</b>		Central location – directly connected across the Mediterranean – and the Barce-Lyon agglomeration
<b>National market characteristics</b>		Large market
<b>Strength of public institutions</b>	Companies’ commonly concerned with bureaucracy, procedures and legal security/certainty	Acciò (Investment promotion agency) is part of Catalonia’s government, which is a fast track for companies to handle administrative procedures.
<b>Prosperity</b>	High unemployment	20% of national GDP One of the 4 industrial hubs of Europe
<b>Cost and quality drivers</b>		
	-	+
<b>Infrastructure and accessibility</b>	Missing high speed rail connecting the region and the Mediterranean regions with France and rest of Europe (in construction)	Major logistics facilities Large international airport Large port Good road connection with Europe
<b>Environment for doing business</b>		Competitive fiscal climate
<b>Skill/education of workforce</b>		High skilled labour force
<b>R&amp;D spending/innovation profile</b>	Need for closer collaboration between R&D and industries	Moderate innovator High concentration of start-ups
<b>Agglomeration and clustering</b>		30 clusters (2100 firms)
<b>Unique to the region</b>		Excellent combination of traditional, emerging industries with an optimal quality of life.

### 8.2.1 Territorial overview

Catalonia is advantageously situated in the centre of the Mediterranean, giving it direct access to more than 400 million consumers in under 48 hours both within the EU and across the Mediterranean.<sup>314</sup> In addition, the port of Catalonia has a quick access to the South Pacific through the Suez Canal linking the Mediterranean and the Red Sea.<sup>315</sup> Catalonia itself has 7.5 million inhabitants and is also part of a larger urban agglomeration known as Barce-Lyon, which extends from the south of Valencia to the Lake Geneva Region.<sup>316</sup> Catalonia’s market is extremely globalized with one third of the economy depending on trade and international

<sup>313</sup> These are the drivers used in the scientific report, *Drivers of extra-European FDI towards Europe*.

<sup>314</sup> Interviewee 27-A.

<sup>315</sup> Interviewee 28.

<sup>316</sup> Interviewee 29.

investment.<sup>317</sup> The region's exports hit a new record in 2016, reaching EUR 65,142 million, which is a quarter (25.6 per cent) of the total national exports.<sup>318</sup> Catalonia has a strong and highly diversified industrial base, including a wide presence of complementary suppliers and services.<sup>319</sup> The Catalonian industries are now taking effective and clear steps towards the Industry 4.0 transition.<sup>320</sup> This has been triggered to a large extent by the fervent innovation ecosystem, and wide presence of start-ups and technological infrastructure.<sup>321</sup>

Catalonia has excellent sea and air infrastructure, as well as motorways connecting with the European network.<sup>322</sup> However, the land connectivity lags behind, largely due to the long delayed Mediterranean Corridor that will eventually link the region with high-speed rail to Valencia in the south and France, and the rest of Europe to the north.<sup>323</sup> Catalonia already has a station set up to serve high-speed trains, but the rail infrastructure is yet to be completed. Moreover, Catalonia is one of the biggest logistic zones in Southern Europe (Barcelona Business).<sup>324</sup>

The overall cost of setting up a business in Catalonia is very competitive.<sup>325</sup> Amongst other highly developed cities in Europe, Barcelona has one of the most competitive profile costs for office space at EUR 338.13/sqm/year (Fig. 8.1).<sup>326</sup> It is worth noting, however, that, depending on the location, the cost of office space can be much higher.<sup>327</sup> As an immediate consequence of the crisis, Catalonia saw a significant drop in prices for assets (e.g. apartments, offices and properties used for logistics and tourism).<sup>328</sup> Income tax (21.5-48 per cent) and corporate tax (25 per cent) rates are not particularly advantageous in Spain compared to other European competitors.<sup>329</sup> However, corporate taxes have recently become more competitive, dropping from 30 per cent to 28 per cent in 2015 and to 25 per cent in 2016.<sup>330</sup> Further, the wages in Spain are amongst the lowest in Western Europe with only Portugal and Greece scoring below.<sup>331</sup> This holds true even for highly skilled workers. For instance, 'the labour cost of a qualified engineer is much lower in Catalonia than in most of central and North Europe'.<sup>332</sup>

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<sup>317</sup> Interviewee 27-A.

<sup>318</sup> Interviewee 27-A.

<sup>319</sup> Interviewee 28.

<sup>320</sup> Interviewee 27.

<sup>321</sup> Interviewee 27.

<sup>322</sup> Interviewee 27.

<sup>323</sup> Interviewee 30.

<sup>324</sup> Catalonia Trade & Investment.

<sup>325</sup> Ibid.

<sup>326</sup> Catalonia Trade & Investment.

<sup>327</sup> Interviewee 28.

<sup>328</sup> Interviewee 30.

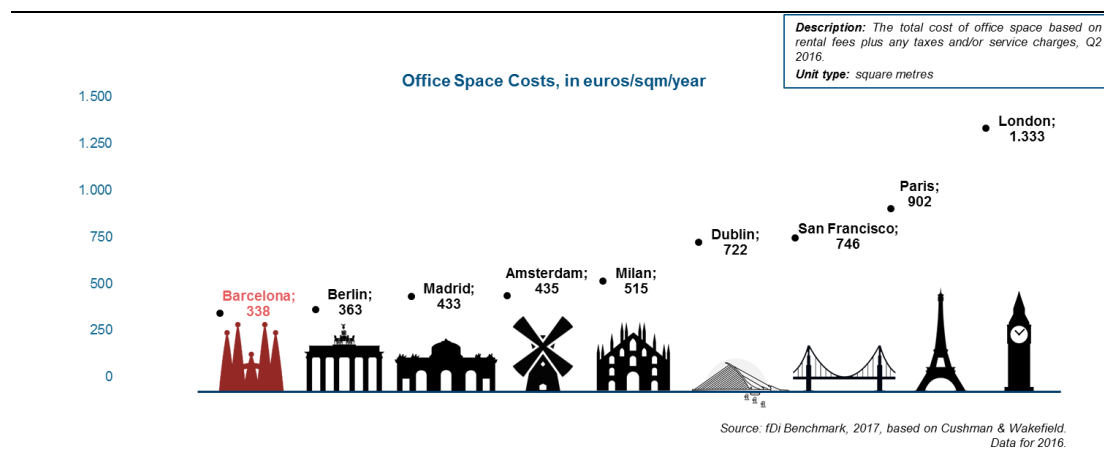
<sup>329</sup> Catalonia Trade & Investment: [http://www.catalonia.com/en/binaris/taxes2016\\_tcm213-151394.pdf](http://www.catalonia.com/en/binaris/taxes2016_tcm213-151394.pdf).

<sup>330</sup> <http://www.spainaccountants.com/ct.html>.

<sup>331</sup> Eurostat: [http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Estimated\\_hourly\\_labour\\_costs\\_2015\\_\(EUR\)\\_V4.png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Estimated_hourly_labour_costs_2015_(EUR)_V4.png).

<sup>332</sup> Interviewee 30.

**Figure 7 Comparative office space costs amongst 9 similar major cities in Europe**



Source: Catalonia Trade & Investment

Catalonia has a labour force that is highly qualified both academically and professionally.<sup>333</sup> Companies have access to a pool of talented and committed professionals trained in highly prestigious universities and schools.<sup>334</sup> A high share of the Catalonian population have a tertiary education (37.5 per cent EU-28 average 30.1 per cent).<sup>335</sup>

Furthermore, the quality of life in Catalonia has repeatedly been mentioned as a key factor in attracting talented foreigners, including entrepreneurs looking to establish their own company and high level executives that come as expat to work in large multinational companies.<sup>336</sup> 'There has been a boom of technological companies, mostly small ones, which could establish anywhere in the world but they chose Barcelona strongly because of the quality of life.'<sup>337</sup> Other factors that contribute to quality of life in the region are the wide range of cultural activities on offer and the high standard of urban amenities.<sup>338</sup>

## 8.2.2 Research innovation profile

Catalonia's major strength is its innovative, creative, entrepreneurial culture.<sup>339</sup> 'Both the public and private sector have made innovation and technology a priority in Catalonia.'<sup>340</sup> The Regional Innovation Scoreboard 2016 ranks Catalonia as a Moderate Innovator with relative strengths compared to the EU-28 in terms of: tertiary education attainment, employment in

<sup>333</sup> Interviewee 28.

<sup>334</sup> Interviewee 27.

<sup>335</sup> Eurostat.

<sup>336</sup> Interviewee 30.

<sup>337</sup> Interviewee 30.

<sup>338</sup> Interviewee 29.

<sup>339</sup> Interviewee 27.

<sup>340</sup> Interviewee 27.



knowledge-intensive industries, and exports of medium and high tech products.<sup>341</sup> In contrast, relative weaknesses are in non-R&D innovation expenditures, innovative SMEs collaborating with others, and SMEs with marketing or organizational innovations.<sup>342</sup> Moreover, the region excels in innovation in specific sectors. For instance, Catalonia is an important place for automotive testing and is becoming the European hub for 3D printing.<sup>343</sup> The ICT and bio-tech sectors are also booming, contributing significantly to the innovation profile of the region.<sup>344</sup>

Catalonia Region promotes the generation and sharing of technology through the TECNIO certification.<sup>345</sup> The region has several technology centres and there is an ongoing effort made to strengthen the links between them. For instance, the Barcelona Institute of Science and Technology was founded in a joint effort amongst the six top research centres in Catalonia.<sup>346</sup> This initiative aims at fostering interdisciplinary research, generating scientific impact, and situating itself among the top European scientific institutes.<sup>347</sup> Additionally, the region has supported the establishment of the Technology Centre of Catalonia, EURECAT.<sup>348</sup> This centre is the result of an ongoing integration of smaller technology centres already well established in the region.<sup>349</sup> This integration is expected to increase their international competitiveness by opening up opportunities, access to funding and encouraging the establishment of sizeable EU-scale projects.<sup>350</sup>

Catalonia has for some time had a cluster policy to support the agglomeration of key players in the different industries.<sup>351</sup> One very well established cluster is the CIAC cluster for automotive industries, which brings together most of the companies in the sector and is very active in internationalisation and foreign relations.<sup>352</sup> A relatively new cluster is Barcelona Tech City, which has grown significantly and has become an important hub for ICT and networking.<sup>353</sup> In total, the region congregates 30 clusters in the Catalonia's Cluster Programme, which altogether hosts 2100 firms with a combined turnover of EUR 65 billion.<sup>354</sup> The high number of clusters is explained by the broad diversification of the Catalan economy, however most of them are small on a global scale.<sup>355</sup> One opinion from the public administration is that the existing clusters' scheme makes it difficult for defining selective policies and priorities, yet 'on the other hand it stimulates related variety'.<sup>356</sup>

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<sup>341</sup> EU Commission, Regional Innovation Scoreboard (RIS 2016), <http://ec.europa.eu/DocsRoom/documents/18043>.

<sup>342</sup> Ibid.

<sup>343</sup> Interviewee 27.

<sup>344</sup> Interviewee 30.

<sup>345</sup> <http://www.catalonia.com/en/innovate-in-catalonia/rd-in-catalonia/tecnio.jsp>.

<sup>346</sup> <https://www.irbbarcelona.org/en/news/six-top-catalan-research-centres-constitute-the-barcelona-institute-of-science-and-technology>.

<sup>347</sup> Ibid.

<sup>348</sup> Interviewee 30.

<sup>349</sup> EURECAT: <https://eurecat.org/en/>.

<sup>350</sup> Interviewee 30.

<sup>351</sup> Catalonia Trade & Investment.

<sup>352</sup> Interviewee 27.

<sup>353</sup> Interviewee 27.

<sup>354</sup> Catalonia Trade & Investment: <http://catalonia.com/en/catalonia-barcelona/diverse-open-dynamic/cluster-hotspot.jsp>.

<sup>355</sup> Interviewee 29.

<sup>356</sup> Interviewee 29-A.

### 8.2.3 Main challenges and weaknesses

One weak territorial factor repeatedly identified in this study, is the intricate institutional structure of Catalonia and Spain.<sup>357</sup> In short, there are too many layers of public administration, and excessive measures of control – ‘Besides the local, regional, national and EU levels, there are intermediate layers such as the supra-municipal layers [*Comarcas*], the provinces [*Diputaciones*], and the metropolitan level in the case of Barcelona metro-area [composed of 36 municipalities]’.<sup>358</sup> This, generates problems in terms of flow of information, agility in delivering permits and costs.<sup>359</sup> A key complication is that the responsibilities and legal competences are sometimes contradictory at different levels, leaving companies confused about which regulations to follow, or which institutions they should contact to request permits.<sup>360</sup> This often leads to ‘conflict between them [government tiers] in the courts to battle which regulation should be implemented a given case’.<sup>361</sup> This governance gridlock has still an additional complication. The public administration needs to focus on guarantees – thus making sure that the rights and public interests are respected.<sup>362</sup> However, excessive measures of control – implemented with the aim of battling corruption – also block administrative operations, especially when it comes to processes of public procurement.<sup>363</sup>

Despite these issues with the public administration, Catalonia’s position as an FDI hub can, at least in part, be attributed to its very-well developed system of support to investors led by *Acció*, the regional investment promotion agency (read more below). Moreover, in collaboration with other administrative levels, Catalonia is pushing to develop a single-contact point within the public administration that will better facilitate communication between companies and public institutions. This objective, while promising, is yet to be achieved.<sup>364</sup> On a positive note, there is some evidence that the situation has improved. For instance, it is now possible to establish a company within 48 hours.<sup>365</sup>

Another challenge for the region is the need for stronger ties between R&D and industry<sup>366</sup>, and stronger collaboration amongst regional actors in general.<sup>367</sup> Industry and R&D have often operated independently – ‘supply and demand of technological advancement has not gone hand-in-hand’.<sup>368</sup> ‘Consequently R&D does not always result in the development of ‘new products’ for the industry – but instead, industries have often assumed that cost on their own’.<sup>369</sup>

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<sup>357</sup> Interviewee 28; Interviewee 29; Interviewee 30.

<sup>358</sup> Interviewee 28.

<sup>359</sup> Interviewee 28.

<sup>360</sup> Interviewee 30.

<sup>361</sup> Interviewee 30.

<sup>362</sup> Interviewee 29.

<sup>363</sup> Interviewee 28.

<sup>364</sup> Interviewee 28.

<sup>365</sup> Interviewee 30.

<sup>366</sup> Interviewee 29; Interviewee 30.

<sup>367</sup> Interviewee 29.

<sup>368</sup> Interviewee 30.

<sup>369</sup> Interviewee 30.

Nevertheless, the integration between these seems to be improving.<sup>370</sup> Finally, other challenges are talent retention and upgrade the skill-set amongst the Catalan work-force.<sup>371</sup>

## 8.3 FDI policy framework

### 8.3.1 Overarching strategy

Catalonia's investment strategy has traditionally been based on clearly defined sectorial policies and programs.<sup>372</sup> However, the approach has partially shifted towards identifying the industry gaps with the aim of attracting investment to fill up those gaps.<sup>373</sup> On this line, the region is pushing for the Industry 4.0 transition, including advanced manufacturing and digitalisation of industry.<sup>374</sup> However, a specific emphasis remains on target sectors to support the development of industries and projects that present a strong growth potential. Special attention is placed therefore, on emerging industries with the aim of positioning the region on top of those technologies – by 'being pioneer and activate an ecosystem around them'.<sup>375</sup> This is currently the case in technologies such as virtual reality, big data as well as 3D printing. Moreover, there is an attempt to equilibrate the greenfield, with seed funding.

Moreover, Catalonia is aligning its investment strategy with the newly approved Smart Specialization Strategy (RIS3) within the frame of the EU Regional Policy, which defines areas of investment.<sup>376</sup> However, this strategy does not consider the traditional sectors – 'the automotive sector as such does not exist anymore, but instead the mobility system, where automotive industries are embedded in'.<sup>377</sup> Therefore, the currently used sectors of priority involve all elements related to them as well, including research, and cross-cutting technologies, such as ICT, biotechnology and advanced manufacturing.<sup>378</sup>

Acciò, the Catalan agency for business competitiveness, is part of the Ministry of Innovation, Universities and Enterprise of the Catalan Government. Catalonia Trade & Investment is the international sub-agency under Acciò, responsible for competitiveness specialised in innovation, internationalisation and inward investment attraction. In turn Catalonia Trade & Investment has a network of 39 offices located in many places worldwide, including Silicon Valley, Miami, Japan, Hong Kong, Shanghai.<sup>379</sup> Being part of the regional government gives Acciò a direct access to all public institutions, which acts as a fast track for companies to handle administrative procedures. Moreover, the agency is not only dedicated to promoting investment, but also to more proactively lead investment projects. This service is provided free of charge exclusively to foreign companies interested in investing in Catalonia. The first

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<sup>370</sup> Interviewee 30.

<sup>371</sup> Interviewee 27-A.

<sup>372</sup> Interviewee 27.

<sup>373</sup> Interviewee 27.

<sup>374</sup> Interviewee 27.

<sup>375</sup> Interviewee 27.

<sup>376</sup> Interviewee 28.

<sup>377</sup> Interviewee 28.

<sup>378</sup> Interviewee 28.

<sup>379</sup> Interviewee 27.

step, identifying and encouraging investments, is carried out by the department of promotion within Catalonia Trade & Investment. Once the investor is identified, the department of projects takes the next step in directing investments into concrete projects. Typically, a project manager is assigned to facilitate procedures and collect all the required documentation for the companies.<sup>380</sup> Furthermore, Acciò pays close attention to caring for industries/investments following their establish in the region – ‘we have a team dedicated to after-care who visits them regularly we offer them “value propositions” assuring also the integration of clusters and other key players’.<sup>381</sup>

### 8.3.2 Forms of government intervention

The table below shows several different forms of government intervention aimed at attracting FDI to Catalonia Region.

**Table 30 Existing FDI policy incentives**

Regulatory	Financial	Fiscal	Other
Environmental regulations	Grants for business projects in R&D and innovation, training, energy efficiency, renewable energy, investment in fixed assets and resulting in job creation	Up to 59% in corporate tax deduction for R&D and innovation	Automatic residence permit to foreigners owning more than EUR 1'million in real estate in Spain
Flexible labour market	Loans for industrial manufacturing, investment projects and R&D projects 3 years co-funding for employing researchers conducting specific R&D projects. Funding cluster organizations.	Exemptions on corporate income tax and dividends for foreign holding companies Patent Box: up to 60% of tax-free net incomes gained from letting the right to use qualifying IP Beckham law: 25%-40% income tax reduction for highly skilled foreigners moving to Spain	

The main financial incentives in Catalonia are grants for business projects in R&D and innovation, training, energy efficiency, renewable energy, investment in fixed assets and investments resulting in job creation.<sup>382</sup> Moreover, loans are available for industrial manufacturing, investment projects and R&D projects. An additional incentive for R&D is the three year co-funding scheme for employing researchers conducting strategic projects. Among

<sup>380</sup> Interviewee 27.

<sup>381</sup> Interviewee 27.

<sup>382</sup> Catalonia Trade & Investment: <http://catalonia.com/en/invest-in-catalonia/businessguide/financial-incentives.jsp>.  
[http://catalonia.com/en/binaris/Incentives2017\\_tcm213-151395.pdf](http://catalonia.com/en/binaris/Incentives2017_tcm213-151395.pdf).

other incentives, the region of Catalonia also has cooperation programs for cluster development.

The autonomous regions of Spain have very little power when it comes to fiscal policy and, as such, are unable to introduce fiscal incentives at the regional level. However, the regions manage 30 per cent of the tax revenues, which allows them to offer financial incentives. Alongside this, several interesting fiscal incentives have been introduced at a national level. Companies can apply for a corporate tax deduction for R&D and innovation of up to 59 per cent.<sup>383</sup> Additionally, foreign holding companies can get tax exemptions on dividends received from non-resident companies and on corporate tax on dividends and capital gains earned from foreign subsidiaries received from foreign holding companies.<sup>384</sup> These companies can also withhold tax on dividends from foreign subsidiaries distributed outside Spain.<sup>385</sup> The 'patent box', offers up to 60 per cent of tax-free 'net incomes arising from the letting of the right to use qualifying IP'.<sup>386</sup> Finally, the 'Beckham law'<sup>387</sup> is an interesting fiscal incentive offering up to 40 per cent cut in income tax exclusively for highly skilled foreigners moving into Spain.<sup>388</sup>

Certain sectors appear to be heavily regulated.<sup>389</sup> However, this is not unique to Spain. Several regulations are inevitable as they secure the public interests, such as those related to environmental protection and urban planning.<sup>390</sup> Environmental regulations for instance, may be a challenge for certain industries. However, this poses the opportunity for the development of clean energy technologies.<sup>391</sup>

Additionally, Spain's flexible labour market offers an important incentive.<sup>392</sup> Non-EU citizens owning more than EUR 1 million in real estate in Spain, automatically receive a residence permit.<sup>393</sup> There are also several additional mechanisms that are specific for certain activities, for example, in the agriculture sector.

## 8.4 FDI impact

FDI has a major impact on the Catalan economy and society, generating 18 per cent of the regional employment and 41 per cent of the regional exports (45 per cent in 2016).<sup>394</sup> FDI has a direct effect on the value chain – 'we don't understand development without the connection between what is attracted and what the region has to offer, or benefited from'.<sup>395</sup> FDI also plays a key role in developing the human capital of the region.<sup>396</sup>

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<sup>383</sup> Catalonia Trade & Investment.

<sup>384</sup> Ibid.

<sup>385</sup> Ibid.

<sup>386</sup> Ibid.

<sup>387</sup> [http://cincodias.elpais.com/cincodias/2015/03/27/economia/1427476110\\_410270.html](http://cincodias.elpais.com/cincodias/2015/03/27/economia/1427476110_410270.html).

<sup>388</sup> Interviewee 30.

<sup>389</sup> Interviewee 30.

<sup>390</sup> Interviewee 29.

<sup>391</sup> Interviewee 28.

<sup>392</sup> Interviewee 27.

<sup>393</sup> Interviewee 30.

<sup>394</sup> Interviewee 27; Interviewee 27-A.

<sup>395</sup> Interviewee 29.

<sup>396</sup> Interviewee 29.

An excellent example of the impact of FDI can be seen in the boom of technological companies, which was preceded by small companies deciding to establish in the region because of the high quality of life and availability of R&D and good infrastructure.<sup>397</sup> The numerous companies in the sector have created many new jobs and in the process, have also generated an ecosystem effect.<sup>398</sup> Additionally, these companies have boosted the culture of 'co-working'.<sup>399</sup>

The development of major infrastructures is also possible through FDI. In Catalonia, one of the most important logistic centres in Europe, besides the Prat airport area, was developed using significant foreign investment.<sup>400</sup> This in turn activates the whole supplier chain extending its impact beyond the activities carried out strictly by the logistic centre.<sup>401</sup>

## 8.5 Concluding remarks

Catalonia's main territorial drivers are its strategic location at the heart of the Mediterranean and access to a large market this provides, its strong and diverse industry, its excellent logistics infrastructure, its innovative culture, competitive costs for labour and office space and high quality of life. Catalonia features an effective combination of traditional, emerging industries with an optimal quality of life. Catalonia is taking a firm step towards the Industry 4.0 wave by promoting digitalisation of its industries, an approach that is also boosted by the strong presence of digital industries. Catalonia, through its investment promotion agency, Acciò, has strong FDI attraction capacity and provides a very well developed system of support to investors, supporting foreign companies throughout the entire process of their investment project. On this note, a 'best practice' identified in this case, was the project-management services offered by Acciò to international companies.

Additionally, a key aspect of Acciò's strategy is their emphasis on after-care, and the specialised team dedicated to visiting investors regularly, offering new investment opportunities and assuring their integration into clusters. Catalonia has a complete package of incentives to support investment in R&D, innovation, job creation, and for developing clusters. These include grants and loans as well as generous tax deductions. Catalonia's main challenges are to address its governance gridlock, boost collaboration amongst regional stakeholders and maintain a high level of education and skills among its work force. FDI has an enormous impact to the region, in generating employment, in exports, and in developing human capital in Catalonia. Moreover, the impact of FDI is very significant for specific industries, as it generates an ecosystem effect around them. It also contributes to financing major infrastructure.

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<sup>397</sup> Interviewee 30.

<sup>398</sup> Interviewee 30.

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## 9 Findings, conclusions and policy implications

The primary objective of the case studies was to identify good practice in attracting FDI and integrating the attraction of foreign firms in regional development strategies. This objective had three components:

1. Explore the role of territorial factors in determining FDI location. Territorial factors under consideration included both fundamental FDI drivers (e.g. geographical and institutional considerations) and cost and quality related factors (e.g. infrastructure and innovation character). Although these factors are not the exclusive domain of FDI policy, they were seen in all cases as vital to creating an enabling environment in which more specific FDI policies could be pursued.
2. Examine the specific strategies and tools employed by regional actors to maximise both the intake of FDI and its benefit to the region. This included both the overarching strategy for investment attraction as well as specific incentives to support FDI attraction.
3. Understand the interaction between the territorial dimension and FDI strategies in the regions under analysis. Specifically, we examined how FDI strategies work to capitalise on regional strengths and minimise region-specific disadvantages.

This final section synthesises these findings across all seven cases. The first two sub-sections present a general discussion of the findings relating to territorial factors and FDI specific tools and strategies. The final section highlights the potential implications of these findings for FDI policy now and in the future.

### 9.1 How do territorial factors create an enabling environment for FDI?

#### 9.1.1 Fundamental FDI drivers

##### *(Strategic) geographical location*

The (strategic) nature of a location with respect to geography and proximity, while always highly important, appears to be interpreted differently based on the profile of the investor. For some investors, a central location within Europe provides an important competitive advantage (e.g. gateway to Eastern/Western Europe along the Germany/Czech border). For others, locations that at first glance may appear peripheral in the European context provide an opportunity to have both a European location and a gateway to other markets (e.g. Catalonia as a gateway to Northern Africa the wider Mediterranean region). In some cases, cross-border collaboration can compensate for the peripheral location of a country/region (e.g. Greater Copenhagen Region as a bridge to the Nordic market). Ease of access to the country of FDI origin may also be an important factor, particularly for knowledge based companies that are more reliant on the movement of people than goods (e.g. U.S. technology companies in Ireland).

### *Market attractiveness*

When it comes to market attractiveness, access to the 400 million high value consumers in the European market was an obvious plus that appeared in some cases to decrease the significance of national market considerations. For instance, although the Dutch domestic market is quite small, the strategic geographical location of the country as a gateway towards major European markets is an important asset for attracting FDI in logistics and ICT. Though it is perhaps diminished to some extent by the importance of the European market as a whole, there does still appear to be a local dimension to determining the strategic nature of a geographical location for extra-EU FDI. For example, FDI may seek out a location due to its broad industrial basis, or based on the characteristics of the local market. In some cases, the mere size of the national market can be attractive (e.g. Italy, Spain, Germany, Poland). For other types of FDI the type of consumer is more important (e.g. the high level of digitalisation in the Nordic Region).

### *Political and social environment*

Political and monetary aspects are highly significant factors for consideration of FDI or an investment decision. The case study show that one motivation for extra-EU investors to establish within either or both the European Union and the Eurozone is access to stable market and trade conditions.

- *The level of public sector transparency.* The overarching importance of stable politics, legal certainty, clear timeframes for carrying out public procedures, low corruption, and conditions that support personal security, has been strongly emphasised as an important precondition for investment location. Overly complex administrative systems (e.g. Spain and Italy) have clear repercussions on the legal certainty as well as expected timeframes and costs needed to carry out investment projects. This territorial factor is often perceived by investors as a key obstacle and supersedes other important factors such as market size. For instance, the unclear timeframes and rules from the Italian civil justice impedes sub-national administrations offering investors an integrated investments framework. Spanish anti-corruption controls affect the development of a more agile public administration also at sub-national levels. The duplication of responsibilities at different governance levels in Spain sometimes results in 'legal battles' between the levels.
- *Degree of autonomy granted to a territorial unit.* The state tends to play a larger role in determining FDI policy in the smaller, less populated European countries (e.g. the Netherlands, Denmark, Ireland), whereas the regional and local authorities play a stronger role in larger countries (Spain, Italy, Poland, Germany). Our analysis revealed



that the significance of regions as agenda-setters is bigger in larger, more decentralised countries such as Spain, Germany and Italy.

- *International environment.* Another factor that has emerged from our case study analysis, is that a high level of internationalisation contributes to attracting extra-EU FDI flows. Several characteristics of internationalisation were highlighted. For instance, the level and the use of English, the main business language in extra-EU FDI transactions, appears to be highly relevant. Secondly, the history of trade and the existing ties between the source and the target regions and countries are also important: a relatively high number of joint-venture between the two partners, an important number of companies from the source country already established in the target region and the presence of community of nationals from the source country in the target region are often taken into consideration by the investor. Thirdly, international events (e.g. Barcelona Mobile World Congress) and fairs (Milan Trade fair: Expo) as well as international schools are also of relevance for both investors and the relatives of the foreign workforce. For instance, Dublin is a highly international environment. This is enabled to a degree by the fact that English is the national language. It is also actively fostered through different activities to make the international community feel welcome (e.g. an annual Thanksgiving celebration is hosted each year by the U.S. Chamber of Commerce). A strong international focus of Greater Hague with the largest choice of international schools at both primary and secondary level, is also seen as a positive factor in attracting FDI to the region and the country. In the case of Wrocław, difficulties navigating public institutions and accessing cultural activities for non-Polish speakers was cited as a barrier to attracting foreign talent. Mechanisms to support both internationalization (e.g. more information and activities available in foreign languages) and integration (e.g. local language courses for foreigners) are thus considered necessary to create an enabling environment for FDI.

The presence of foreign professionals and SMEs in a specific industry generates an 'ecosystem effect' around such industry. This is mutually beneficial for the regions in attracting FDI and in job-creation, and for foreign companies in finding talented professionals and other companies to collaborate with. For instance, the concentration of digital companies in Catalonia has significantly increased FDI flows on that sector and created numerous new jobs, while at the same time companies see Catalonia as the place to be for attracting talented professionals. Similarly, fashion industries know that Milano (Lombardy) is the 'place to be' to attract talent and even as a branding strategy, while the region benefits from companies feeding into their innovative culture and keeping up to date with the emerging trends. The high presence of foreigners brings innovation and innovative working as well and business culture. In Catalonia, foreign digital start-ups have established the 'co-working culture, whereas in Lombardy

foreign companies bring new managerial approaches that are friendlier to FDI in contrast to familial companies' closeness.

### **9.1.2 Cost and quality FDI factors**

#### *Regional spatial structure, infrastructure and accessibility*

The cross-case analysis has revealed that the regional spatial structure of European regions also influences extra-EU investment decisions. Depending on the business function of FDI, investments are often concentrated in the in large and densely populated urban areas offering a large pool of important and qualified workforce i.e. monocentric urban region (e.g. Dublin, Copenhagen, Barcelona, Milan). In parallel, FDI flows of investors where the need to acquire large parcels for the establishment of their companies, such as the manufacturing, engineering, food and chemical industries, tend to be more attracted by a regional context where both medium-size urban areas and dynamic rural areas can be found. This regional context, i.e. polycentric urban region, contributes to have a variety of actors, from global players and research institutions in the more densely populated areas, to SMEs located in their surroundings (e.g. Nuremberg region).

As aforementioned, location can be strategic based on different perspectives, for instance the heart of the Mediterranean or central Europe might attract different investors. However, a strategic location is usually not sufficient, but regions need to be well positioned in terms of transport and logistics infrastructure. The study also revealed that accessibility and the size of the market is closely tied up to the demographics of the location and within that, the age of the target market(s) and the level of consumption are the key indicators. In the case of Wrocław, for instance, the presence of many third level institutions, including the best technical institution in the country, is useful in attracting young people to the city. The ability to capitalise on this is hampered however, by a housing affordability problem that makes it difficult for students to remain in the city following graduation unless they find a job immediately.

#### *Environment for doing business, innovation and strength of the talent pool*

In all cases, high levels of coordination and collaboration were noted. This related to practical considerations such as hassle-free access to the various actors an investor might need to get set-up. It also related to a deeper level of long-term cooperation on policy issues that paved the way for an enabling environment for FDI. For example, in Ireland, a coordinated approach to skills policy across the country has led to a range of positive outcomes ranging from an increase in the number of secondary students enrolled in STEM subjects to collaborations between universities and businesses to address skills shortages. In the larger countries, for example

Poland, collaboration was more complex – generally working well within the region but more fragmented when it came to the national level.

Ireland has the youngest population in Europe – 33 per cent under the age of 25 years. This coupled with its aggressive and coordinated approach to skills policy puts the country in a very strong position with respect to talent. Lombardy has an important reputation from its highly professional labour, particularly in high-tech manufacturing industries. The opportunity of gaining experience in the prominent companies in the region appear to be a key factor contributing to this. Moreover, the younger generations in Lombardy are quickly catching up with the relatively lower average of tertiary education compared to other western European regions. Catalonia counts with a high percentage of highly educated workers; however, the challenge is on upgrading the skills of the existing workforce.

### *Agglomeration and clustering*

The importance of collaboration among SMEs was noted in both South European regions – Lombardy and Catalonia. A strong entrepreneurial culture exists in both regions implying that SMEs emerge ‘organically’ without necessarily being cultivated in clusters and without strong support from public institutions (e.g. Lombardy). Most SMEs in Lombardy are family-owned businesses. This means that providing access to external investment and abandoning the managerial approach of a family business is not always welcomed. In this case, agglomeration of industries (both similar and complementary) and R&D projects often emerge from the existing need, rather than being a proactive initiative of the public institutions.

In all cases, an existing broad industrial base contributes to attracting more extra-EU FDI flows. The density of firms within similar sectors create a possibility for collaboration, innovation and knowledge exchange and often sought by foreign investors i.e. clusters of global importance (e.g. the medical valley in Nuremberg Metropolitan Region, start-ups in the ICT sector in Dublin as in Catalonia, aerospace in Lombardy). However, to serve as a magnet for foreign investors, a level of agglomeration maturity is important. For instance, in Catalonia many small clusters have rather limited capacity to access international funding programs. In Lombardy, despite its polycentric character and the presence of clusters across the region, Milano’s metro-area absorbs the majority of the FDI. Perhaps Milano is too dominant but also the other parts of the region fail to communicate the opportunities offered. In both Wrocław and Dublin clustering was seen as a plus with respect to attracting talent – the presence of other similar firms meant a good supply of workers with the requisite skills.

## 9.2 How does FDI policy capitalise on and contribute to regional strength?

### *Investment promotion agencies/Institutional frameworks for FDI attraction*

In all cases, there were specific institutional frameworks in place to support the attraction of FDI, some form of investment promotion agency (IPAs). The organisation of these agencies varied, from 100 per cent state operated (e.g. Catalonia), to semi-state (e.g. IDA Ireland), to collaboration between state institutions and private entities (e.g. Invest in Wrocław). There was also some variation in the governance level at which the IPAs operated. In the larger countries, investment promotion was handled at the regional level, though still reliant on the national level to provide a framework for fiscal and financial incentives. The Irish case, was somewhat unique with one, national level, IPA and regional offices. The Netherlands case was something of a hybrid, with regions and large cities in the Netherlands having a lot of autonomy in terms of FDI activities, but cooperating under the umbrella of the national program.

Despite their different organisational structures, the role of the IPAs was similar across the cases and included tasks such as:

- *Defining and implementing FDI strategy for the region.* Strategy development often occurred in close collaboration with other agencies. IPAs also contributed to policy discussions on other matters, for example, skills policy or infrastructure improvements.
- *Promoting the region to foreign investors.* This was done in a range of ways from offices at home and abroad. There were also examples of “ambassador programs” that allowed regions to have a presence within the business community in a potentially FDI source country, without the expense of operating an office abroad (e.g. Copenhagen Goodwill Ambassadors Program).
- *Providing value proposals to potential clients.* In some cases, this meant competing with other regions within the same country.
- *Supporting new companies to navigate the local political and service landscape.* This generally involved providing access to the relevant professionals and support with administrative tasks – a kind of “one-stop-shop” for new investors. This was particularly useful in countries where the landscape was tough to navigate without the local language (e.g. Germany; Poland) or where bureaucratic processes present particular challenges (e.g. Italy; Spain).

- *Providing post-investment support.* Ensuring maximum benefit of FDI for the region and building a strong regional 'brand' often meant providing on-going support to companies, even after they are well established in the country. For example, Acciò, the investment promotion agency in Italy, have a special team dedicated to visiting investors regularly, offering them new investment opportunities and supporting their integration into clusters.

Other key components of a successful IPA included a high level of coordination with the relevant government departments and active collaboration with universities and other education institutions. A "business minded" approach was also important and, in some cases a degree of autonomy from the perceived bureaucratic structures of the state was advantageous (e.g. Wrocław). It is important to not confused with a lack of support. In fact, the winning combination for a successful IPA appears to be a supportive political environment, alongside the freedom to operate in a manner that is conducive to private sector engagement.

### *Government incentives*

The stability of the tax system is rather important in determining investment decisions, however, with a few exceptions (e.g. the Greater Hague Region; Ireland), fiscal incentives have not emerged as critical determinants of FDI location. In fact, given the presence of so many other FDI enablers in both the Greater Hague Region and Ireland it is difficult to determine exactly how vital the fiscal climate is as an FDI determinant. The case of Poland is instructive here – the three regions offering the lowest level of fiscal and financial incentive are, in fact, those that attract the highest level of FDI. The overall conclusion appears to be that, while financial incentives may act as a "cherry on top" they are no substitute for, among other things, good macroeconomic fundamentals, the availability of physical and communication infrastructure, and political stability.

A certain degree of flexibility in the labour market (contracts) represents an important incentive for companies to hire new employees, particularly in high risk businesses or in times of uncertainty (crisis). Labour market flexibility can also provide a key location incentive, particularly for start-ups who are juggling rapid growth with uncertainty about what the future holds (e.g. technology companies in Ireland). Employment protection is often cited in public debate as a factor that deters FDI inflow, however the empirical evidence from different territorial settings is rather ambiguous. This can be partially explained by the fact that labour market flexibility is a rather multidimensional phenomenon and each of its dimensions will have varying degree of relevance in different regions.

Availability of skilled and flexible workforce repeatedly appear as an important determinant for choosing an investment location. High level of labour mobility allows for a more efficient allocation of resources and has proven to be a forceful driver of innovations. In the case of the Greater Hague region, high levels of employment protection slightly deter investments as it increases cost of labour for companies and decreases mobility in the Dutch labour market. However, the dynamics of the labour market has been sustained through increased number of independent contractors that contribute to creating a more flexible workforce.

Regulatory bureaucracies have also emerged from cross-case analysis. For instance, in Greater Copenhagen environmental regulations on the one hand pose restrictions, but also the opportunity for the development of clean energy technologies. Similarly, in the Irish case, strict environmental regulations, while perhaps perceived as burdensome in the early days, now provide a stable and predictable environment for doing business. In Lombardy, foreign investors, always identify as the number one obstacle the uncertainty of the timeframe needed to complete administrative procedures and receive permits.

### *Sectorial targeting*

The size of the labour market and the existing industries play a key role in how specific the FDI policy approach should be. Regions that have a smaller population benefit from focusing efforts on fewer industries that have a large capacity of absorbing investments and labour force (e.g. Copenhagen region). Regions with large populations and a high diversity of industries can spread their efforts into a higher number of industries (e.g. the “Top Sectors” approach in The Netherlands). In the case of Catalonia, they appear to have a targeted and broad strategy at the same time.

The FDI approach will also be determined by the state of the economy. When Wrocław Agglomeration Development Agency (WADA) was first established its goal was simply to create jobs in whatever way possible, thus necessitating a broad-based approach to FDI attraction. Now that the economic situation has improved, the region is in a strong position to employ a more targeted strategy to capitalise on the clustering that has happened organically up until now. Similarly, in Ireland the huge success of the IDA in attracting US based technology companies and financial services sector companies into Dublin has contributed to strain on the city’s infrastructure. Thus, the IDA is now focused on creating more balanced regional development through FDI, both as a way of spreading out the economic opportunity and to ease the strain on the capital.

Just as the FDI approach is affected by the economy, so to can the economy be effected by the economic approach. The diverse economies in both Lombardy and Catalonia were vital to cushioning these regions against the global financial crisis. Lombardy resisted the crisis by

competing with high added value instead of competing with prices. Catalonia was competing with low costs, which attracted investors escaping from other more expensive parts of Europe. The flourishing environment around IT and digital technologies was also helpful in supporting Catalonia to resist the crisis. Ireland's strong recovery from the crisis, despite being one of the worst hit countries, has also been attributed, at least in part to FDI in the country. Again, there is a sectorial component – with US technology companies, pharmaceutical companies and the financial services sector playing an important role.

Clustering of companies seems to be particularly important in technology-intensive sectors enables the introduction of new technologies, products and services, which in turn lead to more competition and entrepreneurship. The enterprises located in or re-located to The Hague region get all necessary support to take full advantage of each other's knowledge and networks (optimizing effect). Smart specialisation strategies were explicit pursued in Lombardy and Catalonia and were also implicitly evident in other cases. Greater Copenhagen Region stands out as having a policy that is particularly well oriented to regional strengths, applying a “niche finding” approach with a particular focus on green/clean-tech and life sciences.

### *Other interesting strategies*

Other key policy approaches that sought to build on or develop regional strengths that emerged from the cases included:

- *Active strategies to increase the size of the talent pool.* For example, development of apprenticeship programs and other vocational opportunities – even in high skilled sectors (e.g. Ireland; Lombardy); cross-sectoral collaboration on skills matching (e.g. Ireland's Regional Skills Fora); strategies to attracting high skilled professionals from outside the country (e.g. the Dutch Government's accelerated application procedure for 'knowledge migrants'); and fiscal incentives for hiring young employees (e.g. Lombardy). In all cases, selling the benefits of prestigious educational institutes in the region was also a key strategy.
- *Pursuing balanced regional development through FDI.* This strategy was the most explicit in the Irish case. It was also raised as desirable in other cases.

## **9.3 Policy implications**

This third and final sub-section discusses the potential policy implications of the cross-case analysis presented above. It first deals with more general considerations including practices that are relevant to creating an enabling environment for FDI and specifically targeted FDI mechanisms that were evident in all cases in various forms. It then goes on to highlight unique policy instruments tailor-made for individual territories. These unique instruments were applied in different regions and countries by way of capitalising on their advantageous territorial factors

or, on the contrary, to address weaknesses inherent to their territories. Despite being identified due to their unique relationship to the territory in question, these so to say 'best practices' have broader policy relevance. Having said this, their application elsewhere should be approached with caution. In the cases documented here, ***it was in fact the combination of the enabling environment created by general policy mechanisms and the application of unique 'best practices' strategies that predicted FDI success.*** As such, in attempting to replicate this success elsewhere, policy makers must take into careful account existing territorial factors and other considerations specific to their region. Finally, this section presents insight into future challenges for FDI policy through a reflection on the future policy needs raised by the national and regional stakeholders who took part in this study.

### **9.3.1 General/cross-case policy mechanisms**

There are several preconditions that are necessary for all regions to secure investment and attract new investors. FDI hubs typically have a relatively sizeable market, good accessibility, infrastructure, a certain level of qualification among the labour force, and of outmost importance a secure political situation and legal framework. Although traditional objectives of FDI prevail (e.g. job creation in all cases) more emphasis is now placed on the contribution of foreign companies to the overall development and competitiveness of local businesses (e.g. facilitated collaboration between local and foreign companies, boost business competitiveness). Therefore, in all cases FDI policy is largely integrated into regional development policy, being an integral part of a wide range of instruments to build regional competitive advantage such as development of infrastructure, human resources and entrepreneurial networks. All national and regional governments pro-actively promote FDI through investment promotion agencies that informs on investments opportunities in the region and offers a range of inducements to link foreign companies more closely to local economy (inducement packages, however, are rather context specific).

### **9.3.2 Case-based mechanisms and instruments**

All regions are different and thus a 'one-size-fits-all' approach provides no guarantee of success. In addition to an overarching enabling environment for doing business, there are unique conditions in different regions that are attractive to foreign investors. Likewise, weaknesses associated with specific territorial conditions can drive away investors. The following, most prominent, themes and best practices have emerged from cross-case analysis:

*Building a competitive skills base.* The existence of a strong skills base in the region is one of the most important selling points in attracting FDI. In Greater Copenhagen region, a niche finding approach is applied to attract sector specialists, those that have knowledge about new developments within very specific area of expertise. To facilitate labour migration and attract the high-level professionals, the Dutch government has an



accelerated application procedure for highly skilled migrants or 'knowledge migrants'. In Lombardy, clusters have signed a memorandum of understanding with the Regional Ministry for Education Training and Job and the Regional Bureau for Education to facilitate young apprenticeship programme (education and training). It means that clusters facilitate supply-demand balance of high schools-professionals and industry requirements and promote first job experience through various internships.

*Optimisation of knowledge spill-overs and integration of companies into local economy.*

For instance, in case of Greater Copenhagen region, retrofitting older coal-fired plants into biomass plants to reduce emissions has created a need for utilities to adapt to biomass handling and paved the way for foreign investors to come in with their knowledge and expertise. In case of Nuremberg Metropolitan region, a framework for cooperation between different regional economic actors has been developed to promote innovation and expand regional value chains. To optimise spill-overs to other companies within high R&D and technology-intensive sectors, Wrocław Agglomeration Development Agency provides ongoing support to companies once they are established, hosting events that bring people from different sectors and different types of businesses together. This enables the introduction of new technologies, products and services and leads to more competition and entrepreneurship. Similarly, the enterprises located in or re-located to The Hague region get all necessary support to take full advantage of each other's knowledge and networks. Invest in Lombardy organizes round-table discussions with foreign companies to monitor status of their investments and provide needed support such as assistance with finding a new location or requesting research incentives.

*Addressing labour market bottlenecks.* One good example is to increase cross-border market integration. In Greater Copenhagen region, the law has just been passed allowing researchers working in the European Spallation Source (European Research Infrastructure Consortium (ERIC), a multi-disciplinary research facility based on the world's most powerful neutron source) to live and work in both countries.

*Availability of post-investment services (so called 'aftercare').* Given that the vast majority of new jobs and investment emerge from foreign companies already located in the region, aftercare is a key ingredient in making a region more competitive in attracting FDI. For instance, Acciò – Catalonia Trade and Investment – provides support to industries and foreign companies after they have established in the region by visiting them regularly, offering 'value propositions', assuring integration of clusters and other key players.

*Effective FDI promotion policy.* In Lombardy, the 'sportello unico per le imprese', which is a single contact-point within the public administration to assist investors with their documentation/procedures and thus eliminating the need of establishing contact with individual public institutions has been established. In Catalonia, Acciò (IPA) the Investment Promotion Agency is not only dedicated to promote investments, but also proactively lead the investment projects. This service is free of charge and is exclusively available only for foreign companies interested in investing in Catalonia. Therefore, the first step is carried out by the department of promotion within the Catalonia Trade & Investment, which is to identify and encourage investments. Once the investor is identified, the department of projects takes the next step in directing investments into concrete projects. Typically, a project manager is assigned to facilitate procedures and collect all the required documentation for the companies.

*Enhancing competitiveness of firms and clusters through 'smart specialisation'.* In view of global competition, many regions seek to gain a competitive edge through innovation and greater specialisation. In Lombardy (as well as in Catalonia), the region is working on developing a new approach that aims at developing specific promotion actions in alignment with to the sector of specialization of the 9 clusters that are in the region. This ambition comes in close alignment with Lombardy's smart specialization strategy of the region, which is a place-based approach to regional development.

### **9.3.3 Future policy needs**

Future policy needs for the cases studied, arose from identifying the key aspects that make regions attractive, as well as the specific conditions of individual territories. These include:

- Effective integration of FDI into local businesses and enhanced productivity spillovers.
- Adjust the EU tax system to ensure equal treatment of foreign investors with respect to taxation regardless of the location (to remove it as the competition factor between EU countries).
- Implement effective policies for skill shortages (especially sector-specific).
- Reduce border barriers within the single market (EU level).
- Streamline and strengthen investment mechanisms and incentives at national and regional levels.
- Break gridlock at different representative levels of government (especially relevant for South European regions).
- Increase the competitiveness of SMEs through deepening their linkages with foreign affiliates.
- Streamline bureaucracy and reinforce administrative processes at both national and regional levels.

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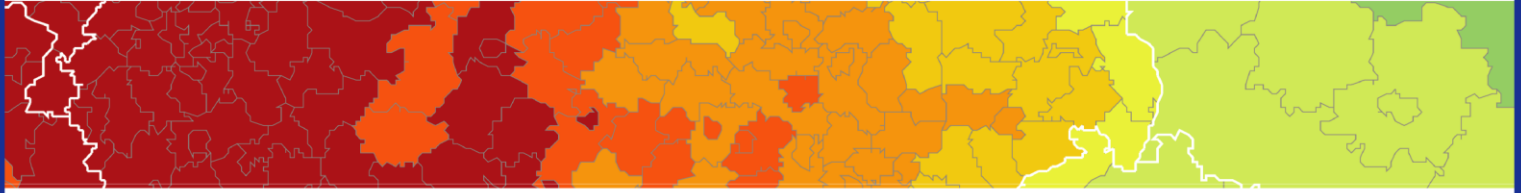
## List of interviews

*\*Post-interviews additions sent by the interviewees is referenced unising the code (-A) adjacent to the interviewee number.*

**Table 31 Overview of interviewees**

<b>Interviewee/ Follow up</b>	<b>Organisation</b>	<b>Date</b>	<b>Country</b>	<b>Link</b>
Interviewee 1	IDA Ireland	2017-03-27	Ireland	<a href="http://www.idaireland.com/">http://www.idaireland.com/</a>
Interviewee 2	Irish Business and Employers' Confederation	2017-04-05	Ireland	<a href="https://www.ibec.ie/">https://www.ibec.ie/</a>
Interviewee 3	Eastern & Midland Regional Assembly	2017-04-10	Ireland	<a href="http://emra.ie/">http://emra.ie/</a>
Interviewee 4	Slack Technologies	2017-04-05	Ireland	<a href="https://slack.com/">https://slack.com/</a>
Interviewee 5	Region Hovedstaden	2016-11-02	Denmark	<a href="https://www.regionh.dk">https://www.regionh.dk</a>
Interviewee 6	Copenhagen Capacity	2016-11-17	Denmark	<a href="http://www.copcap.com/about-us">http://www.copcap.com/about-us</a>
Interviewee 7	IBM Nordic	2016-11-09	Denmark	<a href="https://www.ibm.com/dk-da/">https://www.ibm.com/dk-da/</a>
Interviewee 8	Bristol-Myers Squibb Denmark	2016-12-10	Denmark	<a href="http://www.bmsdanmark.dk">www.bmsdanmark.dk</a>
Interviewee 9	AmChamDenmark	2016-11-17	Denmark	<a href="http://www.amcham.dk">www.amcham.dk</a>
Interviewee 10	Albertslund kommune	2016-11-24	Denmark	<a href="http://albertslund.dk/">http://albertslund.dk/</a>
Interviewee 11	Nuremberg Metropolitan Region	2017-03-07	Germany	<a href="https://www.metropolregionnuremberg.de/en/about-us/the-nuremberg-metropolitan-region.html">https://www.metropolregionnuremberg.de/en/about-us/the-nuremberg-metropolitan-region.html</a>
Interviewee 12	Invest in Bavaria	2017-03-03	Germany	<a href="https://www.invest-in-bavaria.com/en.html">https://www.invest-in-bavaria.com/en.html</a>
Interviewee 13	Ishigaki Europe GmbH	2017-03-22	Germany	<a href="http://ishigaki.de/en/sample-page/">http://ishigaki.de/en/sample-page/</a>
Interviewee 14	Industrie- und Handelskammer Nürnberg für Mittelfranken Hauptgeschäftsführer	2017-03-20	Germany	<a href="http://wis.ihk.de/ihk/nuernberg.html">http://wis.ihk.de/ihk/nuernberg.html</a>
Interviewee 15	Nuremberg-Roth Harbour GmbH	2017-03-22	Germany	<a href="https://www.gvz-hafen.com/">https://www.gvz-hafen.com/</a>
Interviewee 16	Wroclaw Agglomeration and Development Agency	2017-02-14	Poland	<a href="http://www.invest-in-Wroclaw.pl/">http://www.invest-in-Wroclaw.pl/</a>
Interviewee 17	ABLS	2017-02-17	Poland	<a href="http://www.absl.pl">www.absl.pl</a>
Interviewee 18	Better Software Group S.	2017-02-20	Poland	<a href="http://www.bsgroup.eu">www.bsgroup.eu</a>
Interviewee 19	EY	2017-03-29	Poland	<a href="http://www.ey.com/home">http://www.ey.com/home</a>
Interviewee 20	WestHolland Foreign Investment Agency	2017-02-27	The Netherlands	<a href="http://www.westholland.nl/">http://www.westholland.nl/</a>
Interviewee 21	Invest in Holland	2017-03-23	The Netherlands	<a href="https://investinholland.com/">https://investinholland.com/</a>
Interviewee 22	ARCUSplus	2017-03-15	The Netherlands	<a href="http://www.arcusplus.com/">http://www.arcusplus.com/</a>
Interviewee 23	Regione Lombardia	2017-04-10	Italy	<a href="http://www.regione.lombardia.it/wps/portal/istituzionale">http://www.regione.lombardia.it/wps/portal/istituzionale</a>
Interviewee 24 / Interviewee 24-A	Promos - Invest in Lombardy	2017-02-10	Italy	<a href="http://www.investinlombardy.com/">http://www.investinlombardy.com/</a>
Interviewee 25	Nerosubianco	2017-04-06	Italy	<a href="http://www.nsbproject.com/">http://www.nsbproject.com/</a>
Interviewee 26	Finlombarda	2017-03-20	Italy	<a href="http://www.finlombarda.it/home">http://www.finlombarda.it/home</a>
Interviewee 27 / Interviewee 27-A	Acciò - Catalonia Trade & Investment	2017-04-04	Spain	<a href="http://accio.genecat.cat/cat/">http://accio.genecat.cat/cat/</a>
Interviewee 28 / Interviewee 28-A	Innopro	2017-04-05	Spain	<a href="http://www.innoproconsulting.com/en/">http://www.innoproconsulting.com/en/</a>
Interviewee 29 / Interviewee 29-A	Province (Diputació) of Barcelona	2017-03-30	Spain	<a href="http://www.diba.cat/en">http://www.diba.cat/en</a>
Interviewee 30	Chamber of commerce - Barcelona	2017-03-31	Spain	<a href="http://www.cambracn.org/en_US/web/cambra-english/home">http://www.cambracn.org/en_US/web/cambra-english/home</a>





### **ESPON 2020 – More information**

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