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**Governing Inward Investment**

Emerging National and Regional Patterns in West and East

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& Michael Hughes
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Governing Inward Investment
Emerging National and Regional Patterns in West and East European Countries

by Henrik Halkier, Ewa Helinska-Hughes & Michael Hughes

Introduction
There are interesting analyses of the relationship between policies adopted at national and regional levels addressing competition for inward investment; and of the impact of inward foreign direct investment (FDI) upon recipient economies (Estrin et al., 1997; Hardy, 1998; Pavlinek and Smith, 1998; Raines and Brown, 1999). Though there is still some doubt as to whether FDI attraction policy implementation via rule based or tangible incentives is effective, the extent of instruments and measures introduced in Western Europe, and the proliferation of national and regional socio-economic development policies and FDI incentives, supports the view that most governments are convinced that they are effective, as Raines and Wishlade (1999) confirm. Clearly, there is international and inter-regional competition for FDI, and as EU eastward expansion proceeds during the next decade, this area of public policy is likely to increase in importance (Brown and Raines, 2000).

In western Europe FDI attraction has since the 1980s been subject to fairly detailed regulation in the form of EU ceilings on financial subsidies to individual firms (Raines & Wishlade, 1997), but as national and regional agencies increasingly employ other resources such as information or infrastructure when chasing footloose investment projects, the governance of FDI promotion has clearly not be elevated to the European level once and for all. On the contrary, the fact that individual investment projects can only be located in one region in one country implies that the distribution of competences between actors on the national and regional levels is a contested one: should national economic development take precedence over regional preference – getting the project is more important than its precise location within the national territory – or should individual regions be allowed to compete for international projects even if this may undermine chances of national success in the quest for FDI?

The resolution of these very real policy dilemmas has not received systematic attention in the existing literature, where the relationship between FDI attraction and regional development has mainly been discussed in terms of the economic appropriateness (or not) of
exogenous development strategies. This paper starts from the uncontroversial assumption that public policy cannot be expected to exclusively reflect long-term functional efficiency and therefore insist on ‘bringing the state back in’ by focussing on key organisational features, especially the relationship between FDI promotion and broader patterns of territorial governance. The aim is to undertake an explorative analysis of the relationship between promotion agencies operating on the national and regional levels respectively, and the underlying hypothesis is that the degree of promotional centralisation within a country will reflect the institutional capacities and strategies of the actors involved, especially the overall degree of centralisation of territorial governance of the national political system, and the, possibly conflicting, importance accorded to FDI promotion as an economic development strategy by national and regional agencies respectively.

The explorative nature of the research has led to the adoption of a case-study approach using mainly primary empirical data obtained through policy documents and interviews with key actors, supplemented by secondary data gathered from national and regional sources. In order to broaden the scope of the study, the impending enlargement of the EU towards the east has been taken into account through the inclusion of transition countries likely to become members of the EU in a not-to-distant future, and thus four countries – the UK, Denmark, Poland and Slovenia – have been selected on the basis of their different combinations degree of political centralisation on the one hand and economic structure on the other. As the study focuses on the organisation of policy, the analysis has been conducted on the basis of a conceptual framework inspired by the new institutionalism and policy networks in which the resources and strategies of key actors are central features (Halkier, 2000). The text proceeds in two steps: first the four national case studies are presented, and on the basis of this the comparative analysis is undertaken.

Poland – Political Decentralisation and Economic Transition
Before 1989 western FDI in Poland was negligible, only a few joint ventures had been established and links tended to occur through licensing agreements and trade rather than direct foreign involvement in state enterprises. After 1989 FDI yearly inflows rose sharply, from US$ 10 million in 1990 to US$ 6.4 billion in 2000 with Germany, USA and France as the biggest investors (WIIW, 2000), but while Poland has received the largest share of FDI in absolute terms, Hungary and Slovenia have been attracting higher rates of investment per capita (de Mello, 1999). By the end of 2000, the highest per capita values were found in the Czech Republic (US$ 2432) followed by Hungary (US$ 2256), then Estonia (US$2238) and Slovenia (US$ 1508) (CzechInvest 2002).

In parallel with this the Polish political system has undergone a process of decentralisation since 1989 which has increased the role of sub-national actors in a number of
policy areas, including regional development. A key element in this process has been the consolidation of a regional tier of government in the form of 16 large voivodships in 1999 (Gorzelak and Jaświecki, 2000), the reintroduction of a third tier of local government at district level (powiats), and strengthening the role of local community councils (gminas) (Wagstyl, 1999). These sub-national regional actors are potentially in competition for FDI projects which could further the process of economic transition within the region.

At the national level attraction of FDI has long been established as a priority in economic policy, and at the beginning of the transformation phase, like other CEE countries Poland offered tax holidays and other general types of incentive (Hunya, 2000). These reactive measures undoubtedly reflected limited political enthusiasm in the first rush of post-communist transformation for anything perceived as ‘activist’ like regional policy and FDI promotion, but as incentives measures based upon tax relief tended to be unable to attract FDI to areas where the infrastructure was underdeveloped, more sophisticated measures have been introduced in order to address regional and sectoral imbalances. Although in relative terms the resources devoted to FDI attraction would appear to be low, the size of Poland ensures that compared to other countries promotional efforts are not insignificant in absolute terms. At the beginning of 2000, almost all investment incentives were withdrawn, replaced by a programme of corporate tax rate reduction, mainly in response to compliance requirements over European Union state aids policy. National efforts are now are centred around two policy initiatives, namely external promotion and Special Economic Zones (SEZs) that do have incentive schemes linked to them for job creation, regional development and targeted industries (Jabłońska, personal interview).

The main national-level agency is the Polish Agency for Foreign Investment (PAIZ), established in 1992 to promote Poland as an FDI location and assist potential investors, and until 1998 it was co-sponsored by the EU’s PHARE programme. A revised strategy for PAIZ was published in 2000, leading to a subsequent reorganisation in 2002. It operates at three levels: nationally by facilitating economic growth through attracting foreign direct investment, sectorally by encouraging selective promotion of targeted economic sectors (especially hi-tech firms), and promoting regionally targeted investment (Kornacki, and Madziar, personal interviews). However, despite current reforms, PAIZ is still under-invested (its 1999 budget amounted to 5.5 million PZL) and its relationship with other governmental institutions ought to be re-examined (Dziemianowicz, 2001). In 2000 the Agency attracted US$ 3 billion of foreign direct investment creating 2,3000 jobs. However, the value of 158 projects serviced by PAIZ amounts to US$ 1.5 billion with prospective employment of 13,000. (PAIZ, 2002)

It is apparent that there is a need for investment in high technology sectors because of the challenge Poland faces from the general rise in global competitiveness and its continuing
problems with primary economic sector industries (Blazyca et al, 2000). Although promotion of foreign investment in privatised state companies has been very important, PAIZ’s main area of activity still concerns new, first round, investment while follow-up, second-round, investment has only recently been targeted by after-care programmes. In supporting and promoting inward FDI, the bulk of PAIZ’s activities are in response to inquiries from prospective investors and thus reactive. Due to Poland’s liberal inward investment regulations, there are few barriers so most investors are just given basic information, and advice mainly concerns general commercial regulations, industrial sectors, regional labour markets, and details concerning investment incentives and procedures.

In recent years the efforts of PAIZ have been greatly aided by the setting up since 1994 of some 17 Special Economic Zones (SEZ) as an added incentive to promote economic activity by attracting capital inflow through tax breaks and improved infrastructure (Bazydło and Smętkowski 2000). Their establishment was a direct response to the negative effects of transition (deepening structural unemployment and declining production) that local and regional authorities were unable to resolve alone. Therefore, there was a need for national level state intervention. Out of the original 17 SEZ only 14 became fully operational and a number of them are an important ingredient in restructuring of declining regions and one company towns (e.g. Mielec). Because of the fear of fast growing unemployment due to industrial restructuring a Katowice Special Economic Zone (SEZ – with sub-zones) was set up and figured as an integral part of the ‘the Regional Contract for the Katowice voivodship’. In the Polish context this was a novel approach to regional development, one of the first (if not the first) involving the concerted activity of central government, local government, trade unions and other groups with regional interests and a stake in regional development. Subsequently the region has attracted 264 individual investment projects and one tenth of the overall FDI into the country (totalling $3 billion) in the 1990s. It is also regarded as very attractive, ranked third in the attractiveness and risk league table after Mazowsze and Wielkopolska (see Olbrycht, 1999).

The zones are managed by the Ministry of Economy and some were sectorally targeted. One of them, the Suwałki Economic Zone (established in 1996) was aimed at food and wood processing as well as tourism. However, due to a lack of interest from potential investors in these sectors its remit was widened. The Katowice SEZ, set up primarily to combat growing unemployment, successfully targeted an FDI cluster in the automotive sector. By the end of 1998, the car giant GM had invested DM 600 million in the Gliwice assembly plant, with additional pledged investment of up to DM 1 billion by 2000 directly creating around 3,000 jobs. The GM investment has stimulated other car industry projects in the region including Isuzu Motors (high-pressure engines) and Delphi Automotive Systems (components), and
some observers are concerned that one monocultural type of development built on coal and steel is going to be replaced by another based on car manufacturing (see Szczepanski, 1998).

Overall this measure has been successful in “stimulating economic activity within regions and improving the situation in local labour markets” (Kryska 2000). The zones attracted 81.25% of all foreign capital invested in Poland, to large degree due to the role of PAIZ in providing specific advice for location selection and investment procedures (Narodowa Strategia Rozwoju Regionalnego 2001-2006). While the remit of PAIZ is indeed national, the introduction of Special Economic Zones would seem to have introduced a degree of spatial selectivity into Polish promotional efforts, effectively giving preferential treatment to declining industrial areas (Katowice and Mielec Economic Zones). Therefore, the distribution of resources confirms that current national regional policy in Poland “does follow the traditional approaches, according to which regional policy should support the weak and backward regions, which do not have sufficient resources for technology promotion and transfer” (Gorzelak et al., 2001).

Two recent documents, Narodowa Strategia Rozwoju Regionalnego 2001-2006 (The National Strategy for Regional Development for 2001-2006, Decree No.105 of the Council of Ministers from 28 December 2000) and Strategia Zwiśkszania Inwestycji (Strategy for Increased Investment, Document approved by the Council of Ministers on 13 March 2001) acknowledge the importance of FDI attraction and the retention of manufacturing capacity, and at the regional level this responsibility has been devolved to voivodships operating through contracts with local partners in regional development (mainly RDAs). The first Polish regional development agency (RDA) was established in January 1991 in Suwański with others following in 1993, and by mid-1996 there were 66 RDAs evenly distributed throughout the country (Gorzelak and Jażwiecki, 1998). The Upper Silesian Development Agency (GARR), established in 1992 in Katowice, is one of the most active RDAs. GARR played a key role in the preparation of the Strategy for Slaskie Voivodship for 1998-2002 and has been a key actor in the planning and establishment of the Katowice SEZ (Blazycza et al, 2002). While Polish RDAs have not focussed exclusively on FDI as a vehicle for economic development, reactive provision of location advice to prospective foreign investors and administration of grant schemes are still important activities. PAIZ has special agreements with RDAs for FDI promotion (and delivery of programmes) at the regional level, constituting ‘a partnership network’ involving RDAs as partners in information dissemination and investor contact for incentives and location decisions.

Inter-tier coordination in FDI promotion is achieved through numerous interdependencies, with the PAIZ-led ‘partnership network’ being supplemented by regional links with other national bodies, including (until recently) the Polish Agency for Regional Development (PARR) with regard to general development strategies, the Industrial
Development Agency which is a shareholder in many RDAs, and the National Association of RDAs (NARDA) that organises a range of support provision to its members and potential investors at local and regional levels (OECD, 1996; Bienias, personal interview). While external promotion would appear to be only loosely regulated, the handling of individual projects, including grant-giving, is followed closely from the national level, and thus the governance of FDI promotion in Poland would appear to involve an asymmetrical pattern of coordination where national spatial priorities do not seem to be challenged from the regional level.

Slovenia – Political Centralisation and Economic Transition

Also in Slovenia, FDI is a fairly recent phenomenon closely linked to the process of economic transformation. Foreign investment tends to concentrate in manufacturing industries with higher than average profitability and value added per employee, and in larger capital intensive firms with above average export propensity (Slovenian Economic Mirror, 2000). The stock of FDI is primarily dominated by EU countries (86.7% in 2001) such as Austria (47.5%) and mainly concentrated in firms already doing business in or with Slovenia (Bank of Slovenia, 2002). Compared to other CEE countries the level of inward investment has been relatively low with FDI constituting only 3.4% of gross fixed capital formation in 1999, with a trend of decline in the late 1990s (UN ECE, 2001; Rojec and Stanojevic, 2001; Svetličič and Bellak, 2002). After the breakaway from Yugoslavia, the political system of the republic has remained unitary, with relatively limited powers vested in a large number of local authorities and no intermediate regional tier of government at present. The Slovenian government is well aware of this gap and is reviewing regionalisation models adopted in Europe with a view to introducing provinces as a new form of local self-government (Slovenia Business Week, 2002).

The Slovenian government regards FDI as an important element in the transition process, especially in terms of restructuring its enterprises and improving their economic performance. With recent less than encouraging trends in FDI inflows, the adequacy of national level provision for FDI attraction has been questioned and policy makers are reviewing the extent and nature of investment incentive policy and support. A report by the Foreign Investment Advisory Service (FIAS, 2000) drew attention to a number of barriers and the less than friendly business environment in some areas, mainly related to bureaucratic burdens linked to the former system of state intervention in the economy. The overall policy stance of the Slovenian government is therefore, unsurprisingly, to stimulate FDI by tackling the barriers to investment. This includes creating a more positive attitude amongst economic policy makers, legislative changes and direct incentive measures, and introducing the National Scheme for Attracting FDI in 2000. This comprehensive programme aims to
facilitate and motivate foreign investors by operating transparently, providing tangible financial incentives, and being more pro-active in areas such as human resources and adequate locations for green-field projects (TIPO, 2000). As in the case of Poland, the two main policy measures on the national level are external promotion and the establishing of special zones for trade (and investment).

The Slovenian Trade and Investment Promotion Office (TIPO) was established in December 1994 and supported under the PHARE programme during its first two years but is now State funded (with a budget of US$2 million in 2000); though eventually it will function as a ‘Quango’ (Kovaè, personal interview). TIPO operates within the Slovenian Government Ministry of Economic Relations and Development that has established its general aims as attracting foreign investment, promoting exports and facilitating contact between Slovenian and foreign companies. TIPO provides a range of services to potential investors and trade partners, including information on legal and regulatory measures, taxes and duties, current incentive measures, labour force profiles, location and availability of business premises and sites, potential domestic suppliers and partners, trade and investment missions, and the coordination of further linkages with local authorities and domestic industries. Moreover, it seems that TIPO is attuned to the need for a more pro-active stance on 2nd round investment, and also the need to provide input for both FDI and wider industrial strategies. Most FDI projects originate from within 600 km of the Slovenian border and TIPO engages proactively in direct marketing to these EU based companies. However, the European Union accession process and Stability Pact for South Eastern Europe has drawn TIPO into the process of reintegration of Slovenia into the wider region via a remit to promote Slovenia in the SEE countries (Škoda, 2000). Otherwise, there appears to be no selection criteria as such for attracting specific types of FDI or for directing it to certain regions, but the nature of the Slovenian economy, dominated by SMEs, means that the absorption capacity for large incoming projects is effectively limited by e.g. availability of labour, infrastructure, domestic suppliers, and availability of suitable premises or land.

In common with other CEE countries a major national policy initiative for FDI attraction has been the creation of Special Economic/Trade Zones (Rudl, personal interview). In Slovenia such zones were set up in Koper and Maribor already in the 1980s, and they include sophisticated customs services in combination with (relatively expensive) land and warehousing. Since most high value added FDI flows into the developed and prosperous regions, there was a problem with availability of suitable land for green-field FDI, compounded by restrictive laws concerning property, and bureaucratic inertia. To some extent this is being offset by regulatory reforms and the increasing availability of brown-field sites in the wake of large Slovenian firms under receivership; and through Slovenian Development Corporation sites that can be designated for both FDI and domestic projects. This is a sign of
less random development policy where attraction of foreign investment begins to take spatial considerations into account.

In 1999 the Slovenian National Assembly adopted a bill to encourage balanced regional development by instituting specific goals and principles, funding and subsidy criteria. Although regional disparities are smaller than those in other CEE frontrunners for EU membership, the transition period has widened the gap between prosperous and less prosperous localities (Kajzer, 1999; Slovenia Business Week, 1999). In March 2000 a compulsory NUTS-like Standard Classification of Territorial Units was introduced in order to establish a national standard for data collection and analysis of territorial divisions, using twelve statistical planning regions as the basis for the location of sub-national agencies. The new measures focussed upon infrastructure and employment development in less developed and demographically endangered communities, and involved setting up a range of national-level bodies as well as eight individual RDAs co-ordinated by the Slovenian Agency for Regional Development (SARD) supported by a proposed budget of €27 million in 2002. The Slovenian RDAs operate throughout the country, not just in economically fragile localities, and act as a coordination point for national top-down policies and incentives and bottom-up municipality-based measures. But, interestingly, these agencies are not pursuing FDI attraction and assistance to potential investors, possibly because the SME-based economic structure lends itself more readily to strategies oriented towards indigenous firms (Dubravka, personal interview). Conversely, authorities at the local level are generally too small or lack resources for active participation in FDI promotion, and the non-existence of an intermediate regional tier of territorial organisation presents a barrier to the implementation of an effective regional policy operating on the principle of local authority partnership.

Despite the current absence of regional-level actors in FDI promotion, coordination between the policy areas of investment attraction and regional development would still appear to take place: instead of being an inter-tier task, it revolves around the collaboration of different national-level bodies, especially TIPO and the RDA umbrella organisation SARD (Piry, personal interview). All in all the governance of FDI promotion in Slovenia involves inter-tier coordination only in a rather indirect manner because competing regional interests are mediated internally through the national RDA organisation rather than being played out in public.

**The UK – Decentralisation and Industrial Restructuring**

The level of FDI has been historically high in the UK, and the country accounted for nearly a quarter of the entire stock of foreign investment in the EU in the late 1990s while FDI as share of gross fixed capital formation reached 25.7% in 1998. By far the largest single sources was the USA followed by Germany, but Far Eastern and other European countries have also
become increasingly important, and within the UK foreign investments have located primarily in the prosperous South East and in the assisted areas in the Northern and Western peripheries (IBB, 1999; UN, 2002, Table 5B; Brown et al., 1999).

The UK has long encouraged this form of economic activity through liberalisation of regulations and promotional activities of an increasingly formalised nature (Brown, 1998; Brown & Raines, 1999). The Invest in Britain Bureau (IBB – recently renamed Invest.UK) was established in 1977 as the body responsible for promoting the UK as a location for investment from abroad, and as a provider of an ‘impartial’ view of different regions within the country (IBB, 1983). A budget of around €6 mn. supports the London-based activities, around 60 staff are employed in the headquarter and representatives abroad include c 60 full-time posts plus a significant number of persons allocated to IBB activities on a part-time basis (IBB, 1998; Cammell, personal interview). The aim of the IBB is to maintain the leading position of the UK in a situation where competition from other European countries is increasing, and its activities include general promotion of Britain through advertising, seminars and contact to individual firms, advice on financial subsidy packages for individual firms locating in areas assisted by UK regional policy schemes, support for incoming investors in their dealings with other authorities, and aftercare for major firms (Invest.UK, 2002; Cammell, personal interview). IBB has clearly adopted a proactive role in relation to canvassing individual firms, and efforts appear to focus primarily on green-field projects in manufacturing. Although its services are available in connection with investment projects throughout the UK, the presence of financial subsidies through regional policies introduces a bias towards projects locating in peripheral assisted areas.

Reflecting the long-standing asymmetrical nature of British constitutional arrangements (Sharpe, 1993), promotion of FDI within particular regions differs between the constituent parts of the UK. In the 1970s central government established major RDAs and dedicated investment promotion agencies in Scotland, Wales and Northern Ireland, closely linked to the territorial departments of government responsible for the administration of regional policy subsidies (Danson et al., 1992). In contrast to this the institutional set-up in the English regions has developed through a much more gradual process, both in terms of spatial coverage and organisational resources. Only after central government sponsored RDAs were established in all English regions in 1999 was FDI promotion incorporated into a broader array of regionally-based development functions (Cammell, personal interview), and until April 2002 regional financial incentives were still administered by central government in London or its regional offices. Taken together this clearly indicates that already at the national level FDI promotion in the UK has a strong spatial dimension, both with regard to overall patterns of governance involving varying degrees of decentralisation and
organisational integration, and in terms of the availability of regional subsidies where designated Assisted Areas had very different possibilities from undesignated localities.

Scotland is an interesting example of a British region which has enjoyed a, recently greatly increased, degree of political decentralisation and which has long engaged in high-profile attempts to attract FDI. A dedicated Scottish promotional body was established in 1981 by combining resources from the major central government sponsored RDA and the Scottish Office, the territorial department of central government. Political sponsorship of FDI promotion was transferred to the devolved Scottish Executive in 1997, and in 2001 the integrated approach to economic development was further underlined when Locate in Scotland (LIS) became part of Scottish Development International (SDI) which combines FDI attraction with promotion of Scottish Exports (SDI, 2002). The origins of this joint-venture construction, not replicated anywhere else in the UK, may have been inter-organisational wrangling (Hogwood, 1987; Keating & Midwinter, 1983, pp 175f), but the result was the creation of a unified organisation that, at least at the regional level, created a one-door approach for attraction of inward investment to Scotland which could also draw on e.g. the sectoral expertise within the RDA. IDS had a budget amounting to more than €10 mn. in 1996 (Brown, 1998), and thus in terms of resources the regional body clearly surpassed the national-level IBB, and compared to promotional bodies in the English regions combining promotional powers with access to central government grants was seen as a major Scottish advantage (Brown, 1998; Brown et al., 1999; Cammell, personal interview). Services provided include general promotion of Scotland through advertising, seminars and contact to individual firms, compilation of packages of financial subsidies for firms locating in areas assisted by UK regional policy schemes, support incoming investors in their dealings with other public authorities, and aftercare services ensuring continued attention to the needs of foreign firms (SDI, 2002; Brown et al., 1999 p 30). LIS has clearly adopted a proactive role in that approaches to individual firms have focussed on specific sectors and sub-sectors in an attempt to stimulate the growth of coherent and dynamic clusters within the regional economy (Brown, 1998; Brown & Raines, 2000).

In Britain FDI promotion is coordinated in two different ways. Promotional activity has since the 1980s been subject to coordination via guidelines agreed by an inter-departmental committee, and its guidelines cover mutual notification of company visits and other promotional activities. With regard to individual investment projects regional bodies are free to pursue potential investment project leads identified by themselves, while projects identified by IBB will normally be handed over to relevant regional bodies only when the investor has decided on a particular location – until then the national body retains its role as the ‘impartial’ umpire amongst the regions (Cammell, personal interview). Financial support for FDI projects has primarily taken the form of central government regional grants, and as these since
the 1980s these have gradually become exclusively discretionary in nature and increasingly administered by decentral arms of central government, a system of UK-wide guidelines developed which has now been replaced by a so-called ‘concordat’ between London and the new devolved governments in Scotland and Wales about the use of financial incentives (Raines, 1998; Lord Chancellor, 1999). With central government still undertaking the designation of Assisted Areas as well as being the primary sponsor also of activities on the regional level, the governance of FDI attraction in the UK would seem to be characterised by a dual approach: relatively loose manner with regard to promotion by means of information but subject to clearly defined guidelines with regard to financial grants. In terms of FDI promotion this has given particular advantages to regions which are both non-English and designated as Assisted Areas, and it remains to be seen whether the historical advantage of Scotland, Wales and Northern Ireland will eventually be eliminated by recent changes in the governance structures of the English regions.

**Denmark – Political Centralisation and Industrial Restructuring**

The level of FDI has been comparatively low in Denmark until recently, but since the early 1990s activity has increased significantly both in absolute terms and relative to other European countries: while FDI as percentage of gross fixed capital formation averaged 4.7% in 1988-93, at 18.5% the share was nearly four times higher in 1998 (UN, 2000, table B5). In the 1990 more than 60% of foreign direct investments came from, mainly neighbouring, EU countries with the USA and Norway as major non-EU contributors (IDK, 1999), in sectoral terms services (financial, telecommunications, trade) have dominated, possibly reflecting the effects of deregulation in connection with the European Single Market. It is also noticeable that “green-field” ventures have played only a limited role in Denmark where the FDI picture in the 1990s have been dominated by acquisitions and additional investment by foreign firms already established in the country.

Active promotion FDI is fairly recent phenomenon: only in 1989 was *Invest in Denmark* (IDK) established as a national body promoting the country as a location for foreign investment in collaboration with private sector organisations and sub-national public bodies. The main office currently has around 15 staff while the work of the nine offices abroad involves around 30 persons all together and the total budget has risen to c €4 mn. The services provided by IDK include general promotion of Denmark as an investment location through seminars abroad and contact to individual firms, provision of specific information to individual firms including identification of suitable partners for foreign and Danish firms, support for incoming investors in their dealings with public authorities in Denmark, and liaising with existing foreign firms with regard to future investment plans. The activities of IDK clearly have a strong proactive dimension in terms of contacting individual firms, and
from the mid-1990s onwards, four sectors have been accorded particular attention, namely IT/Telecom/Electronics, Food, Life sciences and *Hub Denmark* (call centres and regional European/Baltic/Scandinavian headquarters). Activities include not only green-field ventures but also aftercare and, not least, strategic alliances in the form of joint ventures or acquisitions, initiated by either foreign or Danish firms (IDK, 2002; Aggergaard, personal interview). Although information about schemes involving financial support are still listed on the IDK website (IDK, 2002), financial subsidies have played a very limited role in Danish FDI promotion. On the one hand direct grant aid to individual firms have come to play a minor role in public policy in Denmark: national regional subsidies were discontinued in 1991, and within the European Objective 2 programmes the role of investment grants has been fairly limited (Damborg, Nielsen & Halkier 1999; Halkier, 2000, 2001a). On the other hand the predominant form of FDI, international mergers and partnership arrangements involving existing Danish firms, does not lend itself as easily to grant aid as green-field projects.

In Denmark regionally-based economic development initiatives have mushroomed from the late 1980s onwards on the basis of a multi-agency approach where a number of public and semi-public bodies constitute a more or less formalised and cohesive network mainly engaged in business advisory services (Damborg & Halkier, 1998; Halkier & Flockhart, 2002). With one notable exception this drive did not involve regional attempts to attract FDI, and thus it was IDK on the national level that initiated a country-wide network of *Regional Investment Promotion Agencies* (RIPAs). Although interest seem to be growing less than half of the 13 RIPAs have full-time staff (Nørgaard Nielsen, personal interview), and even *North Denmark Invest* (NDI), the investment promotion agency for North Jutland has only two full-time staff and an annual budget of €0.14 mn. despite having recently received a lot of knowledge-intensive FDI in industries such as electronics and telecommunications. It is therefore hardly surprising that NDI’s external promotion is undertaken exclusively through IDK, attempting to incorporate the strengths of the region in national campaigns and to attract projects captured by IDK (Thellufsen, personal interview). With strategic priority given to knowledge-based investments, green-field projects become far less important than facilitating strategic alliances between foreign investors and local firms or research organisations, and these efforts include both aftercare and attempts to convince selected indigenous SMEs that they could benefit from having a foreign investor in terms of access to markets and know-how (Thellufsen, personal interview). Although NDI is considered to be relatively active compared to other RIPAs, its level of activity comes nowhere near that of *Copenhagen Capacity* (CC), the regional promotion body for the metropolitan capital area. CC was established in 1993 by the five regional governments covering the Greater Copenhagen area on the back of concerns about extensive de-industrialisation, and partly out of dissatisfaction with what was seen as
the disappointing results produced by IDK for the capital (Larssen, personal interview). Unlike its counterpart in North Jutland, CC predates the RIPA programme which it later chose to join, and its budget now amounts to more than €3.0 mn., while the level of staffing is comparable to that of IDK rather than the much smaller non-metropolitan RIPAs (CC, 2002; Larssen, personal interview). The promotional efforts of CC are concentrated in sectors where Copenhagen is believed to have a strong competitive position, i.e. currently IT, biotechnology, headquarters/call centres, food and hotels, and overall the work of CC clearly shows a proactive approach in relation to individual firms abroad as well as in Denmark (CC, 2002; Larssen, personal interview).

Coordination between national and regional investment promotion takes primarily places within the framework of a formal agreement between IDK and the RIPAs. External promotional activities towards particular countries or firms are coordinated through regular meetings, information exchange and joint activities (seminars, representatives abroad, etc.) in order to avoid duplication, but with regard to prospective investment projects IDK and the RIPAs are merely obliged to keep each other informed about new developments, although some projects identified by IDK are transferred to a RIPA if the investment for some reason is tied to a particular location. While some regions have adopted a passive stance and merely handles enquiries that may come from the national level and other regions have primarily given priority to maximise the flow of investment cases through the IDK network, only in Greater Copenhagen has considerable resources been mobilised in order to undertake proactive promotion abroad. The problem inter-organisational rivalry between the main regional and national actors would, however, seem to have been resolved following the adoption of the liberal ‘framework agreement’ and a recent strategic review in the IDK which introduced a sectoral approach which runs in parallel to that of CC. All in all the governance on FDI promotion in Denmark would seem to be characterised by spatial asymmetries – the only regional actor with an international presence is Greater Copenhagen – and a dual approach to coordination in which external promotion is based on pooling of national and regional resources while the handling of individual projects is effectively left to the discretion of individual organisations.

**Governing FDI in Europe: Emerging Patterns**

On the basis of the four national case studies some preliminary conclusions can be drawn with regard to the governance of FDI promotion in Europe at the turn of the century.

From the outset it is noticeable that the *core services* provided national and regional agencies are strikingly similar. New projects are sought through presence in the informational market place, e.g. mass media and trade fairs, as well as through proactive contacts to investors with a potential (or potentially extended) presence, these efforts are some extent
guided by preferences with regard to sectors and types of FDI, and when a new project is
taking shape the role of the promotional agency becomes that of a facilitator of contacts
between the foreign firm and local actors such as public authorities or potential
subcontractors. A major difference would seem to be that some promotion agencies,
particularly in Western Europe, have adopted a more proactive stance with direct contacts to
individual firms, but whether this reflects a more sophisticated and effective approach, the
availability of more resources, or perhaps should be interpreted as a measure of despair
remains to be investigated. It is particularly interesting to note that most promotional bodies
appear to build their strategies around existing, e.g. sectoral, strengths which most likely
would lead to ‘more of the same’, and thus from the point of view of a prospective investor
FDI promotion would seem to amplify existing differences between regions and nations rather
than attempt to bring about radical shifts in their perceived strengths in terms of e.g.
infrastructure, knowledge and competences. While this conservatism is perhaps hardly
surprising – changing or enhancing these features has traditionally been the object of other
forms of public policy – it also means that most nations and regions can ill afford to opt out of
the race for FDI, something which probably explains the proliferation of investment
promotion agencies in Europe in the wake of the Single Market and continuing economic
integration.

Despite these basic similarities, it is, however, also clear that the *strategic priority* given
to FDI varies, with some countries like the UK having been engaged in this activity for
decades while others are more recent arrivals, something which confirms the findings of
earlier studies of countries in West Europe (Brown 1998, Brown & Raines, 1999). Likewise,
some regions devote more resources to promotion of FDI than others, and more often than not
this would seem to reflect national spatial priorities, e.g. expressed through the designation of
Special Economic Zones or Assisted Areas – in fact even the apparent emergence from below
of Greater Copenhagen as the only major regionally-based promotor of FDI in Denmark
would seem to be in accordance with the priority given by central government to regeneration
of the capital through massive investments in new infrastructure (Halkier, 2001b).

In each of the four countries studied a growing number of national and sub-national
actors take an active interest in FDI promotion, and some interesting patterns are clearly
emerging with regard to inter-tier coordination. On the one hand promotion by means of
informational resources are generally loosely coordinated through procedures for mutual
information, except perhaps in the case of Denmark where the search for synergies has lead to
network-type mutual dependency between national and regional actors. Contrary to this the
handling of individual projects is much more closely regulated from the national level,
especially when financial subsidies are involved, but again the Danish case is different in that
the national level has attempted to make inter-regional competition transparent rather than resorting to detailed regulation.

An explanation of the patterns of coordination identified in the four case studies would have to take a range of different factors into account. In the introduction it was suggested that general patterns of governance, i.e. the degree of centralisation within the national political system, may have an impact, but while this will clearly influence the resources available to regional actors in terms of finance and authority, it is clearly not the whole story. Close coordination of individual projects is found both in unitary states like Slovenia and more decentralised ones like the UK and Poland, while the most liberal approach is taken in unitary Denmark. An obvious alternative explanation to this would be the strategic importance of FDI to various actors, but as close coordination has been observed not only in the UK with its longstanding inter-regional rivalry around foot-lose investment projects but also in countries like Poland and Slovenia where this phenomenon appears to be much less pronounced, other factors need to be considered. Two obvious candidates are the nature of the policy instruments employed – the use of informational instruments can be treated liberally while sub-national employment of financial resources must be regulated - and the nature of the type of FDI a nation/region is trying to attract. If investors are to be tempted by very specific features (e.g. partnership with existing firms or specific competences within the region), regulation is less pressing, whereas, conversely, if the projects targeted are of a general nature (e.g. green-field investment in search of cheap labour with few qualifications) national regulation is more likely to occur. This clearly suggests that more work, both in terms of geographical coverage and analytical depth, will be needed in order to illuminate the emerging patterns of inward investment promotion governance in Europe – a task that is all the more pressing in the light of the impending enlargement of the EU.
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