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Policies Towards the OFDI and IFDI in the European Union after the 2008+ Crisis

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ABSTRACT

Objective: The objective of this paper is to evaluate the (post)crisis FDI policies in Europe, taken the significant drop in international foreign direct investment (FDI) flows as observed in the aftermath of 2008+ crisis as well as the accompanying ideological shifts as to the role of the State in the economy.

Research Design & Methods: By synthesising the available sources – critical literature review, evaluation of rankings and scoreboards and experts' survey - this paper seeks to classify the EU member states according to their policies pursued towards outward and inward foreign direct investment (IFDI, OFDI) in the context of 2008+ crisis.

Findings: A matrix with four possible combinations of FDI policy has been proposed. It distinguishes: an open model with "a double positive strategy", closed with "a double negative strategy", competitive with "a positive outward and negative inward strategy", and a capital model with "a positive inward, negative outward strategy". Obtained results point to the dominance of two opposite models where countries seem to apply combinations of rather friendly IFDI (or OFDI) and unfriendly OFDI (or IFDI) policies.

Implications & Recommendations: Current scarcity of a proper metric of FDI policy has made it necessary to draw on some imperfect substitutes, hence findings must be treated with caution. Properly designed, reliable international database enabling cross-country comparisons in terms of FDI policies would certainly improve the quality of future research.

Contribution & Value Added: Presented research findings can be seen as a voice in the discussion on FDI policy in Europe, in particular on the issue of operationalisation of such policy.

Article type: research paper
Keywords: FDI; OFDI; IFDI; policy towards FDI; crisis; EU; classification
JEL codes: F00, F21, F23

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INTRODUCTION

The significant drop in international foreign direct investment (FDI) flows as observed in the aftermath of 2008+ crisis and accompanying ideological shifts as to the role of the State in the economy as expressed by some European politicians and feared by scholars – "return of neo-protectionism" – have been the inspiration for conducting research on the interface of these two (Szalavetz, 2015; Gestrin, 2014; Götz, 2015; Evenett, 2012). The aim of this study has been to asses if policies towards FDI might have altered in the consequence of the economic downturn. Research has been undertaken to map the member states in terms of their approach towards incoming (IFDI) and outflowing (OFDI) investments. The applied methodology combines simple quantitative and qualitative techniques which draw on international databases and scoreboards and enables cross-country comparison. The classification of the EU countries with respect to the pursued FDI policies has been proposed.

Following the 2008+ financial turbulences, trade imbalances, instability of fiscal policies and labour market deterioration various measures have been launched to cushion the blow. Whereas major economic policies such as the fiscal, monetary or labour market policies have been respectively adjusted, relatively little is known about possible modifications in other less popular areas of government activity such as the policy towards foreign direct investment. By synthesising available sources this paper seeks to classify the European Union member states (EU MS) according to their policies pursued towards outward and inward foreign direct investment after 2008.

This paper is structured as follows. First part outlines the concept of FDI policy as proposed in selected literature. Next, the employed data being proxy of FDI policies and applied methodology enabling cross-country comparison are briefly described. Part three discusses the results obtained i.e. the EU countries classification and is followed by the conclusions which close the text.

LITERATURE REVIEW: FDI POLICY

In empirical studies on FDI, policy is modelled as one of the factors influencing investor's decision on where to locate. In most cases this is one of the independent variables in regression equations which assess the magnitude of an impact of given element on FDI. Golub (2009) argues that despite its increasing prominence, very little systematic information is available on policies towards this FDI. "Unlike international trade where international comparisons of tariff and non-tariff barriers are widely available, there have been few previous efforts to quantify and systematically compare national policies towards FDI. Yet, indicators of the policy stance towards FDI are just as important as measures of trade barriers, given the prominence of FDI in the world economy and the policy debates surrounding FDI" (Golub, 2009, p. 1248).

The Oxford Dictionary (2015) defines "policy" as a course or principle of action adopted or proposed by an organization or individual. Policy discussions in the literature have been centered around government support for IFDI. Also, the economic impacts of IFDI have been widely discussed, while those of OFDI are far less recognised and understood (Gorynia, Nowak, Trąpczewski, & Wolniak, 2013). "In many countries, government policies towards MNEs exaggerate the benefits of inward investment and understate the benefits of outward investment" (Casson, 2007, p. 323). According to Buckley, Clegg, Cross and Voss (2010, p. 244): "OFDI policy, in both developed and developing countries, is generally much more amorphous, diffused, and less clearly delineated in comparison with the policies towards inbound FDI." Studies on FDI mostly deal with the policy in the context of general terms and conditions referring to the regime adopted by the host country usually affecting all companies and not discriminating a priori between domestic and foreign ones. Hence, such "FDI oriented policy" features frequently in empirical investigations (Bellak, Leibrecht, & Stehrer, 2010, p. 38).

For the sake of the clarity and brevity and given the space limitations the broader considerations on the conceptual aspects of FDI policy have been skipped, as they have been comprehensively covered in multiple studies (Jankowska, Gorynia,& Dzikowska, 2015; Faeth, 2009; Guimón & Filippov, 2012; Harding & Javorcik, 2011; Drahokoupil, 2008; Sauvant, 2015; Brewer, 1993; Cuervo-Cazurra & Genc, 2011; Hymer, 1976; Dowling & Pfeffer, 1975; Scott, 1995; Kline, 2002; Mistura, 2011; Ratten, Dana, Han,& Welpe, 2007; Torres, 2014; Globerman, Chen, 2010). Based on the critical review of available literature two approaches to FDI policy can be suggested. FDI policy drawing on the broad set of indirect measures is a policy *sensu largo*. *Sensu stricte* FDI policy encompasses dedicated measures with "foreign element" which per se seems a tricky political issue in the light of the EU regulations seeking harmonised and equal conditions for all European investors. It can be actually equated with the activity of Investment Promotion Agencies (IPAs) in case of inward FDI, and economic diplomacy (economic missions and activities of specialised economic, trade and investment departments of country's embassies) for outgoing FDI. The recognised deficiency as far as good proxies for genuine FDI policy are concerned, is further compounded by the problem of their dual use. Available variables – standardised, comparable and reliable for all EU members - may stand for conditions affecting incoming as well as outgoing investors as they fit the *sensu largo* definition of FDI policy.

MATERIAL AND METHODS: PROXIES FOR FDI POLICY

The objective of this paper has been to evaluate the (post)crisis FDI policies in Europe. The simplest categorisation of FDI policies would differentiate between OFDI and IFDI and between hostile/anti and friendly/pro FDI approaches. In the light of this deficit of FDI policies' variables, it has been inevitable to tap into other sources which can serve as proxies of outward and inward FDI policies. In the first step the review of possibly suitable databases has been conducted. Next, a number of indicators stored in the repositories of international organizations has been selected. In particular, reference has been made to: Investment Regulatory Restrictiveness Index (IRR) by OECD, Reform Responsiveness Index (RRI) by OECD, concluded Bilateral Investment Treaties (BITs) as provided by the EU and UNCTAD, launched claims under Investment State Dispute Settlement procedures (ISDS) reported by UNCTAD, ranking Doing Business of World Bank, the number of OFDI support centres provided by the EU Commission, corporate tax rates published by the US based Tax Foundation, Attractiveness' ranking available in the Global Competitiveness Report by World Economic Forum, Index of Economic Freedom, an annual guide published by The Wall Street Journal and The Heritage Foundation and indicators of discriminatory measures "harmful for foreign commercial interests" reported by the Global Trade Alert.

These elements inform either about the progress in reforms launched (RRI, Doing Business, taxes), international openness/closeness (BITs, IRR, freedom index, IFDI attractiveness, OFDI support centres), or observance of existing anti-discriminatory law (ISDS, Global Trade Alert). Selected indicators may serve as close proxies of FDI policy. Their choice has been guided also by their ability to trace the recent (post)crisis developments with respect to approaches towards foreign investors. It goes without saying that other additional and alternative sources could be useful. Hence, further research should certainly enrich current set of indicators by employing new variables.

For classification purposes the following technique has been adopted. Firstly, for rankings such as IRR, RRI, Doing Business, Tax rates, Freedom index or Attractiveness as measured by GCR, where it is in general possible to categorise country's policies according to the places occupied; countries best performing and/or recording the most positive changes have been classified as running "pro" FDI policy; laggards and/or these with deteriorating performance as running "anti" FDI policy. For each ranking the average value has been calculated which can serve as certain benchmark. Referring to this level enables sorting all countries in ascending order and classifying accordingly. Secondly, in case of bilateral investment treaties (BITs) and OFDI support institutions the categorisation reflects the total number of concluded agreements or officially registered facilities. It must be stressed that for BITs the evaluation takes into account also recently (in the aftermath of crisis) signed treaties. The average value of existing treaties can be regarded as a reference point for countries' categorisation. Thirdly, for irregular signal information such as the reported ISDS claims, or Global Trade Alert "naming and shaming" i.e. when some countries appear but some are not mentioned, for classification purposes it has been decided to regard countries with these negative notorious cases as pursuing "anti" FDI policies.

Countries assessed as positive (or negative) in the Global Trade Alert, countries posting fewer (or new and/or more) ISDS cases, countries which have concluded new BITs and whose total number of BITs is above (or below) the EU average, countries having a low (or high) Investment Restrictiveness Index and countries with above (below) the average EU score in GCR subindex on FDI attractiveness have been classified as running rather friendly (or hostile) policies towards incoming investors. The countries whose Reform Responsiveness Index is below (or above) the EU average, who have less (or more) than the EU average number of OFDI support centres, who have higher (or lower) than the average and increasing (or decreasing) corporate tax rates, whose Economic Freedom ranking is worsening (or improving) and whose Doing Business ranking is decreasing (or increasing) have been classified as pursuing rather unfriendly (or stimulating) policies towards outward FDI. Country's model i.e. the profile of its FDI policies is achieved by combining all collected proxies for IFDI and OFDI policies respectively.

RESULTS AND DISCUSSION: COUNTRY CLASSIFICATION

The adopted approach allows to distinguish four models of FDI policies a country hypothetically may pursue.

1. An open model with "a double positive strategy", where both types of FDI are seen as making positive contributions to the economy. Hence, the policy is pursued with the aim of increasing the inflow of new foreign investors and fostering the internationalisation by domestic firms.
2. A closed model with "a double negative strategy", where both outbound and inbound investment is associated with certain losses to the national economy. Adopted policy would reflect in such case the efforts to rather hamper the inflow of foreign newcomers and prevent venturing abroad by national companies.
3. A competitive model whit "a positive OUT, negative IN strategy", where the State seeks to promote domestic champions which will stimulate the rise of internationally competitive domestic companies while restricting foreign investment which is perceived as posing a threat to incumbent businesses.
4. A capital model with "a positive IN, negative OUT strategy", where the State seeks clearly to promote capital accumulation, preventing the outflows of domestic businesses while attracting foreign investment.

Table 1. Summary of identified models of FDI policies

Open model	Capital model
2	7
Competitive model	**Closed model**
8	5

Source: own elaboration.

The proposed classification must be regarded with caution and should be seen as a rudimentary template enabling simple cross-country comparison in terms of rather neglected and underexplored policy domain i.e. policy towards FDI.

It must be stressed that conclusions on each country's FDI policy and resulting classification draw on the set of selected variables – in most cases, due to the data availability and / or topic sensitivity - rather imperfect substitutes of FDI policy measures. Hence, results obtained must be treated cautiously and risk of possible misinterpretation must be taken into account. Properly designed reliable international database enabling cross-country comparisons in terms of FDI policies would certainly improve the quality of future research. Table 1 and 2 summarise the result for all 28 EU countries with respect to all proposed variables.

Based on the conducted research eight competitive models have been identified, seven capital models, five closed ones, and two open models (table 3). For 6 member states it has not been possible to diagnose a specific model given their unclear (neutral) stance towards certain FDI flows.

Conducted mapping of the EU MS in terms of pursued (post)crisis policies towards FDI shows that 10 EU countries has run friendly policy towards IFDI and 11 EU members the policy favourable towards OFDI. In general, the competitiveness model assuming stimulating OFDI while rather preventing IFDI has been applied 8 times; featuring second is the opposite capital model – detected among 7 countries. Open model has been adopted only by 2 and closed model by 5 member states.

Table 2. Summary of variables standing for FDI policies in the EU member states

Variables	GTA		ISDS		BIT		REG restr.	inward GCR	reform resp.	DB	HF	no.service providers	corpor tax rate + change		IFDI policy	OFDI policy
Country	neg	pos	incr/decr=const	new '14	to	recent										
Austria	-2	(-)	(.)	(.)	<avg.	3	high	>avg.	<EUavg.	decr	decr	<avg.	>avg.	const	anti	anti
Belgium	(-)	(-)	const	(-)	>avg.	6	low	>avg.	<EUavg.	decr	decr	>avg.	>avg.	const	pro	anti
Bulgaria	(-)	1	incr	(-)	>avg.	1	(.)	<avg.	(.)	decr	incr	<avg.	<avg.	const	pro	pro
Croatia	(-)	1	incr	(-)	<avg.	1	(.)	<avg.	(.)	incr	incr	<avg.	<avg.	const	anti	pro
Cyprus	-1	(-)	incr	new	<avg.	3	(.)	>avg.	(.)	decr	decr	<avg.	<avg.	incr	anti	anti
Czech R.	1	(-)	incr	new	>avg.	7	high	<=avg.	>EUavg.	incr	incr	<avg.	<avg.	decr	anti	pro
Denmark	(-)	(-)	(.)	(.)	<avg.	3	high	>avg.	<EUavg.	incr	decr	<avg.	>avg.	decr	~	anti
Estonia	(-)	(-)	const	new	<avg.	5	low	>avg.	(.)	decr	decr	<avg.	<avg.	decr	pro	anti
Finland	(-)	(-)	(.)	(.)	>avg.	2	low	>avg.	<EUavg.	decr	decr	<avg.	<avg.	decr	pro	anti
France	-5	1	incr	(-)	>avg.	4	high	<=avg.	<EUavg.	incr	decr	>avg.	>avg.	const	anti	~
Germany	-2	(-)	incr	(-)	>avg.	3	low	>avg.	<EUavg.	decr	incr	>avg.	>avg.	fluctu	pro	anti
Greece	(-)	(-)	incr	new	<avg.	(-)	low	<avg.	>EUavg.	incr	decr	<avg.	>avg.	fluctu	anti	anti
Hungary	-1	(-)	incr	new	<avg.	(-)	high	<avg.	>EUavg.	incr	decr	<avg.	<avg.	incr	anti	~
Ireland	(-)	(-)	(.)	(.)	<avg.	(-)	high	>avg.	>EUavg.	incr	decr	<avg.	<avg.	const	anti	pro
Italy	-5	(-)	incr	new	>avg.	3	high	<avg.	>EUavg.	decr	decr	>avg.	>avg.	decr	anti	~
Latvia	(-)	(-)	incr	(-)	<avg.	(-)	high	>avg.	(.)	decr	incr	<avg.	<avg.	const	anti	pro
Lithuania	-1	(-)	incr	(-)	<avg.	5	low	<avg.	(.)	incr	incr	>avg.	<avg.	decr	anti	pro
LUX	(-)	(-)	(.)	(.)	>avg.	(-)	low	>avg.	<EUavg.	incr	decr	<avg.	>avg.	fluctu	pro	anti
Malta	(-)	(-)	(.)	(.)	<avg.	4	(.)	>avg.	(.)	decr	incr	<avg.	>avg.	const	pro	anti
Netherl.	-1	(-)	(.)	(.)	>avg.	2	low	>avg.	<EUavg.	decr	decr	<avg.	>avg.	decr	pro	anti
Poland	-1	(-)	incr	(-)	<avg.	(-)	high	<avg.	<EUavg.	decr	incr	>avg.	<avg.	const	anti	pro
Portugal	(-)	(-)	const	(-)	<avg.	7	low	<avg.	>EUavg.	decr	incr	>avg.	>avg.	incr	pro	~
Romania	(-)	(-)	incr	new	>avg.	(-)	low	<avg.	(.)	incr	incr	<avg.	<avg.	const	anti	pro
Slovakia	(-)	(-)	incr	new	<avg.	8	high	<=avg.	<EUavg.	decr	decr	<avg.	<avg.	fluct	anti	anti
Slovenia	(-)	(-)	incr	(-)	<avg.	1	low	<avg.	(.)	decr	incr	<avg.	<avg.	decr	anti	pro
Spain	-1	(-)	incr	new	>avg.	3	low	<avg.	<EUavg.	decr	decr	>avg.	>avg.	decr	anti	anti
Sweden	(-)	(-)	(.)	(.)	>avg.	(-)	high	>avg.	<EUavg.	incr	incr	<avg.	<avg.	decr	pro	pro
UK	-1	(-)	incr	(-)	>avg.	3	high	>avg.	>EUavg.	incr	decr	<avg.	<avg.	decr	~	pro

*data as available in October 2015, ~ unclear - pro and anti measures offset each other; New 14 – new ISDS cases brought in 2014 as reported by UNCTAD > -means more than average, < - lower than average;
(-) - the phenomenon did not occur; (.) - data not available
Source: own elaboration.

Table 3. Diagnosed models of FDI policies by country

Policy towards IFDI	Policy towards OFDI	Country	Suggested Model
unfriendly	unfriendly	Austria	**Closed**
friendly	unfriendly	Belgium	**Capital**
friendly	friendly	Bulgaria	**Open**
unfriendly	friendly	Croatia	**Competitive**
unfriendly	unfriendly	Cyprus	**Closed**
unfriendly	friendly	Czech Republic	**Competitive**
~	unfriendly	Denmark	Closed/ capital
friendly	unfriendly	Estonia	**Capital**
friendly	unfriendly	Finland	**Capital**
unfriendly	~	France	Closed/competitive
friendly	unfriendly	Germany	**Capital**
unfriendly	unfriendly	Greece	**Closed**
unfriendly	~	Hungary	Closed/competitive
unfriendly	friendly	Ireland	**Competitive**
unfriendly	~	Italy	Closed/competitive
unfriendly	friendly	Latvia	**Competitive**
unfriendly	friendly	Lithuania	**Competitive**
friendly	unfriendly	Luxembourg	**Capital**
friendly	unfriendly	Malta	**Capital**
friendly	unfriendly	The Netherlands	**Capital**
unfriendly	friendly	Poland	**Competitive**
friendly	~	Portugal	Open /capital
unfriendly	friendly	Romania	**Competitive**
unfriendly	unfriendly	Slovakia	**Closed**
unfriendly	friendly	Slovenia	**Competitive**
unfriendly	unfriendly	Spain	**Closed**
friendly	friendly	Sweden	**Open**
~	friendly	United Kingdom	Open/competitive

Source: own elaboration.

An interesting observation can be inferred from the conducted research and mapping process. Namely that “old EU” MS seem to pursue policies more friendly towards incoming FDI and have rather unfriendly attitude towards OFDI; whereas the opposite is true in many Central and East European Countries (CEEC). Competitiveness model seems to be the most widespread among CEEC and new MS, whereas capital model is popular particularly among “old EU” advanced members. Whether it reflects just the policy evolution and can be somehow referred to the Dunning’s Investment Development Path (IDP) or has some other deeper reasons would be an interesting research area for further studies.

The policy mix typical for given model (IFDI & OFDI) may reflect the deliberate combination of strategies adopted towards IFDI and OFDI. They would then derive from the underlying perception of international capital flows. Whether OUTFDI is seen as loss of precious capital and jobs or as a factor contributing to the national economy by improving country's competitiveness and seen as a way to create own multinationals / TNCs.

Whether INFDI is perceived as so wanted capital and labour creation or as unwelcome competition and threat to the domestic firms. I would not, however, go that far and argue that generated classification and models assigned to the member states can be seen as manifestation of their preferred policies. These models are rather evidence of actual approaches taken towards incoming and outflowing investors in recent (post)crisis years. In other words, running unfriendly policies towards incoming and outflowing investors does not have to imply that government considers such flows as a threat for home economy or distortion for domestic competitiveness. Such lack of evident "1 to 1" translation between the policy understood as the country development strategy and a daily policymaking is nothing new since "rhetoric" and "practice" often diverge. Other studies in the context of recent crisis point also to some incoherence where bold anti-liberal declarations did not trickle down to actually implemented actions (Aalbers, 2013, p. 1083; Sellar, Pástor, 2015, p. 352; Szalavetz, 2015).

CONCLUSIONS

Obtained results of the mapping of the EU MS in terms of pursued (post)crisis policies towards FDI show that merely ten EU countries have run clearly friendly policy towards IFDI and eleven EU members have opted for policy favourable towards OFDI. In general, the competitiveness model assuming stimulating OFDI while rather preventing IFDI has been applied eight times. The opposite capital model has been detected among seven countries. Open model has been adopted only by two and closed model by five member states. Presented research findings can be seen as the voice in the discussion on FDI policy in Europe, in particular on the issue of operationalisation of such policy.

Presented findings can contribute to the research on FDI, in particular to the less pronounced and touched upon in the literature issues of FDI policies. There has been identified a clear need for designing and developing the set of comparable indicators being proxies of genuine FDI policy. They would enable conducting international comparative studies with the aim to assess policies pursued towards incoming and outflowing investment. Current scarcity of the proper metric of FDI policy made it often necessary to draw on some imperfect substitutes. Dual use of available indicators manifests itself in the fact that they can serve as proxies of both IFD and OFDI policies. Hence this project leads to the conclusion that some differentiation between genuine and narrowly defined policy towards FDI (*sensu stricte*) and just FDI-related policy (*sensu largo*) would be recommended. Existing bias towards inward FDI dominating in the literature and empirical studies poses also some challenge and should be addressed by scholars. Hidden protectionism, more nuanced FDI policy, and lack of comparable reliable data have hampered research in this area.

Applied methodology by drawing on international databases, rankings and scoreboards, enables systematic, cross-country comparison, which takes into account not only the policy towards incoming FDI (dominating in the literature), but also outflowing investments and captures the changes in approaches towards FDI witnessed after 2008+crisis, not just reports the current state.

Systematic approach to studying the possible crisis-induced changes in FDI policies in the EU suffers from the quality of proxies. Another limitations results from the tacit assumption that improvements or deteriorations of selected categories, which had happened in the examined period 2008-2015 can be attributed to the financial turbulences.

An alternative way of assessing the problem would be to tap into paid survey-based reports drafted by the leading consultancy firms. Research on FDI policy changes in the EU might also harness the content analysis method, which would allow exploring the media coverage of the FDI policy in the crisis context and reveal how much the rhetoric has changed in the aftermath of 2008. Another alternative might be approaching the largest EU-external investors and surveying them.

Research covering comprehensibly all 28 EU MS comes at the expenses of deeper analysis taking into account several nuances playing undoubtedly an important role in FDI. In the future, a more nuanced scale of evaluating FDI policy's restrictiveness exceeding the simple dichotomy "pro / anti" or "friendly / hostile" should be employed. It may focus on selected countries as case studies and account for the mode of entry, country of origin or sector of FDI. For the moment, the proposed template may serve as the departing point for further exploration.

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