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It's time for an EU Investment Promotion Agency

by
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One important novelty of the Lisbon Treaty, ratified by the EU in December 2009, is the inclusion of FDI within the scope of Common Commercial Policy, implying a transfer of certain FDI competences from the member states to the EU, which now has the ability to conclude international investment treaties.[1] Until now, member states had full competence over FDI, and the role of EU institutions was very limited. It remains to be seen how the new Treaty will be interpreted and implemented in light of the difficult legal and political questions that this development raises.

While the Treaty does not propose any change regarding FDI promotion competences, perhaps this is also the opportunity to take a more active, coordinated approach to FDI promotion at the EU level. Within the European Single Market, member states fiercely compete against each other and have steadily increased the scale and scope of resources devoted to national and sub-national investment promotion agencies (IPAs). While competitive FDI promotion will remain, a critical challenge now is to increase cooperation among member states to attract more FDI into the EU as a whole.

There are several reasons for this suggestion. There might be information failures to be addressed at the EU level: for example, the potential for cross-border activities by foreign multinational enterprises across the EU, the incentive schemes available at the EU level or the mechanisms to engage in European research networks and to benefit from European R&D funding. The sharp decline in FDI inflows in recent years also supports a coordinated EU approach to FDI promotion: according to UNCTAD, in 2009, FDI into the EU fell by 28%, following a deeper 40% decrease in 2008. This does not necessarily mean that the EU is losing FDI competitiveness—for example the US experienced a similar decline – but it is still reason for concern. What's clear is that the share of developed countries in FDI inflows has fallen significantly relative to the share of

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[1] See Armand de Mestral, "The Lisbon Treaty and the expansion of EU competence over foreign direct investment and the implications for investor- state arbitration," in Karl P. Sauvant, ed., *Yearbook on International Investment Law and Policy 2009/2010* (New York: Oxford University Press, forthcoming).

developing economies, within a context of shrinking global FDI flows.[2] Moreover, the prospects for the near future are also worrisome; only four EU countries appear among the 15 most attractive FDI locations in 2009-2011.[3] The most attractive country is China, followed by the US; the first EU country is the UK, in sixth position. Besides the necessary reforms to improve the business climate, it therefore seems clear that a more efficient promotion of the EU as a regional bloc would be desirable.

In fact, several initiatives have emerged along these lines in recent years. For example, the European Attractiveness Scoreboard, launched in 2007 as a joint initiative of the governmental IPAs of France and Germany, gives insight into Europe's investment climate and provides a comprehensive overview of Europe's business strengths. The benchmark study compares Europe with competing investment locations, including the US, China, Japan, India, and Brazil, based on a comprehensive range of economic and social indicators.

More recently, the EU chapter of the World Association of Investment Promotion Agencies (WAIPA) has also taken action. WAIPA brings together national and sub-national IPAs from all over the world; its EU chapter, currently chaired by Invest in Spain, comprises all the EU member states except Luxembourg. Invest in Spain has been preparing a first draft of a promotional document entitled “Why Europe?” that has been presented and discussed with the other EU IPAs. This document aims at becoming a marketing piece for the EU as a whole and to serve as an investment guide for international dissemination.

These initiatives should be seen as just the initial phase of intra-EU cooperation, focusing primarily on the elaboration of promotional documents and investment guides. The next (and more controversial) question is whether the EU should further develop common FDI promotion policies and tools. This could be done under the umbrella of an EU IPA, akin to the US’ Invest in America.

Like Invest in America, the EU IPA should focus solely on efforts to promote the EU as a whole. It could develop a website and materials to provide information about the strengths of the EU in different sectors or about the regulatory regime and incentives available at the EU-level. It could provide support to foreign investors, for example helping to find suitable business partners or suppliers or to comply with EU-level competition regulations. It could also aim at stimulating collaboration and synergies among national IPAs, for example by organizing joint seminars and missions abroad. Finally, it could play an important policy advocacy role in Brussels, by suggesting possible solutions to the business climate concerns of foreign investors. It should always remain neutral and refer foreign investors to the different national contact points when asked about specific locations within the EU. This agency would not need a big resource structure; for example, Invest in America operates with around seven employees.

The first priority of common EU investment promotion should be to communicate better the strengths of the EU as a location for innovation and R&D, since many of the recent developments of the so-called European Research Area remain obscure to foreign investors. The EU aspiration to become “the most competitive knowledge-based economy in the world” requires not only encouraging European companies to invest more in R&D, but also attracting the R&D activity of foreign multinational enterprises.

The key challenge ahead will be to balance the natural competition among member states with the need for stronger cooperation to compete better globally as a regional block.

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[2] For a detailed review, see Laza Kekic, ‘The global economic crisis and FDI flows to emerging markets,’ *Columbia FDI Perspectives*, No. 15, October 8, 2009.

[3] UNCTAD, *World Investment Prospects Survey 2009-2011* (Geneva: UNCTAD, 2009).

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