THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

Foreign Direct Investment and Levelling Up in the UK

The Government's levelling up agenda can only be achieved if economic, business, and investment opportunities are spread across the UK. The Levelling Up White Paper notes that by 2030, pay employment and productivity will have risen in every areas of the UK, with each containing a globally competitive city, and the gap between the top performing and other areas closing. It goes on to set the goal that by 2030, domestic public investment in R&D outside the Greater South East will increase by at least 40%. This additional government funding will seek to leverage at least twice as much private sector investment over the long term to stimulate innovation and productivity growth.

"However, while the Paper focuses on leveraging more private sector investment to stimulate innovation and productivity, there is no explicit reference to the vital role that trade and foreign direct investment can play in delivering these opportunities to businesses and regions throughout the country."

New research from Professor Riccardo Crescenzi sets out the role and demonstrable impacts of Investment Promotion Agencies:

- Across Europe, **IPAs focused on less-developed regions increased FDI flows by up to 71%**.
- Investment Promotion Agencies (IPAs) have a strong positive impact on FDI flows when companies look to invest in towns and cities. They contribute to increasing inflows of foreign investment at the extensive margin – i.e. raising the probability of receiving FDI – and at the intensive margin – boosting the amount of total foreign investment received as well as jobs directly created by the investment.
- **Sub-national IPAs working in close proximity to investors are particularly successful at attracting FDI** to areas where market and institutional failures to date are stronger.

Recommendations

1) Smaller 'occasional' investors are more likely to benefit from the services IPAs provide. The research found that even after removing most informational and legal barriers to capital mobility, localised market (e.g. for suppliers or suitably trained workers) and institutional failures remain a binding constraint successfully addressed by regional IPAs".

Recommendation:

Having **dedicated IPAs in less-developed regions** to improve their attractiveness to foreign investors, and, aiming to stimulate their economic development.

2) **IPAs have a stronger capability to address investors' operational day to-day bottlenecks on the ground**. Sub-national IPAs performing targeted investment promotion towards specific sectors have a positive impact on the inflow of FDI. Regional IPAs are local organisations closer to the investor and its surrounding environment, and this proximity makes it possible for them to effectively influence investment operative conditions.

Recommendation:

- IPAs should be seen as a compensation for malfunctioning institutions and inadequate information diffusion mechanisms nationally and this should be factored in to how IPAs work with investors.

3) **Sectors targeted by regional IPAs perform significantly better than non-targeted sectors in terms of FDI attraction**, as investment agencies appear to be effective in their efforts to attract foreign capital in the sectors they identify as most suitable for the development of the region.

Recommendation:

- Investment promotion policies should be focused around the organisational layer closer to the actual investment.

Background:

Research was based on surveys of national and sub-national IPAs in Europe while applying policy valuation methods to estimate the impacts of IPAs on FDI attraction. The dataset made it possible to capture for the first time the full institutional architecture of the investment promotion efforts that is indeed highly diversified across countries.

For more information, please contact Greg Taylor, Head of Public Affairs, at g.taylor1@lse.ac.uk or on 07742 656402