FDI Policy in the EU Countries in the Aftermath of 2008 Crisis

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Abstract

This paper touches upon the foreign direct investment (FDI) policy pursued in the EU in the aftermath of the 2008 crisis and at a time of profound changes: amidst fears of a return to economic protectionism, the growing popularity of reindustrialisation, the shift of FDI-policy-making from the national to the EU level, controversies surrounding the Transatlantic Trade and Investment Partnership and an influx of Chinese capital. By means of a critical literature review and expert consultations, I diagnosed the approaches towards incoming and out flowing FDI that are dominant in the EU. A less friendly political rhetoric has failed to produce concrete changes in FDI policies. The added value provided by the study lies in having assessed trends in the EU's (post)crisis FDI policy without preselecting a focus on specific states. The most popular approach appears to be the ?capital-based model? favouring inflows of new investors while selectively rather than specifically stimulating outgoing FDI.

Index terms— FDI, inward FDI, outward FDI, policy, european union.

1 Introduction

he majority of the studies that deal with foreign direct investment (FDI) in the (post)crisis era concentrate on the magnitude of the declines suffered by individual countries. A smaller proportion of papers focus on the quantitative aspects of FDI (Dorneana, et al. 2012; Hunady, Orviska, 2014; Skovgaard Poulsen, Hufbauer, 2011;Lane, Milesi-Ferretti, 2011). Whereas intra-EU cross-border direct II.

2 General Remarks on FDI Policy

FDI policy can be defined either as a strategy and actions towards such foreign businesses as are willing to establish or have already established operations in a host country (INFDI) or, alternatively, as measures pursued with respect to the most advanced form of foreign expansion by domestic firms which is direct investment (OFDI). There is a wide range of possible approaches that can be taken towards FDI policy. Such approaches may be based on a variety of criteria such as investor origin, FDI type, the mode of entry by existing or new investors, the level of authority at which responsibility and accountability for pursuing a Author: PhD., Economist, Research Fellow and Adjunct Professor, Institute for Western Affairs in Pozna?. e-mails: mgoetz@iz.poznan.pl, martagoetz@gmail.com given policy has been placed, the fiscal, financial, information or promotional measures that have been adopted, the scope of the application of measures (domestic or international) and many others. A cursory literature review has revealed a bias towards INFDI policies. "OFDI policy (?) is generally much more amorphous, diffused, and less clearly delineated in comparison with the policies toward export promotion or inbound FDI" **??**Buckley et al. 2010, p.244). The latter usually encompass three types of incentives: fiscal, financial and other such as infrastructure subsidies. Measures undertaken towards incoming investors may be divided into those dealing with entry and approval issues, operational aspects, including restrictions on e.g. land purchases or the repatriation of profits and capital, regulations on key foreign personnel and equity threshold requirements (OECD). Under one approach to the promotional OFDI policies pursued by governments, a distinction is made between: 1) technical and information assistance to businesses wishing to invest abroad; 2) financial and fiscal incentives; and 3) investment protection instruments (Mistura 2011). Fiscal measures may include accelerated depreciation as well as tax reductions, exemptions and relief. On the other hand, financial support usually takes the form of subsidies, grants, insurance and guarantees. The broad classification of OFDI support policies includes broader steps which might be taken to stimulate the internationalisation and competitiveness of the domestic economy to stimulate OFDI indirectly in the long run (Gorynia, et al., 2013). Current theory and practice offer a range of approaches to the classification of FDI policies. "For the sake of the clarity and feasibility of the investigation, FDI policy should be interpreted in a very narrow sense. However, it is difficult to speak of one universal FDI policy" . As argued by Javorcik (2015), FDI policy is best defined by reference to the foreign element. "The discriminatory criterion used to differentiate between domestic and foreign entities and territories should be decisive for classification purposes. This will make it possible to focus on pure FDI policies. However, given that international agreements basically ban such discrimination, it might be difficult to identify the viable measures". In fact, very little systematic information is available on FDI policies (Golub, 2009).III.

3 FDI Policy in the eu -Legal Regulations

The FDI flows observed in the EU are shaped freely in pursuance with the four basic freedoms that underpin the functioning of the Union. The free movement of capital requires that member states treat investors from other MS seeking to establish and operate businesses in the same way as domestic operators (Art. 49 TFEU, Official Journal C 326). While FDI flows are promoted among members and signify integration, the capability to pursue FDI policy (defined in the traditional sense) independently appears to be rather constrained. The boundaries of the room for manoeuvre afforded to member states are defined mainly by rules on competition and state aid. Articles 101 -106 of the TFEU and the Merger Regulation, including antitrust and merger control and Articles 107 -109 of the TFEU on allowable state aid determine the wiggle room available in the policy. Such legislation bans any discriminatory measures that establish preferential treatment of some entities over others and that potentially attract more foreign investors or create national champions capable of venturing abroad. The European Programme for Critical Infrastructure Protection provides an additional framework for screening FDI (Zhang, Van Den Bulcke, 2014). The EU competition policy constitutes a broad regulatory context for defining investment promotion policies (Medve-Bálint, 2015). The remaining options are in fact limited to institutional matters and general macroeconomic conditions. Following the elevation of investment-policy making to the EU level, as enshrined in the Lisbon Treaty (Art. 207 of the TFEU), the option of individually managing investor relations has been further limited (Chaisse 2015). The Common Investment Policy (CIP) has been fleshed out in several EU documents. In 2010, the European Commission issued a communication on the directions for the EU's future investment policy geared towards smart, sustainable and inclusive growth (COM 2010 343 final). Another Regulation sets up transitional arrangements for bilateral investment treaties (BITs) between EU and non-EU countries (COM 2010 344 final). In 2011, the European Parliament adopted a resolution which notes that the future EU investment policy should promote high-quality investment and positively contribute to worldwide economic progress and sustainable development (Investment Policy Monitor, No. 5). In this light, a country's macroeconomic stability and competitive business environment has become more important than ever. This might imply that traditional FDI policy is being gradually replaced by a more nuanced approach and indirect measures, among other modern industrial policies (Navaretti, Venables 2013;O'Sullivan, et al., 2013). However, even this might be further constrained if measures such as those included in the Euro Plus Pact are adopted and come into force (Götz 2013). In terms of its structure, the article begins by proposing a simple matrix for a possible FDI policy mix. The matrix forms a framework for analyses and discussions. It is followed by a critical survey of selected sources such as research papers, reports, rankings and expert consultations. The review makes it possible to identify the FDI policy mix that prevails in the EU. The paper ends with recommendations.

4 IV.

5 Conceptual Framework, Methodology and Materials

The following matrix of existing polices has been proposed on the basis of a simple approach towards FDI policies which differentiates between investment destinations (Table 1). As a matter of fact, the above-mentioned matrix encompasses various models of economic patriotism which either accentuate the creation of national champions or stress the protection of domestic companies (Clift, Woll, 2012). Each strategy is described by a certain logic which explains why a specific policy mix is regarded to be optimal for a given country. In the states that apply: a) "a double positive strategy", both types of FDI are seen as making positive contributions to the economy. The critical analysis and the subsequent evaluations of (post)crisis FDI policies rely on multiple documents, research papers, databases, rankings and expert consultations.

V.

6 Discussion

This section critically reviews selected sources dealing with overall FDI policies. The survey and analysis helps identify the predominant approach towards capital flows in the form of the FDI observed in the EU in the aftermath of the economic crisis of 2008. The discussion is structured in reference to the new and existing as well as incoming and out flowing investments.

7 a) Policy towards new inward foreign direct investment

International investment policies have been evolving to accommodate the less friendly environment found around 2010 when liberalization measures aimed at mitigating declines rose significantly (WIR 2014). However, in the absence of a universally accepted definition, it is difficult to unambiguously identify protectionist instruments among investment regulations (Investment Policy Monitor, No. 10). The period from November 2012 to February 2013 was marked by a "surge in new investment restrictions and regulations bringing the share of such measures to a new height" (Investment Policy Monitor, No. 9). Fortunately, such proportions changed as overt liberalisation dominated the scene (83% to 17%) (Investment Policy Monitor, No. 12). Nevertheless, with 302 instruments in place, the EU has been ranked at the top of the list in terms of "the number of discriminatory measures imposed since November 2008" (Evenett, 2012). As no single metric exists for evaluating the harm which innovative measures have caused to foreign commercial interests, no single universal database could support a uniform evaluation of FDI policies. Nevertheless, certain rankings and scoreboards exist for assessing the approach towards FDI (Index of Economic Freedom by Heritage Foundation, FDI restrictiveness index by OECD). The evidence collected by the Global Trade Alert (GTA) initiative indicates that, particularly in 2009, certain governments adopted new trade protection measures which affected investment flows (2015). The noteworthy new investment-related instruments include France's 2014 Act on protection against foreign takeovers in various sectors, Hungary's 2012 ban on foreign ownership of land, Italy's 2012 prohibition of the foreign purchase of Ansaldo Energia, France's 2012 liberalisation of rules on the prior authorisation of indirect investments, Italy's 2012 investment protection of companies operating in certain sensitive sectors from foreign takeovers, Austria's 2011 barrier to non-EU/EFTA investments in enterprises of public interest, Italy's 2011 case of protecting Italian companies from foreign takeovers, Germany's 2009 review of foreign investment on national security and public policy grounds (2009) and Cyprus's 2009 investment incentives in the tourism sector. Only the French approach may be viewed as being entirely FDI friendly.

The highest proportion of population that opposes trade and foreign investment can be found in advanced affluent countries (Faith and Scepticism, 2014). Germans are the most vehemently opposed to having their domestic businesses acquired by foreign undertakings: almost 80% view such takeovers as harmful. What may come as a shock is that the majority of protectionist measures are adopted by the governments of advanced and relatively wealthy economies. "The average GDP of countries which have adopted such measures is more than 30 times higher than that of the average country that did not" (Görg, Krieger-Boden, 2011). The list of "the countries with have adopted such measures" includes, without exception, all 28 EU members states" (Görg, Labonte, 2011).

In the EU, FDI streams are tied closely to other developments and flagship projects such as the Single Market or, more recently, the Banking Union (SWD 2014). Mindful of the role played by capital movements in the recent crisis, the EU Commission began in 2012 to issue documents as part of a broader exercise of monitoring capital movements (SWD 2012). The Commission's goal was to oversee derogations from rules governing the free movement of capital, mainly in relation to farmland acquisitions, investment hampering measures such as privatisation provisions, special rights relegated to the state in privatised companies, the strategic control of foreign investment and real estate law. The Commission Document names three member states which, in 2014, either adopted or amended their legal frameworks regulating capital flows in selected sectors (SWD 2015). Portugal, France and Italy implemented measures that reserved to the state special powers with respect to companies which carry out strategic activities or which own strategic assets. UNCTAD reports cases of "covert" protectionism such as "invoking national security considerations" or moving protectionist barriers to subnational levels at which international obligations no longer apply" (WIR 2009).

The recent influx of Chinese OFDI into the EU poses a major challenge for INFDI policy. It requires "the politics of hosting Chinese investment" . Governments are unsure whether to view Chinese capital as "an opportunity having the potential to benefit both the investor and the investee or rather as a Faustian bargain in which capital comes with implicit conditionality affecting European norms and policies" . While the benefits of Chinese OFDI are bound ultimately to outweigh its costs, it will take a truly coordinated European response to deal with the potential danger (Meunier 2012). The perceived imbalances in China-EU relations pertaining to mutual openness call for a review of the approach relying on a new and dynamic international investment regime (Gavin 2012). The EU should not rule out adopting a properly-designed and more selective policy towards incoming Chinese investors (Kompa 2015). A similarly high level of insecurity surrounds investments by sovereign wealth funds controlled by home country governments and frequently conducted for noneconomic reasons ??WIR 2008, Heinemann 2015). This explains the controversies surrounding the FDI which SWFs have made in many advanced economies. The public sentiment against privatisation combined with SWF activities has often provoked protectionist rhetoric. The crisis has shown that in approaching incoming investors, one should weigh the possible benefits and costs more carefully before offering incentives (Costa, Filippov, 2008).

7 A) POLICY TOWARDS NEW INWARD FOREIGN DIRECT INVESTMENT

Incoming investors will certainly be affected by the Transatlantic Trade and Investment Partnership (TTIP) which is currently under negotiation. However, experts differ in their opinions on the potential benefits of the Agreement (Poulsen, et al. 2015;Baetens 2015). Theoretically, the Agreement should help promote investment and improve the protection approach. Yet, none of the available studies justify the claim that the upcoming Agreement will make the country more attractive.

The two modes should certainly be distinguished with respect to incoming FDI. Whereas greenfield projects are usually welcome, the attitude towards M&A tends to be more ambiguous. Recent deals in the pharmaceutical sector (Astra Zeneca-Pfizer) or the multi-utilities industry (Alstom-General Electric / Siemens) highlight such controversies (Naczyk 2015). This "neo-Colbertist" idea of seeing state intervention as a prerequisite for securing the largest part of limited resources, has been revived lately in association with M&A attempts where issues of nationality of capital and national interest are at the forefront ??Doering, 2014;Veron, 2014). As a matter of fact, the primary way in which developed economies attract FDI is via M&A. In the last 25 years, mergers between companies from the same EU country represented around 50% of all merger deals. 18% of them were cross-border mergers completed within the EU, while the remaining deals involved non-European companies. Since the outset of the 2008 crisis, cross-border mergers tended to be less frequent than those involving non-EU companies, reversing the past trend (Mariniello, 2014). The majority of foreign takeovers are associated with potential harm to the national economy as foreign investors' interests are not trusted to align with host country needs (Mariniello 2014). A thorough literature review points to the fact that "factors other than the ultimate owner's nationality are of relevance in predicting the impact of a merger on a national economy." Empirical papers deliver inconsistent findings with results that vary by country, industry and time of observation. Nevertheless, (post)crisis sentiments prevent cross-border consolidation and make mergers rare (The Economist, 28.03.2015).

Judging by the fierceness of competition among investment promotion agencies (IPAs), the need to attract new foreign enterprises seems to be as valid as ever. However, due to the complexity of current cross-border investments, many IPAs have been forced to turn to private consulting companies for advice to respond adequately to the growing volume of FDIs originating in emerging markets (De Beule, et al., 2011). According to the information gathered first-hand from IPAs, after a certain degree of fine-tuning, pre-crisis policies are being continued to meet the demands of fast growing markets and high-value-added sectors. In the meantime, there is also institutional reshuffling with greater emphasis being placed on economic reforms. The surveyed representatives of European IPAs have indicated that, by and large, FDI policies remain largely unchanged. The modifications that are being adopted result from initiatives launched years ago, which have been implemented consistently in response to other global challenges rather than particularly in connection with the 2008 crisis. Considering that foreign investment has the effect of boosting host economies and that the competition among host countries has grown, it might actually be harder to attract new businesses. The consequence is a certain scaling up of resources and more investment-friendly publicity. Turbulence in financial markets has indisputably hampered the volumes of cross-border investment without affecting the general approach or governing principles. This is certainly true at the operational level of IPA activities since some more decisive voices might be heard in the public discourse. Such voices are both supportive and critical of FDI, which is seen as a liability. All in all, it is "business as usual". Furthermore, a certain convergence can be observed among European IPAs with respect to the priority markets, sectors or the instruments applied. Modifications, if any, are part of broader trends originated long before the crisis erupted. More flexible and welcoming attitudes apparently promoted in some member states are accompanied by other countries' legislation that is potentially more restrictive. There is an evident dichotomy in post-2008 investment policies oriented at both liberalization and regulation (Investment Policy Monitor, No. 4).

Crisis-induced austerity measures may trickle down to FDI policy simply by reducing the available funds and requesting a smarter resource allocation. "The changes of funds at the disposal of IPAs must not mask the fact that incentives are but a one of the factors that affect a region's attractiveness. There is an unjustified tendency to overplay their role. (Liebrechts, 2015). While the level of funding and headcounts in some European IPAs have gone up, others have posted a decline. The budget cuts experienced by three out of twelve IPAs investigated by Ecorys (2013) might suggest that inward FDI policies are changing. On the other hand, such an interpretation must not be overestimated. IPAs simply implement the macroeconomic strategies adopted by parliaments and governments operating as parts of the overall FDI system. Quite paradoxically, Greece, a country which has found itself in a shambles after the financial meltdown of 2008, views foreign investors with scepticism. Its mistrust applies not only to mergers and acquisitions but even to greenfield FDI. On the other hand there is the case of Ireland which, aware of its own dependency on foreign investors, did its best to convince foreign supervisors (the Troika) that its harsh austerity programme should nevertheless spare the instruments that attract FDI. A concerted effort helped the country not only to retain its existing investors but also to attract new ones (Liebrechts, 2015). The German case deserves particular attention. The country's market potential, well-educated workforce and modern technologies make it an attractive location for various kinds of FDIs even without additional efforts and active promotion. This notwithstanding, many SMSs in Germany suffer from the growing problem of lacking successors. The challenge might be alleviated by Chinese enterprises which are on the lookout for acquisition opportunities. The German organizations responsible for promotion seek to facilitate such succession to ensure the survival of Germany's domestic enterprises. More focused forms of assistance also feature high on their agenda. "Bavaria, for instance, relies on clusters targeting any gaps in the region's value chain".

Due to limited room for manoeuvre in policy making and binding international agreements, the post-2008 FDI policy has remained largely unchanged (Javorcik, 2015). Besides, policy modifications could never be justified on economic grounds. MNEs are associated with higher productivity, a better-paid workforce, being a driver of competitiveness and having a better ability to weather crises (Helpman, et al., 2004;Alfaro, et al., 2006;Blalocka, Gertler 2008). The deficiency of the nationalistic discourse lies in ignoring such benefits or failing to recognize arguments to the contrary.

Certain potential changes to FDI policy are driven not as much by the crisis as by changes in ruling parties as new governments are known to alter the course of prior policies (Torres 2015). Thus, it is not the crisis itself but rather the new team replacing a toppled government that modifies FDI policies.

In the case of new INFDI, the (post)crisis environment undermines the need to account for FDI modes, countries of origins, FDI types and the targeted sectors. Recent debates have focused on approaches to M&As (which are less friendly, if not hostile, than those towards the usually welcome greenfield projects), scepticism towards the influx of Chinese companies and the preferential treatment granted to strategic sectors. The crisis has shown that economies do not necessarily benefit from welcoming all investors. Thus, inward investment policy needs to be coupled with clearly defined and important national economic goals.

8 b) Approach towards existing INFDI

The 2015 GTA report identified 18 investmentrelated measures taken by states during the global downturn that are likely to affect foreign commerce. The noteworthy measures that concern the existing investors include the Netherland's nationalisation of the bank SNS REAAL and the expropriation of its shareholders without compensation (2013); Austria's imposition of a cap on bank lending to the CESEE region (2011), French government's pressurizing of Philips to preserve jobs in Dreux (2010) and of Total to preserve jobs in Dunkirk (2010); the tightening of FSA's grip on international banks in the United Kingdom (2009), and finally, Germany's nationalisation of the Hypo Real Estate bank and its expropriation of minority shareholders (2009).

The future positions of the investors who have already been active will be influenced by the final shape of the TTIP. The EU member states are exposed to threats stemming from the investment clauses incorporated into the TTIP. The risk is that less room for manoeuvre might be available for host countries' legislative and executive decision-makers vis-a-vis foreign firms. Dispute settling by investment tribunals adjudicating in investor state disputes would most likely involve additional costs (Poulsen, et al. 2015). However, the same will actually benefit investors who may enjoy more privileges.

Governments worldwide have been engaging in competition not only for FDI but also for retain such investment on their soil (Filippov, Kalotay, 2009). Therefore, investment policy should be better aligned with state industrial policy (Guimón, Filippov, 2012). The range of tasks allotted to IPAs has evolved from a focus on maximising the inflows of new investments towards nurturing the qualitative evolution of established subsidiaries. Mere FDI increases in response to capital shortages as well as reliance on foreign investment to drive economic transition, as is typical in the quantitative approach, needs to be complemented with a qualitative approach to subsidiaries. Competition among countries to attract research and development (R&D) carried out by multinational enterprises has increased substantially in recent years (Guimón, 2008). The cases of Spain and Ireland show that efficient promotion of R&D-intensive FDI requires closer links between innovation policy and the furthering of inward investment. The approach requires greater emphasis on after-care and a focus on supporting the transition of existing foreign investors rather than attracting new greenfield R&D projects.

One should focus on the interplay between industrial and investment policies. As can be seen at the national level, specific investment guidelines have been developed to target certain types of investors and advance industrial development while incentives are being offered to certain industries, activities or regions. FDI restrictions can be harnessed for industrial policy purposes to protect infant industries, national champions, strategic enterprises and ailing domestic sectors (WIR 2011).

Changes in attitudes towards foreign investors, which were feared in the aftermath of the crisis, may also be mirrored in legal procedures brought to courts under the Investor State Dispute Settlement (ISDS) regime (IIA Issues Note, 2014). Concerns have also been raised of abuses by foreign investors on the one hand and discriminatory steps by states on the other. 32 of the ISDS claims made in 2009 did not relate to state measures taken in response to the financial and economic crisis (IIA Issues Note, 2010). 25 new cases were brought under the ISDS in 2010, 46 in 2011 and 58 in 2012 (IIA Issues Note 2011, 2012). For the first time this year, UNCTAD noted that some such cases have their origin in the recent financial crisis and the ongoing economic recession (IIA Issues Note, 2013). 57 cases were submitted in 2013 and 42 in 2014 (IIA Issue Note 2015). The examples quoted referred to "a pair of Chinese investors who brought an ISDS claim against Belgium relating to that Government's treatment of Fortis, and a Cypriot bank which notified its intention to initiate arbitration proceedings against Greece in connection with its bank's bail-out programme. A number of claims or threats to make them have been made against the governments which have introduced austerity measures affecting renewable energy producers. Italy, the Czech Republic and Spain have been put on notice with respect to possible arbitration procedures regarding those countries' withdrawal of subsidies for solar energy, which they had adopted during more favourable economic climate." The majority of ISDS claims, which could be viewed as proxies for "hostility and restrictiveness" towards incoming FDI, result from measures adopted to combat the crisis.

The European countries hit by the crisis actively seek to retain foreign investors and prevent their outflow (Investment Policy Monitor, no. 11). High domestic unemployment and falling output has convinced France, among other countries, to adopt "a bill imposing penalties on companies that shut down operations deemed economically viable. The law requires businesses employing more than 1,000 employees to prove they have exhausted all options of selling their plant before closing it".

The policy towards the existing INFDI cannot be defined clearly. While there are cases of hostile approaches including nationalisation and expropriation without compensation, many host countries seek to retain investors and occasionally even compel them to continue their activities and prevent divestment. At times, conflicting actions are taken towards active foreign companies. Such actions are accompanied by normative calls by scholars and experts who stress the need for upgrading existing foreign subsidiaries and adopt rules that put quality before quantity.

9 c) Policy towards new outward foreign direct investment

"The best proof of the support provided for outward FDI is the proliferation of international efforts (such as TTIP) aimed primarily at increasing outward FDI" (Bellak 2015). There is a growing tendency to support the foreign expansion of domestic enterprises by simplifying approval and other administrative procedures, or incentivizing outward foreign investment through preferential tax treatment (Investment Policy Monitor, No.1). Nevertheless, there is interesting evidence to the contrary of sanctions adopted by the EU in 2014 in connection with the annexation of Crimea. "The sanctions prohibit a broad range of investment in Crimea and Sevastopol" (Investment Policy Monitor No. 13).

"Economic diplomacy has become a buzzword in most EU Member States" (Dhéret, et al., 2014). The negative consequences of the economic crisis have highlighted the need to invest in the new hotspots of global growth. "Almost all European capitals are promoting their commercial interests abroad, through diplomatic channels, multiplying high-level missions to emerging economies, creating new bureaucratic structures at home for coordinating foreign commercial policies, as well as upgrading consular posts in Volume XV Issue VIII Version I 6 ( ) emerging economies, tasked with business-supporting assignments" (Frontini, 2012).

EU governments also seek to repatriate their own companies (Investment Policy Monitor, no. 11). Greece has passed a law that makes it more difficult for Greek companies to transfer their head offices abroad. "An amendment to the Greek equity markets law requires that shareholders controlling 90% of a company must agree to a transfer which results in its delisting from the Athens Stock Exchange and listing outside of Greece". A case has been reported where a government put pressure on one of its domestic companies not to invest abroad in order to keep jobs at home (Investment Policy Monitor, No. 2).

The policy towards outward FDI shall draw on clever off shoring and knowledge sourcing FDI (Branstetter, 2006). Increases in the competitiveness of domestic companies require subtle support such as off shoring investments, which enable businesses to climb up the value-added chain, and knowledge sourcing investments which facilitate learning by domestic companies.

Mindful of restrictions on the application of certain measures, policy makers are advised to regard OFDI policy primarily as safeguarding conditions at home that are conducive to doing business (Rombaldoni, 2012). Studies by Ratten, et al. (2007) revealed that public policies, along with various other factors, do indeed affect the internationalisation of SMEs. This kind of foreign venturing seems to dominate and overshadow any discussions regarding OFDI support policies.

Given the scarcity of literature dealing with OFDI policies, the results of an international project devoted to Visegrad countries might provide certain insights (Elteto, et al., 2015). A study on crisis-induced changes in the OFDI policies pursued by Hungary, the Czech Republic, Poland and Slovakia have revealed no particular shifts in this respect. Global financial turbulences do not appear to have had any significant impact on the course of action pursued towards OFDI. Rather, the policy's modifications, if any, have resulted from general global trends. What stands out, however, is the dominance of export promotion as a less advanced form of foreign expansion with only minor attention, bordering on neglect, being paid to OFDI. The assistance that has been offered seems to target particularly SMEs. This is evident not only from the nature of the authorities assigned to helping smaller entities but also from the conditions attached to potential support, which practically exclude larger companies. Besides programmes explicitly focusing on distant markets such as the Polish initiatives "Go Africa" and "Go China", remote markets do not seem to be given priority in the national OFDI policies of V4 countries. The results that have been obtained, albeit scarce, suggest there is room for improvement in the design and implementation of OFDI policies. The majority of the companies that have used state aid have complained mainly about restrictive and arduous bureaucratic procedures.

The marginalisation of OFDI policies is also evident in a number of recent institutional decisions adopted in certain EU states which stress the auxiliary role of such FDI. Mergers have been reported of institutions in Sweden and Finland which had previously dealt with IN and OFDI separately. In the Netherlands, the policy on domestic companies and their international expansion has been reoriented to "reduce the number of subsidies (2012), and concentrate efforts on economic diplomacy" (Marrazza, 2014). Dense foreign mission networks have emerged committed to liaise with overseas governments to address such issues as market access and restrictive rules.

Besides, official development aid has been aligned with fostering Dutch business (Liebrechts, 2015). Germany actively pursues a policy of stimulating outward investment (Ulatowski, 2012). The recent imitative "Offensive for economic expansion" covers the four areas of better political support for German companies, better use of the available instruments, less red tape and a better legal framework. The German system seeks to identify sectors that offer the greatest potential, that are the most promising and in which domestic companies are well entrenched and achieve best performance (pharmaceutical industry, biotechnology, renewable energy). A special offer has been provided to enterprises that move into developing markets in which foreign competition remains negligible. Such support aims at creating a significant pre-emptive advantage. Special attention is paid to businesses which have not previously ventured abroad. The aim is to get as many German companies as possible to go international.

While certain European countries are embarking on a policy of supporting OFDI, the internationalisation strategies of most states seem to have relegated such advanced forms of support to an auxiliary role while prioritizing exports. Economic diplomacy has also been receiving ever more media coverage. Nevertheless, the internationalisation of businesses seems to be biased towards support for exports and assistance to foreign venturing SMEs.

10 d) Attitude towards existing OFDI

In countries mired in the crisis, OFDI has become a politically sensitive issue prompting calls for the return of domestic companies from abroad. The president of France urged French automakers to locate their plants at home rather than the Czech Republic (Clift, Woll 2012). The controversies raised include tax base erosion and transfer pricing. Large TNCs are known to strive to avoid transferring profits back and to apply sophisticated "tax management" practices. "Double Irish With A Dutch Sandwich" is the most prominent technique involving the use of a combination

11 E

of Irish and Dutch subsidiary companies to shift profits to low or no tax jurisdictions (http://www.investopedia.com/terms/d/double-irish-with-a-dutch-sandwich.asp).

As a result of the global downturn, MNEs have also started restructuring their operations worldwide. They redesigned their production and reduced or closed less important activities (Filippov, Kalotay, 2009). The pressure to maintain foreign subsidiaries applied by host governments has been offset by home countries' attempts to force their domestic companies to reshore. The crisis only exacerbated the need to address the problem of shrinking tax bases, dwindling employment and tax evasion and avoidance.

The findings regarding the economic impact of OFDI on the home countries are unclear. Such impact may certainly explain the marginalisation of OFDI policies. While several studies claim that off shoring and OFDI might move home countries up the value chain and in fact create more valuable jobs, recent evidence seems to suggest that OFDI is more likely to transfer jobs abroad since jobs follow production with an only negligible role being played by potential profits gains (Roberts, 2013). This might explain the scarcity of strategies officially supporting OFDI and the number of advocates of reshoring.

All in all, the interest in FDI and the scopes of FDI policies are clearly biased towards incoming investors. The benefits of hosting foreign enterprises are much more obvious and better evidenced than those of exporting one's equity. Besides, new entities receive considerably more attention than their existing counterparts. As of to date, attracting new foreign companies has been seen as more important, politically beneficial and strategically significant than securing, retaining and nurturing existing foreign investors. OFDI policies seem to be closely convergent across countries. By default, member states favour open access and (post)establishment protection for their investors abroad . Member state approaches in this sense and towards incoming FDI hardly differ from one another. Regardless of some recent FDI policy modifications, one should note that "international investment law and policy regimes increasingly set parameters for national FDI policymaking" effectively limiting the room for national policy measures .

12 VI.

13 Conclusions

The aim of this study was to document the crisis-triggered changes to outward and inward investment policies. There appear to be gaps in the existing research as the majority of papers discussing FDI in the context of the current economic downturn focus on the magnitude of declines in international capital flows. Current policies are derived from the underlying perceptions of international capital flows. Such policies vary depending on whether OFDI is seen as a factor for draining the country of precious capital and jobs or as a booster of the national economy and the country's competitiveness and a way to create home-grown multinationals and TNCs and whether INFDI is viewed as a factor for creating the desirable capital and jobs or as unwelcome competition and a threat to domestic businesses. As shown in the matrix above, I propose to group countries by the following four FDI policy profiles:

? The capital-based model -stands for pursuing policies based on the premise that FDI will bring the required capital.

? The competition / competitiveness model -based on the belief that foreign investors will distort domestic businesses and that such businesses need protection to succeed in foreign ventures.

? The open / international, benefit-maximisation model -based on the presumption that FDI is associated with numerous benefits which need to be maximized.

? The closed, loss-minimisation model -based on the assumption that both kinds of FDI harm the economy and should be curtailed.

The above four strategy models may in fact become more subtle and involve preventing or stimulating selected investments in specific industries or those originating in particular countries.

Due to the patchy and unsystematic nature of the available data, one can only speak of the "EU dominant" or "the most common" combination. The information gathered suggests that the most popular model is the "capital-based" approach which favours the inflows of new investors while selectively and nonspecifically stimulating outgoing FDI. To accumulate the desirable capital, states have begun to prevent divestment and stimulate reshoring of domestic businesses. All in all, the majority of countries seek to retain foreign investors or promote the repatriation by domestic ones in an attempt to accumulate capital (Investment Policy Monitor, No. 11). It would be counterproductive to discourage inward investment at times of economic crises when individual countries need more rather than less capital (Karl, 2014). Certain countries seek to discourage FDI and relocate the underlying capital back home (WIR 2014).

While it is difficult to identify a clear dominant trend in the FDI policy pursued by the member states, it is considerably easier to describe the desired courses it should take. Normative expressions seem more common than pure facts. Outward policies should be guided by the multiplier and spillover effect rather than trade-offs. In promoting the foreign ventures of a specific company, one should seek to stimulate the growth of as many domestic businesses as possible rather than letting a single company simply relocate abroad at the expense of its home operations. One needs to minimise the risk of industries and employment being hollowed out by the negative effects of OFDI. In the case of IFDI, an effort is needed to ensure that new foreign ventures do not crowd out domestic companies. Policies should firmly embed existing investors, strengthen their links with local ecosystems and ensure that the benefits they produce trickle down to the local economy. Meanwhile, one needs to avoid the trade-off effect in outward investment and the crowding-out effect in inward investment.

The crisis of 2008+ appears to have brought about a real change in global FDI flows making the political rhetoric more aggressive and less friendly. Nevertheless, such altered attitudes have not translated into concrete changes in FDI policies. The enthusiastic support for the revival of industrial policy and the mass media admiration of the new activism, including tacit protectionism and nationalistic rhetoric, are disproportionate to the actual changes in policy variables taking place on the ground. Economic patriotism may characterise both the discourse and the practice without the two necessarily coinciding (Clift, Woll 2012; Rosamond 2012). Even if there have been cases of additional post-crisis measures, they were never followed by a comprehensive reform of the entire FDI policy. The selective targeted actions that have been observed have never translated into a general shift in the policy mind-set.

The main added value of the study lies in assessing the dominant trend in the EU's (post)crisis FDI policy. Such a policy has a number of obvious limitations which results mainly from the pervasive lack of good proxies for FDI policy and the general difficulties with measuring it. The paper appears at a time of profound changes. Firstly, faced with meagre growth in the aftermath of the crisis, politicians have revived economic patriotism and protectionism opening the door for the growing popularity of reindustrialization. Secondly, governments see the return of industry as an opportunity to overcome the decline of their mature and aging economies at the risk of secular stagnation. Thirdly, FDI policy has been shifting from the national to the supranational level consequently falling with the exclusive remit of the European Commission. Fourthly, the currently negotiated TTIP seems to be a real game changer affecting the FDI landscape. Although its precise impact remains unclear, it is expected to be profound. Finally, the unprecedented influx of Chinese investors poses a great challenge. The added value of this research lies in its scope which extends to the entire European Union with no specific member states being preselected. The study goes beyond inward FDI policies, which are dominant in literature, as it extends to OFDI policies. Although the research agenda has been geared towards positive conclusions based on the evidence gathered, certain general normative conclusions have also been drawn.

14 VII.

[1] [2]

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[2] ()

Figure 1: FDI

1

+OFDI & +INFDI	-OFDI & -INFDI
Stimulate foreign ventures, do not expect active companies to return, attract new firms, promote reinvestment and prevent divestment	Discourage local companies from venturing abroad, promote reshoring of companies that are active abroad while hampering inflows of new companies and encouraging divestment
+OFDI & -INFDI	-OFDI & +INFDI
Stimulate foreign ventures, do not expect active domestic companies to return, hamper inflows of new companies and encourage divestment	Discourage foreign ventures by local businesses and promote reshoring of the companies that are active abroad, meanwhile attract new businesses, promote reinvestment and prevent divestment
Own postulate	

Figure 2: Table 1 :

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