Over the past two decades, intra European foreign direct investment (FDI) has grown faster than its counterpart in any other region of the developed world. Inter alia, this is the direct result of the completion of the European Internal Market, and of a galaxy of investment incentives offered by individual European countries and/or sub-national authorities within the European Union (EU).

In the main, the authors of this timely and extensively researched volume tend to look upon these incentives as among the more significant location specific determinants in a race among European countries to attract inward FDI to their borders. Indeed, they present quite persuasive evidence to support their case. At the same time, reading between the lines, I sense that most contributors also believe that the dominant reasons for the growing attraction of the European Union (EU) to foreign investors have been, first, the implementation of more general competitive enhancing macroeconomic and micro management policies, by both the European Commission and individual European countries; and second the strategies of European and non European firms towards international merger and acquisition (M&A) activity. Between 1990 and 2000 for example, the cross border sales of EU based firms rose 9.5 times from $62 billion to $586 billion, compared with that of all developed country firms of 7.9 times.

Nevertheless with these and one or two additional caveats, I liked this volume very much. In particular I appreciated its contents for two reasons; and, these apply equally to the three parts of the volume, which deal respectively with the investment conditions in the European Union, and separate discussions on the role of incentives influencing inward FDI from different countries, and in different sectors.

I first liked this volume for its comprehensive description of the range of incentives offered by both the EU and its constituent member states. Some of these are directed to all firms; some more specifically to inbound investors. Thus, in Part 1, the editors neatly summarise the fiscal and other inducements offered by individual European countries, while, in his chapter, Philippe Gugler sets out a detailed and careful documentation of the incentives initiated under WTO rules. In Part 2, Christian Bellak presents a well argued analysis of how the recent enlargement of the EU has affected the inflow of both intra and extra EU FDI.
Second, the volume appealed to me because it bravely tackles a number of unfamiliar – or under-researched - areas – in international business. Examples include Sarianna Lundan’s wide-ranging discussion of environmental issues, two original and well written studies of the airline and retailing sectors, a fascinating analysis by Michael Rafferty and Roger Ham of the interface between Australian FDI in Europe, the international capital market and cross border M&A activity, and a well constructed and informative chapter on the race for FDI by the Baltic States and Central and Eastern European. I also appreciated the attention given to the relocation of foreign affiliates by Andrew Delios in his appraisal of Japanese FDI in the EU. On each of these counts – and indeed on several others – this is a volume, which brings together some of the papers first presented at a conference in Molle, Sweden in May 2002), which deserves to be widely read.

Now to my caveats – or, perhaps, it would be more correct to say, my suggestions for further research.

First, while I concede that individual European countries - like States in the US - actively compete for FDI, I believe the main focus for considering the reasons for its recent upsurge should be on the content and efficacy of the institutions and policies of both national governments and the EU in their efforts to stimulate and improve the competitiveness of both domestic and foreign outward enterprises.

Second, I believe, as well as issues of quantity of FDI, more attention needs to be paid to the quality of the kinds of activities and functions engaged in by MNEs. In their chapter on the peripheral EU countries e.g. notably Ireland and Portugal, Ana Teresa Tavares and Stephen Young make a valiant, and for the most part, successful attempt to do just this. So, indeed, does Thomas Anderson in his review of the role of information and communications technology (ICT) in affecting the spatial distribution of FDI in the EU. I also gained a lot from the views of Pontus Braunerhjelm on the motivations for the location (and relocation) of the headquarters of MNEs. At the same time, I was a little disappointed that not more attention was given in the volume to the role of incentives in widening and deepening of the innovatory activities of inward investors.

Third, while I accept that it was not the purpose of the editors to identify or evaluate the purposes and the effects of inbound FDI, I found myself frequently asking the question ‘How can one design an appropriate set of policies towards FDI – or indeed any sort of investment promotion policy – without having some idea of what the FDI is intended to achieve, and what are its likely costs and benefits?1 Perhaps Professors Oxelheim and Ghauri might like to address this question in a follow-up volume?

Fourth, since intra-European FDI implies that there must be a European outward as well as a European inward FDI, should not, at least, some attention have been given to the determinants of (or race?) for outbound MNE activity? Or, widening the geographical frame of reference, hasn’t a considerable amount of the acquisition of US firms by European firms in the 1990s been specifically designed to acquire new, or augment the latter’s existing, competitive enhancing assets?

Fifth, and related to the fourth point, in evaluating and discussing the role of incentives, I think it important to distinguish between how these may affect different types and functions of inward investment – and particularly between those designed to exploit the ownership advantages of the investing firms, and those intended to acquire new advantages – possibly at the expense of their indigenous competitors. In his chapter, Peter Buckley offers a useful model of understanding the interface between different forms of asset exploiting FDI. Such a model needs to be extended to incorporate asset augmenting FDI.

Sixth, while several chapters (and especially Mike Bowe’s interesting review of capital market developments in the EU) touch upon the role of country or region specific incentive structures and enforcement mechanisms in influencing inward FDI, I would urge researchers to direct more attention to their competitive enhancing role. Several recent studies, for example, have shown institutional capability to be a critical component of the locational pulling power of Central and East European economies. What, if anything, have the more advanced European countries done to improve the quality and content of their institutions? What exactly should they be doing?

Seventh, I would recommend that, in future studies of the role of incentives in attracting FDI into Europe, more explicit consideration should be paid to the evolving global and regional strategies of MNEs. In fact, while, this issue is touched upon in this volume, - the chapters by Braunerhjelm, Tavares and Young (already mentioned) and Philip Molyneux on the banking industry are three examples, I believe that it needs more explicit incorporation into any attempt to evaluate the efficiency of incentives.

Eighthly, one lacunae I particularly noticed in this volume was the limited heed given to the role of joint ventures, non-equity strategic alliances and networks as modalities for seeking the created assets normally transferred through MNE hierarchies. Surely it is reasonable to ask ‘when is one modality to be preferred to another’ or, are the incentives required to attract a 100% or majority owned FDI the same as, or similar to, those required to attract a minority FDI? Only in the chapters on the Baltic
States and the banking industry are these issues addressed head on.

Finally, what, I wonder, are the findings of these studies for the received paradigms or theories of FDI and MNE activity? Again, while several authors, notably Thomas Hall in his chapter on political risk and FDI, and Perez Ghauri, Ulf Elg and Rudolf Sinkovics in their study of FDI in the European retailing sector, attempt to underpin their empirical evidence by reference to some kind of analytical model, I would have welcomed a concluding chapter which attempted to do just that!

But, as I have said, these reservations are perhaps to be better regarded as a (partial) agenda for a further edited volume by the authors. For it would be churlish for me not to end on a positive note, and to congratulate both editors and contributors on a fine collection of essays, which deserve careful study by all IB scholars.

References


Endnote

1 This question is well explored in an interesting recent paper, by Sung-Hoom Lim (2005).