

Beyond Attraction. Does investment promotion work for FDI retention and expansion?

(join paper with Marco Di Cataldo, Mara Giua & Juan Alvarez-Vilanova)

Riccardo Crescenzi

London School of Economics

r.crescenzi@lse.ac.uk

Abstract

Under the surface of stagnating new FDI flows, divestment and expansion of existing foreign activities have maintained a remarkable dynamism over the past two decades, reflecting the ongoing restructuring of key value chains. This paper aims to shed new light on this process of global capital re-allocation by analysing foreign expansions and divestments in Europe. In particular, the paper looks at the role of national and regional Investment Promotion Agencies (IPAs) that have become an increasingly common public policy tool to attract and retain foreign investment. The paper leverages an ad-hoc survey on the structure and strategy of national and regional IPAs in Europe and a new dataset on foreign expansions and divestment. The empirical analysis, based on difference-in-difference models with staggered treatment adoption, exploits the variation in sectoral targeting by IPAs in different European regions, to test whether the strategic targeting of key investment sectors contributes to the expansion and retention of foreign activities. The results suggest that both national and regional IPAs have a positive impact on investment and employment in targeted sectors but with highly heterogenous effects depending on the radius of action of the IPA, its proximity to the investors and their sector of activity.

Keywords: Foreign Direct Investment, Foreign Expansions, Divestment, Industrial Restructuring, Investment Promotion Agencies, Less Developed Regions.

[Riccardo Crescenzi](#) is a Professor of Economic Geography at the London School of Economics and Political Science (LSE), UK. He has been a European Research Council (ERC) grant holder, leading a major five-year research project on foreign direct investment (FDI) e global value chains (GVCs). He is currently the LSE Principal Investigator of a large collaborative research project funded by Horizon Europe and UK Research and Innovation (UKRI) on inequalities in the era of global megatrends.

Riccardo has been a Jean Monnet Fellow at the European University Institute (EUI), a Visiting Scholar at the Taubman Centre at Harvard University, and at the University of California—Los Angeles (UCLA), as well as an Associate at the Centre for International Development (CID) at the Harvard Kennedy School of Government.

Riccardo has a long track-record of teaching and research in regional economic development, innovation, FDI and GVCs, and in the analysis and evaluation of public policies. This research is published in top peer-reviewed journals in economic geography, international economics and international business and management and widely cited in academic and policy circles. His most recent book "[Harnessing Global Value Chains for Regional](#)

[Development](#)" (2023, Routledge) explores how regions, cities and clusters can build, embed and reshape global value chains for local enhancement