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Inward Foreign Direct Investment Promotion – A Review of Policy Rationales and Impacts

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Abstract

We review the extant research on the government inward foreign direct investment (FDI) policy interventions, concentrating on investment promotion agencies (IPA). Based on the research literature, the review synthesizes inward FDI policy intervention rationales and economic justifications for the intervention, impact evaluations of inward FDI interventions, and current forms and mechanisms of inward FDI promotion.

We identify three distinct market failures in attracting FDI justifying public intervention to support FDI: (1) transactional and structural imperfections in the host market to attract FDI of multinational enterprises (MNE); (2) failure to incentivize firms in the home market in attracting inward FDI; and (3) firm constraints in engaging with foreign MNEs. Furthermore, policy interventions are justified due to FDI generates positive spill-over effects to local firms and valuable firm, industry, region, and economy level additionalities from public interventions.

Policy interventions facilitating FDIs amplifies spillover-effects on host market firms, especially through increased productivity. Digital infrastructure and platform economy conditions in sectors, reduce transactional and structural imperfections. These advancements also foster more rapid and wider spillover effects. However, they also impose new imperfections in markets with respect to FDI.

Tiivistelmä

Katsaus ulkomaisten investointien edistämisen oikeutukseen ja vaikutuksiin

Raportissa esitetään kattava synteesi julkisen sektorin ulkomaisten yritysten investointien edistämisen oikeutusta ja vaikuttavuutta käsittävästä tutkimuskirjallisuudesta. Katsaus keskittyy ulkomaisten investointien edistämisen oikeutukseen, taloudellisiin perusteisiin, vaikuttavuusarvioon ja edistämisen muotoihin.

Tunnistamme kolme erillistä markkinavirhettä, jotka oikeuttavat julkisen sektorin ulkomaisten investointien edistämisen. Ensinäkin, markkinat eivät houkuttele tehokkaasti kansainvälisten yritysten investointeja kohdemarkkinan rakenteellisten ja liiketoiminnallisten epätäydellisyyksien takia. Toiseksi, edistämistoimien hyödyn valuessa koko kohdemarkkinalle, yrityksillä ei ole riittävästi taloudellisia kannusteita toteuttaa edistämistoimia. Kolmanneksi, pienten ja keskisuurten yritysten kyvykkyydet ja resurssit toteuttaa edistämistoimia ovat rajoittuneita. Näiden lisäksi edistämistoimien oikeutuksen muodostavat ulkomaisten investointien synnyttämät positiiviset läikyntävaikutukset yrityksille, toimialoille, alueille ja kansantaloudelle.

Politiikkatoimet ulkomaisten investointien edistämiseksi vahvistavat niiden läikyntävaikutuksia, eritoten nostavat tuottavuutta. Keskeiset läikyntävaikutuksia välittävät tekijät ovat yritysten ominaispiirteet, ulkomaisten investointien muodot, toimialojen piirteet, läheisyys ja kohdemaan olosuhteet.

Sektorikohtaisesti digitaalinen infrastruktuuri ja alustatalous vähentävät rakenteellisia ja liiketoiminnallisia epätäydellisyyksiä ulkomaisten investointien osalta. Nämä myös nopeuttavat ja laajentavat läikyntävaikutuksia investoinneista. Kuitenkin alustatalous tuottaa myös uusia epätäydellisyyksiä markkinoille suhteessa ulkomaisiin investointeihin. Lisätutkimusta tarvitaan siitä, miten alustatalous vaikuttaa tässä katsauksessa tunnistettuihin julkisen sektorin ulkomaisten investointien edistämistoimien oikeutukseen ja taloudellisiin perusteisiin.

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Keywords: Foreign direct investment, Investment promotion agencies, Impact evaluation, Policy rationales

Avainsanat: Ulkomaiset investoinnit, Vaikuttavuusarviointi, Politiikka-rationaliteetit

JEL: D83, F21, F23, L15, N70

Contents

Foreign direct investments (FDI), have grown rapidly since 1980s from 10% (FDI stock ratio to GDP (total sum of inward and outward FDI in a country)) up until early 2000 when it reached its peak of 40% (as part of the internet boom). Today Finland's FDI stock is at the level of 26% (OECD, 2020). Finland has during the last 10 years achieved an increase in FDI and has been most successful in growing the share of FDI in comparison with Nordic countries.

Foreign direct investments are a form of strategic move by a multinational enterprise (MNE) for engaging in a specific market with business operations and strategically investing in technologies, expertise, and market position. These include greenfield investments, where the MNE builds up its operations in a country, mergers and acquisitions of firms, the ownership of equity (minority or majority), and joint ventures, and other comparable contractual forms, in a non-home country of the firm (Meyer & Estrin, 2001).

The growth of FDI is due to substantial increase of cross-border mergers and acquisitions, growth of regional integration schemes, such as the internal market in Europe and in America the North America Free Trade Agreement (NAFTA) (Dunning, 2003). Further, internationalization of capital markets has been a central inducer of FDI, limiting the possibilities to use exchange rate policy as a tool to influence relative competitiveness by a country (Blomström, Kokko, & Mucchielli, 2003). Internationalization of capital market has meant for Finland that both trade and exchange rate policy making has moved to the EU Commission and the European Central Bank. FDI incentives and policies has as such become increasingly important instruments for national governments. Further, the increase of market integration in regions, i.e. European market, has reduced the importance of the market size in a specific country (Blomström et al., 2003).

With these developments in trade policies and integration of markets across regions, firms' strategic rationales in internationalization has also developed. Firms are today continuously seeking the most valuable and beneficial FDI. As such countries have increasingly also started to compete for FDI. This means that the relationship between the distinct investment in country or a specific firm in country and the MNE strategy is dyadic (Blomström et al., 2001).

The most popular policy measures to govern strategic FDI promotion of a country, in order to attract inward foreign direct investments and foster learning and economic spill-overs to local firms from FDI, have been the set-up of investment promotion agencies (IPAs). The role of IPAs have been formed around two main set of activities. The first set of activity has been focused on image building activities, information dissemination, and international visibility promotion of the country (or region). The second set of activities has been focused on the facilitation of the investment process by MNEs, both in terms of investment -generating activities and investment-service activities, including before and after initial investment activities, as well as expanding linkages between foreign investors and domestic suppliers (Guimón, & Filippov, 2017; Wells & Wint, 1990).

Policy rationale and economic justifications for intervention

Based on our study of past research on rationales and economic justifications for government intervention in attracting and promoting inward FDI and facilitating spill-overs to local firms, we identify four distinct rationales: (1) failure of the market in attracting FDI due to ***transactional and structural imperfections*** in the host market that are experienced by a foreign MNE; (2) failure of the market to incentivize firms in the home market in attracting inward FDI due to ***externalities;*** (***3***) ***firm constraints in engaging in attracting MNEs***; (4) policy outcome rationales arising from economic and societal benefits from ***positive spill-over effects from FDI*** to local firms, as well as firm, industry, region, and economy level ***additionalities***. We next discuss each of these in more detail.

Market fails to attract FDI due to transactional and structural imperfections experienced by MNEs

Transactional imperfections for MNE in host country results in inward FDI underinvestment's. Transactional imperfections (challenges) arise from institutional, social, and cultural voids, that MNEs expe-

rience in foreign markets due to lack of familiarity with local market and industry conditions. These challenges that MNEs experience are referred to as ***liability of foreignness***. Liability of foreignness arise from economic, cultural, demographic, knowledge political, and administrative distance (Berry, Guillén, & Zhou, 2010; Zhou & Guillen, 2016). They arise from unfamiliarity with the market, discrimination of foreign MNEs in the market by other firms, and challenges in setting up and managing relations in the market (Eden & Miller, 2004). Due to the lack of familiarity with the local market and industry context, MNEs face high transaction costs in doing business that results in extra costs and efforts needed, compared with local competitors (Zhou & Guillen, 2016; Smit, Pennings, & van Bekkum, 2017).

Structural imperfections for MNE in host country results in inward FDI underinvestment's

Another form of challenges a MNE experience in a foreign market and industry setting are structural imperfections, also termed market imperfections, from regulation of foreign firms and business of foreign MNEs. Regulation of foreign investors and firms as well as the structural conditions in a market, including the domination of local incumbent firms, create economic uncertainties in the business environment for foreign MNEs (Smit, Pennings, & van Bekkum, 2017). These economic uncertainties arise as discrimination costs, additional governance costs, appropriation hazard and product and service adaptation cost for the foreign MNE (Zhou & Guillen, 2016). These costs lead to unbalanced competitive preconditions for foreign MNEs and underinvestment in inward FDI in the local market.

Market fails to incentivize local firms to attract FDI due to externalities and firm constraints

The first two type of market failure addressed above are from the perspective of the foreign MNE and the local market – the local market failing to attracting FDI which would be of value to both parties (the MNE and the local market). This second type of market failure in foreign direct investments, addresses local firms in the home country and their lack of incentives to attract FDI and engage with foreign MNEs. Despite the value from FDI for firms in the local market from learning externalities and spillovers, the local firms are constrained from investing in attracting FDI and foreign MNE due to the public good character of attracting FDI. A local firm or a group of local firms cannot exclude other firms from engaging with the foreign MNEs by contracts or through private appropriation of learnings from the MNE. MNEs and FDI have positive spillover effects (externalities) for firms around them, both geographically and business wise across geographies (Sunesen, et al., 2018). Therefore, there is a market failure to incentivize home country firms to attract inward FDI.

In addition to the aforementioned inability to exclude others from attracting MNEs strategic investments, firms often lack motivation, experience, resources, and capabilities for engaging in attracting MNE collaboration and investments. To that respect, firms also hold imperfect information regarding MNEs FDI. This is especially true for small and medium size enterprises (SME) who are constrained in regards to capabilities and resources in comparison to larger firms in the local economy.

Policy outcome rationales: Benefits for firms, industries, regions, and the economy

It is well established that FDI produces economic benefits at the firm, industry, region, and economy level.

The underlying rationale is that MNE holds distinct technological, organizational, and business practices, which can be observed and learned from through direct and indirect interaction with the MNE. The entrance of a MNE in the local setting further fosters both collaborative and competitive behaviors and dynamics in local firms that holds economic value. Finally, MNE brings with them skilled people, who may take up potions in local firms, or set up own firms in the local economy, which creates economic value for firms and the economy.

We next address two distinct policy outcome rationales: (1) the local firms specific spill-over effects from FDI; and (2) economic additionalities to local industry, region, and the economy.

Spill-over effects from FDI to local firms

FDI by a MNE can introduce new technologies, processes, managerial skills, and know-how in the local market and train workers who later may take employment in local firms or start an own firm (Alfaro & Johnson, 2012). Such

transfer of tangible and intangible assets of a MNE to local firms can take form through for example, the transfer of techniques for inventory and quality control, or as standardization of practices and techniques among local suppliers and distribution channels. Firms may adopt some of the marketing techniques used by the MNE, or learn new ways of competing (Blomström et al., 2003; Driffield & Love, 2007; Meyer, & Sinani, 2009). Learning by local firms as such also take place by observing and imitating the MNE and its engagement with partners and customers (Blalock & Gertler, 2008). Finally, local firms may also be forced to increase their managerial efforts when they engage with the MNE due to expectations by the MNE and different working practices (Blomström et al., 2003).

Linkages with an MNE can be both backward from buyer to supplier, and forward from supplier to buyer. Such interaction with an MNEs hold economic benefits for example in terms of productivity gains in the local firm, fostering development of international business and sales networks, and access to new markets (Alfaro et al., 2004; Blomström et al., 2003). FDI by MNE may also facilitate the entrance of international trade brokers, accounting firms, consultant companies, and other professional services. These may as such become available to local firms as well (Blalock & Gertler, 2008).

Learning by local firms from the MNE increase their absorptive capacity, business and leadership skills, learnings in innovation and product development, and learning of foreign markets. Together, such learnings enhance and grow productivity, business, and operations.

Economic additionalities to local industry, region, and the economy

There are several kinds of economic additionalities from inward FDI for local industry, regions, and the national economy. Firstly, FDI can strengthen the economic prosperity of local regions that otherwise are having challenges caused from urbanization, i.e. losing of jobs and workers in the local community. Especially industry sectors which are not tied in their location to urban centers, including mining, machinery works, tourism, and local energy production, i.e. wind, wave and water power plants, can act as valuable inducers of work and spur positive spillover effects in regions. At the regional level FDI provides work places both directly and indirectly through various services and products which are needed by workers, the activity and facilities of the MNE (Sunsen, et al., 2018). FDI also has nation-wide additionalities through worker learning spillovers from mobility from MNEs in the country.

Furthermore, there can also be unbalanced factor market conditions that can develop in a country, for example the laying off of highly skilled employees, i.e. when Microsoft after buying Nokia's Devices and Services division, after a period, decided to lay off 12 500 high skilled employees (much of them engineers). In such instances FDI can act as one of several policy instruments to attract FDI to a country in response to the availability of large pool of highly skilled engineering workforce. This again allows both attracting FDI and diversification of existing industry sectors in the country.

However, entry of MNE may also hurt local firms. MNEs that engage in FDI may hire talent from local firms. As MNEs often pay higher salaries, this may raise wages for all firms in competitive labor markets (Aitken & Harrison, 1999; Blalock, & Gertler, 2008).

Increasingly countries are competing between each other for inward FDI (Harding & Javorcik, 2007; Guimón & Filippov, 2017). MNEs as such carefully evaluate advantages from ownership (resource and capabilities), and locational and organizational advantages (Dunning, 1994), that they can establish in a specific country location with a set of firms. Further they also evaluate the favorability of host country institutional setting, and the availability of workforce. Research have cautioned from overbidding, when subsidies surpass the level of spillover benefits (Blomström et al., 2003). IPAs thus are required carefully to consider and evaluate which MNEs would add most value through spill-over effects to local firms and the industry sector, and economy.

Further IPAs are required to consider the additionality of their intervention and aim for maximizing these. FDI enable additionalities not only to firms but more broadly to an industry sector by: (1) breaking supply bottlenecks; (2) expansion and restructuring of corporate value chains; (3) breaking down monopolies; and by (4) stimulating competition and efficiency (Blomström et al., 2003). As such FDI can enable both new forms of collaborations and increased competition, which add value at the level of industry, market and/or economy widely.

Impacts of inward FDI on firm, industry, and economy

Based on careful analysis of past research on the impacts of inward FDI and policy intervention to attract and support inward FDI we synthesize the impacts and impact mechanisms into (1) ***spillovers*** to local firms**;** (2) ***factors moderating spillovers*** to local firms from FDI; (3) ***additionalities from increased competition*** through foreign MNE entrance in sector and economy; and (4) ***country specific characteristics*** as moderator for inward FDI investments.

Spillovers to local firms

The entrance of a foreign MNE can trigger many types of spillover effects as previously discussed, that establish through direct and indirect engagements (i.e. observation) with the MNE by local firms. Broadly there are strong and significant evidence of both vertical productivity spillovers, especially to suppliers (Blomström et al., 2003; Crespo & Fontoura, 2007; Havranek & Irsova, 2011) and horizontal productivity spillovers (Iršová & Havránek, 2013) to local firms from FDI and presence of foreign MNEs.

The findings that coined the spillover effect hypothesis in FDI studied the inflow of foreign capital into the Argentine manufacturing sector in the 1950s. The study exposed how inflow had a significant impact on the technologies used by local firms. Not only did technological progress take place in the MNE's own industries, but also in other sectors, because the foreign affiliates forced domestic firms to modernize. The MNE imposed "minimum standards of quality, delivery dates, prices, etc. in their supplies of parts and raw materials" (Katz 1969:154). Similar studies have been made by more than 100 researchers since this initial study (Havranek & Irsova, 2011), for example for Mexico (Kokko, 1994), Marocco (Haddad & Harrison, 1993), Venezuela (Aitken & Harrison, 1999), Costa Rica (Larrain, Lopez-Calva, & Rodriguez-Claré, 2000), and UK (Görg & Greenway, 2004), to mention some of the most referred ones. While most of the studies find strong support for the positive spillover effects, there are also studies that report no spillover effects (i.e. Haddad & Harrison, 1993; Aitken & Harrison, 1999).

A most recent study on non-European owned firms FDI in Europe reports how productivity spillovers to local firms in the same industry vary from 0.2–0.8% increase in productivity were as productivity spillovers to all firms in the region vary from 0.4–2.0% productivity increase (Sunesen et al., 2018). This finding is supported by previous studies that also confirm that horizontal spillovers are larger than vertical spillovers from inward FDI.

However, importantly from a policy maker perspective, the empirical evidence on spillovers are mixed both at micro and macro level (Alfaro & Johnson, 2012). Differences in spillover effects can be found due to several moderating factors. We next discuss these in more detail.

Factors moderating spillovers from FDI to local firms

We identify five key factors from past research that moderate spillovers to local firms: (1) firm characteristics; (2) FDI organizational form; (3) sector specific characteristics; (4) proximity; and (5) country specific conditions.

Firm characteristics

Partly the answer to the mixed results arise due to the scale and scope of FDI spillovers that vary with local firms' characteristics (Feinberg & Majumdar, 2001; Sinani & Meyer, 2004; Meyer & Sinani, 2009). For example, research have shown how "the potential spillover benefits are realized only if local firms have the ability and motivation to invest in absorbing foreign technologies and skills" (Blomström et al., 2003:20). As such, benefiting most from FDI spillovers may require policy support – if not the market is adequately equipped to provide those – for learning and investments in local firms (Blomström et al., 2003). Empirical findings further expose productivity spillovers to local firms from FDI, especially on plant performance. However, the positive effect is only robust for smaller plants (less than 50 employees) (Aitken & Harrison, 1999). For larger firms "the positive effects of foreign investment disappear when plant-specific differences are taken into account" (Aitken & Harrison, 1999).

FDI organizational form

FDI choice of organizational form – greenfield investment, joint venture, joint ownership - have also been shown to impact spillover effects to local firms. The recent meta-study based on extant past research by Havranek and Irsova (2011) finds that "fewer spillovers are generated by fully owned foreign affiliates compared with joint ventures, and fewer spillovers are received by domestic firms in services compared with manufacturing" (21). Javorcik and Spatareanu (2008) study based on Romanian firm-level data indicates that this is because "wholly-owned foreign subsidiaries use newer or more sophisticated technologies than jointly owned investment projects and thus may have higher requirements vis-à-vis suppliers" (1).

Sector specific characteristics

Not all sectors benefit from FDI. This is in part due to restrictions or inabilities to capture spillovers and inabilities to create linkages between the MNE and rest of the economy and industry sectors in the country (Alfaro & Johnson, 2012). For example, mining and agriculture have traditionally had less linkages to the rest of the economy in comparison to for example manufacturing. In such instances the primary products from for example mines or agriculture "slip out of a country without leaving much of a trace in the rest of the economy" (Hirschman, 1958:109).

Another sector factor that importantly impacts spillover effects is the relative backwardness of the firms in a sector or in the economy. There are substantial research and evidence on how the relative backwardness, also termed technology backwardness, of local firms in a country impacts spillover. The greater the distance between technological sophistication between the MNE and the local firms, "the greater the backlog of available opportunities to exploit" (Görg & Greenway, 2004:5). The greater the backwardness, the greater the pressure for change is for local firms to adopt or imitate MNEs, their technologies, and their practices (Findlay, 1978; Iršová & Havránek, 2013). Another factor that impacts the speed of catching up is "the extent to which the activities of the foreign firm pervades the local economy" (Görg & Greenway, 2004:5), also termed contagion (Findlay, 1978). However, subsequent studies have showed, i.e. Kokko, Tansini, & Zejan (1996) and Glass & Saggi (1998), how local "firms can only benefit if the technology gap is not too wide so that domestic firms can absorb the knowledge available from the multinational" (Görg & Greenway, 2004:5). Finally, there is strong evidence from a meta-analysis on 47 spillover effects in countries, on backward spillovers, knowledge transfer from FDI to local suppliers' firms, but only small forward spillover effects to local customer firms (Havranek & Irsova, 2011).

Proximity effects

Proximity effects in relation to spillovers are much studied in industrial economics, innovation studies, and regional studies. There is already ample research evidence on how "the cost of transmitting knowledge rises with distance" (Audretch & Feldman, 1998:630). Proximity effects, including both geographical and industry sector proximity, influence FDI spillover effects. One of the most comprehensive study on sectoral differences of spillovers from FDI (Kugler, 2001) finds that it is across rather than within the industry of the foreign MNE where the greatest spillover impacts establish (Blomström, et al., 2003). Further to this, a contingent factor here is also the geographical proximity of local firms in the other industries of the MNE. The further away located firms are the smaller the spillover effects become (Sjöholm, 1999).

Country specific conditions

Several studies have also brought forth how country specific conditions moderate FDI spillovers to local firms. Firstly, better financial markets "allow agents in the economy to take advantage of knowledge spillovers from FDI." (Alfaro et al., 2004: 89). Secondly, large supply of skilled labor enables the economy to capture more benefits from spillovers (Keller, 2010). Thirdly, high level of technological capacity of local firms enables to absorb more spillovers from foreign MNE (Glass & Saggi, 1998).

Additionalities from increased competition

The entrance and activities of a foreign MNE in a local setting can be competitive with local firms. Studies on FDI show how MNE FDI entrance intensify competition within the industry, and that there are positive effects of the increased competition, i.e. a study done in Mexico (Kokko, 1994) and another study done in UK (Driffield, 1999) (for more see i.e. Görg & Greenway, 2004). The

competition forces firms to adopt new technologies or practices and work harder generating positive effects for the local firm (Blalock & Gertler, 2008). Competitive entrance may also have negative effects to local firms when these lack capacity and abilities to adapt and/or adopt (the technology gap being too wide) for example new technologies and production methods of the MNE and its partners (Blalock & Gertler, 2008). MNEs may also have lower marginal costs than local firms and may as such reduce the demand of local firm products which again would increase the prize of unit costs of products for the local firm (Aitken & Harrison, 1999; Konings, 2001).

Country specific characteristics as moderator for inward FDI investments

Country specific factors, also termed locational advantages, have been found to moderate inward FDI investments. The country specific characteristics which have been found to positively moderate inward FDI are regulatory settings and policy climate, infrastructure, economic conditions, and market and industry characteristics.

Regulatory setting and policy climate which have been found to moderate FDI investments include favorable taxation (Karabay, 2010), supportive FDI regulation policy, FDI support quality (Lim, 2008), and, stable and democratic policy environment (Alfaro et al., 2004; Jensen, 2003). Quality of infrastructure (communication and transportation) moderate positively by attracting initial investments and by sustaining MNE operations (Coughlin & Segev, 2000; Görg & Greenway, 2004). The economic conditions in a country including, per capita income and stable economic climate (Blomström et al., 2003) both moderate FDI investments. Further, with regards to market and industry characteristics of a country, the level of education and the availability of human capital both have been found to moderate investments. Empirical research confirms a strong positive interaction between FDI and the level of educational attainment (Balasubramanyam, 1998; Borensztein, De Gregorio & Lee, 1998; Coughlin & Segen, 2000; Sunesen et al., 2018). In addition, market size of country, real GDP, sector GDP, and exchange rate (Uddin & Boateng, 2011; a study of FDI in Norway 1986–2008 by Boateng et al., 2015) have been found to moderate FDI investments. Finally, also an open trade regime (Balasubramanyam, Salisu, & Sapsford, 1996) and productive assets available (Alfaro et al., 2004) have been found as moderators of FDI investments.

Policy interventions in inward FDI

Current forms of policy intervention

Investment promotion agencies (IPA) have been set up "to bridge the gap between the private and social returns, thus promoting larger inflows of FDI" (Blomström et al., 2003:3). IPAs "usually report to the ministries of trade, economy or industry, and often have offices abroad and strong links with ministries of foreign affairs to facilitate investment promotion overseas" (Guimón & Filippov, 2017:27). Activities of IPAs include: (1) marketing campaigns for image building and international visibility of country and regions; (2) tailored services and incentives to foreign corporations to facilitate investment process both before and after initial investments; (3) expanding linkages between foreign investors and domestic suppliers; and (4) information dissemination (Wells & Wint, 2000; Guimón & Filippov, 2017). The age of IPA, overseas staff intensity, and number of staff, have been shown to positively affects the attraction of FDI (Lim, 2008).

Other policies which facilitate FDI include (Globerman & Chen, 2010):

- legal and regulatory regimes that protect property rights, create transparent and fair rules of law, and minimize the transaction cost burdens and other unwanted consequences of regulation.
- macroeconomic policies that encourage real economic growth with low inflation
- investments in transportation and communication infrastructure to lower the costs of coordinating and carrying out international business transactions
- investments in education and worker training programs to improve the quality of labor available to employers
- reduction of labor costs and increasing flexibility

- weakening or elimination of regulatory review processes applying to foreign investors (eliminating discriminatory regulations against foreign investors)
- financial subsidies to foreign investors
- elimination of limitations on foreign ownership levels in "sensitive" industrial sectors
- bilateral investment treaties (BITs), Finland currently has 80 BITs
- double taxation treaties (DTTs)
- trade agreements

Changing rationales for inward FDI policy intervention

Advances in technologies, especially information and communication technologies, and changes in regulation of markets and firms, impacts market dynamics, competition, and factor markets. These firm environment changes are reflected in changing strategic behavior of firms, for example as increase of internationalization of corporate R&D and increased mobility of services (Eden, 2016). Platform markets and digital technologies provides new tools for firms to internationalize "more easily by purchasing business services via online platforms rather than doing them internally" (Eden, 2016:7). This means that e-commerce, and more broadly developments of platform markets, allows firms to enter existing geographical markets without setting up a local permanent establishment in the host country (Eden, 2016). Furthermore, the penetration of digital technologies and platform economies in regions have increased the importance of intellectual property rights (IPR) "since much of the value added is in the blueprint stage and less in the production stages." (Eden, 2016:10). Digital technologies and platforms also "reduces governance costs within the MNE network, since MNEs now have better ability to collect and share information, monitor offshore production locations, and target products and services to customers on a worldwide basis" (Eden, 2016:7).

These advantages of digital technologies to be present in country setting requires a well-functioning and strong ICT infrastructure (Eden, 2016). Such advances in technologies and developments of the conditions for global operation of firms are reflected as shortening of product life cycles, increasing knowledge flows within multinational companies, decentralization, and growth in intra-corporate competition (Guimón & Filippov, 2017).

Furthermore, modern entrepreneurial and innovation ecosystems are increasingly affected by the possibilities (affordances) of digital technologies that decrease the spatial limitations and location-specificities of markets (Autio et al., 2018). For firm cross-border direct investments this signifies new opportunities in investing and setting up operations remotely, but also creates new possibilities to attract investments and participation of multinational firms to host markets, specifically in sectors in which digitalized services are becoming more dominant form of conducting business.

Together these developments reduce previous experienced challenges by MNE to enter foreign markets and industries, including reductions in transactional and structural imperfections. Advancements of digital technologies and platform markets also allows for more rapid and more wider spillover effects to develop. However, these advancements also impose new imperfections in markets with respect to FDI. Further research is need to more specifically study how platform economy influence the now synthesized policy rationales and the reported impact mechanism of FDI promotion.

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