
Economic Diplomacy and Foreign Direct Investment: the role of Investment
Promotion Agencies – the case of InvestPorto

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Abstract

Although scarce, the existent literature points towards a positive influence of economic diplomacy on foreign direct investment. Hence, Governments have been investing in economic diplomacy in order to promote foreign direct investment inflows and to help their national firms to venture abroad. In this sense, investment promotion agencies have emerged and have claimed to be efficient in promoting investment to numerous sectors and in helping investors. Accordingly, the main objective of this study is to investigate how and to what extent does the presence of investment promotion agencies promote the attraction of foreign direct investment. For that purpose, we conducted a case study focused on a regional investment promotion agency, InvestPorto. The results, based on interviews to InvestPorto and to three multinational companies that are being supported by this agency, suggest that this agency has been playing a very important role in the attraction of FDI. The firms valued InvestPorto's performance, referring to not only the support given during the establishment process in Porto, but also to the after-care service.

Keywords: economic diplomacy, foreign direct investment, investment promotion agencies, multinationals, Porto.

Resumo

Embora escassa, a literatura disponível aponta para uma influência positiva da diplomacia económica no investimento direto estrangeiro. Deste modo, os Governos têm vindo a investir em diplomacia económica, com o objetivo de promover a atração de investimento direto estrangeiro e de apoiar as suas empresas a internacionalizarem-se. Neste sentido, surgiram as agências de promoção de investimento, que se perspetivam como eficazes na promoção do investimento em diversos setores e no suporte aos investidores. Em consequência, o principal objetivo deste estudo é compreender em que medida a presença das agências de promoção de investimento promove a atração de investimento direto estrangeiro. Para esse efeito, foi conduzido um caso de estudo focado numa agência de promoção de investimento regional, a InvestPorto. Os resultados, baseados nas entrevistas conduzidas à InvestPorto e a três empresas multinacionais que têm sido apoiadas pela agência, sugerem que esta tem tido um papel muito importante na atração de IDE. As firmas valorizaram o desempenho da InvestPorto, referindo-se não só ao apoio dado durante o processo de estabelecimento no Porto, mas também ao serviço de *after-care*.

Palavras-chave: diplomacia económica, investimento direto estrangeiro, agências de promoção de investimento, multinacionais, Porto.

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List of Abbreviations

AICEP	Agência para o Investimento e Comércio de Portugal
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GVC	Global Value Chains
IIA	Inward Investment Agency
IP	Investment Promotion
IPA	Investment Promotion Agency
IPI	Investment Promotion Index
ITCD	The Institute for Trade and Commercial Diplomacy
JV	Joint Venture
M&A	Mergers and Acquisitions
OECD	Organisation for Economic Co-operation and Development
R&D	Research and Development
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
WAIPA	World Association of Investment Promotion Agencies
WEF	World Economic Forum

1. Introduction

The process of globalisation is related to the strong increase in foreign direct investment (FDI) and the liberalisation of capital flows between countries (Veltmeyer, 2020). Globalisation through foreign direct investment is very important as it is linked to economic growth in both developed and developing economies (Chirilă-Donciu, 2013).

FDI flows have fluctuated a lot since 1990, recording huge increases and declines. According to UNCTAD (2020), which has been monitoring multinational firms' activities and FDI for the last 30 years, "international production saw two decades of rapid growth followed by one of stagnation. Flows of cross-border investment in physical productive assets stopped growing in the 2010s (...)" (UNCTAD, 2020, p. xii). More recently, global FDI flows have increased in 2019, opposing to the evident declines registered in 2017 and 2018. Moreover, FDI flows to developed economies rose by 5%, whereas to developing economies they declined by 2%, in 2019. Nevertheless, the trend of FDI inflows in Portugal has been positive, starting from USD 4 897 millions in 2014 to USD 8 234 millions in 2019 (UNCTAD, 2020). However, due to the COVID-19 pandemic, it is expected that the FDI will suffer a sharp drop – estimated in 40%, according to the same report – in 2020 worldwide.

Acting as a promoter of FDI, the importance of economic diplomacy has increased since the end of the Cold War (Farto *et al.*, 2007). Due to its undeniable preponderance nowadays, economic diplomacy will play a powerful role during the XXI century, given that globalisation and trade liberalisation are making economic affairs increasingly crucial to nations (Sousa, 2019).

Economic diplomacy is a broad term, as it embraces concepts such as commercial diplomacy, financial diplomacy or trade diplomacy. The first, commercial diplomacy, is the main object of this study, as it concerns the support and promotion of international trade and FDI (Sousa, 2019). Still in accordance with Sousa (2019), Portugal's strategy, following the trend set for almost all countries, is focused on commercial diplomacy.

Additionally, economic diplomacy includes a vast multiplicity of actors, that comprises Government ministries, embassies, consulates and investment promotion agencies (IPA) (Sousa, 2019). IPAs have nowadays a major role, since they "can help remedy

market failures by carrying out a range of services aimed at marketing their country, its competitive business environment, industries and firms, and by simply facilitating business establishment and operations” (OECD, 2018, p. 16).

Although it is widely acknowledged that economic diplomacy can boost international trade and FDI through different diplomatic activities, literature is very limited on how it can affect FDI (Moons, 2017). Indeed, the existing literature tends to analyse instead the impact and the influence of economic diplomacy on international trade, namely on exports. Moreover, more specifically, literature on the subject of IPAs is still quite unexplored, notwithstanding its positive impact and effectiveness on host economies (OECD, 2018). In order to mitigate the scarcity of studies on this matter, the purpose of this study is, therefore, to understand how economic diplomacy, more specifically through the action of IPAs, can affect FDI inflows.

For that, we will focus on the performance of InvestPorto, a regional investment promotion agency based in Porto, Portugal, that has been involved in the attraction of foreign investment into the city. A recent example of success is the case of Critical TechWorks, which resulted from a joint venture between BMW and Critical Software, the last being a Portuguese company (InvestPorto, 2020a). More precisely, we will conduct a case study, taking the example of InvestPorto, in order to study how this investment promotion agency has been helping to attract FDI inflows to several economic sectors of the city. For that purpose, and by following a qualitative approach, we will conduct an interview to InvestPorto, as well as interviews to multinational companies that are being supported by the IPA.

The following Chapter will focus on a literature review. Chapter 3 will present the selected methodology and the case study, including the presentation of the chosen IPA, InvestPorto, and of the multinational companies that were interviewed. Chapter 4 will display the results gathered in the course of the interviews, followed by a final discussion, in which we will compare the results with the literature review. Lastly, a conclusion will be drawn.

2. Literature Review

In this Chapter, we discuss the concept of economic diplomacy on Section 2.1, starting by briefly defining it and its different dimensions, such as commercial diplomacy. On Section 2.2 we discuss the concept of foreign direct investment, its modes of establishment, among other topics. Lastly, Section 2.3 focuses on reviewing literature that links economic diplomacy to foreign direct investment and providing empirical works' results.

2.1 Economic Diplomacy

According to Bull (1995), diplomacy has changed its course and focus through time and can be defined as “the conduct of relations between States and other entities with standing in world politics by official agents and by peaceful means” (*cit. in* Bayne & Woolcock (2013, p. 2-3)). Currently, diplomacy embraces numerous forms of diplomatic activity, such as economic diplomacy, cultural diplomacy, digital diplomacy, public diplomacy, military diplomacy, environmental diplomacy, sports diplomacy, science diplomacy, among many others (Constantinou *et al.*, 2016). Indeed, since the end of the Cold War (1991), economic diplomacy has emerged as the most dominant form of diplomacy (Farto *et al.*, 2007). Although it is not a new phenomenon, it is experiencing a significant increase mostly due to the following factors: the importance of economics in foreign affairs has been growing; globalisation is suffering a giant boost, which is promoting the spreading of a capitalist economy; the progressive blurring of States' boundaries and the increase of national affairs that are decided abroad, and vice-versa (Sousa, 2019).

Nowadays, economic diplomacy is concerned about conducting international business (Castro, 2008), since it focuses on “facilitating access to foreign markets for national businesses, attracting foreign direct investment (FDI) to a national territory and influencing international rules to serve the national interest” (Marková, 2018, p. 29). It can be conducted in two different levels: macroeconomic diplomacy – which occurs between two or more negotiating States – and microeconomic diplomacy – the State is not an actor in this case; it intends to support firms and often occurs in a context of high competitiveness (Leal, 2007). In that sense, it is regarded as a way of diplomacy in which a wide range of economic and

political tools are used in order to attain certain national economic objectives, specially abroad (Sousa, 2019). Furthermore, according to Bayne & Woolcock (2013), economic diplomacy manages the tensions between politics and economics, between State and non-State actors and between international and domestic pressures, international negotiation and domestic negotiation process.

Economic diplomacy is a broad term, since it embraces different concepts such as financial diplomacy, trade diplomacy and commercial diplomacy. Financial diplomacy relates to “financial and monetary policy/negotiations” and trade diplomacy comprehends “bilateral and multilateral negotiations on trade agreements” (Okano-Heijmans, 2011, p. 17). Concerning commercial diplomacy, the Institute for Trade and Commercial Diplomacy (ITCD) argues that it consists in influencing “Government policy and regulatory decisions that affect global trade and investment” (Bergeijk *et al.*, 2011, p. 105). So, it concerns the support and promotion of international trade, namely exports, and foreign direct investment (FDI) (Okano-Heijmans, 2011; Sousa, 2019). Moreover, it includes the diplomatic missions so as to pursue national economic and financial interests (Sousa, 2019). In this sense, according to Sousa (2019), the State has a crucial role providing investment opportunities, keeping in touch with entrepreneurs and chambers of commerce, as well as organising business missions abroad. Therefore, commercial diplomacy is the most adequate term regarding the subject of the present study. However, we will henceforth refer to it by the broad term of economic diplomacy (and not commercial diplomacy), applying no distinction throughout this study.

There are different approaches to economic diplomacy. For instance, Moita *et al.* (2019) believe that economic diplomacy cannot act simply as a commercial advisor, but instead as a promoter of: exports; correction of trade deficits; economic negotiations regarding multilateral institutions; attraction of FDI and promotion of investment abroad; tourism; science and technology trade; tracing migratory flows; helping development; attracting qualified professionals; and, lastly, the country’s reputation.

At present, several actors, such as ministries, embassies, consulates, chambers of commerce, business federations and investment promotion agencies, play a powerful role on economic diplomacy. In particular, investment promotion agencies are currently extremely important and their fast growth reveals the increasing importance the Governments grant to

the attraction of foreign investment (OECD, 2011). Hence, this study will focus on this particular actor.

Portuguese diplomacy is widely recognised and has increasingly given more importance to its economic dimension, without neglecting the political, cultural and security ones (Moita *et al.*, 2019). Although some authors, such as Neves (2017), argue that Portugal does not have a solid and strong economic diplomacy yet, others, like Sousa (2019), claim that Portugal's strategy for economic diplomacy is only focused on commercial diplomacy – in other words, the author considers that Portugal is deeply concerned with the promotion of FDI and exports.

2.2 Foreign Direct Investment

In accordance with the OECD (2008), FDI allows the creation of direct, stable and long-lasting relations between economies. It can serve as a fuel for local enterprise development, it can improve significantly the competitive position of the host economy (the receiving) and the home economy (the investing), as well as it can provide an opportunity to promote the host economy's products worldwide (OECD, 2008). Furthermore, FDI has been encouraging the transfer of technology and know-how between the countries involved in the investment (OECD, 2008).

Thus, foreign direct investment is essential for economic growth and for the financial globalisation process, since FDI inflows provide additional foreign capital, as well as new technology and know-how – as aforementioned –, improved marketing and managerial skills, and horizontal and vertical knowledge spillovers through backward or forward linkage with local companies (Javorcik, 2004; Alfaro, 2017). Consequently, FDI has a positive effect on the promotion of international trade and is a very important source of capital for both host and home economies (OECD, 2008).

When venturing abroad through FDI, it is paramount that firms choose the desired level of control. For this purpose, firms can enter either through equity joint ventures or wholly-owned subsidiaries (Nguyen, 2021). According to Leung (1997), by entering a foreign market with a larger share of ownership, a firm gets a greater control; for that reason, the firm often chooses these entry modes. On one hand, The World Investment Report

describes joint ventures as a branch that is jointly owned between the foreign direct investor and one or more third parties (UNCTAD, 2017, p. 3). On the other hand, the same report defines subsidiary as “an incorporated enterprise in the host country in which another entity directly owns more than a half of the shareholder's voting power, and has the right to appoint or remove a majority of the members of the administrative, management or supervisory body” (UNCTAD, 2017, p. 3). Furthermore, according to Chen & Hu (2002), equity joint ventures are formed mainly in industries with low growth, whereas wholly-owned subsidiaries are mostly formed in high growth industries; joint ventures are more likely to be formed between partners with a small cultural distance; wholly-owned subsidiaries’ existence lasts longer than equity joint ventures; and, lastly, there is not any significant difference regarding technology between the two entry modes.

Additionally, beyond the choice regarding the level of control, the firm has to choose the most appropriate establishment mode: greenfield project or cross-border mergers and acquisitions (M&As) (Davies *et al.*, 2018). A greenfield project happens when making a new firm from scratch by one or more foreign investors (Canton & Solera, 2016), whereas an acquisition happens when a firm purchases “existing shares issued by another company for increasing ownership or control level by the acquiring company” (OECD, 2008, p. 197). Lastly, a merger occurs when two or more firms are merged, forming a new legal entity (Piesse, 2006).

Greenfield investment can have a major role on the host country’s economic growth (Nguyen *et al.*, 2020), since it is a robust driver of economic and employment growth (as a result of technology spillover), and innovation (Begović *et al.*, 2008). Hence, greenfield investment is very beneficial since it creates employment and increases the number of existing firms, leading to higher productivity gains (Nguyen *et al.*, 2020). Moreover, economic growth is a very important determinant for greenfield investment: countries with a fast-growing economy tend to host more greenfield investments (Neto *et al.*, 2009). Additionally, greenfield investments are more likely to happen in countries with relation-based governance environment and in countries with a small geographical and cultural distance (Alon *et al.*, 2020).

According to Frésard *et al.* (2017), mergers and acquisitions have been a vital form of globalisation for the last 30 years. Indeed, M&As are crucial in a corporate’s strategy, since

they promote the firm's development and its continuous growth, as stated by Gamache *et al.* (2018). Nonetheless, several factors can certainly affect the cross-sectional pattern of M&As: geography has its preponderance, since with shorter distances between the countries involved in the investment, it is more likely that the firms will do acquisitions between them; similarly, in countries with higher volumes of trade, it is more likely that merges will occur, considering that they are expected to have synergies and the same cultural background; lastly, taxes seem to have an influence on cross-border merger decisions, given that acquirers may come from countries with higher corporate income tax rates (Erel *et al.*, 2012).

Additionally, M&A's purchasers come mostly from developed countries, on the opposite of the greenfield investment, in which firms from developing countries take the lead (Davies *et al.*, 2018). Nevertheless, the positive effect of greenfield investments on economic growth is undeniable both on developed and developing countries (Wang & Wong, 2009).

For firms to have the will to face the hazardousness of venturing abroad through FDI, they need strong motives behind the decision to invest. Concerning this subject, literature is not unanimous (Burmester & Scott-Kennel, 2019). However, according to Dunning (2000), the four main motives for FDI would be resource-seeking, market-seeking, efficiency-seeking and strategic asset-seeking. The resource-seeking motive's aim is to use or to acquire specific resources in the host country; therefore, it intends to exploit the comparative advantages of the host country (Dunning, 2000). The market-seeking FDI is also known as horizontal FDI and it occurs when firms are interested in taking advantage of opportunities in other markets (Dunning, 2000). Efficiency-seeking FDI, on the other hand, concerns the vertical kind of investment and it focuses on searching for the best locations to have lower costs of production or transaction and, thus, becoming more efficient (Dunning, 2000). Finally, and still according to the author, the strategic-asset seeking is a strong motive essentially for multinationals enterprises that acquire assets of foreign firms that do not exist in their home country, in order to sustain or even increase their international competitiveness.

As the location advantages are deeply connected to the motives for FDI, it is of utter importance to refer to the eclectic paradigm, also known as the OLI model (Cruz *et al.*, 2020). This theoretical model identifies and evaluates the significance of the determinants of a firm's

internationalisation (Dunning, 1988). It is divided into three different advantages: ownership, internalisation and location advantages; if these three are applicable, the firm will choose FDI (Dunning, 1988). Dunning (1988) defines the ownership advantages as the ones when a firm has temporarily property of certain relevant assets and the internalisation advantages occur when a firm benefits more from producing abroad than from exporting, for instance. The location advantages “concern the extent and nature of location specific or competitive attractions offered by countries to create or add further value to these competitive advantages” (Rahman *et al.*, 2018, p. 1421); therefore, they refer to the attractiveness of the market (Ekeledo & Sivakumar, 1998). According to Dunning (1988), some examples of the location advantages are: different inputs’ prices; costs of transportation and communication; geographical, linguistic and cultural distance; quality of inputs; and special distribution of the markets and the inputs.

To conclude, according to empirical works on FDI in Portugal (Ferreira, 2018), it is noteworthy that lower wages, the impact of human capital and the size of the market are the determinants that impact more positively FDI. Oppositely, corruption and geographic distance were the factors that impact more negatively FDI (Ferreira, 2018). These findings are consistent with Erel *et al.* (2012), as previously mentioned. Lastly, and now concerning the Portuguese case, Ferreira (2018) concludes that cheap labour, as well as the existence of a large number of qualified workers, are a strong motivation for foreign countries that have higher costs to invest in Portugal.

2.3 Economic Diplomacy and Foreign Direct Investment: the role of IPAs

The first empirical researches investigating the impact of economic diplomacy on trade and on FDI were conducted in the 1980’s (Moons, 2017). From 1980 to 2000, the studies on this subject confirmed a “positive relation between trade (investment) and cooperation between nation states” (Moons, 2017, p. 5).

Focusing on the relation between economic diplomacy and foreign direct investment, according to Moons (2017), there is indeed a link between diplomatic network and the effectiveness of FDI inflows. Additionally, Cezar and Escobar (2015) and Guiso *et al.* (2009)

find a positive relation showing heterogeneous effects of economic diplomacy on FDI between host and home economies, depending on the cultural proximity between them.

Governments have been setting up investment promotion agencies (IPAs) so as to promote FDI inflows and to, likewise, help their firms to venture abroad and to mitigate the risks of FDI (Hayakawa *et al.*, 2010). In this sense, Governments, via the action of IPAs respond to investor enquiries, disseminate information online – advertising, trade shows, seminars and exhibits –, thus promoting a flow of information to potential investors (experience sharing) (Morisset and Andrews-Johnson, 2004). Indeed, IPAs are considered to be so relevant for the economy that, according to Harding & Javorcik (2013), they are such an indispensable part of the development strategy of most countries that, if in case a country does not have any IPA, it is likely that that nation will have less chances of being considered for receiving foreign investment. Morisset (2003) also argues that IPAs generally can contribute to the attraction of FDI. More particularly, IPAs' aim is to boost FDI inflows, in order to increase production and to generate new employment (Kersan-Škabić, 2015). By doing so, as the amount of FDI inflows grow, the countries will progressively attract more high quality foreign direct investment, increasing their national and regional competitiveness (Kersan-Škabić, 2015). Certainly, investment promotion agencies' importance is due to the fact that they often are the first contact potential investors make abroad, as declared also by WAIPA & WEF (2019).

As previously mentioned, several studies have been conducted aiming at linking the concepts of economic diplomacy and investment promotion agencies to the attraction of foreign direct investment. A search through the Web of Science and the SCOPUS databases was conducted in the last trimester of 2020 and in the first semester of 2021, with the keywords: “investment promotion agencies”, “IPA”, “foreign direct investment”, “diplomacy”, “economic diplomacy” and “inflows”. This search allowed to identify twelve relevant studies, which are summarised in Table 1 and are organised by author and publication year, region focused, period of analysis, adopted methodology and the respective results of the investigation.

Table 1 – Influence of economic diplomacy and IPAs in the attraction of FDI

Author(s) Publication Year	Sample	Period	Methodology	Results
Wells & Wint (1991)	10 countries	-	Qualitative (interviews)	Quasi-Government agencies seem to be more successful attracting investors than Government ones.
Mudambi (1999)	West Midlands (England)	-	Quantitative (postal survey)	The characteristics of a firm are linked to the type of investment supports obtained. IIAs will benefit the most from customised support packages.
Wint & Williams (2002)	36 countries (located in Africa, Asia, Pacific, Latin America and the Caribbean)	-	Quantitative (statistical analysis)	As countries focus on IP, it is getting difficult to differentiate themselves and gain advantages regarding the attraction of FDI.
Lim (2008)	68 Countries (22 in Europe, 15 in the Middle East and Africa, 17 in Asia and Oceania, and 14 in America)	1999	Quantitative (survey)	IPAs promote effectiveness (measured by their age, overseas staff intensity and number), positively attracting FDI. Establishing and refining IPA's activities, with an efficient coordination, can improve the FDI attraction environment of the host countries.
Hayakawa <i>et al.</i> (2010)	112 countries (Japan and South Korea as the host countries)	1989-2006	Quantitative (econometrics)	IPAs have a more positive effect on investment in host countries with political high risk. Less productive firms benefit the most of the influence of IPAs on FDI.

Table 1 – Influence of economic diplomacy and IPAs in the attraction of FDI (cont.)

Author(s) Publication Year	Sample	Period	Methodology	Results
Harding & Javorcik (2011)	124 countries	2005-2006	Quantitative (econometrics)	IP activities are related to an increase of FDI inflows, are crucial in order to attract FDI to culturally distant countries, and are considered to be more successful in countries with information asymmetry and excessive bureaucracy.
Anderson & Sutherland (2015)	China and Canada (Canada as the host country)	2003-2013	Quantitative (econometrics)	Developed countries with IPAs have increased chances to be chosen by an emerging market. Geographic distance, the presence of a foreign IPA and a large market size are highly important determinants. The shorter the distance, the more likely it will draw investment.
Bezuidenhout & Pietersen (2015)	South Africa	-	Quantitative (questionnaire)	IPAs located in South Africa have incentive strategies, combining macro and industrial policies, in order to promote FDI inflows. The most common incentive are tax benefits.
Kersan- Škabić (2015)	Southeast European Countries	2014	Quantitative (survey analysis + panel data analysis)	The existence of IPAs in this region is recent (mainly after 2005). 81% of the IPAs continue to assist investors in the post-investment phase. Corruption is a known problem, although it does not have a noteworthy impact on FDI inward stock.

Table 1 – Influence of economic diplomacy and IPAs in the attraction of FDI (cont.)

Author(s) Publication Year	Sample	Period	Methodology	Results
Ni <i>et al.</i> (2017)	China	2002-2007	Quantitative (econometrics)	IPAs do not affect significantly FDI inflows: the establishment of an IPA is not related to the attraction of FDI or even cross-border inbound M&A. IPAs promote re-investment by large incumbent foreign firms, given that larger firms are more likely to obtain information from an IPA than the small ones.
Capik (2020)	Czech Republic, Poland and Slovakia	2004-2005	Quantitative (questionnaire)	IPI is negatively associated with GDP <i>per capita</i> . IP activities are more frequent in countries with a lower GDP <i>per capita</i> .
Crescenzi <i>et al.</i> (2021)	22 EU Member States	2018	Quantitative (survey)	FDI inflows and the creation of jobs directly by the investment are positively affected by sub-national IPAs, namely in less developed regions with information asymmetries, less transparent markets and feebleness of institutional conditions. IPAs can mitigate economic difficulties in internationally less attractive and competitive environments.

Source: own elaboration, based on the data gathered in the studies.

Legend: FDI – Foreign Direct Investment; GDP – Gross Domestic Product; IIA – Inward Investment Agency; IP – Investment Promotion; IPA – Investment Promotion Agency; IPI – Investment Promotion Index; M&A – Mergers and Acquisitions.

Table 1 displays data retrieved from different regions in the world. Wint & Williams (2002), Lim (2018), Hayakawa *et al.* (2010), Crescenzi *et al.* (2021) and Harding & Javorcik (2011) works gather the richest samples, since their investigation is focused on numerous countries. On the other hand, Mudambi (1999), Bezuidenhout & Pietersen (2015) and Ni *et al.* (2017) focused on very specific regions, therefore becoming unable to make generalisations that reflect the worldwide reality of the phenomenon. The results of these empirical studies are based on data from 1990 to 2014, giving this Table a vast range of data.

From the Table, it is possible to conclude that IPAs overall have a positive role promoting FDI flows. Only Ni *et al.* (2017) findings go otherwise, but since they are only focused on China, they may not be a good representation of the worldwide reality, as previously mentioned. It is also pertinent to note that the study conducted by Hayakawa *et al.* (2010) focuses on the impact of JETRO (Japan External Trade Organization) and KOTRA (Korea Trade-Investment Promotion Agency) on outward FDI, whereas the other ones analyse the impact of several national IPAs on inward FDI. Furthermore, the study conducted by Wells & Wint (1991) is the only one, from this selection of studies, that followed a qualitative approach, by performing several interviews.

It was evidenced by Harding & Javorcik (2011) that countries with information asymmetry and excessive bureaucracy are the ones that benefit the most from IPAs. Indeed, investment promotion activities are linked to higher FDI inflows to target sectors in emerging markets by reducing the bureaucracy costs and information asymmetries (Harding & Javorcik, 2011). Hence, based on the findings, and as also claimed by Crescenzi *et al.* (2021), it can be concluded that IPAs are pivotal in relieving information asymmetries and, therefore, contributing to the positive relation between investment promotion and FDI inflows. Additionally, countries less productive and less geographically distant are also more likely to benefit from IPAs. These results are in accordance with Bi *et al.* (2020), who concludes that FDI is more effective in regions that are geographically and culturally close but economically distant from the home country, confirming the gravity effect. Tinbergen (1962) created the gravity model in order to calculate the impact of the dimension and the distance between two countries on the volume of bilateral trade flows; this model has also been applied to analyse foreign direct investment between two countries. It is argued that the effect of distance and of dimension is still true nowadays; even though the process of

globalisation is bringing nations closer together, distance still matters and is still decisive when thinking of venturing abroad (Ghemawat, 2001). Although the gravitational model is mostly linked to international trade, as aforementioned, it is also pertinent to relate the gravity effect to the FDI flows. For that reason, and to conclude, IPAs are crucial regarding the attraction of investment in culturally distant countries (Harding & Javorcik, 2011).

Overall, the findings suggest IPAs' positive influence on the attraction of FDI. Indeed, it became clear that regions that do not have investment promotion agencies are not likely to be considered as an investment destination as much as the ones with an established and a successful IPA (Lim, 2008; Anderson & Sutherland, 2015). For that reason, it can be concluded that the existence of a national IPA can thus improve the chances of a country attracting foreign direct investment. Consequently, and since IPAs are also relevant to help firms venturing abroad, Governments are focusing on establishing and giving incentives to these institutions (Hayakawa *et al.*, 2010; Bezuidenhout & Pietersen, 2015).

3. Case Study: InvestPorto

This study aims at understanding how economic diplomacy can promote foreign direct investment, more specifically through the action of investment promotion agencies. The focus of this research will be on InvestPorto, a regional investment promotion agency based in Porto, Portugal, that works in order to attract investment into the city. Section 3.1 will introduce the methodology and the selected approach, as well as the multinational companies that agreed to participate in this study. In Section 3.2 we will briefly explore the FDI inflows in Portugal and the economic outlook in Northern Portugal and in Porto. Section 3.3 will briefly introduce InvestPorto.

3.1 Methodology

This study's aim, as aforementioned, is to find evidence on how an investment promotion agency can promote FDI inflows. For that purpose, and regarding the main objective of this investigation, we selected a qualitative analysis, which is believed to be the most adequate to answer the research question. It “includes a sequence of interpretative techniques that seek to describe, decode and translate concepts and/or phenomena” (Basias & Pollalis, 2018, p. 95). According to Yin (2011), a qualitative method allows to study in detail a huge range of topics, covers contextual conditions and endeavours to collect, integrate and present data from different sources of evidence as part of any study. Moreover, according to Basias & Pollalis (2018), it helps research in new areas, it supports the analysis of a phenomenon in its natural environment and, when in comparison with quantitative methods, the qualitative ones allow much more flexibility to the researcher and to the participants.

We decided to organise a case study, focused on InvestPorto, which is helping to attract several FDI projects to Porto, since its creation in 2015 (InvestPorto, 2015). According to the classifications made by Yin (1993), the case study we conducted is an explanatory one, given that it is focused on understanding a phenomenon; in this case, it aims at understanding how the IPA is promoting the attraction of FDI into Porto. Therefore, we conducted individual semi structured interviews to a staff member of the IPA, as well as to firms that decided to invest in Porto and are being supported by InvestPorto, since this

approach aims at understanding the meaning of the phenomenon (Saraiva, 2018). Furthermore, semi structured interviews are very flexible, because they allow the interviewer to ask questions beyond the ones that were already meant to be asked. Additionally, secondary data was also retrieved, in order to validate the information collected in the interviews and to support them.

All interviews were scheduled via e-mail. They were performed remotely, through the Software *Microsoft Teams*.

The first interview was conducted on February 23rd 2021, with the collaboration of Ricardo Valente, City Councillor for Economy, Tourism and Commerce and the current leader of InvestPorto (see Annex I). Its main objective was to understand the IPA's perspective on the importance of economic diplomacy, through the action of investment promotion agencies, and to analyse InvestPorto's performance since the beginning of its activity.

To understand the firms' perspective regarding the role and the performance of the IPA, we decided to interview some multinational companies. In order to select the firms that were going to participate in the study by being interviewed, we defined that the firms needed to be foreign (as our study aims at investigating the attraction of FDI into Porto, the Portuguese companies were out of scope). We found fundamental to interview Critical TechWorks, as it was the only firm mentioned in Ricardo Valente's interview that is a joint venture. We performed a convenience sample, as the other two chosen firms were the easiest to reach out.

Table 2 gathers a brief presentation of the multinational companies that were interviewed, by displaying the sector of activity in which they are inserted, the name of the interviewee that represented the respective firm, the date when the interview was held, and other relevant data regarding the investment that was done in the city. A transcription of the interviews to Natixis, Critical TechWorks and Sitel can be found on Annex II, Annex III and Annex IV, respectively.

Table 2 – Brief summary of the firms interviewed

	Natixis	Critical TechWorks	Sitel
Sector of activity	Banking	Engineering	Contact Centre
Headquarters	France	Germany (BMW) and Portugal (Critical Software)	United States of America
Date of the interview	31 th March 2021	6 th April 2021	14 th April 2021
Interviewee	Nádia Cruz	Paulo Guedes	Ricardo Verdasca
Interviewee's function within the multinational company	Communication and Marketing Manager	CFO	Business Unit Director
Establishment year in Porto	2017	2018	2015
Was the firm already in Portugal?	No	No	Yes (for more than 20 years in Lisbon)
Type of investment	Greenfield	Greenfield	Greenfield
Level of control	Wholly-owned subsidiary	Joint venture (between BMW and Critical Software)	Wholly-owned subsidiary
Number of employees working in Porto's office	≈ 1100	≈ 650/700	750

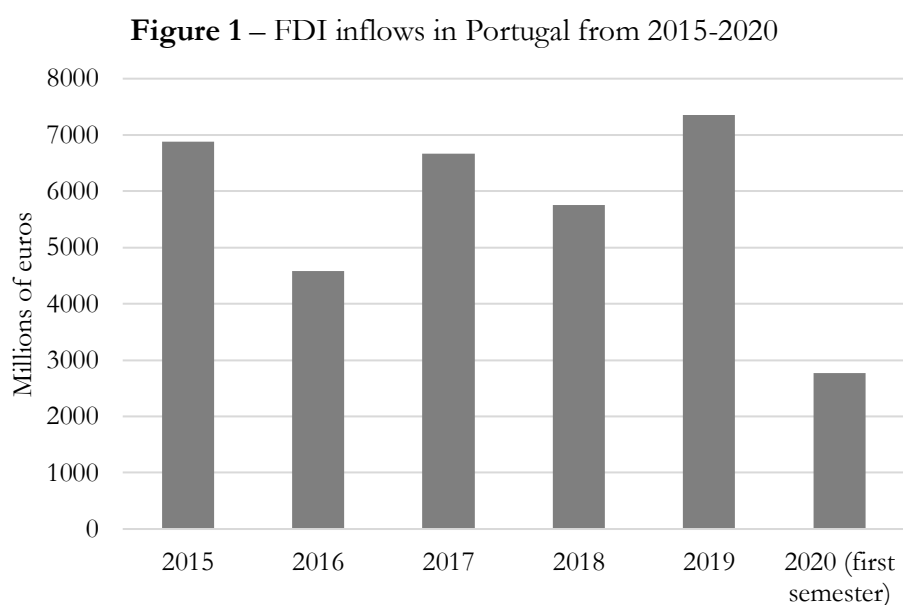
Source: own elaboration, based on the interviews conducted to the firms.

From the Table, we can conclude that these companies chose a greenfield investment and all but Critical TechWorks, which is a JV, are wholly-owned subsidiaries. We can also verify that all companies have invested in Porto after InvestPorto has been created.

Lastly, in Sitel's case, the firm was already in Portugal for some years before investing in Porto. On the contrary, Natixis and Critical TechWorks chose Porto as the first Portuguese location. Currently, Natixis only operates in Porto, within Portugal, and Critical TechWorks is now also based in Lisbon.

3.2 FDI inflows in Portugal and economic outlook in Northern Portugal and in Porto

Before exploring the case study, a brief note on the Portuguese case is worth being mentioned. Portugal is currently situated in the 39th position, from a range of 190 economies, regarding the ease of doing business (Doing Business, 2020). Banco de Portugal finds that the highest value of FDI inflows in 5 years was reached in 2019, corresponding to approximately 7,4€ billion (Figure 1); still, according to Agência para o Investimento e Comércio Externo de Portugal (AICEP)¹, in 2020 it dropped by 22,4% in the first semester, following the global trend set by the pandemic of COVID-19 (AICEP, 2020). Lastly, it is also crucial to note that the European Union (EU) is the primary source of Portugal's FDI inflows (77,6% as of June 2020), with a major role played by the Netherlands, Spain, Luxemburg, France and the United Kingdom (UK), which was still a member of the EU in the period analysed; outside the EU, the main sources of FDI inflows are Brazil, Switzerland, China and Angola (AICEP, 2020b).

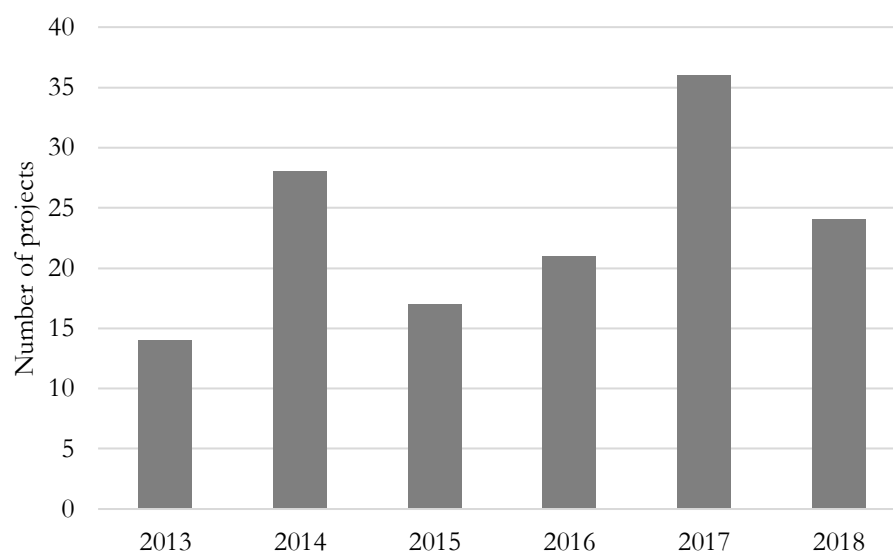


Source: own elaboration, based on AICEP's data (2020b).

¹ AICEP Portugal Global is a trade and investment agency that acts under the authority of the Portuguese Government with the purpose of attracting FDI inflows to Portugal and supporting Portuguese firms venturing abroad, whether via FDI or export activities (AICEP, 2020a).

In recent years, FDI in Northern Portugal is growing faster than in Portugal itself and in the EU as a whole (EY & InvestPorto, 2019). From 2013 to 2018, the growth rate of foreign direct investment in this region was of 11,4% on average, reaching its peak in 2017 (EY & InvestPorto, 2019) (Figure 2). According to the study, in 2018 this region was responsible for 45% of the jobs created in Portugal. Furthermore, the North of Portugal received, in 2018, 32% of Portuguese's FDI (EY & InvestPorto, 2019). Still reporting to 2018, the major part of the investments made in Northern Portugal that year were from France (46%), Germany, Spain, Switzerland, United Kingdom, Austria and Italy (these last six countries representing 42% in total) (EY & InvestPorto, 2019). Moreover, in 2018, Porto was considered by the World Business Angels Investment Forum the *Best Startup-Friendly City of Europe* and Europe's third fastest growing tech hub (EY, 2020). The EY Attractiveness Survey 2019, made in collaboration with InvestPorto, sought to demonstrate the attractiveness of the city of Porto and of Northern Portugal. The quality of life, the stability of social climate, the telecom infrastructure, the labour costs and, lastly, the potential for productivity increase are the main reasons given to the attractiveness of this region (EY & InvestPorto, 2019).

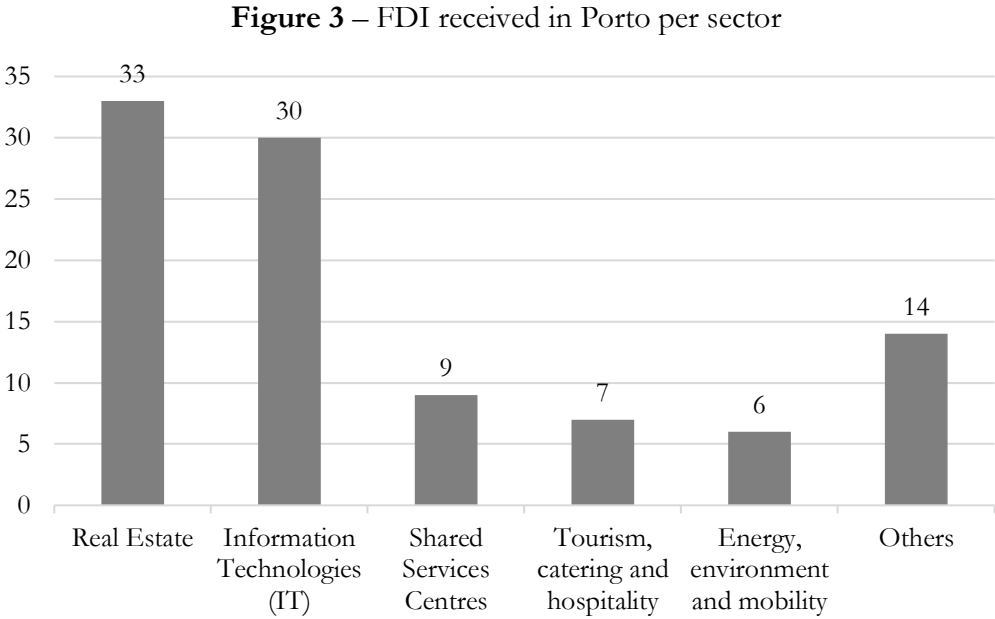
Figure 2 – Performance of FDI in Northern Portugal



Source: own elaboration, based on EY's report data (2019).

According to the data gathered in InvestPorto’s interview, the foreign firms that have been recently established in Porto come from more than 30 different countries. InvestPorto’s top 10 of FDI source is, by degree of importance, France, United Kingdom, Germany, the United States of America, Netherlands, Spain, Israel, Switzerland, Belgium and Brazil; Europe represents 71% of the investment attracted to Porto. By comparing this data with the overview of the source of FDI inflows into the North of Portugal, it is possible to observe that France, Spain, Switzerland and the United Kingdom are mentioned by both EY and InvestPorto (2019), and by InvestPorto (2021). As the study made with EY was conducted more than 2 years ago, perhaps it explains the fact that the sources of FDI referred to by Ricardo Valente do not match accurately the study’s data. Moreover, the study focuses on the North region as a whole and, therefore, it is conceivable that the data is not equivalent to the one given by InvestPorto, which focus only on the FDI received in Porto.

In this regard, it is also relevant to note in which sectors do the firms invest the most in Porto: 33% of the investment attracted is in real estate and 30% is in information technologies (Figure 3).



Source: own elaboration, based on the interview to Ricardo Valente (2021).

3.3 InvestPorto

InvestPorto is an investment promotion agency founded in 2015 that acts in order to attract investment into the city of Porto, Portugal. More specifically, and according to this IPA (InvestPorto, 2020d), it is an entity that endeavours to enhance “the value of Porto’s competitive advantages, promote a business environment based on sustainability and resource enhancement, accompany all companies that find here a harbour for exploring the world, promote the attraction and retention of talent as well as its requalification and continuous improvement, and certainly promote Porto as an attractive investment destination on a global scale”. Therefore, its mission is to promote the Municipality of Porto, attract investment and support investors (InvestPorto, 2020e). InvestPorto has a vast network, by offering a huge range of services before, during and after the investment (Lehmann, 2016). It is important to note that InvestPorto not only works so as to attract foreign investment, but also national one.

In order to attract foreign investment, there are some incentives aiming at promoting a better investment environment. In this sense, municipal, financial and tax incentives are being given, beyond others (InvestPorto, 2020c).

Presently, the initiative ScaleUp Porto allows to inspect and promote the competitive environment of the city, and it enables the city’s startups to access all the information needed. In this sense, this enables to find new startups, to create recommendations of firms and investors and to understand the investment’s evolution (InvestPorto, 2020b). Notwithstanding the impact of the COVID-19 pandemic, Porto’s startups are responsible for an annual turnover of more than 126 million euros (InvestPorto, 2020b).

InvestPorto has already provided support to over 320 private investment projects, involving investments of more than 1.3€ billions and creating more than 14 300 jobs in Porto (InvestPorto, 2020f). In this context, InvestPorto’s activities seem to have boosted the region’s competitiveness and promoted a positive impact on job creation, innovation, technology and urban renewal (InvestPorto, 2020f).

4. Results and Discussion

In this Chapter, we present and discuss the outcome of the interviews. Section 4.1 will focus on the information gathered in the interview conducted to InvestPorto and, therefore, it will present the IPA's perspective on economic diplomacy, among other topics. Section 4.2 will display the data gathered in the interviews conducted to Natixis, Critical TechWorks and Sitel. Lastly, Section 4.3 will focus on comparing the global results with the literature review.

4.1 InvestPorto's perspective on IPA's role

In this Section we present the data collected from InvestPorto's interview. Therefore, the following paragraphs refer to Ricardo Valente's perspective on the questions asked.

InvestPorto is a municipal division under the macrostructure of Porto's Town Hall, currently with nine employees. Thus, InvestPorto's scope is trans-municipal. Initially, it was focused on promoting and supporting investment. However, under the leadership of Ricardo Valente, from 2016 on, it started also to support the existing investments in the city. In this regard, the IPA implemented an after-care strategy, in order to accompany the firms that were already established in Porto, so as to continually give advice and guidance to them, whenever needed and requested.

InvestPorto believes that the talent (that is, the qualified labour) is fundamental, so they are very focused on this. Furthermore, based on the results of a study mentioned by Ricardo Valente that was conducted with the aim of investigating the talent in the city, it was concluded that Porto, as a microregion, was the Portuguese region that produced more talent. In the IPA's point of view, that confirmed that Porto has the conditions to grow. Given this, the IPAs' ideal aim is not to export the talent itself, but to export the product of the talent.

In order to gain notoriety, InvestPorto, under the leadership of Ricardo Valente, created internally an area dedicated to economic diplomacy. This diplomatic strategy is being employed on fairs abroad. InvestPorto has been participating in the two biggest fairs of real estate investment: MIPIM, in Cannes, France, and EXPO Real, in Munich, Germany.

Moreover, it has been participating in several international investment conferences, throughout Europe, and also has been promoting investment into Porto by traveling abroad. In many cases, in accordance with the interviewee, InvestPorto can only attract investment by going directly to the source of it; so, the IPA refers to the necessity to promote territorial knowledge. Unfortunately, according to Ricardo Valente, because of the COVID-19 global pandemic, this process is currently suffering constraints.

From the interviewee's perspective, InvestPorto is considered a proactive IPA, because not only does it receive a lot of contacts from foreign companies, but it also uses public marketing approaches and publicity in investment magazines, for example, as it intends to promote the city internationally.

Regarding the incentives given to companies, the interviewee claims that from a national perspective, financial incentives are relevant, because every country have these types of investment incentives. According to the interviewee, as in Portugal the Town Halls do not have a fiscal capacity of their own, a huge part of the existing national benefits is directed to productivity incentives, to research and development (R&D) incentives and to employment incentives. Additionally, the incentives exempt firms of tax contributions to social security for 3 years. However, in a local perspective, the incentives are seen by the IPA as irrelevant, even though in InvestPorto's website there is a section that gathers some incentives that are being given both municipally and nationally, as aforementioned. Moreover, currently the IPA has an incentive designed to support the firms throughout the pandemic crisis (InvestPorto, 2020c). To conclude, the biggest incentive Porto gives as a city is directed only to real estate and is related to urban rehabilitation.

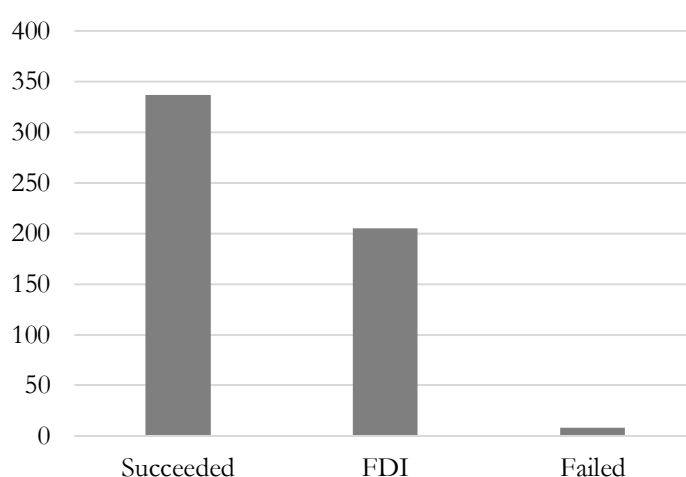
So, InvestPorto's role is more focused on giving support to the firms, instead of giving them financial incentives to invest. For the investing multinational companies, the main incentive, according to Ricardo Valente, is the capacity that InvestPorto has in providing support throughout the investment process: during the decision to internationalise, the establishment in Porto, and the growth and expansion within the Porto's site. In Ricardo Valente's perspective, this is much more valuable than providing financial support, because it allows the firm to be supported at all times and to feel cared for.

Since the beginning of its activity, InvestPorto has supported 337 investment projects: 61% of these are from foreign firms (FDI) and 39% are from national investors.

There is no data regarding the percentage of FDI attracted into Porto that resulted from InvestPorto's work. However, the IPA believes that the main part of the investment attracted into Porto is being supported by InvestPorto.

In this regard, naturally InvestPorto was involved in negotiations that have failed, counting 8 so far. The IPA currently is involved in 345 projects (337 from these have succeeded, as aforementioned (Figure 4)). In some cases, the companies decided to choose another location; in other cases, they abandoned the idea of internationalising. Given that all processes are very time consuming and negotiations generally can last from 6 months to a year, the agency considers that it is normal that the firms change their needs in the meantime and decide to not venture into Porto. Moreover, in 2020, due to the COVID-19 pandemic, a lot of companies abandoned the idea of venturing abroad, as stated by InvestPorto.

Figure 4 – Number of projects accompanied by InvestPorto



Source: own elaboration, based on the interview to Ricardo Valente (2021).

During the negotiations, the companies contact the IPA and inform what they pretend to do in Porto and how many employees they need. In this sense, in order to be selected to work with the firm, InvestPorto must answer a lot of requirements (named RFI, meaning *reference for investment*), in which the multinational companies ask the IPA to provide data and indicators, and from that moment on the agency does not know with whom the firms are negotiating at the same time.

According to the interviewee, when establishing in Porto, investors rather own the whole firm, so they do not seek partners. Usually, large companies have been investing in Porto, in order to establish their centres of development, technology, shared services, among others, and they normally do it by creating a subsidiary in Portugal. Furthermore, as stated in the interview, in general, they do a greenfield investment. There are, of course, some exceptions, such as BMW that did a joint venture with Critical Software, named Critical TechWorks. Rarely do the firms acquire a national company.

Regarding the attractiveness of Porto, InvestPorto points out the fact that the industry is being dominated by the services, which has changed radically the business locations. Porto has gained notoriety after being considered in 2016 one of the best European cities to visit and to live in. For that reason, many of these business locations started to be set in areas with good living conditions and, in that regard, Porto is hugely captivating, according to the interviewee. When comparing to other European cities, such as major capitals, Porto can be more attractive, because the city offers a good quality of life to its citizens, which leads to an increase in productivity, according to Ricardo Valente. Since the business locations are very close to the living areas, the firm's employees do not need to spend a lot of time commuting. Additionally, Porto is known to have an exceptional amount of qualified labour. Lastly, Portuguese workers are known to speak quite well a lot of different languages, such as English and French, which is a great advantage. In this respect, InvestPorto underlines that these are only the first steps for the region to become a huge location centre of corporates.

In Ricardo Valente's point of view, economic diplomacy is nowadays the main diplomatic strand. According to the interviewee, Portugal is not a relevant country within the EU, and he regrets the fact that diplomacy is constructed regarding Portugal as an isolated country. Today, in his opinion, all sorts of diplomatic fronts should have an AICEP representative and should stimulate economic diplomacy. This strand of diplomacy should, in his point of view, be fundamental to Portuguese ambassadors, as their focus should also be to promote the Portuguese economy. In this regard, InvestPorto claims that Portugal was not taking advantage of what economic diplomacy can carry. For that reason, this perspective is in accordance with Neves (2017), who argues that Portugal does not have a strong economic diplomacy yet. Therefore, Porto created this IPA to fight the lack of effort put

into the economic diplomacy affairs in Portugal. In the interviewee's opinion, economic diplomacy is a huge opportunity to Portugal and should be invested in.

The level of engagement of InvestPorto in stimulating Porto's economic growth is seen by the IPA as progressively growing. Nowadays, InvestPorto is considered by Ricardo Valente as very agile and receptive, as it can provide swift answers to the supported multinational companies and to the firms that are seeking to venture into Porto.

To conclude, Ricardo Valente argues that InvestPorto's role and existence is fundamental. According to the leader of the IPA, the cities are only going to develop themselves if they are open to foreign investors and, therefore, to receive in their region foreign investment. In the Portuguese case, as the population gets older, it is fundamental to let foreigners invest in Portugal. Ricardo Valente believes that there will be a technological transformation to enable people to work more, since retirement will be delayed due to the ageing population. So, in his words, it will be needed more labour into the city and, for that reason, the region will need to attract more foreign investment.

4.2 Multinational companies' point of view

By analysing the answers given in the interviews by the selected multinational companies, it was possible to do a cross-examination and understand the role that InvestPorto has been playing. Not only we learned about the performance of this IPA and the importance given to economic diplomacy by the firms, but we also uncovered the companies' reasons behind the decision to invest in Porto.

Table 3 displays briefly the answers given by the companies, when asked about the reasons and motives to invest abroad.

Table 3 – Reasons/motives given by the firms to internationalise

Firms	Reasons
Natixis	Project of nearshoring, in order to reduce costs with subcontracted counsellors, that were responsible for all IT activities for Natixis.
Critical TechWorks	Search for qualified labour in the areas of engineering, automotive, aeronautics, industry, finance, and so on.
Sitel	Project of nearshoring, in order to reduce costs.

Source: own elaboration, based on the firms' interviews.

Both Natixis and Sitel implemented a nearshoring strategy, which consists in outsourcing some kind of activity or activities in a nearby country: Natixis' headquarters is located in France and Sitel's in the USA (although Sitel has many operational sites in Europe). In both cases, the purpose of this decision was cost-wise, so as to reduce the costs the firms were facing and opt for a more economical alternative abroad. As for Critical TechWorks, the objective behind the decision to invest was, as referred to in the Table, the search for qualified labour/talent.

In order to understand the claimed attractiveness of Porto, we asked the interviewees what were the main determinants that lead their firm to invest in Porto. The results are present in Table 4. This Table aims to compare InvestPorto's point of view of what currently are the main determinants that are leading foreign firms to invest in Porto to the actual determinants that have led these firms to invest in Porto and that were referred to during their interviews.

Table 4 – Determinants for investing in Porto

Determinants	InvestPorto's point of view	Natixis	Critical TechWorks	Sitel
Labour costs	No	No	No	Yes
Pool of talent	Yes	Yes	Yes	Yes
Living conditions	Yes	Yes	Yes	Yes
Geographical distance	-	Yes	Yes	Yes
Knowledge of foreign languages	Yes	Yes	Yes	Yes
Political stability	-	Yes	Yes	-

Source: own elaboration, based on the firms' interviews.

According to the information in Table 4, the main motives mentioned by the companies to invest in Porto were the pool of talent, the living conditions, the geographical distance and the knowledge of foreign languages. These determinants are in accordance with the ones given by Ricardo Valente's interview and with the study presented by EY & InvestPorto (2019), even though the talent in Porto is not mentioned in the study.

Both InvestPorto and Sitel referred to the massive attraction of tourism into Porto as an important determinant to invest in the region. Indeed, both entities related this to living conditions in the city which is, as agreed in all interviews, a very important determinant for investing in Porto. Still in this regard, Natixis and Sitel reinforced that it is very important to guarantee that their expatriates, for example, have good conditions and have a comfortable life during their assignment in Porto.

Another important matter is the fact that only in Sitel's interview labour costs were definitely described as a relevant determinant, which is also in accordance with the study presented by EY & InvestPorto (2019). Indeed, labour costs were important to the companies and were weighed. However, the decision made by them was claimed not to be cost-wise, but, instead, it reflected a weighting between the labour costs and the quality of

the talent that Porto provides. Therefore, when faced with different alternatives, the companies, such as Natixis, chose the location that offered a better talent, in spite of labour costs. Thus, it was argued that Porto had a good ratio between labour costs and the quality of the talent.

The knowledge of foreign languages is also an important point that the companies sought. Natixis and Sitel focused on this determinant, which was very valued by them. For Critical TechWorks it was also essential, but it was not the most important determinant. Natixis enhances the knowledge of French and English, Sitel the German and English and Critical TechWorks only the English, as the most valuable foreign languages broadly spoken in Porto.

The geographical distance, as well as the cultural proximity in Natixis' case, were also referred to when the multinationals were asked about the reasons behind the decision to internationalise to Porto. The firm considered that these determinants were very important and, according to Nádia Cruz, both these distances are very short, when comparing Porto to the headquarters in Paris, France.

Furthermore, Sitel argued that the motives behind the decision to invest in Porto were weighted regarding a strategy focused on a social, cultural and, most importantly, economic perspective. Therefore, it reinforced the importance of the cheap qualified labour available in the city.

Regarding the questions concerning InvestPorto, all firms indicated that the contact made with InvestPorto was initiated by themselves. Concerning the firms' perspective regarding the importance of InvestPorto's performance and, more broadly, the importance of the role that economic diplomacy plays in the attraction of foreign investment, the answers of the firms' representatives are summarised in Table 5.

Table 5 – Rank given by the firms to the role of incentives, the performance of the IPA and to the importance of economic diplomacy

	Natixis	Critical TechWorks	Sitel
Importance given to national incentives	High	Very low	Very low
Importance given to local incentives	Irrelevant	Irrelevant	Irrelevant
Importance given to InvestPorto in the investment/establishment process	Very high	Very high	Irrelevant
Importance given to InvestPorto in the after-care service	Very high	Very high	Low
Importance given to economic diplomacy in the attraction of FDI	Very high	Very high	High

Source: own elaboration, based on the firms' interviews.

From the results presented in Table 5, when the multinational companies were asked if the incentives given nationally and locally mattered to the decision to invest in the region, the general perception was that they were irrelevant. Only Natixis stated that the national incentives were important to the firm. This feedback from the multinational companies is in accordance with the information given by Ricardo Valente in his interview, when the InvestPorto's representative declared that the incentives given were insignificant to the firms. Thus, it is possible to conclude that the incentives were not a decisive factor for investing in Porto, since they did not convey a lot of advantages to the internationalisation process, according to the interviewed firms.

The Table also sums up the importance given by each firm to InvestPorto's performance and to economic diplomacy through the action of investment promotion agencies. From the three participants, Sitel was the only firm not involved with InvestPorto from the beginning. Therefore, the non-existing importance attributed to the performance of InvestPorto during the establishment process by Sitel is biased, since the contact between the two entities was made only after the decision to invest in Porto and Sitel, according to Ricardo Verdasca, has not been very open to the support of InvestPorto: "(...) I have to

clarify that InvestPorto is very receptive and dynamic. On the other hand, currently Sitel is lacking dynamics, agility and proactivity regarding this issue.” Thus, and although Sitel recognises the proactivity and the interest InvestPorto shows in supporting the firm, the interviewee cannot rank accurately this point. Furthermore, in this sense, Ricardo Verdasca argued that he regrets the fact that Sitel is not taking advantage of all the benefits that InvestPorto can provide in the after-care service, “(...) I can say that it would be very advantageous for Sitel to have a stronger connection with the IPA”.

Natixis and Critical TechWorks strongly agree that InvestPorto has been very supportive, not only in the investment process, but also regarding the after-care service. The on-going support and guidance that InvestPorto provides is very valued by the firms. As stated by Paulo Guedes, “We have interacted frequently and I really think that Critical TechWorks could not ask for more: InvestPorto has been very competent and supportive”. Concerning the investment process, both Natixis and Critical TechWorks focused on the importance that InvestPorto had on supporting the firms to find an office space. In this regard, Paulo Guedes believes “(...) that the main role of InvestPorto is as an advisor and, in some areas, as a leader.” This, in fact, was strongly argued by the two firms and Ricardo Valente, in InvestPorto’s interview, refers to that accordingly. As Porto is a small region, it is difficult to find a space that answers to the firms’ needs. Thus, InvestPorto role was of utter importance in this regard, according to Natixis and Critical TechWorks.

Moreover, and referring to the after-care service, Natixis highlighted the experience sharing that InvestPorto promotes, by gathering potential investors and already established firms together to discuss the viability of investing in Porto. Furthermore, Nádia Cruz, in Natixis’ interview, argues that “InvestPorto has been doing an amazing job providing visibility and notoriety to foreign companies that are established in Porto, in regards to the employer branding and recruiting, which is extremely important because Natixis can only stay in Porto and contribute to the local economy if we keep recruiting”. Additionally, Nádia Cruz also referred to the importance of the networking which InvestPorto is promoting very frequently. Therefore, the after-care service is being hugely valued by the firm.

Lastly, the three firms, as well as InvestPorto, believe that economic diplomacy is fundamental to draw foreign investment. Referring to multinational companies that are investing from scratch on a foreign country, Nádia Cruz underlines that “(...) it is

fundamental to have the support of an exempt entity, with the sole interest of growing the local economy”. Additionally, Ricardo Verdasca claims that “(...) economic diplomacy is important to draw investment, mainly to ensure that the companies are stable and to help them grow. Investors need help to establish and solidify their business plans in a long-term perspective.”

4.3 Final Discussion

This study’s aim was to understand to what extent does the presence of investment promotion agencies promote the attraction of foreign direct investment. For this purpose, data gathered from the semi structured interviews were compared and analysed.

From the global results gathered in the interviews to the multinational firms, it was clear that in their perspective economic diplomacy is fundamental. According to OECD (2018), IPAs can facilitate business establishment and operations. In our case, even if they would still invest in Porto without the help of InvestPorto – as the firms mentioned in their interviews that the existence of a regional investment promotion agency was not a decisive factor when venturing abroad –, the firms strongly agree that the support the investment promotion agency provided to them during the internationalisation and the after-care service was very beneficial to them and helped the Porto’s site to thrive. Therefore, both the support during the establishment and the guidance that has been given afterwards has been seen by the firms as very valuable and essential. Hence, the importance of economic diplomacy on attracting FDI was corroborated by every interviewee’s testimony.

Although Ricardo Valente could not provide any figures that proved the impact of the activity of InvestPorto in Porto’s economy, the IPA’s representative strongly argued that it is responsible and is supporting most FDI that is being attracted to the city. This can be linked to the findings by Harding & Javorcik’s findings (2011), that states that investment promotion activities are responsible for an increase of FDI inflows. Additionally, the authors, as well as Crescenzi *et al.* (2021), find that investment promotion agencies can encourage FDI inflows by alleviating excessive bureaucracy. This topic is very important, since Natixis and Critical TechWorks highlighted the important role InvestPorto had in supporting the

internationalisation process, namely by accompanying the firms in the search for an office space.

InvestPorto focused on emphasizing that the IPA not only provides assistance during the internationalisation process and the establishment in Porto, but also supports the firms by delivering an after-care service. According to Kersan-Škabić (2015), the majority of the IPAs that were studied by the author continue to assist investors in the post-investment phase. Consequently, this matches the idea that the after-care service is as important as the support during the first phase of the investment, as agreed by the interviewed multinational companies. Not only the IPA was, in their perspective, relevant to support them in the beginning of the investment process, but it also has been fundamental since their establishment. Sitel did not have the support of InvestPorto initially, but it appreciates the after-care service the IPA is delivering to the firm.

Additionally, the firms also mentioned that they contact regularly the IPA and *vice versa*. In this regard, Natixis declared in its interview the importance of experience sharing that InvestPorto has been promoting between firms. According to this firm, InvestPorto asks sporadically Natixis to meet with potential investors to share its experience of having invested in Porto and of having the support and guidance of the IPA since its establishment. Thus, the firm considers this a very valuable experience. On this subject, Morisset & Andrews-Johnson (2004) claim that an investment promotion agency can promote a flow of information to potential investors. So, it can be argued that experience sharing can likewise be a means of directing information at potential investors.

Regarding the motives to invest abroad, the four main ones are resource-seeking, market-seeking, efficiency-seeking and, lastly, strategic asset-seeking (Dunning, 2000). After having questioned the firms about their motives to invest in Porto, we concluded that Critical TechWorks was seeking resources, as the firm's main motive for doing a JV was to acquire more qualified labour. In this sense, it can also be argued that Critical TechWorks also looked for strategic-assets, them being the qualified labour they were seeking abroad. On the other hand, both Natixis and Sitel referred to their strategy of nearshoring in order to reduce costs. Therefore, for these two firms the main motive behind the decision to venture abroad was an efficiency-seeking one, since it aims at choosing the best low-cost locations, providing a better efficiency. In this sense, our findings are in accordance with the study focused on

Portugal, conducted by Ferreira (2018), that claims that cheap labour, as well as the existence of a large number of qualified workers, is a strong motivation for foreign countries that have higher labour costs to invest in Portugal. To conclude, as the pool of talent and knowledge of foreign languages were discussed by all interviewees as one of the most important determinants for investing in Porto, resource-seeking and strategic-asset seeking may be the most dominant motives the interviewed firms had to venture into Porto.

Concerning the geographic proximity, mentioned by Natixis and Critical TechWorks as a fundamental determinant for choosing the city of Porto, Anderson & Sutherland (2015) argue as well that with a shorter distance, the more likely it will occur an investment between the two locations. These findings are also in accordance with Ferreira (2018) and Erel *et al.* (2012). Our results also suggest that a short geographical distance is an important determinant for FDI, which is in conformity with the gravity model by Tinbergen (1962), although this model is focused on international trade, as previously mentioned. Moreover, when regarding the top 10 sources of FDI into Porto, it is clear that these countries are very close to Portugal or have an affinity to the country (for example, the usage of the same language). Additionally, and regarding the example given by Sitel, the fact that Portugal has many emigrants living in France and Germany is very important to link these countries and the respective economies. In accordance with Ricardo Verdasca, the emigrants that return to Portugal and their descendants can speak the language of the host country fluently, which is very beneficial to the companies that are investing abroad to have fluent speakers. It is also argued, regarding Sitel's perspective on the topic, that the emigration rate can benefit and ease the relations between countries, since it can, perhaps, shorten the cultural gap between the populations. The findings are in accordance with Dunning (1988) as well, who finds that the geographical, linguistic and cultural distance are location advantages.

Lastly, according to Alon *et al.* (2020), greenfield investments are more likely to happen between countries with a small geographical and cultural distance. As all the analysed investments were greenfield ones, the findings of this study are in accordance with the aforementioned authors. Nguyen *et al.* (2020) also argued that greenfield investment is very beneficial since it creates employment and increases the number of existing firms: in this particular case, in a short period of time, the three firms were responsible for creating around 2500 new jobs. According to Chen & Hu (2002), equity joint ventures are more likely to be

formed between partners with a small cultural distance. Although the cultural distance was not specifically mentioned by Critical TechWorks (which only focused on the geographical distance), we find these results to be in conformity with our case study.

5. Conclusions

Economic diplomacy is currently focused on conducting international business (Castro, 2008). For this reason, it has been focusing on promoting foreign direct investment flows between countries (Marková, 2018). As economic diplomacy has been raising attention and has been receiving increasingly more importance, it became clear that diplomats ought to endorse negotiations, so as to promote commercial affairs between countries. Although the literature on the influence of economic diplomacy on international trade is fairly abundant, the same cannot be said regarding the influence and the impact of economic diplomacy on foreign direct investment. In this regard, this topic was chosen to deepen the knowledge on this subject. In order to understand how an IPA can promote the attraction of FDI, we conducted a case study about the agency InvestPorto, and complemented it with the firms' perspectives on the performance of the IPA and on the importance of economic diplomacy.

The data collected in the interviews allowed us to conclude that the existence of a regional investment promotion agency is seen by this one and the firms as beneficial and very relevant to the investors. The three interviewed firms all agreed on the importance of InvestPorto in the internationalisation process. Even Sitel, that does not work closely with the IPA since the beginning of its activity in Porto, agrees that economic diplomacy is of utter importance. Thus, these results support positively the premise for this case study, which aimed at understanding if the presence of an investment promotion agency, in this particular case InvestPorto, can promote the attraction of foreign direct investment into the host region (in this case, into Porto).

It was also interesting to analyse the motives given by the multinational companies for their decision to internationalise. In accordance with the interviews, we came to understand that the most important determinants for investing in Porto were the pool of talent, the considerably good living conditions that the district offered, the geographical distance and the solid knowledge of foreign languages.

This research contributes to the literature, considering the fact that the investigation on how economic diplomacy can promote FDI is still not a very explored subject. Furthermore, it is the first case study to focus on the performance of a Portuguese IPA and

to connect the concept of economic diplomacy with foreign direct investment. Moreover, the other studies focused on linking these two topics, namely the ones that had their empirical results displayed in Table 1, have used a quantitative approach. In this regard, this research differs from the pre-existent ones, in the sense that by collecting richer answers from the interviewees, it allowed us to better understand the phenomenon, hence contributing to the existing literature.

Nevertheless, this study suffered from some limitations. The biggest that we've encountered was the lack of will of some multinational companies to participate in the study, as only three agreed to participate. For this reason, the study lacks in diversity and the sample is too short to have definite and wholly accurate results, thus not allowing for generalisations. If more firms had participated, the sample would be much richer. Additionally, in the literature review we tried to give a broad notion of economic diplomacy. More specifically, in the Table that displayed the results from several empirical studies regarding the impact and the influence of investment promotion agencies in attracting FDI (Table 1), we have gathered information also regarding developing countries. As the interviews were conducted to an IPA, as well as to three firms, established in developed countries, the results cannot verify if the information focused on the developing countries is accurate. Also for that reason, the study was limited, as it only focused on the FDI between developed countries. Lastly, since the firms continue to be in contact with the concerned IPA, their answers may be considered biased and partial, which may configure a constraint.

Regarding future research, the relation between investment promotion agencies and the attraction of FDI can be more explored. Researchers could further investigate this subject by contacting more firms to participate in interviews or, even, in a questionnaire. That way, by having a larger number of participating multinational companies, the result of the study would be richer and more accurate, better reflecting the worldwide reality of the phenomenon. Perhaps, it would also be interesting to investigate more deeply what kind of support do firms seek when venturing abroad, as we did not find nor collect information in this regard.

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Annexes

Annex I – InvestPorto’s Interview

Interview to Ricardo Valente²

(City Councillor for Economy, Tourism and Commerce)

24th February 2021

Q: What is the main focus of InvestPorto? Why was it created?

A: InvestPorto results from a political vision of the municipality of Porto. In 2013, the Mayor Rui Moreira proposed that Porto should have an area focused on the attraction of investment into the city. In that year, Portugal was still under the influence of TROIKA and the economic crisis was still very recent. For that reason, the attraction of FDI was even more important to Portugal and to Porto. So, this investment promotion idea was brought to the table. Note that InvestPorto not only promotes the investment of foreign companies into Porto, but also of Portuguese companies into the city.

InvestPorto has different focuses, given that it evolved throughout time. Initially, its logic was to promote investment, and it was very focused on helping and supporting investment. From that moment on, about a year later, under my leadership, the scope has changed: it was not enough to just promote FDI, it was also very important to support the investments that were already in the city. For that reason, it was created an area of *after care*, to accompany the firms that were already established in the city. A lot of them correspond to the expansion of businesses that are already in Porto, so InvestPorto does not have the necessity to look for new investments frequently.

InvestPorto is focused on proving that we can grow within the city and has created a “talent” area. In 2016, I conducted a study to investigate the talent of the city and found out that Porto, as a macroregion, was the Portuguese region that produced more talent (even more than Lisbon). The main difference is that Porto exports talent, namely for Lisbon (this

² This interview excerpt contains only the relevant parts of the review. The text was treated and, therefore, this is not a literal transcription.

last one imports talent). This demonstrated that Porto had the conditions to grow and that they needed to prove it to the firms. Therefore, the objective was to export the product of the talent and not the talent itself.

Q: What is its structure? How many employees does it have?

A: InvestPorto is a municipal division under the macrostructure of Porto's Town Hall. It is the only municipal division nationally that operates in the attraction of investment. Currently it has 9 employees.

Q: Does InvestPorto only act in the municipality of Porto or also in the district of Porto or metropolitan area?

A: InvestPorto's responsibilities are for the city of Porto. All of our work leads them to act trans-municipally. For example, Vestas, Revolut and Xing are located in Matosinhos, and all of these projects were accompanied closely by InvestPorto.

Some of the firms seek locations and office spaces in a short period of time. The important thing is that companies establish themselves in Porto. Porto is a tiny municipality, which is a constraint regarding the business location, since there is not a lot of space left.

Q: Does InvestPorto promote some kind of activities abroad in order to gain notoriety?

A: I came up with the idea of creating an area dedicated to economic diplomacy, within InvestPorto. This kind of diplomacy is being employed on fairs abroad, by participating in the two biggest ones concerning real estate investment: MIPIM, in Cannes; and EXPO Real, in Munich. We also participate in several international investment conferences that occur in Europe. Additionally, we also travel abroad to promote investment attraction to Porto. In a lot of cases, InvestPorto can only attract investment by going directly to the source of the investment; so, it is fundamental to foment the territory knowledge. Unfortunately, with COVID-19 pandemic, this process is suffering constraints.

Q: How does InvestPorto contact with potential new foreign investors? Is InvestPorto proactive searching new investors?

A: It depends. In a lot of cases the companies contact them and ask questions about the city. Nevertheless, there is also a proactive logic, which means that InvestPorto intends to promote the city internationally, by using public marketing approaches/strategies and publicity in investment magazines, for example. Therefore, not only do we receive a lot of contacts, but we are also proactive contacting investors.

Q: What is the annual budget for investment promotion and how is it managed?

A: Porto's Town Hall has a lot of divisions and an analytic accounting. Regarding the economy of the city, the budget is about 1 100 000 to 1 200 000 euros. This is the budget with which we work all kinds of economies, namely the promotion of investment.

Q: What are the main incentives given to the companies and which is the percentage for this purpose? Do you believe that incentives have a fundamental role on the attraction of FDI?

A: In Portugal the Town Halls do not have a fiscal capacity of their own. So, a huge part of the existing national benefits is destined to the productivity incentives and to the research and development incentives; also, there is a set of incentives regarding employment. Another incentive is the exemption of tax contributions to social security for 3 years, due to the creation of permanent employment.

The biggest incentive Porto gives as a city is only directed to real estate: their only income is from IMI and IMT; they do not demand municipal *IVA*, *IRS*, *IRC*. Therefore, the main incentives are related to urban rehabilitation. InvestPorto's job is a lot more focused on giving support/care to the firms, instead of giving them money to invest.

The biggest incentive is the capacity that these investing firms have in meeting in Porto InvestPorto, which supports them in all the investment process (decision to internationalise, establishment, growth/expansion). This is a lot more valuable than financial support, because it allows the firm to be supported.

Q: So, do you think that the incentives are fundamental or irrelevant?

A: In a national perspective, the financial incentives are relevant, because all countries have these set of incentives to investment. Regarding a local logic, they are completely irrelevant.

Q: Since InvestPorto's creation, in how many projects has it been involved? What is the percentage of FDI attracted, regarding the total amount attracted to Porto?

A: Since the beginning, we have been giving support to 337 investment projects, 61% of these is FDI and 39% is national investment.

However, I cannot tell you the exact percentage of FDI attracted to Porto under the responsibility of InvestPorto, as we do not have this data. Nonetheless, I believe that the main part of investment into the city is supported by InvestPorto. There are no figures, though.

Q: Which countries are the main investors in Porto? In which sectors do they invest the most?

A: There are more than 30 countries involved in the projects. Our top 10 investors are located in France, United Kingdom, Germany, United States of America, Netherlands, Spain, Israel, Switzerland, Belgium and Brazil (by degree of importance). Europe represents 71% of the investment attracted to Porto.

Concerning the sectors invested, 33% is in real estate, 30% is in information technologies (IT), 9% is in shared services centres, 7% is in tourism, catering and hospitality, 6% is in energy, environment and mobility, and, lastly, 15% is in others.

Q: In your opinion, what are the main motives that lead the firms to invest in Porto? Do you consider the city captivating to investors?

A: In my opinion, Porto was discovered by the firms in a world where the main part of the industry are the services. The fact that the industry is being dominated by the services has changed radically the business locations. A lot of these business locations started to be set in areas with good living conditions.

Porto was also discovered by tourism since 2016 and it is now, from a touristic point of view, one of the best European cities (one of the best destinations, for example, to visit and to live in). From that moment on, the firms started to be concerned about choosing good locations to live as the place to establish themselves. Porto, for that reason, is hugely captivating. Big cities, such as London, start to have difficulty competing with cities like Porto (on average in London a person lives 80 km away from their work place). In this sense, Porto offers amazing living conditions to people and increases a lot the levels of productivity (companies have better productivity in Porto than in their countries of origin (for instance, considering that in London people wake up 3 hours earlier to not be late at the office and they arrive there already tired; at 4 p.m. there is no light, because the sunset is very early for most parts of the year, on the opposite of what happens in Porto)). These factors affect the quality of work, especially because this kind of work is more about creating and is not about manufacturing.

I also think that Porto is only taking the first steps into being a huge location centre of corporates.

Q: And adding to that, Porto also has a lot of qualified labour.

A: Yes, the quantity of talent in Porto is huge. Also, our people are known to speak quite well a lot of different languages, such as English and French, which is a great advantage.

Q: Do the investors seek, in general, Portuguese partners or do they rather own the whole firm? Regarding the establishment mode, the investors prefer to buy existing units or to create one from scratch?

A: In the majority of the cases, the investors rather own the whole firm, so they do not look for partners. In Porto we have large firms, so they invest here to establish their

centres of development, technology, shared services, among others, and they normally do it by creating a branch in Portugal.

In general, they do greenfield investments. We have some exceptions, such as BMW that did a joint venture with Critical Software, named Critical TechWorks. Rarely do they acquire a national company.

Q: Is InvestPorto related to negotiations that have failed? How many? Why? Which alternate location did they choose?

A: Yes, 8 projects have failed so far. For this reason, we accompanied 345 projects in total. On many cases, the companies decided to invest in another location. On other cases, they abandoned the idea of internationalising. These processes are very time consuming and the negotiations generally can last from 6 months to a year. So, it is normal that they change their intentions in the meantime. In 2020, due to the pandemic, a lot of companies abandoned the idea of venturing abroad.

These processes are confidential and InvestPorto is competing with other agencies/locations. Therefore, when we win or lose a negotiation, we do not know which agency/country on the other side won or lost. BMW is another rare exception because InvestPorto knew the locations that were being weighted by the firm: in the final decision, they chose Porto over Barcelona and Milan.

The companies contact InvestPorto and inform us what they pretend to do (establish a centre, for example) and how many employees do they need. We must answer to a lot of requirements (these requirements are named RFI, which means reference for investment), where they ask us to provide a lot of data and indicators, and from that moment on we walk step by step not knowing with whom they are negotiating at the same time.

Q: In your opinion, is economic diplomacy crucial to the attraction of FDI?

A: Fundamental! Economic diplomacy is the main diplomatic strand. Portugal within the EU is unfortunately not very relevant, and I regret the fact that the diplomacy is constructed regarding Portugal as an isolated country. Nowadays, sorts of diplomatic fronts

should have somebody of AICEP and should foment economic diplomacy. Economic diplomacy should be fundamental to Portuguese ambassadors, as they should promote the Portuguese economy. What we did in Porto was to understand what was not being done correctly. Porto developed its systems and created this IPA to bridge this gap regarding economic diplomacy in Portugal. We believe that economic diplomacy is a huge opportunity for the country and should be invested in.

Q: During InvestPorto's activities, is it possible to verify that the IPA is progressively more involved in the attraction of FDI?

A: Undoubtedly. Nowadays, InvestPorto works perfectly and its feedback capability is incredible. For example, even during my vacations, in 72h we produced the data required by a German company interested in investing in Porto and now they are successfully established here with 300 employees. I really believe that InvestPorto does not resemble a public entity because we have huge capacity of responding to investors.

Q: What is your opinion on InvestPorto's contribute to the economic growth of Porto?

A: Fundamental. There are a lot of people that do not agree with receiving foreign investment into the city. In my opinion, the cities are only going to develop themselves if they are open to foreign investors. In the Portuguese case, as the population gets older, it is fundamental to let foreigners invest in Portugal. I solemnly trust that there will be a technological transformation to allow people to work more, because retirement will be even more delayed. So, we will need more labour into the city.

So, I think that FDI is fundamental and it will even gain a bigger importance in the years to come. I hope that InvestPorto will continue even after I leave it.

Annex II – Natixis’ Interview

Interview to Nádia Cruz³

(Communication and Marketing Manager at Natixis)

31th March 2021

Q: For how long is Natixis established in Portugal/in Porto?

A: Natixis S.A. Portugal was created by the end of 2016. However, officially it is established only in Porto (we are not established anywhere else in Portugal) since March 2017, corresponding to the beginning of our activity.

Q: What were the motives behind the decision to internationalize to Porto? Do you consider Porto attractive to investors? Why?

A: There were many motives and criteria. The birth of Natixis in Portugal was a result of our former strategic plan. It was, in this sense, a project of nearshoring that represented a strategic point to Natixis that aimed at reducing costs with subcontracted counsellors, that were responsible for all IT activities for Natixis. This was not advantageous for Natixis. Since we also decided a few years to ago to bet on internationalisation, especially within Europe, we started to analyse several countries in order to establish a service centre. The choice was between Portugal, Spain, Romania and Poland. Portugal revealed to be the best choice and the main motive for that was the pool of talent. In this regard, Natixis wanted to focus on one entity all technological services for all lines of business, therefore it was essential for the firm to select a country rich in talent of excellence. Portugal reunited these requirements. In Porto the quality of the superior education in Porto is very good, as we have here renowned universities in the city and in nearby cities. Porto has also a very interesting technological environment, that is constituted by the universities and the proximity to startups and other

³ This interview excerpt contains only the relevant parts of the review. The text was treated and, therefore, this is not a literal transcription.

technological hubs. This was very captivating to us; the talent was very valued. Portugal was known by Natixis as the country of the startups and technological entrepreneurship.

Another very important point on this regard was the spoken languages. Natixis, as a French company, knows that in general French people do not speak as much English as the Portuguese. Thus, Natixis was seeking a country where its people had an excellent knowledge of English; additionally, Portugal had the advantage of also having a lot of people with a solid knowledge of French. Currently, one third of our team here in Porto can speak the three languages, which is extremely helpful when working within different departments.

The geographical distance also weighed the decision, since Porto is located only 2 hours away by plane from Paris. Moreover, the cultural proximity was also very important; if we had opted to go to an Eastern Europe country, the cultural gap would have been a lot bigger. It is also very important to note that Portugal is a very secure country, stable and with good technological infrastructures.

Lastly, another main point that was put on the table was the living conditions. Our company has expatriates that have moved to Porto, which is a very important thing since it helps to link the teams between countries. The quality of life that Porto offers to the expatriates is very good.

Q: Was the fact that Portugal has a cheap labour, when comparing to Northern/Central Europe countries also fundamental?

A: It was a quality-cost decision. In fact, if we were searching for cheap labour, we would have rather established ourselves in Poland or Romania. However, the quality of talent that Porto provides was the biggest priority.

Q: This branch was created by doing a greenfield investment or did you acquire a company? Did you seek for partners or did you take control of the whole branch?

A: Natixis did a greenfield investment in Porto and took control of the whole branch. Since we do not have a front office operation in Porto, as we operate only as a service centre, we did not consider merging with another firm.

Q: How did you get to know InvestPorto?

A: Natixis contacted InvestPorto in 2016. In that time, the decision to internationalise to Porto was not closed. Therefore, we contacted InvestPorto in order to collect as much detailed and diversified information as possible. After a few remote communications, Natixis went to Porto. In this regard, InvestPorto organised a presentation of numerous key entities: Porto Business School, INESC TEC, among others.

Q: Who established the first contact?

A: The first contact was established by Natixis.

Q: What made Natixis negotiate with InvestPorto, in order to have the support of this investment promotion agency throughout the process of internationalization?

A: InvestPorto helped Natixis from the beginning searching for a space. This was a fundamental phase, because since the very start and for a period of 3 or 4 years we were expecting to hire about 700 employees. This number naturally weighs a lot when considering an office space. InvestPorto supported in all this search and all the negotiations.

InvestPorto also facilitated the connection with AICEP, which was fundamental regarding the attribution of national incentives.

InvestPorto has also been fundamental from the start to help Natixis making new contacts. Whenever we need a supplier, partners, among others, InvestPorto has been providing a service of networking. Therefore, they are very important in providing relevant contacts to us.

They have also been giving support to the expansion of the firm. We have an expansion project and the negotiations in order to draw the expansion to Porto involve several of team, individual and corporate visits. In this sense, InvestPorto helps by presenting the city, by showing its qualities and by letting know that indeed a lot of important and big multinational companies are situated in Porto. Therefore, they are a key to help to prove that Porto is a very good option when considering the will to expand.

Q: Were the incentives given by the Portuguese State fundamental for choosing Porto? Locally, did the city of Porto offer any kind of incentives? If so, were they relevant?

A: The Portuguese State offered us very good incentives and we were subsidised by the investment they did in Porto, which allowed to empower the investment that was being made. In this sense, InvestPorto facilitated our contact with AICEP, in order to have all the information we needed, to let to know how we should apply, how to be in compliance with all the criteria, and so on.

I do not recall having local incentives.

Q: Since your establishment in Porto, have you been in touch frequently with InvestPorto? Do you maintain regular contact?

A: Yes, we maintain a regular contact.

Sometimes InvestPorto requests that we share our experience with other firms that are thinking of investing in Porto, so we do a lot of experience sharing. I remember that in the previous week we shared their experience with a German company that is considering Porto as an investment's location.

Other times, we request InvestPorto to give us content to update our presentations, to work in internal negotiations, to give *in loco* presentations to the corporate visits we receive and to host some important Natixis' members in the Town Hall. Thus, they are a very important help to the Natixis' public relations, which is pertinent to the strategy of the firm.

Q: Regarding InvestPorto, how do you rank the performance of the agency concerning the support during the internalization process and the after-care service?

A: The connection between Natixis and InvestPorto is very close, so I evaluate our relation as a very good one. InvestPorto has been doing an amazing job providing visibility and notoriety to foreign companies that are established in Porto, in regards to the employer branding and recruiting, which is extremely important because Natixis can only stay in Porto and contribute to the local economy if we keep recruiting. In this sense, InvestPorto has

been giving an excellent support to all the companies, such as by creating content and by inviting to participate in the Town Hall's events. This gives Natixis visibility as an employer and as a successful, stable and innovative firm that keeps recruiting and that wants to leave an impact on the city business environment.

Q: Do you believe that without the support given by InvestPorto you would have still invested in Porto?

A: Lisbon, for example, was never an option to Natixis. When Natixis chose Portugal, Porto was the only city that we had in mind. The fact that Porto is also in the North of the country has the advantage of being closer to Paris. Although Porto is a smaller city, the technological environment is stronger. In this sense, the choice of investing in Porto would not have been changed if InvestPorto did not support this process. However, I believe that, from a logistic, decision making and knowledge of the local environment point of view, it would have been much more difficult. In that case, Natixis would probably have asked for more support from AICEP.

Although AICEP has also been providing support to us, I strongly agree that having a local agency, that knows by heart the city and the companies, that is so focused on welcoming, supporting the establishment and providing an after-care service, is a very good advantage.

Q: Do you consider that, when comparing to other investment promotion agencies with which Natixis has negotiated, InvestPorto stands out? Why?

A: In Portugal, except from AICEP, our only contact with an IPA was with InvestPorto.

We also work with CCILF (*Chambre de Commerce et d'Industrie Luso-Française*) and with the French embassy in Porto. Natixis is always seeking institutions that could provide a beneficial relationship.

Q: Do you believe that the guidance of InvestPorto was crucial to Natixis regarding the internationalization process to Porto?

A: Yes, undoubtedly.

Q: In your opinion, is economic diplomacy, through the action of investment promotion agencies, fundamental to the attraction of foreign direct investment? Why?

A: Yes, it is fundamental. A company that wants to invest abroad knows that it is a big step and a big challenge, especially when it wants to build from scratch in a country where there was no business operation. This is particularly the case of the investment in Porto, since it is the first and only site of Natixis in Portugal. In these cases, it is fundamental to have the support of an exempt entity, with the sole interest of growing the local economy.

I strongly believe that these IPAs are fundamental entities to attract foreign direct investment.

Annex III – Critical TechWorks’ Interview

Interview to Paulo Guedes⁴

(CFO at Critical TechWorks)

6th April 2021

Q: How many employees does Critical TechWorks have at the moment?

A: About 1100-1200 employees, 650 to 700 in Porto.

Q: For how long is Critical TechWorks established in Portugal/in Porto?

A: Critical TechWorks is established in Porto and in Lisbon since September 2018.

Q: What were the motives behind the decision to internationalize to Porto? Do you consider Porto attractive to investors? Why?

A: This was due to the joint venture between Critical Software and BMW.

Critical Software, for its joint venture agreement, was entrusted to advance with the engineering capacity at first. This engineering capacity, bestowed to the joint venture from Critical TechWorks was mainly located in Porto. This was the initial motive behind this decision. This joint venture is mainly managed by Critical Software, although BMW holds the biggest share. Now our headquarters are in Porto.

I believe, so, that Porto is attractive to investors.

Q: Other companies pointed out the quality of living and the quality of the talent, as well as its cheapness (when comparing to northern/central European countries), were also very relevant to the decision. Was that your case also?

⁴ This interview excerpt contains only the relevant parts of the review. The text was treated and, therefore, this is not a literal transcription.

A: The labour cost was not fundamental. However, the quality of living and talent was very important. Also, in this field of software development, there wasn't, until the establishment of the JV, any kind of newsworthy investment in Porto. In Lisbon they were establishing a lot of big companies, but in Porto there wasn't still any impressive investment being made. Therefore, we considered that it was a better option to focus on Porto first and to take advantage of this impression we would make to reach out and gather talent.

Q: This branch was created by doing a greenfield investment or did you acquire a company?

A: Critical TechWorks was established from scratch.

Q: What was the motive behind the decision to do a JV?

A: BMW was seeking a partner for software development that would allow them to increase its internal ability of developing software in critical areas, such as automotive, bank and production. They sought a firm with experience in several areas of interest, with talent in this field. Furthermore, they were looking for a location that was secure and relatively close to the headquarters in Munich, Germany. In this process, BMW identified Critical Software, from a list of 200 firms. Critical Software was the most qualified company, and Portugal was also the best location possible. Porto was a mix between the technical ability, the way of being, the ethical principles and the models of software development of the partner with what Portugal had to offer.

I cannot confirm that, in the final stage, the decision to internationalise was between Porto, Milan and Barcelona.

Q: How did you get to know InvestPorto? How did you get in touch? Who established the first contact?

A: It was Critical TechWorks who first established contact, by our management team, chosen by Critical Software for this JV. The contact was established about six months prior to the officialization of the investment.

Our team contacted the Town Hall and Mr. Ricardo Valente, in February/March 2018, in order to present the project of investment. In this regard, we sought guidance to find an adequate work space. Mr. Ricardo Valente introduced InvestPorto in these negotiations and from that moment on we have worked together.

Q: What made Critical TechWorks negotiate with InvestPorto, in order to have the support of this investment promotion agency throughout the process of internationalization?

A: To us, InvestPorto is a kind of *one-stop-shop*.

We do have a great proximity. When we are facing some kind of necessity, we go straight to InvestPorto. I can recall the example of a customs' problem, regarding test cars (prototypes), which get inspected and legalised at customs. In these cases, we contact InvestPorto before contacting the customs, to have the support of the IPA and to understand the correct procedures to take. Therefore, I believe that the main role of InvestPorto is as an advisor and, in some areas, as a leader (in this case, for instance, the search for a work space). The building where Critical TechWorks established itself was meant to be the headquarters of the European Medicines Agency and InvestPorto provided the contact between us and the building owner. In this regard, they were fundamental.

Q: Were the incentives given by the Portuguese State fundamental for choosing Porto? Locally, did the city of Porto offer any kind of incentives? If so, were they relevant?

A: They were both irrelevant. There are national incentives that have a local impact and we have competed for it. Our growth plan was not very ambitious, since we were expected to, at this time, have about half of the employees that we now have. This was due to the support of the Portuguese State, that fomented initiatives to promote Porto's local economy.

Q: Since your establishment in Porto, have you been in touch frequently with InvestPorto? Do you maintain regular contact?

A: Yes, we maintain a regular contact.

Q: Regarding InvestPorto, how do you rank the performance of the agency concerning the support during the internalization process and the after-care service?

A: We have interacted frequently and I really think that Critical TechWorks could not ask for more: InvestPorto has been very competent and supportive.

Q: Do you believe that without the support given by InvestPorto you would have still invested in Porto?

A: No, Critical TechWorks would still have invested in Porto. However, I believe that this project would not have grown as much as it did without the help of InvestPorto. Starting by our location (we are established near Trindade and the Town Hall, which is very attractive to captivate talent), followed by all the challenges we faced, InvestPorto was fundamental to help our firm achieve our goals. Without the support of InvestPorto, I imagine that our dimension would be about half of what it is now and that it would also be less attractive than it is nowadays.

Q: Do you consider that, when comparing to other investment promotion agencies with which Natixis has negotiated, InvestPorto stands out? Why?

A: Critical TechWorks also negotiated with AICEP, which was very important to gather local investment incentives. InvestPorto, on the other hand, had a more practical (more *hands-on*) and present role than AICEP. I think that AICEP's role is more political, whereas InvestPorto is more operational, and, in this sense, InvestPorto's support was more important than AICEP's.

Q: Do you believe that the guidance of InvestPorto was crucial to Natixis regarding the internationalization process to Porto?

A: Undoubtedly.

Q: In your opinion, is economic diplomacy, through the action of investment promotion agencies, fundamental to the attraction of foreign direct investment? Why?

A: Yes. In the case of Critical TechWorks it was not relevant at all, because the decision to proceed to this investment was taken unilaterally, before contacting any national entity. But yes, I believe that the role of investment promotion agencies is crucial to attract FDI.

Annex IV – Sitel’s Interview

Interview to Ricardo Verdasca⁵

(Business Unit Director at Sitel)

14th April 2021

Q: How many employees are currently working for Sitel in Porto?

A: Currently in Porto we have 750 employees, making a total of 3500 in Portugal.

Q: For how long is Sitel established in Portugal/in Porto?

A: Sitel is in Portugal since 1995/96 and in Porto since 2015.

Q: What were the motives behind the decision to internationalize to Porto? Do you consider Porto attractive to investors? Why?

A: Sitel is a multinational company specialised in doing a business partner outsourcing, often recalled as a contact centre firm (although I do not consider it the correct name for it). In Portugal, specifically, Sitel is focused on international markets, so we are considered near-shored. Therefore, our business is multilingual, in the sense that Sitel recruits and work with people that speak one or more foreign languages. For this reason, Porto is very attractive to international clients, allied to the fact that in Portugal the labour is cheaper than in the home country.

We were already established in Lisbon for a long time and we started to feel that the market within the scope of Sitel’s activities was becoming saturated. Thus, and even though a few competitors were already established in Porto, Sitel wanted to explore the region. In my opinion, Porto is a region very demanded culturally, with a lot of tourism. The city has as well a low cost of living, when comparing to the main European cities, and, in 2015, it was

⁵ This interview excerpt contains only the relevant parts of the review. The text was treated and, therefore, this is not a literal transcription.

cheaper than Lisbon, even though it is becoming progressively more expensive. Porto is also headquarters to a lot of startups and draws a lot of technological and textile investments. Therefore, there are a lot of industries based in Porto, which is very important to Sitel, because it allows us to show to our customers that we have a stability regarding recruitment, labour and resources, in the sense that we can demonstrate a longevity which is very attractive. Thus, Porto provides high quality resources.

The fact that the North of Portugal has a historic of emigration to countries such as Germany, France and Switzerland is also very important. This means that the second and third generations of the Portuguese's emigrants that have returned to Portugal can speak fluently these languages (German and French).

Portugal can be compared to some Eastern Europe countries, regarding the living costs. Nevertheless, the main difference between the two regions is that in Portugal the degree of education is a lot higher. Moreover, in Portugal, Sitel can deliver to their clients a work profile more qualified at a low cost, when comparing to the home countries or to competitors countries. Without a doubt, the talent that Porto holds also attracts Sitel.

Q: This branch was created by doing a greenfield investment or did you acquire a company? Did you seek for partners or did you take control of the whole branch?

A: It was created by doing a greenfield investment. Sitel in Portugal is a private entity, with full control by the Sitel Group.

Q: How did you get to know InvestPorto? Who established the first contact?

A: When establishing Sitel in 2015, the office was inaugurated by the Mayor of the Porto's Town Hall, Mr. Rui Moreira, and InvestPorto was present there.

The contact was initiated from the moment we began the establishment process. By that time, InvestPorto was being contacted by us to get to know each other and to understand the benefits that InvestPorto could eventually provide, to learn how this partnership could be done and to ask how we could also be helpful to InvestPorto.

The contact was firstly made by us.

Q: What made Sitel negotiate with InvestPorto, in order to have the support of this investment promotion agency throughout the process of internationalization?

A: Currently, we cannot refer to any added value by InvestPorto, because we do not let them help us more. I think that is due to the fact that Sitel is a very conservative company. However, there are being established a lot more contacts between us and the IPA.

Sitel and InvestPorto, from 2019 on, have been having a more frequent contact. We have been doing promotional videos and our CEO was interviewed several times by InvestPorto. These interviews are very important to promote Sitel in the market.

Sitel is opening a new office in Porto and the IPA has already visited the site.

In my opinion, InvestPorto can be fundamental to Sitel regarding the attraction of employees and of conditions to the employees. This happens because Sitel recruits a lot of people in France, Germany, Spain, Italy, among others. When recruiting, we ask the employees to become expatriates in Porto and we offer these employees several conditions such as travel tickets, transportation, house, health insurance, beyond others. We are eager to explore this with InvestPorto, in order to have more support of the IPA in providing good conditions for expatriates.

Q: Did InvestPorto help to find the space for the company?

A: I do not know for certain, but I believe that it was Sitel who chose the site.

Q: Were the incentives given by the Portuguese State fundamental for choosing Porto? Locally, did the city of Porto offer any kind of incentives? If so, were they relevant?

A: We did not receive any kind of incentives. However, I can highlight that Sitel was very welcomed in Porto and that we were not seen as a threat to our direct competitors.

Q: Since your establishment in Porto, have you been in touch frequently with InvestPorto? Do you maintain regular contact?

A: Yes.

Q: Regarding InvestPorto, how do you rank the performance of the agency concerning the support during the internalization process and the after-care service?

A: InvestPorto can add value to Sitel if we allow the IPA to help us. I cannot rank InvestPorto's performance, because even though InvestPorto has been very proactive and has been trying to be supportive to Sitel, we are not taking advantage of the relationship established between the two of us. However, I have to clarify that InvestPorto is very receptive and dynamic. On the other hand, currently Sitel is lacking dynamics, agility and proactivity regarding this issue.

By watching InvestPorto's performance with other companies, I can say that it would be very advantageous for Sitel to have a stronger connection with the IPA.

Q: Do you believe that without the support given by InvestPorto you would have still invested in Porto?

A: Yes.

Q: Do you consider that, when comparing to other investment promotion agencies with which Natixis has negotiated, InvestPorto stands out? Why?

A: No.

Q: Do you believe that the guidance of InvestPorto was crucial to Natixis regarding the internationalization process to Porto?

A: No. But they can be helpful regarding the after-care service.

Q: In your opinion, is economic diplomacy, through the action of investment promotion agencies, fundamental to the attraction of foreign direct investment? Why?

A: Yes, I believe so. IPAs must reinvent themselves to understand where and how the investments must be made and how they can grant that the investments are profitable in a medium and long term.

I believe that economic diplomacy is important to draw investment, mainly to ensure that the companies are stable and to help them grow. Investors need help to establish and solidify their business plans in a long-term perspective.