

# Optimization of investment promotion tools for Portugal

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Specific recommendations to attract investments from Germany

**Steffen Schink (1323)**

**Supervised by Professor Alexandre Dias da Cunha**

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## **Abstract**

Attracting foreign direct investments (FDI) is an important objective as it can stimulate the economic development of societies. German companies are among the largest investors in Portugal and contribute significantly to the country's value creation. However, Portugal's attractiveness as an investment location has been decreasing in recent years as new competitors have emerged in the global economy. This report analyzes FDI trends and determinants as well as Portugal's relative strengths and weaknesses, identifies potential investment opportunities for German investors and makes practical suggestions to improve the country's current investment promotion activities, focusing in particular on the automotive supplier industry.

Keywords: Foreign Direct Investment, Investment Promotion

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## List of abbreviations

ACEA	European Automobile Manufacturers' Association
AFIA	Associação de Fabricantes para a Indústria Automóvel (Portuguese Association of Automotive Suppliers)
AICEP	Agência para o Investimento e Comércio Externo de Portugal (Portuguese Investment Promotion Agency)
CCILA	Câmara de Comércio e Indústria Luso-Alemã (German-Portuguese Chamber of Industry and Commerce)
BA	Bundesagentur für Arbeit (German Federal Labor Market Authority)
DIHK	Deutsche-Industrie und Handelskammer (Association of German Chambers of Commerce and Industry)
EC	European Commission
EU	European Union
FDI	Foreign Direct Investment
GTAI	Germany Trade and Invest (German Investment Promotion Agency)
ICT	Information and Communications Technology
IHK	Industrie- und Handelskammer (German chamber of commerce)
INE	Instituto Nacional de Estatística (Portuguese statistical office)
IPA	Investment Promotion Agency (e.g. AICEP and GTAI)
IST	Instituto Superior Técnico
M&A	Mergers and Acquisitions
MNC	Multinational Corporation
OECD	Organization for Economic Co-operation and Development
R&D	Research and Development
SSC	Shared Service Center
TAB	Büro für Technikfolgen-Abschätzung beim Deutschen Bundestag (German congressional investigation office for technological trends)
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
VDI	Verein Deutscher Ingenieure e.V. (Association of German engineers)
WEF	World Economic Forum

## 1. Introduction

### a. Definition of FDI

The OECD defines Foreign Direct Investment (FDI) as a “cross-border investment” done with the intention to establish “a lasting interest” and, in contrast to portfolio investments, “ensure a significant degree of influence” on the foreign enterprise, evidenced by at least 10% of the voting rights (OECD 2008, p. 17). The direct investor can either establish an entirely new firm (Greenfield investment) or purchase shares of an existing firm (M&A) (EC 2012, p. 120).

The European Commission distinguishes four non-mutually exclusive motives to engage in FDI (EC 2012, p. 120):

- Market-seeking (supply new markets directly instead of exporting, e.g. to save transport costs, be closer to the customer or circumvent regulations),
- Resource-seeking (ensure access to certain natural resources),
- Efficiency-seeking (exploit international factor cost differentials by outsourcing certain parts of the value chain), and
- Strategic asset-seeking (gain access to new assets or skills).

### b. Relevance of promoting FDI

Attracting FDI to Portugal is an important objective. It is generally agreed upon that FDI can contribute to the economic development and well-being of societies through increases in the capital stock, employment creation and the potential transfer of technological and management know-how to local firms (OECD 2008, p. 20, EC 2012, p. 119, Júlio, Pinheiro-Alves and Tavares 2013, p.1). German companies account for a high share of gross FDI flows to Portugal (11.3% between January and September 2013) and contribute significantly to the economic value creation in Portugal (CCILA 2010, p. 6, Banco de Portugal 2013).

FDI may also contribute positively to the balance of payments, especially when parts of the production process are outsourced to reduce costs and the goods are exported back home (Júlio, Pinheiro-Alves, Tavares 2013, p.1, Roland Berger 2013, p. 48). In fact, 60% of German firms in Portugal are of industrial nature and produce primarily for exportation (on average 87% of output is exported) (Roland Berger 2013, p. 10, CCILA, p. 12). Germany is the second largest foreign market after Spain with a share of 12.3% of total national exports (Roland Berger 2013, p. 46).

### **c. Current situation**

Portugal's attractiveness as an investment location is at risk as the competition for FDI increased considerably. Nowadays, the vast majority of German FDI is done to tap new markets, either through sales representations or production facilities abroad (DIHK 2013, p.7). Since European markets are largely saturated, German investments have increasingly shifted towards high-growth regions in Asia and South America. On top of the larger market potential, many emerging economies are also considered to be more attractive than Portugal with regard to labor costs (DIHK, pp. 12 ff., EC 2012, p. 123, Roland Berger 2013, p. 22). Portugal has also suffered significantly from the Eastern expansion of the EU. Several firms relying on inexpensive labor have relocated to these countries because they are generally considered to offer even lower wages, have lower taxation levels, are more centrally located within Europe or may pose more attractive markets themselves (CCILA 2010, p. 6, EC 2012, p.131). In fact, German companies view Spain (38%), Poland (23%), China (19%), Czech Republic (15%) and Turkey (15%) as the main alternatives to investing in Portugal. This is particularly troublesome as companies in Germany still associate the country's value proposition primarily with low labor costs (Roland Berger 2013, pp. 21ff.).

The European sovereign-debt crisis complicated attracting investments even further. Even though the austerity plan and structural adjustment program imposed by the EC, ECB and IMF aimed at increasing the country's competitiveness in the medium-term, weak demand due to the ensuing recession and perceived political instability repelled potential investors (EC 2012 p. 119, CCILA 2010, pp. 26 f.).

In light of these developments, the Deutsche Bundesbank (2013) estimates that the FDI stock of German investors in Portugal has decreased considerably from €5.7bn in 2008 to €4.5bn in 2011 (cf. annex 1), accounting for a mere 0.4% of the total German FDI stock abroad (Deutsche Bundesbank 2013).

### **d. Project Challenge**

The goal of this Work Project has been to develop recommendations to improve the Portuguese investment promotion activities for potential German investors, hereby contributing to increasing the country's attractiveness as an investment destination and thus promoting FDI in Portugal.

This Work Project builds on an underlying report by Roland Berger stating that Portuguese investment promoters should customize their value propositions, i.e. the choice and prioritization of arguments, to the largest extent possible. The deliverables of our project can thus be categorized around three interrelated questions:

- Value Proposition: what message to convey (strengths to be presented to potential investors and identification of activities for which Portugal could be a competitive location),
- Target considerations: who should be addressed (companies or types of companies that should be targeted), and
- Procedural recommendations: how to approach targets (processes to be followed and any other relevant information for investment promoters).

#### **e. Client and stakeholders**

The client of the project was the German-Portuguese chamber of industry and commerce (abbreviated CCILA in Portuguese), represented by its executive director Mr. Hans-Joachim Boehmer. It provides a variety of services such as counseling for market entry, help in finding qualified suppliers and employees, guidance in legal and fiscal issues, or vocational training and it belongs to a global network of chambers in all of Germany's major trade partners. Mr. Boehmer initiated and championed the project and validated that the outcome met the specified requirements.

The steering committee, i.e. the advisory group that provided guidance and monitored the progress, consisted of Mr. Boehmer, Roland Berger, represented by Mr. Rafael Dias, and our academic supervisor. The project team consisted of Gonçalo Oliveira Martins de Sousa and me. We planned, executed and monitored the project and were equally accountable for meeting the project's objectives.

Although our client has been the German-Portuguese chamber of industry and commerce, our recommendations are primarily directed at AICEP Portugal Global, the government authority responsible for encouraging investments in Portugal, e.g. by providing tailored information and specific counseling free of charge, coordinating contacts with relevant Portuguese entities, or negotiating incentives (AICEP 2012).

## 2. Methodology

### a. Work approach

The starting point of the project was the kick-off meeting with the project team and the steering committee. We discussed administrative issues, the client's expectations and the project's deliverables. In order to develop a basic understanding of the topic my teammate and I then started to screen the introductory materials provided by the client and Roland Berger and conducted some initial research on FDI trends and determinants. After that, we had an initial brainstorming session to align our vision of the results to be achieved and the necessary steps.

For the purpose of keeping track of concluded and outstanding activities and benchmarking our performance against the schedule baseline my teammate and I then defined our preliminary work plan by decomposing the deliverables into work packages and activities and sequencing them. As more information became available we progressively elaborated the level of planning detail over time. The final work plan can be found in annex 2.

After choosing a target industry (cf. below) we gathered further information in order to get a more detailed understanding of FDI trends, the country's strong points and weaknesses, investment promotion activities and the target industry, resorting to sources such as news, statistics and reports from national (e.g. INE, Banco de Portugal, Deutsche Bundesbank) and international institutions (e.g. Eurostat, OECD, UN, World Bank, IMF), industry reports (e.g. by associations and consulting firms) and academic papers in scientific databases.

At the same time, we identified and prioritized potentially relevant interviewees, whose judgment and expertise could help us fill our knowledge gaps, including companies, industry associations, universities, research institutions, and government authorities. The client occasionally helped us by providing contact persons or making use of its reputation to establish contacts. Since we could not meet all interviewees in person due to time and budget constraints we often communicated via phone or e-mail instead. An overview of our conducted interviews and an exemplary list of our interview questions can be found in annexes 3 and 4.

When building our presentations for the client we consolidated all the information we had gathered and formulated our main messages. The results were then validated by the steering committee members who provided feedback on how to proceed.

## **b. Evolvement over time**

While we did not see the need to change our work approach fundamentally during the project, some adjustments had to be made. First of all, several activities took longer than expected. This necessitated the compression of our schedule through fast tracking, i.e. overlapping activities that would normally have been done sequentially. In the beginning we had planned to finish our expert interviews before consolidating our findings, but since we faced unexpectedly large difficulties in generating responses and arranging interviews these activities partly took place simultaneously. Moreover, we initially viewed the analysis of Portugal's relative locational strengths and weaknesses as a temporary activity, but the frequent finding of new utilizable metrics and additional sources turned it into a continuous one.

When we were trying to compare AICEP's activities with those of a particularly successful country's IPA, we struggled to find an adequate benchmark as it would have been hard to distinguish the effects of differences in the business environments from differences in the investment promotion activities. Instead, we ended up using the World Bank's Global Investment Promotion Best Practices as a reference.

Another adaption of our work approach was to include questionnaires for German automotive suppliers in Portugal (cf. annex 5). With their help we intended to answer remaining questions, for instance which specific companies were considering to invest more in Portugal in the next two years and should therefore be on top of AICEP's agenda, what reasons the companies had to invest in Portugal in the first place, whether engineers and technicians are really perceived to be available on the labor market, whether companies noticed considerable improvements in the business environment after the latest reforms, whether companies could think of suppliers in Germany that could follow them to Portugal, and lastly to what extent companies were satisfied or dissatisfied with AICEP's services. The utilized questionnaire can be found in annex 6.

The more the project progressed the more we struggled to draw conclusions from the abundance of information. Over time we developed our methodology not only by appropriating more time for this task but also by starting to draft a mindmap with all ideas we wanted to include and then iteratively designing and adapting the presentations' slides.

### **c. Improvement potential**

In my opinion there were two main points that could have been done better. First of all, it might have made sense to envision the final messages to be conveyed in the beginning of the project. The advantage of having a storyboard in mind early on is that it would have enabled us to be more selective with regard to our research topics and analyses, saving us considerable amounts of time. It turned out that some of our work would not have been necessary eventually.

Secondly, I got the impression that choosing a particular industry in the very beginning was not very sensible. Although we made an informed choice based on several general criteria and our preliminary notion of Portugal's value proposition, I have come to believe that it would have been necessary to examine the country's relative strengths and weaknesses in detail before being able to identify industries that might be particularly attracted to Portugal's investment environment. Consequently, we now realized that our value propositions are equally applicable to various other industry sectors such as bioengineering or software development (cf. target considerations).

### **d. Main limitations**

Even though IPAs have been set up in almost every country worldwide their influence on investor's location decisions remains controversial. It is generally agreed upon that FDI inflows depend first and foremost on the quality of the countries' business environments. If economic prospects were bright, companies would be likely to invest anyways. According to the critics of investment promotion investors are well aware of investment opportunities in their sector and will automatically pursue the best ones. Its proponents on the other hand argue that political rivalry between affiliates, information gaps or biased perceptions can prevent investors from pursuing the best opportunities. IPAs could therefore influence investment decisions by conveying information to investors and leveraging a country's strong points. However, this is more likely when dealing with developing and emerging economies than in the case of industrialized countries. Keeping the limitations of IPAs in mind is important to evaluate the impact of AICEP and of our work (Morisset and Andrews-Johnson 2004, pp. 8ff., Harding and Javorcik 2012, pp. 6f.).

### **3. Industry Choice**

Realizing that we need to dig into detail and focus our efforts in order to develop a specific value proposition my partner and I chose the automotive supplier industry as our pilot sector based on previously defined criteria. First of all, the automotive sector is very research intensive, going along with Roland Berger's recommendation to focus on promoting research centers in light of skills shortages in Germany. More than half (52%) of the global R&D expenditures by German companies in 2011 stemmed from this industry (Stifterverband 2013, p. 37, McKinsey 2012a, p. 4, Roland Berger 2013, p. 40). Moreover, the automobile sector is the most important industry in Germany, generating a total annual turnover of €351bn in 2011 (GTAI 2013b, p. 3). It also holds the highest share of total German FDI stock (31% in 2011), indicating a high propensity for foreign investments in general. In Portugal in particular most German investments stem from the automotive industry as well (47% of the total stock in 2011), implying that the sector is perceived to be attractive by German investors (cf. annex 7). The compound annual growth of 11.3% between 2008 and 2011 underlines this assessment (Deutsche Bundesbank 2013). Additionally, vehicles and other transport material accounted for 11.2% of total Portuguese exports between January and June 2013, indicating a dynamic industry with competitive companies as potential buyers or suppliers (INE 2013).

### **4. Recommendations for the client**

First of all, our knowledge of AICEP's current organization, investment promotion activities and arguments is based on the information provided by the key account manager for the automotive sector, Luís Paulitos, and the publicly available material, especially the sector-specific sales presentations and the website. Our conclusions are sorted around the three previously identified deliverables: value proposition, target considerations and procedural recommendations.

#### **a. Value Proposition**

The location specific criteria which a company considers in its site selection are called location factors. Their relative importance varies between the motives of FDI, the part of the value chain that is being outsourced, the industry sector, etc. An exemplary list of location factors as identified by the UN can be found in annex 8 (Haas and Neumair 2008, pp. 13ff., EC 2012, pp. 120, 124ff., UNCTAD 1998, pp. 91ff.).

Building a value proposition, i.e. choosing and prioritizing adequate arguments and metrics, requires determining the most likely motives (cf. section 1a) for German automotive companies to invest in Portugal through a thorough comparison between the weaknesses of Germany's business environment and the strengths of the Portuguese location relative to other competitors.

Unfavorable conditions in Germany that may potentially drive German automotive companies to invest abroad include high labor costs, a rigid labor market, skills shortages, high and increasing energy costs due to the clean energy switch, a heavy corporate tax burden (22.83%-29.83%) and complex tax legislation, a lack of natural resources, and a largely saturated market (Healy Consultants 2013, PWC 2011).

Market-seeking is most likely not a motive for automotive companies to invest in Portugal. Carmakers and suppliers investing abroad are primarily driven by cost and growth considerations (KPMG 2009, p. 19, DIHK, pp. 7f.). Due to structurally high costs and flat growth in established markets combined with lower wages and high growth potential in China, India and Eastern Europe most new plants are concentrated in these emerging markets (Gerth 2007, p. 2, EY 2013a, pp. 7, 11, KPMG 2009, pp. 7f., TAB, pp. 79, 217). In Europe on the other hand, sales volumes are declining and the production overcapacity is estimated to be around 25-30% (EY 2013b, pp. 3f., ACEA 2012). The Portuguese motor vehicle market is particularly affected by the crisis. New registrations are estimated to have dropped by 40.7% in 2012 and 8% in 2013 (to 105,000 units) while production volumes declined by 15% in 2012 and 20% in 2013 (to 130,000 units) (GTAI 2013a, p. 13). In response, manufacturers and suppliers are likely to close down plants or lay off employees instead of expanding capacity (McKinsey 2012b, p. 17, EY 2013b, pp. 4f.). Likewise, resource-seeking does not seem to play a role for German automotive firms in Portugal either.

Efficiency-seeking, i.e. the exploitation of cheaper factor costs (especially labor), had been the main motive for most German automotive companies to invest in Portugal in the first place (own survey). Although wages are still significantly lower than in Germany and should therefore be highlighted in the value proposition, it has already been pointed out that Portugal cannot compete solely on the basis of prices anymore.

Instead, we identified the availability of strategic assets, referring in particular to human capital, to be the unique selling proposition of Portugal, setting it apart from both its competitors and Germany. Portugal's highly educated population has been highlighted as one of the country's main strengths by the World Economic Forum (WEF 2013, p. 27). Our survey and various

statistics from the WEF and Eurostat illustrate the relatively high share of young people with completed tertiary education, the high unemployment and availability of engineers and scientists, as well as the correspondingly low share of vacant positions. The oversupply of university graduates in Portugal even causes a dramatic brain drain these days (Financial Times 2013).

In Germany, on the other hand, automotive firms already face skills shortages (McKinsey 2012a, p. 4). The long time needed to fill job vacancies in technical R&D or electrical engineering underlines this (BA 2013, p. 18). At the moment there are about 60,000 vacant engineer positions in Germany but only 25,000 unemployed engineers. Especially in the fields of electric, vehicle and machinery technology there is a lack of engineers (VDI 2013, p. 3).

Consequently, this should be a central argument in the value proposition and complemented with additional strengths. German companies in Portugal, for instance, frequently praise the country's transport infrastructure, workforce motivation and qualification, salary levels, labor productivity and living conditions (CCILA 2010, p. 26, Roland Berger 2013, p. 17). Our research showed that, apart from the salary levels, Portugal outperforms its main competitors in all of these aspects. We found that the digital infrastructure, average language skills, protection of intellectual property rights and office rents also tend to be more competitive than in competing countries.

When matching these advantages with the requirements of value chain activities we conclude that Portugal has good chances to attract knowledge-intensive functions such as R&D. The facts that 40% of German automotive companies intend to increase R&D spending whereas only 2% intend to decrease it (EY 2013a, p. 16) and that about half of the automotive suppliers would be willing to separate R&D and production geographically (KPMG 2009, p. 15) support this assumption.

Other knowledge-based activities where Portugal could be a competitive location are shared services. Rising cost pressures and the need for higher flexibility increasingly force companies to concentrate on their core business and outsource non-core activities such as general accounting, payment transactions, human resources or payroll management. More and more OEMs and suppliers are also outsourcing engineering functions to lower-level suppliers or other contractors. German service providers could therefore establish a subsidiary for the abovementioned activities in Portugal. The prerequisites a location has to fulfill include the availability of skilled human resources in areas such as finance, accounting, payroll and information technologies, competitive wages, the widespread knowledge of foreign languages, a high-quality digital infrastructure and the availability of affordable real estate, all of which can be found in Portugal (Portugal

Outsourcing 2012a, b, Roland Berger 2010, pp. 3ff., Gerth 2007, pp. 2f.). In 2011 already 26% of German automotive companies' R&D expenditures were external (Stifterverband 2013, p. 37).

According to Dirk Elias, president of the executive board of Fraunhofer Institute Portugal, the time to attract manufacturing, on the other hand, was over since Portugal lost its labor cost advantage to Eastern Europe. Nevertheless, a few of our interviewees were optimistic that Portugal had the potential to attract new manufacturing investments in the future as wages in emerging markets would increase while they would remain flat in Portugal. Although we could confirm such developments in emerging markets we did not find respective data for Portugal (PWC 2013, pp. 7f.). We believe that, if any, manufacturing investments will rather come from existing investors (cf. next section) or those intending to produce higher quality products and thus requiring a certain degree of skilled labor. In any case, AICEP does not need to decide categorically on one activity as long as they use adequate value propositions for each one.

The arguments and metrics that AICEP is currently using for automotive firms can be found in annex 9. We now propose a more adequate choice and prioritization of arguments as illustrated in figure 1. It is inspired by our research and interviews but eventually based on our own judgment, parts of which have already been or will be explained subsequently. We also identified several additional metrics that AICEP could use to illustrate these arguments. An overview of these metrics and several examples can be found in annexes 10 and 11.

*Figure 1: Proposed arguments per value chain activity*

Relevant factors for Manufacturing	Relevant factors for R&D	Relevant factors for SSC
1. Incentives	1. Incentives	1. Incentives
2. Availability of labor	2. Availability of labor	2. Costs of labor
3. Costs of labor	3. Costs of labor	3. Availability of labor
4. Quality of labor (incl. motivation and flexibility)	4. Quality of labor (incl. motivation and flexibility)	4. Quality of labor (incl. motivation and flexibility)
5. Physical infrastructure	5. Real estate cost and availability	5. Digital infrastructure
6. Business Environment and Reforms (CIT, labor law, justice system, bureaucracy)	6. Digital infrastructure	6. Real estate cost and availability
7. Real estate cost and availability	7. Business Environment and Reforms (CIT, labor law, justice system, bureaucracy)	7. Business Environment and Reforms (CIT, labor law, justice system, bureaucracy)
8. Digital infrastructure	8. Physical infrastructure	8. Physical infrastructure
9. Quality of Life	9. Quality of life	9. Quality of life

We experienced that potential investors are particularly interested in location factors that directly affect the income statement, e.g. incentives or labor costs. “For Portugal incentives are a very important aspect of attracting investments”, says António Cunha Vaz from CV&A Consultores. And Sandra Augusto from Volkswagen Autoeuropa confirms that incentives are the topic that catches most attention of potential investors. Although the use of state aids is strictly regulated by European law, Portugal has granted tax incentives in 2013 that – under certain conditions – potentially reduced the corporate income tax to as little as 7.5% for a certain period of time (EC 2010, AICEP 2013). Another example is the PIN system to expedite the approval of investment projects that received the “national interest” status based on specific criteria (AICEP 2012). We are not aware of the incentive scheme details for 2014 but such stimuli are generally a very convincing argument for investors. For this reason we believe that sales presentations should begin with a brief summary of possible incentives and their eligibility criteria.

Another major finding is that several frequently cited arguments do in fact not withstand closer examination in the context of the automotive industry. First of all, Portugal’s strategic location is often advertised as a hub for doing business with Brazil, the USA, Angola, etc. However, we find that subsidiaries in Portugal add little for automotive components and other products sold overseas. Companies tend to invest directly where they intend to sell. Second, the access to technology usually does not justify FDI either. According to Luís Caldas de Oliveira from IST companies would just buy it and apply it anywhere. Access to talent and research institutions, however, may play a role in investment decisions. Apart from that, the country’s supplier base has occasionally been praised. However, we could not confirm this by talking to German companies in Portugal. For instance, the country manager of Bosch Portugal, João Paulo Oliveira, and the director of Enercon Portugal, Francisco Laranjeira, stated that the supplier base is not as developed as in other countries and that many inputs have to be imported. AICEP should avoid using these arguments and drop them from their respective presentations, if applicable.

Although AICEP should stress the advantages of Portugal, it is also important to be honest about the disadvantages in order to avoid a loss of credibility. According to Roland Berger companies in Germany often perceive Portugal to be unattractive due to the small market size as well as the country’s location and high transport costs to Germany (Roland Berger 2013, p. 20). While the abovementioned disadvantages obviously cannot be changed, many of the aspects that German companies already present in Portugal typically criticize are currently being addressed through

ambitious and comprehensive reforms, e.g. the high taxes, inflexible labor laws, low efficiency of public administration and protracted jurisdiction (WEF 2013, p. 296, CCILA 2010, p. 26, Roland Berger 2013, p. 18). According to our survey, 63% of German automotive suppliers in Portugal already perceive considerable improvements in the business environment after the latest reforms. Furthermore, there are signs of economic recovery and the GDP growth estimates for 2013 and 2014 have been revised upwards (EC 2013, p. 9). We argue that these efforts and developments should be highlighted and explained by AICEP much more than before in order to shed a good light on Portugal and reduce investors' uncertainty resulting from the crisis. There is empirical evidence that for example a flexible labor market and lower corporate taxes lead to higher FDI inflows (Javorcik and Spatareanu 2004, p. 2, Bénassy-Quéré, Fontagné, and Lahrière-Révil 2004, p. 19).

Another major problem in Portugal is the difficult access to credit and the long times for payment. However, the subsidiaries of German companies are not as much affected since they have access to international financial markets and financing via the parent company.

According to Francisco Laranjeira from Enercon one of the biggest impediments to German investments in Portugal is a communication problem. The Portuguese subsidiaries of MNCs such as Volkswagen often rank among the group's most productive ones and existing investors usually have a positive view on their investments in Portugal (cf. next section). For this reason, success cases may be one of the most convincing arguments in itself. However, in contrast to the status quo AICEP should show only sector-specific success cases and give some context instead of just listing company names.

#### **b. Target Considerations**

Our deliverables also comprised a list of companies or types of companies to be targeted. One of our main recommendations in this regard is that AICEP should focus on nurturing incremental investments by existing investors rather than trying to attract new investors. Not only are the contacts already established, existing investors are also already committed (i.e. facing barriers to exit) and tend to have a positive overall view on their commitments in Portugal, making them more prone to invest than new investors. While 84% of the German companies in Portugal intend to increase or maintain their investments in the medium-term (typically in manufacturing), only a small share of new investments is directed here, says Ilja Nothnagel, head of the foreign trade division in the Association of German Chambers of Commerce and Industry (Roland Berger

2013, p. 14, CCILA 2010, pp. 9, 24, own survey). Besides that, focusing on existing investors may also contribute to a higher quality of FDI since many investments are gradually developed towards higher value, knowledge-based activities over time (Guimón and Filippov 2012, p. 29).

Therefore, AICEP should re-contact all subsidiaries of German companies (not only in the automotive industry) to discuss future prospects and investment plans as well as how they could assist them. Through our own sector-specific survey we found out that AIS, Bollinghaus, Bosch, Brose and Preh intend to invest in Portugal over the next two years. Although it is unclear whether they plan only maintenance investments or new strategic commitments, these companies may be a starting point for AICEP.

Of course we were also trying to identify specific companies that may pose new targets. However, all of our approaches turned out to be dead ends. First of all, we persistently asked regional chambers of commerce in Germany (IHKs), industry associations, and other supposedly knowledgeable interviewees whether they were aware of any companies contemplating to invest in Portugal or elsewhere, so that AICEP could proactively approach them. However, none of them was able to provide such information or envision specific examples. The IHKs, which are usually one of the first contact points for German companies considering investing abroad, observed hardly any interest in Portugal, but said that even if they had such information they would not be allowed to disclose it until the company's decision is official. Generally speaking, companies seemed to be very conservative in disclosing investment plans as they want to keep them secret from competitors. We also investigated several annual reports and press releases but did not find any stated interests to invest in this region.

Another approach we followed was proposed by Francisco Laranjeira from Enercon, namely to systematically ask for supply chain gaps that German companies could fill, i.e. inputs that have to be imported although the savings in transport costs could justify starting their production in Portugal. We asked this question many times but only Volkswagen Autoeuropa could give a specific answer: Saargummi would be a candidate to build a plant for rubber, which is currently being imported from Turkey, and Leoni could become a local supplier of wiring loom which until now has to be imported from Ukraine. We then looked at import statistics from INE to identify further inputs that are being imported in large amounts rather than being bought in Portugal, but the data was too aggregate and hence inconclusive. If this approach was to be applied again, one should bear in mind that there would need to be several buyers since suppliers may be reluctant to

be dependent on one customer only. Therefore it might make sense to approach several OEMs (i.e. Autoeuropa, PSA, Mitsubishi etc.) and propose a collaboration to jointly attract their current and potential suppliers to Portugal. The suppliers would gain new customers and increase sales while the OEMs would benefit from closer vicinity to their suppliers, potentially giving them an advantage over companies manufacturing in other parts of Europe.

We also believe that large corporations are more likely to invest in Portugal than small companies. According to Dirk Elias from Fraunhofer Institute Portugal it is mostly large corporations that internationalize their R&D whereas small companies would be unwilling to slice it or relocate their entire R&D. Ilja Nothnagel from the DIHK added that small companies who internationalize for the first time tend to open export bureaus in order to tap new markets. However, as outlined before, market seeking is unlikely to be the investment motive in the automobile industry. Unfortunately, large corporations are more hierarchical, making it more difficult to contact relevant decision makers. Quite often they also run large strategy departments and are well-informed about investment opportunities, limiting the possible influence of IPAs.

Although we focused on the automotive supplier industry our work also surfaced investment opportunities in other sectors. According to Luís Caldas de Oliveira from IST and Pedro Rocha from Produtech bioengineering and software development will be among the most important future growth sectors in Portugal. Bioengineering is a research-intensive sector that can leverage on Portugal's highly qualified workforce and prestigious R&D institutes. The same holds true for the development of software which – as an intangible product – also does not incur the transport cost disadvantage.

Apart from that we came across specific tenders of Portuguese companies currently looking for suppliers or partners. Wave energy, for example, is a young sector with prospects of significant future growth and Portugal's Atlantic coast offers very favorable conditions. Therefore REN has been entrusted with managing a pilot zone and is currently looking for developers and operators of the respective technology. Moreover, EDP has opened a tender for the metering infrastructure of smart grids. The potential sales volume for German suppliers is enormous as the rollout in Portugal is scheduled to affect one million people per year from 2020 backwards.

### **c. Procedural recommendations**

Once the most adequate value proposition and targets have been determined, an IPA must decide how to deliver the messages to potential investors. Our suggestions will be structured around the investment promotion framework by Loewendahl (2001) as illustrated in annex 12.

To start with, AICEP seems to be doing many things right. 86% of the automotive companies who responded to our survey and worked with AICEP before were satisfied with their services. Moreover, in its global IPA ranking the World Bank recognized that AICEP has demonstrated professionalism and excellence in handling investors' inquiries (cf. annex 13). This is important in order to win the trust of companies and increase the chance of converting an inquiry into an actual investment (World Bank 2012a, pp. 28ff.). Our recommendations therefore focus on other aspects such as the staffing and structure of the organization as well as AICEP'S image building and investment lead generation activities (i.e. identifying potential investors, approaching them and developing relationships with relevant decision makers).

First of all, the qualification and professionalism of an IPA's staff are essential for its success. We were under the impression that AICEP still needs to foster a private sector-minded culture throughout the organization, e.g. by establishing a supervisory board with business sector representatives, continuously training its employees or hiring staff with private sector experience. Especially employees in direct contact with potential investors need to have the same mindset and be able to put themselves in their position. Such professionals typically demand higher levels of pay but are more likely to accept temporary contracts, giving the IPA greater flexibility (World Bank 2012b). A strong involvement of the private sector increases both the credibility and efficiency of an IPA (Morisset and Andrews-Johnson 2004, pp. 45, 49).

Doubts also remain about how proactively AICEP is actually looking for potential targets rather than waiting to be approached. They should continuously try to identify the most likely investors by assessing the country's relative positioning, conducting company-specific research and networking. Since AICEP's current choice of priority sectors was very broad, they could improve their cost-efficiency by allocating resources to the industries with the highest potential.

With regard to image building and the generation of investment leads we ranked the available tools based on their cost-impact ratio and determined which ones AICEP was already using, as illustrated in figure 2 (Morisset and Andrews-Johnson 2004, p. 33, own analysis).

Figure 2: Cost-impact analysis and ranking of image building &amp; lead generation activities

	Cost	Impact	Current Status
1 Holding sales presentations to target investors <sup>1</sup>	Low cost / high impact	Medium cost / medium impact	✓
2 Generating favorable news stories by cultivating journalists	Medium cost / medium impact	Low cost / high impact	✗
3 Organizing sector-specific investment missions	High cost / low impact	Medium cost / medium impact	✓
4 Hosting information seminars on investment opportunities	High cost / low impact	Medium cost / medium impact	✓
5 Conducting direct mailing or telephone campaigns <sup>2</sup>	Medium cost / medium impact	High cost / low impact	✗
6 Participating in sector-specific exhibitions <sup>3</sup>	High cost / low impact	Low cost / high impact	✓
7 Advertising in general financial or industry-specific media	Low cost / high impact	High cost / low impact	✗

<sup>1</sup> presentations are not customized  
<sup>2</sup> just for specific events  
<sup>3</sup> e.g. IZB, the leading automotive supplier fair in Wolfsburg from October 14-16, 2014

Low cost / high impact   
Medium cost / medium impact   
High cost / low impact

In fact, AICEP is already engaging in many activities. As stated before, companies in Germany tend to perceive Portugal to be relatively unattractive. Advertising campaigns can counter negative perceptions but are relatively expensive and may lack credibility. For this reason we recommend not to engage in this activity. Generating favorable news stories, however, can be a cost-effective and powerful tool to enhance a country's image as an investment location. We therefore suggest to cultivate relations with journalists of respected newspapers and provide press kits with positive testimonials and press releases (e.g. about the economic recovery, business friendly reforms, recent investments etc.) (World Bank 2012b). Apart from AICEP, our client could launch similar press releases to be published by the IHKs in Germany.

AICEP also participates in missions to potential source countries, but they typically focus on trade development rather than on investments (which also lies within the responsibility of AICEP). We thus recommend this tool only if it is possible to schedule meetings with potential investors beforehand (World Bank 2012b). In that case, individual sales presentations are a very effective tool since the dialog partner has already indicated interest in investing in Portugal.

Hosting seminars on sector-specific investment opportunities is a good way for AICEP to establish personal contacts with potential investors, generate interest to invest in Portugal and shift the focus from image building to investment generation. The crucial criteria for success are

scrutiny in planning and executing the seminar as well as securing a relevant audience and renowned speakers (World Bank 2012b). It is also common practice for the German chambers of foreign trade to hold such events in the German IHKs and we encourage our client to do so.

Direct mailings or telemarketing is a highly-cost effective way to come into contact with a selected audience. However, it lacks the personal element of face-to-face meetings and is largely dependent on the quality of the underlying target database. Nevertheless, it may be a good tool to promote specific events (World Bank 2012b).

AICEP is also attending sector-specific exhibitions such as the IZB, the leading automotive supplier fair in Wolfsburg from October 14-16, 2014. Similar to missions, however, they often have a trade rather than an investment focus. Being present at such events may therefore contribute to building up a positive image or gaining insights about potential investors, but it is unlikely to meet investment decision makers. Additionally they require considerable efforts to prepare and attend. We thus attribute a low priority to this tool (World Bank 2012b).

The website is usually the first point of contact with an IPA and as such shapes the first impression. After examining AICEP's website based on the World Bank's best practices (cf. annex 14) we see the need to facilitate the layout and eliminate redundancies, dedicate sufficient resources to keep it up-to-date, eliminate language mistakes and design flaws in promotional material and provide short fact sheets with the country's basic data in the download section.

Concerning the interaction with investors one criticism was raised by Henry Fisher, the CEO of Continental Portugal, who complained that the poor coordination between Portuguese authorities (e.g. AICEP, COMPETE, fiscal authorities) negatively affected the business. We do not know how representative this experience is but we urge the government to ensure that the proclaimed one-stop shop principle (i.e. one entity takes care of all administrative procedures for the investor) is being adhered to (Morisset and Andrews-Johnson 2004, p. 41).

Finally, going along with the proposed focus on nurturing incremental investments, AICEP should put a greater emphasis on after-care, i.e. managing the relation with existing investors in order to encourage re-investments or use them as ambassadors. In case AICEP were to follow our proposition of focusing on knowledge-intensive activities it should also adapt its performance measurement criteria to analyze its results (e.g. high-skilled jobs created on top of total number of jobs created) (Guimón and Filippov 2012, pp. 30ff.).

## **5. Reflection on learning**

### **a. Course applications**

Two of my Master's courses stand out regarding their relevance for this work project. On the one hand, my Project Management course sensitized me for the issues that needed to be addressed when managing a consulting project for the first time. The approaches discussed in class were particularly helpful for developing and adapting our work approach as outlined in the methodology section.

On the other hand, the Global Supply Chain Management course facilitated my understanding of investment location decisions by introducing tools such as the factor rating method, a commonly used approach to determine optimal locations taking into account a variety of aspects and their relative importance, providing a list of location factors that we could use as a starting point, and discussing relevant concepts such as off-shoring, i.e. relocating parts of the organization's activities to another country in order to benefit from certain locational characteristics. More specifically, typical advantages such as lower labor costs are accompanied by potential downsides such as high transportation costs and longer lead times, monitoring difficulties, quality issues as well as cultural and language-related problems.

### **b. New knowledge acquired**

In terms of content I primarily acquired knowledge about the role of IPAs and companies' investment decision approach. If a company considers various potential locations it usually follows a clear-cut process. First, they typically define a holistic set of criteria and assign a relative importance to each one. Based on this catalogue a long list of potential candidates is identified and consequently narrowed down to a short list. The remaining candidates are then more thoroughly examined, usually including sites visits, and eventually a decision is made. In any case an investment must have a profitable business case, i.e. the discounted cash flow projections must yield a positive net present value.

Concerning the consulting methodology I learned how to create convincing presentations, starting with a clear idea of the messages to convey, creating preliminary slides, validating the story flow and respective fine-tuning. With regard to each individual slide, I learned that in order to make them more persuasive they should include elements such as action titles summarizing a slide's main message, subtitles formally defining the content, navigators indicating the placement

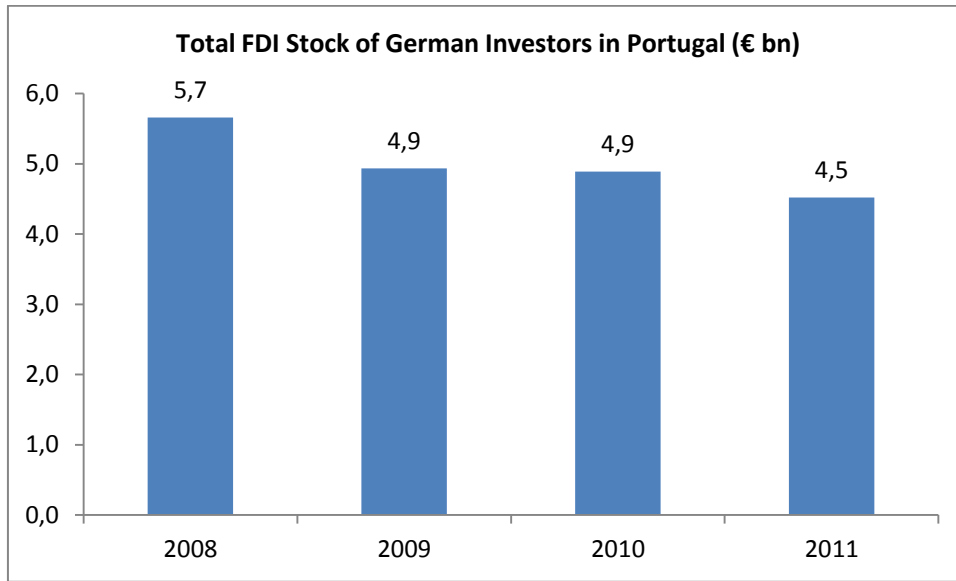
within the overall storyline, and of course sources and slide numbers. I also learned several ground rules for interviewing people, e.g. adopting easy start points to create a comfortable atmosphere, asking open-ended questions to motivate the interviewee to freely discuss his ideas, actively keeping the conversation on track to avoid wasting time, interviewing in pairs so that no information gets lost, and using one's reputation when arranging meetings.

### **c. Personal insights**

This work project also helped me identify and confirm my personal strengths and weaknesses. With regard to my strengths I believe that the effort I put into this challenging work project demonstrated high motivation and self-discipline. Furthermore, I think it was due to my ability to work in a team and my jocularly that my teammate and I did not only get along very well but also had a lot of fun despite the high workload and pressure. Moreover, I reckon that processing and making sense out of the vast amount of available data required strong analytical skills. Lastly, I believe that the confidence I developed based on my extensive prior work experience helped me persist and shielded me from fear of failure. On the other hand, I had to realize that I often got lost in details and felt uncomfortable making decisions without extensive analyses. I thus realized that I have to force myself to keep in mind the big picture and be more decisive.

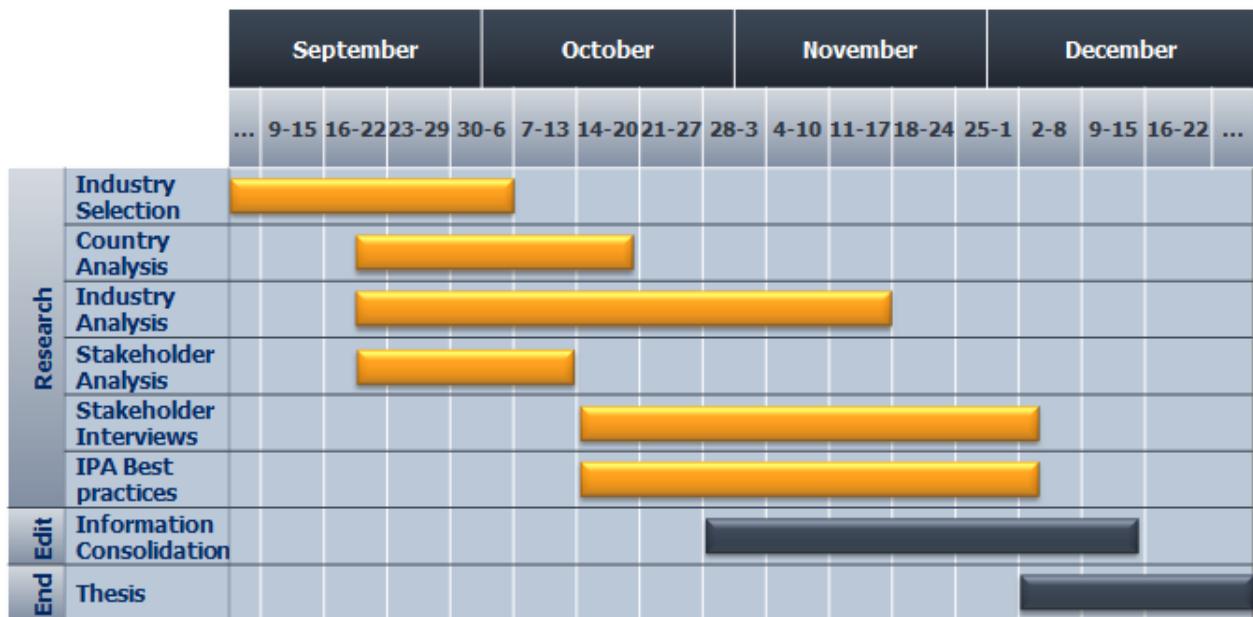
Annexes

**Annex 1: Development of German FDI Stock in Portugal**

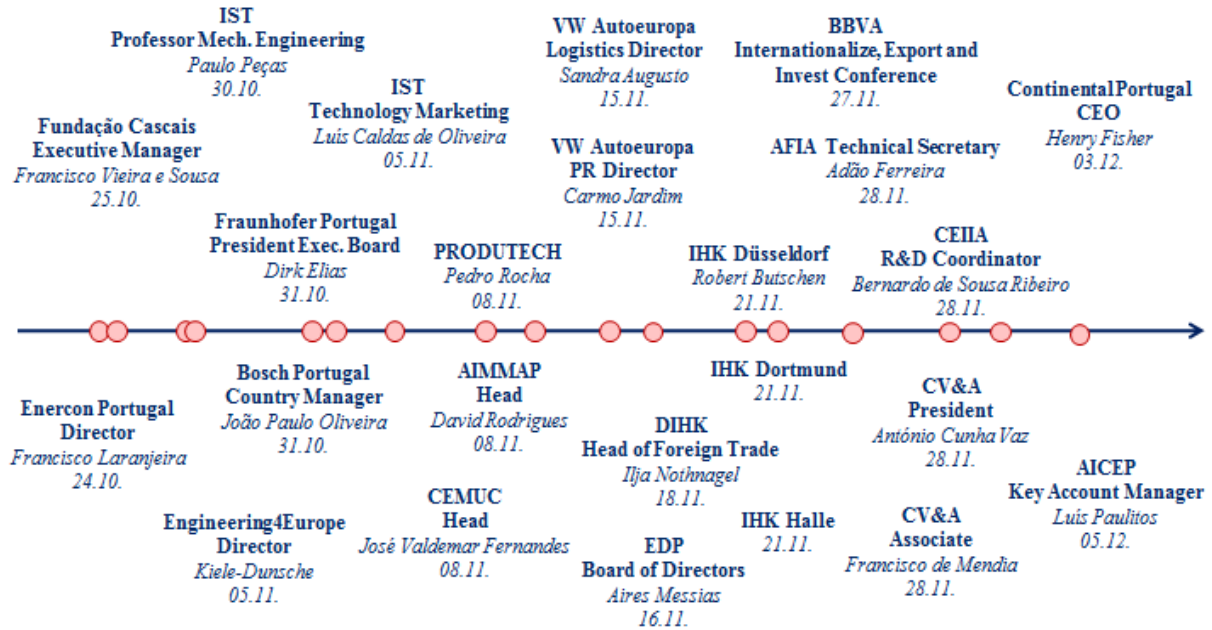


Source: Deutsche Bundesbank 2013

**Annex 2: Final Work Plan**



### Annex 3: Conducted interviews and attended conferences



### Annex 4: Typical interview questions (adapted to each interview)

- Why do German companies, in your opinion, consider Portugal to be unattractive with regard to investments? And how can we change this image?
- In your opinion, which sectors or which type of companies are most likely to invest in Portugal these days and why? Is it realistic that German automotive companies invest in Portugal even though their main focus lies on tapping new markets?
- Which are, in your opinion, the activities in the automotive industry (e.g. manufacturing, R&D, SSC, etc.) from whose outsourcing to Portugal German firms would benefit the most? I.e. which are the locational requirements for each of activity and what are Portugal's strengths (e.g. a superior supplier base, the availability of a highly-qualified workforce, low labor costs, good infrastructure, high-quality research clusters, etc.)?
- What specific measures is AICEP currently undertaking to attract investments? And what measures should be undertaken to attract investments (e.g. approaching companies directly with tailored value propositions, organizing fairs or B2B events, state missions that are accompanied by company representatives, etc.)?
- Which incentives are potentially being granted to German automotive companies investing in Portugal and which services are provided to support them?
- What research is being conducted in Portugal that has applications in the automotive sector? Does it provide mutually beneficial investment opportunities for German firms?
- Are engineers in Portugal available or not? How could this be measured (e.g. time it takes for companies to fill vacancies, time it takes for graduates to find jobs, statistics on graduates and vacancies per study discipline, companies' experiences, etc.)?

- With regard to Portuguese suppliers in the automotive industry, where are gaps that German companies could fill? E.g. what products are being imported from Germany or other markets rather than being bought in Portugal where the savings in transport costs would justify their manufacturing in Portugal?
- What are hot spots for certain activities? Where exactly should German companies invest in order to help building or benefit from clusters?
- Are you aware of – and can you disclose – any investment plans or vague intentions by German companies in Southern Europe, be it in the automotive industry or not?

### **Annex 5: German car manufacturers and suppliers in Portugal**

AIS Automotive Interior Systems Portugal, Lda.  
Benteler – Indústria de Componentes para Automóveis, Lda.  
Bosch Car Multimedia Portugal, S.A.  
Brose – Sistemas de Fechaduras para Automóveis, Unipessoal, Lda.  
COINDU - Componentes para a Indústria, S.A.  
Continental – Indústria Têxtil do Ave, S.A.  
Continental Lemmerz Portugal – Componentes para Automóveis, Lda.  
Continental Mabor – Indústria de Pneus, S.A.  
Continental Teves Portugal – Sistemas de Travagem, Lda.  
DF Elastomer Solutions, Lda.  
DURA Automotive Portuguesa, Lda.  
FBP – Foundation Brakes Portugal S.A.  
Gametal – Metalúrgica da Gandarinha, S.A.  
HUF Portuguesa – Fábrica de Componentes para o Automóvel, Lda.  
Isringhausen – Assentos, Lda.  
Karmann Ghia de Portugal – Indústria de Confecção de Capas, Lda.  
Leonische Portugal – Indústria de Cablagens, Lda.  
Mahle – Componentes de Motores, S.A.  
Motometer Portuguesa – Tecnologias de Controlo, Comando e Medição, Unipessoal, Lda.  
OKE Tillner – Perfis, Lda.  
Osram - Empresa de Aparelhagem Eléctrica,Lda.  
Preh Portugal, Lda.  
Prettl Adion Portuguesa, Lda.  
Schaeffler Portugal, S.A.  
Scherdel-Moltec – Molas Técnicas, S.A.  
Schnellecke Portugal, Unipessoal, Lda.  
TRW Automotive  
Volkswagen Autoeuropa, Lda.  
Webasto Portugal – Sistemas para Automóveis, Lda.

Source: CCILA database, AFIA 2013, pp. 19f.

**Annex 6: Questionnaire for German automotive suppliers present in Portugal**

1. Do you consider further investments in Portugal in the next two years?

Yes  No

If yes, in which activities?

Manufacturing  R&D  Shared Service Centers  Other, please specify

\_\_\_\_\_

If no, under which circumstances could you envision doing so?

\_\_\_\_\_

2. Which have been the 3 most important reasons to come to Portugal for you?

- skills shortage in Germany / availability of talent in Portugal
- lower labor costs
- cheaper inputs other than labor (especially: \_\_\_\_\_)
- workforce motivation and flexibility
- opportunity to supply to customers in Portugal
- strategic geographic location (key markets: \_\_\_\_\_)
- good infrastructure
- superior supplier base
- lower input prices
- synergies through joint ventures or collaborations
- financial incentives or subsidies
- living conditions
- Other(s): \_\_\_\_\_

3. From your experience, are engineers, technicians, etc. available on the labor market? I.e. is it easy to hire such employees when needed?

Yes  No

4. Do you observe considerable improvements in the business environment with the implementation of the latest reforms (e.g. less bureaucracy, labor law liberalization, tax decreases, wage reductions, judicial system improvements, etc.)?

Yes  No

5. If applicable, which foreign supplier(s) or companies in general would you like to locate in Portugal (e.g. to reduce lead times and transport costs, build a cluster, etc.)?

\_\_\_\_\_

6. Have you worked with AICEP before?

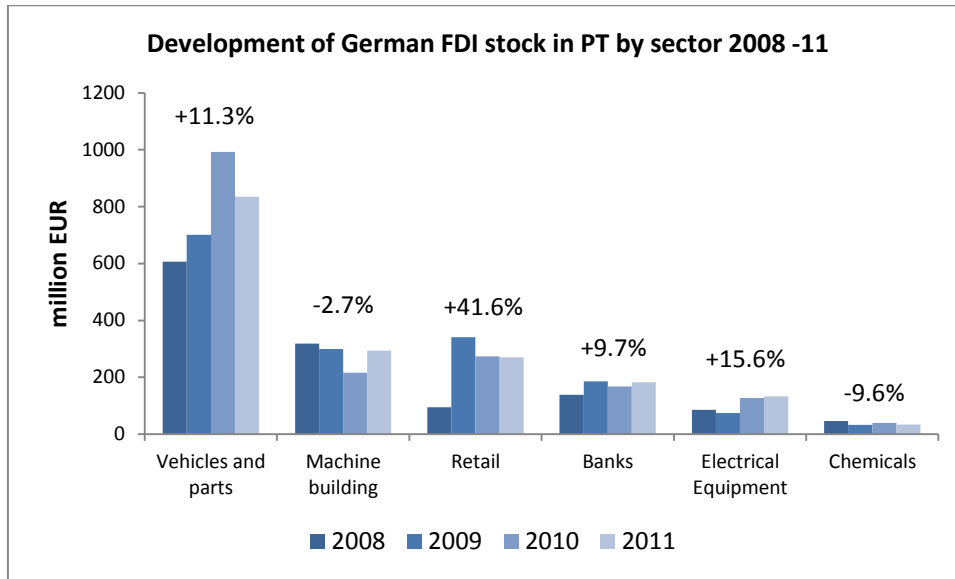
Yes  No

If yes, were you satisfied with their services?

Yes  Indifferent  No

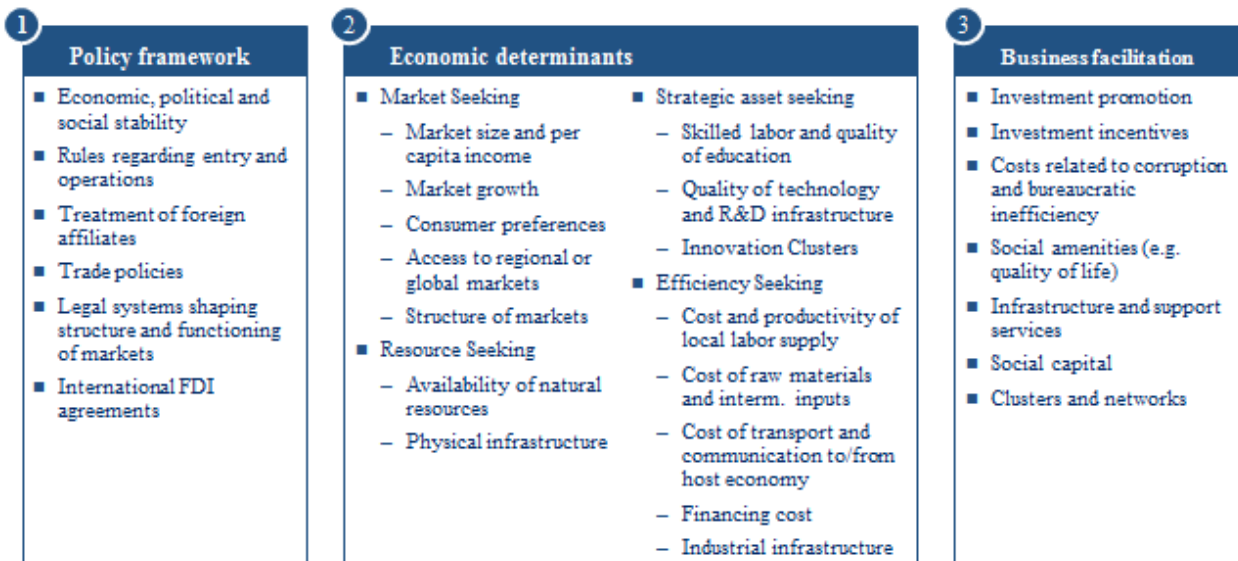
If no, what were your major complaints? \_\_\_\_\_

**Annex 7: Development of German FDI stock in Portugal by sector 2008 -11**



Source: Deutsche Bundesbank 2013

**Annex 8: Exemplary overview of location factors**



Source: UNCTAD 1998, pp. 91ff.

## **Annex 9: Arguments currently used by AICEP**

- Strategic Location
  - Distance to the US, Brazil, Russia
  - Same time zone as UK and Ireland
  - Attractive consumer market (population in PT, Spain, EU, etc.)
  - Daily flights to major European cities
  - Great and privileged economic relations with former colonies
- Qualified workforce
  - Flexible labor law
  - High-standard education (number of PhDs per 1000 inhabitants, % of students enrolled in engineering, sciences and health)
  - Wide availability
  - Commitment to work (low number of working days lost per year)
  - Partnerships with world-class US institutions
  - Language skills (42% at least one, 23% at least two, 6% at least 3)
- Competitive costs
  - Electricity (€/100kWh, 2012 S1) and natural gas (€/GJ, 2012 S1)
  - Labor cost index (year-on-year development, 2012 Q1)
  - Cost of living index (2011)
  - Cheap real estate (8<sup>th</sup> least expensive country of peer group)
  - Minimum wage among lowest in Europe
- Technological infrastructures
  - Percentage of fiber connections in total broadband
  - Example in e-government
  - Coverage of broadband infrastructures
- Office space available
  - High-quality and energy efficient
  - Office space Lisbon compared to France and Spain (€/sqm/year, C&W 2013)
  - Industrial space Lisbon compared to France and Spain (€/sqm/year, C&W 2011)
- Business friendly environment
  - Example in e-government
  - Avg. time to set up a company less than 1h
  - Open to foreign cultures
  - #2 in Migrant Integration Policy Index

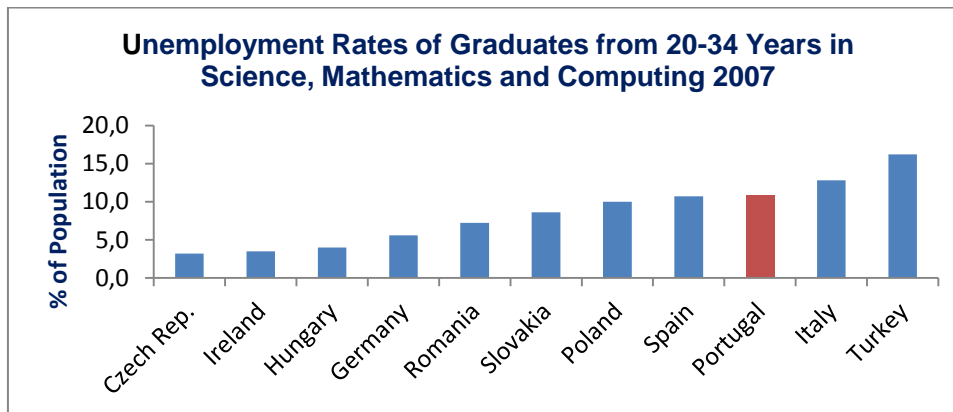
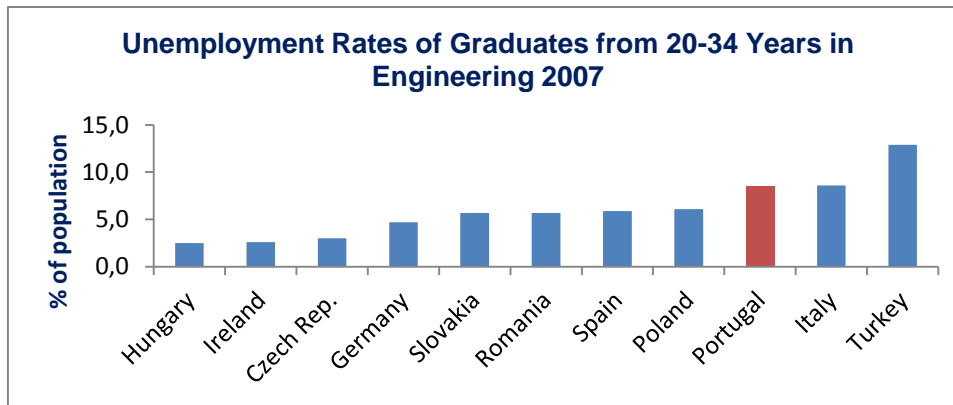
Source: AICEP automotive presentation

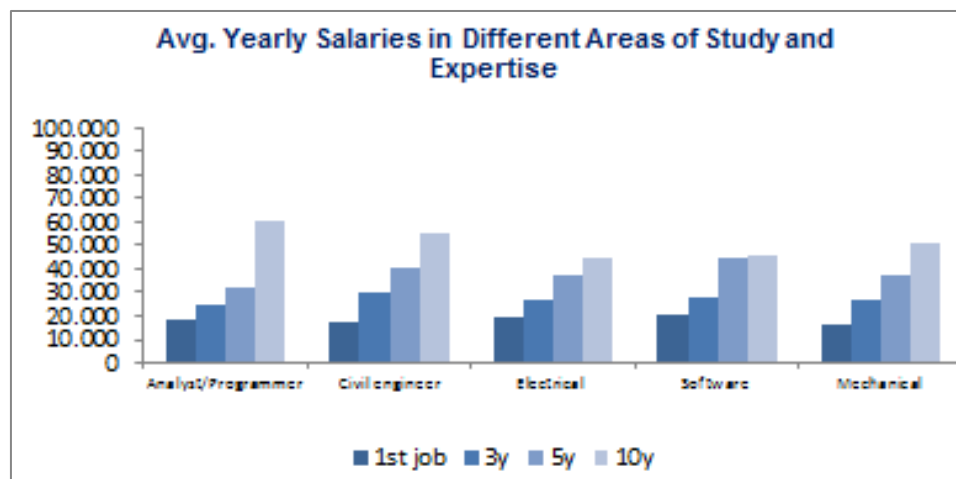
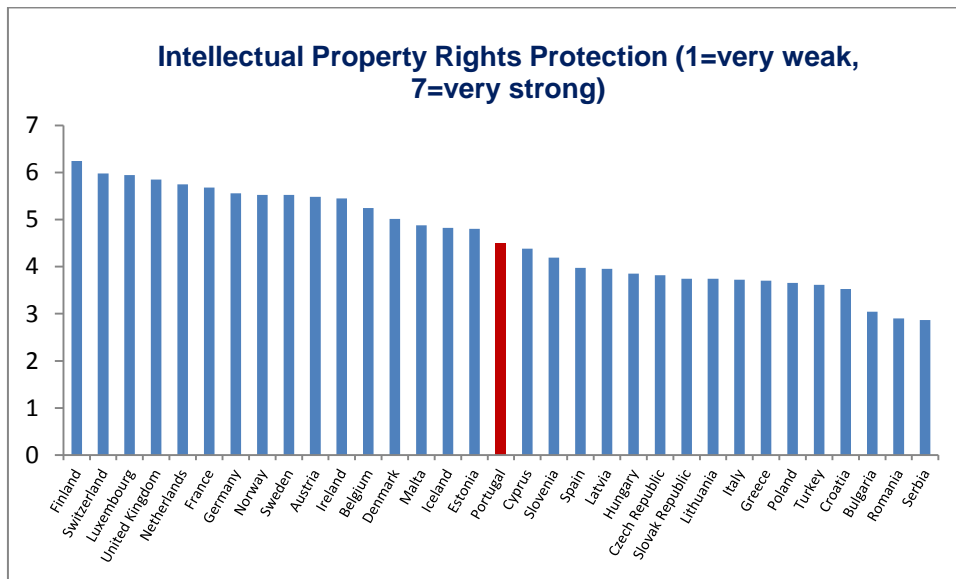
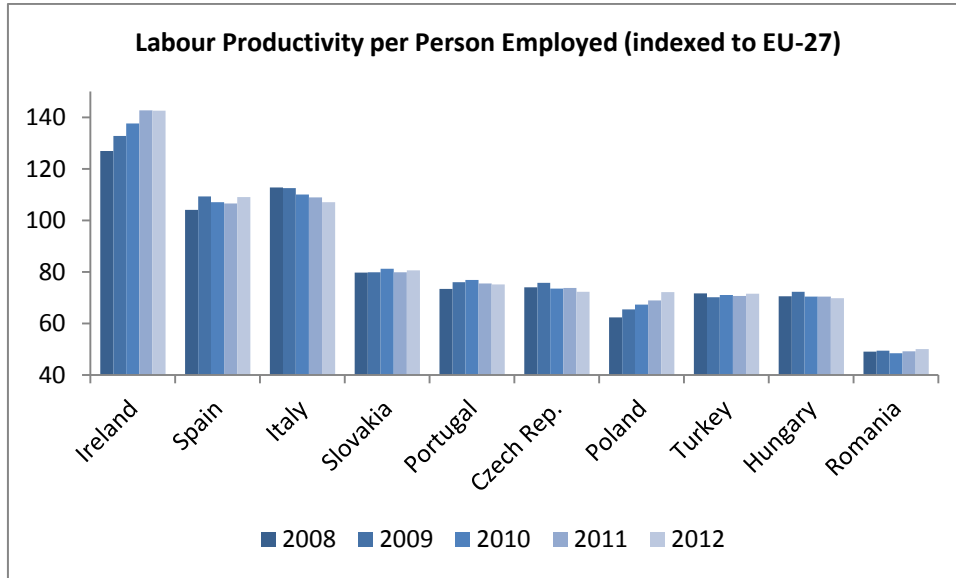
**Annex 10: Overview of metrics identified to illustrate the value proposition**

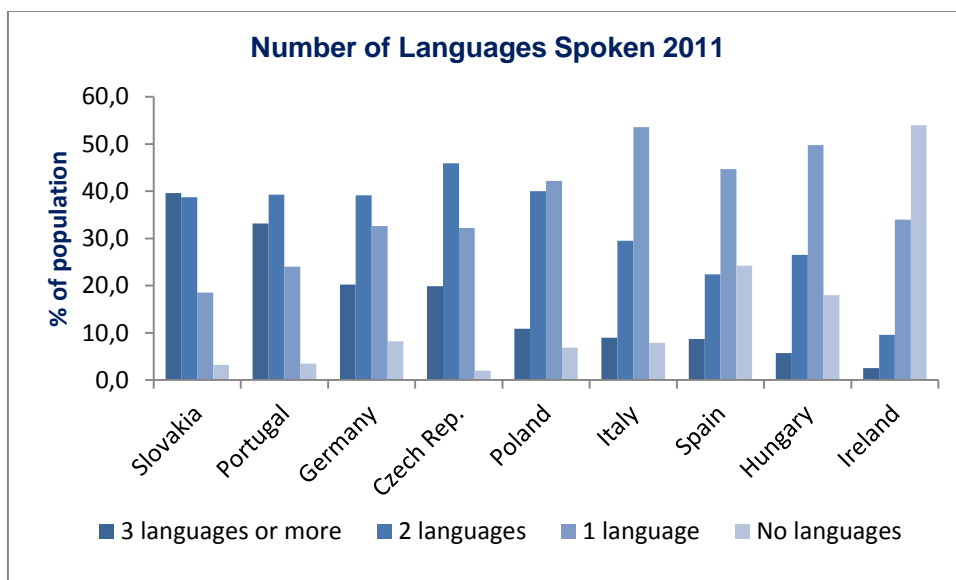
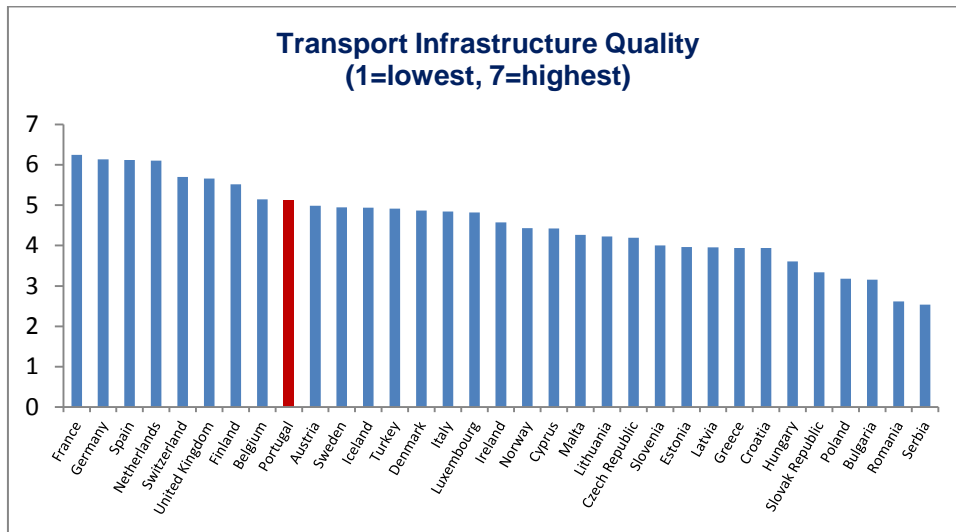
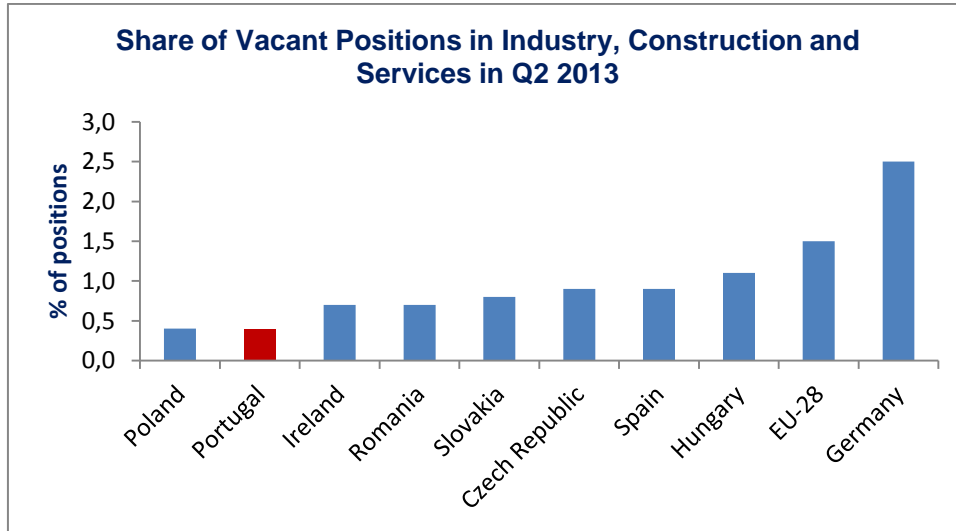
Labor productivity per person employed indexed to EU-27 (2008-12)	Index	Eurostat
Development of real unitary labor costs (2010-13)	%	EC
Avg. yearly salaries by area of study and by experience	€	IST sur.
Median salary for civil and electrical engineers	€	Payscale.com
Projected growth in avg. wages until 2030 indexed to US	Index	PWC
Avg. monthly wages in contact centers in Portugal	€	Portugal Outsourcing
Avg. monthly salaries for factory labor	€	PORDATA
Monthly minimum wages	€	Eurostat
Development of labor productivity compared to EU	%	OECD
Effective avg. corporate tax rates	%	ZEW/EC
Intellectual property rights protection	Index	WEF
Protection of permanent workers against individual or collective dismissal	Index	OECD
Regulation on temporary contracts	Index	OECD
Hiring and firing practices	Index	WEF
Labor market efficiency	Rank	WEF
Total government expenditures on R&D as a % of total budget	%	Eurostat
Avg. time needed to resolve litigious civil or commercial cases	Days	Eurostat
Ease of doing business	Rank	WB
Government effectiveness	Index	WB
Avg. time required to start a business	Days	WB
Avg. energy prices for industrial consumers (2012)	€/kWh	Eurostat
Avg. gas prices for industrial consumers (2012)	€/kWh	Eurostat
Frequency of irregular payments and bribery	Index	WEF
European e-Government ranking	Rank	Capgemini etc.
Time needed to prepare and pay taxes (2013)	Index	Eurostat
Private R&D expenditures (2012)	% of GDP	Eurostat
Infrastructure quality	Rank	WEF
Transport infrastructure quality	Index	WEF
Quality of roads	Index	WEF
Office vacancy rates in selected European cities	%	CushWake
Office prime rents in selected European cities	€/sqm/m	CushWake
Time needed to fill vacancies in Germany per job category	Days	BA
Availability of scientists and engineers	Index	WEF
Unemployment rates of graduates from 20-34 years in engineering (2007)	%	Eurostat
Unemployment rates of graduates from 20-34 years in science, mathematics and computing (2007)	%	Eurostat
Development of numbers of students enrolled	#	INE
Percentage of graduates by field of study	%	INE
Number of graduates by region	%	INE
Persons from 25 to 34 years with completed tertiary education (2012)	%	Eurostat
Share of vacant positions in industry, construction and services (Q2 2013)	%	Eurostat
Youth unemployment	%	OECD
Total unemployment	%	OECD

Higher education and training	Rank	WEF
Total public expenditure on education as % of GDP	%	Eurostat
Number of languages spoken (2011)	%/#	Eurostat
Avg. TOEFL iBT scores	Score	ETS
Financial Times Masters in Management Ranking	Rank	Financial Times
EDUNIVERSAL Best Business Schools Ranking	Rank	EDUNIVERSAL
QS World University Rankings 2013 - civil & structural engineering	Rank	QS
Times Higher Education World University Rankings (2012-2013)	Rank	Financial Times

### Annex 11: Examples of metrics









## Annex 12: Investment Promotion Agency Cycle

### 1 Strategy and organization

- Setting the national **policy context** (e.g. liberal trade and investment policies, favorable tax regimes, low inflation, etc.)
- Setting **objectives** (e.g. regional development, technology transfer, cluster development, etc.)
- Develop **structures** (a centralized, autonomous and single agency will be most effective)
- Competitive **positioning** (developing a value proposition by analyzing a location's strengths and weaknesses relative to each sector's requirements and benchmarking to competitors)
- **Sector targeting** strategy (prioritizing limited resources by identifying sectors that are most promising and meet investment objectives)



### 2 Lead generation

- **Marketing** (i.e. building up a location's image, which is less effective than company targeting but may be necessary when locations lack a positive connotation)
- **Company targeting** (i.e. identifying potential investors through networking and research, selecting the most promising ones based on certain criteria, drafting individual proposals and developing relationships with relevant decision makers)

### 3 Project handling

- **Project handling** (i.e. converting an inquiry into an actual investment by winning the trust of the company through professionalism and excellence, e.g. in responses to questions, visit handling or package offers)

### 4 After-care and performance evaluation

- **After-care** (managing the relation with existing investors to encourage re-investments or use them as "ambassadors") and investing in the location's competitiveness
- **Monitoring and evaluation** (e.g. of investors' performances to ensure their satisfaction and encourage re-investments or of one's own effectiveness to justify public budget allocations)

Source: Loewendahl 2001, pp. 6-36

### Annex 13: Global IPA Ranking

#### Top 10 IPA websites

1. ABA – Invest in Austria
2. Czechinvest (Czech Republic)
3. Austrade (Australia)
4. Germany Trade and Invest
5. Invest in Denmark
6. Invest in Spain
7. Investment Support and Promotion Agency of Turkey
8. PRONicaragua (Nicaragua)
9. Department of Investment Services (Taiwan)
10. Hungarian Investment and Trade Development Agency

#### Top 10 IPAs in inquiry handling

1. PRONicaragua (Nicaragua)
2. Hungarian Investment and Trade Development Agency
3. Invest in Greece Agency
4. Invest in Finland
5. Cyprus Investment Promotion Agency
6. InvestHK (Hong Kong)
7. ABA – Invest in Austria
8. Invest in Sweden Agency
9. aicep Portugal Global
10. Invest in Denmark

Source: World Bank 2012a, pp. 18, 28

### Annex 14: Investment Promotion Best Practices

#### Website

Website Aspect	Best practice
<b>Sector information</b>	Research relevant information and present it through a compelling mix of charts, tables and text
<b>Promotional Effectiveness</b>	Provide lists and case studies of part investors. When possible, segment by sector, include a testimonial from the company, and say why the location was selected
<b>Core Information</b>	Develop data on key aspects of the location: macro data, labor market, infrastructure, major cost factors, etc.
<b>Contact Information</b>	Provide e-mail addresses and telephone numbers in international format, with sector contacts if possible

<b>Clarity of Purpose</b>	Provide only content related to investment promotion
<b>Navigation Ease</b>	An IPA site should be simple to use: adopt simple top bar or side bar menus and use interactive features to help investors find desired information quickly
<b>Reading Ease</b>	Use a conventional and professional font at medium size so text is easy to read
<b>Credibility of Information</b>	All data should include references and be from a reliable source
<b>Currency of information</b>	Data should be up-to-date and sources should include these dates
<b>Web Prominence</b>	Websites should be easy to find through common search engines such as Google
<b>Corporate Roles and Support</b>	Information should be included that specifies what forms of assistance IPAs can offer to investors
<b>Use of Graphics</b>	Graphics should be relevant to content, attractive but not excessive, and should enhance the user experience
<b>Downloads</b>	Providing pdf downloads allows users to more easily print and distribute website information

### Inquiry-handling

<b>Aspect</b>	<b>Best practice</b>
<b>Contactability</b>	Provide complete contact information on the website, including sector-specific contacts at least for priority sectors. Be available by phone, mail etc.
<b>Responsiveness and handling</b>	Have basic material on key features of the location available and provide it quickly while researching a more customized response. Log every inquiry into a central system and assign it to a staff member for handling and follow-up
<b>Quality of the Response</b>	Respond to investor inquiries in a way that not only informs about the location, but also shows that the IPA IPI is a valuable business partner. Be cordial but businesslike in interactions. Organize the response around but attempt to go beyond the company's specific questions. Provide relevant, accurate, and comparative data, business cases that makes your location stand out as well as testimonials from well-known companies. Present and design the answer with scrutiny. Connect investors to entities with more information if necessary
<b>Customer Care</b>	Diligently follow up on the projects progress and follow up in 1-2 weeks to ask how else the IPI might support project

Source: World Bank, 2012a, pp. 25, 32

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