

**Written Evidence Submitted by Professor Riccardo Crescenzi, London School of  
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This note responds to the Committee’s questions using a Global Value Chains (GVCs) perspective, focusing on the *composition* of inward investment (sectors and functions), its position along the “smile curve” of value creation (e.g., production versus R&D and headquarters), and the extent to which investment is *embedded* into local value chains and investment ecosystems to support durable upgrading and resilience (Crescenzi and Harman 2023).

**1) How effective is the Welsh Government’s approach to attracting inward investors to Wales, and what are its main strengths and weaknesses? How should any perceived weaknesses be addressed?**

A national approach to investment attraction is most effective when it combines (i) a credible value proposition grounded in genuine local assets and Wales’s position in domestic and global value chains, and (ii) institutional capacity to deliver on what promotion implies, including a clear single point of contact and the ability to resolve practical frictions for investors (LSE for ESRC 2018; Crescenzi and Harman 2023).

- Wales has identifiable assets that can underpin a credible investment proposition, including sectoral capabilities and distinctive strengths that can be showcased as part of a wider, coherent promotion strategy (LSE for ESRC 2018).
- Evidence from analysis of thousands of FDI projects shows that investment promotion agencies (IPAs) are effective—particularly when designed to operate at the sub-national level within a coordinated multi-layer system. Reported effects include higher probability of attracting capital, higher inflows, and stronger job creation, with especially pronounced impacts for knowledge-intensive investment (Crescenzi, Di Cataldo & Giua 2021).
- Wales’s international visibility and investment identity are comparatively limited, including weaker presence of Welsh cities in global investment networks and weaker global perception than comparator models (LSE for ESRC 2018).
- The inward investment portfolio has become more concentrated by sector and remains disproportionately oriented towards lower value-added functions. Investment is described as heavily skewed towards Alternative and Renewable Energy and Coal, Oil and Natural Gas; and, along the “smile curve”, inward FDI remains concentrated in assembly and production, with underrepresentation of high value-added activities such as R&D, innovation and headquarters functions (LSE for ESRC 2018).

- Limited institutional resources and expertise constrain tailored, sector-specific support, pre-investment facilitation, aftercare services, and incentives, weakening Wales’s ability to compete in an increasingly competitive FDI landscape (LSE for ESRC 2018).

*How weaknesses should be addressed*

- Establish a dedicated, regionally anchored investment promotion agency/body/unit for Wales with a focused mandate, defined targeting of priority sectors/geographies, operational autonomy, and international visibility—positioned as a credible first point of contact for investors (Crescenzi, Di Cataldo & Giua 2021).
- Build a single point of contact (“single phone number”) combined with an ecosystem-building role that removes barriers, brokers partnerships, and ensures investor experience matches the value proposition associated with “Brand Wales” (LSE for ESRC 2018).
- Rebalance and upgrade the inward investment portfolio by targeting higher value-added functions and strengthening embedding into local value chains and local investment ecosystems (Crescenzi and Harman 2023).

**2) To what extent does the Welsh Government’s approach to attracting inward investment target areas of strength within the Welsh economy? How successfully is it taking opportunities in emerging sectors with the potential to play a key role in the future economy?**

Based on our research we are unable to answer on the extent and success of Welsh Government targeting in operational terms.

However, our research identifies the relevant strengths and risks that an inward investment strategy should reflect:

- Wales can prioritise sectors aligned with comparative advantages, including renewable energy, advanced manufacturing, life sciences, and creative industries (LSE for ESRC 2018).
- The inward investment portfolio has become more concentrated and energy-skewed, raising concerns about long-term development impacts (jobs, innovation capacity, and workforce upskilling) (LSE for ESRC 2018).
- Future-oriented opportunities include aligning investment attraction with wider Green Global Value Chains, including “Green FDI” that can be identified outside traditional renewable-energy categories and that brings green capital, skills, and knowledge for the transition (Crescenzi and Harman 2023).

**3) What are the key barriers Wales faces in attracting and retaining inward investment, and how should these be tackled?**

LSE Research identifies a set of structural, institutional and perception-based barriers:

1. **Weak global perception and branding:** limited international visibility and a weaker recognised investment identity, including limited visibility of Welsh cities in global investment networks.  
**Response:** define Wales's value proposition within a wider UK investment promotion strategy and ground it in Wales's position in global value chains (LSE for ESRC 2018; Crescenzi and Harman 2023).
2. **Over-reliance on lower value-added FDI:** inward investment concentrated in production-related activities and vulnerable sectors, with limited embedding and higher exposure to shocks.  
**Response:** diversify towards higher-value sectors and functions (e.g., advanced manufacturing, life sciences, green technology) and target upgrading into higher value-added tasks (LSE for ESRC 2018; Crescenzi and Harman 2023).
3. **Limited GVC integration and weak outward FDI:** limited connectivity partly linked to low outward investment by Welsh firms, reducing reciprocal knowledge flows and partnerships.  
**Response:** treat outward FDI as complementary to inward FDI to strengthen reciprocal connections and improve Wales's appeal as an MNE hub (Crescenzi and Harman 2023).
4. **Insufficient institutional capacity:** limited resources and expertise reduce pre-investment facilitation, aftercare, and tailored incentives.  
**Response:** strengthen institutional capacity and establish a dedicated regional IPA with clear mandate, targeting and autonomy (Crescenzi, Di Cataldo & Giua 2021; LSE for ESRC 2018).
5. **Connectivity and infrastructure gaps:** continuing challenges in transport and digital connectivity, particularly in rural areas.  
**Response:** targeted investment to improve transport and digital links and better integrate rural and urban areas into national and international networks; strengthening Cardiff's hub role is also identified as relevant (LSE for ESRC 2018).
6. **Skills gaps and innovation perception:** weaker business-led R&D and patent activity contributes to perceptions of limited advanced skills.  
**Response:** strengthen university–industry partnerships, expand training in high-demand fields, and showcase sector success stories (LSE for ESRC 2018).
7. **Brexit-related uncertainty:** uncertainty around access to European markets can reduce Wales's perceived attractiveness as a gateway to the EU.  
**Response:** emphasise access to UK markets, continued UK–EU investment relationships, and potential opportunities arising from new trade agreements (LSE for ESRC 2018).

#### **4) Which examples of best practice from beyond Wales could Wales learn from in attracting inward investment and providing ongoing support to inward investors?**

The consensus in academic literature is clear: countries and regions should avoid seeking 'best practices' to simply 'copy and paste' into their public policies. While case studies based on best practices are commonly used as teaching tools in business schools—where inductive learning methods are emphasized—they are not a universal solution. Nevertheless, Wales can draw

valuable lessons from international investment promotion campaigns that have successfully aligned regional assets with global investor priorities. These examples underscore the importance of tailored strategies, institutional capacity, and sector-specific focus—principles also emphasized by Crescenzi and Harman (2023) in their research on integrating inward investment into regional development strategies.

### *1. Ireland: Targeted Sectoral Promotion*

Ireland's **Industrial Development Authority (IDA)** has been a pioneer in aligning FDI with local strengths. The IDA leverages Ireland's highly educated workforce and EU access. This aligns with recommendations in the LSE report on Wales, which emphasizes the importance of connecting investment flows to local knowledge systems and human capital to enhance regional innovation (LSE for ESRC, 2018). For Wales, a similar strategy could highlight its capabilities in renewable energy, advanced manufacturing, and creative industries.

### *2. Singapore: End-to-End Investor Support*

Singapore's Economic Development Board (EDB) provides a comprehensive suite of services for investors, from pre-investment facilitation to post-investment support. This aligns with Crescenzi et al. 2021's emphasis on the role of well-resourced IPAs in ensuring investor retention and alignment with local priorities (Crescenzi et al., 2021). Wales could implement a dedicated investment task force modelled on the EDB, ensuring smooth processes and clear aftercare for investors while embedding them into local value chains.

### *3. Costa Rica: Sustainable Investment Branding*

Costa Rica's CINDE has branded the country as a hub for environmentally friendly industries, leveraging its green credentials to attract FDI in renewable energy and high-tech sectors. Crescenzi and Harman (2023) argue that aligning FDI with sustainability goals enhances regional competitiveness. Similarly, the LSE report identifies renewable energy as a promising sector for Wales, given its abundant natural resources and existing energy infrastructure (LSE for ESRC, 2018). Wales can position itself as a green investment hub by integrating sustainability branding into its promotional strategies.

### *4. Scottish Development International (SDI): Focus on Value Chains*

The LSE report identifies Scottish Development International (SDI) as a successful case study in promoting FDI integration into global value chains. SDI focuses on specific sectors, such as renewable energy and life sciences, and provides tailored incentives that ensure job creation and capital investment in Scotland's assisted areas. These efforts align with Crescenzi and Harman's (2023) emphasis on embedding FDI in local innovation systems to maximize spillovers. Wales could replicate this model by enhancing its regional agencies' capacity to promote key sectors and ensure alignment with local and global value chains.

### *5. Invest Korea: Value of Aftercare Services*

Aftercare services can be useful for existing MNEs who are or could be repeated investors in a country or region. Evidence from the Republic of Korea shows reinvestment from MNEs occupies 70% of total inbound foreign investment to the country. Further, Korea's Foreign Investment Ombudsman and Aftercare organisation estimates that it takes five times more time per won (₩) for new investment than reinvestment. Wales could focus limited resources and capacity on past investors soliciting future inward investment.

## 6. Netherlands: Investment Orientated Skills Academies

Some national and sub-national investment promotion agencies include skills and talent attraction as part of their mandate. Netherlands created a specific developed skills academy to support subnational IPAs. Such school – or development centres -- also present in Malaysia attempt to reduce the distance between what firms need and what the location provides. They achieve this by delivering industry specific skills which are based on demands. This occurs in a dynamic way through interaction, continually updating and upgrading them. There may be merit in Wales focusing attention on similar skills academies providing the human capital needs of potential MNE investors.

### **5) To what extent does the available data provide a clear and comprehensive picture of inward investment into Wales, and are there any improvements that should be made?**

Recent LSE research supported by UK Research and Innovation (UKRI) demonstrates the potential of AI and large language models (LLMs) to enhance monitoring and analysis by combining structured investment data with unstructured sources (company reports and news). This can help identify inward investment aligned with policy goals (including digitalisation and decarbonisation) beyond standard sector classifications, and support real-time intelligence on firms most likely to invest in Wales. There is also scope for closer collaboration between government and academia to scale these methods into operational tools and move from reactive to predictive investment promotion.

## References

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