6 Foreign direct investment and cities

"Globalization and free trade do spur economic growth, and they lead to lower prices on many goods." (Robert Reich)

Recommended additional reading:

- McFarland, K.C. & McConnell, J.K. (2011). Strategies for globally competitive cities. Local roles in Foreign direct investment and International Trade. Center for Research and Innovation**.** *National League of Cities, Washington, D.C. 20004*
- Mehta, P.S., in M. Dugal. (2003). *ABC of FDI. Monographs on Globalisation and India – Myths and Realities*. 3. CUTS Centre for International Trade, Economics & Environment.

6.1 Chapter Overview

International capital flows are important for economic development of cities. Foreign direct investments as one of the form of international capital flows bring a lot of benefits to the city. Studies that analyse effects of foreign direct investments on host cities show that they bring new skills in the city, generate direct and indirect employment, transfer technology and provide financial sources for local economic development. On the other side, foreign direct investments bring also some challenges for cities. They are most frequent in the form of fear or frustration for being unsuccessful by attracting foreign direct investments, a lot of cities have problems by changing policies to suit foreigners, very frequent threat from international capital flows is crowding out local entrepreneurs and businesses etc. During the period of increased volume of foreign direct investments a lot of cities developed and implemented their own strategy for attracting and supporting these processes. Such strategies seemed to be a very effective tool for maximizing the benefits and minimizing threats of foreign direct investments in cities.

Learning outcomes

By the end of this chapter successful students will be able to:

1. Define different forms of international capital flows
2. Understand effects of inward foreign direct investments on the host economy
3. Define factors that influence foreign direct investment flows
4. Define the most important steps for attracting and supporting foreign direct investments in the city.

6.2 FDI definition

Foreign direct investments (FDI) present one of the forms of international capital flows. Three mayor types of international capital flows are: FDI, foreign portfolio investment (FPI) and debt. The main characteristic of FDI and FPI is their stability and smaller proneness to reversals, while the main difference between them is that FPI lacks the element of lasting interest and control. FDI involve an equity stake of minimum 10%. Regarding benefits it is proved that FDI are more beneficial because of more direct control in management. Debt flows as a third form of international capital flows are bonds and bank loans and are more volatile.

UNCTAD (2013) defines FDI as investments that acquire long lasting interest in enterprises that operates outside of the country of the investor. FDI consist of reinvested earnings, equity capital and other capital (mainly intra-company loans). Also licensing, franchising, management contracts, product sharing, subcontracting, alliances, goodwill or grants named non-equity forms of investment can be FDI.

FDI can be classified in different forms regarding the type of classification. If classified on the base of entry modes of the foreign investor, FDI can be in the form of cross-border mergers and acquisitions (C-B M&As) or Greenfield investments. While Greenfield investments mean establishment of a wholly new operation in a foreign country, C-B M&As present takeover or merger with an existing local firm.

If classified from the recipient country view, FDI are classified as follows:

- Export-enhancing FDI, when FDI affects in transferring a new type of technology in order to increase host country export competitiveness.
- Import-substituting FDI, when FDI produce goods for the host country which is at that time imported from another country.

Classification from the point of investor view, categorize the following types of FDI:

- Horizontal FDI, when FDI produce the similar or the same product in the foreign country. The main goal is the exploitation of monopolistic advantages in the foreign country.
- Vertical FDI, when FDI acquire or build an operation that fulfils the role of a supplier or the role of a distributor. By the role of supplier, FDI seek to improve to the supply of certain key components or to the costs of raw material. By the role of distributor foreign investments are the response to the problem of finding distributors for a specific market.
- Conglomerate FDI include horizontal and vertical FDI.

By defining FDI, it is necessary also to distinguish between FDI net inflows and FDI net outflows. While the first ones present the value of inward direct investments made by non-resident investors in the reporting economy, the second ones present the value of outward direct investments made by the residents of the reporting economy to external economies (OECD 2013).

6.3 Development of FDI

Due to the differentiation in evaluating FDI then and now, the role of FDI in international capital transactions was much less notable before the First World War as it is today. The main difference is that the concept of FDI in that period did not differ from other forms of investments in foreign companies that come from the private sector (Lipsey 2001).

Although the First World War reduced international confidence and increased interventionism of national governments, FDI flows to overseas colonies increased because of high reconstruction costs and war debts. United States played the largest role as investor and the same happened also after the Second World War. After 1980 FDI increased even more because of the good general climate for FDI. The increase of FDI in the period from 1983 to 1989 was three times faster than global export growth and four times faster than global GDP growth (29% vs. 9.4% and 7.8% annually). The main factors influencing the increase of FDI were trade liberalisation and privatising and liberalizing of investments on national level (UNCTAD 1991 and Lipsey 1999).

In 2000, overall inward FDI recorded $1,300 billion but WTC attack in 2001 caused strong reduction of the volume of FDI. After 2003, FDI started to stabilise and in 2005 already recorded $982 billion. In 2007 (UNCTAD 2008, p. 3–9), worldwide FDI reached record levels of $1,970 billion but in 2008 the economic crisis interrupted the growth of international capital flows and the volume of global FDI reduced. After 2013, FDI flows started upward trend again and rose by 9 per cent to $1,450 billion. In the following Figure we are presenting inflows of FDI by groups of economies from 1995 to 2013.

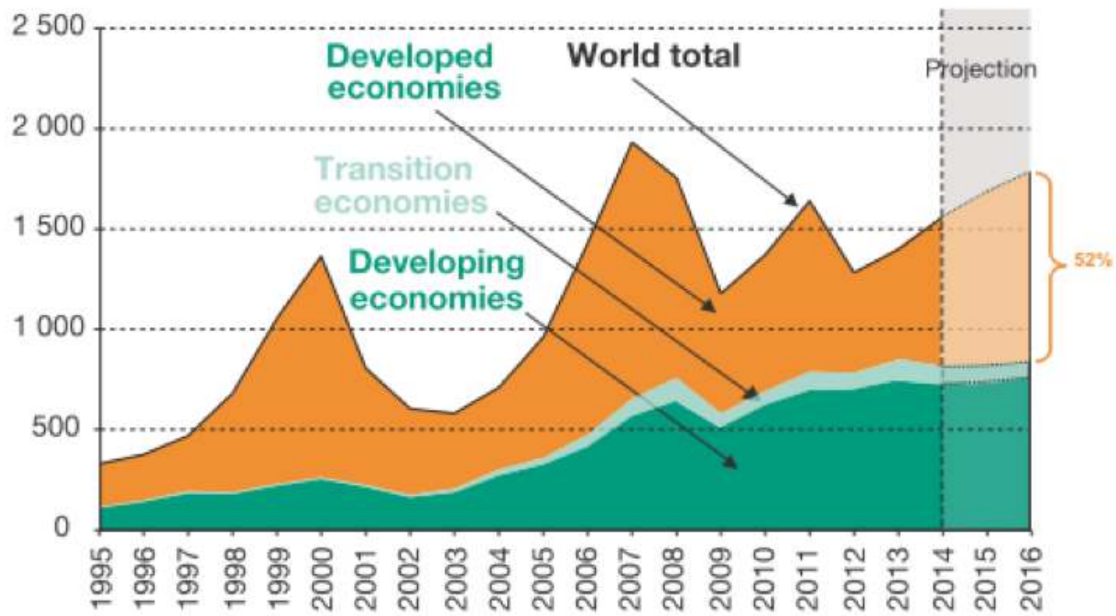

Figure 15: FDI inflows by groups of economies, 1995–2013
Source: UNCTAD, 2014.

In the Figure 1 it is shown that for a long period, the highest volume of worldwide FDI recorded developed countries, while in 2010 transition and developing economies together for the first time attracted more than half of global FDI flows. In 2013 FDI inflows increased in developed, transition and developing economies, while FDI flows to developing economies accounted 54 per cent of global inflows.

Regarding the structure of the FDI, most investments before World War II were in natural resources and infrastructure. Manufacturing investments became the predominant form of FDI in the post-war period. Nowadays, the most important sector for FDI are services. According to UNCTAD report (2014) the most important target industry is currently information technology and business services, followed by agriculture and tourism.

According to the Global cities of the future 2014/2015 report (Mullan 2014), Singapore is the most FDI's global city of the future, following by the London and Hong Kong. Analysis includes 130 locations. Singapore presents an attractive location for investors because of its economic potential and business friendliness. Between 2008 and 2013 Singapore recorded almost 2000 Greenfield FDI. London is ranked at the second place because of the human capital and connectivity categories. Foreigners invest in London mostly because of proximity to markets and customers. In 2013 London recorded 300 Greenfield FDI. These two cities can present good practice from which other cities can learn about things that are important for attracting FDI.

6.4 Why do companies invest in the foreign market?

The issue of FDI motives has crossed different streams of economic literature: theory of the firm, international business and international trade theory. The most famous and cited taxonomy of FDI motives is proposed by Dunning (1993). The economist John Dunning classified four primary motives foreign investors have when investing abroad. The taxonomy of motives is developed from the OLI paradigm (Dunning 1977). It includes three types of advantages: ownership, internationalization and location advantage. Ownership advantage explains why a company want to become a multinational, internationalization advantage explains how (in what way) a company want to enter foreign market and the location advantage explains the location where a company will probably invest. The taxonomy is created of the following categories (Dunning 1993, p. 59):

- ***Resource seeking***: foreign investor wants to acquire particular resources that are missing (raw materials or natural resources) or are more expensive (unskilled cheap labour) in the home country.
- ***Market seeking***: foreign investor is searching new buyers for their goods and services.
- ***Strategic asset seeking*:** foreign investors invest in foreign companies to help building strategic assets, for example distribution networks or new technology.
- ***Efficiency seeking***: foreign investors invest in foreign country because of a lower cost structure. They want to gain from different cultures, factor endowments, economic systems, institutional arrangements, market structures and policies and by intensifying production in a limited number of locations for supplying multiple markets.

6.5 Effects of FDI

FDI bring a lot of different effects to the host economy. Survey articles show inconclusive evidence in the literature regarding vertical and horizontal spillover effects of FDI. While some studies show positive effects of FDI on domestic companies, there are also some analysis proving neutral and also negative effects of these processes (some of the studies: Barro 1991; Aitken & Harrison 1999; Lipsey 2000; Liu et al. 2000; Gorg and Greenaway 2001; Baliamoune-Lutz 2004; Lipsey and Sjoholm 2004).

The earliest studies of FDI effects relate to FDI impact on firm's productivity. Caves (1974) concluded that effects of FDI on productivity in a domestic firm are positive. Also Blomström & Persson (1983), Nadiri (1991), Chuang & Lin (1999) and Driffield (2001) came to the same conclusion when analysing FDI effects on the productivity.

Another analyses of positive FDI effects in several studies showed that FDI transfer new knowledge and technology, develop economy potential, generate additional tax revenue for the state, reduce unemployment, support the strategies for development of individual sectors, develop management knowledge and increase engagement of local companies in supplier and subcontractor networks (some of the studies: Findlay 1978; Estrin et al. 1997; Xu 2000; Perez 2008 and Lin 2008).

Very frequent in the literature is also the analysis of how FDI affect economic growth. The results differ. While Blomström (1986), Mody & Wang (1997) and Lensink & Morrissey (2006) concluded that inward FDI positively affect economic growth in the host country, Haddad & Harrison (1993) and Smarzynska Javorcik (2004) concluded that FDI does not affect economic growth and Kawai (1994) and Mencinger (2004) even proved that FDI negatively affect economic growth.

FDI benefits are not self-evident and are different among countries. Lin (2008, p. 31) proved that FDI bring benefits if an investment environment is open and has active competition policies. Also democratic investment regime and trade, privatisation, deregulation and macroeconomic stability are very important factors by helping maximizing benefits of FDI. The distribution of FDI effects is depending on the business environment and economic policy regarding these processes in the host country as well as on other factors that affect their consequences. According to Reisen (1999) effects of FDI are positive with a time lag, while Cantwell (1989) and Perez (1998) believe that the positive effects of FDI depend on the sector in which the investment is entered.

On the other side, a lot of studies demonstrate negative effects of FDI. They often occur if conditions for FDI are unfavourable. Besides rising unemployment due to rationalization, uncompetitive behaviour of foreign owned companies, reduction of productivity of the host country, concentration increase in the domestic market (Kokko 2006; Aitken & Harrison 1999; Blonigen & Taylor 2000; Aslanoglu 2000; Haller 2005; UNCTAD 2007), closure of local firms, shrinking domestic stock market, low pricing for sold assets, pressure on current account and elimination of competition in the domestic market (Tsang & Hauck 2007; UNCTAD 2007, p. 123; Maček 2009; Maček & Ovin 2014) are the most important threats mentioned in the literature. However, in the last period minimizing the control in strategic industries and threatening the national autonomy and sovereignty appeared to be an important negative effect of FDI too (Lin 2008).

Mehta & Dugal (2003, p. 24–26) summarized effects of FDI that can regarding the conditions in the host country appear as a benefit or as a threat. For example FDI transfers technology and skills into the host country, but some countries cannot absorb high technology brought by foreign firms. FDI can improve market access of goods but if international capital flows enter the country only to exploit domestic markets, than there is no contribution to greater market access for domestic country exports. Although FDI often lead to increased employment in the host country, this is more often in well-developed urban sectors with high levels of education and infrastructure. In some cases FDI can improve the balance of payments, but on the other side through an increase in imports of inputs and through remittances of royalties and dividends abroad by the subsidiaries FDI could have also negative impact on the balance of payments of the host country. Effects of FDI depend on the form of international investment and mainly on the conditions for FDI in the host country.

When analysing benefits of FDI for cities, researchers often expose FDI as an important factor for economic development of cities. If summarized, the most frequent benefits of FDI for cities mentioned in the literature are the following:

- FDI bring new skills which can be later transferred to local workers and managers.
- FDI generate direct or indirect employment.
- FDI exchange technology, policy ideas and other forms of knowledge.
- FDI provide finance for economic development as international investments speed the construction of infrastructure, information systems and other basic conditions for development.
- With FDI city can improve human resources, marketing and other activities to strengthen the competitiveness of a city.

Generally, FDI helps to raise the profile of the cities. Local areas that have competed successfully for FDI in the past are highly attractive for more investment in the future.
On the other hand, the most common obstacles and challenges cities face regarding FDI are the following:

- Cities that are unsuccessful by attracting FDI can be frustrated.
- A lot of cities have problems by adopting policies for FDI (for example, policies to assist development at the urban periphery might contribute to transportation problems).
- FDI might push out local entrepreneurs and businesses.
- Foreign investors sometimes repatriate their profits to their own home countries instead of leaving them in the host city.
- The costs of offering incentives to foreign investors might lower the possible economic gains of investment.

As the main goal of each city and country is the maximization of benefits and minimization of costs of FDI the effective government regulation and friendly environment for investors is of high importance in ensuring effective utilisation of FDI.

Case Study 1: FDI in Singapore

In 1965 the city-state Singapore faced a lot of challenges, such as a lack of natural resources, small economic base and high unemployment. Today Singapore has one of the most open economies in the world. Openness is within the main reasons for rapid economic growth of this city. Since independence in 1965 Singapore has relied heavily on international trade and FDI for its economic development. During the period between 1965 and 1980 government introduced several steps to attract FDI. They developed one of the most liberal and open-trade regimes in the world, adapted national standards in the way that most industries are open to FDI and took concrete steps to protect intellectual property. They also prepared and implemented a strategic plan for creation of polytechnic schools and technological universities and made friendly environment for investors with investments in infrastructure (new roads, airports, and telecommunications).

From 1960 there was a significant increase of foreign share of GDP. FDI as a percent of GDP rose from 4.85 in 1970 to 21.4 in 2012. FDI in chemicals, petroleum, transportation equipment, electronic equipment and other manufacturing areas helped by developing those industries. From an economy that was primarily involved in manufacturing consumer goods in labor-intensive industries in the 1960s, Singapore moved to one that produces high value-added goods and a variety of complex services in the 2000s. Investment policies supported high-value added industries as well as targeted cluster activities, including those in logistics, research and development and biomedical sciences. In 2013 the values of FDI in Singapore recorded $848.9 billion. The main investor countries in Singapore were United States, Netherlands, Japan, British Virgin Islands and United Kingdom (Hsu 2012; Mullan 2014).

Case study 2: FDI in London

London is ranked on the top of European destination for FDI. The most FDI London attracts in the business services, financial intermediation, software sectors, security broking, insurance and pension. According to data from Greenfield investment monitor fDi Markets London recorded 300 Greenfield investments in 2013. Within Europe London led the ranking, ahead of Paris with 115 projects, Dublin with 89 and Moscow with 85.

London is known as a city that has an investor friendly policy. The government has established London Development Agency for providing all the necessary information and support to investors. This agency promotes foreign investments in the city in the form of several programmes. The agency is important by taking London towards a path of sustainable development and contributes to the development of the skills of the local people. Furthermore, London has also other agencies such as 'Think London' which was established for the promotion of London as a city for investments and for assisting investors with the complete important infrastructure for developing a business in the city.

If analysing the whole Europe the most popular sectors for inward FDI in 2013 were IT services and software, business services, textiles and financial services. Software and IT services created an estimated 14,829 jobs in 2013, while automotive components created 14,743 jobs and consumer products created 9,969 jobs. The most active investors in Europe in 2013 were from the Germany, US and the UK (Kaczmarski 2014).

6.6 Factors influencing FDI flows

In the literature factors, such as political risk, infrastructure, investment environment, judicial transparency, red tape, bureaucratic hurdles, regulatory framework and the magnitude and complexity of corruption in the host country are often mentioned as factors that influence international capital flows (Mottaleb 2007, p. 4). Also the availability of skilled labour, the country risk rating, the host country size (Nonnemberg & de Mendonça, 2004, p. 2), labour costs and the market openness (Taylor & Francis Group, 2004) are important factors that influence inward FDI flows. Chen (1996) and Bevan & Saul (2000) highlight also gravity factors, transport infrastructure and development and research capacity in the host country as important factors that influence on FDI flows.

In World Investment Report (UNCTAD 1998, p. 91) there is a list of factors that influence FDI flows classified as follows:

- factors related to natural resource extraction, new markets acquiring and greater efficiency named as microeconomic factors,
- political and economic factors meaning international FDI agreements, privatisation policy, the trade and fiscal policy and
- factors related to FDI promotion, location attractiveness, incentives for investments and other factors that are related to business facilitation.

Within them microeconomic factors are the most important while successful cities widely use incentives for attracting investment. With incentives policymakers stimulate investments in specific industries, activities or disadvantaged regions. The most common definition of incentives is that they presents non-market benefits used to influence the behaviour of investors. Incentives can be given in many different forms from national, regional and local governments. Different forms of incentives can be classified in three basic categories regarding benefits they offered: regulatory benefits, fiscal benefits and financial benefits. According to the UNCTAD report (2014) the most important type within incentives are fiscal incentives, while regulatory and financial incentives are less important policy tools for attracting FDI.

Blomstrom & Kokko (2006, p. 22) highlighted general country's industrial policy is the main determinant for attracting FDI and maximizing their benefits. A lot of countries and especially cities within them developed their own strategy for gaining the most positive effects of international capital flows. The main components of such strategies are presented below.

6.7 A City strategy for attracting FDI

Cities play an important role by attracting FDI. As already written FDI inflows depends on many different factors, but practice show that city can strong influence on the effects of international investments. The most important things are that they attract the appropriate investments and offer the conditions in which investment gives the most positive effects. When locating the business, investors seek the following:

- a stable regulatory and macro-economic environment,
- natural factors, such as climate, geography and endowment of natural resources,
- market access and open competition,
- human factors such as skilled labour,
- manageable regulation and taxation system,
- social factors such as infrastructure of each locality and a good quality of life.

By answering the question "How to become an attractive destination for investors" the most successful cities developed and implemented their own model or strategy for attracting and supporting FDI. McFarland & McConnel (2011, p. 9–15) define the following 5 steps, which help cities to attract and support FDI.

Figure 16: Strategy for attracting and supporting FDI in the cities
Source: McFarland & McConnel (2011, p. 9–15).

1. Identification of cities' Assets and Key Sectors

In the first step city should make an analysis of its strengths and weaknesses. An analysis should include also city's access to technology, workforce skills, quality of life and physical infrastructure. As local and regional assets are very important for FDI attraction, cities should accelerate already existing assets and provide clear specification for the types of businesses or industries it can support.

The most effective way is that city focus on its own location and competitive advantages. City should focus on business and industries whose strategic needs match local assets, that have a tendency to invest in foreign capacity and in which the city has distinct strengths in the sector compared with other places competing for investment. The result of this step should be the list of the most important sectors. Important are also sectors that involve local actors as that signals that there is supporting infrastructure, workforce, technologies, services and suppliers for their industry. Foreign investors often favour to invest in the sectors that already have a strong local presence.

2. Creation of City Awareness

The second step city should do when preparing the strategy for FDI attraction is developing and promoting the awareness of cities assets. In achieving this goal most cities build their own image or brand, which helps them to raise the visibility of their strengths and opportunities. An image should have the goal to differentiate the city from others that compete for inward FDI.

Deep support among key partners and local and regional leaders is also important for foreign investors because local chambers, elected officials and regional organizations have influence on the success of a business or economic development project.

After developed image city should create the awareness of the image. This can easy be done with videos of city and print brochures presenting specific assets of interest, including a list of investment opportunities. An important way for city promotion is also a multilingual website of the city, which should be easy to use. It is important that the advantages of a city are communicated through different industry channels. Furthermore, city should contact firms targeted as potential investors directly with tailored information.

3. Identification of Investor leads

The main aim of third step is to generate greater quantity and quality of business leads in the city. Proactive lead generation is of importance by ensuring that investments are supporting the overall economic goals of the city.

For proactive lead generation a lot of cities have specific local strategies that rely especially on networking and relationship building. For better effectiveness of attracting FDI cities should be engaged in these activities for identification of leads and for ensuring that it is well-positioned when an investment opportunity appears. Specific local strategies contain:

- A list of experts from industry that help generating leads. They are important for maintaining and strengthening the existing networks and present the main base of knowledge when potential investors have questions;
- A plan for business networks with economic development organizations in foreign cities that have similar or complimentary industry targets. This is important for beneficial partnerships;
- Connection with state agencies and providing them with city's investment portfolio.

It's important to know that the most positive for host city are investments for which city have the right assets to meet investment needs.

4. Facilitate and Prepare

City should understand the business environment and prepare itself with supportive environment, resources and guidance to simplify the international business. Within this step it is advisable for city to build a city advisory committee with an aim that of providing resources and information quickly if an investment deal is appearing. The best is if committee is composed of people who can qualitative and quick answer technical questions about the city to the potential investors (bankers, real estate lawyers, environmental lawyers, regulators). Member of the committee should be fast responsive as this proves that the city is committed and serious.

City should also fulfil the investors' needs regarding strategically using resources, such as establishing a foreign trade zone, workforce training, clearing land or providing financial incentives. Having in mind that there are stages of the site-selection process it's necessary to understand what kind of incentives is beneficial for the investor at a particular moment. If other basic factors, for example, quality of life is of greater concern of investors an incentives package is irrelevant. Blomstrom & Kokko 2003, p. 22) suggest that incentives are focused on the activities with strongest potential for spillovers.

Foreign firms often search similar conditions for business as they have in their own country. Cities can help foreign investors by managing their expectations and understanding of the business requirements and environment in the city. Barriers such as language or different legal system can be overcome with offering translators, lawyers, accountants etc. The main goal of this step is that investors recognize the city as the one that they can count on.

5. Monitor and Provide Aftercare

The last important step is city awareness that the support and concentration to the foreign investment and firm should not end after the deal is secured. Activities within this step include evaluating the success of each investment. City should analyse for example: the number of jobs created, new or improved technology and other economic benefits foreign investment brought to the city.

Investors' aftercare is also important because it facilitates retention and the early and continued success of the investment, generates new leads more easily and quickly and continues to leverage the investment for economic growth. Aftercare provision usually includes continued support to the business, such as constant communication with the investor.

A city will have the greatest success by attracting investments in industries where it has a competitive advantage. Practice shows that FDI strategies succeed when the city has the ability to support investments and budget is appropriate. City should have well prepared marketing strategy and follow-up procedures. And the last, but very important thing is that people involved in attracting foreign investors are aware of cities' strengths and understand investment needs.

Case study 3: Best practice tools for attracting FDI in cities

Many successful cities attract inward foreign direct investment. For improving the flow of private investments in cities simplified administration, clarity in policy, contamination remediation, targeted private sector initiatives and clarity of procedures were found to be the most important. In the following table we are showing what tools selected cities have implemented in order to increase international capital flows.

City	Governance	Tools
Amsterdam	A voluntary public/private partnership named Amsterdam Economic Board promotes investment across 25 local and 2 regional councils. Official FDI agency is Amsterdam inbusiness.	Webpage includes presentation of information on key industries for investments and success stories of existing investors. (see: http://www.iamsterdam.com)
Barcelona	Council's Barcelona Activa is the IPA.	Webpage includes presentation of all necessary information for investors. (see: www.barcelonactiva.cat)
Birmingham	A public/private partnership named Marketing Birmingham is responsible for inward foreign investments.	Webpage includes information on case studies, events, 3D video on the economic zones and other important information for investors. (see: businessbirmingham.com)
Edinburgh	A public-private body named Marketing Edinburgh promotes city for investments.	Webpage includes invest map, Invest Edinburgh magazine, deals, blogs, development hotspots and other important information for investors. (see: http://www.investinedinburgh.com/)
Hamburg	HWF Hamburg Business Development Corporation is the city's joint public-private IPA.	Webpage presents introduction for establishing a business in the city and other important information for investors. (see: www.hamburg-economy.de)
Paris	Paris Développement is council's economic development agency acting as IPA.	Webpage presents projects and opportunities for investments in Paris. (see: www.investinparis.com/en)
Singapore	Attracting investors is part of the work of Contact Singapore, an alliance of the Singapore Economic Development Board and Ministry of Manpower.	Webpage offers information on business parks and presents online guide for potential investors. (http://www.contactsingapore.sg/investors_business_owners/)

Table 5: Strategies for attracting FDI in cities
Source: Waterfront Development Agency, 2014.

From the table it can be noticed that the prevailing governance structure is an integrated, enabling council-led Investment Promotion Agency (IPA) for the whole city or region and a public-private model for specific districts. The functions of the IPA usually include investor facilitation and servicing, image building and policy advocacy. To be effective, the IPA should have a high degree of political visibility, active private sector involvement, and operate in a good investment environment. The main tool cities use is one-stop shop (OSS) website with the main focus of FDI in key sectors and development zones. All presented cities also offer many incentives for investors. Normally incentives include tax holidays, policy reforms and infrastructure improvements.

6.8 Conclusion

Foreign direct investments present an important source of capital and are considered as an effective instrument for the distribution of know-how and skills in the global economy. Among the most frequent positive effects in the form of increasing of employment, technology and know-how transfer and rising productivity international investments can also improve management systems and transfer the best practices in accounting rules, corporate governance and legal traditions across borders. Although inward FDI has wider positive effects we should be aware also of threats that international capital flows can present for the cities. These are the most frequent in the form of frustration for being unsuccessful by attracting foreign direct investments, crowding out local entrepreneurs and businesses etc. With the goal of maximizing the benefits and minimizing the costs of foreign investments it is advisable that cities develop an own strategy for attracting and supporting foreign investments. In such a way city identify key assets and sectors with potential to invest, identify the investor leads, prepare the environment for investments and support the investors in many different ways. With the appropriate and favourable conditions for investments city can gain such benefits from investments that strongly contribute to economic development of the city.

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