

BATModel

better agri-food trade modelling for policy analysis

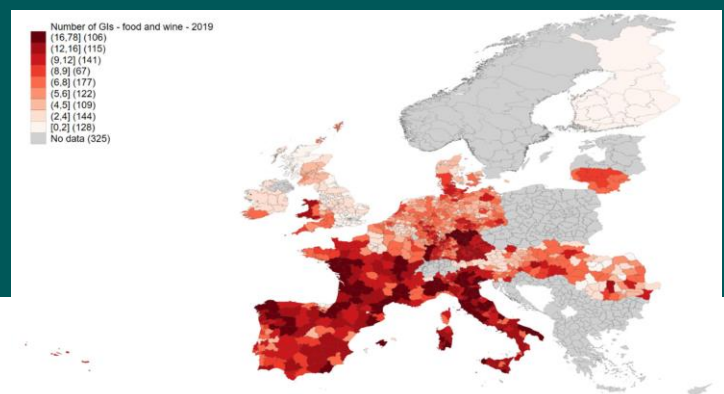
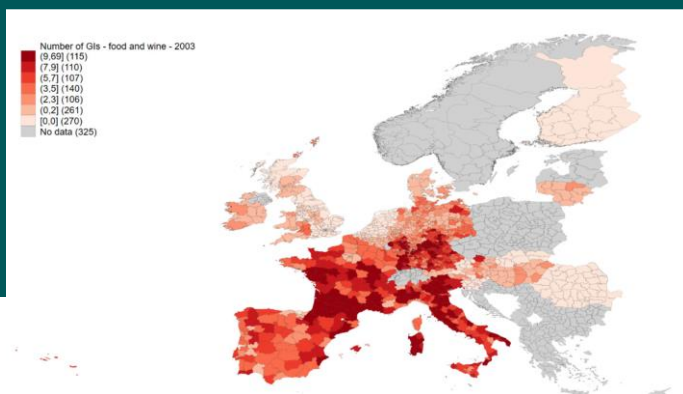
From local to global, and return: Geographical indications and FDI in Europe

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Papers in Regional Science,
Vol 12 (5) pp. 901-1063, 2023 <https://doi.org/10.1111/pirs.12758>

HIGHLIGHTS

- Geographical Indications (GIs) significantly attract Foreign Direct Investment (FDI) in the agri-food sector across European regions.
- GIs are particularly effective in regions with weaker institutional quality, acting as a signal of local capabilities to foreign investors.
- The presence of GIs positively influences local employment beyond agriculture, encouraging sectorial shifts towards higher value-added activities.
- Policies that support and promote GIs can lead to sustainable rural development and increased global competitiveness.

The geographical indication (GI) scheme of the European Union guarantees visibility and protection to high-quality agri-food products. Areas endorsed with GIs attract more FDI in agri-food-related activities. Positive effects, estimated for FDI inflows, related job creation and inter-sectoral spillovers on local employment, involves territories with lower institutional quality.



Geographical indications (GIs) by NUTS3, range and number of NUTS3, 2003 (a) and 2019 (b).
Source: Authors' elaboration of eAmbrosia data.

INTRODUCTION

BATModel Researchers published a study estimating the impact of the geographical indication (GI) scheme in attracting agri-food foreign direct investment in European regions, using a novel dataset.

Geographical Indications (GIs) play a critical role in distinguishing local products and traditions, providing them with protection and a competitive edge in global markets. This policy brief examines the impact of the European Union's GI scheme on attracting agri-food FDI, with a focus on the implications for regional development and employment. The findings of this study have significant implications for policymakers aiming to leverage local uniqueness for global attractiveness and sustainable development.

DATA AND METHOD

The study utilized a novel dataset encompassing nearly all EU Member States and the UK, with detailed information on GI areas and their evolution over time. It employed a generalized propensity score matching approach to assess the causal impact of GIs on FDI inflows in agri-food-related activities across European NUTS3 regions from 2003 to 2019. The analysis distinguished between greenfield investments and mergers & acquisitions, focusing solely on the former due to data limitations.

MAIN RESULTS

Regions with GIs show increased attractiveness for FDI in agri-food-related activities compared to similar areas without such designations.

FDI in regions with GIs is associated with job creation, both directly from the investment and indirectly in higher value-added sectors like tourism.

The positive impact of GIs on attracting FDI is significant in areas with lower institutional quality, suggesting GIs can compensate for less supportive formal institutions.

EU-based investors are more responsive to GIs than non-EU investors, indicating a familiarity and cultural proximity factor in recognizing the value of GIs.

POLICY RECOMMENDATIONS

- **Promote GIs:** Strengthening the GI scheme to cover more products and regions within the EU can enhance their attractiveness and global competitiveness.
- **Support Weaker Regions:** Tailor policies to support GIs in regions with weaker institutional frameworks, leveraging them to attract investment and enhance local development.
- **Encourage Sectorial Shifts:** Facilitate the transition of local economies towards higher value-added activities, leveraging the attractiveness of GIs to diversify regional economies.
- **Expand Awareness:** Enhance the global recognition of EU GIs to increase their value proposition to non-EU investors, thus broadening the scope of FDI attraction.
- **Safeguard Local Producers:** Ensure that policies aiming to attract FDI through GIs also protect and support local producers, preventing the overshadowing by larger multinational entities.
- **Invest in Rural Infrastructure:** Improve rural infrastructure to support the influx of FDI and tourism generated by GIs, ensuring sustainable and inclusive regional development.