

DO FOREIGN MULTINATIONALS REALLY IMPROVE DOMESTIC PRODUCTIVITY?

One of the key benefits claimed for direct investment in a country by foreign multinationals is that it raises the productivity of domestic firms. But new research by **Holger Görg** and **Eric Strobl**, published in the latest issue of the *Economic Journal*, suggests that the evidence of such 'productivity spillovers' is not nearly as clear-cut and reassuring as might be hoped. Indeed, most recent studies - which use 'cutting edge' analytical techniques on the best available data across a range of countries - fail to detect any improvements in domestic productivity arising from foreign direct investment.

The researchers note that while in the 1950s and 1960s, governments were quite reserved about permitting foreign multinationals to set up in their countries, the mood has swung dramatically in the last thirty years. Nowadays, countries all over the world in both developed and developing countries are keen to attract multinationals in the belief that they will spark off positive effects on the domestic economy.

It is common practice to offer quite generous investment incentives to attract such companies. The UK government, for example, provided the equivalent of around \$30,000 per employee to attract Samsung to the North East of England and \$50,000 per employee to attract Siemens to Newcastle. Other countries in the European Union, other parts of the developed world and less developed countries also provide financial and tax incentives in an effort to attract multinationals to locate in their country rather than somewhere else.

Why do governments spend so much effort and money in order to attract multinationals? There are of course many reasons why multinationals can benefit the domestic economy. They create jobs and can contribute to regional development in general. But one reason particularly frequently mentioned by economists is that multinationals lead to 'productivity spillovers'. The basic idea is that multinationals (like Microsoft and Intel) operate using high levels of technology, which rubs off on domestic firms that are lagging behind those technology leaders. In other words, the presence of multinationals helps domestic firms to learn 'best practice' from their example.

But Görg and Strobl's research reveals that attempts to quantify such spillovers are fraught with difficulties. Moreover, the most reliable studies find little evidence of such effects. The researchers scrutinise a large number of academic papers that investigate this issue for different developing and developed countries. The general message of their findings is that while older papers using inadequate data find largely positive spillover effects, more recent studies using up-to-date techniques and more appropriate data mostly fail to detect such effects.

For the UK, for example, there have been three such studies published in academic journals. Two

of them find positive spillover effects, while one, which arguably uses the most appropriate research technique, does not find much evidence for such positive spillovers. Using similar techniques, studies of Morocco, Venezuela and the Czech Republic also fail to find positive spillover effects.

Notes for Editors: 'Multinational Companies and Productivity Spillovers' by Holger Görg and Eric Strobl is published in the November 2001 issue of the *Economic Journal*. Görg is at the Leverhulme Centre for Research on Globalisation and Economic Policy in the School of Economics at the University of Nottingham; Strobl is at University College Dublin

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