

MAKING THE INVISIBLE VISIBLE

INVESTMENT PROMOTION AND
MULTINATIONAL PRODUCTION

CHRISTIAN VOLPE MARTINCUS

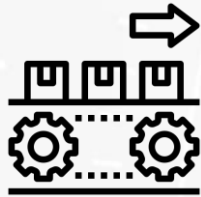
DIGITAL DEVELOPMENT DIALOGUE
DECEMBER 15, 2022

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Investment Promotion: Why It Matters and What We Need to Know

Global Context: Opportunities and Challenges



Multinational production is an important feature of world economic landscape and foreign affiliates are relevant economic actors in their host economies.



Some changes in the geography of multinational production have been emerging in recent years, due to the **digital transformation**, trade policy interventions, stronger awareness of global supply chains' vulnerabilities, and the **sustainability** imperative.



The Covid-19 pandemic has reinforced these phenomena.

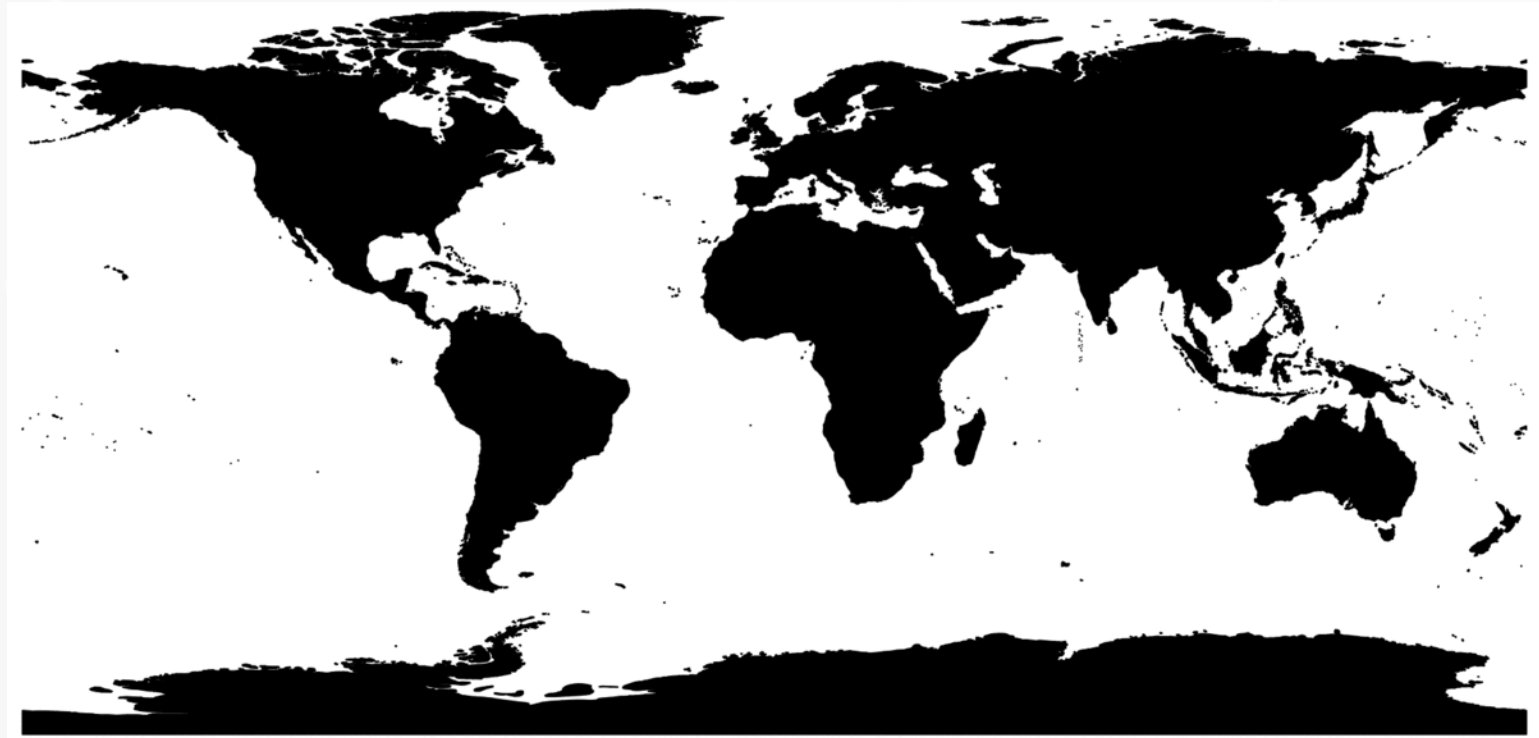


This global context can potentially create **opportunities** for some countries as investments' destinations for multinational firms.

Investment Promotion: Why It Matters and What We Need to Know

Global Context: Opportunities and Challenges for LAC

- The materialization of such potential opportunities would not be automatic.
- **Information barriers** (among others) are still a relevant obstacle that need to be addressed for this happen.



Investment Promotion: Why It Matters and What We Need to Know

Investment Promotion as a Means to Take Advantage of these Opportunities

- Nearly all countries around the world have established dedicated organizations, **Investment Promotion Agencies (IPAs)**, to show up on investors' radars.
- IPAs provide a series of information services to lower information barriers faced by investors and thereby attract multinational firms to their countries.



Source: Volpe Martincus (2021) and Volpe Martincus and Sztajerowska (2019).

The number of OECD and LAC countries with IPAs quadrupled in the last 30 years. Most IPAs in LAC countries were created in this period.

How Effective is Investment Promotion in Addressing Information Barriers and Attracting Multinational Firms?

ROADMAP

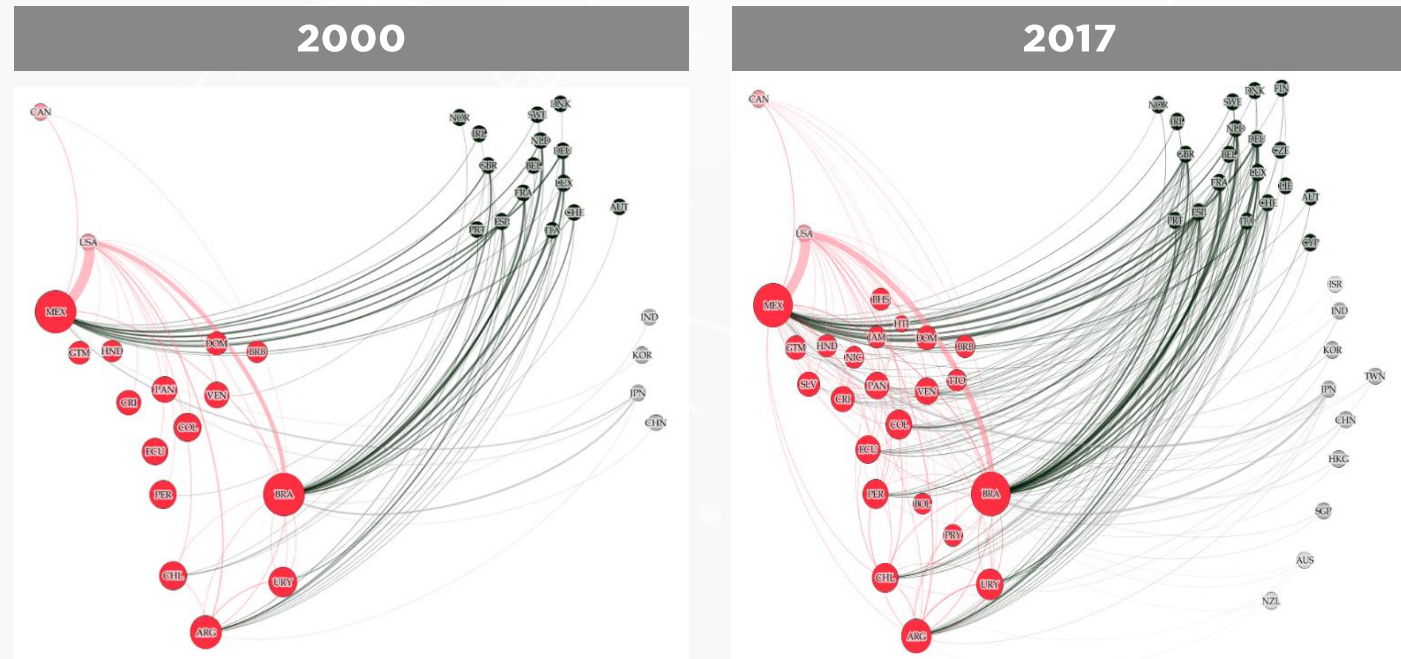
- 1. The Global Multinational Production Map**
2. Showing Up on Multinational Firms' Radar: Investment Promotion Approaches
3. Investment Promotion: How It Works, What Works, and When It Works
4. Where to Go and How to Get There: The Future of Investment Promotion

The Global Multinational Production Map

Latin America and the Caribbean: Multinational Firms

The number of parent multinational firms hosted by LAC increased 88% since 2000. It reached roughly 15,000 in 2017 (7.5% of the world total).

- This increase is almost 50 percentage points lower than the growth recorded in the rest of the world (133%).



Source: Volpe Martincus (2021).

The Global Multinational Production Map

Latin America and the Caribbean: Multinational Firms' Foreign Affiliates

The **number of multinational firms' foreign affiliates** hosted by LAC increased 90% since 2000 to exceed 45,000 in 2017 (6% of the world total).

Europe: 155%/Asia:
145% growth.

Home Countries and Regions

- **Europe and North America** accounted for almost 50% and 27% of the total number of foreign affiliates of multinational firms operating in LAC in 2017. Asia and LAC: 9%.
- *Main home countries:* United States (25.2%), Spain (8.0%), **Germany (7.4%)**.

Sectors and Subsectors

- Almost 60% of the foreign affiliates of multinational firms established in LAC operated in **manufacturing** and **nonfinancial services** sectors (i.e., 30% each).
- *Manufacturing:* machinery, chemical products / *Nonfinancial Services:* head offices and consultancy, office support and administration services.

Multinational Firms

- **Multinational firms present in LAC were significantly larger** than their counterparts in other regions in terms of the total number of foreign affiliates, host countries, and sectors.
- Around 40% had more than 50 foreign affiliates worldwide.

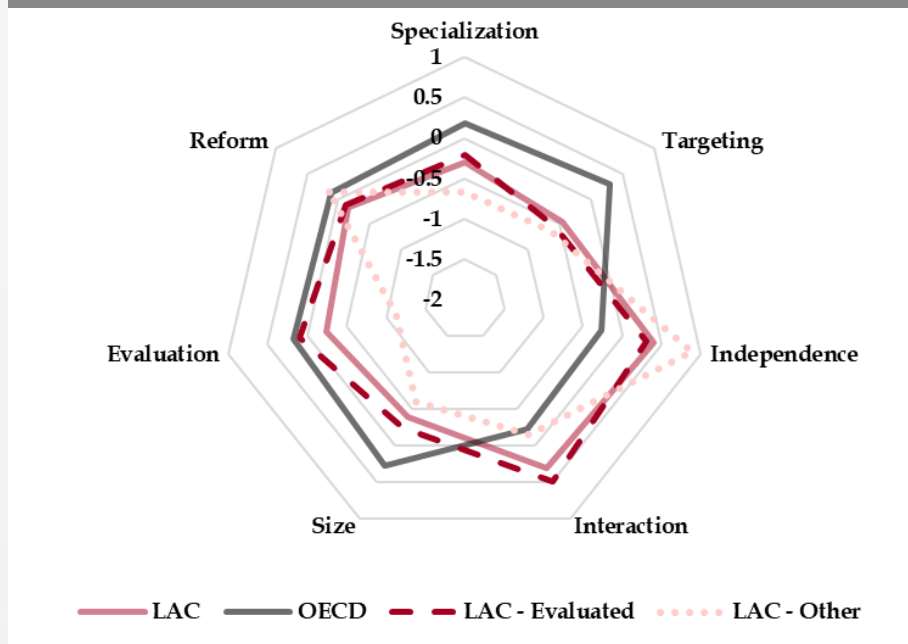
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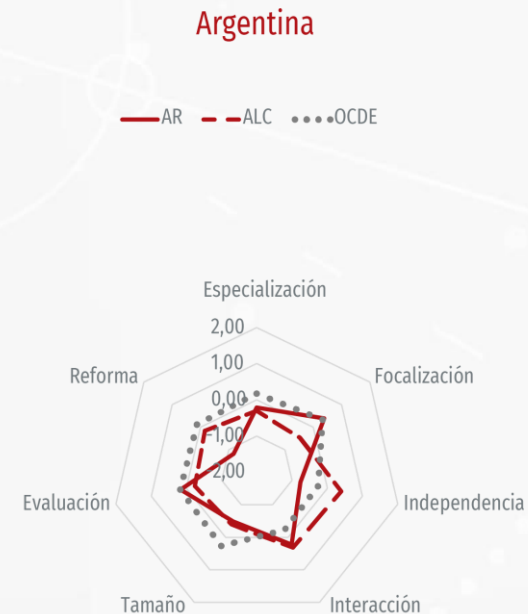
Investment Promotion Approaches In a Nutshell: Who, What, How

- LAC IPAs tend to be **smaller, less specialized, target less** their assistance, and have **less developed evaluation strategies** than their non-LAC OECD counterparts.
- They have higher degrees of institutional independence and interact extensively with relevant stakeholders.

Overall IPA Scorecard, 2017



National IPA Scorecard, 2017



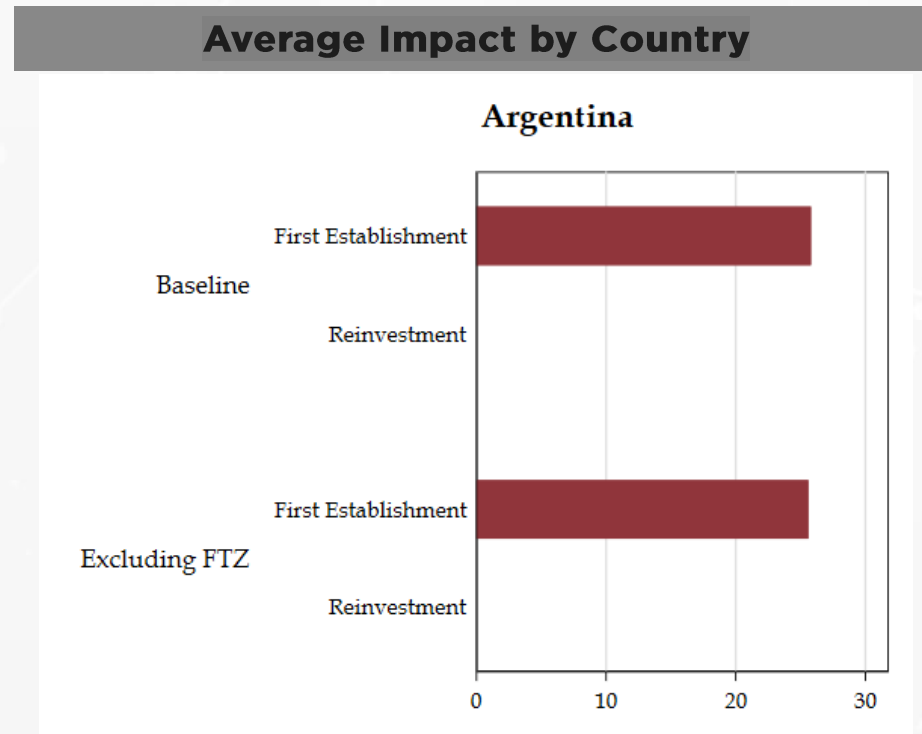
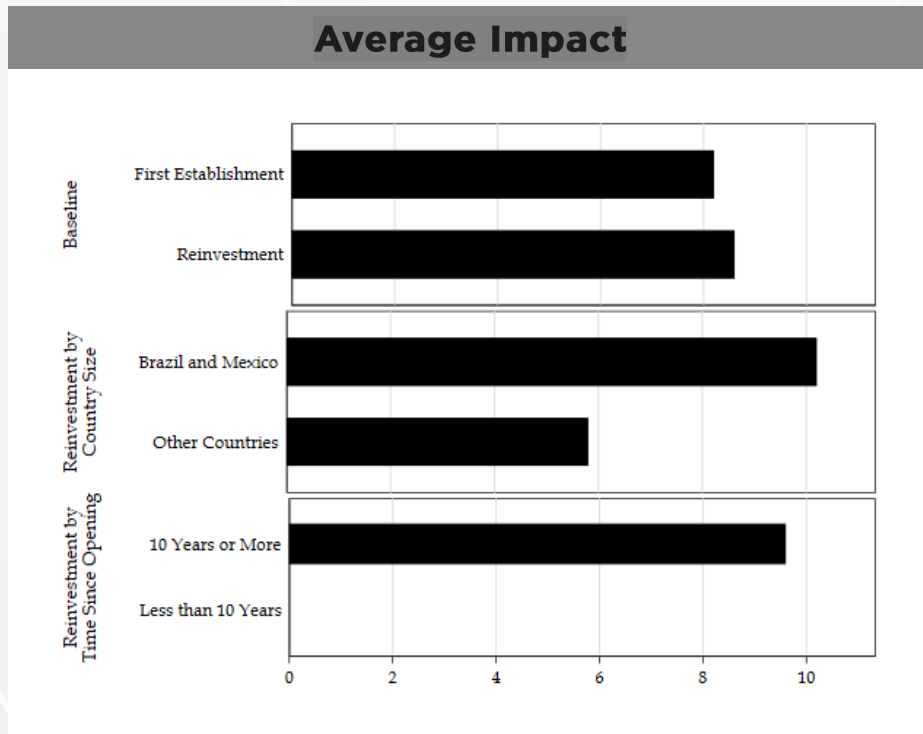
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Investment Promotion: How It Works, What Works, and When It Works

Investment Promotion Works

- On average, IPA assistance increases the probability of multinational firms **opening their first affiliates** in 8.2 percentage points.
- IPA support also matters for **reinvestment**, especially in large and diverse countries and when a long time has elapsed since the previous establishment.

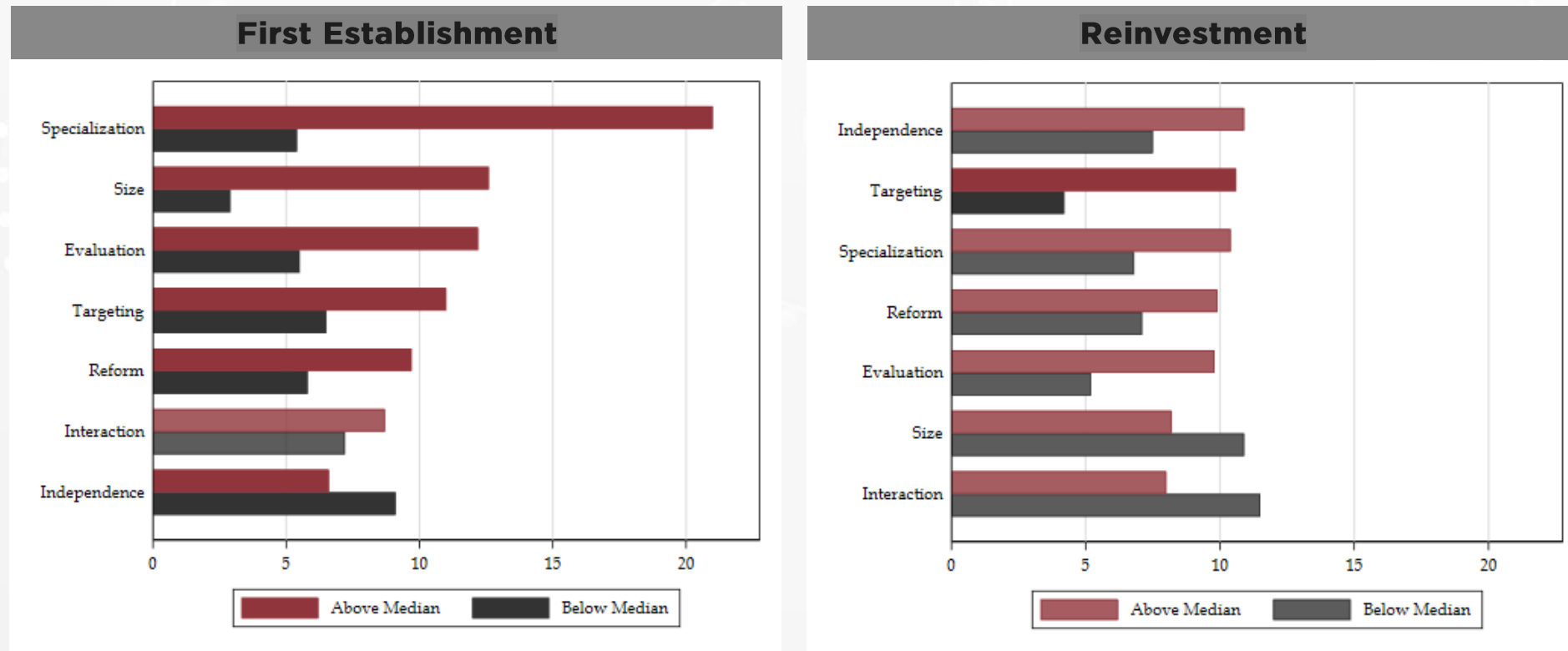


Source: Volpe Martincus (2021).

Investment Promotion: How It Works, What Works, and When It Works

What Works in Investment Promotion | In a Nutshell: Who, What, How

- IPAs that are **larger**, perform **more comprehensive evaluations** of their activities, **target more intensively**, make changes to internal organization, and, in particular, are **more specialized** exert a greater influence on multinational firms' deciding to establish a first affiliate in the country.



Source: Volpe Martincus (2021).

Investment Promotion: How It Works, What Works, and When It Works

When Investment Promotion Works: Countries, Sectors, and Firms

Countries

- IPAs' support has the largest positive effect on multinational firms' decisions to establish a first affiliate when these are headquartered in countries for which the respective host economies are **less familiar or on which is harder to gather relevant information**.

Sectors

- The effect of investment promotion assistance on first establishments is greatest for multinational firms in sectors producing **differentiated goods and services**.
- The positive effect of investment promotion is large for new-to-country foreign firms in the **manufacturing** (and nonfinancial services) sectors and specific subsectors thereof.

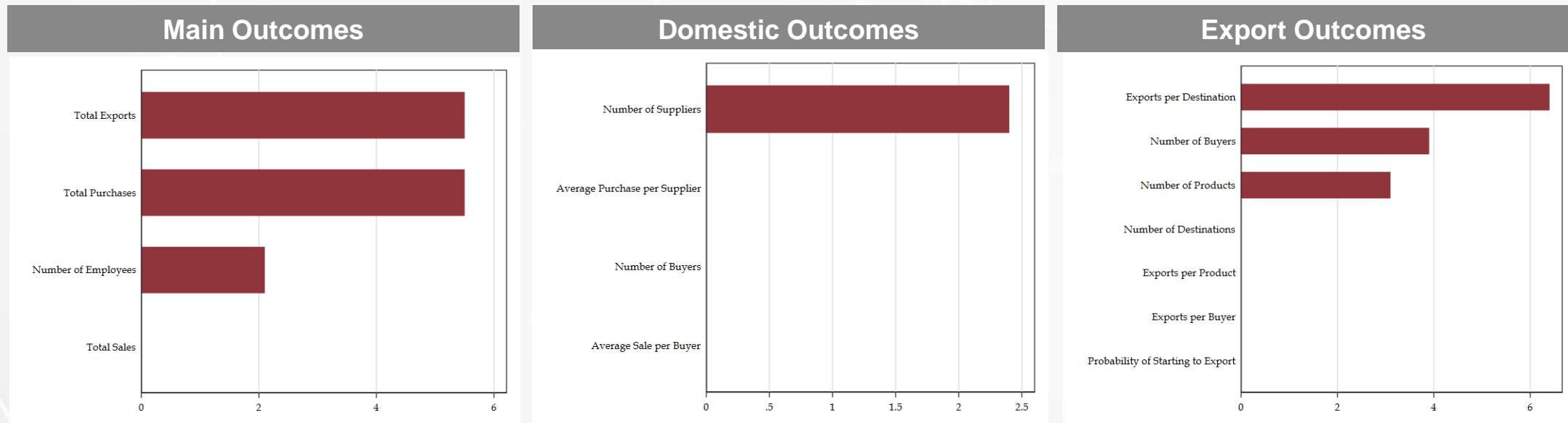
Firms

- Effectiveness of investment promotion seems to follow an inverted U-shape: **it works best to attract middle-size multinational firms**, but less so for the smallest and especially the largest counterparts.

Investment Promotion: How It Works, What Works, and When It Works

When Investment Promotion Works: Level of Activity

- IPA assistance has been associated with an average increase of more than 2% in the **number of employees** of foreign affiliates operating in their countries.
- IPA support has also been linked to an average increase of almost 6% in foreign affiliates' **total domestic purchases**. This rise can be traced back to a larger number of suppliers.
- IPA services have increased foreign affiliates' **total export values** in 6%. This is the result of larger sales per destination, product diversification, and an enlargement of the buyers' base.



Source: Volpe Martincus (2021).

Investment Promotion: How It Works, What Works, and When It Works

The Cost-Effectiveness of Investment Promotion

Investment promotion has been cost-effective.

- Each US\$ 1 spent in investment promotion generated US\$ 41 of additional FDI in first establishments and US\$ 15 of additional FDI in reinvestments, for a total of US\$ 56 of additional FDI.
- Each US\$ 10,000 assigned to investment promotion was associated with the creation of 4 additional jobs in first establishments and 1.5 additional jobs in reinvestments, for a total of 5.5 additional jobs (heterogeneous across sectors).

...even if very large projects (top 10%) are excluded from the computations...

- The benefit-cost ratio is US\$ 15 of additional FDI per each US\$ 1 allocated to investment promotion.

It is important to keep mind that, as with other similar measures, cost-benefit measures are subject to multiple assumptions and caveats and should accordingly be viewed with caution.

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The Future of Investment Promotion

The IPAs' To-Do List to Remain Relevant and Effective in the New Global Context



Mainstream sustainability and gender equality in IPAs' promotion approaches and metrics.



Respond to the growing imperative to **go digital**, as some agencies have been doing since the onset of (and even before) the Covid-19 crisis.



Improve promotion strategies to increase their effectiveness in a more uncertain context by making them **evidence-based**.

The Future of Investment Promotion

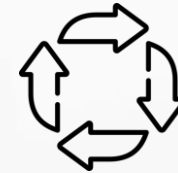
The IPAs' To-Do List to Remain Relevant and Effective in the New Global Context



Institutionalize and systematize monitoring and evaluation practices and periodically carry out deeper, systematic, more comprehensive impact assessments that take both direct and indirect effects on the economy into account.



Intensify interinstitutional collaboration and strengthen program coordination with other relevant policy areas (e.g., linkages, innovation) in designing and implementing IPA services to explicitly factor in the interdependence between multinational firms' activities and policies.



When applying the above recommendations, balance consistency over time, flexibility, and adaptability with changing contextual, policy, and business conditions.

THANK YOU

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