

Some thoughts on the societal impact of Multinational firms

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Hardly anyone has such a bad reputation as multinational enterprises (MNEs). We have heard of many cases of environmental damage caused by MNEs, there are issues with labour rights and social standards, tax avoidance and even bribery. The negative impact of MNEs is not limited to their own activities but goes beyond them if we also consider the whole value chain of upstream suppliers, and the activities of MNE affiliates abroad. There are good reasons to regulate MNEs, like it has been done in the Digital Markets Act (DMA), the Digital Services Act (DSA), or the Corporate Sustainability Due Diligence Directive (CSDDD).

Yet there is one area where MNEs have an unquestionable positive societal impact: research and development (R&D). According to data by the European Commission, DG JRC, the 2,500 largest MNEs account for more than half of total R&D expenditures world-wide, and almost three quarters of all patents. They are also very active in R&D related to environmental topics, so we can expect considerable contributions from these firms for the solution of the world's great challenges.

the positive effect of R&D activities by multinational companies is not limited to the home country because MNEs locate a considerable share of their R&D activities abroad. This internationalization of R&D generates direct benefits, by increasing the technological capabilities of the host country, but also indirect benefits, by creating knowledge spillovers and good jobs. R&D internationalization benefits small countries disproportionately. In Croatia, Belgium, Austria, Hungary, Czechia, Slovakia or Ireland, foreign MNEs account for the majority of R&D expenditures in the business sector.

Ready-made data on the size of these benefits are not available, but I estimate the total amount of R&D expenditures by non-EU firms in the EU to be around 31 bn EUR in 2021, 21 bn EUR can be attributed to US MNEs. Chinese R&D investments in the EU are growing fast, but it is difficult to figure out their total volume. There is clearly a lack of data for this topic.

What we can say, however, is that the European Union has lost a lot of its attraction for R&D investments of non-EU MNEs. This becomes clear when we look at recent data for R&D expenditures of US MNEs in different locations globally published by the US Bureau of Economic Analysis. From 2015 to 2021, R&D in the EU by US MNEs has only grown by 0.9% annually, compared to an annual average increase of 6% in Asia-Pacific, and 4.9% in non-EU Europe. This unfortunate development is mainly due to large EU member states – Germany and France – while we see strong growth in some smaller MS, with Belgium one of the prime examples.

A main reason behind this trend is market growth, which is higher in Asia and other world regions. Moreover, S&T excellence and skilled human resources are also increasingly found in countries outside the US and the EU. Another factor is that the focus of investments is moving from manufacturing to services. R&D in digital services is growing much faster than in manufacturing, and Amazon, Google, Meta, or Apple prefer India, Israel, but also the UK or Switzerland over EU locations. The EU, in contrast, is specialized in manufacturing industries which reveal only slow growth.

So, what could be done? I think there are no specific measures – everything that benefits EU innovation systems and firms is also highly welcome to attract R&D investments from abroad. This should include in particular to close the gap in R&D intensity between the EU and the US and China; strengthen agglomerations of R&D intensive sectors; better develop human capacities in the EU; further develop a culture of innovation; and the support of high-technology start-ups.