WORLD BANK GROUP

ECA Research Notes

OFFICE OF THE CHIEF ECONOMIST

EUROPE AND CENTRAL ASIA

FDI and Green Transition

November 2019

Hi Everyone,

We have had an exciting past few weeks with a number of events and one of the events I want to draw your attention in this newsletter is the ECA Lecture we hosted with Beata Javorcik discussing, “Can Foreign Direct Investment Facilitate Green Transition?”. Beata makes the case that FDI is not only good for innovation and growth but it can also benefit the climate by improving the efficiency of energy use, and improve energy mix as well as reducing the CO2 emissions. So policies to attract FDI are “win-win” policies, they are not only good for growth but also the environment. Watch the video of her talk below and reads some of the related papers on this topic.

This month, we turn our attention to the upcoming launch of the Global Financial Development Report which will focus on reforms of banking regulation and supervision after the global financial crisis. With the launch, we will also release the latest round of data from World Bank’s Bank Regulation and Supervision database. Stay tuned for the launch.

As always, we are also hosting some exciting events which are listed below – hope you can join us.

Happy reading!
Asli Demirguc-Kunt

ECA Lecture "Can Foreign Direct Investment Facilitate Green Transition?"

From left to right: Beata Javorcik, EBRD Chief Economist; Asli Demirguc-Kunt, ECA Chief Economist, World Bank

What is the impact of foreign acquisitions on plant-level energy intensity? Do foreign divestments reverse these effects? Is the effect of FDI inflows visible at the industry level? Why is there relatively little green investment in local firms in the ECA region? Can countries use investment promotion to shift production toward greener sectors? To get the answers, watch the recording of the lecture and check the presentation.

RELATED WORLD BANK RESEARCH

Too Much Energy: The Perverse Effect of Low Fuel Prices on Firms

October 2019 – Policy Research Working Paper 9039

Massimiliano Calì, Nicola Cantore, Leonardo Iacovone, Mariana Pereira-López, Giorgio Presidente

This paper provides novel evidence on the impact of changes in energy prices on manufacturing performance in two large developing economies—Indonesia and Mexico. The analysis shows that unlike increases in electricity prices, which harm plants' performance, fuel price hikes result in higher productivity and profits of manufacturing plants. The results help to re-evaluate the policy trade-off between reducing carbon emissions and improving economic performance.

Relationship between Energy Intensity and Economic Growth: New Evidence from a Multi-Country Multi-Sector Data Set

January 2018 – Policy Research Working Paper 8322

Uwe Deichmann, Anna Reuter, Sebastian Vollmer, Fan Zhang

This paper revisits the relationship between energy intensity and economic growth at the country level, using a flexible piecewise linear regression model. Based on a panel data set of 137 economies during 1990–2014, the results suggest that when countries move beyond lower-middle-income levels, energy efficiency policies become far more critical for sustaining the rate of improvement in energy efficiency.

Financing Low-Carbon Transitions through Carbon Pricing and Green Bonds

August 2019 – Policy Research Working Paper 8991

Dirk Heine, Willi Semmler, Mariana Mazzucato, João Paulo Braga, Michael Flaherty, Arkady Gevorkyan

Erin Hayde, Siavash Radpour

To finance the transition to low-carbon economies required to mitigate climate change, countries are increasingly using a combination of carbon pricing and green bonds. This paper analyses the reasoning behind such policy mixes and the economic interaction effects that result from these different policy instruments. The paper models these interactions using an inter-temporal model that proposes burden sharing between current and future generations. The results show that green bonds perform better when they are combined with carbon pricing.

Self-Employment and Migration

September 2019 – Policy Research Working Paper 9007

Samuel Giambra and David McKenzie

There is a widespread policy view that a lack of job opportunities at home is a key reason for migration, accompanied by suggestions of the need to spend more on creating these opportunities to reduce migration. The authors carry out a meta-analysis trying to understand the link between self-employment and the decision to migrate - the economic theory suggests that self-employed would be more likely to migrate, but the empirical evidence shows that it could be opposite.

FDI and the Skill Premium: Evidence from Emerging Economies

October 2018 – Policy Research Working Paper 8613

Marcio Cruz, Gaurav Nayyar, Gerhard Toews, Pierre-Louis Vézina

This paper combines project-level data on greenfield foreign direct investment with household surveys to estimate the effects of foreign direct investment on the wage skill premium across sectors and regions in seven emerging economies. The results

suggest that in six of the seven analyzed countries FDI is associated with a higher probability of employment and higher wages for unskilled workers, particularly for women.

Beyond Capital: Monitoring Development Outcomes of Multinational Enterprises

December 2018 – Policy Research Working Paper 8686

Iza Lejárraga and Alexandros Ragoussis

Building on the World Bank Enterprise Surveys data, this study presents a set of indicators on outcomes of foreign direct investment spanning 63 developing countries and 10 areas that matter for development. The indicators highlight systematic differences between foreign multinational enterprises and domestic firms across countries in competitiveness outcomes, as well as the extent to which they promote inclusiveness through job creation, gender empowerment, or supply linkages. Differences in some key drivers of competitiveness, such as productivity, innovation, and skills transfer, appear to be increasing with income, although premia in most outcomes are stronger in lower-middle-income or low-income markets.

RELATED BLOGS

Good for the environment, good for business: foreign acquisitions and energy intensity

Arlan Brucal, Beata Javorcik, Inessa Love, August 2019

The link between foreign ownership and environmental performance remains a controversial issue. Data from the Indonesian manufacturing census show that plants undergoing foreign acquisitions reduce their energy intensity by about 30% two years after acquisition by multinationals. This blog argues that foreign direct investment can serve as a channel for the international transfer of environmentally friendly technologies and practices, thus directly contributing not only to economic growth but also to environmental progress. **Read the blog »**

CALENDAR OF EVENTS

- **November 7, 2019:** Launch of Global Financial Development Report 2019/2020 "Bank Regulation and Supervision a Decade after the Global Financial Crisis"
- **November 7-8, 2019**: The joint conference with Penn State "Social Impact of Post-Socialist Transitions and Policies for the Future"
- **November 21, 2019:** ECA Talk "A Market for Work Permits"
- **December 5, 2019:** Screening of award-winning movie "It Will Be Chaos" followed by a discussion with the director Filippo Piscopo

*Check **ECA Lectures** and **ECA Talks** to learn more about our events.*

The ECA Research Notes newsletter is produced by the Europe and Central Asia (ECA) Chief Economist's Office. Please send comments, suggestions, and feedback to ECACEoffice@worldbank.org.

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