Micro-evidence on corporate relationships in global value chains: role of trade, FDI and strategic partnerships

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The micro-level analysis: Trade and investment in global value chains (GVCs)

- OECD work has documented the rise of GVCs and described value-added trade flows within global production networks.

- At the micro-level, GVCs are the result of MNEs’ decisions to trade, invest, and engage in strategic partnerships abroad.

- This new work illustrates the heterogeneous and changing strategies MNEs adopt to integrate in GVCs, offering a new narrative on the relationship between trade and investment.
A novel database of supply-chain relationships

• We exploit *FactSet Supply Chain Relationships* which uncovers business relationships among lead firms and their disclosed competitors, suppliers, customers, and strategic partners

• Our sample contains 147 MNEs from 13 high-technology and low-technology sectors and their GVC network of affiliates and partner companies, corresponding to about 27,000 corporate relationships. The sample covers 9 manufacturing sectors and 4 services sectors

• Selection criteria: we focus on MNEs with the largest market shares in the sector, both from developed and emerging countries, data availability
1. MNE activities are a combination of trade, investment and strategic partnerships

- **Ericsson** (electronics)
  - Trade: 42%
  - Strategic partnerships: 32%
  - Investment: 26%

- **Facebook** (internet services)
  - Trade: 22%
  - Strategic partnerships: 18%
  - Investment: 60%

- **Dr Pepper Snapple** (non-alcoholic beverages)
  - Trade: 36%
  - Strategic partnerships: 17%
  - Investment: 47%

- **Renault** (motor vehicles)
  - Trade: 51%
  - Strategic partnerships: 40%
  - Investment: 9%

- **Les Laboratoires Servier** (pharmaceuticals)
  - Trade: 40%
  - Strategic partnerships: 25%
  - Investment: 35%

- **Nestle** (food)
  - Trade: 53%
  - Strategic partnerships: 7%
  - Investment: 40%
2. Firm strategies differ at all levels
3. Investment performs various functions in GVCs

Kraft

- Horizontal FDI
- Vertical FDI
- Other FDI
- Equity Investment
- Investors
- Joint Venture
- Out-licensing
- In-licensing
- Research Collaboration
- Integrated Product Offering
- Manufacturing
- Marketing
- Distribution
- Suppliers
- Customer companies

Legend:
- Core business
- Support business functions
- Other
4. Support Business Functions are key building blocks of GVCs

LG Electronics

- Core business
- Support business
- Other

Input buyers:
- 23
- 71
- 1

Input providers:
- 84
- 32
- 8
5. GVCs display geographical organisation, possibly in relation to policies

### Telecommunications Equipment

<table>
<thead>
<tr>
<th>Category</th>
<th>OECD</th>
<th>NON-OECD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>58%</td>
<td>42%</td>
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<tr>
<td>Investment</td>
<td>70%</td>
<td>30%</td>
</tr>
<tr>
<td>Strategic partnerships</td>
<td>75%</td>
<td>25%</td>
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<tr>
<td>Suppliers</td>
<td>64%</td>
<td>36%</td>
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</table>
Policy implications

- Not looking at trade and investment policies in silos
  - Consistency between trade and investment policies
  - Coverage of strategic partnerships
- Investment policy should address the diversity of FDI
- A selective approach in terms of trade and investment liberalization may prevent firms from accessing business support functions
- Policies and quality of institutions affect geographical dispersion of GVCs
  - Economic institutions (e.g. property right protection, regulatory quality, etc.) matter
  - Trade and investment barriers may create distortions in GVC strategies