MNEs IN DOMESTIC VALUE CHAINS: A CLOSER LOOK AT THE DOMESTIC LINKAGES OF FOREIGN AFFILIATES

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MNEs in domestic value chains

- Domestic linkages
- High policy relevance: support for attracting foreign investment
- But not much evidence – analytical AMNE database
- Confusion about effects
  - Direct effects
  - Indirect effects
  - Spillovers – very hard to measure
Direct effects of MNEs

MNEs (domestic and foreign) accounted in 2014 for more than \(\frac{1}{2}\) of international trade, almost \(\frac{1}{3}\) of global output and GDP, and \(\frac{1}{4}\) of total employment.

[Diagram showing the contribution of MNEs to various economic indicators such as output, GDP, exports, imports, and employment.]

- **Output**: Foreign affiliates (67%), domestic MNEs (21%), domestic non-MNEs (12%)
- **GDP**: Foreign affiliates (72%), domestic MNEs (18%), domestic non-MNEs (10%)
- **Exports**: Foreign affiliates (44%), domestic MNEs (31%), domestic non-MNEs (24%)
- **Imports**: Foreign affiliates (51%), domestic MNEs (21%), domestic non-MNEs (28%)
- **Employment**: Foreign affiliates (77%), domestic MNEs (16%), domestic non-MNEs (7%)
Backward linkages – locally sourcing?

Foreign affiliates

Domestic sourcing

International sourcing

Value added

Output

Domestic non MNEs (58%)
Domestic MNEs (24%)
Foreign affiliates (18%)

47%
37%
16%

25%
59%
19%

39%
100%

Industrial services
Goods
Other

Domestic firms

Domestic sourcing

International sourcing

Value added

Output

Domestic non MNEs (64%)
Domestic MNEs (25%)
Foreign affiliates (10%)

42%
38%
20%

27%
54%
19%

48%
100%
Differences across countries and industries

Sourcing structure of foreign affiliates and domestic firms, individual countries, total economy, 2014

[Chart showing value added and sourcing structure for different countries and industries]
One extra-dollar of sales for foreign affiliates generated in 2014 on average an additional 62 cents for the domestic host economy.
One extra-dollar of sales for foreign affiliates generated in 2014 on average an additional 62 cents for the domestic host economy.
Forward linkages – locally selling?

Output use of foreign affiliates, world, total economy, 2014

- 100% Output
- 21% Foreign intermediate consumption
- 26% Domestic final demand
- 41% Domestic intermediate consumption

Domestic non MNEs (60%)
Domestic MNEs (22%)
Foreign affiliates (18%)
A world without MNEs…

World GDP would decrease by 20.5% (based on 2014 figures)
Policy take-aways

- MNEs in domestic value chains: directly and indirectly
- Domestic SMEs in GVCs: see also previous OECD work
- Policy tools and intelligence
- Attractive economy: domestic SMEs, domestic MNEs and foreign affiliates
  - Watch out with selective policies
Policy take-aways

• **Policy intervention to support domestic linkages?**
  – In addition to attractiveness policies

  – **Direct measures**
    • Local content requirements
    • Tax incentives

  – **Indirect measures**
    • Awareness and information exchange, matchmaking, etc.
    • Absorptive capabilities of domestic firms