ECONOMIC DEVELOPMENT IN A GLOBALIZED WORLD: THE ROLE OF GLOBAL VALUE CHAINS
Three essays on implications and opportunities for North Africa

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2nd Chapter: Global Value Chains participation and firm boundaries: evidence from French FDI

Abstract

In the last decades, global economy became increasingly connected. The fragmentation of the production process in sequential tasks increased trade transactions, especially of intermediate goods, between firms located all around the world: value chains became global. At the same time, firms enlarged their boundaries through Foreign Direct Investments (FDI) internalising key suppliers or buyers. Multinational enterprises are the main actors of both phenomena, and gained a leading role in world economy. The study of Global Value Chains (GVCs) and FDI has dominated the international economics literature, although often as separate topics. This paper investigates the relationship between GVCs participation and FDI at the firm level, asking whether GVCs integration with a specific country affects the likelihood of FDI in that country. In doing so, it adds the geographic dimension to a literature on value chain organisation (Antràs & Chor, 2013; Del Prete & Rungi, 2017; Alfaro et al., 2019), and the focus on GVCs to the literature that studies the relationship between trade and FDI (Helpman et al, 2004; Conconi et al, 2016). The analysis is conducted on French firms' administrative data. GVCs integration with a country, measured as bilateral trade in intermediate goods, significantly increases the likelihood of future FDI in that country, with a higher impact than that of final goods trade. Given the nature of GVCs, whether the traded products are relational specific (Rauch, 1999; Nunn, 2007) further increases the effect. Finally, the level of governance of destination country influences the relationship: I find a different impact for backward and forward GVCs participation, and a particularly strong relationship in North African countries.