

# Global Value Chains and Emerging Market Multinationals: Policy Implications

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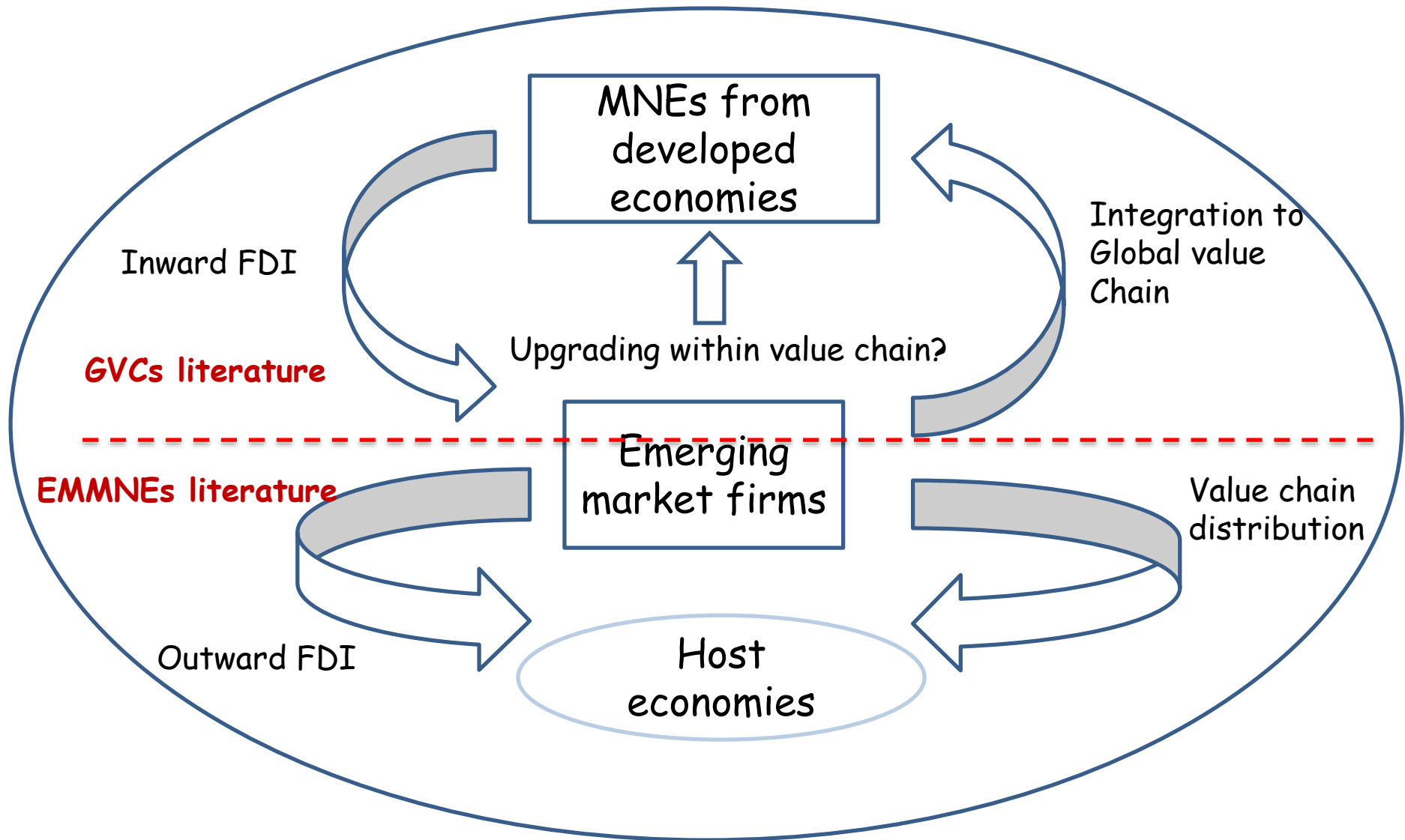
# Presentation Outline

- Research objectives
- Rationale: Why GVCs and EMNEs?
- Theoretical background
- Research questions & hypotheses
- Methodology
- Policy implications

# Research Objectives

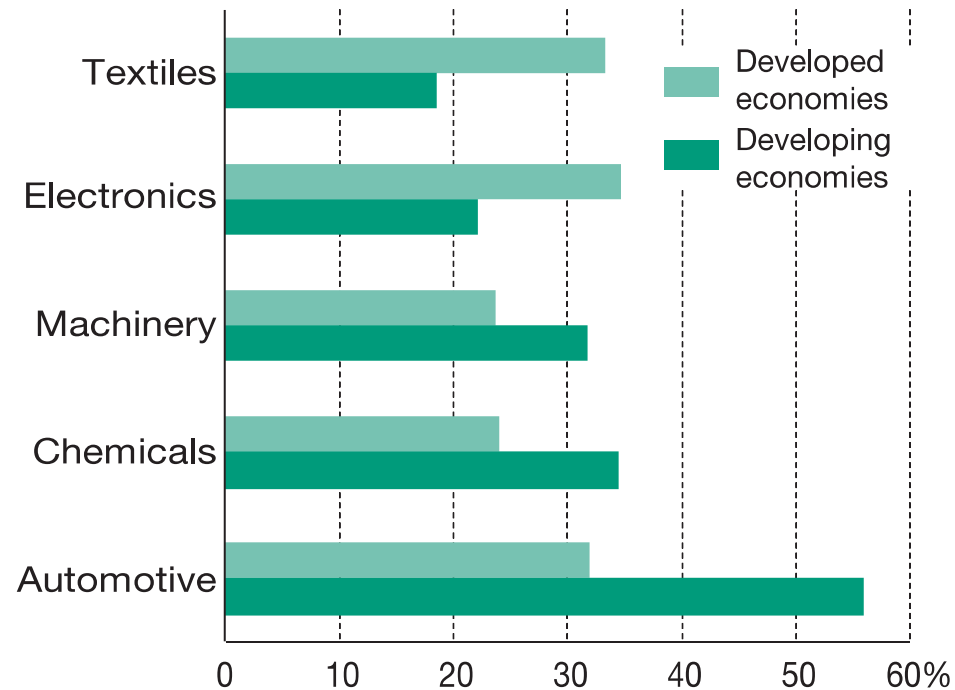
- To identify the current activities that Thai firms are undertaking in the global value chains (GVCs) to understand how these firms are positioned in global industries
- To derive suggestions on OFDI policy that is based on the analysis of firm-level factors

# Global Value Chains and EMNEs



# GVC-dominant Industries

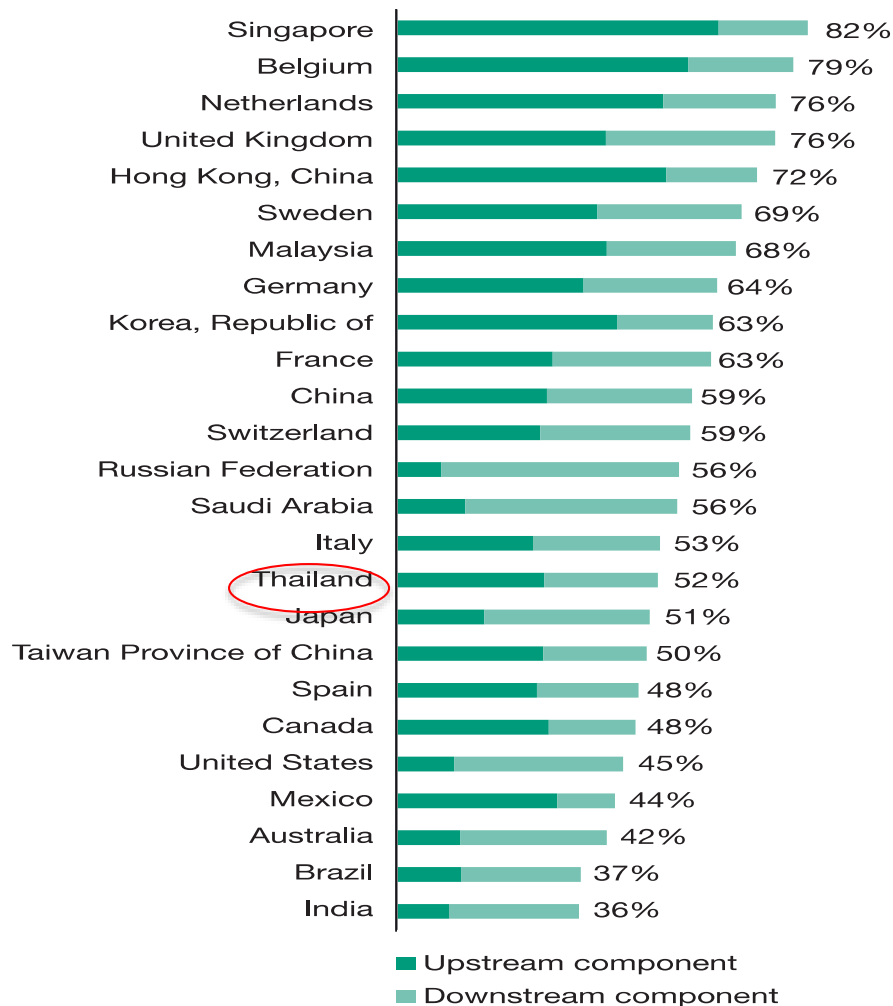
**Figure IV.5. Share of foreign value added in exports, developed and developing economies, selected industries, 2010**



Source: UNCTAD-Eora GVC Database.

# Countries with high GVC participation

**Figure IV.9. GVC participation rate of the top 25 exporting economies, 2010**



Source: UNCTAD-Eora GVC Database.

# Rationale: EMNEs and GVCs

- Not all EMNEs are alike (Narula 2012): Size, ownership, evolution
- Home-country context and pre-internationalization conditions affect internationalization process (Ramamurti 2009, 2012; Cuervo-Cazurra 2012)
- A major *pre-internationalization* condition for many emerging market firms is being supplier/exporter in global value chains (Gereffi 1994; Humphrey 2001)

# Rationale: GVCs and EMNCs

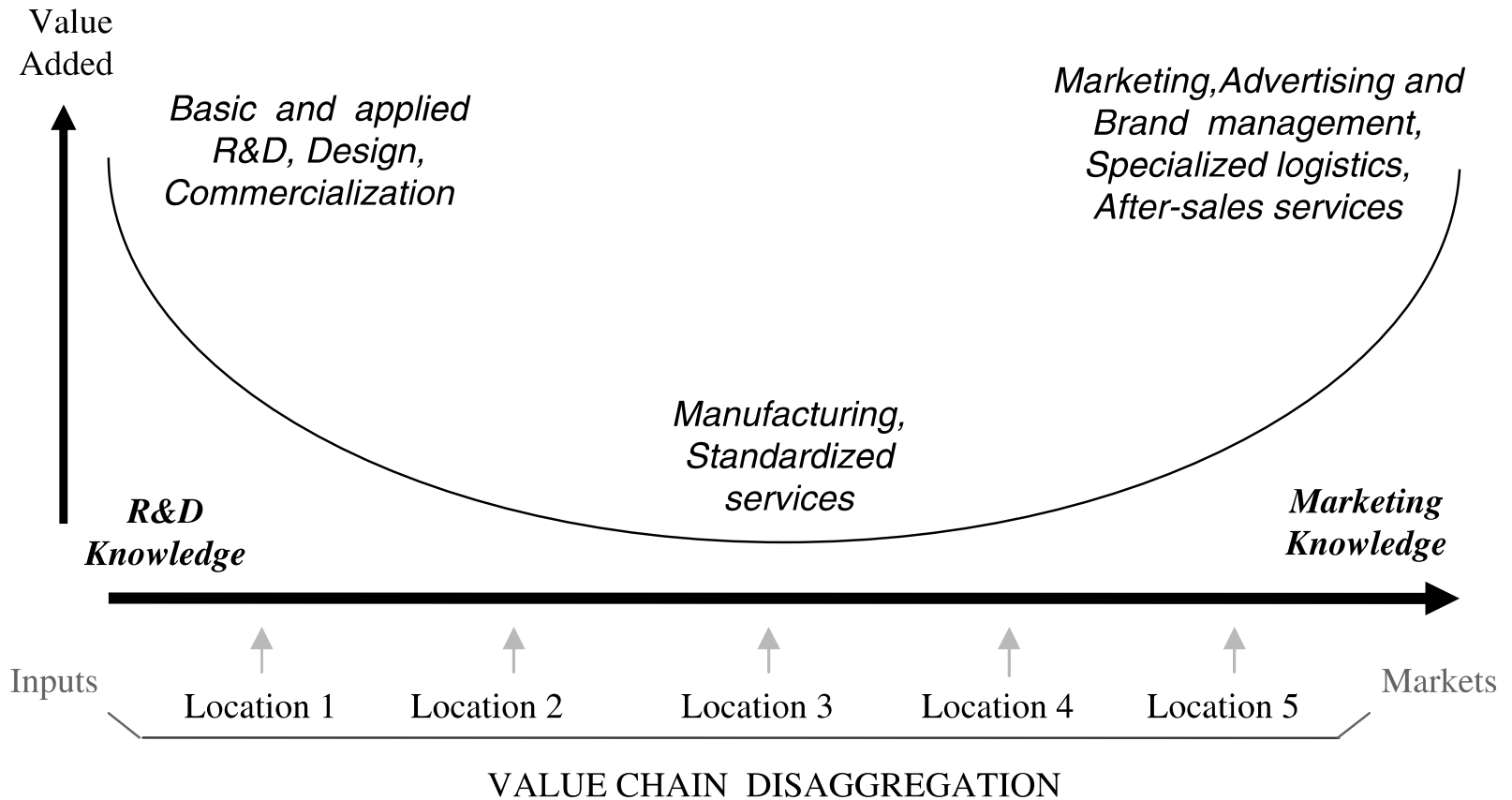
- Inward FDI leads to the development of suppliers in **GVC** (particularly in export-led industries, such as textiles, electronics and automotive)
- Upgrading of local suppliers are not limited to domestic activities
- Local suppliers can engage in outward FDI as a way to upgrade its position in GVC



# GVCs, EMNCs and Upgrading

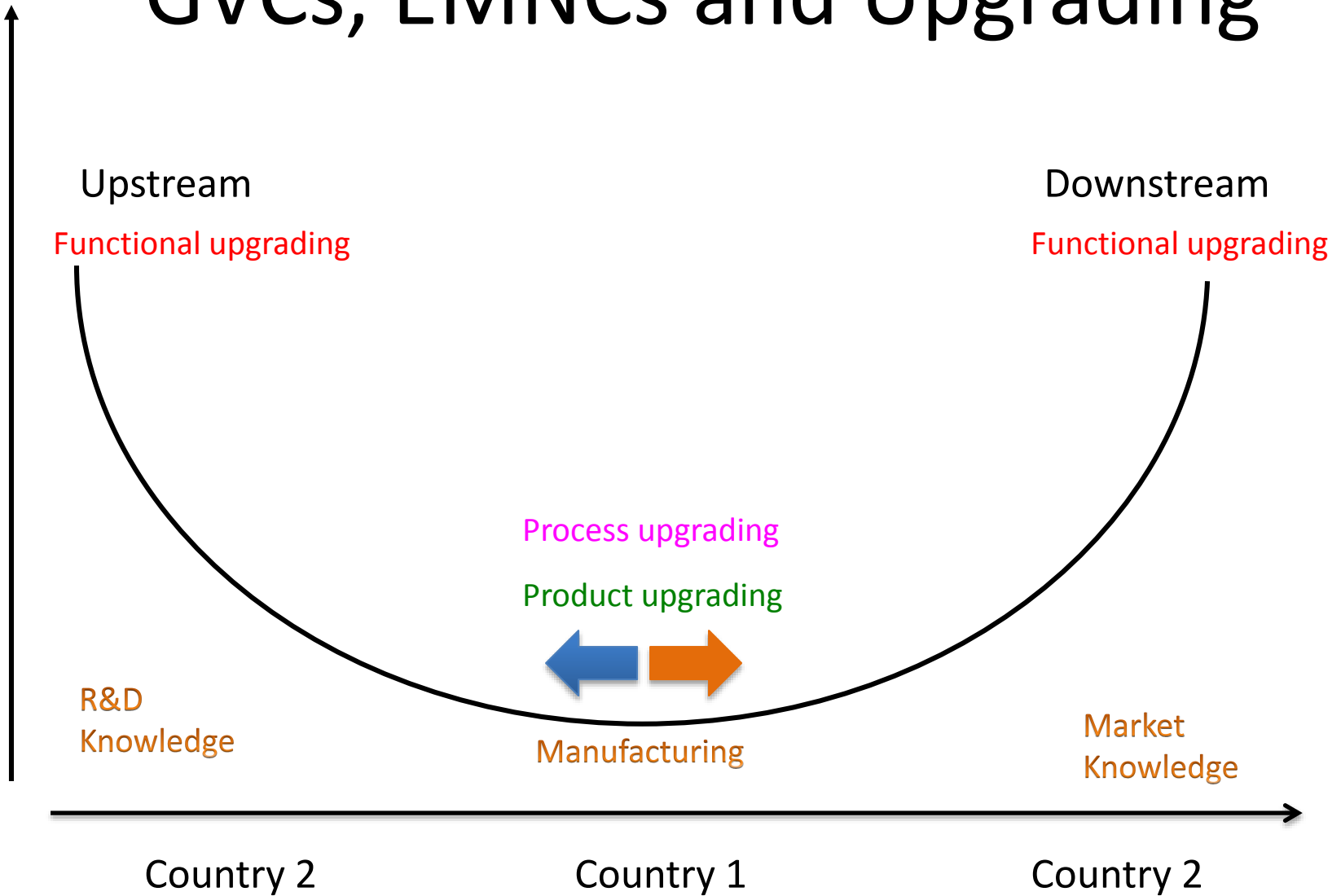
- Domestic firms become better and move to occupy higher value positions through upgrading (Humphrey and Schmitz 2002, 2004)
  - *Product upgrading*: making better products
  - *Process upgrading*: making things more efficiently
  - *Functional upgrading*: learning new functions
  - *Inter-sectoral upgrading*: learning new tricks for a new industry

# GVCs, EMNCs and Upgrading



Source: Mudambi 2007

# GVCs, EMNCs and Upgrading



# Hypotheses

- How are Thai firms configuring their GVC positions?
  - Group 1: Thai MNEs remain in low-value added positions of manufacturing and expand in other emerging markets
  - Group 2: Thai MNEs integrate forward to higher value-added activities in advanced economies
  - Group 3: Thai MNEs in non-GVC-dominant industries start their own GVCs (e.g. services, resource and extractive industries)

# Implications

- ***Firm-level:*** Different patterns of internationalization reflect firm choices in GVC positioning and upgrading along the GVC. How firms coordinate internationally dispersed tasks and activities bear implications on the extent of value creation.
- ***Country-level:*** Economic upgrading of middle-income countries through outward FDI. Investment and trade are complimentary and investment is needed to strengthen export capacity and country competitiveness

# Research Design

- *Database*

- Population of publicly traded firms in Thailand

- Extend dataset of all publicly traded firms with OFDI (data by 2012)
- 2000-2014
- Financials from stock exchange for all firms
- Collect information on internationalization from annual reports and 56-1 report
- Include firms with no OFDI as control group

# Research Design:

## Variables and measures

- Dependent variable: Performance
  - ROA (comparability with other studies and stability across time, less subject to manipulation)
- Independent variables: GVC internationalization activities
  - GVC Activities (coded)
    - Inputs; Technology; Marketing; Finance; and Unrelated activities
  - Controls
    - Size (sales); age (yrs since operation); Industry (Indicator of industry)

# Research Design

- Method
  - Panel OLS regression
    - Control for firm effects (fixed, random if appropriate)
    - Correct for heteroskedasticity and autocorrelation



# Policy Implications

- OFDI Policy framework: understand different types of internationalization among Thai MNEs. Value is created in tasks and activities.
  - Relevant agencies: Bank of Thailand; Board of Investment; NESDB; EXIM Bank
- IFDI linkages and OFDI: understand the need to link IFDI policy to OFDI development
  - Relevant agencies: Board of Investment; Ministry of Industry; NESDB
- Industrial development: upgrading of industrial capacity and local absorptive capacity
  - Relevant agencies: Board of Investment; Ministry of Industry; NESDB

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Thank you for your attention!