

The Structure of Multinational Firms' International Activities

Ronald B. Davies (University College Dublin)
James R. Markusen (University of Colorado, Boulder)

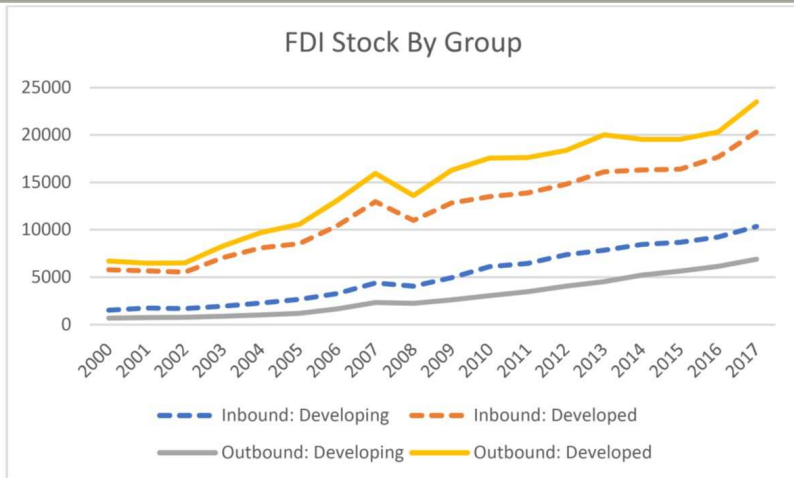
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MNE Structure

- Our task is to “describe the structure of MNE’s activities”, i.e. the connections across the MNE’s global structure
- Two main structures:
 - Horizontal: replicate activity across affiliates
 - Vertical: splitting the GVC into different components

	Horizontal <i>Replication</i>	Vertical <i>Different</i>
Country Pairs	North-North	North-South
Sales	Regional	Global
GVC	Self-contained	Long Chain
Intangibles	Joint Input	First Link

Where is FDI?



- FDI is mostly North-North.
- **Horizontal 1 - Vertical 0**

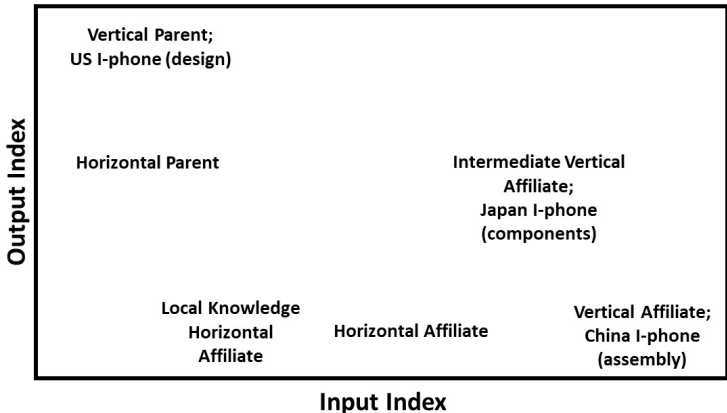
Where are Affiliate Sales?

	Share host country	Share other foreign	Share US
Shares	0.594	0.297	0.109
Goods	0.562	0.331	0.107
Services	0.676	0.209	0.115

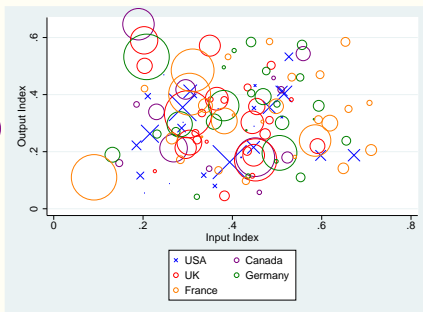
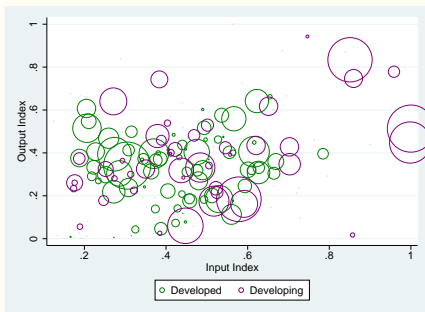
- Affiliate sales are mostly local.
- **Horizontal 2 - Vertical 0**

Nature of GVCs

- Input Index: High value → relies heavily on long GVCs for inputs
- Output Index: High value → output contributes greatly to long GVCs



US Outbound FDI in the GVC Box



- FDI concentrated in lower right corner: **Horizontal 3 - Vertical 0**

Role of Intangibles

- Residuals: Value of final goods - cost of tangible inputs
- Manufactured Goods in 2014:

	Labor	Tangible K	Intangible K
Factor shares	51.2	18.1	30.7

	Distribution	Final Prod.	Upstream Prod.
% of Intangible K	27.0	26.6	46.4

- Key role of parent intangibles in generating value
- **Horizontal 4 - Vertical 1**

Summary

- Our goal is to describe the structure of MNE activity
- Horizontal and vertical FDI is in the data, but horizontal dominates
- Affiliates replicate activities in order to sell locally
- Need more detailed data on flows of services and intangibles between parents and affiliates