ORGANIZING GLOBAL SUPPLY CHAINS: INPUT-OUTPUT LINKAGES AND VERTICAL INTEGRATION

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Abstract
We study how the technological importance of inputs – measured by cost shares – is related to the decision to “make” or “buy” that input. Using detailed French international trade data and an instrumental variable approach based on self-constructed input-output tables, we show that multinationals vertically integrate technologically important inputs. A stylized incomplete contracting model with both ex-ante and ex-post inefficiencies explains why: technologically more important inputs are “made” when transaction cost economics type forces overpower property rights type forces. However, additional results show that both types forces are needed to explain the full patterns in the data. (JEL: F10, F14, L16, L23, O14)

Keywords: global value chains, technological importance, direct requirements, intrafirm trade.

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