

Foreign affiliates position in global value chains and local sourcing in Chile: Evidence from plant-level panel data

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Abstract

Local sourcing of intermediate inputs by foreign affiliates is a major source of the positive spillover effects of foreign direct investments (FDIs) in emerging countries. However, few studies have analyzed the determinants of local sourcing; studies using panel data in a specific emerging country are particularly rare. Considering that Chile is well-integrated into global value chains (GVCs) and that its position in GVCs is relatively upstream compared to that of other Latin American countries, this study empirically analyzes whether foreign affiliates' upstream positions have positive effects on their local sourcing, which is defined as the share of local material inputs to total costs. By matching industry-level panel data, including positions in GVCs, to plant-level panel data, this study constructs a unique dataset for the period from 1995 to 2006. We find

that the upstream positions of foreign affiliates in GVCs is positively associated with the share of local material inputs in the total costs. Moreover, we find that the positive effect of the upstream position on local linkages is particularly larger in mergers and acquisitions, suggesting that the experience of embeddedness in the local economy in the period under analysis is crucial. We also confirm that this positive effect is robust to the differences in entry mode between joint ventures and wholly owned subsidiaries, decomposition of the GVC position index into two components, use of lagged affiliate-level variables, and exclusion of affiliates with changes in industry affiliation. The findings indicate that foreign affiliates' upstream positions in GVCs are strong drivers of local linkages in Chile, contrary to the traditional view that FDI in natural-resource-related sectors has an enclave nature with very limited backward linkages.

Keywords: Global value chains (GVCs); upstream position; foreign direct investment (FDI); local sourcing; Chile

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