

Leeds University Business School - Research and Innovation Podcast

Episode 36: Global Value Chains and the role of emerging market multinationals

Speakers: Professor Marina Papanastassiou and Professor Peter Buckley

[00:00:00] **Marina:** Hello, and welcome to the Research and Innovation podcast. I am Marina Papanastassiou. I'm a professor of International Business at the division of international and business and the Centre for International Business at the University of Leeds known as CIBUL. Today, we are going to have a chat. We will discuss with my colleague, Peter Buckley, Professor Peter Buckley, who is a professor of International Business and founder/director of the Centre for International Business at the University of Leeds (CIBUL).

Peter's latest book synthesizes all his views on the global factory, which is centred around the modern network multinational enterprise. So, Peter, today I would like us to discuss about how this modern network, multinational interferes, shapes, or whatever it does with what we call global value chains. How do they define them?

[00:01:00] **Peter:** Well, I think the important thing in international business is to look at the international economy as a system. And I think there are, there are a number of ways that we can conceive of the international economy as a system. One way is to look at nation states, and their treaties. So the world is divided between nations states and various treaties, which are between states or are our multilateral, or international agreements, like the World Trade Organization.

Second way we can look at the Global system is to think of it in terms of industry. So we can look at the steel industry, the fashion industry, the semi computer industry, whatever it is, but the third way, and the way that I think is much, is extremely important for analysis is to think of the world economy as organized by focal multinational firms, what we might call global factories, who manage Global Value Chains that are these global value chains and not necessarily all completely global, not worldwide. Some of them are regional. Some of them are much more local, but the global factory idea is that a focal multinational firm orchestrates Global Value Chains.

And this, this is extremely complex because there are two essential decisions in a global value chain. One is the internalization decision, whether we own the different elements of the global value chain, or we have external relations through contracts and buying on the open market. And the second key decision is the location - where are all these activities to be located.

So a multinational enterprise's constantly adjusting its global value chain, but as we speak day to day, minute to minute, multinationals are reorganizing their value chains. And this is in terms of whether they internalize that activity or externalize it. Whether they sign new contracts for new activities, long-term activities, and where those activities are located.

So the disruptions that I think we're, we'll be talking about, make a major impact on, on the structure of value chains.

[00:03:36] **Marina:** Yes Peter. You just said that we hear day to day. I mean, everyday in the news, there is something about value chains. And actually, what was surprising is that you can hear the

words “value chains” from people like the president of the United States, the director general of the WHO, which is a health organization, it’s not an economic organization.

So, looking at this current event, which are multiple current events - we have, we are experienced the COVID pandemic and we've discussed about vaccine distribution or problems in vaccine distribution, Brexit, the energy and food chain disruptions that we experience here in the UK. What about the semiconductor shortages does which again, affects us all - we drive cars. How do we explain all this phenomena? I mean, how important are these phenomena in order to capture this globality of the systems as you discuss.

[00:04:38] **Peter:** Well, I think, I think everything you said, plus a few other things, are currently impacting on global value chain. So there's a massive re-evaluation of global value chains. And there are a number of major impacts. The first one is the one that you mentioned, about the political and policy impact on global value chains.

So there's a move away from the World Trade Organization rules-based system. And there's an attempt to include a lot of other things in value chains, other than efficiency. So a second major impact is of course the pandemic, which means that a lot of multinationals and other firms involved in value chains have to consider resilience, right?

There is a new term that I saw recently, which is called friends-shoring. So not a home-shoring or offshoring, but friend-shoring. In other words, making sure your value chains are not disrupted by the policy fractures in the world economy and particularly the rivalry between China and America. I know a lot of, a lot of companies have had to reconsider their investments in China.

What a lot of them have found is that it's not easy to move away because China has a unique set of circumstances, which make it a very attractive location for lots of part of the value chain. But also in terms of policy, we're getting a lot of non-trade issues involved, notably security.

So the things like, anything that security related, including the shortage of semiconductors becomes a national issue. And a lot of companies are trying to ensure that value chains for anything security related become much more national and much less global.

The third set of influences is what you might call civil society -the impact of civil society. People extremely concerned about human rights and values. And so again, this impacts on China because as in Xinjiang, all the problems that are related there and companies saying “we won't buy a value chain, that includes Chinese cotton”, for instance. So, those are a number of the impacts. Two more before I stop. The next one is green, the impact of green trade. And carbon intensity and the targets, which again, impact on value chain coming from consumers, coming from governments, coming from civil society. And finally, there's the security impact - biosecurity, and we've seen all the impacts that that has had with vaccines and so on. And food security - concern that the food is available and not disrupted by international value chain. So we've got a massive set of influences that are impacting on global value chains.

[00:08:06] **Marina:** I'm tempted to ask what it will mean for the UK? I mean, just since you talked about the green issues, since the UK is hosting this COP26 later this month, so. Do you think that we will have in the agenda, that term value chain? And another thing...

[00:08:24] **Peter:** Well, we should now shouldn't we? I mean, it's absolutely clear the, we absolutely should have, because right from the beginning of international business and Foreign Direct Investment, there was the issue that you carry out foreign direct investment in order to dump activities that you didn't want, on somebody else.

So we had pollution-related Foreign Direct Investment where highly polluting activities were moved offshore. Now we could equally have the so-called greenwashing effect whereby we say "we're completely green and we're fine". And we're meeting our targets, but further down the value chain, we're not doing. And there's been the energy crisis of the last few weeks which has of course had very negative effects on a lot of the green targets by people reverting to coal. China in particular, reimporting coal from Australia, opening up coal mines. The suggestions that a lot of other countries, including possibly the UK, will have to do this in order to meet energy needs.

So there's a real conflict here between meeting green targets and immediate energy needs.

[00:09:43] **Marina:** I mean, linking that to the - I haven't heard that term before - for the friend shoring and China and other emerging economies, we know that emerging economies play a vital role in the shaping of MNE, multinational led, global value chains. Will this change in the future?

[00:10:03] **Peter:** I think, I think there are already signs that this is changing because the initial conception and the initial building of value chains is by what you might call Western multinationals. And by that, I mean, advanced countries. So we'd include Japan and Korea and places like that in this.

Now for companies in emerging countries there's a huge issue here. And the issue is, do you join a value chain dominated by someone else, or do you try and build your own value chain? Do you try and become a focal firm that you lead? And of course this is a dilemma facing large Indian and Chinese firms. It may, it may not be a dilemma when we think of it in the longer run than in the short run. You learn from being part of a global value chain, and in the longer run or the medium-term, you set up your own. And this has been actually a criticism of China, that Chinese firms have joined global value chains and more or less pirated the technology and then set up in competition.

But there are other ways of emerging country multinationals building their own value chains and challenging existing value chains. So the way we, we should perhaps think of it is that the global value chains run by global factories are a good thing, in that they're very efficient and they spread wealth and so on, but they also have negative effects.

in being monopolists and keeping out other people. If you have a very secure and strong value chain, it is very difficult for an emerging country firm to compete with that. So, hence we have all these different terms of a buyer to emerging country from spring boarding and learning and all the rest of it by being part of a global value chain before they then go on to build their own value chains.

And this has happened of course, for Chinese firms in particular, for Indian firms, and for some other emerging country firms. But it is not an easy thing to do. There's a study by UNCTAD that looked at the global value chain in cotton. And they find that to move from being a sub-contractor to being a primary producer, there were 30, 30 major processes that had to be gone through not just technology, but marketing, management, distribution - all these things have entry barriers.

[00:12:53] **Marina:** And of course, I mean, right now we are discussing about a multinational led value chains. We focus on the role of the, of the multinational. But as you know, I know, we know, and this is something that we are working together, there are multiple stakeholders that they participate there with. About the state, but also there are the small holders, which are the backbone of the global economy.

We shouldn't ignore them, particularly let's say initiatives like food security, I would say, where they are the backbone of food supplies, last value chains. But I mean, your view on that maybe.

[00:13:28] **Peter:** Well, I, think that this is again, quite a profound change. You use the term stakeholders there, there's quite a big shift amongst, particularly in emerging and advanced countries, to move to so-called ESG, where we look at environmental, social, and governance.

So in addition to all this disruption, in addition to all the changes that we've talked about in terms of global value chains, companies are coming under increasing pressure to become more ESG friendly, more environmentally friendly. Think about social goal. I mean, we in CIBUL did a project for Nestle where in Nestle, they were extremely concerned about the kind of external effects of what they were doing and how could they measure this and how could they bring it together? And they put the matrix that we produced on the website and so on.

So companies have to do this. It's not just about altruism. It's also that their shareholders and civil society, and consumers put extra demands on companies that perhaps weren't there before. The idea that you just maximize shareholder value is now much more difficult to argue I think.

[00:14:53] **Marina:** Yes, I would agree that there are. I mean, there are now different perceptions on the process of how to achieve a profit or how to maximize your performance. But you also mention CIBUL. And I would like you possibly to tell us more about CIBUL because for us in the international business community, globally, CIBUL has been the lighthouse of creation of knowledge. And this is something that you established back in 1995.

[00:15:23] **Peter:** Yes. And the idea of building a sort of global research group and international business was a conception of a previous Vice Chancellor. He recruited me to do that. So, so the idea has been to bring in researchers over the years who are capable of expanding the research, the international reach of, of what we do.

And I think there's been a number of threads that have gone through that. Some of which we touched on in this, this conversation. The first is the role of theory. I mean, I think everybody associated with me will have heard me say my favourite phrase is that "there's nothing so practical as a good theory", which is Kurt Lewin's idea.

And I think the application of theory is what we've been talking about. When we started, the first two things I talked about were internalization and location, and they're key elements of the internalization theory of the multinational enterprise. So theory has been a key issue. So too have developments in the global economy, the rise of China, I mean, we've spent a lot of time established a Confucius Institute and lots of other things to look at the role of China and the changing role of China.

When I first went to China in 1988, it was palpably a developing country. It was a poor country. There were virtually no cars. There were, everybody was on bikes, Beijing was an ultimately different city from the mega city that it is now. So China has developed. In some ways, this has been ultimately fantastic, bringing millions of people out of poverty, but of course, things have turned rather in a different direction than perhaps we thought. China has not become a liberal democracy. There are very few signs of it doing so. So its continued development and its alternative path and its alternative, its challenge, if you like, to establish the institutions is really interesting.

And then I think the third thing I would point to in particular is the role of emerging countries, multinational firms in their own right. China as a leader, but lots of work we've done on India and other developing countries. So centrally, I think there's been a concern with the development of the world economy, the way that prosperity can spread through things like global value chains through the activities of multinationals.

And I think the general approach has been that multinationals are neither, entirely good, nor entirely bad. One of my other sayings is that multinationals are part of the problem and part of the solution. And, you know, this constant questioning, when I first started in this field, multinationals were universally seen as a bad thing.

And now I think there's a much more nuanced approach where it's seen that multinationals can do a lot of good. They can also do a lot of harm. And that's why the new thing, I think, the important thing for CIBUL and other research institutions and international business is not only to look at the theory and the practice, but also to look at policy.

And we have played a very big role in the development of UNCTAD as a major player in international business, and the new journal "Journal of International Business Policy" together with UNCTAD's journal "transnational co-operations". So, it is, I think the ideal research unit is one that looks at theory, looks at practice and the phenomenon, but also looks at policy. And I think that is something that we can definitely claim to have done over the years.

[00:19:30] **Marina:** Oh, yes, that's, that's for sure. Also, I mean, just recently, some of us we are applying for funding, with the support of CIBUL on this hot topic, which we touched, but I think we will need another podcast to talk about all the other things that are included in the GVC like innovation, which is in my heart and in your heart as well...

[00:19:54] **Peter:** Absolutely. Innovation - I was asked in another podcast, you know, which was at the worst point of the pandemic. "Is there any hope?" somebody said. And I said, "Well, I will offer you two things. One is innovation and the second is flexibility. And if we can have innovation and flexibility, then we have a chance and that is exemplified by Global Value Chains, which include both innovation and include, they have to include flexibility. And, and of course, you know, it's a challenge for multinationals, but that's what makes international business such an exciting and dynamic topic.

[00:20:38] **Marina:** Absolutely. Peter, thank you so much. It was great.

[00:20:42] **Peter:** My pleasure. Thank you.

[00:20:44] **Marina:** It was great. And thank you all for listening to today's episode. If you are interested in finding out more about what we have discussed, our details are in the episode show notes. Thank you and goodbye.

[00:20:56] **Peter:** Thank you.