

# **Strength in Numbers:**

The Political Economy of MNCs Supply-Chain Linkages

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# Introduction

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- **Linkages**: use of suppliers inside host country for inputs



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**Proposition:** Linkages useful under fragmented bureaucratic power

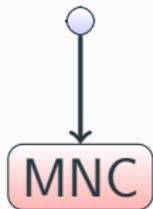
# Theoretical Framework

Centralized Bureaucratic  
Power

Fragmented Bureaucratic  
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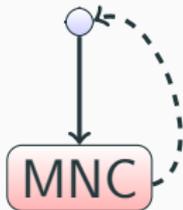
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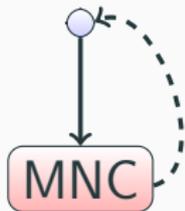
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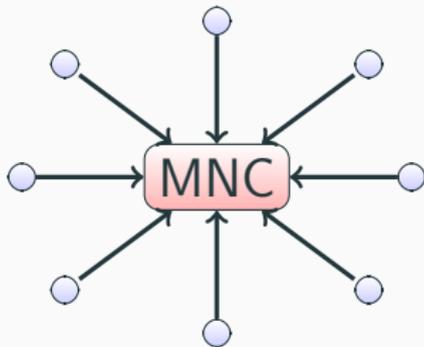
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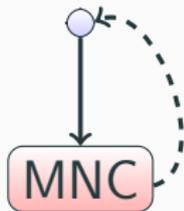


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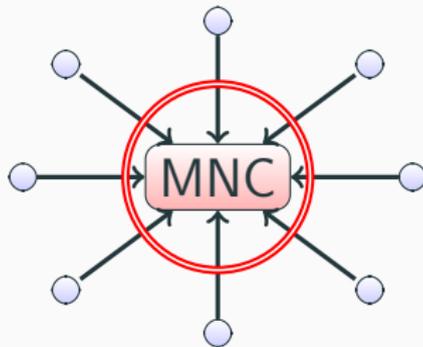


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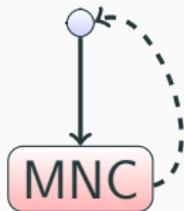


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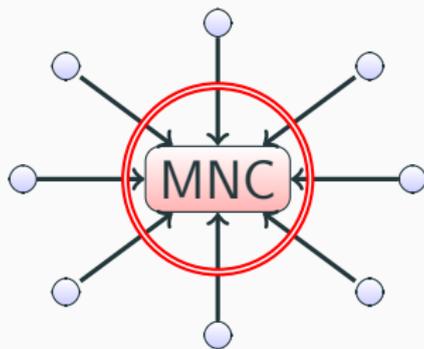


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## Centralized Bureaucratic Power



## Fragmented Bureaucratic Power



### Hypothesis:

Fragmented bureaucratic power → MNCs adopt more supply-chain linkages.

## Indonesia

- **Pre-reform**
  - President Soeharto tightly controls state apparatus
    - Civil service, military, judiciary, and parliament
  - Presidential approval required for all FDI
- 1999: **Democratization**
- 2001: **Decentralization**
- **Post-reform**
  - Constitution limits powers of President
  - 450 regional governments with influence over business environment
  - Government ministries independent and uncoordinated

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- “In the **pre-1998** period [...] the requirements were simpler, you needed someone who was on good terms with the central government and had some **connections** there.”
- “In the **post-1998** period, there were **vastly more constituents** [for MNCs] to satisfy. So it became very hard to know which partner you needed.”

- Annual Manufacturing Census of Indonesia
  - Coverage: 1975-2015
  - Information on proportion of inputs sourced in host country
  - Around 2,500 manufacturing MNCs



- Variables
  - **Linkages**: proportion of inputs sourced in host country
  - **Treatment**:

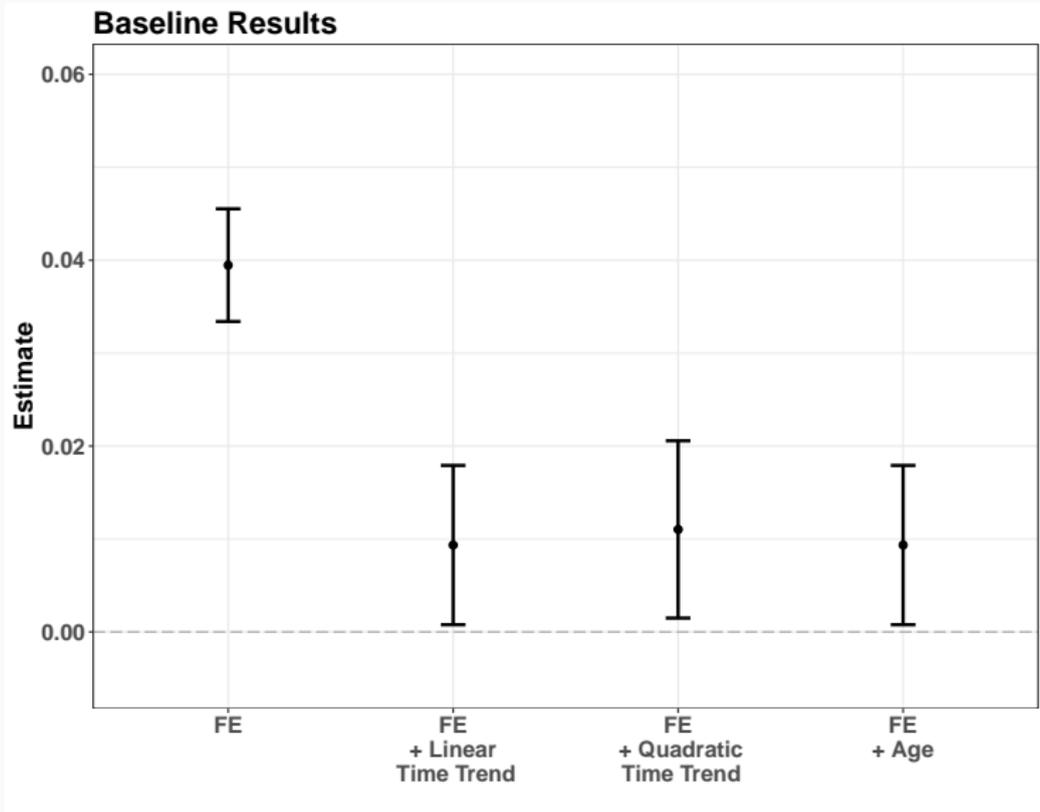
$$d_t = \begin{cases} 1, & \text{if year} > 2000, \\ 0, & \text{otherwise.} \end{cases} \quad (1)$$

- Identification and Estimation
  - Compare firm-level changes in linkages before and after fragmentation

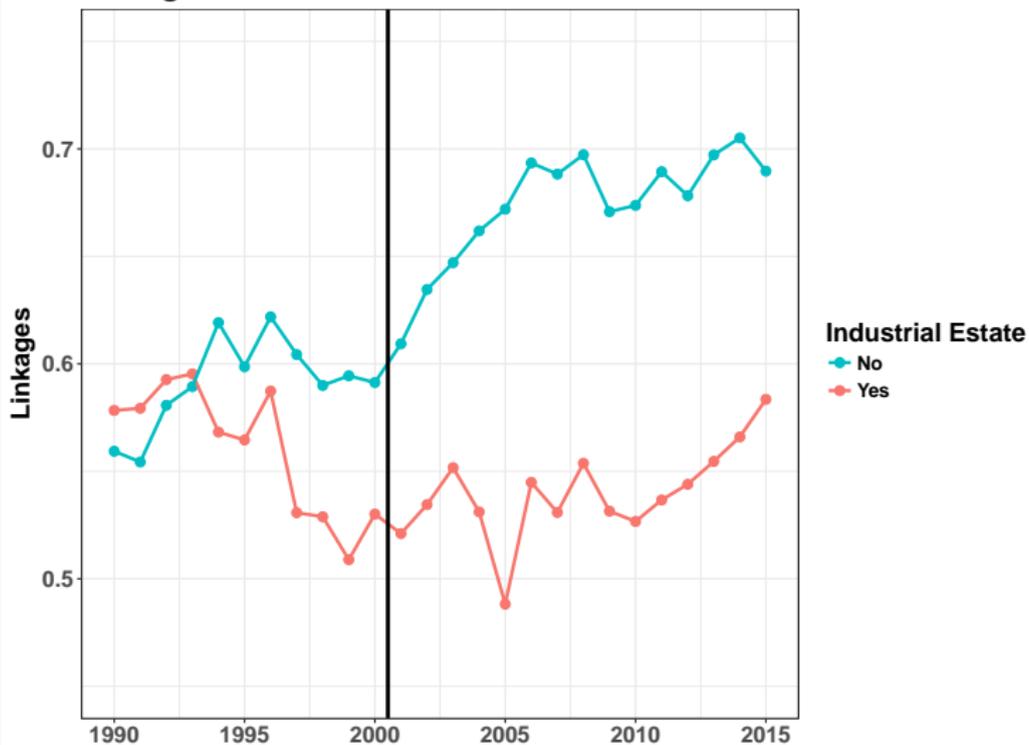
$$\text{Linkage}_{it} = \alpha_i + \beta d_t + X'_{it} \delta a + \epsilon_{it}$$

- **“Within estimator”**
  - Unit fixed effects
  - Time trends (linear and quadratic)
  - Age of MNC

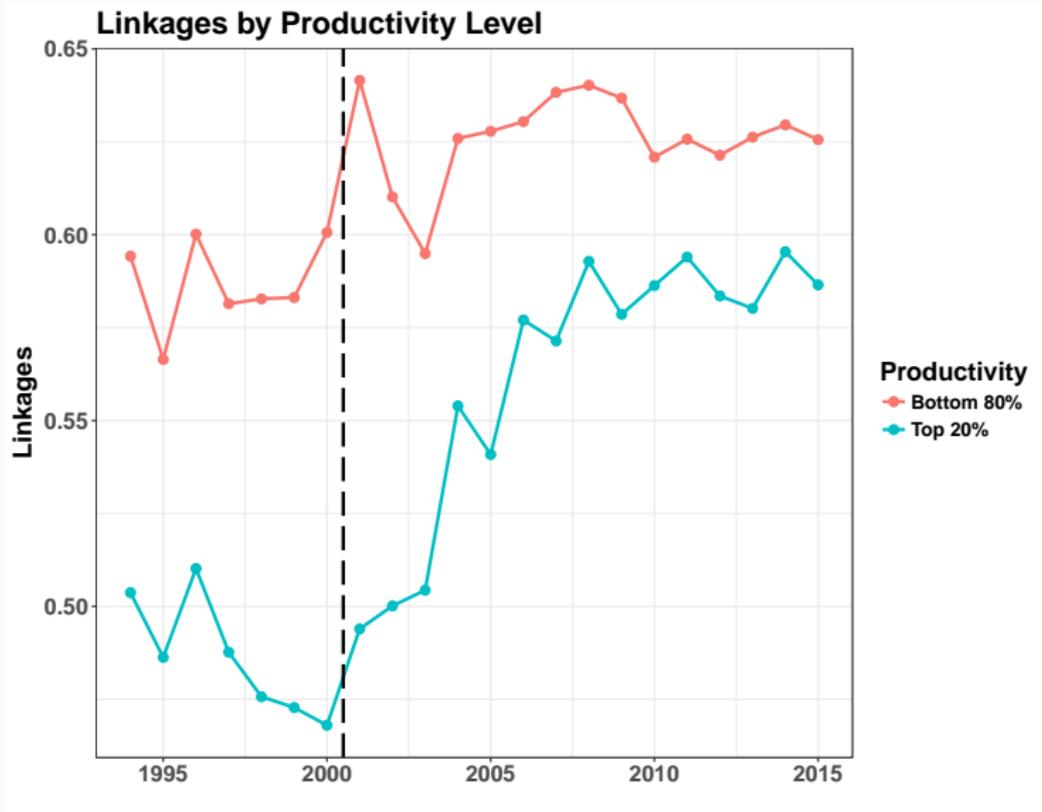
# Results



## Linkages Inside and Outside Industrial Estates



# Results



- **Fragmentation** of bureaucratic power → **greater** supply chain linkages
- **Bureaucratic structure** shapes the behavior of MNCs in the host country
- Extending **scope** of literature on political determinants of FDI

**Thank you!**

# Results

