Integrating Finance into Global Production Networks

Dariusz Wójcik
Oxford University
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Based on a paper co-authored with
Neil Coe and Karen Lai
Agenda

• The Global Production Networks
Agenda

- The Global Production Networks
- Distilling the Global Financial Network
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- Intersecting GFNs and GPNs
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- Measuring and tracking value in GPNs
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The Global Production Network

- Global Production Networks
- States
- Regions
- Localities

Institutionally Mediated Interface

- FIRM
- TERRITORY
Strategic coupling in the GPN

**FIRM**

Global Production Networks

**TERRITORY**

Institutionally Mediated Interface

Territories
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Finance

Trading

Derivatives

Securities

Securities

Assets

... but something is missing
Geography of finance

- World Cities
- Rest of the World
- Offshore Jurisdictions
Geography of finance

World Cities

Rest of the World

Offshore Jurisdictions

... but who connects them?
Geography of finance

World Cities

Advanced Business Services

Rest of the World

Offshore Jurisdictions

ABS: finance, law, accounting, …
The Global Financial Networks

World Cities

Advanced Business Services

Rest of the World

Offshore Jurisdictions
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GFN x GPN: Financing GPNs

- GPNs need funding
  - Funding from buyers is not enough
  - Different strings and incentives attached to debt and equity financing
GFN x GPN: Financing GPNs

- GPNs need funding
  - Funding from buyers is not enough
  - Different strings and incentives attached to debt and equity financing

- The funding environment becomes increasingly global
  - The link between home economy and sourcing of finance is breaking down
  - Global competition for capital
GFN x GPN: a dense control network with financial firms in the lead

“nearly 4/10 of the control over the economic value of (over 43,000) TNCs in the world is held, via a complicated web of ownership relations, by a group of 147 TNCs in the core, which has almost full control over itself. The top holders within the core can thus be thought of as an economic ‘super-entity’ in the global network of corporations. A relevant additional fact is that ¾ of the core are financial institutions” (Vitali et al., 2011, 4).
GFN x GPN: Financialising GPNs

- GFNs monitor, discipline and influence the thinking of GPNs
  - Models of governance: Shareholder Value
  - Measures of performance
  - Mergers and Acquisitions
  - Cognitive power of ‘financial cartography’: Emerging Markets, BRICs, the Global South
Financialising headquarter locations

Boeing’s HQ in Chicago (since 2001)
FDI financialised: Offshore Jurisdictions in FDI networks

FDI Positions >50 Billion USD, year-end 2010
Haberly and Wójcik (2013)
Regional development outcomes of financialising GPNs

- Milberg and Winkler (2010)
  - Offshoring by US firms 1998-2006 is associated with a higher share of corporate profit in total value added
  - Higher profits are used for dividends and share buybacks rather than investment in productive assets

- Baud and Durand (2012)
  - Leading retailers from Europe and USA in 1990-2007 experienced stagnation in domestic markets but generated increasing return on equity
  - How? Foreign expansion, and deterioration of suppliers’ and workers’ positions
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Suggesting co-evolution of globalisation and financialisation
Nihil novi?

- Chartered in 1602
- Traded on the Amsterdam Stock Exchange
- over 1000 shareholders by 1622

The Shipyard of the **Dutch East India Company** in Amsterdam
Source: nl.wikipedia
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Corporate accounting

- Financing GPNs
  - Balance sheets, income statements, cash flow statements
  - Annual reports and prospectuses
  - Corporate databases

- Financialising GPNs
  - Financial to total income
  - Dividends and stock buybacks to net profits
  - Net profits to wages and salaries
Macro-accounting

- Flow of funds / stock-flow consistent models
  - Dividing regional economies into sectors: corporate, households, government, FIRE
  - With balance sheets for each and flows of funds between
  - Help analyse the role of credit, leverage, build-up of asset price bubbles
  - Emphasise the asset-liabilities and the circular nature of the economy
Change on the horizon: Country-by-Country Reporting

- Obliging companies to publish financial statements for each country in which they operate
- Shedding light on geographical transfers of value and OJs
- In progress in the USA and EU
Advanced Business Services and Offshore Jurisdictions

- Interactions between ABS firms and lead firms in GPNs
  - Networks x Networks problem

- ABS as intermediaries between OJs and GPNs
  - World Cities as loci of these interactions
Not only in advanced economies!

China Mobile

GS, LL, S&C, KPMG

Hong Kong, Beijing, NY-LON

British Virgin Islands

Chinese regions

GFNs

FIRM

TERRITORY

Chinese regions

GFNs
Integrating finance into GPN: conclusions

- Dialogue between financial geographers and economics geographers and regional scientists
- Focus on the creation, enhancement, and capture of value in and across space
- Accounting for the map of the world economy
- The time is ripe! Crisis is an opportunity
- Understanding financialisation + globalisation
Integrating finance into GPNs

- FIRM
- GFNs
- GPNs
- Advanced Business Services
- Offshore Jurisdictions
- World Cities
- Territories
GFNxGPN: FDI from OJs as percentage of GDP

Haberly and Wójcik (2013)
Financialising firms

Income from financial investments in relation to productive activities in the USA (Krippner, 2005)
Accounting identities

*Net Profit/Equity* = Net Profit/Revenues x Revenues/Assets x Assets/Equity

*Shareholder value* = Margin x Turnover x Leverage

*Taken to extreme* = Tax avoidance x Trading obsession x Reckless risk-taking

Offshore jurisdictions x World Cities

Advanced Business Services