

Strategic Alliance and Endogenous Production Network ^{*}

Lizi Yu [†]

Department of Economics

Columbia University

November 17, 2022

Abstract

This paper examines how the U.S. firm's involvement in strategic alliance interacts with its endogenous choice of production networks. The results reveal that the alliance firm is more likely to actively create and break supply chains, especially with customers or suppliers from the industries within the alliance-related industrial scope. Moreover, such interactions are stronger when the updated customers and suppliers have a closer proximity to the alliance-related industries. To rationalize these stylized findings, I developed a model featured with the firm's endogenous searching of supplier candidates and endogenous input sourcing strategy. Additionally, strategic alliance is introduced as a mitigation of the friction in the candidate searching. The model implies that the strategic alliance could encourage the firm's searching of supplier candidates, and boost the adding and dropping of production networks simultaneously.

^{*}I am grateful to Jennifer La'o, Émilien Gouin-Bonenfant, and Martina Jasova for their invaluable advice and continuous support. I also want to thank Michael Woodford, Stephanie Schmitt-Grohé, Martin Uribe, Shang-Jin Wei, Jushan Bai, Jesse Schreger, Matthieu Gomez, Hassan Afrouzi, Noémie Pinardon-Touati, and other participants in seminars for helpful comments and discussions.

[†]Email: lizi.yu@columbia.edu