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De la prédation à la rente, émergence et stabilisation d'une oligarchie capitaliste dans la métallurgie russe (1991-2002)

From predation to rent, emergence and stabilization of a capitalist oligarchy in the russian metallurgy (1991-2002)

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Résumé

À partir de l'étude empirique d'un secteur clef de l'économie post-soviétique, la métallurgie, cet article analyse les mécanismes du bouleversement de la structuration sociale qu'à connu la Russie sur la période 1991-2002. Il est d'abord montré comment la naissance d'une oligarchie capitaliste trouve son origine dans les comportements prédateurs qu'ont autorisés les modalités des privatisations, la désorganisation des relations industrielles et l'ouverture brutale du commerce extérieur. Cette domination oligarchique s'appuie sur des formes corporatistes de contrôle de la branche. Au niveau local comme au niveau fédéral, on met en évidence des mécanismes d'intégration de la relation salariale et une forte interpénétration entre pouvoirs économiques et pouvoirs politiques. La notion de modèle productif exportateur rentier est enfin développée pour caractériser la situation de la branche au début des années 2000.

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Abstract

Based on the empirical study of a key sector of the post-soviet economy, the metallurgy, this article analyses the mecanisms of the structural social shock that Russia has undergone from 1991 to 2002. We will first show that the birth of the capitalist oligarchy finds its origin in the predatory behaviors authorized by the modalities of the privatization, the disorganisation of industrial relationships and the brutal liberalization of international trade. This oligarchic domination is supported by corporatist forms of control of the branch. On the local and federal scale, we show the mecanisms of integration of the salarial relationship and the strong interpenetration of the economical and political powers. The concept of the export-rent productive model is eventually being developped to caracterize the situation of the branch at the beginning of this new century.

Mots clés : Oligarchie ; Russie ; Transition ; Corporatisme ; Métallurgie ; Modèle productif ; Rente ; Exportations ; Prédation ; Privatisation ; Concentration industrielle ; Capitalisme ; Dépendance.

Keywords: Oligarchy; Russia; Transition; Corporatism; Metallurgy; Productive model; Rent; Exportations; Predation; Privatization; Industrial concentration; Capitalism; Dependence.

« *Quelle est la différence entre un rat et un hamster ?*
Une question de communication »

Roman Abramovic,
Actionnaire de Russkij Aliuminij

1. Introduction

La grande dépression transformationnelle dans les pays d'Europe de l'Est a donné lieu à une riche controverse à propos de la pertinence et de la séquence des politiques économiques suivies [1]. Elle fut d'autant plus vive en ce qui concerne la Russie que celle-ci a connu une des trajectoires les plus désastreuses et n'a toujours pas retrouvé son niveau de production de la fin de la décennie 1980. Les problèmes de la stabilisation macroéconomique, de l'ouverture internationale, de l'impact des privatisations sur le gouvernement d'entreprise et de la restructuration industrielle ont ainsi été largement abordés. Des analyses socio-politiques ont également été menées autour de la problématique de la reproduction/rotation des élites dans le cadre de la transition [2]. L'explosion des inégalités entraînée par la redistribution radicale du patrimoine et des revenus au cours du processus est également bien établie, notamment dans les statistiques de la banque mondiale. En revanche, on

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[1] Parmi les nombreux protagonistes on peut citer : Joseph E. Stiglitz, « Wither Reform ? Ten Years of the Transition », papier préparé pour the *Annual World Bank Conference on Development Economics*, Washington D.C., 28-30 avril 1999, 31 p. ; Jacques Sapir, « À l'épreuve des faits : bilan théorique des politiques macro-économiques mises en œuvre en Russie », *Revue d'Études Comparatives Est-Ouest*, vol. 30, n° 2-3, juillet-septembre 1999, pp. 153-213 ; Anders Aslund, « Russia's Collapse », *Foreign Affairs*, vol. 78, n° 5, septembre-octobre 1999, pp. 64-77. Grzegorz W. Kolodko, *From Shock to Therapy*, Oxford, Oxford University Press, 2000, 457 p.

[2] Georges Mink et Jean-Charles Szurek, *La grande conversion : le destin des communistes en Europe de l'Est*, Paris, Seuil, 1999, 311 p.

ne recense que peu de publications traitant, d'un point de vue économique, du bouleversement de la structuration sociale qu'a connu le pays. En dépit d'un usage commun du terme d'« *oligarchie* » dans le contexte post-soviétique [3], les ressorts de l'ascension et de la stabilisation de cette classe économique dirigeante ainsi que les implications de sa domination sur la dynamique du système de production national ne sont pas étudiés.

Cette problématique va être explorée à travers une analyse de la métallurgie russe sur la période 1992-2002. L'accroissement du poids de la branche dans le PIB au cours de la transformation systémique témoigne du fait qu'il s'agit d'un des secteurs clef de l'industrie post-soviétique. En outre, les principales firmes exercent un rôle économique prépondérant au sein des régions dans lesquelles elles sont implantées. Cette étude sectorielle permettra donc, en conclusion, de proposer des hypothèses de portée plus générale quant à la nature et à la dynamique de la formation sociale russe héritée de la transformation post-soviétique.

Après avoir examiné dans une première section les conditions dans lesquelles s'est formée l'oligarchie, nous expliciterons les formes corporatistes locales puis nationales qui ont permis aux oligarques d'établir leur contrôle sur les firmes. Nous décrirons enfin le modèle productif rentier qui tend à s'établir dans le secteur et évoquerons ses implications pour le système de production national.

2. La naissance d'une oligarchie capitaliste

« *Il nous faut des millions de propriétaires,*
pas un petit groupe de millionnaires »

Boris Eltsine

Le slogan lancé à maintes reprises par le premier président russe avait suscité un certain enthousiasme mais fut vite démenti par les faits. Dans le cas de la métallurgie, l'emploi du concept d'oligarchie renvoie à l'existence d'un cercle très restreint de personnes contrôlant l'activité de la branche et en tirant des revenus considérables (voir Encadré). Elles sont liées par des intérêts économiques partagés comme en témoignent l'existence d'une forme d'action collective organisée à travers un fort lobby métallurgique et des administrateurs communs à un grand nombre d'entreprises [4].

[3] Ce terme fait référence au groupe restreint qui prend le contrôle de l'économie russe durant les mandats de Boris Eltsine et le processus politique d'insertion des intérêts commerciaux dans l'action de l'exécutif. Le plus célèbre de ces oligarques, Boris Berezovski, affirmait le 1er novembre 1996 au *Financial Times* que lui et six autres financiers contrôlaient 50 % de l'économie russe et avaient permis la réélection de Boris Eltsine. Voir notamment Hans-Hemming Schröder, « El'tsin and the Oligarchs : The Role of Financial Groups in Russian Politics Between 1993 and July 1998 », *Europe-Asian Studies*, vol. 51, n° 6, septembre 1999, pp. 957-988. En ce qui concerne le rôle des oligarques dans l'accès de Vladimir Poutine au poste de Premier ministre puis à la présidence de la Fédération russe et les relations qui s'établissent entre les oligarques et le nouveau pouvoir dans la période 1998-2000 voir Sergueï Krushschev, « Russia after Yeltsin a Duel of Oligarchs », *Mediterranean Quarterly*, vol. 11, n° 3, été 2000, pp. 1-29. Voir également David E. Hoffman, *The Oligarchs*, New York, PublicAffairs, 2002, 567 p.

[4] Vladimir Lissin est ainsi président du conseil des directeurs du combinat de Novolipeck depuis octobre 1998. Depuis 1993, il est membre du conseil des directeurs de cinq des plus importantes entreprises de la branche des métaux. En 1993, il était également conseiller du vice Premier ministre Oleg Soskovets, un des soutiens essentiels de Trans World.

Les principaux oligarques de la métallurgie

En 2002, les individus qui comptent dans la branche métallurgique russe sont peu nombreux. À travers le groupe Russkij Aliuminij, Oleg Deripaska et Arman Abramovic contrôlent 70 % de la production d'aluminium primaire ainsi que des entreprises se situant en amont (centrales hydroélectriques, usines d'alumine) et en aval (aéronautique, aluminium ménager…). Vladimir Lissin, Alexej Mordačov et Viktor Racnikov dirigent respectivement Novolipeck, Magnitogorsk et Severstal, trois combinats qui représentent environ la moitié des différentes productions sidérurgiques en Russie.

L'émergence de cette oligarchie capitaliste au sein de la métallurgie russe résulte de la conjonction trois phénomènes. Entre 1993 et 1995, les privatisations se sont déroulées selon des modalités qui ont entraîné une expropriation massive de la population et offert à certains acteurs d'acquérir des titres de propriété à moindre coût. Parallèlement, la désorganisation des relations interentreprises résultant du démantèlement de la hiérarchie du plan a créé les conditions du développement de pratiques prédatrices conduisant à la constitution de colossales fortunes privées. La consolidation des nouveaux rapports de propriété s'est produite entre 1997 et 2002 à travers un important mouvement de concentration industrielle et la stabilisation progressive des relations commerciales.

2.1. Une expropriation massive de la population

Conformément aux théories des droits de propriété [5] popularisées à l'Est par des conseillers occidentaux [6], les méthodes de privatisation ont interdit la mise en place de droits collectifs et permis un spectaculaire processus de concentration privée de la propriété industrielle. Dans l'esprit des réformateurs, les procédures privilégiées accordées aux employés n'étaient pas destinées à leur permettre de prendre le contrôle effectif de leur entreprise [7] mais à rendre les privatisations socialement acceptables. Les coupons de privatisation (vouchers) étant librement transférables, on a assisté à une rapide redistribution des titres au détriment de la très grande majorité de la population qui ne disposait ni du temps, ni de l'information pour les utiliser dans leur intérêt. Afin d'acquérir des parts et de se préserver des outsiders, les managers ont fait durant cette période de nombreuses promesses aux salariés à propos de l'emploi et des avantages sociaux [8].

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[5] Voir notamment Svetozar Pejovitch et E. Furubotn, « Property Rights and Economic Theory : A Survey of Recent Literature », *Journal of Economic Literature*, vol. 10, n° 4, décembre 1972, pp. 1137-1162 ; Armen A. Alchian et Harold Demsetz, « Production, Information Costs and Economic Organization », *American Economic Review*, vol. 62, 1972, pp. 777-795 ; Oliver E. Williamson, *The Economic Institutions of Capitalism*, New York, the Free Press, 1985, pp. 223-232.

[6] Parmi beaucoup d'autres, l'économiste en chef de la Banque mondiale à l'époque, Lawrence Summers, « The Next Decade in Central and Eastern Europe », *in* Christopher Clague et Gordon C. Rausser, *The Emergence of Market Économies in eastern Europe*, Cambridge, Blackwell, 1992, pp. 25-34 ; Jeffrey D. Sachs (entretien avec Philippe Doucet), « Aider la Russie », *Politique internationale*, n° 57, automne 1992, pp. 247-256 ; OCDE, FMI, BM, BERD, *L'économie de l'URSS : résumé et recommandations*, Paris, OCDE, 1991, 117 p.

[7] Hilary Appel, « Voucher Privatisation in Russia : Structural Consequences and Mass Response in the Second Period of Reform », *Europe-Asia Studies*, vol. 49, n° 8, 1997, pp. 1433-1449.

[8] Hélène Sultan-Taïeb, « Modèles de coordination dans les entreprises soviétiques et russes », *Revue d'Études Comparatives Est-Ouest*, vol. 31, n° 1, 2000, pp. 154-155.

La première phase de privatisation a donc été formellement équitable mais inégalitaire dans les faits. La seconde phase, par vente de paquets d'actions, a surtout été marquée par la corruption. Le cas le plus flagrant est sans doute l'opération « prêts contre actions ». Organisée en 1995, elle permit à un groupe de banques moscovites de s'approprier à moindre coût des parts importantes dans plusieurs fleurons industriels du pays parmi lesquels le combinat métallurgique de Novolipeck.

Bien que très peu légitimes, les modalités des privatisations ont permis la mise en place de nouveaux rapports de propriété radicalement différents de ceux de l'époque soviétique. La propriété publique a été complètement marginalisée. Cependant, les titres de propriété formels n'ont pas toujours signifié un contrôle réel sur les flux de richesses et la répartition issue des privatisations s'est révélée très instable.

2.2. Des formes prédatrices d'appropriation du surplus

Le démantèlement de la hiérarchie du plan a entraîné une désorganisation des flux entre les entreprises et permis aux managers et aux traders de capter des rentes d'intermédiation. La disparition du Gosplan (qui désignait les clients) et du Gosnad (qui gérait l'approvisionnement) a mis les directeurs d'usine dans une situation de très grande incertitude en ce qui concerne les modalités de validation de leur production sur le marché intérieur. C'est ce qui explique le succès des accords de tolling qui vont conduire à un spectaculaire développement des exportations. Avec ce type de contrat, l'entreprise ne fait qu'assurer la transformation des inputs en outputs pour une firme commerciale. Cette dernière qui assure l'approvisionnement en minerai et l'écoulement de la production s'est substituée à l'administration économique étatique pour organiser les relations industrielles à l'extérieur de l'entreprise.

Si le tolling a permis de limiter le recul de l'activité, c'est au prix de la perte de contrôle des combinats sur le surplus dégagé par leur production. Les traders en revanche ont obtenu des marges formidables, s'élevant parfois jusqu'à 50 %. Ils ont ainsi accumulé les moyens financiers qui leur permettront de prendre des participations dans l'actionnariat des entreprises. De cette manière les frères Tcernoj de la société TransWorld Metal ont pu exercer un contrôle indirect mais effectif sur la plupart des combinats sidérurgiques et des usines d'aluminium primaire de 1992 à 1996. Cela leur fut d'autant plus aisé que leur proximité de l'administration eltsinienne les a conduits à représenter l'État actionnaire dans les conseils d'administration des firmes durant cette période.

La faiblesse des normes juridiques et la forte incertitude ont aussi bénéficié aux managers des grandes entreprises et à certains responsables administratifs dans le cadre des transactions sur le marché intérieur. La démonétarisation [9], les changements très fréquents de schémas ou encore les évolutions hebdomadaires de prix ont facilité le développement de pratiques prédatrices, notamment lors des transactions entre les métallurgistes et le secteur de l'énergie ou des chemins de fer [10]. Les relations entre le combinat de Novolipeck et le

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[9] Voir notamment Études économiques de l'OCDE, *Fédération de Russie*, CCET, Paris, décembre 1997, pp. 125 et 198 ; Sophie Brana, Mathilde Mesnard et Yves Zlotowski, *La transition monétaire russe*, Paris, L'Harmattan, coll. « Pays de l'Est », 2002, 377 p.

[10] Au sujet des formes d'échange entre les combinats de la métallurgie ferreuse et leurs fournisseurs voir Margarita P. Grazdaninova, « Problemy i Perspectivy Vertikalnovo vzaimodestvija firm na rynke cernovo metalloprakata », *Problemy Prognozirovanjïa*, n° 3, 1999, pp. 63-77.

principal constructeur automobile du pays, Vaz, offrent également une illustration de ces pratiques.

Jusqu'en 1996, Vaz et Novolipeck réalisaient une partie importante de leurs transactions en troc : voitures contre laminés [11]. Le stock de voitures était en partie vendu directement au personnel du combinat, le reste était écoulé par un circuit de distribution directement contrôlé par les managers de Novolipeck et de Vaz dans le cadre de réseaux criminels [12].

Ces formes prédatrices d'appropriation du surplus sont à l'origine de colossales fortunes privées tandis que se produit une décapitalisation de la branche. Il ne s'agit pas d'une anomalie mais du résultat de l'attitude rationnelle d'agents cherchant à accroître leur richesse et répondant aux opportunités offertes par le type de transformation systémique choisi [13]. L'affaiblissement de l'État, la mollesse de la contrainte juridique et l'incohérence de la matrice institutionnelle produisent une situation d'incertitude aiguë qui favorise les structures non formelles [14]. La confiance interpersonnelle fondée sur des loyautés anciennes ou des dépendances réciproques prenant le pas sur la prévisibilité des institutions légales, on assiste à une privatisation des moyens de coercition. Les nombreux assassinats, le détournement des procédures de faillite et l'instrumentalisation des institutions judiciaires ou politiques sont ainsi des manifestations de la lutte acharnée pour le contrôle de la branche. L'enjeu de cette lutte entre les divers réseaux dans lesquels managers, traders et banquiers sont impliqués représente, en 2000, environ 15 milliards de dollars dont 3 milliards de bénéfices. Ces conflits s'estompent peu à peu avec le mouvement de concentration amorcé en 1997.

2.3. La constitution de géants industriels intégrés

L'évolution de la structuration de la branche à partir de 1997 est marquée la constitution de groupes intégrés verticalement et horizontalement. C'est dans la branche de l'aluminium qu'a eu lieu l'évolution la plus spectaculaire. À partir de 1997, le groupe Sibirskij Aliuminij s'est constitué avec pour base l'usine d'aluminium primaire de Sajansk. Il comprend une participation dans la principale usine d'alumine de l'ex-URSS (Nicolaev en Ukraine) ainsi que le contrôle sur une usine de travail des métaux non-ferreux et diverses firmes consommatrices. Un tel groupe est fondé sur des complémentarités industrielles fortes qui permettent de sécuriser les approvisionnements des différentes unités de production [15]. L'année 2000 a vu naître un géant de l'aluminium, Russkij Aliuminij, contrôlant

[11] Entretien avec un ancien cadre du service d'approvisionnement de Vaz à Moscou en septembre 1999.

[12] Les méthodes employées justifient à elles seules cette qualification. Ainsi, en 1998, trois jours après l'arrivée d'une inspection de 90 personnes du FSB (Service Fédéral de Sécurité, ex-KGB) dans les locaux de Vaz, M. Siskov, le directeur commercial adjoint de Vaz en charge de l'approvisionnement en métal était assassiné, visiblement pour l'empêcher de parler. À la même époque un journaliste enquêtant sur les activités du combinat était assassiné à Lipeck.

[13] Jerry F. Hough, *The Logic of Economic Reform in Russia*, Washington, Brookings Institution Press, 2001, 318 p.

[14] Clothilde Champeyrache, « Changement de régime de propriété et infiltration maffieuse de l'économie légale. Une comparaison entre la Russie actuelle et la Sicile du XIX[e] siècle », *Revue d'études comparatives Est-Ouest*, 2000, vol. 31, n° 4, pp. 183-208.

[15] Au printemps 1999, l'intégration d'Aviakor et de l'usine métallurgique de Samara au sein du groupe Sibirskij Aluminii a ainsi permis un redémarrage de la production d'avion grâce à un approvisionnement régulier.

environ 70 % de la production nationale du fait de l'acquisition par les actionnaires d'une importante entreprise pétrolière (Sibneft), des deux plus grandes usines d'aluminium de Russie et de la fusion avec Sibirskij. Ce nouveau groupe a poursuivi une politique d'acquisition avec, par exemple, une prise de participation dans l'entreprise d'automobile Gaz. Parallèlement, un autre groupe qui assure environ 25 % de la production d'aluminium, SUAL, s'est constitué.

On retrouve ce même schéma d'intégration verticale dans le secteur des métaux ferreux avec plusieurs prises de participation de combinats dans des entreprises consommatrices et chez certains de leurs fournisseurs en minerai. Le géant gazier Gazprom a également pris pied dans la métallurgie par le biais de participations dans les principales entreprises extractrices de minerai ferreux.

Cette concentration de la propriété provient d'abord des échecs des autres prétendants au contrôle de la branche. Menacé par des poursuites judiciaires dans plusieurs pays, faisant face à une coalition de banquiers et des managers pour reprendre le contrôle des circuits d'exportation, affaibli par des défections dans ses rangs le principal groupe de trading du secteur, TransWorld, perd de l'influence à partir de 1996. Les banques sont quant à elles contraintes de céder la plupart de leurs actifs au lendemain de la crise financière d'août 1998. Au même moment, la dévaluation entraîne un enrichissement relatif important des entreprises qui réalisent une part substantielle de leur activité à l'export. C'est ce qui permet aux firmes du secteur énergétique et aux combinats métallurgiques d'être les principaux acteurs du spectaculaire mouvement de concentration de la propriété.

Bien que dans le cas de Gazprom il existe une logique d'intégration verticale [16], l'entrée en lice des acteurs énergétiques dans la métallurgie est une tentative de prise en main d'activités très rentables par le seul secteur capable d'offensives d'envergure. Dans le cas de la constitution de Russkij Aliuminij, l'intervention de Roman Abramovic, actionnaire principal de Sibneft, n'est cependant qu'un élément ; un autre facteur décisif semble être le recyclage par le biais de sociétés écrans des actifs de Mikhaïl Tcernoj du groupe TransWorld qui est actuellement cerné par des enquêtes judiciaires dans différents pays. Pour ce qui est des directions des combinats de la métallurgie ferreuse, leur capacité à initier un processus de croissance externe provient de l'augmentation de leur poids relatif dans l'économie au cours de la transformation, de la mise en place de leurs propres structures de commercialisation mais aussi de l'enracinement local de leur pouvoir dans des relations corporatistes.

Le processus de concentration peut-être interprété comme une tentative de stabilisation des positions acquises car il rend beaucoup plus difficiles les tentatives de prise de contrôle externe et accroît le pouvoir de négociation des dirigeants vis-à-vis des autorités politiques.

L'oligarchie capitaliste dans la métallurgie est issue de structures informelles économico-criminelles qui ont bénéficié des modalités des privatisations, du désordre institutionnel, de la désorganisation des relations inter-entreprises et de soutiens politiques. La naissance de cette classe économique dominante s'est faite non seulement au prix d'une expropriation massive de la population et des salariés mais également d'une décapitalisa-

[16] L'entreprise est un très gros consommateur de tubes métalliques. Au cours de la décennie 1990, elle était contrainte d'importer des tubes.

tion du secteur en raison des pratiques prédatrices. La répartition de la propriété issue de la décennie de transformation est toujours considérée comme totalement illégitime par une large majorité de la population [17]. En dépit du processus de concentration industrielle évoqué, la domination de l'oligarchie reste soumise à une forte incertitude d'ordre politique : la non remise en cause par l'État de droits de propriété mal acquis.

3. Des formes corporatistes de contrôle

Comment l'émergence de cette oligarchie a-t-elle été socialement possible ? Une grande part de l'explication tient probablement à la faiblesse de la société civile [18], à l'absence de tradition d'auto-organisation des salariés héritée de la formation sociale soviétique ou encore au fait que la classe ouvrière — ex-« classe dirigeante » — a perdu sa fierté et donc toute combativité [19]. Néanmoins, l'appauvrissement général de la population, contemporain de l'émergence de l'oligarchie, était susceptible de créer des conflits sociaux. Dans la métallurgie, la mise en œuvre d'une intégration corporatiste de la relation salariale a été un élément essentiel pour surmonter le caractère conflictuel de la transformation.

Les grandes entreprises métallurgiques ont en effet un poids démesuré dans les villes et les régions où elles sont implantées, si bien que pouvoirs locaux et populations en sont souvent totalement dépendants. Viktor Rashnikov, le directeur général du combinat de Magnitogorsk affirmait ainsi : « Fondamentalement, nous tenons le rôle de l'État, mais c'est le genre de situation urgente où nous devons nous engager et aider les gens » [20]. Le corporatisme post-soviétique a ainsi la particularité de naître hors de l'initiative de l'État et même à sa place. Cela se traduit par la persistance d'un paternalisme d'entreprise hérité de la période soviétique, par un syndicalisme de cogestion et par une interpénétration des pouvoirs politiques et économiques. Néanmoins, dans une seconde phase de la transformation, amorcée en 1997-1998, les compromis locaux sont progressivement reniés tandis que s'affirme un corporatisme au niveau national.

3.1. La responsabilité sociale des entreprises tardivement remise en cause

Dans la première période des réformes, plusieurs auteurs considèrent que la firme post-soviétique se caractérise par une forte internalisation sociale. Rouslan Khoumakov évoque « un renforcement du paternalisme » d'entreprise et une « unité d'intérêts » entre les salariés et les

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[17] Selon un sondage de l'institut ROMIR publié dans le quotidien *Vedomosti* du 28 juillet 2003, 77 % des personnes interrogées souhaitent une révision des résultats des privatisations.

[18] Dominique Colas, « Société civile, État, nation » *in* Dominique Colas (ed), *L'Europe post communiste*, Paris, PUF, coll. « I[er] cycle », 2002, pp. 13-110.

[19] Karine Clément, *Les ouvriers russes dans la tourmente du marché*, Paris, Syllepse, coll. « Points cardinaux », 2000, 250 p.

[20] Cité par Tara Warner et Kristine Petrosian, « Iron will and steel heart », *The Russia Journal*, 13 Jan 2001. Disponible en ligne : http://www.trj.ru/index.htm?obj=4060. Pour une présentation du point de vue des dirigeants d'entreprise sur leur responsabilité sociale et la répartition des rôles avec l'État voir l'interview avec Vladimir Lissin, le directeur général de NLMK recueillie par A. Semionov, « Socialnie Vektory Gosudarstvo i Biznesa. Kak im Sovpact'? », *Trud*, n° 208, 4 novembre 2000.

directeurs pour montrer l'émergence d'un modèle corporatiste[21]. Le concept d'Artel développé par Irina Peaucelle relate le même phénomène puisqu'il désigne une « firme dont l'objectif d'activité est le bien être de l'ensemble de ses travailleurs, y compris le plein emploi. »[22].

La généralisation des pratiques prédatrices et la dégradation du niveau de vie des ouvriers nous conduisent à écarter l'idée de convergence d'intérêts entre dirigeants d'entreprise et salariés de la métallurgie. Ces approches soulèvent néanmoins des questions importantes. Pourquoi, entre 1992 et 1998, la diminution des effectifs de la branche n'a-t-elle pas suivi la réduction de l'activité ? Comment se fait-il que, contrairement aux autres secteurs de l'économie russe, les arriérés de salaires furent relativement limités ? De plus, il existe des prises de position des dirigeants en faveur de l'emploi et de la protection sociale qui attestent d'une posture paternaliste dans les entreprises. Au printemps 1998, l'ingénieur principal déclarait ainsi à l'hebdomadaire du syndicat de Novolipeck : « Aujourd'hui à NLMK, il y a au minimum 15 000 personnes de trop, que l'on pourrait licencier. Et le combinat tournerait comme il tourne, seulement, la productivité serait améliorée. Pourtant, aucun des dirigeants et aucun des principaux actionnaires ne pose la question des licenciements ». Cette affirmation est d'autant plus crédible qu'au Kazakhstan, par exemple, des licenciements massifs ont déjà eu lieu à cette époque-là dans des combinats métallurgiques[23].

Si les salariés de la métallurgie voient leur situation se dégrader dans une moindre mesure que celle des travailleurs des autres secteurs, c'est en partie grâce aux revenus des exportations. Même au plus fort de la démonétarisation, ils permirent aux directions de continuer à verser des salaires, contrairement à la plupart des autres entreprises industrielles. C'est aussi parce que les salariés détiennent des compétences spécifiques, sont fortement syndiqués et disposent, à travers la menace de grève, d'un fort moyen de pression. Mais il en est de même au Kazakhstan. D'autres éléments d'explication doivent être décisifs. En premier lieu, les managers en place depuis l'époque soviétique partagent avec les autorités locales un « sens des responsabilités »[24], une éthique corporatiste qui trouve son origine dans l'éthique directoriale soviétique[25] et relève d'une logique d'accumulation politique plus que capitaliste. Dans la période de transformation marquée par un degré très élevé d'incertitude, cette logique politique est d'autant plus importante que face au pouvoir central, à des actionnaires outsiders ou aux traders, les managers locaux cherchent à accroître leur pouvoir de négociation, ce que leur offre une alliance avec les autorités locales et les salariés. Le maintien de l'emploi et de services sociaux est ainsi un atout dans la lutte pour le contrôle des firmes.

[21] Rouslan Khoumakov, « L'émergence de nouvelles formes de coordination en Russie », *in* Robert Delorme, *À l'Est du nouveau : changement institutionnel et transformations économiques*, Paris, L'Harmattan, 1996, pp. 183-184. Sur ce problème voir également Domenico Mario Nuti, « Corporate governance et actionariat des salariés », *Économie internationale*, n° 62, deuxième trimestre 1995, pp. 15-34.

[22] Irina Peaucelle, « Firme ou Artel ? Vers un rapport salarial original en Russie », in Boyer R. et Saillard Y. (eds.), *Théorie de la régulation : l'état des savoirs*, Paris, La Découverte, 1995, pp. 443-451.

[23] Ainsi, au Kazakhstan une firme britannique, Ispat-Karmet, a racheté le combinat métallurgique de Karaganda. Depuis son arrivée en 1996, elle a licencié plus de 10 000 salariés. La productivité a été multipliée par deux, sans pour autant que les salaires n'augmentent. *Le messager syndical, Bulletin d'informations sur le mouvement syndical en Russie*, septembre-octobre 2002 n° 20.

[24] Jacques Sapir, « Action publique et agents privés. Vers un modèle russe ? », *Revue d'études comparatives Est-Ouest*, vol. 27, n° 2, juin 1996, p. 213.

[25] O. Khakhordine, « L'éthique corporatiste, l'éthique du *samostojatel'nhost'* et l'esprit du capitalisme », *Revue d'Études Comparatives Est-Ouest*, vol. 25, n° 2, 1994, pp. 27-56.

Les entreprises gèrent encore des services de santé, d'éducation ou de loisir et l'emploi industriel est pour l'essentiel maintenu jusqu'à la fin de la décennie 1990. Néanmoins, à partir de 1997, un changement d'attitude s'amorce et la diminution de la sphère sociale s'accélère. Au printemps 2002, le programme fédéral de développement stratégique à horizon 2010 marque une rupture importante avec l'annonce de la suppression de 350 000 emplois dans la métallurgie, soit près du quart des effectifs globaux, dont 100 000 d'ici à 2005. L'État apparaît cette fois au premier plan et s'engage à reconvertir les personnels concernés [26].

3.2. Un syndicalisme de co-gestion

Le modèle de relations sociales dominant au sein la métallurgie russe depuis 1992 s'appuie sur une forte collaboration entre directions et syndicats [27] qui explique le faible nombre de conflits sociaux, même s'il y eut des exceptions notables [28]. Les salariés sont le plus souvent représentés par un syndicat unique rattaché à une fédération de branche qui rassemble plus d'un million de personnes. L'intégration salariale au niveau de l'entreprise se traduit parfois par la participation d'un représentant syndical à la direction de l'entreprise, comme à Lipeck jusqu'en 1997 et à Severstal encore aujourd'hui.

Au cours de la dernière période, c'est au niveau national qu'un syndicalisme de cogestion s'installe. Des négociations annuelles avec le patronat se déroulent au niveau de la branche. De plus, le syndicat de la métallurgie qui était une organisation syndicale autonome dans les années 1990 a rejoint la Fédération des Syndicats Indépendants de Russie (FNPR) en février 2000. Ce ralliement prend toute son importance car l'adoption du nouveau Code du travail avec le soutien de la FNPR augure d'une nouvelle étape dans les relations sociales en Russie. Le quatrième congrès de l'organisation syndicale interprofessionnelle, qui a eu lieu du 28 au 30 novembre 2001 à Moscou, en a été l'illustration. C'est le président de la Fédération de Russie, Vladimir Poutine, qui a ouvert les débats, marquant

[26] Igor A. Budanov, « La métallurgie et l'adhésion de la Russie à l'OMC », *XXIII^e^ session du Séminaire Franco-Russe sur Les problèmes monétaires et financiers de la transition en Russie*, Paris, juin 2002, p. 8. Un compte-rendu de son intervention est disponible sur le site du CEMI-EHESS : http://www.ehess.fr/centres/cemi/pages/sem-juin-2002.pdf ; Voir également l'interview d'Andreï Kozicyn, directeur général du combinat minier-métallurgique d'Oural, « Kompania i Gosudarstvo », *Metally Evrazii*, n° 4, 2002, disponible en ligne : http://www.eurasmet.ru/online/2002/4/first-line_2.php. Le rapport sur les perspectives de développement de la métallurgie à horizon 2010 présenté au conseil des ministres du 16 mai 2002 par le ministre de l'industrie, de la science et de la technologie, Il'i Klebanova est également disponible en ligne :

http://www.eurasmet.ru/online/2002/3/first-line.php

[27] Pour une présentation du climat de collaboration entre le GMPR et la principale organisation patronale de la branche voir Vladimir Shlyomin, « Strike : an extreme measure », Eurasian Metals, n° 2, septembre 2002, disponible en ligne : http://en.eurasmet.ru/online/2002/1/social_part. html

[28] Le groupe Russkij Aliuminij a connu des conflits avec ses salariés lors de la reprise (par Sibirskij Aliuminij à l'époque) de l'usine de travail des métaux de Samara. Une grève importante et des actions en justice contre la généralisation des contrats précaires furent soutenues par le syndicat de la métallurgie (GMPR) et débouchèrent sur une victoire partielle des salariés. Il y eut également des conflits du travail d'ampleur dans les sociétés du groupe MIKom (KMK et NKAZ) contre les prises de contrôle par Evraz Metal et Sibirskij Aliuminij avec l'aide du gouverneur de la région du Kuzbass, Arman Tuleev. Les forces de l'ordre sont intervenues le 27 novembre 1999 sur le site de KMK contre les grévistes qui avaient conclu un accord salarial avantageux avec le précédent actionnaire. Voir *Le messager syndical, Bulletin d'informations sur le mouvement syndical en Russie*, octobre 2001 n° 13.

la réintronisation officielle de la FNPR — structure héritée des syndicats officiels soviétiques — au sommet du pouvoir [29].

3.3. Interpénétration entre pouvoirs économiques et pouvoirs politiques

Si le recul de la responsabilité sociale des entreprises métallurgiques semble irrémédiablement amorcé, la constance de la logique corporatiste est en revanche très nette dans les rapports entre les entreprises et les pouvoirs locaux. D'abord, les finances des pouvoirs publics locaux dépendent pour l'essentiel des versements des firmes métallurgiques [30]. Cette domination trouve une expression politique directe lors des scrutins électoraux. À Lipeck, à Magnitogorsk et à Tcherepovec, où est installé Severstal, les majorités municipales sont issues de listes rassemblant des managers et des travailleurs des combinats. Lors des élections régionales les dirigeants d'entreprise s'impliquent aussi (cf. encadré). Leur recherche d'une légitimité politique passe également par le contrôle des médias locaux [31]. L'objectif est de préserver la paix sociale, comme l'explique le président du directoire de Novolipeck, Vladimir Lissin : « Nous versons des salaires nettement supérieurs à la moyenne russe et malgré cela, nous avons dû racheter des médias locaux pro-communistes pour expliquer à la population notre politique. Les réformes ne sont pas populaires ici » [32].

Au niveau national, on trouve également une forte interpénétration entre les dirigeants d'entreprises de la métallurgie, les décideurs politiques et les responsables syndicaux. Les syndicats interviennent lors des élections même s'ils ne semblent pas être une force homogène et décisive [33]. Lors de l'élection de la Douma d'État en 1999, les interventions directes de la fédération syndicale de la métallurgie ont connu des fortunes diverses, mais un de ses membres, Lev Iarkin, ancien président du syndicat de Novolipeck, a été élu député sur la base d'une plate-forme locale avec le soutien de la direction du combinat. Plus généralement, le lobby métallurgiste est très important dans la vie politique russe. Il est organisé au sein de la Douma mais également à travers la participation des dirigeants d'entreprise aux organisations patronales nationales et leurs relais politiques régionaux et auprès de l'administration centrale [34].

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[29] *Le messager syndical, Bulletin d'informations sur le mouvement syndical en Russie*, décembre 2001 n° 15.

[30] Par exemple, en 2001, le combinat de Magnitogorsk contribue à hauteur de 35 % au budget de la région. À Lipeck, les recettes fiscales de la ville proviennent à plus de 60 % du combinat. Par ce biais les dirigeants d'entreprise jouent un rôle politique local déterminant.

[31] Par exemple, Alexey Mordasov, le directeur général de Severstal, contrôle la plupart des médias (journaux, télévisions et radios) de la ville de _erepovec et de la région de Vologda. Voir les informations tirées de *Novaja Gazeta* du 16.08.2001 disponibles en ligne sur :

http://www.russiamonitor.org/en/main.asp?menu_id = 1_a_1067_36

[32] Cité dans « Russie, l'an III des réformes », Interfrance Media, supplément publicitaire distribué dans *Le Monde*, 20 février 2003, p. 3.

[33] Simon Clarke et A.N. Other, « Trade Unions in the 1999 Duma Election », document de travail dans le cadre d'un programme de recherche soutenu par the Economic and Social Research Council et INTAS. Disponible en ligne : http://www.warwick.ac.uk/fac/soc/complabstuds/russia/election.doc

[34] En 2002, Oleg Deripaska, dirigeant de Russkij Aliuminij, était ainsi vice-président de l'union des producteurs et entrepreneurs de Russie, président de la commission russe de la chambre internationale de commerce et membre du conseil des milieux d'affaires auprès du gouvernement russe. Roman Abramovic qui est un des principaux actionnaires de Russkij Aliuminij et un dirigeant de la firme pétrolière Sibneft est gouverneur de la région de Coukhotka. Alexey Mordasov, le directeur général de Severstal, est réputé très proche de Vladimir Poutine.

Deux exemples d'intervention des métallurgistes dans les scrutins locaux

Lors de l'élection du gouverneur de l'oblast de Krasnoïarsk le 22 septembre 2002, M. Khloponine soutenu par le groupe Rosprom de M. Potanine, a obtenu 48, 07 % des voix contre 41, 81 pour son concurrent M. Ouss qui était le candidat de Russkij Aliuminij. Sous la pression du camp du perdant, la commission électorale de la région a prononcé l'annulation du scrutin avant d'être contrainte de revenir sur sa décision par les autorités centrales [1].

Lors de l'élection du gouverneur de la région de Lipeck en avril 2002, face au sortant, Oleg Korolev, le dirigeant du combinat de Novolipeck, Vladimir Lissin, avait annoncé sa volonté de participer au scrutin. Après une campagne de discrédit extrêmement violente menée par les deux parties, un accord dont le contenu n'est pas connu a été conclu au terme duquel Lissin a retiré sa candidature permettant une large victoire de Oleg Korolev dès le premier tour.

[1] Marie-Pierre Subtil, « Le remplacement d'un gouverneur russe tourne à la farce électorale », *Le Monde*, 3 octobre 2002, p. 5.

Le cas de la métallurgie tend à confirmer que la combinaison souvent illégale entre ressources économiques et ressources administratives est un caractère systémique du capitalisme oligarchique post-soviétique [35]. L'intégration corporatiste de la relation salariale et l'ingérence du pouvoir économique dans les pouvoirs politiques locaux et nationaux sont au cœur de la stratégie de contrôle de la branche par ses dirigeants. Cette stratégie s'inscrit dans le cadre de l'affirmation d'un modèle productif particulier qui émerge au cours de la transformation systémique.

4. Un modèle productif exportateur-rentier

Depuis l'écroulement de l'URSS, la dynamique économique de la branche a traversé différentes phases. Après une brutale contraction de son activité entre 1992 et 1995, le niveau production des grandes entreprises s'est stabilisé, puis a fortement repris [36] au lendemain de la crise financière de 1998 [37]. L'amélioration sensible de la situation financière des firmes [38] se traduit alors par une réduction de l'incertitude pour les dirigeants qui autorise une réorganisation de la branche tournée vers l'avenir. C'est un moment de consolidation des résultats du processus transformationnel.

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[35] Boris Kagarlitsky, "Political Capitalism and corruption in Russia", *in Labour Focus on Eastern Europe*, n° 71, printemps 2002, pp. 76-89.

[36] D'après l'indice de production en volume du Goskomstat pour la période janvier-octobre 2000 en comparaison avec la même période de l'année 1998 la métallurgie ferreuse a connu une croissance de 32,5 % et la métallurgie non-ferreuse de 23,9 %.

[37] La crise financière de 1998 est d'un genre particulier, mixe de crise type de pays émergent en économie financière libéralisée et de crise spécifique d'un pays en transition. Voir Jacques Sapir, « La crise financière russe d'août 1998, tournant de la transition en Russie ? », document de travail CEMI EHESS, http://www.ehess.fr/centres/cemi/pages/doc1-sapir.pdf, 2001, 82 p.

[38] La dévaluation a plus que doublé le pouvoir d'achat en rouble des recettes des exportations dans un contexte de progression sensible des prix mondiaux. En outre, on a observé une diminution des coûts de production — à l'exception des combustibles, une baisse importante des salaires réels et un accroissement de la demande et de la monétarisation sur le marché intérieur.

En nous appuyant sur le concept de modèle productif [39], nous allons rendre compte des traits de gouvernement d'entreprise qui s'affirment dans cette période puis de la logique rentière qui les sous-tend. Un tableau de synthèse évoquant l'impact du modèle productif exportateur-rentier sur le régime d'accumulation émergent sera présenté en conclusion de cette section.

4.1. Des traits communs aux grandes entreprises de la branche

Les combinats métallurgiques et les smelters d'aluminium qui occupent une position dominante au sein de la branche partagent un ensemble de caractéristiques : une politique produit peu innovante orientée vers l'acquisition de technologies déjà développées afin de faire jouer un avantage coût à l'export ; un recentrage des unités productives sur leur activité principale concomitant à une logique d'intégration verticale ; une relation salariale en voie de précarisation.

4.1.1. Spécialisation sur les produits de base orientée vers l'export

La politique produit est orientée vers la conservation de la compétitivité coût et l'amélioration de la qualité à travers des plans de modernisation de l'appareil de production. En effet, même si l'on a assisté à un redémarrage sensible de la demande intérieure de métal après 1998, la spécialisation de la branche à l'exportation reste le principal résultat de la libéralisation du commerce extérieur [40]. Les investissements organisationnels et productifs consentis dans les circuits d'exportation ainsi que les échéances en devises auxquelles doivent faire face les entreprises se traduisent par l'opposition des dirigeants de la métallurgie à toute restriction des exportations. Les autorités gouvernementales dans leur programme de développement préconisent également le développement autonome de la branche à partir de son orientation à l'exportation [41]. En dépit de progrès réalisés dans la diversification des produits exportés, l'orientation à l'export implique le maintien de la spécialisation sur les produits de base qui s'est affirmée au cours de la décennie 1990.

4.1.2. Développement de la sous-traitance et intégration verticale

L'organisation productive est fortement inertielle en raison du caractère très capitalistique de l'activité et de la faible flexibilité des équipements. Néanmoins on observe des nouveautés significatives. En premier lieu, la spécialisation des entreprises du fait de l'externalisation des activités de la sphère sociale et de certaines activités industrielles périphériques conduit à l'apparition d'un réseau de sous-traitants totalement dépendants. À Novolipeck par exemple, des activités de maintenance électrique rattachées exclusivement au combinat et dont les locaux sont sur le site même de l'usine ont été externalisées.

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[39] Robert Boyer et Michel Freyssenet, *Les modèles productifs*, Paris, La Découverte et Syros, coll. « Repères », 2000, 128 p. ; Robert Boyer et Michel Freyssenet « Entre innovations historiques et contraintes structurelles Eléments d'une théorie des modèles productifs », *Couverture Orange*, n° 0205, 2002, 85 p.

[40] Les données du Goskomstat montrent que, selon les types, de 50 à 90 % des produits métallurgiques de base sont exportés contre moins du tiers de la production d'aluminium et moins de 10 % des produits de la métallurgie ferreuse en 1991.

[41] Federalnaja Celevaja Programma, *Strategija razvitija metallurgiceskoj promy_lennosti do 2005 goda*, Moskva, 1999. Pour un examen critique de cette stratégie en Russie, Igor A. Budanov, « Vlijanie specifiki rossiskoj èkonomiki na razvitie metallurgii », *Problemy Prognozirovanija*, n° 6, 2000, pp. 78-90.

D'autre part, la constitution de groupes intégrés verticalement évoquée plus haut s'appuie sur la spécificité des actifs héritée de l'époque soviétique ; elle correspond en partie à une logique de réduction des coûts de transaction par la stabilisation de l'approvisionnement et des débouchés des principales unités de production.

4.1.3. Une relation salariale dégradée

Dans la période initiale de la transformation, la relation salariale héritée de l'époque soviétique fut maintenue dans ses formes juridiques mais dégradée dans les conditions de sa réalisation. Depuis 1998 la dégradation se poursuit, notamment à travers une transformation des cadres formels du contrat de travail tant au niveau des entreprises que de la législation.

Au niveau des entreprises, l'évolution défavorable du niveau des salaires réels à partir de 1998 est aggravée par leur constitution. En moyenne, plus de la moitié des salaires versés est constituée de primes. Des contrats individualisés ont été introduits et certaines catégories de travailleurs ont vu leurs contrats à durée indéterminée remplacés par des contrats à durée déterminée de six mois. Ces changements donnent aux directions les moyens de rendre effectif le renforcement de la contrainte hiérarchique recherché à travers des réorganisations des formes de la mise au travail : standardisation des procédures dans le cadre de la lutte contre les gaspillages et pour l'amélioration de la qualité, réduction du nombre d'échelons hiérarchiques [42].

Au niveau fédéral, l'adoption d'un nouveau Code du travail au début de l'année 2002 constitue un recul important pour les salariés : restriction du droit de grève, augmentation de fait de la journée légale de travail jusqu'à douze heures par jour, levée des limitations du recours aux contrats à durée déterminée, possibilité de versement du salaire en nature, simplification des procédures de licenciement, individualisation des contrats et suppression de mesures protégeant les femmes [43]. Il entérine la logique du syndicat majoritaire, limitant les possibilités de développement de syndicats alternatifs plus combatifs.

Ces évolutions de la relation salariale augurent de la stabilisation d'une forme duale de salariat. Les salariés spécialisés directement attachés aux tâches industrielles, fortement syndiqués, bénéficient d'un statut relativement protégé : protection sociale, contrats à durée indéterminée, niveau des salaires garanti. Les salariés des entreprises sous-traitantes ou employés dans des activités périphériques au sein de la grande entreprise sont précarisés du fait d'une faible protection sociale, de contrats à durée déterminée et de salaires plus bas.

4.2. Une logique rentière

La spécialisation des grandes entreprises de la métallurgie sur les produits de base à l'export, les nouveaux éléments introduits dans l'organisation productive et dans la relation salariale sont à rattacher à l'affirmation d'une logique rentière. L'utilisation du concept de rente renvoie tout d'abord aux conditions spécifiques d'acquisition des biens capitaux métallurgiques hérités de la formation sociale soviétique. Elles impliquent en effet une dis-

[42] Sur l'introduction à Severstal du système de direction à l'anglaise dit « plate », voir l'hebdomadaire du syndicat du combinat de Novolipetsk, *Cegodnija i zavtra*, n° 36, septembre 2000.

[43] *Trud*, 18 décembre 2000 et entretien avec une sociologue de l'*Agenstvo cocialno-trudovoj informaci*, Moscou, décembre 2000.

proportion entre revenu et investissement tel qu'il est impossible de penser la rémunération des propriétaires comme un intérêt sur le capital investi. Cependant, au-delà des conditions initiales de développement du capitalisme post-soviétique, la logique sociale rentière correspond à une déconnexion entre niveau de surplus dégagé et qualité de la gestion.

La déconnexion entre niveau de surplus et compétences de gestion provient en premier lieu du caractère monopolistique de la structure de marché sur le plan intérieur (voir encadré) qui a été accentué par le mouvement de concentration déjà décrit. Le niveau très élevé des barrières à l'entrée, la pénurie de financement bancaire et le caractère extrêmement coûteux des investissements ont pour conséquence une absence de facto de libre investissement dans la branche et donc une absence de convergence vers le taux de profit moyen de l'économie.

L'articulation des différents niveaux productifs

Hormis les combinats miniers qui l'alimentent, la métallurgie russe peut être divisée en deux principales catégories : la métallurgie lourde et la métallurgie légère.
La première réalise les productions métallurgiques intermédiaires (minerai transformé, fonte, acier, laminés ferreux, rails, aluminium primaire, etc.) ; elle est dominée par de grandes entreprises qui sont l'objet de cet article : dans la métallurgie ferreuse, 9 combinats assurent plus de 80 % de chacune des productions et plus de la moitié provient de trois d'entre eux ; dans l'aluminium, 7 usines réalisent plus de 80 % de la production d'aluminium primaire tandis que les 3 plus importantes produisent à elles seules les 2/3 du total.
L'essentiel des productions métallurgiques lourdes est soit exporté, soit livré directement aux secteurs consommateurs (industries mécaniques, construction, transport). Le reste est transformé par les entreprises de la métallurgie légère qui réalisent des produits spécifiques tels que les tubes, les laminés d'aluminium et diverses pièces métalliques. La plupart de ces entreprises sont de moindre taille que dans la métallurgie lourde ; ne disposant pas de débouchés à l'export, elles ont subi de plein fouet la dépression post-soviétique. Au milieu des années 90, l'aversion des grandes entreprises pour les incertitudes du marché intérieur a accentué leurs difficultés et contribué à une réduction drastique de la quantité et de l'assortiment de leur production. Les grandes entreprises participent à l'actionariat d'un grand nombre de ces firmes.

Sources : Goskomstat et Reitingovoe agenstvo Ekspert, *Rossiskaja Metallurgija*, Moskva, 1998, 2 vol.

Par ailleurs, les principaux déterminants de la profitabilité des firmes résultent de variables externes au processus productif proprement dit. En raison de l'orientation à l'export, le taux de change, la volatilité des cours en fonction de la demande mondiale et les variations cycliques des prix jouent un rôle essentiel. Les métallurgistes organisés en lobby sont également très préoccupés par les coûts administratifs et fiscaux d'accès aux marchés internationaux. Au niveau interne, les réorganisations correspondent souvent à des politiques d'« optimisation de la charge fiscale » [44] appuyées par des complicités administratives. Celles-ci interviennent aussi dans la définition des conditions d'accès aux intrants. La dynamique d'intégration verticale observée vis-à-vis des combinats miniers ou de certaines usines d'électricité échappe cependant partiellement à la logique rentière puisqu'elle permet dans un certain nombre de cas une réduction des coûts de transaction et la sortie de situations de capture.

[44] Selon les termes du directeur de l'entreprise de transformation des métaux non-ferreux de Samara. Entretien réalisé à Samara en août 1999.

Autre élément révélateur de la logique rentière, le redémarrage de l'investissement qui intervient dans la période post-1998 [45] reste limité si l'on considère l'ampleur des besoins — caractère obsolète et polluant de l'outil de production — et les moyens de financement rendus disponibles par une conjoncture exceptionnelle. Or, une partie importante des recettes a été consacrée à la croissance externe et on observe une poursuite de pratiques prédatrices, notamment à l'occasion des opérations à l'export [46]. Les banques et les marchés financiers étant marginalisés, l'extrême concentration du pouvoir de décision concernant l'utilisation du surplus productif implique une soumission du processus d'accumulation aux intérêts immédiats de l'oligarchie qui explique ce comportement d'investissement. L'épisode du rachat par Roman Abramovic — un des principaux actionnaires de Russkij Aliuminij — du club de football londonien Chelsea début juillet 2003 en est une illustration anecdotique.

4.2.1. Conclusion

Le tableau ci-dessous récapitule les principaux éléments présentés dans ce paragraphe et explicite l'insertion de la métallurgie dans le régime d'accumulation émergent. La logique rentière du modèle productif décrit repose sur la spécialisation de la branche sur les produits de base destinés à l'exportation. Elle s'inscrit dans le contexte d'une structure de marché intérieur monopolistique. Le niveau de surplus dégagé est principalement dépendant de facteurs extérieurs au processus de production et, en particulier, des conditions d'accès aux marchés mondiaux. La politique d'investissement est limitée à une simple reproduction/modernisation de l'appareil de production. Deux aspects du modèle productif décrit correspondent néanmoins à une logique entrepreneuriale non rentière. En premier lieu, la croissance externe relève partiellement d'une stratégie de réduction des coûts de transaction par la stabilisation des relations en aval et en amont des combinats et des smelters. En second lieu, la précarisation de la relation salariale suit une logique classique de réduction des coûts salariaux et d'intensification de la mise au travail.

L'autonomie du développement de la branche orienté vers l'export n'est pas sans conséquences négatives pour le système de production national. Outre une fragilité structurelle liée à l'évolution des marchés mondiaux [47], la spécialisation à l'exportation implique un détournement des capacités productives aux dépens de la demande locale. De plus, par le biais monétaire, les mécanismes connus sous le nom de « Dutch Disease » accroissent les risques de désindustrialisation liés à la domination des secteurs rentiers travaillant à

[45] Selon les données du Goskomstat de l'année 2000, on observe une croissance de la production de machines-outils à destination de la métallurgie de 35 % pour la période juin-septembre 2000 par rapport à la même période en 1999 mais on sait que les cycles de l'investissement sont beaucoup plus accentués que ceux de l'activité.

[46] Pour 1999, la Banque Centrale de Russie évaluait à un peu plus de 25 milliards de dollars les capitaux sortis illégalement de Russie. Les opérations à l'exportation — en particulier de produits métallurgiques — donnent lieu à des évasions frauduleuses : en 1999, 2,5 milliards de dollars de revenus d'exportation n'ont pas été rapatriés. Une partie importante de la fuite correspond également à la surévaluation du prix des biens importés ou à la sous-évaluation des prix des biens exportés. Intervention de Mikhail Grishankov, vice-Président du comité parlementaire de la Douma aux questions de criminalité économique et financière, *Conférence* IRSES, EHESS, Paris, 15 septembre 2000.

[47] Les mesures protectionnistes concernant l'acier adoptées au printemps 2002 par les autorités américaines sont une illustration de cette fragilité.

Les caractéristiques de la métallurgie lourde russe au début des années 2000

Modèle productif	**Politique produit**	Spécialisation sur des produits peu élaborés Conservation de la compétitivité coût notamment par la recherche des meilleures conditions d'accès aux intrants Amélioration tendancielle de la qualité des productions les rapprochant des standards internationaux
	Organisation productive	L'organisation technique est fortement inertielle en raison du caractère très capitalistique de l'activité et de la faible flexibilité des équipements. Spécialisation sur le métier avec l'externalisation des activités de la sphère sociale et de certaines activités industrielles périphériques. Intégration verticale d'actifs spécifiques et complémentaires hérités de l'époque soviétique
	Relation salariale	Salaires réduits avec effondrement de leur part indirecte (avantages sociaux d'entreprise et protection sociale) Part importante du salaire flexible en fonction des performances individuelles ou d'atelier Contrats à durée indéterminée dominent mais amorce de précarisation des statuts et annonce de réduction d'effectifs Intensification de la mise au travail
Stratégies de formation et d'appropriation du surplus		Maximiser le niveau de production tout en minimisant les coûts Stratégie rentière de préservation du contrôle et du niveau du surplus avec le renforcement des positions acquises par la croissance externe, le lobbying au niveau central et la participation au jeu politique local Captation privée du surplus avec persistance de formes prédatrices : évasion de capitaux et évasion fiscale
Comportement d'investissement	**Volume**	Croissant mais limité ; investissement direct étranger négligeable
	Orientation	Investissement de capacité et de modernisation peu innovant ; spécialisation sur des produits de base
	Financement	Principalement sur fonds propres
Insertion dans le régime d'accumulation		Poids croissant en terme de part de PIB et de l'emploi total Relative autonomie en raison de l'importance de l'activité à l'export et de l'autofinancement des investissements ; faible orientation vers la satisfaction des besoins locaux Faiblesse de cohérence de moyen terme en raison de la dégradation de termes fondamentaux de sa reproduction propre (obsolescence des équipements, pollutions) et des termes généraux de sa reproduction (santé, éducation, écologie, infrastructures publiques,…)

l'exportation [48] comme les hydrocarbures et la métallurgie. Les recettes en devises favorisent une appréciation du taux de change non corrélée avec une amélioration de la productivité ce qui se traduit par une surexposition des industries locales à la concurrence internationale. Cela signifie qu'un processus cumulatif de dépression et d'instabilité financière demeure un risque important [49].

Enfin, la perpétuation de pratiques prédatrices, à commencer par l'évasion de capitaux, a un impact négatif en détournant des possibilités de financement de l'industrie, mais également en diminuant les recettes de l'État et la consommation à travers la compression des revenus des ménages.

5. Conclusion

La première section a permis d'examiner les conditions d'émergence de la bourgeoisie oligarchique dans la métallurgie au cours du changement institutionnel radical post-soviétique. Les conditions du processus de désétatisation de la propriété ainsi que la désorganisation des relations inter-entreprises ont offert l'opportunité à une poignée d'individus d'acquérir par des moyens principalement illégaux d'immenses fortunes privées et la direction effective de la branche.

Cette domination repose sur des formes corporatistes de la relation salariale. Dans une première phase, des compromis locaux limitèrent la dégradation de la situation des salariés. Ils furent remis en cause progressivement à partir de 1997/1998 du fait de changements intervenant dans le cadre légal du contrat de travail, du démantèlement progressif de la sphère sociale des entreprises, d'un programme massif de réductions d'effectifs et d'un rapprochement de la fédération syndicale vis-à-vis du pouvoir central. D'autre part, l'oligarchie entretient de solides relais politiques. L'interpénétration entre pouvoirs politiques et dirigeants d'entreprises se manifeste aussi bien par l'interventionnisme des métallurgistes lors des scrutins électoraux locaux que par des multiples liens officiels et officieux avec les institutions politiques nationales.

L'ascension de l'oligarchie et les formes corporatistes sur lesquelles elle s'appuie s'articulent avec l'affirmation d'un modèle productif rentier. La logique rentière correspond à une déconnexion entre qualité de gestion des unités de production et niveau de surplus dégagé qui résulte tant des spécificités de l'activité de la métallurgie lourde que de l'environnement dans lequel elle se déploie. Elle se traduit notamment par une timide politique d'investissement et se perpétue à travers l'extrême concentration du contrôle sur l'usage du surplus. En comparaison avec la période soviétique, on observe une régression industrielle du fait de la perte de savoir-faire qui accompagne la spécialisation sur les produits

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[48] Max W. Corden et James P. Neary, *« Booming Sector and De-Industrialization in a Small Open Economy », The Economic Journal*, décembre 1982. Voir également Eliane Campan et André Grimaud : « Le Syndrome hollandais », *Revue d'Économie Politique*, n° 6, 1989, pp. 810-834.

[49] Voir Jacques Sapir, *Compte-rendu de la XXXIII^e^ session du séminaire franco-russe semestriel sur les questions économiques et financières*, Paris, Juin, 2002, p. 31. Disponible en ligne :
http://www.ehess.fr/centres/cemi/pages/sem-juin-2002.pdf

de base de la branche lors du redéploiement de son activité en direction des marchés internationaux.

Nous avons rapidement évoqué l'impact négatif de cette nouvelle organisation de la métallurgie pour l'appareil productif national. Elle nous semble être une illustration de l'affirmation d'une économie dépendante, d'un capitalisme de la périphérie, en Russie. La structure des échanges commerciaux atteste d'une prédominance des biens primaires dans les exportations et des biens de consommations et des produits du secteur des constructions mécaniques dans les importations tandis que s'est produite une réorientation des échanges en direction des pays occidentaux et en particulier de l'Union Européenne[50]. En outre, la structuration fortement inégalitaire est une caractéristique des pays de la périphérie, notamment des pays d'Amérique latine où le pouvoir économique décisif est exercé par une oligarchie à travers le contrôle des ressources exportables[51]. Ce constat invite à opérer un déplacement de l'analyse de l'économie russe de la problématique de la transformation systémique à celle de l'insertion des économies dépendantes dans le capitalisme mondialisé.

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[50] Julien Vercueil, *Transition et ouverture de l'économie russe (1992-2002)*, Paris, L'Harmattan, coll. « Pays de l'Est », 2002, pp. 209-215.

[51] Voir notamment Fernando Henrique Cardoso et Enzo Faletto, *Dépendance et développement en Amérique latine*, Paris, PUF, coll. « Politiques », 1978 (première édition en espagnol 1969), 222 p. ; Alain Rouquié, *Amérique latine*, Paris, Seuil, coll. « Points essais », 1998, 484 p. voir en particulier pp. 115-139.

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Externalities from foreign direct investment in the Mexican retailing sector

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This contribution to the discussion on the impact of foreign direct investment in developing countries is based on an empirical study of the consequences of transnational corporations' presence in the Mexican retailing sector, particularly Wal-Mart. First, it is shown that the arrival of foreign firms accelerates the modernisation but has a negative impact on local firms' performance as well as local worker remuneration as a result of the growing competitive pressure in the sector. Second, the changes that occurred in supply chain governance and the tremendous increase of imports initiated by Wal-Mart are described, and some probable implications for local suppliers are suggested.

Key words: Foreign direct investment, Retailing, Mexico, Spillovers, Trade
JEL classifications: F23, L14, O19, O54

1. Introduction

It is generally supposed that foreign direct investment (FDI) leads to substantial positive effects (OECD, 2002) through horizontal (Blomström and Persson, 1983; Blomström and Kokko, 1998) or vertical spillovers (Smarzynska, 2004). But a growing literature has shown that there is nothing automatic about such a positive mechanism. Despite services accounting for approximately 60% of FDI flows in developing countries (UNCTAD, 2003), most of the discussion focuses on the impact of FDI in manufacturing industries (Mortimore and Vergara, 2003). In this paper, we aim to bring new elements into the discussion by studying the impact of FDI on the Mexican retailing sector.

The internationalisation of retailing accelerated dramatically in the late 1990s (Wrigley, 2000). A small group of elite transnational multi-format retailers expanded rapidly in the developing world. Because of the high level of territorial embeddedness of this very specific kind of transnational corporation (Wrigley *et al.*, 2005), the organisation of consumers' markets and the supply networks of consumers goods in host countries have been significantly transformed (Coe and Hess, 2005; Coe, 2004; Reardon *et al.*, 2003; Reardon and Berdegue, 2002). Indeed, the Mexican retailing sector has been fundamentally

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affected by the pressures resulting from the entry of foreign companies in the early 1990s (Chavez, 2002), especially since Wal-Mart took a majority stake in the main Mexican retailer, Cifra, in 1997. Focusing on the four main actors of the sector, we shall establish that FDI played an active role in modernising the retailing sector, although this was done at the expense of local firms and employees. We shall also analyse the impact of the reorganisation of the supply chains and show how this reorganisation has substantially weakened local firms' position.

However, we shall not discuss the generally accepted fact that the entry of global retailers has a positive effect on consumers prices (for example, McKinsey, 2003), although this is not necessarily the case for all products (for example, fresh products: Schwentesius and Gómez, 2002). First, foreign retailers are assumed to work more efficiently than local retailers owing to the competitive advantages acquired in more developed markets. Moreover, as these global retailers aim to gain market share against local competitors, they will not use the oligopolistic market structure to benefit from rents. On the contrary, at least at the early stages, the entry of new players is expected to increase competition. Nor shall we examine the implications of changes in the consumption patterns related to the presence of foreign retailers.

In Section 2, we briefly explain the conceptual and methodological framework of this study. In the next section, we present the main FDI operations and their consequences for the retailing sector. Section 4 concerns backward externalities. We show that the entry of foreign actors allows improvements in supply chains by introducing more efficient practices and growing imports. However, it also has strong negative consequences for local suppliers. In conclusion, we explain the contribution of this work to the general debate about the impact of FDI in developing countries and offer some proposals for the construction of appropriate policies.

2. Conceptual and methodological framework

Some authors suggest that FDI is a source of ideas for host economies which provide them with the capabilities to grow (Romer, 1993; Markusen, 1995; Teece, 1977; Grossman and Helpman, 1991; Pack, 1994; Ramirez, 2000). These positive consequences are supposedly derived from two types of mechanism. First, the entry of foreign companies that are more efficient than their local counterparts is expected to produce benefits in terms of higher wages for workers, lower prices or better quality for consumers and/or higher fiscal income for public collectivities (Fuji Olechko, 2004). Second, the diffusion of new ideas to local firms produces productivity gains in these firms and growing returns for the host economy as a whole (De Mello, 1997).

However, it appears highly presumptuous to generalise a priori such a positive mechanism. Diverse factors may prevent the diffusion of new ideas. The diffusion of ideas from transnational corporations to local firms is not automatic, and the growing competitive pressure may even negatively affect the productivity of local enterprises and destroy their ability to incorporate new ideas, or lead them to bankruptcy (Aitken and Harrisson, 1999; Hanson, 2001; Kugler, 2000; Markusen and Venables, 1999; Smarzynska, 2004; Ibarra and Moreno-Brid, 2004; Dominguez and Brown, 2004). Moreover, owing to their specific advantages, transnational corporations may obtain distributional benefits from their market power or asymmetrical information structures at the expense of local actors (Dussel Peters, 1999; Sacchetti and Sudgen, 2003; Kaplinsky, 2000; Dutrenit and Vera-Cruz, 2004).

Figure 1 shows how these mechanisms may occur in the case of FDI within the retailing sector of a developing country. Because of the ideas gap, FDI from developed to developing countries is expected to be accompanied by new productive knowledge. Positive or negative externalities of these ideas may occur in forward, backward or horizontal relationships as the investing firm seeks to supply the local market, establishes relationships with local suppliers and confronts local competitors. However, as retailing concerns basically the distribution of consumption goods to households, there are only possibilities of backward and horizontal productivity spillovers to local firms.

Within this general framework, we shall focus on two hypotheses concerning the transformation of the retailing sector and its impact on local suppliers in our analysis of the Mexican case.

First, we suggests that FDI accelerates the modernisation of the retailing sector but reduces the share of national capital within the modern sector and negatively affects the sector's wages. With regard to horizontal externalities, FDI in the modern retailing sector accelerates the transformation of the sector as a whole by reducing the market share of traditional retailing channels (markets, specialist stores, groceries, etc.). However, it appears difficult to identify either a positive or a negative productivity spillover in this area because of the qualitative distinction between the services offered in the modern segment in comparison with the traditional segment, and the scarcity of the data. The competitive pressure exerted by the entry of foreign actors leads to the diffusion of a large set of organisational innovations (new formats, reorganisation of supply chains) among local modern retailers. Nonetheless, the destructive effects of competition counterbalance the diffusion of new ideas, so that there is no significant effect on productivity. Moreover, as foreigners acquire local firms and gain market share, we observe a relative decline of national capital in the sector.

The impact on wages is expected to be negative. As retail processes use mainly low-skilled labour, there are no incentives to increase wages to compete with local firms. On the contrary, increasing competitive pressure prevents any upward evolution of remuneration.

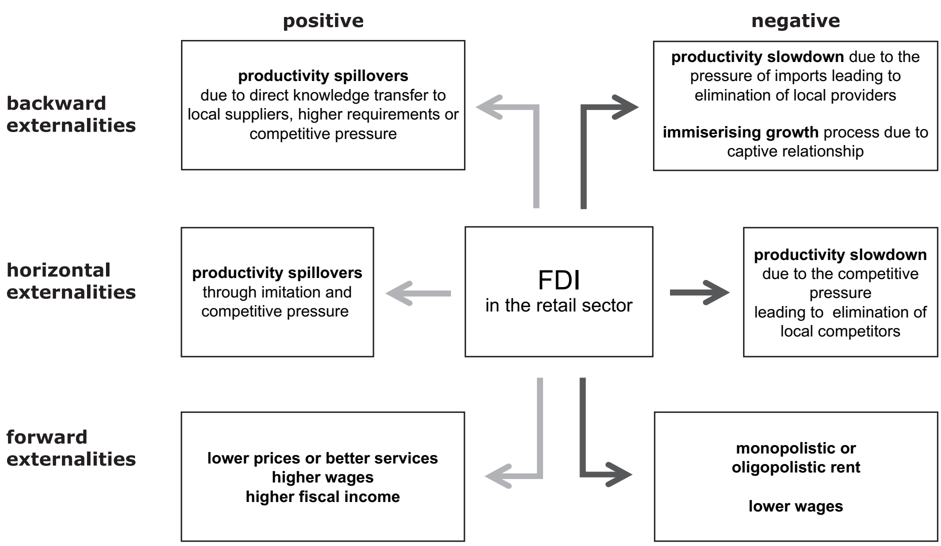

Fig. 1. *Potential externalities from FDI in the retailing sector of a developing country.*

We shall not examine the fiscal impact, which is assumed to be quite low as the tax burden is low and many traditional retailers are already in the formal economy (McKinsey, 2003).

The second hypothesis is about the growing imports' pressure and the risk of uneven development of local suppliers that follow the entry of global retailers. Positive productivity spillovers from foreign firms to local suppliers could be expected as a result of direct assistance in their operations and more demanding requirements. Even so, we propose that the net effect to local producers is negative. First, transnational retailers are better connected to global commodity chains, so they will import more than their local counterparts. This phenomenon is accentuated by the institutional context. With the normative changes adopted at the constitutional and legal level with the 1993 *Ley de Inversion Extranjera* and international treaties (Dussel Peters *et al.*, 2003, pp. 56–64; De Mateo Venturini and Lopez Hoher, 2003) the government is no longer allowed to impose local contents conditions or to limit imports. Second, as foreign retailers initiate a process of increasing control on supply chains, they weaken the bargaining power of suppliers. In this way, many local suppliers may be able to increase their efficiency while simultaneously suffering a slowdown in accumulation (the uneven development mechanism), which supports a concentration process.

This research draws on an eclectic set of sources. First, we use aggregate statistical information provided by the *Encuesta Mensual sobre los establecimientos Comerciales* of the Instituto Nacional de Estadísticas Geografía e Informática (INEGI) which covers 33 metropolitan areas in Mexico from 1994. We also use complementary data from the INEGI and the Secretaría del Trabajo y Previsión Social (STPS), particularly where wages are concerned. Second, to get information at the company level we use the annual edition of *Las 500 compañías más importantes de México* edited by the Mexican business magazine *Expansión*. But owing to the low reliability of this source (missing data, errors in units, etc.), where possible we used the financial and operating data provided by companies in their annual reports. However, on the companies' websites, these reports are available only from 1997 and only for the largest companies. In order to obtain evolutions in real terms, we deflated the monetary data in pesos on the basis of the Índice Nacional de Precios al Consumidor of the INEGI.

To obtain operating data for a wider range of companies, we used the annual *Directorio* of the professional organisation ANTAD (Asociación Nacional de Tiendas de Autoservicio y Departementales), though it does not provide financial information.

For company strategies and stakeholder information, we used press articles in addition to annual reports. In order to confirm our analysis, we also undertook some interviews with ANTAD officials and suppliers' managers.

3. Transformation of the Mexican retailing sector since 1991 under pressure from foreign companies

There are five main retail channels in the Mexican economy: public markets, mobile street markets, small traditional shops, specialised stores and big-box stores,[1] which include two chains from the state sector (ISSTE, DICONSA) (Schwentesius and Gómez, 2002). In this study, we focus only on the transformation of the private big-box stores segment, which represents about 20% of the retailing sector at the end of the 1990s (INEGI, 1999). We show that FDI accelerates the modernisation of the sector. However, it substantially

[1] 'Big-box store' is a term in the retail sector for a big superstore. 'Big-box' is a description of the physical characteristics of the building: large, free-standing, rectangular, with a flat roof.

reduces the weight of national actors, does not improve productivity among modern retailers and exerts downward pressure on wages.

3.1 Main FDI operations in the retailing sector and the rise of Wal-Mart

In the early 1990s, just before the NAFTA was signed, US companies which had access to information on the negotiations began looking for strategic alliances in order to benefit from the new context in Mexico (free trade and protection of foreign investors). Participating in a global movement of internalisation of retailing firms (UNCTAD, 2004; Kearney, 2004), this was the beginning of an important wave of FDI flows into the Mexican retailing sector (Chavez, 2002). Firms such as Wal-Mart, HEB, Price Smart, Costco, Safeway, K Mart, Fleming and also Carrefour and Auchan have tried to penetrate the promising Mexican market, mainly by joint-ventures with local competitors as well as by acquisitions, although there have also been some greenfield operations (Table 1).

Table 1. *Main foreign retailers' presence in Mexico*

	Date and mode of entry	Type of store
Wal-Mart (USA)	1981: Buys 49% of Futurama 1991 and 1992: 50/50 JV with CIFRA for different formats 1997: Acquisition of majority ownership stake in CIFRA 2000: Increases its share to 60%	All big formats and specialised stores (clothes) and restaurants
Carrefour (France)	1994: JV with Gigante to develop hypermarket chain 1998: Acquisition of Gigante stake in JV 2005: Announces the end of its activities in Mexico	Hypermarkets
Auchan (France)	1995: 50/ 50 JV with Comercial Mexicana to open hypermarkets 1997: End of JV with Comercial Mexicana 2002: Sells its 5 hypermarkets to Comercial Mexicana	Hypermarkets
Safeway (USA)	1981: Enters a 49% JV in Casa Ley	Supermarkets
HEB (USA)	1997: Opens 5 stores in northern Mexico 1991: JV of price club with Comercial Mexicana	Supermarkets Discount club
Costco (USA)	1995: Costco buys the Price Club share one year after the merger between Costco and Price club	
Pricesmart (USA)	2002: JV with Gigante to open membership club discount stores	Discount club
FLEMING (USA)	1992 JV with Gigante to open supermarkets 1998: sells stake in JV	Supermarkets
Kmart (USA)	1993: JV with Puerto de Liverpool 1997: KMART and Liverpool sell their 4 stores to Comercial Mexicana	Supermarkets

Source: Press articles; Annual Reports; McKinsey (2003).

Though some of these actors sold their Mexican assets after a few years (Fleming, K Mart, Auchan, Carrefour) others are still operating in the country. Wal-Mart bought a majority of CIFRA in 1997 and became the leading player in the sector.

The modern private retailing channel is dominated by four main groups (Wal-Mart, Gigante, Comercial Mexicana and Soriana) that represented about 60% of sales and trading space in 2004. But Wal-Mart is the unquestionable leader. In fact, because of its more efficient use of capital, it has a comparatively higher portion of sales (43% of big-box store sales) than of retail space (28% of floor of sales) (ANTAD, 2004). Wal-Mart has increased its net sales by nearly 100% in real terms since 1994, while Comercial Mexicana and Gigante only maintained their positions. Soriana grew rapidly but from a much lower starting basis than Wal-Mart/CIFRA (Figure 2). Moreover, it is important to note that the increasing competitive pressure has not affected these enterprises uniformly, mainly because of their geographical locations. Indeed, three-quarters of Wal-Mart stores, Gigante and Comercial Mexicana are located in the centre of the country and the capital, whereas Soriana has most of its stores in the northern states.

There are different analyses of the causes of Wal-Mart's success in Mexico, a success which contrasts with the limited growth of other foreign companies such as Carrefour. The more common explanations focus on a supposed set of superior management techniques and technologies. Nonetheless, these reasons do not explain why Wal-Mart is so successful in Mexico and not in other Latin American countries such as Brazil and Argentina. To explain this, Tilly (2004) suggests circumstantial advantages, such as the opportunity to purchase the retail leader at the right time and the benefit deriving from first mover position *vis-à-vis* other transnational corporations. The geographical positioning that allows Wal-Mart to use its US supply chains to supply Mexican stores is also another advantage over its main global rival, the French firm Carrefour.

3.2 The growing weight of the modern retailing segment and of new retailing formats

The growing inequalities in Mexican society may constitute a barrier for modern sector development *vis-à-vis* the informal retailing segment (Tilly, 2004; ANTAD, 2004), but this phenomenon is, by definition, difficult to corroborate. However, during the last decade,

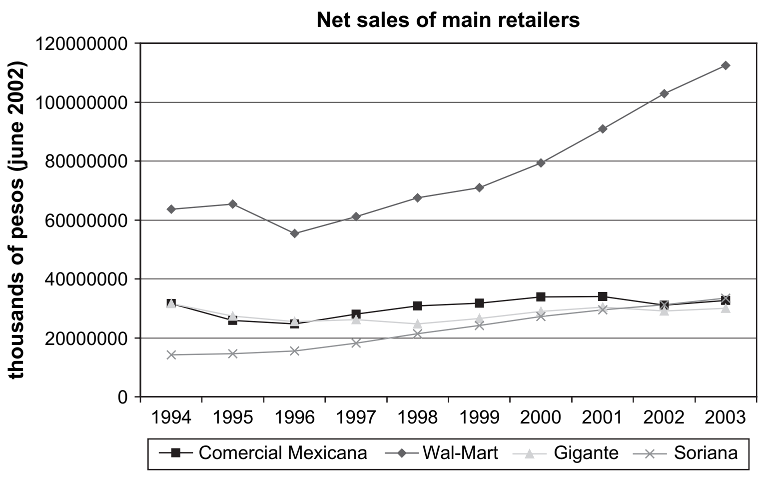

Fig. 2. *Evolution of the four main modern private retailers' sales. Source: Annual Reports.*

the modern and private self-service channel is clearly gaining market share to the detriment of traditional and formal retailing formats. In the 33 urban areas covered by the INEGI's monthly study about commercial establishments between 1994 and 2003, modern retailers have increased their sales by 40% in real terms, while traditional shops have reduced or just maintained their sales levels (INEGI, 2004). This is consistent with the analysis of some actors such as Comercial Mexicana, which considers that its progression up to 2001 resulted mainly from the decrease in small independent retailers (Annual Report, 2001). Department stores (modern stores selling mainly clothes and various equipment) have also benefited from significant growth.

In terms of employment, we observe the same contrast, but it seems that the increase in employment in the modern retailing sector does not imply a destruction of jobs in the other kinds of establishment. This last conclusion has to be taken rather cautiously because the 'employment' category of the INEGI does not take into consideration the number of hours that each employee worked.

The weight of foreign capital is more important for those types of store introduced since the beginning of the 1990s such as discount clubs, hyper and megamarkets but also hard discount shops that cater to lower income shoppers. All the discount clubs have a main or majority stake of foreign capital (joint venture Gigante–Pricesmart; joint venture Comercial Mexicana–Costco; Sam's Club of Wal-Mart). Wal-Mart has a commanding share of the hard discount segment with its chain called Bodega (Warehouse). In the hyper- and megamarkets segment, actors in a joint venture (JV) or having a majority stake of foreign capital represent 32% of retail space. Meanwhile, Comercial Mexicana and Gigante which have had a JV with Carrefour and Auchan in this segment represent another 28%. By contrast, actors linked with foreign capital represent only 14% of retail space in the supermarket segment (ANTAD, 2004; Annual Reports).

These elements suggest that FDI plays a decisive role in transforming the retailing sector: while introducing new formats, it manages to enlarge the portion of the population that buys products in the modern retailing sector. At the same time, local firms act as second movers in these changes or rely on JVs) with foreign companies for their development in new formats.

3.3 Productivity gap and distributional consequences

Most of the local competitors have lost market share because of the competitive pressure of new actors, specifically of Wal-Mart. This phenomenon causes a decrease in productivity. The evolution of the 'sales per employee' indicator—a proxy for labour productivity—shows a strong decrease for the main actors after the sharp devaluation of 1994 and a slow recuperation since that moment, with the exception of Soriana, which has continued to decrease. It is worth noting that the recuperation of Wal-Mart is stronger than that of its competitors and, especially, that its productivity is significantly higher (Figure 3).

The relationship between sales and trading space (floor of sales) provides a proxy of so-called 'capital productivity'. The data show a tremendous gap between foreign retailers, especially Wal-Mart, and local firms (ANTAD, 2004) confirming that transnational corporations possessed specific efficiency advantages. In dynamics, the comparison of Wal-Mart with Comercial Mexicana and Soriana since 1997 shows that Wal-Mart is improving its performance, while the others are deteriorating (Figure 4). This means that the arrival of new productive ideas and the possibility for local firms to imitate transnational corporations do not compensate for the destructive consequences of higher competitive pressure.

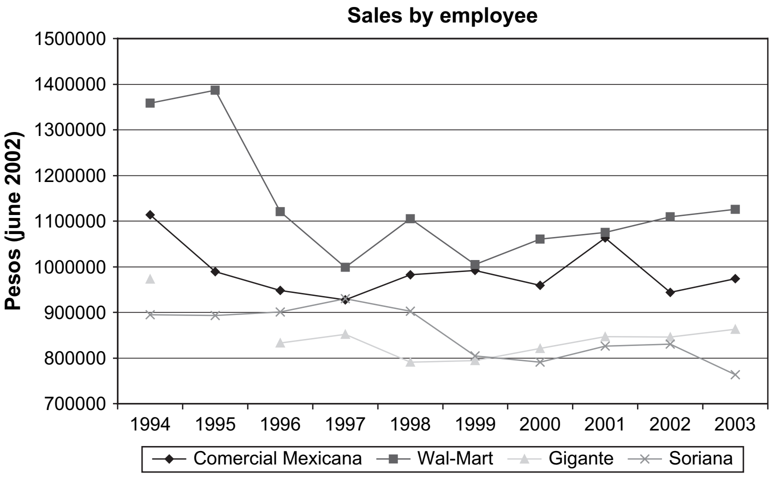

Fig. 3. *Sales by employee for main modern retailers between 1994 and 2003. Source: Annual Reports; Expansion.*

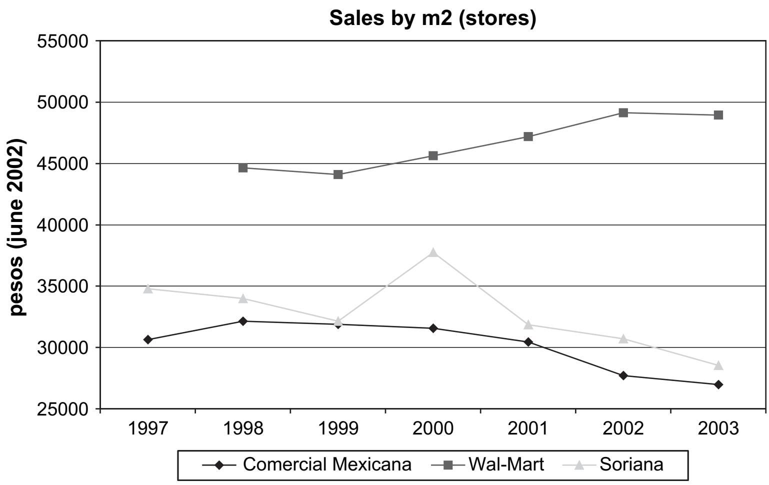

Fig. 4. *Annual sales by m2 in the stores of Wal-Mart, Comercial Mexicana and Soriana between 1997 and 2003. Source: Annual Reports; Expansion.*

The consequence of this productivity slowdown is a decrease in the rate of earnings in the modern sector as a whole. We observe an immediate recuperation after the devaluation of 1994, with a rate of earnings about 6% for Comercial Mexicana and Cifra/Wal-Mart, nearly 9% for Soriana and about 3% for Gigante. But since 1997–98, we observe a clear decrease before stabilisation at a lower level in 2002–03. As a result, the rate of profitability is nearly 5% for Wal-Mart and Soriana but less than 3% for Comercial Mexicana and only 1% for Gigante (Annual Reports, *Expansion*). This evolution suggests that FDI, while increasing competitive pressure in the sector, has allowed disruption of previous oligopolistic rents.

The evolution of net earnings in real terms demonstrates even more clearly a strong distributive effect. Whilst earnings in real terms for Gigante and Comercial Mexicana fall dramatically between 1995 and 2003 and Soriana stabilises them, Wal-Mart manages to increase its earnings by about 30% (Figure 5).

At the same time, workers in the sector suffer a decrease of wages of 18% in real terms between 1994 and 2003. As reported in Figure 6, the self-service segment of the retailing sector where most of FDI is concentrated is the one where the evolution of remunerations is the worst for workers. This evolution is also negative in comparison with manufacturing. In 2004, wages in the commercial sector were about 14% lower than in other sectors of the formal economy, especially the manufacturing sector (Secretaria del Trabajo y Previsión

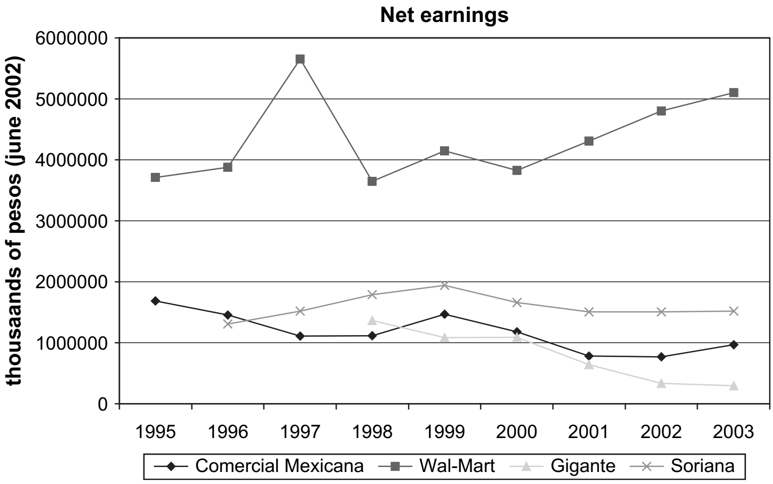

Fig. 5. *Net earnings for the main retailers from 1994 to 2003. Source: Annual Reports; Expansion.*

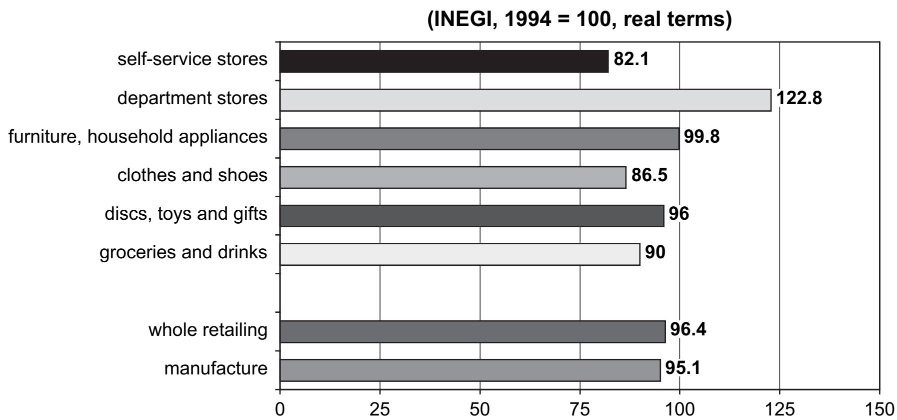

Fig. 6. *Evolution of personal remunerations for different class of retailing establishments between 1994 and 2003.*

Social, 2005). But data from collective bargaining contracts[1] in the Federal District establishes that the situation for workers was significantly worse. Although they are heterogeneous because of regional disparities, we can see that the daily rate of pay for a salesman of general merchandise was only about 50% of the average wage in the economy (Junta Local de Conciliacion y Arbitraje del Districto Federal, 2005). Wages at Wal-Mart are mostly at the same low level as at other main retailers, and workers in this group get even lower social benefits (Tilly, 2004). Indeed, while local retailers try to prevent turnover by offering social benefits, Wal-Mart prefers to stabilise its workforce by selling shares to its employees (ANTAD, Interview; Wal-Mart Annual Reports).

These elements confirm that, within the modern retailing sector characterised by a low-skilled, unstable and weakly unionised labour force, FDI does not produce positive effects in terms of wages for the workers. On the contrary, the increasing competitive pressure is a factor that tends to reduce wages.

4. Changes in the supply conditions and its consequences for local suppliers

FDI in the retailing sector is having a profound impact on local supply networks. Indeed, foreign retailers already have global supply chains and also specific know-how in managing relationships with suppliers (Coe and Hess, 2005; Coe, 2004; Reardon *et al.*, 2003; Currah and Wrigley, 2004). These innovations imply a direct impact on suppliers as foreign companies win market share but also, indirectly, as local retailers adopt new practices through imitation.

4.1 The growing competitive pressure of imports

In 2003, Wal-Mart was not only number 6 on the list of main importers in Mexico, as noted by *Expansión*, but also the greatest contributor to the Mexican commercial deficit, with a negative balance of USD706 millions (*Expansion*, 2004). This represents approximately 50% of the imports of the four main retailers, 3.5% of consumption goods imports and 0.5% of global imports (Table 2).

These facts about Wal-Mart underline an important aspect of the impact of FDI in the retailing sector. As multinational retailers have a global sourcing organisation, they are expected to use this specific advantage and their strong global market power against their local competitors. And Wal-Mart is the paragon company for the buyer-driven global economy. It has both the capacity to shift production from one country to another and

Table 2. *Wal-Mart's imports in 2002 and 2003*

	W-M imports (USD)	% of the four main retailers imports	% of the imports of consumption goods	% of total imports
2003	705,859,000	50,8	3.28	0.41
2002	827,944,000	55,5	3.9	0.49

Source: Annual Reports; INEGI.

[1] The collective contract is a contract at the enterprise level between employer and employee representatives that defines social benefits, wages and working conditions. Within the retailing sector, these contracts are typically approved by virtual trade unions that are created by the employer (union simulation) only to respect the legal constraint (Tilly, 2004; Bouzas and Vega, 1999).

a solid partnership with China (*Frontline*, 2004). Moreover, the overvalued peso, in the real exchange rate, favours imported products against local ones. As expressed in the annual letter to shareholders (Wal-Mart, 1998, 1999) this element is a critical one for global retailers. Local retailers have therefore also been focusing their attention on increasing their share of imports (Soriana Annual Reports, 2001, 2003; Comercial Mexicana Annual Report, 2002). Simultaneously, the dispositions of the North American Free Trade Agreement (NAFTA) allow mechanisms of fiscal evasion that favour imports, as well as triangulation of imports from Asia while benefiting from NAFTA tariffs (CANACINTRA, interview).

Using data from companies about their imports could help us evaluate this phenomenon better. Nonetheless, we have to keep in mind that these data are only a proxy: all the imported merchandise sold in stores is not necessarily imported directly by the retailers, since they may buy locally from other importers. After 1997, we observe a faster increase in Wal-Mart's imports in real terms compared with its competitors' (Figure 7). If we look at the imports/purchases ratio (Figure 8), we see that all the enterprises have been significantly increasing the share of imports in their purchases, but also that Wal-Mart has shown a much more dramatic evolution: from 20% in 1997 to more than 55% in 2002 and 2003. Over the entire period, Soriana has a higher share of imports as compared with its two main national competitors, but this can be explained by the fact that this group is mainly located in the northern part of Mexico, close to the US.

After 1997, we observe a process of intensification of imports by modern retailers in both absolute and relative terms. We also note Wal-Mart's proportionally higher share of imports as compared with local firms. Considering the Chinese connection to Wal-Mart, this evolution is consistent with the new importance of China's exports to Mexico (especially in such sectors as toys and shoes) and the growing concern about the challenge that it represents for the Mexican economy (Dussel Peters and Xue Dong, 2004).

This growing pressure of imports due to the increasing global sourcing of modern retailers is not the only relevant consequence of FDI for local suppliers. The transformation of the organisation of supply chains' has had a major impact as well.

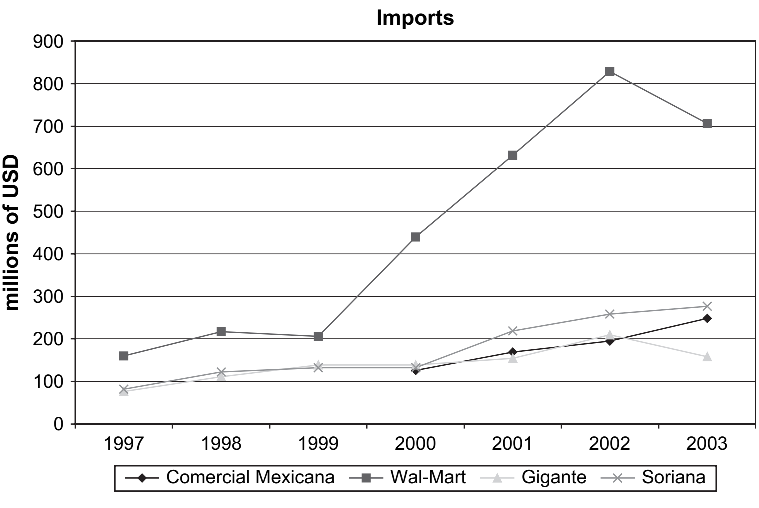

Fig. 7. *Imports of main modern retailers between 1997 and 2003. Source: Annual Reports; Expansion.*

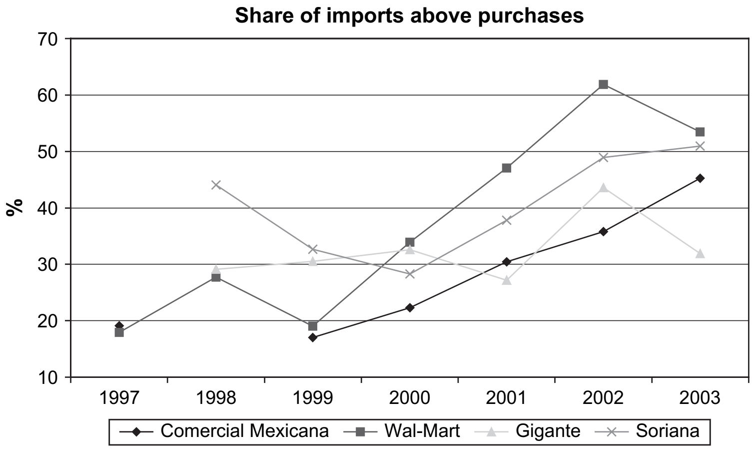

Fig. 8. *Evolution of the ratio imports/purchases for main retailers between 1997 and 2003. Source: Annual Reports; Expansion.*

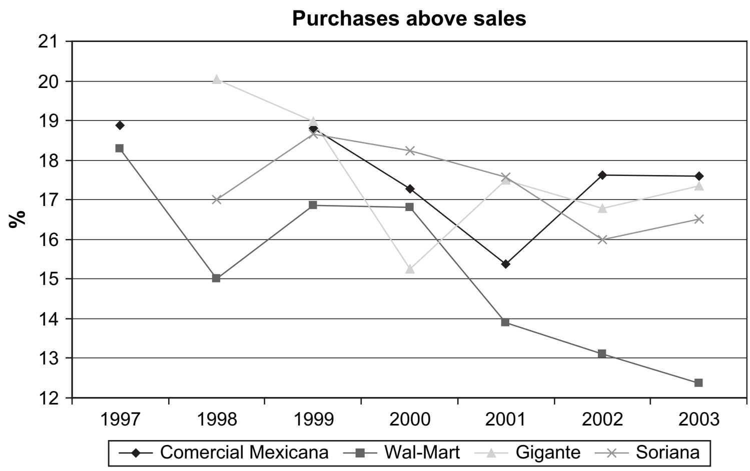

Fig. 9. *Evolution of the ratio purchases/sales for main retailers between 1997 and 2003. Source: Annual Reports.*

4.2 The increasing control of supply chains by retailers

After 1997, we observe a severe decrease in the purchases/sales ratio, especially in Wal-Mart (Figure 9). This change may have two explanations. First, retailers may have managed to obtain lower prices from their suppliers but, as they did not pass on the benefits, using their market power position, consumer prices did not benefit from this evolution. This may partially explain the situation: however, since there is no growth in margins over the last years, it is not sufficient to explain the severe decrease in the purchases/sales ratio. The second explanation may be found in the reorganisation of supply chains. By increasing their centralised-distribution capacities, retailers may have internalised one part of the distribution service which is then no longer paid to suppliers.

In Mexico as well as in other emerging markets (Coe and Hess, 2005; Reardon *et al.*, 2003) global retailers have made a significant effort to centralise their purchases and integrate technological improvement (real-time electronic information systems connecting stores to suppliers, centralised buying systems). In 1999, 80% of the products sold in Wal-Mart stores were distributed by its own distribution centres, when at that time this was the case for only 13% of Gigante's products and less than 20% of Comercial Mexicana's. In 2003, this rate was about 50% for Gigante and 79% for Soriana, while Comercial Mexicana aimed for 60%. Simultaneously, local retailers attempted to build as efficient informational tools as Wal-Mart's, which drastically reduce the autonomy of suppliers, as their costs are better known and the production process better controlled. Moreover, to counterbalance the strong negotiating position *vis-à-vis* suppliers resulting from Wal-Mart's increasing market share, Gigante, Comercial Mexicana and Soriana decided to react by creating a purchasing association, Sinergia, in 2002. We also note a shift to a permanent low prices strategy generalised by Wal-Mart in 1999 and adopted by Soriana and Comercial Mexicana in 2002 (McKinsey, 2003; Annual Reports)

Suppliers to the retailing sectors are strongly affected by these changes (Schwentesius and Gómez, 2002). The growing market power of buyers (Wal-Mart and Sinergia) increases cross-regional competition, requires bigger suppliers and tends to weaken the negotiating power of suppliers, who are forced to accept very unfavourable prices or payment conditions. For example, Wal-Mart typically pays its suppliers at a 120 days term but also asks them to grant rebates to maintain the business and even to provide initial stock free of charge when Wal-Mart opens a new store (CANACINTRA, Interview). At the same time, the generalisation of a permanent low-price strategy also increases the financial pressure on suppliers. The growing internalisation of the distribution process by retailers implies that local and regional distributors become redundant, with a loss of distribution revenue to suppliers with proprietary channel and higher costs for supplying traditional retailers.

As shown in Figure 10, in addition to the growing pressure of imports, the likely outcomes of these elements are the elimination of numerous local suppliers, a dynamics of concentration but also a process of *immiserising growth* (Kaplinsky, 2000) for the surviving firms whose margins are reduced even if they improve their performances.

5. Concluding remarks

As transnational corporations have introduced new ideas (new formats, new organisational and informational structures and new marketing strategies) and mobilised knowledge, skills and competences accumulated in other contexts (Currah and Wrigley, 2004), FDI flows into the Mexican retailing sector have led to rapid transformation of the modern self-service segment. This study has examined the externalities that result from the presence of foreign firms within the retailing sector and for the related suppliers. We hope that this study will contribute to the general discussion about the impact of FDI in developing countries.

Within the Mexican retailing sector, there are two main consequences. First, transnational corporations, especially Wal-Mart, have accelerated the growth of the big-box stores segment. This comes at the expense of traditional retailers, as larger population segments are now able to buy in modern stores. Such a 'de-fragmentation' of the retailing sector also occurred in other emerging countries in Africa, Asia and Latin-America (Reardon *et al.*, 2003). However, in parallel, the increasing competition has put local

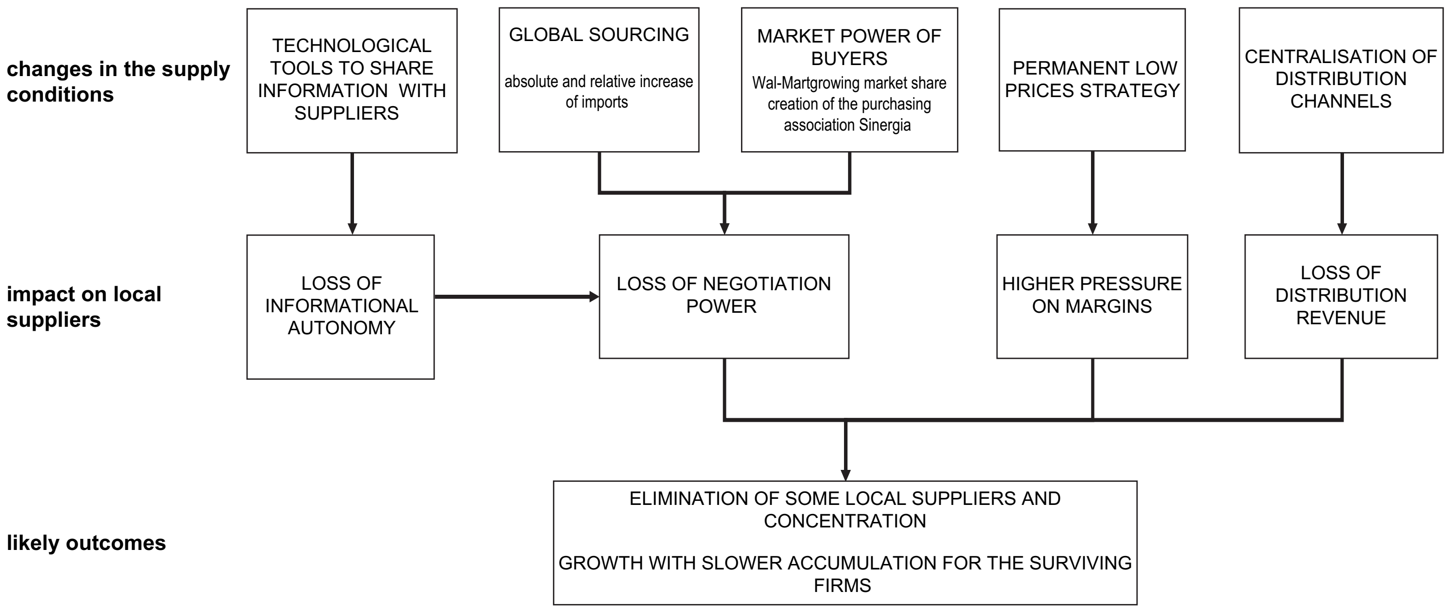

Fig. 10. *Changes in the supply conditions and its consequences for local suppliers.*

modern retailers in difficulty, their productivity and margins decreasing. As a result, we do not observe a positive intra-industry effect on productivity. This is consistent with recent literature about FDI in manufacturing which establishes the absence of a positive correlation between foreign presence and growing sector productivity (Aitken and Harrison, 1999; Kugler, 2000; Smarzynska, 2004). It is worth noting that the positive effect on consumer prices that is associated with competitive pressures may be transitory, since once Wal-Mart has built a strong dominant position, it may use its market power in the coming years to benefit from oligopolistic rents.

Second, we observe that FDI flows in retailing have a negative effect on remuneration: wages in retailing are still far lower than the average wage in the economy and have suffered a worse evolution than those in the commercial and manufacturing sectors. This result is not consistent with studies in manufacturing which show that FDI in developing economies has a positive effect on wages (Lipsey and Sjöholm, 2001; Aitken *et al.*, 1996). Indeed, the characteristics of labour in retailing (low level of unionisation, low skilled, high turnover) contrast with the conditions in manufacturing, where transnational corporations are expected to pay higher wages than local firms in order to attract skilled labour and prevent knowledge diffusion by turnover. In the context of aggressive competition among the main retailers, attracting skilled labour is less important than reducing costs in order to gain market share by lowering prices. One regulatory response to improve wages and social compensations while limiting union opposition could be to upgrade the negotiation of collective contracts from the enterprise level to the sector level.

Significant backward externalities were also observed. Following Wal-Mart's lead, local retailers have reorganised significantly by internalising the distribution of goods within distribution centres, centralising their purchases and pursuing a permanent low prices strategy. Using new informational technologies, buyers have increased their ability to exert governance on value chains (Gereffi and Korzeniewicz, 1994; Humphrey and Schmitz, 2001). These changes have affected local suppliers negatively, as they lose negotiating power and suffer higher pressures on their margins. The consequences of such an evolution are examined in the literature: the asymmetries between local firms and transnational corporations are often deemed to be negative factors, diminishing their capacity to learn and to grow (Dussel Peters, 1999; Dutrenit and Vera-Cruz, 2004; Sacchetti and Sudgen, 2003; Kaplinsky, 2000).

In parallel, the global sourcing capacities of foreign firms and the configuration of international integration (type of exchange, free trade agreements) have increased the competitive pressure from imports that account for a higher part of the products sold within self-service retailers at the end of the period. Wal-Mart even became the main contributor to the Mexican commercial deficit. Negative effects on external balance of FDI are considered in the literature, but they are typically expected to result from financial flows (royalties, interests and utilities) and from imports of capital goods (Krugman and Obstfeld, 2000; Peres, 1990). In developing countries, manufacturing industries oriented to export import intermediary goods as well, but transnational corporations with market-seeking strategies are expected to work mainly with local suppliers (Smarzynska, 2004). The increasing imports related to FDI in retailing constitute quite an original feature with regards to the literature although some empirical studies support such a view (Chudnovsky and Lopez, 2004). The probable outcomes of the growing pressure of imports and the increasing governance power of retailers are the elimination of some local suppliers and a concentration process in supply chains (Coe and Hess, 2005; Reardon *et al.*, 2003) with a risk of immiserising growth for the surviving firms. In order to limit the coercive bargaining power of the main retailers, the empowerment of suppliers by the way of professional associations may be important, but probably not sufficient. The legal regulation of quasi-formal contracts between retailers and vendors and the prohibition of the most aggressive commercial practices may also be necessary to protect suppliers from abusive quasi-monopsonistic practices. However, the current institutional framework for the international integration of the Mexican economy prevents the government from limiting the pressure of imports and its consequences.

Although further analysis is needed, the arguments presented here are consistent with other studies concerning the internationalisation of retailing, and suggest that FDI flows in this sector may negatively affect the growth of a developing economy. Low consumer prices may affect demand positively, but this phenomenon is partly counterbalanced by the negative effect on wages. Moreover, the competitive pressure of imports and the subordination of suppliers in value chain governance structure limit their ability to accumulate. The ideas gap between developed and developing countries is clearly exploited by transnational corporations in their global strategies. However, because of the characteristics of the sector concerned and the institutional context, these new ideas do not benefit the host economy. This result and the specific mechanisms analysed here emphasise the need not to confine the discussion about FDI consequences to the arguments produced by manufacturing case studies.

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Between developmentalism and instrumentalization: the comeback of the producing state in Russia

par Cédric DURAND

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BETWEEN DEVELOPMENTALISM AND INSTRUMENTALIZATION: THE COMEBACK OF THE PRODUCING STATE IN RUSSIA

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INTRODUCTION

The comeback of the State seems to mark a significant shift in the trajectory of post-Soviet Russia. Terms such as "*state capitalism*", "*corporate state*" or "*strategic turning point*" [1] have been used by commentators and experts to suggest a bifurcation. This article aims at specifying the extent and the characteristics of this comeback. It also proposes a twofold interpretation: the implementation of a developmentalist strategy and/or an instrumentalization of public authorities in order to proceed to a redistribution of economic power within the ruling class.

Kebabdjian (2005) identifies four economic figures of the State which grew simultaneously in the advanced capitalist economies after World War II: the regulating state which organizes and regulates markets; the welfare state which provides collective goods and social services; the Keynesian state which, through its macroeconomic policy plays a stabilizing role and influences the level of employment and prices; finally, the producing or entrepreneurial state which intervenes through various institutional tools in order to increase the power of the state and the nation more than to deal with market failures. The decline of the producing state is the most significant withdrawal of the state resulting from neo-liberal policies.

1. A. Illarionov (2006), "When State Means Business", *International Herald Tribune*, January 25; A. Illarionov (2006), "The rise of the corporate ste in Russia", conference, The Cato Institute, march 7, http://www.cato.org/event.php?eventid=2764; Zlotowski (2006); J. Sapir (2007).

In Russia (Durand, 2005a), as in all post-socialist countries, privatization led to a dramatic decline of the function of organizing production. However, since the beginning of the second term of Vladimir Putin in 2004, certain changes broke with this trend. The State has set up new instruments in order to play a more active role in guiding economic development (mobilization of resources in national projects, special economic zones, creation of a public investment fund). Above all, public ownership has extended and has been restructured. This article is primarily devoted to the analysis of this amplification / reorganization of public ownership.

Section 2 presents some general stylized facts about the comeback of the producing state. This evolution is examined more precisely at the sectoral level in sections 3 and 4 respectively devoted to energy and to other industries. Section 5 outlines a socio-economic framework of interpretation through the concept of instrumentalized developmentalism.

A RE-INVOLVEMENT OF THE STATE IN INDUSTRIAL AFFAIRS

The years 2004 and 2005 marked a clear shift in the trend towards a retreat of the state away from the economy observed since 1992. The privatization process remains on the agenda, but it continues at a very slow pace. In 2004, significant operations have taken place with the sale of stakes in state oil company Loukoïl and in the Magnitogorsk metallurgical plant. Since 2005, however, the continuation of privatization remains on the agenda but only with second-order operations: all major operations have been postponed such as the privatization of the Svyazinvest telecommunications holding company, and most profitable state owned assets have stayed out of the privatization process (OECD, 2006; IET, 2006a and 2007; Malginov, Radygin, 2008).

Meanwhile, a new emphasis is given to public ownership. A presidential decree of 4 August 2004 established a list of 1,064 enterprises which cannot be privatized and joint stock companies in which the State share cannot be reduced [2]. Beyond the defence sector, the wide list includes facilities whose "*production has a strategic significance for the preservation of defence capabilities and state security, protection of morality, health, law and legal interests of Russian citizens*". It comprises 65 Gazprom affiliates, about twenty maritime and river harbours, airports, explosives factories, elevators, building plants, banks, bread

2. Oukaze n° 1009 dont le texte est disponible ici:
http://document.kremlin.ru/doc.asp?ID=23799&PSC=1&PT=3&Page=1; %20ID=23799&PSC=1&PT=3&Page=2

factories... Among state-owned enterprises, there is also a conglomerate of amber, the Mosfilm studio and the news agency RIA Novosti.

Moreover, as shown in Table 1, we observe since 2004 a significant extension of public ownership. The movement has accelerated in 2005 with a value of acquisitions put at more than $17 billions (EBRD, 2006) and continued in 2006 and 2007. In addition to the magnitude of the phenomenon, the diversity of methods used to get companies under public control should be noted. It is not, strictly speaking, nationalization but a pragmatic combination of administrative methods and market mechanisms. Thus, tax procedures and / or judicial authorities have forced owners to sell their assets. The first well known case is the dismantling of Yukos in 2003 – officially because of tax evasion – which led to the imprisonment of its CEO, Mikhail Khodorkovsky. Even before, the director of the Petrochemical holding Sibour was jailed in 2002 in the middle of a battle for the control of the firm led by the new management of Gazprom. Since 2006, the instrumental use of environmental standards against the multinationals involved in the hydrocarbon sector is another illustration of this dynamic. These events have sent to business a very clear message: when state enterprises or agencies are interested in your business, it's better to negotiate a transfer of property – seemingly a normal market transaction - than to resist it and then face a *de facto* expropriation.

A NEW STRATEGIC POSITIONING OF PUBLIC ACTORS IN THE ENERGY SECTOR

The operations shown in Table 1 highlight the existence of a process of consolidation of the energy sector under the aegis of the State[3]. After the failure of the merger between Gazprom and Rosneft in 2005 and with the persistent rivalry between the two companies, the issue of the unification of the state involvement in the sector is still pending. Another key issue is the positioning of the State vis-à-vis the multinational corporations. The years 2006 and 2007 have thus been marked by an increasing pressure on foreign firms [4], indicating a significant policy shift but not one devoid of ambivalences.

3. "How Russia is nationalized: the oil sector", *Kommersant*, Sept. 19 2007, http://www.kommersant.com/p804680/Oil_Sector/
4. http://webu2.upmf-grenoble.fr/iepe/Publications/publicRech1.html

Table 1 – Major state acquisitions (2004-2006)

company	sector	date	mechanism
Guta Bank	Banking	August 2004	State Owned Bank Vnechtorgbank purchases 85,8% stake with central bank support
Mosenergo	Electric Power	Sommer and Fall 2004	Gazprom raises its stake above « blocking » level (25 %+1)
Promstroibank St- Petersburg	Banking	September 2004	Vnechtorgbank purchases a blocking stake (25 %+1)
Atomstroieksport	Nuclear Construction	October 2004	Gazprom-controlled Gazprombank purchases 54 % stake
RAO UES	Electric Power	Fall 2004	Gazprom raises its stake to 10,5%
Raffinerie de Tuapse	Oil Refining	December 2004	Rosneft purchases 40 % from minority shareholders to take full control of the refinery
Iouganskneftgaz	Oil and gas	December 2004	Rosneft purchases 76,8% stake from the firm OOO Baikalfinansgrupp, the winner of the a state-organised auction of Yuganskneftegaz shares to settle tax debts
Tambeyneftgaz	Oil and gas	May 2005	Gazprombank purchases a 25% stake from Novatek
Northgas	Oil and gas	June 2005	Gazprom regains control of independent gas producer Northgas, taking over a 51% stake following litigation
Izvestia (quotidien) Chas pik (hebdomadaire)	Media	June-September 2005	Gazprom media purchases control
Gazprom	Oil and gas	July 2005	State-owned Rosneftgaz purchases 10,7% of Gazmprom to raise state's directy stake in Gazprom above 50%
Selkupneftegas	Oil and gas	July 2005	Rosneft purchases a 34% stake from independent gas producer Novatek
Sibneft	Oil and gas	October 2005	Gazprom buys 69,66% stake from Roman Abramovitch for $13,1 bn.
Verkhnechonskneft-gaz	Oil and gas	October 2005	Rosneft purchases 25,9% stake from Interros Holding
AvtoVAZ	automobile	October 2005	State arms export concern Rosoboronexport takes control over 62% and install new management
OMZ	Machine building	November 2005	Gazprombank purchases a 75% stake
Various factories involved in the production of helicopters	aeronautics	2005	State-owned defence company Oboronprom takes control of these enterprises in the course of forming a single, state-controlled helicopter holding via the consolidation of shares already held by the State, purchase of additional shares and share swaps
Mashiny Silovye	Machine building	December 2005	Electricity monopoly RAO-UES purchases a 22,4 % stake, raising its stake above 25% and acquires voting rights to another 30,4 % until end-2007
Oudmourtneft	Oil	June 2006	Rosneft acquires a 51% stake from Sinopec after the latter buys 96,7% from TNK-BP for an estimated $3,5 bn.
Sibneftegaz	Gas	June 2006	Gazprom purchases a 51% stake from Itera
Novatek	Gas	June-July 2006	Gazprom purchases a 19,9 % stake for a sum reportedly exceedin $2 bn.
VSMPO-Avisma	Titanium	fall 2006	Rosoboronexport purchases a 66% stake

Source : OECD (2006)

Multinationals under pressure

In September 2006, the Minister of Ecology withdrew the accreditation granted to the international consortium Sakhalin-Energy for the project Sakhalin II, arguing that the required environmental standards were not respected. He also threatened the group Exxon-Mobil, leader of the Sakhalin I project, to not allow the extension of the project because of similar problems. The Department of Natural Resources – supported by environmental NGOs [5] – pretended to act exclusively on the basis of environmental standards [6]. However, there are obvious and powerful economic motivations for these actions [7]. The Sakhalin II project is worth $20 billion worth and Gazprom has long wished to take a significant stake in the consortium [8]. However, administrative procedures blocking the project have dramatically accelerated the discussions on this issue: British (Shell) and Japanese (Mitsui, Mitsubishi) companies that completely controlled the project have finally accepted the sale of a 50% share to Gazprom in December 2006 [9]. Total's investment in the deposit Khoriaga was also under the threat of a suspension of exploitation licences [10], even if it failed to materialize [11].

In fact, these proceedings against multinationals result from the government's will – already announced in August 2006 – to revise Production Sharing Agreements that were signed in the 1990s and which are very disadvantageous for the state. These proceedings also supported Gazprom's growth strategy. Thus, in autumn 2006, the Anglo-Russian TNK-BP was referred by judicial authorities for its investment in the Novo Urengoy and

5. "Environmentalists back Putin over Shell's energy permit", *The Guardian*, Sept. 25 2006, http://business.guardian.co.uk/story/0,,1880102,00.html;
Pacific Environment, *Sakhalin II Overview of Problems*, March 2006, http://pacificenvironment.org/article.php?id=1316; Sakhalin II update;
The Project and Russia's People, ECA Watch Campaign, http://www.eca-watch.org/problems/eu_russ/russia/sakhalin/index_people.html

6. "Shell makes Sakhalin offer", *The Moscow Times*, Dec. 12 2006.

7. "Sakhalin Oil and Gas Projects: what is behind Russia's coercive behavior?", *Eurasia Daily Monitor*, Oct. 3, 2006, http://jamestown.org/edm/article.php?article_id=2371502; « Russie : révision des accords sur gaz et pétrole », *Le blog finance*, http://www.leblogfinance.com/2006/05/russie_rvision.html

8. "Gazprom holding talks with Shell", *Financial Times*, Oct. 11 2004.

9. "Shell offers to cut Sakhalin-2 stake by 30%", *Financial Times*, Dec. 11 2006; "Gazprom strikes $7.45bn Sakhalin-2 deal", *FT.com*, Dec. 21 2006.

10. « La Russie menace Total d'un retrait de licence d'exploitation », *Les Echos*, 30 octobre 2006.

11. « Vérifications concernant Total à Khariaga: le groupe français s'en sort à peu de frais », *Vedomosti*, 30 mars 2007, http://fr.rian.ru/business/20070330/62844527.html

Vostotchno Ourengo gas fields and in the Kovytka East-Siberian deposit [12]. TNK-BP consortium was also forced to sell most of its participation in the Kovytka Gas field to Gazprom in June 2007. However, the deal has been repeatedly delayed while there is also speculation that Gazprom is seeking to buy out the Russian half of TNK-BP. Tension escalated during the first part of 2008 with visa, fiscal, espionage and environmental inquiries [13].

This greater involvement of Russian authorities within natural resources affairs reflects the changes observed in several countries such as Venezuela, Bolivia, Ecuador or Chad [14]. It takes place in a context characterized, on the one hand, by high world prices and, and the other hand, by increasingly critical views of the record of the policies of undifferentiated attraction of foreign direct investment (CEPAL, 2004; UNCTAD, 2001 and 2003; Durand, 2005b), especially in the energy sector (see case of the gas sector in the Caribbean Republic of Trinidad and Tobago: Barclay, 2003).

The ambivalences of a pragmatic energy policy

The strengthening of the weight of the State in the energy sector and the increased pressure on multinationals show that Russian authorities' energy policy forms part of a strategic reorientation (Larsson, 2006; Boussena, Locatelli, 2006 and 2008) that aims to prevent Russia becoming a subordinated country. Indeed, energy resources are a crucial lever for public action. This is true, first of all, at the geopolitical level through export prices and investment choices regarding hydrocarbon export routes. Secondly, the revenues generated by this sector, but beyond this the impact on the overall economy of internal prices of energy, are of crucial relevance for growth policy and major macroeconomic balances. Gazprom's case is emblematic: its role in economic and social stability as well as in the country's foreign policy is such that the State can only be concerned about it, which explains the extension of public participation above 50% in 2005. The discussion concerning the merger with Rosneft may thus appear as a tentative towards expanding the political logic of management of the energy sector.

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12. « Генпрокуратура занялась добычей газа », *Коммерсантъ*, 8 novembre 2006, http://www.kommersant.ru/doc.html?docId=719680; « L'offensive de Moscou contre la major russe TNK-BP », *Le monde*, 13 novembre 2006, http://abonnes.lemonde.fr/web/article/0,1-0@2-3234,36-833855,0.html?xtor=RSS-3234

13. "BP recalls staff from Russia as pressure mounts on joint venture", *Financial Times*, March 26 2008; "BP office raid raises fears over Russia ventureé, *FT.com*, May 20 2008, http://www.ft.com/cms/s/0/8f554ca2-2695-11dd-9c95-000077b07658.html

14. « Bolivia's energy move follows nationalisation trend", *Financial Times*, May 2 2006; « Nationalismes en sous-sol », *Le Monde*, 5 décembre 2007.

However, the extension of state control is not uniform and does not mean that market mechanisms are neglected. For example, in July 2006, Rosneft has made one of the largest operations in its financial history by introducing on to the London and Moscow stock exchanges nearly 15% of its capital amounting to 10.4 billion dollars, while the plan to privatize the firm is still on the table [15]. In 2006 also, Gazprom lifted restrictions on the participation of foreign companies. The case of Lukoil also illustrates that we are far from seeing a pattern of pure nationalization: the second oil company in the world in terms of proven reserves is not principally controlled by the State. Its chairman, Vaguit Alekperov, is close to Vladimir Putin and his action, especially at the international level, seems perfectly articulated with the strategic aims of the Kremlin (Larsson, 2006). The liberalization of the electricity sector has even led to a clear retreat of the State. Headed by Anatoly Chubais, Unified Energy System (UES), which provides 70% of electricity and one-third of the heating, has been broken up and ceased to exist on June 30 2008. Russian and foreign investors have bought for $34 billions generating companies, the state retaining control of UES's hydro-plants, the transmission network and nuclear power industry. However, the degree of liberalization, its enforcement and the role of Gazprom, which is expected to control more than 20 per cent of generating capacity, remain unclear [16].

The energy policy of Russian authorities is thus characterized by a combination of pragmatic administrative intervention and instrumentalization of market mechanisms resulting from three kinds of concerns, partly contradictory. First, Russian state power aims to ensure the loyalty of all energy players, either directly through state structures or by ensuring the submission of allies in the private sector to the strategic objectives of the State. Then, the energy sector should be given at least an appearance of liberalization in order to not jeopardise the ability of Russian companies to develop themselves abroad, to raise funds on international financial markets and to attract foreign direct investment in order to fund the huge investments needed in the Russian energy sector. Finally, most of the cases against some multinationals may be considered as conventional conflicts about the sharing of energy rent (Sweezy, Magdoff, 1974); the possibilities for cooperation remain open, and

15. « Pétrole : Rosneft privé à 100% d'ici 3 à 10 ans », *Le blog finance*, http://www.leblogfinance.com/2006/09/ptrole_rosneft.html

16. « Газ перетек на декабрь », ***КОММЕРСАНТЪ***, 23 November 2006; "UES head casts light on his uphill task", *FT.com*, Sep. 11, 2007, http://search.ft.com/ftArticle?queryText=UES&y=0&aje=true&x=0&id=070911011302&ct=0; "Electricity: A giant generation game", *Financial Times*, Apr. 17, 2008, http://search.ft.com/ftArticle?queryText=UES&y=0&aje=true&x=0&id=080417000293&ct=0

numerous areas are still open to foreign investment in order to revive exploration and to cope with threats of gas and electricity shortages resulting from ageing infrastructure, increasing, and depletion of major gas fields currently under exploitation.

A VAST MOVEMENT OF INDUSTRIAL RESTRUCTURING

An attempt to reorganize civilian assets and defend the military-industrial complex

After experiencing a particularly acute crisis during the 1990s [17], the military-industrial complex is newly considered as a matter of interest by the authorities for various reasons: geopolitical, social - the sector employs about 2 million people, up to 70% of the workforce in some localities [18], and has been affected by strong mobilizations [19] – but also economic reasons, as Russia stands just ahead of the USA as leading global arms exporter [20].

Thus we have observed a strengthening of the State presence in major defence enterprises [21] and above all the establishment of holding companies dominated by the State, particularly in the aviation industry, in shipbuilding and in helicopter production. The creation of a military tank-builder holding is also being discussed [22]. The objective of these amalgamations is to improve the sector's performance through better business management, less dispersion of projects and better articulation between civilian and military activities so as to facilitate the revival of an hypertrophied defence productive apparatus.

17. " Russia: output of the military–industrial complex, 1991–2002", http://www.sipri.org/contents/milap/milex/aprod/nat_data.html; (Sapir, 1994); "Military-Industrial Complex 1991-2000", *Kommersant*, Dec. 4, 2001, http://www.kommersant.com/tree.asp?rubric=3&node=36&doc_id=300257.

18. *Gazeta Wyborcza*, "Arms Are More Than Gold", interview with Ruslan Pukhov, Dec. 17, 2001, p. 9, disponible en ligne : http://www.cast.ru/eng/publications/?id=62

19. Krasnaïa Zvezda, « Горячая пора « оборонки» », 24/12/2005, http://www.redstar.ru/2005/12/24_12/5_01.html

20. (SIPRI, 2006) and "Russia's Arms Trade with Foreign States in 2005", *Moscow Defense Brief*, n°2, 2006, http://mdb.cast.ru/mdb/1-2006/arms_trade/item2/

21. http://mdb.cast.ru/mdb/2-2005/facts/owner

22. « Le groupe public Rostekhnologuiï projette de créer un holding de blindés (président du groupe) », *Ria Novosti*, 28 Nov. 2007. http://fr.rian.ru/russia/20071128/89973324.html

Aeronautical industry

The civil aviation industry is completely devastated. In the military sector, the situation is also very degraded. However, the collapse was limited because of the persistence of export opportunities. Dealing with this very difficult situation, the government officials declared that the state was ready to invest massively in order to reconstruct this industry[23]. The creation in November 2006 of the Unified Aircraft Building Corporation (Объединенная авиастроительная компания – ОАК) [24] which includes the flagship of the sector [25] seems to be a decisive step in this perspective.

The process of consolidation does not automatically ensure a new consistency of assets but it highlights the determination of the State, eventually forcing the cooperation of private actors [26]. It should be noted that in parallel, Russian leaders promote international partnerships in the field of civil aviation, for example by relaxing the rules on foreign investment in the sector [27]. The ongoing rapprochement with EADS, a group also dominated by public capital, is a signal even more important [28]. Finally, it should be added that the take-over of the main global producer of titanium VSMPO-Avisma by Rosoboronexport in July 2006 brings in an important asset for the Russian share in any future collaboration as this firm is a key supplier of Boeing and Airbus [29]. VSMPO-Avisma is one of the first assets to be consolidated in the state-owned speciality steel company, Russpetstal. This company is an affiliate of Rosoboronexport which has also taken control of the metallurgical

23. Rosbalt, « Авиапром заражён государством », TRAD 22/09/2005, disponible en ligne: http://www.rosbalt.ru/2005/09/22/227525.html
24. « ОАК официально зарегистрирована в налоговых органах », TRAD *РИА Новости*, 20 novembre 2006.
25. « Документы по созданию ОАК внесены в Правительство РФ TRAD », 08/11/2005, http://www.rosbalt.ru/2005/11/08/233845.html; see: Алексей Хазбиев, « Лидерство или смерть », *Эксперт*, n°10 (504), 13 марта 2006. Disponible en ligne: http://www.expert.ru/economy/2006/03/aviaprom_rossii_editorial; « Industrie aéronautique russe: problèmes et solutions », *RIA Novosti*, 9 octobre 2006.
26. « Soukhoï coûte plus cher qu'Irkout » (Vedomosti), *RIA Novosti*, 10 novembre 2006.
27. "Russia to relax rules on foreign investment in aviation industry", *Financial Times*, Aug. 24 2006.
28. « EADS envisage une augmentation de son capital », *Les Échos*, 7 décembre 2006; « Игорь Шувалов выбрал EADS », *Коммерсантъ*, 8 décembre 2006, http://www.kommersant.ru/doc.html?docId=728581; Reuters, "Russia needs political finesse to boost EADS link » http://in.news.yahoo.com/060927/137/67zly.html; *Airbus Letter*, Jan. 2006, http://www.airbus.com/store/mm_repository/press_kits/att00006457/media_object_file_Airbus_Letter_Jan_2006_French.pdf
29. « VSMPO-Avisma Gets under the Govt's Control », *Kommersant*, July 19 2006, www.kommersant.com

plant "Krasny Octyabr" and the Stupino Metallurgical Company, two leading producers of high quality steel dedicated in particular to the aeronautical industry.

Shipbuilding industry

The shipbuilding industry has been the most dynamic sector among the defence industries in recent years, its growth rate being faster than that of GDP. The year 2005 was also marked by a clear trend towards consolidation [30]: on the one hand, the State has organized the consolidation of assets related to the construction of submarines; on the other hand, Mejprombank (International Industrial Bank), which is close to Rosoboronexport, has taken over the process of reorganization of the surface naval vessel industry. The next step was the creation in November 2007 of the United Shipbuilding Corporation (USC) based on the same logic as in the aeronautical industry. Acknowledging the slow pace of reorganization of the sector [31], Prime Minister Vladimir Putin has appointed the Vice Premier Igor Sechin as CEO of the public holding company with the mission to constrain private firms which have been reluctant to join the public holding [32].

The State producer as a guarantor of the preservation of the national productive apparatus

Energy, defence, aeronautics, and to a lesser extent, shipbuilding, are economic sectors where the involvement of the state remains important in many countries. However, the current reinvestment of the Russian State in organizing the economy seems to go beyond a simple shock return after a decade of blind faith in the virtues of the market. On the one hand, some of the public take-overs have a very clear political logic, in particular with the establishment of the crucial Gazprom-Media group [33]. On the other hand, various operations seem to fall within the continuity of those already mentioned, i.e. participating in a dynamic of preservation / reconstruction of the

30. Konstantin Makienko (2006), "Consolidation and restructuring of the Russian Shipbuilding Sector during 2005", *Moscow Defense Brief*, n°1. www.cast.ru
31. Konstantin Makienko (2007), « Russian Ships Have Run Aground », *Expert*, 42 (583), http://eng.expert.ru/printissues/expert/2007/42/rossiyskie_korabli_seli_na_mel/
32. ARMS TASS, « Роспром в 2006 году представит в правительство концепцию реформирования судостроения », 30/06/2005, http://arms-tass.su/?page=article&aid=16212&cid=94; "Sechin to focus on shipbuilding", *Kommersant*, May 14·2008, http://www.kommersant.com/p891504/Sechin_shipbuilding/
33. http://www.gazprom-media.com/

national productive apparatus. Marina Deryabina from the Institute of Economics of the Russian Academy of Sciences sums up the new doctrine: "*Russia's progress on the global markets* (...) *can be attained only by large corporations comparable to multinationals, or set up by the State, or working according to rules coordinated with the State*". "*Moreover, the Russian political and business communities regard the strengthening of the State presence in the economy and State assistance to some sectors as a guarantee of their growth and a more stable position on the market*" [34].

Key assets of the automotive sector under the control of Rosoboronexport

If the prospect raised by the Federal Agency for Industry (Rosprom) [35] to create a national car producer – with the merger of Gaz, Kamaz and AvtoVaz – has not yet materialized, the State has not remained idle in this sector. In the autumn of 2005, Rosoboronexport (which since entered the new public holding Rostechnologii) has taken control of AvtoVaz, Russia's biggest car-maker. The presidential administration decided to intervene because of the difficulties of the company in facing the competition of Western and Asian car-makers but also because it was linked to the affairs of Boris Berezovsky and embedded in various mafia networks [36]. AvtoVaz was already engaged in a joint venture with General Motors, but since the change of management, it has turned instead towards a co-operation with Renault which took a 25% stake in December 2007. Renault is now starting to exert a dominant influence on the executive direction while supplying four members of Avtovaz's five-person executive committee [37]. This scheme articulates two elements: a key foreign partner as minority shareholder in order to get access to technological and management capabilities, and public control of the firm. Such a scheme is also likely to be developed in Kamaz, Russia's biggest truck-maker [38].

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34. "Russian state resumes intervention in the economy", *RIA Novosti*, Oct. 20, 2006.
35. « AvtoVAZ, KAMAZ, GAZ to Consolidate into National Automobile Corporation », *Kommersant*, Jan. 27 2006,
http://www.kommersant.com/p-8021/AvtoVAZ_KAMAZ_GAZ_to_Consolidate_into_National_Automobile_Corporation/
36. "Reviving Up Russia's Automotive Industry", *Russia Profile*, July 4 2006.
37. « Avtovaz to offer up to 25% of its shares », *FT.com*, Mar. 01 2008,
http://search.ft.com/ftArticle?queryText=avtovaz&y=12&aje=true&x=10&id=080301000184&ct=0; « Les Usines VAZ pourraient sacrifier la Lada-Kalina au profit de la Logan », *Ria Novosti*, 23 octobre 2006, http://fr.rian.ru/russia/20061023/55042805.html
38. « "Тройка Диалог" выкатит КамАЗ за границу », *Kommersant*, Apr. 02 2008,
http://www.kommersant.ru/doc.aspx?DocsID=875463

Moreover, the connection with the State agency for arms exports has also opened up some foreign military outlets for both firms [39].

A public holding dedicated to the atomic industry

The federal law creating the Rosatom state corporation came into force on December 6, 2007. It creates a special corporation that combines power production with nuclear plant building [40]. There will be a transition period of up to three years during which government property in the atomic complex will be transferred to the new state corporation. Among the main assets that should be consolidated in the new corporation we may mention: AtomStroïExport, which constructs nuclear plants overseas and where Gazprombank has a 49 percent stake; OMZ which is one of the main machinery building factories in Russia and produces nuclear tanks, and where Gazprom also took a stake in November 2005; Siloviye Mashiny in which a controlling interest was sold during the same year by the company Interros to RAO-UES at the expense of Siemens [41].

Towards a consolidation in air transport

A consolidation process of the air transport sector seems to be on the agenda with the State-run corporation Aeroflot and the company Air Union as main actors [42]. However, the Economic Development Ministry which favours a broader privatization of the sector has been opposed to the transfer of a 25% stake of the company S7 held by the State to Aeroflot [43] and is resisting the transfer of various airline assets to the state corporation Rostechnologii [44].

39. « 'Рособоронэкспорт' нацелился на КамАЗ », *Коммерсантъ*, 8 février 2006, http://www.kommersant.ru/doc.html?docId=647650
« 'Rosoboronexport' is interested in development of 'KAMAZ' and Kazan helicopter plant », *Tatar-inform*, May 13 2006,
http://www.tatar.ru/?DNSID=552490b8a167dc50d036797ff817c8a1&full=22826

40. "Nuclear Agency will close next Month", *Kommersant*, Feb. 06 2008,
http://www.kommersant.com/p-12017/atomic_energy/; « How Russia is nationalized », *Kommersant*, Sept. 24 2007,
http://www.kommersant.com/p806717/

41. Interros website www.interros.ru/eng/assets/powermachines Dec. 11 2006.

42. "Aviation Companies form a Flock", *Kommersant*, April 11 2006, www.kommersant.com/page.asp?id=665357; "Aeroflot, Dalavia and Sakhalin Airlines Propose to Establish Far-East Aviation Company", Press release from Aeroflot web site, Nov. 20 2006, www.aeroflot.ru/eng/news.asp?ob_no=712&d_no=5335

43. "Russian airline S7 may form alliance with Aeroflot", *Ria Novosti*, http://en.rian.ru/russia/20060731/52065104.html

44. « МЭРТ нарушил госпакетное соглашение », *Kommersant*, April 10 2008
http://www.kommersant.ru/doc.aspx?DocsID=878518

The Ministry of Transport also plans to create a unified publicly-controlled company for airport management [45].

A growing role of the State in the banking sector

The Russian State is the owner of a controlling stake in the three main banking institutions of the country (Sberbank, VneshTorgbank and Gazprombank) (Vercueil, 2007). Moreover, two important public financial institutions have been set up: in 2007, the VneshEkonomBank was transformed into a development bank in order to foster investment projets intended to boost infrastructure and high technology industries; in 2006, the Rossiskaïa Ventchournaïa Kompaniïa was created as a Venture-Capital institution mainly funded by the state and oriented towards riskier sectors. These financial tools are important assets for the State in order to implement its industrial policy and to fund the expansion or the consolidation of the new public holdings.

Supporting the consolidation of others in private metallurgy

There are entire sectors of the economy where the state is active without intervening through participations. This is particularly the case in the chemical industry [46] and in metallurgy, where the consolidation of assets has led to the creation world-class private firms. The authorities have thus accompanied the establishment of Rusal as world aluminium leader, supported the attempted merger between Severstal and Arcelor (Durand, 2007) and fostered the entry of Roman Abramovich into the steel business. These moves have been interpreted by some as a precursory indication of a future consolidation of this industry [47] in a global context of gigantic mergers and acquisitions.

With the exception of specific issues in the energy sector, what is going on in metallurgy suggests that the extension of public ownership examined previously responds in government eyes to a palliative logic: gather assets scattered in areas where domestic industry is weakened and unable to reorganize endogenously on a national basis. The year 2007 offers other examples of this logic: for example the inability of the private sector to guarantee the building of Russian capabilities in the nanotechnologies industries explains the creation in 2007 of the state-run corporation Rosnanotekh, similarly to the creation of the state corporation Olimpstroï in order to coordinate the infrastructure building for the 2014 Olympic games in Sotchi.

45. « Минтранс выруливает на взлетные полосы », *Коммерсантъ*, 10 july 2006.

46. "Chemical Industry Development Strategy", *Kommersant*, 2 december 2006 http://www.kommersant.com/p726907/Chemical_Industry_Development_Strategy/ et http://www.kommersant.ru/doc.html?docId=726907

47. "An Iron Grip on the Metals Industry", *Kommersant*, Sept. 8 2006, www.kommersant.com

A DEVELOPMENTALISM INSTRUMENTALIZED

It is difficult within the confines of this article to undertake an urgently needed socioeconomic analysis of the growth of the producing State. To outline a framework of interpretation of the observed process, we should first of all situate the extension of public ownership in a very specific historical context: the exit of the Great Russian Post-socialist Depression and a backlash against the Western influence of the 1990s. The specificity of the context thus suggests an interpretation of the stylized facts presented in terms of nationalist developmentalism; however, it is necessary to consider the process of redistribution of control over productive assets and financial flows which is consubstantial to the extension of public control over the economy.

The economic and socio-political conditions of the reconstruction period

The evolution of the Russian economy in the early twenty-first century is a backlash of the transformational crisis of the 1990s (figure 1). The neo-liberal reforms have resulted in economic and political chaos (Sapir, 1996) that led to a considerable economic regression (Burawoy, 2001; Petrovski, 2006). Thus, the strong growth of the early 2000s is based on a modification of the structure of the productive apparatus now relying even more heavily on a rent economy of sectors such as oil and metallurgy (Durand, 2004, 2007; Benaroya, 2006).

Figure 1 – The evolution of Russian GDP since 1989

Abundant budgetary resources and partial continuity with the neo-liberal reforms

The strong progression of the GDP – between 4.5% and 10% of annual rate since 1999 – is based on high world prices of raw materials and led to the creation of a substantial trade surplus until the end of 2007. This performance was accompanied by a rigorous macroeconomic policy which resulted in a dramatic restoration of public finances (IET, 2006a and 2006b; OECD, 2006). Throughout the period there were net public budget surpluses up to the considerable level of 12% of GDP. These surpluses helped to absorb the bulk of external debt and allowed the constitution of a substantive stabilization fund in order to protect the federal budget against the fluctuations of hydrocarbons prices. The weight of public expenditure in the economy is still modest. The total income of the consolidated budget of the Russian Federation in 2005 amounted to 35.2% of GDP (GKS, 2006), a figure very close to the OECD average (36.3% in 2003: OECD, 2006). But given the size of the budget surplus, the level of public spending is very low (approximately 25% of GDP: IET, 2006a): the drastic reduction of the share of public budgets of the nineties has now been questioned by the comeback of the State in industrial affairs. This macroeconomic orthodoxy is one of the elements of continuity with the neo-liberal spirit of the transition that we find also in several important reforms – labour codex, flat tax, pension reforms… – and in the prospect of accession to the WTO. Incidentally, EBRD normative indicators of transition show a deepening of the process in most areas with the exception of the field of competition policy and privatisation of large firms (EBRD, 2006).

Rise of the far-right and renewed of social mobilizations

On the socio-political plan, this period of post-crisis is marked by the rise of the ideological and organizational far right (Parland, 2006). The events of 2006 illustrate this significant evolution: the riots against Caucasian people in several Russian towns and the violent rhetoric of President Putin against the Georgians. One should add the move towards nationalism of the KPRF (Communist Party of Russian Federation) as illustrated by the invitation made to the Movement against Illegal Immigration to participate in the May 1 2006 demonstration.

The establishment of an authoritarian rule in the post-soviet era is an assumption on which political scientists have been working for many years (e.g. Robinson, 2000). Among the Russian people, this evolution is powered by the geopolitical fall of Russia and the hostility to Western powers which have both played a significant role in shaping the process of transformation

(Appel, 2004; Hough, 2001; Sapir, 2001; Wedel, 1998) also, last but not least, the deep economic and social crisis.

In terms of social struggles, the years 2004 and 2005 suggest the entry into a new phase. For the first time in a country in transition, a government was forced to relinquish the bulk of the reform under pressure from the street (IET, 2006a). These mobilizations showed a new militant generation (Clement, 2007). They occurred while wage growth and poverty reduction allowed people to express collectively their immense accumulated social frustration since the early 1990s. In 2007 there also occurred numerous strikes mainly in the automotive industry, in railway transportation, in the post-office, and in the ports.

A nationalist developmentalism

National and social frustration fuelled a strong feeling of nostalgia for the Soviet era and an urgent social demand for development policies. Combined with the requirements for reconstruction of the productive apparatus and the availability of budgetary resources, they create the conditions for the implementation of a nationalist developmentalism. This policy is materialized through an explicit concern of the authorities for national independence and the return of the producing State that we have examined. The extension of public-controlled corporations in energy, defence and other sectors corresponds to three interlocking trends: (1) to maintain state control over large income flows related to energy resources, (2) to provide an autonomous national presence in sectors deemed to be of crucial importance and/or where foreign firms are heavily involved and (3) to concentrate resources in order to foster the emergence of national champions where the domestic industry seems to be in jeopardy.

More broadly, an objective is to realize a certain centralization of resources, which is reflected in the definition of priorities for national projects and the newly established investment fund (OECD, 2006; IET, 2006a): short-term improvement of living conditions of the population and the massive development of infrastructures. A quote from the CEO of Oboronprom, Denis Mantourov, reflects this new direction in the field of industrial policy: "*I am sure that our national industry competing with financially successful western transnational corporations will find its survival through maximum intellectual, productive and financial concentration*" [48].

In order to face threatening competition from western companies, the survival of domestic industry calls for the concentration of resources. The

48. www.oboronprom.ru

voluntarism to strengthen the "structural power" (Strange, 1996) of the Russian elite can thus rely on popular frustration resulting from the brutal regression of the 1990s.

A redistribution of assets and flows of wealth within the elite

The centralization of assets and flows of wealth is not only to be understood from the perspective that we have just described. The redistribution taking place increases the concentration of economic power within a small group of people holding forefront political positions or closely allied with the new political leadership [49]. From the standpoint of the interests of these individuals, the implementation of a kind of nationalist developmentalism may have an instrumental value.

Several factors argue in favour of such an interpretation. First, the arbitrary nature of the discrimination made between the various business interests. If the dismantling of the Yukos group and prosecutions against Boris Berezovsky are grounded on serious violations of the law, it is almost certain that most of the other leading business groups are also guilty of serious violations of the law. Then, it must be stressed that the return of the State in the economy does not formally involve an institutional break with the liberalization and the privatization inherited from a decade of post-socialist transformation. Hence, there is nothing to prevent assets passing today under public scrutiny from being privatized tomorrow to the benefit of high profile officials who are engaged in implementing the state-run reorganization of assets. Finally, unlike the political momentum that has accompanied the return of the State in Venezuela or Bolivia, the current process is not supported by any organic process of social mobilization. On the contrary: on the one hand, a form of authoritarian political power has been theorized as a "guided democracy" by Vladimir Putin, while on the other hand there is a corporatist integration of the capital-labour nexus through domesticated labour unions. These elements tend to strengthen the passivity of the population and prevent any dynamic of effective socialization of extended public ownership.

Thus, the rise of public ownership should be analysed with caution. Given the importance of the principle « *going for the flow* » in contemporary Russia [50], it is especially important not to keep the analysis on the sole level

49. "Back in Business – How Putin's Allies are turning Russia into a Corporate State", *Financial Times*, June 19 2006.
50. "State Corporations: going for the flow", *Kommersant*, Dec. 26 2007, http://www.kommersant.com/p838756/state_corporations/

of the forms of , and to look for real property relationships that are sometimes hidden behind legal forms. The very rich reflections on the nature of property in the USSR retain a great interest for examining this issue (Durand, 2002).

CONCLUSION

The extension-consolidation of public ownership which has accelerated since 2004 concerns the energy sector, various types of industrial activities (aerospace, shipbuilding, armament, automotive, construction nuclear...) but also financial institutions. It occurs sometimes in mobilizing administrative methods (fiscal or environmental legislation), but takes always, at least formally, market mechanisms. Two public companies – Gazprom and Rosoboronexport (now Rostechnologii) – are frequently involved in these operations and appear as the main tools of the state intervention. More recently, the financial crisis that hit Russia violently in September 2008 seems to open a new phase as far as the involvement of the state in the Russian economy is concerned. Indeed, the main private Russian banks and some important non-financial firms have been destabilized by the huge credit squeeze on the Western markets and survived only thanks to massive State support. Moreover, public institutions have also actively participated in stock markets while trying to halt the downward spiral of share prices. This move implies a new extension of public ownership, although it is not clear for the moment whether it would lead to effective control and the building of a new range of industrial policies.

The importance of the process observed suggests a significant reorientation of the economic trajectory of post-soviet Russia whose objective is twofold: on the one hand, to enable the state to regain control of flows of wealth associated with the use of hydrocarbon reserves and, secondly, to preserve an autonomous national productive apparatus. However, this shift in the post-Soviet trajectory is realized without major institutional break. The liberalization of the economy continues in numerous areas, and the absence of formal nationalizations makes the current process largely reversible. Moreover, the reorganization of property is not neutral for the dominant agents. It leads to a redistribution of control over the assets and flows of wealth for the benefit of a small group of politicians, high profile officials and their allies. Between nationalist developmentalism and oligarchic recomposition, social and economic ties remain to be disentangled.

At the top of the agenda of research opened by the return of the producing State lie sharpening socio-economic contradictions (Durand, Petrovski, 2008). First, while infrastructure and production tools inherited from the Soviet era are becoming increasingly obsolete, the chronic under-investment threatens Russian growth prospects. Then, the extension of public ownership brings up new problems of coordination, especially so far as the consistency of the huge movement of consolidation of assets is concerned. Moreover, in a context of exacerbated polarization, the emphasis on competition with Western economies and the logic of national power are partially contradictory with an economic development oriented towards satisfying the social needs and aspirations of the Russian people. Finally, the hardening of authoritarian rule weakens the reconstruction process; indeed, the limitations of peoples' involvement in political affairs restrict the cognitive resources mobilized and reduce the legitimacy of the decisions. More broadly, a comparative and theoretical work on the dynamics of the process described is urgently needed, in particular through comparison between the current involvement of the Russian state in industrial affairs and previous developmentalist experiences in Asia, in Latin America and in Europe after WWII.

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Institutional and economic determinants of transnational retailer expansion and performance: a comparative analysis of Wal-Mart and Carrefour

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Abstract. In the context of a wave of retail foreign direct investment and increasing recognition across many disciplines of the profound developmental implications of transnational retail within the global economy, this paper examines the institutional and economic factors determining the performance of transnational retailers via a comparative analysis of the two global leaders in the industry, Wal-Mart and Carrefour. A conceptual framework is offered for explaining the heterogeneity of retailer performance in international markets, and three types of explanation are considered: the timing and mode of market entry and subsequent expansion, factors that allow the exercise of upstream market power, and sensitivity to issues of labour organization and standards. The two retailers are found to be differentially impacted by those factors, indicating the need to consider a process of institutional hybridization as central to the explanation of transnational retail performance.

1 Introduction

The late 1990s witnessed a powerful wave of retail internationalization as leading retailers from Europe and the USA entered new growth markets, especially in developing countries (Coe, 2004; Dawson et al, 2006; Reardon et al, 2003; Wrigley, 2000). This process had two strongly interrelated dimensions: the internationalization of stores and the globalization/regionalization of supply networks (Coe and Hess, 2005; Dawson and Mukoyama, 2006). In this paper we will focus mainly on the internationalization of store (selling) networks by transnational retailers, and consider global supply chains only as far as store-network performance in international markets is concerned.

The burst of retail foreign direct investment (FDI) was driven by consolidating Western retail markets, and by the emergence of lead firms within those 'mature' and often increasingly tightly regulated markets (for France and the UK see Guy, 2006; Moati, 2001; Wood et al, 2006) that were able to leverage their increasing core-market scale and free cash flow for expansionary investment in potentially higher growth 'emerging' markets (Wrigley, 2000). The process was facilitated by access to low-cost capital but, most significantly, by policies of full or partial liberalization of retail FDI in many emerging economies.

A significant literature has begun to emerge across several disciplines in the social sciences which focuses on the nature, host economy impacts, and policy implications of the unprecedented wave of retail FDI (see, for example, Coe and Wrigley, 2007; Durand, 2007; Humphrey, 2007; Reardon et al, 2007). That literature acknowledges that the multidimensional embeddedness of retail activity implies a high sensitivity of transnational retailers to institutional context—both that of the host markets entered and that of the home markets from which the retailer has emerged. Attempts have been made to conceptualize those host and home market institutional influences. Wrigley et al (2005), drawing on Hess (2004), highlight both the *territorial* and *network embeddedness* in local institutional networks, business systems, supply chains, and cultures of consumption, which transnational retailers must invest in and seek to achieve to gain what Bianchi and Arnold (2004) describe as 'organizational legitimacy' in the host markets they enter. They also consider the *societal embeddedness* of transnational retailers in the institutional, regulatory, and cultural context (eg the national-level industrial relations systems, and company practices) of the home markets from which they have emerged. In addition, the consequences of societal embeddedness for retailer performance in international markets—that is, the consequences of exporting a 'variety of capitalism' in the sense of a corporate culture and business practices shaped by the institutional environment of the home market—have been considered via studies of the contrasting cases of Swedish-origin and US-origin transnational retailers IKEA and Wal-Mart, respectively (Christopherson, 2007; Christopherson and Lillie, 2005; Konzelmann et al, 2005). However, to our knowledge there have been no attempts up until this point to more systematically assess (or, indeed, to empirically 'model') the performance of transnational retailers in relation to the wider range of institutional and economic conceptualizations and explanations offered within the emerging cross-disciplinary literature on the rise of transnational retail in the global economy.

In this paper we provide such an analysis focused on a comparative evaluation of the performance of the two global leaders in the industry, Wal-Mart (http://www.walmartstores.com) and Carrefour (http://www.carrefour.com). Our work draws on data provided by those firms to the US Securities and Exchange Commission (SEC, http://www.sec.gov) and the French Autorité des Marchés Financiers (AMF, http:www.amf-france.org) and on information extracted from the Centre d'Études Prospectives et d'Informations Internationales (CEPII) institutional database (http://www.cepii.fr/francgraph/bdd/institutions.htm). It is further informed by case-study material available in the literature.

The paper is structured as follows. In section 2 we begin by presenting some background information and stylized facts about the international trajectories of Wal-Mart and Carrefour. We then develop measures of both the relative penetration of the international markets entered by the firms and the relative dynamism of each subsidiary operation—finally combining the two measures into a single indicator which we term the *relative development* (or, alternatively, the *relative performance*) of each international subsidiary of the transnational retailer. Next we demonstrate that simple macroeconomic factors appear to be inadequate in explaining variation in 'relative development/performance' across the two firms. As a consequence, in section 3, we explore and develop a richer conceptual framework which we believe provides a more effective route towards explaining the heterogeneity of retailer performance in international markets. That framework, building on five different theoretical perspectives offered within the social sciences, is summarized in figure 5. In turn, it leads us to consider and explore three different kinds of explanation of the performance of retailers' international subsidiaries—explanations relating to the timing and mode of market entry and subsequent expansion, the retailers' ability to exercise and benefit from upstream market power, and the sensitivity of the transnational retailers to issues of labour organization and standards. In sections 4, 5, and 6 those explanations are explored empirically. Finally, in section 7, table 5 synthesizes our results, provides evidence of important differences between firms in the factors which are determining their international performance, and suggests that a process of institutional hybridization is central to the explanation of transnational retail performance.

2 The internationalization of Wal-Mart and Carrefour: some stylized facts

Starting from very different initial positions in the early 1990s, over the past fifteen years both Wal-Mart and Carrefour have progressively increased their international scale and scope. However, the retail internationalization process is risky and discontinuous as shown by the withdrawal of both firms from a number of countries of operation during the period since 2000. In this section we first describe Wal-Mart's and Carrefour's trajectories of expansion and contraction in international markets, and then develop a measure of the relative development or relative performance of the firms in each of their international markets of operation. Finally, we assess to what extent variation in retailer performance across those markets can be accounted for by simple macroeconomic factors.

2.1 Internationalization in a context of growth

Carrefour preceded Wal-Mart as an international operator. It entered Spain, Brazil, Argentina, and Taiwan during the 1970s and 1980s, and enjoyed considerable 'first-mover' benefits (Daumas, 2006; Wrigley, 2000). We will not examine those initial moves in this paper. Instead, we will concentrate on the period 1991 – 2006, during which Carrefour was joined as a transnational operator by several other Western retailers (Metro, Wal-Mart, Tesco, Ahold, Auchan, Casino), and in which Wal-Mart gradually but resolutely increased its commitment to international markets.

Although they are the two global leaders of the retail industry, Wal-Mart and Carrefour differ significantly in size. In 2006 Wal-Mart's sales (US $335 billion) were three and a half times those of Carrefour. However, both companies have displayed strong trajectories of growth over the period 1991 – 2006 (figure 1). Wal-Mart's growth rate averaged almost 15% per annum. That largely resulted from supercentre-driven growth in the domestic US market (Wrigley, 2002) as Wal-Mart emerged to become the leading US food retailer. But, it also reflected progressively increasing international sales—from less than 4% in 1995, through 17% by 1999, to more than 20% by 2005, propelling Wal-Mart into the position of the world's leading transnational retailer with more than $60 billion in international sales (see table 1). During the same period, Carrefour became the second largest retailer in the world after its merger to Promodès in 1999. A subsequent increased preoccupation of management with financial profitability, in part to deter the threat of hostile takeover, then resulted in Carrefour's development path being much more uneven than that of Wal-Mart. As a consequence, its average annual growth rate of sales over the entire period (13%) was lower than that

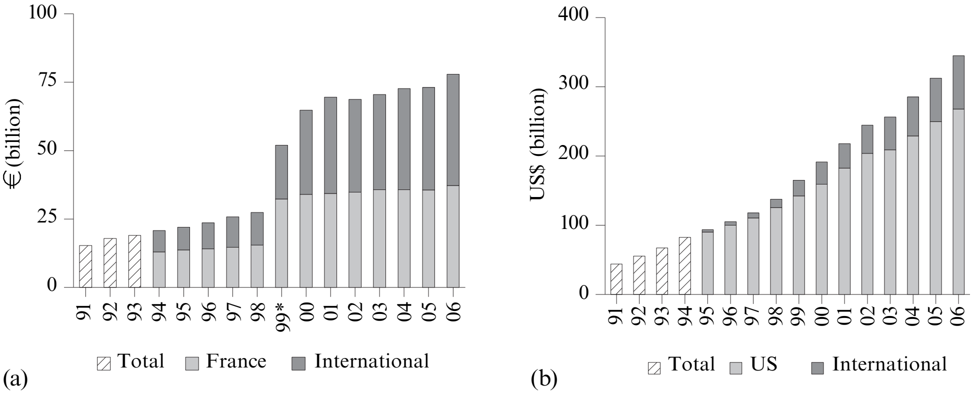

Figure 1. Domestic and international sales of Carrefour and Wal-Mart (1991 – 2006): (a) sales growth and composition of Carrefour (* indicates merger with Promodès); (b) sales growth and composition of Wal-Mart.

Table 1. Leading transnational retailers, ranked by sales outside home market, 2005 (from Coe and Wrigley, 2007).

Rank	Firm	Country of origin	International sales (US$ million)	International sales (% of total)	
				1999	2005
1	Wal-Mart	US	62 700	14	20
2	Carrefour	France	50 050	38	52
3	Ahold	Netherlands	45 352	76	82
4	Metro	Germany	38 502	40	54
5	Aldi	Germany	20 119	33	45
6	Lidl & Schwarz	Germany	19 832	20	43
7	Tesco	UK	19 640	10	24
8	Auchan	France	19 535	19	45
9	Delhaize	Belgium	18 893	83	79
10	IKEA	Sweden	18 868	92	92
11	Tengelmann	Germany	16 706	48	51
12	Rewe	Germany	15 207	20	31
13	Ito-Yokado	Japan	12 010	30	34
14	Casino	France	11 849	21	42
15	Pinault	France	11 775	48	46

of Wal-Mart but nevertheless sales still multiplied five times. A significant element of that growth was a result of international activity as sales in the domestic market (except those gained by acquisition) became relatively static. Between 1994 and 1998, therefore, the international share of Carrefour's sales grew from 37.7% to 43.4%; but between 1999 and 2006, following the merger with Promodès, international sales of the merged company increased from 38% to 52%. As a result, when ranked in terms of their sales in international markets, Carrefour and Wal-Mart are far more equivalent in scale as transnational operators—[sales of $50 billion and $63 billion, respectively in 2005 (see table 1)].

2.2 International diversification and divestment

There have been three distinct periods in Wal-Mart's internationalization (Burt and Sparks, 2006). Initially, between 1991 and 1994, Wal-Mart made cross-border moves into the adjacent Mexican, Puerto Rican, and Canadian markets. The second phase (1994–99) involved a resolute opening to other regions of the world. During this period the Arkansas-based firm tested new markets in Latin America, Asia, and Europe, and then attempted to build more dominant positions. After 1999 a third phase, characterized by greater priority being given to the financial performance of the international operations, began. The new strategy facilitated both the acquisition of strongly established firms and selective divestment of underperforming markets (eg South Korea and Germany) to strengthen overall international performance. Previous Wal-Mart withdrawals from countries had either been forced exits for political reasons and/or involved only a small number of stores [for example, Hong Kong in 1996, and Indonesia in 1998 after one of its stores had been burned during the riots that followed the Asian financial crisis (Steidtmann, 2003)], rather than strategic divestment of sizeable operations in order to improve overall international performance.

Carrefour has a longer history of international investment, with investments in Spain and Latin America since 1973. It was also a first-mover transnational retailer in Asia, entering Taiwan in 1989. Failure of its market entry into the US between 1988 and 1993 (see Dupuis et al, 2006) did not prevent it from accelerating its internationalization more generally—indeed, between 1990 and 2006, Carrefour entered twenty-nine new countries.

However, around 2000 and following rapid growth of the firm in 1998/99, as a result of acquisition of Comptoirs Modernes and merger with Promodès, Carrefour's international strategy experienced a significant shift in orientation. A major increase in debt as a result of the merger and acquisition activity implied more direct exposure to the requirements of the financial markets. Moreover, the firm was impacted by both the Asian economic crisis of 1997/98 and the Argentine financial crisis of 2001/02. As a result, Carrefour modified its strategy, focusing more on organic growth and seeking to achieve profitability by exploiting the strategic positions acquired during its long period of international expansion and by divesting weaker market positions. After exiting the Hong Kong market in 2000, Carrefour decided to divest its insufficiently profitable operations in Chile, Mexico, Japan, South Korea, the Czech Republic, and Slovakia. The objective was to keep only those subsidiaries which already had market leadership or which had the potential to become one of the top three operations in a market.(1) In common with other transnational retailers (eg Tesco and Wal-Mart), Carrefour also engaged in multiformat (lower capital intensity) international expansion focused on its Dia chain of small-format discount stores.

Wal-Mart and Carrefour's withdrawal from several countries (table 2) is significant in the trajectories of both firms. It implies the abandonment of intangible investments [the acceptance of exit sunk costs (Clark and Wrigley, 1997)] linked to the firms' attempts to achieve territorial embeddedness in those markets. However, this does not imply the end of the internationalization process of either firm. The constraint of 'mature' domestic markets still remains and constitutes a powerful push towards international growth. As a result, Wal-Mart has recently strongly reinforced its position in Latin America, acquiring the operations of Ahold in Brazil and taking control of CAHRCO in Central America. It has also strengthened its operations in Asia, entering Japan in 2005, progressively building its position in China, and becoming a first-mover entrant to India (*BBC News* 2006; Leahy, 2007). In the case of Carrefour, although the firms has become more cautious in its international operations compared with how it was in the 1990s—continuing to announce exists from underperforming markets such as Switzerland and Portugal (*Les Echos* 2007)—conversely, it has continued to push into a new wave of potentially rapid-expansion markets, such as Russia (Visseyrias et al, 2007) and Bulgaria (*Radio Bulgarie* 2008) in 2008, as well as announcing its plans to enter the Indian market.

2.3 An indicator of the relative performance of the subsidiaries

The stylized facts presented above illustrate the heterogeneity of the two retailers' performance in international markets. To appreciate further the different extent of success or failure in those markets, we have developed an indicator of relative development (or, alternatively, relative performance) of each international subsidiary (figure 2). That indicator is a combination of two measures: the 'relative penetration' of each market entered by the firm and the 'relative dynamism' of each international subsidiary compared with the other subsidiaries of the firm.

To measure the relative penetration of the market, we constructed a ratio of the square metres of a retailer's operating space in the market to the GDP of each country in 2002. To measure the relative dynamism of the subsidiaries, two approaches are adopted. In the case of Carrefour the indicator compares, for each subsidiary, the growth rate of sales during the 2003–06 period against the average growth rate of all the subsidiaries. In instances where the firm has withdrawn from a country, the

(1) For a more general discussion of the period of competitive 'shakeout' and asset redeployment affecting transnational retailers in the early 2000s see Coe and Wrigley (2007, page 353) and Dawson (2007, page 378).

Table 2. Market entries and exits of Carrefour and Wal-Mart since 1991 — subsidiaries and stores operated under franchise (sources: http://www.carrefour.com, http://www.walmartstores.com, and financial press).

	Carrefour		Wal-Mart	
	entry	withdrawal (number of of stores)	entry	withdrawal (number of of stores)
1991	Greece and Cyprus (Promodès)		Mexico	
1992	Portugal	USA (4)	Puerto Rico	
1993	Italy Turkey			
1994	Malaysia Mexico		Canada Hong Kong	
1995	China United Arab Emirates [a]		Argentina Brazil	
1996	Thailand South Korea		China Indonesia	Hong Kong (3)
1997	Poland Chile Singapore Hong Kong		South Korea Germany	
1998	Indonesia Colombia			Indonesia (2)
1999	Czech Republic and Slovakia		United Kingdom	
2000	Japan Oman [a] Belgium Qatar [a] Saint-Domingue [a]	Hong Kong (4)		
2001	Switzerland Tunisia [a] Romania [a] Norway [a]			
2002	Egypt [a]			
2003		Chile (7)		
2004	Saudi Arabia [a]			
2005	Algeria [a]	Mexico (31) Japan (8 sold under franchise contract) Norway (breach of franchise contract)	Central America (Guatemala, Salvador, Honduras, Nicaragua, and Costa Rica) Japan	
2006		South Korea (31) Czech Republic and Slovakia (15)		Germany (88) South Korea (16)

[a] Stores operated by franchise. These were not considered further in the paper because of lack of data. Stores in Romania were integrated in 2006.

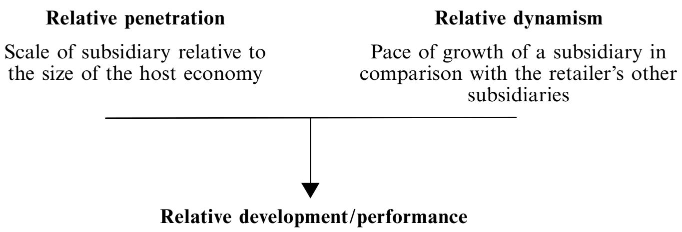

Figure 2. Conceptualization of an indicator of the subsidiary's relative development/performance.

growth rate for the subsidiary for that year is set at −100%. In the case of Wal-Mart, the principle and the period are the same; however, given that the sales of each subsidiary are not publicly available we proxied the growth rate on the basis of the growth in operating space. The synthetic indicator of relative development/performance of each subsidiary is then defined as a simple average of the two measures, each one having been restricted to a range of 0 to 1. Tables 3(a) and 3(b) present the values of these measures for Carrefour and Wal-Mart, respectively.

Next, we compare the indicator of relative development with simple macroeconomic measures of GDP per capita and the average annual GDP growth rate (figures 3 and 4). No relationship can be detected, with the exception of a negative relationship (correlation coefficient = −0.26) between the relative development of Wal-Mart's subsidiaries and GDP per capita, which suggests Wal-Mart has enjoyed a greater international success in lower GDP developing economies.

Table 3. Relative development, penetration, and dynamism indicators for (a) Carrefour's subsidiaries; (b) Wal-Mart's subsidiaries.

	Relative development	Relative penetration	Relative dynamism		Relative development	Relative penetration	Relative dynamism
(a) Carrefour							
Argentina	0.64	1.00	0.28	Thailand	0.36	0.12	0.61
Turkey	0.62	0.24	0.99	Switzerland	0.34	0.18	0.50
Colombia	0.58	0.16	1.00	China	0.32	0.25	0.39
Portugal	0.57	0.51	0.63	Italy	0.32	0.00	0.55
Spain	0.56	0.58	0.55	Singapore	0.27	0.02	0.53
Greece	0.50	0.30	0.69	Malaysia	0.27	0.06	0.48
Indonesia	0.49	0.02	0.98	Japan	0.22	0.01	0.44
Poland	0.46	0.17	0.76	Czech Republic and Slovakia	0.15	0.06	0.25
Brazil	0.41	0.31	0.51	South Korea	0.11	0.03	0.19
Belgium	0.40	0.32	0.48	Chile	0.09	0.09	0.09
Taiwan	0.38	0.31	0.45	Mexico	0.03	0.06	0.00
(b) Wal-Mart							
Mexico	0.67	1.00	0.33	United Kingdom	0.27	027	0.27
Brazil	0.56	0.13	1.00	Japan	0.18	0.13	0.22
Canada	0.49	0.68	0.29	South Korea	0.14	0.11	0.17
Argentina	0.34	0.43	0.25	Germany	0.07	0.13	0.00
China	0.32	0.06	0.58				

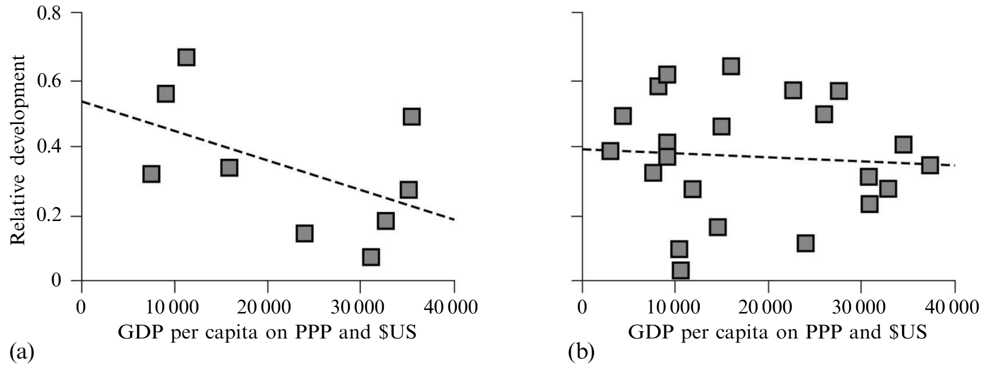

Figure 3. Correlation of relative development and GDP per capita (2006 or year of exit): (a) Wal-Mart (correlation coefficient = −0.26); (b) Carrefour (correlation coefficient = 0). (PPP is purchasing power parity.)

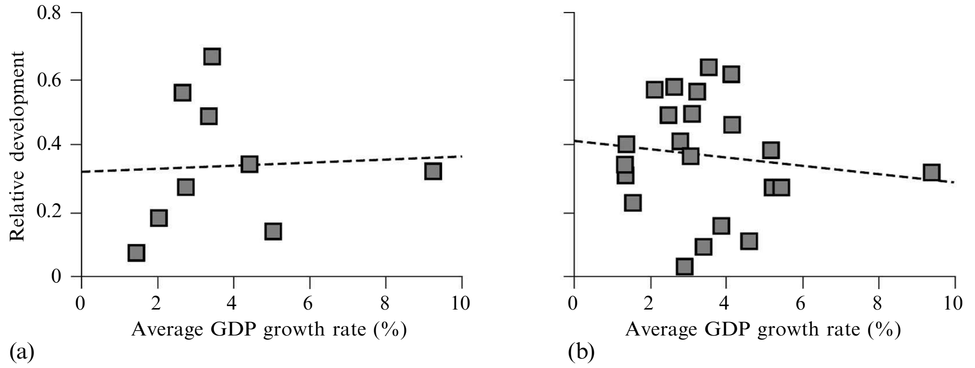

Figure 4. Correlation of relative development and average GDP growth (between 1992 or year of entry and 2006 or year of exit): (a) Wal-Mart (correlation coefficient = 0); (b) Carrefour (correlation coefficient = −0.02).

3 A richer conceptual framework and route towards explaining the heterogeneity of retailer performance in international markets

As research on transnational retail and the global economy has gathered pace over the past decade (Wrigley and Lowe, 2007), each of the main research communities involved—development studies/agricultural economics, economic geography, management/business studies—has provided its own set of conceptual perspectives on the key issues. Further perspectives, enriching the debates, have come from researchers in sociology, economics, international politics, public policy, and cultural studies. It is not our intention in this paper to summarize these contributions or draw them together into a comprehensive framework.(2) Rather, we draw, selectively, on five conceptual perspectives which may help to explain the heterogeneity of retailer performance in international markets.

In doing this we are conscious that we are largely neglecting the role of management cultures. It is not our intention, however, to suggest that such issues are insignificant in understanding the heterogeneity of transnational retailers and their performance. On the contrary [and accepting the arguments of Schoenberger (1994, 1997)] we are

(2) For an illustration of the increasingly shared research agenda in this field see Tacconelli and Wrigley (2009) for a summary, plus Coe and Wrigley (2007) and other papers in the special issue of the *Journal of Economic Geography* 2007 **7**(4).

sensitive to their importance, as we are also sensitive to the argument of Dawson (2001) that there are often many elements of opportunism within the international trajectories of the retail transnational corporations. Nevertheless, our focus in this paper is very much a meso–macro institutional/economic one, linked to what we believe is a novel, albeit exploratory, empirically grounded comparison of the two global leaders in the industry.

The five theoretical perspectives we draw upon are summarized in table 4. First, we note that management studies focuses mainly on the importance of strategic

Table 4. Theoretical perspectives helpful in explaining the performance of transnational retailers.

	Authors	Focus	Issues
Strategic decision making	Dawson et al (2006) Dupuis and Fournioux (2005); Gielens and Dekimpe (2000; 2007); Palmer (2005)	The internationalization process and case studies of retail firms	The internationalization cycle and strategic decisions that determine future performance of the firm: choice of the country to entry; timing and mode of market entry; format of stores; supply chain control; management structures
Multi-dimensional embeddedness	Coe and Wrigley (2007); Wrigley et al (2005)	Theorization of the retail transnational corporation and its host economy impacts	Mutual transformation of both the host economy and the transnational retailer entering that market via intrafirm, interfirm, and extrafirm networks Territorial, network, and societal embeddedness of transnational retailers
Hybridization of productive models	Boyer and Freyssenet (2000)	Regulationist approaches—production industries	Internal coherence of corporate governance, profit strategy, and pertinence vis-à-vis the accumulation regime Mutual hybridization of the productive system of the firm and the accumulation regime
Export of varieties of capitalism	Christopherson (2007); Christopherson and Lillie (2005); Konzelmann et al (2005); Wrigley and Currah (2003); Wrigley et al (2005)	Varieties of capitalism, and IKEA, Wal-Mart, and Ahold case studies	Export of corporate cultures and business practices shaped by institutional environment of the home market Extent of affinity between institutional characteristics of the home market and those encountered in the host economy entered
Market power asymmetries	Dockès (2000); Gereffi and Kaplinsky (2001); Kaplinsky (2000); Sacchetti and Sugden (2003); Tokatli (2007)	Vertical perspective on asymmetric relationships between firms Empirical studies	Market power as a crucial source of competitive advantage—asymmetries of market power positions Transformation of market structures and institutions by transnational firms

decisions along the internationalization cycle (Gielens and DeKimpe, 2000; 2007; Vidal et al, 2000)—the timing and mode of market entry and subsequent expansion (Doherty, 1999; Williams, 1992), and also issues of strategic divestment and market exit (Alexander and Quinn, 2002; Burt et al, 2003; 2004). In contrast, and second, the approach of economic geographers places emphasis on the multidimensional territorial and network embeddedness of retail activity in the markets entered—an embeddedness which leads to a process of mutual transformation of both the host economy and society of the market entered, and of the transnational retailer itself (Coe and Wrigley, 2007; Dicken, 2000; Wrigley et al, 2005). In turn, this approach has links to the regulationalist concept of productive models (Boyer, 1997; Boyer and Freyssenet, 2000; Freyssenet, 1998) and to the hybridization of such models during the international expansion process (the third perspective).

The fourth perspective is that of 'varieties of capitalism' (Amable, 2005; Berger and Dore, 1996; Boyer and Hollingsworth, 1999; Dore, 2000; Hall and Soskice, 2001; Jacoby, 2005; Whitley, 1999). Recent comparative studies of IKEA and Wal-Mart within this tradition suggest that as transnational retailers expand abroad they export corporate cultures and business practices shaped by the institutional environment of the home market (Christopherson, 2007; Christopherson and Lillie, 2005; Konzelmann et al, 2005)—in other words, shaped by their 'societal embeddedness' in the institutional, regulatory, and cultural context (national-level industrial relations systems, company practices, etc) of the home markets from which they have emerged. However, the success of that export depends on the affinity—ex ante or ex post—between the institutional characteristics associated with the 'variety of capitalism' in the home market and the characteristics encountered in the host market entered.(3) Finally, global value chain perspectives—from Gereffi and Korzeniewicz (1994) to Gereffi et al (2005)—have focused on asymmetries resulting from market power positions as a crucial source of competitive advantage and, additionally, on the way transnational corporations manage via strategic decisions and political channels to gain such positions (see, for example, Dockès, 2000; Gereffi and Kaplinsky 2001; Kaplinsky, 2000; Sacchetti and Sugden, 2003; Tokatli, 2007).

Combining these theoretical perspectives into a single conceptual framework (figure 5) leads us to suggest three different kinds of explanation for the performance of subsidiaries of transnational retailers. The first type of explanation focuses on the strategic decisions made about market entry (timing and mode) and the subsequent development of the subsidiary (organic growth or acquisition). These decisions clearly affect the ability of a transnational retailers' subsidiary to connect itself to social, political, and economic networks in the host economy/society of the country it has entered. Additionally, the strength of indigenous competition it faces in the market entered depends on these decisions. The second type of explanation focuses on the transnational retailer's ability to benefit from an upstream market power position, which, in turn, depends on its capability to exploit the advantages resulting from its ability to operate simultaneously across several countries, and from its expertise in supply chain management. The third type of explanation focuses on the sensitivity of transnational retailers to issues of labour organization and standards. Local labour standards in the markets entered may be more or, alternatively, less consistent with the way transnational retailers usually manage industrial relations systems (labour organization, wage bargaining, unions rights, etc) in their home markets (Christopherson, 2007; Tilly, 2007).

(3) In this context, Wrigley and Currah (2003) and Wrigley et al (2005) use Whitley's (2001) distinction between particularistic, coordinated/collaborative, and merchant/arm's length business environments in the host markets entered.

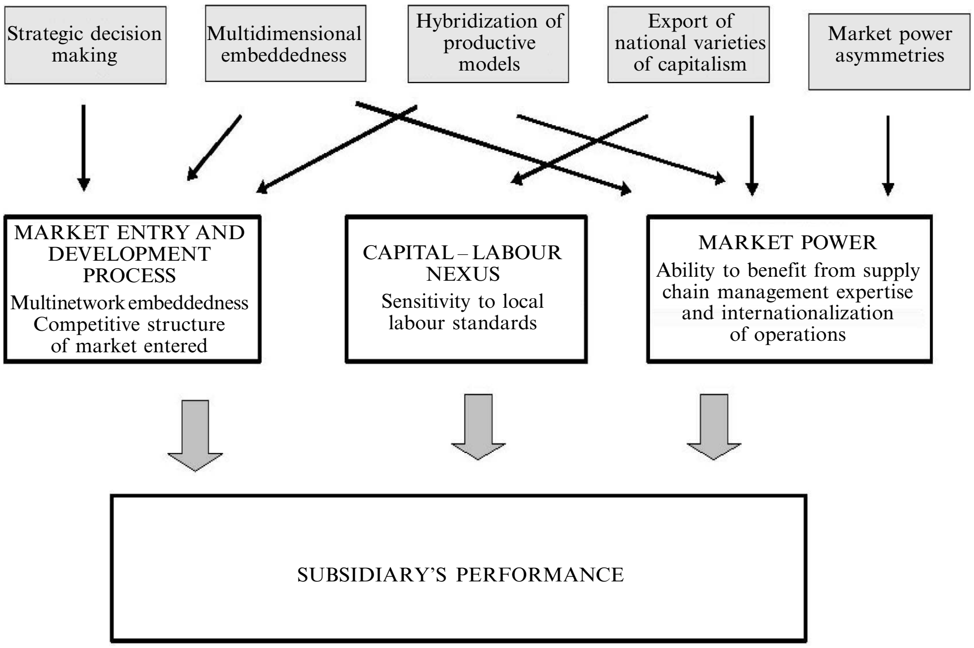

Figure 5. From conceptual tools to explanations.

4 Timing and mode of market entry and expansion

A range of variables potentially characterizes the entry of a transnational retailer into a new market, including:

- mode of entry (start-up/'greenfield' development, acquisition, joint venture, franchise);
- speed of entry, and degree to which it is announced publicly in advance;
- preexisting market structure—in particular, whether other transnational retailers already operate in the market;
- marketing strategy—in particular, store formats, merchandizing, and adaptation to local consumer cultures.

The combined effect of these variables influences the relative success of the entry. In particular, two factors demand special attention: the existence, or not, of a partnership with a local firm and the timing of entry.

Working with a local partner is viewed by several commentators (eg Coe and Wrigley, 2007) as of crucial importance because of the market knowledge that is often transferred through these kinds of arrangements, accelerating the embedding process of the transnational retailer within local networks and improving its bargaining position with local governmental elites and suppliers (Currah and Wrigley, 2004). Association or not with a local partner, and the intensity of that association, is also seen to be of significance in terms of reaching a critical market size, which, in turn, brings benefits from economies of scale and market power vis-à-vis local suppliers. Finally, it can also be argued that this type of market entry makes it possible to deploy the competitive advantages of the transnational retailer on a greater scale more rapidly: giving less time for incumbent local retailers to develop an effective imitation process.

Preexisting market structure—in particular, whether other transnational retailers have already entered the market—has also been shown to be a key factor in many developing countries. The entry of transnational retailers produces deep and rapid

Box 1. Scale of endogeneity of subsidiary's development

1 = start-up investment and dominantly organic growth
2 = joint venture (JV) limited to stores created jointly, or JV with a local chain operating fewer than 10 stores and where organic growth is dominant
3 = acquisition of a local chain, or JV with a local chain operating more than 10 stores, or presence in the market since at least 1993
4 = acquisition of a market leader during the development, or a market leadership position in 1993

effects on the indigenous retail sector,[4] and the first-mover transnational retailer to enter a market is much more likely than subsequent entrants to benefit from the skills/global-scale gap which separates the transnational retailers from the incumbent firms (Durand, 2005; Romer, 1993). Although second-mover disadvantage may be overcome by the strategic acquisition of a well-placed local partner, first-mover entry in developing countries had frequently been associated with less severe regulatory pressures [alternatively, it has been associated with the ability to exploit conflicts between local and national authorities that occur in the course of any ex-post regulatory tightening (reregulation) processes in those markets (Wang and Zhang, 2005)]. It is also associated with the ability to establish local dominance of key locations within the process of modernization of the retail sector, which then proves hard for later entrants to erode.

Several case studies have confirmed the influence of the mode and timing of market entry. Thus, bad decisions concerning timing, acquisition scale, and price are seen as contributing to the failure of Wal-Mart in Germany (Christopherson, 2006; Palmer, 2005), whilst failure to achieve sufficient market scale against first-mover transnational retailers already in the market or against strongly entrenched incumbent retailers is seen as critical in the case of Carrefour's failure vis-à-vis Wal-Mart in Mexico (Tilly, 2006) and in the case of Wal-Mart's exit from South Korea (Burt and Sparks, 2006). In Hong Kong a start-up/greenfield model of entry compounded by a second-mover position is viewed as being central to Carrefour's withdrawal; whereas in Chile the failure of several transnational retailers, including Ahold, Carrefour, and Home Depot, occurred in a context in which the leading indigenous retailers had the opportunity to anticipate and respond to the transnational retailers' sources of competitive advantage. In this case, the transnational retailers were unable to achieve the scale necessary to gain sustainable advantage in the local supply chain networks, and, additionally, they failed to embed themselves in the institutional environment and social networks of the host economy (Bianchi and Mena, 2004; Bianchi and Ostale, 2006).

To reflect these arguments and the evidence regarding the timing and mode of market entry—in particular, the nature of any partnership with a local firm and the strategic positioning of that firm in the host economy, and the timing of entry in developing countries relative to the process of modernization of the retail sector—we develop a *scale of endogeneity* measure, scoring Wal-Mart and Carrefour's international subsidiaries on that measure, with the exception of countries in which Carrefour operates stores only under franchise (see box 1).

Figure 6 then shows the correlations between this endogeneity of entry and development measure and the relative development/performance indicator (table 3) for each subsidiary. Carrefour and Wal-Mart differ partially as far as their strategies of entry are concerned—Wal-Mart seems keener on acquisitions—but the degree of endogeneity appears to have a reasonably strong relationship with relative development/performance for both firms.

[4] Reardon and Hopkins (2006) and Reardon et al (2003) summarize the consolidation impacts and diffusion trends.

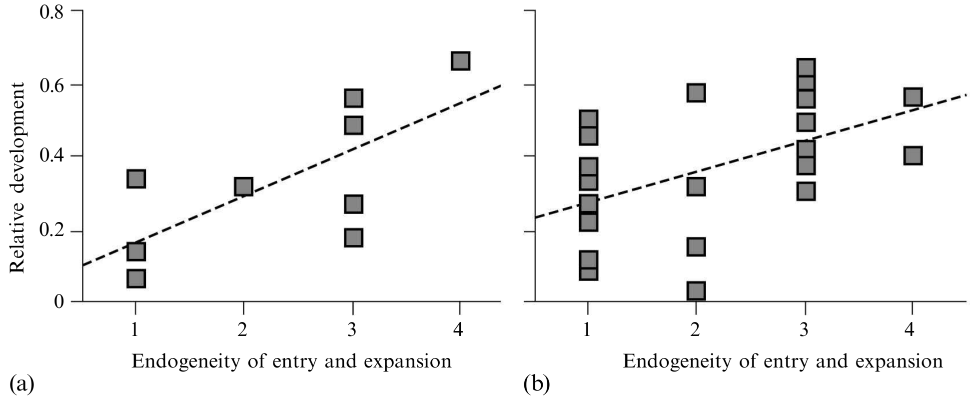

Figure 6. Correlations of 'endogeneity of entry and expansion' and relative development of subsidiaries: (a) Wal-Mart (correlation coefficient = 0.5); (b) Carrefour (correlation coefficient = 0.26).

5 Ability to exercise and benefit from upstream market power

The market power of international retailers constitutes one of their key competitive advantages. Thus, their capacity to exert this market power is a crucial element when they enter a new market. We consider this issue in three ways: first, the possibility of connecting to preexisting supply networks; second, the impact of trade liberalization agreements; third, the ability of the firms to impose their supply chain management systems and software onto the local supply chains.

5.1 The benefits of proximity

Geographical and cultural proximity is frequently viewed as playing a positive role in the performance of transnational retailers' subsidiaries. Proximity increases a transnational retailer's ability to connect to preexisting and proven supply networks and to exploit economies of scale in logistics, supply chain management, and marketing, in that way transferring upstream market power in the home market very directly into the international operations. Figure 7 examines this by considering the relationship between the relative development/performance of subsidiaries and the distance from the country of origin. In both cases the distance from the home market is correlated negatively with relative development. However, this phenomenon is much more important for Wal-Mart (correlation coefficient = −0.29), whose most durable successes to date have largely been achieved in the adjacent markets of Mexico,

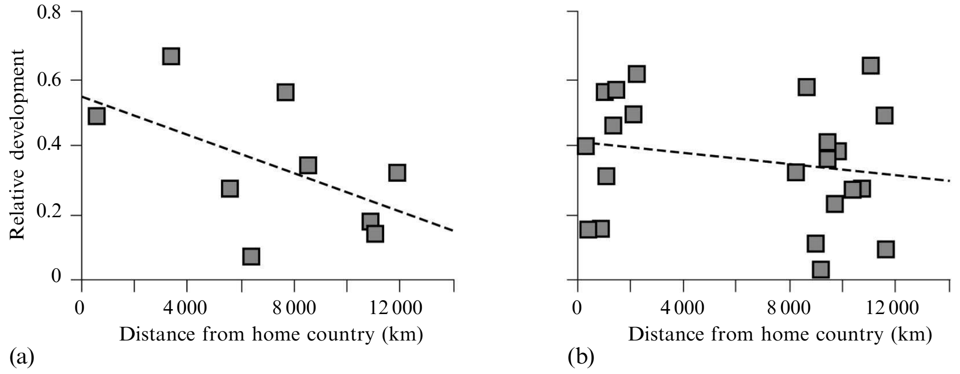

Figure 7. The impact of the distance from the domestic market on relative development of subsidiaries: (a) Wal-Mart (correlation coefficient = −0.29); (b) Carrefour (correlation coefficient = −0.04).

Canada, and Puerto Rico. Indeed, when we examined the 'adjacent market' effect in more detail, we found positive impacts on performance from operating in neighbouring countries in the case of both firms, but particularly strong impacts in the case of Wal-Mart. We take this as confirming that the ability to connect to preexisting and proven supply networks constitutes an important way of transferring upstream market power into international operations, and also as suggesting that Carrefour is less dependent on the transfer of upstream market power in terms of its international performance. Whether, additionally, this is suggestive of the greater 'adaptability' of Carrefour as compared with Wal-Mart, as has sometimes been proposed (Dupuis et al, 2006; Hugill, 2006), is less clear.

5.2 The importance of trade liberalization

In 2006 all the countries in which Carrefour and Wal-Mart operated had full convertibility for current transactions and were WTO members (CEPII database, 2007). As noted by many commentators (eg Coe and Wrigley, 2007; Reardon, 2005), trade and investment liberalization and retail FDI have gone hand in hand, with the timing of market entry being particularly affected. Thus, Wal-Mart entered Mexico and Central America at the point at which the treaties of free trade with the US (the North American Free Trade Agreement and the Central American Free Trade Agreement) were concluded. Similarly, the entry of Carrefour into the Czech Republic, Slovakia, Romania, and Bulgaria was closely linked to the agreement on the integration of those countries into the EU, although many of Carrefour's initial international market entries took place well before full liberalization of retail FDI.

Trade liberalization allows transnational retailers to benefit from their closely managed global and regional sourcing networks. They can improve their market power against both local retailers and suppliers through competitive pressure from imports by using the advantage of scale and management skills within already existing global supply networks. As a result, the fear of many host economy governments is that transnational retailers will act as 'Trojan horses' of imported goods, as observed at the end of the 1990s in Mexico, where there was a spectacular rise of Wal-Mart's imports (Durand, 2007). However, the entry of transnational retailers may conversely be associated with the building of local supply capacity/quality standards in the host economy by the transnational retailers (Coe and Hess, 2005) and may open new channels of exports for local suppliers (Coe and Wrigley, 2007; Reardon et al, 2007). Nevertheless, even in this case, there is likely to be an increase of the market power of the transnational retailers against local suppliers as the expansion of the local suppliers is carried out within the retailers' networks [what Kaplinsky (2000) terms the 'concept of immiserising growth'].

5.3 Supply-chain management

To fully exert their market power, transnational retailers need to implement their supply-chain management techniques, not least to benefit from informational asymmetry against their suppliers. Those techniques involve retailer-driven software systems that arguably weaken the bargaining power of suppliers through information sharing, and suppliers must learn to operate within the constraints of the centralized distribution and logistics systems which the retailers typically set up.

Some case studies show resistance of local suppliers to this logic. Thus, Wal-Mart in Korea and initially in Brazil encountered difficulties in the integration of supply chains (Han et al, 2002), partly as a result of lack of operating scale but also because of lack of trust regarding retailer-managed inventory practices. Both local market supplier organizations and protectionist governmental regulations may impact on the informational bargaining power between retailers and suppliers.

6 Sensitivity to issues of labour organization and standards

Retailing is a labour-intensive industry, markedly segmented in terms of workforce remuneration and with a large proportion of low-skill workers. Thus, we can assume that the institutional configuration of the capital-labour nexus in the markets entered by transnational retailers is a key element in their performance in those markets. More precisely, there may be a 'ceiling labour-standards effect' in which a transnational retailer finds it feasible to adapt its practices to suit countries where labour standards are lower than in its domestic market, but finds it difficult to adapt and compete in business environments with higher labour standards than in its domestic market.

Figure 8, 9, 10, and 11 examine this issue by considering the extent to which the relative development/performance of Wal-Mart and Carrefour subsidiaries appears to be sensitive to labour institution issues. We use four simple measures. First, in figure 8, we examine the extent of labour organization and union autonomy in each international market (ranging from 1 where there is no or extremely limited labour organization and union autonomy to 4 where there is a high degree of organization/autonomy). Second, in figure 9, we examine the extent of labour regulation enforcement (ranging from 1 where there is no or extremely weak enforcement to 4 where there is strong enforcement).

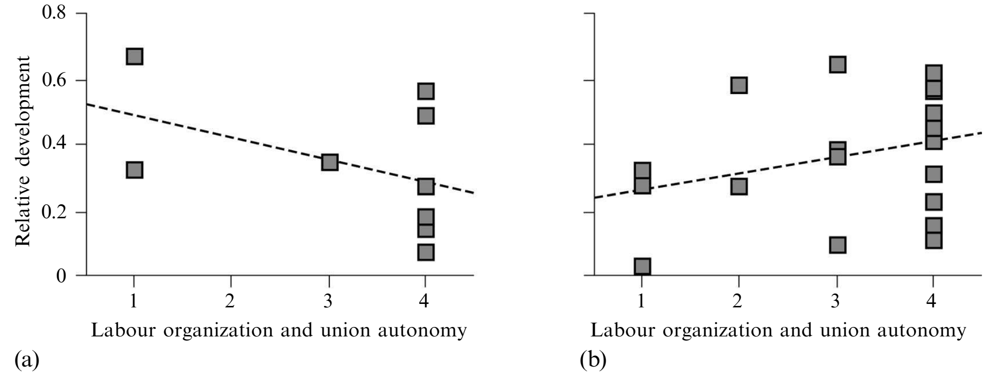

Figure 8. The impact of labour organization and union autonomy (1—no or extremely limited, 4—high degree) on the relative development of subsidiaries: (a) Wal-Mart (correlation coefficient = −0.2); (b) Carrefour (correlation coefficient = 0.09).

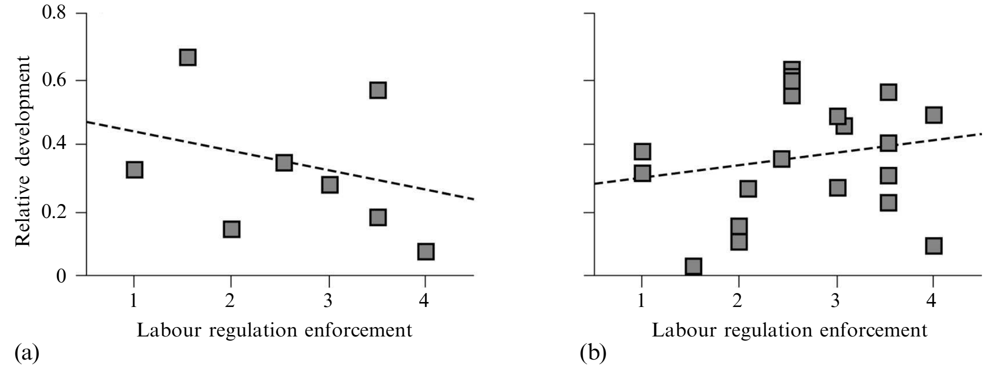

Figure 9. The impact of labour regulation enforcement (1—no or extremely weak, 4—strong) on the relative development of subsidiaries: (a) Wal-Mart (correlation coefficient = −0.09); (b) Carrefour (correlation coefficient = 0.03).

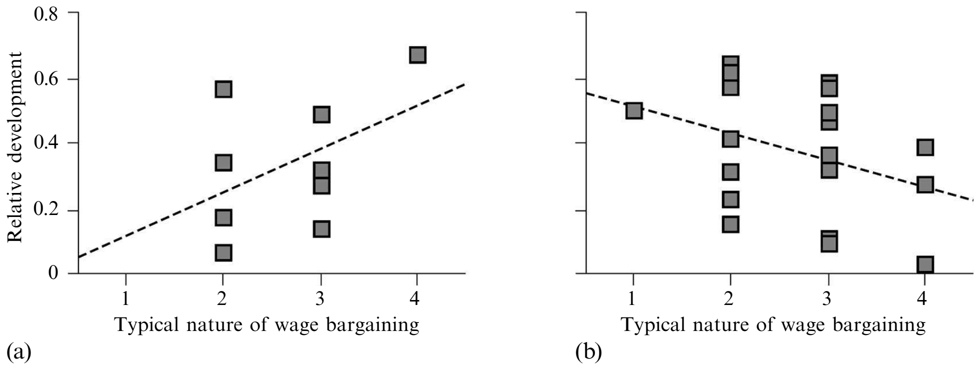

Figure 10. The impact of typical nature of wage bargaining (1—national, 2—branch, 3—enterprise, 4—individual) on the relative development of subsidiaries: (a) Wal-Mart (correlation coefficient = 0.22); (b) Carrefour (correlation coefficient = −0.14).

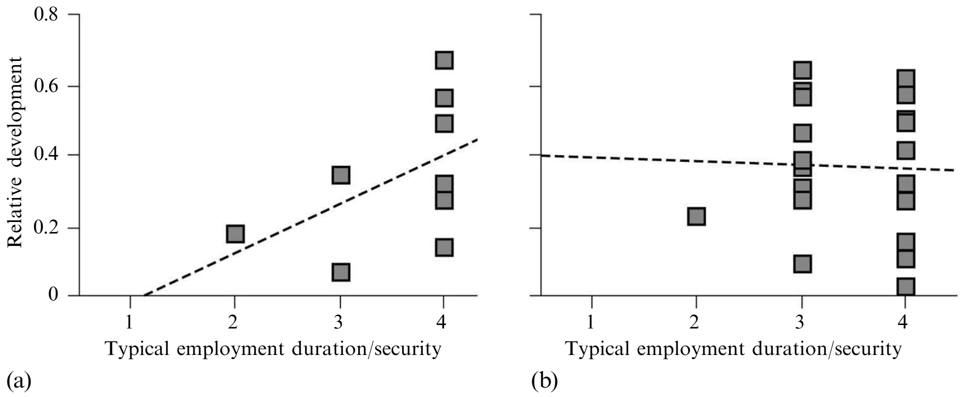

Figure 11. The impact of typical employment duration/security (1—job tenure common, 4—tenure highly unusual) on the relative development of subsidiaries: (a) Wal-Mart (correlation coefficient = 0.25); (b) Carrefour (correlation coefficient = 0).

Third, in figure 10, we examine the nature of wage bargaining typical in each international market, broadly categorizing those markets along a collective–individual axis, from the national level (scored 1), through branch (2) and enterprise levels (3), to the individual level (4). Finally, in figure 11, we examine a broad-brush characterization of employment duration/security in each market, separating those markets in which lifetime job tenure is common (scored 1) from those in which it is highly unusual (scored 4).

Although these measures are broad-brush and the analysis is exploratory in nature, some marked and interesting differences appear between Wal-Mart and Carrefour in terms of the sensitivity of their subsidiaries' performance to labour institution issues. In the case of Wal-Mart, a firm well-known for its opposition to organized labour and whose roots lie in a free-enterprise southern US culture (Hugill, 2006), its international subsidiaries appear to perform better (exhibit higher levels of relative development/performance) in markets in which there is weaker labour organization and union autonomy (figure 8), where there is weaker labour regulation enforcement (figure 9), where wage bargaining is towards the individual end of the collective–individual axis (figure 10), and where lifetime job tenure/security is highly unusual (figure 11).

In contrast, in the case of Carrefour, a firm whose initial international growth took place in the context of a domestic market in which there was substantial organized union rights and social benefits, its international subsidiaries appear to perform slightly better in markets which are the opposite of those in which Wal-Mart performs best—for example, in those in which wage bargaining is towards the collective and of the spectrum, and in which there is stronger labour organization and union autonomy. It should be noted, however, that none of the Carrefour relationships is strong either absolutely or in comparison with Wal-Mart. In addition, we are not implying in the case of Wal-Mart that it attempts to be a union-free operator in all the international markets it enters. Tilly (2007, page 1813) refutes such a characterization, arguing that "when it comes to unionization, Wal-Mart appears to fight unions in rich countries but accommodate them in poorer ones." More specifically, he argues that "where unionization is mandated or strongly supported by law and public policy, particularly when interlocked with political patronage networks, Wal-Mart has made its peace with unions. Where unionization is a matter of worker choice, Wal-Mart has resisted" (page 1822).

Case-study evidence supports this differential sensitivity of Wal-Mart and Carrefour to labour institution issues. Studies of Wal-Mart's failure in Germany have focused on its inability to implement the same labour management systems as in the US: involving limited welfare benefits, extremely rigorous supervision of employee work practices, and so on (Christopherson, 2007; Konzelmann et al, 2005). As a result, Wal-Mart faced serious worker resistance, was defeated by the German courts in its attempt to implement its '*ethical code of the employee*' (an important tool of labour discipline in the US), and also had significant difficulties in both the recruitment and retention of skilled workers. Meanwhile, in China, evidence suggests that Wal-Mart (although accepting unionization as a condition of operating in the market) has been actively opposing labour law projects aimed at increasing workers' rights and the power of unions (Dyer, 2007).

In contrast, case-study evidence suggests that Carrefour has been actively attempting to build a reputation of social responsibility in aspects of its transnational operations. Thus, in November 2000, Carrefour and the Union Network International signed an agreement to implement the International Labour Office's standards on union freedom and collective bargaining. However, the implementation of wider-social responsibility initiatives by the firm remains rather variable, as exemplified by its refusal to contribute to compensation for the workers and families affected by the fatal accident which occurred in the factory of one of its suppliers in Bangladesh (Clean Clothes Campaign, 2007).

7 Conclusion

Table 5 synthesizes the results of the previous sections. Overall, we find evidence of important differences between the two leading transnational retailers in the factors which have affected their relative development/performance in international markets, when the relative performance of each subsidiary of these firms is assessed against other subsidiaries in terms of penetration of the host markets entered and pace of growth. Although we find evidence that both retailers are sensitive to what we term the 'endogeneity of the process of development'—the mode and timing of market entry and expansion—conversely, issues impacting the ability to exercise and benefit from upstream market power, and the labour organization and regulation characteristics of the host economies entered, appear to have been more important to the performance of Wal-Mart than to that of Carrefour. In particular, the two retailers seem to have been affected in contrasting ways by labour institution issues, with the

Table 5. Summary of the factors determining the relative development/performance of Wal-Mart and Carrefour's international subsidiaries.

Type of determination	Wal-Mart	Carrefour
Macroeconomic indicators		
GDP per capita	− − −	0
GDP growth	0	0
Endogeneity of entry and development partnership	+ + +	+ + +
partnership with local firm or acquisition of market scale	+ + +	+
timing of market entry relative to the modernization of the retail sector	+	+ + +
Upstream market power	+ + +	+
geographic proximity with domestic market	++	+
contiguity with countries where the firm operates	+ + +	+
trade and retail FDI liberalization within host economy entered	prior to entry	sometimes after entry
implementation of supply chain management techniques	++	no information available
Labour organization and standards	− − −	+
labour organization and union autonomy	− −	+
employment duration/lifetime job tenure	− − −	0
labour regulation enforcement	−	+
nature of wage bargaining	− − −	++

Note: no correlation (0), weakly positive (+), positive (++), strongly positive (+ + +), weakly negative (−), negative (−−), strongly negative (− − −).

relative development/performance of Wal-Mart being better in international markets characterized by weaker labour organization and standards—markets which we also take to include, in Tilly's (2007, page 1816) terms, those in which union contracts are frequently essentially 'sweetheart' contracts which do little more than codify existing labour law and shut out more militant unionization

In brief, Wal-Mart seems more likely than Carrefour to succeed where it can more freely exert its market power and more freely reduce labour costs and/or increase labour intensity. This result supports the idea already pointed out in the literature that the core competency—and thus the competitive advantage—of the US giant is more centred around cost reduction, whereas Carrefour's adaptability and the resilience it gains from its long and often first-mover experience as a transnational operator are more important. Our originality here comes from the fact that our results have been built at the meso–macro institutional level and through a systematic, albeit exploratory, international comparison.

In line with the literature which has argued that the multidimensional embeddedness of retail activity implies a high sensitivity of retailers to institutional context, our results suggest that, beyond strategic issues relating to the mode and timing of market entry and the nature of subsequent development, and economic issues relating to the ability to exercise upstream market power, the institutional configuration of the host economies of markets entered is central to any explanation of the performance of transnational retailers in international markets, and that transnational retailers respond in rather different ways to similar institutional configurations in those host economies. However, we also note that transnational retailers are not simply institution takers; rather, they contribute actively to influencing institutional change in the host economies they enter [in the terminology of Marsden et al (1998), they attempt to 'create competitive space' in those markets] as much as they adapt to the institutional configuration of the host economies they enter. As a result, the internationalization of retailing is essentially a story of institutional hybridization involving the mutual transformation of both the transnational retailers and the host economies entered. Further analysis of the dynamics of these processes is urgently required in order to understand how this process of hybridization operates [Wrigley et al (2005) suggest some possibilities]. In particular, as we argue in section 3, the affinities both ex ante and ex post between the institutional characteristics associated with the varieties of capitalism in the home markets of the retailers and those of the host markets entered need to be considered in detail. In addition, the extent to which the varied networks of learning and adaptation employed by the transnational retailers (Currah and Wrigley, 2004) differentially impact this process of hybridization needs far more firm-specific study.

More generally, we note that issues of hybridization and the heterogeneity of firm behaviour—specifically, in this case the heterogeneity of firms' paths of internationalization—represent, as Lechevallier (2007) suggests, an important frontier for theories of the varieties of capitalism. In particular, the extent to which, and the mechanisms through which, transnational corporations represent convergent or divergent forces both between various forms of national capitalism, and also within the institutional configuration of individual industrial sectors across countries, is a key issue. Moreover, in this context it is also important to assess the extent to which the trends towards convergence in corporate behaviour and governance practices across transnational corporations, induced by the demands of global financial markets and increasingly commented upon by social scientists (Bauer et al, 2008; Clark and Wojcik, 2007; Gilson, 2000), are reflected in the processes of hybridization amongst transnational retailers. In particular, given that the institutional and organizational idiosyncrasies of transnational corporations that rely on the backing of financial markets will inevitably be priced (or discounted) by those markets (Monk, 2008), to what extent are the pressures from those markets to adopt corporate practices consistent with the aim of maximizing firm value, reducing, or likely to reduce in the future, heterogeneity in the internationalization trajectories of transnational retailers?

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Financialization, globalization and the making of profits by leading retailers

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From the beginning of the 1990s up until 2007, leading retailers experienced a slowdown of their growth in domestic markets and yet generated an opposite upward trend in return on equity (ROE). This apparent paradox is examined through an analysis of the 10 main retailers' accounts. Focusing on the links between financialization and globalization processes, this article examines a variety of complementary ways of making profits implemented within the industry to satisfy impatient shareholders: foreign expansion, financialization of assets, deterioration of suppliers' and workers' positions and the use of working capital management to transform market power into financial gains.

Keywords: financialization, globalization, retail industry, accounting, power, distribution

JEL classification: F23 multinational firms, international business, L14 transactional relationships, contracts and reputation, networks, M41 accounting

Financialization and globalization are usually analysed separately, and may even be considered alternative uses of capital, competing with investment in operational domestic activities. Milberg (2008), in contrast, suggests that globalization and financialization should be analysed as interrelated tendencies, given that off-shoring allows firms to diminish their input costs and shrink the scope of their productive activities, which reduces their productive investment and operating costs. Such reorganization frees up financial resources to increase share buybacks and dividends in order to satisfy shareholders.

This article proposes to point out other interdependencies between financialization and globalization by studying two additional aspects of these interrelated processes: the internationalization of sales operations, and the development of financial investments and operations by non-financial firms. In order to address these issues, we focus on the retail sector, since it is particularly relevant to the processes mentioned by Milberg (2008, p. 26) and also to the complementary aspects we point out. From the beginning of the 1990s until 2007, leading retailers became highly financialized firms and experts in global supply, production and sales strategies. Moreover, despite a downturn in sales growth on domestic markets, retailers increased their return on equity (ROE).

We first point out that the development of international and financial operations contributed to retailers' continuing capacity to provide high returns to shareholders. However, we argue that looking at these processes separately does not fully account for the upward trend in ROE. Their accumulation and combination over time also produce dynamic gains that sustain high levels of financial profitability for the retailers. Globalization has improved the retailers' position vis-à-vis their suppliers and their workers, allowing them to obtain more favourable organizational and financial arrangements. Financialization and globalization are thus considered combined cumulative processes that are jointly beneficial to leading retailers.

Beyond the case of retail, our results point to the mechanisms that are fuelling a global shift of economic power from workers to capital and, within capital, from industrial capital to financial and commercial capital. Financialization, we argue, both sustains and propagates itself through the power relationships framed by globalization processes. In particular, we demonstrate the crucial role played in the retail sector by management of financial relationships at the expense of stakeholders. We suggest that this phenomenon carries a more general relevance and that its identification helps to explain how financialized capitalism develops, and highlights some of its contradictions.

Section 1 presents our sample data and our initial observations. Looking at the 10 main retailers' accounts since the early 1990s,[1] we clearly observe a downward trend in domestic sales growth for almost all of them. However, their ROE followed an opposite upward trend over this period, increasing from an average level of 11.9% between 1990 and 1995 to an average level of 16% between 2002 and 2007. In 2007, average ROE reached the unprecedented level of 23.9%. This apparent paradox is presented as a 'puzzle' to be solved.

Sections 2 and 3 focus on our first set of hypotheses to solve this puzzle: the firms' entry into new and more profitable fields of activities through

[1]We end our study in 2007, on the eve of the financial and economic crises, because we believe that retailers' reactions to it could be a subject of interest for another paper to be achieved as soon as reliable data with enough length to allow for consistent conclusions become available. Unfortunately, retailers' annual reports are usually published some months after the reference year, and our experience during this present work is that the most recent information released is much less reliable than that issued the following year. Reliable information on 2008 can be found in 2009 annual reports issued in the first half of 2010. To get some longitudinal data, it is therefore necessary to wait at least until the first half of 2011 (data on 2008 and 2009) or even until 2012.

internationalization and financialization of investments and/or operations. We identify a wave of internationalization that started in the mid-1990s and then a wave of financialization that reached a peak in 2004. These two 'waves' of internationalization and financialization had transformed the industry into a highly globalized and financialized one by the eve of the 2008 crisis. However, international expansion slowed down dramatically at the beginning of the 2000s, suggesting that the most profitable opportunities had been exhausted or that financialization was then more attractive (Section 2). The development of financial activities also slowed down after 2004, just at the time when profitability entered its upward trend and reached unprecedented highs (Section 3).

We argue that if financial activities and international activities need time to be efficiently controlled and fully profitable, then the sudden growth of profitability observed for the years 2004–2007 also reflects some dynamic gains obtained through the globalization and financialization of the sector during the preceding 10 years. This second set of hypotheses is explored in Sections 4 and 5. We propose that the increase in ROE and the share of profits distributed may result from the changes caused jointly by globalization and financialization in the relationships between retailers and their stakeholders, especially workers and suppliers. We first argue that retailers have derived operational advantages—in the form of lower wages or prices, resulting in higher profits—from the increased power they acquired with globalization (Section 4). Then, we show that they also took advantage of their power position to derive financial benefits from the reorganization of the industry value chain (Section 5). While supply chain management processes and technologies have drastically reduced the amount of capital tied up in inventories, the main retailers have been able to maintain or even extend their supplier payment period, consequently retaining for their own use the huge amounts of cash that are due mostly to the suppliers, but also to workers. Free appropriation of workers' and suppliers' capital is thus used to replace part of stockholders' and bankers' remunerated capital. For an industry such as retail—where current assets management is of extreme importance for profitability—this forced funding is crucial in explaining the outstanding increases in ROE and, more generally speaking, of distributed value to shareholders (DVS) observed during this period.

The term 'financialization' is used heavily throughout this article. We should therefore define it precisely. In a general sense, financialization refers to the transformation of the relationship between financial markets and non-financial corporations. At the firm level, financialization is 'a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production' (Krippner, 2005, pp. 174–175). However, we suggest that a distinction should be made between three main dimensions: (1) financialization of objectives refers to the implementation of shareholder value norms, whose concrete consequences are an increase of the financial flows from non-financial corporations to the financial sector; (2) financialization of investment refers to the increasing share of financial assets owned by non-financial firms; and (3) financialization of operations refers to the development of financial activities and relationships, notably offered to customers and/or imposed on workers and suppliers, by non-financial firms. The forms 1 and 2 are consistent with most of the macro-analyses of the financialization process that stress the link between financialization and slow accumulation. In contrast, form 3 adds a new dimension of the financialization process that could hardly be captured at the macro level: the search for financial gains by non-financial corporations from the routine transactions conducted mainly with their stakeholders. This paper shows that retailers are becoming more and more financialized in all three senses.[2]

1. A neoliberal retail puzzle: slowdown of sales growth and increasing returns to shareholders

Our research is based on an analysis of consolidated financial accounts of a sample of the top 10 retailers by group sales published on the *Osiris* database under the so-called global detailed format (Table 1).[3] It includes the top five international retailers with consolidated published accounts available.[4] Such a sample of firms allows us to capture the financialization phenomenon for the main internationalized and non-internationalized firms. We have analysed the data from 1990, when globalization gained momentum, up to the first jolts of the global financial and economic meltdown in 2007; at the sectoral level, it is the period when consolidation and foreign expansion by leading retailers really took off.

Unless explicitly mentioned, the data are in current US$. Wherever possible, we have used ratios instead of monetary amounts in order to limit distortions related to the influence of exchange rates and inflation. Data analyses have been occasionally completed using the firms' annual reports and Euromonitor's reports on their financial and strategic situations.

[2]Hereafter, we will refer to these forms as Financialization 1, 2 and 3.

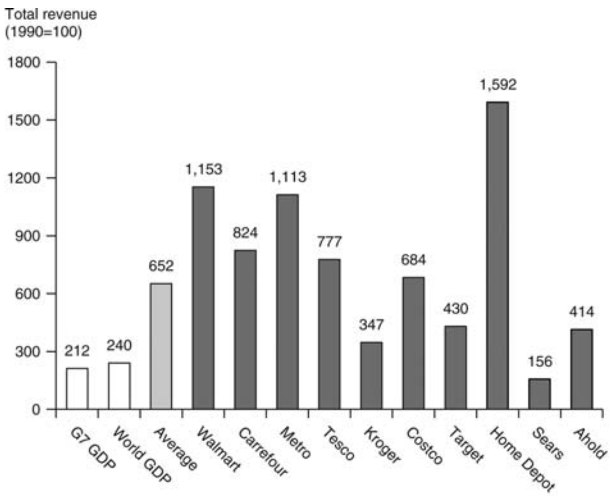
[3]*Osiris* is a database of financial information, ratings, earning estimates, stock data and news on globally listed public companies published by the Bureau Van Dijk on http://osiris.bvdep.com. All company reports were downloaded on August 18, 2008 under the 'global detailed format' in current US$. The 'global detailed format' is a global format: its presentation is the same for all companies regardless of national templates. It is also the most detailed of the formats available.

[4]That is, without Aldi, whose accounts are not consolidated, and Schwarz (Lidl), 'a company characterized by its secrecy and that does not publish accounts'; see Euromonitor International (2008, pp. 6–12).

Table 1 Ten main retailers by group sales and revenue in 2007

Rank	Name of company	Country of origin	Total revenue (US$ billion)	International sales (percentage of total, 2007)
1	Wal-Mart	USA	378.8	19.9
2	Carrefour	France	122.6	51.8
3	Metro	Germany	97	52.8
4	Tesco	UK	94.6	21.9
5	Kroger	USA	70.2	0
6	Costco	USA	64.4	15.8
7	Target	USA	63.4	0
8	Home Depot	USA	52	6.6
9	Sears	USA	50.7	0[a]
10	Ahold	Netherlands	41.4	73.5

Source: Total operating revenue and disaggregation of sales in geographic segments as provided by *Osiris*.
Notes: Total revenue includes net revenue from sales (typically more than 97%) and other operating revenues, such as rental income and franchise fees.
[a]Sears operates in Mexico and Canada, but a disaggregation of the sales in geographic segments is not available.



Notes: Total revenue includes net revenue from sales (typically more than 97%) and other revenues, such as rental income and franchise fees; GDP=Gross Domestic Product.
Source: 1990–2007 growth in total operating revenue as provided by *Osiris*.

Figure 1 Growth of total revenue, 1990–2007.

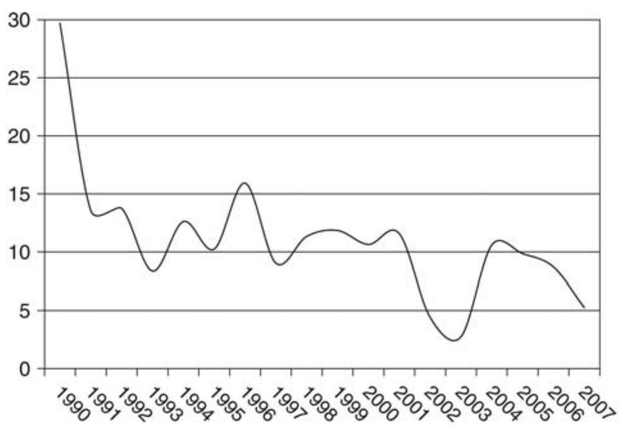
Between 1990 and 2007, the main retailers experienced a tremendous expansion of sales, amounting to an average of 550% growth, whereas the G7 GDP and the world GDP in current US$ grew by only 112 and 140%, respectively (Figure 1). This expansion of the leading retailers was driven by a powerful wave of mergers and acquisitions in 'mature' and often increasingly tightly regulated markets (see Moati, 2001; Guy, 2006; Wood *et al.*, 2006; Askenazy and Weindenfeld, 2008, for the cases of France and the UK), by complementarities between the size of the chains and the scope of their business (Basker, 2007) and by a burst of foreign direct investments (FDIs) in retail in the second half of the 1990s.

Retail expansion has, however, significantly lost strength with a slowdown in the growth of the main retailers' domestic revenues (Figure 2)—more pronounced in 2000 than in the 1990s—in spite of the numerous merger and acquisition (M&A) operations, revealed in the figure by the relatively high volatility of the series.

Moreover, international expansion did not totally compensate for the slowdown in domestic growth. As a consequence, as shown in Figure 3, total revenue growth has slowed down since the mid-1990s.

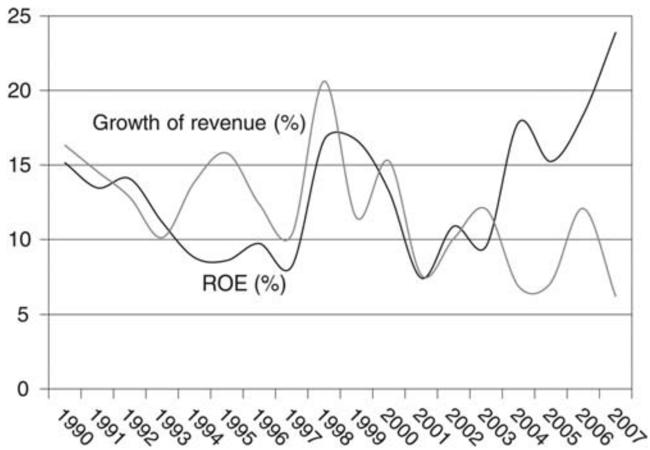
However, Figure 3 illustrates a quite surprising evolution: while there has been a clear trend towards lower rates of total revenue growth, the return on shareholders' equity has been moving in the opposite direction.

More specifically, we can distinguish three periods: first, from 1990 to the mid-1990s, a period of concomitant decrease of ROE and revenue growth; second, from the mid-1990s to the financial crisis of 2001, a temporary acceleration in revenue growth and profitability as retailers expanded sharply abroad; third, since 2003, after the turmoil of the dot-com crisis, divergent paths of profitability and revenue growth.



Note: Growth rates of total domestic sales of all firms in the panel combined.
Sources: Data by geographic segments provided by *Osiris*, except for Sears (total revenue used as proxy for regional sales), Kroger and Target (total revenue used as proxy for 1998).

Figure 2 Annual growth rate of domestic sales.



Note: Growth rates of total revenue of all firms in the panel combined and average return on investment (ROE).
Source: ROE provided by *Osiris*.

Figure 3 Growth of revenue and ROE.

Moreover, this evolution has not been created by leverage policies to increase the return for shareholders. On the contrary, on average, the companies have reduced indebtedness throughout almost the entire period. Long-term debts represented up to 43.5% of non-current liabilities in 1992, steadily decreasing to a minimum of 30.8% in 2006.

As presented in Figure A1,[5] the two leaders, Wal-Mart and Carrefour, as well as Costco and Home Depot, perfectly embody the situation presented above. The four of them faced a slowdown of revenue growth at the beginning of the 1990s. They were able to limit the decline for a while, in the late 1990s and early 2000s, and Carrefour even succeeded in reversing the trend. But since the mid-2000s, they have once again been facing huge slowdowns of revenue growth. Surprisingly, they have at the same time maintained their ROE, and even increased it in the most recent period, making the two curves radically divergent.

However, there is some heterogeneity within our sample. Tesco, Metro, Kroger and Ahold had slower paths of growth at the beginning of the 1990s. Tesco even had negative growth. The four of them improved their rhythms of growth until the mid-1990s and the slowdown of the late 1990s. Tesco, Metro and Kroger had a new, but weaker, pace of growth in the 2000s and steadily increased their ROE over the whole period. Ahold entered negative growth in the mid-2000s. Like Home Depot, its fast development in the 1990s contrasts with its present

[5]Figures A1–A16 are presented in the supplementary file available online.

situation, but both of them present among the highest ROE at the end of the period. Sears is the only one that really distinguishes itself within our sample, since it hardly grew at all during the 1990s and suddenly expanded in the mid-2000s—thanks to a merger with Kmart, which also revived after almost 10 years of negative results with a consistent ROE. Finally, Target distinguishes itself with an annual growth rate of 10% over almost the whole period (except in the mid-2000s, when it fell to 5%). Its case is, however, consistent with our general observations because this stable rate of growth sharply contrasts with the steady rise, and then acceleration, of the ROE during the mid-2000s, just when growth was slowing down.

This evolution suggests a financialization (1) of objectives in the retail industry, the concrete consequences of which are an increase in the financial flows from non-financial corporations to the financial sector (Dumenil and Levy, 2000; Aglietta and Bretton, 2001; Orhangazi, 2008). Figure A2 shows that there is indeed such a financialization of profit. Using the distinction between DVS, used, for example, by Montalban (2008), and distributed value to banks, we can show that the increase of the share of profit distributed to the financial sector mainly benefits shareholders.

Moreover, as shown in Figure A3, the share of profit distributed to shareholders reached a historical high in the most recent period (2002–2007) for all the firms in our sample except Metro, which already had high redistribution rates in the previous periods, and Carrefour, which had an intensive redistribution policy at the beginning of the 1990s.

The acceleration of financial flows from retailers to the financial sector while growth is slowing down appears to be quite paradoxical, confronting us with a puzzle that calls for further explanation.

2. Internationalization as a temporary substitute for domestic growth

The late 1990s witnessed a powerful wave of retail internationalization (Figure A4), as leading retailers from Europe and the USA entered new markets, especially in developing countries (Coe, 2004; Dawson *et al.*, 2006; Reardon *et al.*, 2007; Wrigley and Lowe, 2007). This spectacular process was made possible by their ability to leverage their increasing core-market scale and free cash flow for expansionary investment (Wrigley, 2000). Moreover, access to low-cost capital and, most significantly, policies of full or partial liberalization of FDI in the retail sector in many emerging economies favoured such a move.

As shown in Figure A5, the main leading retailers operate internationally. This international expansion began or accelerated as the firms experienced a slowdown in their domestic sales, mostly during the second half of the 1990s (Wal-Mart, Carrefour, Metro, Ahold, Costco, Tesco). It allowed them to reduce or temporarily check the slowdown in total revenue growth. Among the firms which did not expand internationally, various explanations can be found. In the case of Sears (its operations in Mexico do not appear in the data base), it seems that the company was performing too poorly to invest abroad. The case of Home Depot is somewhat atypical: it is the importance of domestic growth prospects in its specific market (furniture and household appliances) which explains late internationalization. Kroger and Tesco grew slowly but steadily on the domestic market, with Kroger expanding the scale of its operations sharply in 1999 by acquiring Fred Meyer, Inc. Contrary to the previous decade, the 2000s have been characterized by a slowdown (Wal-Mart, Carrefour, Metro, Ahold) or even a reversal (Costco) of the dynamism of foreign operations, Tesco being the only firm to accelerate its internationalization in that period. The main period of retail internationalization was thus from the mid-1990s to 2001. Afterwards, some firms were struck by the successive financial crises in emerging countries from Asia to Argentina and by the dot-com crisis or weakened by their high level of debt. Greater priority was then given to the financial performance of international operations, with selective divestments in underperforming markets (in the case of Wal-Mart and Carrefour, see Durand and Wrigley, 2009).

In order to explain this wave of internationalization, a sectoral reformulation of the argument of the classical theories of imperialism (Hilferding, 1910; Luxemburg, 1913; Lenin, 1916) may be helpful. These theories stress that due to domestic over-accumulation, capital in general has to look abroad to find new profitable investment opportunities and new outlets. A sectoral transposition of the argument suggests that foreign expansion provides a means to pursue the accumulation of retail capital despite limited prospects in domestic markets. But such a strategy only makes sense if recycling the excess capital embedded in a specific branch in another sector appears less profitable or more risky than expanding the same business abroad. This point is particularly pertinent when capital is strongly and durably embedded in one firm, as in the case of family ownership, which plays an important role in firms such as Wal-Mart and Carrefour. Moreover, considering each firm as a pool of resources and a collective knowledge system (Penrose, 1959; Nelson and Winter, 1982; Horsmann and Markusen, 1989), internationalization appears to be one way to pursue the growth of the firm (Kay, 2000). Last but not least, the retail industry is somewhat similar to the core industries described by Crotty (2000) where the process of capital accumulation is deeply embedded in a specific sector. First, as the activity is not subject to the law of diminishing returns, there are strong incentives to increase the scale of operations, possibly through internationalization. Moreover, as the assets of the firms are significantly immobile, irreversible or specific, they lose substantial value if they are reallocated to a different industry or sold on a second-hand market. Such large economies of scale and prohibitive sunk costs prevent withdrawal from the business and constitute strong incentives to acquire complementary assets—possibly abroad—insofar as they can positively affect the valuation of the firm.

In addition to this first range of motivations, the possibility of competitive advantages deriving from 'idea gaps' in developing economies (Romer, 1993) also acts as a strong incentive for international expansion. Unfortunately, detailed information about the profitability of retailers' operations abroad is not available in the Osiris Database. However, a study by Durand and Wrigley (2009) corroborates the existence of such a skills/global-scale gap between international retailers and their incumbent competitors. Indeed, the varying fortunes of Wal-Mart and Carrefour expansions show that the 'first mover' advantage is a key element of success for international retailers entering new markets. The Mexican case provides additional examples. A comparison between the return on assets (ROA) evolution of the transnational corporation Wal-Mart and that of its Mexican subsidiary is striking (Figure A6): between 1998—1 year after Wal-Mart took a majority stake in Mexican retailer Cifra—and 2007, ROA remained almost steady at the level of the consolidated company, while it increased sharply in WalMex. This reflects the expansion of operating scale and the benefits of progressive implementation of technological know-how and management skills from the parent company. At the same time, the gap widened between Walmex and its closest Mexican competitors, who lost ground in terms of both sales and profitability, as Wal-Mart took advantage of its edge in scale and know-how (Durand, 2009).

The captive embeddedness of capital in the retail industry and the advantages deriving from the idea gap do not exhaust the motivations behind retail's international expansion. Other elements must be mentioned: the partial protection against national economic cycles through geographical diversification (Pitelis, 2000); the positive impact on the firm's innovation record of the clash between the domestic background and new market conditions (Cantwell, 1995; Dunning and Wymbs, 1999 and, for an overview on retail, Dawson and Mukoyama, 2006); and, finally, the efficiency gains as firms are partially freed from the social and political constraints linked to territorialization (Andreff, 1996; Saint-Etienne and Le Cacheux, 2005) through manipulation of internal prices and modification of the capitalization of their subsidiaries.[6]

[6]French retailers have been accused of avoiding up to 1 billion euros in taxes through financial affiliates in Switzerland (Le Figaro, 2008).

This pattern of foreign expansion, along with the wave of mergers and acquisitions in the second half of the 1990s, explains the short-lived break in the downward trend of growth rates during the second half of the 1990s and the first rise in ROE up to the turn of the millennium. The exhaustion of opportunities to exploit a first mover position and an economic environment troubled by successive financial crises in developing countries explain why the trend towards more internationalization of operations slowed after 2001. This timetable suggests that financialization of investment (Financialization 2) may be an alternative to internationalization of operations.

3. Financialization as an alternative to internationalization

The end of the 1990s marked the beginning of the rise of financial investment by retailers (Financialization 2). As shown in Figure A7, the financial assets/total assets ratio began to increase in 1997 and grew more rapidly after 2002. This acceleration occurred just after the surge of international expansion, even in a period marked by a reduction in the average share of international sales. This suggests that financialization could have been used as an alternative to internationalization for firms facing limited—or even disappointing—growth prospects abroad.

This shift towards more financial investment to the detriment of tangible investment has contributed to the prolongation of a dramatic fall of the growth rate of tangible assets from 18% at the beginning of the 1990s towards less than 10% in the 2000s. This downward trend has only been briefly interrupted by the foreign expansion at the end of the 1990s. This evolution towards more financial investments and a slower accumulation of tangible assets is consistent with the literature on financialization, which points out that firms have diverted a growing proportion of their incoming cash flows from investment in fixed capital (Dumenil and Levy, 2004; Stockhammer, 2004; Froud *et al.*, 2005; Krippner 2005; Aglietta and Berrebi, 2007; Bauer, *et al.*, 2008). The shareholder revolution and the development of a market for corporate control have led to a substantial transformation of management behaviour in order to satisfy the cash payments required by impatient financial markets (Lazonick and O'Sullivan, 2000; Crotty, 2005).

This new behaviour is detrimental to real investment through two kinds of mechanisms (Orhangazi, 2008). First, increased payment to financial markets in the form of interest payments, dividend payments and stock buybacks may hinder real investment by reducing internal funds and shortening the planning horizons of the firm management. Second, increased financial profit opportunities may diminish real investment because firms will prefer to invest in financial assets and activities. This is all the more important in the retail sector as profitable opportunities for real investments are reduced by a wide range of factors such as the maturation of markets, stricter regulations, sluggish consumer demand and increasing competition.

In addition, in a business environment characterized by a high level of uncertainty, the preference for liquid assets tends to increase. Financial investments may thus be considered a kind of 'wait-and-see' strategy.

Ahold clearly illustrates the first of these mechanisms: despite facing difficulties at the beginning of the 2000s, at the end of 2003 it undertook a vast plan of international divestment of 'non-strategic' assets to reconstitute distributing capacities. By the end of 2004, Ahold had already put 14% of its net assets up for sale, generating a huge increase in the share of financial assets. Sudden financialization may also reflect strategic choices other than international divestment. Sears illustrates another tendency of the retail sector that also involves at least brief financialization: merging. In 2004, Kmart, preparing its merger with Sears, had to gather the funds to pay a cash consideration to those former Sears' shareholders who preferred cash payments in lieu of the stock issued by the new merged company. It retained all 2004 earnings ($1.1 billion) and raised the rest of the funds needed from financial markets, adding $2.3 billion (38% of its previous total assets) to its $2.7 billion financial reserves in order to redistribute them to the former Sears' shareholders. This operation also contributed to the 2004 increase in financial assets of our sample.

The acceleration of financialization in 2004 also reflects the more indirect, long-term strategy of substitution of operational activities and investment by financial activities and investment.

First, in a period of rising markets—as was the case between 2002 and 2007—financial investments offer managers an opportunity to generate incomes and satisfy impatient shareholders. Evidence from Sears is highly illustrative of this logic: in the third quarter of 2006, the retailer earned more than half its net income from highly risky investments in derivatives, boosting profits in spite of gloomy sales (Covert and McWilliams, 2006).

To improve their profitability ratios, retailers can also develop financial activities on their own. Non-financial corporations may develop direct financial activities with their customers. Indeed, large proportions of Ford's and GM's profits have come from their financial activities, notably captive finance (Froud *et al.*, 1998, 2002; Lung, 2001, 2005). This financialization (3), which has been described as a transformation of the relationship with customers by providing them with financial services (Lapavitsas, 2009), is also relevant in the retail sector with the development of consumption credit by retailers. For example, Burt *et al.* (2006) mention the development of financial services by Royal Ahold in several countries.

For the period 2002–2007, the financial assets ratio increased for all firms, except Kroger and Metro, relative to the precedent periods (Figure A8). This suggests that financial investments and the development of financial activities have provided firms with new sources of income and profits. To discuss these arguments in more detail in the retail sector, it would be necessary to identify more precisely the financial assets held by retailers during this period and to link them with identifiable incomes. However, the Osiris database does not specify the nature of all financial assets or distinguish between all the different financial revenues.

Nonetheless, the variation between the levels of these ratios is striking: on the one hand, Carrefour and, to a lesser extent, Ahold, Metro and Target are the most financialized, with ratios between 30 and 43%; on the other hand, Kroger, Home-Depot and Wal-Mart have ratios between 10 and 13%.

Looking back to the annual reports for the two firms at the extreme positions in this ranking, Carrefour and Wal-Mart, when financialization was the strongest—in 2004—suggests the underlying rationale for this difference: financial investments and activities were profitable enough to improve Carrefour's overall profitability but may not have been profitable enough for a firm like Wal-Mart, whose operational profitability in retail was already high (Figure A9). Thus, Carrefour and Wal-Mart's financial assets for 2004 differ not only as a proportion of total assets (43.1 and 10.5%, respectively), but also in their composition. Carrefour had a wide range of financial items that were only loosely linked with its main activity, suggesting a diversification into financial investments and services; in contrast, Wal-Mart's financial assets consisted essentially of items closely linked to retail activities and strategies. This does not mean that firms such as Wal-Mart do not seize opportunities to diversify into financial activities. In fact, there is already such diversification: in Mexico, el Banco Wal-Mart was launched in 2007 to tap the huge market of unbanked Mexicans (Gelpern, 2007); Wal-Mart Canada Bank was launched in 2010; and there are similar projects in the USA.

Financialization (2) of investments and the development of financial services appear to be possible alternatives to the development of the usual operational activities. Once foreign development prospects became scarce or disappointing, these strategies were chosen as a way to improve profitability for firms that could not carry on raising high profits through their traditional activities. This is what Figure A10 shows: the most financialized firms (Carrefour, Ahold, Metro, Target, Sears and Costco) are the firms that had the least profitable assets when internationalization slowed down. Conversely, the least financialized (Tesco, Kroger, Home Depot and Wal-Mart) were much more profitable at that point. Thus, the most financialized firms were able to increase their ROA even more when the financial markets soared between 2002 and 2007.

In sum, both foreign expansion and financialization of assets have been used by retailers to cope with slower growth in domestic markets and to meet their shareholders' expectations. But it was mostly when foreign expansion opportunities vanished that financialization became more attractive, especially for the least profitable firms. Financialization of investment thus appears as an alternative strategy to internationalization to improve financial profitability.

However, it is necessary to move beyond this first result, as globalization and financialization are helping to reframe the operational and financial relationships between retailers and their stakeholders, and this reorganization produced dynamic gains that contributed to the sudden growth in ROE for the years 2004–2007.

4. Globalization and the deterioration of suppliers' and workers' bargaining power

Directly or indirectly, globalization has introduced changes in power relationships between retailers and their stakeholders, helping the former to increase their operational profitability at the expense of the latter. The shift in the balance of power in favour of the main retailers allows them to appropriate most of the efficiency gains obtained by reorganizing supply chain processes. Moreover, their development in lower-wage countries and a macroeconomic context adverse to labour in high-income economies increase their capacity to control operational internal costs, especially wages, and to capture most of the productivity gains obtained during the restructuring of their own operations. Distributive gains at the expense of consumer welfare should also be considered. But consolidated accounts are of no help here, and the literature is inconclusive. In the USA, 'an increase in price competition in product markets (...) has made the firm's [*sic*] implicit cost of raising the price prohibitively high' (Milberg, 2008, pp. 11–12), while in France the legal framework has reduced competitive pressure, allowing firms to increase their profits through higher prices (Askenazy and Weindenfeld, 2008).

During the last 20 years, the main retailers have grown through mergers and acquisitions and through international development. When expanding their scale of operation, retailers become bigger buyers and enlarge their sourcing channels, allowing them to increase competitive pressure on their suppliers (Coe and Hess, 2005; Coe and Wrigley, 2007; Durand, 2007; Reardon *et al.*, 2007; Basker and Pham, 2008; Milberg, 2008). Wal-Mart, for example, has built strong global sourcing capacities (Bonacich and Wilson, 2006) and has become the leading US importer from China, with reported imports of $18 billion in 2004 and $27 billion in 2006 (Scott, 2007). Other works on European retailers (Palpacuer *et al.*, 2005, 2006) also link the increase of shareholder pressure to deliver immediate returns and the intensification of competitive pressure on foreign suppliers. In addition, the impact of the IT and logistics revolutions in the sector (Moati, 2001, pp. 187–192; Basker, 2007) has also contributed to the pressure on supply prices because suppliers' costs are better known, and the production process is better controlled by retailers. In sum, globalization of supply chains has increased retailers' market power and, consequently, allowed them to increase their profitability, as they can obtain lower prices from their suppliers.

As well as shifting the balance of power in their favour vis-à-vis their suppliers, retailers have also benefited from a better position vis-à-vis labour. First, they have expanded their activities in low-wage countries where labour militancy is weak. Moreover, globalization (Locke *et al.*, 1995; Chesnais, 1997; Crotty *et al.*, 1998; Dumenil and Levy, 2000; Pitelis and Sugden, 2000) and the introduction of information technologies in work processes (Petit and Soete, 2001; Levy and Temin, 2007; Gordon and Dew-Becker, 2008) have worsened the position of low-skilled workers in high-income economies, fuelling a systemic rise in inequalities (Petit, 2010). Labour in the retail sector has been severely exposed to this adverse evolution because the sector is a labour-intensive tertiary industry, markedly segmented in terms of workforce remuneration and with a large proportion of low-skilled workers. Moreover, it is characterized by an important proportion of part-time jobs, a mainly female workforce and a low level of unionization, which are characteristics departing from the Fordist capital-labour compromise and limiting Fordist-style mobilization (Silver, 2003; Glyn, 2006).

In such a context, we can assume that the reorganization of work following the introduction of new technologies gives managers the opportunity to pressure labour. First, they can intensify the labour process and then obtain efficiency gains with a possible significant deterioration of physical working conditions (Askenazy, 2002). Second, they can minimize labour costs by extending working hours or limiting wages and labour compensation. This last hypothesis is based on a number of empirical elements: the anti-union position of Wal-Mart is well-known, as are its low wages and minimal labour standards (for example, Bair and Bernstein, 2006; Hugill, 2006; Lichtenstein, 2006; Basker, 2007). Furthermore, many journalistic investigations, workers' testimonies (for one of the many testimonies, see Sérange, 2006) and emerging social mobilization (Benquet, 2008) indicate that harsh labour conditions, lack of respect for legal labour standards and low wages and social benefits are general features of the sector.

Unfortunately, data published by the companies do not allow a direct assessment of the hypothesis of an intensification of worker exploitation—i.e. an extension of the ability of capital owners 'to appropriate the labor effort of the exploited' (Wright, 2005)—through the confirmation of an enduring productivity-wage gap. Indirectly, however, some indicators tend to corroborate this hypothesis. Facing limited growth prospects, leading firms seem to have followed a more intensive accumulation path. Figures A11 and A12 present the capital mobilized and revenue generated per worker and indicate a process of reorganization of work through the implementation of information technologies and an increase in physical productivity that implies an intensification of work.

At the same time, we do not observe an important increase in nominal wages in EU-based firms (Figure A13). There is even a decrease in some cases, although our index is based on current value. For US-based firms, there are no data about the cost of employment; however, some studies of the US retail markets (Foster *et al.*, 2002; Doms *et al.*, 2004) indicate strong productivity gains—without taking into account the negative externalities of suburban commercial centres—but with an erosion of wages.

In sum, efficiency gains obtained during the past 15 years by retailers within their own firms and along the supply chains have been mostly appropriated by shareholders. This has been done at the expense of suppliers, through low prices, and through an intensification of worker exploitation. The negative impact of globalization on low-skilled workers' bargaining power, which is well-established in the literature, is confirmed in the retail sector. However, we suggest that in the context of financialization, retailers do more than merely derive operational advantages—in the form of lower wages or input prices—from the increased power acquired with globalization. This shift in the balance of power has also been exploited by retailers to take advantage of the financial aspects of their relationships with their stakeholders.

5. Forced funding of retailers by stakeholders

In addition to a direct deterioration of their position, stakeholders have also suffered a worsening of their financial relationships with leading retailers. Retailers have seized the opportunity of this shift in the balance of power to improve the financial structure of their assets and their financial relationships with stakeholders. Thus, as they imposed new supply chain management processes and technologies, retailers have drastically reduced the amount of capital they need for their inventories and consequently significantly reduced—or maybe transferred to their suppliers—their need for tangible assets. At the same time, they have been able to increase their terms of payment and consequently increase the amount of cash owed to their stakeholders that they keep available for their own use.

Inventories are a form of immobilization that does not directly create revenue. Developing a way to decrease inventories while still ensuring the continuous refilling of stores is consequently critical for asset profitability. Such an evolution has been possible thanks to the implementation and diffusion of logistics and IT innovation within the sector. As a result, in our sample, we observe a 31%

reduction in the share of assets immobilized for inventories, from 49 days of sales in 1992 to 34 days in 2007 (Figure A14). This trend is shared by most of the firms in our sample and is all the more important when the weight of assets immobilized is important (Figure A15). Home Depot is the only exception with an upward trend. This is explained by the fact that the company did not begin the transition from a logistics model based on direct store delivery by suppliers to a more efficient model based on distribution centres until 2008 (SCDigest Editorial Staff, 2008; Lloyd, 2010).

These IT and logistics revolutions required substantial investment not only by retailers, but also by suppliers (*RFID Gazette*, 2007), since they had to enter retailers' logistical and information networks and comply with ever more demanding requirements for volume, place and time of deliveries. However, an even distribution of the efficiency gains within the chain is not guaranteed. Consequently, the supply chain reorganization may have been used to transfer the cost of inventories to suppliers rather than reducing it globally. A complementary longitudinal analysis of suppliers' working capital would be necessary to properly settle this argument.

Distributive gains at the expense of stakeholders are more obvious when one looks at the structure of the financial relationships that link retailers to their main partners: states, workers and suppliers. These kinds of relationships are, in fact, unique to the retail sector: as retail firms operate at the interface between businesses and final customers, they benefit from the differences in terms of payments traditionally existing between these two kinds of economic actors. As customers traditionally pay 'on the nail', and business payments may take months—depending on the national commercial standards—the trade partners' 'net' account of retail companies automatically generates current liabilities. These current liabilities have always been an important source of funding in the retail industry. However, as they have become increasingly globalized, leading retailers have taken advantage of their growing power over suppliers and have increased their average payment period. Thus, in 2007, the trade partners' 'net' account of retailers represented 43 days of sales, compared with about 30 days in the early 1990s, generating an increasing gap between the accounts receivable and the liabilities due to trade partners.

Retail firms also take advantage of the benevolence or the weaknesses of other partners—such as the state or employees—to whom they are traditionally current debtors for expenses such as income tax, social expenditures or pension funds. Current liabilities generated by these financial relationships are substantial; they rose mainly during the mid-1980s and have been quite stable since then, representing, for example, 14 days of sales in 2007. Overall, the total net current funds retailers raise from all these stakeholders have steadily grown since 1990 from 45 to 57 days of sales (Figure A14), with a similar trend for almost all of the firms in the sample (Figure A15).

Retail firms have always been able to fund their accounts receivable using their stakeholders' liabilities (Figure A16), which is why their 'net partners' account' in Figure A14 is always positive. Thanks to the double process described above, they were also able to fully fund their inventories using their stakeholders' liabilities in 1995. Subsequently, as the process continued, they were able to generate an increasing flow of short-term disposable cash from relations with their stakeholders, which surpassed the amount they needed and wanted to keep in cash and short-term investments in 1998 (Figure A16).

Once current capital needs have been satisfied, using current liabilities to fund fixed assets requires high capacities in current capital management, but it is obviously not impossible. Since the late 1990s, the current debts of retailers to their stakeholders have been globally sufficient to fund their assets immobilized in favour of these stakeholders, their assets immobilized for their inventories, all their cash and short-term investments, but also a growing and already important part of their fixed investments (Figure A16). If we consider that stakeholders' liabilities are used to fund assets from the most to the least current, as presented here, then we can estimate that for 2007, about 13% of retailers' fixed investments were funded with funds due to the stakeholders. Even more striking, funds due to the stakeholders represented 47% of the total assets of the firms in 2007 (versus 42% in 1990).

Decreasing inventories mechanically reduces the share of tangible assets necessary to maintain retail activities, thus increasing—all things being equal—profitability. The increasing share of stakeholders' liabilities can be used to increase asset profitability if the funds are used to make direct financial investments [Financialization (2) of assets] or to 'replace' banking debts or even shareholders' funds. This kind of 'forced funding'—i.e. retailers obliging their stakeholders to provide them with cash for free—means that the stakeholder–retailer relationship becomes more financialized as financial objectives are added to operational objectives.

6. Conclusion

Despite the existence of some contributions at the firm and sectoral levels (Froud *et al.*, 1998, 2002, 2005; Montalban, 2008), there is a significant lack of studies explaining how financialization is linked to organization, power structure and distribution of wealth within firms and along supply chains for specific industries. In this context, one original feature of our study is that it relies on an analysis of consolidated financial accounts in an international and comparative perspective that can capture the effect of globalization processes. However, our results still need to be related to a comprehensive analysis of corporate governance changes and heterogeneity among firms. Consumer welfare and the evolution of pricing policies along the supply chain are also key issues that are difficult to address here for methodological reasons. Moreover, our data do not allow us to explore the hypothesis of the growing importance of financial operations involving consumer credit (Financialization 3). Further research in these directions is urgently needed.

Nonetheless, looking at the links between the financialization and globalization processes, this paper points out several strategies the leading retailers have used to increase their ROE and the share of profit distributed to shareholders (Financialization 1) despite the slowdown in revenue growth. For example, we observed remarkable foreign expansion by half of the firms in the sample and significant—though heterogeneous—financialization of assets (Financialization 2). Looking at individual strategies, we suggest that financialization of assets has been a substitute for international expansion for those firms that were the least profitable when international growth opportunities vanished.

Moreover, looking for potential interactions between the globalization and financialization processes, we identify two other overlapping trends that helped retailers to increase their ROE. The first of these trends is consistent with the numerous studies that link globalization with a weakening in the position of low-skilled workers and increased competition along supply chains. This shift of power results in the intensification of worker exploitation and a deterioration in trading conditions for suppliers. More unexpectedly, we have demonstrated that management of the financial aspects of relationships with partners also became a key variable of retailers' financial performances. The generalization of what we have called 'forced funding'—i.e. working capital management used as an effective tool for transforming market power into financial gains—is common to our whole sample, and we argue that it has led to important distributive gains at the expense of the stakeholders, especially suppliers.

We suggest that beyond the retail sector, this phenomenon is central to understanding how financialization affects the power relationships framed by globalization processes. The evidence suggests that it is a general feature that follows the intensification of competition along global supply chains. A connection with the literature on Global Commodity Chains (Bair, 2009) would appear relevant to this point, as the role of financial relationships in the structuring of asymmetric relationships along the chains has so far been an under-studied aspect.

Beyond firm specificities, our study also suggests that these various sources of profitability contain significant limits and contradictions that illustrate the neoliberal deadlock.

First of all, internationalization has offered new fields of profitability, particularly through new growth prospects in countries with less vigorous competition for Western firms. The momentum of internationalization in the second half of the 1990s was related to a set of particular opportunities and does not seem to have constituted a sustainable long-term trend sufficient to preserve ROE. Moreover, the slowdown of sales growth may also reveal that consolidation—nationally and internationally—is now not so effective as a means of increasing profitability.

Second, the oligopolistic control of the relationship with consumers is the source of retailer-specific economic power. It also puts these firms at the forefront of an economic instability and weakness of consumer demand that they help to fuel. Indeed, their sources of profitability feed the slowdown of their growth prospects for several reasons. First, at the macroeconomic level, preferring asset financialization to tangible investment is unfavourable to accumulation and growth. Second, the capture of supply-chain management benefits may sustain a process of impoverishing growth (Kaplinsky, 2000) all along the supply chain that also depresses global demand through limited investments and low wages. Finally, the deleterious effects of intensifying work exploitation in terms of employment and wages also have significant macroeconomic consequences on final consumption, as retail represents a significant part of total employment.

At a third level, if financial investments may help the firms in hedging and increasing their solvency, they also introduce new risks to their balance sheets and earning streams (Orhangazi, 2009). The ongoing financial crisis should reverse this trend towards the financialization of investment and significantly weaken the situation of the most financialized retailers, such as Carrefour and Ahold.

Taking into account these general contradictions, the adverse consequences of the ongoing economic crisis for the retail industry may differ greatly from one firm to another: consumption patterns will evolve as a result of deteriorating conditions on the labour market in developed economies, and the varying fortunes of leading firms, depending on their degree of financial and operational exposure to this very harsh economic climate, may also give momentum to a new wave of M&A within the industry, following a winner-take-all pattern. In the meantime, the resilience of the developing world should lead to faster-paced differentiation between leading firms, depending on the importance of their activities in these regions.

Finally, our study suggests that the rearrangement and partial transfer of retailers' working capital to their stakeholders may have an impact on financial stability. Retailers' terms of payments and their standards of just-in-time delivery impose additional financial costs on their suppliers and increase their capital needs. When it is immobilized as working capital to cope with retailers' terms of payment, this additional capital generates additional costs, such as credit costs, without raising additional revenue for the suppliers. On top of this, when capital is immobilized productively—to cope with the demands of flexibility and just-in-time delivery—the resulting productivity gains are at least partly captured by retailers. The specificity of this kind of investment also increases suppliers' dependence on retailers and the cost of any drop in orders. Retailers' increased flexibility has partly been developed at the cost of their suppliers, leaving them financially riskier and weaker. As very few suppliers are as big as their retailers, some of the financial costs and risks of flexibility are inevitably transferred to weaker structures, increasing their default risks and, ultimately, the overall risk in terms of financial and economic stability. Such a phenomenon is all the more significant because it probably extends beyond the retail industry alone.

Supplementary material

Supplementary material is available at *SOCECO Journal* online.

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How Much Offshoring Matters?

Evolution of Imports and their Relations to Profits, Labor and Firms Strategies in France 1990-2009

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ABSTRACT

This article assesses the evolution of offshoring and its socio-economic impact in France over the period 1990-2009. The relationship between offshoring and employment is analyzed and we explore the links between globalization and financialization and their consequences on labor. We focus on the issue of employment and the distribution of value-added between labor compensation and profits, going beyond macro evidence to investigate the variety of industry dynamics. Section 2 presents the state of the literature on offshoring in France and Section 3 describes our data and our methodology. Section 4 assesses at the macro level the evolution of offshoring in France during the two past decades and offers preliminary findings of firms' behavior in the context of the 2008-2009 financial crisis. Section 5 then proposes an econometric analysis of the relationship between offshoring, employment and the share of labor in value-added. As aggregate results are often inconclusive, Section 6 provides a more detailed outlook at the industry level. Section 7 summarizes our results and points out the policy implications of the analysis in the context of slow recovery and uncertainties on the economic prospects of high income economies such as France.

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1. Introduction

This article assesses the evolution of offshoring and its socio-economic impact in France over the period 1990-2009. The relationship between offshoring and employment is analyzed and we explore the links between globalization and financialization and their consequences on labor.

Offshoring may affect labor (employment and wages) through various channels and with ambiguous effects. Some authors (for example Cohen, 2006; Amiti and Wei, 2006; Mankiw and Swagel, 2006) argue that the direct effects on employment are pretty limited and that they are more than compensated by the gains from international trade in terms of lower prices and new outlets. Milberg and Winkler (2009) mention four links between offshoring dynamics and labor demand: the direct substitution effect and the productivity effect reduce labor demand for a given unit of output; however, the mark-up effect - which rises profits and potentially investment, productivity and output - and the scale effect - resulting from a higher demand for cheaper products – should lead to stronger labor demand. An important leakage in this virtuous circle comes from the possibility that the rise of profits does not lead to higher investment and stronger labor demand. Indeed, European countries and the US have experienced an accumulation slowdown as firms favor dividends and stock buybacks (Stockhammer, 2004; Orhangazi, 2008).

In developed economies, international offshoring may allow firms to satisfy profitability claims made by financial markets. Offshoring would, therefore, contribute to a fall in the labor share of national income, as suggested in some empirical studies (Milberg and Winkler, 2010; IMF, 2007; Guscina, 2006). Three mechanisms are involved. First, an increase in competition in end-products oligopolistic markets prevents firms from raising final goods prices but leaves them with the possibility of reducing inputs prices through effective management of the global value chain and a favorable market power position (Milberg, 2008). Second, as offshoring shrinks the scope of productive activities and investments of firms, it favors higher returns of earnings to shareholders. Such an evolution is consistent with a shift of management behavior from “retain and reinvest” towards “downsize and distribute” (Lazonick and Sullivan, 2000). Third, offshoring contributes to reducing the domestic cost of labor at the sectoral level or the labor share at the macro level. Indeed, “divide and rule” by transnational corporations plus a 'race to the bottom' resulting from greater global labor expansion and a level playing field competition between various socio-productive systems may reduce workers bargaining power (Peoples and Sugden, 2000; Glyn, 2007; Freeman, 2007). However, because of the destructive effect of increased competition on inputs and finished-products markets, the impact of offshoring on profitability should be heterogeneous: positive for companies and/or sectors that source cheaper inputs abroad or outsource abroad, but negative for local providers who suffer increased competition.

Moreover, because of the aforementioned deterioration of labor's position and skill-biased technological change, lower social standards and underemployment tend to diffuse in the whole economy at the expense of low-skilled workers (Petit, 2010; Goos, Manning and Salomons, 2009). In OECD countries, offshoring is thus associated with wages and employment polarization between low-skilled and high-skilled workers. But semi-skilled and high-skilled workers appears to be more vulnerable also as offshoring evolves from manufacturing to services (Bardhan and Kroll, 2003; Crino, 2010, Besson and Durand, 2006; Lipsey, 2006) and towards more and more complex activities (Geishecker, 2008; Winkler, 2009), including R&D activities (Bardhan and Jaffee, 2005).

Our work explores to what extent the general mechanisms described above are relevant for the French case. We focus on the issue of employment and the distribution of value-added between labor compensation and profits, going beyond macro evidence to investigate the variety of industry dynamics. While we are aware of their importance in the offshoring debate, we have decided to not focus on skills and wage inequalities issues. Section 2 presents the state of the literature on offshoring in France and Section 3 describes our data and our methodology. Section 4 assesses at the macro level the evolution of offshoring in France during the two past decades and offers preliminary findings of firms' behavior in the context of the 2008-2009 financial crisis. Section 5 then proposes an econometric analysis of the relationship between offshoring, employment and the share of labor in value-added. As aggregate results are often inconclusive, Section 6 provides a more detailed outlook at the industry level. Section 7 summarizes our results and points out the policy implications of the analysis in the context of slow recovery and uncertainties on the economic prospects of high income economies such as France.

2. Literature

The academic literature on offshoring in France is quite limited, especially in terms of empirical quantification (see Table 1 below for an overview). For example, a recent research (Demmou, 2010) does not allow isolating the impact of the phenomenon; while analyzing the causes of French de-industrialization on the period 1980-2007, it points out foreign competition as one among other domestic factors explaining losses of manufacturing jobs.

Table 1: Overview of the literature quantifying the impact of offshoring in France (based on Chanteau, 2008)

Reference	Results	Methodology	Sectors
SESSI (Mathieu, 1997)	1,9% of industrial production in 1993 (from 0,2% [printing, mineral products, mechanics] to 10,9% [clothing, leather])	Direct imports from emerging and low wages countries compared to domestic production	Manufacturing industry, firms with at least 20 workers
Bouhol (2004)	0,15% of industrial employment in average by year between 1970 and 2002	Econometric analysis of the impact of imports from emerging countries	Manufacturing industry
SESSI (De Gimel, 2005)	1,3% of industry production in 1993 ; 2,4% in 1999 ; 2,7% in 2002	Ibid (Mathieu, 1997)	Ibid (Mathieu, 1997)
CAE (Fontagné and Lorenzi, 2005)	1% of industrial employment (maximum), less of 0,5% of total employment from 1999 to 2002	Balance of employment	Ibid (Mathieu, 1997)
INSEE (Aubert and Sillard, 2005)	0,35% of industrial employment in average by year between 1995 and 2001, meaning 13500 jobs by year (between 9000 and 20000 jobs). 0,25% of industrial emploment by year in average when some indirect effects of offshoring are taken into account (positive effects, reassignments), meaning around 10000 jobs by year	Statiscal simultaneity of two conditions on a given period: (i) reduction of employment at least of 25% or closure of establishment ; (ii) increase of imports from a given country, for the same type of good (+100% or less depending on whether labor costs of the foreign country are comparables or inferiors to French ones)	Manufacturing industry except energy sector, all firms
Sénat (Katalyse, 2005)	0,1% to 2,6% of employment according sectors, meaning sum-total 8000 job threaten by offshoring in 2006 in the commercial service sector and 42000 on the period 2006-2010	Estimations based on 100 individuals interviwes of managers in january-march 2005 extrapolated with the evolution of sectoral imports	Commercial service sector
European Monitoring Center on Change (EMCC, 2006)	Offshoring job loss : 4,6% (2,080) of total job loss between 2002 and 2005	Inventory from an expert informants network (for France: IRES)	Cases of restructurations which : lead to a decrease of at least 100 jobs; or are related to producton sites with at least 250 workers and at least 10% of workers; or lead to the creation of at least 100 jobs
INSEE (Barlet, Blanchet, Cruson, Givord, Picart, Tathelot and Sillard, 2007)	On the period 1995-1999, 12952 industrial jobs have been offshored each year, including 4858 toward low-wages countries. On the period 2000-2003, 14975 industrial jobs have been offshored each year, including 8850 toward low-wages countries	Ibid (Aubert and Sillard, 2005)	Ibid (Aubert and Sillard, 2005)
Chanteau (2008)	0,15% of the establishments by year in average in 1993, 1997 and 2003	Inventory of confirmed cases by cross-checking of firms statements, experts investigations and professional and administrative ressources	All sectors (except agricultural sector and non-profit service sector), firms with at least 20 workers in Rhône-Alpes
Kramarz (2008)	The relation between unions bargaining power, firms' response by outsourcing ans the impact on workers' wage and employment is estimated. On the period 1986-1992, the firms that faced strong unions increased offshoring and decreased employment when the rest of the firms saw their relative employment increase and appeared to have used outsourcing much less intensively	Econometric analysis based on firm-level data (imports and wages) and data on unions activity and bargaining agreements	Most firms, subject to the fiscal report called the 'Bénéfices Industriels et Commerciaux'. All sectors , except the public sector, are covered
Jabbour (2010)	The impact of offshoring on firms' performance (productivity and profitablility, and not on employment) is estimated. Offshoring corresponds to a profit-maximising strategy and does not necessarily answer to the objective of enhancing productivity. It has a positive effect on productivity but a more substantial impact on profitability	Econometric analysis based on the "International Intra-Group Exchanges" survey, which provides information on offshoring activity by French manufacturing firms for the year 1999, and on the the annual firm survey " Enquête Annuelled'Entreprises (EAE), produced by the French Ministry of Industry (SESSI)	Industrial sector. Firms affiliated to an industrial and international group, with more than one million euros of trade flows, or more than 500,000 euros of trade flows towards emerging countries

Most of the quantitative studies focus on the impact of international competition on employment, and differ in many ways, especially in their empirical strategy and the construction of their sample (for a comprehensive survey, see Daudin and Levasseur, 2005). The assumption is that the French labor market is more regulated than others, explaining why firms are keener on adjusting quantities (employment) rather than prices (wages).

Two studies quantifying the impact of offshoring on the French labor market should be mentioned. Based on firms' restructuring announcements since 2002, the first one, carried out by the European Monitoring Centre on Change (EMCC, 2006), concludes that offshoring job losses account for 4.6% of French employment losses. However, the EMCC may underestimate the impact of offshoring because the study takes only into account firms with at least 250 workers and a minimal destruction of 100 jobs.

The second study on the impact of offshoring in France is a research by Aubert and Sillard (2005) which is based on firms and groups data. It has been actualized by the French National Institute of Statistics and Economic Studies (INSEE) in 2007 (Barlet, Blanchet, Cruson, Givord, Picart, Tathelot and Sillard, 2007). Their work is quite original and shows that the impact of offshoring at the firm-level is twofold: (i) there is a significant decrease of employment in the firm for a short period of time (25% per year during three years) or a definitive closure of an establishment; and (ii) there is a simultaneous and significant increase of imports by this firm. According to this methodology, offshoring would explain between 10 and 20% of the industrial job losses between 1995 and 2001. More precisely, 95,000 manufacturing jobs have been lost in France and offshored to foreign countries, that is to say 13,500 on average per year. This number has increased in the subsequent period, with a yearly average of offshored jobs amounting to 14,975 for the period 2000-2003.

This work also points out that developed countries are hosting a majority of offshored French jobs - around 53%, suggesting that offshoring is related to the general restructuring of multinational firms rather than to strategies focused on the reduction of labor costs. Regarding developing countries, China is without surprise the main destination economy, accounting for 30% of the jobs offshored (eastern European countries: 19% and Maghreb countries: 16%). Offshoring to low wage countries is concentrated in low value added activities. At best, it explains 14% of the decrease in employment in these sectors (textiles, home equipment). On the other hand, offshoring to developed countries in pharmaceuticals, aeronautics, and in the automotive industry explains more than 20% of job decreases. However, it should be stressed that the study finds no direct relationship between job losses in a specific industry and the volume of offshoring (Kramarz, 2011 forthcoming, analyzing a panel of manufacturing firms over the period 1995-2004 also finds no obvious regularity in the sign of the relationship between changes in imports and job creation or destruction[1]).

Departing from the common focus on the labor market, Jabbour (2010) assesses the impact of offshoring on firms' productivity and profitability and controls for variables influencing offshoring strategies. She shows that firms' economic performance depends strongly on governance, organizational forms (outsourcing appears generally to be more efficient than vertical integration) and the importance of imported inputs. This study follows previous empirical work (Jabbour, 2008) showing that the choice of offshoring by French firms depends on the kind of inputs and on market thickness.

Furthermore, another study (Chanteau, 2008) assesses the determinants of foreign re-locations using a new dataset of 15,000 establishments owned by firms with more than 20 employees. Comparing the data for three years (1993, 1997 and 2003), the study shows that foreign re-locations are again quite marginal with no more than 0.15% of firms yearly involved. The study then analyzes the determinants of offshoring decisions by French firms and highlights three strategies that are not solely motivated by differences in labor costs: offensive, defensive and structural foreign re-locations. While at the macroeconomic level no difference can be found in the impact of inward and outward offshoring, foreign re-locations are not without consequences for the dynamic of firm strategies. Past offshoring may accelerate the international expansion of firms and lead to increased production abroad. For the author, foreign re-locations can be considered as an adjustment variable for firms facing the challenges of globalization.

Finally, from a theoretical point of view, Kramarz (2008) constructs a bargaining model to show that offshoring can have a direct impact on wages by altering firms' threat point and thus changing the share of the rent between firms and workers. Offshoring appears to be a strategy for firms (especially for the ones facing strong unions) to decrease the size of the quasi-rent to discipline workers. Using French firm-level data, Kramarz shows that firms facing stronger unions increased offshoring and decreased employment, rents and wages.

In summary, as illustrated in Table 1; the literature suggests that in France offshoring is a limited phenomenon, with a significant – but minor - direct negative impact on employment and which affects heterogeneously sectors and workers depending on their qualifications.

1 This study updates Biscourp and Kramarz (2007).

Moreover, this phenomenon is not limited to developing countries as developed countries are an important destination of offshored jobs. Finally, offshoring appears to be one of the factors that favor firms' productivity and profitability.

3. Methodology: how to measure offshoring in France?

Offshoring refers to the geographical separation of production activities across countries. Firms relocate production abroad to seize the opportunity of differences in factor costs, resources and differences in socio-economic systems. The previous section has mentioned surveys where information on sourcing strategies is collected directly from firms. Our approach in this chapter is to work at a more macro-economic level and to rely on national accounts and trade statistics to calculate offshoring indexes. This section first presents the data that we have collected and then explains the different offshoring measures that we have calculated to cover 38 French industries over the period 1990-2009.

Data sources for France

As France collects industry-level data according to a national classification ('nomenclature d'activité française', NAF) that is slightly different from the European nomenclature of activities (NACE) and the International Standard Industrial Classification (ISIC), our analysis relies on the data provided by INSEE. The French office of statistics has recently released a consistent set of national supply-use tables for the period 1990-2009 based on benchmark year 2005. In this database, we can find time-series for output, value-added, domestic consumption, labor compensation, imports and exports. The data are disaggregated for 38 industries covering both the manufacturing and services sectors. Services are especially well covered with 19 industries (this is where the French classification departs from European and international classifications). The other advantage of using supply-use tables is that we have matrices on the use of inputs by French industries on the basis of which we can calculate offshoring measures (in particular the Feenstra-Jensen offshoring index, see next sub-section).

National accounts data are complemented with trade statistics from OECD. Bilateral trade data on goods come from the International Trade by Commodity Statistics (ICTS) database and services data from the Trade in Services by Partner country (TISP) database. In addition, we use estimates of bilateral trade in intermediate goods and services from the OECD dataset compiled by Miroudot *et al.* (2009). We have developed a correspondence between the product classifications used in the trade data (HS and EBOPS codes) and the 38 industries of the supply-use tables. It should be noted that supply-use tables, unlike input-output tables, are tables constructed by product and by industry (and not industry by industry tables). Therefore, we do not face the issue of matching products with industries.

The only variable that we do not have in the national accounts is the number of employees, but these data are also available from INSEE for the same industries.[2] While the supply-use tables include information on the gross fixed capital formation, the data are partly confidential for France and hence provided at a more aggregated level. We have reconstructed detailed investment time-series on the basis of the available data and more disaggregated data from the OECD STAN database. We have expanded the coverage of investment data to 1982 in order to calculate capital stocks for each industry using the Perpetual Inventory Method (PIM). We have also estimated a price index for inputs (a variable needed for the econometric analysis) on the basis of the supply-use tables.

While all our data are available for 38 industries, the rest of the analysis focuses on 25 industries where offshoring matters. We have excluded all industries where the share of imports in output was less than 2%. Many services industries (such as real estate, construction, hotels and restaurants, health, education and public administrations) import a negligible value of inputs and offshoring measures cannot be properly calculated or meaningfully interpreted. We have also excluded commodities (agriculture, extractive industries, coke and refined petroleum products) where imports cannot be interpreted as the offshoring of activities. The list of industries kept in the analysis can be found in Table 2.

Offshoring indexes

There is no single measure of offshoring. Authors have used a variety of indicators and indexes to indicate to what extent firms turn to foreign rather domestic producers for the provision of inputs.[3] Following Feenstra and Hanson (1999), a proxy for offshoring is the share of imported intermediate inputs in the total purchase of non-energy inputs. Milberg and Winckler (2009) show that a limitation in the way this proxy is calculated is the assumption that an industry's import of each input, relative to its total demand, is the same as the economy-wide imports relative to total demand ("proportionality assumption"). To

[2] There are no data for agriculture which is not covered in our analysis. Data for public administrations are available only from 1999 onwards, but we have also excluded this sector from the scope of our analysis.

[3] See Kirkegaard (2007) and Agnese and Ricart (2009) for a discussion of the empirical measurement of offshoring.

provide a more accurate indicator, Feenstra and Jensen (2009) use a direct measure of imported intermediate inputs. We have calculated a similar index for French industries over the period 1990-2009 (offshoring index 1).[4] For any industry *i* using intermediate inputs *j* from industry *k,* the offshoring index is:

$$Offshore_i = \frac{\sum_{k=1}^{K} industry\ i\ purchases\ of\ inputs\ j \left(\frac{imports\ of\ inputs\ j}{total\ domestic\ consumption\ of\ j}\right)}{\sum_{k=1}^{K} industry\ i\ purchases\ of\ inputs\ j}$$

In the above calculation, we take into account inputs from all industries. A ‘narrow' measure of offshoring is sometimes used in the literature where only inputs from the same industry (*i*=*k*) are included. In the case of France, we do not find the distinction between inter-industry offshoring and intra-industry offshoring (*i.e.* narrow offshoring) very useful. In addition, when comparing industries, the two measures are influenced by the detail in the industry classification. For some sectors (e.g. ‘wood, paper and printing'), most inputs are within the same industry code while for others inputs are in different industries (e.g. ‘transport equipment' using inputs from ‘basic and fabricated metal products' and ‘rubber, plastic and other non-metallic mineral products' industries).

Moreover, because the Feenstra-Jensen index overlooks the offshoring of assembly activities, we use as a second measure (offshoring index 2) the share of imports from developing economies in total imports (following Milberg and Winckler, 2010). We cannot assume that all imports from developing economies correspond to the offshoring of assembly activities but this measure is useful to account for the fact that some offshoring is captured through final goods trade rather than trade in intermediate inputs. We have defined developing economies as low-income and middle-income countries in the World Bank classification. Most of the developing economies where offshoring happens are in the lower-middle income (*e.g.,* India and the Philippines) or upper-middle income group (*e.g.,* China, Tunisia and Turkey). This is why we do not distinguish between middle-income and low-income countries as the latter include mostly Sub-Saharan African economies that are very marginal in world trade (especially for non-commodity trade).

4. An acceleration of globalization up to the crisis

Some recent discussions have pointed to the consolidation of some global value chains, suggesting that at least in some sectors globalization is beginning to lose momentum (Cattaneo, Gereffi and Staritz, 2010). In the case of France, however, the general picture

[4] For services industries, the proportionality assumption has to be maintained due to data limitations.

does not confirm such an evolution: the indicators that we use point to a sustained and continuous increase in goods and services offshoring and even an acceleration since 2002.

Table 2: Main aggregates, by industry

	Evolution of imports share	Imports share	Evolution of offshoring		Evolution of employment	Employment	Evolution of labor compensation share	Labor compensation share	Evolution of investment rate	Gross output
	Percentage points 1990-94 / 2005-09	imports as % of gross output 2005-09	Index 1 change 1990-94 / 2005-09	Index 2 change 1990-94 / 2005-09 (1999/2009 for services)	Thousands 1990-94 / 2005-09	Thousands 2005-2009	Percentage points 1990-94 / 2005-09	% of VA 2005-09	Percentage points 1990-94 / 2005-09	Current Mio euros 2005-09
Food products, beverages and tobacco	5,47	18,6%	9,27	-1,49	7	566	8,71	58%	-0,96	140 015
Textiles, textile products, leather and footwear	81,12	128,4%	7,79	20,16	-232	149	4,79	73%	1,52	21 136
Wood, paper, paper products and printing	6,89	30,5%	8,30	3,46	-90	246	1,75	71%	-2,01	40 987
Chemicals and chemical products	13,88	62,2%	57,80	1,87	-61	165	11,91	64%	3,66	59 966
Pharmaceuticals	43,31	68,2%	3,77	0,26	1	89	-2,15	46%	-0,03	26 634
Rubber, plastic and other non-metallic mineral products	9,42	33,4%	34,87	7,03	-42	330	-2,51	66%	6,77	58 067
Basic metals and fabricated metal products	10,39	38,8%	43,06	1,42	-87	440	1,78	71%	1,46	92 574
Computing products and electrical and optical equipment	76,46	151,5%	4,96	20,06	-37	160	16,31	79%	18,04	27 068
Electrical machinery and apparatus	27,96	67,1%	10,17	16,91	-36	133	16,70	75%	1,44	26 350
Machinery and equipment, n.e.c.	24,98	87,9%	8,17	9,04	-50	229	-0,33	69%	1,79	40 080
Transport equipment	12,38	52,6%	5,93	2,60	-44	393	4,37	80%	-3,66	122 048
Other manufacturing	12,08	32,9%	8,44	15,23	-91	317	-10,12	74%	-0,66	52 612
Collection, purification and distribution of water	0,87	4,4%	3,09	-	85	174	-9,90	46%	-6,99	31 731
Transport and storage	-0,21	14,4%	0,17	-	174	1341	-2,73	69%	2,02	166 603
Publishing, audiovisual and broadcasting	-4,85	9,9%	-2,15	4,80	39	206	1,25	62%	8,28	47 885
Telecommunications	1,76	2,6%	2,17	-10,61	-5	170	-2,86	30%	-11,21	58 285
Computer and related activities	1,14	2,6%	-0,94	9,15	155	296	8,94	73%	7,23	59 662
Financial intermediation	-0,79	2,8%	-1,17	4,07	108	809	9,79	68%	8,56	166 029
Legal, accounting, architectural and engineering activities	-2,92	5,5%	-2,37	8,35	283	830	-15,36	69%	1,36	161 822
Research and development	1,56	10,0%	1,71	8,40	25	151	13,71	87%	18,35	36 812
Advertising, market research and other technical activities	0,49	5,8%	0,46	12,96	47	245	4,93	62%	5,09	29 697
Other business services n.e.c.	0,89	4,7%	0,25	6,24	716	1594	5,45	64%	7,62	168 798
Other service activities	1,37	0,02	-1,37	-	125	524	0,64	63%	-0,26	40 178

Source: INSEE Supply-Use tables 1990-2009, benchmark year 2005, INSEE employment statistics. The offshoring measure is the Feenstra-Jensen index (see Section 2).

Between 1990 and 2009, the share of imports in gross output for all the manufacturing activities (excluding commodities) has increased, sometimes dramatically (see Table 2). The same is true for most services industries with the exception of “Publishing, audiovisual and broadcasting”, “Financial intermediation” and “Legal, accounting, architectural and engineering activities”. Regarding the measure of offshoring focusing on inputs (offshoring index 1), the only difference is that “Computer and related activities” and “other service activities” also experience a small decline.

Figure 1 – Offshoring indexes for France (1990-2009)

This evolution is related to an increase in the import share from developing countries in the case of manufacturing industries, as seen on Figure 1. The two offshoring indexes (the first one calculated on the basis of the share of imported inputs in intermediate consumption and the second one based on the share of imports from developing countries in total imports) grow at a similar rate over the period 1990-2009. There is an acceleration in the second decade showing that France does not follow the consolidation scenario previously mentioned. In the case of services, there is no significant trend in offshoring, the first index is a flat line at a low level. Due to data limitations, we can only calculate the second offshoring measure from 1999 onwards and the data show some volatility related to the poor quality of bilateral trade statistics on services. The result is, however, consistent with the first offshoring measure, as no particular increase or decrease can be seen between 1999 and 2009.

In terms of employment, the dynamics of manufacturing and services industries contrast sharply as well. There has been a decline in employment in all manufacturing industries, except 'food, beverages and tobacco' (+7,000) and 'pharmaceuticals' (+1,000), with a net loss of 762,000 jobs. On the contrary, there has been an increase in employment in all the services industries considered except 'telecommunications' (-5000) with an overall net gain of 1,752,000 jobs. This huge shift in jobs allocation represents the major structural transformation of the French labor market as jobs in manufacturing and services do not have necessarily the same characteristics. However, this phenomenon is partly due to the development of extra and intra-firm outsourcing and the reallocation of labor activities, with some services activities being separated from manufacturing firms. The same jobs that were previously performed in-house in manufacturing firms are now part of services industries. One should therefore not overestimate the scope of the job reallocation. But, as the rest of the paper will highlight, there are also industries that have really disappeared or are in strong decline following the specialization of the French economy in services activities. Concerning the evolution of the labor compensation share, no general trend appears with some significant increase and diminution in manufacturing and services activities that we will further analyze.

Table 3: Industry dynamics of offshoring and international trade (1990-1999)

	1990-1999						
	Offsshoring index 1	**Offshoring index 2**	**Import share**	**Imports**	**Exports**	**Total trade balance**	**Relative total trade balance**
	CAGR	CAGR	% of VA ; CAGR	CAGR	CAGR	Constant Euros	% ; calculated with constant euros
Food products, beverages and tobacco	0.59	-3.05	2.38	2.40	3.10	57674	13.77
Textiles, textile products, leather and footwear	0.34	3.84	6.76	2.37	2.36	-52867	-17.54
Wood, paper, paper products and printing	-0.36	-0.82	0.56	1.02	3.16	-25324	-16.00
Chemicals and chemical products	-1.01	-1.18	2.17	2.51	5.41	30111	6.41
Pharmaceuticals	0.67	-1.79	9.26	12.78	12.34	15397	13.00
Rubber, plastic and other non-metallic mineral produ	-0.80	6.99	2.57	2.88	3.79	5651	2.49
Basic metals and fabricated metal products	-1.08	-1.09	0.45	0.14	0.37	7555	1.93
Computing products and electrical and optical equip	1.75	9.78	6.54	5.49	8.19	-48052	-10.14
Electrical machinery and apparatus	1.25	10.15	4.63	5.63	7.33	8924	4.47
Machinery and equipment, n.e.c.	0.66	5.03	0.75	1.83	3.20	-7511	-1.78
Transport equipment	0.58	-0.39	2.67	4.83	5.84	123779	16.04
Other manufacturing	0.67	5.43	2.19	2.62	4.16	-12950	-7.97
Collection, purification and distribution of water	-1.18	n.a.	-2.24	-0.43	-0.24	2592	15.32
Transport and storage	-2.38	n.a.	-1.61	0.30	2.16	-12231	-4.64
Publishing, audiovisual and broadcasting	-1.18	n.a.	-3.16	0.04	4.64	-24319	-37.11
Telecommunications	0.03	n.a.	16.15	19.17	22.37	317	4.56
Computer and related activities	-1.06	n.a.	1.95	5.82	29.69	-1218	-15.63
Financial intermediation	-1.47	n.a.	-2.38	-2.07	-3.45	20552	20.40
Legal, accounting, architectural and engineering acti	-1.48	n.a.	-0.69	2.87	1.87	25446	17.61
Research and development	-0.40	n.a.	0.34	1.25	1.07	3403	7.43
Advertising, market research and other technical act	-0.85	n.a.	0.95	4.06	4.50	-3434	-18.82
Other business services n.e.c.	-1.19	n.a.	-0.98	1.90	2.99	-789	-1.12
Other service activities	-0.29	n.a.	-0.40	3.84	0.85	1446	20.34
average/**total**	-0.34	2.74	2.04	3.24	5.44	**137529**	4.02

CAGR imports > exports

Note: Figures highlighted in gray are the ones illustrating the trend described in boxes at the bottom of the table. Relative total trade balance is calculated as (exports – imports) / (exports + imports).

Table 4: Industry dynamics of offshoring and international trade (2000-2008)

	2000-2008						
	Offsshoring index	**Offshoring index 2**	**Import share**	**Imports**	**Exports**	**Total trade balance**	**Relative total trade balance**
	CAGR	% of total imports ; CAGR	% of VA ; CAGR	CAGR	CAGR	Constant Euros	% ; calculated with constant euros
Food products, beverages and tobacco	5.54	1.56	3.60	2.86	1.00	51757	11.30
Textiles, textile products, leather and footwear	1.94	2.96	5.93	0.05	-0.95	-74107	-21.39
Wood, paper, paper products and printing	2.93	3.01	2.13	-1.06	-1.51	-28866	-16.62
Chemicals and chemical products	7.46	5.47	4.12	1.94	1.36	57151	9.23
Pharmaceuticals	-0.49	5.18	7.06	5.38	4.91	29642	10.78
Rubber, plastic and other non-metallic mineral produ	6.31	4.79	3.93	2.26	0.23	-11992	-4.34
Basic metals and fabricated metal products	7.12	0.26	4.71	3.46	2.75	-22052	-4.49
Computing products and electrical and optical equip	-1.98	8.06	2.60	-3.64	-6.11	-78359	-12.92
Electrical machinery and apparatus	0.32	5.91	4.95	0.37	0.44	3847	1.41
Machinery and equipment, n.e.c.	1.17	16.01	2.33	1.48	2.05	-16504	-3.15
Transport equipment	1.01	8.17	5.64	2.16	0.10	179629	15.86
Other manufacturing	1.64	3.57	3.78	2.49	1.01	-35177	-16.18
Collection, purification and distribution of water	1.63	n.a.	4.11	7.99	9.94	10904	31.81
Transport and storage	0.82	n.a.	1.33	3.82	1.86	-17081	-5.41
Publishing, audiovisual and broadcasting	-0.69	n.a.	-2.22	-2.23	-3.45	-12030	-16.93
Telecommunications	-0.95	-5.11	1.71	4.80	6.03	6010	21.81
Computer and related activities	-1.43	n.a.	3.99	6.03	2.17	-281	-1.34
Financial intermediation	-0.92	9.16	-0.61	-1.64	-3.81	3117	3.95
Legal, accounting, architectural and engineering acti	-0.77	n.a.	-3.81	1.51	-2.52	8641	5.69
Research and development	0.52	n.a.	3.83	3.92	0.43	-1809	-3.73
Advertising, market research and other technical act	0.59	n.a.	1.97	3.61	-3.82	-4968	-23.49
Other business services n.e.c.	0.76	n.a.	5.09	6.89	6.69	9495	8.61
Other service activities	-1.91	n.a.	8.15	9.11	1.99	-964	-9.18
Average/**total**	1.28	5.31	3.10	3.05	0.86	**77509**	2.26

Acceleration : CAGR 2000-08>1990-99>0

CAGR imports > exports

Degradation : balance 2000-08<1990-99

Note: Figures highlighted in gray are the ones illustrating the trend described in boxes at the bottom of the table. Relative total trade balance is calculated as (exports – imports) / (exports + imports).

Comparing 1990-1999 and 2000-2008, a rapid look at the industry dynamics points out two elements (Tables 3 and 4). First, there is no sign of any significant slowdown in globalization. Between the two periods, the average Compound Annual Growth Rate (CAGR) of the import share has increased from 2.04% to 3.10%. An even clearer acceleration appears for the two indexes of offshoring, with a jump from -0.34% to 1.28% (offshoring index 1) and from 2.74% to 5.31% (offshoring index 2). It is worth noting that the phenomenon is especially important for goods but that the trend is much less uniform for services. For example, there has been a decline in 'telecommunications' but a further internationalization of sourcing for 'other business services' and 'advertising, market research and other technical activities'.

Second, in most of the sectors and on average, imports were more dynamic than exports in the second period. Consequently, there has been a deterioration of the trade balance (absolute or relative) for all manufacturing sectors with the exception of 'chemicals and chemical products' and for a majority of services activities (Table 5).

Table 5: Industry dynamics of offshoring and international trade (2009)

	2009						
	Offsshoring index 1	**Offshoring index 2**	**Import share**	**Imports**	**Exports**	**Total trade balance**	**Relative total trade balance**
	Annual % change	Annual % change	% of VA ; CAGR	Annual % change	Annual % change	Current euros	% ; calculated with current euros
Food products, beverages and tobacco	-13.46	-8.33	2.05	-5.02	-9.18	3379	5.39
Textiles, textile products, leather and footwear	-3.51	4.07	21.45	-6.72	-10.07	-10384	-25.12
Wood, paper, paper products and printing	-9.75	-5.07	-3.24	-13.51	-15.15	-3899	-20.32
Chemicals and chemical products	-14.96	-13.11	0.79	-20.21	-16.67	7497	10.10
Pharmaceuticals	-2.03	17.41	18.36	12.85	7.77	3914	8.23
Rubber, plastic and other non-metallic mineral produ	-17.48	1.88	-11.42	-13.13	-18.11	-3942	-11.92
Basic metals and fabricated metal products	-19.48	-3.32	-18.67	-31.44	-30.23	-2673	-4.96
Computing products and electrical and optical equipı	-4.38	8.96	4.00	-11.94	-15.95	-13401	-22.70
Electrical machinery and apparatus	-1.27	2.37	-5.06	-14.34	-17.78	-197	-0.60
Machinery and equipment, n.e.c.	-1.10	11.71	-11.96	-24.37	-23.36	-1692	-2.86
Transport equipment	-2.99	21.18	-8.22	-13.71	-16.45	10483	8.06
Other manufacturing	-3.35	2.38	-4.76	-3.89	-0.88	-5033	-16.37
Collection, purification and distribution of water	-14.57	n.a.	-39.97	-47.88	-39.35	1589	40.55
Transport and storage	-3.11	n.a.	-16.04	-17.31	-18.27	-3743	-9.36
Publishing, audiovisual and broadcasting	-5.33	29.23	-6.74	-5.79	-5.64	-1718	-22.01
Telecommunications	-0.15	36.43	28.35	25.41	7.57	637	13.58
Computer and related activities	-3.05	99.39	-1.66	-3.79	-8.63	-325	-12.35
Financial intermediation	0.42	-17.06	-11.47	6.84	3.03	527	5.59
Legal, accounting, architectural and engineering acti	-3.40	-2.29	-1.00	-3.89	-0.63	-92	-0.49
Research and development	-4.21	-1.90	-6.63	-0.68	-5.51	-791	-11.72
Advertising, market research and other technical act	-2.25	0.14	-5.15	-13.95	-20.55	-1152	-47.33
Other business services n.e.c.	-3.12	-4.17	8.44	0.79	-11.09	317	1.67
Other service activities	-7.33	n.a.	-1.45	1.10	-11.28	-459	-26.39
Average/**total**	-5.83	9.00	-2.92	-7.11	-13.69	**-20487**	-4.86

Acceleration : growth2009>CAGR 2000-08>0

CAGR imports > exports

Degradation : relative balance 2009<2000-08

Note: Figures highlighted in gray are the ones illustrating the trend described in boxes at the bottom of the table. Relative total trade balance is calculated as (exports – imports) / (exports + imports).

Finally, in 2009, the evolution of trade in France is consistent with the collapse of global trade (see Table 5). We observe a dramatic fall in imports and exports in all the sectors except 'chemicals and chemical products', 'telecommunications" and 'financial intermediation'. However, it is striking that in most of the sectors the decline of imports has been less severe than the decline of exports, resulting in further deterioration of the trade balance in all sectors (except four) and, contrary to the two previous periods, a negative overall trade balance. Concerning offshoring, there is a reduction of inputs offshoring (offshoring index 1) in all the industries except financial intermediation. However, the second offshoring index related to the share of imports from low and middle income economies progresses in most of the sectors and in some cases very significantly: in particular, the evolution of 'computing products and electrical and optical equipment', 'transport equipment', 'telecommunications' but also services such as 'computers and related activities' and 'publishing, audiovisual and broadcasting' (for which data are not available in the previous period) suggests that imports from developing economies have been more resilient than overall trade.

To put it in a nutshell, between the nineties and the first decade of the century, there has been overall an acceleration of globalization. This evolution is very clear for all manufacturing activities but more nuanced in the case of services. The second important trend is the shift of employment from manufacturing activities towards services. Moreover, for most industries but also at the aggregate level, exports have not increased in line with imports, resulting in a deterioration of the trade balance which even worsens with the crisis. In the context of the collapse of global trade during the 2008-2009 crisis, there has been a better resilience of imports from low and middle income economies which highlights the depth trade and industrial relationships established during the past decade with developing and emerging economies.

5. Econometric analysis: does offshoring in France lead to lower employment and more profits?

Before analyzing the variety of sectoral regimes and identifying differences among industries, we propose in this section an econometric analysis of the data (with all sectors pooled together) in order to test some of the relationships previously discussed between offshoring, employment and labor compensation.

The first variable that we test is the level of employment in French industries. Following Hijzen and Swaim (2007 and 2010) and in line with the analysis of Milberg and Winkler

(2010) previously mentioned, we assume that the impact of offshoring on employment is twofold. First, there is a substitution effect: for a given level of output, firms faced with an increase in labor price turn to outsourcing and demand less domestic labor. This substitution effect can also be interpreted as a technology or productivity effect; a more efficient production process requires less labor. What is important is that for a given output, labor demand falls. Then, there is a scale effect: having decreased their costs through offshoring, firms are expected to sell at a lower price and to expand their output, thus increasing employment (keeping constant this time the labor intensity). The scale effect can become a mark-up effect if in the absence of a competitive market, the reduction in costs is not translated into a reduction of prices and the extra profit is used to invest and increase output with again a positive impact on employment for a given labor intensity. Of course, firms can also use the reduction in costs to increase their profits with no impact on employment (this is why we are also interested in the evolution of the labor compensation and investment). The impact of the scale/mark-up effect and the total impact of offshoring on employment are empirical questions.

As proposed by Hijzen and Swaim (2007), the following labor demand functions can be tested. The first one is the “conditional” labor demand testing the impact of offshoring for a given output, *i.e.* the substitution/productivity effect:

$$\ln L_{it} = \alpha_0 + \beta_1 \ln y_{it} + \beta_2 \ln w_{it} + \beta_3 \ln k_{it} + \textstyle\sum_{i=l}^{L} \gamma_l\, z_{ilt} \qquad (1)$$

where L is the level of employment (in industry *i* for year *t*), y is gross output, w is the nominal price of variable factors (wage and the price of materials), *k* the capital stock. The model is augmented with demand shifters, *z*, that include the offshoring measures we have calculated and the share of imports in gross output. An assumption in this model is that capital is quasi-fixed to focus on the shift in labor demand. The capital stock rather than the cost of capital is thus the control variable. Firms determine the profit-maximizing level of labor demand by minimizing the costs of production conditional on output (and the capital constraint).

The second model is the “unconditional” labor demand testing this time the total impact of offshoring. The assumption is that firms maximize profits for given input and output prices. They choose their optimal mix of inputs and the level of output. The model becomes:

$$\ln L_{it} = \alpha_0 + \beta_1 \ln p_{it} + \beta_2 \ln w_{it} + \beta_3 \ln k_{it} + \textstyle\sum_{i=l}^{L} \gamma_l\, z_{ilt} \qquad (2)$$

where instead of gross output, *p* is the price of output.

The results of the estimation of the conditional and unconditional models can be found in Table 6 below. All the regressions are OLS estimations with year fixed effects and robust standard errors. In Columns 1 and 5, the Feenstra-Jensen index and the share of imports in gross output are tested as labor demand shifters. We then have two other Columns (2 and 6) where the second measure of offshoring (the share of imports from developing countries in total trade) is used. As this measure is collinear with the import share, we run separate regressions[5]. Both the conditional and unconditional models work very well for France. We have a very high R-squared (almost 90%). All the variables are significant at the 1% level. Controlling for output, nominal prices of factors and capital stocks, we find a significant and negative relationship between employment and offshoring in the conditional model. As this specification should capture the substitution/productivity effect, this is the expected result. However, there is still a negative (and significant) relationship in the unconditional model capturing the total impact of offshoring on employment. Comparing the two coefficients for the offshoring index 1, one can see that the scale effect is small for French industries and that the substitution effect (loss of jobs) dominates. This result is not surprising as offshoring is particularly strong in manufacturing industries where France has lost a lot of jobs. All of job creation, as seen in Table 2, is in services industries that have less offshoring.

Table 6: Regression results – Labor demand functions

Dependent variable: employment	Conditional				Unconditional			
	Level of employment		Fifth-difference		Level of employment		Fifth-difference	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Output	0.676***	0.461***	0.147***	-0.023				
	(0.065)	(0.071)	(0.052)	(0.042)				
Price of output/price of materials					0.656***	0.077*	0.454***	-0.023
					(0.064)	(0.044)	(0.070)	(0.039)
Wage / Price of materials	0.526***	0.634***	0.500***	0.886***	0.534***	0.555***	0.636***	0.889***
	(0.052)	(0.067)	(0.080)	(0.058)	(0.051)	(0.079)	(0.066)	(0.060)
Capital stock	-0.265***	-0.152***	0.317***	0.129***	-0.256***	0.319***	-0.145***	0.127***
	(0.023)	(0.028)	(0.034)	(0.041)	(0.023)	(0.036)	(0.028)	(0.042)
Offshoring index	-0.230***	-0.211***	-0.028**	-0.027***	-0.228***	-0.023**	-0.212***	-0.027***
	(0.026)	(0.031)	(0.011)	(0.008)	(0.025)	(0.011)	(0.031)	(0.008)
Import share	0.046***		-0.053***		0.048***	-0.050***		
	(0.014)		(0.012)		(0.014)	(0.012)		
2nd offshoring measure (imports from developing countries)		0.509***		0.03			0.532***	0.03
		(0.095)		(0.100)			(0.096)	(0.100)
Number of obs.	640	412	475	273	640	475	412	273
R-squared	0.898	0.933	0.702	0.779	0.896	0.697	0.933	0.779

Note: OLS regressions with year fixed-effects and robust standard errors. * significant at 10% ** at 5% *** at 1%.

5 The correlation coefficient between the second offshoring index and the import share is 0.45.

To confirm this result, we also run the regressions in fifth-difference (Columns 3, 4, 7 and 8). First, they capture a dynamic view, the impact of the change in offshoring on the change in employment. Long difference estimations are recommended when working with labor data (see Hijzen and Swaim, 2007). In addition, the advantage of the specification is that any time-invariant unobserved variable does not affect the results. We thus test the robustness of the previous relationship. The R-squared is slightly lower with the estimation in difference and the offshoring index slightly less significant (at the 5% level in the unconditional estimation) but still we confirm the negative relationship between offshoring and employment (this time between the change in offshoring and the change in employment).

Another robust result from the two sets of estimations is that the share of imports in output is positively associated with the level of employment but negatively with the change in employment. The higher the competition in final products (or the offshoring of final assembly), the higher is employment in France in the same sector. But over the period of interest (1990-2009), an increase in the import share is associated with a decrease in employment suggesting that an intensification of competition in a given sector leads to job destruction. A complementary result is that the share of imports from developing countries (our second offshoring measure) is positively associated with employment in the estimation in levels. It suggests that offshoring to other developed economies is what explains lower employment. The second offshoring measure is however not significant in the estimation in difference (Columns 4 and 8), indicating that the positive relationship found between employment and trade with developing economies is static and does not last.

Changing slightly the model, we can also run regressions on the share of labor compensation in value-added, controlling for output, capital stock and the nominal price of factors. Table 7 below summarizes the results.

Table 7: Regression results – Impact of offshoring on labor compensation

	Dependent variable: share of labor compensation in VA			
	Level		Fifth-difference	
	(1)	(2)	(3)	(4)
Output	-0.409*** (0.047)	-0.165*** (0.053)	-0.633*** (0.063)	-0.586*** (0.080)
Wage / Price of materials	0.561*** (0.033)	0.362*** (0.036)	0.526*** (0.069)	0.563*** (0.107)
Capital stock	-0.234*** (0.028)	-0.232*** (0.029)	-0.121** (0.052)	-0.250** (0.097)
Offshoring index	0.150*** (0.026)	0.067*** (0.020)	0.024 (0.043)	0.009 (0.042)
Import share	0.002 (0.017)		-0.027*** (0.009)	
2nd offshoring measure (imports from developing countries)		-0.333*** (0.113)		0.204 (0.254)
Number of obs.	680	432	510	288
R-squared	0.671	0.511	0.258	0.223

Note: OLS regressions with year fixed-effects and robust standard errors. * significant at 10% ** at 5% *** at 1%.

The specification is less robust than the labor demand functions, with a lower R-squared. But the control variables are very significant and the model explains a fair amount of inter-industry variations. The offshoring index is significant and positively correlated with the share of value-added going to labor in the estimation in levels. But the variable loses its significance when estimating the model in difference. While offshoring seems to decrease employment in the labor demand functions, the increase in the share of VA to labor appears as a paradox. It could be explained, however, by a shift in skills (and thus higher wages paid). But again we cannot over-interpret this result as the coefficient is not robust in the estimation in difference. We have an indication that the import share might be negatively correlated with the share of labor and there the significance in the estimation in difference would appear as the sign of a more robust relationship than for the offshoring index. Regarding the second offshoring measure, the results suggest that the higher the imports from developing economies the lower the share of labor in value-added. But this relationship is not confirmed in the estimation in difference.

Overall, what the econometric analysis suggests can be summarized in three points:

- Because employment increases in services sectors in France where less offshoring occurs, we find a robust negative relationship between offshoring and the level of employment (both in a static and dynamic way, that is more offshoring leads also to lower employment). The substitution effect (use of foreign rather than domestic labor) is stronger than the scale effect (higher market shares because production is more efficient with offshoring). Hijzen and Swaim (2007) in a panel of OECD countries find that on average the scale effect is stronger. France (together with Japan, the US and a few other large economies) seems to face challenges in the way offshoring can lead to more productivity and benefits labor rather than profits (a question we further address in the next section).

- Overall, the negative relationship between offshoring and employment does not seem to result from higher competition from developing economies. If more competition in final products sourced from developing countries has an impact on labor, it is through a lower share of VA going to wages in globalized industries (maybe because of a skill bias).

- Lastly, the extent to which industries face foreign competition in final goods has a complex relationship with employment. On the one hand, industries where the import share is higher have a slightly higher level of employment, but an increase in the import share during the 1990-2009 period was associated with a relative decrease in employment. This suggests that French industries have specific difficulties in their integration in the world economy. Together with the lack of scale effect for offshoring, the productivity gains from trade seem elusive in the French context.

In the econometric analysis, we have pooled together all industries. This is time now to look more into the detail of sectoral dynamics. What is found on average to be correlated in the econometric analysis hides contrasted evolutions among industries.

6. Variety of sectoral regimes of offshoring

In order to better understand the variety of dynamics associated with offshoring, we have build an analytical table using the various combinations of results we have for the offshoring measures, import share, labor share, level of employment and investment rate (see Table 8).

Table 8: A mapping of French industries according to socio-economic and offshoring dynamics

SOCIO-ECONOMICS DYNAMICS	**DECLINE**	**FINANCIAL PREDATION**	**TENTATIVE REBOUND**	**EXPANSION**
	Reduction in employment, increasing labor share and decline in investment rate	Decline in labor share and decline or weak growth in investment rate	Reduction in employment and rise in investment rate	Increase in employment and in labor share
DRIVING FORCES				
Fragmentation of production process		***Predatory restructuring***	***Offensive restructuring***	***Expansionary insertion in global production networks***
Manufacturing: Increase in offshoring index 1 > 9 index points and increase in imports share > 5 percentage points		Basic metals and fabricated metal products	Rubber, plastic and other non-metallic mineral products	Food products, beverages and tobacco
Services: Increase in offshoring > 1 index point and > increase in import share		Collection, purification and distribution of water	Electrical machinery and apparatus	Research and Development
		Telecom	Chemicals and chemical products	
Global competition	***Weakening***	***Financial-driven decline***	***Survival limited to some niches***	***Expansionary insertion in global competition***
Manufacturing : Increase in offshoring index 1 <9 index points and increase in import share > 5 percentage points	Transport equipment	Pharmaceuticals	Machinery and equipment	
	Wood, paper, paper products and printing	Other manufacturing	Textiles, textile products, leather and footwear	
Services: Increase in import share > 1 percentage point and > increase in offshoring			Computing products and electrical and optical equipment	Other service activities
				Computer and related activities
No apparent globalization		***Domestic predation***		***Domestic based expansionary path***
Manufacturing: Increase in offshoring index 1 < 5 index points and decrease in imports share				
Services: Increase in offshoring < 1 index point and increase in imports share < 1 percentage point		Legal, accounting, architectural and engineering activities		Publishing audiovisual and broadcasting
		Transport and storage		Other business services
				Financial intermediation
				Advertising, market research and other technical activities

On the basis of table 8, we can distinguish three important driving forces related to offshoring. First, in some industries we observe at the same time an increase in the share of imports in output and a strong intensification of offshoring, which suggests that the main phenomenon is the fragmentation of production processes. In some other industries, we also observe an increase in the import share but no strong increase in offshoring; we regard this case as the intensification of competition on final products. The third case is the lack of globalization (at least on the import side), when both offshoring and the import share are decreasing (or growing very slowly). We have used different criteria to characterize the intensity of offshoring in manufacturing and services industries as by definition there are fewer material inputs in services industries and services are less tradable than goods. The contrast is really striking between, on the one hand, manufacturing industries where import shares are above 18% in all cases (18,6% is the minimum level of imports share for “food products, beverages, and tobacco”, and the maximum one -151,5%- refers to “computing products and electrical and optical equipment”) and, on the other hand, services activities where the highest share is 14.4% (“transport and storage”) and generally below 10%. The same difference is observed with the offshoring indexes. This is worth noting that for all manufacturing industries considered in our study, none fits with the no-globalization scenario. This is consistent with our first stylized fact which is that during the period considered there has been a considerable deepening of globalization, although some services appear to have stay apart from such dynamic.

Our analytical table then allows us to distinguish four socio-economic dynamics at the sectoral level which can be linked to the three driving forces of offshoring, competition and no-globalization.

The first socio-economic dynamic is regressive. Despite a reduction in employment, the profit share and investment rate decrease (i.e. the labor share increases). This scenario corresponds to the decline of activities progressively eliminated by foreign competition (‘transport equipment’, ‘wood, paper, paper products and printing’) with net trade worsening.

The second dynamic is financial predation. Firms have compressed the labor share thanks to a higher reliance on offshoring, but these gains have not been used to re-impulse domestic capital accumulation. On the contrary, investment rates have diminished or do not compensate for the decrease in the labor share. Such a dynamic is consistent with the literature that links financialization to globalization. ‘Basic metals and fabricated metal products’ appears to be the sole manufacturing sector of this kind and its trade balance deteriorates. Among services industries, ’telecommunications’ and ’collection, purification and distribution of water’ belong to this category. *De facto* protection from competition together with a recent deregulation may be the leading factors explaining the financial predation in these industries that are nonetheless able to improve their trade balance. Such a phenomenon is probably also important in the retail sector, where global buyers have fueled their profits by cheaper inputs (Baud and Durand, 2011 forthcoming), but this cannot be captured in our data (where only the commercial margin is affected to the distribution sector).

In the case of ‘pharmaceuticals’ and ’other manufacturing’, financial predation occurs despite an increase in global competition and a relative deterioration of the trade balance, paving the way to a progressive decline of the sector while firms try to cope with shareholders requirements. Another important feature is the very existence of strong predatory dynamics in sectors relatively immune from global competition and which do not rely on the international fragmentation of production, such as ‘legal, accounting, architectural and engineering activities’, and to a lesser extent, ’transport and storage’. In such sectors, the lack of competition (because of trade restrictive measures and heavy regulations) seems to be the source of financial predation.

The third dynamic is that of tentative rebound. In the industries concerned, we observe a decline in employment but at the same time an increase in investment. In the case of ‘rubber, plastic and other non-mineral products’, there is a small decline in the labor share which should be linked to a surge in offshoring which has allowed efficiency gains and then has paved the way for new investments. In ‘chemicals and chemical products’ and ‘electrical machinery and apparatus’, the growth of offshoring is concomitant with an increase in the labor share which may suggest a shift in intra-industry specialization towards high-skill activities. There is no common pattern for these sectors in terms of trade balance evolution.

Distinct from such an offensive restructuring configuration, we have some sectors where there is at the same time a decline in employment, an increase in investment, an important increase in the share of imports but without significant increase in offshoring. In such sectors, we believe there is a general decline but an intra-industry specialization leading to survival in some niches. Such a dynamic fits very well with the case of ‘textiles, textile products, leather and footwear” and a similar trend is found for ‘computing products and electrical equipment’ and ‘machinery and equipment’. For all these sectors, the survival scenario is not able to compensate for the pressure of imports and as a consequence there is a decline in net trade.

Finally, we have a set of sectors following an expansionary path along three distinctive ways. First, ‘food products, beverage and tobacco’ and ‘research and development’ are the only sectors that expand both in terms of employment and increasing labor share, while relying more intensively on offshoring. This is the story of a successful globalization although in the case of the food industry, the positive trade balance is declining.

Interestingly, ’other service activities’ and ‘computer and related activities’ experience an expansion in the context of increasing competition from imports. Their domestic expansion occurs despite the fact that imports perform relatively better. In the case of ‘computer and related activities’, the trade balance has even improved as compared to the 1990s.

Finally, other services industries expand strongly in terms of employment and labor share but without any significant increase in offshoring nor pressure from imports. Relatively immune to the globalization of production, there is no common pattern in the trade balance for these four industries. The implementation of specific industrial policies in the case of ‘publishing, audiovisual and broadcasting’ may be a factor explaining the significant reduction in the trade deficit. In the case of ‘financial intermediation’, the improvement of the wage share is probably related to the surge in wages and bonuses for executives and top-ranked employees, which is a specific feature of this industry (Godechot, 2008).

7. Conclusion

To conclude, the evolution of offshoring in France can be summed up in three stylized facts.

The first one is the acceleration of globalization in manufacturing activities. At a higher pace in the 2000s than in the 1990s, the share of imports in output has considerably increased and all manufacturing industries see a significant increase in their offshoring indexes. Beyond this general pattern of strong de-industrialization, we can distinguish three different types of dynamics. On the one hand, there are industries that are truly in decline in the sense that France has no comparative advantage and the open trade regime within the European Union and to some extent beyond the EU leads to inter-industry specialization. Jobs are lost in such industries, as a consequence of inter-industry labor reallocations. Then, there are industries at the opposite end that are successfully expanding both domestically and internationally and use offshoring as a source of productivity gains. In such industries, offshoring can be associated with an increase in employment. Most French industries, however, appear to be in between. In some cases, they fight to survive and use offshoring to improve productivity and find niche markets by differentiating products (intra-industry specialization). In some other cases, there are predatory strategies with no long term prospects, just postponing an inevitable decline.

This diversity in outcomes in the French manufacturing sector has implications regarding industrial policy. To provide the right incentives, such a policy should help industries to move from predatory restructuring to tentative rebound. Industries shielded from foreign competition are often leaning towards the scenario of "financial predation" in our analysis, as exemplified by the fabricated metals (e.g. steel) or pharmaceuticals sectors. One can also see that no manufacturing industry is found in the "no apparent globalization" category. Therefore, the question for these industries is no longer whether offshoring should be encouraged or prevented, it has already happened and the only successful manufacturing industry (in terms of labor outcomes) that we have identified is one with increasing offshoring intensity. Finally, as industrial policy at the sole national level is likely to be constrained, the issue could be better addressed through transnational industrial policy, for example –but not necessarily only– at the European level.

The second stylized fact is the major structural shift of employment from manufacturing to services. 762,000 jobs have disappeared in the manufacturing sector between 1990 and 2009, while 1,752,000 have been created in services industries. As previously mentioned, this is partly the result of outsourcing, the fact that the same job that was previously part of a manufacturing industry is now a service provided by an independent firm. But beyond this organizational restructuring of firms, the shift is also the result of the specialization of the French economy in services industries. A major implication of this shift is that France has now most of its jobs in sectors where offshoring is very marginal. This does not mean that globalization does not matter anymore in these industries, as services are essential inputs for manufacturing firms and our analysis has focused on the import and production sides. It should also be noted that this is generally through investment and foreign affiliates that services are "traded", something we do not capture in our data. But because offshoring and more generally cross-border imports are lower in services, we find not surprisingly a negative relationship between offshoring and employment in France. As productivity gains are generally lower in the services sector (Baumol *et al.*, 1989), a challenge for the French economy will be how to face the socio-economic consequences of this major shift towards services. There are in particular implications in terms of skill content and wage inequalities, but these issues were not covered by our analysis.

Lastly, the third stylized fact is that there is no one-way relationship between offshoring and the labor share. Despite interesting links between financialization and globalization, our data shows that patterns are different at the industry level. In some sectors, offshoring is associated with a decrease in the labor share, in some others an increase. There are also sectors where financialization and globalization are combined and where the gains from offshoring are not mobilized for investment. However, several sectors without a high offshoring intensity present a pattern of "profits without accumulation", where despite declining activity, claims of shareholders are satisfied. Such sectors are often characterized by a lack of competition allowing firms to not invest. Competition policy or adequate industry regulations appear necessary in such cases. However, part of the story about financialization is not well captured by our methodology as gains from global sourcing by retailers do not appear in the data we are using.

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Too big too quick? An institutional and systemic overview of the rise of Russian metallurgical transnationals

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Abstract

This paper presents some stylized facts about the expansion of the Russian metallurgical industry from the early nineties to the global financial crisis of 2008-2009. It retraces the internationalization of these firms and examines the characteristics of this movement in terms of geographical and industrial orientation (horizontal, vertical upstream or downstream). The magnitude and speed of Russian metallurgical expansion abroad represent a great opportunity to discuss the literature on how firms become transnationals. Assessing the limits of the available theoretical tools and the need to relate micro-mechanisms to macro- and meso-dynamics, it proposes an institutional and systemic explanatory framework.

1. Introduction

Russian outward foreign direct investment (OFDI) has expanded rapidly since the beginning of the decade. The country has become the leading direct investor among the BRIC countries (Figure 1), but the global crisis led to a spectacular retreat in 2008. The rise of multinational companies from non-triadic countries has attracted growing attraction in the recent period (see Goldstein, 2007 for a review), but the Russian case has been somewhat neglected, given the scale and the speed of the phenomenon. It is also highly original as far as the sector concentration of these FDI is concerned. After the oil and gas sector, metallurgy is the second most-involved sector in this process of foreign expansion (Liuhto and Vahtra, 2007; Kalotay, 2008; Skolkovo, 2008).
Russia benefits from a strong relative position in metal production. The United Company Rusal is the world's largest producer of aluminium and alumina and Norilsk is the world's leading producer of nickel and palladium. Russia is also the fourth largest steel producer and exporter in the world, with four companies ranking among the top 30 of the industry in 2009. Between 2003 and 2008, most of these metallurgical companies acquired assets in both peripheral and core countries of the world economy, for more than 30 billion USD.
This paper presents some stylized facts about the expansion of the Russian metallurgical firms. It retraces the trajectory of internationalization of these firms and examines its characteristics in terms of geographical and industrial orientation (horizontal, vertical upstream or downstream). This empirical research confronts us with a very peculiar case. Indeed, Russian metal firms internationalization occurred at a very rapid path, with almost no foreign operations up to the turn of the millennium. This process took place in an idiosyncratic domestic context resulting from the traumatic decade of post-soviet institutional transformations. Moreover, the global metal mining industry is a mature and highly oligopolistic industry. It has gone through a further process of concentration and vertical integration during the past two decades (UNCTAD, 2007) and has benefited from a spectacular commodity boom in the mid 2000's.

Several dimensions of this specific internationalization path do not fit well with available theories. In order to address these shortcomings, we point to the need to better integrate the rise of non-triadic TNCs within the broader literature on the determinants of firms' internationalization and suggest an exploratory institutional and systemic framework. The conceptual issues discussed throughout the paper are thus relevant beyond the limits of our case study.

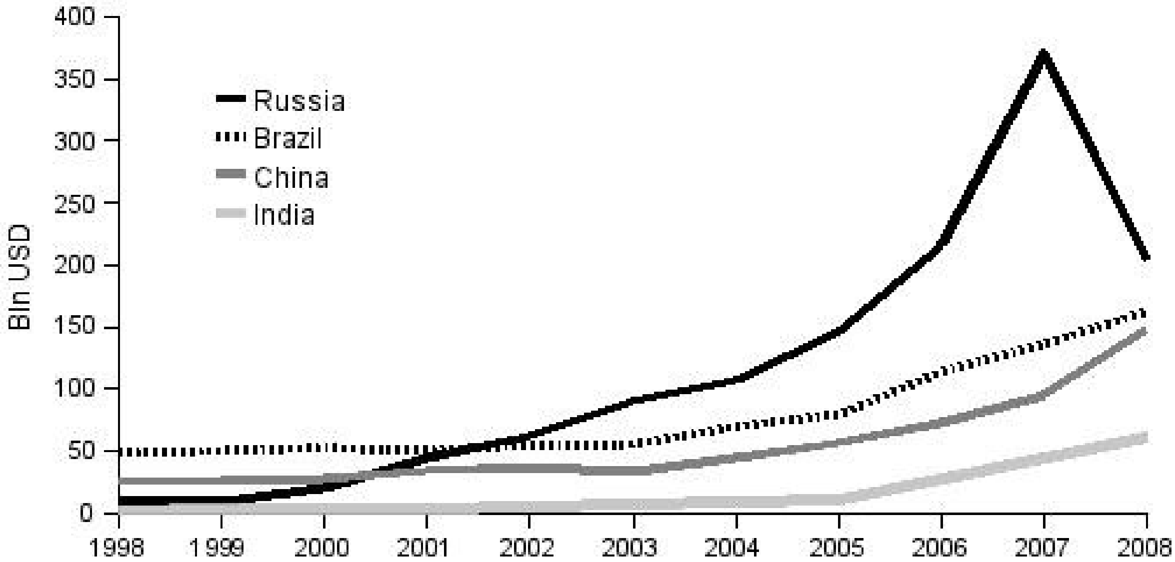
The central point being the birth of transnational corporations, we focus on firms. Collecting information from the corporations and from business publications[1], we have compiled data on the acquisitions of the main metallurgists. Our research also draws on an analysis of consolidated financial accounts published in the Osiris database under the so-called "global detailed format" of a sample of the top seven Russian metallurgical firms.[2]
The second section presents the context and the various stages in the internationalization of the firms since the early nineties. It then describes the geographical and strategic orientation of the

[1] Companies' websites : Evraz Group, http://www.evraz.com ; MMK, http://www.mmk.ru ; Mechel, http://www.mechel.com ; Metalloinvest, http://metinvest.com ; NLMK, http://www.nlmk.ru ; Norilsk Nickel, http://www.nornik.ru ; Rusal, www.rusal.ru ; Severstal, http://www.severstal.ru ; TMK, http://www.tmk-group.com Main others websites used : International iron and steel institute : http://www.worldsteel.org ; International aluminium institute : http://www.world-aluminium.org ; London metal Exchange, http://www.lme.co.uk ; MEPS (international) LTD, http://www.meps.co.uk

[2] Osiris is a database of financial information, ratings, earning estimates, stock data and news on globally listed public companies published by the Bureau Van Dijk on http://osiris.bvdep.com. All company reports have been downloaded on 2009/01/18 under the "Global detailed format" in current USD.

recent wave of foreign investments. The third section presents our institutional and systemic framework of analysis and its theoretical background. The fourth section relates the stylized facts developed in section 2 to the conceptual framework. The concluding section summarizes our empirical results and draw some conclusions of wider interest for theoretical literature on TNCs.

Figure 1: Outward foreign direct investments stocks – UNCTAD FDI stats



Source: The authors based on UNCTAD Handbook of Statistics

2. A favourable context for the international development of metallurgical firms

The birth of Russian metallurgical TNCs is rooted in two main phenomena. First, exports were a leading factor in the reorganization of this sector during the nineties. Second, a very favourable world conjuncture has widely increased their financing capacities since 2003.
Table 1 summarizes the characteristics of the main Russian metallurgical firms, accounting for most of the Russian production of steel and aluminium products.

Table 1: the largest Russian metallurgical firms (2007)

Company	Main activity	Total revenue (bn USD, 2007)	National rank among main companies (Ekspert, 2008)	Average annual growth of revenue (2003-07)	Profit margin (average 2003-07)	Report on outward investment	Share of foreign sales (2007 or H1 2008)
Norilsk Nickel	Nickel	17.4	9	41.9 %	39%	yes	93 %
Severstal	Steel and Mining	15.3	10	49.5 %	19.8 %	yes	56 %
United Company Rusal	Aluminium	14.3	11	41.6% around 15% deducting the effect of the merger	n.a.	yes	77.5 %
Evraz Group	Steel, Mining	12.9	14	59.3 %	19.7 %	yes	50 %
MMK	Steel	8.3	18	33.1 %	24.8 %	no	About 50%
NLMK	Steel	7.8	19	38.1 %	40 %	yes	62 %
Mechel	Mining and Metals	6.7	24	32.9 %*	20.9 %*	yes	na

* Average 2004-2007

Source: The authors based on Osiris database, companies' report and Ekspert

2.1. The role of exports in the reorganization of the metallurgy in the nineties

The internationalization of metallurgical firms occurred during the first years of the post-soviet transformation through the development of exports. The brutal reforms implemented then led to a sharp drop in internal demand, a rise in atypical forms of payment and an acute level of uncertainty. These elements constituted strong incentives for the development of exports, made possible by the recent trade liberalization. Between 1992 and 1997, exports grew from 20 to 80 % of the production of non-ferrous metals and from 3 to 65 % of ferrous metals (Ekspert, 1998; Budanov, 1998). As a consequence, metallurgy was less affected than other sectors by the downturn in activity, leading to an increase in its weight in the Russian economy.

At the same time the industry went through a radical process of dislocation of ownership structure. The privatisation of almost all the enterprises between 1993 and 1995 delivered a fatal blow to the existing Soviet hierarchical relations (Appel, 1997 ; Auteur, 2003 and 2004). Formally, the property rights fell in the hand of companies managers. However, the effective control was in the hand of the trading company TransWorldGroup (TWG) which controlled the export channel, thanks to its links with the Eltsin' administration. In 1995, TWG political supporters lost ground in the Kremlin. As a result, TWG lost the support of state representative in board meeting and, consequently, the managers' support. At the same time, the « loan-for-shares » scheme allowed several Moscow banks to buy shares in the leading metallurgical companies at a hugely discounted price. In most cases, the banks supported the management against TWG. They helped them to strengthen their effective control by creating their own trade networks or by passing new agreements with foreign traders.

The distribution of property rights was seriously altered after the 1998 financial crisis. On the one hand, banks rolled back because of the impact of the financial crisis. Moreover, metallurgical firms benefited from rising income stemming from devaluation. The changes in the economic context created new opportunities for top managers. They increased their capital share in many companies and pursued the strategy of external growth. Moreover, new actors penetrated the industry such as Sibneft in the aluminium business.

The post-1998 period is then characterized by spectacular vertical and horizontal consolidation, with the creation of Rusal and Sual aluminium groups, the constitution of Evraz-Holding and the reinforcement of industrial groups around the ferrous metallurgical combines of Magnitogorsk (MMK), Novolipetsk (NLMK) and Severstal. Two of the aims of this reorganization were to build vertically integrated structures and to reinforce control over export channels. To that end, groups created their own commercial representations abroad and took stakes in transport infrastructure assets. Metallurgical groups also set out to secure their inputs through acquisitions of iron mines (Severstal, NLMK) or alumina plants and bauxite mines (SUAL, Rusal). Less significantly, some of them have also sought to expand to downstream industries: Severstal has acquired and developed assets in the automotive industry, but assets acquired by Rusal in non-ferrous transforming mills were sold to Alcoa in 2004 as the company preferred to focus on its upstream strengths. The United Company Rusal was established in March 2007 following the merger of three companies: the two main players in the aluminium business in Russia - Rusal and SUAL - and the alumina assets of the Swiss company Glencore.

2.2. 2003-2007: the golden years

Russia exports mainly basic metallurgical products, and the competitiveness of those products is still chiefly due to cheap energy and labour costs as well as the availability of natural resources (Budanov, 2008). However, metallurgical firms have realized impressive financial performances since 2003 thanks to strong growth in demand on domestic and international markets and higher prices.

2.2.1. A strong dynamics on world markets

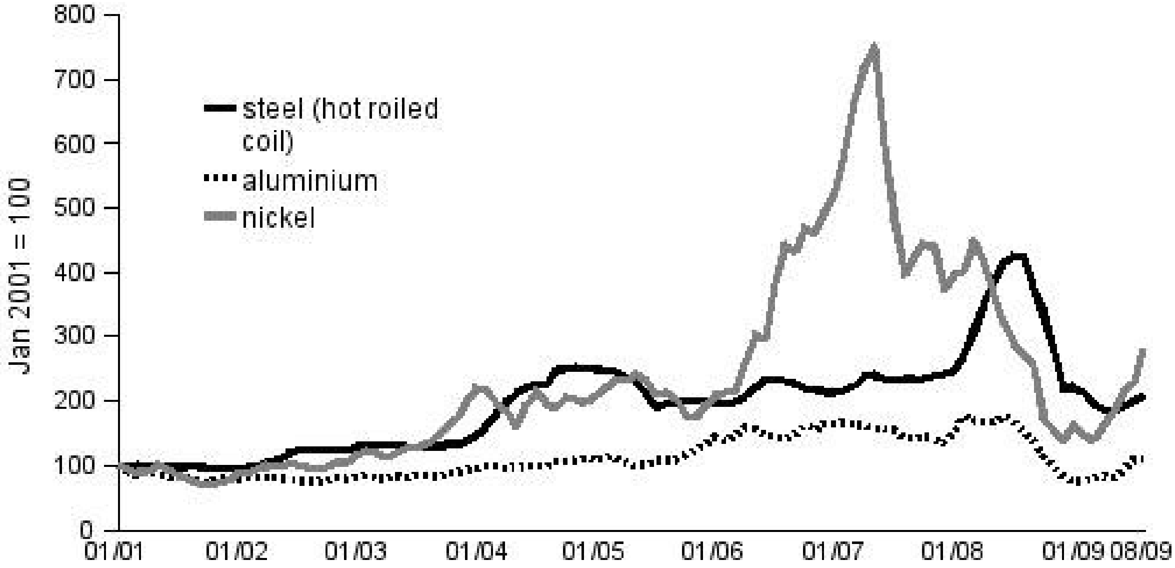
Since 2003, the situation on steel, aluminium and nickel markets has become extremely favourable because of a structural supercycle in commodities (Figure 2). This supercycle results from supply and demand factors. On the demand side, the key factor is the materials-intensive expansion of BRIC countries, including population growth, the rise of the urban salaried class and industrialization. On the supply side, the industry has experienced a multitude of bottlenecks due to a long period of underinvestment and the long-term trend of deteriorating quality in mining projects (Troika Dialog, 2008).

As far as the steel industry is concerned, prices increased dramatically between autumn 2003 and 2004, contrasting with 20 years of stability. There was another huge but ephemeral surge at the end of 2007. This dramatic evolution is only partly explained by the weakening of the US dollar. Growing demand, mainly from China, higher transportation and energy costs, strain on iron ore and almost-saturated production capacities are the main factors explaining the rise. Moreover, rising oil prices and a massive move of speculative capital on the commodities markets caused the spectacular rise of 2007-2008, a move that has been abruptly reversed by the global downturn.

Aluminium prices also rose substantially between 2003 and 2006, mostly explained by the same factors as in the case of steel products. Here again, there was a dramatic reversal in 2008 that wrote off all the gains since 2003. Although China's role was again decisive, it was quite different from the steel industry. China was self-sufficient in aluminium during this period, but was not believed to be able to maintain that self-sufficiency in forthcoming years, because of its lack of alumina sources and its inability to increase external supply (Evans, 2005). Nickel prices also experienced a similar dramatic evolution, although most of the rise occurred in 2006 and the fall began in early 2007.

During this period of high prices there were numerous mergers and acquisitions within the steel and the aluminium industries, as illustrated by the takeover bid of Mittal on Arcelor, numerous acquisitions by Alcan and the creation of Rusal.

Figure 2: Steel aluminium and nickel world prices (index based on USD/ton prices)

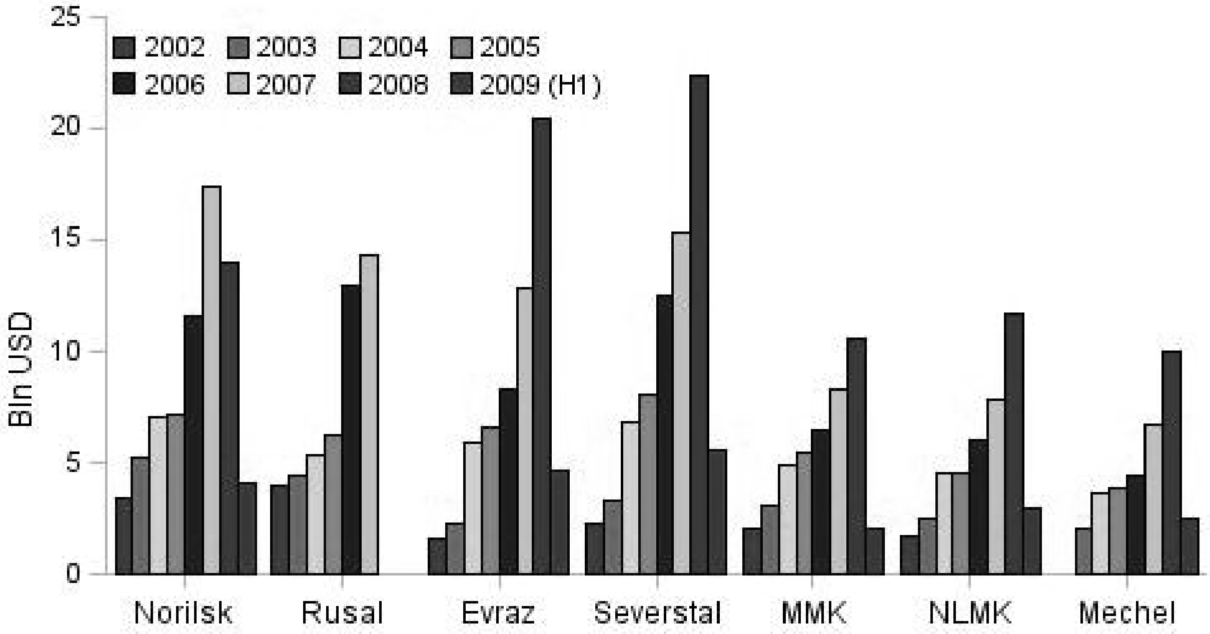


Source: The authors based on Reuters/EcoWin

2.2.2. Exceptional cash-flows for the metallurgists

As the share of foreign sales is very important – from 45 to 93 % depending on the firms, the enterprises have fully benefited from world growth. Moreover, the internal market has also been expanding quickly. However, the disruption of 2008-2009 was a tremendous shock for the firms.
Thus, we observe a spectacular rise in the sales of the main companies (Figure 3). Expressed in dollars, the rise is astronomic for all the firms concerned. The least impressive figures are those of MMK and NLMK, for which we observe a fourfold increase between 2002 and 2007. The phenomenon is even more important for the others firms, which have been more involved in M&A operations: the revenues of Norilsk, Rusal, Evraz and Severstal grew by about 700% over the period!

Figure 3: Evolution of operating revenue of main firms (2002-2009)

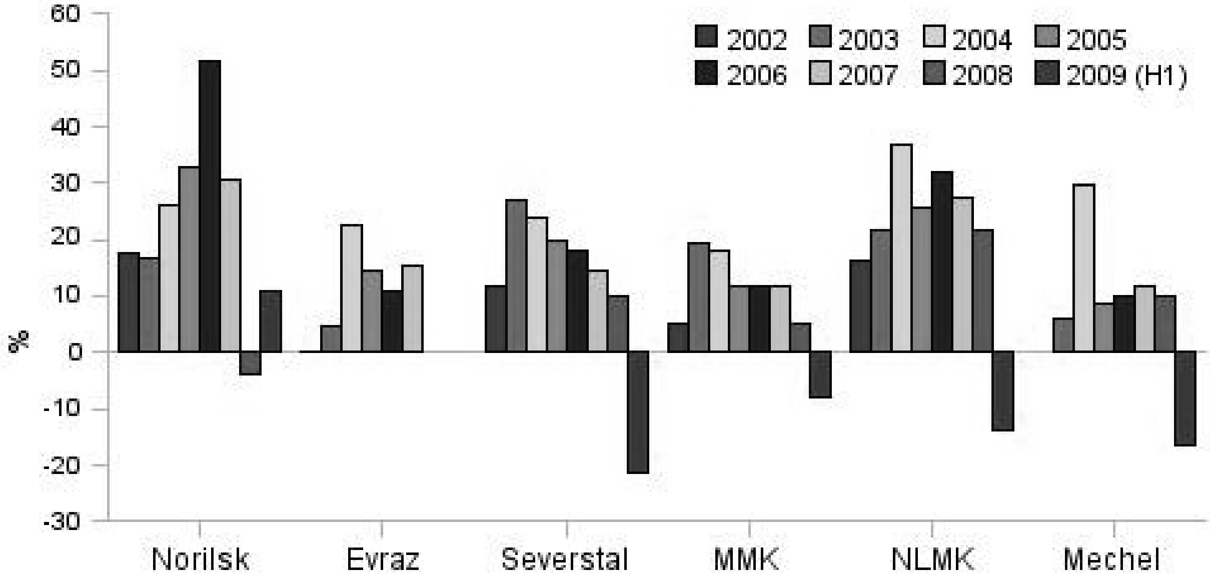


Source: The authors based on Osiris database and companies' reports

With this exceptional increase in gross sales, Russian metallurgists, as well as their international counterparts, have obtained financial results that are no less impressive. We cannot present the results for Rusal, as the company is not listed and its accounts are not available in the Osiris database. However, data from the other firms leads to very clear conclusions about their profitability. All their profit margins were significantly higher at the end of the period (Figure 4). The best performers were Norilsk and NLMK with an average profit margin of 40%, while it was "only" about 20% for the others. In value, the evolution is no less spectacular (Figure 5): net profits of the firms, expressed in billions of USD, increased between 7 and 20 times over the period, even more for Evraz but with almost zero profit in 2002.

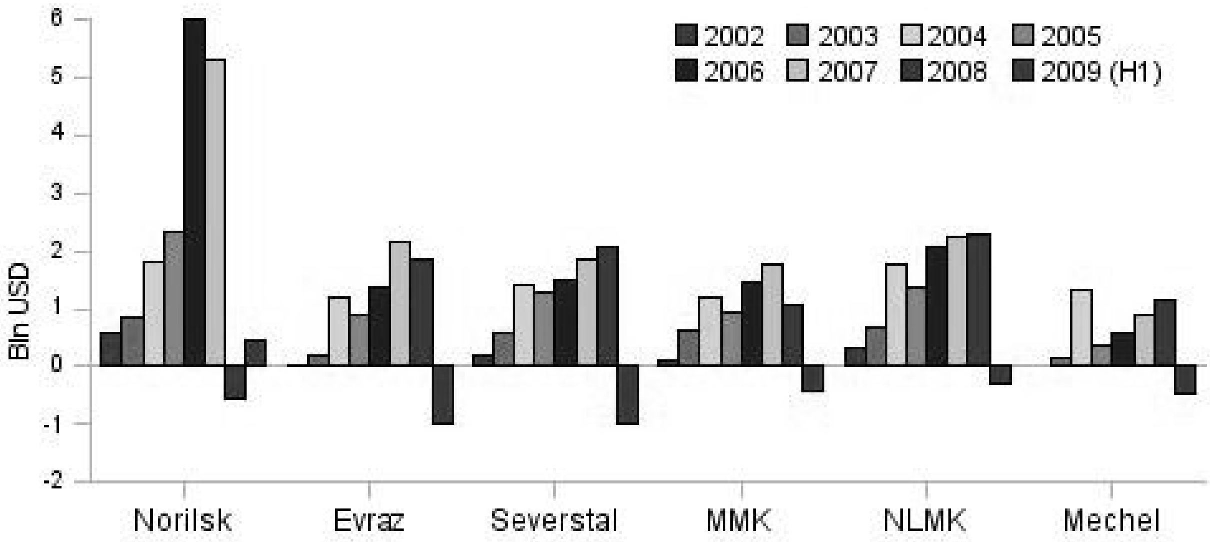
It would be inaccurate to explain this surge in profitability solely in terms of changes in world markets. According to their annual reports, firms have modernized their production tools, increased labour productivity, increased their production assortment, improved their quality conditions and commercial channels and also made economies of scale. Moreover, the weakening of the dollar should also be taken into account. However, the evolution of prices as well as the dynamic of Russian and international demand are still the decisive explanatory factors of the performances of these firms.

Figure 4: Evolution of profit margin (2002-2009)



Source: The authors based on Osiris database, companies' reports

Figure 5 : Evolution of net profit (2002-2009)



Source: The authors based on Osiris database and companies' reports

The rise of exports during the nineties allowed metallurgical firms to avoid a complete collapse in their production. This internationalization of the branch is also the main reason for their high profitability since 2003, thanks to a very favourable international conjuncture. In this context, metallurgical firms have also been able to obtain international funding. Some of them are listed in London and New York (Norilsk, NLMK, Evraz, Severstal) and most of them have obtained syndicated loans involving some of the most famous international investment banks for their foreign acquisitions.

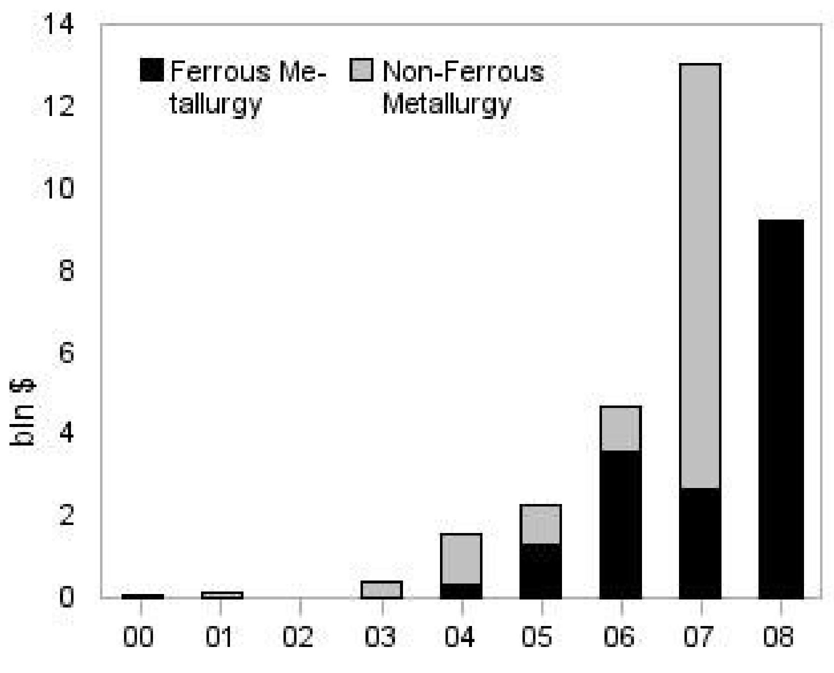
But for Russian firms, world markets are not only an opportunity to grow. These firms are more and more exposed to foreign economic downturns and must be able to face world competitors on specific grounds such as prices, quality and access to strategic inputs. This exposure to world competition constitutes a set of constraints that shape the geographical and strategic orientation of their foreign investments.

2.3. Geographical and strategic orientations of metallurgists' foreign investments

What is the orientation of international investments of metallurgical firms? Based on information published by the press and by companies, we have compiled data on foreign acquisitions, presented in Figure 6. In addition to the firms presented in Table 1, the acquisitions of two smaller firms are included: TMK, a steel pipe producer, and Metallo-Invest, whose accounts are not publicly available. Of the main Russian metallurgical firms, the only one which has not expanded abroad, in spite of several attempts, is MMK.

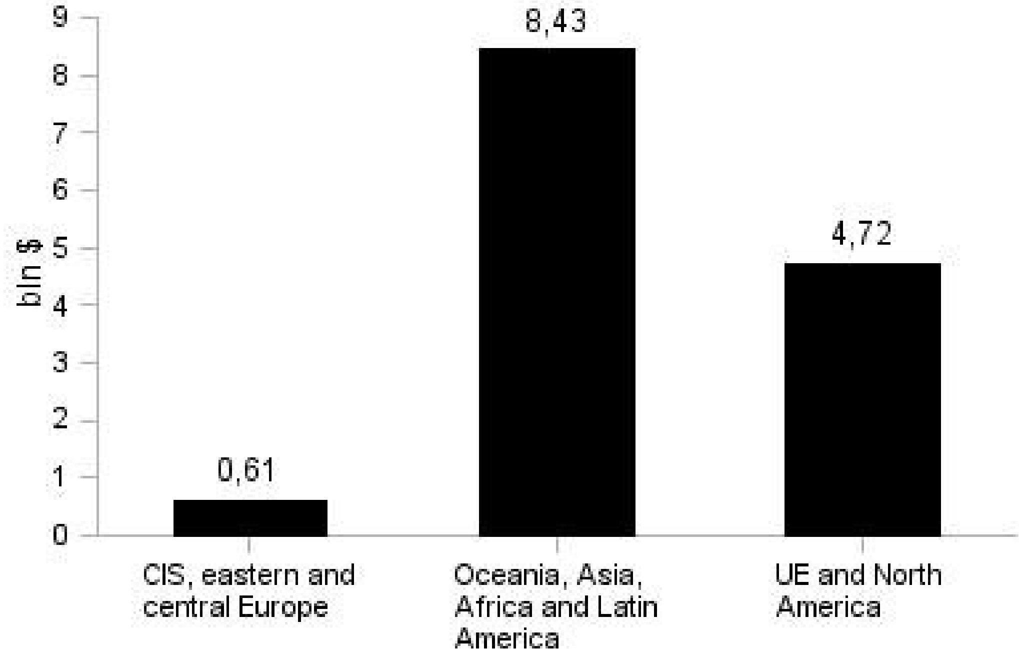
The data allow us to make two observations. Firstly, the productive internationalization of Russian metallurgy barely existed up until 2003 and has dramatically increased since then. Secondly, foreign operations of Russian metallurgists are not limited to Central Europe and the CIS countries. On the contrary, they mainly concern the core markets of the world economy (North America and the European Union) as well as southern countries (Latin America, Africa and Oceania) where important mineral deposits are located (Figures 7 and 9). Indeed, non-ferrous metallurgical groups, as well as Severstal - which is building a gold mining business -, are seeking access to mineral inputs in peripheral countries of the world economy. On the contrary, ferrous metallurgical companies are mainly seeking access to core markets in Western Europe and North America.

Figure 6: Amount of foreign acquisitions by Russian metallurgical firms (2000-2008)



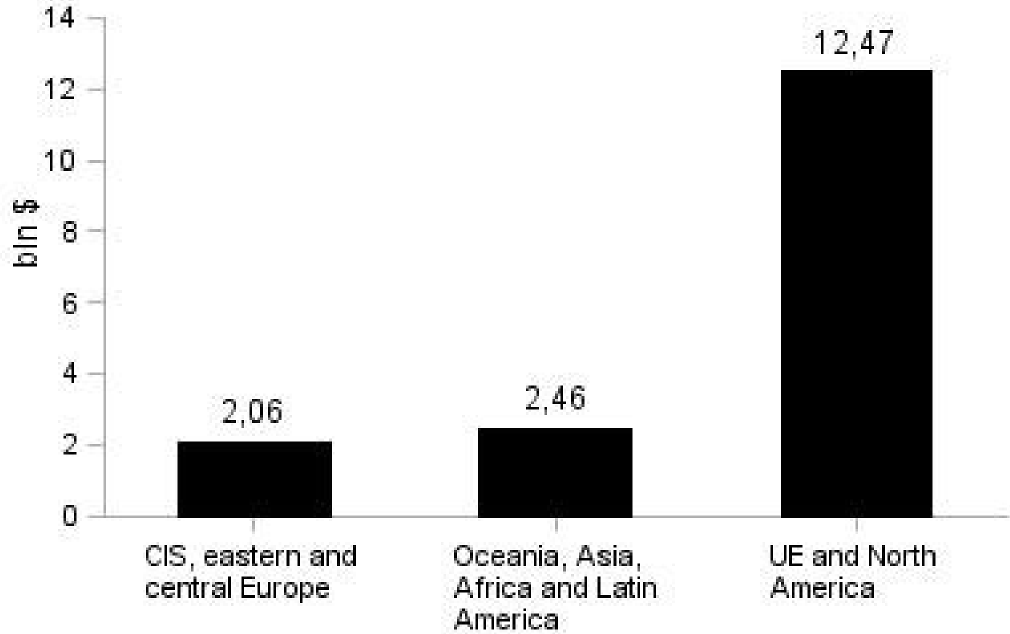
Source: The authors based on business publications and companies' reports

Figure 7 : Amount of foreign acquisitions by region - non ferrous metallurgy and gold mining (2000-2008)



Source: The authors based on business publications and companies' reports

Figure 8: Amount of foreign acquisitions by region - ferrous metallurgy (2000-2008)



Source: The authors based on business publications and companies' reports

These two paths of international development are grounded on very different industry dynamics. Access to inputs appears to be less critical for the steel industry than for non-ferrous metallurgy and gold mining. Indeed, most of the investments of Norilsk and Rusal were aimed at gaining access to raw materials. This was also the case for their investments in the EU and North America.

Most Russian steel makers have already stabilized their supply chains through the acquisition of iron ore and steel coal mines. The motive for productive internationalization therefore lies elsewhere. Russian metallurgists have already been affected by antidumping procedures and quotas, one of the main strategic problems for them is thus to stabilize access to markets over the medium and long term. The acquisitions of metallurgical firms in Europe and the US appeared to provide a solution to this problem. The amplitude of the move is very significant: Russian companies, led by Severstal and Evraz Group, have accumulated 9.1 percent of steel capacity in the United States, according to a 2008 Reuters calculation from data supplied by London-based consultancy CRU.

Apart from the acquisitions by Rusal of two cathode plants in China in 2007 and 2008, there is a complete absence of investments in Asia, which may seem surprising. However, market-led investments in Europe and in the US often involve loss-making firms, whereas acquisitions in other part of the world are mainly linked to natural-resource-seeking strategies. In general, neither of these kinds of opportunities exist in the fast-growing Asian countries.

To conclude this section, we should stress that the internationalization of metallurgical firms is a massive but heterogeneous phenomenon. We observe two main kinds of strategies: resource-seeking in the non-ferrous metallurgy sector and market-seeking in the ferrous metallurgy sector reflecting the respective market specificities of each of these industries.

3. An institutional and systemic approach to corporate internationalization

The emergence of new TNCs from developing and transition economies has led to a renewal of the theoretical thinking about firms' internationalization. Our case study points out some shortcomings of the recent literature, which lead us to suggest the baseline of a new analytical framework.

3.1.Theoretical issues raised by the emergence of non-triadic TNCs

Transnational corporations are such a very specific and complex object of investigation that the most influential framework in this field has been called the *eclectic paradigm* (Dunning, 1993 and 2000 ; Dunning and Lundan, 2008). The eclectic paradigm uses different kinds of theoretical tools and suggests that the modes and level of internationalization result from the combination of three main forces: the specific advantage of the firm (*Ownership*), the advantage of localizing abroad in some specific country (L) and the advantage of internalizing transactions within the firm (I). This eclectic approach is so large that it has been criticized for being more a taxonomy than a real theoretical framework (Ietto-Gillies, 2007) but also for being focused solely on the interest of the private firms (Andreff, 2003). Moreover, it is completely disconnected from the macro-economy.
Conceived as an additional development of the eclectic paradigm, the “investment development path” (IDP) perspective links the dynamic of foreign investment with the economic development of nations (Dunning and Narola, 1996). It constitutes a significant improvement of the paradigm, as it allows to conceptualize the expansion of transnationals beyond the micro analysis and has received some empirical corroboration (Andreff, 2003; Duran and Ubeda, 2001). However, it is very hard to establish a simple relationship between gross domestic product per capita and foreign investment patterns; for example, contemporary Russia with a ratio of outward to inward stocks of about 0.8 in 2007 appears to be a premature outward investor from the IDP perspective (Kalotay, 2008). As a matter of fact, countries are highly idiosyncratic: “*different countries at similar levels of income may have very different patterns of ownership advantages in activities that go multinational, depending on their initial conditions and government strategies as well as accident of history*”

(Lall, 1996, p. 424). Moreover, the IDP need to be considered alongside with the transformation of the international regime. Therefore, recent empirical researches suggest that globalization – through increased competition and opportunities, fuelled “*a secular shift in the link between development stages and internationalization, so that TNCs from developing and transition economies are increasingly investing at an earlier stage in their development*” (UNCTAD, 2006).
In addition to this insightful but problematic hypothesis of a linear pattern of FDI for every country, the rising literature about non-triadic TNCs has pointed out a new range of assumptions. A first hypothesis suggests a progressive pattern of internationalization: established TNCs continued to dominate knowledge and brand-intensive businesses, whereas companies from developing countries hold an advantage in industries where production and logistics matters (Ghemawat and Hout, 2008 ; UNCTAD, 2006). Our case study is consistent with this hypothesis as the foreign expansion of Russian firms from the mining and metal industries is linked to a geographically bound access to natural resources.
A second set of explanation follows Vernon's (1979) argument which pointed out that multinationals would start by locating in familiar economies and only at a later stage they will spread to less familiar locations. The contemporary debates has focused on institutional affinity, suggesting that developing-country TNCs are able to transform the disadvantages of their “*weak*” domestic institutional background into advantages as they expand in other developing countries with the same characteristics (Vora and Kostova, 2007 ; Cuervo-Cazurra and Mehmet Genc, 2008). The internationalization pattern of Russian metallurgists is not fully consistent with this assumption as they have expanded in neighbouring economies in transition but also in remote developing and developed countries.
Finally, it is generally supposed that there is a positive impact of outward FDI on the home economy which arises from the improvement of TNCs competitiveness (UNCTAD, 2006), although some potential crowding out effect on domestic investment are considered (Dunning and Lundan, 2008). The crisis has revealed the vulnerability of the metallurgical firms in particular and of the Russian economy more generally. Russia has performed very badly in 2009 with a 9% GDP drop, suggesting potential deleterious consequences of an excessively outward economic orientation (Drahokoupil and Myant, 2010).

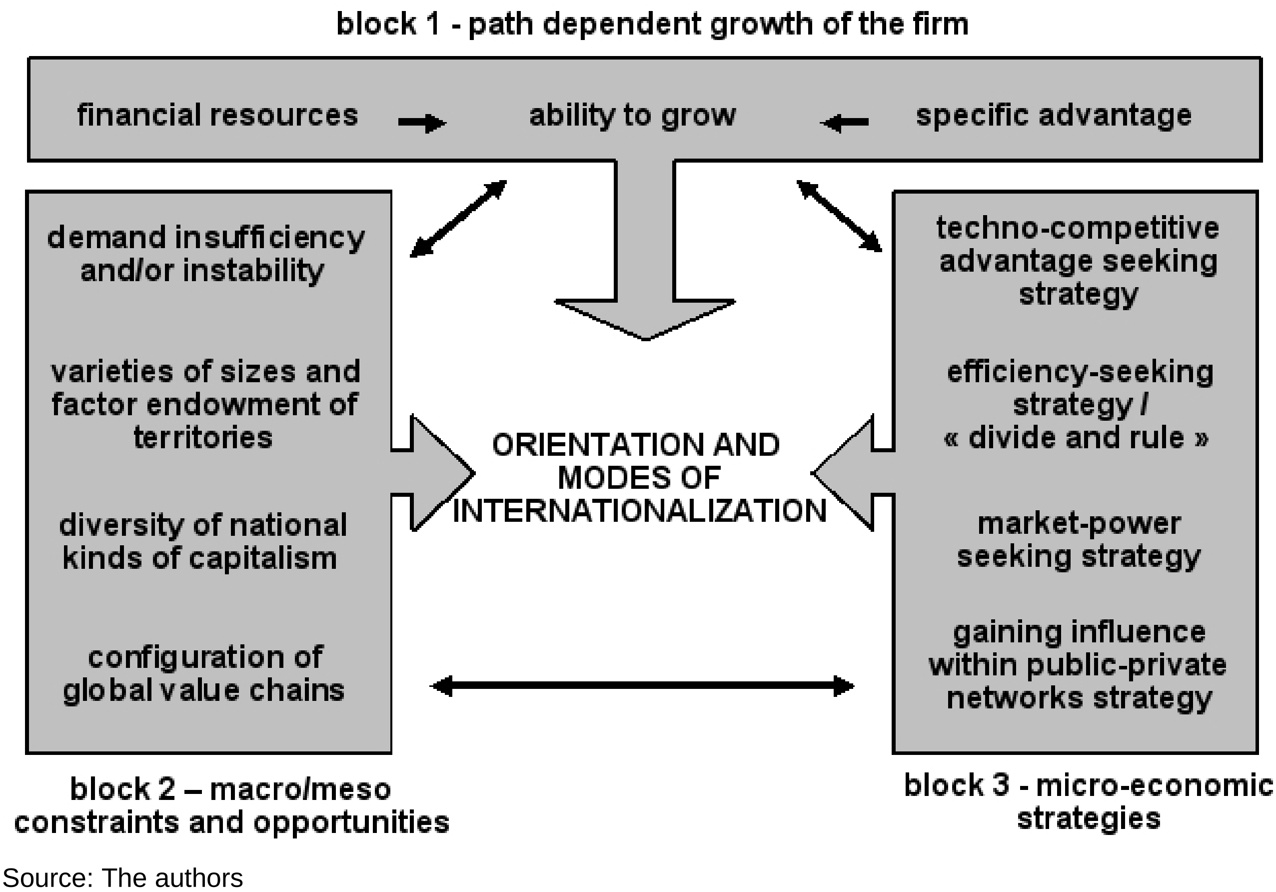
The need for further theoretical developments is suggested firstly by the obvious limits of the OLI paradigm and of its macro additional component, the IDP theory. Moreover, our case study point out some inconsistencies of the theoretical hypotheses which surround the rise of non-triadic TNCs. The exploratory institutional and systemic approach, presented in the following section aims at integrating the peculiar case of TNCs from developing countries – and in particular Russian Metallurgical firms - within a more general theoretical framework.

3.2. An institutional and systemic analytical framework

Figure 9 presents our institutional and systemic approach of firms' internationalization. We mobilize various set of literature in order to articulate the macro and meso context to the microeconomic competitive strategies on which underlying foreign investment decisions are based. Moreover, we link these decisions to firms’ ability to pursue growth. Three interdependent dimensions of the internationalization paths of the firms are thus combined : factors related to company growth, macro-meso institutional and economic features, micro-economic strategies.
Block 1 presents two factors related to company growth. First, internationalization is conditioned by the firm’s capacity to grow: the availability of financial or managerial resources pushes the firm to expand. Second, the growth is guided by some specific advantage (or “ownership advantage”, in the OLI perspective) that exerts a pull pressure in some directions, which may entail the option of international expansion of the same business. This suggests that at the firm/sector level the process

of capital accumulation is to some extent path-dependent, in other words it is embedded in specific organizational forms, and deploying the same process in other fields entails some additional costs.
Block 2 is about the meso and macro determinants of the orientation and modalities of international expansion. It includes determinants deriving from the demand-led explanation exposed further, from national characteristics in terms of size and factor endowment (for both the receiving economy and the issuing economy). Moreover, it appears highly relevant to explore a combination of two school of thoughts that are usually presented as antagonistic - but not always (Noelke and Vliegenthart, 2009): on the one hand, the diversity of national kinds of capitalism (Amable, 2005; Berger and Dore, 1996; Boyer and Hollingsworth, 1989; Dore, 2000; Hall and Soskice, 2001; Jacoby, 2005; Whitley, 1999) and, on the other hand, the world system perspective which focuses on the integration of national economies within a hierarchical capitalist world system (Michalet, 1998; Chesnais, 1997; Wallerstein, 2002). Indeed, the international expansion trajectories of firms are obviously affected and to some extent motivated by the heterogeneity of countries. But, at the same time, as firms occupy specific positions in the global value chains of specific industries, they play a role in shaping the meso-foundations of an interdependent and hierarchically structured world system (Gereffi and Korzeniewicz, 1994).
The microeconomic strategies summed up in block 3 can be considered as the set of responses available for managers facing the constraints and opportunities stemming from the economic and institutional context (block 2) and from the past trajectory of the firm (block 1).

Figure 9: an institutional and systemic perspective on corporate internationalization



Source: The authors

3.2.1. Path-dependent growth of the firm

The theory of the growth of the firm (Penrose, 1959) considers the company as a centre of resources that has to grow or die. Theses resources may be financial but are mainly, in the mind of Penrose, managerial resources. Her analysis is then somewhat precursor of the evolutionist concept of *collective knowledge* (Nelson and Winter, 1982). These resources contribute to a *specific advantage* made of intangible assets (Hortsman and Markusen, 1989) or related to localization (geographical situation and institutional context). This *specific advantage* orientates the growth of the firm.

Depending on its resources and opportunities, the company has three options for growth (Wolf, 1977; Kay, 2000): 1/ Growing in its own business and in its own country; 2/ diversifying its activities while staying in its own country; 3/ diversifying its activities geographically by exporting or expanding its business abroad. The internationalization option and especially that of creating a transnational corporation is the most difficult. Indeed, many different factors make it more complicated and expensive to operate abroad. However, in core industries (Crotty, 2000), the process of capital accumulation is deeply embedded in a specific sector. First, as the production process is not subject to the law of diminishing returns, there are strong incentives to increase the scale of operations, possibly through internationalization. Moreover, as the assets of the firms are significantly immobile, irreversible or specific, they lose substantial value if reallocated to a different industry or sold on a second hand market. As a consequence of these sunk costs, there are strong incentives to acquire complementary assets - possibly abroad – insofar as they may positively affect the valuation of the firm.

In such a perspective we have firstly to identify the resources which have fuelled the foreign expansion of Russian metallurgist and, secondly, we need to discuss if this expansion has increased the value of firms' domestic assets.

3.2.2. Macro-meso constraints and opportunities

With the concept of *all weather company*, Pitelis has suggested an original macroeconomic approach based on the demand side. He indicates the desire of companies to protect themselves against national economic cycles while diversifying geographically (Pitelis, 2000). This argument allows to enlarge the relevance of demand-led explanations but cannot explain why internationalization involves foreign investment and not just exports.

In addition to macro factors, there is also a complex sectoral and institutional web of constraints and opportunities.

The Global Production Networks (GPNs) approach (Henderson et al., 2002) points out that "*GPNs do not only connect firms functionally and territorially but also they connect aspect of social and spatial arrangements in which those firms are embedded and which influence their strategies and the values, priorities and expectations of managers, workers and communities alike*". There are two main forms of this embeddedness. Firstly, territorial embeddedness, whereby GPNs do not merely locate in particular places but absorb characteristics of these places and are constrained by them. Secondly, network embeddedness, which refers to the mutual dependence of the firms with regard to the architecture and institutional configuration of the networks. Concerning TNCs, Kostova *and al*. (2008) stress rightly that "*the multiplicity and ambiguity of the organizational fields at the meso level result in more diverse but weaker institutional pressure for MNCs overall. [...] They are in a way buffered, protected, less dependent, and in some cases perhaps even exempt from institutional pressure because of their unique an complex positioning in the web of organizational sectors*" (p. 998). Nonetheless, institutional characteristics of networks and territories are not only constraints for firms but also resources. They constitute institutional configurations which may evolve significantly not only endogenously but also through an interplay between certain corporate leaders and political figures.

The peculiarity of the Russian post-soviet institutional context is essential to understand Russian firms' behaviour. In particular, we need to explore the local and global institutional features which have favoured the internationalization of metallurgists as a further step of their growth, and to what extent the foreign expansion was an attempt to escape from weak property rights.

3.2.3. Microeconomic strategies

The importance of the political design of institutional productive configuration has been particularly clearly exposed for the development path of newly industrialized countries in southern Asia, but also for countries like Japan and France in the post-WWII period (Tylecote, Visintin, 2007; Johnson, 1995; Amsden, 1989; Wade, 1990; Jessop and Sum, 2006). Firms are then not only "*institution takers*" but also "*institution makers*", which means that improving their positions within private-public networks could be a major source of competitive advantages. But at the same time, their international strategies may be partially shaped to satisfy the requirements of their political allies, suggesting a two-way relationship between internationalization and private-public network embeddedness.

This issue of private-public networks is of particular relevance in the Russian post-Soviet context. These networks appear to be a dominant form of coordination in Russia because of (i) the weak legitimacy of property rights, (ii) the size and importance of the industrial base inherited from the Soviet Union, from both the social and the strategic points of view and (iii) the possibility of providing support by centralising and redistributing huge rents from extractive industries (Auteur and Petrovski, 2008). These networks are all the more important in the exporting sectors as federal policies on international integration and energy directly affect the competitiveness and profit prospects of these companies. In this context, the objective of firms' network and institutional design strategies is to build a favourable context for their international activities.

However, the literature also stresses some intrinsic motives for internationalization: the firms may be seeking market power, techno-competitive advantage or efficiency gains. In addition to the gains from increasing scales of operation (Vernon, 1966; Crotty, 2000), market power analysis shows a trend towards the elimination of conflict between main firms as a result of the growth and behaviour of transnational corporations (Hymer, 1976; Caves, 1971; Sweezy and Magdoff, 1974; Palloix, 1975; Cowling and Sugden, 1987; Graham, 1978). Within the global value chain analysis (Gereffi and Korzeniewicz, 1994; Gereffi and Kaplinsky, 2001; Gereffi, Humphrey and Sturgeon, 2005; Bair, 2005), growing market power as seller or buyer allows the firm to strengthen its bargaining power vis-à-vis its suppliers or customers and thus improve its financial results.

The literature also suggests that the encounter between the domestic way of producing and innovating and new market conditions favours innovation (Cantwell, 1995; Dunning and Wymbs, 1999). In the case of TNCs from developing countries, it is supposed that the integration in global production network should foster economic upgrading. A successful path, exemplify by Korean TNCs in the US (Miotti and Sachwald, 2001), result from technological and know-how spillovers as firms invest or operate in more advanced economies.

Finally, the literature on the strategy of seeking efficiency gains focuses mainly on lowering labour costs and taxation, in particular through a *divide and rule* mechanism (Marglin, 1974; Bowles, 1985 ; Peoples and Sudgen, 2000 ; Crotty, Epstein and Kelly, 1998). Labour costs are not the main issue in capital intensive industries such as metal and mining industries. However the firms' ability to increase their bargaining power vis-à-vis local communities and their national state is a relevant issue. Corporations can use different kinds of threat related to their control over production chains to obtain favourable changes in social, ecological, fiscal and monetary rules or to gain some support from the state for its international development. Firms sometimes extort advantages from local authorities when they look for a site to locate their activities. The ability of firms to build strategies of tax optimization by using transfer prices mechanisms internal prices (Saint-Etienne, Le Cacheux *et al.* 2005) is a crucial characteristic of TNCs. These economic organizations are thus partially emancipated from the social and political constraints linked to territorialization (Andreff, 1996), what is called the "institutional pressure" by Kostova *and al*. (2008).

Russian metallurgists investments dedicated to the acquisition of firms based near key markets in developed economies, and the extensive reliance on international schemes of tax avoidance fits with the variety of strategies of FDI pointed out in the literature in term of market power, techno-competitive advantage or efficiency gains. However, the importance of the public-private networks as key drivers of firms internationalization has been insufficiently taken into account, yet.

4. Determinants of the internationalization of Russian metallurgical firms

4.1. Path dependent growth : an accelerated international expansion fuelled by a short-term surplus of financial resources

The international expansion of metallurgical firms is a path-dependent process. It follows a decade of familiarization with foreign markets through exports. Moreover, it has been preceded by a wave of consolidation of the internal market, allowing managerial teams to expand and acquire new kinds of skills to manage multi-company groups.

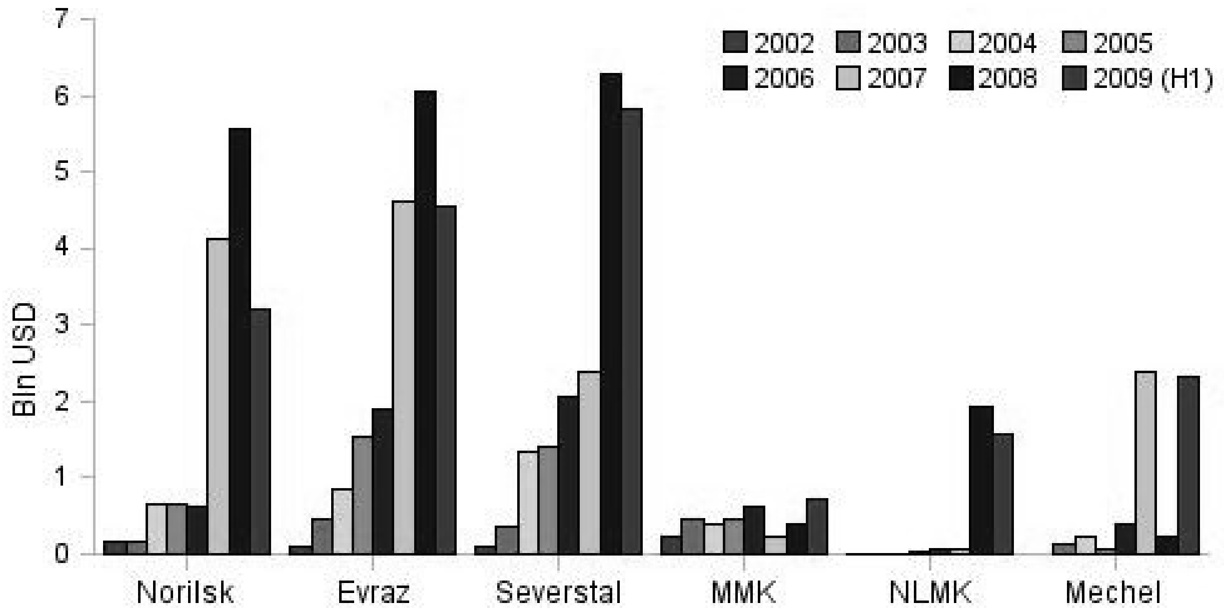
A decisive point is the quasi-concomitance of the surge in firms' revenues and the rise of foreign investments. In addition to huge profits, access to world financial systems has provided metallurgical firms with financing capacities from international investment banks, giving firms a new scale of acquisition power. As a result, there has been a spectacular surge in the long-term debt of the major firms, especially in order to fund acquisitions in 2007 and 2008 (Figure 10).

Not surprisingly, these elements confirm the relationship between the availability of financial resources and the growth of the firm. A link that is negatively confirmed by the cancellation of the 3.5 billion USD acquisition of U.S. John Maneely by NLMK in November 2008 as a consequence of the global crisis.

However, this relationship does not explain why firms expand abroad instead of expanding domestically - in the same business or through diversification -, nor why they choose to invest abroad instead of expanding exports. Part of the explanation lies in the Penrosean view of the growth of the firms; as resources are firm-specific, in particular managerial resources, there are some advantages to expanding in the same business instead of diversifying. It is also worth noting that some acquisitions are made with the aim of stabilizing existing production chains, like Rusal's acquisition of an alumina plant in Ukraine and a number of bauxite mines in Guinea that were already supplying Soviet smelters.

Beyond this tendency to grow along a dependent path, other determinants of the modes and direction of expansion depend on the set of macro/meso constraints and opportunities.

Figure 10: evolution of long term debt of Russian metallurgical firms (2002-2009)



Source: The authors based on Osiris database and companies' reports

4.2. An international expansion shaped by a specific set of macro/meso constraints and opportunities

The first stages of internationalization through exports during the early phase of the transition resulted from the disorganization of industrial relationships and the monetary disorders (demonetization, liquidity crunch) that led to a sharp fall in domestic demand. Exports enabled firms to maintain their activities and to limit the destruction of both physical and managerial production capacities inherited from the Soviet era. They also helped to prevent potential social troubles by limiting unemployment in mono-industrial towns. This evolution was made possible by the radical post-Soviet institutional transformation, in particular the liberalization of foreign trade and capital flows (Vercueil, 2001) and favoured by a global context of trade and financial liberalization.

However, numerous conflicts about alleged dumping practices arose between Russia and Western countries, increasing uncertainty about export demand. In this perspective, the acquisition of foreign affiliates can be seen as a means to limit such uncertainty - a move that can be interpreted in the light of Pitelis's *all weather company* hypothesis – and to secure its foreign outlets.

The international expansion of Russian metallurgical firms took place within a core-periphery (world system) structuring of economic relationships. Indeed, Russian investments are directed towards, on the one hand, mainly Southern countries because of their mineral resources and, on the other hand, developed countries with huge consumer markets. However, Russian firms managed to expand abroad largely because of the cost advantage they derived from the natural resources endowment of the country (low energy costs and raw materials), and most of their expansion is compatible with a deepening of the specialization on low-range industrial products of the Russian economy.

Finally, the specificity of the domestic Russian competition regime also constituted an incentive for the horizontal foreign expansion observed in the steel industry in the place of domestic investment and expanding exports. Indeed, as Gaddy [2007] argues, markets of consumption goods are fairly competitive in Russia, whilst markets of investment goods are relatively closed, resulting in a sort of “mark-up” when investing in fixed capital. Consequently, spending the same amount on investment in Russia does not yield the same results compared to a country where the markets concerned are more open while, in any case, international metal markets are rather competitive.

4.3. Microeconomic strategies: improving the firm's position within global chains and securing asset ownership

Metallurgical firms act to improve their positions within global value chains and in the face of international competition. Such an objective means that they have to secure their supplies, protect their outlets for trade and improve transactional conditions. At the same time, some operations also aim to gain techno-competitive advantages from joint-ventures or from proximity to leading customers.

In accordance with transaction costs theory, when asset specificity leads to captive relationships, firms choose to internalize transactions (Coase, 1937; Williamson, 1985; Pitelis, 1993; Hennart, 2000). The aim of foreign acquisitions is then to transform the governance structure of value chains (Humphrey and Schmitz, 2001; Gereffi, Humphrey and Sturgeon, 2005). Investments in bauxite mines, alumina plants or Russian transportation infrastructure and commercial representations abroad are symptomatic of such a logic. In return, investments in the European Union and in North America are more related to structural market failures analyzed in early studies on internalization within transnational corporations (Hymer, 1976; Caves, 1971), as a means to reduce the adverse consequences of commercial restrictions such as anti-dumping procedures and quotas.

Market-power seeking is an explicit strategy of metallurgists. For example, in its strategic orientations, Evrazholding underlines the benefits deriving from its leading position in terms of negotiation power vis-à-vis its suppliers. Severstal is even more direct: (Annual report, 2003, p.33): "*One of Severstal's key strategic aims is to become a leading participant in the global steel market. To achieve this, Severstal intends to actively participate in consolidation, both in Russia and internationally. Consolidation in the world steel industry is expected to change the current balance, whereby suppliers of raw materials (such as coal and iron ore) and the largest consumers of steel products (such as the automotive industry), are able to obtain higher margins for their products than are the steel producers, as their respective industry are substantially more concentrated than the steel industry.*"

Metallurgists experienced another way of improving their position while internationalizing: to acquire techno-competitive skills. To increase their prices, they have to diversify and specialize their products. Such an improvement implies a better understanding of markets and customer expectations, and internationalization helps to provide this. In this perspective, acquiring firms in more advanced economies and investing in joint ventures close to leading world customers favour access to advanced productive knowledge. This line of reasoning is illustrated by Severstal's investments close to existing car plants in the United States. Rusal's partnership with the main aluminium producers in the alumina plants in Queensland is also a mode of access to the newest technological know-how. However, Russian firms also use other means to acquire new technologies and skills, by modernizing their production apparatus, training, setting up joint ventures in Russia (Severstal-Arcelor) or recruiting senior Westernmanagers and board-members (Rusal, Severstal, NLMK, Evraz).

The link between state policies and corporate expansion is a key issue. These firms are not global multinationals (Andreff, 2003), because of their dependency on mineral raw materials and of the prohibitive sunk costs of leaving their mills. However, internationalized firms may develop *divide and rule* strategies against governments, for example, by optimizing taxation. Basically, they may use the threat of relocation to increase their bargaining power and obtain different kinds of support for their activity or their international expansion. This issue of tax evasion is of particular relevance

for Russian firms, in particular in the aluminium industry where the tolling scheme is widely used. Thus, Rusal's tax evasion through illegal transfer pricing is well known; in 2004, an internal report of the tax ministry pointed out that Rusal's tax payments in 2003 were just 2% of its declared sales revenue, a fraction of what other metal producers paid.[3]
Clearly, internationalization reinforces firms' bargaining power against governments. However, this bargaining power is not unlimited. Most transnationals appeal to their national government for help to develop abroad (Chesnais, 1997; Michalet, 2004). It is even more important in an activity such as metallurgy, where localization is a crucial issue because of the reliance on natural resources and the importance of irreversible investments. In the Russian case too, the relation between business and foreign policy is vital for both firms and government. For example, according to the press, the failed merger proposed by senior managers of Arcelor and Severstal was primarily discussed directly between president Putin and Severstal's CEO, Alexei Mordashov. Moreover, Russian metallurgists urge political support in order to preserve social peace. The existence of national corporatism in the Russian metallurgical industry may thus not be completely dissociated from the politico-economic logic inherent to internationalization. Finally, the stability of property rights is still a hot issue in Russia, because the illegitimacy of the privatization process during the nineties (Wedel, 1998) makes reconsideration of these operations still possible. The Khodorkovski case and, more broadly, the takeover of important assets through the re-development of the state as producer indicates that the government does sometimes act in this direction, frequently on the pretext of regulation violations (Auteur, 2008). Metallurgical firms are indeed exposed to this kind of pursuit: in July 2008, Mechel and Evraz were scrutinized by the Federal Antimonopoly Service for abusing their dominant positions on the market. In the midst of the crisis, the state has also taken control over certain key assets. After it granted a $4.5bn bail-out loan to Rusal at the end of 2008 and a $1.8bn loan to Interros – one of Norilsk main shareholders - a state representative, Alexander Voloshin, the former Kremlin chief of staff, was appointed as chairman of the board of Norilsk, while another VEB (a state-controlled bank) representative moved onto its board and the first deputy head of VEB moved onto Rusal's board.[4] Since January 2009, the state's priority seems to be preventing bankruptcies and ownership upheavals that might worsen short-term economic and social disorder. The government is urging state banks to roll over loans and is leaning on other banks not to call existing ones in. As far as foreign banks are concerned, it has changed its attitude, but none of the banks want to take over the assets pledged as collateral for the loans and all seem to prefer restructuring the debt to uncertain default procedures. Moreover, negotiations have been facilitated by the rebound in commodity prices, leading to several agreements between international banks and Russian companies, including Rusal and Mechel, while Evraz managed to raise $800m from capital markets to refinance part of its debt.[5] In spite of the state's prudent attitude during the crisis, the balance of power between government officials and business tycoons has shifted further in favour of public servants, and does not preclude new waves of re-nationalisation.

Given the intensity of ties between politics and business, some investments can be seen as a attempt by business to gain some protection from political hazard (Vahtra and Liutho, 2004). Firstly,

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3 Norilsk Nickel, Russia's leading producer of nickel, copper and platinum, paid 19% of its sales revenue as taxes, Severstal, one of Russia's largest steel-makers, is identified in the report as having paid taxes of 12-14% of revenues. Two other steel-makers, Magnitogorsk and Novolipetsk, were reported as having paid taxes of 12% and 13%. John Helmer, "Russian aluminium oligarchs feel the heat", *Asia Times On Line*, 04 Oct 2004, http://www.atimes.com/atimes/Central_Asia/FJ06Ag02.html; see also "Deripaska under pressure in mega aluminium merger", *The Russia Journal on line*, 24, Feb 2007. http://www.russiajournal.com/node/286

4 J. Helmer;, "End game for Rusal", *Asian Times on line*, Jan, 27 2009, http://www.atimes.com/atimes/Central_Asia/KA27Ag01.html ; C. Belton, "Rusal appoints state representative to board", *FT.com*, April 10 2009 http://www.ft.com/cms/s/0/645ee2d2-25eb-11de-be57-00144feabdc0.html

5 Catherine Belton, "Too big to fail", *FT.com*, July 27 2009, http://www.ft.com/cms/s/0/742250e8-7ada-11de-8c34-00144feabdc0.html?nclick_check=1#

acquiring foreign assets enables them to directly protect part of their capital, and secondly, upstream or downstream control of the international value chain puts their Russian assets in a captive relationship that limits the relevance of an eventual expropriation. From the perspective of the Global Production Networks approach, it may be interpreted as an attempt to relax constraints deriving from territorial embeddedness through more intense embeddedness in global networks.

5. The limits of internationalization

The 2008-2009 global downturn shows the limits and the risks of the foreign-led expansion of Russian firms and its deleterious consequences for the Russian economy as a whole. The economic crisis has struck Russian metallurgical firms violently, with a sharp fall in operating revenue in the first half of 2009 (figure 3). As metal prices fell sharply (figure 2) and global demand collapsed, major companies were running for cash and had to apply for rescue loans from the state bank VEB to refinance Western loans incurred to fund their acquisitions and to face the increasing debt of their customers. This situation has led to intense discussions about the consolidation of the sector under the supervision of the government and its agencies.

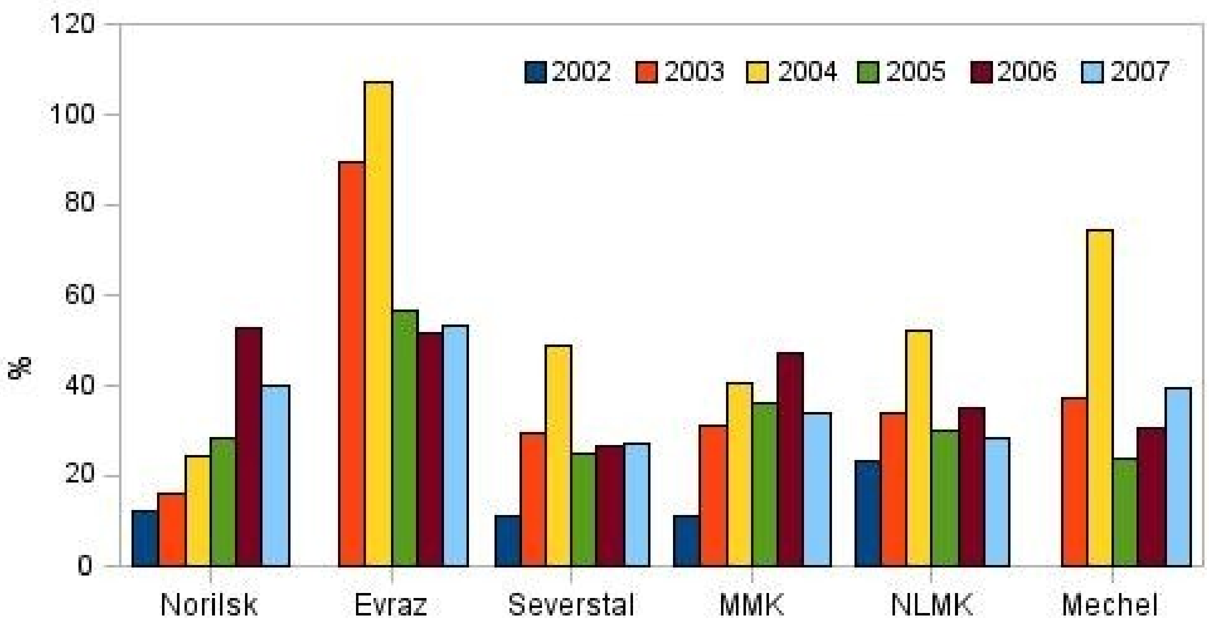
The crisis has not only affected the financial situation of the firms. Between January and December 2008, production of crude steel fell by 50% and firms like Severstal, NLMK and MMK had idled blast furnaces. The fall in demand has been less severe in the aluminium industry, but Rusal has also announced plans to cut output. Moreover, firms have severely reduced wages through the cancellation of bonuses and short-time working, and some are planning massive lay-offs. Finally, the consequences for local communities are dramatic, as many firms are established in mono-industrial towns and are the main contributors to local government budgets.

Beyond the crisis, the record of this sequence of international expansion from the point of view of national development is highly debatable. There is no doubt that for the owners, it has been very beneficial. The ROE of the major firms ranged between 23% and 57% in 2005, 2006 and 2007; incredible returns of up to 107% were attained in 2004 (Figure 11). As far as Rusal is concerned, financial data are not available but, according to the press, Deripaska appears to have withdrawn at least $10 billion in proceeds out of Rusal since 2001.[6] On average, the wealth of the main shareholders of these firms increased fourfold between 2004 and 2008, leaving no doubt about how favourable this sequence has been for them; however, they have been hit very hard by the crisis with their estimated aggregate wealth downgraded in 2009 below its 2004 level (Table 2).
However, as far as Russian industrial development is concerned, the recent years have seen an increase in the dependency of the country on imports of manufactured and specific metallurgical products (Budanov, 2008). This confirms that Russian metallurgy is still specialized in basic ferrous metal products and is not able to provide the Russian machine industry with the inputs it needs for its activity. There is even some reliance on imports in the nickel business, despite the fact that Norilsk is the leading producer in the world. But in this case it comes from tax evasion chains and bribery mechanisms. These elements suggests that the huge resources of the golden years of the Russian metallurgists were used to expand the wealth of the owners of the firms instead of funding industrial development of the sector, in particular as far as downstream segments are concerned. A comparative outlook confirms a tremendous and problematic gap between the relative weakness of the domestic investment and the growth of foreign operations : in 2007, the ratio FDI outward stock / Gross fixed capital formation was 6,8% for China, 11,9% for India, 55,9% for Brazil but 136,4% for Russia (UNCTAD FDIstat, 2010) !

[6] J. Helmer;, "End game for Rusal", *Asian Times on line*, Jan, 27 2009, http://www.atimes.com/atimes/Central_Asia/KA27Ag01.html

Overall, the foreign expansion of metallurgical firms should have contributed to some industrial upgrading process. Nonetheless, the above statements challenge the assertion of Liuhto and Vahtra (2007, p. 137-138) that "*the outward expansion of foreign firms is essential for both individual companies and the Russian economy as a whole*" and that it should be encouraged by government policies.

Figure 11: return on equity for main metallurgical firms (2002-2007)



Source: The authors based on Osiris database and companies' reports

Table 2: main shareholders of metallurgical firms and their net personal worth

Company	main shareholder (total ownership) (date of inform)	rank in 2008 Forbes World's Billionaires	net worth, 2008 Bln USD	net worth, 2004 Bln USD	Increase of net worth 2004-2008	net worth, 2009 Bln USD
Norilsk Nickel	M. Prokhorov (28%)	24	19.5	5.4	261 %	9.5
	V. Potanin (25,2%) (04/2008)	25	19.3	5.4	257 %	2.1
Severstal	A. Mordashov (82,37%) (02/2007)	18	21.2	4.5	371 %	4.3
United Company Rusal	O. Deripaska 66% (11/2008)	9	28	4.5	522 %	3.4
Evraz Group	R. Abramovitch (41%) (12/2007)	15	23.5	12.5	88 %	8.5
MMK	Rashnikov (42,44%) (02/2007)	73	10.4	1.3	700 %	2.5
NLMK	V. Lisin (> 80 %) (01/2009)	21	20.3	4.8	322 %	5.2
Mechel	I. Zyuzin (73 %) (02/2008)	77	10	1.1	809 %	1
Total worth			152.2	39.5	416 % (average)	36,5

Source: The authors based on Osiris database, companies' websites and Forbes (The world's Billionaires, 2008, 2009 and The 100 richest Russians, 2004)

6. Conclusion

This article has described the extent of the internationalization of the Russian metallurgical firms and the main steps of the process since the early nineties. The speed and the scope of the foreign expansion of the Russian metallurgy has given us the opportunity to discuss the available conceptual tools explaining FDI in the light of original stylized facts which led us to propose an exploratory institutional and systemic theoretical framework of analysis.

This framework has allowed us to inter-relate three kinds of determinants of the foreign expansion of Russian metallurgical companies. Firstly, foreign expansion is a path-dependent trajectory of company growth based on the availability of resources. One important feature here is that the initial shift to internationalization by metallurgists occurred during the nineties through the development of exports. Thus, foreign expansion is rooted in the initial conditions of the systemic transformation. After a phase dominated by internal consolidation and stabilization of property rights, the highly favourable business situation since 2002 has played a major role, enabling metallurgists to finance foreign international investment.

Secondly, foreign expansion is a response to a set of macro/meso economic and institutional constraints and opportunities. The initial step towards internationalization is to be found in the surge of transaction costs in the internal market and the drop in national demand during the nineties. Foreign expansion then arose as a new stage of international development, as firms sought to secure their market access and supply chains. However, we observe very different features in the ferrous and non-ferrous metallurgy sectors, depending on global value-chain specificities and in response to international competitive pressure. In the first sector, the international expansion is mainly downstream and in developed markets; in the second sector, foreign investments are mainly

upstream and in peripheral countries.
Thirdly, foreign acquisitions result from microeconomic strategies related to advantage-seeking behaviour, improving the position of the firm in relation to its competitors by acquiring market power and/or techno-competitive advantages. Within this third block of mechanisms, interaction with the political authorities has been specifically discussed. In the current Russian context, we have stressed the complex intertwining of autonomy-seeking behaviour on the part of company owners and the strong dependence of these same owners on their political connections not only for foreign expansion and for the stability of their property rights and the capital-labour nexus, but also, during the first turbulences of the global crisis, for their financial survival.

This research confirms the relevance of key contributions to the theoretical literature on firms and TNCs. In particular, we have relied extensively on the Penrosean perspective on the growth of the firm and on the influential OLI paradigm to build the microeconomic foundations of our institutional and systemic approach. However, moving at a more aggregate level, we have pointed out the limits of the IDP which does not allow to understand idiosyncratic FDI patterns of developing countries, such as Russia's, and does insufficiently takes into account the importance of the international regime as a key driver of FDI behaviours. We have not discussed here in a systematic manner the literature on the growth of non-triadic TNCs, but our work raised some arguments relevant in this area. First, within the limitations inherent to a sectoral study, the internationalization of Russian metallurgists corroborate the assumption of a a progressive pattern, where TNCs from developing countries emerge primarily in mature industries and less knowledge intensive sectors. In return, the role of “institutional affinity” do not appear as the main driver of firms FDI behaviour, lagging behind determinants linked to the competition regime within the industry. However, this factor has played a role as far as the M&A in the ex-soviet countries were concerned.

Finally, should we consider that the race towards multinationalization among Russian metallurgical firms happened too early and to fast ? The violence of the 2008-09 economic shock for Russian Metallurgists suggest that their internationalization has not reduced their economic vulnerability. Moreover, there is in our case study no obvious positive relation between the surge of outward FDI and economic or social development. Thus, in term of efficiency and sustainability, both at the micro and macro levels, evidence suggests a positive answer.

However, much research remains to be done. In particular, this case study needs to be compared to with other researches on the emergence of transnationals from peripheral countries. It may be useful to discuss the possibility of common patterns among the transnationals that have emerged during the commodity boom. Another key point concerns the impact of these transnationals on receiving economies. In particular, the question needs to be examined of whether there will be further retreat of the transnationals from developed countries, which could feed de-industrialization trends. Finally, the case of the Russian metallurgical firms shows the importance of the geo-economic consequences of a surge in natural ressources prices. It suggests to considerate accurately the implications of a comeback of the classical rent issue at a global scale, should the medium term prospects of rarefaction of natural ressources for key raw materials materialize.

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Over-accumulation, Rising Costs and 'Unproductive' Labour: The Relevance of the Classic Stationary State Issue for Developed Countries

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Abstract

The current crisis takes place within a long downturn and new debates on the future of growth are emerging. This paper contributes to the discussion on the prospects for growth in rich countries by stressing the relevance of some theoretical insights made by classical economists about the end of economic expansion and aims at developing a dialogue with contemporary radical perspectives. We focus on three key mechanisms related to contemporary economic analysis: over-accumulation; rising costs of accumulation; and the balance between productive and unproductive labour and consumption.

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Key-words

Stationary state, Long downturn, Smith, Marx, Over-accumulation

JEL codes

B12, O40, P17

Introduction

The classic stationary state issue is echoed in some contemporary preoccupations. The arrangement designed to resolve the 1970s crisis did not prevent a decline of system dynamics. Since the 'Golden Age' (Marglin & Schor, 1990), developed economies have lost momentum: both production growth rates (graph 1: GDP growth) and investment rates (graph 2: Investment in % of GDP) have declined, facts that are consistent with a slowdown in capital accumulation (graph 3: Growth of gross capital formation). Hence, the current crisis takes place within a long downturn.

This paper contributes to the general discussion on the prospects for economic growth in rich countries by stressing the relevance of some of the theoretical insights from classical economists about the end of economic expansion and aims at developing a dialogue with contemporary radical perspectives. We focus on three key mechanisms: over-accumulation, rising costs of accumulation, and the balance between productive and unproductive labour and consumption. Consequently, some crucial issues, such as the widely discussed role of demographic trends, are virtually ignored.

Section 1 examines how the capital accumulation slowdown can be interpreted as a sign of over-accumulation through the destructive impact of competition. We then turn to the rising costs of accumulation and the exhaustion of what Karl Marx calls 'the original sources of all wealth' (Section 2). Contemporary concern over the environment and the degradation of social conditions is reminiscent of the classical preoccupation with the limits on growth due to the consequences of decreasing agricultural returns. Finally, we explore the current significance of the distinction made by classical economists between productive and unproductive labour (section 3). The conclusion summarizes our arguments and stress the implications of the hypothesis of the exhaustion of growth, in particular as far as radical political economy is concerned.

1. Smithian over-accumulation and the transformation of competition in the neoliberal era

Free market advocates use the invisible hand metaphor optimistically, but Adam Smith was 'both the Prophet and Cassandra of commercialism' (Alvey, 2003, p. 294). Section 1.1 recalls Smith's prospect of running down into a stationary state and Marx's ambivalent reception of this idea. Section 1.2 explains why, in a Marxist perspective, Hilferding argued that, in certain specific historical conditions, competition can hinder accumulation. Section 1.3 examines how some radical contemporary thinkers deal with this issue in the neoliberal context.

1.1. Smith on the stationary state and Marx's reading of Smith

According to Smith, real wealth is the annual product of land and labour. Capital accumulation increases the number of those who are employed in useful labour and enhances their 'productive power' by extending the division of labour. Thus, Smith describes a process that enhances the material conditions for the greatest number. Nevertheless, he is worried about the fragility of growth and some scholars point to the 'profound pessimism' concealed within his *Wealth of Nations* (Heilbroner, 1973, p. 243; Meek, 1977, p. 13).

Smith introduces the idea that a stationary state might be the outcome of a progressive state. He maintains this idea throughout all six editions of the *Wealth of Nations.* On the one hand, growth produces a rise in real wages (1776, vol. 1 p. 96). On the other hand, growth runs out of steam because it exhausts the accumulation process. This is the 'paradox of progress' laid out by Heilbroner[1]. But how does a stationary state stem from a progressive one? We would stress three elements of Smith's economic outline which all point to the idea that the exhaustion of growth can be endogenous to the accumulation process.

First, Smith suggests a long-term inverse relationship between profit and capital stock due to an increased competition: "When the stocks of many rich merchants are turned into the same trade, their mutual competition naturally tends to lower its profit; and when there is a like increase of stock in all the different trades carried on in the same society, the same competition must produce the same effect in them all' (1776, vol.1, p. 105). Second, Smith indicates that there is a limit to the accumulation of capital : for a given 'soil and climate' and a given 'situation with respect to other countries' the country can become 'fully stocked' (*ibid*., p. 108).

Third, he states that no sustainable relief can be expected from the demand-side. In a rarely quoted extract from Book V, Smith explains that in the long run an increase of demand thanks to foreign trade induces intensification of competition and innovations, which reduce prices and profits:

1 On Heilbroner, see (Alvey 2003, p. 20-1). Heilbroner's interpretation of Smith's pessimism has been criticized by Gavin Kennedy (2005). But according to *The Adam Smith Review*, 'one of the more intriguing aspects of *Smith's Lost Legacy* is Kennedy's attempt to offer an optimistic reading of Smith's political economy […] Kennedy may be right in maintaining that too much has been made by some about Smith's version of the stationary state. Nevertheless it is an essential part of Smith's growth model and, at the very last, serves as a warning to policymakers unconcerned about whether commercial markets are expanding or contracting. As Smith emphasizes time and again, there are no guarantees that growth is inevitable' (Harpham 2007, p. 221).

> The increase of demand, besides, though in the beginning it may sometimes raise the price of goods, never fails to lower it in the long run. It encourages production, and thereby increases the competition of the producers, who, in order to undersell one another, have recourse to new divisions of labour and new improvements of art, which might never otherwise have been thought of. (*ibid*., vol. II, p. 748)

Here the destructive nature of competition is related to a consequence of capital over-accumulation caused by expansion of the market.

Marx highlighted and analyzed Smith's pessimism. As Ronald Meek (1977, p. 9) puts it, Marx's quoting of Smith in the *1844 Manuscripts* 'have certain *relatively* critical and pessimistic implications'. A few years later, in his *Outlines of the Critique of Political Economy*, Marx examines Smith's opinions on the stationary state:

> A. Smith explained the fall of the rate of profit, as capital grows, by the competition among capitals [...] Smith's phrase is correct to the extent that only in competition – the action of capital upon capital – are the inherent laws of capital, its tendencies, realized. But it is false in the sense in which he understands it, as if competition imposed laws on capital from the outside [...] Competition executes the inner laws of capital; makes them into compulsory laws towards the individual capital, but it does not invent them. It realizes them. (Marx 1857, p. 404).

Marx tries to encompass Smith's narrow view. Smith's idea 'is false', but once an important turn has been done concerning the method, it 'is correct'. In the third volume of *Capital*, he describes the law of over-accumulation (or accelerated accumulation) as the inability to get a high profit rate (Marx, 1894, p. 166). According to Marx 'the same causes that bring about a tendency for the general rate of profit to fall necessitate an accelerated accumulation of capital', but as 'everything appears reversed in competition' (1894, p.155) some merchants attribute a fall in profit to the expansion of capital. In Marx view, competitive pressure constrains individual capitalists to invest in order to adopt the more modern productive techniques that lead to an increasing capital intensity of production and then a tendency of the rate of profit to fall due to a rise in the organic composition of capital.

Smith and Marx thus propose two competing views of declining tendencies in capitalist economies related to over-accumulation. According to Smith, over-accumulation of capital leads to increasing competitive pressure and then low profits. Increasing demand cannot impede this phenomenon in the long run, and in fact, it makes it worse. According to Marx, the fundamental cause of declining profit rate is not competition but the diminishing opportunities to extract surplus value due to the rise in the organic composition of capital. However, as we will show now, in a Marxian framework the evolution of competition forms can hinder accumulation if it impedes the regulating role of profit rate.

1.2. The development of fixed capital can prevent the equalization of the profit rates

According to Marx, the struggle among individual capitals is a necessary moment in order to understand the dialectic unity of capital (1857, p. 210 ; 1894, p. 19). Aside from unessential, incidental and mutually compensating distinctions, differences in the average rate of profit in the various branches of industry do not exist in reality, and could not exist without abolishing the entire system of capitalist production' (*ibid*., p. 113). This is a strong statement which is consistent with an analytical framework in which profit rate exerts a key regulating role (Dockès & Rosier, 1983, p. 43).

As David Ricardo (1817, p. 49) noted, capital mobility does not ensure a perfect equalization of profit rate because a capitalist may be 'willing to forego a part of his money profit, in consideration of the security, cleanliness, ease, or any other real or fancied advantage which one employment may possess over another'. Marx also describes the equalization of profit rates as a permanent process, an 'incessant outflow and influx' (1894, p. 138), and Marxist economists insist on this 'turbulent equalization' (Shaikh, 2008). As Duménil, Glick and Lévy (2001, p. 72) point out '[for Marx, as well as Smith and Ricardo], competition is efficient in allocating capital among industries, thereby bringing about a uniform profit rate". However, "this mechanism is decentralized, it occurs within disequilibrium, and adjustments are made *ex-post*'.

Beyond these short-term adjustment problems, Marx takes an historical point of view and admits that the equalization process depends on the extent of capitalist development (1894, p. 138). As the capitalist mode of production is developing, competition annihilates the extra profit by spreading the new labour processes and the technical innovations throughout the whole branch (Marx, 1894, p. 179). The equalization of profit rate across all industries requires thus 'a higher development of capitalist production' (*ibid.*, p. 130).

In his book on *Finance Capital* (1910), Rudolf Hilferding has taken an opposite stance on this point. His aim is to provide a general explanation of the more and more numerous cases when competition cannot exert the inner law that brings a uniform profit rate among capitals. Evidence from the German steel industry attests to the fact that technical progress produces a rise in the organic composition of capital, *but also* a modification to the elements composing constant capital. An enormous inflation of fixed capital means that once capital has been invested, its transfer from one sphere to another becomes increasingly difficult:

> The larger the fixed capital, the greater its weight in the balance of investments, and the larger its proportion in relation to the total capital, the more difficult it becomes to realize the value embodied in it without very considerable losses, and to transfer it to a more advantageous sphere. This circumstance modifies the competition between capitals for investment outlets. In place of the old legal restrictions imposed by medieval tutelage, new economic restrictions have emerged which limit the mobility of capital. (1910, p. 186)

These new obstacles to the tendency to equalize rates of profit increase as capitalism develops, particularly in the heavy industries (Hilferding, 1910, p.189).

Gérard Duménil (1978, p.298-9) objects to Hilferding's point, suggesting that the development of fixed capital is not ‘a serious obstacle to the equalization’. In the sector where fixed capital is large, over-accumulation makes profit rates fall below the average rate. Then some capitals are depreciated so that profit rate rises in this sector. Thus, over-accumulation can be cleared out by depreciation[2]. And when depreciation is not sufficient, withdrawal or destruction of capital are necessary before new investment can occur (Marx, 1894, p. 170-173).

In fact, Hilferding (1910, pp. 189-90) emphasizes this Marxian view and allows for depreciation, but explains that it takes a long time:

> The competitive struggle is not one between the strong and the weak, in which the latter are destroyed and the excess capital in that sphere is eliminated, but a

2 Depreciation is a case of devaluation, which is ‘the underside to over-accumulation’ (Harvey 1982, p. 195).

> struggle between equals, which can remain indecisive for a long time, imposing equal sacrifices on all the contending parties. The enterprises involved must all find ways of continuing the struggle, if the whole immense capital invested in each of them is not to depreciate in value. Consequently, it has become extremely difficult, in this sphere, to ease the situation by writing off capital […] A situation may easily develop, in these areas, in which the rate of profit remains below the average over a long period […] and it can be equalized only very gradually.

In sum, Hilferding introduces an important idea concerning the relationships between competition and accumulation in the course of capitalist development. While, in Marx's view higher capitalist development favors the equalization of the profit rate, in Hilferding's analysis this development on the contrary prevents such an equalization because of growing sunk costs from fixed assets which impede the withdrawal of under-performing capitals. This phenomenon is adverse to accumulation because it lowers the average profit rate of the economy.

1.3. The destructive impact of competition in the neoliberal era

In these different theoretical frameworks, we have identified three main mechanisms through which competition can hinder accumulation and foster stagnationist tendencies : Smith's intensification of accumulation due to a growing capital stock ; Marx's decline of the profit rate due to rising organic composition of capital ; Hilferding's growing role of fixed capital which limits the reallocation or the elimination of under-performing capitals. How do contemporary radical economists relate these mechanisms to the stylized facts presented in the introduction and to the contemporary tendencies toward structural excess capacities in core industries? From an empirical point of view the increase of global excess capacities is difficult to assess due to the lack of data. As Crotty puts it (2002, p. 24), “there is not even a consensus on how [global excess capacity] should be defined and measured”. However there are some partial and indirect indications consistent with such a trend (Harari-Kermadec and Légé, 2011). The capacity utilization data provided by US Federal Reserve Bank (based on Census Bureau's Survey of Plant Capacity) shows cycle by cycle an aggravation of structural excess capacities (graph 4). Moreover the dramatic reduction of world inflation during the past two decades, and particularly since the Asian Crisis of the late nineties, points to the establishment of a new price regime resulting from a global excess of supply (Aglietta *et al*, 2009, p. 19-27).

In order to assess how radical contemporary economists deal with the competition-accumulation complex, it is first necessary to distinguish between two main approaches. On the one hand scholars such as Robert Brenner and Alan Freeman consider that capitalism is undone by its own dynamism of accumulation. On the other hand, the authors from the Regulation and the Social Structure of Accumulation schools do not deny the intrinsic propensity of capitalism to crisis but insist on the role of institutional arrangements which affect the accumulation regimes and may be able to contain the declining tendencies. The keynesiano-marxian approach of James Crotty lies somewhere in between. These distinctive points of departure lead to various appraisal of the neoliberal era. While Brenner and Freeman insist on the internal dynamics of accumulation, the SSA and the Regulation schools point to historically contingent factors that may hinder accumulation. Crotty mobilizes some of the classical arguments but considers that their relevance is contingent upon the politico-social context.

Alan Freeman's view is based on his interpretation of the value theory (Freeman and Carchedi 1995; Freeman, Kliman and Wells 2003) and the idea that Marx's theory of the fall of the rate of profit is sufficient to account for crisis tendencies in contemporary capitalism while “particular historical circumstances such as the regulatory regime, a system of innovation, or special competitive behavior” cannot explained them nor avoid them (Freeman, 1999, p. 31). However, this framework do not imply that general crisis tendency will lead to a final breakdown of the system, but that recovery requires an external political intervention. Neoliberalism can thus be interpreted as a set of policies which were for a time successful in limiting the deepening of the crisis of the seventies. However, how these political interventions operate is mostly beyond the scope of Freeman's prospect.

As Freeman, Brenner insists that crisis tendencies are intrinsic to the process of capital accumulation. However, his emphasis is on the dialectical relationships between accumulation and competition. Brenner (1998, 2006) develops the idea that the industrial catch-up in Germany, Japan and other new industrial powers is at the root of the long downturn that began at the end of the 1960s[3] and is at the root of the present crisis:

> The fundamental source of today’s crisis is the steadily declining vitality of the advanced capitalist economies over three decades, business-cycle by business-cycle, right into the present. The long term weakening of capital accumulation and of aggregate demand has been rooted in a profound system-wide decline and failure to recover of the rate of return on capital,

3 Although, the discussion of Brenner's thesis goes beyond the limits of this article, it's worth noting that several aspects of his arguments have attracted heavy criticism (Duménil, Glick & Lévy 2001; Fine, Lapavistas & Milonakis 2001; Zacharias 2002) and his claims about the falling rate of profit has been disputed on empirical grounds too (Foster & Magdoff 2008; Duménil & Lévy 2010; Husson 2010).

resulting largely – though not only – from a persistent tendency to over-capacity, i.e. oversupply, in global manufacturing industries (Brenner 2006, p. 2).

Brenner's argument is in line with Smithian reflections on the negative impact of the rise of capital stock on profits due to increasing competition. However, it is used in a critical Marxian way. Over-accumulation is presented as the result of a coordination failure – the anarchy of the market – where the individual rationality of each capitalist push them to invest in new facilities and technologies while the aggregate result is an excessive build-up of capital stock in production. The main problem arises from the failure to adjust of firms which sustain reduced profitability as a result of the introduction of lower-cost and lower priced goods by cost-cutters in their line. Because their fixed capital is sunk “it is rational for them to remain in the line so long as the new, lowered price allows them at least to make the average rate of return on their circulating capital” (Brenner, 2006, p. 29). It is crucial to understand that for Brenner the key problem is the rate of entry and exit of capital and not capacity utilization. Indeed, that means that greater demand can only give some relief on profits on the short run because, as in Adam Smith statement, in the long run it would just attract more new competitors, driving prices and profits downs (Walker, 1999, p. 191).

Brenner's emphasis on the role of sunk cost of fixed capital is pretty much in line with Hilferding's argument as well as James Crotty's analysis is. However Crotty's interpretation only concedes a limited validity of Brenner's conceptual framework. He considers that Brenner’s arguments concerning the new competition regime do not explain the 1970s’ crisis, which was attributable mainly to a profit squeeze caused by a disconnection between the rhythm of wage increases and productivity growth (Crotty, 1999). With an explanation of the 1970s' crisis similar to some regulationist (Mazier *et al.*, 1984 ; Dockès and Rosier 1983) or SSA (Bowles and Gintis 1986) analysis, Crotty considers Brenner's emphasis on the destructive effect of over-accumulation relevant only to the context of the 1990s where demand was crushed by the requirements of 'impatient finance'. Oligopolies at the center of the system were able to maintain some co-respective relations 'even as Japan, and, later, Korea and Taiwan began their slow ascent up the export pecking order', but not later when 'neoliberalism severely constrained demand growth' (Crotty 2002, p. 37). In this view, overcapacity is the consequence of over-investment relative to demand.

Crotty's analysis combines thus the typical Keynesian reasoning on economic process, with a study of the transformation competition forms. He stresses that many economists explain 'the decline in global demand growth since the early 1970s' and the 'initial rise in excess capacity', but also that 'the answer to the question of why global supply did not eventually adjust to the slower rate of growth in demand, leading to a slow-paced but balanced expansion, is not obvious' (2002, p. 24). His explanation is that initial excess capacity:

> combined with the collapse of barriers to the free movement of capital, triggered competitive wars for survival. [This] led firms to adopt policies that both further constrained global demand growth and expanded industry capacity at a pace faster than would be understandable within either a neoclassical or Keynesian framework, reproducing excess capacity. Global neoliberalism has thus unleashed a destructive dynamic interaction between its macro and micro levels of activity, a kind of vicious economic circle' (*ibid*. p. 25).

As Brenner, Crotty is thus in line with Smith and Hilferding when he suggests that the contemporary "coercive competition" continuously recreates excess capacity in core industries. However, he departs from Smith and Brenner in insisting on the importance of sluggish demand in fostering global excess capacities in the neoliberal era.

Crotty (2000, p. 24, 2002, p. 42) frequently quotes a famous excerpt from *The Poverty of Philosophy*, in which Marx draws on a synthesis of competition and monopoly related to the dynamic of class struggle (Marx 1847, p.69). This reference is symptomatic of how Crotty and other radical thinkers depart crucially from Freeman's and Brenner's emphasis on the internal dynamic of accumulation. Crotty and, even more, the authors from the Regulation and Social Structure of Accumulation (SSA) schools have focused much of their attention on the politico-institutional determinants of the different phases of capitalist development.

The regulationist school basic assumption is “that capitalism is not a self equilibrating process but requires intermediation from external structures, and that the configuration of institutional forms helps us understand how a capitalist growth regime takes place and finds its mediations in a distinct historical phase” (Petit, 1999 , p. 238). They do not consider that capitalism is a stable system but insist on the possibilities of “rescheduling the crisis”. (Harvey, 1989, p. 196). As a result, their relationship with Marxism - which was initially rooted in Gramscian insights - has become more and more slack, mainly retaining from this tradition the idea “that no mode of production disappears before its full potential has been realized – an argument that points to work on capitalism's capacity to resolve crises through institutional innovation” (Jessop and Sum, 2006, p. 354).

The SSA school is a close cousin of the Regulation school for it considers that “the Social Structure of Accumulation consists of all the institutions that impinge upon the accumulation process" (Gordon, Adwards and Reich, 1982, p. 23). But SSA school has adopted a less "harmonicist" position than the Regulation, focusing more explicitly on the fact that institutional structure enhances capitalist power. According to Kotz and Wolfson (2010), there have been difficulties in applying SSA theory to the neoliberal regime because of the assumption linking SSAs with rapid economic growth. They propose a 're-conceptualization of SSA Theory' in which the enhanced capitalist power translates into a higher share of profit in total income but not into faster growth. To account for slow growth, Kotz and Wolfson refer to Crotty's idea that one key difference between neoliberal and constrained-market SSAs is 'in the nature of competition among capitalists'.

While analyzing the crisis of fordism and the characteristics of the post-fordist period, regulationists have also stressed the importance of the changes concerning the competition forms and their detrimental consequences on growth and social conditions (for example, Mazier *et al*., 1984 ; Petit, 1999). However, as in SSA researches, the causal link between over-accumulation and competition is not really considered, in contrast with Smith's pessimism and Hilferding focus on fixed capital which are echoed in Brenner and Crotty's writings. Much of the regulationist and SSA analysis have focused on the role played by the liberalization of finance in fostering growth in the past two decades while gathering the seeds of the violent 2007-2008 financial crash. For example, both Boyer (2008) and Kotz (2011) insist on the role of finance-induced demand in fostering over-investment. As a result they are not very engaged in discussions concerning the causes and implications of contemporary destructive dialectical relation between competition and over-accumulation.

In sum, as shown in table 1, some fruitful correspondences could be drawn between some insights made by classical economists and the analysis of some contemporary radical thinkers concerning the relationships between over-accumulation, competition and crisis tendencies. This filiation has not been explicitly rejected but *de facto* almost lost in the Regulation Theory and SSA ; their focus on more historically contingent institutional determinants of growth regimes has diverted them from the study of the intrinsic movements of accumulation. In our view, the intermediary position of James Crotty reflects an interesting attempt to revive these classical insights though considering their contingency to the politico-institutional context.

	BRENNER	FREEMAN	CROTTY	REGULATION SCHOOL and SSA
SMITH				
Abundance of capital increases competitive pressure and thus lowers profits	+	n.r	+	+
Expansion of demand reduces prices and profit in the long run	+	n.r	-	-
MARX				
Competition induces investment and a subsequent increase in the organic composition of capital which lowers profits	n.r.	+	n.r	n.r
HILFERDING				
Sunk costs prevent the reallocation or the elimination of under-performing capitals	+	n.r	+	n.r

Legend : **(+)** acceptation ; **(**+**)** weak acceptation ; **(-)** rejection ; **(**n.r.**)** not relevant

Table 1: Correspondences between classical insights about the destructive effect of competition and some contemporary radical thinkers

2. A pessimistic Ricardian perspective on the rising costs of accumulation

In classical writings, another distinctive limits to accumulation is derived from Malthus's insistence in his *Principle of Population*, on the idea of external limits, which is reminiscent of Marx's preoccupation with the exhaustion of the 'original sources of all wealth – the soil and the labourer' (Marx 1867, p. 326), which is echoed in some major present day debates.

2.1. Ecological limits and economic pessimism in classical writings

Malthus's *Principle of Population* opens up a huge area of debate and economic pessimism typical of Smith. Initial arguments focused not on the end of capital accumulation, but on the consequences of the different dynamics of a geometric population increase versus arithmetic growth in food supplies. If population numbers increase before the means of subsistence are increased, 'the poor consequently must live much worse' (Malthus, 1798. p. 19). In Malthus's view, these deleterious effects on workers do not prevent accumulation, but, on the contrary, fuel a mechanism, which Marx and Engels later described as the 'industrial reserve army': an abundance of poor people looking for jobs tends to reduce wages and opens the way to a new phase of economic dynamism through higher profits.

The link between depletion of resources and stagnation is referred to explicitly by Ricardo. Departing from Smith and Malthus, he considered the decreasing returns from agriculture a threat to accumulation. The Ricardian argument (Ricardo, 1828, p. 208) is well known: an increase in population numbers brings into cultivation more land that is of increasingly poor quality; this leads to an increase in wheat prices, fueling higher rents and also higher wages, which eventually squeeze out profits. The ensuing reduction in investment capital means that accumulation slows to a stationary state in which the capitalist makes near zero profit. However, Ricardo claims also that this decline can be checked by technological improvements in machinery and international trade.

2.2. The degradation of ecological and social conditions in contemporary developed economies

The classical preoccupation with scarcity of resources is echoed in contemporary debates, in particular in relation to the ecological crisis and the deterioration of social conditions. Since the 1972 Meadows report, a significant body of the economic literature has addressed the issues of whether humanity can afford higher global levels of consumption and production associated with the rapid extension of the western capitalist civilizational path. In recent times, de-growth theses have attracted a growing interest as the appeal of the concept of sustainable development decreased in the absence of substantial progress concerning environmental and social durability (Martínez-Alier *et al.*, 2010). Contemporary researches on wealth indicators (Gadrey, Jany-Catrice, 2005 ; Stiglitz, Fitoussi, Sen, 2010) have given a considerable amount of empirical elements to point out the divorce between GDP growth and socio-economic well being, which points out the rising costs of accumulation. The empirical work build on the Genuine Progress Indicator is particularly eloquent[4]. Several decades of research point to a GDP per capita threshold whereby growth shifts from being economic to non-economic according to the criteria of the GPI indicator (Lawn and Clark, 2010). This switch occurred in USA, New Zeland, Australia and

4 Comprised of around twenty individual benefit and cost items, the GPI integrates the wide-ranging impacts of GDP growth into a single monetary-based index (for a detailed presentation see Lawn and Clarke, 2006).

a number of European countries during the 1970s and 1980s, in Japan in the nineties and in the early 2000 in some developing countries such as China and Thailand.

In the recent period, three main lines of arguments have been developed concerning the link between growth and rising costs of ecological and, less frequently, social conditions. A first group of researchers, such as Lester Brown, Paul Hawken and also, more recently, more mainstream researchers and proponents of a ‘Green New Deal’, suggest that further sustainable growth is possible thanks to technological development and factor substitutability. Although there is very wide orientation within this group, all suggest that further growth is compatible with ecological challenges with the implementation of appropriate policies related to regulation, taxation and investment to foster a consumption/investment balance more favorable to investment (Arrow et *al.*, 2004). A second group of investigations represented by Herman Daly's (1974; 1991) work, but also that of researchers such as Tim Jackson (2009) and Peter Victor (2008), maintains that ‘growth isn't possible’ (Simms et al., 2010), but that capitalism without growth is an option. This latter claim is challenged by a third group of authors who adopt an anti-capitalist perspective. They agree with the no-growth economists that it is impossible to provide globally both sustainable ecological outcomes and increased GDP growth. However, they consider that capitalism without growth is not an option. Richard Smith (2010, p. 34) states that “growthmania” is hardly just a dogma, an ideology, a fetish. “Growthmania” is a rational and succinct expression of the day-to-day requirement of capitalist reproduction everywhere and in any conceivable capitalism’. Indeed, the capitalist orientation toward endless accumulation is implemented through competition between individual capitals.

These contemporary debates are generally not related to the Ricardian argument on the impact of decreasing returns in agriculture over accumulation. However, the empirically well established link between the rising costs of energy and commodity goods and growth (Baffes & Tassos, 2010) operates in a pretty much similar manner. More generally, the conceptual framework elaborated by James O'Connor (1988) allows to make this logical connection. O'Connor states the deepening of the second contradiction of capitalism, a contradiction between capitalist relations (and productive forces) and the conditions of capitalist production. He draws on Polanyian analysis of how capitalist growth generally impaired its own social and environmental conditions as it incorporates in its circuits of valorization fictitious commodities such as the Land and Labor. Capital is not able to prevent itself from impairing these conditions because of “its universalizing tendencies which tend to negate principles of site specificity” (Ibid., p. 22) under the life-or-death threat of competitive pressure on individual capitals. The deterioration of these conditions affects then capital accumulation through multiple rising costs, for example health bill related to the widespread use of pesticide or the stress on the workplace, rehabilitation costs of polluted areas, security expenses resulting from a toxic social environment (for a discussion see Altvater, 2001, p. 14-17).

To what extent these rising costs could be mitigated without impeding accumulation ? Concerning the ecological crisis, the issue could be formulated in the following manner: could capitalism afford to pay for a reduction in the global material throughput of economic activity at sustainable levels while perpetuating accumulation? What is at stake here is the prospects for technological improvements, the rebound effect, the cost and the scalability of these technologies on the one hand (Trainer, 2008), and demand-driven changes to habits on the other (Nye et al., 2010). However, even if sufficient technological improvements or demand-driven changes of habits were available, it is not certain that market mechanisms could be able to implement them. Price mechanisms implemented to mitigate the ecologically destructive effects often perform badly, for example in the case of wetlands in the US (Kihslinger, 2008). The problem arises from the time lag between the destruction of ecological and social resources and the impact on accumulation. Indeed, phenomenon such as pollution, climate change, biodiversity or obesity, need to be taken into account even *before* they affect accumulation. There is thus a need not only to confront politically, capitalist vested interests but also to address the institutional problem of cross-period and cross-sector coordination, i.e. the very problem of anarchic coordination of economic activities under capitalism.

Malthus' and Ricardo's emphasis on the environmental limits are echoed in contemporary debates about ecological and social sustainability of economic development. A huge strand of literature has addressed these problems in the past decades, however, the analytical link made by Ricardo between rising costs and the exhaustion of capitalist dynamics is most of the time missing. The concept of “second contradiction” proposed by James O'Connor allows to give an account of the dialectical relationship between capital accumulation and social and ecological environment degradation: while accumulation tends to alter environmental and social resources – a phenomenon empirically well established through the literature on wealth indicators – this deterioration of the conditions of production has a negative feedback effect on the very possibility of further accumulation. In addition to the uncertainties concerning the availability of technological fix or the possibilities of sufficient demand-driven changes of habits to tackle these negative externalities from growth, the lack of planning in capitalist economies makes more difficult to surmount this contradiction.

What is at stake is thus not only the institutional configuration of particular capitalist economies but the “growth obsession” (Altvater, 2001) and the competition mechanisms which constitute the very defining principles of this socio-economic system. A recent work by regulationist scholars echoes this point of view when they conclude that in the face of contemporary ecological and social challenges the whole regulationist research strategy is at risk (Rousseau and Zuindeau, 2007). Using the regulationist categories to examine Fordist and post-Fordist dynamics from the sustainability viewpoint appears thus disappointing as “the emergence of strong antagonism between these particular modes of development and sustainability issues leads one to ask more fundamentally, whether certain essential features of capitalism are not being questioned” (*Ibid.*, p. 1).

3. The distinction between productive and unproductive labour and its topicality

The development of numerous services activities such as security, health-care or sanitation services is partly linked to the necessity to guarantee the conditions of capitalist production. This section examines the possibility to link the rising share of services in contemporary economies and the centrality of consumerism to the issue of ‘unproductive labour’ discussed by classical economists and its impact on accumulation.

3.1. The distinction between productive and unproductive labour by classical economists

The distinction between productive and unproductive labour is an important aspect of the classical debates over the prospects for growth. For Adam Smith, there is a substantive distinction between labour in manufacturing, which is able to fuel growth, and domestic labour, which cannot:

> There is one sort of labour which adds to the value of the subject upon which it is bestowed; there is another which has no such effect. The former, as it produces a value, may be called productive; the latter, unproductive labour. Thus the labour of a manufacturer adds, generally, to the value of the materials which he works upon, that of his own maintenance, and of his master's profit. The labour of a menial servant, on the contrary, adds to the value of nothing. (Smith 1776, vol.1, p. 330).

Malthus agrees with Smith about the relevance of the distinction between productive and unproductive labour (Malthus, 1820, p. 43). However, moving beyond the sole emphasis on the work of menial servants, he proposes a wider definition of unproductive ‘personal services’ as “that kind of labour or industry, which (...) does not realize itself on any object which can be valued and transferred without the presence of the person performing such service.” (Malthus, 1820, p. 35).

Malthus is in line with Smith in considering that, from the supply side, unproductive labour does not foster growth, but his originality is to stress that unproductive consumers, up to a point, could be useful for accumulation and growth by resolving the recurrent problem of the insufficiency of aggregate demand. Drawing on some pre-Keynesian insights, Malthus points to the positive role of unproductive consumers ”not as producers themselves, but as stimulating others to produce, by the power which they possess of making a demand in proportion to the payment they have received” (Malthus, 1820, p. 44). Consequently, a certain proportion of unproductive consumers needs to be maintained in order to stimulate production, depending on the specificity of a given country at a given time (*ibid*., pp. 412-413).

On the distinction of productive and unproductive labour, Marx partly concurs with Smith and Malthus, but his writings include some fruitful ambivalence. We can thus identify three main analytical lines.

For Marx, the first criterion is that labour produces – or not – some surplus value: “That labourer alone is productive, who produces surplus-value for the capitalist, and thus works for the self-expansion of capital” (Marx 1867, p. 354-355). Labour is productive as far as it is involved in a social relation of production which generates surplus value and fuels the process of accumulation. This view is in line with Smith's definition of productive labour as adding ‘to the value of the materials which he works upon, that of his own maintenance, and of his master's profit’ (Smith 1776, vol.1, p. 330). But Marx stresses that it is “a relation that has sprung up historically and stamps the labourer as the direct means of creating surplus-value. To be a productive labourer is, therefore, not a piece of luck, but a misfortune” (Marx 1867)

In spite of a lack of clear delimitation - which has promoted huge and long lasting debate (e.g. Herland, 1977 ; Harvey, 2006, p. 105), Marx makes a second distinction concerning the character - productive or not - of the use value produced. As Smith, Marx considers that “in all cases where labour is bought in order to be consumed as use value, as a service, and not in order to replace the value of the variable capital as a living factor and to be incorporated into the capitalist production process, this labour is not productive labour” (Marx 1864, p. 481). However, Marx does not consider the sole services directly consumed by capitalists as unproductive labour but regards also as unproductive all the labour mobilized to their material private consumption because these commodities do not bring any use value to the reproduction process, “they do not become a factor of capital” (*ibid.*, p. 482). This is especially clear as far as luxury goods are concerned. Moreover, he indicates that labour that produces commodities that are unproductively consumed may hinder the reproduction process: “a disproportionate employment of the kind of productive labour which is expressed in unreproductive articles” will have “the result that too few necessary means of subsistence, or too few means of production, etc., are reproduced” (*ibid.*, p. 484).

This second line of argument concerning use value is at odds with Malthus, for whom the consumption of unproductive classes can counter the insufficiency of aggregate demand. On one hand, Marx gives Malthus credit for having stated the possibility of a general glut (a problem with the realization of surplus value) and for having perceived that the proportion of unproductive labour related to productive labour is an important issue. This proportion depends on the level of capitalist development because “the extraordinary productiveness of modern industry [...] allows of the unproductive employment of a larger and larger part of the working-class.” (Marx, 1867, p. 293). But on the other hand, Marx criticizes Malthus' idea that crisis can be avoided by increasing the number of the unproductive workers. Such a an evolution would prevent further accumulation. Now accumulation, and not consumption, is the driving force of production.

The third Marxian argument concerns the quality of the actual capitalist labour process. Here we can be more specific about the definition of productive labour as labour producing surplus value: the very process of mobilizing labour in order to produce surplus value leads to an increase not only in absolute surplus value but also in relative surplus value. The real subjection of labour increases its productive power:

> With the real subsumption of labour under capital there takes place a complete revolution in the mode of production itself, in the productivity of labour and in the relation between capitalist and worker. [...] Labour's social powers of production are developed, and with labour on a large scale the application of science and machinery to direct production takes place. (Marx, 1864, p. 478)

The above quote allows us to link the relations of production and the content of economic activity. Indeed, following Kaldor's insights (1967) concerning the cumulative dynamics deriving from manufacturing industries, it appears that the prospects for increasing relative surplus value – that is, the productive power of labour - are heterogeneous among sectors. According to this argument, some services activities - for which the possibilities of further development of the productive power of labour are limited - may be considered as unproductive.

3.2. The rising weight of unproductive activities and consumption

How much of this classical discussion is relevant to contemporary debates concerning growth prospects in rich countries? First, we observe that a growing share of economic activity does not produce surplus value. Second, there is an important development of unproductive consumption. Third, the growth rate of the economy to a larger and larger extent is being set by the growth rate of productivity of the so-described '*technology stagnant'* (Baumol, Blackman & Wolff, 1989) services activities.

One of the main characteristics of past decades of declining growth rates in rich economies is that neoliberal policies aimed at reducing the share of public sector expenditure in GDP have failed (Lamartina and Zaghini, 2008). This would suggest, beyond the sole phase of industrialization, the resilience of Wagner's law (1912), which predicts that the development of an industrial economy will be accompanied by an increased share of public expenditure, and which is confirmed by long term trends in developed economies (Tanzi 1998, p. 5). In industrial countries, public expenditure grew faster than GDP except during the late 1990s (graph. 5). In the past decade, public expenditure trend has accelerated further, in particular in the aftermath of the crisis. This evolution reveals the dynamism of social demand for public services. In public administration labour is not exchanged against capital. It does not create surplus value. The growing importance of public expenditures means thus that a more and more important share of productive resources prevents thus using all productive forces in capitalist process[5].

In addition, it is necessary to consider the dramatic growth, during the past decades, of private activities, such as banking, finance, insurance and trading which, for classical economists, do not produce value but, on the contrary, capture a share of surplus value. From this point of view, Crotty shows that the liberalization of financial services and the subsequent tremendous rise of their weight in the economies makes the thing even worse.

5 This is not to contradict the role of such public expenditure as an automatic stabilizer in downward phases of the conjuncture or, more widely, as demand stimuli for private investment.

The new Financial architecture reproduces itself over time with frequent and enlarging government bailouts (Crotty, 2008, p. 55). Dysfunctional as it is and because of the explicit and implicit subsidies of the public sector, the liberalized financial system could be thought to *subtract* value from the economy (Haldane and Madouros, 2011).

At a second level, the boom in consumerism may have fostered unproductive consumption patterns, which do not contribute to the reproduction of labour power or, even, impact negatively on its reproduction; consider, for example, the rise in consumption of unhealthy food products. The rise in inequalities has been accompanied by a boom in conspicuous consumption, which has spread throughout all of society based on imitative behavior, mirroring the predatory motive of emulation highlighted by Thornstein Veblen in his 1899 *Theory of the Leisure Class*. Moreover, the sophistication and huge development of marketing and advertising – what Veblen (1923) calls 'salesmanship' - mean that consumption behaviors are widely shaped by the short-run needs of competing firms, independent of the medium and long run productive requirements of capital expansion.

Finally, some recent evidence (Montresor & Vittucci Marzetti, 2011) for OECD countries confirms the so-called Clark-Fischer hypothesis (Clark, 1940) which assumes that economic development is characterized by a shift from agriculture to manufacturing and from manufacturing to services. In the regulationist perspective, Robert Boyer stresses this phenomenon as he emphasizes the rise of anthropogenetic services such as education, health and leisure in modern economies (Boyer, 2002) while Pascal Petit (1988) has pointed out the limited prospects of return to scale in services activities. This deindustrialization-tertiarization is consistent with Baumol's argument (1967; Baumol *et al.*, 1989; Rowthorn & Ramaswamy, 1997): as the economy grows, the weight of service activities, in which productivity improvement possibilities are limited, progresses. It suggests an inexorable process of growth slowdown. In a Marxian perspective, such a shift means that the extent to which the real subjection of labour increases its productive power is less important in most service industries than in manufacturing, although significant socio-economic and technological breakthroughs tend endlessly to redefine the frontier between stagnant and progressive activities.

The classical dichotomy between productive and unproductive labour points to three relevant phenomenons in developed economies. Following Smith intuition expanded by Malthus and Marx, the rising weight of services activities - public or private - which do not contribute directly to surplus value creation, constitutes a first limit to capitalist accumulation. Second, the problem that some consumption patterns do not contribute to the reproduction of the forces of production has been identified by Marx and Veblen. It seems to acquire a great importance with the widespread diffusion of consumerism. However, among radical thinkers, these two dimensions have not been much discussed in their generality, as long term trends which alter the possibility of further capitalist expansion. The third mechanism, the growing share of so-called stagnant services activities – i.e. activities where the prospects for an increase in the productive power of labour are reduced - has attracted more attention, in particular within the regulationist tradition. However, no systematic discussion has occurred to point out the implications of such a structural shift on the mounting difficulties of capitalist accumulation in developed economies.

Conclusion

Beyond the crisis, the case for the stationary state in rich economies (Balakrishnan, 2009) relies on several long term demographic, social and ecological trends. However, much of the contemporary debate focuses on the desirability or the possibility of growth rather than on the inner dynamics of capitalism (Daly, 1974, 1991; Victor, 2008; Jackson, 2009). In this article we relied on an analysis of classical economists to highlight relevant mechanisms and issues concerning the prospects for capitalist dynamics which might help us to a better understanding of the contemporary situation of rich economies. In particular, we stressed the importance of competition dynamics, the degradation of environmental and social conditions and the growing importance of activities which were characterized as unproductive by classical economists. The careful discussion by Smith, Ricardo, Malthus and Marx of the mechanisms that might be driving these dynamics provides a fruitful research agenda at a time when the failure to provide strong growth is a common feature of the major northern countries. To pay attention to these warnings by classical economists is all the more relevant when innovation and the gains from international trade, the main counter-tendencies to stagnation they identified (Mill, 1848 ; Ricardo, 1817), seem to be depleted by intellectual monopolization on the one hand (Pagano & Rossi, 2009), and consolidation of value chains and rising wages in the developing world on the other (Milberg & Winkler, 2010).

Some contemporary radical scholars such as Crotty, Brenner, O'Connor, Freeman have mobilized explicitly or implicitly the arguments of the classical authors. However, this is not the case in most of the works in the tradition of the Regulation School and the SSA. The main strength of these currents is to accurately examine the institutional forms that contain partially and temporarily the contradictions of the accumulation process. But in doing so they have shifted their attention away from the underlying forces of capitalist dynamics which lie behind institutional forms. This research strategy prevents them to take seriously into account the tendencies toward stagnation which were so important for classical economists and, as we have shown, appear to be relevant empirical issues in today's developed economies.

Hence, this article underscores the need for radical political economy to engage theoretically and empirically the discussion of the causes of exhausted accumulation in developed economies. In our view, further economic researches on the prospects for growth should discuss the hypothesis that capitalist accumulation can now only be predatory, following a path of “accumulation by dispossession” (Harvey, 2003 ; Glassman 2006). Another urgent task for radical economy would be to address more directly the problem of the transition from accumulation regimes toward a post-capitalist regime of reproduction. In order to study these two problems, the gramscian-regulationist and SSA inheritance of precise attention to the articulation between institutional forms in shaping macroeconomic dynamics would be highly valuable.

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Figure 1: GDP growth, High income countries (WDI-World Bank)

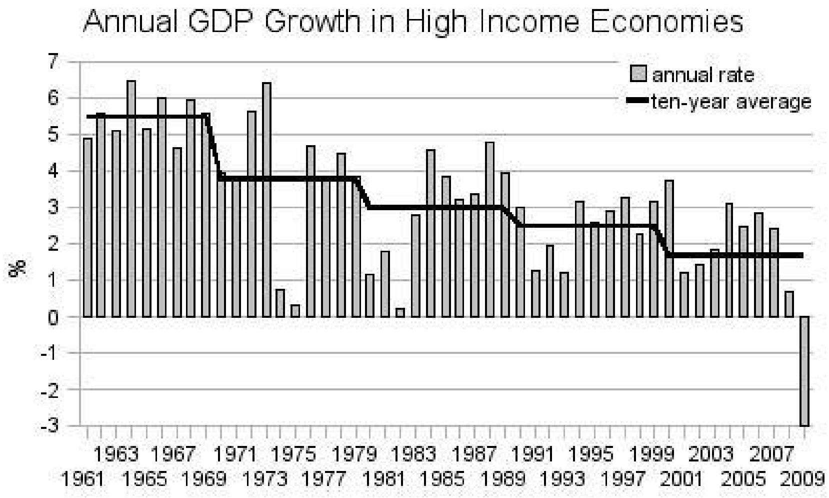


Figure 2: A decline of investment rate, High income countries (IMF)

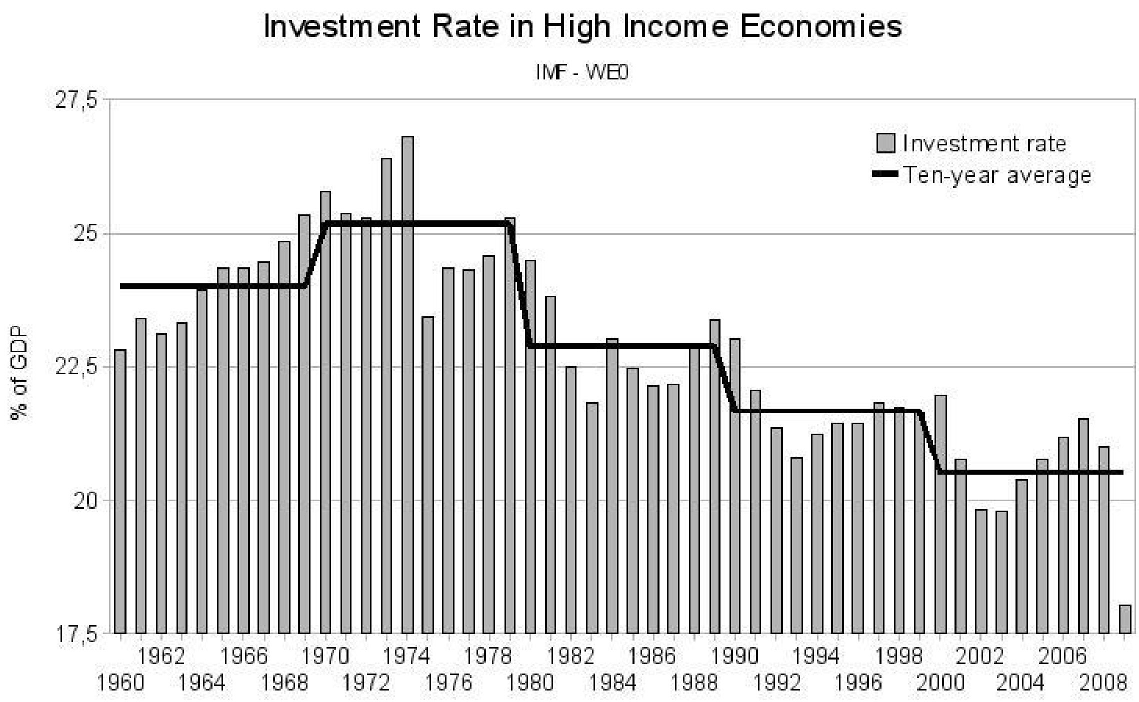


Figure 3: A slowdown of accumulation, High income countries (WDI-World Bank)

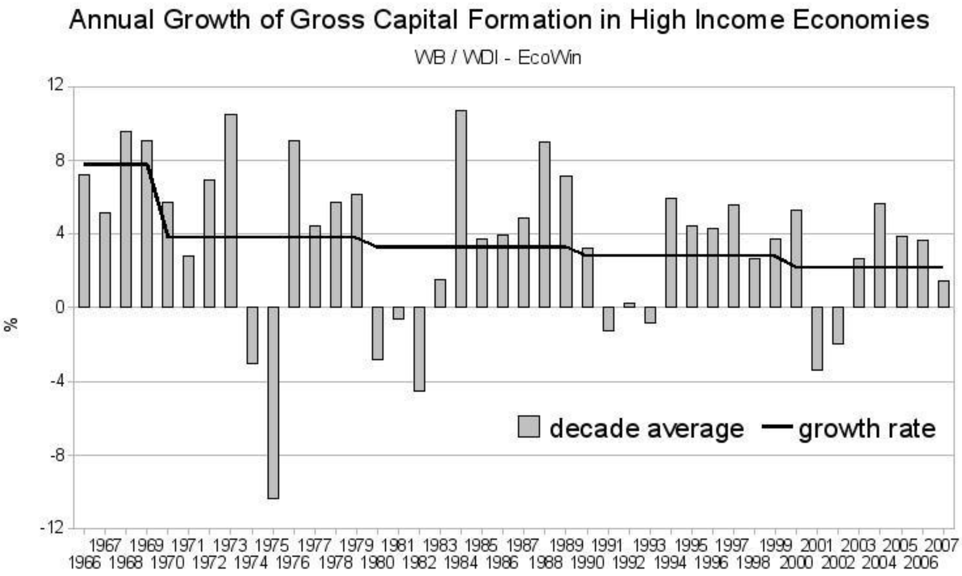


Figure 4: US capacity utilization rate in core industries (Federal Reserve Bank)

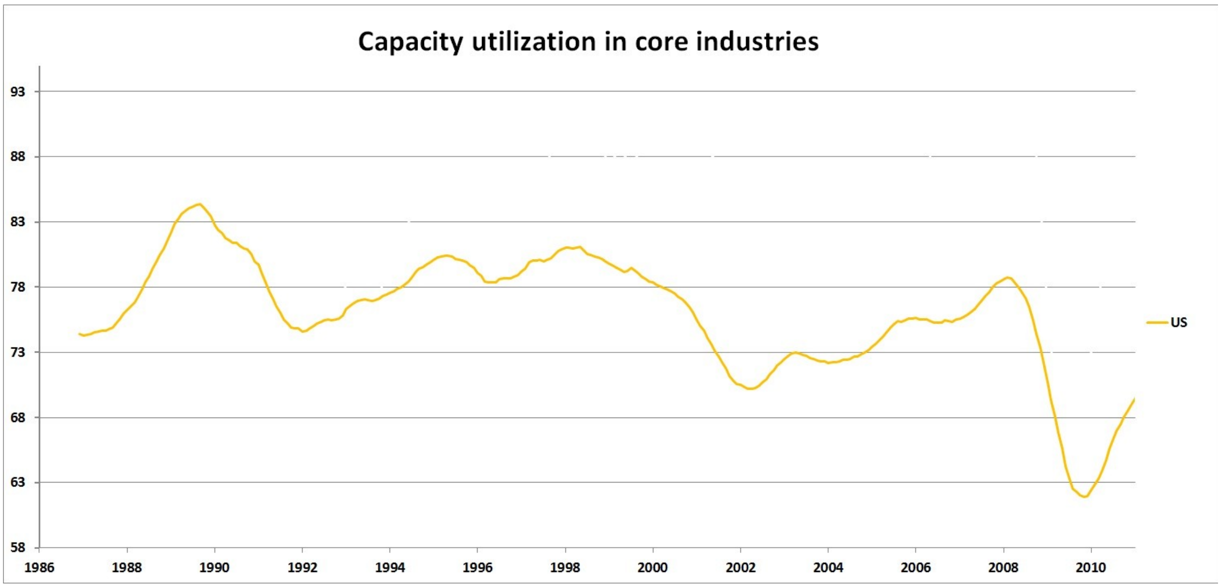
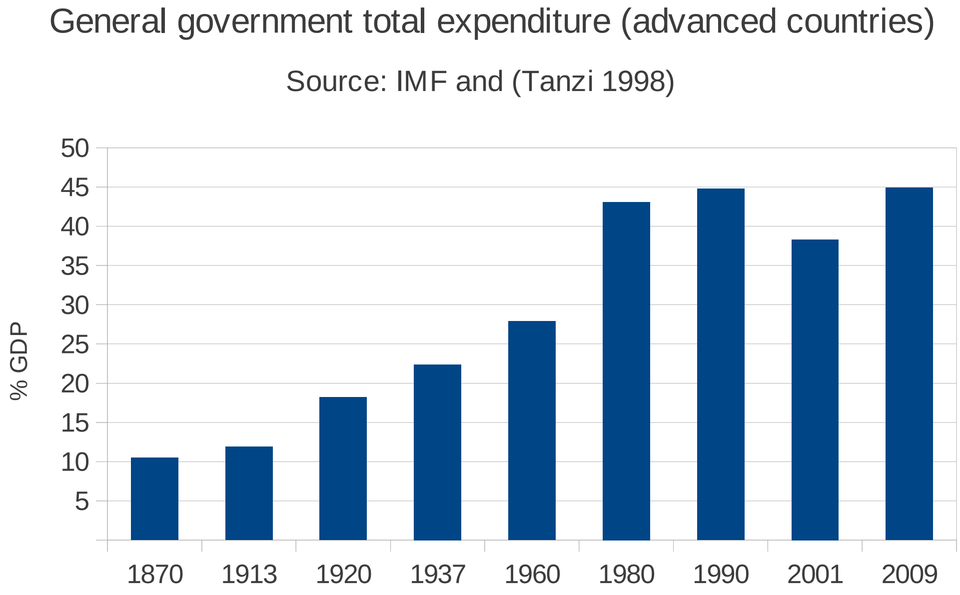


Figure 5: General government expenditure (IMF, Tanzi 1998)



On the link between distribution's margins and exchange rates: the role of globalization

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May 12, 2011

Abstract

In this paper, we analyze the differences in the sensibility of the distribution and transportation margin to exchange rate variations among different sectors in several European countries between 1995 and 2007. On the one hand, we provide further evidence that distribution margins react to exchange rate movements. However, we show that the sensitivity of this reaction is quite heterogeneous among sectors. In addition, in order to draw more subtle conclusions, one original feature of this work is that we empirically allow for asymmetrical reactions of distributional margins to depreciations or appreciations, an effect that was previously ignored in the literature. On the other hand, we look for indications of the characteristics of global value chains governance through the evolution of distributional margins, a feature that can help explaining the heterogeneity among sectors.

JEL Classification: L16, L1, F00, C23
Keywords: Distribution's margin, globalization, asymmetries, exchange rate

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1 Introduction

For many years, one of the major issues in international economics has been the link between exchange rates and prices. Indeed, understanding the form and the scale in which exchange rate changes are passed through to prices is an important issue for macroeconomic stability in general and for monetary policy, in particular.

Yet, despite the large body of literature and interest in the exchange rate pass-through, there are still important issues that bewilder economist and policymakers. In particular, the persistent gap between cost shocks and consumer prices and, in a less extend, to import prices, is a well established fact and a fundamental puzzle in international economics (Campa and Goldberg (2002), Frankel, Parsley, and Wei (2005), Campa and Goldberg (2006)).

In this sense, international trade theory argues that, if all goods and services were traded at a negligible cost and if their prices reflected only their production costs, then retail prices should be very responsive to exchange rate changes. In other words, under a perfect competition structure, the pass-through should be complete or almost complete. As such, the theoretical arguments to explain the important disconnection between exchange rates and final prices are mainly explained from an imperfect competition framework. For instance, Engel (2002) suggests three potential causes: (1) the existence of local costs (e.g., costs for non-traded services such as transportation, storage, marketing or insurance) even among goods that are typically considered to be "traded"; (2) pure nominal price rigidities (also known as "menu costs") that lead to "local-currency pricing" and (3) the adjustment of profit margins that foreign exporters and local distributors have as a result of imperfect competition (Goldberg and Hellerstein (2008))[1].

Concerning the first point, distribution costs for imported goods are shown to mitigate the overall foreign content of the consumption value of imports, and drive a wedge between border and retail prices (Burstein, Neves, and Rebelo, 2003).

With respect to the second point, the literature suggests that shocks resulting from monetary non-neutrality appear to account for a great part of business fluctuation (Nakamura and Steinsson, 2010) and, consistently, that sticky prices represent a key determinant of exchange rate pass-through (Devereux and Yetman, 2010). If prices denoted in domestic currency are sticky, as a consequence of firms facing costs of changing prices, the domestic currency (import) price will not be fully altered even if exchange rate changes affect marginal cost. This implies that import prices do not move immediately and in a one-to-one relation with the exchange rate. Nominal rigidities thus imply that exchange rate movements have a minor immediate effect on consumer price inflation (Adolfson, 2001).

In the third case, the argument is that retail prices do not fully reflect changes in costs mainly because exporters, producers or distributors are able to adjust their margins. Indeed, in practice, many goods and services are produced in imperfectly competitive markets. In terms of prices for these goods, firms are then able to

[1]Another argument to explain the disconnection is related to the distances and costs involved in shipping goods. However, the empirical evidence suggests that geographical distance is not the main determinant for the lack of consumer price sensitivity to exchange rate movements (see, for instance, Engel and Rogers (1996))

make a profit margin over costs. If this is the case, in order to maintain stable prices or expand their market share at the retail level, the margin can be modified for exchange rate variations to be absorbed. In this sense, distributors' margins can provide partial insulation from internationally transmitted shocks because of strategic mark-up adjustments along the supply distribution chain (Goldberg and Campa, 2010).

The incomplete exchange rate pass-through to prices because of margins adjustment can be linked to issues related to the process of globalization. Indeed, the extensive literature on Global Commodity Chains (GCC from now on) insists that, because of global sourcing, fragmentation of productive processes and tougher international competition, the balance of power along GCC has significantly evolved[2]. For instance, Milberg and Winkler (2008) and Milberg and Winkler (2010) point out that the development of off-shoring has contributed to the improvement of US firms' mark-up thanks to reduced input prices. Gust, Leduc, and Vigfusson (2010a) and Gust, Leduc, and Vigfusson (2010b) propose that, when a firm's demand curve has a variable elasticity, a declining pass-through to import prices should be linked to trade integration because of foreign producers' mark-up adjustments along the intensive margin.

From an empirical point of view, the literature that explores the role of the exchange rate in distribution margins is not especially abundant, in part because margins are not directly observable in aggregate data. A notable exception is the contribution of Goldberg and Campa (2010), who report that home currency depreciations are associated with statistically significantly lower distribution margins in the United States and 9 European countries over the period 1995-2001. Unfortunately, at least three important drawbacks can be outlined from the previous study. First, by relying in a single panel regression containing 29 sectors, the heterogeneity of the industrial structure is overlooked. Yet, there is an abundant literature revealing an impressive heterogeneity at the industry level concerning profitability, price-cost mark-up or the average extent of rent sharing (Dobbelaere (2004), Bottazzi, Dosi, Jacoby, Secchiy, and Tamagniz (2010), etc) that should be taken into account. In addition, heterogeneity among industries and sectors is very persistent over time in the levels of whatever micro variable one looks at. Second, their single panel contains several resource based sectors or commodities, for which prices are either set internationally, or contain just a small fraction of distribution margins. In addition, Campa and Goldberg (2002) find that exchange rate pass-through to final prices in energy and components and raw material is above unity in several countries, a fact that, by principle, reduces the impact of exchange rate in distribution margins[3].

Further empirical evidence can be found in Berger and Steverson (2009) and Hellerstein (2008). In the first case, by relying on disaggregated data from the Bureau of Labor Statistics' CPI and IPP databases find that that distribution wedges do not vary systematically with exchange rates in the United States. Finally, Hellerstein (2008) presents evidence that markup adjustments by manufacturers and retailers explain roughly half of the incomplete transmission in the imported beer market in

[2]See, in particular, Gereffi and Korzeniewicz (1994) and Bair (2009).

[3]Given that the more the distribution's margin responds to changes in the nominal exchange rate the lower the pass-through and visceversa.

the U.S.

All the previous studies ignore the possibility of asymmetric reactions of distribution margins to exchange rate variations. Indeed, even though the theoretical literature has identified at least two possible reasons why the elasticity of prices to exchange rate changes may be asymmetric between appreciations and depreciations, not such awareness has been devoted to the possible asymmetric reactions of distribution margins. Indeed, from the exporters' point of view, if firms are attempting to increase market shares in foreign markets subject to the possibility of trade restrictions, then more pricing-to-market (PTM) may occur during appreciations of the exporters' currency. On the contrary, if firms face capacity constraints in their distribution networks, then PTM may be exaggerated during periods of depreciation of the exporters' currency (Knetter, 1992).

In this paper, we go further than previous research by showing that a similar argument can be applied to the local distributors' margins in a non competitive framework. In addition, we push the argument one step further while showing that the evolution of distribution margins and the asymmetric adjustment to exchange rate variations throughout various industries should be seen as an indicator of the evolution of the balance of power between producers and distributors.

In sum, we address the following issues: (1) Is there a positive relation between the evolution of distribution margins and globalization? (2) How much do local distribution margins respond to exchange rate fluctuations? (3) Do margins respond differently when the local currency appreciates than when it depreciates?. Addressing the aforementioned issues, the originality of our contribution will be, first to focus on the margins-exchange rate relationship instead of the pass-through to consumer or import prices. Second, we point out the diversity of margins' levels among industries and the variety of their sensibility to exchange rate dynamics. We argue that, to some extent, this variation should be explained by the diversity of the GCC governance structure and their evolution.

This paper is organized as follows. The following section explains our conceptual framework and our research assumptions. In section 3 we explain our methodology. Section 4 present the data and measurement issues. The results are provided and discussed in section 5. Finally, in the conclusion we summarize our arguments, stress their originality and raise some policy issues.

2 Conceptual framework

In a perfect competition framework, exchange rate variations impact the general price index in the proportion of the share of imported prices in the domestic consumption. However, even though the degree of exchange rate pass-through to import prices is an important determinant of the magnitude of the pass-through to consumer prices, incomplete pass-through also relates to market structures that deviate from perfect competition.

Indeed, the literature suggests two main phenomena that are implied in this process of mitigating the effects of exchange rate variations over consumer prices (Burstein, Neves, and Rebelo (2003); Campa and Goldberg (2005); Hellerstein (2008)). First, the distribution margins (i.e. transportation, storage, finance, insurance, wholesaling, and retailing activities) contribute local-value-added components to the final consumption value of imports and reduce the weight on border prices for imports in the CPI. Second, another marginalization occurs when distributors choose (or have) to vary their margins to absorb some of the exchange rate changes in order to maintain stable prices or expand market share at the retail level (Hellerstein, 2008).

Effectively, under imperfect competition, suppliers have a degree of market power, and set their price taking into account the demand of consumers. In addition, as it is the case for exporting firms in a PTM strategy, asymmetries and non-linearities can be generated at the local distribution level as well, with the pricing decision depending not only on the marginal cost but also on the structure of the market. For instance, if a distributor keeps the price of a certain product unchanged (because of the complementarity in price setting, a firm does not want its price to deviate too far from its competitors), it is optimal for producers to increase his margin in response to a dollar appreciation. An opposite situation may arise if, when faced to an exchange rate depreciation, it is not possible for the distributor to adjust the price upwards and, therefore, his margin is compressed. Accordingly, pass-through of exchange-rate changes to prices is incomplete because the distribution margin absorbs some of the variations in the exchange rate.

It is important to notice that, in the decision to adjust the price and/or the margin, the distributors' objective is to maximize his profit without losing market share. This would imply that price-setters have a bigger incentive to pass depreciations than appreciations to the final price if their market power allows them to do so. The previous mechanism has opposite implications on the margin level. Indeed, the more the distribution's margin responds to changes in the nominal exchange rate the lower the pass-through (Berger and Steverson, 2009). Contrary, if the pass-through is complete, their margin will not respond to fluctuations of the exchange rates, thus leading to a pure currency translation. Therefore, given that distributors have more incentives to increase their margins than to reduce them, we should expect a higher impact of the exchange rate due to appreciations than due to depreciations. In other words, the margin may react asymmetrically to movements in the exchange rate.

The margin's (symmetric or asymmetric) responsiveness to exchange rate movements may depend on several factors, among them the form of competition that takes place in the market for the industry and the extent of price discrimination. However, it is is not satisfactory to only assess the diversity of the margin's sensibility to exchange rate variations in a static framework. In effect, globalization, has fueled a dramatic change in industrial organization and competition regimes that should be present when looking at the evolution of distribution margins. Indeed, the margins' adjustment to exchange rate variations participate in the process of vertical competition along commodity chains.

In this sense, several contributions account for less stickiness of exchange rate pass-through to prices in case of intra-firm trade in comparison to arms length (i.e. market relations between different entities)[4]. The existing literature shows that intra-firm prices are chosen to maximize the sum of the manufacturer's and distributor's

[4] See, for instance, Neiman (2010).

profits (Neiman, 2010). Contrastingly, arm's length prices are fixed according to the balance of power between the conflicting objectives of profit maximization of the manufacturer and the distributor. Looking at the relationship between exchange rate and margins and the asymmetries previously mentioned is thus relevant to analyze how globalization has impacted the balance of power between retailers and producers among industries.

In the early nineties, Gereffi and Korzeniewicz (1994), the initiators of the so-called Global Commodity Chains framework, proposed conceptual tools in order to analyze globalization as a phenomena characterized by a pattern of geographical dispersion of functionally integrated economic activities (Dicken (1992); Feenstra (1998)). The distinction they make between Buyer-Driven Commodity Chains and Producer-Driven Commodity Chains is very useful for our discussion on the exchange rate and the distribution margin.

More in detail, buyer-driven commodity chains refer to those industries in which large retailers, marketers and branded manufacturers play the pivotal role in setting up decentralized production networks in a variety of exporting countries (Gereffi and Korzeniewicz (1994))[5]. In our study, we focus is much more narrowly oriented towards the distributive consequences of the consequences of the balance of power between producers and distributors related to such commodity chains governance structure. Indeed, buyer driven commodity chains concern the whole set of activities which contribute to the elaboration of light and labor intensive consumption goods, such as textile, apparel or agro-food. For the distribution of such products, a few number of leading retailers have a very favourable market power position because of, first, their control over access to a very high number of final consumers and, second, their global sourcing capacities, which increase competitive pressure in upstream segments[6]. This phenomenon has accelerated during the past two decades with, on the one hand, the segmentation of productive processes (Feenstra, 1998) and, on the other hand, the internationalization of leading retailers (Durand and Wrigley (2009); Coe and Hess (2005); Coe and Wrigley (2007)). It is thus expected that the share of imported goods for this kind of products has increased and that the market power of retailers has improved. As a result, we could expect that retailers are able to pass through to consumers - or to prevent their suppliers to pass through - the cost of the rise of prices resulting from currency depreciation. On the contrary, they can improve their margins in case of a negative shock to the exchange rate by keeping their prices unchanged. Overtime, this asymmetrical reaction to exchange rate shock is supposed to lead to an increase in the distribution margins for this kind of goods. Such a result should be consistent with previous research showing a link between off shoring and profitability (Milberg and Winkler (2008) and Milberg and Winkler (2010)) as far as it concerns retailing (Baud and Durand, forthcoming).

Producer-driven commodity chains ' are those in, which large usually transnational manufacturers play the central role in coordinating production networks (in-

[5]Gereffi and Korzeniewicz (1994) use this category in order to emphasize the setting up of production networks.

[6] For instance, since the 1960s, rich markets from developed countries have been linked to low cost manufacturers from South-East Asia because of the rise of global buyers (Hamilton and Gereffi (2009)).

cluding their backward and forward linkages, see Gereffi and Korzeniewicz (1994)). In such chains, which concern particularly capital intensive industries such as the automotive and machine building industries, the distributive dynamics is supposed to be different. On the one hand, the final use of the goods is less dispersed, as it occurs with a smaller recurrence and, to a greater extent, within firms and administration. As a result, distribution costs are less important and the position between the final consumer and the final seller is less asymmetrical. Moreover, as producers occupy a leading position in the chain and organize supply and distribution networks, they are supposed to be able to pass to others the cost of adjustment to exchange rate. Thus, the asymmetric adjustment to exchange rate is supposed to be made at the expense of the distribution margin. The trend should then be a stabilization or a a reduction of distribution margins overtime which could reflect the reduction of logistic costs during the past decades.

The issue of the dynamics of margins concerning commodities and, more generally, resource-based industries, should be considered as very distinctive from the previous cases. Indeed, whereas wholesale and retail components dominate distribution costs for most of the industries, this is not the case for mining and resource intensive industries where transportation, storage, finance and insurance cost dominate the distribution margins (Goldberg and Campa, 2010). Moreover, the high volatility of international prices of these products deprives margins analysis to most of its meaning. Indeed, the evolution of the margin should not provide information to account for the evolution of the balance of power within the industry. Consequently, looking at market power and chain governance issues through the evolution of margins is not relevant for this kind of industries.

3 Methodology

As previously mentioned, exchange rate movements can have a direct effect in the distribution margins. Therefore, changes in the margin of a given industry/sector are assumed to consist of two components specific to the type of good and to the time period, independent of the exchange rate, and a reaction to exchange rate movements. On a panel data model, this can be expressed in the following way:

$$\Delta dm_{it} = \mu_i + \tau_t + \beta \Delta s_{it} + \gamma \Delta y_{it} + \varepsilon_{it} \tag{1}$$

where dm_{it} is the distribution margin of a certain sector in country i at time t, defined as the log difference of the margin over price, s is the real effective exchange rate defined such that an increase represents a depreciation, Δ is the first difference operator, such that the equation links the rate of growth of the margin to the rate of depreciation (appreciation) and ε_{it} is a vector of error terms, which are assumed to be white noise. We should expect β_1 to be negative: that is, a depreciation (appreciation) which increases (reduces) the price of imported goods, should decrease (increases) in the distribution margin. Following Goldberg and Campa (2010), Equation (1) also controls for the country's business cycle conditions by including the GDP growth (Δy_{it}). In addition, μ_i and τ_t denote country and year specific effects, respectively.

The previous equation assumes that both depreciations and appreciations are passed to the margin in the same magnitude (but with different sign). However, as it was previously suggested, a priori, there is no reason to believe that the margin reacts in such a simplistic way. The reason is simple: the final distributor has more incentive to increase the margin than to reduce. If this is the case, Equation (1) is very restrictive to capture such an asymmetric behavior.

In order to account for the possibility of asymmetric reactions of the margin, we define two dummy variables, D_1 and D_2, that take the value of 1 when the RER depreciates or appreciates, respectively, and 0 otherwise. Then, we define our variables of depreciation and appreciation of the exchange rate as:

$$s_{it}^{+} = \Delta s_{it} \times D_1$$
$$s_{it}^{-} = \Delta s_{it} \times D_2$$

Such that s_t^{+} captures real depreciation and s_t^{-} real appreciation. Replacing Δs_{it} in Equation (1) by its decomposition into positive and negative variations, we modified our baseline equation as follows:

$$\Delta dm_{it} = \mu_{it} + \tau_t + \beta_1 s_{it}^{+} + \beta_2 s_{it}^{+} + \gamma \Delta y_{it} + \varepsilon_{it} \tag{2}$$

where all the variables were previously defined. Note that s_{it}^{+} (s_{it}^{-}) takes positive (negative) values when the RER depreciates (appreciates), and 0 otherwise. Hence, the coefficient β_1 in Equation (2) will be negative and significant if we expect the margin to be hindered by RER depreciations. Equally, the coefficient β_2 will be also negative if RER appreciations (i.e. a decrease in the exchange rate) increase the margin.

4 Data description and measurement issues

The key variable of our analysis, the distribution margin, is not directly observable, especially not in aggregate data. Following Goldberg and Campa (2010), we derive annual distributions margins from the supply and use tables of input-output tables for the following countries: Austria, Belgium, Germany, Finland, France, Denmark, Netherlands, Ireland, Italy, Luxembourg, Spain, Sweden, Portugal and the United Kingdom, for the 1995-2007 period.

In the supply table, flows of goods and services are valued at basic prices. In the use table, the flows are valued at purchasers' prices. In order to attain identities between supply and use, trade and transport margins and taxes less subsidies on products have to be added to the supply table. The total of trade margins by product is equal to the total of trade margins by the trade industries, plus the secondary trade margins by other industries. An analogous equation holds for the transport margins. The transport margins include transportation costs paid separately by the purchaser and included in the use of products at purchasers' prices but not in the basic prices of a manufacturers' output or in the trade margins of wholesale or retail traders.

From this information, we derive our dependent variable, which is the first difference of the distribution margin, defined as:

$$dm = \frac{\text{trade and transport margin}}{\text{total supply at purchaser's price-taxes less subsidies}} \tag{3}$$

All the data comes from the Input-Output tables provided by Eurostat. We considered the following 23 sectors for which data is available for our period of time: Agriculture, forestry, coal and lignite, metal ores, food and beverages, tobacco products, textiles, wearing apparel and furs, leather products, products of wood, paper products, coke, chemical products, rubber and plastic, basic metals, metal products, computers, electrical machinery, radio and television, medical instruments, vehicles, other transport equipment and furniture.

Regarding the exchange rate, we use both real and nominal effective exchanges extracted from the Bank of International Settlements (BIS) database[7] Finally, the control variable, the rate of growth of the GDP was collected from the OECD's main economic statistics.

5 Results

In this Section, we provide our main results. In a first moment, we present stylized facts and preliminary descriptive results to build intuition for the results from the econometric model. We then present the econometric results.

5.1 Margins, imports and final uses: Main features of cross industry evolution patterns (1995-2007)

Table 1 summarize some stylized facts concerning the level of margins and imports both as a proportion of the total price in 2007, as well as their respective evolution between 1995 and 2007. Note that the data do not account for the distinction between transportation, wholesale and retail sale, as the wholesale and retail components dominate distribution costs in almost all industries reporting data, accounting for about 90% of the total distribution costs added to the basic prices of goods (Goldberg and Campa, 2010). Indeed, the transport margins are typically less than 5% of the basic prices, with the exception of some of the mining and extractive resource industries. It is usually only in the mining and resource intensive industries that we observe transportation margins dominating the distribution costs.

Moreover, we observe that for all the products, particularly in sectors such as tobacco, wearing apparel or leather products, the share of imports in the total net purchaser price increased during the period, probably due to the rising regional and global economic integration. However, we categorized three main groups of goods in order to point out more heterogeneous trends on the basis of the characteristics of the products and the dominant form of their use in the economy: light consumption goods, manufacturing goods and resource based goods. Following our conceptual framework outlined above, we propose to identify the sector of light consumption goods with buyer-driven commodity chains and the sector of manufacturing goods

[7]Note that for Euro country members real rather the effective exchange rate seem to be more relevant. Therefore, our benchmark results are those obtained for real exchange rates, though we present the rest of the results in the appendix.

Table 1: **Distribution margins, imports and uses. 1995-2007**

Products	Margins		Imports		Uses, 2007		
	% of net price 2007	Growth 1995-2007	% of net price 2007	Growth 1995-2007	Households % of total use	Inputs % of total use	Investment % of total use
Light consumption							
Tobacco products	40.6	1.5	43.3	6.7	91.8	0.8	2.2
Wearing apparel	40.1	1.0	64.4	3.3	74.5	9.6	2.1
Leather products	35.9	1.2	64.9	3.0	55.0	21.3	1.8
Furniture	29.9	0.4	42.5	2.9	54.1	16.7	12.8
Food and beverages	24.7	1.1	22.9	3.0	54.0	31.4	1.2
Textiles	24.9	2.0	42.5	1.9	37.6	36.8	1.8
Manufacturing							
Computers	23.4	-0.9	79.4	1.3	9.1	24.6	24.1
Machinery	12.9	0.2	39.2	0.9	7.8	29.1	23.5
Medical instruments	17.5	-0.7	45.7	0.4	12.7	28.4	16.6
Other transport eq.	5.3	-9.3	41.8	1.9	9.4	30.6	16.3
Vehicles	13.2	-1.3	49.4	1.0	26.1	25.1	13.8
Radio, television	15.6	-0.4	58.7	2.4	16.6	32.7	11.8
Resource based							
Metal ores	13.5	1.2	80.0	-0.1	0.0	90.9	0.0
Coal and lignite	8.7	-4.6	82.4	3.5	6.4	85.3	0.5
Products of wood	14.4	0.6	25.8	1.2	7.5	72.7	4.1
Metal products	10.5	0.2	20.4	1.2	5.2	67.1	10.3
Forestry	14.1	-0.4	29.5	1.7	13.0	66.9	4.4
Basic metals	7.4	-2.7	45.9	1.6	0.1	65.2	0.2
Paper products	14.1	0.9	30.1	1.2	12.5	61.5	0.2
Rubber and plastic	13.1	0.4	34.9	1.6	11.1	61.0	1.0
Agriculture	19.3	1.8	26.7	2.1	31.2	54.3	2.4
Coke and fef. pet.	13.7	-4.1	37.8	2.3	35.4	48.5	1.1
Chemical products	17.7	0.5	46.3	1.1	14.3	40.7	0.3

Source: author's own calculation based on Eurostat input-output information.

with producer-driven. Resource based industries, in turn, do not fit with these globalization-related concepts[8].

First, we named "Light consumption goods" those goods for which the final use by households is the most important kind of use. For all these labour intensive manufacturing and agro-food products the final use by households represent more than 50% of total use, except in the case of textile (37%). Moreover, among these goods, the proportion of the margin in the final price are very important (above 25%) except for wearing, apparel and furs and leather products, which are typically more expensive items. The most striking figure is that not only margins in all these industries represent an important share of the price, but they also increased during the period, most of them at an annual rate of more that 1%, particularly in the case of textiles. The other important feature is that the share of imports, while not being particularly high, increased considerably, at about 3% each year for all the industries.

The second category, "Manufacturing Goods", regroups mainly mechanic, electric and electronic industries, which are more capital intensive industries than the

[8]Note that we do not consider exports or government consumption, as they do not provide information on the form of use of the products.

light consumption goods. Their uses are variously distributed between final use by households, input of industries, and gross capital formation. Typically, the margins in this group are between 10 and 12%, with the exception of other transport equipment, which include items such as railway equipment, ships aircraft and spacecraft. Contrary to the first category, margins are a less significant part of the price and we observe in all the cases, with the exception of machinery a reduction over the period. However, there is no clear trend as far as the evolution of imports is concerned: imports represent a very important share, but their evolution was rather limited in most of the cases.

Finally, the products of the third groups are at more than 50% used as "Input for Industries" except chemicals (40.6%) and coke and refined petroleum (48.5%). The proportion of the margins in the total price is relatively low. Most of them, with the exception of metal products and chemicals, are commodities or resource-based manufacturing products. In this category there is no trend concerning the evolution of margins, which represent about 10% of the price. Similarly, there is no homogeneity regarding the share of imports and their evolution: while imports represent more than 80% of the price for metal ores and coal, they are not particularly important in metal products.

5.2 Econometric Results

Table 2 below reports the results from the panel estimation of Equations (1) and (2), for each of the sectors considered. Columns 2 and 3 report results from the symmetric specifications while columns 4 through 7 show the relevant estimated parameters of the equation that allows for asymmetric responses due to real exchange rate depreciations (s_{it}^{+}) and appreciations (s_{it}^{-}).

Before turning to the results of the asymmetric equation (i.e. when the real exchange rate variation is decomposed into its positive and negative components), let us first notice that the elasticity of the margin to the exchange rate is negative and significant in most cases, but quite heterogenous. Indeed, as expected, when the real exchange rate depreciates, the margin decreases in almost all the sectors. The elasticity is substantially higher in office machinery and computers, radio and television and agriculture. On the contrary, the estimates of the elasticity is not significant for most of the resource based products such as metal ores, coal and lignite, metal products, basic metals and rubber and plastic and some other sectors such as tobacco. In the rest of the cases, the elasticity is significant and around 40-50%.

Regarding the asymmetric equations, we can distinguish, broadly speaking, three main situations regarding the elasticity of the distribution margin due to positive and negative variations of the exchange rate. Indeed, first, even when allowing for asymmetric effects of the exchange rate, the margin in many resource based products is rather insensible to movements in the exchange rate, even when asymmetries are allowed for in the specification.

Second, several sectors, basically light consumption goods such as food and beverage, textiles, wearing apparel and leather products, are characterized by significant effects of exchange rate appreciations. On the contrary, the low significance of the

Table 2: **Margin's asymmetric adjustments to real effective exchange rate variations**

	Symmetric		Asymmetric			
	s_{it}	t-stat	s_{it}^{+}	t-stat	s_{it}^{-}	t-stat
Light consumption						
Tobacco products	-0.307	-1.13	-0.023	-0.06	-0.557	-1.50
Wearing apparel; furs	-0.31	-2.66	-0.204	-1.24	-0.412	-2.54
Leather products	-0.458	-3.72	-0.217	-1.24	-0.691	-4.04
Furniture	-0.245	-1.95	-0.422	-1.87	-0.286	-2.07
Food and beverages	-0.16	-1.72	0.017	0.13	-0.331	-2.56
Textiles	-0.369	-2.17	0.119	0.5	-0.839	-3.62
Manufacturing						
Computers	-0.648	-2.67	-0.737	-2.1	-0.565	-1.68
Machinery	-0.231	-1.86	-0.381	-2.35	-0.294	-1.83
Medical instruments	-0.484	-2.85	0.397	-1.99	-0.423	-2.01
Other transport equip.	-0.695	-1.69	-1.576	-2.06	-0.172	-0.25
Vehicles	-0.381	-2.25	-0.244	-0.63	-0.329	-1.25
Radio, television	-1.055	-3.75	-1.38	-3.27	-0.797	-2.11
Resource based						
Metal ores	-0.403	0.2	-0.874	-0.3	1.539	0.56
Coal and lignite	0.651	0.86	0.798	0.51	0.585	0.45
Products of wood	0.471	-2.37	0.02	0.05	-0.88	-2.44
Metal products	-0.021	-0.07	0.12	0.42	-0.251	-0.89
Forestry	-0.332	-1.05	-0.292	-0.4	-0.348	-0.86
Basic metals	-0.525	-0.96	-0.839	-0.9	-0.155	-0.15
Paper products	-0.413	-2.4	0.446	-1.15	-0.746	-3.45
Rubber and plastic	-0.048	-0.22	0.184	0.6	-0.272	-0.91
Agriculture	-0.803	-3.7	-0.887	-1.61	-0.769	-2.60
Coke and Refined Petroleum	-0.451	-1.73	-0.339	-0.61	-0.52	-1.18
Chemical products	-0.609	-4.25	-0.992	-3.03	-0.407	-1.97

Notes: (1) Individual and/or temporal fixed (or random) effects are included when necessary according to the Fisher and Hausman tests; (2) The symmetric and asymmetric estimations corresponds to Equation (1) and (2), respectively; (3)Δs, s_{it}^{+} and s_{it}^{-} correspond to real exchange rate variations, depreciation and appreciation, respectively.

positive component of the exchange rate implies that the margin is not affected by exchange rate depreciations. For instance, an appreciation of the 1% of the domestic currency brings about an increase of the margin of about 0.8% in textiles, a typically buyer-driven sectors, whereas a depreciation of the same magnitude does not affect the margin. That is, in this group, with the exception of furniture, the margin increases due to appreciations but does not decrease due to depreciations. While not being classified as "light consumption goods", other sectors, such as wood and paper products and agriculture also present this characteristic[9].

[9] Even though it is not the objective of this paper, we could expect that the distributor passes the

The third important situation arises when both appreciations and depreciations have significant effects, although not of the same magnitude. This is the case in many manufacturing goods such as computers, machinery, radio and television, other vehicles and some other sectors not classified as pure manufacturing goods, like chemical products. Note that, in all these cases, the effects of depreciations (i.e. reductions in the margin) are relatively higher[10].

More specifically, our results allow us to distinguish three regime of margins variation and of margins relations with the exchange rate among industries. In particular, two of them reflect dynamics which can be interpreted within the Global Commodity Chains perspective (light consumption goods and manufacturing goods), which is not the case for the third one (resource-based products). Globally, these results strongly contrast with the dynamics of consumption goods sectors, suggesting that globalization has not had the same impact on the balance of power between trading actors and producers because of distinctive commodity-chains governance structure.

Indeed, in general terms, the evolution of the margin for light consumption goods and manufacturing goods is consistent with our hypothesis. First, we observed a significant increase in the margin for light consumption brought to final users through buyer-driven chains where, at the same time, the share of imported goods became more important. This evolution proceeds from asymmetrical reactions to exchange rate variations which favours preservation or increase of distribution margins. It confirms the hypothesis that, for this kind of goods, globalization has benefited firms which control access to market at the expense of producers.

We observe the opposite trend in several manufactured goods elaborated in producer-driven chains. As in the case of the previous group, there has been an increase in the share of imported goods. However, the trend is generally less clear, with the exception of computers and, to a lesser extent, machinery and vehicles. The most striking fact is that distribution margins have evolved negatively for all the products considered, except in the case of machinery. This can be explained by the fact that, while both appreciations and depreciations impact the margin, the magnitude of such effect is relatively higher in the second case (such is the case in computers, machinery, other transport equipment and radio and television). In other words, the relative weight trade margin has been eroded because of unfavorable adjustment to exchange rate movements.

Finally, as far as resource based products are concerned, the results suggest that margins are not relevant for such products since they represent a relatively small proportion of the price.

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depreciation, but not the appreciation, to the final price. In other words, the price would increase in case of depreciation of the local currency, but it would hardly decrease. In case of appreciation, is the distributor the one who "profits" by increasing his margin.

[10]The non significance of the asymmetric coefficients in the case of vehicles, a typical producer-driven sector, may imply that the symmetric specification is more appropriate, with both appreciations and depreciations affecting the margin more or less in the same magnitude.

6 Conclusions

In this paper, we provide new empirical evidence that exchange rate devaluations and appreciations impact asymmetrically distribution margins. This phenomenon, previously ignored in the literature, signals effects of globalization on the industrial structure of European economies.

Pointing out an imperfect competition structure within Global Commodity Chains, we set out to build a framework that can be used to explain and identify the different responses of the distribution margin towards exchange rate variation. In particular, we developed a simple empirical model that introduces the possibility of asymmetric responses of the distributions margin to depreciations and appreciation at the industry level for several European countries between 1995 and 2007. By doing so, our analysis yields several interesting findings.

First, at the descriptive level, we document an important and increasing margin for light consumption goods, such as wearing apparel, textiles and food products which are mainly used by households. Typically this evolution occurs in a context of rapid growing of the share of imports. Contrary, margins for goods that are more capital intensive industries and which use is more equally distributed between households, inputs for industries and investment, have typically smaller and decreasing distribution margins. For these mechanic and electronic products, the increase of the share of imports is important but it increased at a smaller rate. We suggest that the two distinctive dynamics are linked to distinctive commodity chains organizational forms: a) the light consumption goods, being mainly buyer driven chains dominated by retailers and b) manufacturing goods, being mostly elaborated within producer driven chains.

Second, we are able to distinguish three opposite reactions of the margin towards exchange rate variations. First, for buyer driven chains (i.e. light consumption goods), distributors can use their favourable market power position to increase their margin in case of exchange rate appreciation, whereas depreciations do not reduce margins in the same magnitude. For this type of goods, producers and consumers may also share the costs of depreciations. Second, asymmetries in producer driven goods are less evident, since producers occupy a leading position in the chain and are organizing supply and distribution networks, being able then to pass to distributors some of the cost of exchange rate variations. Under this scenario, the distributor's margin may also be reduced in case of depreciation. Finally, given that transportation, storage, finance and insurance cost dominate the distribution margins, we provide evidence that exchange rate variations do not affect the margin for most of the resource based products.

We can draw from these empirical results some important conclusions. On the policy side, our results suggest that final prices will not react one-for-one after an exchange rate movement, but that margin compression will affect market structures. Second, globalization has affected variously firms depending on their position within the commodity chains and the products elaborated along them. It appears thus relevant to incorporate the insights of the global commodity chain literature when examining the issue of exchange rate pass-through to price.

Third, the rise of distribution margins for light consumption goods shows the growing economic power of retailers, which provide outlets for overcrowded industries in a context of more tense international competition. It suggests that a sectoral shift for the industries concerned is occurring towards the downstream segments of the chains. This evolution is consistent with the literature analyzing offshoring and its consequences on labor in rich countries (mainly a weakening of the position of blue collar workers and the tertiazation of employment, Glyn (2006)). In all, a variation in the exchange rates can have redistributive effects across sectors and firms.

Finally, it should be interesting to analyse the relationships between the evolution of prices and the evolution of margins. Indeed, an increase in the distribution margins in a context of stable or diminishing prices may suggest a kind of Baumol effect (Baumol and Bowen (1993)) at the industry level, with a growing weight of distribution services because of their weaker productivity dynamism than manufacturing activities. Such a mechanism being confirmed, it would imply that the prospects for further contribution to economic growth of the chains concerned are limited.

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7 Appendix

Table 3: **Margin's symmetric and asymmetric adjustments to nominal effective exchange rate variations**

	Symmetric		Asymmetric			
	s_{it}	t-stat	s_{it}^{+}	t-stat	s_{it}^{-}	t-stat
Light consumption						
Tobacco products	-0.148	-1.5	-0.083	-0.59	-0.213	-1.41
Wearing apparel; furs	-0.125	-2.75	-0.072	-1.16	-0.152	-2.45
Leather products	-0.219	-4.6	-0.077	-1.19	-0.300	-4.66
Furniture	-0.146	-2.75	-0.132	-2.30	-0.152	-2.72
Food and beverages	-0.018	-0.38	-0.071	-0.77	0.030	0.34
Textiles	-0.118	-1.83	-0.011	-0.09	-0.241	-2.56
Manufacturing						
Computers	-0.182	-1.98	-0.275	-2.02	-0.131	-1.01
Machinery	-0.128	-1.66	-0.211	-1.88	-0.044	-0.30
Medical instruments	-0.198	-3.06	-0.151	-1.74	-0.244	-2.67
Other transport equip.	-0.396	-1.8	-0.867	-2.24	0.048	0.13
Vehicles	-0.042	-0.76	-0.015	-0.14	-0.067	-0.67
Radio, television	-0.331	-3.08	-0.411	-2.72	-0.249	-1.72
Resource based						
Metal ores	0.517	0.18	0.229	0.05	1.078	0.16
Coal and lignite	0.260	0.65	-0.094	-0.12	0.593	0.83
Products of wood	-0.123	-1.56	-0.042	-0.37	-0.174	-1.62
Metal products	-0.006	-0.7	0.022	0.2	-0.016	-0.15
Forestry	-0.680	-0.66	-0.423	-0.27	-1.18	-0.48
Basic metals	-0.105	-0.42	-0.725	-1.64	0.484	1.16
Paper products	-0.136	-1.83	-0.099	-0.94	-0.172	-1.64
Rubber and plastic	0.033	0.4	0.114	0.99	-0.047	-0.41
Agriculture	-1.297	-6.25	0.049	0.56	-0.04	-0.46
Coke and Refined Petroleum	-0.284	-1.16	-0.284	-1.16	-0.032	-0.91
Chemical products	-0.464	-2.42	-0.239	-1.78	-0.014	-0.11

Notes: (1) Individual and/or temporal fixed (or random) effects are included when necessary according to the Fisher and Hausman tests; (2) The symmetric and asymmetric estimations corresponds to Equation (1) and (2), respectively; (3)Δs, s_{it}^{+} and s_{it}^{-} correspond to real exchange rate variations, depreciation and appreciation, respectively.