

Project MULTIRETAIL

The contribution of multinational retailers to the export performance of origin and host country industries and firms

Publishable summary

The project explores the link between globalization of the retail sector and export competitiveness of firms in their origin and host countries. The global retail sector has undergone important changes since the late 1990s. The most prominent trends were the increase in the degree of internationalization and a reduction of the concentration in the hands of a small number of very large companies. Over the last one-and-a-half decades a large number of retailers has started investing abroad or increased their presence in foreign markets. This trend has accelerated over the last years and the struggle for (acquiring) new markets remains a main priority and development strategy for these firms. The increased presence of multinational retailers (MRs) in a growing number of foreign markets has transformed them into major regional and global players, likely to shape not only the domestic and host country economies, as suggested by the traditional literature on foreign direct investment (FDI), but also the international trade patterns of countries where they operate. Most MRs originate from industrialized countries, but saturated domestic markets, fierce competition and restrictive legislation have persistently pushed them to internationalize. Emerging and transition countries with a high demand potential for retail services that opened their retail sectors to foreign competition were the main targeted foreign destinations.

The project has investigated the mechanisms via which retailers' investments in foreign markets affect the export performance of firms, both in the host and origin countries. Previous pioneer work has highlighted the impact of FDI in the retail sector on the productivity of host country supplier firms. One of these very few works pointed to a subsequent positive effect on the export capability of Chinese cities. We establish a connection between these empirically identified effects and the new theory of international trade with heterogeneous firms and intermediaries. We show that this theory offers a good framework for analyzing the mechanisms through which MRs affect producing firms in their host countries. Further, the project extends the empirical analysis of effects on the export competitiveness of host country firms to a large panel of countries and MRs. It confirms that MRs increase the overall export capability of host firms in a more general setting, and finds new evidence on retailers' ability to link markets where they invest and to influence the variety of products exported by local supplier firms. We have also studied the effects on firms in the retailers' origin countries. This is the first study in the literature to investigate this channel. We have developed suitable empirical approaches by combining theory-guided specifications with state-of-the-art econometric methods. Effects were first investigated with country level data. In order to unravel the source of identified effects, we have used detailed information on retailers' suppliers and the rest of home country firms.

All empirical analyses within the project focus on food retailers and exports of edible grocery products. This was motivated by the fact that the overseas expansion of MRs has a primary impact on firms in the up-stream agri-food sector, for which retail outlets are one of the main ways for reaching final consumers. The project draws on (private) firm-level data on the foreign activity of retailers. These data were little explored in the research literature. The MRs' impacts on origin and host country firms are analyzed in terms of export entry, of volume and orientation of exports, and of product diversity. The new insights provided by the project deepen the knowledge on retailers' role in international trade, and suggest new directions for empirical and theoretical research.

Understanding the interaction between globalization in the retail sector and the export patterns of host and origin country firms requires an in-depth analysis of how firms cope with the increased competitive pressure in domestic and foreign markets, and how supplying firms reap the benefits of being part of a retailer's global network. The project offers a theoretical explanation for two of these mechanisms for *host country firms*, drawing on recent developments in the literature on international trade with heterogeneous firms and on the role of intermediaries in international trade. First, the arrival of MRs leads to a

productivity upgrade, both at the industry level, by forcing least productive firms to exit, and at the firm-level, by providing access to improved technology and know-how for retailers' suppliers in these markets. Second, MRs have the capacity to reduce the local firms' export costs to destination countries where they invest, by matching their outlets in one country with their suppliers from another country, or by sharing their transport and distribution infrastructures and increased knowledge on foreign markets with local suppliers. The first mechanism generates an increase in the overall export capacity of local firms to any destination, while the second leads to an increase in trade only between countries hosting the same MR. The two mechanisms are analyzed empirically using data on the international activity of over 200 of the world's leading MRs, and evidence is found for both effects. The second mechanism is absent for exports to the retailer's origin country, supporting the view that countries hosting a foreign retailer export more to other countries within the retailer's overseas network, but not to its country of origin. Retail sector FDI also increases the product diversity of exported products to all destinations combined, but a product "cannibalization" effect is found for exports to the retailer's origin country.

The MRs' effects on the export competitiveness of *origin country firms* are analyzed from an empirical perspective alone. The analysis is performed first at the country-level using a gravity-type trade model. Aggregate data permits to include in the analysis the entire panel of retailers' host and origin countries, and to ensure that the identified effect is not specific to singular countries or retailers. Results point to a strong positive effect of the overseas presence of a retailer on its origin country's exports to these markets. Two mechanisms can explain this finding: a trade cost advantage for MRs' suppliers, or a shift in foreign demand benefiting all firms in the country of origin. To disentangle the two mechanisms, we place the analysis at the firm level, and question whether retailers' supplying firms benefit more than other origin country firms from the overseas expansion of retailers based in the country. To answer this question, we employ data on the export patterns of French producing firms and the foreign activity of French retailers, which include some of the world's largest and most widely spread retail chains. To identify the retailers' suppliers in the origin country, we use data on the certification of French agri-food firms with the private IFS standard, granting them the right to sell their products under a French retailer's brand or label. We find that certified French firms are more likely to export, and export larger volumes, than non-certified firms to markets where French retailers have established outlets. This difference in export behavior between the two types of firms is confirmed when we focus on the natural experiment of French retailers quitting their activity in a country. These findings suggest that retailers' investments in foreign markets generate export cost advantages for their domestic supplying firms alone, and open for them new export opportunities to these markets. On the other hand, the retailers' long presence abroad does not seem to increase foreign consumers' preference for products from retailers' country of origin.

The publishable outcome of the project are four research papers. The results of all papers have received interest from the research community, and were presented at leading international conferences with review process in different areas of economics, and at research seminars in Germany and France. A paper entitled "Multinational Retailers and Home Country Food Exports" has appeared in the *American Journal of Agricultural Economics*, a top peer-review research journal in the field. Two finalized preprints appeared as discussion papers of the host institution and will be sent to journals very shortly. Results from the forth paper (work in progress) will be presented at forthcoming conferences in July and September.

The project draws several conclusions that are relevant for economic policy. The central finding that emerges from this project is the important role of multinational retailers in enhancing the export competitiveness of firms in host and origin countries and in linking international markets. It does not support the public perception that the spread of MRs has a negative impact on host country economies, revealing deeper economic phenomena at work. The project shows that MRs serve as export platforms for host, as well as for origin country firms. We confirm that hosting foreign MRs increases the country's overall export capacity, and additionally show that its firms export more to other countries within the transnational networks of MRs. The globalization of the retail sector also impacts the export patterns of firms in retailers' origin countries. The intensification of MRs' activity in foreign countries is followed by an increase in origin country exports to these destinations. The effect is mainly driven by MRs' domestic suppliers which enjoy an export cost advantage.