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Lotte Thomsen
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Russian retailers as drivers of global value chains: Examining the conventions of Russian retailers from a central Asian perspective

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ABSTRACT

This paper provides new insights into the dynamics of global value chains driven by Russian retailers in a variety of food and clothing chains that source from central Asia. It does so by examining the relationship between central Asian suppliers and their Russian buyers. The paper points to ongoing changes in the ways Russian retailers source supply—caused largely by changes in retail structure and increased retail competition within Russia. Based on fieldwork in central Asia, the paper examines how these changes are perceived by the suppliers, who are increasingly experiencing a transfer of risk onto themselves, as well as rising expectations regarding the provision of services and their financial capacity. Finally, the paper shows how the Russian buyers' expectations of their suppliers in central Asia regarding standardization seem to revolve primarily around public safety and hygiene standards, while pressures relating to so-called social standards seem to remain totally absent.

Keywords: Global value chains, standards, retail, sourcing, Russia, central Asia, clothing, agro business

INTRODUCTION

Global retailers are generally expecting from their suppliers an increasing variety of services and compliance with a number of public and private standards. Recent studies have provided details about such expectations among retailers in the US and a number of countries within the EU (e.g, Fulponi, 2006; Gibbon et al., 2010). We know much less, however, about the extent to which these (or other) types of expectations and conventions apply to retailers based in emerging markets. This lack of knowledge definitely applies to the Russian market, in which supermarkets and hypermarkets are now entering the retail scene. Moreover, Russian retailers have traditionally been,

and are currently, among the most important international outlets for businesses and their suppliers from central Asia. We have very little knowledge of how a central Asian producer of a particular food or clothing product engages with Russian retailers, and whether the terms of that engagement are more or less stringent than, say, the British firm, Tesco. This paper takes a global value chain (GVC) approach in order to combine insights into the conventions and standardization exercised by Russian retailer lead firms with the perceptions of these norms from the point of view of agribusiness and clothing suppliers to the Russian market from central Asia. It focuses on supply to Russia from Kazakhstan, Kyrgyzstan and Tajikistan, and on a variety of products, comprising finished clothing from the Kyrgyz Republic and Tajikistan, grain from Kazakhstan, processed fruit products from Tajikistan and Kyrgyzstan, and a number of meat and dairy products produced in all three countries. Exports from these central Asian countries are mainly based on natural resources and relatively undiversified; some 80 per cent derive from just two or three sectors in each of the countries examined here. However, both Tajikistan and the Kyrgyz Republic have recently expanded their share of exports to Russia of some processed and unprocessed horticulture products (World Bank, 2011).

The paper attempts to determine the opportunities and challenges that relate to Russian retailers' existing conventions and expectations regarding standard compliance by their central Asian suppliers. It highlights issues revolving around Russian retailers' selection of suppliers, their service expectations from their existing suppliers, and their demands for standard compliance from their suppliers. There has been growing recognition that suppliers' possible gains from value chain participation are highly interlinked with the nature of end-markets and with how the buyers related to these specific markets guide the capabilities of the suppliers (see Palpacuer et al., 2005). Therefore, improving our knowledge of buyer conventions in a major market such as Russia is important. This paper suggests that, while Russian retailers have a long and in many cases mutually beneficial tradition of working in, and sourcing from, countries in the former Soviet Union, their sourcing strategies and practices seem to be moving in the direction of higher entry barriers for, and increasing service expectations of, the suppliers they work with. Thus, the opportunities for the majority of suppliers in these chains will diminish, although they may remain for a smaller number of relatively large-scale suppliers. This mirrors more general trends pointed out in recent GVC literature on the increasing concentration of retailers' supplier bases. At a generic level, the conventions and standards present in Russian-driven chains—or at least those in central

Asia—point towards two overall tendencies. First, standards are becoming more and more pronounced in the case of Russian-driven agribusiness chains, in which standardization seems to be highly (almost only) focused on hygiene and safety. In contrast, in the clothing value chain from central Asia to Russia no emphasis on standard compliance can be seen, signaling that Russian retailers seem to focus very little on those social and environmental private standards that are gaining importance in the West. Second, Russian-driven chains in food *and* clothing seem to be experiencing a change in buyer conventions, not least reflected in the increasing service expectations and capacity requirements asked of their suppliers, and related to supply chain rationalization. Thus, Russian retailers do seem to be moving in a similar direction to the so-called global or western retailers in this regard. In the case of Russia, this change in buyer conventions and practices is due to a combination of factors, including increased concentration of, and structural change in, the Russian retail market itself, rising competition in the domestic market, which is closely related to an ongoing influx of major western retailers, and the recent financial crisis. This indicates a growing emphasis on cost reduction and value chain rationalization, rather than on social or environmental concerns. Our empirical analysis of central Asian suppliers to Russian-driven chains is based on extensive interview material, collected for a World Bank value chain background study, which was part of a larger World Bank study in the central Asian region. That study focused on regional trade expansion and related infrastructure development, rather than on how the sourcing strategies of Russian retailers impact central Asian businesses, which is examined in this paper (see World Bank, 2011).

The paper falls into four overall sections. First, a methodology is briefly presented. Second, a discussion of changes in global retail, GVCs and standardization at a general level, based on existing literature, is provided. Third, the conventions and standard compliance mechanisms of Russian retailers, and their impact on suppliers in central Asia, are examined. This section is partly based on a review of the rather sparse existing literature on Russian retailers, and partly empirical, so that it presents some ideas on the conventions of Russian retailers—and accordingly on what it is like to work as a supplier. The empirical data mainly consist of interviews with central Asian suppliers to the Russian market (see methodology section below for a description of data collection in central Asia). The analysis shows some differences in terms of supplier roles and challenges in Russian-driven chains, based on sectors as well as on geography, that are clearly due, amongst other

things, to the variation in industrial maturity and industrial structure in the three central Asian countries examined. Finally, a discussion and conclusion is presented.

DATA COLLECTION AND METHODOLOGY

This paper is inspired by chain-chasing approaches, and the need to trace chains and networks that has, according to Yeung (2003), become a key research practice for, *inter alia*, new economic geographers examining the territorial constitution and reshaping of economic organization via the engagement of firm owners and managers in multiple and overlapping networks. It is important to note, however, that this study is not 'holistic' in the sense of all involved chain actors being included in the analysis. Rather than all aspects, and actors, of inter-firm relationships in GVCs, the construction of buyer conventions in Russia and the more general impact of these on suppliers in central Asia are the focal points in the buyer end of the chains, while impact as seen from the perspective of Central Asian producers is the focal point in the supplier-end of the chains.

The primary data, mainly in the form of interviews with central Asian firm owners and managers, were collected as part of a GVC background study, conducted for the World Bank in 2009. The background study was used as input by the bank into a report on trade expansion from the central Asian region (World Bank, 2011). While the empirical section below is based on an analysis of these data, it uses a specific and different part of the data than that report. The World Bank report took a much more macro-level approach to trade and infrastructure expansion at the general level. The analysis presented here, in contrast, provides a more qualitative, constructivist focus on businesses and business owners' perceptions of their engagement with, and pressures from, Russian buyers. Interviews were conducted by local consultants in the three central Asian countries, and managed and monitored by the author. Within the three countries, five urban centres were included in the fieldwork: Astana and Almaty in Kazakhstan, Bishkek in Kyrgyzstan, and Dushanbe and Khujand in Tajikistan. In each urban centre, firm owners and managers (respondents) that were (or potentially could have been) involved in GVCs were interviewed. Sampling of firms was based on local directories. In each sector, firms were (where possible) selected to include some that were already exporting to regional or global markets, and some that focused mainly on local markets, so that challenges related to being/remaining in GVCs, as well as challenges related to entering them,

could be revealed. Due to the limited extent of interaction by (especially smaller) central Asian firms with the global economy, the supplier firms selected were relatively large. In each city, the ten to fifteen (depending on the number of existing firms) largest locally-owned firms in a given sector were contacted by sending a letter of introduction. Interviews were made with those business owners or managers (again depending on the number of existing firms and positive response rates) who agreed to be included in the study. The total number of firms included in the study were thus as follows: Nine grain processing firms in Kazakhstan, seven producers of canned, dried and juiced fruit products from Tajikistan, and four from the Kyrgyz Republic; from the clothing sector, six clothing manufacturing firms and two cotton fibre processing companies from Tajikistan, and three clothing manufacturers and three cotton fibre processing companies from the Kyrgyz Republic; and meat and dairy processing firm owners or managers from all three countries—four from the Kyrgyz Republic, six from Kazakhstan and three from Tajikistan.

Interviews were open-ended and checklist based. This meant that a number of overall topics, inspired by insights into the existing GVC work in various sectors, were covered during each interview. Any new and relevant information revealed during an interview was followed up, and the respondents were encouraged to define important challenges themselves. Interview questions were generally composed in such a way as to uncover challenges and possibilities for local firms, in terms of entering and remaining in GVCs. However, since challenges and possibilities for local firms differ between sectors—and relate to various types of localized challenges, international and national trade regulations and sector-specific factors—interview guides were also modified so as to be relevant to each of the sectors/urban centres in question. The interviews with the central Asian producers and suppliers in the clothing and agribusiness sectors thus revolved around determining the challenges and possibilities facing them in their attempts to enter different GVCs and global/regional markets, especially Russia. Another focal point was whether, and how, the terms of cooperation with retailers (and wholesalers) had changed over time. The empirical data collected through the firm interviews were triangulated with other types of data, including interviews with representatives of local business organizations and chambers of commerce. These informants were also able to provide general knowledge on challenges relating to various sectors in the global economy, and the position of the focal countries within it. Finally, the research drew on a number of other sources, including World Bank reports, research papers, available trade statistics and reports on infrastructure, trade agreements and the like.

BUYER CONVENTIONS AND STANDARDIZATION IN GLOBAL VALUE CHAINS

Gereffi and Korzeniewicz (1994) first defined GVCs (or global commodity chains as they were first named) as chains in which several nodes in different localities are privately coordinated for the purpose of producing and trading finished products. In this paper, we will focus on the so-called ‘buyer driven’ chains that are relevant to both the food and clothing sectors (which are commonly regarded as highly buyer driven). Buyers are typically retailers such as supermarkets, hypermarkets, chain stores and department stores that have, according to the original definition of buyer driven GVCs by Gereffi and Korzeniewicz (1994), diverted all production themselves so that they now source from a diverse range of suppliers and countries. Cattaneo et al. (2010) pinpoint how the GVC framework has been developed over the past decades by researchers from various backgrounds, to provide a relatively holistic view and analysis of a range of global industries. This, it is argued, was done by focusing on the sequencing of value added activities in different geographical locations. Global industry is increasingly regarded as structured into such GVCs, which in spite of their name may be seen as working at different geographical levels. The geographical focus of this paper is on the regional dimension of GVC linkages, from Russia to central Asia.

The lead firms—‘global buyers’ in this case—that drive GVCs determine a division of labour along the chain and define the terms on which potential participants in the chain can access it (Appelbaum and Gereffi, 1994). In this way, the GVC approach emphasizes the activities of *firms* and the role of lead firms in globalization. The opportunities for suppliers based in developing and transition countries to *enter* such chains, and to *gain from* chain participation once (or rather if) they are accepted by the lead firms as chain participants, is subject to much discussion amongst GVC researchers (e.g. Humphrey and Schmitz, 2002; Thomsen, 2007). The broad academic categories—and an increasing range of subcategories—of industrial upgrading and chain entry barriers are highly intertwined with discussions on chain governance structures, and both are relevant to an understanding of how essential for suppliers different types of standards have become. Standards may thus be seen both as posing an entry barrier to firms from developing countries that are trying to enter chains, and as possible product or process upgrading tools for those suppliers that succeed in complying. Thomsen (2007) distinguishes between the different

types of supplier entry barriers, dividing them into industry entry barriers, market entry barriers and chain entry barriers. For the purposes of this paper, chain entry barriers are most relevant. Chain entry barriers, according to this distinction, relate to the specific qualifications that single producers need to have in order to be ‘accepted’ by buyers in a given chain. They can include the ability to perform and finance a number of service functions specified by different buyers. At the broader level, a number of relevant and highly interrelated developments in the nature of buyer-driven GVCs have been pointed out lately:

First, a far-reaching, if not global, and high-speed transformation of retail—often conceptualized as ‘the supermarket revolution’ or ‘supermarketization’—is currently happening (see, e.g. Reardon and Hopkins, 2006; Wrigley and Lowe, 2007). This change, amongst other things, implies a rising concentration in global retail, in which a small group of ‘elite retailers’ have expanded their operations globally, such as through mergers and acquisitions, including moving into developing countries (Coe and Hess, 2005). By 2005, for example, supermarkets and hypermarkets in the United States accounted for at least 62 per cent of all food retail sales (ILO, 2007). The number of suppliers working directly with these retailers has also fallen, and there is a growing emphasis on relatively few full-package suppliers rather than a large number of smaller suppliers in different countries. Therefore, suppliers are experiencing increasing competition in the global market. This applies not only to price competition but also to a number of other factors including—but not limited to—proximity to markets and trade agreements, and also the conventions of the lead firms in the chain and conformity with international standards (eg, Gibbon and Ponte, 2005; ILO, 2007). As the supplier bases of these buyers become more and more concentrated on fewer full-package suppliers, the limited product outlet possibilities form an entry barrier to new suppliers.

Second, standard requirements imposed by this increasingly concentrated bulk of global buyers, who are now in an even better position to determine the terms of trade and cooperation throughout the chains, are rising tremendously in speed as well as scope. Thus, standards are now a major source of entry barriers to GVCs for suppliers (see Kaplinsky, 2000; Nadvi, 2008). As pointed out by Gibbon and Lazarro (2010), the tendency to govern through standards rather than merely through regulation has emerged within the past three decades due to a rise of new discourses on transparency and accountability. This development is closely related to the restructuring of the organization and distribution of production in GVCs, driven by, for instance, large supermarkets.

Standards may be seen as legitimizing specific functional divisions of labour along GVCs, in terms of conventions on product quality and corporate organization (Gibbon and Ponte, 2005).

Compliance with international product and process standards is now so necessary for entry into GVCs that non-compliance can result in exclusion from profitable markets (Nadvi, 2008).

Standards are, not least, becoming increasingly important in global food retail, which may on the one hand lead to upgrading possibilities for at least some suppliers, but on the other hand also implies rising levels of expected supplier capabilities. Compliance with international food safety standards, for example, have put increasing demands on the financial, human and technological resources of developing countries, either in working towards or maintaining compliance. The minimum requirements in the World Trade Organization (WTO) Agreement on Sanitary and Phytosanitary Standards (SPS Agreement) are closely linked to the acceptance or refusal of animals or animal products by importing countries (eg, Brückner, 2005). According to Akyoo and Lazaro (2010), safety standards that are imposed on developing countries are escalating to such an extent that they are, in fact, non-tariff barriers to trade. These authors also point to the costs of standard conformity for developing countries, which include the costs of certification and monitoring, as well as of having a food safety system deemed acceptable by importing countries.

Private standards in the area of environmental and social issues are also increasing in significance in the food sector, with more than 400 different private standards now in existence. As stated by Lazaro et al. (2010), assurance of sustainability is now a key differentiator for marketing food, and is increasingly codified and operationalized by private voluntary standards, including Fair Trade, organic labelling and GlobalGap, and may in some cases cover the whole value chain. It has been pointed out that, although compliance with such standards commonly leads to price premiums for retailers, this is not necessarily guaranteed for producers and farmers throughout the chain (Ponte, 2008). Some private standards may provide increased options for certain central Asian suppliers, simply because compliance allows access to new markets and/or specific buyers—for example by securing preferred supplier status – while at the same time excluding others. One example of the former (and more indirectly at the same time of the latter) may be exports of organic products to global food retailers, since the European market for organic agricultural products is growing rapidly. Gibbon and Bolwig (2007) stress that farms (in Africa) engaged in certified organic export production are significantly more profitable in terms of net farm income than those engaged only in

conventional production. Also, these authors find that there are positive revenue effects for certified organic contract farming schemes in Africa, compared to the ‘organic by default’ situation often seen in developing countries. It is important to mention, however, that the production of organics currently seems to be growing faster than the market demand. Securing quality, market channels and access (eg, in the form of contracts in so-called lead firm initiatives) for products is therefore equally as important as upgrading them to certain standards (see Gibbon et al., 2010). Some of the characteristics of environmental and social standards, described here in terms of foods, may also be seen to apply to the clothing sector.

Third, other and less standardized forms of chain entry barriers that have to do with rising expectations—both from new suppliers engaged in the selection process for being integrated in GVCs, and from existing suppliers, making it more and more difficult for them to ‘stay in the game’—are often due to changes in buyer conventions. The empirical presentation below suggests that these are of equal, or in some cases even higher, importance than ‘real’ standards. Such conventions may take the form of a variety of concrete measures, often in the form of selection criteria, related for example to suppliers’ service capabilities, financial capacity or geographical proximity (eg, Palpacuer et al., 2005). As a background to this phenomenon, it has frequently been pointed out over the past ten to fifteen years that, in the global food retail sector, there has been a rise in managerial doctrines such as ‘Category Management’ (eg, Dolan and Humphrey, 2001; Fearne and Hughes, 1999). Thus, large retailers have been, or are in the process of, systematically re-engineering their supply bases by identifying core suppliers for various product categories and transferring to them functions such as the analysis of sales data, the prediction of demand, holding stock, and new product development. Another outcome is the expectation of product delivery with ever-shortening lead times. Correspondingly, suppliers lacking the financial and human resources to perform these functions are relegated in importance or eliminated completely.

Likewise, the rise of another set of managerial doctrines concerning the advantages of buyer–supplier partnerships implies that buyers will be less footloose in the future, thereby reducing the extent to which new suppliers are prospected and recruited (see also Palpacuer et al., 2005). The global clothing sector is also conceptualized in terms of a rising tendency for global buyers to work with a limited number of core or full-package suppliers who are selected based on a variety of criteria, such as delivery reliability, product quality and costs. The services expected from clothing

suppliers therefore increasingly include ‘supplier-managed inventory’, which entails suppliers having to finance stockholding, and deliver on a ‘call-off’ basis whenever the buyer requests an order of a certain volume. At the same time, suppliers are expected to guarantee in-season replenishment¹ of products at four weeks’ notice, and to rapidly develop new styles. All in all, clothing GVCs delivering to western markets are increasingly difficult for new, and particularly small-scale suppliers, to enter. The service expectations from suppliers in the global clothing industry commonly include as a minimum that suppliers are capable of sourcing fabrics on their own account (Palpacuer et al, 2005). This is particularly challenging for suppliers from central Asia, where fabrics often have to be imported at high cost, and where there can be constraints in terms of transport and customs, which increases lead times. A lack of finance is a common barrier to trade faced by developing country suppliers and producers. While these trends do seem most pronounced among buyers in Anglo Saxon economies, they have been shown as increasingly applying to some western European buyers as well. However, the existing literature does not include many, if any, references to the importance of such tendencies or any other types of conventions, in GVCs driven by Russian buyers. The remainder of this paper attempts to address this gap. It also contributes to the existing literature on the rationalization of GVC buyer sourcing strategies, and on the impact of these in supplier countries.

RUSSIAN CHAIN DRIVERS: CONVENTIONS, STANDARDS AND IMPACT ON CENTRAL ASIAN SUPPLIERS

This section explores the sourcing strategies of Russian retailers. For this purpose, two overall approaches are taken. First, the paper takes its starting point in the rather limited existing literature on Russian retail—which overwhelmingly deals with the food sector—to provide an overall picture of Russian retailers as chain drivers. Second, intra-chain dynamics are examined through the lens of central Asian suppliers to the Russian market. The section highlights some ideas and perceptions that have been pointed out by these central Asian suppliers regarding their relations with their Russian buyers, how the relationship is organized (and changed over time), and the challenges involved in selling food and clothing products to Russian retailers.

The Russian Retail Sector and Central Asian Supply

¹ ‘Replenishment’ refers to the practice of reserving capacity with manufacturing suppliers over a period of six months or longer, for production of a single style on the basis of guaranteed minimum initial orders, but without a definite ceiling (Palpacuer et al., 2005).

The Russian retail sector has undergone numerous changes within the past few decades—the major ones being attributed to the country’s transition from a planned economy, in which retail took the form of bazaars, street markets and state-owned stores, to a market economy. Though these types of outlets still have an important market share, the rise of a ‘modern’ retail sector has been significant, not least due to the accompanying rise of a middle class—essential for this type of retail sector development. In addition to the emergence of Russian-owned retail stores, the entrance of foreign retailers—German Metro and Turkish Ramstore being amongst the first-movers to the Russian market—has contributed to the rising competition experienced by Russian retailers (see, eg, Lorentz et al., 2006). Convergence of the industrial and retail sector in terms of expected WTO membership in 2012, and an ongoing internationalization of Russian-owned retailers themselves, are also among the recent and ongoing changes. Thus, the emerging Russian retail sector consists of domestic and foreign-owned retail chains, department stores, supermarkets and hypermarkets. Similarly to the case in other developing and transition countries, the existing supermarkets are currently mostly concentrated in larger urban centres, with Moscow and St Petersburg being the most important markets.

Dries et al. (2004) classify Russia as a ‘third wave transition economy’ in terms of retail globalization—a category defined, amongst others factors, by increased concentration in retail, a rising share of foreign capital and large multinationals in the domestic retail sector. According to this classification, the first-wave transition countries include, for example, the Czech Republic and Poland, who started their globalization around 1996. The second wave includes certain Balkan countries, while the third wave includes Russia, Ukraine and a smaller number of central Asian countries, in which retail globalization did not really start until 2002. The authors also note that, compared to the earlier wave countries, those in the third wave, including Russia, had a relatively small share of foreign-owned retail chains to begin with. Similarly, it has been noted that the rise of supermarkets in Russia, as well as in other transition economies that have experienced periods of rapid economic growth, has been fuelled by a relatively large share of domestic capital. A glance at contemporary directory lists of supermarkets and hypermarkets in Russia suggests, however, that the share of foreign-invested chains has steadily increased since 2002, although the recent financial crisis has led some foreign chains to withdraw from, or downsize their activities in, the Russian

market. Thus, it may be expected that domestically owned chains are still relatively important in Russia.

The Russian-owned retailers that are the main focus here include clothing retail chains, food discounters, department stores, supermarkets and hypermarkets. As mentioned above, they are experiencing increased competitive pressures from the foreign branches they compete against on a daily basis—pressures on pricing as well as rising demands for the standardization of products. Still, Russian retail sales experienced a year-on-year growth of 4.6 per cent in 2011, according to leading indicator data released by Rostat, suggesting a recovery from the financial crisis and rising consumer confidence (EmergingEuropeMonitor, 2011).

The Russian market is considered of high importance to many of the central Asian producers of clothes and food products in our sample. This in itself is interesting due to the fact that trade between Russia and central Asia is challenged by a number of factors at the general level, such as high transport costs and long and unpredictable transit times for international shipments. These costs are linked to a combination of the countries being landlocked and remote, deficiencies in the transport networks, high costs and a low quality of transport and logistics services in the central Asian region. Even so, transport networks from central Asia to Russia are relatively well integrated compared to those from Central Asia to non-former Soviet Union neighbouring countries, such as Afghanistan, China, India, Iran, Pakistan and Turkey, let alone to the wider European markets, although infrastructure is being developed in some places at present (see World Bank, 2011). As a consequence—and due to the historical relations within the Commonwealth of Independent states (CIS) region—trading relationships and inter-firm cooperation between Russian buyers and central Asian suppliers are long-established.

Supplying Russian Retailers from Central Asia

The remainder of this paper aims to throw some empirical light on the relationship between central Asian suppliers and Russian retailers. It does so from the perspective of the central Asian suppliers interviewed, and thus the analysis is based on their thoughts, ideas and perceptions, set against the background of insights provided by the GVC literature on how supplier-buyer relationships are being affected by GVC governance, conventions and standards. The following section examines

issues around Russian retailers' selection of central Asian suppliers, changes in the ways orders and stockholding are financed, and changes in terms of expectations regarding standard compliance.

Selection of Suppliers

The way that buyers select their suppliers is, as mentioned above, one of the aspects of the industry reported by the existing GVC literature to be changing (eg, Palpacuer et al., 2005). Since the empirical evidence presented in this paper is limited to interviews with central Asian suppliers in Russian-driven chains, and this does not include interviews with the Russian chain drivers themselves, little can be said about the latter group's methods of selecting new suppliers. Tretyak and Sheresheva (forthcoming), using the case of Russian-driven fresh fruit value chains, do provide some ideas in this area. They stress that Russian retailers apply a variety of criteria to select new suppliers. Most importantly, according to these writers, they look for product quality, price factors, product assortment, terms of payment and long-term connections. While this is in itself an important finding that does tell us something about the sourcing strategies of Russian retailers, a number of new questions emerge, requiring further research. For example, it is not clear from the paper if, or how, the identified criteria are implemented in practice by Russian retailers. How are suppliers monitored, for instance? Do the Russian retailers use these criteria as selection mechanisms at the outset of a relationship only, so that new suppliers are benchmarked against these criteria and therefore possibly rejected immediately, or do they sometimes engage in the upgrading of suppliers to meet compliance standards after having selected them? Finally, it is not clear whether the abovementioned tendency for buyers to work with fewer 'core' suppliers—which we are increasingly seeing in Anglo Saxon-driven GVCs (Palpacuer et al., 2005)—is reflected in Russian-driven chains.

One thing did become immensely clear from the fieldwork carried out for the present study: Central Asian suppliers to the Russian market generally feel that the terms of their relationships with Russian buyers are changing. This change manifests itself in various ways, but perhaps most importantly through finance schemes and Russian retailers' service expectations from the central Asian suppliers, as well as through standardization. These issues are illustrated by our primary evidence and examined in the following section.

Financing Stock and Orders

One of the major changes in buyer-supplier relations is related to the financing of intra-chain tasks such as production orders and stockholding. This seems to apply widely across sectors and countries. It was pointed out by many of the central Asian businesses in all three countries studied that Russian buyers had been important customers for years, but that the terms of contracts were in an ongoing process of change, with more and more financial responsibility (and risk) being placed on suppliers. A commonly stated perception was that Russian buyers are less willing to pay their suppliers up front than they were ten years ago. One example comes from the grain sector in Kazakhstan, currently among the world's top ten exporters (Grain Union of Kazakhstan). The sector is long-established in the Astana area, and includes private firms as well as large agroholdings. According to Wandel (2008), most of the big players in the current industrial structure in general, have their origin in grain trading, and are sometimes part of larger, diversified conglomerates—apparently termed 'clusters' in Kazakhstan in spite of their vertical rather than horizontal integration. They include elements such as service sectors, raw supply production, food processing, wholesale, retail, packaging materials, machinery, research institutions and financial institutions. Many Kazakh grain exporters, of all sizes and ownership forms, stated in the interviews that their buyers from Russia had recently become reluctant to issue letters of credit when ordering grain. They also pointed out that, although this tendency had been evolving steadily over the past decade, it had become even more pronounced with the outbreak of the financial crisis, and applied to an increasing number of Russian buyers. Thus, the ability to finance orders is increasingly dividing those suppliers that are able to stay in the game from those that are not. Within the Kazakhstan-to-Russia grain value chain, cases have emerged of Kazakh suppliers not being paid by their Russian buyers even *after* delivery. This has led some, especially smaller, Kazakh suppliers to 'demand payment in advance or not produce at all'² (Interview, 2009). As a result, the suppliers explained, many Russian buyers have begun to use them less or have stopped using them at all. In other words, the Russian retailers are in a position to choose those (larger and financially liable) suppliers that are able to finance orders on their own account. This reduces the costs and the risks for Russian retailers, who are themselves experiencing rising competition from foreign retailers within the Russian market and have hence opted for a strategy of rationalizing their supply base.

² Interview (2009)

In the case of the clothing suppliers from Tajikistan, there has been a similar tendency among Russian wholesalers and retailers to stop paying for orders in advance, or at least delaying advance payment. As a consequence, many Tajik clothing firms have stopped producing, even though the Russian market was previously key to their business. This lack of financial support from Russian buyers was pointed out consistently across sectors and countries as a new problem, in the interviews, especially by those central Asian firms that had been selling to Russia for many years. The situation is clearly extremely problematic in a business environment in which few of the firm owners interviewed for this study had ever borrowed formal capital. It was generally pointed out by the respondents that, while it may be possible to obtain loans from local banks, they are on a short-term basis, with high interest rates, and subject to bureaucracy and corruption. As a consequence, any capital that can be obtained is primarily used as working capital to buy raw materials, with investment in new equipment considered out of reach by most respondents.

Another related example of the stockholding expectations of Russian retailers was discovered in the meat processing industry, which, together with the livestock sector, is traditionally a relatively strong component of the central Asian countries' economy, but is challenged by a lack of cheap supply amongst other things. Possible reasons for this include a lack of livestock feed due to drought, low productivity in stock breeding as a consequence of insufficient feeding of livestock, and low levels of mechanization of milk processing³; World Bank, 2007). Some of the sampled processing firms stated that their profits had decreased by 20–30 per cent within the past two years. Many of the Kyrgyz meat processors also pointed out that, compared to ten years ago, they were now much more likely to be asked by their Russian buyers to hold stock in their own or rented warehouses on their own account. In addition to the rising costs of stockholding, many of the central Asian suppliers pointed to a discrepancy between the volume of meat ordered by the Russian buyers and the actual sales volume (and the volume actually paid for), meaning that they often lost expected profits and experienced increased product waste. Many expressed the view that they should be compensated for such losses. This tendency of Russian retailers to transfer the risk associated with holding inventories down the supply chain was, to a lesser extent, also found in the other sectors examined. The practice is basically seen by many central Asian suppliers to be due to a change in the type of relationships they have with their Russian buyers, in which the latter no longer guarantees they will buy the entire volume of products initially ordered, but instead only pay

³ Interviews (2009)

for what they eventually ask to be delivered, on a call-off basis. This unwillingness (and/or inability) of Russian wholesalers and retailers to pay for surplus stock was seen by the central Asian meat producers as one of the most serious challenges to local firms in the sector at present. In most cases, surplus meat and meat products deriving from these uncollected orders are stored by the processors and then sales are attempted through other market channels—often without much success and at lower prices. While this pattern is likely to be fairly similar to the practices of Western retailers, the important point here is that the central Asian suppliers referred to it as a new tendency among Russian buyers. A number of smaller central Asian suppliers, across the sectors studied, stated that they were willing to work for these buyers for less, or no, profit for a while, in the hope of maintaining these regular (and in some cases their only regular) customers.

Standardization

One of the most striking results of the empirical study, in terms of Russian retailers' requirement that their central Asian suppliers comply with standards, was a total lack of focus on social or environmental standards. Such standards have to some extent been key in many Western-driven agro-food and clothing GVCs. Though suppliers in central Asia were asked about private and public types of standard requirements during the interviews at a fairly general level, none mentioned that the Russian buyers had any requirements for such types of standardization.

Standards in the area of safety and hygiene in the food industry were, however, often mentioned by the central Asian businesses as being of increasing importance in the Russian-driven chains, especially in cases where the buyers were Russian supermarkets or hypermarkets. This idea is well captured by Erasova (2007), who describes how former 'GOST' ('gosudarstvennyy', meaning 'state') standards that historically refer back to the Soviet Union era, are gradually being replaced in Russia, and international standards are supposed to be fully implemented by 2011. This basically means that Russian supermarkets may potentially pose stricter requirements on their suppliers today than they did at the time of the fieldwork. This is in stark contrast to the fact that, for the interviewed central Asian agro-food businesses themselves, food safety issues seemed to be rather low on the agenda. Some country differences did appear: food safety systems were clearly more pronounced, but not unproblematic as we shall see in a moment, in Kazakhstan, while Tajikistan seemed to be least engaged with this agenda, with consequences for its competitiveness within the

Russian food retail market. Tajikistan's fresh fruit and vegetable sector historically exported to Russia to a much larger extent than it does now. Tajik fruit processors in the sample that were still exporting to Russia or had done so previously all stated that they faced severe competition in the Russian market due to a combination of factors such as transport costs, product quality and price, and a more general difficulty of compliance with expected standards. According to World Bank (2005a), this is also a result of improper transit packaging and the overloading of wagons and containers (which is an attempt to reduce unit transport costs). That report states that the patterns of export have changed in recent years. First, the share of processed fruit and vegetable export value increased from 56–78 per cent of total horticultural exports, while their export profitability (along with other low value goods) has decreased. World Bank (2005a) also showed that the total export value of dried fruits from Tajikistan had decreased at that time, while the value of processed fruit juices had increased. This reflects our finding that the dried fruit producers in our sample were more or less selling entirely to the domestic market. Respondents commonly mentioned a lack of storage capacity (or high rental costs for it) as an obstacle to large-scale exports of fruit products to Russian buyers who were increasingly reluctant to finance the inventories themselves. They also commonly pointed to a lack of refrigeration during transport as an obstacle to supplying the quality and safety that were—as we shall see in a moment—becoming increasingly important factors in Russian-driven chains. This is in line with World Bank (2005b), which reports an acute shortage of packing sheds, which results in growers packing at field temperature directly into a refrigerated truck bound for an export city, meaning that when the truck enters Moscow six days later, the produce is not even of fair quality—it is of poor quality.

A major point of concern, therefore, is whether local central Asian agribusiness producers (from farms, via processing, to the export level) are able to comply with the relatively new standard requirements of their Russian buyers. When asked about how food safety is secured upstream, processing firm owners and managers in the Kyrgyz Republic and Tajikistan commonly stressed that they asked their suppliers (farmers) for certificates from a veterinary service authorizing meat sales, and that they considered this to be a guarantee of food safety. Various indicators, however, raise doubts about this, including the fact that there are usually no, or only limited, integrated systems for cooling/freezing and transportation from the farms to the meat processors. While Kazakh, Kyrgyz, and Tajik food products have so far enjoyed easy access to CIS markets, the increasing share of supermarkets in Russia's retail trade seems to be making food safety and quality

the main constraints facing exporters to CIS markets. Almaty and Astana in Kazakhstan are following the Russian lead. It should be noted that the challenges relating to food safety and transport for meat and milk processors are somewhat fewer in Kazakhstan than in the other two countries examined here. Almaty's milk processors, for example, have their own refrigerated milk trucks, which also solve some of the more significant transportation challenges. According to Wandel (2008), the veterinary legislation in Kazakhstan has been revised and harmonized with the requirements and principles of the WTO on veterinary and phyto-sanitary measures. The related implementation process in terms of compliance to food safety standards has been underway for relatively longer in Kazakhstan, which applied for accession to the WTO in 1996. Since 2006, the Kazakh government has subsidized the costs of certification to international quality and safety standards, including ISO 9000 and HACCP (Wandel, 2008). Still, awareness of food safety and standards seemed surprisingly low among the Kazakh firm managers interviewed for this study, even in the relatively mature urban centre of Almaty. They still often seem to rely on national rather than international standards and conventions, just as food processors in Tajikistan and Kyrgyzstan do.

CONCLUSION

This paper has pointed to some tendencies in terms of the changing sourcing strategies and practices of Russian retailers, and shown how these affect the options for central Asian suppliers in Russian-driven value chains. The results presented show a somewhat mixed picture of how and to what extent these changes are occurring, and that this seems to depend on the industrial sector, the type of retailer and supplier and also, to some extent, which central Asian country we are looking at. Overall, the majority of central Asian suppliers are experiencing rising entry barriers to Russian-driven chains and are gaining less from them, while opportunities do seem to remain for a smaller number of relatively large-scale and strategically located central Asian suppliers. This resembles the more general trends pointed out in recent GVC literature on the increasing concentration of, and thereby rising entry barriers to, retailers' supplier bases. The paper also shows that rising entry barriers to Russian-driven chains mainly take the form of Russian retailers' increasing service expectations from their central Asian suppliers, rather than 'real' standardization. Such service expectations are most commonly directly related to the financial capacity of the suppliers. For example, Russian suppliers expect central Asian suppliers to hold stock or finance orders on their

own account. Russian retailers are themselves subject to rising competition nowadays, deriving from the ongoing restructuring of the Russian retail market, and are thus in a process of outsourcing a widening range of functions to their suppliers. They select those suppliers that are most qualified and capable, not just in terms of performance, but also in terms of financing their new functions on their own account, while at the same time imposing new requirements on their existing central Asian suppliers. As a consequence, a number of these suppliers are finding it difficult to ‘stay in the game’. The lack of compliance with the increasing range of international standards seems to underline this point. It poses a serious constraint on the expansion of central Asian exports in the future, including into the Russian markets, and to the supermarkets and hypermarkets of the large Russian and foreign-owned retail chains emerging there.

Another interesting point is that the increasing importance of compliance with labour and environmental standards, often stressed in value chains to, for example, the wider EU market, does not seem to be present at all in the Russian-driven chains examined here. The extent to which this tendency applies to Russian-driven value chains as a whole—rather than mainly to those connecting Russian retailers with suppliers in central Asia—obviously needs comparable empirical work in other (non-central Asian) regions. Still, it is very likely to be a more general trend, and is also in line with [Kaplinsky et al. \(2010\)](#), who state that buyer requirements regarding social standards for products and processes in emerging markets such as China and India, are much less pronounced than they appear in so-called developed markets. In the Russian-driven chains examined in this present paper, this clearly manifests itself in a rather low demand for ‘ethical products’ and thereby for labour and environmental standardization. Standard requirements imposed on suppliers to Russian-driven value chains presently seem to relate primarily to food safety, and these are obviously restricted to food value chains. This may be explained by the concentration of the Russian retail sector, and a tendency towards supermarkets dominating the Russian retail scene, combined with the adoption of international hygiene standards in the Russian food retail sector, where foreign and domestically-owned retailers are competing for market share. For central Asian suppliers—especially smaller suppliers in areas still dominated by former Soviet standardization systems and rather inefficient food safety monitoring systems—Russian-driven chains are therefore increasingly difficult to access.

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