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**Financialisation and transnational supply chains:  
implications for developing countries**

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# Financialisation and transnational supply chains: implications for developing countries

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## Why does financialisation matter for transnational supply chains and countries of the South?



- Scope for upgrading towards higher value added activities along supply chains

- Scope for industrialisation along the lines of the East Asian NICs in the 1960s, 70s and 80s.



## **Financialisation and transnational supply chains: implications for developing countries**

- Dual process of consolidation through mergers and acquisitions by lead firms (from the West) in the 1990s, together with increases offshoring, as a response to reduced profitability of trading and domestic production, have deepened the unequal relationship between Western firms and their developing/low wage country suppliers.
- Financialisation and associated new profit imperatives have reshaped the corporate structure and strategies of lead firms in the US and parts of Europe.

## What is financialisation?

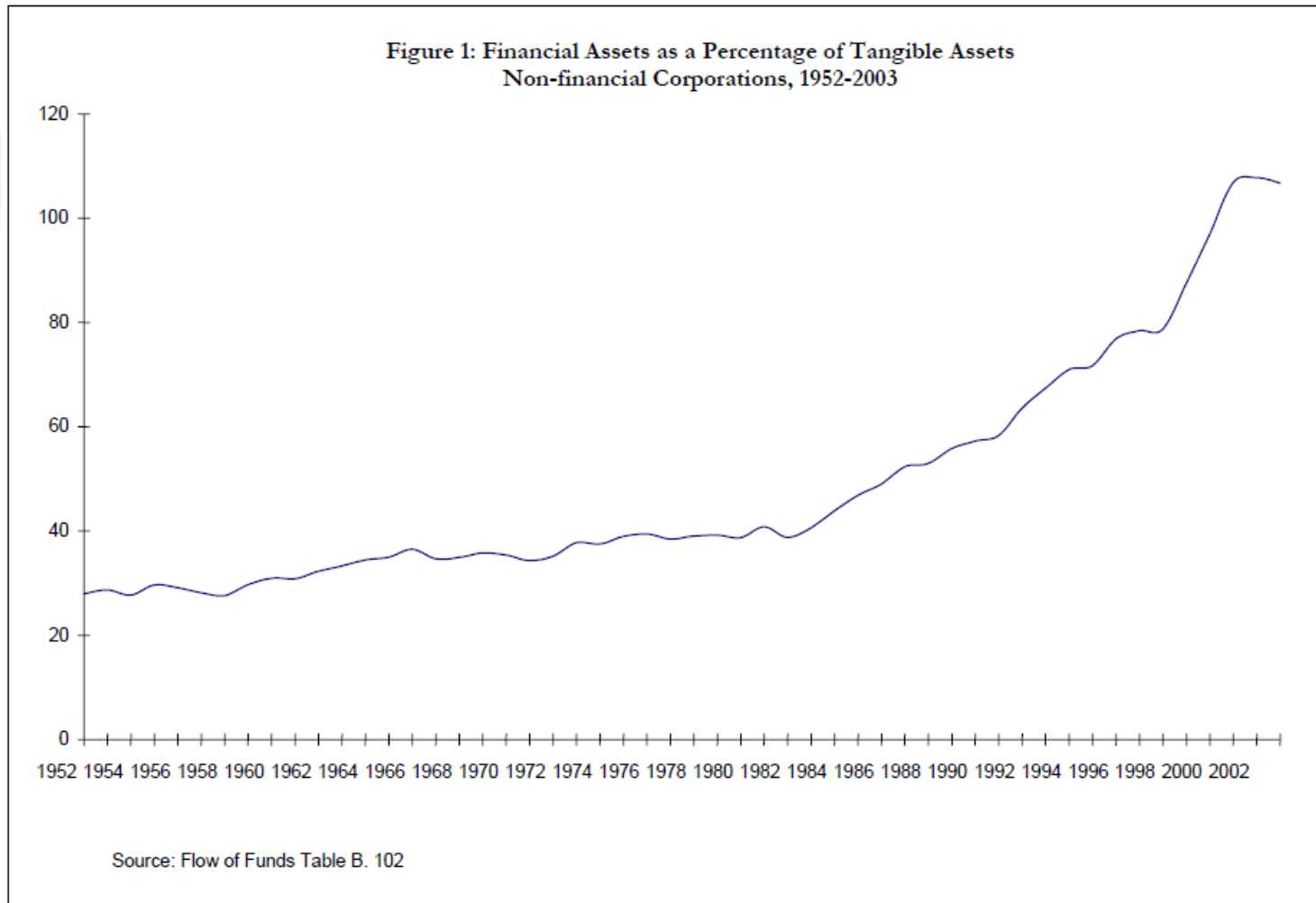
- A multidimensional process which includes:
  - increasing importance of institutional investors
  - the expanding range of financial activities in the economy
  - huge rewards to those involved in finance, and widening inequalities
  - the spreading and individualization of debt, in part to compensate for stagnant or falling real wages
- Penetration of private capital and finance into ever greater areas of economic and social life.
- non-financial companies gain an increasing share of profits from their financial activities.

## Financialisation of non-financial corporations

- Capture of corporate profits by financial institutions (through increases in interest and dividend payments)
- Increased financial investment by, and increased financial profit opportunities, for non-financial corporations
- Shareholder value movement and a move from 'retain and reinvest' to 'downsize and distribute' (Lazonick & O'Sullivan 2000) or from 'patient' to 'impatient' capital (Crotty 2003)
- Adoption of 'rentier preferences' by management and the increased investment in financial assets. (Stockhammer 2007)
- Diversion of profits from productive investment and slows down capital accumulation.

# Financial Assets as a Percentage of Tangible Assets of US Non-financial Corporations, 1952-2003

Taken from: Orhangazi 2008



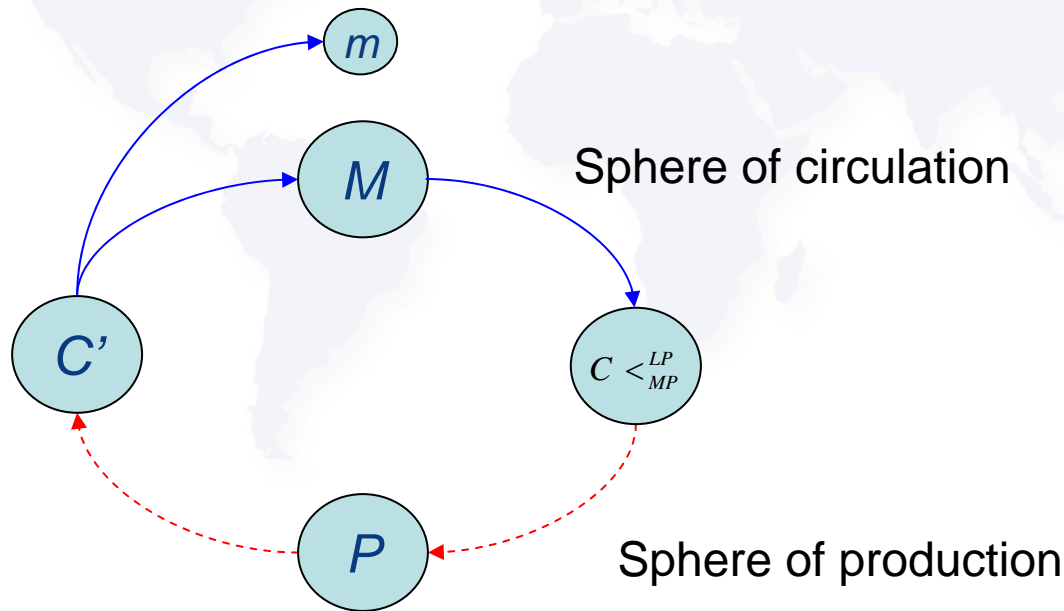


## Financialisation and productive restructuring

- Tendency of various operational definitions of financialisation to view financialisation processes as acting to undermine fixed investment
  - Finance Vs. Productive Investment
- Studying processes of financialisation and how they work out in transnational supply chains highlights the need to understand financialisation in a systemic way:
  - Finance increasingly integrated into the overall accumulation process which sees the symbiotic relationship between finance and industry

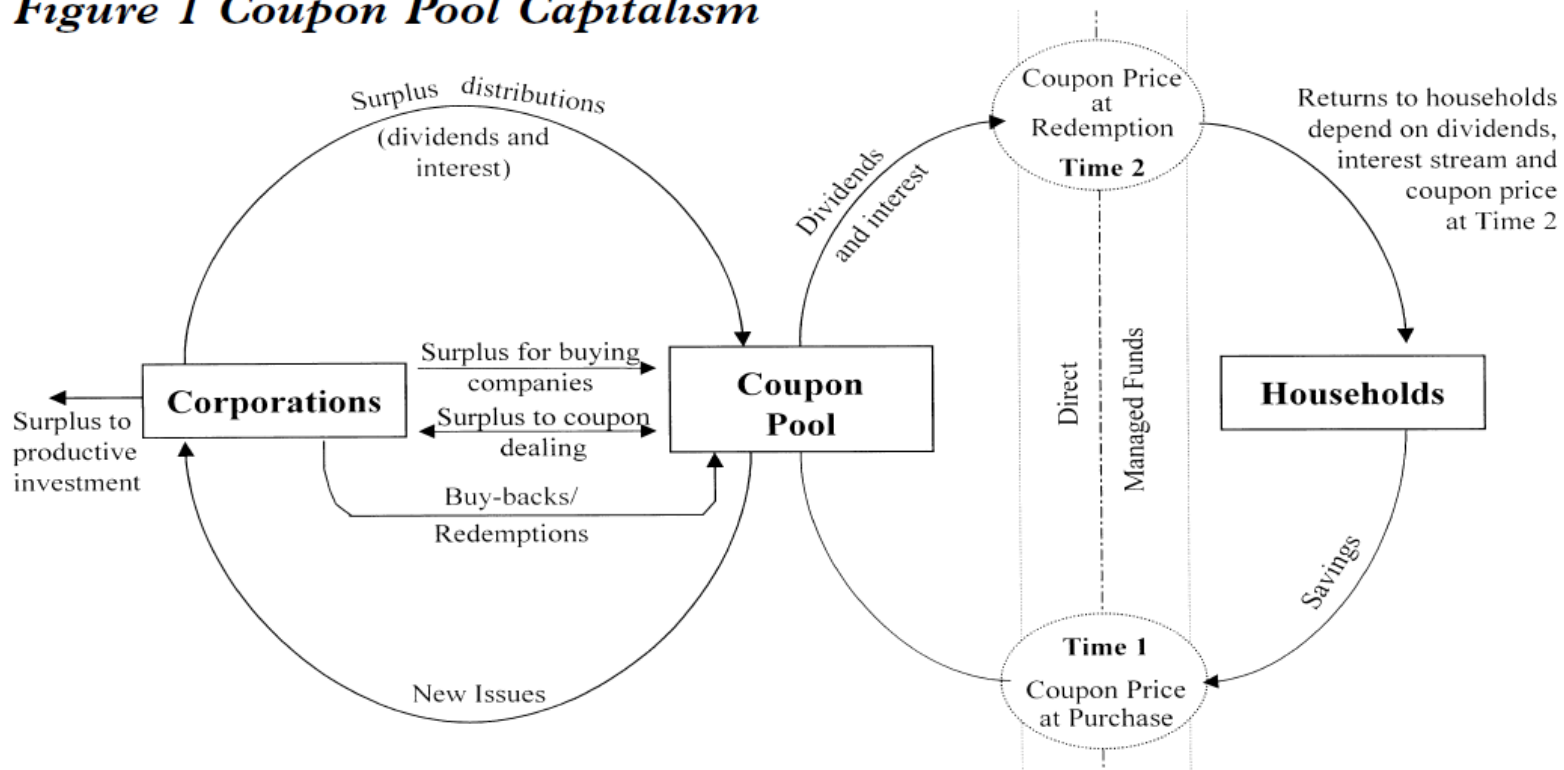
## Locating financialisation in Marx's circuit of industrial capital: M-C...P...C'-M'

- **Financialised accumulation** as dominance of the sphere of circulation over the sphere of production
- **Financialisation** as the process of capital restructuring for the expansion of financialised accumulation



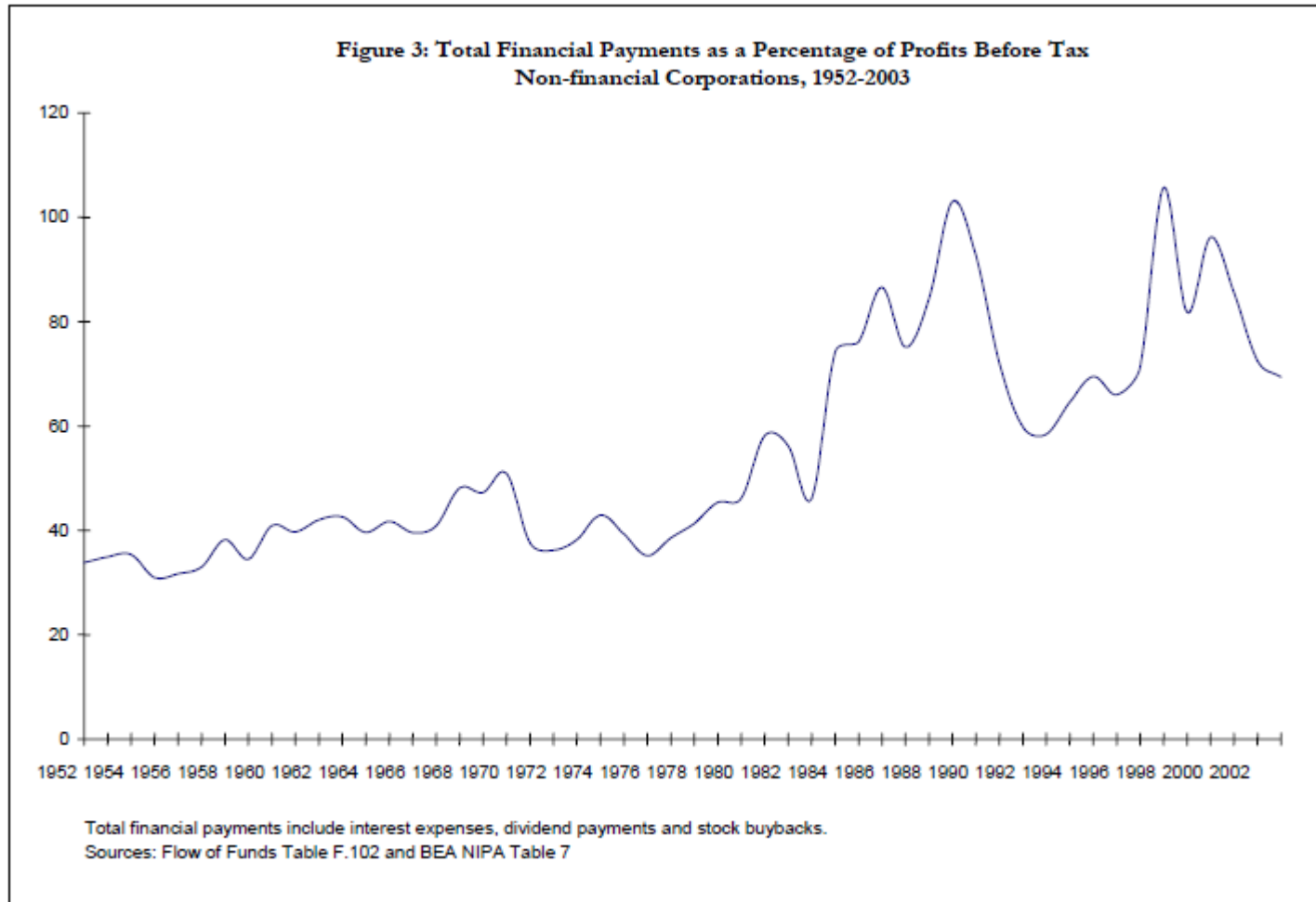
# Coupon Pool Capitalism (Froud, Johal and Williams 2002)

*Figure 1 Coupon Pool Capitalism*



# Total Financial Payments as a Percentage of Profits Before Tax for US Non-financial Corporations, 1952-2003

Taken from: Orhangazi 2008



# How Western Firms have been able to increase profit margins to fuel financialisation

- Off-shoring and arms length relationships with suppliers which reduce the need for retained earnings for productive investment
  - Correlation between financialisation and share of imported inputs in US non-financial corporations
- Downward pressure on supplier prices and increasing mark-ups
  - Worsening of labour conditions with disproportionate affects on women workers (Palpacuer 2008)
  - Contractual arrangements ensure that subcontractors make little profit and ensures the capture of efficiency gains by lead firms (Froud et. al. 2012)
- Transfer of costs and risk of holding inventories to suppliers
- Transfer of commodity price risks to developing country stakeholders through new contractual arrangements
  - Depending on local market structures, can reduce prices received by producers and limits investment in production (Newman 2009)
- New financial practices that increase financial inflows
  - In 2007, the trade partners' 'net' account of the top 10 global retailers represented 43 days of sales, compared with about 30 days in the early 1990s which has amounted to increase in free credit for the retailers which can be channeled into short-term financial investments. (Baud and Durand 2011)

- The modes of financialisation, together with chain outcomes, are heterogenous and chain specific owing to the technical and institutional capabilities of lead firms to exercise different forms of control over suppliers.
- **Generalised outcome of Southern suppliers of financialised Western firms is the capture of efficiency gains by lead firms resulting in low and limited profit margins and little funds for productive investments.**

## **Can Chinese firms follow in the footsteps of Japanese and Korean firms to create global brands?**

“The resources of generally favourable national ratios [for labour share of value added] in manufacturing are an advantage that can be negated in key sectors by Western firms with the aim to relegate their Chinese partners to permanent junior assembler status by leaving them with nothing to invest in or no investment funds.”

(Froud et. al. 2012. p15)

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