Corporate Retail: Dangerous Implications for India’s Economy

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Rather than being a panacea for Indian agriculture, corporate food provision will likely accelerate many key elements of India’s agricultural crisis. It will produce a decline in land productivity, reduce food security, adversely affect price stability and will tend to negatively impact employment and credit relations. This paper explores the changes in class and social relations that come about with the transition to a corporate system of food provisioning. It considers the potential impacts of such changes in the Indian context.

Unseen by most, celebrated by some and condemned by others, a quiet transformation is beginning to shape significant parts of India’s economy. This is the penetration and expansion of what is often called “organised retail” or “modern retail”, though “corporate retail” would be the more accurate term. Those who support corporate retail have argued that this is a positive development, one that will lead to a sea change in the conditions of consumption and production in India. It will herald lower prices, more choice, less wastage and economic growth.

We argue here that this positive picture is a misrepresentation. The growth of corporate retail not only will not address the key problems plaguing India’s economy today – it will greatly exacerbate many of them. In particular, the crisis in agriculture, environmental destruction, declines in land productivity, urban unemployment, price volatility and unequal access to resources would all be worsened by unchecked growth of corporate retail. In this context, the then commerce minister Kamal Nath’s announcement of effectively revised foreign direct investment norms should be a matter of concern. This article focuses on food retail, the subject of most of the debate.

Pro-Corporate Retail Arguments

Proponents of corporate retail typically rely on a few main arguments. First, “consumers” and “farmers” will benefit; second, the impact on existing retailers, and hence, on employment will be minimal or controllable; and third, the negative impact (if any) will only be on intermediaries. A good example of these arguments is the Indian Council for Research in International Economic Relations’ (ICRIER) study on the issue (Joseph et al 2008), which was commissioned by the government for the purpose of studying the impact of corporate retail. Other examples include studies by Kumar et al (2008) and by Mukherjee and Patel (2005).

The claims regarding gains to “consumers” are the main plank of the argument. The ICRIER study claims consumers will gain from lower prices, more choices, better and more consistent quality, convenience and hygiene. They will also gain from a “better shopping experience”. All of these points except the last are traced to corporate retailers’ tendency to build consolidated supply chains. The elimination of middlemen is regarded as key to quality improvements and lower prices.

“Farmers”, it is said, will also gain from the elimination of middlemen. They will receive higher prices for their produce and will have a better understanding of demand (Mukherjee and Patel 2005). The involvement of large corporates, particularly in

Some of these arguments are explored in greater detail in Markets vs Markets: The Consequences of Corporate Retail and Allowing Foreign Direct Investment in the Retail Sector by Priya Sreenivasa. The authors are grateful to the Council for Social Development for supporting the research used in this article.

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contract farming arrangements, will enable farmers to access better technology and inputs. Investment in infrastructure by corporates will reduce waste.

Other existing retailers, particularly the kirana stores, handcart vendors, hawkers, etc., are acknowledged to suffer from the entry of corporate retail, but such impact is regarded as temporary and relatively minor. It is argued that the retail market will expand sufficiently for both types of retailers to coexist. Small retailers are said to be more accessible, to have better knowledge of their consumers, and to be able to offer credit. These advantages will ensure that they survive in a market where “there will be space for everyone”. Further, any loss of employment would be cancelled out by the growth in jobs due to corporate retailers, which the ICRIER study describes as “high quality” employment.

As for intermediaries, it is accepted that they may suffer a negative impact (as would be in keeping with the elimination of middlemen, which is seen as an advantage). But, as with small retailers, any resulting loss of employment would be cancelled out by the expansion of the market.

Problems with Pro-Corporate Retail Arguments

These arguments suffer from three key conceptual problems. First, the arguments are built around certain terms – particularly “farmer”, “kirana store”, and “consumer” – that are used as if they refer to homogeneous categories with common interests. The class and social contradictions within these categories are ignored and, in each case, the definition slips towards equating high income or socially powerful elements with the entirety of the category. Thus the ICRIER study divides “consumers” into five categories, of which the lowest (described as “low income”) corresponds to a monthly income of Rs 10,000 or less. Thus “low income” would include the majority of urban residents (leave alone the rural population), while the other four categories would be a minority. Similarly, among “farmers”, the assumption is made that all farmers produce primarily for the market and have access to capital and infrastructure. The ICRIER study relies on a single sample study of 197 farmers in Hoskote, near Bangalore, who are clearly well-off cash crop cultivators with a high degree of infrastructure (having an average landholding of more than four acres, an average of 51% of land area under irrigation, and all cultivating cauliflowers). The conclusions from this sample are generalised to all “farmers” in the country.

Second, it is argued that corporate retailers will provide lower prices to consumers and higher prices to farmers. But this rests on the belief that corporate retailers will be subject to a market with perfect competition, a highly unlikely reality that is again belied by empirical evidence from elsewhere (see below). This reality is rarely engaged with, and when it is, unrealistic assumptions are made (for instance, Kumar et al (2008) choose simply to believe that the “benefits” from elimination of middlemen will be equally shared by farmers, retailers and consumers).

Third, the ICRIER study and other studies assume an enormous expansion of the retail market which will “make space for everyone”. The ICRIER study predicts this on the basis of calculations whose details are not given, while Kumar et al (2008) do so simply on the basis of gross domestic product (GDP) growth. But, in regard to food retail (which is the main focus of these two studies), it is well known that, beyond a certain minimal income level, food consumption becomes increasingly inelastic with income increases. This is particularly true of an economy where GDP growth is unequally distributed and most gains are being captured by urban elites. In this context, market expansion of foods (if it occurs at all) most likely reflects increased consumption of luxury items and processed foods by these elites, which in turn, is unlikely to “make space” for non-corporate retailers.

These conceptual problems seriously undermine the analysis of empirical data in such studies. They also prevent us from engaging with corporate retail’s impact on social dynamics, which are entirely erased from the picture by such stereotyped categorisations.

Conceptual Approach

The conceptual approach that we take here differs from the above, in that we argue that corporate retail should not be considered a different type of retail alone. Instead, the concept of a “system of provision” advanced by Fine and Leopold (1993) is more useful. From this perspective, the notion of “consumer sovereignty” – namely the stereotyping of “consumer demand” in the literature on FDI in retail – is entirely inadequate, given that it views consumers without considering any of the social, political, class and historical factors that shape consumption and its determinants. Rather, consumer demand and attitudes, production processes, and supply and distribution systems are all linked to each other in a dialectical fashion. The result is a complex interaction between production, supply, retail sale and consumption, a chain of activities which shapes not only the final commodity but also the social and cultural environment in which it is consumed. This is described as a “system of provision” – “the inclusive chain of activity that attaches consumption to the production that makes it possible” (Fine 2002).

It is our argument that corporate retail is more accurately viewed as one face of a different system of provision. This is a crucial change in emphasis, for in this view, corporate retailers and their strategies, for good or for bad, cannot be seen in isolation. In the case of food, the entire existing food system and the corporate food system must be examined together to understand the processes that are taking place. In the existing food system in India, production, distribution and retail are dominated by “small” actors, ranging from marginal farmers through traders and retailers. Each of these actors operates in one niche of a complex network of institutions, including those regulated by the state (such as the wholesale mandis) and those regulated by social institutions, such as gender, caste and community. Moreover, food consumption may also take place through non-market mechanisms, particularly in the case of the dependence of marginal farmers on consumption of their own produce.

Due to changes induced by liberalisation, however, it has now become possible for large corporates to directly take control of practically the entire system of provision. This “control” is exercised, first, by appropriating and “industrialising” agricultural production; second, by displacing the existing trading system and replacing it with arms of the capital concerned; and finally,
by the entry of corporate food retail. Together, these changes ensure that the production and exchange system as a whole is transformed, producing the results now seen as characteristic of corporate retail. This does not require that a single company own every aspect of the system of provision. What is required is that decisions over production, distribution and sale are shaped by a concentration of capital – a corporate or set of corporates – and their interaction with the system’s other actors. It should be noted that while this contextualises the retail operation, it does not diminish its importance. It is only through control over retail that there can be full control over commodity prices, and hence, the fact that such systemic transformations frequently seem to “begin” from the retail end.

This perspective is discussed in greater detail in Sreenivasa (2007). In this article, we attempt to briefly explore the changes in class and social relations that corporate system of food provision produce, and to consider the potential impacts of such changes in the Indian context.

Corporate Food Systems and Agriculture

At the production level, the transition to a corporate food system revolves essentially around one key change: a reliance on contract farming. Studies from countries as diverse as Vietnam (Cadilhon et al 2006), China (Hu et al 2004), Argentina (Gutman 2002; Ghezan et al 2002), Chile (Faiguenbaum et al 2002), Brazil (Farina 2002), South Africa (Oxfam 2004) and India (Chandrasekhar and Ghosh 2003; Daftari 2006) indicate the preference of corporates for contract farming. Such contracts typically involve guaranteed purchases, quality standards, exclusive contracts that prevent sale to other entities, and frequent use of verbal and unrecorded contracts (Oxfam 2004).

Contract farming is frequently argued to benefit farmers. Guaranteed purchase ensures more stable prices, while access to technical knowledge and physical inputs is increased (Cadilhon et al 2006). But contract farming also has inbuilt structural features that have negative impacts for all producers, and differential impacts depending on the producers’ class position.

The first such feature is the transfer of power over production decisions to the corporate purchaser, particularly through the imposition of private quality standards. This hardly seems objectionable prima facie, but in actuality has several implications. Standards, first, may revolve around “quality” as defined by the corporate’s needs (for instance, larger, redder apples that are visually attractive, or produce that is less likely to spoil), rather than “quality” in the nutritional or consumer sense. The producer frequently has to make additional investments to meet these standards, investments that may not be socially positive in the sense they are often assumed to be. Second, the imposition of stringent quality standards results in rejection of produce; non-purchase on quality grounds is the most often cited complaint of producers against contract farming, and it significantly diminishes any gain from secure prices. Quality standards also often specify the fertiliser inputs, seeds, and production methods to be used (see Ghezan et al 2002; Hu et al 2004, for example).

Linked to quality standards are demands for “flexible” production, driven by the desire to reduce inventory costs. “Flexibility” can mean changes in the quantity of crop demanded, delivery at a certain time of day or month, or new and sometimes risky crops, with the risk of failure being borne by the cultivator (Shepard 2005). Companies tend also to steadily increase demands, often later making additional demands for producers to also engage in preliminary processing (such as cutting or packing) (Cadilhon et al 2006; Boselie et al 2003; Dev and Rao 2005).

A second feature is the increase in capital and input intensity of agriculture. Higher levels of fertilisers, pesticides, water and mechanisation shorten production time and reduce natural risks such as pest attacks. They also allow “fine tuning” of production based on changing corporate standards. Further, cropping patterns under contract farming shift towards fresh fruits, vegetables and cash crops such as cut flowers, which offer higher margins on final sale and are seen as “advantageous” for various reasons (see Sreenivasa 2007; Oxfam 2004). The result can be seen in, for example, the Kuppam Agricultural Pilot Project (KAPP) in Andhra Pradesh, which was set up at a cost of Rs 5.7 lakh per acre – roughly 10 times the investment made by even rich farmers in the area (Chandrasekhar and Ghosh 2003). Similarly, 15,000 kg of fertiliser was applied to each hectare of land in contract rose cultivation in Karnataka (Singh 2005). This increase in inputs has serious ecological consequences, which can be ignored by the contracting corporate as it is not bound to a particular patch of land. This has led Sharma (2004) to describe contract farming as modern day “slash and burn agriculture”.

A third feature is interlocking of agreements on credit, inputs and extension services (Singh 2005). FoodWorld in India, for instance, reportedly supplies its contracted farmers with seeds and fertiliser from allied companies on credit; default on these loans would lead to FoodWorld withdrawing from purchase (Shepard 2005). Such cartelisation further decreases the autonomy of the producer.

A fourth feature is delays in payment to producers, a near universal practice. Contract purchasers frequently delay payment by a month or two, in order to speculate on market demand and to invest customer revenues before making payments. This amounts to an implicit subsidy to the corporate from the producer. For instance, as one South African report put it, “[The delay in payments] has been claimed was the critical break-through in constructing the supermarket industry in South Africa as this means that supermarkets can sell goods at low market but in mass volume terms and rely on the extended time to pay the price for the goods they have received” (Naledi 2001). These factors are all the more salient in times of high inflation (Gutman 2002).

The net result of these changes is to transfer risk to the producer while transferring control to the corporate. The risk of production failure is transferred through the quality standards mechanism, the risk of fertility loss is transferred by the nature of contracts themselves, and the risk of demand fluctuations is transferred through the delay in payments. These structures are complemented by more straightforward abuses of power. The latter includes retrospectively imposing the costs of discounts, product promotions, etc, on producers (Gutman 2002). In the uk, suppliers have found themselves being asked “to pay a fee just to be listed as a supplier; pay another fee to get shelf space;
...contribute to nominated charities; give a profit contribution to boost the supermarket's own earnings; and pay for product promotions” (Oxfam 2004). Examples of problems in India include post facto lowering of prices, delays in payment, defaults on contracts when the market was in a glut (including by Pepsi), as well as contractual clauses allowing the companies to refuse to purchase the crop, while penalising farmers for default (Kumar et al 2008; Singh 2005). In Andhra Pradesh, corporates tended to initially have lax contract conditions to draw in farmers and then tightened the conditions over time (Dev and Rao 2005).

This change in control and risk has differing impacts for different classes of farmers. If we utilise the fourfold division of productive cultivators commonly used in analyses of Indian agriculture,2 we can approach the problem as follows: Capitalist farmers, who rely on hired labour and mechanisation and are able to retain a surplus for reinvestment in agriculture, are the most likely to benefit from contract farming. Studies from Argentina found that contract farming worked well for potato producers in the 250 hectare to 400 hectare range (Ghezan et al 2002), while among Brazil’s dairy producers, the top 5.3% were able to invest in the technology necessary for supplying corporate dairy outlets (Farina 2002). Yet, even such producers are likely to face problems from increased risks and high investment requirements.

For rich and middle peasants, namely, those who are net hirers of labour and cultivate primarily for the market, contract farming can be far more difficult. The required investment, higher labour intensity and greater infrastructure are difficult and sometimes impossible for such farmers (Shepard 2005; Farina 2002; Ghezan et al 2002; Gutman 2002; Cadilhon et al 2006; etc, for example). Yet, interest levels among such farmers are often initially high, since guaranteed purchases appear attractive. Hence, internationally, one finds that the number of suppliers for corporate food procurement is large at the beginning and then falls rapidly as many are weeded out. For instance, in Brazil, from 1997 – 2000 the number of dairy producers supplying the top 12 companies fell by 35%, while the size of the average supplier increased by 55% (Farina 2002). Those left out face other consequences. The diminished offtake of traditional wholesalers can result in market saturation and falls in prices (e.g, potato and horticultural production in Argentina (Ghezan et al 2002). In more mechanised segments, such producers can be excluded from the market entirely; also in Argentina, the number of dairy farms fell from 40,000 in 1983 – around the time when corporate transformation of the supply chain began – to 15,000 in 2001 (Gutman 2002).

Marginal farmers, the majority in India, engage in a qualitatively different relationship with the market. Produce is generally consumed by the family, with only the surplus (if any) sold in order to meet debts, purchase needed commodities, access healthcare, and so on. The additional capital and the concentrated risks of contract farming would both be impossibilities for members of this class. Hence, as the corporate food system expands and the traditional procurement system shrinks (see below), the market access of such producers itself is likely to reduce. This, in turn, would accelerate their reliance on hiring out their labour as the only means of a cash income. Moreover, declines in cultivation of food crops in areas with heavy contract farming can lead to volatility of food prices, harming these peasants further, as they tend to be net purchasers of food (Chandrasekhar and Ghosh 2003). Expansion in contract farming and the resulting more rapid differentiation can lead to such producers being driven off the land entirely; in Karnataka, large-scale leases in one district for contract rose cultivation resulted in takeover of land from scheduled castes and scheduled tribes, who (given the small number of lessees, and hence, an oligopolistic market) received a lease rate approximately one-third of the market price (Singh 2005).

The impact is also harsh for the “other” agricultural class, namely, agricultural labour. This section is ignored by most discussions of corporate food systems, but available data indicates that it is not likely to gain from contract farming. Labour intensity may increase as the cropping area devoted to crops such as fruits and vegetables rises. But this does not necessarily mean greater employment, as it may involve mechanisation as well, and further the increased entry of marginal producers into the labour market may cancel any positive effect. In terms of contract production itself, a detailed study by Oxfam (2004) on working conditions in global agricultural supply chains describes severe insecurity of contracts, ever-increasing demands on workers for overtime and repression of worker rights. It may be objected that this is nothing unusual for agricultural labour, particularly in India. But corporate control intensifies this in a different manner, for it leads to increased pressure on producers to produce more and to be more “flexible”, and the best, at times the only, option for cost reduction is greater exploitation of workers. Hence, reports have noted an increasing reliance on women and migrant workers, who are easier to control (Oxfam 2004; Chandrasekhar and Ghosh 2003). The use of migrant workers in the KAPP and in contract farming in Punjab led to wages being pushed down to subsistence level (Chandrasekhar and Ghosh 2003).

In sum, rather than being a panacea for Indian agriculture, corporate food provision will likely accelerate many key elements of India’s agricultural crisis. It will produce a decline in land productivity, reduce food security, adversely affect price stability (also see below) and will tend to negatively impact employment and credit relations. The usual remedy recommended in this regard is public assistance and the formation of cooperatives for “small” farmers (which category often reduces to all cultivators who are not capitalist farmers). But such assistance can only mitigate, not reverse, the negative tendencies of corporate food provision, and does not address wider questions of employment, sustainability and food security. Moreover, this begs the question – if the state has such capabilities and is so accountable to small and marginal producers, why not form cooperatives up to the retail level? Why turn to corporate retail at all? Indeed, why do we have an agricultural crisis in the first place?

Procurement, Distribution and Processing

Since control over producers and transfer of risk is a key part of a corporate system of provision, the intermediate supply chain has to be transformed in order to achieve these goals. Thus, once a certain minimum size is crossed, corporate systems usually switch to a centralised procurement system (Reardon et al 2003). This
usually means a single or few purchasing hubs, which receive the produce, allocate it to retail outlets and handle major packaging and processing tasks. As the logistics chain is developed, this shift tends to occur first in non-perishable goods such as processed and dry foods, and later enter fresh foods (Hu et al 2004). Such systems diminish waste, allow the corporate to tightly control the characteristics of the product, and permit minimising inventory in perishable items while holding stock for speculative purposes in non-perishable goods.

As a result of such changes, existing wholesalers and intermediaries tend to be replaced by “specialised” wholesalers, who focus on a single product or group of products, and “dedicated” wholesalers, who contract with a single corporate for procurement and provision of goods (Reardon et al 2003; Shepard 2005). For instance, between 2000 and 2003, the reliance of two Chinese chains on specialised wholesalers rose from 25% to 75% of their procurement, while in Thailand, each of the hypermarket chains in Manila relies on just one accredited wholesaler of fruits and vegetables (Hu et al 2004; Shepard 2005). The “new” wholesalers enforce quality standards, provide packaging and processing services, and in the case of “dedicated” wholesalers develop new product lines specific to that particular corporate.

Thus, retail and wholesale functions gradually become integrated under a single corporate (which usually enters as a retailer, but may also enter at the wholesale level). Over time the category of “wholesaler” is eliminated; in South Africa, which has an older corporate food system than most of the developing world, “The notion that wholesalers are a distinct category in the commodity chain is one that has been superseded since the 1980s” (NALEDI 2001). Wholesalers and retailers often undertake corporate mergers (Shepard 2005).

Corporate food systems also involve an increase in the degree of processing, for a number of reasons. First, inherent to the corporate system is an ever-increasing need for flexibility in storage time, allowing the corporate to more effectively match demand fluctuations. This leads to increased “preservation, preparation and packaging” (Fine and Leopold 1993); for instance, dairy sectors in Latin America saw considerably higher levels of investment in packaging and preservatives (Gutman 2002; Farina 2002). Second, there is a contradictory need to both capture larger market share by introducing new “choices”, while simultaneously maintaining economies of scale. The result is product differentiation through increased second stage processing, rather than through varying the actual source foods. This increases “choice” at one level, but decreases choice at another. For instance, corporate agribusiness is known to accelerate the tendency towards declining crop diversity and the abandonment of many species and strains of foodgrains, in favour of a few “standard” strains of “mainstream” grains.

Investment in processing and infrastructure is often regarded as one of the advantages of corporate food systems. This is no doubt true with respect to spoilage and infectious diseases. But it can also have reverse effects. Using large quantities of preservatives, for instance, is hardly conducive to better health and can be very dangerous. As Fine and Leopold (1993) put it, there is no intrinsic difference between using additives and adulterating food – both aim at reducing costs, increasing shelf life and, frequently, enticing consumers. What defines their distinction is only the shifting terrain of law.

Implications of Changes

Meanwhile, there are several socio-economic impacts from these changes. The first is the displacement of existing wholesalers and traders. Only a few such traders with sufficient capital and size are able to transform themselves (Shepard 2005). A survey in Chile showed “massive displacement of small traders” (Faiguenbaum et al 2002). In Argentina, the country's largest wholesale fruit market witnessed a 50% fall in market share between the mid-1980s and the 1990s. In China, there was a negative correlation between traditional wholesalers and the spread of supermarket chains (Hu et al 2004).

A second impact is consolidation among food processors. Experiences in both Argentina and Brazil show increased concentration among dairy processing units as small firms and cooperatives disappeared (Gutman 2002; Farina 2002). In Chile, smaller meat slaughterhouses were driven out of business by increased imports through corporate retailers and wholesalers (Faiguenbaum et al 2002). The overall result is an increase in oligopsonies and oligopolies among processors.

A third impact is increased price volatility and speculation. Contract farming increases this tendency, as noted above, given the delay in payments to producers and the demand for “flexibility”. Thus, in the us, supermarkets raised tomato prices by 46% between 1994 and 2004, even as real prices paid to producers fell by 25% (Oxfam 2004). In addition, corporate systems are able to integrate far better with global trade; as noted above, corporate retailers in Chile imported around 40% to 80% of meat products sold (Faiguenbaum et al 2002).

In India, the small spread of corporate systems has as yet made such impacts less visible. However, amendments to the Agricultural Produce Marketing Committee (APMC) Acts to allow for direct private procurement from farmers, as well as contract farming, has opened the door for such corporate procurement systems in foodgrains. As a result, the last change noted above – increased speculation – is already visible. For instance, Chand (2007) found that the sharp rise in wheat prices in 2007 could not be attributed to a general shortfall, as production fell by less than 1% that year (as compared to a 13% rise in prices). He identifies two other causes for the price rise: a climb in international wheat prices, which under trade liberalisation is reflected in Indian prices, and private procurement by Reliance, Cargill, rrc and a few other corporates. Private corporate procurement essentially consisted of paying a slightly higher price to farmers than the official minimum support price, buying grains in bulk and then engaging in speculation on wheat prices. The most immediate lesson is that “efficient” corporate supply chains do not necessarily mean lower end prices; they can in fact mean the opposite. The coupling of the spreading of corporate retail with the steady decline in the public distribution system can only exacerbate such developments.

In food processing, the government has attempted to expand the processing industry in the country for reasons of crop diversification and employment generation. But the expansion of this sector is hindered by a lack of access to credit, lengthy supply chains and low demand for processed foods (EPW 2003, 2005).
Low demand, in turn, is a function of the high availability of fresh foods (Sidhu 2005). In this context, corporate retail is held to be a key requirement of strengthening the food processing industry, because it is expected to drive up demand for processed food products (see for instance, Mukherjee and Patel 2005).

But corporate food systems are likely to have their own consequences for the food processing industry. The impact of increased contract farming has already been discussed in the previous section. As for employment generation, consolidation would likely displace small unorganised sector processors, who currently provide 86.8% of employment in the sector (Dev and Rao 2005). Such a trend could only be countered by a very large expansion in demand for processed goods. But as Sidhu (2005) points out, demand for processed foods is limited not just by the lack of investment, but by the sheer inability of most of the population to even purchase their own staple diets – leave alone processed foods.

**Corporate Retail**

This finally brings us to the most discussed area, namely corporate retailers themselves. Initially, such retailers tend to penetrate only into urban upper class segments, especially given the higher prices that most corporate retail outlets charge when the corporate food system has not yet been set up. However, this soon changes, and corporate retailers penetrate well into the markets of the poor and into smaller towns (Reardon et al 2003), though there remains a correlation between education, income levels, type of employment and use of supermarkets (Hu et al 2004; Faiguenbaum et al 2002). There are also sectoral patterns in the expansion of corporate retailers. Initial penetration tends to occur with “processed, dry and packaged foods such as noodles, milk products and grains” (Reardon et al 2003). In these sectors, the corporate food system can be consolidated more quickly and with less investment. Penetration into fruits and vegetables remains much more difficult, partly because corporate retailers are perceived as less fresh than daily markets (see for instance, Cadilhon et al 2006), and because corporate retailers tend to be more expensive in this segment. Studies showed corporate retailers’ fruit and vegetable prices were 10% higher in Thailand (Shepard 2005); 14% higher in Argentina in the 1990s, though this was falling (Ghezan et al 2002); and 10% higher in Vietnam (Hagen 2002).

Contrary to the claims of many corporate retail advocates, expansion of corporate retail has had a clear and major negative impact on other existing retailers. Examples include a 30% decline in small stores in Argentina during the period of corporate retail expansion (Gutman 2002); a 20% decline in traditional food and beverage retailers in Chile in just four years (Faiguenbaum et al 2002); and a fall of 27.8% of market share for street markets in beverage retailers in Chile in just four years (Faiguenbaum et al 2006), and because corporate retailers tend to be more expensive in this segment. Studies showed corporate retailers’ fruit and vegetable prices were 10% higher in Thailand (Shepard 2005); 14% higher in Argentina in the 1990s, though this was falling (Ghezan et al 2002); and 10% higher in Vietnam (Hagen 2002).

The study seeks to argue that this impact “diminishes over time”, but this claim is based not on any time series study of outlets, but instead by comparing units near older corporate retailers with those near more recent ones. This amounts to comparing incomparable data sets. Moreover, it only stands to reason that retailers who managed to survive would show a reduced decline, if only because of reduced overall profits (as for instance, was the case in Argentina (Gutman 2002)). The ICRIER study’s only estimate of the number of retailers who closed is based on the highly unreliable method of asking current retailers about how many outlets they could remember having closed. Moreover, even if one accepts this ostensibly trend, there is no reason to believe it would remain so as corporate retailers expand beyond their present minuscule market share, especially given the evidence from other countries.

Where they do accept such decline, advocates of corporate retail tend to explain it as a result of the ostensibly greater convenience of corporate retailers and the lower prices that they offer. But in reality, there does not appear to be international data showing a pattern of consistent and significantly lower prices from corporate retailers. Further, the convenience argument applies largely to those who have private transport (i.e., cars) and access to a refrigerator (Hu et al 2004).

More importantly, this argument ignores the structural factors that greatly favour corporate retailers. First, corporates, especially multinationals, enjoy much easier access to capital and credit than street vendors and small retailers, and at much lower interest rates. India’s recent real estate boom has also eased access to speculative capital for mall building and similar activities. Prior to the financial crisis, in 2005, corporate retailers’ stocks were trading at price to earnings ratios of 50, more than three times the average ratio of 15 (Kota 2005). Allowing FDI into retail would increase these disparities.

Second, access to space and resources is extremely unequal. Urban agencies in India have consistently prioritised allocation of space and construction for the residences of the rich, failing to allocate space for commercial activities and for housing for the poor. The vast majority of urban non-corporate retailers operate in an illegal or semi-legal fashion, discouraging investment while incurring high costs in the form of payoffs to authorities. A study in Mumbai found that hawkers paid an estimated Rs 324 crore per year as bribes (Da Cunha 2000). Periodic eviction drives in recent years destroy invested capital of small retailers and drive them out of business, as in the sealing drive in Delhi and in “Operation Sunshine” in Kolkata, when an estimated one lakh hawkers were allegedly evicted in a single night (Bhowmik 2000). In contrast, while corporate retailers may also face high real estate costs, legal hurdles are far easier for them to clear. Policies may even be altered in their favour, as in the now famous case where the Supreme Court and the Delhi government allowed six malls to go ahead in Vasant Kunj despite the fact that they lacked clearances (at precisely the same time as the sealing drive in the rest of the city).

Third, corporate retailers’ access to capital and to the corporate food system allow them to engage in expansion strategies that are impossible for smaller retailers. One such strategy is...
promotions, discounts and specials, which smaller retailers cannot afford — and the costs of which, in a particularly crude example of risk transfer, are often imposed on the producers or processors in the corporate supply chain (see Oxfam 2004; Shepard 2005 for international examples). Discounts in general are a key attraction of corporate retailers, reflect control over producers, the ability to speculate on demand, and “loss leader” strategies where one product is used to draw customers into the store (Fine 1996). Whole discount stores are another such strategy, where all products are priced very cheaply, reflecting the ability of the larger corporate to absorb very low margins (or losses) in order to penetrate neighbourhoods (see Rodriguez et al 2002; Gutman 2002 for Argentina). Finally, corporates may also use straightforward predatory below cost pricing, as Wal Mart has often been accused of. But it is important to recognise that pricing flexibility does not always mean such blatant predatory pricing, and it can be notoriously difficult to apply legal measures against such activities.

What appears to be lower prices in Indian corporate retailers may often be such price flexibility in operation, a point that the ICRIER study ignores when mapping consumer savings in corporate retail outlets (Joseph et al 2008). Indeed, the same study finds that all the corporate retailers in its case study list “value” and “low prices” as among their market penetration strategies. There is no reason to believe that such low prices will continue after such penetration is complete, excepting if there is large-scale competition between corporate retailers. But such competition is not the experience of industrial nations; as Fine (1996) puts it, competition between corporate retailers in the UK is often about “site wars” — access to the correct area of real estate which allows a maximum consumer base, within which the retailer often enjoys a de facto monopoly or oligopoly situation.

In short, corporate and non-corporate retailers are competing on what is very far from a level playing field. This tends to push existing non-corporate retailers into “niche” markets, such as organic foods, specialty stores, convenient locations, or being open for 24 hours (Rodriguez et al 2002). However, the general pressure on other retailers from corporate retail also inherently makes these strategies more difficult. For instance, while the ability to offer credit is cited as an advantage of non-corporate retailers, in practice data from both Asia and Latin America show that they are increasingly unable to do so due to their own financial pressures (Shepard 2005; Faiguenbaum et al 2002). A survey in Costa Rica found that only 17% of urban customers received credit from small retailers (Reardon and Berdegué 2002). There is no doubt, moreover, that such “niche” markets cannot accommodate anything more than a small proportion of existing non-corporate retailers. It is no one’s case that all small retailers will be wiped out; but it is equally unlikely that the majority will not be severely impacted.

Finally, it is also often claimed that even such closure of small retailers will not affect employment. The ICRIER study makes this claim in part on the basis of its finding that there was only a small decrease in employment in non-corporate retailers. But this overlooks the fact that, as Kalhan (2007) points out, most small retailers rely heavily on family labour, which by definition cannot be retrenched. Moreover, such retailers strongly resist actual closure even at extremely low levels of revenue, as retail is their only livelihood. Apparent statistical findings in this regard, in addition to ignoring the rapid spread of these effects as corporate retail expands, can easily mask the actual impoverishment that is occurring. Moreover, the claims of “economic dynamism” generating massive new employment have a tired ring to them, after two decades of “jobless growth” which has been endlessly accompanied by similar slogans.

Conclusions

The implication of the argument presented here is that expansion of corporate food systems will not only not produce many of their claimed benefits, but rather may exacerbate many of the most severe problems facing India’s economy today. These problems include the agricultural crisis, a decline in land fertility and water availability, a collapse in both urban and rural employment, declining food security, price volatility in essential commodities, and resulting pauperisation and inequality. In addition, the total lack of regulation on growth of corporate retailers in urban areas is leading to skyrocketing demands on water and electricity supplies; it was estimated that merely air conditioning the outlets of the Reliance Fresh chain would require 170 MW of electricity (Navdanya 2007).

It is not our contention that all is well with the existing system of provision. Clearly changes are required, but corporate systems will not bring about those changes. Transformation of the existing system of provision is a much larger issue that will require struggles for more fundamental change in India’s political economy. In the interim, policy steps are required both to mitigate the problems existing in the current system and to restrict the damage caused by expansion of corporate food systems. Some possibilities that may be considered are as follows.

First, there should be no move to allow foreign direct investment into the retail sector, and the existing relaxations and recent changes in that regard should be discontinued. In regard to agriculture and food security, there are well known changes that are required, such as strengthening the Food Corporation of India and the public distribution systems, requiring private procurement to go through mandis, and channelling public investment to upgrade the mandis and for creation of infrastructure. Further, incentives for contract farming should be withdrawn. Measures should be taken including written registration of all contracts (as provided for in the model APMC Act), with incentives to farmers for registration and penalties for corporates that fail to do so. Strict conditions should be placed on the kinds of contracts that would be valid, including bars on exclusive sale agreements and keeping delays in payment to a maximum of a few days. Clear penalties for speculation and hoarding should also be enforced. Steps to encourage the formation of cooperatives and to strengthen the existing cooperative arrangements should be intensified, and public investment focused on cold chain infrastructure provision for such cooperatives.

Existing corporate retailers should be regulated through licensing arrangements run by the local elected bodies as well as through strict regulations on predatory pricing. Caps on the number of corporate retailers and numbers of similar outlets would also be required. Taxation for additional infrastructure and proportionate cost pricing for electricity, water, space and road use should be levied on such outlets, and the additional
revenues used for provision of common areas and credit to small retailers. Non-corporate and small retailers should be granted preferential credit through public funds, and municipal plans altered to provide adequate space for all types of such activities. These recommendations are more in detail in Sreenivasan (2007), and further are similar to those put forward in the Left Parties’ proposed National Policy on Retail. It is our belief that a critical debate on such measures is long overdue in India’s policy discourse. The evidence is overwhelmingly against the view that corporate systems’ problems will be addressed through benign self-regulation (as proposed by ICRIER), a massive expansion in the retail market, and “enlightened” public assistance. Our economy today needs steps to protect, enhance and defend the livelihoods of the majority, not policies that promote the super profits of a few.

NOTES
2 See for instance, Byres 2003; Bhadravaj 1985. By the term productive cultivators, we are excluding rentier and absentee landlords.

REFERENCES


National Tea Research Foundation

National Tea Research Foundation (NTRF), a registered research body jointly set up by NABARD and Tea Board, invites research projects for granting financial assistance on SOCIAL AND ECONOMIC aspects relating to the tea industry from competent institutions, having infrastructural facilities of its own with competent in­house economists conducting research in allied areas. May submit topic(s), research projects within three weeks along with its credentials to: The Secretary, NTRF, C/O Tea Board, 14, BTM Sarani, Kolkata 700 011, telefax 22341687, Email: ntrf_india@vsnl.net, Website: www.teaboard.gov.in