Retail Chains for Agro/Food Products: Inclusive or Elusive?

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The supporters of liberalisation often argue that if the modern food retail sector is allowed a full round of liberalisation, it may have various positive outcomes, including a reduction in prices. This article raises a counter question, what if the markets, as it happens in several instances, fail to deliver on account of the structural snags that may continue to persist in a rapidly growing and yet highly segmented economy?

The recent spurt of interest in promoting retail chains for food and other agro-products has triggered a fresh debate in India, which, in a way, echoes the larger scenario prevailing among the developing economies in Asia and Africa. The debate is particularly relevant in the context of a number of large agrarian economies with an overwhelming presence of small producers operating in the informal sectors and also a huge number of poor consumers scattered all over in the countryside. The debate that has resurfaced after the initial “go slow” policy adopted by the Government of India assumes special significance in the light of the recent utterances coming from the high-powered policy groups such as the interministerial group (IMG) on inflation, which has once again brought back the agenda of permitting foreign direct investment (FDI) in multi-product retail by arguing that the measure will help check food inflation in a significant manner (TOI 2011).

Responding to a similar proposal made in the Economic Survey of 2010-11, Singh (2011) has examined the validity of this argument by drawing upon a large number of studies in various Asian countries and elsewhere. Based on carefully scrutinised evidence from a number of developing economies, including India, Singh (2011: 21-22) concluded that “the inflation containment logic for FDI in food retail and entry of modern supermarket chains does not stand up to the scrutiny given empirical evidence across the globe”. Apart from highlighting the flawed logic pertaining to the price reducing effects of such investments, he has also touched upon a couple of vital issues such as equity and quality of food made available through the modern retail food chains in a number of developing economies, including in India.

This article explores some of the implications, other than the prices, associated with development of global (modern) retail chains for food and other agro-products in the country. Essentially, this article argues that the issues pertaining to marketing and access (including prices and quality) to basic food commodities can hardly be grasped in isolation of a holistic understanding of the macro-level dynamics as to how such commodities are produced, and how far product differentiation creates a shortage of basic food items (such as cereals, pulses, oil, and at times low end vegetables/fruits and fish/meat) in the short- and medium-term, and resource degradation in the long run.

Retail Chains: Main Rationale

The justification put forward by the supporters of such liberalisation is that the modern food retail sector has been unduly suppressed. If allowed to go for a full round of liberalisation, the sector may invariably have many positive outcomes. But a counter question could be what if the markets, as it happens in several instances, fail to deliver on account of the structural snags that may continue to persist in a rapidly growing and yet highly segmented economy as well as society like ours? There is a need for a more nuanced assessment of the situation, certainly going beyond the simple market mechanisms. We need to look for an alternative perspective on food security combined with environmental sustainability and livelihood among a large segment of the poor who are still waiting outside the corridors of a market-driven economy.

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Retail chains for food and agro-products have gained increasing currency in a number of developing countries (UNIDO 2009; Shepherd 2005). The underlying rationale for promoting such global chains in retail trading of food and other agro-products, inter alia, rests on three broad economic arguments, viz; (1) economies of scale; (2) globalised procurement and thereby expanded product choices; and (3) reduced wastages. Together these bring higher levels of efficiency in a market sense. In turn, the increased efficiency may manifest itself in simultaneous price advantages to both producers and consumers, a smooth flow of commodity with standardised quality, and value addition alongside reduced wastage of both perishable and non-perishable commodities.

The value-chain approach adopts a market-based framework that focuses on the private sector with a large concentration of poor people as producers, distributors and consumers. The idea is to include them in the markets possibly at more favourable terms (Hawkes and Ruel 2011), thereby creating a “win-win” scenario (Mathew et al 2008) for (almost) all the players in the market. What are, however, often overlooked in this economic rationale for attaining market efficiency are what could possibly be termed as the standard set of developmental concerns, viz, resource intensity, equity and also the quality of food products that the poor, and at times, non-poor may like to access. These concerns seem to have been bypassed by the mainstream perspectives of growth and market linkages (or inclusion) in the neo-liberal era (Vishwanathan 2006; Mehta et al 2011). Of course, it is argued that the pro-poor value chains are expected to change the terms of market inclusion for the poor. Nevertheless, it appears that the inclusion is thought of without any rethinking on the very structure of the markets, economies and societies that have excluded them over a long period of time.

Analysis beyond Price Advantage

Apparently there are not many systematic studies that have looked into these aspects within a holistic framework. Evidence from a few scattered studies are pointers to the likely adverse impacts (Pritchard et al 2010; Singh 2010) that the large-scale global value chains in food and agro-products may bring in terms of land-use and crop choices, resource use intensity of farm production, increased mechanisation, health consequences, and also displacement of self-employed micro enterprises already operating in the traditional markets. It is, however, likely that what appears to be efficient in the market sense may not prove to be so if the full economic costs of natural resource use including that of transportation and storage, and the developmental costs of deprivation of the poor and the unemployed
are adequately taken into account while assessing efficiency.

It is imperative to note that much of these likely adverse impacts may arise because of the very logic of market efficiency, which may continue to exclude the poor who, by and large, have remained outside the preview of the market operations, owing mainly to the financial, spatial and cultural constraints faced by these marginalised segments of the communities. In fact, what appears to be the “price advantage” for the producers and the consumers is likely to benefit those — the growing middle class — who aspire to a new food consumption basket of mainly processed products of diverse, and yet standardised quality. What is, therefore, likely to happen is that the purchasing power vested with the middle class may create a demand push towards the high-valued processed products, which may be available at cheaper prices as compared to the non-processed or fresh products that hitherto were available in the traditional retail markets.

It is, thus, postulated that the demand push, in turn, may create a fresh flux of price incentives for the producers to intensify their farming through the mechanisms of crop/product diversification and/or intensive use of resources-land, water and also chemical inputs. The logic of scale economies would further accentuate the processes of intensification (Kalhan and Franz 2009). What is, therefore, offered at cheaper prices on the shelves of the retail chains is often a different set of products (say fresh oranges vs juices, or liquid milk vs high end milk products, or raw grains vs processed cereals/bread/biscuits, etc). All these may have adverse impacts on local producers, already struggling to make their agriculture viable; the experience from the organised dairy sector in Gujarat is perhaps an example of this kind (Shylendra 2011).

Therefore, what is generally being compared in terms of prices is not prices of the same set of products that the relatively poor consumers strive to purchase from these supermarkets at cheaper rates. Moreover, these supermarkets also create additional barriers for the very poor who often do not have cash on hand; and the quantity they buy is very small.

**Resource-use Intensity and Environment: Likely Implications**

The issue that needs further clarity is that of the increased competition for the limited (natural) resource use that is eventually required for producing basic food and other agro-products, by simultaneously providing a decent livelihood for a large number of poor and under-employed in large agrarian countries like India. There are umpteen number of examples where crop/product diversification in the name of better earnings for the poor farmers have led to further damage to the environment, which, at times, turns out to be irreversible. These examples may include intensive shrimp cultivation, production of cut flowers, promotion of an organised dairy sector, canning of fresh fruits and vegetables, and even high-valued “certified” organic products including cotton.

Moreover, quality and safety standards of processed vs fresh food and their implications for health may be an additional concern. At the same time, it is imperative to gauge the implications of the likely shifts in production and distribution of food and agro-products with respect to labour use and mechanisation, as the large-scale global procurement systems may require not only standardisation of productivity and quality, but also timely delivery of the contracted farm produce. It may be recognised that the changes in production-distribution spheres that lead to reducing the size of wage income going to the poor producers/workers are likely to enlarge the gulf between them and the retail chains that may enter the sector.

**Poor Remain Excluded**

The question that may legitimately be raised is: What if the poor people continue to operate in the segmented market spheres, where low quality products are made available to them in small quantities and through informal credit arrangements, while the middle and the upper middle class get linked to the high-valued, yet cheaper products in the supermarkets? Also the solution appears to be welfare enhancing as the middle class may tend to gain without a further worsening of the situation among the poor.

Unfortunately, the real world does not always conform to the finest rules of the markets and optimality. For instance, in this specific case, the “market efficiency” brought in by the global value chain is most likely to drive out small and resource-poor farmers, as happened during the proliferation of the retail giants in the presently developed economies. A direct implication of such an eventuality is

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formulation of policies that promote large-scale farming and corporatisation so as to overcome the disadvantages of “small-scale” farming, a path that may have been followed in the then industrialising (and also urbanising) economies in the west. Though theoretically valid, displacing the poor from their land base and making them dependent on market forces is a tricky situation, especially when no other form of social protection is in place to take care of the interest of the poor.

When is it that the concerns about resource sustainability, equity and food security of the poor will also receive their rightful consideration in the policy formulation, especially when food inflation in the country continues to push many poor and also not so poor to reduce their food intake both in terms of quantity and quality? It is thus important to shift the locus of the discourse on global value chains from its central thrust on the emerging middle class to addressing the larger developmental issues including that of employment generation and effective demand of the poor. This is particularly important because the poor and their exclusion from development as well as markets is a reality in India, covering 30-40% of the population. This is at variance from the historical experience in a large number of the developed economies where the introduction of such value chains may have taken place when levels of poverty were lower, and the proportion of the workforce dependent on farm production and distribution activities was also fairly small.

Alternative Perspective?
Of course, the issue of wastage in the post-harvest stage is a serious concern. However, is opening up the doors for large-scale operators the only solution for reducing wastage? Are there any other options, though not equally “efficient” as what is being claimed, but yet capable of promoting more sustainable systems of production as well as storage and distribution, more broad based, and accessible to the resource poor producers as well as consumers? The solutions for reducing wastage, thus, may lie in exploring alternative institutional mechanisms, while simultaneously assessing the advantages that, if at all, may be realised on account of lower prices and/or better quality of products – the issue that has already been scrutinised by Singh (2011).

It is high time that we take a pause and unwind the debate by asking ourselves a question as to what the final goal is when it comes to a vital sector such as food production and food security. Is it limited only to attaining a sustained high growth in terms of value of output per se, or is it primarily about producing adequate food and other products in an environmentally sustainable manner and also through the involvement of knowledgeable and skilful producers/workers who, in turn, may get their due share in the value generation, and thereby livelihood support by way of productive employment in the sector. It is imperative that the future enquiry on “pro-poor” or “inclusive value chains” for the food and agro products should address these central issues.

REFERENCES


