Markets vs Markets

The Consequences of Corporate Retail and Allowing Foreign Direct Investment in the Retail Sector

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Foreword

Those who buy cheap and those who depart from the gainful economic scene are two different sets of people. So joy of one set and sadness of the other could never be seen together. It looks we are becoming too modern, little too fast for the comfort of a few to the utter dismay and discomfort for too many.

The age old *kirana* shops in each *mohalla* of urban or rural habitats had been a part of traditional life of any average Indian. My Govinda Kaku (*Chacha*) the owner of such a shop in our locality in my childhood was not only a shopkeeper but business adviser to our family. He would not only supply goods on credit, he would himself take the responsibility of providing all the materials that our family required on any social function in the right time, in right quantities and at the prevailing market price. He would be an invitee in all our functions. He was an integral part of our local social milieu.

Traders as a whole earned a rather unsavory reputation during the period of shortages during the World War-II and, thereafter, when allegations of hoarding, black marketing and overcharging of prices were being levelled rather liberally to this class. While a part of it was true, one could not deny that in spite of these failings they rendered essential services to the society. Today they are facing total extinction. The question is, is it good for the society?

It is this question and many other associated issues which are agitating the minds of many socially conscious persons. Wal-Marts and TESCOS have become sign posts of economic modernism. With our growth rate of 8 to 10 percent per annum can we afford to live without them?

Figures are rather scanty. It is estimated that we have in India roughly 1.25 crores of retail outlets having a turnover of Rupees 8,75,000 crores employing about 4 crores of persons and contributing to 10-11 percent to our GDP. The scale of activity is really mind boggling. Compared to the efficiency with which Wal-Mart runs its business, they are undoubtedly quite backward. But with all their lack of "efficiency", retail traders have served their customers with all the goods that they required round the year and often 24 hours a day. Relationship that they developed with their customers was much more than just transacting business.

Will, those who would lose their livelihood due to the entry of these giant corporate bodies, be able to get employed in those stores? Answer will be in the negative. A study on this subject observed: "If Wal-Mart were to open an average Wal-Mart store in each of our 35 cities with a population of more than one million, and they reached the average Wal-Mart performance per store - we are looking at a turn over of Rupees 8,030 crores with only 10,195 employees. Extrapolating this with the average in India, it would mean displacing about 4,32,000 persons currently engaged in the small retail sector.

(Mohan Guruswamy *et al.*, FDI in India's Retail Sector: More Bad than Good; *Economic & Political Weekly*, Feb.12, 2005, p 621). These 4.32 lakh jobless and livelihoodless persons will be flotsam and jetsam of our ruthless development process.

There are various other issues connected with the intrusion of big corporate bodies, whether national or multinational, in the retail sector which require wide public debate. Any informed public discourse requires data and postulates. The Governing Body of this Council in its general meeting in December 2006 suggested that the Council should undertake a serious study on the subject. The Council commissioned a research scholar, Priya Sreenivasa, to undertake that study. "Market vs Market" is an incisive, penetrating and thought provoking piece. In the penultimate paragraph of this report, the author observes "Perhaps, the most fitting answer to those who support corporate retail and neo-liberal reforms is a well known figure that is hardly discussed in public policy: calorie intake, protein intake and cereal consumption among rural population is declining, while under-nourishment is increasing. Between 1988 and 2000, as India's 'growth story' began, the percentage of under-nourished farm labourers and farm households rose by 5%. Such a statistic turns the entire story of corporate retail advocates on its head, for it is these people who are the majority of Indians – and hence the Indian 'consumers'. These 'consumers' do not need corporate retail. They need secure livelihoods that provide a life of dignity for one and one's family, which are exactly what corporate retail will further undermine".

One may disagree. One is free to demolish this thesis. But before doing so, one should read this report carefully. If he did so, it would serve this Council's objective of initiating an informed public debate!

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Executive Summary

This study concerns the current debate on opening retail trade to foreign direct investment (FDI). The study analyses the dynamics of FDI, 'organised retail' – or more accurately corporate retail – and existing systems in this country, with a focus on food retail.

The study recommends that foreign direct investment should not be allowed in retail. Permitting FDI in retail will greatly exacerbate the most serious problems in India's economy, including the agricultural crisis, lack of food security, urban poverty, overloading of city infrastructure, environmental damage and unemployment. It will achieve no significant advantages and will damage the livelihoods and occupations of the poor.

The study also makes a number of other recommendations on the need for additional safeguards and mitigating measures concerning contract farming, supply and procurement strategies of corporates, regulation of the expansion of corporate retail and existing avenues for FDI in retail (see Conclusion).

The study reaches these conclusions on the basis of the following findings, in summary, on the likely impacts of FDI in retail and consequent expansion of corporate retail:

- Agricultural dislocation caused by further impoverishment of small and marginal producers, marginalisation of agricultural labour and consequences for land fertility and sustainability (see Chapter 3 for international experiences and Chapter 6 for India).
- Displacement of existing retailers on a large scale, as has been the international experience. It is found that countries as diverse as Argentina, Brazil and Indonesia experienced drops of 30 per cent, 27.8 per cent and 9 per cent (the last being the figure for just one year) in the number of small shops as corporate retail expanded. Such displacement occurs not because of 'free market competition' but because of multiple structural factors that confer unfair advantages on corporate retailers, including access to credit, denial of space to non-corporate retailers and the use of predatory pricing / price 'flexibility' (see Chapters 5 and 8).
- Multinationalisation, concentration and monopolisation in retail (see Chapters 5 and 8).
- Creation of monopsonies and oligopsonies in procurement and supply by displacement of existing marketing systems, resulting in marginalisation of

small traders and processors, increased vulnerability of smaller farmers, speculation, price volatility and implications for food security (see Chapters 4 and 7).

- Further disruption of cotton agriculture and displacement of smaller textile producers and garment manufacturers (see Chapter 9).
- Exacerbation of traffic problems and water and power crises in large cities (see Chapter 10).
- Environmental consequences including damage to agricultural lands, increased air pollution, increased waste and increased need for water extraction (see Chapter 10).
- Large-scale unemployment as a result of the displacement of non-corporate retailers and the consequences for small and marginal producers, traders, processors, manufacturers, etc. (see Part III and Chapter 10).
- Creation of exclusionary "spaces of the rich" and resulting consequences for consumption, poorer sections and urban dynamics (see Chapters 8 and 10).

The study's response to the common arguments made in favour of FDI in retail are as follows:

- Ostensible benefits to "consumers" of lower prices, higher quality, convenience and a "better shopping experience": There is no reason for corporate retailers operating in a oligopoly situation to necessarily reduce prices. Empirical data from other developing countries shows no pattern of lower prices, while showing higher prices in, for instance, fruits and vegetables (see Chapter 5). Experiences from Indian corporate activity in grains shows that speculation and price volatility is a more likely result (see Chapter 7). Higher 'quality' depends on what one considers 'quality'; for instance, while better sanitation may result, higher use of pesticides, preservatives and chemical additives with accompanying negative health consequences is also a likely result (see Chapter 4). The convenience factor applies only to those who possess their own means of transport and can purchase large quantities of goods at one time, which excludes the majority of the population (see Chapter 5). For those without such amenities, the corporate retail-induced decline in small retailers will in fact increase inconvenience and make accessing products more difficult. The notion of a "better shopping experience" is closely linked to cultural dynamics around upper class income groups (see Chapters 5 and 8 on consumption).

- Claims of improved agricultural productivity and higher prices for farmers: International experiences show that only large farmers are able to access the contract farming systems that are typical of corporate food production, and even they face risks and uncertainty (see Chapter 3). Medium, small and marginal producers often face further market exclusion and price volatility (see Chapters 3, 6 and 7). The negative consequences of contract farming for land and fertility are ignored by advocates of corporate retail (see Chapter 6). Indeed, the net impact of expansion of corporate food retail will be to intensify the current crisis in Indian agriculture, both in food agriculture and for cotton farmers (see Chapters 6 and 9).
- Claims that there will be employment generation and no displacement of smaller retailers: These arguments are self-contradictory, for on the one hand it is claimed that corporate retail will have a tremendous impact on "consumer experience" and agriculture, and on the other it is argued that corporate retail will have hardly any effect on market share or consumption patterns (see Chapter 1). This claim can only be even partially sustained if the retail market expands enormously, which is structurally impossible in the case of food; moreover, for corporate retail to actually cause net employment growth would require the retail market to expand to ridiculous levels (see Chapters 1 and 10). Finally, this argument is inconsistent with the international empirical data (see Chapters 5 and 8). Frequent citations of the Chinese situation ignore the fact that private retail trade of any kind was small in China until the 1980's and the Chinese situation hence was already dominated by large state owned enterprises (see conclusion of Chapter 1).

The Argument

The study arrives at these findings by arguing that the conceptual frame used by many in the debate, particularly advocates of corporate retail, is inadequate. Corporate retail should not be seen as retail alone; rather, it is the face of what this argument calls a corporate "system of provision"[1]. This system of provision operates on fundamentally different logics than those of the existing systems, as argued in chapter 2. Corporate retail represents an effort by corporates (or, more accurately, capital) to take control of a system of provision by using retail as an entry point, rather than retail itself being the goal and retail factors – like "consumer demand" - being the driving forces. Using this perspective allows one to holistically see connections between different facets of corporate systems

1 Fine and Leopold 1993.

of provision, including production, supply, processing, retail and consumption itself, and note their likely impacts.

This study attempts this analysis for corporate food systems in India and sketches a similar analysis of the clothing system, using these two examples to also draw out what can be argued to be the wider tendencies of corporate systems of provision when they are entering areas dominated by fragmented, 'traditional' non-corporate systems of provision. While the focus of this study remains on retail, this model of analysis allows for seeing connections between a number of factors. It also allows for a larger understanding of how and why corporate systems of provision are problematic, hopefully opening directions for thought on what can be done in response.

CONTENTS

Introduction

Among the economic policy debates that have attracted a great deal of attention recently is foreign direct investment in the retail sector. Members of Parliament raise questions; the press carries detailed reports on debates with the Left parties; and practically the entire English media, with a few exceptions, has run editorials supporting an opening of the sector. Meanwhile, not a day passes without a newspaper headline proclaiming even more expansion by India's own retail mega-companies.

This level of interest is not surprising, given the importance of the retail sector to people's lives. Trade, particularly retail, employs more people than any other sector except agriculture. The sector is huge and diverse, ranging from air-conditioned malls to hand carts and head loaders. Further, if one were to believe the headlines, it is expanding extremely rapidly, particularly in the form of corporate or 'organised' retail.

But the importance of retail extends beyond these economic facts. Retail is the one sector of the economy that every person – with the exception of isolated indigenous communities – encounters in their daily lives. It is, conceptually, the site in the economy where commodities cease being items of exchange and become items of use. As such, major changes in the retail sector will by definition affect the manner in which people buy, sell or use commodities – and thereby directly or indirectly impact patterns of production and consumption throughout the economy.

This Study

This study takes this fact as its most basic premise. In much of the debate in the press and in policy circles, the approach has been to treat retail as if it were 'just another sector' – as if one were, for instance, debating liberalisation of FDI norms in the steel or paper industries. But retail is neither an industry nor a sector in this traditional sense. To fully analyse retail, we have to examine both the commodity chain that precedes the final sale of a commodity and the existing exchange and supply systems that provide that commodity.

To do this for retail in its entirety – covering retail of all commodities – would be an encyclopedic enterprise, requiring us to look at commodity chains of all kinds and consumption patterns of all types (see Chapter 2). This study therefore focuses on food retail, while attempting to draw wider lessons as well. Food retail comprises at least 63 per cent of retail trade in the country[1], and almost

1 Guruswam *et al.*, 2005.

all commentaries on retail policy are in fact concerned solely or primarily with food retail. This makes it an ideal area of analysis.

The study is organised as follows. The remainder of this introduction describes the current state of retail in this country and the legal provisions regarding FDI. Chapter 1 presents the case for FDI in retail, as it is laid out by its proponents. From these arguments, it is clear that the question of FDI in retail cannot be separated from the larger issue of the expansion of 'organised retail' (or, more accurately, corporate retail, as discussed below). It concludes by identifying certain obvious inconsistencies and contradictions in these arguments, which in turn relate to deeper conceptual flaws that require a wider theoretical framework to resolve. Chapter 2 attempts to provide this framework by using the "system of provision"2 perspective, whereby consumption, production and supply are sought to be understood as part of a holistic integrated framework. The chapter argues that, in this framework, corporate retailers are not retailers alone; they are the face of a different system of food provision. The chapter then sketches the premises and implications of what this perspective will mean, both in theoretical and in policy terms.

Part II of the study examines the operation of such corporate food systems in other developing countries at three levels: agricultural production (Chapter 3), processing and supply (Chapter 4), and retail and consumption (Chapter 5). These international experiences, with some variations, demonstrate certain basic features of corporate food systems. Part III places these features of corporate food systems in the Indian social, economic and political context, in order to provide an estimation of the likely impacts of a rapid expansion of corporate food systems in India. This part is also divided into chapters on production (Chapter 6), intermediate steps (Chapter 7) and retail (Chapter 8).

Part IV then attempts to generalise this perspective in order to draw wider lessons. Chapter 9 provides an example by outlining a similar analysis of clothing, the other area of major interest for foreign investors. Using this analysis and the previous analysis of the corporate food system as an example, Chapter 10 identifies what can be described as tendencies of retail-led corporate systems of provision in general. This chapter also discusses three wider impacts – on urban spaces, the environment and unemployment – that corporate systems of provision are likely to have in general.

Finally, the Conclusion attempts to list some recommendations that can address the dangers of the current situation, in addition to stating the most fundamental conclusion of this study: ***FDI should not be permitted in retail.***

2 Fine and Leoplod 1993.

The State of the Retail Sector in India

How does one define what "retail" is? A number of definitions have been proposed [3], but for our purposes the most convenient definition may be the simplest: retail trade is the sale of products to consumers for personal, non-business and non-productive use.

Within this broad category, a number of types can be distinguished, either on the basis of the commodity sold or on the basis of the type of seller. The latter is generally divided into "unorganised" retailers – a catch all term for retail outlets typically run by their owners, lacking formal accounting practices and generally lacking formal supply chains and procurement [4] – and the other being what are sometimes called "organised" retailers. Approximately 98 per cent of retail traders in India belong to the former category [5]. Estimates of the total number of shops vary from 11 million[6] to 15 million[7], of which only about 4 per cent are larger than 500 sq ft.[8] Such a large number of small shops gives India the highest shop density in the world[9], and retail trade constituted 27 per cent of non-agricultural enterprises and 45.8 per cent of all own account enterprises[10]. Many outlets overlap in the sectors they cover, accessing different and generally informal supply chains. Of the various sectors, only some consumer goods have centrally controlled distribution systems, which are run by the large FMCG (fast moving consumer goods) companies such as Hindustan Lever and Procter & Gamble[11]. Otherwise, supply tends to also rely on the unorganised sector wholesalers and traders, even in sectors such as apparel and footwear. The supply chains for food and clothing are described in more detail later in this study.

It is difficult to obtain overall economic statistics for retail, given the lack of formal accounts and the fact that most outlets fall outside the tax net. Hence, estimates of the size and contribution of the retail sector vary widely. Official figures indicate that trade of all kinds contributes approximately 14 per cent of

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3 See, Mukherjee and Patel 2005 for a discussion on definitions.
4 This definition drawn from Mukherjee and Patel 2005.
5 Sarma 2005. This figure is drawn on the basis of official statistics which may not conform precisely to the definition provided here.
6 Guruswamy *et al.*, 2005
7 Sarma 2005.
8 Guruswamy *et al.*, 2005.
9 *Ibid.*
10 Joint note from the Left parties to the United Progressive Alliance Government, October 24, 2005, citing the Fourth Economic Census.
11 Mukherjee and Patel 2005.

GDP[12], making it the largest non-agricultural sector of the economy. Some estimate that retail on its own contributes 10 per cent of GDP[13], while FICCI reportedly estimated that retail contributed up to 44 per cent of GDP[14]. Similarly, quoted estimates for employment in retail vary widely, ranging from 21 million[15] to approximately 40 million[16]. The differences may arise from different definitions of "retail" activity as well as the lack of official data. But there is no doubt that the retail sector is a huge part of the economy and an enormous source of employment. The sector is growing, with an estimated overall growth rate ranging between 8 per cent[17] and 11 per cent[18].

Corporate Retail

The last decade has seen rapid structural change in the retail sector, particularly the growth of what is now known variously as "organised retail", "modern trade" or "corporate retail." The last term will be used here, as it captures the conceptual distinction more accurately (there is nothing particularly non-modern about the existing retail system, and it includes many entities who are certainly "organised" in the literal sense). Like retail itself, this term has many definitions, but broadly it refers to large companies who generally operate multiple stores, have centralised procurement and accounting systems and engage in store "branding."

As yet corporate retail constitutes only 2 - 3 per cent [19] of retail operations in the country, but it is growing extremely rapidly, with an annual growth rate of 32 per cent being a typical estimate [20]. Large corporates such as Reliance, the Tatas and the Birlas have entered or are about to enter the retail sector, and existing Indian retail chains such as FoodWorld, Subhiksha and Pantaloons are expanding. Shopping malls in particular have seen explosive growth over the last few years, with estimates saying that there will be 600 in India by 2009 – from a total of 20 in 2004 [21]. International consultancies have declared India to be the world's second most attractive destination for retail investment (after Russia) [22]. In 2001 – 2002, the size of the organised retail sector was estimated

12 Guruswamy *et al.*, 2005.
13 Sarma 2005, Mukherjee and Patel 2005.
14 Guruswamy *et al.*, 2005.
15 The Hindu Business Line 2005.
16 Iyengar 2004.
17 RNCOS 2007.
18 Sasi 2004.
19 Price Waterhouse Coopers 2005-2006.
20 RNCOS 2007.
21 Adiga 2004.
22 Mukherjee and Patel 2005.

to be Rs. 16,000 crores, and – according to a 2003 study – was expected to cross Rs. 37,000 crores this year [23]; however, even here estimates vary, with one stating that the sector was already at Rs. 15,000 crores in 1999 and would cross Rs. 35,000 crores in 2005 [24].

Such rapid expansion is not unusual by international standards, and in fact this rate of growth is relatively slower than that in most developing countries [25]. Till date, none of the large companies has managed to establish a nationwide presence. The number of outlets remains relatively small; in 2005, 385 businesses operated supermarkets across the country, but most had only one outlet [26]. Penetration of corporate retail is also geographically imbalanced. In 2003, the top 10 cities accounted for 96 per cent of corporate retail outlets [27], and the presence of corporate retailers is much higher in the south. The cities of Chennai and Hyderabad have seen the largest penetration of corporate retail. In 2005, 20 per cent of consumers in both cities purchased more than 40 per cent of their groceries from corporate retail outlets [28].

There are many reasons for the slower penetration of corporate retail in India, including high real estate prices, taxation regimes and regulatory differences. But the reason most consistently identified for the 'failure' of corporate retail is the lack of capital and, hence, the bar on FDI in retail [29].

Existing FDI Regulations and Entry of Foreign Investors

Till 1997, there was no overall bar on FDI in retail trade, which was allowed with approval from the Foreign Investment Promotion Board (FIPB)[30]. In that year, curbs were imposed on FDI in retail because of increasing fears of displacement of small shops and the fact that far too many proposals for trade were being received. Thereafter, FDI in trade and retail was only allowed in the following forms:

- *Franchising:* Franchising is the practice of locating an Indian partner who builds and operates the actual retail outlet, while paying a franchise fee to the multinational. The franchisee then has rights to use the retail brand of

23 Mukherjee and Patel 2005.
24 Guruswamy *et al.*, 2005.
25 Reardon *et al.*, 2003.
26 Mukherjee and Patel 2005.
27 *Ibid.*
28 *Ibid.*
29 See, for instance, Mukherjee and Patel 2005, or PwC 2005.
30 Iyengar 2004.

the multinational and receives technical, financial and logistics support from the latter. The franchise route has been a favourite for foreign investors, particularly major clothing companies, such as Lacoste and Adidas, and fast food chains such as McDonald's, Pizza Hut and Domino's [31]. FDI in franchising is permitted with permission from the RBI, which often imposes conditions requiring the setting up of operational bases in the country (but no conditions are mandated by policy)[32]. High franchise fees and high real estate costs have combined to ensure that franchise outlets typically only cater to upper income groups [33].

- Exports and Export-Related Imports: 100 per cent FDI is permitted via FIPB permission, subject to some conditions [34].
- Test Marketing of Products: Test marketing of items for which the company has manufacturing approval is allowed with FIPB approval, subject to the condition that the manufacturing factories must be set up within two years.
- *Wholesale Cash and Carry:* "Cash and carry" is a form of wholesale trading that resembles supermarket retailing, except that purchases are made in bulk rather than as retail sales. The phrase "cash and carry" refers to the fact that the customer pays on the spot and transports the goods themselves, as opposed to the more credit-based traditional wholesalers who often deliver to their customers. One hundred per cent FDI in this form of trading is allowed with permission from the FIPB. Two multinationals – the German company Metro Cash and Carry GmBH and the South African corporate Shoprite Checkers – have obtained approval for setting up such outlets, and Metro has begun operations.
- *Other Forms of Trading Subject to Conditions:* FDI in trading is also permitted in sales and after sales service for high technology items, domestic trading of production of joint venture companies, some social sector items, medical and diagnostic equipment, and production by smallscale sector industries (manufactured with technology provided by the foreign investor)[35]. Sales mainly meant for companies of the same group are also permitted.

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31 Mukherjee and Patel 2005, Malviya and Karup 2006.
32 Mukherjee and Patel 2005.
33 Mukherjee and Patel 2005. For instance, as Mukherjee and Patel point out, Marks and Spencers' products in India are more expensive than they are in the UK.
34 *Ibid.*
35 PwC 2005-2006, Mukherjee and Patel 2005.

- *Non-Store Trading:* Direct selling is permitted with up to 100 per cent FDI, though companies are required to make investment commitments and source their products domestically. Two of the world's largest direct selling companies – Amway and Oriflame – are operating in India. Ecommerce is allowed with 100 per cent FDI provided that trading is restricted to business to business trading (i.e not consumer retail), and companies that are listed businesses in any country must list themselves in India and divest 26 per cent of their equity to Indian investors within two years [36].

- *Companies Granted Authorisation Prior to 1997:* Only two foreign investors, Nanz and Dairy Farm International, were granted authorisation to enter retail trading before the bar being imposed in 1997 [37]. Nanz subsequently closed down its Indian outlets owing to high real estate prices and inadequate business[38]. Dairy Farm International entered into a 49 per cent - 51 per cent joint venture with the RPG Group, an Indian company, to create the FoodWorld chain, one of India's largest corporate retailers.

- Single Brand Retail Stores: In January 2006, the government allowed 51 per cent FDI investment in single brand retail outlets. The products must be of a single brand, the same as that under which they were sold internationally, and should be branded during manufacturing; permission is granted via the Department of Industrial Policy and Promotion and the FIPB [39]. Reebok and Louis Vitton were among the multinationals mentioned as having obtained approvals through this route [40].

The bar on FDI in retail notwithstanding, these entry points have ensured that foreign investors already have a de facto presence in retail. While this presence remains very small compared to retail as a whole, in some sectors, particularly fast food, it is both significant and highly visible. Such penetration has often occurred through misuse of entry points, given the relative laxity with which regulations are enforced. Franchising itself is difficult to regulate, since there is no way of knowing the real ownership of a franchise outlet and in any case de facto control rests with the foreign investor [41]. Other routes have seen explicit manipulation of regulations. For instance, three major companies that entered through the "test marketing" route – Amway, Oriflame and Nokia – obtained

36 PwC 2005-2006.
37 Iyengar 2004.
38 Mukherjee and Patel 2005.
39 Department of Industrial Policy and Promotion, Ministry of Commerce. "Guidelines for FDI in Retail Trade of 'Single Brand' Products", Press Note 3 (2006 Series), No. 5(3)/2005-FC.
40 *Business Line* 2006.
41 Dubey 2006.

extensions on the mandatory two-year limit before setting up their required manufacturing facilities in India. Nokia, in particular, entered India in the mid-1990s, but set up manufacturing in the country only very recently [42].

Similarly, Metro Cash and Carry GmBH, the first foreign investor to directly enter into food trading, has faced serious allegations of regulatory violations. The company is reported to have been selling directly to customers, given that it has been issuing loyalty cards to groups – such as doctors' associations, IT company employees' associations and other professional associations – which are clearly not retailer bodies or businesses [43]. Similarly, unit sales rather than bulk selling has also taken place, as has sale of products which are clearly unrelated to the business of the supposed purchaser [44]. The company is reported to have admitted that "around 2 per cent" of its sales are probably retail sales, since it has no idea of where its products are going[45].

In sum, the regulatory environment in India at present on FDI is ambiguous and does allow multiple entry points for foreign investors. Recent openings for investment in wholesale cash and carry operations and for single brand outlets have increased the confusion. Indeed, both critics and supporters generally see these moves as a step-by-step approach to opening retail as a whole to FDI.

42 Mukherjee and Patel 2005.
43 Iyengar 2004.
44 Iyengar 2004.
45 Mukherjee and Patel 2005.

PART I

PERSPECTIVES

Chapter 1

The Case for Foreign Direct Investment in Retail

The issue of FDI in retail has attracted a great deal of controversy in recent years. Supporters for the opening of the retail sector have been very vocal, counting among their ranks industrial bodies, senior government officials, economic think tanks, financial consultants, the financial press and, of course, foreign investors themselves.

Most of those who support FDI in retail base their position on a few standard arguments, which this chapter seeks to outline. These arguments can be broadly divided into two categories: those that are in fact about the advantages of corporate retail generally, for whose expansion foreign capital is seen as a key requirement, and those that are specifically about direct benefits from FDI itself. Let us consider the former set of arguments first.

"FDI will Provide Capital for Expansion of Corporate Retail"

The first set of arguments are based on the premise that FDI is needed if corporate retail in general is to expand. Proponents of this argument claim that existing corporate retailers in India simply lack the capital to grow [46]. A more nuanced version points out that success in corporate retail, particularly large store format such as supermarkets and hypermarkets, depends on the ability to set up stores in new cities and on the sale of a wide range of products. The latter in turn needs investment in restructuring the supply chain and in economies of scale. In the absence of sufficient capital, the inability to do either of these things traps corporate retailers in a vicious cycle of small numbers of outlets, lack of supply and small market share [47].

International experience appears to bear out the link between corporate retail and FDI. Regarding food retail, in a cross country regression analysis covering developing nations, Traill (2006) finds that, more than income, urbanisation and female labour force participation, it is openness to FDI that is most strongly correlated with penetration of supermarkets. In a review of Chinese supermarkets, Hu *et al.*, (2004) argue that the "most crucial factor" in supermarket penetration has been the "progressive relaxation" of FDI regulations.

46 See, for instance, Chauhan 2006.
47 See Mukherjee and Patel 2005 for this argument.

In this sense, the entry of FDI does seem to lead to much more rapid expansion of corporate retail. But this, of course, forces us to ask: is corporate retail itself desirable? If so, why?

Advantages of Corporate Retail: "Consumers will Benefit"

The first and broadest argument in favour of corporate retail is the perceived benefits to consumers. As one article on corporate retail put it, "Consumers will clearly win.... they will flock to the air-conditioned havens in droves, attracted by the convenience of one-stop shopping, a wide range of products to choose from and significantly lower prices."[48]

The argument is generally made in relation to the retail of food, which is then implicitly or explicitly generalised to retail across all sectors. The claimed benefits to consumers include:

Lower Costs

Since corporate retailers practise economies of scale and the "elimination of middlemen" in supply chains, they are said to face lower costs and therefore will provide lower prices [49]. The most commonly cited examples for this claim are the chains in industrial countries, such as Wal Mart, whose expansion is claimed to have reduced inflation in the US. Competition between corporate retailers in these countries is often argued to be on the basis of price. Examples from developing countries tend to be rarer, presumably because corporate food retailers are not in fact cheaper in most developing nations [50]. Meanwhile, in the context of high inflation in basic commodities, recent newspaper editorials in India have begun arguing that corporate retail is a key step towards stabilising prices.

A more specific argument sometimes made is that the Maximum Retail Price specified on packaged goods has resulted in consumers paying higher rates than necessary, since an informal cartelisation among small retailers has resulted in the MRP becoming the price to be charged in all circumstances. This leads to the MRP displacing the market determined price and to superprofits for manufacturers, at the expense of both retailers and consumers. Since corporate retailers are not bound by such understandings, they are likely to reduce prices and break the stranglehold of the MRP [51].

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48 INRNews 2006.
49 See, for instance, PwC 2005, Chauhan 2006, Das 2006 and Mukherjee and Patel 2005.
50 See, for instance, Shepard 2005 (for Thailand), Cadilhon *et al.*, 2006 (for Vietnam), Hu *et al.*, 2004 (for China) and other studies. Also see the discussion in Chapter 5.
51 See Mukherjee and Patel 2005 for a detailed statement of this argument.

More Choice

By investing in branded products, food processing, "in store" brands and other forms of product diversification, corporate retail will increase the choice available to consumers. Consumers will no longer be bound by a limited range of products in "sellers' markets". They will be able to discriminate between products and choose those that best suit their needs. The dominance of a few manufacturers over packaged goods and FMCG items, including packaged food, will be broken as retailers force manufacturers to compete with each other and with store brands [52].

Higher and More Consistent Quality

The integration of the supply chain that will be promoted by corporate retailers, together with centralised control over procurement, competitive requirements and the increasing demand of consumers for consistency, will lead to much better quality of final products [53]. Corporate retailers will impose quality standards on producers and 'force' them to produce better products for the benefit of consumers [54]. The higher investment in processing, and the spread of packaged and branded goods, will have the same effect. Consumers will find that the quality of corporate retail is much more reliable than that of small and unorganised retailers.

Convenience, Hygiene, and Overall "Shopping Experience"

Corporate retail leads to greater ease of shopping at one place for multiple products. Indeed, one of the most commonly cited arguments for the attraction of corporate retail is that the increasing participation of women in the workforce leads to a higher opportunity cost for both cooking and food shopping, which are dominated by women in patriarchal societies [55]. The ability to buy many different types of food, and to buy processed foods such as cut vegetables and packaged mixes, thus becomes an attraction of supermarkets.

Moreover, it is claimed that corporate retailers will simply be much pleasanter places to shop – "air-conditioned havens", as in the quote above. Corporate retailers will invest in large store formats with attractive advertising, well-designed shelf space and a diversity of products, all intended to ensure that the

52 Mukherjee and Patel 2005.
53 See, for instance, Rajwade 2005.
54 Mukherjee and Patel 2005.
55 See Fine and Leopold 1993, Reardon *et al.*, 2003 for examples of this argument in developed and developing countries respectively.

consumer spends the maximum amount of time within the shop. This will lead to a 'revolution' in shopping experiences, particularly given the Indian consumer's ostensibly rising need for such conveniences and luxuries.

The advantages to consumers are often taken to have both supply and demand side implications: that is, that the government should encourage corporate retail for the sake of these benefits, and the existing 'boom' in corporate retail is the result of consumer demand for these advantages. This demand is in turn frequently linked to "increasing disposable income", increasing labour force participation of women, and rising "consumer consciousness"[56]. Hence the normative argument that the bar on FDI in retail is preventing consumers from getting what they want, as well as preventing the spread of these benefits to those 'consumers' who have still to be exposed to them. Indeed, Mukherjee and Patel (2005) go as far as to argue that the ban on FDI is the result of the lack of organisation and money among "consumer groups", as compared to the supposedly well-financed and well-organised traders' associations.

Advantages of corporate Retail: "Agriculture will Grow and Farmers will Gain"

After consumers, the next most cited beneficiaries of corporate retail are "farmers", repeating the tendency to equate food retail with all retail. This argument relies on the changes that corporate retail will bring about in the agricultural procurement and supply system, discussed in Part IV. The points most often cited by corporate retail advocates are the following:

- *Very high wastage:* The lack of cold chain and transport infrastructure results in enormous losses, around 20 – 40 per cent for perishable commodities[57].
- *Low prices for producers:* As a result of the number of intermediaries in the supply chain, the price for produce in India paid to the farmer is often only 20 per cent of the final consumer price, as compared to a claimed 70 per cent in developed nations [58]. In particular, the state-operated *mandis* mandated by the Agricultural Produce Marketing Committee Acts of most States are criticised for being non-transparent, corrupt and imposing low prices on producers and high prices on retailers.

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56 PwC 2005 and PwC 2005-2006 are good examples of these claims, which run through the whole literature on FDI in retail.
57 Rajwade 2005.
58 Chauhan 2006.

- *Farmers' lack of access to consumers:* The long supply chain prevents producers from being aware of consumer demand [59].
- *Farmers' lack of access to technical knowledge, capital investment and extension services:* Producers have no access to technical inputs or capital investment and are forced to continue practising small-scale, traditional and unproductive agriculture [60].
- *Fragmented and unviable land holdings:* The small average farm holding in India and the fragmentation of land render many farms unviable and incapable of generating profits. In the absence of crop diversification, additional inputs and an organised procurement system, these farmers will be condemned to poverty [61].

The presence of corporate retail is argued to help with all these problems. Driven by their higher quality standards, as well as the need for lowering costs of supply through elimination of intermediaries and economies of scale, corporate retailers soon bypass the traditional procurement and supply system. The corporates' new procurement chain is built around high investment in logistics and transport infrastructure, including cold chains, to improve efficiency, impose quality control and cut wastage. At the producer level, corporate retailers tend to rely on contract farming.

This new supply chain, with fewer intermediaries, better infrastructure, and the provision of finance, technical inputs and stable prices through contract farming, are held to provide enormous benefits to farmers. It is argued that the price for farmers will increase, given the overall improvement in the efficiency of the supply chain, and the productivity of agriculture will also rise [62].

As a side note, similar advantages are held to apply to other sectors. Small-scale industries and small manufacturers are often compared to small farmers and the agricultural sector in terms of lack of access to consumers and to technological inputs [63]. The pressure on corporate retailers to counter large manufacturers, and to develop new brands and products, is claimed to lead to small producers being cultivated by retailers against the existing dominant producers [64].

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59 PwC 2005.
60 Mukherjee and Patel 2005.
61 PwC 2005.
62 Mukherjee and Patel 2005, PwC 2005.
63 PwC 2005.
64 Mukherjee and Patel 2005.

Effects of Corporate Retail on Employment and on Oher Retailers

Regarding commonly expressed fears of the impact of corporate retail on other retailers and on existing wholesalers, which will in turn impact employment, supporters argue that corporate retail will have none of these deleterious effects. The most common response is that there will be minimal displacement of existing retailers – stereotyped as "mom and pop stores" – given their " processes and skills in retaining their customers, thanks to unparalleled proximity, convenience and services offered", or their "fixed / loyal clientele"[65]. Various statistics are cited, including from China, the US and elsewhere, to demonstrate that the entry of multinationals has not led to severe decline [66]. A common refrain is that the expansion of the retail market due to corporate retail will create opportunities for all; there is 'enough space for everybody' in India's retail market[67].

Therefore, there will be no negative impact on employment at this level. There may be some losses at the level of intermediaries and wholesalers, but such persons would be absorbed in the expansion of manufacturing, processing and packaging industries [68], and in any case "wiping out factors that breed inefficiencies is unavoidable and inevitable."[69] Indeed, corporate retailers will create employment, due both to their own needs and to the general 'expansion of the retail market'; estimates range from 2 million to 8 million new jobs[70]. As Virmani (2004) observes, "Over time the productivity gains would generate much more income and employment opportunities, even for these intermediaries, by stimulating agricultural growth and consumer demand...if the economy is growing, the food and retail sectors would be growing and there may be little or no short run income losses." Chauhan (2006) goes as far as to state that corporate retail can produce "job led economic growth."

A further point often raised is that corporate retailers invest in considerable training and skill development of employees, as well as providing employment to educated youth[71].

65 PwC 2005, Mukherjee and Patel 2005.
66 Mukherjee and Patel 2005, PwC 2005 and Chauhan 2006.
67 PwC 2005.
68 Mukherjee and Patel 2005.
69 PwC 2005.
70 Chauhan 2006, PwC 2005.
71 Mukherjee and Patel 2005.

FDI-specific Advantages

In addition to FDI's contribution to the expansion of general corporate retail, there are a number of other contributions that are expected from it. The first is the standard argument of technical know-how and best management practices, frequently advanced by proponents of FDI in any sector. In the case of corporate retail, logistics and procurement management are cited as areas where foreign investors would bring in techniques and knowledge.

The other major advantage from FDI would be the linkage between the expansion of foreign corporate retailers in the country and the sourcing of Indian goods for international markets. Foreign retailers already source from India; for instance, Wal-Mart procured $1.2 billion worth of goods in 2004, mostly home furnishings and garments [72]. Sourcing would increase manifold if the retailer has a procurement system within the country, but sourcing for international markets alone would not justify the investment in such a system. Access to the global procurement, distribution and sale mechanisms of multinational retailers would in turn greatly expand markets for Indian producers, particularly from the small-scale sector who would otherwise lack such export markets [73]. Hence, opening retail to FDI would also result in greater exports from the country and benefits to many Indian producers.

Finally, some argue that the lack of regulatory clarity on FDI in retail has already allowed multinationals to enter Indian retail through the 'back door', so to speak, particularly through franchising, test marketing and wholesale cash and carry operations. In this context, an explicit bar on FDI in retail is both unjustifiable (since FDI penetration is occurring anyway) and counterproductive, since it discourages investors who are concerned about nontransparency. Therefore, a case is made out that the full opening of retail to FDI would be a better step [74].

Critique: A Conceptual Failure

This package of arguments – benefits to consumers, producers and farmers and claims of a 'virtuous cycle' – are presented, with slight variations, by practically all supporters of FDI in retail.

Even in the absence of alternative data and arguments, it is relatively easy to locate serious flaws within this whole case. The most glaring is the fact that is

72 PwC 2005, Dey 2006.
73 PwC 2005.
74 Mukherjee and Patel 2005.

internally contradictory. Thus, on the one hand, the entire argument for corporate retail rests on the belief that this will transform retail by providing excellent services for consumers, and in turn the rise in market share of corporate retail will transform supply chains as farmers, processors and traders rise to the challenge. On the other, it is claimed that the impact on existing retailers will be minimal – because of their loyal clientele, special services and convenience – and that therefore there will be hardly any negative impact. Thus PriceWaterHouse Coopers (2005) estimates that only 1,00,000 out of an existing 15 million retail outlets will be affected by corporate retailers. But if corporate retailers have such small effects, they will transform neither consumer experience nor supply chains; in which case, how will they have such tremendous consequences? In other words, corporate retail will simultaneously have an enormous impact and hardly any impact at all.

The only way this contradiction can be even partially resolved is if the retail market as a whole expands so rapidly as to provide sufficient consumption for both sets of retailers to coexist. All supporters of corporate retail claim that it will, but this is hardly a claim to be accepted on faith alone. Indeed, in the case of food retail – the largest retail segment and the one drawing the most corporate interest[75]– it is well known that food consumption is, beyond certain income levels, increasingly inelastic with respect to incomes. Thus, even if economic growth and rising productivity lead to income growth, that will have steadily decreasing impacts on the size of the food retail market, an overall trend that the expansion of processed foods can at most mitigate. In such a situation, expecting the market to expand enormously simply because of corporate retail is a matter of fantasy.

The empirical data often cited to support this argument suffers from equally serious flaws. China, the case most often quoted to buttress claims of lack of negative impacts [76], is entirely incomparable to India. In the two decades after the revolution, China's Communist government had ensured almost all retail trade in cities was taken over by public enterprises.

This was only liberalised in the 1980s, as a result of which private trade of any kind – including small independent shops – composed only 20 per cent of all retail trade at the time when supermarket expansion began [77]. In contrast, large state-owned enterprises controlled 41.3 per cent of the trade [78]. In such a context,

75 Mukherjee and Patel 2005.
76 See, for instance, Mukherjee and Patel 2005, PwC 2005.
77 Hu *et al.*, 2004.
78 *Ibid.*

the entry of FDI will naturally have a very different impact. Chapter 5 discusses other empirical data on this issue.

But the difficulties with these arguments are not limited to these inconsistencies, for their conceptual foundation itself is inadequate. The arguments are built around certain terms – particularly "farmer", "middleman", "mom and pop store", and, of course, "consumer" - that are used as if they refer to homogeneous categories with common interests; moreover, the definition of what those interests are shifts with the argument.

Let's take "consumers", for instance. By definition, every person is a "consumer", and hence corporate retail advocates frequently claim the mantle of speaking for the 'majority.' But when speaking of these consumers, there tends to be a slippage towards referring to rising 'brand consciousness', shopping as a "leisure-time entertainment" and even about how "lifestyle in India is shifting from austerity to complete self-indulgence".[79] In this context, "consumer" clearly refers only to the urban, upper income segments of the population. Similarly, after making an argument for how "consumers" as a whole will benefit from corporate retail, Mukherjee and Patel (2005) in passing refer to observations by foreign retailers that only the top 10 per cent of the population would probably be able to afford their services. Thus, the interests of 'consumers' are reduced to those of the upper income groups.

These caveats apply to the concepts of "farmers", "middlemen" and "mom and pop stores" – in all cases generalisations based on a combination of broad, sweeping assertions and largely anecdotal evidence that in fact concerns only a small subset of the group. This lack of conceptual clarity imperils the entire argument.

In this context, it is apparent that if one wishes to more accurately evaluate the context and impacts of FDI and corporate retail in India, neither these arguments nor a critique of them alone will be sufficient. A stronger theoretical framework is necessary, one that allows us to explore exactly what corporate retail is – and therefore what impact FDI would have.

79 See, for instance, Mukherjee and Patel 2005, Chauhan 2006, INRNews 2006 and PwC 2005-2006.

Chapter 2

Who is a Corporate Food Retailer?

The most basic concept in this debate is that of a corporate retailer. This provides us with a beginning for an analysis, for we must ask: who is a corporate retailer?

The simplest answer is the standard definition, discussed in the Introduction: a retailer is an entity engaged in trading commodities to consumers for final consumption. In short, the last entity in the chain of commodity exchange, where a commodity leaves the sphere of exchange and enters the sphere of use. A corporate retailer is then an entity that engages in this economic activity in a more formalised manner, with formal accounts and an organised system of procurement.

But at closer examination this definition, while adequate in terms of distinguishing corporate retail from non-corporate retail, hardly captures the full nature of corporate retail as a *socio-economic* phenomenon. Take corporate retail in food, the focus area of this study. As discussed in the last chapter, the four properties generally cited as characteristic of corporate food retail are:

- lower prices
- wider range of products
- higher and more consistent quality
- convenience and time saving

These four characteristics are taken to be typical of any corporate food retail outlet.

Yet of these four, only the last, and to a small extent the first, are in fact aspects of the act of retailing itself. The others are not properties conferred by the action of retailing – they are aspects of the goods being sold. They are determined as much by earlier steps in the supply chain. To put it in more conceptual terms, they are determined at least in part by the process of *production,* not solely by that of *exchange.*

In other words, if a corporate retailer's only economic function is a different type of retail alone, they would not have most of the impacts commonly attributed to them – and in fact would not be recognisable as a 'corporate' retailer in the common sense notion of the term. Hence the fact that both supporters and critics of corporate retail consistently cite the supply chain for retail outlets as a fundamental aspect of corporate retail. If we wish to conceptually describe a corporate retailer, we cannot in fact speak of the retailer alone. We need to have a larger conceptual framework that allows us to combine elements of production, exchange and consumption.

The "Systems of Provision" Approach

Such a framework is available, though it emerges from a different theoretical context. Responding to the surfeit of theories concerned with consumption and the "consumer society" – predominantly in the context of industrial societies – Fine and Leopold (1993) argued, in their seminal work *The World of Consumption,* that "horizontal" approaches seeking to generalise across commodities and histories are inadequate to understand either consumption or the movement of commodities. In particular, approaches based on "consumer sovereignty" – corresponding to the stereotyping of "consumer demand" in the literature on FDI in retail – are entirely inadequate, given that they construct consumers without considering any of the social, political, class and historical factors that shape consumption and its determinants. Equally, however, Fine and Leopold argue that one cannot assume that producer capital determines all else, as is sometimes argued in theories regarding the power of advertising and marketing systems.

Rather, consumer demand and attitudes, production processes and supply and distribution systems are all linked to each other in a dialectical fashion. What actually occurs is a complex interaction between factors of 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".[80]

This understanding has several theoretical advantages. On the one hand, it does not restrict one to considering any one phase in the journey of a commodity – production, distribution or sale – as primary. It recognises that the three are all linked. Thus, in an important consequence for the analysis here, it also recognises that significant changes in a system of provision will have effects and interactions at all levels, and that these effects cannot be considered by giving primacy to one or the other step in the system alone.

Lest this all seem excessively abstract, let us return to the question of corporate food retail. The perspective being advanced here is that we cannot understand corporate retail as retail. Rather, it is the retail face of a new *corporate system of food provision* – a corporate food system, for short.

80 Fine 2002.

The Corporate and Existing Food Systems

If this perspective is correct, this is not merely a change of terminology. It constitutes a crucial change of emphasis. For no longer can supermarkets and their strategies, for good or for bad, be seen in isolation. Instead, the entire existing food system and the new food system must be examined together to understand the processes that are taking place.

This perspective will emerge more clearly if one attempts a sketch of how such an argument would proceed. In the existing food system, food production, distribution and retail in India is 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.

Together these social and state structures govern who can access and earn a livelihood from various aspects of the system of provision. For instance, access to a *mandi* needs legal permission, but access to retailing certain foods – beef, for instance, or meat in general – is regulated equally strongly by community norms. Urban retail is also controlled by complex social institutions, including informal 'territories' marked out based on various divisions. Formal groups such as trade associations overlap and frequently intersect with informal caste, community and geographically defined groupings. Gender divisions play a role in all parts of the chain, with different roles allocated for women and men. The lack of formal banking institutions means access to credit is shaped very much by informal criteria of 'creditworthiness' such as kinship relations and caste, while the price of money is generally very high [81]. The generally present 'shadow state' of bribery, extortion and harassment forms a further layer on these institutional structures [82].

Finally, consumption of food is also governed by religious, caste and class injunctions, shaped in part by the institutions that provide the food – and thereby 'label' it with certain social characteristics. Food consumption also takes place through entirely non-market mechanisms, most of all through the dependence of marginal farmers on consumption of their own produce.

81 Vaidyanathan 2003.

82 Harriss-White (2004) explores how together these institutions function as "social structures of accumulation" that control how capital is accumulated in the Indian economy, or, in this case, in the provision of food.

This complexity of regulatory institutions is what leads many advocates of corporate retail to argue that the system is "inefficient" in terms of allocation of resources. This is concretised in an attack in particular on the *mandis* and wholesale traders, seen as the most powerful actors in this chain (echoing earlier eras of development literature, which similarly targeted 'parasitic middlemen'). This is true, if by power one means merely direct control over prices. But price and market mechanisms are only one aspect of this complex system of regulation, and power does not rest solely with the traders – it is distributed throughout the system at various points.

Historically, certain developments in the last decade have begun to change the context within which this system of food provision operates. First, liberalisation has eased access to credit for big business and lifted many of the restrictions on agricultural operations. Second, urban planning regulations have eased access to real estate and consolidation of holdings. Third, the general shift of the state in favour of big business has meant an end to the enforcement, or existence, of a whole set of regulations intended to restrict and control the growth of private capital. Fourth, the explosion in car purchases and the growth of urban high income groups has created a segment of society with access to transport and refrigerators. Fifth, technological developments have made centralised procurement chains possible.

Together, all these developments have created a new opportunity. For large concentrations of capital – such as mega corporations – is now possible to displace the existing systems of regulation entirely and directly take control of practically the entire system of provision. This 'control' is exercised first by appropriating and 'industrialising' agricultural production, of which contract farming is the best example; second, a displacement of the trading system and its replacement with arms of the capital concerned; and, finally, corporate food retail. Together, these changes ensure that the production and exchange system as a whole is transformed, producing the results that are now seen as characteristic of corporate retail. This provides tremendous accumulation opportunities for the capital concerned and triggers off a process of larger change. Such a corporate takeover of a system of provision does not require that a single company or a single business owns every aspect of the system of provision. What is required is that control over the system is centralised in a concentration of capital – one or a few companies – and that the decisions over production, distribution and sale are shaped by the dominance of that capital and its interaction with the other actors of the system.

Within such an argument, the key aspect of analysis would be describing and analysing the operation of the corporate food system in its individual stages and as a larger pattern of consumption and production. It is within this overall transformation that individual aspects such as the competitive imperatives of retailers, contracting systems and production choices will be seen in this study.

However, it should be noted that while this contextualises the retail operation, it does not diminish its importance. Access to retail operations is a major component of any such takeover of the system of provision, as it is only through control over retail that there can be full control over commodity prices – and hence over accumulation in the chain. Hence the fact that system transformations frequently seem to 'begin' from the retail end.

Some Differences with Mainstream Perspectives

Some points of difference between this perspective and mainstream analyses of corporate retail should be noted. First, the de-emphasis on retail as the main factor implies that the figure of the "consumer", consumer demand and competition between retailers are no longer seen to be the sole driving forces of change. Indeed, as discussed in Chapters 5 and 8, this analysis allows us to discuss how some aspects of "consumers" and their "demand" are constructed through its relationship to a system of provision, not as an independent factor that drives that system. In turn, this means further that the "market", the neutral arbiter assumed by most proponents of corporate retail, also has a very different place in this analysis. Indeed, as we shall see, corporate retail is if anything less governed by the "market" than existing systems.

Third, most of the debate around corporate retail, particularly the arguments of proponents, centres around notions of higher "quality" and "efficiency" in corporate retail. These are treated as if they are neutral and obvious concepts. But it is important to remember the obvious: "quality" and "efficiency" are subjective concepts, created and defined by the social and political environment and the class standpoint of the viewer. For instance, larger, uniformly coloured fruits are frequently regarded as 'higher quality' in a corporate retail outlet, but they may not be of higher "quality" for those who eat them. Why this should be the case is a point that will be returned to at the end of Chapter 5. Similarly, "efficiency" may be increased for a corporate by the use of artificial substances– but this may hardly be "efficient" from a health point of view, or may even be contrary to health, as in the infamous example of corporate promotion of infant formula over breastfeeding. Indeed, as a further layer of complexity on this, a changing system of food provision can alter quality perceptions throughout the chain, to the point where customers themselves begin to believe that bigger, redder apples are in fact "better."

This is not to say that there are not some changes, such as improvements in hygiene and sanitation, whose value appears less problematic. It is to say that this perspective cannot allow us to treat such concepts in a simplistic fashion, but to understand that they too are contingent on the wider situation.

PART II

EXPERIENCES OF CORPORATE FOOD SYSTEMS

The previous chapter sought to sketch the perspective of a corporate food system, but to fully understand it we would need to consider such systems in operation. Fortunately, there is no dearth of examples. As advocates of corporate retail often point out, India is in fact a latecomer when it comes to corporate food systems as compared to most developing countries. This part of the study therefore outlines some of the economic aspects of corporate food systems in the context of developing countries, which – in the midst of very wide variation – share a number of trends.

If we measure the spread of corporate food systems by the penetration of supermarkets, three waves have occurred over the past three decades. The first wave occurred in Latin America in the early 1990s and the second in the South East Asian nations about five years later, followed by the third in the Eastern European and African nations almost immediately afterwards. South Asia is perhaps the only large part of the world that has not experienced major expansion of supermarkets in the last decade. It should be noted that this does not mean older systems of food provision were immediately wiped out in these nations; rather, the advent of the corporate food systems has created a dual system of provision in most countries, which also brings about transformations in both systems and the creation of new tensions and contradictions. As a result, the situation is also very far from static, and very rapid changes are occurring in most of these economies.

Chapter 3

Agricultural Production and Corporate Food Systems

One might assume that control over a system of provision – or "efficient", "high quality" production – should mean direct cultivation by agribusiness, but it is in fact relatively rare for corporates to engage in agricultural cultivation. Among developing nations, this model can be found to a small extent in China[83] and elsewhere, with farming typically by contract labour.

Instead, corporate food systems have had a far more complex and multifaceted relationship with agriculture, centred around the system of "contract farming". This has in many ways become the archetypal model of corporate food production. Contract farming refers to "a system for the production and supply of agricultural or horticultural products under forward contracts between producers/suppliers and buyers. The essence of such an arrangement is the commitment of the cultivator to provide an agricultural commodity of a certain type, at a time and a price, and in the quantity required by a known and committed buyer".[84] As well, in most cases the contracting corporation provides inputs, technical knowledge and various other forms of support to the producer, whose main responsibility is the provision of land and labour.

In most countries with increasing supermarket penetration, contract farming has become the basis of their supply chains. Studies from countries as diverse as Vietnam[85], China[86], Argentina[87], Chile[88], Brazil[89], South Africa[90] and India itself indicate the preference of corporates for contract farming. In all cases, the patterns of the contracts are remarkably similar. Among these shared characteristics are guaranteed purchases in exchange for meeting quality standards, exclusive contracts that prevent sale to other entities, and the frequent use of verbal and unrecorded contracts[91]. But why should such contracts be so popular?

83 See Hu *et al.*, 2004 for an example.
84 Chandrasekhar and Ghosh 2003.
85 Cadilhon *et al.*, 2006
86 Hu *et al.*, 2004.
87 Gutman 2002 and Chezan *et al.*, 2002
88 Faigenbaum *et al.*, 2002.
89 Farina 2002.
90 Oxfam 2004.
91 Oxfam 2004.

Contract Farming and Agricultural Producers

Contract farming is often argued to present advantages for producers. Guaranteed purchase ensures more stable prices and reduces the risk of open market sale[92]. Access to technical knowledge and physical inputs such as fertilisers are also greatly increased, and farmers benefit from extension programmes and better technology. Finally, contracts provide farmers with a way of knowing which crops are in demand and adjust their cropping patterns accordingly. On the basis of such arguments, contract farming has frequently been upheld as a model for agricultural reform – and as a major advantage of corporate retail in itself.

However, this fails to recognise that contract farming has certain inbuilt structural characteristics that, in sum, have negative aspects for all farmers and differential impacts on farmers depending on their size.

The first such characteristic is the *transfer of power over production decisions to the corporate purchaser.* The most important mechanism for such transfer is the imposition of private quality standards. This is a step that at first glance hardly seems surprising nor objectionable; the creation of quality standards is a part of any formal procurement chain (including, for instance, government procurement for the PDS in India). Yet quality standards have distinct impacts. First, in order to produce maximum amounts at the required quality standard, the producer frequently has to make additional investments. Second, the imposition of stringent quality standards results in rejection of produce, a risk that was largely unknown in existing wholesale markets in many developing countries. Indeed, non-purchase on quality grounds is the single most often cited complaint of producers against contract farming, and in many ways it significantly diminishes any gain from secure and stable prices[93]. Third, stringent quality standards result in intervention at other stages of the production cycle as well, including the supply of fertiliser inputs, seeds, and insistence on particular production methods as part of the contract[94].

Linked to quality standards are demands for "flexible" production, driven by corporates who wish to avoid keeping inventory or storing supplies. "Flexibility" can mean both changes in the amount or quantity of crop demanded, or in the type of crop the farmer should sow. The latter also often requires farmers to

92 Cadilhon *et al.*, 2006.

93 See, for instance, Faigenbaum *et al.*, 2002, Chezan *et al.*, 2002, Fritschel 2003, Shepard 2005, Boselie *et al.*, 2004, Cadilhon *et al.*, 2006 and Oxfam 2004 for other parts of the world, and Chandrasekhar and Ghosh 2003 for India.

94 See, Chezan *et al.*, 2002 and Hu *et al.*, 2004 for examples.

invest in new and sometimes risky crops, with the risk of failure being borne by them[95]. Similarly, companies may require delivery at a certain time of day or month, and often require supply year round, which may be difficult for farmers[96]. Over time companies tend also to steadily increase what they demand from producers, including higher quality standards and additional demands for preliminary processing (such as cutting or packing)[97].

A second structure is the increase in capital and input intensity of agriculture. There are a number of reasons that contract farming, excepting in niche circumstances such as organic farming, tends to rely on higher levels of fertilisers, pesticides, water and mechanisation. Inputs lead to a shorter production time and reduce various natural risks such as pest attacks. They also make production easier to 'fine tune' based on changing corporate standards. The higher levels of inputs also correspond to a shift in cropping patterns under contract farming towards fresh fruits, vegetables and cash crops such as cut flowers. The latter sectors of production offer higher margins on final sale and are seen as 'advantageous' for various reasons (see discussion at the end of Chapter 5)[98], but correspond to higher levels of inputs and water needs as well. This rise in inputs and water extraction, however, has increasing environmental and ecological consequences, which are of little concern to the contracting corporate given that there are large numbers of cultivators and it is not bound to a particular patch of land. The incentives to reduce or match inputs to the needs of land preservation, soil conservation and future fertility are non-existent[99].

The third structure of contract farming is the delays in payment to producers, a near universal practice that is observed in all locations. Contract purchasers do not pay at the time of purchase; they frequently pay after a delay of one or more months. This delay in payments is frequently crucial to the corporate's economic calculations. For instance, as one South African report put it, "[The delay in payments] has been claimed was the critical breakthrough in constructing the supermarket industry in South Africa as this means that supermarketers 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."[100] In Argentina, "the speed of capital rotation (payment period to suppliers and

95 Shepard 2005.
96 Shepard 2005.
97 Cadilhon *et al.*, 2006, Boselie *et al.*, 2004.
98 Oxfam 2004.
99 Sharma 2004.
100 NALEDI 2001.

turnover of products) [is] a central strategic variable in supermarket operations in Argentina, and a key source of profits and cash flow to finance investments in new stores and the upgrading of existing stores. The store's goal is the rapid sale of large product volumes, with the consumer paying immediately in cash but payment to the supplier being delayed as long as possible, and as large a reduction as possible in the days stocks are held."[101] Indeed, during the hyperinflation period in Argentina in the early 1980s, corporates made super-profits by selling their produce as quickly as possible but paying the producers late – by which time the payment had greatly diminished in value, effectively constituting a subsidy to the corporate by the producer[102].

The net result of these changes – the transfer of production decisions to the corporate purchaser, the use of more capital intensive agriculture and the corporate control over finance – is to place the producer in the position of steadily lessening control, while bearing increasing risk. The risk of production failure is transferred to the producer through the quality standards mechanism, the risk of land or soil damage is transferred by the nature of contracts themselves, and the risk of demand fluctuations and economic crisis is transferred through the delay in payments (and other mechanisms of credit and finance).

These structures are complemented by others – such as making interlocking agreements with producers that involve finance, inputs, purchase and seeds – and by more straightforward abuses of power. The latter includes retrospectively imposing the costs of discounts, product promotions and other unrelated costs on producers[103]. 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."[104] Direct defaults on the contract also occur where the corporate simply refuses to purchase the produce despite the contract, sometimes justified by the excuse of quality standards[105].

This twin dynamic of loss of control, along with transfer of risk, essentially transforms the economic structure at work. From autonomous producers, growers and farmers now are placed in an economic position that resembles that of "home workers" or artisans in other sectors of the economy – those

101 Gutman 2002.
102 *Ibid.*
103 Gutman 2002.
104 Oxfam 2004.
105 Oxfam 2004.

who technically own their means of production, but function increasingly as disguised wage labour. This relationship with agriculture is a defining feature of corporate food systems.

As a side note, this aspect of corporate food production – the transformation in the position of the producer – is precisely the flip side of the oft-cited consistent quality and demand responsiveness of corporate food systems. Increasing quality, flexibility and 'product range' is not just a function of increased investment; it is also a function of the ability to offload risks, which would otherwise make such activities economically unviable.

Differentiated Impacts on Different Classes of Farmers

This naturally is not devoid of benefits for some producers. But to understand this, one must first recognise that there are structural differences in the manner in which different classes among agricultural producers interact with the market. For schematic purposes, the division introduced by Byres (2003) is useful. His first category is large capitalist farmers who use free wage labour and mechanisation, reinvest in agriculture and are able to retain the surplus from marketing. These are those most likely to benefit from integration with contract farming. Where sufficient capital is available, these farmers are able to reap some of the benefits of higher prices. Studies from Argentina found that contract farming worked well for potato producers in the 250 hectare to 400 hectare range[106]; among Brazil's dairy producers, the top 5.3 per cent were able to invest in the technology necessary for supplying corporate dairy outlets[107]. For these farmers as well, contract farming is far from free of risk, but the difficulties tend to be of the nature of locating the money for investment and in transforming their production practices.

Byres' next categories are "rich" and "middle" level farmers, who are smaller than the capitalist farmers but are still net hirers of labour and cultivate primarily for sale. For such farmers, dealing with contract farming can be far more difficult. The investment in meeting production requirements is a serious problem, and the need to maintain consistent high quality levels requires labour intensity and infrastructure which may be impossible for such farmers[108]. Yet interest levels among such farmers are often high initially, since the prospect of what appear to be high prices and guaranteed purchases is very attractive. It is

106 Chezan *et al.*, 2002.
107 Farina 2002.
108 Shepard 2005; see Farina 2002, Chezan *et al.*, 2002, Gutman 2002, Cadilhon *et al.*, 2006, etc. for examples.

because of this combination that one finds that corporate food procurement frequently begins with a large number of suppliers, but reduces this number very rapidly as many producers are weeded out. In Malaysia, the Giant chain began with 200 suppliers but was down to 30 within two years[109], while in Brazil, from 1997 - 2000 the number of dairy producers supplying the top 12 companies fell by 35 per cent (with an increase of 55 per cent in the size of the average supplier)[110]. In China, while the number of suppliers for the SanLu chain increased from 1999 - 2004, the average size of the holding doubled[111].

For those among such farmers who are unable to enter contract farming, the consequences vary depending on the production sector. Those producing fresh foods and vegetables are often able to retain access to traditional wholesale procurement systems, as these sectors are not totally controlled by corporates (see discussion in Chapter 5). For these producers, however, the diminished offtake of traditional wholesalers can result in saturation of the market and falling prices (as occurred for potato and horticultural production in Argentina[112]). Yet for those who produce dairy products, the corporate takeover of the processing sector can result in the total exclusion of these producers from the market, driving them out of agriculture entirely. Thus in Brazil, one 2002 study predicted that the "The next census in 2005 will tell the full story of the decline in the small dairy farm sector."[113] In Argentina, as a consequence of corporatisation and economic crisis, the number of dairy farms in the country fell from 40,000 in 1983 – around the time when corporate transformation of the supply chain began – to 15,000 in 2001[114]. It should be noted that in both these cases, corporate retailers were part of the cause of these transformations, but corporate takeover of processing and other segments of the food systems also played a role.

The third group of farmers are the marginal farmers, who form a significant proportion of producers in many developing countries (and who are the majority in India). These farmers engage in a qualitatively different relationship with the market, and indeed with capitalist production, than the other classes of farmers. Such cultivators' production is generally meant for domestic consumption, with only surplus left over after domestic consumption sold on the market[115]. Such producers also tend to be under debt burdens and participate

109 Shepard 2005.
110 Farina 2002.
111 Hu *et al.*, 2004.
112 Chezan *et al.*, 2002.
113 Farina 2002.
114 Gutman 2002.
115 Boselie *et al.*, 2003.

in the market out of social and material compulsion, in order to access cash and needed commodities such as foods other than those that they grow, health care, basic amenities and so on.

For such producers, contract farming represents not an opportunity for closer integration with the market but a displacement from the market as it exists. For such producers to enter contract farming requires not only adequate capital and technical investment – it requires a change in their mode of production into one dependent on and vulnerable to the risks of the open market. Even assuming that the capital and technical support is provided, itself an impossibility in the absence of concerted public assistance, the ability to bear the concentrated risks of contract farming would likely be beyond the ability of such cultivators.

In turn, as the corporate food system expands and the market space available for traditional procurement system reduces – particularly in food grains, which tend to be the main crop of most such marginal farmers – the market access of such producers itself is likely to reduce. This will further imperil their already precarious livelihoods, driving them further into direct wage labour (such as migrating during the non-agricultural season) or into loss of their lands entirely.

It is an unfortunate aspect of most international studies on corporate food procurement that limited data is available on the impact on this class of farmers, most likely because detailed data on such producers is itself rare. But it is this overall pattern of differentiated impacts that leads most policy studies to find that 'small' producers (by which is often meant all except the large capitalist farmers) find it very difficult to survive in contract farming[116]. As Boselie *et al.*, (2003) observe, "Small producers in developing countries are often most isolated and are the smallest and least powerful participants in the chain." This leads to recommendations for public support for credit, upgradation of production, and policing of contracts, or for formation of cooperatives to reduce the bargaining disadvantages with corporates and to distribute risks[117]. Such prescriptions can mitigate to some extent the dangers of contract farming, but they are unlikely to fully address it, for these dangers are not incidental but central to the functioning of the system as a whole. Indeed, they are central to the very process of structural transformation that contract farming represents.

116 See Gutman 2002 / Chezan *et al.*, 2002 for Argentina; Farina 2002 for Brazil; Faiguenbaum *et al.*, 2002 for Chile; Hu *et al.*, 2004 for China; Cadilhon *et al.*, 2006 for Vietnam; Oxfam 2004 for Africa; and Shepard 2005 for Asia in general.

117 See, for instance, Cadilhon *et al.*, 2006, Shepard 2005, Hu *et al.*, 2004.

Agricultural Labour

A final aspect of this is to note the impacts on the poorest and most vulnerable section of agricultural society – landless agricultural workers. This part of the population is completely ignored by the advocates of FDI in retail and has generally been less discussed in the debate as a whole.

There are a number of effects on agricultural labour that can be traced from the corporate food system. First, labour intensity may increase as the cropping area devoted to labour intensive crops such as fruits and vegetables rises. But this does not necessarily mean greater employment, as the rise in the area devoted to such crops is limited by constraints on demand (demand for such crops is not unlimited), while the labour displacing effects caused by the de facto proletarianisation of marginal and middle level producers may well be larger.

For those who do gain work as part of the corporate production chain, the conditions of work tend to be extremely intense. 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 more intense work, and repression of worker rights. It may be objected that this is nothing unusual in agricultural labour, where – in India in particular – contracts are informal or non-existent in all cases and legal rights for workers are generally a fantasy. But the development of corporate food production also has an impact on such abuses. The increased pressure on producers to produce greater quantities, to meet high production quality standards and to engage in "flexible" production – all the while having less and less control over production itself – implies that the best, and often the only, option for cost reduction is greater exploitation of workers[118].

A second feature of work in corporate food production is the increasing participation of women in the labour force, which both the Oxfam study and Indian reports have noted[119]. Corporate food production relies on women and migrant labour for most of its workforce. This reflects its nature, where what is important is not only the ability to repress wages but the ability to discipline a workforce into the demands of "flexible" production. Where production requirements are subject to change, where workers may

118 Oxfam 2004.
119 See Chandrasekhar and Ghosh 2003.

find their conditions of work altered frequently and sudden, large demands for work are made, there are inherent advantages to a workforce that lacks the social sanction and power to resist.

In this sense there are strong parallels between corporate food production and 'globalised' forms of work in other areas, such as home production, sub-contracting, outsourcing and export production, where the general trend is towards casualisation and feminisation of labour[120]. Hence these parallels also reflect the growing absorption of agricultural labour into the patterns of industrial activity – breaking 'traditional' labour market segmentations such as gender, but also introducing new ones.

Understanding Corporate Agricultural Production

Indeed, this change in labour offers us a clue as to how one can conceptualise the larger transformation of agricultural production occurring in a corporate food system. On the one hand, the above class breakdown of impacts makes it clear that this can fittingly be called a process of proletarianisation, with a few large producers intensifying their profits and accumulation while smaller producers are forced into steadily increasing loss of control over their lands (eventually to be reduced to wage labour).

But there is a twist on this process. Writers have frequently argued that industry and agriculture have fundamentally different structures of production, in particular regarding time cycles[121]. Agricultural time cycles are dictated mostly by natural rhythms, and the ability to increase accumulation by speeding up of production through either higher productivity or extended working hours – relative and absolute surplus value – is constrained by these natural requirements. A response to this on the part of industrial and big capital is to attempt to change agricultural processes towards increasing degrees of 'pseudo industrialisation' – a process of "appropriationism", to use the term advanced by Goodman and Redclift[122]. Thus cultivation is increasingly mechanised, the use of breeding and genetic engineering attempted to reduce the vulnerability of crops to weather patterns and natural threats, and high-input cultivation increased so as to 'free' agriculture from natural soil patterns.

120 See Seguino 2000 on Asian export production and Gopalakrishnan 2007 on production in export processing zones.
121 Fine and Leopold 1993.
122 As cited in Fine and Leopold 1993 and Fine 1996, which also discuss this argument.

If we for a moment adopt this conceptual perspective, we can understand corporate food systems as a step in this process of appropriation. The corporate food system attempts to bring as much as possible of the supply chain under the direct control of capital, while avoiding the constraints of agricultural production. Hence the tendency to avoid direct production by the corporates. Contract farming offers a compromise between the ideal of detachment from agriculture and the reality that Indian food production requires dependence on agricultural cycles. Whether this is ideal for other sections of society is, of course, a very different question.

Chapter 4

Supply, Distribution and Processing

The next stages in the system of provision of food are those of procurement, supply, distribution and processing – the intermediate steps between production and retail. It is important to distinguish between two different functions that are played by actors in this chain; the first is supply and distribution, without substantial alteration of the product, and the other is processing, packaging, etc. which are part of the production process. The two spheres are interlinked and in many cases inseparable, but it is useful to distinguish between them for analytical purposes.

In terms of supply, in existing food systems such activities are conceptually separated from agricultural production; they are the activities where profit is sought based either on processing activities or on access to the infrastructure of trading. Control over space, transport and finance are the main avenues of accumulation, or basic livelihood.

The purpose of supply systems under corporate food systems is very different. Since a key aspect of corporate food production is the transfer of decision-making 'upwards' to the corporate and risk 'downwards' to the producer, the supply and distribution chain has to be reoriented to ensure that these transfers occur as efficiently as possible. It is this that is reflected in the concern for quality, product consistency and reduced response times from the supply chains for corporate retailers. Hence it is not surprising that "procurement officers ... usually find that they have to construct procurement systems parallel to and outside of the traditional wholesale systems because the latter cannot meet their objectives, and/or because they want to cut out the cost represented by the wholesaler's margin".[123]

Centralised Procurement

Once corporate food systems have reached a certain minimum size, a switch typically occurs away from purchase from existing wholesalers and to a centralised procurement system[124]. This usually means a single or few purchasing hubs for a supermarket chain, which receive the produce, allocate it to retail outlets and handle major packaging and processing tasks. As the

123 Reardon *et al.*, 2003.
124 Reardon *et al.*, 2003, Boselie *et al.*, 2003.

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[125]. Centralised procurement is accompanied by the development of logistics technology which increasingly allows for decisions at the corporate headquarters about purchase, pricing, routing and processing of food items. In South Africa, for instance, two major retail and supply chains use complex computer software to continuously map flows of stock, demand patterns and prices; in one chain all decisions are made at the national headquarters[126].

Centralised procurement has a number of advantages from the point of view of corporate retail. First, it reduces wastage and allows for more direct control over supply decisions (and thus indirectly over production). For perishable items this serves the crucial purpose of minimising the amount of stock in inventory, transferring the risk of demand fluctuations to the producer[127]. In the case of less perishable goods such as grains, or, in the case of non-food items, clothing, it allows for the opposite activity as well – holding of stock for speculative purposes or to await known periods of high demand[128]. Together these innovations allow for the corporate food system to control commodity flows for maximum profit, which in practice can affect overall flows of commodities in the economy when the corporate food system is sufficiently large.

The Emergence of the Specialised Wholesaler

A second change is visible in the composition and operation of wholesalers. Traditional wholesalers tend over time to be replaced in procurement with what are described as "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[129]. For instance, between 2000 and 2003, the reliance of two Chinese chains on specialised wholesalers rose from 25 per cent to 75 per cent of their procurement[130]; while in Thailand, each of the hypermarket chains in Manila relies on just one accredited wholesaler of fruits and vegetables[131].

These wholesalers serve multiple purposes. They "enforce" supermarket quality standards, acting as intermediaries in the control of production by the

125 Hu *et al.*, 2004.
126 NALEDI 2001.
127 Reardon *et al.*, 2003, Gutman 2002.
128 NALEDI 2001.
129 Reardon *et al.*, 2003, Shepard 2005.
130 Hu *et al.*, 2004.
131 Shepard 2005.

corporate[132]. They provide needed processing and packaging services to the corporate. They often initiate contract farming arrangements and "outgrower" schemes[133]. "Dedicated" wholesalers sell all their produce to a single corporate, in the process adjusting their functioning to that corporate's needs – including to the extent of producing new foods and new products. Thus the Bimandiri dedicated wholesaler in Indonesia, linked to the Carrefour corporate retail chain, has developed very specific types of watermelon, broccoli and chillies for Carrefour sales[134].

The net impact of these processes is the gradual integration of retail and wholesale functions, driven by the power of the corporate (who usually enters as a retailer, but may also enter directly as a wholesaler). The processes become so interdependent that over time the category of a "wholesaler" is gradually eliminated. Thus a study of the situation in South Africa, a country with a much older corporate food system than most of the developing world, states that "The notion that wholesalers are a distinct category in the commodity chain is one that has been superseded since the 1980s."[135] In several countries retailers and wholesalers undertake joint ventures or undergo corporate mergers[136], though the exact dynamics vary from country to country[137].

Thus, these dedicated and specialised wholesalers are an intermediate step in a process of supply integration by corporates that de facto – formal company distinctions notwithstanding – reduces the entire procurement chain to the control of a single enterprise. This is not unexpected, given that such integration is essential to achieving the production transformations that are central to corporate food systems.

Processing and "Branding"

The next steps in food production relates to food processing. The degree of processing required by different foods, and the type and nature of this processing, lead to different patterns of economic activity across this sector. In some sections, particularly those traditionally regarded as "processed foods" -

132 Reardon *et al.*, 2003.
133 See Shepard 2005 for general Asian examples, Hu *et al.*, 2004 for examples from China, and Boselie *et al.*, 2003 for examples from other parts of the world.
134 Shepard 2005, and see Hu *et al.*, 2004 for examples from China.
135 NALEDI 2001.
136 Shepard 2005.
137 In South Africa, for instance, formally de-mergers have occurred due to management imperatives (NALEDI 2001).

such as biscuits, snack foods, etc. - large formal corporations already dominate this activity[138].

Corporate food systems have multiple impacts on processing, with the general trend being to intensify requirements of processing. This occurs for a number of reasons. First, inherent to the corporate system is an ever-increasing need for flexibility in the amount of time food can be stored, leading to higher levels of focus on "preservation, preparation and packaging".[139] For instance, dairy sectors in Latin America saw considerably higher levels of investment in packaging and preservatives[140], including the addition of chemicals. The creation of additives for food preservation and the advance of other, similar technologies, such as irradiation, are part of the same process, aimed at making the final corporate sale as disconnected from natural cycles as possible. It is often argued that this is one of the advantages of corporate food systems – the higher investment in technology leads to higher levels of sanitation, lower adulteration and less spread of disease. This is true at one level, at least with respect to infectious diseases. But at another, since this development is driven not by concern for consumer safety but by the needs of a corporate food system, it can also have reverse effects. The use of large quantities of preservatives, for instance, is hardly conducive to better health and can arguably be as dangerous as more crude contamination with toxic substances. Yet this is a feature of supermarket systems and corporate food retail worldwide. As Fine and Leopold (1993) observe, the use of additives and the adulteration of food are not inherently different concepts – the latter term is usually applied to smaller actors and the former to corporates, but both are aimed at reducing costs, increasing preservability and, frequently, deceiving consumers. What defines their distinction is only the shifting terrain of law.

But corporate retail also introduces other factors than processing and logistics requirements. In contrast to existing food systems, where competition between retailers, wholesalers and producers was based essentially on access to clientele and – to an extent – service provision, in corporate food retail new economic forces come into play. The food market has a certain inherent size limitation, given the inelasticity of food consumption with respect to income. Profit making therefore requires increasing differentiation of products and the creation of new products, in order to capture more consumption choices within a single corporate's production[141]. This is what leads to the "wider choice" that is so

138 The FMCG majors in India, for instance, or dairy processors in Argentina (Gutman 2002).
139 Fine and Leopold 1993.
140 Gutman 2002, Farina 2002.
141 Fine and Leopold 1993.

often cited as a key advantage of corporate retail, but there is once again no reason that this "wider choice" will in fact be a meaningful choice[142].

The creation of such new products, however, relies more heavily on processing, as actual agricultural production under corporate food systems in fact tends to narrow the number of crops produced – for reasons of standardisation and application of input technologies[143]. One good example of this process is the introduction of pre-cut vegetables a processed food in corporate retail outlets[144], which combines the need of some corporate retail customers for timesaving with the ability to present a product that allows for great variation and that is, moreover, often not provided by existing food systems.

This need for product diversification also, naturally, involves a rise in the importance of branding. In corporate food systems, branding – and its accompaniment at the retail level, advertising – become greatly more important. The creation of a brand requires access to the retail market, advertising and control over processing, all features that corporate food systems possess in abundance. It is a result of this combination that corporate food systems produce a new kind of brand, the so-called "in store" or "own brand", linking the branding of the product with what is arguably a branding of the corporate itself[145].

This latter development also results in a change in the relationship between processors and retail. In much of the literature this is understood as a shift in power in favour of retailers[146], but in fact this "shift" is neither conceptually clear nor anything new – for instance, existing non-corporate retailers often bargain for lower prices and promotional schemes, when competition between processors is high[147]. What is occurring can more accurately be described as competition between different types of corporates, one of whom is limited to food manufacture and processing, and the other of which is attempting the creation of a corporate food system as a whole.

Thus, whereas branded processed foods tend to be dominated by a small number of big companies in existing food systems, the rise of corporate food systems often leads to competition from the "in store"products. These are typically cheaper, and given their preferential access to retail space, they pose a challenge

142 Dey 2006.
143 Fine and Leopold 1993.
144 Ghezan *et al.*, 2002.
145 Fine 1996.
146 See, for instance, *The Economist* 2003, or Ducatel and Blomley 1990. See Fine and Leopold 1993 for a critique of this point of view.
147 See, for instance, Rajgopal 1999 on soaps.

to the existing branded products. This may result in a reduction of the power of existing branded firms. Processors will even sometimes be required to produce store brands in addition to their own when supplying corporate retailers[148].

Impacts on Existing Intermediate Actors

These trends together have several consequences for existing food systems:

- *Displacement of existing wholesalers and traders:* The rise of centralised procurement as well as 'specialised' and 'dedicated' wholesalers, often as arms of corporate retailers, has a direct impact on existing wholesalers, who find their economic role beginning to vanish. Most such traders are unable to meet the requirements of corporate food systems, though some with sufficient capital and size are able to transform themselves[149]. Thus, a survey in Chile found that the increasing growth of corporate retailers and their supply systems had led to "massive displacement of small traders."[150] In Argentina, the proportion of fruit sales that occurred in the country's largest wholesale market fell by half between the mid-1980s and the 1990s. In China, there was a negative correlation between traditional wholesalers and the spread of supermarket chains[151]. The entry of corporate wholesalers, such as Metro, further contributes to this trend[152].

Traders in the fresh fruits and vegetables sector, however, have been experiencing this trend at a relatively much slower pace in most of the developing world. The reasons for this are discussed in the next section under retail.

Similarly,

- *Consolidation* and *concentration among processors:* The technological intensification that accompanies corporate food systems is often entirely out of the range of smaller, unorganised sector processors. In the dairy industry, for instance, experiences in both Argentina and Brazil show increased concentration among dairy processing units as small firms and cooperatives disappeared[153]. In Chile, smaller meat slaughterhouses were driven out of business by increased imports through corporate retailers and

148 Gutman 2002.
149 See Shepard 2005 for some examples.
150 Faiguenbaum *et al.*, 2002.
151 Hu *et al.*, 2004.
152 Shepard 2005.
153 Farina 2002, Gutman 2002.

large wholesalers[154]. Large processing firms are often able to compete and frequently acquire smaller firms, but come under pressure with regard to their branded products. The net result is an increase in oligopsonies among processors.

- *Upgradation and technological change in processing and wholesaling:* In order both to maintain relationships with corporate retailers (as part of the corporate food system) and also to compete, there is often an intensification of technological inputs and, in wetmarkets, greater investment in sanitation, cold chain infrastructure, etc. Thus an FAO study found that there is "evidence [of upgrading] in China, Thailand, Singapore and Malaysia." In China[155] and Vietnam[156], government policy has favoured the corporate retailers and wholesalers at the expense of existing ones on the grounds that the latter are unhygienic.
- *Increasing integration with global trade:* The corporate takeover of supply and distribution also allows for increased integration of food supply with global trade, resulting both in greater access to export channels and in greater imports. The latter in particular tends to grow; for instance, corporate retailers in Chile imported around 40 per cent to 80 per cent of meat products sold, leading both directly and indirectly to problems for small butchers' shops and slaughterhouses[157].

In sum, the impact on the wholesaler, trading and processing sectors is in some ways similar to the impact on producers – increased concentration, differentiation and exclusion of smaller actors – though the dynamic of change is different.

154 Faiguenbaum *et al.*, 2002.
155 Hu *et al.*, 2004
156 Cadilhon *et al.*, 2006.
157 Faiguenbaum *et al.*, 2002.

Chapter 5

Retail and Consumption

This brings us to the step in the corporate food system that is of the greatest interest in the current controversy: corporate retail. Corporate retailers form the most visible face of the corporate food system, and in most developing countries it has been corporate retail corporations who have been leading systemic transformations. This is not surprising, for access and control over retail is the fastest method for transforming the remainder of the food system.

Formats of Corporate Retail

There are a number of different formats in which corporate food retail outlets operate. These include the following:

- *Supermarkets / Hypermarkets:* Large format supermarkets and hypermarkets are the trademark corporate retail outlet. Definitions of what constitutes a supermarket or a hypermarket, and the distinction between the two, vary from country to country, but in general they are large in area, have multiple cash registers and a wide variety of products. The variety is both among types of produce and among different brands, sizes and other types within each product. Indian examples would include FoodWorld stores or Giant supermarkets, though these are mostly much smaller than their international equivalents[158].

- *Department Stores:* Though rarely found in food outlets, food retail is sometimes mixed with retail of other products in these stores, which stock multiple brands across product categories.

- *Convenience Stores:* Smaller stores that are open for longer hours and tend to combine product ranges, such as petrol, cosmetics and a small range of processed and snack foods. The small retail outlets opened by many Indian petrol retailers are good examples.

- *Discount Stores:* Stores smaller than supermarkets, selling a limited range of food items with typically only a few brands or varieties of each food. These are sometimes called "hard discounts". Subhiksha's is an example in India.

158 Mukherjee and Patel 2005.

The almost universal identification of corporate retail with supermarkets ignores the other types of formats, particularly the latter two – convenience stores and discount stores. Corporate retail outlets are not necessarily large luxury shopping sites. They can have forms that vary very widely, and that have a far greater range of economic impacts.

Patterns of Penetration of Corporate Retail Outlets

The entry of corporate retail outlets does not always occur in the same manner. In particular, there are variations between countries that have a long tradition of large retail outlets, such as industrial nations, South Africa[159] and, for very different reasons, China[160], and those that do not, as is the case in most developing countries. There are, however, certain common patterns to the penetration of corporate retail.

While corporate retail is often stereotyped as the "shopping of the rich", this description applies at most to the initial stages of corporate retailers' entry. At these stages, when the corporate food system is not yet organised, corporate retailers have to rely purely on retail advantages – such as convenience, ambience, presentation and, last but not least, the fact that shopping in them is often a status symbol – to attract customers. These features typically attract only the rich urban population, especially given the higher prices that most corporate retail outlets charge at this stage[161]. However, soon afterwards penetration into other areas begins. As Reardon *et al.*, (2003) observe, "there has been a trend from supermarkets occupying only a small niche in capital cities serving only the rich and middle class to spread well beyond the middle class in order to penetrate deeply into the food markets of the poor. They have also spread from big cities to intermediate towns, and in some countries, already to small towns in rural areas."

Such penetration occurs on the basis of the procurement system becoming organised – or, more accurately, the corporate food system being consolidated. Once costs are lowered by this system, and using profits from the first stage, corporate retailers penetrate into other areas and other segments of society. The pattern of penetration differs depending on country circumstances. In Argentina, intense competition between corporate chains, at a time of repeated economic crises, led to rapid penetration into even the smallest towns[162]. In

159 NALEDI 2001.
160 Hu *et al.*, 2004.
161 Hu *et al.*, 2004.
162 Gutman 2002.

China, penetration of smaller towns and more remote regions has occurred more rapidly than penetration of poorer segments within existing cities[163]. South Africa presents a completely contrary example, where intense competition for a limited white customer base during the apartheid years has now resulted in corporate chains becoming risk averse to attempting penetration of other segments of society[164].

A second feature of such expansion is the diversification of formats that accompanies this social and geographical expansion. Initially, most corporate retailers begin with supermarkets. As an effort is made to diversify the customer base, discount stores and convenience stores on the one hand, and hypermarkets on the other, begin to proliferate[165]. The corporate adjusts its strategy to the consumer group being targeted and the competition.

However, this universalisation of corporate retail remains a work in progress in most developing nations. Surveys in China found that there is a correlation between education, income levels, type of employment and use of supermarkets[166]. Similar results were reported from shoppers interviewed in Chile[167]. This reflects continuing structural problems with shopping at corporate retail outlets, such as the need to have access to a car or other means of transport, and storage facilities such as refrigerators. In the absence of these, the 'advantages' of a corporate retail outlet diminish greatly. In a regression analysis across developing countries, Traill (2006) found a correlation between supermarket penetration, income growth and urbanisation. Interestingly, he also found a correlation with income inequality; supermarket penetration in countries grows in proportion with the income share of the top 20 per cent of the population.

Sectoral Patterns of Expansion

There are also sectoral patterns in the expansion of corporate food retailers. Thus, initial penetration tends to occur with "processed, dry and packaged foods such as noodles, milk products and grains."[168] In these sectors, the corporate food system can be consolidated more quickly and with less investment. In general, the first food products for corporate retailers to gain

163 Hu *et al.*, 2004.
164 NALEDI 2001.
165 Hu *et al.*, 2004.
166 Hu *et al.*, 2004.
167 Faiguenbuam *et al.*, 2002.
168 Reardon *et al.*, 2003.

market dominance are products with first stage processing, such as meats and fish, along with easy to transport commodities such as potatoes[169].

Corporate retailers face a much more difficult time, however, in entering into the fresh fruits and vegetables sector, an irony considering that this is in fact one of their main target sectors. In some cases - including economies and cultures as diverse as Vietnam[170] and Chile[171] – the corporate participation in this sector has remained completely marginal, while in all others it is lower than in other food segments. In Latin America, on average the share of corporate retailers in fresh fruits and vegetables is between 50-75 per cent of their share in food retail as a whole[172]. The reason for this, it appears, is that corporate retail outlets continue to be perceived as less fresh, less pure and less clean than existing wetmarkets and smaller retailers. The consolidation of processing and production that accompanies corporate retail is ironically a reason for many consumers to reject the final product as less natural than those which they are used to. The inability to buy daily at large supermarkets also does not fit in with the habits of many customers[173]. Price advantages also apply, with street markets and wetmarkets being cheaper than corporate retailers in these products[174].

However, this pattern is changing. Much of it is said to be the result of the lack of cold chains and infrastructure, for it is in this segment that the corporate food system as a whole takes the longest to develop[175]. As the density of corporate retailers increases, they are also increasingly able to provide daily access[176]. Anecdotally, it appears that in South Korea – a society with a more advanced corporate food system – corporate retailers enjoy a higher share of this segment[177]. In China the share is also considerably higher[178]. Even in Brazil, corporate retailers now have 50 per cent of the fresh fruits and vegetables trade[179]. Moreover, there are concerted efforts by corporate retailers to reduce consumer resistance and counter competition. To do this requires specific strategies to target existing retailers, to which we turn next.

169 *Ibid.*
170 Cadilhon *et al.*, 2006.
171 Faiguenbaum *et al.*, 2002.
172 Reardon and Berdegue 2002.
173 Reardon and Berdegue 2002.
174 Shepard 2005, Hagen 2005, Cadilhon *et al.*, 2006.
175 Shepard 2005.
176 Reardon and Berdegue 2002.
177 Hagen 2002.
178 Hu *et al.*, 2004.
179 Reardon and Berdegue 2002.

Impact on Smaller and Non-Corporate Retailers

This relative 'protection' of the fruits and vegetables sector has not diminished the overall impact of corporate retailers. Contrary to the rosy stories of advocates of corporate retail, the limited empirical data from other countries that exists is quite clear: corporate retail has had a severe impact on other retailers. Thus Gutman (2002) found that, in Argentina, 64,198 small stores closed between 1984 and 1993 – 30 per cent of the shops in the country. She estimates that of those who survived, half turned into larger format self-service stores and half survived with reduced retail. In Chile, between 1991 and 1995, the number of 'traditional' food and beverage retailers declined by approximately 20 per cent in all segments, including fresh fruits and vegetables[180]. In Brazil, the share of dairy stores in dairy sales fell by 27.8 per cent between 1986-7 and 1995-6, while the share of street markets even in fresh fruits and vegetable sales fell by 19.8 per cent[181]. In the top six countries in Latin America as a whole, supermarkets now control approximately 60 per cent of food retail[182]. In Indonesia, between 2002 and 2003, the number of "traditional grocery stores" fell by 154,148 stores – or 9 per cent in one year[183]. In the same period, Malaysia and Thailand also showed significant declines[184]. In a different context, in the US, the expansion of Wal Mart has been found to be correlated with poverty at the county level, a result that the authors ascribe to the displacement of local stores and consequent "destruction of local leadership capacity"[185].

It is clear that corporate retail does pose a threat to existing retailers. How does this occur?

Once again, contrary to the claims of advocates of corporate retail, general lower prices are not the key factor. As mentioned earlier, in the fruits and vegetables sector existing markets tend to be cheaper – a difference in price of 10 per cent has been quoted for both Thailand[186] and Vietnam[187], and data from Argentina showed a 14 per cent lower price between 1992 and 1996[188]. In other sectors prices were often much closer, but there appears to be limited consistent empirical data showing significantly lower prices. In fact, most studies

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180 Faiguenbaum *et al.*, 2002.
181 Farina 2002.
182 Reardon and Berdegue 2002.
183 ACNielsen 2004.
184 *Ibid.*
185 Goetz 2004.
186 Shepard 2005.
187 Hagen 2002.
188 Ghezan *et al.*, 2002.

consistently cite lower purchasing power as a reason why corporate retailers remain unattractive to poorer segments of the population[189]. Rather, the reduction in the market share of smaller retailers is a result of other factors, aside from the apparent attraction that corporate retail outlets have for the wealthy (discussed in the next section).

Corporates, especially multinationals, enjoy much easier access to institutional credit than smaller retailers (and particularly compared to the unorganised sector street vendors and informal retailers). This reduces their costs of expansion tremendously. Easier access to real estate and hence to urban space are also factors, in some cases as a result of government policies[190]. Indeed, as Fine (1996) notes, 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. He argues that the interest of speculative capital in corporate retail outlets remains high owing to rising property values and the high margins of food retail, which makes access to finance even easier for corporate retailers.

In a similar manner, the expansion and consolidation of corporate food systems can also reduce the access of smaller retailers to suppliers who are willing to sell the smaller quantities required. The state of transition in many developing nations is such that this problem does not feature in most studies, but it is for instance cited as a key factor in a study of small shops in Scotland[191].

Secondly, the integration, flexibility and risk transfer that are integral parts of the corporate food system – together with the sheer size of the company – buffer the corporate against fluctuations in demand, agricultural crises and other developments that hit other retailers much harder. In particular, such factors also allow the corporate to enjoy considerable price flexibility, as distinguished from lower prices in general.

Indeed, this flexibility forms a key competitive strategy for targeting the consumer base of the competition. 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 supply chain[192]. Discounts are regarded as a key attraction

189 See for instance Hu *et al.*, 2004 for China, Cadilhon *et al.*, 2006 for Vietnam, Faiguenbaum *et al.*, 2002 for Chile, Rodriguez *et al.*, 2002 for Argentina, and Farina 2002 for Brazil.
190 As in Vietnam and China.
191 Smith and Sparks 2000.
192 Oxfam 2004, Shepard 2005.

of corporate retailers in many countries, ranging from Costa Rica[193] to Thailand[194]. By reducing prices on one product, corporate retailers also attempt to draw consumers in for purchases of other products – a "loss leader" strategy that is also common in competition between corporate retailers in industrial nations[195]. In several countries, including Vietnam[196], Chile[197] and Argentina[198], the use of promotions and discounts has been reported for fresh fruits and vegetables, as part of the effort to break into this segment.

A second strategy, used for instance in several parts of Latin America, is the discount and convenience stores. Deliberately having a small range of products set at very low prices, buffered by the ability of the corporate chain to absorb very low margins (or losses) in some stores, these stores are aimed at poorer and working class neighborhoods[199]. Since they are smaller, they can be opened even in more congested or crowded areas where supermarkets would lack the space[200]. Retailers sometimes even attempt to imitate existing store patterns; one chain has attempted to imitate wetmarkets in Thailand[201], and some are attempting to attempt plaza markets in Latin America[202]. Such smaller and discount stores sometimes operate as vanguards for the corporate retail chain, aimed at first reducing existing retailers' ability to compete.

Finally, corporates can also use straightforward predatory below-cost pricing, as Wal Mart is often accused of in the US. However it is important to note that the corporate retailers' strategies may not always constitute "predatory pricing" in the legal sense of the term. Corporate retailers and their supporters often argue that they are not charging below cost; they are merely exploiting their inherent structural advantages[203]. Given the problems in deciding what "cost" is, sustaining the precise charge of predatory pricing may be difficult in such cases. But the use of strategies aimed at eliminating or reducing competition does seem quite apparent.

Where the general advantages of corporate retail outlets prove insufficient in certain sectors, broader strategies can also be adopted. Among these are

193 Alvarado and Charmel 2002.
194 Shepard 2005.
195 Fine 1996.
196 Cadilhon *et al.*, 2006.
197 Faiguenbaum *et al.*, 2002.
198 Ghezan *et al.*, 2002.
199 Rodriguez *et al.*, 2002, Gutman 2002.
200 Reardon and Berdegue 2002.
201 Shepard 2005.
202 Reardon and Berdegue 2002.
203 See, for instance, Mukherjee and Patel 2005.

advertising campaigns for promotion of products – or generally for promotion of eating fruits and vegetables, as in the case of Argentine supermarkets running publicity campaigns for five servings of vegetables a day[204]. The sheer size of corporates in control of food systems also contributes to a greater ability to directly influence political and bureaucratic systems, resulting sometimes in regulations being changed either directly for corporate benefit or the imposition of corporate food processing methods and standards as public policy.

The overall impact of corporate retailers varies with the size of the competing retailer and with the sector and nature of the food product in question. Fresh foods and vegetables have been discussed. Similarly, a study on consumer behaviour in Argentina found that the small retailers who had survived were those who occupied niche markets – such as traditional or boutique bakers. Finding these relatively safer 'niches' becomes a focus for many small retailers, who often also change their operating strategies, including by opening for 24 hours, lowering prices or changing location for convenience purposes[205]. 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 often held as an advantage of noncorporate retailers, in practice data from both Asia and Latin America show that they are increasingly unable to do so because of their own financial pressures[206]. A survey in Costa Rica found that only 17 per cent of urban customers received credit from small retailers[207].

Thus, in sum, other retailers have to either find traditional sectors that remain resistant to corporate food systems, or to occupy the entirely new spaces that corporate food systems produce. The latter include, for instance, the 'corner stores' found in industrial nations, which respond to the needs for small purchases between the 'weekly shopping trips' to the supermarket[208]. They also include the proliferation of health food stores, boutique stores, stores for 'home made' goods etc., whose *sine qua non* is precisely that they are not corporate food retailers (though they may in any case rely on the corporate food system).

These instances are often quoted to demonstrate that corporate food systems do not wipe out all other retailers, and that retailers can survive by being more responsive to 'customers' needs'. But this argument is flawed at two levels.

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204 Ghezan *et al.*, 2002.
205 Rodriguez *et al.*, 2002.
206 Shepard 2005, Faiguenbaum *et al.*, 2002.
207 Reardon and Berdegue 2002.
208 Fine and Leopold 1993.

First, it overlooks the fact that the sum of all the niches for small retailers will certainly be smaller than those that currently exist, and as such displacement will occur. Second, some of these 'needs' are in fact created by the corporate food system itself.

"Consumer Demand" and Corporate Food Systems

This last point highlights a further key difference between corporate food systems and other systems. A corporate food system results in change not only in production and supply, but also in consumption. Some of these changes are very direct and obvious, such as those created by advertising campaigns. Others are far more complex, and relate to the fact that a corporate food system is intimately concerned with precisely how one defines, consumes and judges food itself. This opens an entirely new dialectical relationship between public consciousness, public discourse and corporate positions.

Most of the literature on corporate retail in the developing world does not deal with these issues. There tends to be an assumption of static "demand side" factors such as urbanisation, higher opportunity costs for women's time, and so on, all of which feature in the Indian debate. Yet, as one commentator says, "Consumers . . . do not form their tastes and preferences in the private bliss of rationalisation and then descend upon innocent merchants to scrutinise their shelves with cold and wary eyes . . . consuming [rather] is an elaborate social game"[209].

This 'game' is even more context and country specific than the other aspects of systems of provision, and the fact that most research on consumption and consumption dynamics is in industrial nations makes it doubly difficult to make any generalisations. Rather, certain instances can be discussed briefly, which will then be of use later when considering the Indian situation.

Let us take, for instance, the question of fruits and vegetables itself. Corporate food systems have a tendency to promote both production and consumption of fruits and vegetables. This is not only in order to break into strongholds of existing retailers. These products are considered "destination categories", namely groups of products that 'draw' customers into a store[210]. Two reasons are most often cited: the fact that fruits and vegetables must be bought very frequently or on a daily basis, meaning that customers are more likely to come

209 Leiss, as cited in Crewe 2000.
210 Gregori and Cunha 2003.

to the store repeatedly; and that fruits and vegetables are visually attractive[211]. Yet a moment's thought shows that the latter is a remarkably odd requirement, for why should retailers of food – a product whose primary attractiveness is its smell, flavour and taste – become dependent on visual cues to attract customers?

One can speculate that the answer is the nature of corporate food production and supply. As discussed above, a major obstacle to penetration of fruit and vegetable markets is an impression that corporate retailers' produce is less "fresh" – an impression that is not limited to those categories, but extends to all categories sold by corporate retailers, reflecting widespread knowledge of the nature of their production systems. How, then, does one convince consumers that products are indeed "fresh"? In non-corporate retail environments, one tends to combine tests of touch, sight and smell to judge freshness. But in a corporate retail environment, with a large variety of products in a single (generally enclosed) space, odours that are too strong will interfere with other product choices (and have other cultural implications, as discussed at the end of Chapter 8). This leaves touch and sight, but touch is of course impossible till one has entered the store – a difficulty that non-corporate wetmarkets, for instance, do not have, since a customer can easily move from stall to stall.

These tendencies combine to give importance to visual appearance. Fruits and vegetables are the foods most distinctive in visual appearance, and hence their importance to marketing corporate food systems. But since their importance has nothing to do with their taste or flavour, and is in fact inimical to their odours – a key aspect of taste – a corporate food system will tend to favour fruits and vegetables of a uniform, large size, with no visually apparent blemishes, but without odour, and hence in a sense without taste. Further, there is a tendency to stock unripe produce bred to look good for a long time, in order to survive the refrigeration and lengthy transport typical of corporate food systems[212]. Both tendencies in turn have consequences for production processes and result in not only 'high' but different quality standards for farmers to meet, as seen in Chapter 3, as well as promoting genetic engineering and the heavy use of waxing, irradiation, pre-cutting and other methods of keeping fruit and vegetables visually attractive.

The result is the fact, well known to anyone who has shopped in a supermarket in industrialised countries, that both fruit and vegetables are generally "tasteless pap."[213] But this in fact means that customers are eventually less likely to buy

211 Gregori and Cunha 2003, Shepard 2005.
212 Blythman 2004.
213 *Ibid.*

them, threatening the ability of corporate retailers to stock them. In order to deal with such threats, it is on the one hand important to eliminate competition from non-corporate retailers, and on the other, to use heavy expenditure on advertising campaigns and promotions to drive up consumption of such produce as well as to promote the notion that visually attractive produce is, in fact, better produce.

This is only one side of the 'game', namely that driven by corporates, though it is illuminating in how different aspects of corporate food systems interact. The other side of the game is the response of people to such activities and the interaction of such responses with corporate imperatives in a dialectical fashion, a dynamic process that depends on cultural factors, social differences and class structures. For instance, Pioch and Schmidt (2000) argue that the position of a large corporate retailer is socially contradictory. On the one hand, such corporates have an interest in maintaining the sense of cultural dominance that legitimises the power of the wealthy. On the other, they have a competitive interest in making consumption of their products as attractive as possible, and in incorporating mass cultures 'from below'. The result is a shifting landscape where certain commodities are constructed as "mass" commodities and others as "exclusive" or artificially scarce - "routine" fruits as compared to "exotics", in the example here. These attributes may have little to do with the actual production of the commodity. In furniture, for instance, mass produced items may be advertised for their craftsmanship, while hand made furniture is advertised as "modern"[214]. To choose a more striking example, McDonald's food retail in the US is constructed as "mass" commodity retail, while in India its advertising, promotional and positioning strategies are completely different. The integration between retail and production that accompanies many large corporate systems of provision makes it easier to achieve such goals.

Treating such complex processes purely as a result of increased "consumer demand" – as many Indian analysts have a tendency to do – entirely misses the various factors that contribute to these situations. It is to underestimate the role of capital and food systems in constructing and defining who constitutes "consumers" and what precisely it is that they "demand"[215].

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214 Leslie and Reimer 1999.

215 This does not mean, as Fine and Leopold strongly argue, that this interaction is a one way manipulation of the 'public' by corporations. It is rather that, as argued above, there is a dialectical interaction between multiple factors. But one key and major factor is the nature of the system of provision itself, which is entirely ignored by advocates of corporate retail.

The Role of Retail FDI in Corporate Food Systems

We have seen in this chapter that corporate penetration of retail is a key driver of corporate food system expansion. The next question is the role of FDI in this expansion. On this factor, there is no doubt in the development or policy literature. There is unanimity that the entry of FDI was the "most crucial factor" in corporate retail growth[216], or its "main engine"[217], or the "biggest impetus to supermarket penetration"[218]. The regression analysis by Traill (2006) that located FDI as the biggest factor in corporate retail growth, discussed in Chapter 1 above, is hence hardly surprising.

This is also reflected by the fact that the degree of multinationalisation and foreign ownership in the corporate retail sector is very high, and is growing rapidly. In Latin America, foreign chains form 70 per cent to 80 per cent of the top chains in most countries[219]. In China, despite very strong competition from state-owned supermarket chains, six foreign chains together command 38 per cent of sales among the top 15 chains[220]. In Mexico, Wal Mart alone had 45.6 per cent of the retail market in 2000[221]. This multinationalisation is accompanied by rapidly growing concentration in the sector as well, with larger (typically foreign) chains acquiring smaller chains, such that over the last decade the number of corporate retailers in several countries has diminished even as their market share has risen[222]. Typically, entry into developing nation markets proceeds through joint ventures, followed by acquisitions and consolidation[223]. The much lower credit rates paid by multinationals and their easy access to capital are commonly regarded as their chief advantage over domestic corporate retailers. The combination of concentration and multinationalisation, in turn, result in de facto oligopolies in most developing countries' corporate retail sectors.

Why is there such a high interest among foreign investors in developing countries' retail sectors? Some reasons are commonly cited. Saturation in industrial nations' markets have led to reduced margins for corporate retailers in those countries. Expansion to developing countries offers much higher

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216 Hu *et al.*, 2004.
217 Reardon and Berdegue 2002.
218 Traill 2006.
219 Reardon *et al.*, 2003.
220 Hu *et al.*, 2004.
221 Chavez 2002.
222 See, for instance, Reardon *et al.*, 2003, Farina 2002, Gutman 2002, Reardon and Berdegue 2002, Hague 2005 and so on.
223 Reardon *et al.*, 2003.

margins – for instance, Carrefour earns three times higher margins in Argentina than in France[224]. The weakness of domestic competition in developing nations and the possibility of rapid expansion allow such margins to exist for long periods. These higher margins should be also be noted in the context of claims that corporate retail inherently leads to lower prices.

From a corporate food system perspective, however, this is not particularly surprising. Such reasons reflect the fact that there are very high profit margins and rents to be captured in the displacement of existing food systems by corporate food systems – a displacement that requires, above all, sufficient access to capital to overcome the barriers to creation and consolidation of the institutional structures of a corporate food system. Hence the fact that multinationalisation brings with it not only a rapid expansion of corporate food systems but an intensification of all the patterns noted here – including, for instance, growth of corporate farming[225], food processing and packaging, and the marginalisation of existing wholesalers.

Moreover, it is multinationalisation that makes the expansion of corporate food systems so rapid in developing countries, where corporate retail has been taking over market share at three or four times the pace that it did in the industrial nations[226]. Such ready access to large capital from FDI simply did not exist in industrial nations, where corporate food systems emerged from existing capitals and corporations. Of course, such rapid expansion in turn makes the political, social and economic impacts of corporate food systems all the more intense – and, as has been argued here, all the more devastating.

224 Gutman 2002.
225 See, for instance, Shepard 2005.
226 Reardon *et al.*, 2003.

PART III

LIKELY IMPACTS OF CORPORATE FOOD SYSTEMS IN INDIA

This part aims to insert the larger perspective on corporate food systems as seen in the previous chapters into the economic, political and social context of India, aiming at a tentative understanding of how the expansion of a corporate food system would interact with the existing food systems in the country. This, in turn, will be a guide to the likely impacts of FDI in retail and corporate retail – both on the food system and its participants, as well as on the larger society.

Chapter 6

Agriculture

The contours of India's existing agricultural economy are well known. The vast majority of Indian farmers are smallholders cultivating rainfed lands, with 62 per cent of the population having holdings of less than 1 hectare and 80 per cent holding less than 2 hectares[227]. There are also significant numbers of middle and rich farmers, who have larger landholdings, and a relatively small number of fully capitalist farms. As outlined in Chapter 3, there is wide variation in the relationship between these farmers and the market. Indeed some of the smallest and most marginal farmers, such as many adivasi communities, hardly sell their produce at all; farm produce is consumed for subsistence, and cash obtained by migration for work during the nonagricultural season. Thus a large proportion of agricultural farmers as well are net food buyers, not sellers. The situation also shows marked variation from state to state, with the capitalist agriculture of Punjab being structurally extremely different from the agriculture of states such as Jharkhand or Chhattisgarh.

In addition to the farmers, a significant part of the rural population are landless agricultural labourers, with livelihoods based on seasonal employment and migration. Staple and grain crops form the vast majority of agricultural production across the country. Low levels of value addition, low levels of productivity and lack of infrastructure are among the features of Indian agriculture most often noted, accompanied by low wage levels and extreme poverty.

In the wake of the liberalisation measures initiated in 1991, the agricultural economy has also been declining. Over the 1990s, growth in foodgrain output slowed to the lowest level since the mid-1950s; rice output grew at a rate less than half that of the 1980s, and the production of coarse grains declined in absolute terms[228]. The elasticity of labour absorption with respect to growth declined to nearly zero in the sector[229]. Hence, nominal growth in wages and official declines in poverty levels notwithstanding, there has been a significant worsening of living conditions. Nutritional intake among agricultural labourers and farm households declined between 1987-88 and 1999-2000[230]. Per capita

227 Singh 2005.
228 Chandasekhar and Ghosh 2000.
229 Singh 2005.
230 Singh 2005.

food intake has also fallen to its lowest levels since the 1930s[231]. There has been a steady rise in the proportion of landless households, now at 58 per cent of the rural population.

There are a number of reasons for this crisis, but three key factors that are repeatedly noted are the sharp decline in public investment, the collapse of the Public Distribution System and the liberalisation of imports and exports in agricultural products. The first has had a ripple effect on the ability of cultivators and labourers to access employment, credit and inputs, while the second has reduced access to food and together with the third made prices of both food and cash crops extremely volatile. The net result is that the current state of agriculture in India is nothing short of a crisis, particularly for marginal farmers and agricultural labourers. Small and marginal agriculture are being rendered completely unviable, and their dependents thrown into a state of increasing desperation. Even large cash crop farmers find themselves faced with an uncertain market and no access to institutional credit, which factors in turn produce waves of suicides among farmers such as the cotton cultivators of Vidarbha.

Yet, despite this state of crisis, corporate food systems have already begun growing in India. Indeed, as Mehta (2005) says, "The single most important development in the Indian economy over the last decade and a half has been the deep and irreversible penetration of the corporate sector in agriculture."

How has this growth occurred? A key aspect has been massive official support for agricultural diversification since the early 1990s. Fruits and vegetables now account for 30 per cent of agricultural GDP[232]. Government policy strongly supports such diversification as the 'solution' to stagnation in agriculture. But the chosen policy instruments for this diversification are almost all via the private sector, providing a policy framework conducive to the initiation of corporate food systems.

A number of interlinked policies have been put in place for this purpose. At the production level, the most important of these is the encouragement provided to contract farming, which has been endorsed by the National Agricultural Policy and is being strongly supported by most of the State governments. Contract farming has in many ways become the policy mantra of both government and many economists and independent analysts[233], seen almost as a magic bullet

231 Patnaik 2002.
232 Singh 2005.
233 See, for instance, Banerjee *et al.*, 2002.

for addressing the problems faced by agriculture in the era of economic reforms. Numerous State governments have announced incentives and subsidies for contract farming.

Contract Farming

But contract farming, as was discussed in the previous chapter, has significant and severe problems. The structural patterns of risk transfer and assumption of decision-making powers is repeated in India as well, along with many of the standard negative consequences.

The first contract farming initiative in India was undertaken by Pepsico in the Punjab in 1989, in order to provide tomatoes for a processing plant[234]. In the years that followed, several States have followed suit, and in many cases State governments have collaborated with corporates to set up contract farming schemes. Thus, under a 2002 scheme in Punjab, private companies have been engaging in both direct contracts with farmers and 'indirect' contracts via the Punjab Agro Foodgrains Corporation[235]. State governments such as Punjab and Andhra Pradesh explicitly see contract farming as a method of encouraging crop diversification, seen as necessary in the light of the extreme pressure on falling water tables and other environmental factors[236]. In 2003, more than 90,000 acres in Punjab were under contract farming[237], while as of last year 7 million acres were under contract farming in the country as a whole[238] . Indian corporate food retailers, including the multinationals such as McDonald's who have entered through franchises[239], represent a growing share of this interest. Bharti's agricultural arm FieldFresh, Big Bazaar and the German wholesaler Metro GmBH have all also started contract farming schemes[240].

In most such contract farming schemes, initial satisfaction among producers appeared quite high, owing to higher incomes, stable prices and profits. However, this was followed by growing disillusionment as company procurement fell because of lower market rates. Such failures were sometimes due to straightforward default on contracts – out of six crops in Punjab surveyed by Kumar (2006), companies that had engaged in 'indirect' contracts simply did not purchase any of the crop in five cases and in the sixth case purchased 1.8

234 Chandrasekhar and Ghosh 2003.
235 Kumar 2006.
236 Kumar 2006 and Dev and Rao 2005.
237 Chandrasekhar and Ghosh 2003.
238 Daftari 2006.
239 Daftari 2006.
240 Daftari 2006.

per cent of the output. Performance was much better in the 'direct' contracts, but even in such cases farmer anger was said to be rising as purchase prices are lowered post facto, ostensibly in the name of quality controls[241]. Sixty-five per cent of gherkin farmers in an Andhra Pradesh programme complained about delayed payment and found that 10-20 per cent of their products were rejected; Pepsi in Punjab has failed several times to purchase contracted produce at times when the market for their products was in a glut[242]. It was also reported that contracts in Punjab included clauses that allowed the company to refuse to purchase produce, while penalising growers who defaulted[243]. In Andhra Pradesh, corporates tended to initially have lax contract conditions to draw in farmers and then tightened the conditions over time[244].

As might be expected, there is a distinct skew in the type of producers who appear to be able to access contract farming. Thus, while Kumar (2006) seeks to argue that contract farming in Punjab is unproblematic for small farmers, he was unable to find any marginal farmers (farmers with less than 1 ha) participating in contract farming and only a "handful" of small farmers (less than 2 ha) – while 35 per cent of Punjab's farmers have small or marginal holdings[245]. The gherkin export scheme in AP appeared to be something of an exception with nearly half the participants being small and marginal farmers, but even in that case large farmers had the highest net returns and far lower variable costs[246]. Extremely high investment costs also accompanied most of these contract farming schemes; thus the Kuppam Agricultural Pilot Project (KAPP) in Andhra Pradesh, a 'model' joint project between the State government and a corporate body, was set up at a cost of roughly Rs. 5.7 lakhs per acre. This is roughly ten times the investment made by even rich farmers in the area[247].

This skew against smaller producers extended to actual displacement of cultivators in some instances of 'contract' farming. Thus in the KAPP farmers who were tilling the land were largely driven out of cultivation. The project provided contract employment to 60-70 women and 7-10 male tillers per day, while the membership of the 'society' of cultivators meant for the project

241 Chandrasekhar and Ghosh 2003.
242 Singh 2005.
243 Singh 2005.
244 Dev and Rao 2005.
245 Singh 2005.
246 Dev and Rao 2005. Note that there are doubts about whether either the gherkin scheme or the oil palm scheme studied by Dev and Rao are actually contract farming in the full sense – see Asokan and Singh 2005 for a critique.
247 Chandrasekhar and Ghosh 2003.

included 167 households[248]. In Karnataka, the State government has taken steps to lift land ceilings and ease leasing of land for corporate floriculture and horticulture, leading to large-scale leases in one district for rose cultivation. The price received by the landholders in that case was approximately one third the market price[249]. Those originally owned the land were mostly SCs and STs; in the latter case, such alienation of tribal land violates the legal and Constitutional mandate to prevent loss of land from tribal communities.

In all cases, the companies practised extremely input intensive cultivation; on average, in rose cultivation in Karnataka 15,000 kgs of fertiliser were applied to each hectare[250], and cultivation costs in the KAPP were approximately Rs. 20,000 per hectare due to high levels of inputs. No effort was made in the latter to either maintain or recharge the groundwater table after heavy extraction; a similar problem has been reported with contracted oil palm cultivation in the same State[251]. In Punjab, private contracting firms also often preferred water intensive crops such as basmati rice[252]. Moreover, the goal of crop diversification in that State has not been achieved, as farmers on contract tended to keep growing traditional crops alongside high input contract crops; this was an effort to lessen risks, and also a reflection of the fact that there was no alternative to traditional crops for the 'kharif' season[253]. It is these severe environmental and agricultural impacts that lead Sharma (2004) to describe contract farming as modern-day "slash and burn" cultivation, since the corporates have no attachment to the land.

The transfer of risk to cultivators and producers was also carried out through other methods, such as the tendency to have inter-corporate agreements between banks, fertiliser companies and the contracting purchaser. While this may appear to have immediate advantages in terms of ease and convenience[254], it places the farmer in the position of having to deal with what is in effect a cartel, weakening the producer still further[255].

Contract farming has in some areas resulted in more labour intensive crops being adopted, as reported from other parts of AP[256]. However, in the KAPP

248 *Ibid.*
249 Singh 2005.
250 Singh 2005.
251 Dev and Rao 2005.
252 Chandrasekhar and Ghosh 2003.
253 Kumar 2006.
254 See, for instance, Shepard 2005 on FoodWorld.
255 Singh 2005, Chandrasekhar and Ghosh 2003.
256 Dev and Rao 2005.

and in Punjab, an increase in labour migration has pushed wages down to subsistence levels, while reliance on women workers has allowed the corporate in the KAPP to reduce wages still further. Employment is insecure and work conditions are poor.

Finally, a critical consequence of corporate farming was the reduction or elimination of land under food crops in the area, as occurred in the KAPP. This places people at the mercy of market food prices, which themselves were sometimes controlled by corporate bodies, and cuts out the safety net of all small and medium farmers – their own produce[257].

None of these are surprising developments, given the inherent structural nature of contract farming that was discussed in the last chapter. Hence, it is not surprising that Chandrasekhar and Ghosh (2003) conclude their review of contract farming by saying that "It is evident from the cases reported here, as well as other evidence, that contract farming holds numerous problems for agriculture in developing countries such as India....Given these evident problems, it is surprising that contract farming is still being promoted so assiduously by various forces, including the Central Government, in India today."

Such arguments are often countered with the claim that public assistance can address the problems of contract farming, and indeed in some of the case studies above – such as that in Andhra Pradesh – public involvement has played a role in allowing small farmers to involve themselves in contract farming. But such assistance can only mitigate, not reverse, the negative tendencies of corporate food production, and does not address wider questions of employment, sustainability and food security. Moreover, it presumes sufficient financial, infrastructural and human resource capability, as well as neutrality, on the part of the state, if such assistance is to be undertaken on the large scale that would be required. This presumption in fact begs the question – if the state has such capabilities and is so accountable to small and marginal producers, why is agriculture in a state of crisis in the first place?

Other Complementary Corporate Involvements in Production

While contract farming is displaying the same patterns as it does in corporate food systems elsewhere, there are a number of other corporate involvements in production that would play a complementary role with respect to a corporate

257 Chandrasekhar and Ghosh 2003.

food system. These developments would tend to reinforce the structures and patterns of corporate food systems.

Thus, in existing agriculture, more than 80 per cent of seed production is by farmers themselves[258]. But this sector has seen the entry of seed firms such as Monsanto, Cargill and Bayer on a large scale, particularly with respect to biotechnology and genetically engineered seeds, once again with government encouragement[259]. Apart from their other consequences, such private seed promotion has distinct disadvantages in further depriving the cultivator of control over production and the ability to sustain production without corporate involvement. Hence the oft cited linkage between farmer suicides and the promotion of Bt cotton in Andhra Pradesh and Maharashtra. In that sense, GE seeds and the corporatisation of seed production would form a key complement to a corporate food system.

The recent drafting and planned passage of a Seeds Bill by the government will further strengthen such corporates. The new legislation will require registration of seeds and regulate seed trading, in the process restricting the ability of farmers to trade their own seeds and increasing dependence on private seed corporations and multinationals[260]. Indeed, "increasing private sector participation" is a stated objective of the Bill itself[261].

This control over seed production is accompanied by a general entry of corporates into agricultural extension services, such as Mahindra and Mahindra in Tamil Nadu and Rallis in several States[262]. The ITC *"e-choupal"* phenomenon is discussed in the next section. Such extension services are sometimes combined with interlocking between inputs, technologies and extension services, where farmers are required to buy certain inputs in exchange for receiving extension services[263]. These combinations in turn are presumably the precursors to contract farming, establishing a relationship between corporates and producers that has a very similar pattern.

A further step that has eased corporate entry into production is the liberalisation of laws relating to land use. Karnataka's relaxation of land laws for horticultural and floricultural activities has been noted. In Tamil Nadu, a highly controversial government scheme for "wasteland development" involved handing over large

258 Statistic provided at www.grain.org.
259 Singh 2005.
260 Kuruganti 2005.
261 *Ibid.*
262 Singh 2005.
263 *Ibid.*

tracts of land to corporates for horticultural activities. Stamp duty rationalisation has contributed to making it easier to transfer and purchase agricultural land[264]. The recent wave of Special Economic Zones has triggered a demand for "Special Agricultural Zones" where restrictions on land use would be lifted. While many corporates are not, as we saw, interested in direct production, land ownership can be converted into a contract farming model by leasing land to cultivators in exchange for guaranteed supply of the full crop – as appears to have been done in Karnataka and as has been done by some companies in China[265]. This would have similar effects to contract farming itself.

Finally, the entry of corporates into agricultural procurement and food processing has had upstream effects on production, which are described in the next section.

Likely Consequences of Corporate Food Systems on Producers

Two patterns emerge from the above: the structural parallels between contract farming in India and elsewhere, and the consistent involvement of the government both in pushing contract farming and in building policies that would complement it. In short, the government has a clear policy goal of laying both the foundations of a corporate food system and allowing its reinforcing structures to be put in place, disregarding the growing evidence of dangers. As corporate entry into retail expands, these government actions would have synergistic effects with retail changes, greatly accelerating the growth of a full-fledged corporate food system in parts (if not all) of the country.

The likely impacts of such growth are very far from the picture drawn by supporters of corporate retail. The patterns in India would be more extreme than those in the rest of the world. Marginal producers would face even greater market exclusion than they do at present, increasing dependence on migratory labour and driving wages down due to a higher labour supply. A further decrease in food crop area would threaten food security even more. As a result, food prices would continue to increase, even as marginal producers and agricultural labourers would suffer falling cash incomes, an exacerbation of the pattern already occurring. Together these developments would further threaten the nutritional status and livelihoods of the poor. For large and medium farmers who access contract farming, or can hope to access it, the consequences are not necessarily much better, for they would have to face the other risks and

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264 Singh 2005.
265 Hu *et al.*, 2004.

higher investment required. These consequences for specific segments would be amplified by the overall damage to the land and increased price volatility from corporate participation.

In short, the entry of corporate food systems would intensify – not address – the very developments that have led to the crisis in Indian agriculture. These changes would not occur overnight, or with equal rapidity in all areas. However, the greater the expansion of corporate retail and the faster its growth, the more dangerous they would be. The combination of agricultural crisis, pro-corporate government policies and corporate food systems could prove to be a deadly cocktail for agriculture and rural areas in general.

Chapter 7

Intermediate Processes

If production level impacts are themselves severe, they are only likely to be deepened by processes at the next level of intermediate steps in the supply chain, reflecting the mutually reinforcing nature of the components of a corporate food system.

Procurement and Supply

Agricultural procurement and trading in India today is largely controlled by the various Agricultural Produce Marketing Committee Acts of the State governments. These legislations regulate the procurement and trade of agricultural produce, and until recently restricted such activities to government mandis (or wholesale markets). Traders are licensed to operate within mandis. Within these mandis, typically governed by elected committees, purchase is meant to occur on the basis of auction, along with set procedures for weighing, grading and sorting of produce, and payment within a fixed time period.

Accompanying the APMC Acts are the rules and regulations under the Essential Commodities Act, which governs trade in foodgrains (among other commodities) and is intended to restrict hoarding and speculative practices. Such penal provisions are accompanied by the government procurement for the PDS and for other goods with minimum support prices (such as cotton), which also takes place at mandis.

In practice, the APMC system rarely functions as intended. Corruption prevails in most mandis, prices, weighing and grading are manipulated, and funds diverted and siphoned off[266]. Small and marginal farmers find that they are unable to access the *mandi* at all owing to transport difficulties and hence have to sell their produce at either informal village markets or through the de facto monopoly of local traders[267]. Farmers who do reach the mandi face demands for bribes when grading their produce, and as a result are often unable to access government procurement. The licensing of traders produces further corruption.

We saw in Chapter 1 that, to most supporters of corporate retail, these failures of the APMC / EC Act system are the linchpin of their argument for how

266 See Harris-White 2004.
267 Mehta 2005.

corporate retail will benefit agriculture. The complex state regulations governing trade and procurement of foodgrain in particular – are held to be a maze of "rent seeking" opportunities, and their displacement by the supply chain of a corporate food system will automatically be more efficient, transparent and beneficial.

These positions have in turn become a part of government policy. Thus, in a parallel with agricultural production, corporate entry into procurement and supply relations has already begun in different parts of the country with government encouragement. Fourteen State governments have already 'liberalised' their APMC Acts, lifting restrictions on private parties creating markets and allowing corporates to directly purchase from farmers. The second step of a corporate food system, the displacement of traders / wholesalers and the creation of vertically integrated supply systems, has thus already begun.

The E-Choupals

An excellent example of the resulting structures, and most likely the largest such example at present, is what is known as ITC's *"e-choupals."* [268] ITC, one of India's largest corporate houses, has been at the forefront of an expansion of India's mega-companies into the rural economy, following its recent – 1990 onwards – decision to enter into packaged foods and export of agricultural products.

In an effort to bypass the *mandi* system and its associated costs, ITC began setting up the e-choupal system in 2000 with soya farmers in Madhya Pradesh. In each village, a *"choupal sanchalak"* is chosen from among educated and relatively younger farmers. This *"sanchalak"* is provided with a computer with a VSAT (satellite) internet connection, which it is his / her responsibility to maintain and protect. Along with these *choupals,* ITC also set up collection centres in the neighbourhood of the standard government *mandi* (which it was now able to do because of the liberalised APMC Act of the State). The computer in the *sanchalak's* house provides updated data on prices at the *mandi* and the ITC collection centre, generally intended to demonstrate that the prices at the ITC centre are better. The *sanchalak* in turn is charged with passing this information on to the farmers of the village. For farmers who approach the ITC collection centre, various other incentives are also provided. Initially, the company provided transport to the collection hubs. Payments were made on

268 Information on the *e-choupals* is drawn from the excellent study by Mehta (2005) unless otherwise stated.

the spot and grading procedures often waived. As the system expanded some of these incentives, such as free transport, were removed.

This system was then built up extremely fast. In the soya belt alone, the number of *e-choupals* climbed from six in 2000 to 1,750 in 2004, covering 9,000 villages; in total, as of 2005, the company had 5,200 *choupals* across the country, covering six states and 31,000 villages. In turn, the guaranteed access to large quantities of grain strengthened ITC's ability to function as a procurement arm and food processor for other corporates and export markets, including Coca Cola, Mitsubishi and Abu Dhabi Flour Mill. ITC now uses the *choupal* system to procure coffee, wheat and shrimps / prawns.

Meanwhile, the same *choupals* have been used as information centres to disseminate information on the weather, and to distribute pesticides, fertilisers and other products. ITC has tied up with Monsanto for seed distribution. ITC has also set up rural supermarkets and hypermarkets next to its collection centres, which – along with the village-level infrastructure of the *choupals* – sell many other goods such as FMCG items.

Naturally, this tremendous expansion caused an immediate impact at the State government *mandis* of the area. Between 2002 and 2003, the amount of soya reaching the mandis declined by 30 per cent, despite a sharp rise in the market price. In 2004, a subsequent drop in the international price caused *mandi* business to plummet further and triggered a strike by *mandi* traders and *hamals* (headload labourers) in 280 *mandis*. It is foreseeable that, if the current trend continues, many of the State *mandis* may close down.

To many advocates of corporate involvement in agriculture, the *e-choupal* story is a perfect example of the benefits of corporate control over supply and distribution channels. The greater efficiency of corporate chains has empowered farmers and allowed them to have a better choice as to price and facilities, though it should be noted that no one has till date established that farmers are in fact receiving consistently higher prices. Farmers benefit from an integrated retail infrastructure as well. The corporate, in turn, makes higher profits.

But to adopt this perspective would be to ignore the structural features of both the *choupals* themselves and corporate food systems in general. The bypassing of existing supply and distribution systems is aimed at a very specific goal – the vertical integration of the corporate food system – not at the 'empowerment' of farmers.

This can be seen by asking the most fundamental question: what happens if and when the State government *mandis* do close down? ITC will then be left as the effective monopsony purchaser in such areas, with control over not only procurement, but also supplies of inputs, seeds and possibly credit. The legal safeguards that restrict delays in payment do not apply to private procurement under the liberalised APMC Act. Nor is there any bar on ITC reducing prices at that time. It may be hoped that another corporate would come in to procurement to serve as competition for ITC, but in practice, as discussed in the last chapter, corporate procurement often functions as monopsonies or oligopsonies.

This is a situation of a kind of mega contract farming, and would have similar consequences, particularly for smaller producers and farmers. The ITC system at the moment has shown little interest in reaching such farmers, and Mehta (2005) found that the medium and small farmers in a village one kilometre away from the *choupal* had little knowledge of it. Those who approach the ITC collection centres have already found that, in contrast to the early days of the ITC purchases, their produce is now frequently rejected for excess moisture content.

However, in contrast to contract farming alone, the impact of the ITC structure would be more sweeping. The closure of government *mandis* would impact both the smaller traders and small cultivators who directly or indirectly sold their produce through the *mandi* system, but who would now be of no interest to ITC. They may well find, as discussed in the last chapter, that they are largely excluded from the market.

Thus, *e-choupals* represent an innovative effort at forcing a transition from the existing food system to a corporate food system, but they are just that – a transitional effort. The benefits of greater 'transparency', competition and better facilities, themselves limited to a few, would last as long as the two systems continue to exist together. Once the *choupals* had achieved their goal of displacing the existing system, the takeover of a corporate food system would have its own consequences, which would reinforce and deepen the impacts at the level of production. This would be in addition to the negative effects of the displacement of traders and wholesalers themselves.

Grain Distribution

The *e-choupals* provide an instance of the impact of corporate food systems on existing procurement systems. Is there evidence, however, of the impact of corporate food systems on sale and prices, which is the other major advantage often cited for such systems?

There is, in fact, and for this one needs to look no further than the recent controversies over rapidly rising prices of essential commodities. Among the main causes cited as a reason for the rapid inflation was private procurement of wheat, a key aspect of a corporate food system. Contrary to claims by much of the press that inflation is the result of generic 'supply side' factors, Chand (2007) finds that the shortfall in wheat production was only 1 per cent in 2005-2006, but prices in 2006-2007 were roughly 13 per cent higher than those of the previous year and had an annual trend growth rate of 20.7 per cent. Given that the general price index showed an increase of only 5.4 per cent over the previous year, he argues that the drop in wheat production was not the only explanatory factor. He identifies two other factors in particular for the price rise: the rise in international wheat prices, which under trade liberalisation are reflected in Indian prices, and private procurement by corporates such as Reliance, Cargill, ITC and a few other houses. In turn the government failed to import wheat sufficiently quickly or to raise the MSP sufficiently rapidly, resulting in further spiralling prices. Chand also finds that the involvement of private procurement has continued in this year, with the Food Corporation of India's purchases in Punjab and Haryana abnormally low and their purchases in UP and MP almost nil.

What implications do these facts have for our argument? Private corporate procurement essentially consisted of paying a higher price to farmers than the official MSP, 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 exactly the opposite.

On a broader level, the corporate involvement in food procurement resulted in further serious damage to the public distribution system, already reeling under almost a decade of "reform" policies and targeting. The PDS is a crucial aspect of food provision and nutritional support to poorer groups and rural sections of society[269]. It also plays a key price stabilisation function, and it was precisely the failure of this function that led to such a rapid rise in wheat prices.

Thus, with respect to the PDS, the expansion of corporate food systems – with its accompanying price speculation and procurement of large quantities of foodgrains – is a serious threat to food security as a whole. Price speculation of this kind is not an aberration, but a natural component of a corporate food system, whose aim is precisely to achieve maximum control over prices, procurement and production processes. This in turn has impacts at the retail level as well, given that the PDS is effectively the country's largest food retail network.

269 See Swaminathan 2000.

These two instances – *e-choupals* and wheat procurement – are only examples of the widening penetration of corporate food systems in food supply and procurement. Once again, foreign and domestic corporate retailers are among the leaders in this activity, though they are not the only ones. Reliance and Metro GmBH have has obtained an APMC licenses for their operation in s in West Bengal and Kerala Karnataka respectively, while Reliance has attempted to do so in West Bengal (but was reportedly rejected)[270]. The creation of specialised wholesalers and central procurement, as in other countries, has also begun, with specialist 'aggregators' coming into existence and corporates creating 'hubs' for their operations[271].

But these examples also provide lessons that we can generalise across the likely impact of a rapid expansion of the corporate food system itself, as would occur with the growth of corporate retail. These new systems, on the one hand, reinforce the tendencies of corporate food production, and would have a tendency to spread those impacts even to cultivators in areas not directly part of corporate or contract farming. But more importantly, in their effects on the existing food supply system, such food systems in fact reduce competition and generate monopsonies and oligopsonies that encourage speculation and abuse of pricing power.

In fact, it is an abiding irony that advocates of corporate retail, most of whom are otherwise supporters of 'free markets', should see no difficulties in promoting a system that in fact is opposed to any market principles. The existing system needs serious changes if it is to address the needs of social justice, but once again corporate food systems do not address these problems: they exacerbate them.

Processing

In addition to the integrated corporate supply systems, the other key advantage often cited for corporate food retail or corporate food systems in general is the effect on food processing. Food processing in India today is dominated by small unorganised sector processors, who constitute 99.4 per cent of the units, provide 86.8 per cent of employment and produce 36.4 per cent of the output[272].

270 Banerjee 2007 and Iyengar 2004.
271 Moneycontrol.com 2007.
272 Dev and Rao 2005.
273 *Ibid.*
270 Banerjee 2007 and Iyengar 2004.
271 Moneycontrol.com 2007.
272 Dev and Rao 2005.

Capacity utilisation was low, estimated at 51 per cent in 1996[273], but the sector has seen rapid expansion: by 2004, agro-processing accounted for a third of agricultural income[274]. A number of problems obstruct or impede the expansion of the food processing industry, including lack of demand for processed foods, the unsuitability of many types of produce for processing, the long supply chain and high levels of taxation (which are generally around 21-23 per cent of the final cost). Access to credit remains a serious problem for small units, and the risk of introducing new technology is too high for most units to undertake with such high interest rates.

Recent government policies have, however, made a concerted effort to promote food processing, which is seen – with contract farming – to be a key solution to the problems in the agricultural sector. Once again the chosen method is facilitation of corporate entry. Thus 100 per cent FDI in food processing and marketing of processed foods is allowed[275]. Excise duties on processed goods have been cut and the Central government has urged States to reduce sales taxes on processed foods[276]. Tax holidays were provided from 2004 onwards[277]. Several State governments have announced special food processing policies. Much of the promotion of food processing has targeted export markets; agro-based export oriented units are allowed to import raw materials free of duty, and entire "Agro Export Zones" have been created with special incentives.

Yet food processing has failed to attract much of the expected corporate investment, and in fact in 2004 investment had declined to 2,000 crores from 4,000 crores in 1995[278]. One reason was the continuing failure to deal with the credit crunch for small level processors and marginal farmers, which blocked upgradation and investment[279]. In addition, and more importantly for big investors, the new policies did not address some key constraints on food processing, which, as noted above, involve the low level of demand for such foods in India and the complications of long supply chains. The result was high cost of operations and low profit margins[280]. Low demand, in turn, is a by-product of higher prices of processed foods and high availability of fruits and vegetables in most of the country[281]. In this context, corporate retail is held

273 *Ibid.*
274 *EPW* 2004.
275 Singh 2005.
276 Dev and Rao 2005.
277 *EPW* 2004.
278 *EPW* 2004.
279 *EPW* 2004, *EPW* 2003.
280 *EPW* 2005.
281 Sidhu 2005.

to be a key requirement of strengthening the food processing industry, because it is expected to drive up demand for processed food products[282].

Yet corporate food systems would also bring their own dynamics into play in the processing industry. Thus we saw in the previous chapter that the inherent structural tendencies of a corporate food system will tend to increase capital intensity, concentration among processors and the levels of technology used. Similarly, processing in corporate food systems would be integrated into the overall system, and hence increasingly reliant on contract farming and corporate food production, a tendency that is already apparent[283].

The policy promotion of food processing is intended for two purposes – to encourage agricultural diversification and to address the employment crisis in rural areas. If the former occurs as part of an integrated corporate food system, we have already seen the likely consequences for agricultural production; indeed Pepsico, one of the examples quoted above, engaged in contract farming for food processing purposes. The latter goal, employment growth, would most likely be harmed by increasing levels of capital intensity and concentration in the processing industry, which would have a tendency to displace the majority small and unorganised sector food processors. The likely tendency of corporate retail to take over the lion's share of the processed food market would exacerbate this tendency.

Such a trend could only be countered by a very large expansion in demand for processed goods, and while an expansion may occur, it remains to be seen if it would be large enough for these purposes. As Sidhu (2005) points out, demand for processed foods is limited not just by the lack of investment and "inefficiency" in processing, but by the sheer inability of most of the population to even purchase their own staple diets – leave alone processed foods. Corporate food systems would have no effect on this phenomenon whatsoever, and in fact would worsen it through their other socioeconomic consequences.

282 See, for instance, Mukherjee and Patel 2005.
283 Dev and Rao 2005.

Chapter 8

Food Retail

The most controversial issue in this debate is, of course, corporate food retail itself. At this level the main competitors for corporates are the existing dispersed 'unorganised retail' sector, with its enormous numbers of outlets, wide variation in size and enormous employment provision.

Impacts on Existing Retailers

Indian retail may be unusual for the degree to which corporate food retail has so far failed to penetrate[284], but it is not unusual in terms of parallels between it and non-corporate retail elsewhere. All the points outlined in the previous chapter as advantages of corporate retailers over other retailers apply in India as well. These include the better access of the latter to credit, questions of urban space and real estate, the use of price flexibility and multi-format strategies by corporates, and changes in public policy.

Credit and Access to Capital

As is the case with the unorganised sector and small-scale producers in general, access to credit for small retailers tends to be extremely low and provided by non-institutional credit sources. Indeed, by the very definition of non-corporate retail, namely the lack of formal accounting procedures and formal procurement, the tendency would be towards less ability to access institutional credit (for size and accounting reasons) or formal supplier credit (as a result of informal procurement).

This is particularly the case given the credit situation in India, where the credit market is highly segmented. Formal institutional lending is typically asset-based. Sectors and activities that are low in fixed assets, however, require lending based on cash flows, which in India is typically provided by such entities such as chit funds or moneylenders[285]. The latter channels provide credit at interest rates which are often many times those of the formal institutional channels, creating a credit market in which interest rates are almost in inverse proportion to the size of the loan being taken. These tendencies have been exacerbated by the decline in priority sector lending in the wake of liberalisation.

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284 Reardon *et al.*, 2003.
285 Vaidyanathan 2003.

Such credit market segmentation damages non-corporate retailers and has the greatest impact on the smallest vendors, hawkers and street traders. In contrast, corporate retailers not only enjoy easier access to institutional credit – a factor that in itself would guarantee them far higher profits and easier expansion – but have also been the beneficiaries of an inflow of speculative capital. The stocks of major corporate retailers such as Pantaloons and Trent (both clothing retailers) have risen by 1500 per cent and 250 per cent in the last five years respectively[286]. Corporate retailers' stocks are now trading at prices to earning ratios of 50, more than three times the average ratio of 15[287].

The entry of FDI into retail would no doubt greatly increase these tendencies, given that foreign retailers themselves enjoy credit advantages over domestic corporate houses as a result of lower international lending rates[288]. The flow of speculative and venture capital would be likely to further increase, driving down the cost of money even further. Indeed, as discussed in Chapter 10, speculative tendencies are already apparent in other forms of corporate retail in India.

Access to Space and Real Estate

Indian cities mostly have complex municipal zonal and planning regulations, many of which are greatly out of date and were done with no resource planning or public participation. Living spaces for the poor and for retail were often simply left out of plans entirely[289]. Urban agencies have consistently prioritised allocation of space and construction for the residences of the rich, failing to allocate space for commercial and retail activities and for housing for the poor. Thus, in Delhi, the government has constructed only 4 per cent of the planned commercial space in the city, while constructing more than the target of high income flats[290]. Legal complexity, the severe shortage of authorised commercial space and rampant real estate speculation also push up real estate prices to some of the highest levels in the world.

As a result, the vast majority of urban retailers operate in an illegal or semi-legal fashion, a fact that has been highlighted in recent times by the sealing drive in Delhi. This legal twilight zone has multiple economic effects. It increases the precariousness of operations and discourages investment, while resulting in higher and steadily increasing costs owing to payoffs to municipal and police

286 Kota 2005.
287 *Ibid.*
288 Reardon *et al.*, 2003.
289 Tiwari 2000.
290 Sharma 2006.

authorities. A study in Mumbai found that hawkers paid an estimated Rs. 324 crores per year as bribes to the authorities[291]. Setting up a stall in Mumbai may require a bribe of Rs. 1,00,000 or more[292]. The absence of formal government regulation is accompanied by and reinforces the growth of complex social structures of regulation, such as trading associations, exclusion on the basis of community or caste, and protectionist rackets by organised crime operations[293]. The increase in risk and informal cartelisation drive up prices and impede the ability of many small retailers to expand.

A large number, perhaps the majority, of smaller urban retailers are engaged in food retail; an estimated 40 per cent of vendors sell vegetables[294], and street food stalls are very popular in all Indian cities. But in recent years, retailers have been under increasing pressure from an official agenda of increasing cleanliness, safety, hygiene and 'beauty' in the country's major cities. From the government's side, periodic eviction drives have targeted small retailers, including a reported such as "Operation Sunshine" in Kolkata in which 1,00,000 hawkers were said to have been reportedly evicted in a single night[295]. Drives against "encroachment" on public spaces similarly take place on a periodic basis, often involving destruction not only of buildings but confiscation of goods.

An even more intense assault has come from the judiciary. A string of Supreme Court and High Court orders of several States have been targeted at enforcing existing municipal regulations and creating new ones. The most famous of such orders has been the recent High Court sealing drive in Delhi, but this is not the only one. Supreme Court orders have created a new regulatory structure for hawking, mandating creation of "hawking zones" in cities and licensing of hawkers, while ordering police to remove all structures on footpaths in Delhi[296]. In February 2007, the Supreme Court ordered that 23,400 hawking licenses should be granted in Mumbai, which would cover less than 5 per cent of the estimated 4.5 lakh hawkers in the city[297]. The High Courts have also been active on the issue, a good example being the Delhi High Court's recent ban on street food vending in the city, other than tea and coffee.

Regardless of the various reasons for these administrative and judicial measures, in the context here their net effect is to add to the legal and structural barriers

291 Da Cunha 2000.
292 Sharma 2000.
293 See Sharma 2000 for some examples.
294 Da Cunha 2000.
295 Bhowmik 2000.
296 *The Hindu* 2006.
297 Rao 2007.

faced by food retailers, especially the smallest: hawkers and street vendors. The denial of large areas of urban space to non-corporate retailers (both of food and of other kinds) is now a feature of both judicial and government policy.

It may be objected that corporate retailers also face extremely high costs for real estate, which harms their ability to do business. Real estate prices remain a serious worry for expanding corporate retailers[298]. It is often held that for this reason corporate retail has expanded more rapidly in southern cities, where prices are lower[299].

However, while real estate price patterns may affect the growth of corporate retailers, they are unlikely to be sufficient to tilt the balance against the non-market pressures placed on non-corporate retailers. Further, in contrast to the increasing state pressure against noncorporate retailers, reduction of real estate prices and facilitation of large urban commercial activities – including corporate retail – is now a policy goal of many municipal and State governments. This can at times include deliberate policy changes to support corporate retail. A more glaring recent example of such state positions is the six new malls being constructed in Vasant Kunj, New Delhi, whose construction was in violation of environmental laws; despite this, they were allowed to continue without any penalty by both the government and the Supreme Court[300].

Price Flexibility and Multi-Format Expansion

The further strategic advantage of corporate retail is the use of price flexibility and multi-format strategies to counter, and eventually reduce, competition from non-corporate retailers. The small level of corporate retail so far has not encouraged most corporate retailers to engage in competition based on price[301], but some instances are already visible.

Thus, newspaper reports in Lucknow note how food shoppers are increasingly demanding discounts, free offers and below MRP pricing, all features of Big Bazaar and similar corporate retailers[302]. The same report notes how credit is now on offer at stores like Big Bazaar, in contradiction to the frequently made assumption that credit is the preserve of smaller retailers. FoodWorld is

298 Kaul and Mahesh 2007.
299 Mukherjee and Patel 2005.
300 See *The Hindu* 2006a and the Supreme Court ruling in Interim Application No. 1156 in Writ Petition 202/95.
301 Mukherjee and Patel 2005.
302 Manjul 2007.

experimenting with multiple formats, including smaller 'express stores'[303]. Multiple retail chains are considering more discount stores[304], and Big Bazaar and Subhiksha's aim building their chains around such stores[305]. Corporate retailers are even attempting to imitate hawkers by providing mobile refrigerated vans and direct home delivery[306], the latter being once again a service that is often assumed to be limited to noncorporate retailers.

There have been repeated claims by advocates of corporate retail that existing retailers themselves do not fear competition from corporate retail. Mukherjee and Patel (2005) go as far as to cite the fact that, in a survey conducted by them, there were no shops that had closed down as a result of corporate retail. But it is far from clear how their survey sample would have included such shops, since the sample was after all confined to operating retailers. In contrast, a small survey by Navdanya of non-corporate food retailers around three Reliance Fresh stores in Delhi found that 88 per cent had experienced a decline in their sales, and 45 per cent said the drop was more than half. Fifty-seven per cent expected to leave the business in the near future[307]. Perhaps the best indicator of sentiments is a growing wave of protests and attacks on supermarkets, including protests by hawkers in Kolkata and an attack by street vendors against supermarkets in Ranchi[308].

As in other countries, small retailers are making efforts to compete, including by cutting prices, increasing infrastructure and so on, as reported in the Lucknow case above[309]. Some are also taking innovative steps such as allying with large FMCG companies – threatened by the processing and distribution aspects of corporate food systems – to set up distribution networks at lower prices[310]. But such steps will at most be accessible to a few.

Government Policy

In addition to laws on urban spaces, government policies have also been changing in other ways. For instance, regulations such as the recently drafted Food Safety and Standards Bill also indirectly support the corporate food system. Of particular importance to the argument here are three features of this Bill[311]:

303 Indiantelevision.com 2007.
304 Kaushik 2006.
305 Chatterjee 2002.
306 Domain-b.com 2007.
307 Navdanya 2007.
308 *Indian Express* 2007 and Reuters 2007.
309 Manjul 2007.
310 Vijayraghavan and Unnikrishnan 2007.
311 Unless otherwise stated, information on the Food Safety and Standards Bill is drawn from the Bill itself and from Madhavan and Sanyal 2005.

- Requirements for traceability of foods and recall: Every food item must be traceable by each distributor to its manufacturer, and by each seller to the distributor. Every food item must also be recallable by the distributor or the manufacturer.
- No regulation of water supply: The law does not cover requirements of safety for tap water (used by many small retailers in food production), holding the retailer responsible for ensuring safe water.
- No coverage of plants before harvesting or animal feed: No regulation is imposed on plants prior to harvesting or animal feed, meaning that contaminants from such processes are not covered by the Bill.

While the goal of the Bill is the improvement of food safety, its provisions – particularly that for traceability and recall of products – also will strongly support corporate food systems. In fact, it could be argued that products cannot be traced back from mandis, who in that sense would be outlawed under this legislation. At the same time, regulation is not imposed on tap water provided by the government – placing small retailers at a disadvantage, since they would be unable to do purification themselves – or on pesticide contamination or antibiotics, which are heavily used in corporate food systems. Moreover, no regulation whatsoever is imposed on nutritional content or on excessive use of fats, non-chemical additives or processing, which are, as discussed in the previous chapter, aspects of corporate food systems that are dangerous to health[312].

Thus, even a seemingly neutral health and safety legislation can have results that support corporate food systems, even at times at the cost of food safety. This is not unusual, and reflects the close interaction between public perceptions, policy formulation and systems of provision[313].

Consumption and Cultural Dynamics

This influence of corporates over law is only one instance of the interaction between corporate food systems and the socio-political context of consumption. As seen in the discussion on fruits and vegetables at the end of Chapter 5, these interactions are complex, and hence would be very difficult to estimate in the Indian context given the nascent nature of corporate food systems here. But it is possible in the briefest of terms to sketch some of what may result.

312 Sharma 2005.
313 Fine and Leopold 1993.

First, it is important to recognise that a key aspect of the growth of corporate food systems is the construction of brands in a market relatively free of brands so far (except in processed foods). In an exploration of brand logics in India, Rajgopal (1999) points out that mass consumer strategies and branding are relatively new phenomena in India, dating essentially from the 1980s. In such a context, branding does not only operate on the level of competition between brands. As he observes, "businesses struggle not only to establish brands against pseudo-branded and unbranded goods, but also to establish what a brand is, and what it will signify"[314].

Corporate food systems face this difficulty with an added layer of complexity, for they must try to brand not a single good but food itself. The easiest way to do this is to convert the retailer end into a brand, as has now happened with Wal Mart in the US or Tesco's in the UK. This retailer brand is then accompanied with what we might call sub-brands – the "in store" products that are meant to compete with existing processed food brands and, in some cases, to create branding in products where it did not exist before (such as in cut vegetables or fruit).

But in order even to reach this level, in a context of predominantly non-corporate food retailers, the first step is the branding not of one or the other corporate but of corporate retail itself. When creating such branding, Indian corporates do so in the face of a complex and multiply segmented market with different types of consumers. Food plays a powerful symbolic role in society, given its relationship to caste and social exclusion. Class differentiation has also changed food consumption patterns, both directly and through interaction with caste, gender and community.

Let us trace one trend in the resulting branding dynamic – the heavy emphasis on air-conditioning. Media reports never fail to mention that corporate retail outlets are air-conditioned, and even if one knew nothing whatsoever about a corporate retail outlet, its size, its format or its shape, it would be easy to assume from the perception generated that it would be air-conditioned. But air-conditioning is not just a question of "consumer comfort" in a hot climate. In India, it is a luxury that is inaccessible to all but a very small percentage of society, and it is strongly associated with upper income groups' conceptions of cleanliness, safety and purity, in large part precisely because of its inaccessibility to the poor. An air-conditioned store is by definition assumed to be cleaner than one that is not. In a context where cleanliness and "freshness" is a key

314 *Ibid*, emphasis in original.

aspect of the commodity in question, social perceptions would ensure that the same food commodity will appear "fresher" in an air-conditioned context. These mutually reinforcing dynamics assist in cementing the link between corporate food retailers and their most immediate constituency – upper income groups.

But air-conditioning has also come to be seen as an aspect of social aspiration in recent years. It is not an accident, for instance, that Railway Minister Laloo Prasad chose to name his new all AC trains "Garib Raths." Entering air-conditioned spaces has become a sign of social mobility in a society where falling prices of high level consumer durables, on the one hand, and increasing inequality and social disparity on the other, has made the possession of certain commodities a key aspect of social status (what is commonly described as "consumerism"). A food retail store that is air-conditioned, with prices that are not much higher, thus becomes a magnet for defining a certain type of social aspiration.

Air-conditioning, however, has material consequences as well. It requires very high amounts of energy and high overheads, leading to the requirement of a certain minimum space to be economical. In terms of food sold, it has different relationships with different types of foods. For some, such as vegetables, it does in fact reduce deterioration. For others, particularly foods with stronger smells – such as fish or meats – it requires that they must be either processed, sealed or otherwise isolated if they are to be sold in an enclosed air-conditioned environment. The general tendency against odours discussed in Chapter 5 applies particularly strongly in India, where food smells are strongly associated with caste and concepts of pollution. These material requirements in turn reinforce some of the features of corporate food systems as a whole, including the need for product diversification (to fill space) and intensification of processing at lower levels to prepare food sufficiently.

Are there broader trends we can read off from the instance of air-conditioning? First, the dynamic of exclusion from social spheres, combined with making that exclusion a symbol of individual aspiration, is hardly new to Indian (or indeed any) society. But it takes on particular forms in a neoliberal environment, which privileges individual consumption rather than collective action as the method of achieving social mobility[315]. The obsession with air-conditioning demonstrates that corporate food retail is likely to follow the same path as most corporates in this country – the creation of 'high status' goods that are just low enough to be accessible to the "masses", reflecting the fact that rising

315 See arguments in Rajgopal 1999 and Gopalakrishnan 2006 for more details.

inequality means the latter are unlikely to become as economically important to the corporate as the upper income segments. What this means in the context of food retail, or even retail in general, is that new dynamics emerge whereby certain spaces – the supermarket, for instance - increasingly come to carry the markers of status carried till now by commodities.

In this light it is no surprise that a set of social researchers, for instance, found that Gujaratis shopping in corporate food retail outlets typically spoke to each other in English and Hindi – languages with higher status connotations – while the same shoppers spoke in Gujarati when shopping in non-corporate retailers. Similarly, they treated the staff of corporate retailers as "polite equals" while treating those of non-corporate retailers in a "master servant" model[316].

The products that are sold in these spaces, in turn, must be adjusted to fit these status markers. As this additionally leads to the increasing decline of smaller retailers, the overall result will be that food purchase spaces will become increasingly marked by and associated with the consumption patterns, habits and needs of upper castes and upper classes. Such patterns might shift when corporate retailers begin to compete with one another, but even that is unlikely, and such a shift will certainly not occur when the focus is on competing with noncorporate retail. The ripple effects at the moment would be a production system with a focus on additional processing and visibly attractive foods such as fruits, along with a decline in the provision of coarser grains, 'polluted' foods such as beef and the like. This would impact the production tendencies of corporate food systems and further reduce the ability of smaller retailers to compete, as "consumer demand" shifted. For the poorest of the poor, meanwhile, access to such spaces and to food markets in general would reduce, given the increasing irrelevance of the food being sold to their needs and the likelihood of their being culturally, socially or even physically excluded from these spaces.

FDI in Retail and Likely Impacts

In sum, the Indian experience repeats the patterns of corporate retail interaction with existing retailers elsewhere, but within the cultural, political and economic context of Indian society. Given this there is no reason to believe that the international experience of severe crisis for smaller retailers will not occur here as well. The figures bear repeating – 30 per cent of Argentina's smaller retailers closed down between 1984 and 1993[317]; the number of traditional retailers in

316 Dholakia and Sinha 2004.
317 Gutman 2002.

Chile's food retail sector declined by 20 per cent in all segments between 1991 and 1995[318]; and corporate retailers now control large shares of food retail in most developing countries.

We have seen how FDI was a key component of this expansion, and in this context the repeated argument that FDI in retail is also necessary for the expansion of the Indian corporate retail sector should be noted[319]. Corporate retailers have been attempting a very rapid expansion on the basis of domestic capital along with the limited FDI so far, but even commentators in favour of them suspect that they are exceeding their capacity[320]. Further, in this context, one should note that the trend of FDI entering via joint ventures with domestic corporate retailers, as has happened elsewhere, reduces the sense of a threat to domestic corporate retailers. A good example is a recent statement by the chairperson of the Bharti Group, which has tied up with Wal Mart in a joint venture for 'back end' operations: "[If FDI in retail is permitted,]WalMart will be brought to the front end in partnership with us... Why have they partnered us for the back-end business otherwise?"[321]

It is hence not an accident that even industry bodies such as the Confederation of Indian Industry (CII) and the Federation of Indian Chambers of Commerce and Industry (FICCI) are now supporting FDI in retail. More and more commentators argue that the creation of a corporate food system in India in fact requires FDI in retail[322]. In short, the Indian experience with direct FDI in retail would most likely be very similar to that of other countries: entry through joint ventures, followed by rapid expansion, concentration and multinationalisation of corporate retail. Displacement of existing retailers would accelerate.

Three factors in India's retail context would strongly reinforce these existing tendencies. The first is the structural disparities between corporate and non-corporate retail, reflected in the credit market segmentation and the urban space realities described above. These realities effectively mean that describing current events as direct 'market' competition, on the basis of price, service provision and "ambience", is very far from an accurate picture. Indeed it would not be an exaggeration to say that corporate and non-corporate retail inhabit different economic and social terrains entirely, reflecting the argument here that what is at stake is the system of provision as a whole.

318 Faiguenbaum *et al.,* 2002.
319 Mukherjee and Patel 2005.
320 See, for instance, Kota 2005.
321 Bhattacharya 2007.
322 See, for instance, Mukherjee and Patel 2005.

The second factor is the systematic fashion in which government policy has shifted in favour of corporate food systems in recent years. At every level from production through retail, government policies are not only assisting but actively promoting corporate consolidation and the creation of a corporate food system. For non-corporate food retailers, the result would be not only an immediate policy environment stacked against them, but a simultaneous decline of the supply systems that support them. This would have serious further effects on their ability to compete with corporate retailers.

Third, shifting consumption dynamics as discussed above would be strengthened with the entry of FDI, where 'international' brands would add to 'high status' images (as has already occurred in the case of fast food retail) while providing the capital necessary for the redefinition of food markets.

In turn, the explosion of FDI-driven corporate retail will drive the corporate food system as a whole. We have seen throughout this discussion that existing foreign and domestic players in the corporate food system have already begun penetrating and displacing the existing system. If FDI is allowed, this will accelerate enormously.

From the field to the kitchen, as advocates of corporate retail like to say, everyone would know that "the world has changed." But it would only be a dream world for a few; for many, the new system would be a nightmare of displacement, marginalisation, increased class differentiation and impoverishment, a part and parcel of the destruction of their livelihoods that increasingly seems to be the essence of economic policy in this country.

PART IV

OTHER SYSTEMS AND WIDER IMPACTS

Chapter 9

A comparison: Systems of Provision for Clothing

The exploration of the corporate food system in the preceding chapters demonstrates the severe impacts that permitting FDI in food retail is likely to have on food production, supply, processing and consumption in India. This however leaves open the question: what about other systems of provision? Is the impact of corporate retail likely to be equally negative in all sectors?

By definition, a system of provision approach is inimical to such generalisations[323]. But policy does not necessarily follow the lines dictated by theory. In the current context, there is a need for considering the impact of FDI in retail across sectors. This chapter therefore provides a brief exploration of another system of provision – clothing – and the likely impacts of corporate and FDI-driven retail in this sector. This exploration has two purposes. The primary goal is to note points of similarity, difference and parallels with the food system, which can be used for postulating some tendencies across sectors. Secondly, this exploration is relevant in itself, considering that the clothing sector has drawn the highest FDI interest after food[324].

The Clothing System

Textiles, garments and clothing in India represent a huge economic sector, accounting for 14 per cent of industrial production and nearly 30 per cent of Indian exports[325]. The sector is among India's largest employers and is one of the largest in the world, second only to China.

Clothing production begins with the creation of fibres, a process that used to be dependent on agriculture for its primary raw material – cotton (and silk, to a much smaller extent). Cotton is one of India's largest cash crops, and a larger area is under cotton here than in any other country in the world[326]. But the growing use of artificial fibres has reduced the use of cotton, and, where such fibres are used, largely severed the direct link with agriculture. Between 1980-81 and 1997-98, cotton's share fell from 87.71 per cent to 78.18 per cent of total fibres[327], and it now accounts for two thirds of consumption[328].

323 Fine and Leopold 1993.
324 Mukherjee and Patel 2005.
325 Economywatch.com n.d.
326 Ramamurthy 2004.
327 Saksena 2002.
328 Verma 2002.

The next step is ginning and spinning of cotton yarn, steps that are not necessarily required in the case of artificial fibres. The yarn is then woven to form fabric. These two steps take place in a variety of processing facilities, including mills, powerlooms, handlooms, hosiery and khadi facilities[329]. The structure of the processing sector is highly fragmented and dominated by small powerlooms[330].

This finished fabric is then sometimes directly sold to customers, to be fabricated into garments by individual tailors. This process accounts for Rs. 13,000 crores of India's Rs. 43,000 crore garments market, or approximately 30 per cent[331]. In the case of readymade garments, the fabric is sold to garment manufacturing units, which produce garments in facilities ranging from large factories to home workers (the latter mainly women). The share of readymade garments is expanding very rapidly, with NSSO data showing an increase of 63 per cent in readymade expenditure in both rural and urban households between 1999-2000 and 2004-2005, with a fall in tailoring expenditure of 29 per cent in rural areas and 33 per cent in urban areas[332]. More than 95 per cent of manufacturing units are unorganised sector units, and 2/3 of manufacturing companies have a turnover of less than 200 crores[333]. The readymade garments thus manufactured are then sold through various types of retail outlets. The latter in turn range from small retailers to large corporate retail outlets.

Corporate retail has a stronger presence in clothing retail than in any other retail sector. In 2004, clothing, textiles and fashion accessories accounted for 39 per cent of 'organised' retail in the country, more than twice the proportion of the next largest sector (food and groceries)[334]. The shopping mall 'boom' in the country is centred around garment outlets. Most of the foreign investors who have come in through the recently opened single brand route are also garment and footwear companies.

Corporates and the Clothing System

In those rare cases where a specific argument for FDI in clothing retail is made, the argument sounds very familiar. It is argued that, one, the expansion of retail as a result of FDI would result in increased demand and higher business for garment manufacturers[335]. Two, that it would provide capital for needed

329 Saksena 2002.
330 Howell and Kambhampati 1999.
331 Indiastat.com.
332 National Sample and Survey Organisation, 61st Round, "Household Consumption of Various Goods and Services in India, 2004-2005."
333 Mukherjee and Patel 2005.
334 IMAGES – KSA Technopak 2005.
335 Mukherjee and Patel 2005,Venkataraman 2004.

investments in the supply chain, as well as better technology for manufacturing and logistics management[336]. Finally, it is argued that the entry of FDI in retail will not harm existing non-corporate retailers, because they have a loyal clientele[337]. From such arguments it would appear that the interactions of corporates with systems of clothing and food are largely similar.

In reality, they are not. However, corporate takeovers are no more likely to be a panacea for clothing than they are for food. The parallels and divergences between clothing and food mean that corporate penetration has different consequences for both, but both are likely to be negative.

The clearest divergence at the level of retail is the different segmentation in clothing retail. Corporate retail sells mostly readymade garments, a fundamentally different commodity and production process than that sold by the tailors who produce custom made garments. The latter are producer-retailers, similar to cooked food vendors or restaurants, but occupying a larger share of the clothing market than the latter do of the food market. In between are the non-corporate readymade garment retailers, a rapidly growing segment who now account for the vast majority of readymade garment sales.

Readymade garments themselves, in turn, have cultural and consumption dynamics: women's saris, for instance, are a combination of a 'readymade' cloth (the sari itself) and a tailormade garment (the blouse), while men's clothing is far easier to make in ready-to-wear form and the majority of men in urban areas now depend on readymade Western clothing.

A further distinction on these lines is that product branding is likely to be of greater importance in corporate garment retailing. This is because such branding is possible for clothes, unlike for non-processed food products, and it offers an easy way of apparently expanding product range, while in reality maintaining the same production base and hence achieving economies of scale in production. Expansion of corporate retail therefore largely means expansion of branded readymade garments. Approximately 30 per cent of readymade sales are now of branded garments, a high proportion that is expanding[338].

A second divergence is the relationship with agriculture. Cotton agriculture is in a state of increasing crisis, and it is cotton farmers who are the victims of the infamous 'suicide waves' in Vidarbha and Andhra Pradesh. The factors

336 Mukherjee and Patel 2005.
337 *Ibid.*
338 Indiastat.com.

that feed into this include massive volatility of prices, a result of the import liberalisation that has affected all cash crops[339], and the decline of the government procurement system under the Cotton Corporation of India. A further factor is the withdrawal of subsidies for rising inputs costs for cotton cultivation, which as currently practised is highly input intensive. Much of this cost is the cost of seeds, now increasingly either genetically engineered or produced by contract farming themselves[340]. GE seeds drive up input costs, tie the farmer to the corporate and lock them into a cycle of debt – a cycle that often becomes fatal if the crop fails.

Given this crisis and its salience in media coverage on agriculture, one might expect that it would be another area to be addressed by corporate retail. But there is a reason that cotton agriculture and its crisis find no mention whatsoever in the arguments of corporate retail advocates, in contrast to food. Food production is inextricably linked to agriculture, and corporate food production methods attempt essentially to reduce the importance of this fact by transferring risk to the producer while ensuring that production occurs as per the corporate food system's requirements. In the clothing system, on the other hand, the connection with agriculture is much more dispensable. The existence of artificial fibres provides a backup in case of a rise in prices or a failure of production. Additionally, liberalised imports also mean that Indian production is not central. This means that 'corporate clothing systems' are not bound to Indian cotton farmers in any direct sense.

Does this then mean that increased corporate retail would have no effect on agricultural production? Not necessarily, for two reasons. One, the dependence of corporate retail on readymade garments is likely to further increase the percentage of manmade fibres in clothing, implying that an expansion in readymades could mean a smaller market for cotton. Two, as seen with food supply and distribution, corporate supply chains have easier access to global production than existing fragmented supply chains. As a result, we can expect that corporatedriven integration of the supply chain will result in even higher integration with global markets, and hence higher price volatility. This in turn would most likely exacerbate the crisis of cotton agriculture in the country, though the exact scale of this effect would depend on other factors.

In this sense, the parallel between the food and clothing systems is not in the assumption of corporate control over production but on the broader tendency

339 Singh 2005.
340 Ramamurthy 2004.

of corporate systems to offload as much of the risk of agricultural production as possible – in turn harming the producer. The clothing system does this differently and more aggressively than the food system, but the parallel remains.

The parallels and divergences are more complex if we consider the remainder of the system of provision. The current state of textile production is the result of several historical trends. The steady decline of the cotton mills is the most well known recent development, a byproduct of initially high levels of government protection and regulation followed by rapid liberalisation from 1985 onwards[341]. The result was the growth of powerlooms, whose lower wages, and access to manmade fibres has allowed them to out-compete the cotton mills. The looms, in turn, have typically been small. This small size reflects a number of economic factors, including the small share of readymade garments (resulting in less economies of scale)[342], an excise duty structure that indirectly incentivised small units[343], and various government policies reserving sections of the textile and garment manufacturing industries for the small-scale sectors. Despite the steady withdrawal of all such reservations and the gradual restructuring of excise duties, textile production continues to be dominated by smaller units, who produce relatively lower quality textiles[344]. The net result is commonly argued to be the lack of technology (unaffordable for small units), resulting in very low productivity in the textile industry[345]. Where this has changed is in the export sector, which has received considerable government encouragement for the last two decades. In this sector, the absence of duties and SSI reservations have resulted in larger units and some economies of scale, but the lack of access to the domestic markets for these units results in high levels of risk (given the variability of export markets) and hence a lack of interest in investing for these firms[346]. Nevertheless, in a reflection of these dynamics of economies of scale, 'export surplus' readymade garments are found in street markets across big cities.

Garment manufacturing itself was until recently reserved for small-scale industries, a restriction removed by the National Textile Policy in 2000[347]. However, production remains concentrated in the unorganised sector units. In this sector, corporate intervention has long been present, with apparel firms

341 Howell and Kambhampati 1999.
342 Verma 2002.
343 Ganesh 2002.
344 Verma 2002.
345 Ganesh 2002.
346 Ganesh 2002.
347 Mukherjee and Patel 2005.

setting up their own manufacturing units (or outsourcing to "contract manufacturers" and home workers). Many corporate apparel retailers are in fact manufacturers with retail outlets[348]. These supply chains have also been used for export purposes, given that readymade garments form the largest share of India's textile exports. This kind of integration is said to have resulted in higher productivity, lower lead times and better quality[349]. In the case of some manufacturers, this integration has extended back to textile production itself, and some branded garments manufacturers are now selling both fabrics and garments under the same brand[350].

Where would further corporate retail enter this picture? Current corporate retail in the clothing sector is driven primarily by apparel manufacturers, but suffers from a handicap – it is unable to expand because of the lack of a mass distribution system. Retailer markups are reported to result in higher prices despite low production costs[351]. The corporate retailers that do exist are already caught in a branding competition, within store brands of corporate retailers such as Pantaloons cutting into the profits of apparel manufacturers who sell through them (and hence the latter's preference for own brand outlets)[352]. Own brand outlets are growing at a rapid pace but have inherent limits in terms of the capital available[353]. There has been a major expansion of shopping malls and hence of retail space for clothing, but such malls bring their own dynamics, as discussed later in this chapter, and hence have not been able to help markets expand further.

The injection of FDI into such a situation could result in two types of changes in this scenario. Foreign garment manufacturers would be more likely to move in with high end products, as they are doing in single brand retail and as they have done in China[354]. These products would have less of a direct impact on the market than on cultural and consumption dynamics, where they are displacing domestic branded apparel manufacturers as the 'leaders' of fashion and hence the small but lucrative Western fashion sector. This in turn would alter fashion patterns through the existing readymade garment sector, but would not necessarily expand it greatly. It is the second effect that would have more direct impact. This would be the entry of large mass retail chains such as Wal

348 Mukherjee and Patel 2005.
349 *Ibid.*
350 Fibre2Fashion.com 2007.
351 Verma 2002.
352 Venkataraman 2004.
353 Dua 2006.
354 Fong and Dodes 2006.

Mart, already the world's largest garment retailer, whose presence would address the capital constraint facing garment manufacturers.

This would certainly result in a rapid expansion of corporate retail in garments. Corporate garment retailers would have the same advantages that corporate food retailers enjoy – easier access to credit, urban space dynamics and price flexibilities. Such expansion would initially tap the existing demand for readymade garments, but a key aspect of this would be efforts to expand the presence of branded readymades in the women's clothing market. This is a market that in India is currently dominated by clothing for children and men[355], but women's clothing demand is higher and possibly more profitable.

The impacts on both textile and garment production would likely be manifold and complex. On the one hand, textile production would need to be of more standardised quality, in order to reduce risks and allow for uniform branded products to emerge. This would need higher technology and economies of scale, displacing the existing unorganised sector powerlooms in favour of larger mills and vertically integrated fabric – garment units (or contracted supply chains with the same purpose). At the same time, efforts to expand into women's clothing in particular would require imitation of the variety provided by traditional dressmaking, creating a dynamic whereby there would be a continuous tension between the ability to create 'variety' while simultaneously reducing the threat to economies of scale – a tension that over time would take multiple forms in the evolution of fashions[356]. This would promote further vertical integration, since greater flexibility in control over fabric would also allow for product differentiation while allowing control over where that differentiation occurs (and hence ensuring it takes place at whichever level is less threatening to economies of scale). Synthetic fibres which are easier to produce and manipulate would be likely to rise in consumption, both for general reasons and for these purposes of flexibility.

At the level of garment manufacturing, the displacement of tailors would be accompanied by the growth of large-scale contract manufacturing, as already occurs in the export sector – with its accompanying patterns of a combination between factory-based production and home-based outsourcing. Concentration would likely occur in this sector for reasons both of economies of scale and of vertical integration, with the major competition being between apparel manufacturers attempting to protect their market share and large corporates

355 Indiastat.com.

356 See Fine and Leopold 1993 for a detailed exploration of this idea in the context of the UK and the US.

creating "in-store" brands and integrated textile – store production. The liberalisation of garments trade across the world would also encourage imports of both textiles and garments, which would further damage the employment potential of this sector.

The results would not be uniform, with tailors retaining a stronghold in parts of the women's clothing sector for the foreseeable future. But such strongholds would be far smaller than the current situation, and would change over time as dynamics of clothing themselves change. A second resistance factor would be that there is no inherent need to frequently purchase clothing, and the generation of such needs through socio-cultural processes and the dynamics of a system of provision will be limited because of the sheer lack of purchasing power for much of the population. In this sense, unlike food, the expansion of corporate clothing systems has more defined structural limits; but they do not preclude a rapid growth of corporate retail and accompanying consequences for employment and the unorganised sector.

Chapter 10

Tendencies of Corporate Systems of Provision in General

From these explorations of apparel and food, can we draw any conclusions on the tendencies of corporate penetration through retail? Some parallels do emerge. Naturally, those parallels are strongest at the level of retail itself, but they are not limited to that level.

Disconnection from Agricultural Production

The first parallel is, as discussed above, the tendency to disconnect from agricultural production, wherever such production is involved in a system of provision. This will have a harmful effect on the livelihoods of the vast majority of smaller agricultural producers.

The Need for Uniformity Combined with Diversity and Flexibility

Corporate systems of provision facing non-corporate systems of provision have to deal with an inherent paradox. On the one hand, they need to create as uniform a production process as possible, in order to exploit the economies of scale that are their most elementary competitive advantage. On the other, there is a need for product diversity both because of the inherent diversity of most competing non-corporate systems of provision and the need to increase profits by catering to more consumption choices. The latter in turn become part of a complex dynamic of changing choices, production constraints and other factors that vary widely between systems of provision, but in general tend to increase the rate and variability of change – requiring flexibility on short time scales.

These contradictory tendencies have further consequences.

Prevalence of Contracting and Creation of Systems of Vertical Control

In the neoliberal era, it is often said that corporates engage in outsourcing, flexibilisation and focus on 'core capacities', with the vertically integrated giants a thing of the past. This is true if one is comparing one formal corporation to another. But when confronting noncorporate systems of provision, the essence of a corporate system of provision is the displacement of as many of these actors as possible by vertical chains of command. This allows the corporate to capture rents at different levels while also satisfying the contradictory needs of uniformity, diversity and flexibility – as risks are transferred to producers and suppliers, economies of scale captured by the corporate and rapid change in production processes made possible. Contracted production and specialised supply and processing chains are the result.

Concentration and Technological Intensification in Systems of Processing, Supply and Distribution

The concomitant of the above is concentration in these sectors and a tendency towards technological intensification, largely to ensure the combination of uniformity and flexibility that corporate systems of provision tend to require. These factors have a further effect on the ability of smaller or existing actors to survive.

Integration with World Markets

Such supply chains ease integration with world markets both for exports and for imports. This has implications for the economy as a whole and for the ability of the state to regulate prices and social impacts. FDI would play a particularly strong role with respect to this aspect.

Displacement of Non-Corporate Retailers

The sine qua non of retail-led penetration of corporate systems of provision is, of course, the displacement of non-corporate retailers (the often ludicrous disclaimers of corporate retail advocates notwithstanding). This takes place through a number of processes which in the Indian context are shared across most retail sectors, and will result in some such retailers being forced into much smaller markets and others being marginalised entirely.

Creation of New Consumption – Production – Retail Dynamics and New Differentiation of Consumers

Any system of provision involves a dynamic between consumption and production[357]. In corporate systems, if any generalisation at all is possible, such dynamics would tend to increase the speed of change, due to the mutually reinforcing tendency of 'flexibility' and accelerating consumption, while simultaneously reducing its scope, reflecting the contradictory requirement of uniformity. The nature of such dynamics will of course vary from system to system.

In the Indian context, a further dynamic will be set in place. In contrast to the decentralised consumption and production patterns typical of existing non-

357 Fine and Leopold 1993.

corporate systems of provision, corporate systems by definition will result in greater degrees of centralisation of decision-making – and more uniformity of consumption patterns. Because the structural tendencies of corporate retail ensure that it will cater to high income groups first, corporate retail spaces will tend to be shaped by upper caste and class markers, but only by markers shared across cultures and states. This in turn will reinforce the existing process of defining an increasingly uniform "culture of the rich" across the country, with different consequences for production in different systems of provision (as seen in the previous chapters). At the consumption level this will create a new and more uniform differentiation pattern between consumers and a hierarchy of spaces, to many of which the poorest sectors could and would simply be denied entry entirely.

Impacts of Corporate Systems on Urban Space, Environment and Unemployment

Given these tendencies, it is possible to reach certain generalisations about the possible impacts of expansion of corporate retail and particularly the step of permitting direct FDI in retail. The direct impacts would be on the producers, intermediates and retailers of the existing systems of provision, as discussed. However, there are also secondary consequences that these impacts would have, in turn, on the rest of the economy and society. Each of these impacts also involves systems of the wider economy, which are largely out of the scope of this study. Hence this section aims only to sketch each of these areas and identify possibilities for future consideration.

Urban Space: Hypermarkets, Supermarkets and the Shopping Mall Phenomenon

One of the key consequences of expansion of corporate retail will be the impact on large cities, the sites of the current and likely future expansion of corporate retail. The interaction of corporate retailers with city environments – both from the point of view of town planning and as a larger sociological investigation into "retail geography" – is the subject of a large volume of literature, most of which however is concerned with industrial countries and the US and the UK in particular[358]. The issue has also become a key part of urban planning across the world, and many countries have passed municipal or even national laws (as in Japan) regulating the location and size of corporate retail outlets.

Such interest is only natural, given that corporate retailers affect "urban economic development ... and a slew of related land use, urban design and

358 See Crewe 2000 for a description of parts of the literature on retail geography.

transportation issues."[359] There are a number of different facets and different levels to concerns on urban space with the expansion of corporate retail, some of which are amenable to planning remedies and some of which form part of the larger class-consumption dynamics of corporate systems of provision.

Traffic and Infrastructure

The problem most often quoted about large corporate retail outlets, both in India and abroad, is that of traffic management. A number of factors converge to ensure that corporate retailers, and large corporate retailers in particular, require and increase the use of private transport. First, corporate retailers aim at multiple purchases in a single shopping trip, making public transport more difficult to use. Secondly, this increases the tendency to target high income groups – who would have access to such transport – which in turn encourages placement of the stores in areas with large high income populations, who again tend to be less served by public transport. Thirdly, the kind of infrastructure and planning regulations noted above encourage placement of stores outside city centres.

The result is a change in traffic patterns and a need for parking, two issues that are already causing severe problems in Delhi and Mumbai around shopping malls. A large format corporate retail outlet can in fact necessitate the restructuring of the local area's entire road network, which in most cases becomes an implicit subsidy by the local government to the corporate retailer. The general increase in use of private transport also becomes a greater burden on the city's infrastructure in itself.

A related problem is the infrastructure required to support shopping malls and large format corporate retail outlets. Such outlets consume enormous amounts of water, electricity and sheer space. The press reported that the six planned Vasant Kunj malls in Delhi will consume as much water as and electricity as tens of thousands of homes. In Gurgaon, most malls rely on captive electricity generation, increasing air pollution, and there is talk of malls drilling borewells for water – impacting the water table[360].

Most regulation of large format corporate retailers focuses on the problems of traffic and maintaining spaces for some smaller retailers, while indirectly also trying to address infrastructure requirements. Most countries require that shopping malls and hypermarkets should be placed outside of congested areas

359 Goodno 2004.
360 Adiga 2004.

or outside of the city entirely. Until recently Thailand, for instance, required that stores larger than 1,000 m^2 should be placed at least fifteen kilometers away from city centres[361]. Zoning regulations in most countries require special municipal consent large format outlets and regulate the number that can come up at any particular location, and in both the UK and the US frequent battles have been fought between civic mobilisations and large corporate retailers over placement of stores inside towns[362]. Through the 1970s and 1980s, Japan tightly restricted the number of outlets with more than 500 m^2, which required permission from the national government to open[363]. Such regulations are also meant to protect local non-corporate retailers in a few areas. Higher taxation of stores has also sometimes been recommended.

No such regulations exist in India at the moment, a fact that has already become a very serious problem in the context of the shopping mall boom. The impact of corporate retail outlets in India would also need to be understood as part of the existing severe infrastructure crisis, with all major cities suffering from either power or water shortages and most suffering from both. Corporate retail outlets would drive up usage of both resources.

Real Estate Speculation

In the absence of regulations and planning, Indian corporate retail development – in particular, shopping malls – has shown distinct patterns of crowding. High income areas become the sites of concentrated corporate retail development. For instance, one area in Mulund, Mumbai, has "Big Bazaar, Apna Bazaar, Subhiksha, Spinach, Shoprite, Foodland ... [and] the local Sai Supermarket, all ... within a two-kilometre radius."[364] Shopping malls in particular frequently show a pattern of coming up right next to one another, with, for instance, 20 to 30 malls within a few kilometres in Gurgaon[365].

This has already led to observations by many that India's shopping malls are in fact failing as retail outlets. They are not drawing enough customers, and many customers do not come to shop, an interesting phenomenon in itself[366]. One observer estimated that 70 per cent of malls will fail[367]. Such predictions of failure in turn lead to the possibility that such malls are not intended in fact

361 Economist Intelligence Unit 2005.
362 See Goodno 2004 for an example.
363 Flath 1988.
364 Kaul and Mahesh 2007.
365 Adiga 2004.
366 Adiga 2004, Kaul and Mahesh 2007.
367 Kaul and Mahesh 2007.

to succeed, but are in fact part of a process of real estate speculation - what one real estate developer described as the "loot and scoot" model[368]. In a context of high real estate prices, there is an inherent tendency towards such speculation, which in turn has extremely harmful effects on land prices, infrastructure usage and urban planning as a whole. Malls are said to generate a return of more than 14 per cent, as compared to 11 per cent for offices and 6 per cent for residences[369].

An excellent example of such speculation is the recent battle over mill lands in Mumbai, which, after the Supreme Court upheld the relevant zoning laws, are now mostly being converted to malls. The mill lands issue exemplifies the tendencies of governments to support corporate systems of provision, assisting in promoting such speculative development patterns.

The Use and Allocation of Space

The use of malls as speculative property however gives rise to the question: why are malls the object of so much investor interest? Or, at a more basic level, why do they draw so many people? And why do many of those people "come to a mall just to waste time", to quote a teenager in one such mall[370]?

It is often noted that the answer is that malls have become the 'new parks', areas of "socialising" for youth and – inevitably - "air conditioned comfort."[371] Malls in that sense are the epitome of the last mentioned tendency above, namely the interaction between corporate retail and upper class / caste groups. A mall is a very large hybrid 'public-private' space built around consumption: public in the sense of nominally open to anyone, but private in the sense of very tightly policed with various implicit and explicit mechanisms. But such policing, like air conditioning in the context of food retail, has material consequences. It restricts the kind of products that can be sold to the types that fit this space – in practice, only clothing, multinational fast food retailers and multiplex cinemas, causing problems with levels of actual purchases.

Malls have, meanwhile, become the most distinctive marker of class differentiation of urban space. Indeed, as is occurring in Delhi now, the shopping mall, or more generally the corporate retailer, becomes part of defining what a worthwhile 'city' space is. It is a historically familiar dynamic of city politics,

368 Adiga 2004.
369 Bist 2004.
370 Adiga 2004.
371 Bist 2004.

built around excluding the working class from the rights and claims of citizenship. Provision of infrastructure, reshaping of traffic and bending of regulations hence all become justifiable in a moral universe dominated by the need to 'reconstruct' the Indian city, an age-old cultural phenomenon now recreated once again. The end result is cities marked by greater and greater segmentation, isolation, ghettoisation and social tension.

Environment

A second consequence of corporate systems of provision that has been noted consistently throughout this study, from agricultural production through the urban space discussion above, has been the relationship of such systems with resource usage. There appears to be a tendency in corporate systems of provision to intensify usage of resources at various levels, as a result of different dynamics in different parts of the system of provision.

Such resource usage patterns in turn will have severe environmental consequences. Three or four such consequences can be traced. The first will be damage to agricultural land and crop diversity. The second will be increased dependence on fossil fuel usage, driven by multiple factors. These include cold chain infrastructure and fast transport, needed for food systems in particular. A rise in food processing and in synthetic textile manufacture, to use two examples that came up in this study, will also increase needs for fossil fuels.

The third consequence will be higher extraction of electricity for major cities, further distorting the electricity network in the country towards provision of such electricity to cities rather than rural areas. It is estimated that merely air conditioning the planned outlets of Reliance's Fresh chain will require 170 megawatts of electricity[372]. The overall increase in electricity demand would also mean a need for more power generation, with its accompanying consequences. Fourth will be the increased need for water, including for cleaning, sanitation, processing and agricultural purposes. Finally, a fifth will be the tendency to increase waste and packaging, as part of the shift towards packaged and branded goods. In addition to the resources needed for processing itself, this will generate additional waste in cities.

None of these resources are available in abundance in this country, and three of them – land, water and electricity - are already the subject of major class and resource conflicts. Corporate systems of provision would exacerbate these conflicts and fuel existing tendencies to divert the use of resources to higher

372 Navdanya 2007.

income groups. In addition to depriving the poor, such excessive resource usage will have a tendency to drive up costs, impacting the economy as a whole. But the ability of corporate systems to offload risks in the production chain would result in these changes impacting them at a later stage, while non-corporate retailers, producers and others will tend to be hit first. This would reinforce the competitive advantages of the corporate system of provision and its growth, possibly generating a cycle of intensifying resource usage.

The net result would be an exacerbation of poverty, livelihood insecurity and health problems, particularly at the production and retail points of the corporate system of provision.

Unemployment

Another theme that has run through this study is the displacement of various types of economic actor, with the implied impact of increasing unemployment. In the current debate in India, one facet of this has received considerable attention: the impact on small non-formal retailers, for many of whom retail trade is "distress" occupation which they entered as a result of the failure to find employment elsewhere. Agricultural crisis and the stagnation of manufacturing employment push people into the services sector, particularly informal retail[373], and therefore retail "is probably the primary form of disguised unemployment/underemployment in the country."[374]

It may be argued that it is not quite true that barriers to entry in retail are by definition low – community regulation, social custom, legal provisions and the operations of various civil, trade and criminal networks in cities would in fact make entry into retailing difficult. But such barriers are not based purely on access to capital, and the constellation of different social structures that overlap in this regulation provide opportunities to many different segments of society, though the type and degree of income would vary widely.

In contrast, corporate retail offers far less employment overall. As Guruswamy et al (2005) point out, taking Wal Mart as an example, the ratio between employment and turnover is so much lower that 35 Wal Mart stores would displace 4,32,000 people from retail employment. Assuming the same ratios for all foreign retailers, a 20 per cent share in the retail market for corporate retailers would mean displacing 8 million people[375].

373 See joint note by the Left Parties to the United Progressive Alliance government, October 24, 2005.
374 Guruswamy *et al.*, 2005.
375 *Ibid.*

The usual response to this argument is that the retail market would expand and absorb those displaced, and indeed Pricewaterhouse Coopers (2005) claims that 8 million jobs would in fact be created. However, a rough calculation is enough to show the absurdity of this argument. Keeping the same turnover figures, employing 8 million people in corporate retail would require a turnover of roughly $1.4 trillion for corporate retail alone, which is more than India's GDP. If we assume a 20 per cent share for corporate retailers, the total market would have to expand to $ 7 trillion, or seven times India's current GDP. To address this, one would have to make the even more absurd claim that non-corporate retailers would not only survive but expand so fast as to reabsorb these 8 million people, a claim that can be safely relegated to the realm of fantasy. It is therefore ludicrous to expect that those displaced from retail will be reabsorbed into retail. This level of displacement, moreover, would result from the impact at the retail level alone. It does not include displacement at other levels, which are impossible to estimate, though they will certainly be large.

In short, any significant expansion of corporate retail will result in mass displacement of labour. No amount of "economic dynamism" will absorb such a huge number of workers, particularly given that fifteen years of neoliberal economic growth have generated very little employment. Those displaced would the poorest sections of society, such as informal retailers, casual labour, small farmers and agricultural workers. Whatever the other consequences of corporate retail may be, this alone would be sufficient to create a social disaster.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions and Recommendations

If there is one conclusion that emerges most strongly from this exploration, it is this: *retail should not be opened to foreign direct investment.* The supposed benefits of FDI in retail are largely non-existent. But the expansion of corporate retail that it will produce will intensify what are already the most severe crises in India today – those of agriculture, food security, rural labour, urban infrastructure, the environment, and unemployment. This will have consequences ranging from severe to devastating for the poor and the working class, as well as for Indian society as a whole.

However, the argument here also implies that one cannot end with this conclusion alone. Corporate systems of provision are already expanding in this country, driven both by domestic and by foreign capital, and this raises urgent issues that must be addressed. In the long run such issues can only be fully resolved by fundamental changes in the political economy of the country as a whole. In the interim, however, some recommendations can be attempted that could help to reduce the problems now being created – *with the knowledge that such recommendations are at best mitigating strategies.* As in the study, the recommendations will primarily focus on the food system.

Recommendations Related to Existing Retail FDI Policies

As discussed in the Introduction, there are a number of existing routes by which corporate retail or wholesale trading is being allowed in the country. Two of these in particular – the franchise route and the cash and carry route – are particularly dangerous, as they allow for de facto participation in retail activities. Metro GmBH and multinational fast food retailers, for instance, have already begun activities that carry much the same implications for the wider system of provision as direct FDI in retail itself.

Regarding wholesale cash and carry, the only company now fully operating in food wholesale cash and carry is Metro GmBH, though Nokia and Wal Mart are in the process of obtaining permits. Since so few corporates are involved and the policy is new, there should be less difficulty in reversing it. *The policy allowing 100 per cent FDI in wholesale cash and carry should therefore be withdrawn immediately.*

Regarding franchising, FDI in franchising should be gradually removed. In the interim, tighter regulation needs to be put in place on the kind of activities that occur through franchising. Such regulation should ensure that the local partner is indeed an Indian company, and the existing practice of the RBI requiring local sourcing should continue. The same recommendations specified below for contract farming and for Indian corporate food and clothing retailers should apply to franchisees. No expansion of franchising via new outlets, new sectors or entry of new companies should be allowed.

Finally, as this study was being finalised, press reports appeared regarding planned moves to open up "non-controversial" sectors such as sports goods to FDI in retail. It has been the argument here, as discussed in Part IV, that corporate systems of provision of all kinds generally have negative impacts in the Indian context. Moreover, it is very clear that the intent of such moves is a step by step movement towards throwing open retail in general to FDI, for there is no rational justification for opening such sectors to FDI otherwise. *All steps to further open retail to FDI should therefore be halted.*

Recommendations Related to Agricultural Production

A number of issues have arisen in regard to corporate food systems, in particular, and the impacts they are having on agricultural production processes. Specifically, contract farming is a key issue that must be addressed. Some methods by which these issues can be addressed are as follows.

Corporate contract farming should be discouraged and its reduction and disappearance made a goal of public policy. Stricter conditions for contract farming should be imposed to regulate existing operations. Some of these conditions would include the following:

- Contracting companies should be required to register themselves and contracts should be compulsorily recorded in writing and registered with local authorities, as required under the model APMC Act. An incentive may be provided to farmers to encourage recording of contracts. For any verbal contract that is made in spite of such provisions, the presumption in case of a dispute should favour the farmer and the producer, and the corporate should be penalised for failing to register the contract. Wide publicity should be given to warn farmers against verbal contracts.
- All contracts should specify both the quantity of produce being contracted for and the amount that will be paid.
- There should be a maximum period beyond which payment cannot be delayed, similar to that applied by current APMC Acts to traders in mandis. No contracts that allow delays beyond this period should be permitted, and any delay beyond that should invite penalties for breach of contract.

- Corporates should not be permitted to default on contracts. Farmers should be permitted to freely sell any surplus above the amount contracted for.
- No discounts by corporates from the contracted price should be permissible on grounds of promotions, sales, etc.
- Quality controls should be applied by third party agencies rather than by the purchasing corporate bodies.
- Arbitration boards with elected representation should exist in each area for settling contract disputes.
- All contracts should have a minimum percentage of procurement from cooperatives of smallholders. Formation and registration of such cooperatives should be decentralised. Panchayat level bargaining could also be an option.
- Government incentives to contract farming should end.
- Revisions to land laws that allow or ease leasing or purchase of land by corporates should be reversed. Land ceilings should apply to corporate agriculture as they do to private agriculture. No government land should be granted for such purposes.

Further safeguards that could be considered include requiring that corporates deposit money in an escrow account for use in case of breach of contract[376], crop insurance and so on.

Regarding the apparel system of provision, there are already numerous studies and policies that have shown the way to protecting cotton farmers. Key elements include strengthening the Cotton Corporation of India, trade protections, debt waivers, input subsidies and so on.

Recommendations Related to Procurement, Distribution and Processing

Regarding food procurement, the first key recommendation would be that *changes in the APMC Acts to allow for direct private procurement and private market yards should ideally be reversed.* The very serious problems in the current APMC system should be addressed through other processes. Private players should be required to function through the government markets.

376 Banerjee *et al.*, 2002.

If private procurement of foodgrains is allowed or occurs on a large scale through other methods, *the government should take proactive steps to monitor speculative activities and check hoarding*. Unusual price rises or high levels of private purchase should trigger a safeguard system that will require those purchases to be released on the market.

Similarly, *the Food Corporation of India should be strengthened and the PDS universalised (with an end to targeting)*. This is a recommendation made many times and in fact is a commitment of the UPA government's Common Minimum Programme.

Cooperative structures should be revived and strengthened, including by investing in cold chains and in processing for food crops and in infrastructure for textile/clothing production. Small unorganised sector processors, the current majority, should be encouraged to join such cooperatives. Incentives should be provided to cooperative production.

Conditions should be imposed on domestic procurement by corporate retailers to curb imports by retail chains, particularly in clothing.

Public investment in rural infrastructure must increase and focus on transport, cold chains, employment generation and assistance to small and marginal producers as well as agricultural labour. Public investment must have as its primary goal the reduction of the distress of these sections.

Recommendations Related to Retail

There is a need for detailed and sensitive regulation of corporate retail, as compared to the current pro-corporate and *laissez-faire* attitude. Indeed, there is arguably a case for barring participation of large corporates in retail in several sectors, including and particularly food. If this is not done, some other regulations could include the following.

Each store format of corporate retail – malls, hypermarkets, supermarkets, discount stores, convenience stores, etc. - should be subject to licensing and limits on numbers and throughput. Hypermarkets and malls should be required to be outside city limits, and there should be limits on the number of malls or hypermarkets in a single city. Environmental consequences and infrastructure requirements should be assessed and considered before any permission is granted. Convenience and discount stores should also be regulated similarly, with the city divided into zones and numbers of corporate outlets in each zone regulated on the basis of population and the presence of non-corporate retailers. Corporate stores smaller than a minimum floor size should be barred.

Regulations to prevent predatory pricing should be put in place. Discounts, specials and promotions in particular should be monitored for such predatory pricing.

Taxation should be applied to corporate retail products proportional to the additional use of electricity, water and road and traffic space that they promote. No incentives should be provided to corporate retailers. The money from these taxes should be put into a fund for credit to non-corporate retailers and for unemployment insurance.

Municipal planning laws and zoning boards should provide space for non-corporate retailers in plans, particularly street vendors, hawkers and small shops. Road planning should include spaces for such retail activities. Administrative eviction drives should be halted and laws passed to secure the rights of unorganised sector workers and retailers.

The government must take proactive steps to halt the judicial offensive against retailers, hawkers and street vendors. It is an abiding irony that advocates of corporate retail, so fond of quoting the principles of the free market, have hardly anything to say about this brutal and anti-'market' exercise of regulatory powers.

Credit should be provided to non-corporate retailers by public sector banks and various other schemes. A proactive programme of assisting non-corporate retailers to upgrade should be undertaken. This should include technical assistance and advice.

Cooperatives and cooperative marketing should be encouraged and strengthened to compete with corporate retailers.

Conclusion

These recommendations will no doubt be dismissed by many as a return to the muchmaligned 'license permit raj', a revival of 'populist controls' and the 'socialistic mentality'. 'Consumers' will be harmed by such 'anti-competitive' steps, 'farmers' will receive lower prices and the beneficiaries will be 'vested interests'. Most of all, the great slogan of the upper classes of India today – 'economic growth' – will suffer.

But India does not need yet another policy that will exacerbate the crises and impoverishment which fifteen years of reforms have produced for so many of the people of this country. The advantages that corporate retail would ostensibly generate can be produced by other, more democratic and socially just policies. What is needed now is a reorientation of economic policy towards justice, equality and livelihood security, a reorientation that has become the central demand of popular struggles across this country.

Perhaps the most fitting answer to those who support corporate retail and neoliberal reforms is a statistic quoted in Chapter 6, a well-known figure that is now hardly discussed in public policy: calorie intake, protein intake and cereal consumption among rural populations is declining, while undernourishment is increasing. Between 1988 and 2000, as India's "growth story" began, the percentage of undernourished farm labourers and farm households rose by 5 per cent. Such a statistic turns the entire story of corporate retail advocates on its head, for it is these people who are the majority of Indians - and hence of Indian "consumers." These "consumers" do not need corporate retail. They need secure livelihoods that provide a life of dignity for one and one's family, which are exactly what corporate retail will further undermine.

It is hence not an accident that Reliance Fresh stores are under attack throughout eastern India, farmers are storming outlets in Karnataka and increasing numbers of political parties are aligning against FDI in retail. These are the first voices of what will soon become a wave of popular anger against the "retail revolution" and the havoc it will wreak. Democracy can not afford to ignore them. ❑

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