

TRACING THE ECONOMIC HISTORY OF COCOA DEVELOPMENT IN INDIA: MYTHS AND REALITIES

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Introduction

The main objective of the study is to examine the introduction of cocoa as a crop in India and expansion of its cultivation through the theoretical lens of global value chain. Geographical spread and development of cocoa cultivation in the world was in tune with the expansion of colonialism and imperialism. Though tropical countries have been producing the entire world's cocoa crop, its processing and marketing have been carried out by few firms located in temperate zones of Europe and America. Cocoa development in India is no way different from the expansion and development of the crop in West African countries. In both the instances, the developmental roots can be very well traced to the imperialism and colonialism. In fact the development of cocoa in India was categorized as dependent development¹ (Kurien, 1990). It is a matter of fact that the western colonialists, who dominated over the Malabar Coast from time to time, conditioned the agriculture in India, and especially in Kerala to serve the interests of the metropolis (Panikkar, 1953). As Kurien (1990) rightly documented, though colonialism has disappeared from the national scenario of Indian polity, the economic strings attached to it still persist through the large number of multi national companies operating in the country. They started operating in India in the post world war era and envisaged the agrarian economy of South India, particularly Kerala as a potential region for the production of raw materials required by them.

As of now, cocoa is one of the important commercial plantation crops in India and it is mainly cultivated in four major southern States *viz.*, Kerala, Karnataka, Tamil Nadu and Andhra Pradesh. India produces 12954 tonnes of cocoa from an area of 46318 ha (DCCD, 2010). The cocoa industry in the country had expanded to a considerable extent in recent years. At present, more than 15 industrial entrepreneurs and firms existing in the field demand nearly 30,000 tonnes of cocoa beans, of which the present domestic availability is only about 40 percent. Considering the market growth in the chocolate segment in India, which is about 20 percent per annum, cocoa, has a great potential to develop in future years. As mentioned earlier in this section, our attempt here is restricted to trace the history and development of cocoa with special reference to Kerala in the light of global value chain theory.

Theoretical frame

Gereffi introduced what has become a seminal distinction between two different types of governance in global industries: 'producer-driven' commodity chains and 'buyer-driven' commodity chains. The former are characteristic of more capital-intensive industries in which powerful manufacturers control, and often own several tiers of vertically organized suppliers, for instance, motor vehicle industry is a perfect example for producer driven chains. On the other hand, buyer driven chains refer to industries like apparel and foot wear, where subcontracting networks are managed with varying degrees of closeness by retailers, marketers and other intermediaries. Gereffi's work highlighted the buyer driven commodity chain as an emergent governance structure in the global economy, which was linked to the rise of retailers and brands that lack manufacturing capabilities, and thereby rely on a base of nominally independent global suppliers to produce the goods sold in their stores or under their labels.

¹ In many agrarian matters of the third world, ranging from cropping pattern and husbanding of the crops to procuring and marketing of the final products, the dominated countries were made dependent on the dominating ones (Kurien, M., 1990)

Timothy Sturgeon's work on contract manufacturing in electronics hypothesizes that value chain modularity represents a mode of industrial organization that is not only neither market nor hierarchy but more accurately could be described as networks (Sturgeon, 2002). He emphasizes on exchange between suppliers and clients where the highly competent supplier offer full set of services to the clients without great deal of assistance from the lead firm. He explains this type of network relationship as 'modular'. Compared with the relational networks, modular networks are characterized by lower degrees of mutual dependence and a greater reliance on codified knowledge, where he argues that standards and codifications are synonyms of trust and they produce an outcome that is similar to what may be observed in long term, relational networks.

In continuation, Gereffi *et al.* (2005) proposed the theory of 'governance structure' between the poles of hierarchy and market, captive networks, relational networks and modular networks. As compared to the latter two, the first category describes relationships that are more asymmetrical, as lead firms that have invested in developing the skills of their suppliers seek to lock them into a relationship making them captive. Relationship networks are likely to find when firms need to exchange complex information that cannot be codified, thus requiring frequent, face to face interaction. In this study we follow the theory of governance structure proposed by Gereffi *et al.* (2005).

Tracing the history of cocoa development world-wide

Cocoa is supposed to have originated in the upper Amazon basins and subsequently spread to other humid tropical areas of Central and South America (Thompson, 1956). The Europeans came to know about cocoa in 1502 and the first commercial shipment of cocoa beans took place to Spain in 1585 (Are and Jones, 1974). Cocoa reached Italy in 1606 and France in 1660. Later the crop was introduced in Ecuador, Venezuela and the Islands of West Indies and subsequently to Africa and Asia. In Ivory Coast, cocoa was introduced in 1895 by the French. In other words cocoa was commercially introduced and propagated by the Europeans in their colonies for their own business interests. The native farmers in most of the colonial states were initially opposed the cultivation of cocoa because of the fact that this crop would displace their food crops. Nevertheless, the prowess of the then European colonial powers helped them to turn large areas of farm land under their colonies to cocoa cultivation. It is a matter of fact that, this was possible through different techniques ranging from prizes, rewards to threats. Though tropical countries have been producing the entire world's cocoa crop, its processing and marketing have been carried out by few firms located in temperate zones of Europe and America. The evolution of cocoa trade provides a good example of how captive form of coordination can evolve towards inter-firm governance structure. Most of the cocoa growing African countries had a Marketing Board which controlled procurement and trading of the crops. But it was alleged in many instances that the Board was able to hold down the prices paid to the farmer whenever the world prices were rising. It was a fact that the Marketing Boards set up for the exports were actually controlled by the companies. Thus, the Marketing Boards were in turn reflecting, the essence of colonialism prevailed during those times. In consequence to the liquidation of colonial power structure, cocoa processing companies like Cadbury strategically attempted to spatially spread the cocoa crop across the world to broaden their raw material resource pool (Urquhart, 1959).

Tracing the history of cocoa development in India

The commercial history of cocoa in India also has its genesis in the globalization strategy of Cadbury. The company started functioning in India since 1948, and the entire cocoa bean requirement was imported at a huge transaction cost. Seeking an alternative, the company studied the possibilities of growing the crop in India and was successful in taking the government into confidence as far as the policy measures were concerned.

The history of Indian cocoa could be traced back to 1950s, during which the commercialization of the crop has been initiated in the country. Cadbury India Pvt. Ltd. was undisputedly the leader of the initiation of cocoa cultivation in India. Cadbury become functional in India from 1948. It is noteworthy that, long before becoming a manufacturer in India. Cadbury targeted the niche consumer segment encompassing

the elite and rich. Their Unique Selling Proposition (USP) during those days (even today) was to position the Cadbury products as a food for all age groups. The main challenge for Cadbury was certainly the efficient procurement of raw material. The world prices of cocoa had been vulnerable to supply shocks in the major producing countries, because of which there were high fluctuations of prices. Above all, the transaction costs were depleting the profit margin to a great extent. In these circumstances, Cadbury muted the idea of promoting cocoa cultivation in India. In 1959, D.H. Urquhart, Chief Chemist of Cadbury at London, was invited by Government of India to study the prospects of growing cocoa in India. In his report, he suggested Kerala to be the most suited state in India to grow cocoa on a large scale. The report thus acted as the base on which Government of India drew a policy for the promotion of cocoa cultivation in India². The real commercialization phase of India's cocoa economy commenced in 1965 when Cadbury India Private Limited started its direct involvement in the promotion of the crop³.

It was not much difficult for the company to convince the government about the prospects of growing cocoa and obtain full support as well as favourable policy environment for cocoa cultivation. It is imperative to observe that, from the inception of the crop cultivation programme, the government and the state departments had to depend on the company for each aspect of commercial cultivation as well as processing and marketing. We may view this scenario in yet another theoretical angle of global chain governance. Here the knowledge of technology and skills as well as financial power was entrusted with the lead firm (Cadbury in this instance). Suppliers (farmers) and the supporting institutional framework were entirely dependent on the Company. Moreover the switching over cost⁴ was very high or rather impossible for the perennial nature of the crop. Thus, we could argue that the governance structure that existed during the initial stage of cocoa commercialization was somewhere between captive and hierarchy⁵ which certainly had culminated in unequal exchange of trade. Such a governance structure necessarily evolved due to the fusion of interests between a multinational firm, manufacturing products for elite consumption and the government of a developing country.

During the 1970's the world cocoa prices were ruling high and profitability of cocoa cultivation was certain. Subsequently, a number of private seedling nurseries sprouted in Kerala and made huge margins. As a cumulative result of the alliance of the multinational with the government and other agencies, both the area under cocoa and production of the crop increased at a faster rate during the phase (Fig.1).

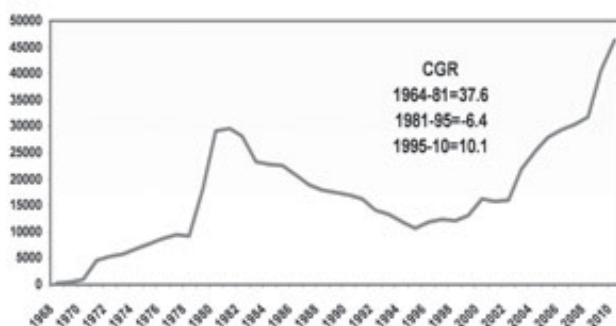


Fig 1. Trend and Compound Growth Rates (CGR) of cocoa area (in ha) in India

²The government entrusted the responsibility to Indian Council of Agricultural Research (ICAR). The ICAR assigned research activities to the Central Plantation Crops Research Institute (CPCRI). Since 1964, CPCRI has been continuously engaged in research on various facets of cocoa cultivation.

³The company had various programmes to diffuse the cocoa cultivation ranged from seedlings supply, extension activities etc.

⁴ Cost of shifting from the current business activity to another one.

⁵Hierarchy: This governance form is characterized by vertical integration. The dominant form of governance is managerial control, flowing from managers to subordinates or from headquarters to subsidiaries and affiliates.

By 1979-80, the world's cocoa price crashed to the bottom (Fig. 2). Cadbury found it profitable to get cocoa imported to the detriment of cocoa farmers in South India. Although the farmers in Kerala were struggling with an exportable surplus, the Government permitted the processing firms like Cadbury to import cocoa under the Open General License (OGL). The very idea of cocoa imports pushed down the cocoa price in India on par with the world price, or even below it. Subsequently, Cadbury withdrew from the cocoa market in Kerala, which created panic among the cocoa growers' in the state.

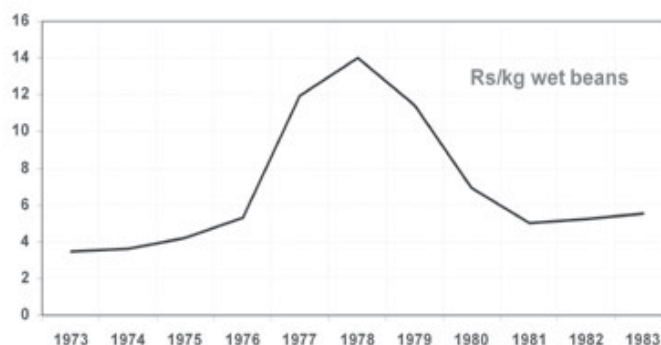


Fig. 2. Domestic price movements of cocoa during early 70's through early 80's

Conclusion

In the present study we have attempted to trace the development of cocoa cultivation in India. While looking through the theoretical lens of Global Value Chain (GVC) frame, the evolution of cocoa trade provides a good example of how captive form of coordination can evolve towards inter-firm governance structure. The commercial history of cocoa in India also has its genesis in the globalization strategy of Cadbury. We could argue that the governance structure that existed during the initial stage of cocoa commercialization was somewhere between captive and hierarchy, which certainly had culminated in unequal exchange of trade. Such a governance structure necessarily evolved due to the fusion of interests between a multinational firm manufacturing products for elite consumption and the government of a developing country. Following the great cocoa deceit in early 1980's, the farmers in India were struggling with an exportable surplus and subsequently, the cocoa development in the country went through lean patches.

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