Opinion Article

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Review of economic history of cocoa with special reference to India

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Abstract

Forceful means of colonialism and imperialism conditioned the local farmers in the tropics to grow cash crops like cocoa for export. Emergence of cocoa cultivation in India indubitably was a part of the commercialization strategy adopted by the Cadbury. During 1970s, attractive prices prevailed in the world market which coupled with cadbury's aggressive efforts to commercialize the crop, yielded fruitful results in India in the form of high growth rate of area expansion. We found an entirely opposite trend during 1980s when a large number of farmers started cutting down cocoa trees due to the sudden price crash of the crop. The victims of market failure were mainly farmers who did not possess an effective machinery to insure themselves against economic uncertainties. We have made an attempt to view the cocoa development history in India in the perspective of 'Global Value Chain'. We argue that the governance structure that existed during the initial stage of cocoa commercialization in India was somewhere between captive and hierarchy, which certainly had culminated in unequal exchange of trade. At present, due to concentration in the downstream end of the cocoa value chain, the cocoa producers are marginalized in terms of revenue share and bargaining position in the chain.

Keywords: Cocoa value chain, economic history, India, trade liberalization

Introduction

Geographical spread and development of cocoa sector in the world was in tune with the expansion of colonialism and imperialism. Though tropical countries produce 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 development[1] (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 multinational companies operating in the country". They have 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. It is striking that the dependency of our plantation sector on these trans-national organizations (mainly the retail giants) has of late become much more complex than ever.

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

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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 18920 tonnes of cocoa from an area of 82940 ha (DCCD, 2018). 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 40,000 tonnes of cocoa beans, of which the present domestic availability is only about 45 per cent. Considering the market growth in the chocolate segment in India, which is about 20 per cent per annum, cocoa, has a great potential to develop in future years. The main objective of the present study is to examine the introduction of cocoa as a commercial crop in the world with special reference to India, and in brief, trace the evolution of the sector through the theoretical tools of global value chain.

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 (Gereffi, 1994). 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, were 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.

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 the present study we follow the theory of governance structure proposed by Gereffy *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 (Ross, 2014).

The economic history of cocoa can be very well traced back to the consumption pattern of certain Central American tribes' years before the invasion of Spanish to the continent (Squicciarini and Swinnen, 2016). Interestingly, we may observe imposition of tax regulations on cocoa production and trade even as early as during the 16th century, which provides

adequate testimony about the importance of cocoa economy in the Central American society during those period (Green and Hymer, 1966).

In Cote d'Ivoire, 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 to the cultivation of cocoa for they were aware 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, and even threats (Rodney, 1974). The self-centric efforts of the cocoa promoters had ended up with desired outcome, where the West African region, although a late entrant (from late 20th century) in the cocoa sector, by the end of 1950s, become the most dominant cocoa producer in the world, and obviously the largest exporting zone of cocoa beans in the world as well.

The evolution of cocoa trade provides a good example of how captive form of coordination can evolve towards inter-firm governance structure. In other words, from time immemorial, cocoa production in the world has followed a Patron-Client governance structure, wherein the production is concentrated in less developed countries of West Africa such as Cote d'Ivoire, Ghana, Cameroon and Nigeria, and processing as well as chocolate manufacturing is dominated by the developed countries in Europe, North America and Asia.

Even in the African countries, the cocoa sector traversed through different phases of evolution. During the period 1950s to late 1980s, most of the cocoa growing African countries had marketing boards which controlled procurement and trading of the crops. But it was alleged in many instances that the boards were able to hold down the prices paid to the farmer whenever the world prices were rising. Although the activities of such boards had to face severe criticism from the farmer organizations of those regions on corruption and nepotism, the boards ruled for quite a long period of 40 years. It was a fact, that the marketing boards set up for the exports were actually controlled by the multinational firms. Thus, the marketing boards, in turn reflected the essence of colonialism prevailed during those times (Berry, 1974). Consequent to the liquidation of colonial power structure, cocoa processing companies such as Cadbury, strategically attempted to spatially spread the cocoa crop across the world to broaden their raw material resource pool (Urquhart, 1959).

In view of the income enhancement of cocoa farmers, the marketing boards were rather a failure[2]. Subsequent to the trade liberalization era started in the early 1990s, the boards, by and large, become dysfunctional in the African countries and in that place, a new form of public-private pattern of governance established as the institutional set up in these countries, which also had functioned at only sub-optimal levels of efficiency.

In the recent times, global value chain of cocoa has been characterized by the ever proliferating mergers and acquisitions, leading to concentration at each node of the value chain. It has been observed that in a span of last 20 years, the number of major cocoa trading houses have dwindled around 10 (Gayi and Komi, 2016). Even in the case of bean grinding, more than 70 per cent share was held by four grinding companies. Though consolidation and concentration enhances the economies of scale and size (Fold, 2001; Traore, 2009), it is unlikely to bring overall welfare in the sector in long run. Conversely, the bargaining position of small players will be detrimentally affected, and eventually such players will be forced to find the exit route from the industry.

Tracing the path of cocoa development in India

The commercial history of cocoa in India also has its genesis in the globalization strategy of Cadbury India Pvt Ltd. (now Mondelez India). 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

[2]Conversely there is a classic study on migrant cocoa farmers in Africa (Hill, 1963), arguing the cocoa development in Nigeria was characterized by the involvement of resource poor farmers in non-economic institutions which has resulted in equal access to resources and farming incentives to both rich and poor category, and eventually resulted in overall welfare.

in India, and was successful in taking the government into confidence as far as the policy measures were concerned (Asopa and Narayanan, 1990).

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 the supply shocks in the major producing countries, because of which there were high fluctuations of prices (Jayasekhar *et al*., 2005). Above all, the transaction costs depleted the profit margin to a great extent. In these circumstances, Cadbury initiated 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 India[3]. The real commercialization phase of India's cocoa economy commenced in 1965, when the Cadbury India Private Limited started the direct involvement in promotion of the crop[4].

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 every 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, skills, and 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 cost[5] was very high or rather impossible given 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 hierarchy[6] 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 1970s, 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 (see Fig. 1).

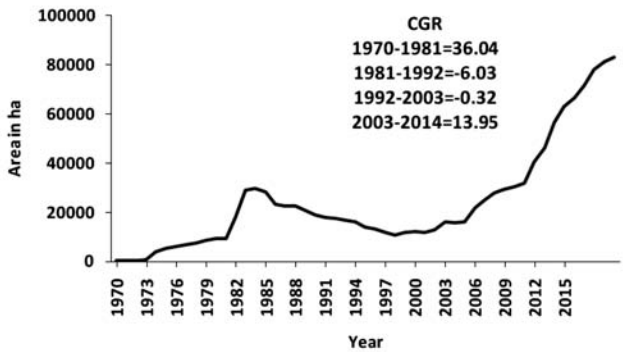

Fig. 1. Trend and Compound Growth Rates (CGR) of cocoa area (in ha) in India (1970-2016)

[3]The 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.
[4]The company had several programmes to diffuse the cocoa cultivation ranged from seedlings supply, extension activities.
[5]Cost of shifting from the current business activity to another one.
[6]Hierarchy: 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 prices crashed to the bottom (Fig. 2). Cadbury found it was comparatively profitable to get cocoa imported from the international market. The decision made by the firm to procure cocoa beans from elsewhere had detrimentally affected the cocoa farmers in South India. Although the farmers in Kerala were struggling with an exportable surplus, the Government permitted the processing firms to import cocoa under the open general license (OGL). The very idea of cocoa imports pushed down the cocoa prices in India on par with the world prices, or even below it. Subsequently, Cadbury withdrew from the cocoa market in Kerala, which created panic among the cocoa growers' in the state that eventually resulted in massive cutting and removal of cocoa gardens by the farmers.

From late 1980s to early 2000, the cocoa sector in India was stagnant and the revival of the cocoa sector was very much evident from the year 2003 onwards (with positive growth rate in acreage, see Fig. 1). From the year 2006 onwards, the domestic cocoa prices have become attractive with steady increase, and by the end of 2009, the prices have reached record high in comparison to the previous 31 years. Having said this, the same period had witnessed political unrest in Cote d'Ivoire, which is the major cocoa producer in the world, and consecutive supply deficit of cocoa beans across the world cocoa industry (Wessel and Wessel, 2015).

The domestic cocoa prices are highly integrated with the international prices (Fig. 3) and the price instability is also very high and therefore any supply shock in the international arena may influence the domestic prices as well. It is also noteworthy that cocoa is an important commodity which is traded in the London and New York stock exchanges; and therefore the effect of speculation will also directly get transmitted to the global as well as domestic price fluctuations.

Conclusions

We have employed the theoretical lens of Global Value Chain (GVC) frame to study the evolution of governance structure of the cocoa chain in the world and in India. It was observed that in the case of cocoa, inter-firm governance was characterized by the captive form of coordination due to the huge resource and knowledge asymmetry between the upstream and downstream nodes of the value chain. The commercial history of cocoa in India is well embedded in the globalization strategy of Cadbury. In the case of India too, it was observed that the governance structure that existed during the initial phase of cocoa development was lying somewhere between captive and hierarchy. Following the great cocoa deceit in early 1980s, the farmers in India were struggling with an exportable surplus and subsequently, the cocoa development in the country went through lean patches. The last decade has been witnessing a revival of the domestic cocoa sector in terms of better prices and area expansion. The value chain of cocoa is shaped by the concentration happening at the downstream end of the chain, where the retail giants dictate the prices that eventually affecting the revenue share and bargaining power of the cocoa producers in India.

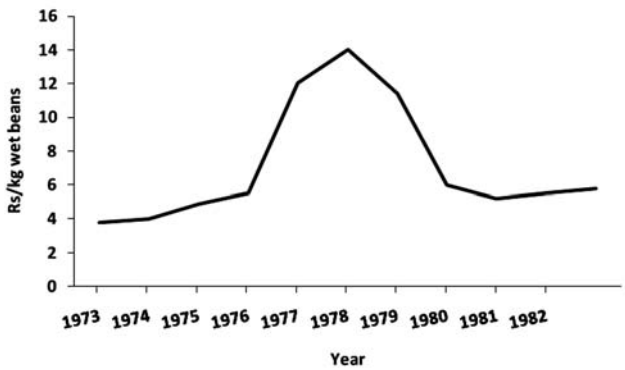

Fig. 2. Domestic price movements of cocoa (1973-1983)

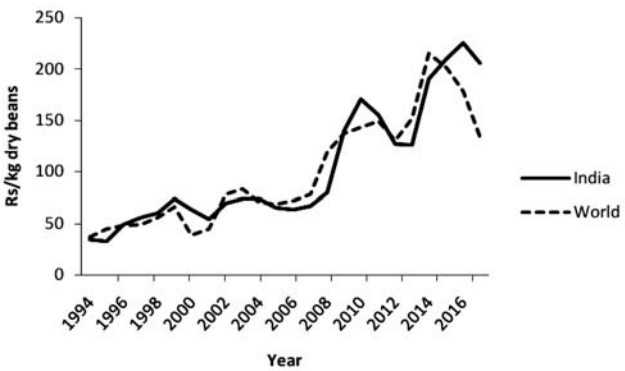

Fig. 3. Price movement of cocoa beans (world and domestic 1994-2016)

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