

Public versus Private Governance of India's Agri-Food Markets: the Economics and Strategic Management of Facilitating (Competitive) Markets.

**Presented at the IIM Lucknow
International Conference on Agribusiness and Food
Industry in Developing Countries: Opportunities and
Challenges**

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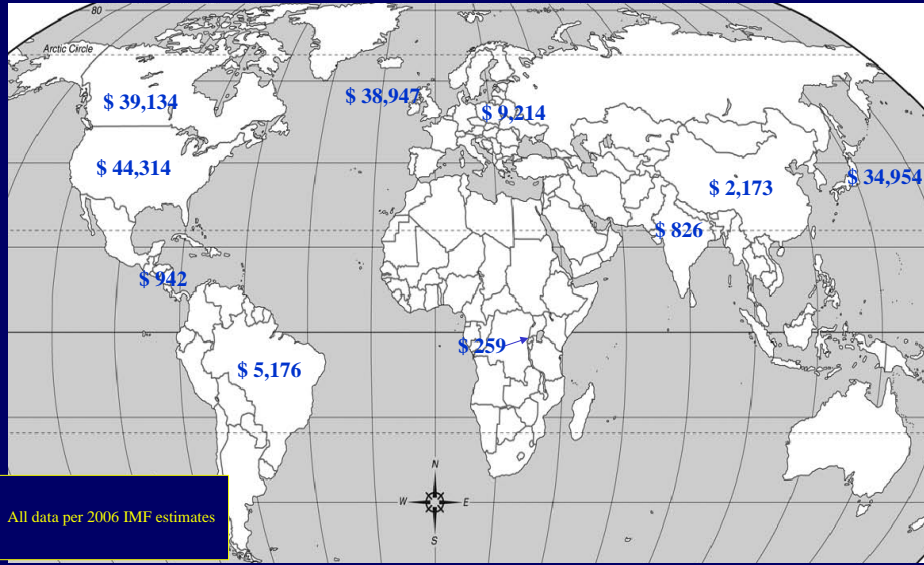
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Point of departure for this discussion:

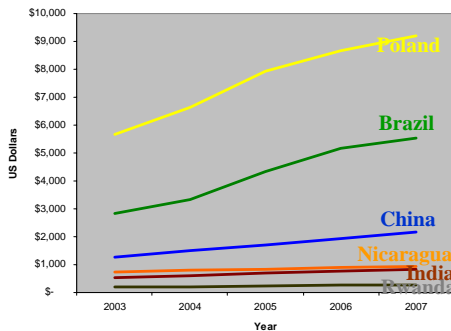
**There is more to global agri-food
systems and markets than emulation of
mature markets.**

GDP per capita, 2006

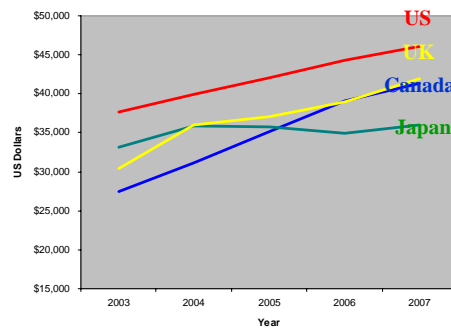


GDP per capita

Emerging Market Economies



Mature Market Economies



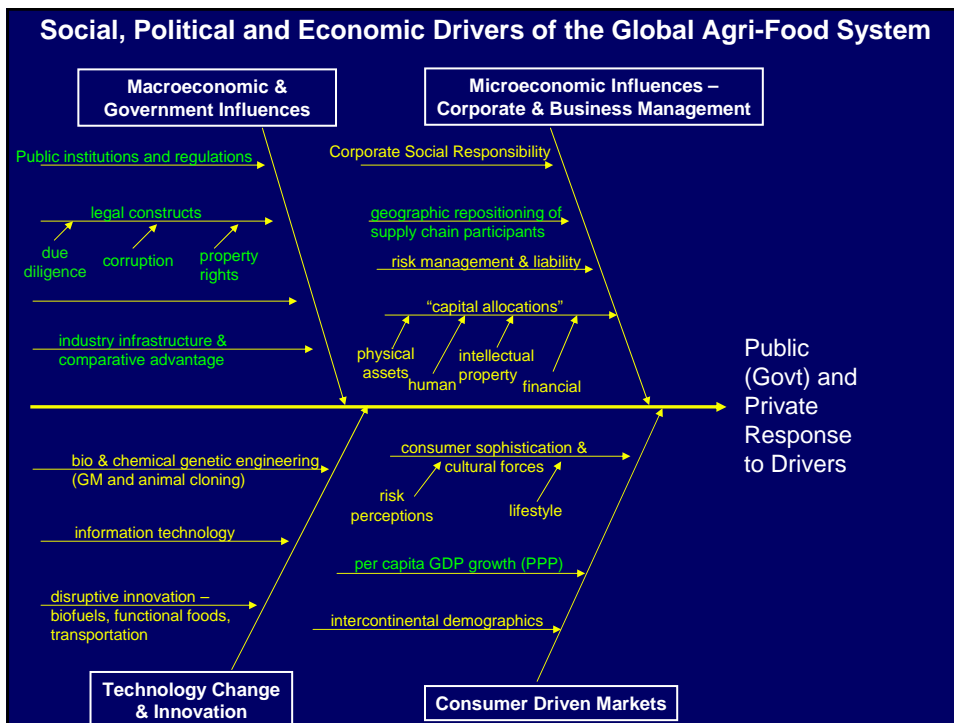
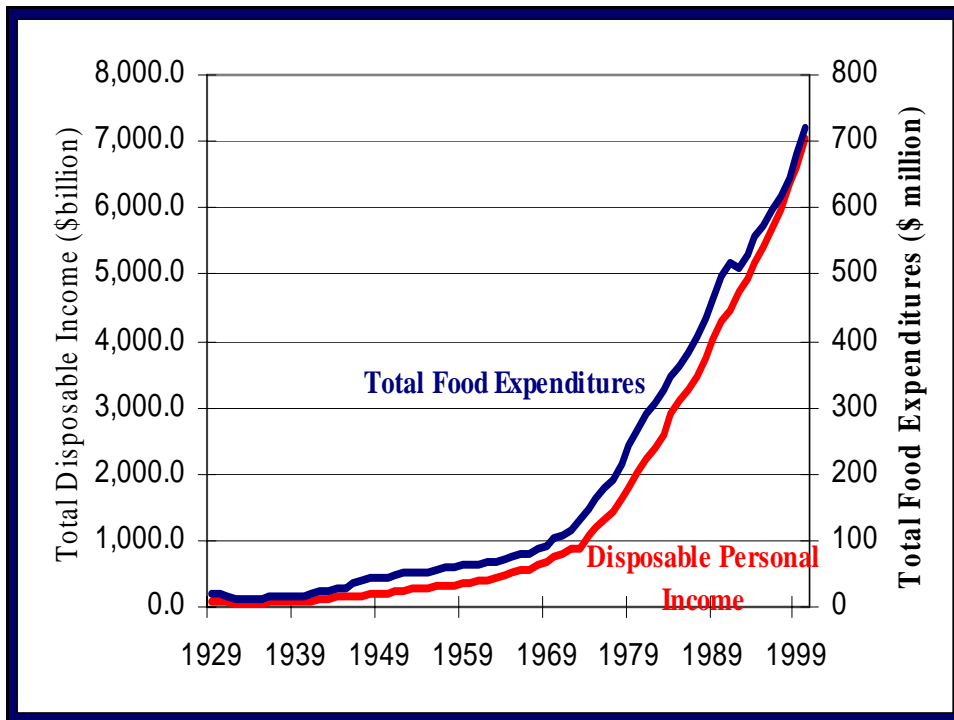
IMF World Economic Outlook Database, September 2006 [2007 data points are IMF estimates]

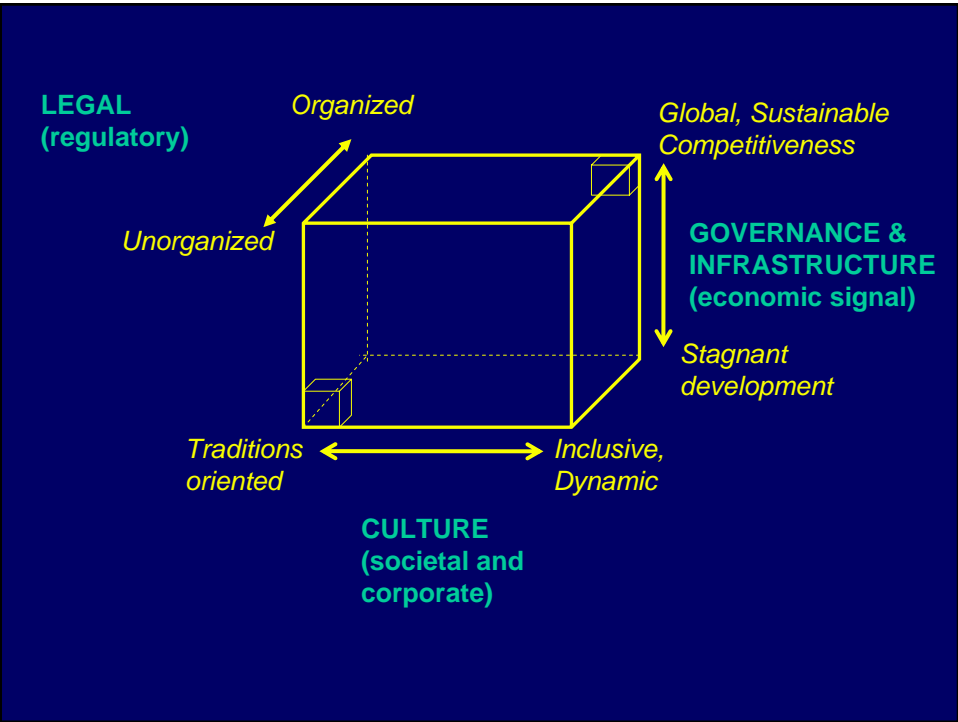
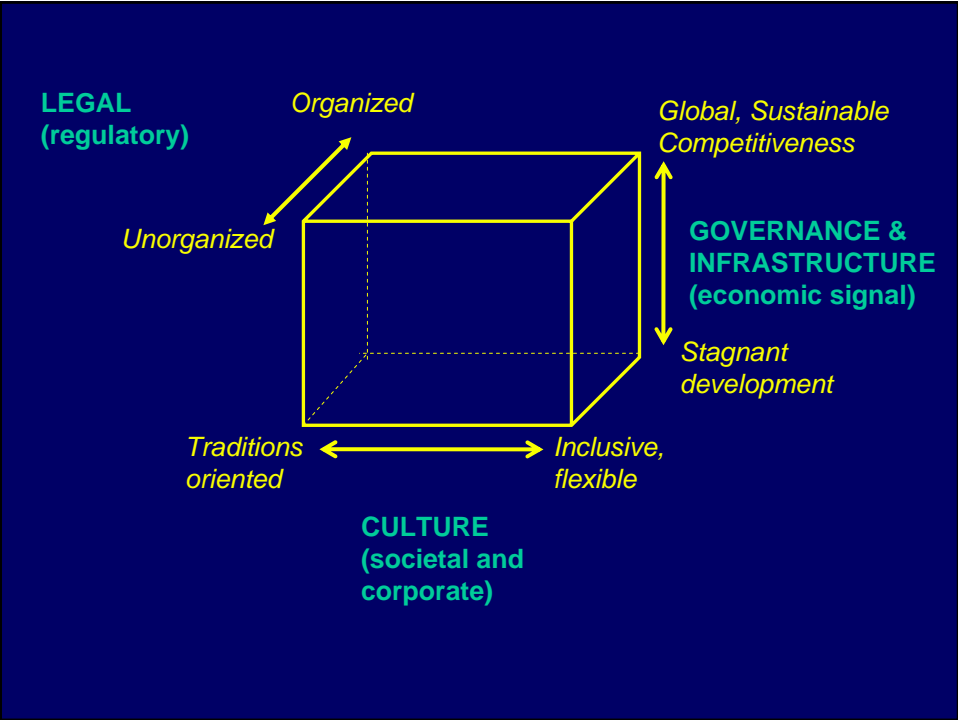
Population Notes - July 2006 estimates from CIA Factbook

China - 1.3 billion

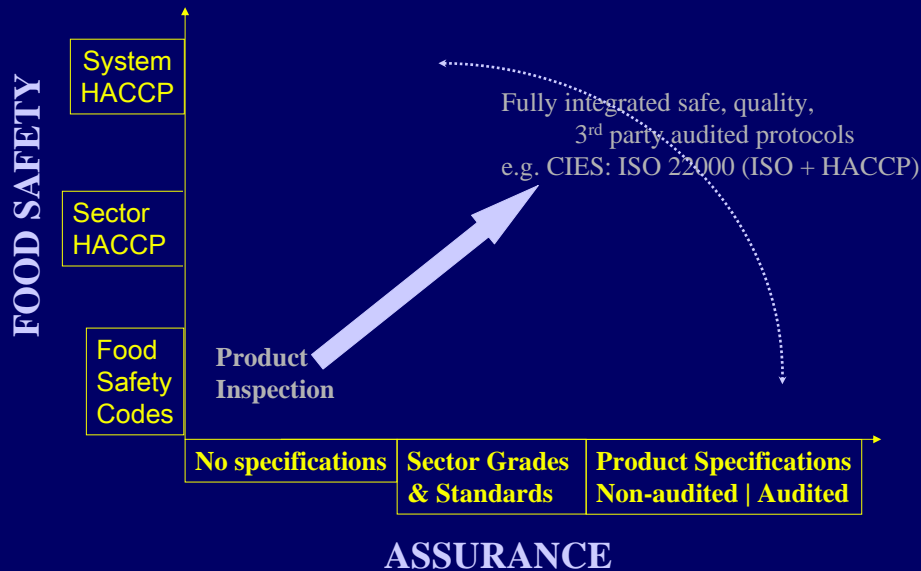
India - 1.1 billion

United States - 298 million





Evolution of Public: Private Oversight within the Agri-food Supply Chain



US Dept. of Agriculture Budget

\$77,800 million (2006 Est.)

Approximately \$260 per person

Marketing & Regulation programs

\$ million

84 Animal, Plant, Health Inspection System

18 Grain Inspection, Packers & Stockyards Administration

82 Marketing Services (including market information)

A Comparison of 3 Economies: Who can afford public oversight of market infrastructure

	US	India	China
Population (millions)	290	1,081	1,313
Per Capita GDP (2006 est.)	\$44,314	\$827	\$2,173
Global Competitiveness ranking – overall	1	27	18
government policies conducive to comp.	14	30	17
Infrastructure	1	<44	33
Legal System	English Common Law	English Common Law	Mixture of Civil and Socialist Law

Source: Economist 2007 Handbook of World Statistics and IMF 2004 Statistics except where noted

2 broad foundations of economic & business analysis:

1. Centers on the MNC's internal organization response to the external business environment.

Evolution of analysis in concert with systems analysis – transformation on inputs into output. Attractive as a economic model due to the focus on efficiency and productivity.

Downside of 'black box' transformation and devoid of human element/capital.

Emergence of Resource Based Theory (Penrose) where firms unique portfolio of materials & physical assets, human capital, and location resources created distinct value opportunities (Barney, Hitt et al)

Evolved further into Organizational Networks and Knowledge Management (enabled by IT and Internet)

2. Centers on the environment surrounding the MNC and considers the influence of market power in the response to environment dynamics.

Strategic 'fit' is critical – is there limitation on competitiveness and growth?

Model assumes that the market is not open, competitive – 1-way transfer of value; there is no reciprocity. More powerful party will exert market power.

Focus is on the stability and dynamics of the environment rather than internal corporate strengths.

Transactions Cost basis in bounded rationality assumption.

Asset specificity, opportunism and uncertainty lead to hierarchies to replace market transactions.

Legal and Regulatory (Rule of Law)

Lack of property & IP rights leads to lack of incentive for investment and innovation, increasing losses to counterfeit inputs and products.

Dysfunctional corruption leads to hierarchies to reduce transactions costs.

- *China*: back-engineering of products (counterfeit). Local officials encourage as results in employment and economic growth.
- *India*: has Western legal structure, but painfully slow and history of decision-making without analysis. Ban on FDI lifted to allow JV's of <50% foreign ownership after analysis indicated modern retail structures would offer lower prices and generate increased competition
- *Thailand*: changed interpretation of foreign ownership with advent of military rule.
- *Philippines*: 13-15 yrs + 170 steps/signatures to acquire land title.

Culture: Emerging Socio-Political Megatrends

Trend in corporations as agents of social change due to increasing affect on strategic freedom. “soft forms of power” or “reputation” assets are built via relationships with stakeholders – difficult to measure impact on corporate value

- Issues that were peripheral or local are now global, e.g. BSE & Avian flu can impact global supply chains.
- Stakeholders implicit expectations for MNC’s to uphold labor standards along the supply chain in emerging economies.

Economic signals

- **2005 World Bank study of 145 countries found the added costs of complying with regulations is 3X higher for emerging market economies than for mature, but emerging markets had <1/2 the protection for property rights. Thus, constraint of economic growth influenced by economic signal (higher transactions costs).**
- **Problem at Government level of confusing economic goals with political and social objectives, e.g. Argentina’s block on exports of beef in 2006 to decrease the domestic price of beef. Over-regulation of one sector transfers resources to less constrained opportunity – failure of intervention.**
- **However, lack of basic market regulations to facilitate market exchange can result in absence of market signal – encourage hierarchies to minimize uncertainties.**

