

## Co-ops on front line of food cost battle

[Print](#)

By Rahul Jacob and Lydia Guo in Guangzhou

Published: April 15 2011 16:09 | Last updated: April 15 2011 16:09

The bustling Guangdong New Co-op grocery store tucked away in a corner of an otherwise empty supermarket in Huangbian, a suburb of Guangzhou, looks much like any other grocery store in the country, but it is a front-line in the Chinese government's battle against food inflation.

The campaign has won plenty of converts. Mrs Xu, a 40-something shopper, put cabbages into her trolley and declared she was pleased with the local government's new initiative to roll out inexpensive grocery stores in the province, which is just across the border from Hong Kong and has a population of 95m. "It's just Rmb0.58 per jin [500g]. It is even cheaper than the wet market, which sells cabbage at Rmb1 per jin," she said.

Guangdong has opened 40 similar low-priced grocery stores this year, keeping prices low through a combination of state subsidies and direct buying from farmers. The local government plans to spend Rmb450m (\$70m) building 300 low-price grocery stores over the next three years.

Xiao Zhizeng, the province's vice-governor, said last month that Guangdong's initiative was inspired by Singapore's fair price stores, started by the city's unions in the 1970s but now the largest retailer in the city-state.

Shopping in the Huangbian store for eggs, Mr Yan, 55, said he walked 20 minutes each way to the store every couple of days to shop for his family of four. "More cheap grocery stores need to be opened. Prices are totally messed up," he said.

On Friday, fresh price controls on basic consumer items were revealed after official data showed that food prices had risen by 11.7 per cent in March compared with the same time last year, underlining the importance of the Guangdong experiment.

Governments from India to Indonesia are also grappling with higher food prices. In India, the relentless rise in the price of onions and other vegetables has added to the headaches for the embattled government of Manmohan Singh.

But food price inflation is one of the most sensitive issues in China and Beijing has variously blamed bad weather and speculation. Will Freeman, of Gavekal Dragonomics, an economic consultancy, says the truth is more complicated. He says the rising price of agricultural land in China, rising wages and other input costs are to blame.

Farmland rents are one of the culprits. In the tropical island of Hainan, for instance, they have risen by several multiples since 2005. The demand for land on the edges of China's cities everywhere has seen a big jump because of rapid urbanisation, pricing out farming in favour of suburban housing.

Meanwhile, wage costs, which have been driving up factory prices, have a disproportionate effect on vegetable prices, observes Mr Freeman, because they account for about half of the price of vegetables, versus just 10 per cent or less of the total cost of manufactured goods. In the rural hinterland, wages rose by almost 20 per cent last year.

Liu Kaiming, who heads a non-governmental organisation for migrant workers in Shenzhen, recounts with surprise that elderly men he met late last year in rural Fujian, across the strait from Taiwan, were earning as much as Rmb1,600 a month. "I asked why. They say young people don't want to stay in the village," Mr Liu says.

Given these underlying factors that point to a long-term rise in inflation, academics in Guangdong say the low-priced stores alone cannot turn back the tide. Wang Xianqing, director of Guangdong Commercial College, says, "The cheap grocery stores will be for people more sensitive to prices. People like me won't shop there. Hundreds or even thousands of these stores won't affect market prices."

Hawkers at a wet market just a floor down from the Huangbian store who compete with the government low-price store at close quarters are seeing a downturn in their business. "They [the government co-ops] have a big boss and a state subsidy. This is so unfair," fumed a woman hawker.

The Guangdong New Co-Op store admitted it regularly received government subsidies, but

characterised the competition with the wet market downstairs as "a survival of the fittest". Food inflation across China, however, might not be vanquished as easily.

Copyright The Financial Times Limited 2011. Print a single copy of this article for personal use. Contact us if you wish to print more to distribute to others.