GLOBALISATION

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This paper headed "Impacts of Globalisation – Who will call the shots?" is to re-open the book of life at a familiar page but perhaps at another time and for different readers.

Globalisation is not a recent phenomenon, but another step in the journey of a thousand years of human progress.

It is also just one of a number of forces of change impacting across the world. Some of those of significance include technology, medicine, environment populations, and consumers.

It has its proponents and its critics. To some, it is synonymous with the spread of free market capitalism to virtually every country in the world.

To others, (the critics) it means not only free market capitalisation, but environmental degradation child labour, genetically modified foods and the spread of the American culture, such as McDonalds into every suburb or town.

On that particular point it was interesting to read a piece of trivia observed by Thomas Friedman in his recent book that no two countries that both had McDonalds had fought a war against each other since each got its McDonalds.

Those who oppose globalisation paint it as a sinister force, imposed on unwitting or unwilling Governments and citizens by corporate and financial elites. They see it as oppressing the poor, avoiding taxes and reducing wages in as many countries as possible.

In a speech made in September and November 2000 Soul Eslake the Chief Economist from the ANZ Bank argued that globalisation is neither an ideology nor a set of outcomes, but a process.

He defined it as "the geographical dispersion of industrial and services activities and the cross border networking of companies."

For example, the dispersion of activities includes sourcing of inputs, research and development, production and distribution and the cross border networking includes joint ventures and sharing of assets and risks.

In other words globalisation is simply the logical extension of the tendency towards increasing specialisation and trade that has been going on throughout human history. After all, nations have traded with each other since time immemorial.

What we witness today is not unprecedented, but simply magnified by both the values and the methods of communication.

As an example, the increase in World Trade as a share of world GDP was proportionately greater between 1870 and 1913 than it has been since 1975. Net capital out flows from the United Kingdom – then the largest source of international investment – averaged 4.6% of the British GDP during those four decades, more than for any large economy today.

Then, the name of multinational corporation had yet to be invented but in another respect - that is the movement of the people - the world was more globalised than it is today.

From around 1820 until 1880 some 60 million Europeans migrated to the Americas, Australia, New Zealand and South Africa.

The great depression then curtailed activity and investment. Between the years of 1882 and 1913, a period of great financial instability some 32 separate currency crises in 16 different countries, including Australia, were recorded.

It was also in the late 1870's and 1880's that globalisation was on the political agenda of many countries and some European countries began implementing and raising tariffs as the impact on cheap grain from the Americans, Russia and Australia began to make itself felt on the European markets.

The United States raised tariffs as a revenue measure during the Civil War and retained them for a long time. Canada adopted a protectionist policy after 1878 and tariff rises followed in Latin America.
Australia followed after Federation in 1901 and Great Britain finally succumbed to the protectionist tide in the first decade of the 20th century.

In the years immediately after World War I, Governments around the world consciously and deliberately raised tariffs, imposed restrictions on the movement of capital and regulated the movement of people through the introduction of passports and numerical limits on immigration.

The consequences for the world economy were described as disastrous.

It wasn't until after World War II that the concept of globalisation hesitantly resumed.

This time, Governments of the world's most developed countries embarked on a co-ordinated approach rather than laissez faire. The General Agreement on Tariffs and Trade (GATT), the forerunner of the World Trade Organisation, was created.

And so, the long slow journey of dismantling the barriers that had so quickly been erected began.

More and more, despite the organised protests and thuggery that surround debates on global trading, the facts are revealing the benefits that are flowing on to the world's poor. A study published in the Financial Times in February 2000 in an article headed "The Big Lie of Global Inequality" stated that the past two decades have been the first in two centuries in which global inequality declined rather than rose.

A recent study by two researchers at the World Bank of 126 countries over 40 years showed that openness to foreign trade benefits the bottom one fifth of the population as much as it does the population as a whole.

Clearly, the concept of the global village will continue to gain momentum throughout this century.

So, who will call the shots? Who will be the prime movers in this phenomenon?

I would argue that the escalation over this past two decades has been caused by and is a result of one of the most fundamental basics of our democratic society. That is competition.

Not only do businesses face more intense pressure and competition than ever before, but so too do Governments. National Governments - (as well as Governments within countries) – are finding themselves in fierce competition for capital investments to attract industries, thus infrastructures to support them and as a consequence, jobs and workers within their jurisdictions.

This force has a cascading effect down as these workers see themselves in competition with not only their counterparts in an opposition firm in their own community or country, but now, clearly in competition with workers in another country.
This competitive spirit is a positive force in an economy and for social progress, but it can also lead to frustration and anger with the realisation that not all in the fight are endowed with the same rules and resources. The awareness that it is not a level playing field can give rise to anxiety and in some cases undemocratic or illegal behaviour.

This fuels the fix for those who oppose the growth of free market capitalism and thus we observe the behaviour at International Forums as in many cases, genuine frustrations are mingled with the flock of protestors.

However, the real shots will be called by a multitude of forces, as Industries, Governments, Investors, Workers, and a range of specific disciplines all strive to grow, to learn and to achieve.

Our specific agenda at this meeting is dealing with the Agrifood Industry.

In the past three decades, globalisation in agrifood has been accelerated by:

- **Continued historical downward trend of international agrifood commodity prices making possible, and causing consumer expectations of, continued low prices for staple food and beverage products, so lessening the profitability of small-scale enterprises and giving greatest opportunity for corporate profits from larger-scale agrifood operations.**

- **Massive economic change in parts of the developing world, particularly Asia, Latin America and Eastern Europe, as a combination of national economic policies plus increasing globalisation of other sectors of the world economy, has seen the growth in national and per capita incomes of these developing countries, and with it, greater purchasing power for their populations for better and more varied diets.**

- **Continued technological advances and deregulation in communications, transport and information technology in particular, bringing about lower global transaction costs so making cheaper and easier a corporation's operations on a global scale, allowing rationalisation of production bases, global sourcing and global distribution of products.**

- **Reductions in global agrifood trade barriers, though mainly for unprocessed or semi-processed agrifood products, combined with increasing commonality in labelling and packaging requirements.**

- **Far more people movement, thus accelerating the globalisation of culture, making possible global consumer brand consciousness and global marketing eg for Coca Cola, McDonalds's, Nescafe, Starbucks, or non foods such as Nike, Kodak and IBM.**

However, globalisation in agrifood production, processing, distribution and retailing has been slower than most other sectors, perhaps because of a range of factors which are now changing.

- **Higher costs and technical barriers in long-distance transport of a number of foods.**
- **Greater remnant of cultural differences in consumer preferences for food and beverages.**
- **In general higher levels of border protection for food and agriculture sectors than for manufacturing**
- **Different legal systems affecting food and beverage content, packaging and labelling requirements.**

For a range of historical reasons, but in the 20th Century particularly due to their having the world's largest markets as their home bases, as well as abundant agricultural raw materials at hand, the Europeans and North Americans have developed the largest agrifood corporations which have been in the best position to dominate the emerging globalisation of all the stages of the agrifood system.

Over the past few decades, there has been a trend toward larger and fewer enterprises in food and beverage processing caused by:

- **Continued movement towards economic integration in Europe**
- **Continued growth in the scale of individual North American agrifood corporations, with more mergers between regional operators to become national operators**
- **The more pressing need for major European and North American agrifood corporations to find new markets due to slowing population growth and slowing per capita consumption growth of food and beverages in their home markets.**
- **Increased importance of European and North American stock markets as sources of capital for companies, and therefore ever greater competition among companies to attract shareholders by corporate performance, including by gaining greater scale and market share in their field through mergers and acquisitions.**

What could be called the first stage of consolidation in the global food and beverage industry, up to about the mid-1990's, has predominantly been a matter of larger companies like Nestle, PepsiCo, Unilever, Danone, etc, steadily buying up SME operations in their ares of core business and strengthening their global market share in those areas.

But 1999-2000 has probably seen the start of a new stage of mega-mergers among agrifood corporations, right across the agrifood chain, with most first-tier food companies looking to acquire or merge with at least one other major player in one of their core business segments, For example in the first half of 2000:

Buyer	**Company purchased**
Danone SA	**United Biscuits**
Philip Morris Cos	**Nabisco**
Unilever plc/NV	**Bestfoods**
ConAgra Inc	**International Home Foods**
General Mills Inc	**Pillsbury Co**

Thus, the current line-up of leading food and beverage processors is likely to change significantly over the next 5–10 years as further consolidation takes place into fewer, larger corporations, with most pursuing a strategy of having only two or three key core businesses, and being either No 1 or No 2 in their markets. A common prediction is that each food and beverage segment will have two or three main players holding the greatest market share, followed at a distance by a host of much smaller companies.

Simultaneously, the retail industry, albeit later starting, has now undergone significant change in terms of globalising. Several key factors have set off a pattern of "globalisation" in food and beverage retailing.

- **Continued movement towards economic integration in Europe (including the advent of the Euro accelerating the Europeanisation of sourcing/purchasing)**
- **Continued movement in the US market away from regional towards national enterprises.**
- **Lowering of long-distance transaction costs from technological advances in communications, transport and information technology.**
- **Again, the World's biggest domestic consumer markets generally giving rise to the world's biggest enterprises, in this case in food and beverage retailing where those of the USA, Germany, France and UK have emerged as the world's largest.**
- **But some additional particular factors have also played a role in the development of large-scale food retailing formats and retail chains in Western Europe and North America, for example:**
    - **Strong growth in consumer demand for one-stop, fast, convenient, and value-for-money grocery shopping, especially from the big growth of women in the workforce, and of time-poor, nuclear family and smaller households.**
    - **Widespread household ownership of motor vehicles allowing longer distance, larger volume grocery shopping.**
    - **The larger investment required for large-scale retail formats favouring the development of large-scale retail enterprises.**

Some prominent industry experts go so far as to predict that as few as 5–10 chains will dominate global food retailing within 10 years.
However, there is still a large number of SME regional food retailing chains considering their strategies for survival.

- **All of the leading North American and European global food retailers still derive the greatest share of their turnover from operations in Europe and/or North America. The Carrefour group with the most extensive presence outside its home market, still gains 84% of its turnover in Europe.**
- **Only one major US food retailer, Wal-Mart, has any presence in Latin America and Asia.**

It is the European players which have been the leaders in expanding into Latin America and Asia, especially Carrefour France and Royal Ahold of the Netherlands.

Just by way of Example:
Carrefour has a total of 9,480 stores
9,100 in Europe
298 in Latin America
82 in Asia

Royal Ahold has a total of 5,446 stores
2,895 in Europe
408 in Latin America
80 in Asia
1,063 in USA

Just compare those numbers to our two major supermarket retailers who have around 500 – 600 each.

In addition, accompanying the consolidation among major food retailers is increased segmentation of food retailing into several key formats.

1. **Mass low-cost food retailing competing mainly on price, and primarily using hypermarkets (eg Carrefour and Tesco), warehouse clubs (eg Wal-Mart, Makro) and "deep discount" no-frills supermarkets with under 1,000 product lines (eg Aldi, Lidl), located in lower cost areas.**

2. **Medium price food retailing competing on both price and non-price factors (such as guaranteed non-GM foods, organic foods), and mainly using traditional supermarkets (eg Tesco, Carrefour, Woolworths and Coles, and convenience stores).**
3. **Premium food retailing competing mainly on non-price factors like good selections of gourmet and exclusive products, and attractive surroundings, using upmarket medium-sized formats located in central shopping precincts of higher income areas, either as stand-alones (eg UK's Waitrose supermarket chain) or as part of department stores (eg David Jones food halls).**

4. **On line food retailing to consumers, likely to be part of each of the above three segments but especially of segments (2) and (3).**

Of these three main food retailing segments, it appears that the biggest growth in food sales is taking place at the mass low-cost food retailers.

– **A US survey in mid-2000 found that 55% of US consumers now shop regularly at discount mass retailers, compared with 39% in 1998.**
– **There is also reasonable growth in the premium food retailing format.**
– **But the medium-price formats like traditional supermarkets are suffering significant loss of market share from the shift of many consumers to mass low-cost retailers.**

• **Many major food retailers have increased the private label/house brand products to keep up with consumer trends.**

– **for example, in the UK the retail chains were quicker than the name brand food producers to meet the demand for guaranteed non-GMO foods, which they did by ensuring elimination of GMO- content from their house brands.**
– **the UK retail chains were also quicker to expand their range of organic foods via their house brands than the major name brand food producers**
: for example, Tesco has increased its house brand organic products range from just 12 lines in 1998, to more than 400 lines by mid-2000

• **It appears the "deep discount" chains like Aldi are offering an even higher proportion of own label brands than other food retailers – as high as 70% in contrast to the 25-30% current norm for other retailers like Wal-Mart, Carrefour, Tesco etc.**

– **This practice means much lower levels of sourcing of local products and even greater pressure on suppliers and on food processors with name brands.**
– **The advent of global mega-food retail chains is giving rise to concerns in European countries, as well as Australia, in that global sourcing will displace local suppliers and reduce business for national food processors.**

And here is an important issue:

– in developed markets virtually all the major MNC food retailing chains are coming under community pressure to demonstrate that they are sourcing a reasonable proportion of food products locally.

So out of all of that – What are the implications. What are the red alerts or hot spots to watch for?
Well Ladies & Gentlemen, it is almost too late, any action now that may be intended to dissuade any further encroachment into the ownership of domestic companies will be virtually futile.

As we speak, there are negotiations or discussions taking place that puts into play some of the last bastions of the Australian Food producers.

And what happens if Woolworths or Coles were to be bought by one of these global predators. Would their sourcing policies dictate they must purchase then from the lowest cost provider, be that in Chile, Ecuador or South Africa?

Historically, we would have considered some countries as not being a threat as they lacked the resources or standards of hygiene to compete.

Today, multinationals simply import the technology to those countries and establish world class facilities and thus produce products much cheaper than we can hope to.

So the competition to secure new global markets is increasing daily.

We have witnessed factory closures in Australia as multi Nationals re-deploy their facilities to a more economically viable country.

And from a retail perspective we are witnessing the introduction of Aldi from Germany and Pic-N-Pay of South Africa into the Sydney market with their low cost operation.

So – that is the Status.

The question now is – where to from here?

Clearly, if we as a nation are going to have a sustainable agrifood industry, we need to recognise all that has been stated and reposition ourselves. We need to re-think the way we operate and become active participants in the global environment and not the doormat.

We do have possibly the best natural resources in the world to produce a wide range of foods.

What we require is a much more vigorous and aggressive attitude to global trading, or as we have historically called it "export". We need to become recognised as global traders and lift our sights significantly higher than they have been in the past.

Whilst some of us smugly look at our export figures and do not understand the concerns as the graphs continue to escalate, the truth is that in comparable US $ we are losing share.

The demand chain is growing at a faster rate than our fulfilment rate.

The Prime Ministers Supermarket to Asia Council have in fact recognised all these signals and papers have been developed recommending a National Food Strategy.

The objective of the strategy would be to maximise the future growth of Australia's food industry through the chain, building on the sector's long-standing importance in the Australian economy to achieve growth in investment, output and contribution to GDP. The strategy will be developed in partnership with industry, articulating a vision and specific goals, creating a framework for implementation and a communication program, and encouraging adoption of market based value adding, and aggressively breaking down barriers. Without this, the consensus is that we are unlikely to get sustainable GDP growth from our agrifood industry.

The strategy would primarily include the following elements:

- **BUILDING A SUPPORTIVE BUSINESS ENVIRONMENT**
  To achieve this a holistic view of many areas will be undertaken. These include – Infrastructure, Investment, Food regulations, Workplace relations, Competition policy and Electronic commerce.

- **LEVERAGING SCIENCE AND TECHNOLOGY**
  The approach here includes encouraging investment in Research and Development and Innovation. Developing Centres of Excellence and raising the skill levels of the workforce through Education and Training.

- **BUILDING AN EXPORT STRATEGY**
  Fundamental to this will be developing an Export culture throughout industry. Simultaneously gaining greater market access by working to reduce both tariff and non-tariff barriers, while seeking to reduce subsidies from our competitors. And aligning our national standards with International standards such as CODEX.

- **ENVIRONMENTAL SUSTAINABILITY**
  By cohesively working with environmental bodies to ensure best use of national resources, and responsible management of land, water, energy and waste.

So, Ladies and Gentlemen, to draw to a conclusion the shots will be called by those who understand the advantages of operating in the global village.

Those who seek competitive advantage, but at the same time recognise their social and environmental responsibilities.

The trend we are witnessing today will accelerate not diminish in its thrust and it is the responsibility of both Governments and Industry to ensure that some degree of equality is delivered. Failing to do so will create imbalances that lead to unsavoury consequences.

There must be some wins for all.

And that can be achieved by adopting sensible long term practices that provide strong consumer benefits and at the same time maintaining an acceptable social and environmental position.

I am grateful to have shared with you a view from Australia's perspective. I hope it adds value to your own.

Delivered on Tuesday, June 26, 2001 by:

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