# Agribusiness Essay

## Globalisation and the Tooth Fairy

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**Introduction.**

Globalisation and the Tooth Fairy have a lot in common - neither of them exist.

This essay will attempt to make the case that, what is generally accepted as being the result of 'globalisation' is in fact nothing of the sort and that many of the 'results' of globalisation actually predate its emergence as a commonly used term.

Recent analysis of the Fortune 500 companies – comprising 90% of foreign direct investment and 50% of world trade – indicates that over the last 20 years their global reach has not really changed, indicating that what is generally understood to be globalisation is in fact a myth.

Globalisation has little to do with foreign ownership, foreign investment, multinational companies, loss of sovereignty and so on, but has a lot to do with the removal of tariffs and subsidies that insulated domestic economies for decades a process of economic 'internationalisation' rather than corporate 'globalisation'.

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**The Term.**

Globalisation is a term that came to prominence some time in the mid eighties. It was possibly coined as a way of describing foreign direct investment, by economic gurus to describe the presence of international companies in markets other than those considered as their 'home', or as a term that describes the economic homogenisation / harmonising of the global economy.

Whatever the derivation of the word, globalisation has become synonymous, in the media and in political speak, with many 'undesirable' aspects of modern society including –

- An increase in the difference between rich and poor in the first world and a similar increase in the gap between the first and third worlds – the rich getting richer and the poor getting poorer.
- The apparent (to some) loss of sovereignty to multinational companies.
- The transfer of employment from areas of high cost to those of lower cost.
- Domestically owned companies being purchased by international companies and the subsequent domination of industries by foreign owned companies (such as Campbell's Soups buying Arnott's Biscuits in Australia).

When these concerns are added to fears over 'free trade', it is possible to see how the 'evil of globalisation' has become a rallying cry for all sorts of disparate groups and individuals who share one or more points of concern.

**Two ways of looking at 'Globalisation'?**

In most cases when people talk of globalisation they are referring to a perceived increase in foreign ownership and more obvious influence on domestic economies from international market trends and prevailing global economic conditions. Direct 'evidence' of this is seem in imports replacing domestic manufacturing, the presence of foreign multinational companies, foreign buyouts of locally owned companies and so on.

But there is a second way of looking at globalisation. This perspective looks at changes within domestic economies to make them more open and competitive, increasing the ability of non-domestic companies to invest, opening markets to imports, etc. This second perspective is subtly different from the first and is discussed later in this essay.

**Does Globalisation actually exist?**

Globalisation has evolved to become a 'truth' – it is happening and we can't do anything about it, so put up with it, say the supporters of the phenomenon. It has also become common wisdom that globalisation is a 'force' that is changing the shape of the world – one cannot stand in the face of globalisation and 'turn back the tide' as legend of King Cnut (Canute) has him attempting[1].

**The development of international trade.**

If we are to define globalisation as economic activity that is undertaken between peoples of different countries and between companies based and / or owned in different countries, then globalisation has been with us since the Age of Discovery, when Old World countries started to set up trading outposts in the New World.

From this definition globalisation is not new. Goods and services have been traded internationally for hundreds or years. In fact, the development of modern societies is based on the ability of countries and companies to trade.

International trade is vital to all nations and is the key to unlocking prosperity for developing nations, for without trade, less prosperous nations will not be able to develop their economies and deliver improvements in the standards of living to their citizens.

When critics decry free and open trading of goods and services in favour of protectionism (in the form of tariffs, subsidies and other barriers) they would do well to look at the period between 1920 and 1940 and particularly the Great Depression, for a case study of what can happen when international trade is stifled.

History teaches us two valuable lessons about trade - that more people benefit from the ability to trade freely than are disadvantaged and restrictions on trade stunt economic development, innovation and the growth of prosperity and cause long term economic harm to economies.

The development of China is a graphic example of how isolation from the rest of the world can retard economic growth. Trade not only encompasses importing and exporting or goods and services, it also allows for the flow of information and technology.

By remaining isolated from the rest of the world for hundreds of years, the advantage that China had in early industrial technology – eg. clocks, gunpowder, steel smelting – was lost as the rest of the world caught up and passed the early lead in technology that China had established.

This was due entirely to a political determination[2] that China should remain isolated from the rest of the world. It did so until the late 19th century, at which time China was considerably behind the developed world in all aspects of industry, only really starting to catch up in the latter part of the 20th century.

Foreign owned companies operating outside their national boundaries have been a fact of life for hundreds of years and are in fact an economic necessity. No country can expect to have expertise in all sectors of a correctly functioning economy or have an economic advantage in all sectors. Factors of geography, climate, natural resources and population make all encompassing expertise and efficiency impossible – this is where the principal of comparative advantage becomes apparent.

Certainly all countries may develop local industries and companies of competence, but companies from other countries where conditions favour an economic (comparative) advantage may be able to supply goods or services more efficiently than the domestic equivalent.

Nothing is to be gained in the long term from protecting inefficient industry sectors, as the inefficiency in one sector flows through to associated sectors, thus effecting overall competitiveness. For example, a country may have an inefficient shipping sector and a highly efficient (competitive) steel sector. The competitiveness of potential exports of steel in this case, will be effected by the inability of the shipping to provide efficient competitive service.

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[1] This is really folklore, as King Cnut didn't ever attempt to turn back the tides. The story is propaganda and popular folklore invented after his death. (Andrews 2000)

[2] Trade and politics cannot be divorced from one another. Trade has been a principal tool of both domestic and international trade since the development of the modern nation-state (either democratic or autocratic). Alliances between countries have traditionally been built on the basis of mutual interest in trade, with many of these alliances manifesting themselves in military terms.

History shows us countries that stay determinedly isolated – preventing foreign investment and foreign companies from operating within their boundaries – are destined to travel a road to economic irrelevance. Two good examples are the former Soviet Union and North Korea, both countries have suffered financial collapse principally due to hugely inefficient domestic industries making and supplying poor quality goods and services at high cost.

Contrast this with modern day China. Since opening up their economy after centuries of isolation the growth in their economy and the advancement in industry has been remarkable, delivering to the average person goods and services that were only dreamed of a generation ago.

**Measuring Globalisation – Is it really 'global'?**

There are 2 ways we can establish the validity of the claims laid at the feet of 'globalisation. We can -

1. Undertake a rational study of the way in which trade has developed around the globe in modern times [3]
2. And undertake some empirical measurement of international companies over time to ascertain how global they are in their reach and activity.

A study titled *Retail Multinationals and Globalisation: The Evidence is Regional*, by Rugman and Girod analyses the global retail sector as a sub set of the top 500 global companies. The retail sector has experienced appreciable growth over the last 20 or so years and is not one of the industry sectors that were 'global' for the majority of last century.

Unlike retailing there are sectors that have been 'global' for many decades, including oil / petroleum, car and truck manufacturing, aeronautics, food manufacturing, tobacco, scientific and manufacturing equipment, machinery, electronics, mining and metals, chemicals, hotels, paper and timber, etc.

From the list above one can select any number of well-known companies that have been operating on a worldwide scale long before the term globalisation was coined.

When Rugman and Girod looked at the global reach of the 500 largest multinational enterprises (MNE's), they took into consideration the country in which the MNE was based and the other countries / regions from which they derived a significant proportion of their income. Rugman and Girod use the term Triad to define the 3 main regions of economic activity - US / NAFTA, EU and Japan – as a basis on which to measure the global operation of the MNE's under study.

> In 2000, of the world's largest (Fortune) 500 MNEs, 430 were in the core triad regions. In 1996, it was 443; in 1991 it was 410 and back in 1981 it was 445.
>
> Over the last twenty years the trend has shown a decrease in the proportion of U.S. MNEs, from 242 in 1981 to as far as 157 in 1991, but up to 162 in 1996 and 185 in 2000. The E.U. number is very consistent, being 141 for the old EEC members in 1981 but up to 155 for the enlarged E.U. in 1996, and down to 141 again by 2000. (Rugman and Girod *2002/02-05*)
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> Those 500 MNEs dominate international business. They account for over 90% of the world's stock of FDI and nearly 50% of the world trade, Rugman (2000). This was also the situation in 1981, as documented in earlier studies of MNE economic activity, e.g. by Stopford and Dunning (1988).
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> These MNEs are the "unit of analysis" for research in international business. They are the key vehicles for both FDI and trade. Furthermore, recent research reveals that the majority of these sales, on average, are intra-regional, and for the great majority of them this intra-regional trade is concentrated in their home triad. Very few of these 500 large MNEs actually have any significant presence in all three parts of the triad. (In fact only a handful, such as Nestlé and Unilever qualify as such "global" MNEs). A somewhat larger sub-set of the 500 have a strong presence in at least one other part of the triad in addition to the home triad.

Rugman and Girod found that there are effectively 3 types of MNE's

[3] Here the term 'modern' is referring to the last 550 years – since the explorations of da Gama, Columbus, Magellan and Dias ushered in the age of discovery and opened up the conquest of the New World.

i) home-triad based MNEs: (operating solely within their country or origin).

ii) MNEs in two parts of the triad: (operating in only 2 of the triad regions).

iii) MNEs in all three parts of the triad: (these are the “global” MNEs)

It should be noted that MNEs in all three groups are “international”, but not necessarily global. Only group (iii) MNEs are actually “global”, but group (ii) bi-regional MNEs may be regarded as partly global. Clearly, group (i) MNEs are not global by any definition. (Rugman and Girod *2002/02-05*)

The conclusion from this piece of empirical analysis is that there is no evidence of globalisation in the retail sector.

Of the 49 retailers regarded as “global” in the Fortune 500 list, 18 are purely domestic; 24 are very concentrated in their home triad (with intra-regional sales); only 5 are bi-regional and only one is global.

This is not evidence of globalisation but of regional business, indeed mainly localized retail business. While, the retail industry is becoming more “international” and there is overall a new need for firms to expand abroad to generate new growth, this is not “global” activity.

Most of the international expansion is within the local home triad region of the retail MNE. International business is not synonymous with global business. Instead a regional solution to strategy is required.

**The Worlds Largest 500 Multinational Enterprises.**

| Country | 1981 | 1991 | 1996 | 2000 |
|---|---|---|---|---|
| United States | 242 | 157 | 162 | 185 |
| European Union | 141 | 134 | 155 | 141 |
| Japan | 62 | 119 | 126 | 104 |
| Canada | | 9 | 6 | 15 |
| China | | - | 3 | 12 |
| Switzerland | | 10 | 14 | 11 |
| South Korea | | 13 | 13 | - |
| Australia | | 9 | 5 | 7 |
| Brazil | | 1 | 5 | 3 |
| Others | | 48 | 11 | 11 |
| Total | | 500 | 500 | 500 |
| **Triad Total** | **445** | **410** | **443** | **430** |

Source - Rugman A and Girod S. Retail Multinationals and Globalisation, adapted from The Fortune Global 500, 2000.

The figures in the above table indicate that globalisation – if the phenomenon is defined as the number and influence of global corporations – has actually reduced over the last 20 years.

Prior to the invention of the term globalisation, the term ‘multinational’ was used in the 1960’s and 1970’s to describe much the same phenomenon. In those days ‘multinational corporations’ (like globalisation) were accused of breaking down the sovereignty of governments, exploiting workers, shipping profits overseas, environmental degradation, etc, etc.

Most surprising about the ‘not so new’ globalisation phenomenon, is that it appears to be made up of a series of mysterious ‘forces’ that act upon just about everything one can imagine. We constantly hear about the ‘forces of globalisation’ being responsible for one thing or another, when a cursory examination more often than not will reveal that the effect of ‘globalisation’ is nothing more than the outcome of a shift in consumer demand, a change in domestic government policy, movements in exchange rates or even down to the effects of supply and demand.

**The Second Perspective.**

Are what many people perceived to be the effects of globalisation actually pre-existing? (e.g. the presence of foreign companies)

For example, both Ford and General Motors have been operating in Australia for at least 60 years, as have companies like Dunlop or Goodyear and a number of well known food companies such as Nestle, Kraft, Campbell's Soups, George Weston, etc.

If the presence of these foreign owned companies in Australia are the result / evidence of 'globalisation' it's a bit late to start protesting about it, they have been here a very long time!

What has really changed in a global sense in agribusiness over the last 20 years?

Is the global agribusiness / food sector dominated by a few global multinational corporations?

No, although some food companies are very big – the value of Nestles' global dairy product sales is greater than the total value of farm output from Australia – the global food sector is massive and you have to expect the presence of vary large companies in very large markets.

The post World War 2 toward larger farms has continued in developed countries, where there are fewer farmers on bigger farms producing more efficiently. Australia is no exception to this trend and it is a trend that is much older than 'globalisation'.

In Australia the food business has not changed much either. The domestic food processing industry has always had a significant percentage of foreign ownership (particularly from the United Kingdom – which is hardly a surprise).

Food retailing in Australia is dominated by Australian owned supermarkets (Coles and Woolworths), food service outlets (restaurants, cafes, hotels, etc) are by and large domestically owned, although it's true that a significant proportion of the fast food market has been captured by multinationals (e.g. McDonalds Corp), but this is really only a market that has existed in Australia since the arrival of McDonalds at Yagoona (Sydney) in 1971 – once again predating globalisation.

So what is it that is upsetting people?

There may be a trend toward global social homogenisation, through the influence of television, films, the web, media and fast food and perhaps this is what the whole anti globalisation movement is actually about – the loss of some local cultural identity, submerged by a generic 'global' culture and the blame for that is being placed on the most visible manifestation of this trend.

If this is the case, surely the party most 'at fault' is not the purveyor of the homogenised culture, it is the consumer who must carry some responsibility for what they consume?

So globalisation may be a reaction to what some perceive to be global cultural imperialism – and they are striking out at the 'capitalist' system that has brought this menace to their door.

However, no one is forced to eat American style fast foods, watch Hollywood films, wear Nike clothing, put their baseball cap backwards, listen to US bands or consume other products of a 'global' culture.

The answer could also lie in the degree to which countries are dismantling the barriers – cultural and economic - that insulated their economies, industries and societies from external competition - either as part of a domestic push to become more efficient and competitive, or as part of an international push to encourage more trade in goods and services.

For example, in Australia the domestic market is, to a greater degree, no longer sheltered behind a wall of barriers that insulate against import and other forms of competition, foreign direct investment and so on. This has meant that the domestic economy has changed – some domestic industries have ceased to exist, some have got smaller and some have got bigger. Our exports have increased and so have our imports.

Anti globalisation protesters are seeing the results of the realignment of domestic economies as a result of trade and investment policy changes and looking for a 'villain' for the resulting socio-economic changes. Thus the focus has fallen on to foreign companies, foreign investment and so on – when, as previously pointed out, the presence of these factors predates the domestic policy changes that appear to have caused the 'anti-globalisation' backlash.

**Summation.**

Globalisation is not really a mysterious 'global force' that is creeping insidiously around the planet; it's part of a process that is driven by domestic economic policy to increase trade and thus better spread income and wealth.

A better term to use is the 'internationalisation of domestic economies' – because as Rugman and Girod point out globalisation, in terms of businesses becoming increasingly global, doesn't really exist.

Rather than being a force that works against the poor or less developed countries, the opening up of domestic economies to FDI and trade (imports and exports) creates opportunities for increasing wealth.

Removing trade barriers is the key to helping developing countries improve their standards of living. Removal of trade barriers could net developing countries US $155 billion a year, which is a better alternative than the US $43 billion a year in aid these countries receive and the US $25 billion a year it costs to service this debt.

Opponents of the realigning of domestic trade and economic policy are actually promoting a protectionist / big government philosophy, in the mistaken belief that the world would be a better place if there was little or no trade between countries and regions, that companies should be domestically owned and that governments should intervene in all aspects of economic activity. (Examples are the individuals / groups that protested at the Seattle WTO meeting, at Davos and other similar events).

Domestic governments have to be applauded for pursuing policies that internationalise their economies, because if the history of the 20$^{th}$ century teaches us anything, it is that protectionism and isolation do not work and that it is the average man and woman on the street who suffer most when economies stagnate or collapse.

We just have to look to Russia, North Korea, Argentina and the whole of Africa for evidence of this.

If the cause of the concern over 'globalisation' is actually the cultural issues mentioned in this essay, then people are protesting in the wrong direction.

Likewise, if anti globalisation protestors are voicing concern over the impact of the removal of trade and investment restricting barriers on less developed countries, they should pause to think of the real impact that current anti trade policies (such as US, EU and Japanese farm subsidies, tariffs and quotas) are having on the people of these countries.

Rather than seeking to maintain barriers to trade, these protestors would be better off expending their energy on encouraging the dismantling of trade distorting barriers – because it's the people of the poor countries currently excluded from trading with the rich countries who are missing out at the moment and who have the most to gain from more open and freer world trade.

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