EXECUTIVE SUMMARY

At the beginning of the twenty-first century, there is major public focus on the unprecedented scale on which economic and commercial globalisation is now taking place, and what the implications of such rapid change might be. The process of agrifood* globalisation (including agrifood production, processing, distribution and retailing), while slower than in other economic sectors, has been accelerating over the past three decades from various causes.

For a range of historical reasons, but particularly in the twentieth century due to their having the world's largest economies as their home markets, 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. US agrifood corporations are particularly dominant, both in number and in size of turnover, with France, UK and the Netherlands featuring most prominently among the European agrifood multinational corporations (MNCs). One striking aspect is the ascendance of the food retailers up the ranks of the largest MNCs, with no less than 20 in the top 100 agrifood MNCs from Europe and North America.

The leading US and European agrifood MNCs did not emerge overnight; most had small beginnings and have developed over many decades, in some cases over a century or more. Many of the agrifood MNCs are still strongly influenced and even still owned by the descendants of their original founding families. For example, Cargill Inc, the world's second largest agribusiness and agrifood processing corporation, started as a single small grain warehouse in Iowa, and has attained its present position from over 135 years of corporate vision and endeavour. It is still owned by the founding Cargill and related families. Similarly with many of the world's most notable food & beverage brands, which have gradually gained their present degree of recognition from expanding their marketing reach over many decades. For example, Nescafé, the world's first instant coffee, first appeared over 60 years ago, developed by Nestlé.

A fundamental element in the ongoing transformation of Asia's traditional pattern of agricultural and food production and distribution – from one of predominantly subsistence agriculture into a rapidly modernising system of agribusiness and agrifood processing and distribution – has been the increasing participation in Asian markets of the leading US and European agrifood MNCs, and their incorporation of Asia into their global operations. This participation in Asia began as early as the sixteenth century, became more significant in the period of European (and American) colonisation, and increased markedly in the post-WWII period of economic growth in Asia, especially in the 1980s and 1990s.

But the increasingly global and long-term perspective taken by the North American and European agrifood MNCs in the 1980s and 1990s, was strikingly evident during the Asian crisis. With its major asset depreciation and operational cost reduction from currency depreciation, the Asian crisis afforded an unexpected opportunity that was immediately

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* See definition in Glossary.

perceived and utilised by many agrifood MNCs to accelerate their plans to augment their Asian operations. Part of the increased FDI flows into parts of Asia during the crisis went into the agrifood sector, as shown by a tabulation of over 100 individual examples of such investment. This took the form of gaining increased ownership of an existing venture, investing in further developing distribution channels and infrastructure, and acquiring shares in or full ownership of new ventures. As a result, most of the leading agribusiness and agrifood processing MNCs near doubled their operational presence in Asia betwen 1995 and 2001, with the majority now having at least one manufacturing operation in each of China and Thailand, and many in India, and almost all having substantial distribution arrangements in Japan.

While the agrifood MNCs, like others, were adversely affected in the short term by the Asian downturn, most found various ways to deal with the lower purchasing power and reduced spending by Asian consumers. These included adjusting products, packaging and prices to match what Asian consumers could afford; improving distribution and sales; and increasing market share. The publicly listed corporations also sought to reassure their investors about their respective corporate fortunes in Asia, and stressed the importance of Asia in their long-term global strategies.

But parallel to this, further major change has been underway in the ranks of the agrifood MNCs themselves, which will influence their future strategies in Asia. Though slower than other economic sectors to be enveloped in the accelerating trend toward larger corporations and industry consolidation, nonetheless from the mid-1990s the agrifood sector started to see a wave of major mergers and acquisitions, set off initially by consolidation among the European food retailers, but soon followed by the agrifood processors, partly from concern about the growing relative power of the retailers. This included large-scale mergers and acquisitions such as: Philip Morris' acquisition of Nabisco which will boost Kraft Foods' annual turnover from US$27 billion to US$36 billion; General Mills' purchase of the Pillsbury and Häagen-Dazs business from Diageo which will lift its turnover from US$7 billion to US$12 billion; and Unilever 's acquition of Bestfoods which will take its agrifood-related turnover from US$22 billion to around US$30 billion.

With the agrifood sector still less consolidated than other sectors, the current line-up of leading agrifood processors is likely to change significantly over the next 5-10 years as further consolidation takes place into fewer, larger corporations. Also, as further consolidation occurs in individual agrifood categories, two or three leading global players are likely to emerge dominant in each; as is already starting to occur, such as in frozen french fries, where the USA's Lamb Weston division of ConAgra and JR Simplot Co, plus Canada's McCain Foods are by far the leading global players. The dairy industry, long highly disaggregated, is now undergoing rapid consolidation. At the same time, as an alternative to actual mergers, many of the leading agrifood players are forming joint ventures and marketing alliances, such as the one between France's LVMH and UK's Diageo for joint distribution of their wines and spirits products in Europe, North America and Asia.

As part of their continued striving to remain leading players and maximise profits against strong global competition, the top agrifood MNCs are pursuing a number of common strategies which will have an impact on the development of Asia's agrifood systems as well as the rest of the world. A key strategy is global rationalisation of their production facilities, of distribution systems, and of sourcing of both raw materials and finished products; and with a growing preference to locate production facilities in markets with the highest prospective demand growth for the company's products, and able to supply a regional market or even the global market for particular products. Asia is clearly a priority location in this regard. Other strategies include: global rationalisation of business segments, product lines and brands; development of umbrella brands; strengthening control of supply chains; and growth in contract manufacturing.

New definitions of food that are emerging, such as GM foods, organic and functional foods, and consumer attitudes towards these new concepts of food, are of fundamental importance for the future of the agrifood sector. All agrifood MNCs are working out their positions and strategies in response to the changing landscape of food.

Crucial to any consideration of which companies are the leading players in the global agrifood system, is a survey of upcoming players. SME/emerging agrifood MNCs (turnover below US$2 billion pa) include some that are already among the leading companies in their field, some which are of considerable size but may only just be turning their attention outside their home markets, and others that appear to have embarked on a global strategy almost from the start.

The SME/emerging agrifood MNCs are adopting a range of globalisation strategies and approaches to Asia. These include: developing an outstanding brand, and selling it to the world; developing a unique product and licensing it in international markets; developing exports and building a global distribution network; linking up as a supplier to a leading MNC; expanding operations initially from the home market to the home region; building a second operational base in a major foreign market; and specialising globally in a single agrifood category or product.

Agrifood globalisation is occurring increasingly rapidly, and all players in the Australian agrifood sector of whatever size need to work out strategies for survival and, preferably, prosperity. A key part of such planning efforts must be possessing as comprehensive information as possible about the changing contours and forces of the global agrifood landscape, and analysing them from the perspective of one's own particular enterprise. A major element in this landscape is the role of the leading agrifood MNCs.

A key driver of change in Asia's agrifood systems has been the increasing participation in Asian markets over recent decades of these leading agrifood MNCs, and their incorporation of Asia into their global operations. Due to their astute seizing of the opportunities of the Asian crisis to strengthen their position in Asian markets for the future, the MNCs will play an even more prominent role in the region's changing agrifood systems, with this process likely to intensify and speed up in the coming decade.