

# Globalisation: the food industry in philippines



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This study aims to explore how globalization has affected the food industry in the Philippines. By looking at the Nestle Company, the research paper seeks to look at Multinationals as agents of globalization and how they have affected the Philippines' food industry.

Research design/methodology: – This study employs descriptive research method. This type of research approach involves data analysis, and a particular set of questions, which do not deflect certain topics. The researcher analyzed the data presented on the impacts of Nestle in the food industry in Philippines guided by specific designed questions.

Findings: – The study found out that Multinationals act as agents of globalization. By looking into the Nestlé Company, the research found out that Multinationals act as agents of globalization affecting the food industry both negatively and positively.

Limitations: – The research employs primary and secondary data hence it would be difficult to find out whether the data is true or biased.

Recommendations: – In order to reach a generalized conclusion, more study needs to be conducted in this unexplored area of study.

Value: – Considering the rise of Multinationals, the paper will assist governments to be able to implement proper policies while dealing with Multinationals in their nation states.

Key words:-MNC (Multinational Corporations), globalization, socialization, colonization, third world countries.

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## **Chapter One**

Introduction, Aims and Objectives, Research Questions and Hypothesis

### 1. 1 Introduction

This research paper is designed to assess the effects of globalization on the food industry in the Philippines. It is motivated by the controversies that have surfaced on the role of these Multinational Corporations (MNCs) as agents of globalization in the Philippines. Globalization has resulted in a lot of positive and negative impacts especially in the third world countries (Robertson, 1992). In the sector of agriculture, crops that have been imported can be bought at cheaper price than domestic products. Nations states like the Philippines, which depend on agriculture as their main export and import have suffered a lot as a result of globalization. The Philippine agricultural sector only accounts for 14. 8% of the gross domestic product (GDP) (Frost, 2003). For instance, crops that are imported could be bought at a much cheaper price than value. This is because globalization has created the free trade area as stated by the World Trade Organizations. Hence, nation states with higher productivity in agriculture could dump their

produce to their counterparts in the third world nation state. This means that the third world nation states will be given sub standard produce (Frost, 2003). By definition, globalization implies the movement of information and people across borders of any nation state. Consequently, this transfer has control over the nation-state's political, environmental and cultural affairs (Dasgupta, 2004). Economically, globalization has been able to assist nation states to grow through the introduction of various Multinational Corporations like the Nestle. As a result, these foreign direct investments bring a lot of foreign exchange in the host nation state. This foreign exchange comes from the sell of Philippine's agricultural produce and products in the international market. This is a positive effect in the economy of the nation state.

However, in many Asian nation states like the Philippines, majority of the population are plagued with poverty. This means that these people are more willing to work and earn the lower wages that the MNCs (Multinational Corporations) would give them. As a result of globalization, many multinational corporations have set up their branches in these nation states. MNCs (Multinational Corporations) like Nestles have managed to set up their manufacturing facilities in these nation states to benefit from the cheap labor (Jensen, 2008). This has affected the food industry in the Philippines as many local food industries are able to access cheap labor for their industries. The new industries assist the poor nation states to solve their crisis of unemployment thus reducing poverty in the nation-state. In addition, this may help in increasing the living standard of the people and increasing the contribution that the lower class in the society makes in their GDP (Frost, 2003). This ensures that the local farmers are empowered from their

agricultural products thus developing food industries in the Philippines.

Furthermore, lower class is socialized to be able to consume the products produced by these multinational companies. This creates local market for the products from the food industries thus generating income (Robertson, 1992). Consequently, Nestle has become very significant in building a Food industry in the Philippines.

From a negative perspective, globalization has resulted in Multinational Companies like the Nestle that tend to exploit their workers. This is especially in the poor nation states like the Philippines. This is mainly because such nation-states lack proper policies and regulations to ensure that the MNCs act accordingly (Jensen, 2008). This affects the local food industry because the domestic food industries are not able to maximize on the Philippine market like their international counterparts. Most Multi nationals aim at reducing their expenditure costs while remaining competitive to the domestic market. Furthermore, most of these MNCs destroy the environment in the host countries because of lack of proper environmental policies (Athukoralge, 2007). For instance, in the fiscal year 1980, a US chemical business Union Carbide in India endured very poor working environment. The chemicals in the end resulted in explosions that killed very many people (Athukoralge, 2007). These companies seek to not only capture but also to control the resources of the host nation state. This affects the food industry because the destruction of the environment leads to the destruction of food crops and the amount of rainfall that may come in the Philippines. Consequently, this reduces the crop yields of that year.

With this background, it is imperative to note that this research will employ Nestle, to depict the impact of globalization in the food industry in Philippines. The research will look into both the harmful and positive characteristics of globalization by looking into Nestlé's affairs in the Philippines (Nestle Philippines, 2011). Presently, the Nestle is known as a very established organization globally. The company has various food and beverages amongst its list of products. Past cases will be employed to depict the impact that globalization has in the Philippines food industry.

## **Background**

The economy of Philippines heavily depends on agriculture for survival. The country of Philippines has a high level of education and literacy rate. The economy of the Philippines is relatively strong with moderate savings rates. It has been ranked as the 46th nation state globally economic wise. Additionally, the nation state has an export oriented agricultural sector (Nestle Philippines, 2011). Consequently, this has resulted in the generation of sufficient foreign exchange for the economy. Despite the fact that it was rich in natural resources, the economy of Philippines is agrarian and produces staple food to support the economy. However, the country had started growing economically with the entry of major corporations like Nestle. The Philippines' industrial sector was increasing at a very fast pace. Consequently, the nation state was named as one of the nations with the utmost salary earnings in the Southeastern part of Asia (Divina & Roldan, 2010). Many changes in the Philippines have been brought about because of globalization. Furthermore, globalization through MNCs has brought vast penetration of technologies and vast penetration. This has affected the food

industry as more farmers are able to venture in the food industry availing more products to the consumers.

The Nestle Company began from a simple idea into a giant multinational corporation. In 1866, a pharmacist named Henri formulated a food formula for babies who could not be able to tolerate breast milk. As a result, the products became so successful that the entire Europe demanded for the product (Nestle Philippines, 2011). Because of the popularity, great companies desired to merge with it. Between 1866 and 1947, the company had changed its name severally to suit the mergers. For instance, in 1905, a company named Farine Lactee Henri Nestle and Anglo-Swiss condensed milk Co merged with Nestle to create Nestle& Anglo-Swiss Condensed Milk Co. These consolidations permit a company to improve on the efficiency of production through scale economies. In addition, these mergers result in the closing down of firms that are less efficient. This is normally seen as a very fast way for companies to expand on their product offering and in turn gain market share. Furthermore, some companies engage in mergers and acquisitions to block other companies from becoming greater players in the market. Most of the food manufacturers enter the foreign markets through foreign direct investments like in the Philippines.

The Nestle Company has been able to stay successful for a very long time. Consequently, this has created room for them to be able to expand their markets globally making them the world's greatest beverage and food industry (Schwarz, 2003). The Nestle Company has made the food industry to orient itself more to its customers rather than themselves. The advanced technology has enabled them to know the interests of the consumers and

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thus make products that can suit their needs. Agricultural goods like spoiled milk that could not be used has now been turned into a tradable substance because of globalization. Their headquarters' is located in Vevey, Switzerland (Nestle Philippines, 2011). However, most of the company's industries are located in many parts of the world. Since the publication of the company's case in 1998, Nestle has managed to employ nearly 230000 people worldwide. Currently, the number has increased to 253000 people and over 88 billion dollars of sales. This means that the company is increasing on an annual basis. Additionally, the company has managed to increase their products that they offer to their customers. Their business strategy has been mainly to encourage the growth of their products through various innovations and renovations. Consequently, the strategy has enabled the company to be able to create many other products like breakfast cereal, baby food, dairy products, chocolates, ice creams, prepared foods and beverages.

The company has also diversified to produce pet foods, food services and water that are bottled. This means that the Nestle Company has managed to set the pace for the standard of food to be consumed by the Filipinos. Eventually, food regimes have come up to check on the standard of food that is being produced in the Philippines. Currently, Nestle Philippines has been able to employ over 3200 employees and support thousands of people indirectly. Nestle has managed to establish three factories and a fourth one is coming. The company claims to provide the Filipinos with products that will bring a healthy and happier life. In addition, the Multinational Company endeavors to become good and caring to the corporate citizens and in

ensuring that the welfare of the Filipinos is taken care of (Divina & Roldan, 2010).

The Nestle Company has had several accusations on its exploitation of workers in the food industry. In 2002, the rights of more than 600 workers was violated by Nestle in the Cabuyao factory (Cabuyao workers briefing, 2009). The workers desired to enforce their rights and to negotiate with the managers on their retirement benefits. This was because the Multinational had not included retirement benefits on their employment contract at Nestle. However, the Nestle management purported that it was the company's decision to decide whether or not they would give their workers the benefits (Cabuyao workers briefing, 2009). The Supreme Court of Philippines gave justice to the workers and stated that retirement benefits ought to be a subject to be discussed by both parties. Despite all this, the Multinational has not complied with the ruling. As the set pacers in the food industry, the Nestle has made other food industries like the MacDonal'd's to follow suit.

## 1. 2 Overall Aims and Objectives of the research

Globalization has significantly affected food industry in most developing nation states. This is because of the liberalization of the economy and great technological advances. Through various Multinational Corporations like the Nestle, globalization has managed to occur in nation states like the Philippines. This has affected the food industry in many ways both positively and negatively. The colonial structures set by the European powers ensured that the economies of these developing nation states entirely relied on the developed nations (Jensen, 2008). This has made the economies of the third

world nation states like the Philippines heavily rely on developed nations for economic prosperity.

Against this backdrop, this research desires to look into the effects of globalization in the food industry in the Philippines. By looking into the Nestlé, the research seeks to look into these corporations as agents of globalization and how they have affected the food industry in third world countries like the Philippines.

To achieve this aim, the research outlined the following objectives:

To know the strategies that Multinationals like nestle employ to gain maximum profits.

To identify if the Nestle collaborates with the mother nation state (Switzerland) to gain maximum profits in the Philippines.

To know the role of colonization in ensuring that third world nation states like the Philippines had weak economies.

To know how globalization has affected the tastes of the local people thus affecting the food industry.

1. 3 Hypotheses:

Hypothesis 1: Globalization has been able to impact the food industry by affecting their tastes of the local people.

Hypothesis 2: The Nestle multinational has led to a decline in the local food industries through their effective strategies

Hypothesis3: Effective strategies have assisted the Nestlé Multinational to be able to gain maximum profits in the Philippines.

## Chapter 2: Literature Review

### 2. 1 Introduction

This part of the dissertation seeks to review the literature concerned with the effects of globalization in developing nation states. It is here that the various theories that talk about globalization are discussed. Furthermore, the various literatures on the impacts of globalization and multinationals are reviewed.

#### 2. 1. 1 Theory

To explain this research topic, many theories have been proposed. In any disciplinary research, it is imperative that a theoretical framework that discusses the problems affecting this research is employed. In addition, the theoretical framework will assist in formulating the necessary research questions for designing the research study. It refers to various collections of interrelated concepts such as a theory (Kaplan, 1964). Although various literatures have been able to cover broad diversity of theories, the theory of world systems will be employed to explain globalization and its impact on food industry in the Philippines. The theory emphasizes on the fact that the systems of the world ought to be the basic unit of analysis. The theory refers to the international labor division and this is the basis of globalization. According to the theory, the world is split into the semi periphery, the periphery and the core nation states. The core nation states center on having high skilled labor and a production that is capital intensive. The rest

of the nation states have low skilled labor with a production that is labor intensive. In addition, they specialize on the extraction of minerals. This explains how the process of globalization has emerged in the world (Chase-Dunn, and Grimes. 1995). The nation states with capital and high technology have been able to move into nation states that have labor and no capital. The system changes rapidly because of globalization and individual countries can be able to lose their status as core nation state very fast because of changes. The theory was formulated by Immanuel Wallenstein in 1978 (Wallerstein, 1974). Wallenstein has been able to trace this theory to the 15 century where the feudal economy in Europe went through a major crisis but was changed into a capitalist society. This is what globalization has done to developing nation states. It has been able to transform developing nation states like the Philippines into a capitalist one (Jensen, 2008). This is by opening up the markets and allowing the establishment of foreign investments in the country.

The food business has managed to exist even before civilization took place. The advancement of this trade in the 16th and 17th centuries was mostly premised on the discovery of commodities that were geographically specific and tropical plant products (Brenner, 1982). It is agriculture that made the developed nation states become powerful as they sold their agricultural produce to international markets. Wallenstein purports that that the nation states in Europe were able to employ the advantages they had like technology to dominate other nation states' economies. They were able to spread the capitalist economy and industrialization resulting in unequal development (Jensen, 2008). Agricultural globalization was seen as a means

through which they could construct their economy. In capitalist globalization, jobs and capital move from one nation state to another. This is mainly from the nations that are rich (the core) to the developing nation states (periphery). This made them created their own industries that could process food premised on what could be gotten from the local raw materials. Capitalist corporations like the Nestle in Philippines have increased exploitation by paying less money to their staff in developing nation states (Wallerstein, 1974). Globalization is referred to as capitalism but on an international level. In an economy that is globalized, the economic activities of the nation state exist. This is because of an exchange in notions, services, labor forces and technical advances. This has made people do business globally, travel and communicate with each other.

The theory can be perceived in the same way as Karl Marx saw class. This means that ownership is compared to non ownership as the means of production. The nation states classified as the core possess and control the main means of production. That is why the core nations are able to dominate the developing nation states. The periphery countries do not own much of the means of production in the world. This is irrespective of the fact that they carry out higher level of the production works. Like in any other class system in many nation states, there exist class positions in the world that lead to uneven wealth distribution. The core nation states get the greatest share of the surplus production (Wallerstein, 1974). Despite owning the raw materials and labor, the periphery nations receive the least of their production. In addition, the core nation states are able to buy raw materials and other

goods from the nation states at a cheaper price. The core nation states demand the periphery nations to buy the products at a higher price.

The Nestle was able to gain access in the Philippines because the Multinational comes from the nation state in the core. The Nestle employs the cheap labor from the developing nation states and their raw materials. Wallenstein argues that in the twentieth century, the world systems theory had reached its limits geographically (Wallerstein, 1974). This is because state systems that were capitalist in nature and capitalist markets were extended to all other regions. The United States rose to become a hegemonic power. This means that it had political as well as economic powers. These newly independent nation states were able to confront the control of the core in the entire century (Borines, 2001). Some of the states that had gained independence decided to confront the core's dominance by improving the status of their economy. In the 19th century, liberalism took over as the ideology. It was designed with the hope that there will be equal share markets and individual rights. It also desired to advance the economic status of the nation states. This is what Wallenstein calls, the transition period. However, the period has been brought about divisions and unequal wealth distribution in the world. Technology is the factor that makes the core nation states to remain in their dominant position.

Wallenstein's theory has attracted a lot of criticism. The theory has focused a lot on the economy instead of the culture of the nation states. These critics can be categorized in four ways. First of all, the orthodox Marxist who argue that the world systems theory has moved away from the principles of Marxism. This has been depicted in the way the concept of social class has

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not been given much gravity (Wallestein, 2004). Secondly, the positivists have criticized the theory for being too prone to generalization. The world systems theory is devoid of quantitative data and has failed to put forth propositions that can be contradicted by an observation. Thirdly, the state autonomists have criticized the theory by saying that there lacks a boundary between businesses and the state. All the critics purport that the state should be regarded as the focal point of analysis. Other critics like Brenner have purported that prioritizing the world market means that the local struggles amongst the classes and structures ought to be neglected (Brenner, 1982).

## **2. 1. 2 Positive of globalization in the Philippines' food industry**

Globalization refers to the increase in interdependence amongst various business firms in the economies of various nation states in the world. The change agent of this nation state is normally businesses that are owned by various multinational organizations. A Multinational Corporation is an enterprise that involves itself in the management of production in more than one nation state (Tolentino, 2000). Furthermore, Multinationals deliver various services in many other nations. Many scholars have researched on the impacts of globalization in the food industries of many developing nation states. For example, according to Dasguta (2004) globalization has resulted to a rise in products that are consumed in different nation states. Consequently, this results in the rise of many food industries that compete against each other to try and meet the demands of their customers. Eventually, globalization has resulted in increased competition amongst the



food industries. This in turn has culminated to a greater level of independence to global companies for both global collaboration and economic activities. Harley (2006) argues that most companies have begun to operate globally on an economic scale. According to his studies, the revenue of the company in their nation state was regarded as the highest in their country of origin in the past. However, in this present time, the opposite of the above statement is deemed to be true.

Scholars have written on earliest form of globalization. Berberoglu, (2005) purports that since the 1400; globalization took place in the form of capitalism. During this period, the Europeans began forming colonies that could supply them with raw materials and cheap labor for their products. The economies of most developing nation states were developed in such a way that they supplied for the requirements of the integral nation states that existed in the global system that was capitalist in nature (Berberoglu, 2005). The rising trend of markets, finances, services and goods that are interconnected have resulted in the trend of globalization. This has created development in technology as afar as food industry is concerned. In addition, the rise in the stature of multinational companies in developing nation states has influenced the economical, cultural and political aspects of many nation states. In the economic dimension, globalization revolves around the accumulation of capitalism as the current trend. This is clearly depicted by the widespread labor division that exists in the world, raising numbers of industries within the MNCs and the movement of capital globally from one nation state to another (Suarez-Villa, 2012). Through colonization, these nation states were able to get countries at the periphery like the Philippines

to supply all that they need for their economy to expand. This affected the food industry as it made the Philippines become dependent on the developed nation states. The Filipinos grow their own food only to be processed in the developed nation states because of lack of better technology to do the job. In turn, the Filipino farmers get little from their produce while the multinationals get a lot of money. American exploited the Filipinos by forcing them to work for them and buying their produce. This provided cheap labor and market for the American products. The Americans prioritized on accumulating the wealth, industries and the capital of the Filipinos (Borines, 2001).

Harley (2006) argues that for these Multinationals to remain competitive globally, they mostly aim at reducing their costs and prices. This works concurrently with their desire to produce goods of a high standard. Companies look to third world nation states as their centers of operation. They see their firms as a way to benefit from the third world nation states as they would gain a working force that is skilled/unskilled with very low cost. This has been achieved by setting up their operations in nation states like Philippines, Malaysia and India. Borine (2001) argues that colonization left the economy of Philippines in a very weak state. This meant that despite the fact that they were granted sovereignty by the Americans; the Philippines were still not sovereign in their economy. Borines (2001) purports that most of these developing nation states had to rely on the American markets for survival. The economy of the Philippines is highly dependent on agriculture and three quarters of the poor Filipinos depend on agriculture for their livelihood (Borines, 2001). As more and more firms become global, the

numbers of competitors increase. In addition, the intensity of the competition increases too. In these nation states, the MNCs have access to untapped markets that will increase their volume of products (Billet, 1991). In addition, these firms have access to a manufacturing low cost base for their exports to the surrounding markets. These multinationals like Nestles have opened up the Philippine food industry to the international market. This has created new opportunities for the Filipino farmers to be able to trade on an international scale.

With an increasing population of over 80 million, about 60% of the Philippine population's lives live below the poverty line. The poverty level in the nation state has brought a lot of corruption or exploitation by various Multinationals. In order to reduce the costs, these companies employ exploitation methods to be able to hurt the workforce or damage the environment. Carbaugh (2010) purports that multinational corporations search for places where they can be able to access labor that is inexpensive in order to build their factories. For example, United Fruit is a multinational banana producing corporation in Honduras. The region was chosen because of pursuit of cheap raw materials and labor (Carbaugh, 2010). Normally, these companies are aware of the situations in a nation that will cause them be able to attract maximum gains. These Multinationals are not required to follow any guidelines that may be present in their countries of origin (Rachman, 2008). This means that some of them operate in developing nation states without taking heed to the local regulations concerning businesses. In addition, these companies engage in activities that increase their cost of operation. A weak

legal and regulatory system will result in exploitation of labor and resources in the developing nation state.

Most developing nation states like Philippines hope that through Multinationals, globalization would transform their poor economy into an active participant in the global economy. As a result, globalization has been able to transform this nation state by increasing the employment opportunities (Rachman, 2008). This is because more foreign companies have come into the Philippines to assist in its ailing economy. This affects the food industry as it avails the necessary labor required. Globalization has resulted to other consequences. First of all, globalization makes nation states that have different value systems are able to try to win each other in the same level (Dasgupta, 2004). This means that different nation states set up structures and policies that will be able to attract more foreign investors in their nation.

Globalization has resulted in greater mobility of capital and workers in the international market. Consequently, this has led to a global market place where there has been an increase in the opportunity for employees, customers and managers of the company. For instance, the coming of Nestle Company to the Philippines brought in capital for erecting factories and offices (Local Philippine Context, 2010). Foreign workers were granted an opportunity to work in Philippines. This gives them a greater exposure internationally. However, the entry of Nestle in the Philippines has been able to create an intense level of competition with the local market. The local market is left to compete with the global giant for markets shares and revenues. The most basic requirement of individuals is food. This means that

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most multinationals that deal with food like the Nestle have very great power. Being the world's leader in the manufacturing of baby food, the Nestle Company has managed to open up the food industry in making baby foods (Borines, 2001). This is despite the various practices like corruption and monopoly that are deemed to be misguided. The Nestle has introduced new techniques of processing like condensation and roller drying. Consequently, this has led to a surplus of cheap milk in the Philippines. The Nestlé Company commenced exporting its milk to developing nation states in the fiscal year 1873.

### **2. 1. 3 Negative aspects of globalization**

Like in other developing nations, globalization has changed the culture of most Filipinos thus bring obesity to the children and adults. In the fiscal year 2008, the National Statistics Coordination Board revealed that 26. 6% of Filipino adults were obese. This has increased by 10% from 1993(ABS-CBN, 2011). 6. 6% of children of age 5 to 10 years have b