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International Food and Agribusiness Management Review, 2(3/4): 437–451
ISSN: 1096-7508
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Competition among Foreign and Chinese Agro-Food Enterprises in the Process of Globalization

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ABSTRACT: Based on various case studies, this article examines the interaction of foreign investors and local operators in globalization in the agro-food market in China. The study found that to break the limitation of the high-end market and to position mainly in the middle market were critical for international brands to succeed. Asian companies approached the China market as an insider because of cultural proximity. The latter, plus focused management and effective technology, made their operations profitable easily, but also exposed them to the risk of overexpansion. Quality products at affordable prices were the catch-up approach adopted by local players. At the early stage of globalization, winning tactics for local enterprises include imitating and participating in foreign investments, and exploring the markets where foreign investors have no advantages. In the China market, foreign and domestic enterprises were competing, complementing, and collaborating with each other to allow each to achieve its goals. The study analyzes the sophisticated relationships between domestic and foreign players, and provides inputs to strategic discussions of foreign investors and Chinese local enterprises about how to improve their competitive positions.

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INTRODUCTION

Danone Group, the world's leading food company and based in France, has been accelerating its international expansion since 1997. Emerging markets are the focus of the expansion, and China is considered a strategic development area (Danone Group Annual Report, 1999). In 2000, Danone's sales in China reached about EUR 1 billion, representing 7.5% of Danone Group's global sales (Danone Group's Press Release, Paris, March 2, 2000). In China, Danone has become the number-one player in the markets of bottled water, flavored milk drinks, and biscuits. Danone determined to raise China's share in its global sales to 10% in five years and to 20% in ten years (China Food Daily, 2001).

Danone is one of many foreign agro-food investors coming to China to conquer this market with 1.3 billion consumers, in which demand for brand-name products is fueled by a rise in disposable income, and the emergence of a middle class seeking a nutritious, safe, and balanced diet. For multinationals, winning in China means catapulting themselves into a position of global leadership; for regional players, winning in China means earning world status. Nestle, Unilever, Kraft, Continental, McDonald's, Coca-Cola, Pepsi, Budweiser, and Carlsberg are among the former category, and President (Taiwan) and Charoen Pokphand (Thailand), Sinar Mas (Indonesia), Kerry (Malaysia) are among the latter. However, winning in China is not easy. Rapidly escalating competition, poor transportation infrastructure, underdeveloped and fragmented distribution channels, scarcity of talent and unwieldy joint venture relationships were recognized as major barriers for success (Ayala and Lai, 1996). Recent literature has focused on advising foreign investors about how to overcome these barriers, but has paid little attention to the reactions of local firms. Actually, local reactions are important in emerging markets where local industry's growth and development are important to the development of the overall domestic agrifood economy. Local agriculturally related industry, from farming to food processing and retailing, provides needed raw materials and services to foreign investors. Without the support of local industries, foreign investors cannot operate. Local rival enterprises compete with foreign investors. Their competition mirrors foreign investors' errors in meeting local tastes and in using local resources. Their competition joins that of foreign investors to enlarge the pie of the emerging market of brand-name foods. Foreign investors cannot develop without the competition of local enterprises. Moreover, foreign investors need to prove they add value that benefits local consumers and to have helped the development of local economies, which are necessary conditions for a friendly operating environment. Foreign investment is not sustainable in a hostile environment.

This article examines interaction of foreign investors and local operators in the process of globalization of the agro-food market in the People's Republic of China. Analyzing the sophisticated relationships between domestic and foreign

Table 1. Foreign Direct Investment in Food Processing Industry* In China, 1997

	No. of Enterprises	*Output (U.S.$bi)*	*Value Added (U.S.$bi)*	*Gross Profit (U.S.$bi)*
Total	27871	46	9	1
Foreign	1728	10.1	1.8	0.3
Foreign Share	0.0621	0.22	0.19	0.31

*Food processing industry includes the sectors of grain processing, animal feed, edible oil, sugar, animal protein processing, and fishery processing.
Source: Wang, L. 2000. Report on Foreign Direct Investment in China. Page 201

players, the study provides inputs to strategic discussions of foreign investors and Chinese local enterprises about how to improve their competition positions. That discussion is timely for two reasons. First, there is a new wave of foreign investment coming to China before China's imminent entry into the WTO, anticipated for the second half of 2001. Second, as Thompson and Cowan (2000) observe, the Asian agro-food and fiber sector are in the early stages of restructuring and globalization, but the ramifications of the process are as yet unclear.

The paper proceeds as follows. The first section describes foreign direct investment (FDI) in China's agro-food markets. The second and third sections investigate competition strategies of multinational and Asian food companies, respectively. The fourth section analyzes how domestic firms react to foreign investors, and the last section summarizes the sophisticated interactions between foreign and domestic agro-food enterprises.

Foreign Direct Investment in China's Agro-Food Sector

Parallel with trade, FDI is an important market access vehicle in the globalization process. As the second largest destination for FDI only after the United States, China accumulated US$307.6 billion of FDI in 1999, the fruit of two decades of an "open door policy" (China Statistical Yearbook, 2000). China's manufacturing, property, and utility sectors are principal targets of FDI; agriculture received only 1.76% of 1999s total FDI. However, greater interest was shown in the food-processing sector, in which the presence of foreign investors is substantial. Table 1 shows that for the narrowly defined food processing industry, which includes the processing subsectors of grain, animal feed, edible oil, sugar, and animal protein, in 1997 foreign enterprises accounted only for 6.2% in terms of the number of enterprises, but about 20% in terms of output and value-added, and 31% in terms of gross profit. Compared with local enterprises, foreign firms were large in scale and efficient in operation.

In the packaged food industries, such as instant noodles, snack, milk powder, and beverages, foreign investors exercise a larger influence. More than 100

foreign brands are operating in China's beer market and occupy the premium segment. The two Taiwanese companies alone, Tingyi and President, represent about half of Chinese instant noodle sales. The bottled water market is led by two Chinese enterprises, Wahaha and Robust; however, Danone has a controlling stake in both. Coca Cola and Pepsi dominate the carbonated drink segment, and their combined production constitutes almost half of total beverage sales. Foreign brands of biscuits, chocolate, and ice cream are always the favorites of children. McDonald's and Kentucky Fried Chicken are the only nation-wide fast food chains in China. In addition, Carrefour, Wal-Mart, and Metro are among top 10 food retail chains in China.

Widespread presence of foreign brands and investors seems to suggest an overwhelming victory of foreign investors. However, if looking closely at the market dynamics of many food segments, today's achievements of foreign investors come from long and difficult struggles, gains, and losses. Along the way, some foreign investors failed because of competition from other foreign brands and increasingly competitive local players.

The High-End-Market Trap: International Brand's Experiences

Henderson (1998) analyzed the sources of competitive advantage in the processed food industry in the context of globalization and found that the importance of the endowment of natural resources is superseded by that of brand-related intellectual property as the vehicle to carry multinational food companies' products globally. This has been true for many multinationals investing in China. For most food multinationals who have entered China, their international brands acted as a key to open the door of the China market (Rabobank International, 1995, 1999). Famous foreign food brands, such as Nestle's infant formula, Coca Cola's soft drinks, Unilever's ice cream, and Carlsberg's beer, were highly recognized for their quality, associated lifestyle, and after-sale services when they were produced and sold in the Chinese market. They were treated as premium brands at the high-end market.

China's consumer market can be divided into three segments: mass market, value-for money-market, and high-end market. The high-end market might not be the position that the international brands intended to be in the China market, since they are widely sold in the mass market in developed economies. However, when these brands came to China, their quality was much higher than that of local products. To produce and maintain the brands cost much more than to produce local products. Thus, international brand-name foods naturally fell into the category of the high-end market in China.

The high-end market position at first benefited many international brands. High prices were associated with high margins, and the sales were supported by a group

of rich consumers. Famous international food brands are the image of high quality new life, which make the draw of local products pale in comparison. However, not all famous foreign brands had an immediate success when they were introduced and first produced in China. American breakfast cereals could not be accepted by common consumers since they were too foreign to Chinese dietary habits. Western high quality sausages were not tasty for most Chinese consumers who prefer grandmother's cooking. Hexter et al. (1998) noted that in the China market the foreign food brands that were to create new categories of demand would face more challenges in marketing than those which upgraded existing food categories.

In many cases, the halcyon days of famous foreign brands in China were but brief. On the one hand, their high prices limited the further expansion of market share. In the early 1980s, one can of Coca-Cola was sold at a price of RMB 3 (RMB is the Chinese currency, U.S.$1 = RMB8.28 in 2000), equivalent to one twentieth of an average worker's monthly salary. Even in the 1990s, one tin of Nestle's infant formula was sold at a price equal to one fifth of an average worker's monthly salary. On the other hand, their market shares were reduced by competition from other famous international brands that followed the first entrants. In the China beer market in 1999, there were 28 made-in-China foreign brands and 92 joint ventures. Together they represented 34.4% of total beer production, amounting to 20.5 million tons, and 16.7% of the number of breweries (Guo, 2000). Foreign brands are competing with each other in a narrow market segment called the high-end market, representing less than 10% of total sales. It was not surprising that more than 90% of international breweries lose money. The CEO of Tsingdao Beer, a leading Chinese brewery, summarized the causes of failure of many international brands as: high initial investment to build state-of-the-art facilities, high management costs associated with expensive expatriates, high marketing costs aiming at high-end consumers and using expensive media channels, and high working capital costs for selling expensive beer in a small market segment (Economic Daily, 2000).

More fatally, famous foreign brands themselves caused the emergence of strong local rivals in some cases. Foreign direct investors, via joint ventures or wholly-owned enterprises, set new quality standards, illustrated marketing innovations, introduced new products and technology, introduced new management concepts, and expanded the international market for "Made in China" food products. Local companies learned and mastered these gradually. Although many local food companies lost in the competition, some arose from ashes and became threatening rivals to foreign brands. In almost all subsectors of agro-food industry, there are now strong local companies matching foreign companies. Table 2 lists the selected pairs in various agro-food markets. These local enterprises improved product quality and services and created their own brands. However the prices of their products are perhaps only half of that of international brands. They squeezed the space of the high-end market enjoyed by famous international brands.

Table 2 Rejected Foreign and Domestic Competitors in Various Chinese Agro-food Markets

Sector	*Foreign*	*Domestic*
Beer	Budweiser, Carlsberg, South Africa Breweries	Tsingdao, Yanjin, Zhujiang
Carbonated Drinks	Coca Cola, Pepsi	Wahaha, Jianlibao
Bottled Water	Tingyi, President	Wahaha, Robust
Milk Added Drinks	Danone, Want Want	Wahaha, Robust, Shanghai Bright
Milk Powder	Nestle, New Zealand Dairy Board, Wyeth	Sanlu, Yili, Shanghai Bright
Ice Cream	Uniliver, Maintain-Cream	Yili, Shanghai Bright
Yoghurt	Kraft, Danone	Shanghai Bright, Beijing Sanyun
Instant Noodle	Tingyi, President, Sinar Mas	Meichu, Fumanduo
Feed and Poultry	Chareon Pokphand, Continental, Cargill	Hope, Tongwei
Edible oil	Sinar Mas, Kerry	Luhua, Shanghai Edible Oil
Food Retail	Carrefour, Wal-Mart, Metro	Lianhua, Hualian, Suguo
Meat Processing	Homel	Shuanghui, Yurong, Chundou
Fast Food	McDonald's, Kentucky Fried Chicken	Ronghuaji, Malan Lamian

Source: Rabobank International Database.

Escaping from the High-End Market Trap

In a sense, then, the high-end market turned into a trap for foreign food companies. What is the way out for international brands? A continuation of the strong development of China's economy will partially solve the problem. During 1985 through 1999, China's GDP grew 10.1% annually, and average wage/salary of workers and employees rose about sevenfold (China Statistical Yearbook, 2000). In 1985, an upper-middle-class family could not afford Nestle infant formula, but they could 15 years after (an average family still could not). Similarly, buying a can of Coca Cola worth RMB 3 was a big decision 15 years ago, but not anymore. Economic growth enlarged client bases for international brands.

However, the pace of economic growth cannot match the demand needs of some international brands which have big investments. A very large production facility without a strong customer base cannot meet financial liabilities, and cannot tolerate a long period of losing money. Many failed foreign investors simply withdrew. Recent important events were the sale by Kraft of their dairy operation to their Chinese partner Sanyuan for US$ 9.3 million (China Food Daily, 2001), and the sale by Carlsberg of 75% of their brewery in Shanghai to Tsingdao for U.S.$ 18 million (Economic Daily, 2000).

Among the survivors or winners among companies with international brands, some worked in the direction of reducing their costs and lowering prices, and allowed their products and brands to step down from the high-end market to the value-for-money or even the mass market segment. Unilever sharply cut the prices of their ice cream in 1999 to compete with local brands, particularly Yili.

Coca-Cola's retail prices did not rise for 15 or 20 years in China even though all their costs and consumer prices were rising. During 1997–1999, their sales rose 10.63% annually, but the sale prices fell 7.82% annually (China Food Daily, 2000). The price controls or reductions were made possible because of economies of scale, the right strategy, and tight management.

Reducing prices might compromise the quality and the image of certain international brands. An alternative path followed by some international companies was to develop local brands and sell at competitive prices. Their original brands remain at the original price level. Some international breweries acquired and produced some local brands for the mass market. Either by introducing their own local brands or acquiring local brands, international agro-food companies are getting out of the high-end-market trap.

Another approach is to maintain and increase the value of international brands, differentiating them greatly from local brands. McDonald's position is far from the high-end market in developed economies. However, dining in McDonald's in China is still a luxury, since the price of RMB 15 to 20 per meal is a big number for the monthly income of RMB 500 of an average worker. There is little room for McDonald's to reduce price without hurting the quality of food and services. McDonald's practices the operational rules closely, and provides food and services of the same quality no matter when and where customers are dining. This is a sharp contrast to Chinese restaurants where even the same dish at the same restaurant will taste differently if the cook differs.

Foreign Company but Local Brand: Asian Companies' Strategy

Multinational food companies are the first-tier investors in China's agro-food markets with globally known brands, advanced technology, and great financial strength. Regional or Asian agro-food companies are the second tier, with weaker positions if compared with multinationals, but much stronger if compared with local firms. Typically they adopted a different strategy to approach the China market, that is, emphasizing the localities of their products and services rather than non-Asian images.

Among Asian food companies in China, Japanese food companies typically focus on manufacturing products for exporting to the Japanese food market. The agro-food companies run by ethnic Chinese from Thailand, Malaysia, Indonesia, and Taiwan are among the most successful and influential. In the China market, the food processing and beverage industries absorbed the largest amounts of Taiwanese manufacturing investment capital, just next to the rubber industry (Fei, 1996). Taiwanese investors have penetrated all fields of Mainland China's food value chain. Tingyi, Want Want, and President are three leaders with dominant market positions in many categories. Each of them has invested more than U.S.$

300 million in mainland China, and treats the mainland market as its focus market. As Taiwan's dominant food company, President plans to climb to the peak of international leadership by winning in the mainland market (Wei, 2000).

The success of Taiwanese agro-food enterprises is well illustrated by the rise of Tingyi Group. Tingyi Group created an instant noodle brand, Master Kang, in the city of Tianjin, China in 1992, after several failed investment trials in the edible oil and snack food business. Then the imported instant noodles were sold at RMB 5 per bag, but local products were sold only at RMB 0.4 per bag. The middle market was empty. Tingyi filled the gap with the value-for-money product at RMB 1 to 2 per bag. Tingyi named the product Master Kang, since the term of "Master" was commonly used in the mainland to greet respectable professionals, and "Kang" can be a family name, but also means health. Taste tests of the noodle were performed many times by 1000 persons before being finalized. Master Kang was an instant noodle product with a local name and a local taste but with greatly improved quality. It shocked the market when it was first introduced (Zhang, 2000). The market share of Master Kang has been above 30% since then, and remained at 32.78% in 1999 even after many new players had entered the market (Commercial Information Center of State Internal Trade Bureau, 2000). Tingyi group's business today goes far beyond instant noodles, and includes beverages, dairy, flour, retail, fast food, and snacks.

The most successful operations of Taiwanese investors concentrate on 'ready-to-eat' products and beverages. This reflects a unique advantage over other foreign investors that Taiwanese food companies enjoy—a thorough understanding of Chinese tastes and preferences. Typically, Taiwanese food companies' initial investments are practical, without an addiction to state-of-the-art technologies. Their management is inexpensive since their expatriates need a smaller package to compensate for hardship in China if compared with their Western counterparts. And they treat the mainland as an immediate and major revenue source. Geographical proximity allows their headquarters to closely manage the operations. By contrast, for many multinationals the China market competes for attention with other emerging markets and is considered a far-away market. As a result, Taiwanese investors can place a significant distance between themselves and industry competitors, both Western and local companies. Their products are not shelved in the high-end market waiting for rich consumers, but compete with local products in the segment of the value-for-money, or even the mass market.

Although Taiwanese operations are local in the sense of branding and marketing, they maintain distinctions—the Taiwanese firms never give up the controlling majority to mainland partners, and they set up wholly-owned operations whenever possible. On many occasions, expatriates tightly control management and Mainland Chinese locals are rarely in top positions.

The approach of Thailand's Charoen Pokphand group (CP) has been very different. Most of CP's investment in China is in joint ventures, and CP adopted

an open attitude toward local partners. CP was the first foreign company to respond to China's open-door policy and invested in 1979. After 20 years with more than U.S. $4 billion investment, CP had 173 companies in China with agroindustry being its core, including more than 100 feed mills in 29 of China's 31 provinces. CP's performance, particularly in agroindustry, has been successful although there were difficulties during the Asian crisis. CP holds about 10% of China's feed market (www.cpthailand.com).

A Harvard Business School case study (Urban and Wertz, 1995) identified that a critical piece of CP's strategy in China is to approach the market, not as an outsider, but as a Chinese company using outside resources to improve the country's economy. CP's identity as a Chinese company was established via a systematic approach. The four key elements of this approach were building up trust with local partners, localizing management, transferring technology readily, and sharing profits generously.

Because the feed business is not technology-driven and has to deal with numerous buyers and suppliers in the China context, CP spent enormous effort to build up trust with joint venture partners by individual interactions. Such trust evolved into personal connections called *guanxi* in Chinese. In a place or a process where there were no set rules, *guanxi* was about writing the rules as you move along with your partners. *Guanxi* was certainly incompatible with Western culture. Whereas CP maintained control over the joint-venture companies, CP tried to localize management, using locals rather than Thai expatriates to represent CP. CP provided technology not only to its joint venture partners, but also to the market it served. This was contrary to the practices of many Western companies that overestimate the proprietary nature of certain pieces of their technology. CP's joint venture structure ensured that local partners would always receive deserved economic benefits, which was different from typical Western negotiation practices. This practice allowed CP to be accepted not only by the market, but also by the Chinese governments at various levels.

In contrast with the initial strategy of multinational agrofood companies, that is, high-end-market brands and high margins, many Asian companies entered the China market with local brands or emphasized the brands' local origins. The image of their brands might not be as high as that of international brands, but the products won the market quickly and widely. However, emphasizing local origins does not mean compromising brand equities. Asian investors still need to create a distance from local brands in terms of product quality, after-sale services, and marketing. Not all Asian companies can achieve this. Some Taiwanese food companies suffered the same drawback as some multinational food companies did. They either liquidated equity or converted the facilities for other uses (China Time, 2001).

Asian agro-food companies' cultural advantage, compared with Western companies, brings them early success in the market, but also brings the risk of

overexpansion either in the core business or in expansion to other industries. An Asian agro-food company acquired a major food company in their home market in 1997, using their profits from the China market. However, intense competition in the China market and the Asian financial crisis damaged its cash position. It had to sell a large share of its holdings to a Japanese company. CP had to sell its noncore business in China to strengthen its financial position as well during 1997 through 1999 because they were stretched too thin, at least financially.

Fundamentally, the corporate governance of many Asian agro-food enterprises has not broken away from the strong tradition of family business. Risk management, technology innovation, and adapting the organizational structure to changes in business environment is not adequate to allow the sustainable development of many firms. That partially explains Hexter et al.'s (1998) finding that, in China's packaged food market, Asian companies are almost twice as likely as multinationals to achieve a minimum threshold return on invested capital during their first four years of operation—but are only fractionally more likely to experience success later.

Quality Products at Affordable Prices: Local Players' Catch-Up Strategy

The initial position of domestic producers was in the mass market when foreign investors first came. At that time, the quality gap was enormous. Foreign brands were associated with high quality and a new lifestyle, and domestic brands represented outdated tastes and ignorance toward consumers. In the 1980s, on retail shelves, some famous foreign brands' whole-fat milk powder in 250 g plastic bags was sold at the price about RMB 20 to 25, whereas similar domestic products were sold at RMB 5 or less. Consumers worried about the sanitation standards of the domestic product and the true source of their raw materials (whether it was raw milk or soybean powder). They would buy the imported or foreign brands whenever their budgets permitted. In 1999, there were 45 foreign-capital dairy manufacturers out of 378 in the country (China Dairy Industry Association, 2000). A large number of domestic dairy players, unable to adapt to intensified competition from Nestle and other international brands, exited the market.

Domestic firms were both shocked and inspired. In the milk powder market, famous foreign brands' quality standards began to be observed, their management and equipment were duplicated, and their marketing practices were imitated. Over time, a group of domestic players emerged with reputable products and brands. By the late 1990s, whereas the same famous foreign brands were sold at the same price as 10 years ago (RMB 20–25), the newly strengthened domestic brands were sold at RMB 10 to 15. On the rebound, these Chinese dairy companies are

increasing their market share, and putting pressure on international brands. Most recently, Danone Group sold their two dairy operations to Shanghai Bright—the leading Chinese dairy company. One reason was that Danone Group could not compete with Shanghai Bright in the yogurt market, even though sometimes Danone priced its products lower than Shanghai Bright's did. Instead of directly running the operations to compete with Shanghai Bright, Danone Group turned over the Danone brands to Shanghai Bright to manage, and Danone became a 5% shareholder of Shanghai Bright. Danone's strategy is to use Shanghai Bright to develop China's dairy market and one day to become a major shareholder (China Food Daily, 2000).

While international brands remained in the high-end market, domestic players could adopt foreign technology and management to upgrade their operations and to create the value-for-money brands. However, over time some multinationals with international brands created economies of scale and localized their operations—and stepped down from the high-end market and to join the middle or mass-market competition. Coca-Cola practiced this strategy. Allied with China National Cereals, Oils, & Foodstuffs Import & Export Corporation (COFCO), Kerry and Swire (Hong Kong), Coca-Cola developed a 25-plant network covering all of mainland China. Coca-Cola controls only two concentrate production plants and focuses on marketing and distribution, leaving bottling to its powerful partners. When Coca-Cola and Pepsi prospered in the China market in the 1980s, there were numerous domestic beverage companies led by eight large firms to compete with the foreign giants. However, not long after that, seven out of the eight leading domestic companies were out of business, and were either sold to the two giants, became processors of foreign brand products, or closed down (Chen, 1999). In 1997, 22% of China's beverages were produced by Coca-Cola and Pepsi (China Light Industry Yearbook, 1998).

The growth of the domestic beverage enterprises was directed by the pressure of Coca-Cola and Pepsi to the markets of noncarbonated drinks, such as fruit/vegetable juice, bottled water, and recently, tea drinks and large-container drinking water for family and office use, where there were no strong foreign competitors. Wahaha and Robust were the main firms among domestic beverage producers. Established in the late 1980s, both were inspired and influenced by Coca-Cola and Pepsi's management practices, advertisement, and distribution methods, and creatively built up their own brand equity over time. They both were good at identifying the market potential of certain beverage categories. Wahaha, which means "laughing kids," introduced flavored milk drinks to serve the needs of millions of children at whom beverage firms had no dedicated beverage to target. Robust, whose Chinese name means cheering up everybody, marketed bottled water to address consumers' concerns about widespread water pollution, and to meet the needs of a prospering tourist industry. The sense of market development of this type was not the advantage of foreign beverage companies.

In the meantime, the two adopted a very flexible and effective expansion approach. For example, Wahaha took advantage of the government's poverty alleviation program and used state funds to set up bottling facilities in poor regions. The approach of this type could not be copied by foreign investors. Together, in 1998, they represented 35% of the national favored milk drink market, and 29% of the national bottled water market (Commercial Information Center of State Internal Trade Bureau, 2000). Interestingly enough, after accumulating enough commercial strength, Wahaha entered the carbonated drink market, and directly competed with Coca-Cola and Pepsi. In 1999, its carbonated drink production reached 500,000 metric tons, about one third of that of Coca Cola's production in China (Rabobank International, 2000).

The development of the Chinese feed industry demonstrated another pattern, in which foreign investors led by CP pioneered a new industry and domestic companies grew up side-by-side with foreign investors. Domestic companies closely followed foreign companies and imitated almost all aspects of foreign companies' practices. The process is characterized by the development of Hope Group—a privately owned Chinese feed company.

In the late 1980s, Hope entered the feed business, since their home province raised about one-fifth of the pigs in China, about 70 million head. They closely imitated CP's technology, management, and marketing. In addition, Hope recruited some professional staff from the group CP. Their competitive strategy was simple—undercut the Thai company's price because their investment and costs were lower. In addition, they knew the local market better. Hope went on to exceed CP's sales in Sichuan province, and then set up 90 operations all over the country. In 1997, Hope accounted for 5% of the whole country's compound feed sale with 2.5 million tons (Erickson and Mooney, 1998), when CP's market share was 10% (Annual Report of Chareon Pokphand Group, 1997).

The three observed competitive strategies of Chinese agro-food companies are: (1) learning from foreign investors and upgrading the products from mass to middle market; (2) developing in the markets where foreign competitors have not entered or have no advantages; (3) imitating foreign investors. In practice these approaches may be used by the same company according to the context, each of them might be emphasized by different industries according to characteristics of the industry, and also adopted by different regions according to economic development levels. In competition with foreign enterprises, domestic agro-food enterprises have advantages in understanding consumer preferences, having support from governments, and accessing inexpensive resources from raw materials to human capital to assets. Domestic enterprises are typically weak in corporate governance, which results from vaguely defined property ownership, an irregular market environment, and inadequate human resources.

Summary and Conclusion: Globalization in a Real Sense

Famous international brands can be the key for multinational food companies to open the door to the China market, but cannot guarantee their success in that market. They must utilize their intellectual resources to adapt their brands to the China market.

Kentucky Fried Chicken established "KFC China Committee of Health Food" in China to adapt the tastes of its fried chicken to Chinese consumers, and developed a soup dedicated to China (Jiang, 2000). McDonald's is less flexible in changing the taste of its meals, but opens air-conditioned stores in hot summer to allow high school students to prepare admission examinations to universities, and provide free services of selling monthly bus passes. Via the approach, McDonald's tried to become a member of local community rather than a high-end restaurant. While there is little chance to change the secret formula of Coca Cola to fit local taste preferences, Coca Cola introduced a new package with the image of a traditional Chinese doll to celebrate Chinese Lunar New year in 2001 (China Food Daily, 2001).

More fundamentally, multinationals formed alliances with local firms and used local firms' advantages to penetrate the Chinese market, such as in the case of Coca Cola. At one extreme, multinationals recognized their limitations in the Chinese market, and acquired local companies to produce local brands in local ways. Danone acquired the majority stake of Chinese beverage giants Wahaha and Robust in 1996 and 2000, respectively. Danone left the management to the original teams and no Danone's brands were added to the operations—the original local brands were the only focus.

While Asian food companies are approaching the market from the inside, they also draw strength from international resources. CP's first joint venture in China was firmed with Continental, and CP's partner in the U.S., Avian, provided critical technology support for its poultry business in China. The Taiwanese instant noodle giant Tingyi teamed up with Japanese noodle producer Sunyo to strengthen its position in China.

Some Chinese agro-food enterprises developed and prospered in the market segment where foreign competitors are weak. Shuanghui is the market leader in the meat processing industry, and is firmly owned and managed by local Chinese in the middle of the country. However, this did not prevent the group from forming more than 20 joint ventures with numerous foreign investors, which allowed Shuanghui to upgrade technology, management, and financial strength (Economic Daily, 2000). Some Chinese firms teamed up with foreign partners as equal partners to explore the potential of Chinese market, such as when China Resources Enterprise and South African Breweries formed a joint venture and upgraded local beer brands and prospered in the middle, not high-end, market. In these cases, strong Chinese companies won the competition with foreign

enterprises, bought the assets, and began producing international brands on behalf of the multinationals.

A single and simple formula does not exist for foreign agro-food companies to compete with local players, nor for local companies to compete with foreign firms. For multinational companies, the limitations of the high-end market should be fully recognized. Increasing affordability and acceptance of the products and using the assistance of local enterprises are key parts of a competitive strategy for multinational companies in China. For Asian agro-food companies, easy entry success cannot guarantee continued prosperity, and in many agro-food markets, the time of easy entry is over and competition is intense. To convert family businesses into modern corporations is a big challenge.

The impacts of globalization, or the impacts of joining the WTO, could be disastrous to certain agro-food enterprises or industries in the near future. However, 20 years of an "open door" in China's agro-food markets have seen the emergence of many strong domestic firms. Domestic firms need to be innovative to meet the challenges from foreign enterprises. Identifying the market where foreign enterprises have no advantages, using foreign resources to upgrade operations from that of mass market to value for money or even high-end market, forming equity alliances with foreign firms to get direct access to foreign resources and markets—these are among the key success factors in the context of globalization.

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