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The Dynamics and Potentials of Asian Agro-Food Marketing

Jamalludin Sulaiman

Universiti Sains Malaysia

E-mail: jamals@usm.my

INTRODUCTION

It is a great honor and privilege for me to deliver a plenary paper on the topic “The Dynamics and Potentials of Asian Agro-Food Marketing.” I thank the organizers for this honor. I would like to take this opportunity to thank Yangboo Choe, the fifth and outgoing President of ASAE (2008–2011), for a wonderful job done and for his superb leadership in bringing ASAE to the next level. I would like also to congratulate Arsenio M. Balisacan, the incoming president of ASAE. We are indeed very fortunate to have him at the helm of ASAE in the next three years (2011–2014).

At the previous conference, I talked on “The Asian Economic Renaissance: What Is in It for Agriculture?” Let me quote some highlights of that presentation.

“The renaissance began in Italy in 1453 and later spread throughout Europe. Since the renaissance, many other historical events had taken place to make the world what it is today. The industrial revolution took off after the many discoveries and inventions during the renaissance period, which we now take for granted, and shaped the way we lived today.

“Since the 15th century, there were countless other renaissances that took place around the world. The period

of western colonisation in many parts of Asia by the Dutch, the Portuguese, the French, and, of course, the British changed the political landscape of that part of the world. The American influence came soon after. During the Second World War, the Japanese and the Germans invaded many parts of the world. Thailand was one country in Southeast Asia that has never been colonized until today.

“The years after World War II marked the beginning of another renaissance period. Economies that were once colonies of the west fought for their independences. Mohandas Karamchand Ghandi or Mahatma Ghandi brought India’s independence in 1947. Indonesia’s Soekarno fought the Dutch who tried to take control of Indonesia after the Japanese left in 1945. Malaysia, previously known as the Federation of Malaya, was granted independence by the British in 1957.”

The recent history of our host country, Vietnam, goes back to 1930 when Ho Chi Minh founded the Indochinese Communist Party (ICP). Fast forward, after the US left Vietnam in 1973, the Socialist Republic of Vietnam was proclaimed in 1976 and Saigon was renamed Ho Chi Minh City.

Perhaps, 11 September 2001 is one day in history that has changed almost everything in the world.

Although the Renaissance was mainly in the sciences and the arts, I am of the opinion that the agriculture sector, though given little mention, benefited just as much from it. Many of us would agree that agriculture was already then an industry in the very primitive sense of the word. Since then we have witnessed some form of “industrialization of agriculture” in Asia, making it what it is today.

This paper attempts to look at the dynamics and perhaps the complexities of agro-food marketing in Asia. It is based on my observations and readings on the topic. As such, it is not strictly a scientific paper. It ends with my impressions on the potentials of agro-food marketing and some possible policy directions that can be inferred from the discussion.

A little caveat before I proceed. This paper cannot really do much justice on the topic of Asian agro-food because Asia is a big continent, comprising 44 countries and stretching over 10 time zones. The region speaks five major languages: Chinese, Japanese, Korean, Hindi, and Javanese, although English is widely spoken in many parts. No one country can represent Asia; all countries have little in common except their geographic proximity. Perhaps, the commonalities depend on how each Asian country relates to the various phenomena observable vis-a-vis their own agro-food marketing practices.

THE MARKETING DYNAMICS

Marketing is a big business. It is a dynamic process and system, benefiting both the producer and the consumer. It is competitive and one needs to constantly improve and innovate to remain in the business. It is both a science and an art. It involves the social sciences (such as psychology, sociology, and

economics), mathematics, and neuroscience. The ultimate objective is to satisfy customers while remaining competitive.

New global institutions determine many of the rules under which nations operate. Trade is the most “regulated” activity by these new institutions. The World Trade Organization (WTO), the North American Free Trade Area (NAFTA), and the ASEAN Free Trade Area (AFTA) in Southeast Asia—all promise to ensure a more level playing field for the trading nation partners.

The new rules of trade have brought the world to where it is today and future changes are expected to create a greater impact on everyone. The power of the market or the market renaissance, which came about because of globalization, has influenced national economies and governments in many ways.

The statements above essentially and generally describe marketing in its generic form. In today’s Asia, however, what is agro-food marketing? In general Asia is seen as an economy that it is getting more complex for all stakeholders. Similarly a big business, agro-food marketing is in fact a more fundamental concern given that the survival of consumers depends on the availability of affordable food and that of the producers relies on fair prices received for products to sustain their enterprises. There is an element of the food security issue in the above statement.

With globalization and trade liberalization, multinational companies have brought in “super retailers” (or hypermarkets). They come with different management practices, including the supply chain management; their structure and human resource requirements differ from those of the local establishments. New standards are practiced and, taking advantage of trade liberalization, new sources introduced.

As in other sectors, marketing in agriculture aims for products to reach their final destination—the consumer. Moving a

product from the producer to the consumer involves many activities to ensure it reaches the consumer in the preferred or acceptable form, appearance, quantity, quality, time, and price. It is these in-between activities that differentiate agro-food systems among Asian countries. These activities, many of which are interconnected, include transporting, storing, grading, packaging, wholesaling, retailing, branding, and advertising. The greater the number of these intermediary activities, the higher the added cost to the product. Conversely, when the process is shortened, the final product gets to the consumer faster and at a lower cost. Some agro-food gets to the consumer through fewer intermediary activities. Others move from the farm to the final consumer without going through any in-between processes. Some intermediary activities can be done by the producer while others can be handled under 'one roof.' The permutations are many.

Marketing has two other dimensions: social marketing and branding. In social marketing, customer's safety is paramount, whether it is the product or the production process or the selling methods. Branding is perhaps the latest dimension. Consumers' positive perception of a certain product ensures loyalty. This will be discussed more in the latter part of the paper.

THE POTENTIALS

So, what are the potentials of Asian agro-food marketing? Let us discuss this using Malaysia as an example.

Malaysia's agriculture has always been about cash crops for they contribute significantly to the national income. It is not so much about food crops or agro-food. Today, excluding palm oil, Malaysia is a net importer of food, despite once having been almost self-sufficient in it. Its import food bill is about MYR 12 billion (about USD 3.8 billion at USD 1=MYR 3.10)

per year, a very substantial amount for a small economy like Malaysia. The country imports almost everything except chicken and eggs. It is only about 65-75 percent self-sufficient in rice, its staple food.

Malaysia first introduced its National Agricultural Policy (NAP) in 1984; it was replaced by the second NAP in 1992. The Asian financial crisis in 1997/1998 quickened the implementation of the third NAP (2001-2010), which replaced the second NAP in 1998, taking into consideration the implications of the crisis. Ten months into 2011, there is still no sign of a new NAP. There are talks that the NAP will be replaced by a National Agro-Food Policy (2011-2020), which aims to ensure that Malaysians have sufficient and safe food supply. The implication is evident: the issue is no longer about agriculture in general, but about food, particularly agro-food. This indicates the significance of food security in the long-run for Malaysia. In 2008, Malaysia was caught unprepared when the price of rice nearly tripled at USD 1,000 per metric ton for lack of supply in the international market due to one reason or another. This incident underscored the issue of food security. There are numerous policy implications from that crisis that every Asian economy needs to seriously think about. In Malaysia's case, the government has instructed BERNAS (National Paddy and Rice Authority), the country's rice custodian, to build up stock as a strategy to avert a similar rice crisis.

In addition to BERNAS, Malaysia has other government agencies that deal with the nation's agriculture sector, including food sufficiency and security issues. These include:

1. FELCRA (Federal Land Rehabilitation and Consolidation Authority, 1966) – established to alienate and develop lands, especially idle lands;

2. MAJUTERNAK (National Livestock Development Authority, 1972) – established for the development and commercialization of beef and dairy products;
3. MAJUIKAN (Majuikan Sdn. Bhd., 1977) – a wholly-owned subsidiary of the Fisheries Development Authority Malaysia, established to be a leading fishery industry in the country;
4. FAMA (Federal Agricultural and Marketing Authority, 1965) – established to assist farmers in marketing their produce;
5. AGROBANK (previously the Agricultural Bank, 1969) – a government-linked company under the Ministry of Finance Incorporated, established to provide holistic financial services with focus on agriculture.

However, more can be done to improve the current situation. Historically, food was moved directly from the farm to the consumer; there were no “middlemen” activities in-between. The market’s structure was uncomplicated and both the consumers and producers were satisfied with the prices paid and received. Along the way, marketing has become more sophisticated. It has specialized and become a big business.

Today’s agro-food marketing sector in Malaysia is still predominantly characterized by a large number of producers consisting of small and non-commercial farms (Fatimah, Zainalabidin, and Ismail 2006). The average farm size is 0.67 hectares. Except for rice, many agro-food outputs have an unstable supply and inconsistent quality. With little capital to improve production, farmers depend on middlemen, usually the wholesalers, for almost all intermediary services including financial loans, agricultural inputs, transport, storage facilities, and to a certain extent, market information.

When market information is not easily available, the middlemen control the prices. At fish landing centers, for example, fish prices

are determined by the “whisper system” (Omar 1994). It is therefore relatively easy for a small number of traders to control the market. Market fundamentals have little role in these circumstances.

The price determination mechanism is definitely flawed. Given the marketing landscape, farmers have little incentive to grade or standardize their produce, much more add value to their agro-food outputs. However, this landscape is slowly evolving into a more dynamic ‘supply chain’ driven by external and domestic forces. With the growing middle-income group, demand for more convenience in the retail market has made supermarkets and hypermarkets relevant. Globalization has enabled “super retailers” of multinational companies to operate in Malaysia. In 2005, only 19 percent of the 81 hypermarkets in the country were locally owned; the majority were foreign owned, including Giants (Hong Kong), Carrefour (France), Tesco (UK), and Makro (Holland). The combined Carrefour and Tesco sales accounted for 46 percent of total sales. Moreover, 60 percent and 25 percent of the fruits and fresh vegetables sales, respectively, were handled by these supermarkets and hypermarkets.

Some farms have entered into contract farming agreements with supermarkets and hypermarkets. Such agreements allow the farmers to spread their risks. However, the majority of farms still depend on the services of middlemen, as contract farming is still a new market system in the country.

Some Asian countries (e.g., Japan and South Korea) are into supermarkets and hypermarkets in a much bigger way; more agro-food is available at these markets. Kinsey (2001) reported that the top five supermarket chains in the USA (Wal-Mart, Kroger, Costco, Albertson, and Safeway) account for 50 percent of the country’s supermarket sales. In Malaysia, the top five retail chains accounted for about 25

percent of the share in the food market in 2003 (PECC 2005).

From a simple direct-selling system, agro-food marketing has evolved into a more sophisticated marketing environment, as has happened in Malaysia. It is expected though that the system controlled by middlemen would be less interested in venturing into the more sophisticated supply chain system.

Globalization has helped agro-food marketing in a positive way. The increase in disposable income and the changing lifestyle of households have resulted in many preferring to shop for agro-food in supermarkets and hypermarkets.

Branding is another aspect of agro-food marketing that is already mature in the more developed economies. Eco-labeling is preferred by consumers who put a high value on safe and healthy food in addition to its sustainable production. Organically grown food is available in selected supermarkets and hypermarkets in Malaysia. The prices are expectedly higher than the conventionally produced agro-food; however, there is market for it as many concerned consumers are willing to pay.

Perhaps, more relevant to the Asian markets where nearly 40 percent of the population are Muslims, *halal* food is a form of branding that has a great potential. China and Russia have, respectively, an estimated 22 million and 16 million Muslim population. Indonesia's 250 million population are primarily Muslims. Strictly speaking, *halal* is not just the ritual of slaughtering animals, but may include as well the production process. Marketing of *halal* food is thus a potential big global business.

CONCLUSION

Agro-marketing is evolving—from selling, to marketing, to branding. It is also going full circle, back to basics, where direct selling is happening in some markets. In Malaysia, FAMA assists producers to sell their produce in selected areas on a given day of the week. Consumers' reception has been encouraging as the FAMA market is perceived to sell products that are not only cheaper than in other markets, but also fresh from the farm.

The conventional market structure still exists in many of the less developed Asian nations, where middlemen are said to exploit producers. It does still exist in Malaysia as well. Where this system exists, both producers and consumers bear the consequences. However, in many cases the roles of the middlemen are not indispensable.

In a more sophisticated agro-market, product branding (e.g., eco-labeling) has become acceptable because consumers are willing to pay a higher price for safety and health reasons, as well as for environmental considerations. Vegetarian foods have also become in demand in the more developed, high-income Asian countries.

Due to religious sensitivities, *halal* food is seen to have a great potential. A *halal* label in restaurants or food outlets especially in a non-Muslim country is a welcome sight for all Muslims.

The policy implications of the above discussion are many. Although globalization promises cheaper imports based on free trade, it is by no means an absolute guarantee that nations would want to rely on. Global agro-marketing has its limitations and Malaysia learned this lesson well in 2008 during the rice crisis. Malaysia has since then begun to stockpile rice; previously the level was only 92,000 tons (t), but now it is 292,000 t (Adnan 2011). It is also expanding the rice granary

areas especially in Sabah and Sarawak while increasing productivity in existing granary areas in peninsular Malaysia.

Agro-marketing has great potentials in Asian economies. While for some nations reliance on imports is unavoidable, other countries should consider making food security an urgent policy agenda. Agro-marketing should not be looked at as just a domestic issue to ensure fair prices for all parties. It is also a security issue when the population's food supply depends on imports.

Underlying all the above discussion and arguments is the need for the agriculture sector to be efficient. It must also have in place the required infrastructure and clear policies, especially for the agro-food subsector.

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