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Rapid transformation in Asian & African food markets: Implications for US exporters

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... market transformation has been RAPID

... SUDDEN

... like a tidal wave, low then sudden surge

1. TRENDS & OPPORTUNITIES

1.1. Rapid Growth in Asian/African Food Markets

Extremely rapid growth: 5-7 times faster than US and European markets

1.2. NATURE OF AFRICAN & ASIAN FOOD MARKET CHANGING

a) Rapid population urbanization of Africa & Asia

a.1) Both urbanizing fast & SIMILARLY

... Africa: 24% in 1970, 40% in 2011

... Asia: 24% in 1970, 45% in 2011

a.2) Urban share in national food consumption & markets BIGGER than urban share in population

... South Asia and ESE: 30/40/50-60%

... SE Asia and West Africa: 40/50/60-70%

→ rural-urban food supply chain grew 800% in Africa and 1000% in Southeast Asia in past 25 years: DYNAMIC MARKETS

→ IMPLICATION: Urbanization makes regions' markets more accessible

b) But the rural market is also growing

... driven by income rise plus rural nonfarm jobs

Share of purchased food in total **rural food expenditures (purchased + own production) high!**

Indonesia and Bangladesh, 80%

Nepal and Vietnam, 65-72%

ESA, 45% Nigeria, 70%

→ Implication: “fortune at the bottom of the pyramid”

c) Diets are diversifying rapidly

... driven by increases in incomes & women's opportunity cost of time

c.1) Processed food (purchased) in rural (and urban) Africa & Asia

... share of processed in total rural food expenditure in ESA = 39% (in Nigeria, 65%)

... in urban ESA, 53%

... in rural Asia, 59% of food expenditure

... in urban Asia, 73%

... again Africa & Asia pictures converging...

c.2) “diversification products” (beyond grains) important in Africa & Asia

... vegetables/fruit, fish, meat, dairy

**... Asia: non-cereals in food consumption: 65%
in rural areas & 75% in urban areas**

... Africa: 50% in rural areas & 65% in urban

**... share of fruit/vegetables in urban Asian food
expenditure = 16% = US in 2000**

c.3) Focus in on rise of feed demand:

... Aquaculture in Bangladesh expanded 25 times in 2 decades

→ ... fish feed 300% in 5 years in Bangladesh

... fish and chicken farming skyrocketing in Nigeria

→ feed sector in Nigeria up 600% in 9 years

→ Implication: Growing demand for US exports to Asia/Africa (as well as FDI/joint ventures in):
... processed foods,
... fruit/vegetables, meat, fish, dairy, oilseeds,
feedgrains (corn, soy)

d) **Rapid restructuring of the food industry in these regions: Extremely rapid rise of:**

... SUPERMARKETS

... LARGE PROCESSORS

... FAST-FOOD

... E-COMMERCE

... MODERNIZING WHOLESALE/LOGISTICS

→ Well along in East/Southeast Asia

→ Emerging (but uneven) in South Asia & Africa (Kenya example: supermarkets moving from “niche” to “commodity”)

Sales of leading modern retail chains that sell grocery, and GDP growth, over selected Asian countries, over 11 y (2001-2011), in billions of USD

| Wave | 2001 sales | 2005 sales | 2001-2005 annual compound growth (%) | 2011 sales | 2005-2011 annual compound growth (%) | 2001-2011 annual compound sales growth rate (%) | Real GDP compound growth rate 2000-2011 (%) | No. of leading chains followed |
|----------------------------|------------|------------|--------------------------------------|------------|--------------------------------------|---|---|--------------------------------|
| 1ST wave | | | | | | | | |
| South Korea | 16.9 | 34.8 | 19.8 | 59.8 | 9.5 | 13.5 | 6.9 | 37 |
| Taiwan | 8.2 | 15.9 | 18.2 | 22.3 | 5.8 | 10.6 | 3.3 | 45 |
| 2ND wave | | | | | | | | |
| Indonesia | 2.1 | 4.2 | 19.3 | 12.7 | 20.1 | 19.8 | 16.0 | 35 |
| Malaysia | 2.2 | 4.1 | 17.1 | 9.6 | 15.4 | 16.1 | 10.4 | 37 |
| Philippines | 2.1 | 3.9 | 17.3 | 9.8 | 16.7 | 16.9 | 9.2 | 32 |
| Thailand | 5.2 | 9.2 | 15.2 | 24.0 | 17.3 | 16.4 | 9.9 | 42 |
| 3RD wave | | | | | | | | |
| China | 12.6 | 39.8 | 33.4 | 122.0 | 20.5 | 25.5 | 17.9 | 100 |
| India | 0.2 | 1.3 | 53.2 | 8.6 | 36.7 | 43.1 | 12.1 | 45 |
| Vietnam | 0.1 | 0.5 | 42.2 | 2.5 | 29.1 | 34.1 | 13.3 | 28 |

- **Implications of the spread of modern food industry:**
 - ... **powerful motors & channels for US products**
 - ... **lower transaction costs to access markets (compared with traditional markets)**
 - ... **increase in opportunities for suppliers to satisfy supermarket demand for**
 - (1) de-seasonalization**
 - (2) product diversity, quality, and safety**

d.1) **de-seasonalization**

... modernizing food industry wants year-round supply

... **this drives formation of suppliers' "North-South corridors",**

...**for berries:** [England, Spain, Serbia, South Africa] and [US ... Mexico ... Guatemala ... Chile]

... **and "West-East Corridors"**

... **for citrus:** South African citrus to Southeast Asia's supermarket chain Dairy Farm International

... **Asia & Africa will increasingly demand these "corridor" supply networks**

→ **Implication: Opportunity (and need...) for US participation in these networks**

d.2) The Food industry in these regions under competitive pressure to:

➤ Move sourcing & marketing up the value ladder

... adding brix/sweetness or organic trait to fruit for premium

> Move along the Product Cycle

niche → commodity → differentiated product

... e.g. off-(Asia) season sweet cherries from US are niche in China

... supermarkets want FIRST to move sweet cherry offer to be year-round, bulk, cheap commodity

... and SECOND move to quality differentiation of cherry offer

→ Implication: food industry desires to move up value ladder & along product cycle are HUGE opportunities for US exporters

... but also bring big challenges

2. CHALLENGES

2.1. The emerging markets are ... recently... highly contested!

a) There have been two waves of globalization

a.1) First wave: 1990s/early 2000s, less-contested, “niche” globalization

**... E.g., Latin American off-season fruit into US
to de-seasonalize**

... US apples into Asia as niche and de-seasonalize

a.2) Second Wave: entrance of many increasingly strong exporters to the emerging markets

... and domestic suppliers

... now the market highly contested

... US no longer has an “automatic” advantage that it had in the first wave

... Emerging markets have now lots of “options”

→ Mexico increasingly buys Brazil corn

→ Brazil increasingly competes with US for China soy market

→ South Africa increasingly competes with US for Asian citrus market

a.3) And competition as supermarkets move along product cycle

... and regional competitors upgrade

... Scary story for US from Indonesia; apples, red globe grapes

... Scary story for Australians in Asia grape market

... Challenging story today about sweet cherries moving from niche to commodity in Asia market

3. Strategic implications

- A. Eye on dynamic demand trends**
- B. Customized competitiveness**
- C. Brand formation & quality differentiation**
- D. Adopt Multi pronged strategy: export, network, FDI, JV, brand**