How will the growing Asian market affect horticultural exporters?

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Executive Summary

China is an important market for fresh produce from Australia and New Zealand; however market access has proved difficult due to a combination of trade barriers and clashing business cultures. Australia and New Zealand need to build on their strong foundation of food safety and security with strategies involving branding, quality and differentiated product to effectively out-compete their southern hemisphere rivals.

Similarly, the growth of the broader Asian market will only be utilised to full advantage by adopting an approach specifically tailored to the needs, wants and tastes of the market being served. This may necessitate a production shift (different varieties) or a branding shift (pre-packaging), however innovations should not be implemented without extensive research.

Global trade of fresh produce is evolving rapidly and is aided by growing consumption rates, consolidation of retailers and efficient technologies enhancing the movement of produce through the supply chain. To compete in these open and consumer driven markets the focus should be on providing high-quality, safe, fresh and effectively differentiated products.
Do Australia and New Zealand have effective strategies to out-compete other southern hemisphere countries in the China market?

The Chinese market is an important one for Australian and New Zealand agri-food products due to high growth and its status as a net importer (Mark Soccio, PMA 2013). These opportunities are less pronounced in the horticultural sector, as China is a significant horticultural producer in its own right; however the closer proximity of Australia and New Zealand to China in comparison to competitors such as South Africa or Chile enables the potential to compete.

There are many difficulties involved in accessing the Chinese markets; this includes barriers such as the 15.3% average tariff on imported agricultural products (Austrade 2012), as a FTA has not yet been established between Australian and China. As demonstrated by the tariff eliminations by China on New Zealand products such as apples and kiwi fruit under the comprehensive FTA agreed upon between the two countries, an agreement is crucial to assist Australian exporters to remain competitive in China. A bilateral trade arrangement will also go some way to resolving the difficulties currently faced by Australian exporters into China: namely cultural differences, difficulties coordinating the supply chain within China, and a completely different business culture.

Currently Australia, and New Zealand slightly less so, tend to compete on a basis of food security and safety assurance in the fresh produce sector in China. While this is a good thing, and is crucial for enabling consistent market access; there are other significant factors involved in becoming a preferred supplier to the Chinese market. The Chinese value high-quality, fresh and flavoursome produce, and respond well to strong brands supported by well-organised marketing and promotion, as stated by the Department of Environment and Primary Industries (DPI) (2010). This collaborative, industry-based approach to marketing has been undertaken successfully by competing exporters such as Chile (table-grapes) and South Africa (oranges), which are seen as being of comparable quality to Australian products in the Chinese market (DPI 2010).

Australia and New Zealand are at a disadvantage in terms of the costs of production/manufacturing when compared to worldwide horticultural producers, however the DPI (2010) states that “there are markets (and consumer segments within markets) that are willing to pay more for consistently high-quality of effectively differentiated fruit, demonstrating that competition is not exclusively price based.”

ACTIONS/RECOMMENDATIONS:

- Encourage and lobby for, a bilateral trade agreement allowing easier/improved market access to China.
- Invest in research/projects to better understand the Chinese market and how they prefer to do business.
Accept that China is not a viable market for all horticultural produce, look to create value-added or differentiated products (new varieties, sizes) that will be valued by the Chinese consumer.

Develop cooperative relationships with the Chinese supply chain, rather than solely operating on an opportunistic/transactional basis.

How does the growing Asian market affect horticultural producers and exporters?

The growth of the Asian market will only affect those horticultural producers and exporters who are willing to invest time, money, research and labour into capturing market share of fresh produce items in demand from Asian consumers. Expansion of fresh produce exports from Australia and New Zealand will need to be built on a foundation of strong market knowledge, high-quality produce, safety and innovation to truly capture this dynamic market and gain competitive advantage over other southern hemisphere countries.

Existing exporters/producers can continue to produce what they already produce and focus on ways to force it into the Asian market; or they can adopt a country-specific export strategy (encompassing production through to marketing), targeted at the demands of the Asian market and look to fill that need better than anyone else. Conference speaker Michael McAllum (PMA 2013) identified the importance of designing the export process from your customers backwards; and working to understand the different cultures and Asian tastes. For instance, Asian palates have been shown to prefer sweeter, blander fruit (kiwi gold, pears, apples) and fresh, flavoursome vegetables such as kale, cabbages and other leafy greens, eggplants, beetroots, capsicums, and carrots are also in high demand in Asia (Ausveg 2012).

Producing varieties with a focus on taste, colour and of varying sizes can be ways to change perception of your product and get Asian consumers energised and excited by fresh produce displays. Create a strong brand that is synonymous with quality, freshness and taste as these are the attributes the Asian consumer is most likely to select for (MLC Produce 2007). Demand for packaged product is not as high in areas of Asia as in western cultures, an MLC report (2007) points to the continuing popularity of wet markets; however product innovation in areas such as pre-prepared convenience products including ready-to-drink smoothies and soups, will provide value to the consumer as long as they are introduced with a strong understanding of the market.
ACTIONS/RECOMMENDATIONS:

- Focus on exporting those fruits/vegetables that are in demand and suit the Asian palate/cooking techniques: Fresh, colourful, taste-oriented produce that fits the Asian model of consumption.
- Create a strong brand that is easily identifiable and based on attributes such as freshness, health, convenience and taste.
- Accept cheap pricing in fresh produce (in the beginning), and use as a loss-leader to get people out of wet markets and into supermarkets.
- Continued investment in distribution centres, air freight; work on engineering the supply chain for yourself – it will make it much easier in the long run if you control these elements.

What is the future for global trade in fresh produce?

Global trade in fresh produce looks set to evolve at a rapid rate, with approximately $138b growth in fruit and vegetable trade in the last 10 years (Bryan Silbermann, PMA 2013). This is aided largely by factors such as the increasing globalisation of retailers (Carrefour, Costco etc.) which improves efficiencies and benefits the ability of fresh produce to be moved around world-wide, increasing instance of free trade agreements removing trade barriers, and smarter technologies pushing communication and transport costs down.

Consumption of fresh produce is growing steadily (25% growth in the Asia Pacific from 2011-2016) on the back of a shift towards healthy and nutritional eating habits. This indicates that the global market for fresh produce in future will be characterised by large-scale international trade, and also many new and improved varieties of fruit and vegetables as competitors look to create market niches and differentiate their produce from the rest of the competition.

In summary, Asia will likely continue to be a valued export destination for fresh produce from Australia and New Zealand. However if we want to out-compete other nations we need to engage in a market-oriented approach and work with businesses in Asia to develop consistent supply arrangements.
References

