

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

Tom Reardon

Michigan State University

Feb. 22, 2018

USDA Outlook Conference

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