**Research Visits to Northeast Asia and Southeast Asia**

**Summary of Main Findings**

In 2011 Professor Hugh Whittaker and Associate Professor Robert Scollay made brief research visits to Northeast Asia and Southeast Asia as part of NZPECC’s work programme on regional food issues and their implications for New Zealand.

The focus of the work programme is on the implications of developments in the food markets and food economy of the Asia-Pacific region region for the demand, market access opportunities, and marketing strategies for New Zealand food exports. Key concerns include:

* Market access issues
* Value chain and supply chain developments, and responses to deeper regional economic integration
* Trends in agricultural policy
* Longer term influences on demand e.g. demographic change
* Investment trends and issues
* Marketing trends and strategies
* Regulatory issues e.g. food safety
* Influences of longer term issues e.g. climate change, water management, technological change

The project aims both to contribute to public and private policy and strategy formulation at the national level by increasing understanding of these issues, and to enhance capacity for New Zealand interests to be reflected through participation in research and policy discussions and debates on these issues at the regional level.

The following is a summary of the main findings from the two research visits.

**Agriculture Policies**

Agriculture policy is facing severe challenges in each country visited:

* Restructuring a declining inefficient agricultural sector in the face of entrenched political opposition and unhelpful institutional arrangements (Japan, Korea, Indonesia), misguided support policies (Thailand), undertaking restructuring within the context of far-reaching changes in the domestic economy in which the agricultural sector is directly involved (China), building on successful export development to achieve a more efficient and sustainable agriculture (Vietnam).
* Food security policies typically represent an uncomfortable combination of justifications for maintaining support for existing arrangements and genuine efforts to improve agricultural productivity. Complete self-sufficiency is recognized as an unattainable objective but targets are unrealistic in several of the countries visited.
* Policy generally centred on grains and also pork and poultry within the livestock sector i.e. products of export interest to New Zealand are not central to agricultural policy however NZ’s export products are among those for which demand is growing rapidly as incomes rise and diets change, and a key question for New Zealand is how policy will interact with this shift in demand patterns.

**Food Safety Issues**

* Food safety is a high priority issue in each country visited, with policy often reflecting an uncomfortable compromise between responding to strong consumer demand for safer, better quality food, and using food safety measures as a protectionist device.

**Changing Distribution Channels**

* Distribution channels are changing as incomes rise and demand patterns change. Supermarkets are expanding in all of the countries visited, and have very specific demands from their suppliers in terms of quality, presentation, supply continuity, product support.
* Food service industry (hotels, restaurants, catering companies, institutions) is growing rapidly and in some countries is now as large a market as the retail sector
* Supply chains are at different stages of development in the countries visited. Japanese trading companies and others such as Nissui, frustrated at being prevented from direct involvement in Japanese agriculture, are expanding rapidly overseas and setting up comprehensive international supply chains. There are some impressive examples of international supply chains being set up by Thai multinationals. Even in Vietnam there are large local companies (state-owned) that are establishing large scale domestic supply chains.

**Trade Policy Issues**

* Agricultural trade policy is a direct reflection of agricultural policy in each country visited, and has a profound effect on overall trade policy.
* Therefore an understanding of agricultural policy is needed to understand both trade policy thinking and the political avenues to positive changes in trade policy
* FTAs are having a deep impact on thinking on agricultural policy and agricultural trade policy in most countries visited. The impact on actual policy practice varies.
* Concern over the WTO in protectionist countries has largely evaporated, mainly because of the perception that a meaningful DDA outcome is no longer seen as likely.

**Research Institutions**

* Research institutions in most countries visited can be divided into those focused on maintaining the status quo, and those advocating structural change and reform. Research institutions in China and Vietnam seem to have a more active role in policy formation.
* Contact has been made with institutions or individuals in each country that would be suitable collaborators in international research institutions and some that also could be useful collaborators with New Zealand researchers on specific topics.
* Interest was expressed in some countries in learning more about the cooperative aspects of agricultural sector governance in New Zealand.
* Several researchers expressed interest in making fact-finding visits to New Zealand.

**New Zealand Interests**

* New Zealand appears obviously well placed in principle to exploit the growing demand for safe, high quality food.
* However, with some exceptions (e.g. Fonterra, Zespri) the marketing strategies needed to fully exploit this opportunity often appear to be lacking.
* Throughout the visits complaints and criticisms were constantly heard about the approach of NZ food suppliers, e.g:
	+ Failure to take the trouble to understand each market and the preferences of their potential customers.
	+ Not willing to adapt products to local preferences even where this could result in significantly higher returns.
	+ No marketing strategy.
	+ Content to leave sales in the hands of local distributors who then capture an unnecessarily large share of the value added.
	+ Supermarkets almost invariably say they find New Zealand difficult to deal with because of inadequate attention to product presentation and promotion, inability to meet volume requirements or maintain continuity of supply.
	+ Opportunistic selling practices and resulting failure to look after markets after they have been established.
	+ Poor servicing of customer enquiries.
	+ Content with positions in international value chains that ensure that the multinational companies operating the supply chains capture most of the value added.
* The small scale of many New Zealand food companies is probably an important factor behind the situation reflected in the above criticisms. This leads to questions as to whether there is any merit or interest in more cooperative approaches by New Zealand suppliers, perhaps even industry strategies (Hugh Whittaker’s department has been working with the seafood industry on an industry strategy).
* The operations of Fonterra and Zespri in some countries are impressive. Other companies could probably learn a lot from them, although the large scale of these two companies obviously allows them to adopt approaches that other companies would find difficult to imitate. Fonterra’s perceived dominance in some markets also creates its own concerns among customers.
* FTAs are a significant factor in some cases. The Korea-Chile FTA will become an increasing headache for New Zealand marketing in Korea unless a New Zealand-Korea FTA is successfully concluded. The Korean FTAs with the EU and the US will undoubtedly create further problems. Fonterra is an example of a company that actively looks across the region for opportunities to exploit FTA preferences e.g. setting up production facilities in ASEAN to take advantage of AFTA/ATIGA when preferences are not available under NZ’s FTAs. Several comments were heard that NZ has for the most part failed to take advantage of the first mover advantage conferred on it by the China-NZ FTA.
* Far reaching developments that are little understood in New Zealand are taking place in China and Indonesia, and these are linked in turn to rapid and far-reaching changes in the wider economies of these two countries. China is already the dominant economy in the region, and Indonesia is likely to quickly become a more dominant force as well. There is a case for research to better understand developments in these two economies.