5.1 INTRODUCTION AND GENERAL TRENDS IN EAST ASIA

Because of the large changes occurring in Asian food markets, it is appropriate to review developments in these economies and their implications for South African food exporters. The major trends determining shifting market powers in Asia’s changing consumption patterns, are simultaneously trade policies changing continually, eventually affecting market access and trade opportunities. These developments in combination with population growth, changing diets, increasing urbanisation, structural reforms and improved market access, indicated a positive long-term trend for food exports to Asia.

Unprecedented growth rates of certain industrialising countries in Asia is evidence that a huge shift in economic power is under way. Asia’s growth is regarded as one of the major stimulations in the recovery of the global recession, because trade expansion serves as a major source of growth for the global economy. Before the economic upheavals, the Asian region accounted for around 65% of growth in the world and about 70% of the increase in the global consumption of commodities (Fisher, 1999). Especially China, has grown in the period of global recession and is seen as a leading force in Asia’s growth and recovery since 1994. Fifty percent of the world’s fixed-asset investments of foreigners goes to China and 50% of the world’s economic growth in the next twenty years will take place in Asia (The Farmer, 1997). Asian developing countries are the fastest growing markets. Developing Asia sustained average real GDP growth rates of close to 7% for nearly two decades, more than double the average world real GDP growth. The regional growth rate was 8.2% in 1995, 7.5% in 1996 and 6.1% in 1997 (FAO, 1998). The decline in growth
was the result of the Asian currency crisis. In general, the Asian developing countries with economic problems (Indonesia, Malaysia, Korea), are expected to gradually regain international confidence throughout 1999 and to show, on average, about 4% growth (RIRDC, 1998a). China is projected to show strong continual growth (above 7% in 1999) despite the troubles of neighboring economies (RIRDC, 1998a). Supermarket to Asia Ltd (1999) reported that the latest export figures show that aggregated Australian exports to Asia and the rest of the world have recovered to above pre-Asian crisis levels and continue to grow strongly for the second consecutive year. All indications are that Asia is recovering from the crises and will probably be on pre-crisis growth trends in the early years of the new millennium.

Because of the rapid development of a growing number of the developing economies in the world, especially in Asia, there has been an acceleration of globalisation over the last decade. One major force on world policy reform that has enhanced accelerated globalisation in agricultural markets, is the multilateral negotiations of the World Trade Organisation. Many Asian economies are in the process of aligning their policies with the transparent and nondiscriminatory rules of the World Trade Organisation. China, a major economy, is close to acceding the World Trade Organisation (WTO). Asia is ideally located to benefit from the results of the Uruguay Round, which will strengthen their rising food consumption trends. Regional free trade agreements that are underway, such as the Association of South-East Asian Nations (ASEAN) Free Trade Area (AFTA), which has already been implemented, and a possible Free Trade Area of APEC members by 2020, will noticeably accelerate globalisation of the Pacific Basin. Garnaut (1996) argues that a continuation of globalisation will reinforce the gradual shift in global economic weight towards the Asia-Pacific region, which has been underway for 50 years. It is especially the East Asian - rather than the Asia Pacific (APEC) economies that have experienced sustained rapid growth over the past half century (OECD, 1996a).
As a result of economic growth, consumption has risen, which has been generated by rapid disposable household income growth. As a result of fast growth and globalisation, more Asian countries will become dependant on the import of agricultural products. Garnaut and Ma (1992) have identified three distinct changes that occur in the evolution of food consumption as personal income rises. These are first (phase I) growth in consumption of traditional foods such as rice and starchy root crops, followed by (phase II) an increasing consumption of nontraditional staple foods and finally (phase III) a shift in consumption patterns away from nontraditional staples to higher protein foods.

![Graph showing food consumption phases for different countries](image)

**FIG. 5.1** Recent distribution of the studied countries relative to phases in food consumption
Source: Garnaut and Ma (1992)

Indonesia, the Philippines and China would still appear to be in the first phase, with China about to leave that phase as a result of its stabilising intake of rice and relatively strong growth in wheat and livestock products consumption. Japan and Taiwan would appear to have entered the third phase. The remaining four countries, Malaysia, Korea, Hong Kong
and Thailand, would appear to be positioned between the first and the third phases. Hong Kong, Malaysia and Korea could be close to entering the third phase. A casual review of the data suggests that differences in income levels could offer at least a partial explanation for the distribution of countries across the three food consumption phases or their progression from one phase to another (Rae, 1995).

Robert (1993), Rae (1995) and Blumenthal (1997) identified a few factors that led to changing food consumption patterns in Asia and the Pacific Rim, which include:

- increases in per capita income
- urbanisation
- more women in the workforce
- a demand for high-value foods
- westernisation of diets
- health consciousness
- more people eating out
- a concern for product freshness
- a decrease in household size
- the consumption of traditional foods

Robert (1993), Rae (1995) and Blumenthal (1997) have also observed that the increase in per capita income is the primary reason for diversification of diet. People can now afford a wider variety and choice in diet. Rising disposable incomes will lead to diets containing more meat and processed food products, as well as an increased demand for household goods and luxury items. A trend away from feedstuffs to final product imports into East Asia has also begun. The developing countries in Asia use their new wealth to increase
their consumption of animal proteins, vegetable oils, fruits, vegetables and other processed or high-value foods.

The average household size is shrinking and the impact is towards a greater demand for easy-to-prepare foods in smaller portions. Another trend is a greater number of women in the workforce. This has increased the number of double-income families. Increased participation in the workforce increases the opportunity cost of food preparation and may shift demand towards foods that require a shorter preparation time (Sanauer et al., 1986).

Westernised diets has led to an irreversible consumption trend in Asia. More bread, milk and breakfast cereals are being consumed instead of traditional rice, noodles and soup. At the same time, there is a greater demand for dough mixes, biscuits, crackers, pasta, cakes and pastries. The rapid growth in the number of western-style supermarkets leads to opportunities for exports of frozen and other convenience foods. Exporters may find it possible to sell directly to chains and therefore bypass the inefficient system that caters to small shops and vendors. The consumer demand for frozen foods has soared. Fast-food restaurant chains are major buyers of frozen potatoes, beef and chicken. The shift towards healthier diets has also resulted in a rise in fruit consumption. Consumers are willing to pay high prices for a year round supply of top-quality fruit.

Generally, consumer demands are approximately the same everywhere: more convenient and nutritious foods at lower cost. Looking at the Asian diet now becoming westernised, we can assume that as developing countries, concern about health issues such as smoking, nutrition and a myriad of other matters grows, consumption habits will eventually change. The demand for various nutritionally improved foods is well defined because sales have increased regardless of the consumption trend for the regular version counterparts of these products. (Blumenthal, 1997)
Experiences of the major trading partners of Asia, for example the United States, Europe and Australia, suggest that a large potential for Asia as an export destination exists. Many of Asia’s trade partners experience tremendous growth in their exports to the region. During 1990 to 1995, North American exports to developing Asian countries grew by 13.5% per annum, compared to 7.5% for exports to the rest of the world. Exports from western Europe and Japan to developing Asian countries grew even faster at a rate of 15% to 16.5% per annum respectively, about three times the growth in their exports to all other regions.

A trend that is on the increase is that the global trade in processed foods is growing rapidly with annual increases in value at 15% or higher. As a leading exporter, the United States is experiencing an upsurge in processed food exports. (The processed foods category encompasses foods that have undergone either intermediate (for example vegetable oil) or substantial (canned) levels of manufacture. (Blumenthal, 1997.)

5.2 A SELECTION OF COUNTRIES STUDIED

The stages theory of internationalisation suggests that the dominant export market for most enterprises will be the market which is geographically and culturally nearest. However, trade statistics prove this wrong. The dominant markets are those in Europe and Asia. (Viviers & Botha, 1997). It appears that distance does not play the most important role in the determination of a country’s competitiveness for distant markets.

Far East Asia (North-East Asia as well as South-East Asia) has been selected as the focus of this study, not because it is the only promising market, but because of its huge potential as a market, based on the combination of the exceptionally high growth performance of South African agricultural exports and share of the total export basket (Table 3.2). Trends are not only exceptionally favourable for some individual East-Asian countries, but also to the entire East-Asian region. Other factors taken into account, such as the fast rate of
globalisation and integration of Asian economies and demographic characteristics eg large population size and urbanisation rates, make East-Asia one of the priority markets to be studied from the perspective of future potential export opportunities. The OECD (1996a) argued that it is especially the East Asian - rather than Asian Pacific (ASEAN) economies that have experienced sustained rapid growth over the past half century.

Results from the analysis done on the share and growth performance (for the period 1992 to 1996) of South African export destinations, identify Far-East Asia to be the most promising export destination for South African agricultural commodities. The post-sanction period was chosen (after 1992), because as sanctions were dismantled, many markets previously closed to South Africa have been opened. South Africa has not only re-established, but is also re-negotiating new trade partnerships/agreements with countries around the world, including Asia (Viviers & Botha, 1997). Statistics prior to the Asian crisis were used (prior to 1997) to identify the export achievements of Asian countries. Not only were 1996 figures the latest figures available at the time of the analysis, but figures prior to the crisis (in 1997) would be the most suitable to evaluate Asia, especially South-East Asia and Korea. The crisis plunged some economies e.g. Korea and Malaysia into negative GDP growth. The crisis lead to a 30% decline in imports to Asia (Theage, 1998). The period 1997 to 1999, which was affected by the Asian crisis, would not have been representative of the longer term trend which was recorded to be an average GDP growth for the Asian region of about 7% for nearly two decades (FAO, 1998). It is therefore argued that the period between 1992 and 1996 is the most suitable to date to evaluate East Asia as a potential export destination based on analysis of South African export trade statistics. All evidence indicates that East Asia will fully recover their GDP growth to close to the pre-crisis levels from the year 2000 onward. An exceptional case study is Indonesia, which could take three- to seven years to recover after the crisis in 1997, depending on the progress they make on their reform programme.
East-Asian countries chosen for this study are: Japan, South Korea, Malaysia, Indonesia and China. These countries were identified in Table 3.4 to have shown high growth in the export share of SACU exports for the period 1992 to 1996. Macau was omitted because of the unavailability of information. Other important markets which have been omitted are Hong Kong and Taiwan, because they showed low growth in SACU agriculture exports. Nevertheless, they would not be unimportant from the viewpoint of a government export strategy, because of, for instance, the relatively large volume of exports to Hong Kong. As much as 80% of produce exported to Hong Kong is destined for mainland China. In the same manner Macau and Taiwan are ports for commodities destined for mainland China. Although China comprises a relatively small percentage of SACU exports, it was included in the study because of its strategic importance as a future potential market. China has a population of 1.2 billion people (approximately one fifth of the world population). China has also a maintained continued high GDP growth rate of about 10% in the second half of the 1990s (EC, 1999b). Valentine and Krasnik (1998), in their analysis on the SADC’s comparative advantage, has identified China as an important trading partner, ranking higher than for instance Japan, India the United States or the European Union. They suggest that the SADC should engage in trade with other less-developed countries which are also less “traditional” trading partners.

In general, little information is freely available or affordable on specific market opportunities to Asian destinations. Nevertheless, recently the Australian government has created a 'Supermarket to Asia' council aiming to significantly increase the value of Australia’s exports to Asia over the next 5 years. This chapter on potential Asian export markets is a secondary study of various sources, but relies substantially on information obtained from Australia. During the author’s visit to Australia in February 1999, information was obtained from the Research and Development Corporation of Australia as well as Austrade. Information from these sources were substantially used and recognition is due to these reliable sources, because some of the more detailed and up-to-date information was obtained from these resources. In many instances South African
agriculture has characteristics similar to Australian agriculture and therefore information from these sources are applicable to South Africa.

In many cases for small- and medium companies the upfront cost of monitoring the opportunities, knowledge about the market and information about changes, would not warrant an individual company commissioning such work. The Government should promote such work or facilitate it through agencies and industrial organisations.

5.3 A PROFILE OF AGRICULTURAL EXPORT OPPORTUNITIES TO JAPAN

5.3.1 Overview and outlook of Japanese economy

Japan, a country with a population of 120 million, is the world’s second-largest economy. Japan remains the biggest Asian economy by far and its GDP is almost 10 times larger than that of China. It accounts for around 10% of world exports and imports (EC, 1999c). The economy is in recession, with major financial adjustments to occur (Austrade, 1998c). This creates considerable uncertainty regarding food imports in the immediate future.

The falling yen, growing unemployment and negative-growth prospects will continue to be a damper to consumer demand in Japan and will generally constrain growth in the imported food market in the short term. The Economic Planning Agency calculated that the real gross domestic product (GDP) growth for the fiscal year 1997 to March 31 came to a negative 0.7%. Large reductions in consumer demand, capital spending and a 30% slump in exports to Asia are held responsible for the recession (Theage, 1998).

The EC (1999c) predicted that the downward trend in Japan’s trade and current account surpluses over the last four years has reversed and Japanese external surpluses increased sharply in 1997. The Japan Centre for Economic Research forecasts economic growth of
an average 1.6% per annum between 1997 and the 2002 fiscal year, with a modest acceleration of growth after that (AgraFood Asia, 1998).

5.3.2 Agricultural trade environment

In general high tariffs are currently established and state trading arrangements remain largely intact, but as restrictions are reduced, opportunities are created especially in the high-value products market. However, the Japanese market is one of the most demanding in terms of quality. Consumers are concerned about getting value for money and competition is high. Caplan and Tala, (1994) pointed out that several factors lead to increased competition in the Japanese market. First, with fewer barriers (tariff and non-tariff) to agricultural imports in Japan, food exporters from many countries are seeking to expand opportunities there. Secondly, Japanese food processors have stepped up investment in manufacturing plants of foreign countries, where costs are lower to tap the host country’s market as well as to produce for the local market and exports to other countries. Many of these plants are located in Southeast Asia and China. South African food exports should have a competitive advantage because of the lower exchange rates over competitors such as the United States, Europe and Australia.

While Japan’s high-value-products (HVPs) imports from all sources have been rising steadily for more than two decades, they accelerated after 1985. Several factors provided this impetus, which include tariff reductions, deregulation of cigarette imports, the 1988 Beef-Citrus Agreement, a GATT agreement that removed or expanded quotas for some processed farm products and the substantial appreciation of the yen (Caplan & Tala, 1994). The United States has since the mid-1980s expanded its exports of processed and high-value products (HVPs), including beef and citrus. HVPs are agricultural products other than raw grains, oilseeds, cotton, and tobacco. Japan is the largest foreign market for U.S. processed foods (Caplan & Tala, 1994).
5.3.3. Self-sufficiency trends (changing comparative advantages)

Food imports to Japan are expected to grow strongly over the medium term. Japan currently imports about 60% of its overall food requirements and in 1996 imports to Japan from the rest of the world accounted for about half the demand for imported food in Asia (Austrade, 1998c). According to Austrade (1998c) various factors contribute to the increasing imports: the agricultural sector in Japan is declining, the Japanese Government is committed to further trade liberalisation and the Japanese diet patterns are increasingly becoming westernised and more health conscious. Agriculture accounts for about 2% of Japan's GDP and 5% of employment and Japan's food self-sufficiency ratio stands at 42% (Austrade, 1998c). The sector faces major structural problems and an aging workforce, while output continues to decline.

5.3.4 Consumption patterns

Caplan & Tala, (1994) argues that population growth and economic expansion are likely to have little effect on food consumption patterns and total food demand in Japan. This is because for many food products income growth will have only a small effect on consumption, because of already high per capita consumption levels. Rae (1995) observed that Japan and Taiwan appear to have entered the third phase (see Figure 5.1.1) (a shift in consumption from nontraditional staples to high-value and high-protein foods). Despite their increasing demand for value, consumers are not reducing food expenditure, but instead have become more sophisticated in spending their money. Japanese consumers are still amongst the most discriminating in the world in terms of quality: they will not purchase poor-quality products, irrespective of low prices (Barber, 1998).

While the total per capita daily intake of the Japanese has stabilised in recent years at about 2 600 calories, the caloric composition has shown substantial change over the past four decades. In Japan per capita consumption of fats and oils, while still only about half the daily intake in a typical United States diet, increased substantially from 1955 to 1990.
(A demand for fats and oils reflects a derived demand for meat.) Rae (1995) projected that Japan will increase their dependence on the imports for beef. However, the already high per capita consumption of fruit and vegetables has levelled off since the early 1970s. Sugar consumption declined after peaking in 1973, as other sweeteners (including high-fructose corn syrup) have partly substituted sugar. In addition, the Japanese diet today contains more processed foods, such as pasta, ham, bacon, ketchup and fruit beverages (Caplan & Tala, 1994). These food consumption trends are likely to continue into the early 21st century. Imports of high-value products should expand and increase as a share of total imports.

Several social trends have made convenience a major factor in Japanese consumers’ food purchases that will result in changes in food consumption patterns. These trends are likely to intensify. Firstly, Caplan and Tala (1994) argues that because the proportion of older consumers in the population will be higher, a demand for foods that are easily prepared, such as pre-cooked frozen foods, is forecast to grow. Secondly, Barber. (1998) as well as Caplan and Tala (1994) identified several other factors indicating a growing demand for convenience goods: more women enter and remain in the workforce. They pursue career opportunities, marry later and have fewer children. The number of unmarried men is also rising. Generally the people in these demographic groups have little time, energy or inclination to cook for themselves. An increasing number of homes have microwave- and toaster ovens. Consequently, the already strong demand for products that cut down on cooking time and effort, such as frozen foods, microwavable foods and those in retort pouches, will continue to grow. Finally, while Japanese today are consuming a greater variety of foods and are more adventurous about experimenting with new flavours and cuisines than in the past, in the frozen food sector consumers are turning increasingly to traditional Japanese-style cuisine.
5.3.5. Opportunities for food exports

5.3.5.1 Grain and processed grain products

Generally there is a low potential in the grain sector. Rice production for instance is highly politicised and subsidised. In 1996 half of all shipments of grain consisted of unmilled maize (not sweetcorn). A further 25% consisted of unmilled ‘other wheat, including spelt and meslin’. Unmilled grain sorghum accounted for 8% of shipments, malt accounted for 7% and unmilled barley for 6% (Austrade, 1998c). Most of South Africa’s agricultural exports to Japan consist of maize (corn) (40%). Applied tariffs for maize are low (1%) (Annex. 7). Relatively small quantities of processed grain-based commodities are exported, such as: bread, pastry, cakes and other bakers' wares, starches (inulin), pasta, cereal flours and prepared cereals (eg cornflakes) (Annex. 6, Table 1).

Abare (1997) mentioned a few opportunities in the meal and flour of wheat and flour of meslin. Barley, for instance, is used in the brewing of alcohol and the United States is exporting frozen pancake- and waffle mixtures for processing. Further prospects for flour, meal and pellets of meat or meat offal are in the pet food sector. Carter, (1997) observed that 69% of United States frozen sweetcorn is destined for the Japanese market.

5.3.5.2 Meat

Rae (1995) made a projection that the consumption of meat will increase most rapidly in Japan, Korea, China and Malaysia. Japan will also require increased import volumes of white meat to meet increasing consumption. Although the demand for beef grew continuously in Japan until 1995, it has declined recently because of several incidents relating to diseases such as 0-157 coliform and mad cow disease.

In 1996, Japan imported US$9.3 billion of meat from all over the world. The principal item was fresh pig meat, chilled and frozen, accounting for 41% of the total shipments. As
a result of an outbreak of foot-and-mouth disease amongst Taiwanese pig herds, the United States became the market leader in value terms. Fresh or chilled beef accounted for 19% and frozen beef for a further 10% of shipments. Imports of meat and edible offal of poultry accounted for 14%. Other significant lines included prepared and preserved meat/offal (not liver) of poultry (3%) and pigs (3%) (Austrade, 1998c). South Africa’s meat exports to Japan are very small and mainly comprise of live animals and ‘other meat’.

Abare (1997) observed that Australia exports significant quantities of beef jerky (an equivalent to South African biltong). However, quarantine restrictions pose problems. Ostrich meat has been gaining recognition in the health food sector, although there is not a significant market at present. Many potential customers are trying to import frozen and chilled ostrich as well as live birds.

5.3.5.3 Dairy

In 1996, Japan imported dairy goods worldwide valued at US$818 million: 40% more than in 1992. In 1997, imports of cheese and curd to Japan represented 61% of the total dairy market (Austrade, 1998c). Reflecting the change in diet, it is expected that imports of cheese will increase steadily. Ice cream imports were liberalised in April 1990. Sharp increases in imports of ice cream were evident in supermarket chains. Although there was no significant increase in imports, the demand for prepared milk-blended products is increasing in accordance with its lower rate of duty when compared to powdered milk. South Africa exports a relatively small volume of ‘milk and cream (concentrated) to Japan (Annex. 6, Table 1).
5.3.5.4 Horticulture

Rae (1995) observed that vegetable- and fruit consumption in Japan is decreasing, the reason being the fact that the younger generation appears to be eating less fresh fruit. Annual per capita consumption dropped from 49.7 kg in 1975 to 32.8 kg in 1994 (Austrade, 1998c). Fruit is considered a luxury in Japan and is often purchased as gifts for special occasions.

The Japanese market for fresh vegetables relies mostly on local production, with imports limited to a narrow range of products. The self-sufficiency rate for vegetables is about 90% (Austrade, 1998c). The market is described as the most demanding in the world in terms of quality and uniformity of shape, colour and size. The Japanese market for fresh fruit is also largely reliant on local production. The self-sufficiency ratio is 70% to 80% (Austrade, 1998c). Principal items produced domestically include mandarins, apples, Nashi pears, persimmons, peaches, table grapes, strawberries, melons and watermelons. Quality and appearance are of paramount concern. There is a general preference for imported citrus fruit, which are large in size, juicy, very sweet and low in acidity with no peel blemishes. Consumers prefer fruit that has not been waxed or chemically treated. United States exports to Japan with a very high export dependency index are mainly citrus fruit; grapefruit (56%), lemons (75%) and oranges (Carter, 1997). General exports of citrus fruit from South Africa also have a high export-dependency index in terms of income, in general about 90% or higher.

In 1996, Japan imported US$4.5 billion of horticultural products, 30% more than in 1992. The principal items included ‘other fresh and chilled vegetables’ (19%), fresh and dried bananas (10%), fresh or dried fruit (10%), ‘other citrus fruit’ (9%), uncooked vegetables (9%), edible nuts (8%) and noncitrus fruit or vegetable juices (7%) (Austrade, 1998c). Agricultural exports to Japan are mainly citrus fruit (7%) and grapes (2%). Cut flowers constitute a relatively small percentage (1%) (Annex. 6, Table 1).
Austrade (1998c) and Abare (1997) have identified that in recent years, diet diversification has led to import opportunities for vegetables such as chicory, shallots, leeks, capsicums and truffles. There are good prospects for the supply of other fresh vegetables such as bamboo shoots, burdock, bunching onions, cabbage, carrots, Chinese cabbage, celery, garlic, ginger, lettuce, onions, peas, radishes, taro and turnips. Asparagus is the biggest import item from Australia. About 60% of imported vegetables is channeled through wholesale markets and the remainder is sold directly to consumers. Japan is gradually lifting import restrictions on items, including pumpkins and beans, which provides opportunities for exporters (Austrade, 1998c). Over the medium term, as import barriers continue to be lowered and access is gained for currently-banned products, South Africa’s food exports to Japan can be expected to grow strongly.

There is a strong demand for convenience foods, particularly frozen- and prepared vegetables, such as semi-processed or pre-cut vegetable products. Imported frozen vegetables now account for 80% of domestic requirements in Japan (Austrade, 1998c). The Japanese food-service sector is the largest consumer of imported frozen vegetables. This, however, this is a very competitive market.

Avocado’s are increasingly becoming known as a healthy food in Japan and a double-digit growth in consumption is expected to be resumed in the future. Imports had a value of US$ 14.3 million CIF in 1996 (AgraFood Asia, 1998). The ad valorem import tariff is 4.5% in the case of United States avocados and 3% in the case of Mexico.

Abare (1997) has identified cut flowers and foliage for ornamental purposes as a potential export opportunity. The Japanese market for cut flowers is the largest in the world as well as in Asia. The share of imported flowers is only 6%. There is significant potential for growth in these figures if the restrictions regarding non-quarantine organisms are lifted.
Emphasis should be on quality and observing quarantine requirements. The EC. (1999c) reported that Japan operates a system of zero tolerance concerning all pests not included on its lists of non-quarantine organisms, even though they may not be harmful. Pre-shipment inspection procedures are also applied to cut flowers. Japan further requires each lot of flower bulbs to be labelled with a number, by means of which it can be traced back to the grower. This is costly and has rarely proved necessary because there have been very few incidents over the last ten years.

There is a strong demand for organic produce, which is being stimulated by the consumer in the supermarket and food-service sector. However, there is a high probability that imported vegetables will be fumigated to meet entry requirements for the Japanese market and would therefore not receive a premium as organic products.

5.3.5.5 Beverages

Japan imported beverages valued at nearly US$2 billion in 1996. Just more than half the shipments consisted of spirits, (27% wine, 8% beer and 11% nonalcoholic beverages) (Austrade, 1998c). Beverage exports from South Africa to Japan consisted of about 11% of SACU agricultural exports to Japan; fruit juices (8%) and wine (3%) (Annex. 6, Table 1). Beverages are just as an important export commodity as fresh- and dried fruit and is the third largest commodity group to be exported to Japan (after cereals and processed fruit).

Austrade (1998c) further observed that the total sales of imported wine in Japan increased by 42% compared to sales in 1996 and that there has been consecutive growth over the past five years. The volume of imported beer dropped by 25.6% in 1997. The main contributing factors are the popularity of domestic sparkling liquor (Happo-shu) and its competitive price (cheaper than beer). The total volume of imported fruit juice decreased by 12.8% (1997) compared to 1996. This is partly as a result of a shift to sugar-free,
unsweetened packaged drinks such as oolong tea, green tea and nutritious water-based supplement drinks.

Abare (1997) observed that there is currently a wine consumption upsurge in Japan. In conjunction with the craze in health products in Japan, red-wine sales have shown tremendous growth in 1997 (Austrade, 1998c). Potential exists for South Africa to increase its wine exports to Japan. Greater coordination, focus and resources are needed in wine promotion to gain a significant market share.

Japan (compared to Korea, Singapore and Hong Kong) accounts for the largest share of imports of fruit juices, with 72.6% of total import value into this market in 1994 (ITC, 1995). The major reason for the strong juice market in Japan was the complete removal of the import quota system in Japan in 1992. Japan and the Republic of Korea mainly import fruit juices in bulk, usually in concentrated form, eg frozen, concentrated orange juice. The main types of fruit used for domestic production of fruit juice concentrates are citrus fruit (39% of the market share) and apples (24%). Others include grapefruit, grapes and pineapples (Japan is the largest market for pineapple juice). South Africa is a major supplier of pineapple juice, grape juice, apple juice, ‘other single fruit or vegetable juice’ and ‘mixes of fruit or vegetable juice’. Generally, beverages from tropical fruit juices are not well accepted by Japanese consumers.

According to trade sources, overall consumption of beverages from fruit juices may be stagnant. However, because sales of 100% juices are on the increase, imports of fruit juice raw material (mainly fruit juice concentrate) have increased considerably between 1990 to 1994. The average juice content in fruit beverages has increased from 34.4% to 44.8% during the period 1988 to 1992 and is expected to increase further (ITC, 1995). In general 100% fruit juice is too expensive for the Japanese consumer. However, Austrade (1998c) as well as ITC (1995) confirmed that there is a high demand for healthy drinks such as pure juice (100% carrot juice or 100% green juice) and mixed juices because of to the
health-food craze. The ITC (1995) study revealed that carrot juice imports have grown tremendously. Carrot juice sales have surpassed those of tomato juice. Major suppliers of carrot juice includes Australia, Chile and South Africa. Opportunities also exist for fruit juice concentrate to be used as a substitute sweetener for sugar in jelly and other desserts (Austrade, 1998c).

Fruit juices and juice beverages are in competition with other soft drinks. In Japan almost all processed beverages (including tea drinks and mineral water), except alcoholic drinks and milk, are considered soft drinks. It is interesting to note the spectacular growth of oolong tea that has taken place. Oolong tea is believed by the Japanese to be a healthy drink (low sugar content) (ITC, 1995). It appears that canned coffee and tea beverages are promoted very strongly by manufacturers; these products offer bigger profits than fruit juice beverages. In Japan, some customers consider imported mineral water as a health supplement drink providing iron, magnesium and natural mineral content (Austrade, 1998c).

5.3.5.6 Confectionery

Recent tariff reductions provide an opportunity for imported confectionery suppliers to increase their market share. Chocolate confectionery still remains the most significant category. There is a strong trend towards healthy, natural and low-calorie confectionery (Austrade, 1998c). Packaging is vital. Many Japanese producers supply individually packaged bite-size candy or chocolate, etc. In 1997, the Minister of Health and Welfare certified xylitol as a food additive in Japan. It is said that this additive prevents the germs which lead to tooth decay (Austrade, 1998c).
CHAPTER 5: Identifying potential export opportunities for South African agricultural exports to East-Asia

5.3.5.7 Other products

Japan imported more than US$6 billion of other foods in 1996, almost 60% more than in 1992. The principal item included food preparations (15%), coffee (15%), prepared- and preserved vegetables (9%), raw sugar (9%) and prepared- or preserved fruit and nuts (8%). Other important lines include prepared- and preserved vegetables (other than vinegar), palm oil and its fractions, ‘other sugars in solid form’, coffee extracts, macaroni and spaghetti, bread, pastry, cakes and biscuits, as well as tea and spices (Austrade, 1998c). Processed fruit and nuts exports comprise about 22% of agricultural exports from South Africa to Japan and groundnuts 7% (Annex. 6, Table 1). Abare (1997) identified a niche market for jams, fruit jellies and marmalades. This is a very price-sensitive market. There is some scope for gourmet jams in hotels and other fine food outlets. Strawberry jam proves to be the most popular.

5.3.6 Barriers to agricultural trade

5.3.6.1 Tariff barriers, levies and charges

Tariffs in Japan are generally, on average, low. To meet their WTO commitments, 99% of the tariff lines are bound. Average tariffs will decrease from 3.91% to 1.7% by 1999, which represents a decrease of 56% (EC, 1999c).

Tariffs on frozen beef are scheduled to drop from 50 to 38% by 2000 but safeguard arrangements will continue to be used to control imports. Under the Uruguay Round, the domestic price for pork in Japan will be gradually reduced to 409.90 yen/kg by the year 2000. The import tax will also be reduced to 4.3% (Austrade, 1998c). Tariffs on dairy products are significant and safeguard mechanisms, including quotas and out-of-quota tariffs, apply to most products. Because of the tariff-quota system and a high rate of import duty, imports of powdered milk to Japan have not shown any increase in recent years (Austrade, 1998c). Import duties for most fresh vegetables are 5% of c.i.f. value.
Duties on sweetcorn and onions are 10%. As market-access commitments are put into effect, significant items expected to benefit include beef, oranges, natural cheese and ice cream (Austade, 1998c).

The long-standing dispute between the United States and Japan over Japanese discriminatory taxes on spirits, has been resolved. Tariffs on imports of vodka, rum, liqueurs, gin, whisky, brandy and other brown spirits will be completely eliminated by April 1, 2002. The tariff reductions go beyond those required by the World Trade Organisation (Barshesky, 1998). In April 1998 the import tariff on sparkling liquors was reduced to the same level as beer, providing an opportunity for exporters (Austrade, 1998c).

The average applied tariffs for products of general importance for agricultural exports are 14%. Following completion of the Uruguay Round negotiations, several product areas with unacceptably high tariffs remain according to the EC, (1999c), according to the analysis done on the UNCTAD TRAINS database (Annex. 7) and according to Annex. 6. Table 1:

Agar-Agar (Duty ¥122/Kilo)
Sugar (Duties between ¥35.3/kilo and ¥106.2/kilo)
Chocolates (tariff rates of 23 to 24%)

There is a considerable discrepancy between duties for small packages and those for bulk chocolates.

Cheese and dairy products (Duties between 22.4 and 40%)
Meat of bovine and boneless meat frozen (duties between 29 and 42%)
Sweet biscuits (Duties between 18% and 20.4%)
Jam (Duties between 12 and 34%)
Glucose syrup and maltodextrins are both subject to a high tariff of 50%.

Cereal groats and meal (maize) (duties of 23%)

Apple juices (duties of 28%)

Wine and alcohol (duties of 21 and 30% respectively)

Preserved- or processed fruits and nuts (duties are 17%)

Fruit juices (duties are 24%)

Bread and pastry products (duties are 23%)

5.3.6.2 Non-tariff barriers

Many specific domestic laws have the scope to prohibit or restrict the import of certain products by means of controlling the standards and certification of products. The Japanese Government is continuing its policies of rationalising and improving the transparency of its standards and certification procedures streamline these, where possible, to conform to international norms in an effort to remove trade impediments. Japan still applies import quotas to some products. Analysis from the UNCTAD (1999) database revealed that non-tariff arrangements to market access to Japan on the selected studied commodities of importance to South African products are; bulbs, tubers, grapefruit, fresh grapes, barley, maize (other) and ethyl alcohol (Annex. 8). Rice for example is subject to state import monopoly and to import quotas. The importing of rice is not generally permitted by government.

The Japanese approval procedures concerning the import of fresh fruit are without exception, very lengthy (2-3 years), costly and lack in transparency. Fruit and vegetables, carrying harmless insects, are treated by Japan in much the same way as if they are infested by harmful organisms. Even if it is listed as a non-quarantine organism, it still has to undergo unnecessary fumigation, which is very expensive due of a lack of competition
between fumigation companies (EC, 1999c). These restrictions also apply in the case of cut flowers.

Japan protects the local wheat-starch producers. The Japanese market for starches is estimated at around ¥3 million/year but is very difficult to penetrate, the highest import figure in recent years being 210 000 tons (EC, 1999c). There is a tariff quota of 175 4000 tons for imports of native starches, with an out-of-quota duty rate at a prohibitively high level. This quota is consistently underfilled because of the manner in which it is administered. Imports beyond the tariff quota are subject to a prohibitive duty of ¥136.5/kg (1995-1996) decreasing to ¥119/kg by 2000.

Problems are experienced with small consignments of high-quality (and highly-priced) vintage wines, which are subject to all of the testing and certification regulations relating to wine. Unless wine of the same year and same vineyard has been imported previously, a bottle must be opened for inspection and testing (EC, 1999c). It is unreasonable to require testing, which in practice makes it very difficult to import these vintage wines.

Some non-tariff barriers exist on beef products. The European Commission, (1999c) reported that its objectives regarding the removal of unnecessary non-tariff barriers for meat, amongst others are: (i) The abolition of the requirement of storage temperatures below 4°C for non-heat sterilised products; (ii) The abolition of labelling and classification of products by water activity; (iii) The abolition of restrictions on spray salting of meat.
5.4 A PROFILE OF AGRICULTURAL EXPORT OPPORTUNITIES TO SOUTH KOREA

5.4.1 Overview and outlook of the South Korean economy

Korea has developed rapidly over the past 30 years, resulting in the transition from a rural, undeveloped economy to an important role-player in the world economy. Although the Korean economy delivered “only” 7.1% GDP growth in 1996 and “only” 5.5% in 1997, the average annual rate of GDP growth over the previous three decades had been a staggering 8.6% (From 1960 to 1997 an average of 9% per year (Shull, 1999)). Korea experienced the longest and largest economic growth in the history of the world. In contrast, after the financial crisis, the GDP decreased to 7% in 1998. Private consumption dropped by 11% in 1998 and business investment was about a quarter lower than the 1997 level (EC, 1999a). Agriculture accounts for about 7% of South Korea’s GDP and output is increasing at about 2.5% to 3.5% per annum.

The Korean economy is currently in the most serious trouble in its modern history. The booming economy was built on the bubble of aggressive business confidence, supporting extensive debt funding - largely in foreign currency. With events showing that the currency value was not adequately supported, a flight of capital bought unprecedented devaluation. The South Korean Won depreciated by about 40% between July 1997 and the end of the first quarter of 1998 (Austrade, 1998a). This has brought technical insolvency to many of the more adventurous, large Korean corporations. Devaluation has also taken affordability of foreign food out of the reach of many in the large Korean middle class, who had been leading an accelerated trend towards Western eating habits (RIRDC, 1998a). Initial attempts by the Government to support the Won resulted in the serious depletion of foreign reserves and a balance of payments crisis. Insufficient foreign competition on the domestic market has compounded Korea’s economic difficulties (EC, 1999a). The Government negotiated a US$ 58 billion loan rescue package with the international Monetary Fund (IMF) and has agreed to further trade liberalisation, stringent
CHAPTER 5: Identifying potential export opportunities for South African agricultural exports to East-Asia

monetary- and fiscal policy conditions, continued economic reform and financial restructuring (Austrade, 1998a).

Trade patterns have undoubtedly been disrupted by the crisis in Korea. In dollar terms, Korean exports dropped by 2.8% in 1998, while imports decreased by 35.5% (EC, 1999a). Since the beginning of the exchange rate crisis imports of wheat and some other crops have declined sharply. The weaker Won, growing unemployment and poor economic growth prospects, will weaken consumer demand in South Korea and will generally constrain the growth of the imported food market in the short term. In the medium- to longer term, however, prospects in this nation of 46 million consumers remain strong and South Korea is expected to grow in importance as an export destination.

The optimistic scenario is that economic stability and growth could return by the year 2000. If, however, there is no swift progress regarding major structural reform, the pessimistic scenario could prevail, that is, Korea's economic recovery to the pre-crisis level could take more than five years (RIRDC, 1998a). The EC (1999) forecasts that modest economic recovery is to be expected in 1999 (with GDP growth of about 2%) before more robust growth resumes in 2000, at a lower trend rate than before the crisis of perhaps 5% - 6% annually.

However, with a population of around 46 million having a relatively high income and education levels for Asia, Korea will again represent a strong, long-term market for food because of increasing urbanisation, the irreversible change to a western diet, declining food self-sufficiency creating the need for trade liberalisation to facilitate imports and the strong resource and capacity base of the country.
5.4.2. Agricultural trade environment

The Industrial Policy adopted by Korea during the transitional period until the late 1980s, when it considered itself as a Newly Industrialised Country, was highly protectionist in nature. In light of its inherent dependency on foreign trade, Korea has more recently been seeking to participate more actively in the world-trade system. South Korea agreed to minimum access levels and maximum tariffs for a number of sensitive agricultural products including rice, grains, dairy products and beef during the Uruguay Round negotiations in 1993. Since then it has gradually liberalised the import restrictions for most goods except beef and live cattle, due to be liberalised in 2001, and rice, to be liberalised in 2004 (DEFAT, 1997).

Despite considerable progress in recent years to globalise their agricultural system, the agricultural sector in Korea remains heavily protected. Food self-sufficiency is a top government priority and, while it negotiates market access guidelines with the World Trade Organisation (WTO) and other multilateral groups, it continues providing substantial subsidies to domestic producers in one form or another. Delivering the keynote address at the 24th Food and Agriculture Organisation Regional Conference for Asia and the Pacific in April 1998, the South Korean Minister for Agriculture and Forestry, Kim Sung-hoon, argued that the world grain supply was too heavily reliant on a few exporting countries (Austrade, 1998a). The Ministry of Agriculture of Korea (1998) also said that Korea would not consider any further cuts to trade-related subsidies or the number of agricultural goods subject to tariff-rate quotas. Agriculture is the main beneficiary of subsidies in terms of total value of assistance provided (EC, 1999a). The Producer Subsidy Equivalent of Korean agriculture is said to exceed that of Japan, which is about 80%. The Korean market still remains one of the most difficult in the world in which to trade and invest in spite of recent liberalisation. This is because of overburdensome and intransparent regulations and other import barriers. In addition, foreign companies face stiff competition from the "chaebol" business conglomerates which dominate all major industries (EC, 1999a).
Pressure for further reform of Korea’s agrifood policies is likely to intensify as the economy recovers from the current downturn. On the domestic front, urban links to the countryside will weaken, as will the political power of farmers. The current level of public support for agriculture will not be sustainable.

International pressure for further policy reform will increase through future multilateral trade negotiations in the World Trade Organisation. Korea will face additional reform pressure now that it is a member of the Organisation of Economic Cooperation and Development (OECD) and the Government has to show to the world its willingness to adopt more transparent and market-orientated policies. Pressure for policy changes will also continue as APEC works its way through the process of implementing its vision of free trade by 2020.

5.4.3. Self-sufficiency trends in Korean agriculture (changing comparative advantages)

With rapid economic growth and industrialisation, the structure of the Korean economy changed and by 1997 agriculture contributed only 4.9% of the GDP (comparing to 23% in 1970) and employment only 11% (compared to 50% in 1970) of the labour force. The contribution of food processing (including beverages and tobacco) to manufacturing output declined from 21% in 1970 to 6.5% in 1997 (RIRDC, 1998a).

The importance of agrifood products in Korean trade has also been declining over time. In 1970, agriculture-intensive products accounted for 28% and 33% respectively of the country's exports and imports. The corresponding figures in 1996 were 5% and 12% (RIRDC, 1998a). Korea has a 75% dependence on imported food (Shull, 1999). This
implies that the country's comparative advantage in agrifood production has declined over time, heading to greater dependence on agrifood imports.

Korea's agrifood production will become more specialised, reflecting the country's comparative advantages. Further import liberalisation and consequently rapidly increasing food imports are expected early in the new century. For some products, especially processed foods, competition from foreign supplies will increase. Korea is already highly dependant on imports of a number for major foods eg barley, corn, soy-bean, sesame and beef (Table 5.1).

<table>
<thead>
<tr>
<th>Product</th>
<th>Self-sufficiency (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barley</td>
<td>47.0</td>
</tr>
<tr>
<td>Corn</td>
<td>1.0</td>
</tr>
<tr>
<td>Soy-bean</td>
<td>8.4</td>
</tr>
<tr>
<td>Sesame</td>
<td>32.2</td>
</tr>
<tr>
<td>Beef</td>
<td>65.5</td>
</tr>
<tr>
<td>Potato</td>
<td>99.2</td>
</tr>
<tr>
<td>Garlic</td>
<td>95.4</td>
</tr>
<tr>
<td>Onion</td>
<td>99.2</td>
</tr>
<tr>
<td>Pork</td>
<td>100.1</td>
</tr>
<tr>
<td>Chicken meat</td>
<td>94.6</td>
</tr>
</tbody>
</table>

Source: RIRDC (1998)