

5.4.4. Consumption developments

Korea's food consumption levels and patterns have changed significantly in tandem with the country's rapid economic growth, industrialisation, modernisation and expansion of urban areas. An understanding of consumer concerns about health and nutrition may assist to identify export opportunities or market approaches. Austrade (1998a) observed that eating patterns have changed dramatically in the last 25 years, with a nine-fold increase in the consumption of meat, poultry and their products, a six-fold increase in egg consumption, a seven-fold increase in fish and shellfish consumption and a 20-fold increase in the consumption of milk and dairy products. They also observed that the consumption of processed food (including non-traditional grains) increased 16-fold, but rice consumption decreased by about 40%. This has resulted in a diet that is lower in carbohydrates, higher in fat and higher in protein. In addition to the increasing consumption of high-protein food, the consumption levels of vegetables and fruit have risen rapidly, particularly since the early 1980s (RIRDC, 1998a).

The changing pattern in food consumption in Korea is expected to continue into the 21st century. However, it may be slowed to some extent in the short-term because of the current economic crisis as changes in food prices may have greater effects on the consumption pattern, especially the increase in dining out and meat consumption. The consumption of prepared meat and milk products, fruit and vegetables, edible refined oil and non-alcoholic drinks is expected to maintain relatively high growth. The best prospects for greater consumption rest with ice cream, cheese, yoghurt, milk powder, frozen vegetables, fruit, vegetable soup, sausages, ham, other prepared meat products, natural fruit and vegetable juices, soft drinks, and low-alcohol beverages such as wine and beer (RIRDC, 1998a). Shull (1999) has identified that a number of products, including fresh and frozen vegetables, processed and frozen fruit, refrigerated doughs, coffee, wine, poultry, certain dairy products and a wide range of microwavable foods, will be likely to start showing record imports in the next year or two.

5.4.5. Opportunities for food exports to Korea

The recent downturn in Korea's economy has most significantly affected the recently-imported retail products that could be considered luxury items, including wines and value-added products. Austrade (1998a) argues that the proposed reforms of the Korean economy and growth factors will serve to underpin the South Korean market as a strong medium and long-term market. These are the deregulation of the South Korean food and beverage market through to the year 2001, a declining domestic agricultural sector and increasing reliance on imports of all agrifood products, including the necessary staples, increased ownership of the domestic food manufacturing sector by multinationals, modernisation and restructuring of the retail and distribution system, a rapidly growing food service sector and greater acceptance of western foods by the younger generation together with increased exposure to western-style food chains. Shull (1999) has observed trends in Korea and is convinced that with Korea's 75% dependence on imported foods, including bulk commodities and consumer demand for high-quality foods, significant increases in food imports appear inevitable. A rapid recovery of food and beverage imports is expected.

Key opportunities as identified according to information sources are discussed on a commodity group basis.

5.4.5.1 *Grain and processed grain products*

Rae (1995) has observed that the consumption of rice has been dropping and wheat consumption has stabilised in Korea. Generally the long-term consumption trends of cereals have been declining, which is a feature of the higher-income Northeast Asian countries, but not of the East Asian region.

Nevertheless, Austrade (1998a) predicts that the continued westernisation of the diet and the proliferation of western food chains in Korea underpin a growing demand for grains in general and bread, pastries and cakes in particular. RIRDC (1998a) predicted that the imports of grain and pulses will increase and self-sufficiency is expected to drop to 30% in 2000 and 26% in 2004. South Korea has increased its total grain imports from US\$1,5 billion in 1992 to US\$2,5 billion in 1996. The principal items in 1996 included 'other unmilled maize' (not sweetcorn), which accounted for 62% of the total shipments and 'other unmilled wheat including spelt and meslin' (28%). Other important lines include unmilled rye (6%), unmilled grain sorghum (1%) and unmilled barley (1%) (Austrade, 1998a). Processed grain-product exports, such as 'bread, pastry, cakes and biscuits' comprised about 25% of South Africa's agricultural exports to Korea and constituted the major agricultural commodity exported to Korea (Annex. 6, Table 2).

A single tariff of 8% applies to imported bakery preparations (eg premixes and doughs) and finished products. Higher tariffs are imposed for raw materials, for example 40% for frozen cream and 30% for macadamias. Abare (1997) has identified opportunities for malt exports. Koreans are large beer consumers and this is a growing market (in terms of grain - malting barley). Applied tariffs of malt are 8% to 30%.

5.4.5.2 Opportunities for meat exports

Rae (1995) discovered that a rising trend in the per capita consumption of animal products in East Asia has been most rapid in Korea and China. He further noticed that in Korea, a 10% increase in expenditure was accompanied by at least a 10% rise in the consumption of animal products. Rae argues that the change to only tariff protection of Korea's beef sector in 2001 will probably result in a substantial drop in retail prices and a surge in consumption and imports over and above his projections. RIRDC (1998) predicts that beef self-sufficiency is projected to drop to 47% in 2004 (compared to 65,5% in 1997), when imports will be completely liberalised.

The Ministry of Agriculture and Forestry of Korea's figures show that the per capita meat consumption in South Korea is rising steadily. Austrade (1998a) observed that in 1996, South Korea imported US\$762 million of meat from other world countries, 36% more than in 1992. Frozen beef was the principal item accounting for 65% of shipments. Fresh, chilled and frozen swine accounted for almost 20% of shipments. Other important lines included meat and edible offal of poultry (9%), meat of sheep or goats (2%) and edible offal of cattle, sheep, horses and pigs, ect. (2%).

Austrade (1998a) argues that further scheduled reductions in tariffs and quotas and increasing per capita consumption will increase growth, particularly for poultry. However, the RIRDC (1998a) has observed that prospects for the import of poultry meat are not promising in the short term because of the contraction of real incomes. Chicken consumption continues to increase in South Korea. The tariff duties on this products will be reduced to 20% by 2004. Fast-food sectors and traditional fried-chicken dishes tend to be the main demands.

Game meat is allowed to be imported into South Korea, subject to the condition that it is farmed and not obtained from the wild. Ostrich- and other meats have also generated significant interest in the market.

There are some interest in horse breeding stock programmes in Korea. Imports have increased by 21% (a 5-year trend noted in 1995) (Abare, 1997). The applied import tariffs for live horses are 8%.

5.4.5.3 Dairy

Rae (1995) observed that Korea was largely self-sufficient concerning dairy products until the late 1980s, but the deficit has been more substantial since then. Ongoing market liberalisation and steady increases in the per capita consumption of dairy products determine the demand for imported products. Ice cream is becoming increasingly popular (Austrade, 1998a).

Austrade (1998a) observed that in 1996, South Korea imported US\$151 million of dairy products from other world countries, a more than fourfold increase on the figure for 1992. Whey products accounted for 51% of total shipments. Other cheese curd accounted for a further 28%. The newly-liberalised item 'other cheese and curd' accounted for most of the shipments and most of the growth over the period. Other important lines included yoghurt, buttermilk and ice cream (7%) and milk and cream, not concentrated or sweetened (6%).

It is evident that the South Korean market for dairy products is growing steadily. Per capita dairy products is still relatively low at 54.5 kg but is expected to reach 100 kg/year sometime in the next decade (Austrade, 1997a). This will require increased levels of imported dairy products based on decreased self-sufficiency from the local dairy industry. The increasing range of products available, including cheeses, yoghurt and ice cream, reflects the increasing popularity of dairy products amongst the younger generation (Austrade, 1998a).

5.4.5.4 Horticulture

Rae (1995) observed that the long-term per capita consumption of fruit has shown continual growth in Korea. Slower growth in vegetable consumption has occurred. Although the short-term market has contracted because of the Asian crisis, medium to long-term trends support the fact that the market is growing. Austrade (1998a) has

identified that hotels and restaurants provide good opportunities for quality counter-seasonal produce, including citrus, grapes, potatoes, carrots and onions.

Although fruit consumption has increased by almost 2% per year since 1990, local production has only increased by about 0,5%. Self-sufficiency rates of fruit were 100% prior to 1990, but have dropped since then as a result of import liberalisation (RIRDC, 1998a). This has led to a considerable boost to imports. South Korea's per capita consumption of fresh vegetables reached 153 kg in 1995, 9% more than in 1994 (Austrade, 1997b). Austrade (1998a) observed that in 1996 South Korea imported horticultural products to the value of US\$485 million, 40% more than in 1992. The principal items included vegetable products, roots and tubers (22%), orange juice (14%), bananas (12%), dried non-leguminous vegetables (9%), edible nuts (7%) and the juice of non-citrus fruit and vegetables (8%). Other important lines included oranges, mandarins and clementines, leguminous vegetables and fresh or dried fruit. Tariffs of between 30% and 50% are applicable to fruit and vegetables. Horticultural exports from South Africa to Korea comprised mainly of dried grapes, 11% of agricultural exports to Korea. Recently a citrus protocol was approved and South Africa can now export fresh citrus fruit to Korea. Korea is evaluating South Africa's application in terms of sanitary and phytosanitary requirement protocols for the export of grapes, avocados, litchis and mangoes. However, the time it takes to evaluate one commodity can be two- to three years and it is done in series. This presents major non-tariff barriers for the export of fresh fruit to Korea.

The Government is heavily involved in the sector and manages imports, exports and supply through its agency, the Agriculture and Fishery Marketing Corporation. The import of certain fruit and vegetables, including oranges, garlic, onions, potatoes and sweet potatoes, is managed by designated industry associations in order to protect local growers (Austrade, 1997b).

Austrade (1998a) mentions that there are good opportunities for increased exports of asparagus, broccoli, radicchio, cauliflower, onion, carrot, and potato to South Korea because of the fact that there are no quarantine barriers (which is the major restriction for horticultural exports to South Korea). Furthermore, there are good prospects exist for the export of fresh potatoes as a result of an increasing demand from snack-food companies and fast-food outlets. There is a shortfall in the supply of potatoes between January and April. The liberalisation of the citrus market in 1997 created significant potential export opportunities. There are good prospects for imported navel oranges during May to July, particularly in supplying to large retailers. Tropical fruit led the import-fruit market in South Korea as recently as the early 1990s. Since 1995 the variety of imported fruit has become significantly diversified with the introduction of kiwifruit, table grapes and oranges. Hotels and restaurants provide one of the best prospects for imported fresh produce as they require continuous supplies of a variety of fresh fruit and vegetables.

5.4.5.5 Beverages

Wine and beer consumption is set to increase as these products are introduced to the younger generation. A demand for juices and health drinks will be determined by an increased awareness of the need for healthy lifestyles. The ITC (1995) observed that Korea is the second largest Asian market for fruit juices following Japan. The RIRDC (1998a) observed that on the short term, because of Korea's currency crisis and the resulting increases in prices of imported products, soft drinks have taken the market share from juices. Beverage exports from South Africa to Korea comprised about 6% of agricultural exports; fruit juices (5%) and tea (mainly black tea) (1%) (Annex. 6, Table 2).

Total beverage imports in 1996 were valued at US\$240 million, an almost fourfold increase on the figure for 1992 (Austrade, 1998a). Spirits were the principal item, accounting for 85% of the total shipments. Although the wine market is still in its infancy, the volume of imported wine has increased markedly through 1997. The RIRDC (1998a) is of the opinion that the long-term future for wine in Korea is still very good, certainly

while beer taxes remain high and 'hard liquor' (whisky and cognac) is still under quota and subject to higher duties. Wine imports were valued at US\$16.5 million, a 2.6-fold increase over the figure for 1992 and accounting for 6% of the total shipments in 1996. The major suppliers to the wine market include France, Germany, Australia, United States of America, Italy, Portugal and Chile. Consumption reached 70 million litres in 1995 and 89 million litres in 1996, representing a 27% growth in 12 months. Red wine continued to hold the dominant retail position with a 70% market share while white wine accounted for 30%. French wines dominated the market, because of the general South Korean perception that 'French means quality' (Austrade, 1998a).

South Korea imported US\$5,18 million worth of beer in 1997, a figure double that in 1996. Beers are principally imported from the United States of America, the Netherlands, Germany and Japan. Teenagers and the younger generation are the main consumers of imported beers, particularly at trendy venues, including western-style cafes (Austrade, 1998a).

There is an increasing demand for fruit juices and health drinks resulting from the increasing trend towards health products and healthy living. Young females and the more affluent continue to be the main customers of the health-conscious sector. Beverages with varying degrees of fruit content (100%, 50%, 10%) have become very popular among Korean consumers. According to one of the major bottlers, 100% fruit juices may now account for three-quarters or more of total fruit-juice-beverage sales, as a result of a growing health awareness, higher standards of living and aggressive marketing (ITC, 1995). In a market traditionally based on orange and apple-juice sales, vegetable juices (such as tomato and carrot) are now becoming increasingly popular.

5.4.5.6 Confectionery

Further growth will be stimulated by lower import duties and the operations of recently-introduced foreign distribution giants. South Korea's imports of confectionery products have grown by about 46% from US\$71 million in 1994 to US\$104 million in 1996 (Austrade, 1998a). Lower import duty rates applied to confectionery products (principally 8%) compared to other food ingredients have been a significant factor fuelling import growth. Confectionery items which have shown the most significant import growth during the period 1995 to 1997 include candy, biscuits, chocolates, wafers and superpremium ice cream (Austrade, 1998a). Products using organic ingredients have been rapidly gaining market acceptance since early 1997. Sugar confectionery exports from South Africa to Korea comprise 16% of agricultural exports to Korea, the second most important export agricultural commodity to Korea following other grain-based confectionery such as processed grain products – including cakes, biscuits and other bakers' wares (25%) and is of equal importance as processed fruit products (16%) (Annex. 6, Table 2).

5.4.5.7 Other foods

In 1996, South Korea imported other foods from the rest of the world valued at US\$1,5 billion, 70% more than in 1992. The principal item was raw sugar, which accounted for 28% of shipments. Other important items included yeast (13%), molasses (6%), coffee (9%), palm oil (7%), prepared and preserved vegetables (5%), prepared and preserved fruit and nuts (5%), sauces and preparations (3%) as well as bread, pastry, cakes and biscuits (2%) (Austrade, 1998a).

Annex 6, Table 2 shows that South African agricultural exports mainly comprised of prepared or preserved fruits or nuts, (16% of agricultural exports to Korea). Wool and fine coarse animal hair comprises 21% of agricultural exports from South Africa to Korea. South Africa is a major world exporter of wool and animal hair. It is a declining world market, however over the long term opportunities exist in niche products. Wool and

animal hair is a major export product to Korea and to larger China (mainland China, Taiwan, Macau and Hong Kong).

Some long-term opportunities for the Korean market include honey (currently restricted by high import duties, but these are scheduled to decrease by the year 2004), fruit jams, processed dairy products (more than only cheddar cheese), frozen processed vegetables and processed potato products such as French fries and potato crisps (RIRDC, 1998a).

5.4.6. Barriers to agricultural trade

5.4.6.1 Tariff barriers, levies and charges

Korea has undertaken an almost continuous process of tariff reduction since its adoption of outward-orientated policies in the early 1960s. As of January 1995, after the implementation of the Uruguay Round, almost all agricultural tariff lines were bound. However, duties remain high compared to other OECD countries as well as for a number of high-value agricultural products (eg wine, liquors, oils, beer, juices, dairy products) (EC, 1999a). Korea introduced In Quota Tariffs for 67 categories of agricultural products, in accordance with its World Trade Organisation (WTO) commitments to tariff quantitative restrictions on these products (EC, 1999a).

The average applied tariffs of Korea on selected agricultural products of general importance for South African exports is 89% (Annex 7). Almost prohibitively high tariffs exist on milk and cream powder (211%), mandarins (157%), barley, maize and sorghum (358 to 467%), cereal groats and meal (maize) (177%), groundnuts (251%) and undenatured ethyl alcohol (118%) (Annex. 7). High tariffs also generally exist on processed or preserved food. Tariffs on fresh- and dried fruit are between 30% and 50%. Tariff peaks exist on the main agricultural commodities exported by South Africa to Korea on:

- prepared or preserved fruit, nuts (16% of exports), 40% tariff;
- fresh or dried grapes (11% of exports), 40% tariff;
- fruit juices (5% of exports), 49% tariff;
- tea (mainly black tea) (1% of exports), 40% tariff;
- other food preparations (<1% of exports), 90% tariff (can reach 821% on some products) (Annex. 6, Table 2).

Negotiations on lowering tariffs in Korea, could open major trade opportunities for South Africa on these products.

A special excise tax and education tax is levied on sugar. Since 1996 a discrepancy has remained between taxes levied on imported alcoholic beverages and domestic products. The negative impact of both high tax rates and tax discrimination is reflected by the relatively low market share of imported spirits in Korea (less than 2% against 33-34% in the United States or France, or 42% in the United Kingdom). An Appellate Body of the World Trade Organisation (WTO) has confirmed in its report of 18 January 1999 that this practice is discriminatory and Korea will now have to bring its internal taxes on spirits within the WTO Panels' ruling (EC, 1999a).

5.4.6.2 Non-tariff barriers to trade

Agricultural products as well as processed food products are still facing a host of serious market access difficulties: Sanitary and phytosanitary regulations, often applied in an arbitrary and discriminatory way, restrict access for several products, for example lemons and oranges. Sanitary standards and conformity requirements for processed-food products significantly impede access to the market and require very costly and time-consuming efforts to collect up-to-date information on market-access conditions for these products (EC, 1999a). Quarantine issues have been a major impediment to market access for fruit

and vegetable producers. Some vegetables are allocated quotas which are managed by the relevant industry association or government agency.

An analysis on the UNCTAD (1999) database indicated that non-tariff arrangements to market access to Korea on selected studied commodities of importance to South African exports are boneless meat (frozen), milk and cream, powder, onions, garlic, shallots, mandarins, barley, maize), grain sorghum, cereal groats and meal (maize), groundnuts, chocolate as well as ethyl alcohol (Annex. 8). In 1990, all quota restrictions on wine were lifted. Although importers must hold a current licence, import permission is automatic. Imported wines are subject to taxes, including a 30% import duty, a 30% liquor tax, a 10% education tax and a 10% value-added tax (VAT) (Austrade, 1998a). Substantial labelling requirements apply.

Other related difficulties include Korea's requirement to submit tanned hides and skins to quarantine inspection, in spite of the absence of living organisms in tanned products (EC, 1999a). In the case of shelf-life limits for mineral water, it is still less than satisfactory despite improvements. Tests have to be carried out to allow a shelf-life limit longer than the previous 6 months mandatory limit. An extension of up to 24 months should be possible, subject to test results) (EC, 1999a).

Korea's standard requirements are in many instances higher than that required by international standards. For example, Korea seems to be the only country in the world that requires country-of-origin markings not only on the packaging of the products, but also on the product itself. The regulation results in technical difficulties and additional cost burdens for foreign exporters that lower their ability to compete with local manufacturers and therefore constitute market-access barriers.

A protocol enabling South African producers to export citrus has already been approved by the Korean government. Technical data were submitted for risk analysis for the export of grapes, avocados, mangoes and litchis. It takes up to three years for the Korean government approving a protocol, which is often done in series (one by one instead of simultaneously).

5.5 A PROFILE OF AGRICULTURAL OPPORTUNITIES IN MALAYSIA

5.5.1. An overview and outlook on Malaysian economy

The Malaysian economy grew at an average annual real rate of 6,7% from 1971 to 1990, making it one of the fastest-expanding economies in the world (EC, 1999d). With annual gross domestic product (GDP) growth rates in excess of 8% over the last decade, until recently Malaysia has also been one of the fastest-growing economies in the Association of South East Asian Nations (ASEAN). Even during 1997, when the Asian currency crisis hit and the Ringgit lost 30% of its value, the economy grew by 7,8% (Suthaker, 1998). However, the impact of the crisis was such that economic growth slowed down to an estimated negative 3.0% in just over a year (Trewin, 1998).

The weak currency and poor economic growth prospects will decrease consumer demand in Malaysia and will generally constrain growth in the imported food market in the short term. In the medium- to long term, however, growth prospects in a nation of nearly 22 million consumers and a very urbanised society, remain strong and Malaysia is expected to become increasingly important as an export destination. In mid-1996, the country had a population of 21,2 million, (12 million Malays, 5,3 million Chinese and 1,5 million Indians) (FAO, 1998). The population is concentrated on peninsular Malaysia, especially in the larger cities such as Kuala Lumpur. Urbanisation has been taking place rapidly; in 1991 less than 50% of the population lived in rural areas and this percentage has been dropping rapidly (RIRDC, 1998). Malaysia has been one of the world's economic success stories for the last three decades: in 1970 it had a GDP per caput of only 1 049 Malaysian

Ringgit (\$M) (\$342). By 1997, however, per caput income had risen to an estimated \$M 11 303 (\$4 316) (FAO, 1998). The average income per person reached US\$4000 during the early part of 1997 and Malaysia had the aim of achieving 'developed-nation' status by the year 2020 (Athukorala, 1998). Malaysians spend approximately US\$1 000 a year per person on food.

Positive factors in Malaysia are the gradual liberalisation of market access, declining domestic production and increasing reliance on food imports, strong growth in the retail and food service sectors, a strong tourist market and an increasing demand for convenient, healthy, western-style food (Austrade, 1998d). The medium-term outlook for Malaysia remains uncertain. In the medium- to longer term, when the fundamentals are stronger, the outlook is good (RIRDC, 1998). According to the Asia Pacific Economic Group (1998), recovery was expected to begin relatively quickly - within a year - other factors being equal (no slowdown in the United States or China).

5.5.2. Agricultural trade environment

Malaysia's food production is determined mainly by the political economy, aimed at maintaining farm incomes rather than self-sufficiency (RIRDC, 1998b). External trade is of critical importance to the Malaysian economy, given the fact that the value of exports is in excess of 80% of the country's Gross National Product (EC, 1999d). Malaysia is a member of the World Trade Organisation (WTO) and the Association of South-East Asian Nations (ASEAN) and party to the ASEAN Free Trade Agreement (AFTA). Malaysia has concluded bilateral trade agreements with 29 countries. By mid-1996 Malaysia also had bilateral investment guarantee agreements with 45 countries and country groupings (EU, 1999d).

Austrade (1998d) discusses why Malaysia is an attractive market to Australia despite the recent slump in demand because of the currency crisis. Factors are as follows:

- The gradual liberalisation of market access. The Malaysian Government is committed to reducing tariffs on food items as part of an ASEAN agreement. By 2003, tariffs on all food items will be reduced to less than 5%.
- The declining domestic agricultural sector and increasing reliance on imports, particularly, rice, vegetables, beef and mutton.
- The recent strong development of the retail sector, with an explosion in the number of supermarkets, hypermarkets and convenience stores.
- Strong growth in the food service sector is being determined by high incomes, a greater propensity to eat out and the proliferation of western-style restaurants.
- A strong tourist trade which is currently estimated at approximately 7 million visitors per annum.
- Increasing demand for convenience foods, health foods and western-style foods, particularly from the younger generation.
- Increasing utilisation of imported foods in both Asian and western-style diets.

With the depreciation of the Ringgit (45% against the US dollar), the prices of South African products should be more attractive compared to, for example, Australia and the United States.

5.5.3. Self-sufficiency trends (changing comparative advantages)

The FAO, (1998) and RIRDC, (1998b) observed that structural changes occurred from 1970 to 1997, during which time agriculture declined in importance from 29,9% of GDP to 13,5%. Although agriculture achieved an annual growth rate of more than 4% during the two decades up to 1990 and a rate of 2% in the 1990s, other sectors grew much faster (FAO, 1998). Agricultural output expanded by 2,4% in 1996 compared to overall GDP growth of 8,2%. Because Malaysia is industrialising, agriculture's share of GDP is expected to be only 8,2% in 2005 (RIRDC, 1998b).

While agricultural output is declining as a proportion of domestic activity, agricultural products remain important as inputs in industrial processes. Agriculture-related manufacturing and services accounted for 36% of the GDP in 1997 (Pryor & Holt, 1998). About a fifth of agrifood imports are intermediate inputs for further processed products (Tan, 1998). Malaysia's domestic agricultural sector is unable to fully supply the growing industrial requirements and consumer demand. Malaysia's food processing industry is limited by a lack of technology, research and development and raw materials. The shortfall must be made up with imports. Malaysia's total food imports expanded by 20% between 1992 and 1996 to reach US\$3,3 billion (Austrade, 1998d).

Consumption levels per person and self-sufficiency ratio's for selected food items in Malaysia illustrate the recent trends in consumption (Table 5.2). It is noticeable that the per kg consumption of beef has doubled in a decade. The self-sufficiency ratio's for rice, beef and mutton have dropped. Malaysian 'self-sufficiency' targets are set low: 80% for rice, 30% for beef and 5% for dairy products (Ministry of Agriculture, 1992).

Table 5.2. Consumption of food products per person (kg) and self-sufficiency ratio's (%) in Malaysia

	1986	1995
Rice	82,0	87,0
	(86%)	(76%)
Beef	2,4	4,7
	(39%)	(20%)
Mutton	0,5	0,7
	(9%)	(5%)
Pork	9,8	10,4
	(109%)	(142%)
Poultry	17,6	33,1
	(106%)	(114%)
Eggs	243,0	328,0
	(101%)	(112%)
Liquid milk	40,5	51,7
	(5%)	(4%)

Note: Figures in brackets indicate Malaysia's self-sufficiency for the product

Source: Ministry of Agriculture, Department of Veterinary Services of Malaysia

Agrafood Asia, (1999c) recently reported that the Malaysian Pineapple Industry Board is spending 35 000 Ringgit (US\$9 200) to study the commercial potential of pineapple juice. This is part of a plan to turn the country into a leading exporter of pineapple-based products. Malaysia currently exported RM 70 million worth of canned pineapple-based products.

5.5.4. Consumption developments

Rae (1995) argues that Malaysia is close to entering the third phase in consumption evolution (a shift in consumption from non-traditional staples to high-value and high-protein foods) (See Fig. 5.1). Malaysians have traditionally been open to trying new foods and are becoming increasingly familiar with Western foods. For example, breakfast in Malaysian households increasingly includes bread, butter and breakfast cereals (RIRDC, 1998b). Malaysia is also becoming more dependant on beef, mutton and milk imports.

Prior to the onset of the economic crisis in Asia, the Malaysian economy had been flourishing. Total retail sales grew by about 40% between 1991 and 1997. Supermarket sales grew by 142% over this period. A third of the households were regular supermarket shoppers up to 1997, compared to only one tenth in 1995 (RIRDC, 1998b). Street markets remain important as sources of fresh foods, particularly in rural areas, and traditional food retailers still account for between 50 and 70% of the market. Since the onset of the economic crises in Malaysia, there has been a switch from imported to local foods, mainly because of the higher prices of imported products and the income effects of the crisis. The currency crisis has resulted in price increase for major imported food items by as much as 40% to 50%. However, Malaysia's position is much better than the Republic of Korea's and much better than Indonesia's, where the economy has contracted very dramatically. Consumers are now more discreet in their purchases and have cut spending on non-essential items and reduced their volume of purchases (Austrade, 1998d).

The RIRDC, (1998b) observed that religious diversity still has a major impact on modern retailing. Dietary needs differ, as do product specifications and packaging. Most Malaysians eat chicken and most like lamb. Food is generally spicy and rice or noodles are served at most meals. AgraFood Asia, (1999b) reported that a 'halal food hub' is being planned for the Indonesian-Malaysia-Thailand (IMT-GT). The IMT-GT is an ambitious plan to create a virtually borderless free-trade zone including southern Thailand, northern Sumatra and northern Peninsular Malaysia. Foodstuffs in the special zone will be prepared according to Muslim dietary rules and will be sold to Muslim shops worldwide.

5.5.5. Opportunities for food exports

5.5.5.1 Grain and processed grain products

Ongoing westernisation of the diet is stimulating the increased demand for grains in the form of breakfast cereals, pasta, bread, pastries and cakes. Malaysia imported nearly US\$1 billion of grain from the rest of the world in 1996 (Austrade, 1998d). Wheat, including spelt and meslin, maize, maize seed and rice were the major items. Austrade, (1998d) projected a significant growth for imported pasta, bread, pastry cakes, biscuits, mixes and dough, primarily as a result of the shortage of skilled labour and technology which is limiting domestic production. The breakfast cereals market has been growing at an average rate of 10% to 15% per annum in recent years. The demand for breakfast cereals is being determined by increasing concerns about health aspects.

5.5.5.2 Meat

Austrade, (1998d) identified existing opportunities for beef, sheep and goats' meat suppliers because domestic production is not likely to keep pace with rising demand. The Malaysian market for meat, and particularly beef, has not yet reached maturity. From the early 1980s to 1995, the demand for beef increased by 106%. According to Rae (1995) the share of animal products in the total diet in Asia is projected to increase most rapidly in

Malaysia. Total red-meat consumption is expected to rise by over 70% (year 2002) in Malaysia.

Malaysia imported meat to the value of US\$182 million in 1996, 20% more than in 1992. Frozen beef was the principal item, accounting for 60% of shipments. Fresh and chilled sheep and goats' meat accounted for 14% (Austrade, 1998d).

Consumption of meat in Malaysia is greatly affected by custom and religion. Poultry is consumed by all Malaysians and is the most popular meat (Austrade, 1998d). Sixty-one per cent of Malaysians are Muslims and may only consume 'halal' meat, mostly beef.

5.5.5.3 Dairy

Dairy products are not part of the traditional Malay diet but better incomes and the gradual westernisation of the local diet have resulted in steady increases in the consumption of dairy products (Austrade, 1998d). The dairy sector in Malaysia is relatively undeveloped and can only supply about 5% of domestic requirements. Domestic production is increasing but cannot meet demand and Malaysia will remain reliant on imports to a great extent, providing export opportunities.

According to Austrade's (1998d) analysis there is currently no commercial production of butter, butterfat, ghee, cheese or spray-dried milk powder. Products include condensed milk, ice cream, pasteurised milk, yoghurt, sour cream and milk curd. Malaysia imported US\$388 million of dairy products in 1996, about 50% more than in 1992. Concentrated or sweetened milk or cream was the principal item, accounting for nearly 80% of shipments. Butter and other milkfats, milk and cream (not concentrated) and yoghurt were also major lines.

Studies done by Austrade (1998d) indicated a few potential market opportunities. As Malaysians' tastes become more westernised and the tend to eat out continues, so will the consumption of ice cream. Further, the increasing consumption of yoghurt is being stimulated by the trend towards healthy eating. The increasing number of hotels, resorts and restaurants offers an emerging opportunity for UHT milk. Imports of processed cheese have doubled since 1993.

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5.5.5.4 Horticulture

Malaysia produces a wide range of fresh fruit and vegetables, but is not self-sufficient. It has to import increasing quantities because arable land is generally no longer available for production. Consumption of fresh produce is increasing as consumers are increasingly aware of the health benefits. Until the end of 1997, Malaysian supermarket chains were experiencing at least a 10% to 20% growth in the turnover of fresh fruit and vegetables (Austrade, 1998d).

According to Austrade's, (1998d) analysis, Malaysia imported horticultural products to the value of US\$453 million from the world in 1996. 'Other fresh or chilled vegetables' accounted for nearly 40% of shipments. Other major lines included fresh and dried fruit (12%), oranges, mandarins and clementines (9%) as well as dried and shelled leguminous vegetables (6%). Mandarins are the most popular imported fruit and demand is increasing. Fresh apples, grapes, potatoes, nuts, uncooked vegetables, dried vegetables and citrus juices were also major lines. Imported fruits and vegetables tend to be sold in Malaysia's hotels, restaurants, supermarkets and, more recently, in hypermarkets. The supermarket sector is expanding rapidly at the expense of traditional street markets and these offer good export opportunities. Malaysia currently has about 400 supermarkets (Austrade, 1997c).

Austrade (1998d) has identified the best prospects for Australian vegetable suppliers to exist in broccoli, lettuce, carrots, potatoes, cauliflower, tomatoes, red cabbage and exotic vegetables such as fennel, brussels sprouts, chicory and culinary herbs. There are also good prospects in butternuts. Opportunities exist for tomatoes around December and February when there are domestic shortages.

5.5.5.5 Beverages

The ITC (1995) and Austrade, (1998d) revealed that increased health consciousness and concern about the quality of locally produced juices will sustain the growing demand for imported fruit and health drinks. Popular flavours include orange, mango, guava and pineapple. An emerging opportunity in the beverage sector is for health and sports drinks. The importance of salt and vitamin replacements as a result of the hot climate, is becoming apparent. Growth in the hotel, resort and food-service sectors and reductions in import duties will spur further growth in demand for imported wines. Equal quantities of red and white wines are consumed.

5.5.5.6 Confectionery

The increase in the demand for imported confectionery will be determined by the expansion of the retail sector and the pronounced consumer preference for foreign brands. Between 1989 and 1994, total confectionery imports increased by 138% to reach US\$28 million in 1994 (Austrade, 1998d). Expansion of the retail sector, for example supermarkets, hypermarkets and duty-free shops, have made chocolates more available. Recently, some interest has been expressed by local buyers for snackbars utilising fruit, nuts and yoghurt. Chewing gum has registered strong annual import growth of about 20% over the past few years. Cornbased snackfoods and chips are becoming increasingly popular, followed by cereal and potato snackfoods. As the food services sector developed, the demand for prepared sauces, mayonnaise, dressings and pasta sauces has subsequently increased. Sugar confectionery exports from South Africa to Malaysia consisted of

approximately one third of exports; chocolate (18%), sugar confectionery (10%) and cocoa butter, fat and oil (3%) (Annex. 6, Table 3).

5.5.5.7 Other foods

Limitations on the local availability of raw materials and technology underpin the growing demand for prepared foods for the food-service sector. The main foods produced include processed cereals, processed fruit and vegetables as well as beverages (Austrade, 1997d). The industry relies heavily on imported food inputs. There are also increasing opportunities to supply frozen- and convenience foods for households (Austrade, 1998d).

Shipments of sugar beet and cane accounted for a third of shipments of 'other food', while food preparations accounted for a further third. Shipments of coffee, soy-bean oil, prepared- and preserved fruit and nuts, dried- and ground pepper and capsicum, sauces, condiments and preparations were also important items. Agricultural exports from South Africa to Malaysia principally consisted of prepared- or preserved fruits or nuts (55%), other food preparations (3%), animal and vegetable fats and oils (2%) (Annex. 6, Table 3). Important production, (such as livestock) is highly dependant on imported feeds and other inputs (RIRDC, 1998b).

5.5.6 Barriers to agricultural trade

5.5.6.1 Tariff barriers, levies and charges

Malaysia's trade reflects its competitiveness or comparative advantage. More than a decade ago, Malaysia recognised the fact that it had a comparative advantage in estate crops (mainly palm oil) but not in food crop production. This was reflected in the lowering of tariffs and sales tax on most food crops (Figure 5.2). Even when tariffs and other trade barriers apply, a flexible and pragmatic approach is taken to their implementation and imports enter free to meet consumer or processor-price objectives (RIRDC, 1998b).

Malaysia maintains high levels of protection for some small new industries in the manufacturing sector. Products protected by high tariffs and import licensing provisions include processed agricultural products (RIRDC, 1998b). A range of high tariffs remain. Tariff protection is high for automotives, textiles, clothing and leather, food and beverages (EC, 1999d). Overall, 65% of tariff lines in the agriculture sector and 57% in the industrial goods sector were duty-free. Out of the 3 825 tariff lines that have positive duties, 2 290 lines (approximately 60%) have duties not exceeding 20% (EC, 1999d). The rates of import duties range between 2 to 145%.

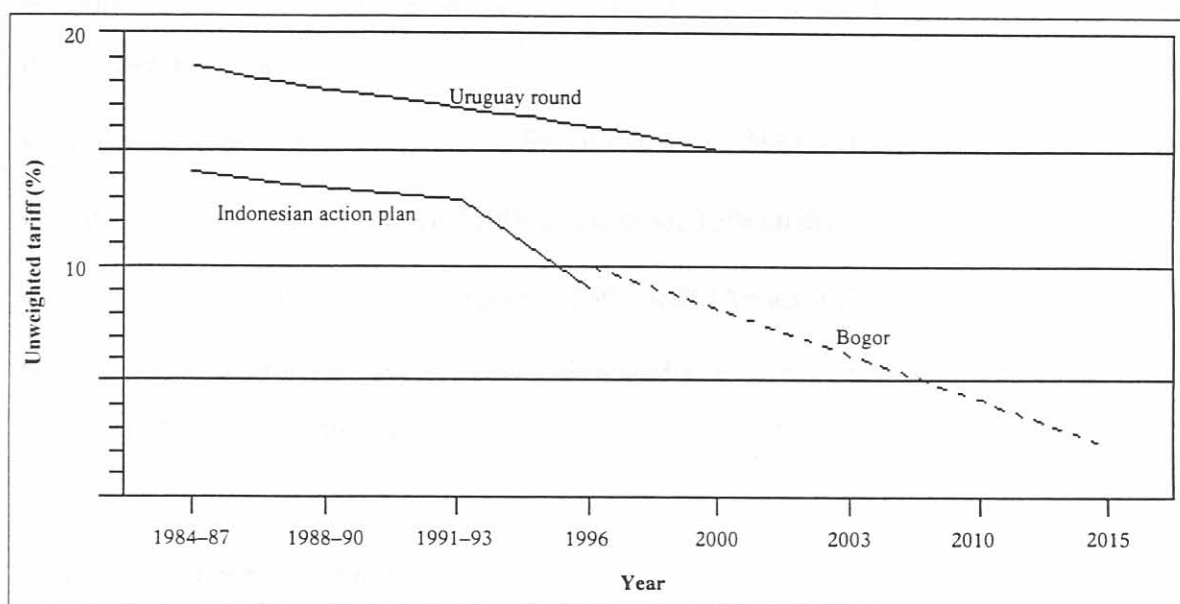


FIG. 5.2 Malaysian import tariffs

Data sources: 1984-93 from UNCTAD (PECC 1995); 1996 from Indonesian Action Plan; Uruguay Round calculated from GATT (Martin and Winters 1996)

Canned fruit is an item of particular focus, continuing to attract a 20% tariff (RIRDC, 1998b). The current duty for major fruit, including oranges, mandarins, apples, pears, lemons, grapefruits, grapes, apricots, peaches and cherries is 10% of c.i.f. plus 5% sales tax (Austrade, 1998d). There are no import duties on most vegetables. Currently there are no import duties or sales taxes applicable to fresh, chilled or frozen meat and fish, milk powder or fresh or chilled vegetables. Butter, cheese and yoghurt attract duties of 5%, 10% and 25% respectively. Each attracts a 5% sales tax (Austrade, 1998d). Sugar

confectionery and chocolate attract an import duty of 15% and a sales tax of 10%. Cereal products attract an import duty of 10% and a sales tax of 10% (Austrade, 1997d).

Average applied tariffs of Malaysia on selected agricultural products of general importance for South African exports in terms of growth and share is 62% (Annex. 7). Almost prohibitively high tariffs exist on barley (220%), beer from malt (192%), wine (750%), undenatured ethyl alcohol (298%) and cigarettes (242%) (Annex. 7). These tariffs present major obstacles for South African beverage exports. South Africa generally trades commodities on which applied tariffs are relatively low. The main commodities traded and the applied tariffs are:

- prepared or preserved fruit, nuts (55% of exports), 15% tariff;
- chocolate and cocoa products (18% of exports), 15% tariff;
- sugar confectionery (10% of exports), 15% tariff (Annex. 6, Table 3).

Negotiations on reforming prohibitively high tariffs in Malaysia could create new markets for South African commodities.

5.5.6.2 Nontariff barriers to trade

There are currently no quarantine restrictions on imported fresh fruit (except rambutan, longan, nam-nam and pulasan from the Philippines and Indonesia). All fresh fruit consignments however are subject to inspection at the port of entry and, if necessary, treatment by their Department of Agriculture (Austrade, 1998d). According to an analysis done on the UNCTAD (1999) database it was revealed that non-tariff barrier arrangements to market access (such as quotas) to Malaysia on selected studied commodities of importance to South African exports are: meat, dairy, bulbs, tubers, onions, garlic, shallots, fresh and dried fruit, all grains and grain products, oilseeds, sugar and molasses, mineral waters and ethyl alcohol (Annex. 8).

According to World Trade Organisation authorities, Malaysia's system of import prohibition and licensing is not fully transparent (EC, 1999d). Import licensing still affects about 17% of the Malaysian tariff lines. Most items are restricted for health or sanitary reasons or used to protect domestic producers in order to ensure an adequate supply of essential raw materials. The persistent denial of sanitary certificates has the effect of an import prohibition. Under the Customs Act (1967), import licensing applies to rice, sugar, meat, milk, fresh vegetables, fats, fruit and cereals. Items for which licenses are required to afford temporary protection to local manufacturers are e.g. milk, cabbage, coffee and cereal flours. Products that may be imported only after meeting specific criteria are eg animals, animal products, plants, plant products, cigarettes, soils and fertilisers of animal origin. Labelling and halal production requirements also affects costs.

5.6 A PROFILE OF AGRICULTURAL EXPORT OPPORTUNITIES TO INDONESIA

5.6.1 Overview and outlook of the Indonesia economy

Indonesia's economic development over recent years has been astounding. Real economic growth had averaged 7% a year over a thirty-year period, increasing the average income per person from less than US\$100 in 1972 to more than US\$1000 in 1996 (RIRDC, 1998c). GDP growth rates were 7,8% in 1995 and 5,5% in 1996. Then the economic growth dropped from 7,8% to -15% between the June quarters of 1997 and 1998, reflecting a full year's effect of the Asian currency crisis (RIRDC, 1998c). This period of economic downturn had the effect of rising unemployment and inflation.

Imported foods have become very expensive and this, combined with the reduced purchasing power of consumers, has caused a sharp decline in the demand for imported food over the short term. Indonesia's economy is in serious difficulty and this has a huge impact on all sections of the community in Indonesia. The RIRDC (1998c) mentioned that the food situation even contributed to social unrest and rioting.

The medium-term outlook for Indonesia remains uncertain, because all economic changes needed to return the country to sustainable growth, have yet to be fully implemented. A number of groups have been examining Indonesia's medium-term outlook, for example, Asia Pacific Economics Group (1998) and the International Monetary Fund (1998). Their overall conclusion is that the outlook for growth is poor. It is expected to take at least two-to three years, and even as long as seven years, for the economy to recover (RIRDC, 1998c). The continued currency volatility has resulted in a loss of business confidence and growing external debt (Austrade, 1998e). The \$43 billion International

Monetary Fund (IMF) rescue package for Indonesia's failing economy has - and continue to introduce - wide-ranging reforms designed to assist the economy to recover. Deregulation of long-protected sectors such as banking, foodstuffs and retail and wholesale distribution have now led to a more open and more transparent market and is part of the framework currently being established to put the Indonesian economy back on track (Austrade, 1998e). Companies becoming involved at an early stage of the recovery will be the main beneficiaries in the longer term.

In the medium- to long term, however, growth prospects remain good Indonesia's importance as an export destination is expected to grow. The RIRDC (1998c) and Austrade (1998e) argue that with the rapid increase in average income per person, in conjunction with some market fundamentals such as a population of about 200 million and its endowment of natural resources, Indonesia became a very attractive market which is expected to grow strongly once current economic difficulties are overcome.

5.6.2 Agricultural trade environment

Since 1983 the Indonesian government has implemented a policy of economic deregulation, undertaking monetary and tax reform, aimed at improving market access and liberalising trade and investment to maximise the benefit of trade opportunities and converting the challenges into trading opportunities. The result has been an increase in

merchandise exports from \$18,6 billion in 1985 to \$36,8 billion in 1994, while imports increased from \$10,3 billion to \$32,0 billion (Abbas, 1996). Measures have included reducing non-tariff barriers in favour of tariffs, lowering of transaction costs, lowering overall tariff levels in 1997 and a commitment to further reduce average tariffs to between 0% and 10% by 2003. Currently 62,5% of Indonesia's total tariffs fall in the range of 0% to 10%. The average unweighted import tariff is 11,9%, the second lowest in South-East Asia after Singapore (NDIO, 1998).

Despite its undeniable success in the early 90s in bringing about fast growth while keeping the economic fundamentals on a sound basis, Indonesia still presents several elements of uncertainty that are particularly responsible for the crisis. Indonesia's agrifood production and processing are highly organised by the Government, both directly and indirectly. Indonesia's agrifood production and trade tend not to reflect competitive and comparative advantages in a market economy, but more the policy directions that Indonesia has chosen to take (RIRDC, 1998c). Production and distribution in many sectors, including the most important commodities, are dominated by a limited number of politically-connected conglomerates which have been flourishing under condition of monopoly or oligopoly. The lack of any competition law or policy, corruption, red tape and the weakness of the legal system contribute to create a lack of transparency, which is perceived by the foreign business community as the major obstacle in doing business in this country. It is, therefore, not surprising that the International Monetary Fund requested liberalisation and the withdrawal of privileges and tax exemptions in that field (EC, 1999e).

The RIRDC (1998c) and Austrade (1998e) argue that the crisis has led to the opening up of new opportunities. The deregulation of long-protected sectors including foodstuffs and retail and wholesale distribution, have resulted in a more open market. For instance, government is revising competition policy in respect of monopolies. There has been concerted action to remove the influence of monopolies throughout the Indonesian economy, including the agrifood sector. One of the most significant developments is the reduction of food tariffs which currently stands at 5% for most imported products

(Austrade, 1998e). According to the free-trade agreement signed with Association of South-East Asian Nations in 1995, Indonesia must fully open its retail industry to competition by 2003 (RIRDC, 1998c).

5.6.3 Self-sufficiency trends - changing comparative advantages

Agriculture currently accounts for 15% of Indonesia's gross domestic product (GDP). Self-sufficiency remains a key government policy. Nevertheless, its relative importance has been diminishing as growth in manufacturing and other sectors has outpaced it but it still employs 50% of the workforce. Agriculture accounts for about 8% of non-oil exports. Although agricultural production has increased between 2% and 4% throughout the 1990s, agrifood imports have grown much faster as demand continues to outpace supply and the government gradually lowers import barriers in line with Asia Pacific Economic Co-operation (APEC) and Association of South-East Asian Nations Free Trade Agreement (AFTA) obligations (Austrade, 1998e).

Total food imports were valued at US\$3,2 billion in 1996, 2,5 times more than in 1992. Grain was the principal item, accounting for more than 60% of the total. Other foods accounted for 22% of the total. Horticulture accounted for 7% and dairy for 6%. Meat, seafood, confectionery and beverages accounted for 1% to 2% respectively (Austrade, 1998e). The short-term outlook for food imports is poor. Since many people are jobless or earn much lower incomes and are struggling to feed themselves, the demand for higher-priced imported food products has dropped by as much as 60% (RIRDC, 1998c).

5.6.4 Consumption developments

A demand for food and agricultural products is stimulated by Indonesia's population of 200 million growing at 1.6% every year and the growing input requirements of its processed exports (Austrade, 1998e). Indonesian consumption patterns were changing prior to the crisis on the basis of rising incomes. Prior to the crisis, food purchases had

become a small enough proportion of disposable income to afford consumers a greater choice than ever before. Food moved from representing about two-thirds of consumer spending in 1992 to approximately one-third in 1997. Trends are expected to continue as before the crisis after the recovery of the economy.

While the street markets continue to dominate the sale of fresh foods, a growing share of business is being taken by supermarkets and other modern retail formats. Prior to the crisis, food-services sales were being directed by a number of socio-economic factors. The RIRDC (1998c) has identified most of them including growing population, the increasing disposable income and purchasing power in urban areas, urbanisation, the increasing number of food-service outlets, changing consumer preferences, the increasing demand for convenience, deregulation of the retail industry, increasing tourism, improvements in infrastructure, the mobility of people, fresh food, more working women, refrigeration becoming more frequent in both retail outlets and households new shopping centres, the willingness of young people to try new foods (60% are under 30 years old) and an increasing exposure to Western foods.

Rice dominates consumption; the levels of consumption of wheat flour, meats (poultry) and sugar are relatively low. The middle and high-income groups consume almost 100% of the poultry and wheat flour consumed in urban areas and about 80% and 90% respectively of the quantities consumed in rural areas (RIRDC, 1998c). The Indonesian diet is still dominated by rice, cooking oils, chicken, fish, vegetables and tea. Other important food crops for domestic consumption include cassava, corn, soy-beans and fruit. In general consumption levels of staples such as rice, cassava, maize and sweet potato were decreasing and those of wheat and pulses, fruit and vegetables as well as meat were increasing (RIRDC, 1998c). Prior to the crisis there was increasing consumption of western-style foods such as beef, dairy products, bread, noodles, snack foods, soft drinks and processed foods (RIRDC, 1998c). These trends are expected to re-establish themselves in the longer term, after the crisis ends. AgExporter (1999) regards the best prospects (based on an original study by the United States Department of Agriculture) to

be in the retail and tourism sectors, including beef, poultry, processed meats, frozen french fries, wines, fresh fruit, canned foods, sauces and seasonings, beans, pastas, cooking/salad oils and snack foods. Important estate crops for domestic processing or export include palm oil, coffee, tea, spices, cocoa beans, sugar, shrimp and tuna (NDIO, 1998).

5.6.5 Opportunities for food exports

5.6.5.1 Grain and processed grain products

Austrade (1998e) observes that although rice remains the key staple in the Indonesian diet, consumption of wheat-based foods such as noodles, biscuits, breads and cakes have shown significant increases over recent years. Indonesia imported almost US\$2 billion of grain in 1996, more than three times the value of shipments in 1992.

Austrade (1998e) argues that because the monopoly power over the wheat flour market in Indonesia is being deregulated, market opportunities are created. Subsidies will also be gradually removed on the locally-milled product, which will enable the imported product to compete on an unrestricted basis. Subsidies have already been reduced and would have been totally abolished by October 1998. Opportunities are therefore now emerging to supply wheat flour to trading companies and end-users such as biscuit and noodle factories, as well as bakery operations, provided the price can compete with that of the locally-milled product. AgExporter (1999) foresees a large growth potential in the baking and confectionery industry: including an increased demand for flours and premixes, processed dairy and potato products, frozen dough, dried fruits, nuts, syrups/toppings and jams/jellies.

5.6.5.2 Meat

Although not a major consumer of meat products, Indonesia's per capita consumption of meat is rapidly expanding from a low base. Per capita consumption now stands at 8.9 kg

per year, rising from 2.2 kg in 1992 (Austrade, 1997e). Poultry is the cheapest and most popular meat.

Immediately before the Asian crisis, about 5% of the population earned incomes higher than US\$4500 per annum. This 'middle class' totals some 10 million Indonesians and, along with foreign tourists, accounts for most of the growing demand for quality-imported meat (Austrade, 1998e). A demand for imported beef, which is the major meat being imported, has been increasing steadily, with the annual growth of imports averaging 37% per year (Austrade, 1998e).

Street markets still account for the greatest volumes of meat sold in Indonesia: about 60% of the total market. As the number of local cattle ventures and abattoirs increases, the Indonesian government has been gradually tightening the import restrictions for meat in an effort to foster local development. In addition to import duties there are quarantine- and halal requirements (Austrade, 1997h).

5.6.5.3 Dairy

Milk is not part of the traditional Indonesian diet and consumption remains at low levels. The local dairy sector is growing and the Government encourages its development. Indonesia imported US\$185 million of dairy products in 1996, about 60% more than in 1992 (Austrade, 1998e). Sweetened- and condensed milk and cream were the principal items accounting for 60% of total shipments, although full cream, skim, UHT and fresh milk are becoming more widely available. Butter and cheese are consumed in the food-processing industry, hotels, restaurants and bakeries (Austrade, 1997f).

It is government policy to protect the local dairy industry and although full-cream milk and milk powder imports are permitted, they are restricted. Importers of milk powder must blend imports with local products. Other milk products may only be imported by state-

owned companies. While most of the imported dairy products are destined for the industrial sector, the market for value-added products for the retail and food-service industry, including cheese, yoghurt, cream and other products, will continue to grow (Austrade, 1998e).

5.6.5.4 Horticulture

Fresh fruit imports were prohibited until 1991, whereafter the market was opened to all. Indonesia is also open to vegetable imports but local growers supply most of the market. On a competitive basis Indonesia imported horticulture produce to the value of US\$235 million in 1996, 2.5 times more than in 1992 (Austrade, 1998e). The principal items were 'other fresh and chilled vegetables' (34 %), fresh apples (12%), fresh or dried grapes (7%). Imported produce is mainly distributed to hotels, restaurants and supermarkets. The vegetables imported most frequently include onions, lettuce, broccoli and celery (Austrade, 1997g). The major fruit imports are apples, citrus, pears and grapes. Emerging markets also exist for stone fruit and other more expensive imported horticulture produce.

Following further deregulation, import tariffs for fruit and vegetables are currently set at 5%. While no VAT or other tax is applied to fresh fruit imports, dried fruit and fresh vegetables are subject to 10% VAT.

5.6.5.5 Beverages

Local production dominates the non-alcoholic beverage market in almost all sectors. At about 40%, bottled mineral water takes the biggest share of the market. Bottled water is not only the most-consumed product in the beverage industry in Indonesia, it also exhibits the highest growth rate compared to other beverage products. Insignificant volumes of mineral water are imported, because of the dominance of the local industry. Plain carbonated mineral water is the notable exception, where imported products currently represent the majority (Austrade, 1998e).

Austrade (1998e) concludes that carbonated beverages, sport- and health drinks represent some of the best prospects for beverage exports at present. Sports drinks and energy drinks are at the low- and medium level of consumption, but both exhibit a positive growth of 26% per year over the last six years until 1997. The consumption of sport- and energy drinks is expected to grow as the spending power of the teenage and young adult population increases. Sport drinks are regarded as part of a desirable lifestyle trend by the important teenage market through their health connection to sporting activities. Given the developing nature of this sector, it has not yet been flooded with a proliferation of brands. Fruit juices will continue to grow in popularity, although the market for both imported and local products is becoming increasingly competitive, with a huge range of brands and juice varieties now available in the Indonesian market.

5.6.5.6 Confectionery

The market is very competitive and is dominated by several major international companies which produce locally. The confectionery market is dominated by sugar-based sweets (66%) and chocolate (34%). Imports have to fill niche opportunities. Medicated sweets is a product category which experienced strong import growth over the period 1994 to 1996, increasing by 139% (Austrade, 1998e).

5.6.5.7 Other foods

While the bulk of consumer food purchases in Indonesia are made in traditional street markets, modern retailing and processed-food sales are expanding. There are now more than 500 supermarkets in Indonesia and these serve the wealthy middle and upper-income earners, expatriates and tourists (Austrade, 1998e). Indonesia imported other foods worth more than US\$700 million in 1997, more than twice the value of imports in 1992 (Austrade, 1998e). Raw sugar beet or cane, other beet/cane sugar, chemically pure sucrose, molasses and other sugars in solid form accounted for slightly more than 70% of total imports. Other important lines included palm oil (9%), food preparations (8%), soy-bean and coconut oil, bread, pastry, cakes and biscuits, prepared and preserved vegetables,

spices, sauces and condiments and yeast. Agricultural exports from South Africa to Indonesia principally consist of unmanufactured tobacco (82%) and essential oils (16%) (Annex. 6, Table 4).

There is a growing demand for foods which comply with 'halal' requirements. 'Halal' is a term used for foods which are considered lawful under Islamic law. In addition to the growing demand from the large Muslim population in Indonesia, halal food is increasingly becoming recognised as a form of classification of 'safe' food.

5.6.6 Barriers to agricultural trade

5.6.6.1 Tariff barriers, levies and charges

There is a general lack of predictability and transparency concerning tariffs in Indonesia. As part of the Uruguay Round Indonesia has undertaken to bind 95% of its tariff-lines at ceiling rates of 40%. It also agreed to remove surcharges and non-tariff measures within ten years on bound items, ie by 2005 (EC, 1999e). Combined with the move away from non-tariff barriers, these changes will improve the transparency and predictability of the Indonesian trading regime.

Unweighted average import tariffs have dropped from 37% in 1985 to about 12% in 1996. Import tariffs range from 0 to 25% (Fane & Condon, 1996). Wide disparities in levels of effective protection exist, ranging from as low as 10% on basic metals to as high as 120% on food processing (EC, 1999e). The most significant of the recent reforms to exporters of food and beverages is the deregulation of food tariffs. Most have declined as a result of the crises and will decline further under various international agreements (see Fig. 5.3). For example, under AFTA these tariffs would end up in the range of 0% to 5% by 2010, but this liberalisation will be accelerated. According to PECC (1995) and RIRDC (1998c) non-tariff barriers, which have been substantially reduced as a consequence of reforms in the late 1980s, will be addressed similarly under these international agreements.

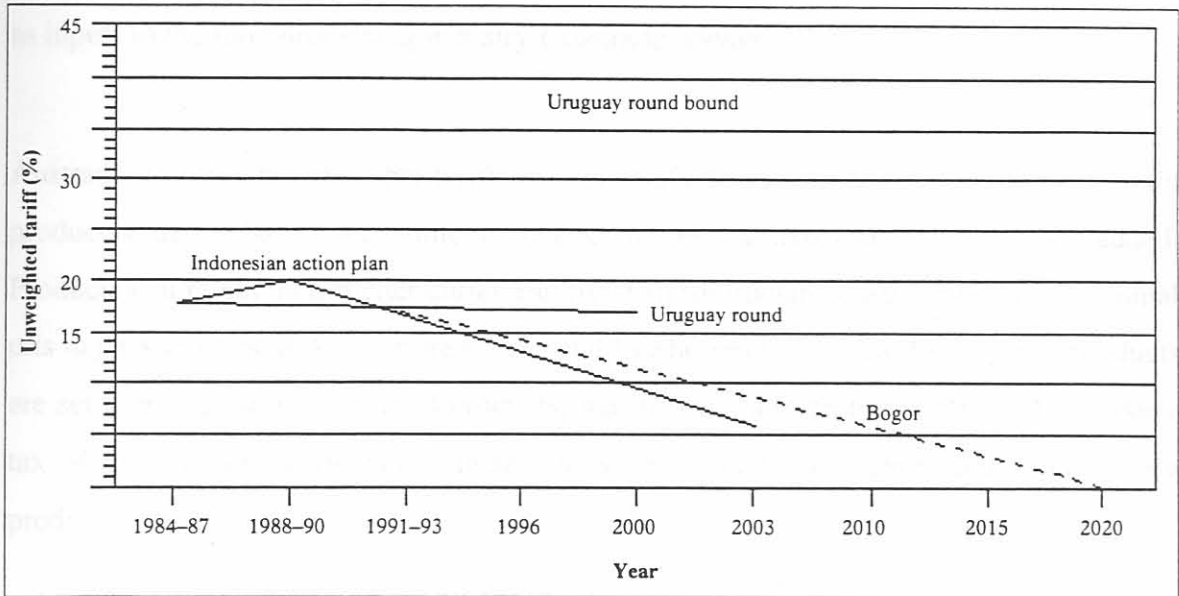


FIG. 5.3 Indonesian import tariffs

Data sources: 1984-93 from UNCTAD (PECC 1995); 1996 from Indonesian Action Plan; 2000 & 2003 calculations from Indonesian tariff schedule; Uruguay Round calculated from GATT (Martin & Winters, 1996).

The EU (1999e) reported that reforms which are part of the International Monetary Fund package 1997/1998 will, amongst others, result in a reduction by 5% tariffs on items currently subject to 15 to 25% (from March 1998) and the abolishment of local content regulations on dairy products (by February 1998), enabling foreign suppliers of industrial products to compete on much more favourable terms.

As a result of the continuing tariff reforms, the number of products subject to the lowest rate of duty (5% and lower) increased from 1 302 tariff lines in 1985 to 4 070 lines (43% of all tariff lines) in 1995. On the other hand, the number of products subject to the highest rate of duty of (40% and higher) has decreased significantly, from 1 690 tariff lines (40% of all tariffs lines) in 1985 to 120 (1,3% of all tariff lines) in 1995 (Abbas, 1996). The average tariff rate on final goods is double that for unprocessed products and substantial tariff escalation exists. Tariffs on imported processed foods average about 30% and some industry segments continue to receive special development assistance in various forms.

Effective from January 1998, total import tariff exemptions apply for products to be used as inputs to the food processing industry (Austrade, 1998e).

Austrade, (1998e) reported that tariffs are set at 5% for most imported products. Certain products attract a 10% VAT, while in the case of others a luxury tax of 10% is also added. Products that retain their higher duties are: live fish for human consumption (15%), animal oils in packaging of 10 kg or more (10%), and live horses (20%). Tariffs for dairy products are set at 5%, as with other food products, which is in addition to the 10% VAT. Luxury tax of 10% is also levied on selected dairy items such as yoghurt and some cheese products.

The average applied tariffs of Indonesia on selected agricultural commodities of general importance for South African exports are 25% (Annex. 7). Tariff peaks generally exist on boneless meat, frozen (25%), milk and cream, powder (20%), fresh or dried fruit (20 to 25%), groundnuts (25%), processed and preserved fruits and nuts (25%) and beer made from malt and certain ethyl alcohol products (30 to 40%) (Annex. 7). Tariff peaks on the main South African commodities exported to Indonesia exist on:

- unmanufactured tobacco (82% of exports), 137% tariff;
- pasta (2% of exports), 23% tariff (Annex. 6, Table 4).

5.6.6.2 Non-tariff barriers to trade

Although tariff and non-tariff barriers will be abolished, attention should be paid to new barriers that may emerge, such as dumping and subsidies, implementation of standards, environmental protection, measures associated with respect for democracy and human rights, health and sanitary regulations (Abbas, 1996). The main items affected by import licensing are, amongst others, agricultural commodities and processed food and beverages. The complicated nature of the licensing system is still the main non-tariff barrier to imports (EC, 1999e).

Under Decree No. 133 of 4 June 1996, only 2 companies, PT Rajawali Nusantara Indonesia and PT Tjipta Niagra, are approved importers for the following foods and beverages (EC, 1999e):

- milk and cream (HS 0402)
- buttermilk, cream and yoghurt (HS 0403)
- butter (HS 0405)
- cheese and curd (HS 0406)
- alcoholic food preparations (HS 2106)
- beer (HS 2203)
- wine (HS 2204)
- vermouth and wine flavored with plants (HS 2205)
- fermented beverages (HS 2206)
- spirits (HS 2208)

The State enterprise BULOG is the sole importer for the following agricultural products (EC, 1999e):

- garlic and dried garlic (HS 0703 and 0712)
- cloves (HS 0907)
- wheat and meslin (HS 1001)
- rice (HS 1006)
- cereal flour (HS 1102)
- soy- beans (HS 1201 and 1208)
- cane and beet sugar (HS 1701)

Horticulture imports must be accompanied by phytosanitary certification issued by an appropriate authority in the country of origin. Consignments are subject to plant and quarantine inspection upon arrival (Austrade, 1998e).

5.7 A PROFILE OF AGRICULTURAL EXPORT OPPORTUNITIES TO CHINA

5.7.1 Overview and outlook of the Chinese economy

China is emerging as the world's largest economy in the future. If the size of China's economy is measured using United Nations estimates of purchasing power parities, China is already the second-largest economy in the world (The Economist, 1993). By 2020, China's economy will probably be larger than that of the United States. Austrade (1998b) argues that as China accounts for a fifth (1,2 billion) of the world's population (the largest nation in the world) and a growing proportion of global trade, the Chinese food market is expected to grow strongly once current economic difficulties are overcome (Austrade, 1998b).

The opening of the Chinese economy in the late 1970s has brought an economic upsurge of historic proportions. China's GDP grew by an annual rate of about 10% in the second half of the 1990s (EC, 1999b). Growth in the gross domestic product (GDP) came to 8,8% in 1997 and economic growth for 1998 reached 7,8% (SSB, 1999). For 1999, the growth forecasts predict an expansion rate of 6% to 8% (EC, 1999b). Personal incomes are growing rapidly. Annual per capita disposable income has increased substantially, from 169 yuan (\$98) in 1978 to 2 249 yuan (\$272) in 1995 (Promar International, 1997). Consumer demands are expanding and evolving.

Food imports in China have been rising rapidly as incomes improve. However, in the short-term, as a result of the Asian financial crisis, the Chinese economy faces the prospect of reduced growth rates as exports to Asia slow down and the economy adjusts.