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# THE ASIA FACTOR IN ATLANTIC CANADA'S VALUE-ADDED FOOD SECTOR: OPPORTUNITIES AND CHALLENGES

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2016

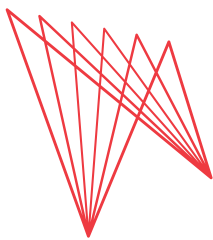
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## THE ASIA FACTOR IN ATLANTIC CANADA

The Asia Factor in Atlantic Canada's objective is to assist the region in better responding to Asia's rising global economic importance by providing critical information on the opportunities and challenges for Atlantic Canadian business and trade with Asia.

The project represents the Atlantic side of The Asia Factor, a nationwide, multi-year project launched in 2014 by APF Canada that examines the interaction of each province and territory with Asia. The Asia Factor provides comprehensive resources, information and analysis on provincial level Canada-Asia relations.

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## ABOUT THE SECTORAL REPORT SERIES

Atlantic Canada's traditional export markets have been the United States and Europe. Spurred by the economic effects of the 2008 financial crisis, and motivated by Asia's growth, this has started to change.

In order to help Atlantic Canada respond to Asia's rising economic importance, APF Canada contracted Canadian experts to write sector specific reports to analyze Atlantic Canada's trade with Asian markets.

Each report provides sector-specific overviews and critical information on the opportunities and challenges for Atlantic Canadian business and trade with specific Asian markets. Each report concludes with actionable, sector-specific opportunities to help increase business and trade with Asian markets.

Steven Russell, PhD,<sup>1</sup> wrote the following report on Atlantic Canada's value-added food sector that offers an assessment of this sector's trade and future prospects in China, India, Indonesia, South Korea and Vietnam.

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# 1 INTRODUCTION

Atlantic Canada has long been a trading region. *The Canadian Encyclopedia*<sup>2</sup> states: “Prosperity came from wooden shipbuilding, the fisheries, forests and maritime carrying trades.” Today, primarily because of its relatively small population, exporting has probably never been more important to the Atlantic Provinces. The government of each province includes increasing exports as a key priority for its future prosperity. Within the food sector, value-added foods show significant export potential.

## *Importance of Value-Added Foods*

While value-added foods are variously referred to as processed foods, packaged foods, high-value foods, and manufactured foods, all agree that this is a separate sector from agricultural commodities such as grains and potatoes. The market is huge and growing. Global retail value of packaged foods is expected to increase by more than \$300B over the next five years—reaching a total of \$2.6T. The European Union is the world’s leader, exporting a wide variety of products to markets around the world. And while Europe and the United States are the traditional export destinations for Atlantic Canada, 85% of the retail growth in high-value foods will be in Asia.<sup>3</sup>

## *Importance of Asia and ASEAN*

Asia is the largest of the world’s seven continents and includes over 50 countries. However, when discussing trade with “Asia” this report refers to the Asia Pacific region, made up of East Asia (including China), South Asia (including India), and Southeast Asia. The population of the Asia Pacific is 4.2 billion people—almost 60% of the world’s population. Although there is great disparity in economic development between countries, this region is expected to lead the world in economic growth for the foreseeable future. Trade is an important driver of this development and thus represents opportunities for Atlantic Canadian exports.

Within Southeast Asia, which includes Indonesia and Vietnam, 10 of the 11 countries belong to the Association of Southeast Asian Nations (ASEAN). This is a diverse but growing market of over 600 million people. The ASEAN Economic Community aims for free flows of goods and services and full integration into the global economy. As in other Asian countries ASEAN’s changing tastes and lifestyles of the middle class and youth are pushing demand for processed foods and beverages. Also important to Canadian exporters is that ASEAN can act as a gateway to other regions and countries in Asia.<sup>4</sup>

### *Purpose of this Report*

This report investigates the opportunities and challenges for exporting value-added food products from Atlantic Canada to Asia. Five countries were selected to provide a focus to the discussion. The countries were selected on the basis of population, openness to trade, and/or potential for growth in retail food sales. It makes sense to focus on value-added foods, as these are likely to have higher profit margins than commodities. Thus, the extra cost of exporting can be more easily covered. The five countries are: China, India, Indonesia, South Korea, and Vietnam.

This report first describes the value-added food sector in Atlantic Canada, identifying the sector's strengths and weaknesses in relation to exporting. This is followed by a short discussion of current trends in global trade. The main body of the report analyzes the opportunities and challenges for Atlantic Canadian exporters to each of the five focus countries. The report concludes by highlighting opportunities for accelerating Atlantic Canadian firms' presence in Asia Pacific markets.

## 2 ATLANTIC CANADA'S VALUE-ADDED FOOD SECTOR

This section will present the structure of the sector, and its macro-environmental issues related to marketing, human resources, operations, research and development, and financing. The strengths and weaknesses of the industry will also be summarized.

### 2.1 INDUSTRY STRUCTURE

Food manufacturing in the Atlantic Provinces contributes over \$1.5B to gross domestic product (GDP). This represents almost 2% of provincial GDP except in Prince Edward Island, where it is more significant at 5%. In addition, the value-added food sector employs approximately 4% of the labour force in Atlantic Canada.<sup>5</sup>

As shown in Table 1, this sector of the food industry consists of 862 establishments. Most (53.5%) are in the small to medium (SME) size category with 5–499 employees. Only nine (1%) establishments are considered large, based on Industry Canada's threshold of 500 or more employees. The remaining 45.5% have 0–4 employees on the payroll.<sup>6</sup>

Not surprisingly, the large establishments are from the fruit and vegetable and sea-food products categories. These firms are the region's most active exporters and include the largest Canadian-based, multi-national companies in Atlantic Canada (e.g., McCain Foods, Clearwater Seafoods, Oxford Frozen Foods). Not to diminish the success and continuing importance of these large businesses, but the most important group for future export growth is the SMEs.

Ten percent of Canadian small businesses and 34.4% of medium-sized businesses exported goods and services in 2011. While almost 90% of Canadian SMEs exported to the United States, just over 20% exported to China and other Asian countries. Businesses that export are found to be more growth-oriented, more innovative, and have been in business longer than non-exporters. Furthermore, exporters report better financial performance and spend more on research and development than non-exporters.<sup>7</sup>

**Table 1. Number of value-added food establishments in Atlantic Canada 2014**

	0	Micro (1–4)	Small (5–99)	Medium (100–499)	Large (500+)	Total
Other foods	34	9	22	4	0	69
Milling	3	3	3	0	0	9
Confectionery	1	5	5	1	0	12
Fruit and veg	6	6	14	5	2	33
Dairy products	2	3	25	4	0	34
Meat products	9	15	25	6	0	55
Seafood products	117	72	154	71	7	421
Baked goods	33	27	70	6	0	136
Beverages	22	25	41	5	0	93
<b>Total</b>	<b>227</b>	<b>165</b>	<b>359</b>	<b>102</b>	<b>9</b>	<b>862</b>

Source: Statistics Canada, Canadian Business Patterns Database, 2015

Table 2 indicates that the five Asian countries of focus in this report all import from Atlantic Canada. In 2014, China was the main export market for Atlantic Canadian high-value food products, receiving 66% or over \$390M in shipments. Vietnam was the second most important export market (23%), followed by Indonesia, and South Korea. Only a small amount of seafood was sold to India.

**Table 2: High-value food exports from Atlantic Canada and Canada to five selected Asian countries 2014**

Country	Atl. Can. Exports (in millions of CA\$)	Atl. Can. Exports % of total	Canada Exports (in millions of CA\$)	Atl. Can. Exports % of Can
China	260,314	66.1%	1,473,886	18%
India	239	0.2%	10,731	2%
Indonesia	25,819	6.5%	87,772	30%
South Korea	18,220	4.6%	348,098	5%
Vietnam	89,137	22.6%	154,080	58%
<b>Total</b>	<b>393,731</b>	<b>100%</b>	<b>2,074,567</b>	<b>19%</b>

Source: Industry Canada, Trade Data Online 2015

Table 3 provides a further breakdown of establishments by province and an expanded list of high-value food categories with the corresponding North American Industry Classification System (NAICS) number. It also shows the exports for each category and the receiving focus countries.

Table 3 clearly illustrates the dominance of the seafood industry, with almost half of the establishments and over 95% of export value to all five Asian countries. Furthermore, of the roughly \$20M in non-seafood products, almost \$19M is due to the frozen fruit and vegetable segment. Alcohol and canned, dried, and pickled fruit and vegetables each had about \$500,000 in exports. The remaining exports come from a wide range of products.

Other than confirming the impact large companies (and many smaller ones) have in seafood and frozen fruit and vegetables, two additional points are evident from Table 3:

1. Atlantic Canada food manufacturers produce a wide breadth of products, many of which have already been sold successfully in Asia.
2. Atlantic Canadian exporters do not have to ship large quantities to break into the Asian marketplace (e.g., cookies and crackers at \$10,905; soft drinks and ice at \$9,277).

As shown already, the industry consists of many establishments, mainly small and medium enterprises, despite the trend toward consolidation in the food industry in the search for improved efficiencies. This suggests the value-added sector in Atlantic Canada is fragmented and perhaps uncoordinated, which is not surprising considering the independent nature of the entrepreneurs who own and manage most of these businesses.



**Table 3: High-value food exports with NAICS by Atlantic province and importing countries 2014 (CN=China, IN=India, ID=Indonesia, KR=South Korea, VN=Vietnam)**

Food Category	NAICS	NB	NL	NS	PE	Total	Exports (CDN\$)	Country
Flour milling	311211	1	0	2	0	3	0	
Oilseed processing	311224	1	0	1	3	5	0	
Fat & oil processing	311225	0	1	0	0	1	3,329	CN
Sugar manufacturing	31131	1	0	1	0	2	59,620	KR
Non-choc confectionery	31134	1	0	1	0	2	36,805	CN, VN, KR
Choc confectionery	31133	3	1	4	0	8	0	
Frozen fruit & veg	31141	6	2	5	5	18	18,981,979	CN, KR, ID
Canned, dried fruit & veg	311420	3	1	9	2	15	497,646	CN, VN, KR
Fluid milk	311511	3	1	6	3	13	35,230	KR
Milk products	311515	4	1	4	4	13	10,705	ID
Ice cream	311520	2	4	1	1	8	0	
Animal slaughter	311611	3	4	3	2	12	207,945	CN
Meat processing	311614	8	6	18	2	34	105,220	KR, CN
Poultry processing	311615	4	2	2	1	9	0	
Seafood products	311710	81	137	167	36	421	373,100,654	CN, VN, ID, KR, IN
Retail bakeries	311811	35	12	35	9	91	0	
Commercial bakeries	311814	12	4	19	3	38	98,147	IN
Cookies & crackers	311821	0	1	3	0	4	10,905	ID
Flour mixes & dough	311822	0	0	3	0	3	0	
Non-nut snack food	311919	3	1	2	0	6	0	
Coffee & tea	311920	2	0	4	0	6	0	
Syrup & concentrate	311930	0	0	0	1	1	0	
Seasoning & dressing	311940	1	1	2	0	4	12,268	CN, VN, KR
All other foods	311990	16	7	20	9	52	36,805	CN, VN, KR
Soft drinks and ice	31211	9	13	13	2	37	9,277	CN
Breweries	31212	6	4	12	2	24	140,778	KR, CN
Wineries	31213	5	3	16	3	27	242,518	KR, CN
Distilleries	31214	0	1	3	1	5	140,813	KR, CN, VN
<b>Total</b>		<b>210</b>	<b>207</b>	<b>356</b>	<b>89</b>	<b>862</b>	<b>393,730,644</b>	

Source: Industry Canada, Trade Data Online 2015

The value-added food industry is supported and served by a number of associations, agencies, and government departments. Some of these key stakeholders are briefly described below:

### *Industry Associations*

#### **Atlantic Food & Beverage Processors Association** (*atlanticfood.ca*)

- Provides technical education, a communications network, and marketing and promotion activities.

#### **Canadian Manufacturers & Exporters** (*cme-mec.ca*)

- Canada's largest trade and industry association, advocating government policies and taxation, links to new market opportunities, hosting trade missions and events, improving market access, and connecting members with information and networking opportunities.

#### **Lobster Council of Canada** (*lobstercouncilcanada.ca*)

- Enhances the value of the Canadian lobster sector in a sustainable fashion, by addressing the issues of importance to this industry.
- Activities deal with market access issues, sustained marketing initiatives, government relations, industry communication, and external customer promotion and education.

#### **Seafood Processors Association of Prince Edward Island** (*peispa.com*)

- A nonprofit industry association providing advocacy, training, and market support.

#### **Association of Seafood Producers** (*seafoodproducers.org*)

- A nonprofit corporation representing the interests of seafood producers generally in the province of Newfoundland and Labrador.
- Provides input into policy and regulations to all levels of government, and promotes the industry.

### *Provincial Governments*

#### **Newfoundland and Labrador Department of Business, Tourism, Culture and Rural Development—International Business Development Division**

([www.btcdrd.gov.nl.ca/department/branches/ted/ted.html](http://www.btcdrd.gov.nl.ca/department/branches/ted/ted.html))

- Provides policy development, strategic planning, coordination, and administration for overall export development/marketing and promotion activities to all markets.

The Division:

- Leads generic trade and business development missions outside the province.
- Acts as the provincial point of contact for export/trade development and trade policy issues.

- Provides policy advice and support in relation to the Province's participation in various trade agreements such as the Agreement on Internal Trade (AIT), Atlantic Procurement Agreement (APA), and Canada -Atlantic Provinces Agreement on International Business Development.

**Nova Scotia Department of Business—Nova Scotia Business Inc.**

([www.novascotiabusiness.com](http://www.novascotiabusiness.com))

- Provides a team of trade and export experts dedicated to helping Nova Scotia companies enter and continue to pursue growth in markets around the world.
- Operates the Trade Market Intelligence service providing customized research on business opportunities in specific sectors.

**Innovation PEI** ([www.innovationpei.com](http://www.innovationpei.com))

- Fosters strategic partnerships with industry, academia, and other government agencies.
- Provides business development and integration, trade and export development, prospecting programs, and manages innovative programs focused on encouraging innovation and new product development.

**New Brunswick Department of Development—Opportunities New Brunswick**

([www2.gnb.ca](http://www2.gnb.ca))

- Provides industry profiles, market research and business planning tools, and directories of exporters in major business sectors.

There are also several commodity groups and a number of federal government departments and agencies involved in food development and marketing. Most notable are Agriculture and Agri-Food Canada, Industry Canada, Export Development Canada, and the Trade Commissioner Service.

Although this list shows the importance of the value-added food industry in Atlantic Canada, there does not appear to be an industry-level effort to coordinate specific marketing efforts for clusters of similar businesses in the industry. The Atlantic Canada Export Club, which was established in the 1990s at the (then) Nova Scotia Agricultural College and later moved to Prince Edward Island, appears to be inactive today. It was patterned after the Agri-Food Export Group in Quebec ([groupexport.ca](http://groupexport.ca)). Today, Quebec's Agri-Food Export Group is the largest group of its kind in Canada. It links exporters to markets and provides services and activities related to all aspects of exporting. It also is the link between the public and private sectors in Quebec.

A useful model for the industry might be borrowed from Atlantic Canada Exports ([atlanticcanadaexports.ca](http://atlanticcanadaexports.ca)), which provides a searchable database of seafood processors and products from Atlantic Canada. Other food and beverage businesses would benefit greatly from a similar Atlantic database.

Finally there is the Canada-Atlantic Provinces Agreement on International Business Development (<http://www.acoa-apeca.gc.ca/eng/ibda/Pages/HomePage.aspx>). This is a partnership between the federal government and Atlantic provincial governments to pool resources for the benefit of Atlantic Canadian business owners. It covers a wide variety of activities aimed at expanding international business opportunities. Program areas are planning and research, market information and intelligence, building knowledge and expertise, and international business development activities. Businesses can receive funding for various activities, such as participation in trade missions, but more could be done to coordinate market access for business clusters unable to afford market investigation and relationship building on their own.

## 2.2 MARKETING

The industry-level marketing factors to consider in Atlantic Canada include risk and diversity, differentiating and branding, reputation, distribution, and customer relationships.

Some have suggested that Canadian manufacturers are too reliant on the United States market, particularly since the financial crisis in 2008. The United States market is close and is a market most Canadian exporters feel they know. But a basic risk management strategy is diversification, so searching out new and different markets is a reasonable long-term plan. Developing international markets is challenging. It takes patience and requires establishing enduring relationships. Certainly exporting to Asia will require innovative, growth-focused entrepreneurs.<sup>8</sup>

Encouraged by the “buy local” trend in Canada, the food industry with its government partners have developed buy-local programs and brands. For example, Nova Scotia has the “Taste of Nova Scotia” brand ([tasteofnovascotia.com](http://tasteofnovascotia.com)) and the “Atlantic Brand” certified by the Atlantic Food and Beverage Processors Association. Agriculture and Agri-Food Canada has also developed the “Canada Brand” for use by food marketers domestically and internationally (see Figure 1).

When deciding on a branding strategy, it is essential to consider the impact particular brands may have on the customer. It is unlikely that many in Asia are familiar with Atlantic Canada, but they probably have an image of Canada. Further, at least anecdotally, Canada appears to have a positive image and reputation for quality, and studies suggest that strong country brands can attract price premiums when linked to goods and services.<sup>10</sup>

Markets in Asia are literally half a world away, so competitively Atlantic Canada is at an immediate geographic disadvantage. Mitigating this somewhat is that the region is well served as a shipping hub, with four international airports and modern container ports. In fact, the Port of Halifax ships containerized and temperature-controlled cargo through the Panama Canal to Shanghai, Ningbo, and Qingdao in China ([portofhalifax.ca](http://portofhalifax.ca)). In addition, the region is well served by several international courier companies for shipment of smaller, high-value packages.

Figure 1. The Atlantic Canada brand and Canada brand<sup>9</sup>

Relationship marketing has become standard practice in most industries and involves forming long-term relationships by providing customers with high-quality products and services. But business-to-business relationships in North America are still somewhat impersonal compared to Asian culture. Successful access to Asian markets requires developing enduring personal relationships—even before business can be discussed. Relationship building demands face-to-face meetings, often in social setting, which adds to the time and cost of breaking into international markets.<sup>11</sup>

Product differentiation is another essential component of the value-added food business, as evidenced by the wide range of national, private-label, and local brands in Canadian supermarkets. Differentiated products help the consumer build loyalty toward the brand, and with foods it is useful to adapt recipes, ingredients, and processes to consider the tastes and preferences of the target markets. Western food products have a certain cachet with the upper- and middle-income segments for their uniqueness, quality, and perceived safety. Nonetheless, innovative exporters also try to create food products with flavours and ingredients that the Asian consumer is familiar with and prefers.

## 2.3 HUMAN RESOURCES

Human resources issues involve the skills and experience of management, workforce commitment and loyalty, temporary/full-time positions, and quality of work life:

Agriculture and Agri-Food Canada estimates that labour cost is the second-largest variable cost (raw materials is first) in the food processing sector. In a BDO study 38% of manufacturers identified labour cost as their most pressing issue and more than half listed attracting and retaining skilled labour as a major issue. This is no doubt exacerbated by the sometimes seasonal nature of the sector's jobs in Atlantic Canada and recent changes to the Employment Insurance program. At the same time, increasing global competition in the industry and the increasing experience and skill sets of other nations places additional pressure on the issue of the availability and capability of labour in the future.<sup>12</sup>

In Atlantic Canada wages in the food industry tend to be lower than in other sectors and coupled with the lure of high-paying jobs in other parts of Canada, makes labour an ongoing issue. However, many causes are cyclical (or at least variable) such as oil prices, exchange rate of the Canadian dollar, interest rates, and other economic factors—many of which are currently favourable to exporters.

Many of the agencies and associations (listed earlier) are trying to address the skills issue through education and training programs.

## 2.4 OPERATING

Operating concerns involve access to low-cost inputs, location, supplier relationships, plant capacity, efficiency, and flexibility:

The major material inputs are commodities, and their costs are based on world prices fluctuating with global supply and demand. Other inputs from the supply-managed dairy and poultry sectors will typically cost processors more than competitors in other countries.

While consolidation has resulted in some larger and more efficient processors in the region, the majority remain small. Business must operate in an uncertain environment with generally rising input cost. Low oil prices during 2014 and 2015 have decreased fuel and heating costs, but have not affected highly regulated electrical rates. Oil prices have recovered somewhat during 2015, but it is unknown what the short- to medium-term effects will be.

Food processing in Atlantic Canada is generally done near the source of raw materials (rather than near the market), which makes sense in terms of transporting inputs, but there may be opportunities for doing some processing in Atlantic Canada and the rest elsewhere—such as in Asia, using global value chains (discussed later).

Similar to other regions of Canada, supplier relationships with many of the larger food processors are formalized through contracts negotiated with farmer associations and marketing boards. Several processors integrate backward, producing (or catching) some or all of their primary products. Also, some agriculture and aquaculture farmers group together, integrating forward, by forming corporate or cooperative processing and marketing organizations. These latter strategies could be enhanced and expanded within the region for improved export competitiveness.

Plant efficiency has been improving in many areas—partly with more automation as a means to reduce dependence on labour. It is still an ongoing issue for those businesses that start small with low capital investment but miss out where economies of scale can be found.

## 2.5 RESEARCH AND DEVELOPMENT

Research and development issues include expertise in new product development, access to technology, and links to the scientific community:

The importance of innovation in the value-added food sector has already been emphasized. Thousands of new food products are introduced every year, and more than half of manufacturers plan to increase money spent on research and development. However, only the larger SMEs can afford a dedicated R & D department, leaving smaller enterprises to develop new products in an informal and ad hoc approach.<sup>13</sup>

There are a number of government and crown agencies in Atlantic Canada that can assist industries and individual businesses with the process of developing new food products:

**Atlantic Food and Horticulture Research Centre** ([agr.gc.ca](http://agr.gc.ca))

- One of Agriculture and Agri-Food Canada's research centres, located in Kentville, NS. Among other things, the Centre focuses on food safety and quality and has a fully equipped food processing laboratory.

**BIO | FOOD | TECH**—formerly the PEI Food Technology Centre ([biofoodtech.ca](http://biofoodtech.ca))

- Located in Charlottetown, PEI, the Centre is a confidential, contract research, processing and analytical services company. It provides services to companies and entrepreneurs in both the food and bioprocessing sectors.

**Canada's Smartest Kitchen at Holland College** ([canadassmartestkitchen.ca](http://canadassmartestkitchen.ca))

- Located in Charlottetown, PEI, this facility provides services to industry and businesses related to culinary creativity, food science, and marketing.

**Perennia** ([perennia.ca](http://perennia.ca))

- Located in Bible Hill and Kentville, NS, Perennia is a fully integrated agri-food and bio-resource provincial crown agency. In addition to farm extension services, the agency provides food quality and safety services and an innovation centre.

**Innovacorp** ([innovacorp.ca](http://innovacorp.ca))

- Located in Halifax, NS, innovacorp is a provincial crown agency with a mission to find, fund, and foster innovative Nova Scotia start-ups. It is an early stage venture capital organization.

**Coastal Zones Research Institute** ([www.irzc.umcs.ca](http://www.irzc.umcs.ca))

- Located in Shippagan, NB, CZRI is a private nonprofit institution affiliated with Université de Moncton. One of the three main areas of research is fishery and marine products.

**Centre for Aquaculture and Seafood Development of Memorial University**

([www.mi.mun.ca/departments/centreforaquacultureandseafooddevelopment](http://www.mi.mun.ca/departments/centreforaquacultureandseafooddevelopment))

- Located in St. John's, NL, CASD focuses on three areas, including seafood processing. Facilities include a state-of-the-art food processing pilot plant.

## 2.6 FINANCING

Financial issues include cash flow, interest rates, the capacity to raise capital, and the ability to survive cycles and shocks:

While interest rates remain at historic lows in Canada, access to capital for SMEs continues to be a barrier to entry and a barrier to improving productivity in food processing firms. Especially difficult is attracting loans for operating costs secured by inventory and accounts receivable, since banks prefer the hard security of real estate and equipment. This puts pressure on cash flow throughout the year, as extended terms of payment are often demanded by the wholesale and retail sectors in Canada. This typically worsens for exporters due to the extra time needed for delivery to international markets, depending on the terms of the deal.<sup>14</sup>

Farm Credit Canada ([www.fcc-fac.ca](http://www.fcc-fac.ca)) is Canada’s leading agricultural lender, providing financing, insurance, learning programs, and business services to Canadian producers and agribusiness and agri-food operators.

## 2.7 SUMMARY OF STRENGTHS AND WEAKNESSES

Table 4 summarizes the strengths and weaknesses of the high-value food sector in Atlantic Canada. Major strengths include government support and the export experience of many enterprises. Suggestions to help SMEs identify and innovate for the Asian market and create a mentorship within the industry will build off these. Weaknesses include the fragmentation of the industry and need for training. These are reflected in the report’s concluding suggestions for building stronger industry organization that will oversee the various human resource training programs and courses currently offered in the region.

**Table 4. Atlantic Canada’s high-value food sector: strengths and weaknesses**

Strengths	Weaknesses
Well-established seafood and frozen fruit and vegetable exports by large enterprises	Fragmented industry, made up mostly of micro and small enterprises
Food sector served and supported by large number of associations and government agencies	Location and distance to Asian markets
Canada brand	High cost of labour in the processed foods sector
Large variety of food products produced in region	Lacking needed skills and training
	Innovation is weak and ad hoc in the SMEs
	Lack a coordinated marketing effort to consolidate shipments and streamline connections



### 3 TRENDS IN GLOBAL TRADE

As Atlantic Canadian industries and governments position themselves for increasing exports from the region, it is useful to briefly discuss two of the current trends affecting global trade in the future. These trends are:

- Proliferation of regional and bilateral trade agreements.
- Prominence of global value chains.

#### 3.1 BILATERAL AND REGIONAL TRADE AGREEMENTS<sup>15</sup>

The World Trade Organization and its precursor, the General Agreement on Tariffs and Trade, has been establishing and improving a multilateral trading system for almost 70 years—based on the principles of freer and fairer global trade. WTO has 161 member states representing over 95% of global trade. WTO has rules covering goods, services, intellectual property, trade policy, and development.

Canada is active in the current round of WTO negotiations, which concern agricultural trade among other things (having been stymied in previous rounds since many countries consider food self-sufficiency as a national security issue). For its farmers and food processors, Canada is seeking the elimination of export subsidies, a reduction in domestic support, and improvements in market access. At the same time, Canada continues to seek a special agricultural safeguard for all supply-managed products that protects that domestic system. This contradictory position is a major issue. Although some loosening was agreed upon in the free trade agreement with the European Union, it appears to be an obstacle in reaching agreement in the Trans-Pacific Partnership negotiations.

Canada currently has nine bilateral free trade agreements (FTAs), including one with South Korea, and two regional FTAs in force. It has concluded negotiations on the European Union Comprehensive Economic and Trade Agreement, which is expected to come into force in the next year or so. In addition, Canada is in negotiations for six more bilateral FTAs (including one with India) and three regional agreements including the Trans-Pacific Partnership with 12 countries, of which Vietnam is one. Furthermore, Canada and China jointly released the *Canada-China Economic Complementarities Study* in 2012, which outlines areas for expanding trade between the two countries—including the agri-food sector.

As pointed out by the Canadian Agri-Food Policy Institute in its discussion paper on leveraging trade agreements, when most trade rules were negotiated multilaterally under the WTO, all member states were treated equally. However, with the plethora of bilateral and regional agreements in this era of competitive trade liberalization, the preferential advantage is highest for the first countries to operationalize their FTAs. Not because they get better terms in the long term, but because they enjoy a period of time when other countries do not have similar trade agreements. Plus their products get established first, which can be a competitive advantage.

### 3.2 GLOBAL VALUE CHAINS<sup>16</sup>

Traditional trading between a buyer and a seller is through more or less discrete arms-length transactions. In this simplified value chain (see Figure 2) a single seller conducts all the business activities required to produce a product or service from its conception to delivery to the customer and beyond. The Alberta Department of Agriculture and Rural Development describes agri-food value chains as “designed to increase competitive advantage through collaboration in a venture that links producers, processors, marketers, food service companies, retailers and supporting groups such as shippers, research groups and suppliers.” Now consider that these coordinated firms involved in the business activities are in different countries, and the result is a global value chain.

**Figure 2. Simple value chain**



Global value chains are becoming increasingly common owing to the competitiveness of international trade, reduced communication and transportation costs, new technologies, and liberalization of trade and investment. These factors make it easier for businesses of all sizes to be involved in one or more links in the chain. While most of the value chain activity is by multinational enterprises, SMEs can become involved directly or indirectly by performing some activities for larger businesses or creating their own global value chain. The keys to successful value chains include commitment from all participants to work closely together, to continually learn and adapt, to ensure fit with the external environment, and to adhere to a set of chain principles.

### 3.3 IMPLICATIONS FOR ATLANTIC CANADA

These global trends have important implications for Atlantic Canadian businesses. The emergence and growth of global food value chains creates opportunities for small and medium-sized businesses to participate in global trade by leveraging their strengths in one or more links of larger chains. This allows them to compete successfully without the need to develop their own complete chain. Furthermore, the Atlantic food sector can lobby governments to be proactive in finalizing bilateral and regional trade agreements (both currently in negotiation and new) to secure the preferential competitive trade advantages of early enactment.

## 4 COUNTRY-SPECIFIC OPPORTUNITIES AND CHALLENGES

In this section of the report, each of the five countries are analyzed in terms of its macro-environmental factors, its retail food system, and its population's food tastes and preferences. Opportunities and challenges are identified and food categories for export consideration are presented. First, however, the macro-environmental factors are described and the general structure of the retail food system in Asia is defined.

### 4.1 MACRO-ENVIRONMENTAL FACTORS

A country's macro-environmental factors are those that generally cannot be controlled or influenced by individuals or businesses; these trends must be understood, as they can significantly impact business strategy. This section adopts the PEST framework for analysis, which considers the four forces: political and legal, economic, socio-demographic, and technological.

#### *Political and Legal*

The political and legal factors include the type and stability of government, government attitude toward trade (i.e., foreign businesses), and laws and regulations. Table 5 compares the five focus countries. Three are democratic republics, and China and Vietnam are communist states with centralized decision-making and direct government involvement in the market when deemed necessary. Only India's legal system is based on common law, similar to Canada, from their British colonial past. This system is based on judicial case precedent. Most states in India have adopted the civil law system, where governments develop comprehensive rules to guide their legal decisions. Regardless, it is highly recommended that foreign businesses retain local legal advice when exporting.

**Table 5. Political and legal comparison of the five focus countries**

	China	India	Indonesia	S Korea	Vietnam
Form of government*	Communist	Federated Republic	Republic	Republic	Communist
Legal system*	Civil	Common	Civil	Civil, Common	Civil
Ease of doing business**	90th	142nd	114th	5th	78th

Source: \*World Fact Book 2015 and \*\*World Bank Group 2015

The World Bank Group publishes an annual Ease of Doing Business Index, which ranks countries according to a number of legal and political factors. These include the complexity of regulations for: starting businesses, trading across borders, enforcing contracts, protecting minority investors, and other activities. Table 5 shows a wide discrepancy among the five focus countries. South Korea is by far the best country for doing business (even outperforming Canada, which ranks 16th out of 189 countries). Vietnam, China, and Indonesia rank near the middle, while India is in the lowest quartile for ease of doing business.

## Economy

Economic trends include growth in GDP, which measures production of goods and services throughout the whole country, and the GDP per capita, especially using purchasing power parity, which recognizes the relative prices of products and services in each country. In addition, inflation and currency exchange rates are commonly considered. Table 6 provides a comparison of these factors for the five focus countries. China is expected to have the highest growth and South Korea the lowest; South Korea has the highest GDP PPP by about \$25,000, China and Indonesia have similar levels, and India and Vietnam the lowest at around \$5,500; inflation is relatively high in India and very low in South Korea; and all the currencies are losing ground due to the strong USD. Until August 2015 the Chinese currency was pegged to the USD, but the People's Bank of China devalued the currency to boost China's exports. This also makes imports more expensive on local Chinese markets.

**Table 6. Selected economic measures for the five focus countries**

	China	India	Indonesia	S Korea	Vietnam
GDP Growth (%)	7.7	5.6	5.2	3.5	5.5
GDP (PPP) per capita (USD)	9,800	5,800	10,200	35,400	5,600
Inflation (%)	2.6	8	6.3	1.5	4.6
Currency value to \$1 CDN * (on Aug 22, 2015)	4.86 yuan	50.23 Indian rupee	10,638 rupiah	909 won	17,241 dong

Sources: World Factbook 2015 and \*bankofcanada.ca

## Socio-Demographic

Socio-demographics is all about the population: its size, distribution, mobility, literacy, culture (see Table 7) and other factors. These five countries make up almost half of the world's population, and China and India are the two most populous countries in the world. With a median age under 30 years, the populations of India, Indonesia, and Vietnam are relatively young. All countries except India are highly literate. Two rough measures of a country's level of development are the percentage of the workforce working in primary agriculture and the level of urbanization. According to these measures, South Korea is very developed with over 80% of the population living in urban areas and less than 7% working in agriculture (compared with Canada at 81% and 2%). India and Vietnam are the least developed, and China and Indonesia are emerging.

**Table 7. Socio-demographics for the five focus countries**

	China	India	Indonesia	S Korea	Vietnam
Population (millions)	1,365	1,236	254	49	93
Median age (years)	37	27	29	40	29
Literacy (percent)	95.1	71.2	93.9	99	94.5
Labour in agriculture (percent)	33.6	17.9	38.9	6.9	48
Urbanization (percent)	50.6	32.4	53	82.4	33

Source: *The World Factbook 2015*

### Technological<sup>17</sup>

In the area of technology, intellectual property rights and communication technology are of greatest interest for the purpose of this report.

All countries in this report are World Trade Organization members and thus have pledged agreement with the intellectual property rules negotiated in the Uruguay round completed in 1994. The agreement on Trade-Related Aspects of Intellectual Property Rights outlines the rules recognizing copyright, patents, industrial design, and other intellectual property rights.

Table 8 outlines the spread of communication technology in the five focus countries. Mobile phones have become ubiquitous around the world, where even people in some of the poorer countries possess more than one phone. In addition, Internet usage is also spreading quickly in some countries. Eighty percent of South Koreans have Internet access, and South Korea hopes to further drive economic growth through its new Ministry of Science, Information and Communication Technologies and Future Planning. China's 50% Internet access rate match its (increasing) urbanization rate. India's access to the Internet, currently only 5%, will likely grow quickly in urban areas as India is a major exporter of telecommunication technology services and recently deregulated and liberalized its telecom laws and policies. Vietnam, already at 24% Internet users, has put considerable effort into expanding and modernizing its telecom infrastructure.

**Table 8. Communication technology in the five focus countries**

	China	India	Indonesia	S Korea	Vietnam
Population (millions)	1,365	1,236	254	49	93
Mobile phones (millions)	1,100	894	282	54	134
Internet users (millions)	649*	61	20	39.4	23.3
Internet users (% of pop)	50	5	8	80	24
Broadcast media	controlled	private	private	private	controlled

Sources: *The World Factbook 2015* and *\*PRS Group 2013a,b*

While the Internet opens up opportunities for online marketing and communication, the broadcast media in China and Vietnam are still controlled by the government and even social media is not completely open in those countries.

Online promotion and selling is already a significant opportunity for high-margin processed foods, particularly from small Atlantic Canadian businesses, and will continue to grow in urban areas in all Asian countries. Some entrepreneurs, particularly in China, are actively seeking foreign companies and often look after the complicated importing rules and regulations.

## 4.2 STRUCTURE OF FOOD RETAILING<sup>18</sup>

Although at different stages of development, the basic structure of food retailing in all five countries is remarkably similar. Traditional markets continue to thrive in every country and all of the countries have “modern grocers” in the form of hypermarkets, supermarkets, convenience stores, specialty stores, and online retailing. These will be described first, before the individual country analyses.

### *Traditional Markets*

- These markets are normally of three types: wet market, variety market, and fruit and vegetable market. Wet markets sell meat—often sold live and then slaughtered and dressed at the market (or at the buyer’s home). Variety stores are smaller than convenience stores and carry an eclectic range of products tailored to the needs of the customers who are a very local group. Fruit and vegetable markets are often the preferred source of produce, which is often purchased daily and felt to be fresher and cheaper than that offered elsewhere.
- Traditional markets are part of the culture. Although other options are available in urban centres, and despite food safety concerns, they continue to be a part of many people’s daily routine.

### *Hypermarkets*

- These are large urban stores that carry 40%–60% groceries, but also clothing and household products. They typically also have several consumer services such as ATMs and fast food or ready-made meals. Consumers are attracted by the all-in-one shopping convenience and familiar domestic and international brands. They also have a reputation for quality.
- Appeal mainly to upper- and middle-income groups and tend to be a major venue for imported food products.
- Although led by international companies such as Tesco, Carrefour, and Metro, in some countries there are also domestic hypermarkets.

### *Supermarkets*

- Typically carry only food and food-related items. This level of the market is dominated by domestic players, mostly independent, but some small chains. Very fragmented in terms of suppliers, sourcing locally or directly from manufacturer.
- These cater to a price-sensitive consumer, carrying commodities such as fresh fruit and vegetables. They tend not to have much selection of imported food products.

### *Convenience stores*

- Convenience stores are very common in all five countries, selling a line of food products as well as other non-food basic items.

### Specialty Stores

- Specialty stores and boutiques tend to carry high-end products, including some that specialize in imported food products.
- These stores are typically connected to department stores or appear in high-end urban areas.

### Online Retailing

- Online shopping is becoming popular in all countries because of the widespread ownership and use of smartphones and the Internet.
- Food sales, particularly in larger cities with high population density, is rapidly increasing. Virtual malls with large online retailers are involved, but increasingly companies that have traditionally focused on bricks-and-mortar retail (particularly hypermarkets) are also entering the online competition.
- An advantage for exporters to the Atlantic region is that online retailers typically look for direct sourcing because of smaller quantities of products, and to reduce the added cost of dealing with local distributors.

Now that the macro-environmental factors have been briefly defined and the general structure of the retail food system has been described, these concepts will be used to discuss and analyze each of the five focus countries, starting with China.

## 4.3 CHINA

### *Political and Legal*<sup>19</sup>

The People's Republic of China has been a communist state since 1949. Absolute political power is held by the State Council, which is appointed by the National People's Congress. The congress gathers every year, but is seen as rubber-stamping the decisions already made by the Communist Party of China.

Although political controls remain tight, China has been shifting from its closed command economy to a more open market economy over the last four decades. It is today a major player in global trade and is expected to become the world's largest importer of agricultural and food products before 2030. The country's legal system is based on Russian and European civil code, but in practice it is not completely independent from the government.

The World Bank ranks China 90th in ease of doing business, which represents an improvement over past rankings. The high-profile anti-corruption campaign of the current president is being effective, but unfortunately has made some local officials afraid to act. Complicated inspection and certification regulations continue to apply and there are a variety of labelling and packaging requirements applied to consumer goods. Nonetheless the prime minister has promised a reduction in red tape and bureaucracy for private business.



## Economy<sup>20</sup>

Moving toward a market economy has required China to adopt various economic reforms. These include decentralizing fiscal decision-making, increasing state enterprise autonomy, encouraging private business, developing a modern banking system, and opening up to foreign trade and investment. China is implementing these reforms gradually—a “go slow approach,” according to the current prime minister. However, they have already succeeded in making the Chinese economy one of the world’s largest.

Yet many are predicting the end of the “boom” as GDP growth has dropped below the double digits of the early 2000s, and is expected to be around 7% over the next few years. This, however, is still more than double the growth expected in Western countries such as Canada and the United States. In addition, the high growth rate was largely based on government investments in infrastructure, exports, and heavy industry. The government is now shifting its focus to encouraging increases in domestic consumption, which will increase demand for imports—particularly by the rising middle class.

Recent (July 2015) heavy losses on the Shanghai stock market have caused worldwide concern about the country’s economic stability. However, an economic collapse is unlikely since the Chinese stock markets play a smaller role in relation to GDP and level of investment than Western stock markets, and the market was considered overvalued by Western experts. What is more significant is that the Chinese government intervened to try to limit the impact instead of allowing market forces to run their course. This intervention is contrary to the country’s stated goal of developing a market economy open to global trade. This and other global issues such as the Greek debt crisis caused declines in Western stock and commodity markets. This was followed by the unexpected devaluation of the yuan in August. However, the currency had been considered overvalued for some time, and some feel this is an effort by the People’s Bank of China to support its case for the yuan to become a reserve currency.

Since 1992, China has spent 8.5% of its GDP on infrastructure (far more than the US at 2.6%). This has improved access to major cities with modern harbours and airports, as well as connectivity between cities.

China’s currency, the yuan is still not fully convertible, since some aspects are still affected by quotas and administrative management. Despite this, the yuan (RMB) has reached the world’s top three currencies in trade settlement in 2015. According to Deutsche Bank, “Doing business in RMBs can have a range of benefits, including lower financing and transaction costs, reduced foreign-exchange exposures, improved supplier access, and greater purchasing power.” While the yuan is expected to be fully convertible by 2020, Canada has already acted to make trade settlement easier and cheaper for Canadian exporters by signing a bilateral agreement with China to become the first yuan settlement hub in North America. In March 2015, the Industrial and Commercial Bank of China (Canada) was inaugurated in Toronto to be the clearing bank for this hub.

China is also flexing its economic muscle within the Pacific region. It has pledged more than \$140B to establish three new regional institutions: the New Development Bank with its BRICS country partners; the Asian Infrastructure Investment Bank with ASEAN,

European and South American partners; and the Silk Road Infrastructure Fund, which will improve trade connectivity across Asia. These proposed institutions are not supported by the United States and several of its allies. This is purportedly because they will compete with existing institutions such as the IMF, World Bank, and the Asian Development Bank. If Canada excludes itself by supporting the United States, it may affect trade relations with China.

Evidence of additional tension between China and the United States is the exclusion of China from the Trans-Pacific Partnership (TPP) free trade agreement led by the United States and including various countries at very different stages of development, from Peru and Vietnam to Australia. Canada, while part of the negotiation, may be forced to walk away from the deal if it decides to continue protecting supply management in the dairy and poultry sectors. Not signing on to the TPP, which represents 40% of the world's economy, would certainly put Canada at a disadvantage as it competes for business in the Asia Pacific.

China's exclusion from the TPP is due partly to its large state-owned enterprises sector. Meanwhile, it is negotiating the Regional Comprehensive Economic Partnership (RCEP), which includes ASEAN countries along with Japan, South Korea, India, Australia, and New Zealand.

### *Socio-Demographic*<sup>21</sup>

China has the world's largest population (1.356 billion people), which by itself makes it an attractive export market for the Atlantic Provinces' food industry. Although much concern has been expressed about the country's one-child policy, which has been relaxed, the median population age is still lower than Canada's. Also, 79% of China's population is younger than 55 years old, compared to 69% in Canada. China has been rapidly urbanizing over the last 30 years. The rural to urban migration of more than 500 million people is the largest in human history. Yet the World Bank estimate of 54% urbanization is still well short of the 70% achieved by countries with similar income levels per person, and below Canada's 82%. However, urbanization in China has resulted in several megacities with populations over 10 million and a rapidly growing middle class expected to total 340 million people by 2016.

Furthermore, a study based on a comparison of China's and Canada's cultural dimensions<sup>22</sup> unexpectedly found that Chinese people have a higher level of materialism than Canadians. They conclude that this is due to the Chinese desire to acquire possessions and display their wealth. While the study was limited to people from Shanghai, it may indicate a desire for Western products, including food, throughout all of China.

### *Retail Food System*<sup>23</sup>

Traditional markets no longer dominate the retail market in large cities. The government is trying to encourage supermarkets to take over from wet markets to improve food safety and hygiene, but the traditional ways are persisting.

Specialty stores have multiplied during the last few years, and these are often the entry point for new, high-end products, including high-value foods. Some specialty stores include import and distribution operations, which assist with labelling and

registration. Hypermarkets are difficult for small exporters to break into because they demand high volumes and tend to deal only with familiar suppliers and distributors.

Chinese managers are conservative and cautious, especially outside the major cities. In business they are reluctant to take risks with new products and try to make the exporters hold all the risk, even to the point of returning unsold product.

### Food Preferences

- For safety and cost reasons, consumers are cutting back on eating out and cooking more at home.
- Western-style products are considered good quality, nutritious, and safe.
- Fresh fruits and dried fruits and nuts are gaining popularity.
- Internet retail is increasing rapidly.
- The country is not a single market but a jigsaw of small overlapping markets separated by geography, culture, cuisine, demographics, and dialects.
- Convenience is now an important factor due to fast-paced lifestyles.
- Chilled processed foods and frozen processed foods are rapidly growing in popularity.
- Spending on food is increasing.

**Table 9. China—Opportunities and challenges**

Opportunities	Challenges
Open economy	Legal system not independent
World's largest importer	Difficulty in ease of doing business
High economic growth	High level of bureaucratic red tape
Several trade deals	Influence of state-owned enterprises
World's largest population	Tension between US and China
Rapid urbanization	Conservative and cautious food managers
Concerned with food safety	Logistics costly due to poor internal infrastructure
Western foods considered safe and high quality	High price of imported food products versus local
Internet retail popular	
Processed foods increasing in demand	
Increasing spending on food	
Consumers are looking for new tastes and experiences	
Large middle-income segment (~340 million people)	

## 4.4 INDIA<sup>24</sup>

### *Political and Legal*

The Republic of India gained its independence from the United Kingdom in 1947. Today, it is the world's largest democracy, with a legal system based on the UK's. Its democratic system is more stable and institutionalized than those of most developing nations, but the large number of opposition parties and minority groups often force ad hoc decisions. While its judiciary is considered honest, it is slow and inefficient. The country ranks near the bottom in ease of doing business. Its openness to trade is among the lowest in Asia. The IHS (a company that provides information and analysis to a number of international industries) report on country risk, rates India's political risk as significant, despite the recent election bringing Prime Minister Modi to power. The country suffers from corruption scandals and a dysfunctional bureaucracy, but there is high expectation that Mr. Modi will be able to establish a reform-oriented government aiming to make substantial economic gains.

### *Economy*

India remains a very poor country despite GDP growth near double digits up until the last few years. Similar to China, this growth was largely due to massive government investment and high savings, and a shift to encourage more domestic consumption is expected. Growth, which suffered over the last few years, will level off around 8% over the next few years.

India has been slowly developing into an open-market economy since the 1990s, starting with privatization of state-owned enterprises and relaxed controls on trade. However, the economy is very diverse, and the country has problems with rampant corruption, violence against women, and high rates of poverty. Past governments made many promises for reform and improvement including optimistic growth projections that never materialized. Now people have become pessimistic about reform.

Much remains to be done. Infrastructure needs improvement, labour regulations need to be more flexible, and bureaucratic delays decreased. Despite all this, the outlook for growth is positive, as the reform-oriented government has taken over amid much fanfare. It is expected that India will also benefit from the increase in wages in China and elsewhere, resulting in businesses transferring low-wage manufacturing activities to India.

### *Socio-Demographic*

India has a massive youthful population and a large emerging middle class. Its workforce will increase by 130 million people over the next 10 years, which will keep labour relatively cheap. This statistic is somewhat overstated, since 70% of the labourers live in rural areas and thus are not able to work for urban businesses or shop at local markets. The urban-rural divide also explains why India has on one hand a highly skilled educated workforce while on the other hand its literacy and education lags behind other regions in Asia. In addition, there is low female labour force participation due to cultural traditions.

### Retail Food System<sup>25</sup>

India's food retail is much less developed than any of the other focus countries. It is dominated by small, independent convenience stores called kirana, which account for 98% of food sales. Larger chain stores only emerged 10 years ago and private labeling is still new. Several Internet grocery retailers have recently launched in the largest cities, including one dedicated to imported foods.

Marketing channels for imported foods in India often involve several intermediaries increasing the cost by 100% to 200% from FOB (free on board) export prices.

### Food Preferences

- 20%–30% are vegetarian for religious reasons.
- 160 million are Muslim, so eat halal food (e.g. pork is forbidden).
- Indians take pride in regional differences in cuisine, but enjoy imported food as well.
- There is a strong preference for fresh product, and traditional spices and ingredients.
- The acceptance of packaged, convenience, and ready-to-eat foods is increasing in middle-class and young people.
- Typically consumers will experiment with new foods while eating out, but prepare more traditional meals at home.
- Dried fruits and nuts, cakes, pastries, chocolates, seasoning, biscuits, canned fruit juice, canned soups, potato chips, canned fish and vegetables, and breakfast cereals are popular.
- Traditional shopping habits use a variety of small specialty stores, which are family-owned outlets and often offer delivery.

**Table 10. India—Opportunities and challenges**

Opportunities	Challenges
Popular prime minister is pro global trade	Democratic but poor planning process
High economic growth projected	Slow and inefficient judiciary
Massive youth population	General low level of openness to trade
Cheap labour	Rated as high political risk
Internet retail growing in cities	High level of corruption
Large Muslim and Hindu population	Pessimism about market reforms
Increasing acceptance of packaged foods	Low level of urbanization
Experiment with new foods while eating out	Poorly developed food retail
Western food products considered high-status, high-quality, and safe	Bureaucratic import rules and regulations
Large middle-income segment	High price of imports versus local
Bilateral trade agreement being negotiated with Canada	High transportation costs
English main or second language	

## 4.5 INDONESIA<sup>26</sup>

### *Political and Legal*

The Republic of Indonesia declared independence from the Netherlands in 1945. The new president elected in 2014 is likely to continue reforms favouring private business, but these could be blocked or delayed by an oppositional legislature. There is tension between protectionist politicians and pro-business groups. It is also hoped the president will consolidate democracy in the country after four decades of authoritarian rule, which left a custom of corruption throughout the country. The legal system is based on Dutch civil code but is influenced by precedent as well.

Indonesia has gained several positions on the ease of doing business rankings, but at 114th there are many political, legal, and bureaucratic improvements to pursue. Job creation is constrained because of Indonesia's rigid labour laws that provide a protective package to workers, including generous termination benefits. In addition, substantial increases in minimum wages discourage hiring. Physical infrastructure is also poor and inefficient, due partly to the geography of the country.

The government also subsidizes basic goods, and any reductions can be sensitive. Recently, the subsidy on gasoline was eliminated, and if not for the corresponding low price for oil, it is felt that more disruptive protests would have occurred.

### *Economy*

Indonesia's new president emphasizes domestic economic growth and will likely maintain his predecessor's business-friendly attitude toward the private sector. One early sign is the elimination of the fuel subsidy that allows more to be spent on improving infrastructure. Economic growth is expected to be steady at around 5% into the future—due in large part to untapped natural resources and demographic factors. However, congestion in the country's main ports is high increasing the cost of importing and rigid labour laws also contribute to high unemployment (6%) relative to the rest of Asia. This is exacerbated by a large rural population who are not available for manufacturing jobs in the city. In addition, ongoing policies aimed at food self-sufficiency and plans to develop a food domestic processing industry may hinder openness to trade in those sectors.

### *Socio-Demographic*

With its large and young population, Indonesia has an abundant labour supply. It also has the world's largest Muslim population which represents a significant opportunity for halal food products. There is a high degree of ethnic diversity in the country.

Indonesia has been an exporter of unskilled labour within Asia, but its inadequate education system limits opportunities for training in skills. Part-time workers make up 70% of the total people employed, and less than 51% of women are part of the work force.

*Retail Food*<sup>27</sup>

Supermarkets, hypermarkets, and convenience stores compete directly with traditional markets on the basis of price, cleanliness, food safety, and comfort. Western-style bakeries and other specialty stores cater to the high-end customer in major urban areas.

Franchising is driving the rapid increase in many supermarkets and convenience stores with wholesale and hypermarket outlets procuring from domestic suppliers or directly from manufacturers or importers.

*Food Preferences*

- Consumer awareness and preference for Western-style breads and pastries.
- Middle and upper class are shopping at hypermarkets and supermarkets because of the wide range of products and services offered.
- Still buy most of their fresh meat and fruit and vegetables at traditional markets, because of personalized service, local products, and local business support.
- Believe traditional markets have lower costs except in dairy and processed food.
- Have a perception that traditional markets provide better safety for meat and seafood and modern retail is safer for fruits, dairy, and processed foods.
- Recreation aspect of modern retail is popular—whole family experience—while consumers prefer shopping alone at traditional markets.

**Table 11. Indonesia—Opportunities and challenges**

Opportunities	Challenges
Reforms favouring private business in place	Protectionist politicians
Steady growth but lower than other parts of Asia	Newly democratic so some concern about stability
Member of ASEAN	Low in ease of doing business index
World's Largest Muslim population	Rigid labour laws
Western-style baked goods compete at high end	Poor and inefficient infrastructure
Franchising driving development of modern retail	Congested ports add to waiting costs
Modern retail considered safer for processed foods	Food policy emphasizes self-sufficiency, which reduces interest in imports
Large middle-income segment	Plans for domestic food processing sector
Food distribution system is improving	Low supply of skilled workers
	High price of imported foods relative to local
	Widespread corruption

## 4.6 SOUTH KOREA<sup>28</sup>

### *Political-Legal*

The Republic of Korea proclaimed its independence from Japan in 1945. It is a “developed” country because of rapid growth since the end of the Korean War, due to its authoritarian leaders encouraging the growth of family-owned conglomerates. The legal system is a mix of European civil law, American common law, and Chinese classical thought. This is now a free and welcoming country for business as reflected in its 5th-place ranking in the World Bank’s Ease of Doing Business Index. However, trade liberalization is still a sensitive sell within the country, especially if concessions appear to negatively impact Korean exporters.

It too has an inflexible labour market, with employee protection regulations that are the second most restrictive in the OECD. The result is that employers often try to hire informal labour to provide the flexibility they seek for greater efficiencies.

Although rated as politically stable, recent by-elections were contested over the continuing issue of corruption at high levels of government.

### *Economy*

South Korea exported its way to become the 12th-largest economy in the world. However, after the Asian financial crisis of 1997–98 and the global crisis of 2008–2011, it is clear that what drove South Korea’s development is now holding it back. The country’s huge growth resulted from close government ties with large, family-run conglomerates such as Samsung and Hyundai. Among other support policies, the government provided these businesses with direct credit and protected them with restricted imports. Now the dominance of these large companies, called chaebols, is restricting growth due to their export focus. With sluggish exports the government has plans to boost growth of SMEs to reduce the power of the chaebols. The government will provide SMEs with startup capital, tax breaks, and incentives for mergers and acquisitions.

As increased competition from lower-wage countries begins to squeeze profits, South Korea (like other developed countries) will have to shift emphasis to consumer goods and services and a high-wage, knowledge-based economy.

### *Socio-Demographic*

The South Korean population is small relative to the other countries in this study, but it is one-third bigger than Canada’s population. It has an ageing population, and its labour force is well-educated and has a strong work ethic. South Korea is very homogeneous, and almost all of the population are ethnic Koreans. Similar to other developed economies, a large majority of people live in urban areas, there is a stable labour market, but real wage is stagnant. English is a common second language in South Korea.

As mentioned previously, there is some sensitivity to open-market trading, due in part to the very conservative and risk-averse Korean culture.



### Food Retail<sup>29</sup>

South Korean retailers rely on independent importers for imported food products, mostly focusing on a limited number of bulk commodity foods. Similar to the other focus countries, South Korea also has multiple layers of independent importers and distributor middlemen in the supply chain, increasing retail prices substantially.

Mergers and acquisitions, expansion into foreign markets (e.g., Lotte, a South Korean chain of hypermarkets that has outlets in many Asian countries), and diversifying food sales into different formats such as drugstores and discount warehouses are some of the growth strategies of the leading players. However, 70% of sales are still made by small to medium-sized independent supermarkets.

Online shopping is rapidly expanding as South Korea has become one of the most advanced markets in the world for online retail. Internet shopping malls are the main driving force. So far food is only a minor part of the sector, but it will grow rapidly as conventional retailers have launched their own Internet stores.

### Food Preferences

- Increasing spending on bakery, processed meats, fresh fruit and vegetables, confectionaries and snacks, seasoning, coffee and tea, juice and other beverages.
- Ageing population and emphasis on healthy eating.
- Organic and functional foods popular with health-conscious elderly people and young professionals.
- Growing demand for higher quality and new tastes.
- Looking for better quality and lower prices.
- Convenience is of increasing importance including home meal replacement products with delivery.
- Rapid growth of online shopping.
- Koreans' tastes for foods are different in many ways from their neighbours. Products that cater to the tastes of Korean consumers will have a higher chance of making a successful entry into South Korea.
- Local tastes could mean anything from modifying packaging material and design to reducing packaging size to reformulate recipes.
- Package design in particular is a very important factor in South Korea. Adding Korean language on the label can significantly improve the level of exposure on the shelves.
- Stick-on labels in the Korean language are required on imported products.
- Promotion is also very important to develop local consumer awareness. Retailers require in-store promotions at the cost of the supplier when accepting new products. The most widely offered programs include in-store ads, free sampling events, and point-of-purchase promotions such as sweepstakes coupons.

**Table 12. South Korea—Opportunities and challenges**

Opportunities	Challenges
Highly developed country	Trade is a sensitive topic with domestic industries
Large middle and upper class	High price of imported foods versus local
Bilateral trade agreement with Canada	Transportation costs are high
Very welcoming to business	Inflexible labour regulations
Well educated work force	High levels of corruption
Highly urbanized	Influence of family-run conglomerates
English common second language	Export focus
Online shopping expanding rapidly	Conservative and risk adverse culture
Internet shopping malls popular	High level of bureaucracy for importers
Increased spending on processed foods	Prefer foods adjusted for Korean tastes and preferences
Healthy eating important	Strong local food processing sector
Organic and functional foods in demand	
Increasing demand for quality and new tastes	
Promotion is an effective marketing tool	

## 4.7 VIETNAM<sup>30</sup>

### *Political-Legal*

The Socialist Republic of Vietnam declared independence from France in 1945. Like China, Vietnam is successfully combining one-party rule with no tolerance for political dissent with reforms needed for economic liberalization. The country's 78th place in the Ease of Doing Business Index is evidence of the potential, and, since the global downturn, the government appears to be taking more action with reforms.

The government has enacted reforms to modernize the economy and encourage competitive, export-driven industries. More work is needed in the financial, legislative, and infrastructure sectors and to solve problems with corruption and red tape.

## Economy

Vietnam continues its 30-year transition from a centrally-planned to a market economy by committing to increasing economic liberalization. Some vestiges of the old economy still remain: state-owned enterprises represent 40% of the country's GDP, and the dong remains a managed currency.

Like South Korea, Vietnam is encouraging the establishment of SMEs to balance the huge impact of the state-owned enterprises, whose poor performance hinders growth. The dong has been devalued more than 20% over the last few years as a stimulus for exporters. While this makes imports more expensive, Vietnam does not appear to have been criticized like China, whom the US has accused of keeping its currency artificially low to enhance exporting. Also, high transport fees, high legal costs, and various administrative fees impede the customs process.

The economy is gradually shifting toward higher value sectors. Labour codes were revised in 2013 to relax requirements for termination packages and work terms.

## Socio-Demographic

Vietnam has a large population with increasing income levels, suggesting an emerging middle class. However, there is widening disparity between rural and urban populations that could eventually cause unrest. Ethnic Vietnamese make up 85% of the population. English is a common second language.

There is a large labour force, which is expected to increase over the next two decades; however, there is a shortage of skilled workers. Most middle and senior government officials are members of the Communist Party of Vietnam. They fear that trade liberalization threatens their job security. This sometimes affects how they do their jobs by adding bureaucracy and administrative fees for imports in order to favour domestic products and businesses.

## Retail Food<sup>31</sup>

Traditional markets are still the most popular destinations for consumers in Vietnam, including an estimated 80% of imported foods. Nonetheless, all types of retailers exist in the large urban centres. Vietnamese people typically shop weekly or biweekly at a supermarket, and make daily trips to the wet market for fresh food.

Shop & Go minimarts are expanding rapidly. These convenience stores are modern, clean, and air-conditioned. They also offer a good range of imported packaged food and drink products.

### Food Preferences

- Young in urban areas are Western-minded in terms of buying western products to imitate the western lifestyle.
- Convenience is important to a growing middle class with dual incomes.
- Consumers are eager to buy higher-value food products.
- Consumers are attracted to the wide range of products offered at large supermarkets.
- Increasing acceptance of packaged products. Some sold in bulk in the past are now pre-packaged.
- Willing to pay for nutrition, quality, hygiene, and food safety.
- Brand-loyal but willing to try new products.
- Weekly shopping at modern retailers but daily shopping at traditional markets for fresh food.

**Table 13. Vietnam—Opportunities and challenges**

Opportunities	Challenges
In favour of economic liberalization	Export focus of regime
Member of ASEAN	High cost of imported foods compared to local
TPP trade agreement in negotiation	Transportation costs are high because of poor infrastructure
Gradual shift to higher-value products	State-owned enterprises very influential
Emerging middle class	Managed currency – devalued to favour exports
English common second language	High costs and fees for importing
Minimarts leading modern retail	Shortage of skilled labour
Urban youth Western-minded	Officials fearful of trade liberalization
Increasing demand for high-value, packaged foods	Population relies mostly on traditional markets
Willing to pay for quality, safety, and nutrition	
Brand-loyal but willing to experiment	
Growth in online food sector	

## 4.8 EXPORT PRODUCT SUGGESTIONS

As an aid to current and potential exporters from Atlantic Canada, the tables below list the best product prospects identified by the USDA's Global Agriculture Information Network reports. Table 14 lists products that are already in the market but show a growing demand, which represents opportunities for exporters. Table 15 identifies products that are not currently in the marketplace but are deemed by experts to have good potential for exporters to introduce.

**Table 14. Best product prospects, already in market (CN=China, IN=India, ID=Indonesia, KR=South Korea, VN=Vietnam)**

Opportunities	CN	IN	ID	KR	VN
Nuts and dried fruit	X			X	X
Seafood	X			X	X
Red meat (fresh, chilled, frozen)	X			X	X
Infant formula	X				
UHT milk	X				
Baby food	X				X
Frozen potato products	X		X	X	
Sugars and sugar confectionery		X	X	X	X
Premium ice cream	X				
Cocoa preparations		X			X
Fruit juices		X	X		X
Sauces, condiments, and seasonings		X	X	X	X
Beverages, spirits		X		X	X
Potato flakes			X		
Dough mix and cereals			X		
Pork				X	
Cheese				X	X
Coffee				X	
Breads, cakes, and pastry				X	
Soybean oil				X	
Flavoured mineral water				X	
Snack foods					X

**Table 15. Best new product prospects, not in market (CN=China, IN=India, ID=Indonesia, KR=South Korea, VN=Vietnam)**

Opportunities	CN	IN	ID	KR	VN
Processed/dried blueberries and cranberries	X				
Read-to-cook and ready-to-eat meals	X			X	
Natural and organic foods	X			X	
Functional/health	X				
Red meat (fresh, chilled, frozen)			X		
Wine and beer			X		
Processed poultry meat			X		
Bakery premixes				X	
Processed turkey				X	

This section of the report has analyzed the macro-environment and retail food sector for each of the focus countries to identify the opportunities and challenges inherent in the various markets. Finally products were listed that are considered to have high potential for exporters from Atlantic Canada.

## 5 OPPORTUNITIES TO ACCELERATE GROWTH

Atlantic Canada's value-added food industry is geographically fragmented, produces a wide variety of product, and consists of a large number of small and medium-sized businesses. The industry benefits from human resource training programs, but needs to be innovative and efficient to be competitive globally. There has been significant success in exporting to Asia, primarily by the large processing and marketing companies in seafood and fruit and vegetables.

To take advantage of the significant market opportunities emerging in Asia, the following items are suggested as a means to accelerate growth.

### 1. Industry Export Mentoring:

There is much expertise and experience in those businesses who are already successfully exporting to Asia. People from these businesses could be matched with people in non-exporting businesses to receive advice and knowledge assistance. No doubt some of this already occurs, but in an ad hoc manner. An industry association such as the Atlantic Food and Beverage Processors Association could formalize this matching process and encourage mentorships between appropriate members.

### 2. Atlantic Food and Beverage Export Club:

The industry would benefit from a proactive partner in the form of an export club patterned after the Agri-Food Export Group in Quebec. This would not be simply for training and exposure to what businesses need to do; it would be an organization that establishes personal relationships overseas in select markets, acts as a consolidator for export shipments from the Atlantic region, and provides an online presence to the industry in this region. Such an organization should be industry-driven.

### 3. International Student Internships for Asian students studying in Atlantic Canada:<sup>32</sup>

Much has been written about the success of Atlantic region universities in attracting international students. According to the Association of Atlantic Universities, in 2013 almost 10,000 international students were in Atlantic Canada. Because of their valuable expertise, the emphasis has been on how to retain these students after graduation. However, they also have experience and networks in their home countries that could help develop relationships and exporting opportunities while they are still students. They could be matched with Atlantic Canadian exporters or groups of exporters as part of an internship related to their studies or as a summer job.

This is somewhat similar to the recently announced Nova Scotia international business development internship with Iceland. The Nova Scotia Department of Agriculture and Dalhousie University have teamed up to provide a nine-month internship at the Trade Commission office in the Canadian Embassy in Iceland to analyze agri-food trade opportunities and establish linkages.

**4. Market and Industry Research into New Product and New Market Opportunities:**

Further research into new product and new market opportunities could help open new doors of opportunity. Areas to consider include:

- functional foods, health foods, and products redesigned for Asian tastes and preferences;
- opportunities presented by third-party designations such as halal, organic, sustainable, and eco-certified;
- the existing food and beverage processing industry, including its goals and objectives and the needs of current players to expand exports; and
- mapping existing global supply chains for specific value-added food products from Atlantic Canada.

**5. Productivity and Modernization of Value-Added Food Industry:<sup>33</sup>**

The sector could benefit from further supporting the activities required of an innovative value-added food sector, highly skilled labour force, access to leading-edge research, and new market access. This includes productivity improvements through automation, increased throughput, improved energy efficiency, and streamlining regulation.

**6. Atlantic Value-Added Food Export Office:**

While the Atlantic region already has substantial food exports to Asia and other countries around the world, and governments of all levels are already involved in supporting increased exporting, much of this effort is expended in exporting agricultural commodities and primary processed foods.

A dedicated office to liaise and encourage the value-added food industry by helping to identify opportunities for product clusters and connecting buyers and sellers would jump-start the SMEs not yet exporting and help expand the efforts of current exporters.

**7. Canada Brand Positioning:<sup>34</sup>**

Online retailing is rapidly growing, particularly in China and South Korea. Many competitor countries have developed dedicated country-branded sites rented from online retailers like Alibaba and JD.com.

**8. Free Trade Agreements:**

To avoid losing further ground to other nations with preferential advantage Canada should continue to study the potential impacts of the the Trans-Pacific Partnership and move forward with the negotiations with the free trade agreement with India.



## 6 CONCLUSION

This report studies the opportunities and challenges facing the Atlantic Canadian value-added food industry in expanding exports to five selected countries in the Asia-Pacific. The report first describes the current structure and the strengths and weaknesses of the value-added food industry in Atlantic Canada, particularly as they relate to exporting to Asia. Current trends in global trade are then highlighted before analyzing the opportunities and challenges for exporting to China, India, Indonesia, South Korea, and Vietnam.

This report highlights eight opportunities to accelerate growth:

1. Establish industry export mentoring between experienced and inexperienced exporters.
2. Establish an Atlantic food and beverage export club to proactively drive market assessment, relationship building, and training.
3. Establish international student internships for Asian students studying in Atlantic Canada to provide introduction to Asian markets.
4. Increase market and value-added industry research into new product and new export market opportunities in Asia.
5. Increase support for productivity and modernization of the value-added food industry.
6. Establish an Atlantic value-added food export office to improve cooperation and reduce duplication of resources.
7. Increase Canada brand positioning in Asia especially related to online marketing.
8. Conclude current free trade negotiations as quickly as possible.

There are many challenges inherent in exporting value-added foods from Atlantic Canada to the Asia-Pacific region. However, this region represents perhaps the best opportunities for the value-added food sector in Atlantic Canada to expand and prosper.

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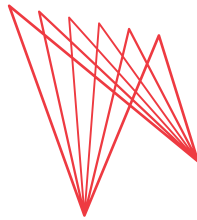
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