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Implications of Changes in Supply Chains for Food Trade in APEC

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Implications of Changes in Supply Chains for Food Trade in APEC

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The fastest food retail transformation in history has been occurring over this past decade in Asia. It has been driven by demand-side forces such as urbanization and income growth; but those were necessary but far from sufficient to explain the takeoff in the early/mid 1990s and then extremely fast spread of modern retail; supply side forces such as an avalanche of retail foreign direct investment (FDI) and procurement system change driving down costs and allowing supermarkets to move from a tiny niche to mass market, were essential. This "supermarket revolution" is emerging as a major force shaping the food economy of Asia.

It has been generally hypothesized (with some initial case evidence gathered) that the rapid spread of supermarkets in Asia, coupled with recent modernization in their procurement systems, is affecting and will increasingly influence the growth and nature of food trade in the region and between the region, other parts of the Pacific Rim, and the rest of the world. The relations among modern retail diffusion, retail procurement system change, and trade in the region have, however, not yet been analyzed or debated systematically. Yet it is probable that the centralized national, regional, and global procurement systems that large national, regional, and global retail chains tend to adopt as they modernize their procurement systems under competitive pressures to increase quality and reduce costs in their supply chains, will influence trade. Evidence of this is already emerging; for example, it has recently been estimated that imports constitute 80% of the fruit and 20% of the vegetables sold in supermarkets in Indonesia, that most of these imports are from China and Thailand, and that they together constitute roughly half the produce imports of the country. Food retail transformation has thus now entered discussions of food imports in Indonesia. Similarly, regional and global retailers are setting up "export platforms" and trade hubs for produce, fish and seafood, and some grain products from Asian countries to other Asian countries and to the rest of the world, for example from China, Thailand, Vietnam, and India.

That local farmers have to compete with imports mainly from other countries in the region, and local farmers can also use the retailers' procurement systems as an avenue for exports and competitiveness through the coordination and facilitation services of the retailers, means that there is a nexus among retail transformation, competitiveness issues, and trade. Governments are beginning to see the two sides of this nexus, and are starting and will increasingly grapple with the policy strategies needed to address it. . The competitiveness dimension translates into a development dimension when one considers how the millions of small farmers, fishers, processors, and foresters will fit into the changing trade map influenced by the supermarket revolution.

In addition, regional market integration and reduction of trade barriers is a key objective of governments in the region. That will help exporters in the region and help economic growth. It will also help exporters from other regions such as the US or Europe that want to aim at a larger export target with lower transaction costs. It has been argued that the rise of supermarkets begins to “knit together” a hitherto highly fragmented market for example in China and makes it more accessible to exporters in other countries. Moreover, given that there are a number of political economy challenges in solidifying and sustaining trade policy reform, modern retailers may be a key constituency in seeking to maintain continuous forward movement on trade liberalization in the region.

Finally, a certain primacy in trade research has been accorded to analysis of policy impacts on trade. It in increasingly clear that an important part of those impacts is intermediated through their effects on food company strategies, who in turn have trade strategies. That intermediation logically increases when there is rapid consolidation in food retail and food manufactures. Hence, the decisions of a dozen major retailers with the lions share of food retail, such as is becoming the case in the more advanced retail transformation cases in the region, and a trend of the others, can potentially influence the direct, level, and composition of trade. There is thus a confluence of policy affecting trade directly, policy influencing trade by influencing FDI and retailers’ decisions, and company private strategies and standards influencing trade in parallel to policy. Understanding the retail transformation influence on trade, and its interaction with policies and the heterogeneous business and cultural contexts across the Asian region, and the APEC area more generally, is a crucial agenda item for trade researchers.

The contributed paper will explore these links, present emerging evidence concerning them, and draw implications for policy and research in the APEC countries.