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NOODLES ENTANGLED : CHALLENGES OF CHINESE FOOD



Chinese food companies have the potential to become global players if they get government regulatory and financial support. However, the industry also needs to innovate. There are issues of food safety and quality in the production process. The companies' global proliferation is also challenged by factors like management style, language, culture as well as complexity of laws and regulations existing in other countries.

**Marcos Fava Neves**

Recently, I had attended a debate organized by International Food and Agribusiness Management Association, in Shanghai to discuss about the capacity of Chinese food companies to become international companies in the coming years. The participants in the debate included a University professor, CEO of a Chinese food company that exports food to the USA and CEO of one of the largest trading companies based in Asia. The audience comprised of executives, government officials and academics, who also gave their inputs on the topic. In addition, I had also attended a workshop with around 15 of the largest pork and poultry producers and processors operating in China, and discussed the future of the industry.

The summary of the discussions were thus:

1. Opportunities that existed in the field, mostly related to the worldwide growth of food markets;
2. Major challenges for the industries operating in the meat markets in China
3. Inability of the Chinese food companies to be globalized due to lack strategy
4. Major difficulties faced by Chinese investments that were present abroad
5. Globalization opportunities for Chinese companies in the new world where food and bio fuels would be an important topic of trade in the coming years.

**Good News and Opportunities**

Firstly, there are several opportunities for growth in the Chinese meat markets. Projections show that internal markets in 2030 will amount to around 1.5 billion consumers and urbanization will be around 70 %, bringing incredible changes in consumption patterns.

In the next 20 years, income will grow at an average rate of 5 to 8 % per year. Thus with this, GDP per capita in China will rise from US\$ 5,500 to US\$ 15,000 in 2030. The major impact of this fact is that there will be an increase of almost 15 kg in the per capita consumption of meat by 2030, going up from 57 to almost 70 kg per person. It will be an incredible development of markets that will bring a lot of opportunities as well as challenges.



### Major Upcoming Challenges

In order to prepare for this growth and accomplish new macro-environmental changes, several challenges were raised by executives.

- a. Human resources management will be an issue both in terms of availability of trained employees and the increased cost of labor due to higher salaries and benefits, estimated as more than 30 %.
- b. Adaptation to new governmental regulations towards food security in China will increase production costs, even regulations regarding feeding the animals may reduce the amount of products used as feed.
- c. Government policies towards improvement of small and medium size companies will also change the industry in the near future, since some of these are low scale and have low productivity.
- d. Government policies towards the usage of land in China will challenge the growth of this industry mostly because of the growth of municipalities and Chinese companies that will need to expand internationally to secure supply chains.
- e. Diseases may spread due to the density of production and may bring risks of severe epidemics and frequent contamination outbreaks.
- f. Cross regional development of logistics towards inlands of China, where there is also a growing market and production.
- g. Strategy of adjustment to this fast growth, together with promotion of sustainability, due to an increase in environmental concerns and media coverage that may pose a formidable challenge.
- h. The need to innovate was also a challenge as discussed. Importance was given to innovations that increase profitability in the production systems by promoting vigorous scientific and technological projects.
- i. Information management, mostly in how to follow the market information and select the most relevant for decision-making, in addition to global competition and opening of markets.
- j. Price volatility of grains and increasing the need to develop long term procurement strategies were also discussed.
- k. There was emphasis on the need for gradual improvement of institutional environment and the need to improve financial support for new investments along with the improvement of collective actions, with better chain organization and coordination. In addition, the requirement to improve management capacity to understand and adapt to the new environment was also stressed on.

As seen, the major challenges raised by the executives are tough but since it is in a market that is growing, it is a question of adjustments. The major dilemmas, as we comprehended, would be to localize or globalize the production, to focus or to diversify towards different food business, to promote growth via public or private companies and the capacity to understand and adapt.

### Internationalization of Chinese Food Companies

First of all, it must be recognized that China has several brands that are becoming international and with this strategy, it has learnt the complexity of the international operations. A huge innovative effort is being made and hence, in several areas we can see Chinese products being regarded in terms of quality.

These are companies which took advantage of a strong Chinese domestic market and are mostly engineering based companies with the ability to invest in key assets, while maintaining their core business with a global leadership team and global structures and strategies. Taking advantage of scale and scope economies, these Chinese companies have gone outside China and are enjoying success.

But an intriguing question comes up after studying the success of engineering companies and others that are globalized. Why is this globalization not observed in the Chinese food companies? It can be clearly seen that the globalization processes led by these companies are not happening at the same level as that of the food companies, because none of top 25 food transnational companies of the world is Chinese.



One argument is that the Chinese food industry doesn't share the same advantages as equipment companies and still struggle with low investments in R&D. Besides, there are issues related to food safety and quality in its production process. There are no recognized large brands outside China in this sector. The lack of reputation and difficulties in marketing label China food products as low value, as far as perception is concerned.



Although Chinese government can subsidize this globalization strategy- since money is not an issue to China- there are other factors that make it difficult for Chinese companies to become global players of foods originating in China. The lack of water, soil, uneven development of infra-structure, low production yields, structure of the rural society, lack of agribusiness talents for large scale operations and the huge internal market to consume the local food production come forth as major challenges.

The list of difficulties is long, but this doesn't mean that Chinese food companies can't be global companies. It is a question of time before Chinese companies can become global suppliers. I see opportunities in two groups. The first group would be food companies producing specialties or other products to supply to the internal market with plenty left to export, as international players. Produce that doesn't demand large amount of soil, water and other resources are the ones that may be globalized first and become global players.

The second group of companies to globalize from China will comprise of Chinese companies producing food in other parts of the world, and marketing those across the globe.

- Major Difficulties faced by Chinese Investments Abroad**  
 The major difficulties for Chinese agro and food business are related to:
- a. The management style, language and culture. Chinese culture and way of doing things are different from other cultures and these differences cause difficulties.
  - b. The perception that Chinese investments may be seen as a "new colonialism". There are several countries and societies that see Chinese investment as extraction of local resources and deprivation of benefits for local societies.
  - c. Difficulties for Chinese food companies to understand the local institutional environments, and complexity of laws, regulations etc. in these countries lead to high transaction costs.
  - d. Protectionism in some markets closes the opportunity for Chinese



- investments.
- e. Chinese insurance system doesn't offer enough protection to face the risks of international investments done by Chinese food companies or Chinese entrepreneurs.
  - f. Tax policies in China also do not stimulate international investments, and thus do not bring enough benefits for companies.
  - g. Some countries see it as a labor export strategy for China and do
  - h. not accept it, since in most projects the labor force tend to be all Chinese, not employing local population
  - i. Lack of cooperation among Chinese companies and reluctance in sharing experiences that could help to learn and avoid problems.

#### The Globalization Opportunities for Chinese Companies and Conclusions

Although these restrictions exist, there is an opportunity for Chinese food companies to move from internal to global, since several parts of the world face an abundance of natural resources required to expand food production but lack the capital needed to do so.



Brazil, Argentina, African countries and others have the resources required but lack capital. Some like Brazil are friendly to Chinese international investments and institutional environment has already provided a level of development.

Due to its large and growing internal food market, we cannot expect that China in general will be a large supplier of food to the world. China will be a large food importer as it already is. But in some specific markets, food produced in China will reach the world and Chinese food companies will emerge and become international food exporters.

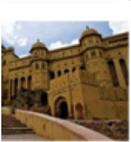
There is a large opportunity for Chinese companies to have a global food production platform and produce food in several parts of the world, mostly in the countries that have natural resources and thus become real food multinationals. This can be done via acquisitions or starting some business from zero. The recent acquisition of Smithfield Foods in the USA by Shuanghui International Holdings for US\$ 4.7 billion shows that these movements are already happening. Tully Sugar in Australia was bought by COFCO Corporation for US\$ 140 million and Manassen Foods Australia was acquired by Bright Food Group (Shanghai) and several others are in the process of taking shape in the future.

I truly agree with this trend and would agree with readers that though today there is not a single Chinese food company among the 25 largest food multinational corporations by 2020 we will have at least three to four Chinese companies on the list. A lot will be witnessed in the coming years.



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