Developing Nations: Markets on the Grow

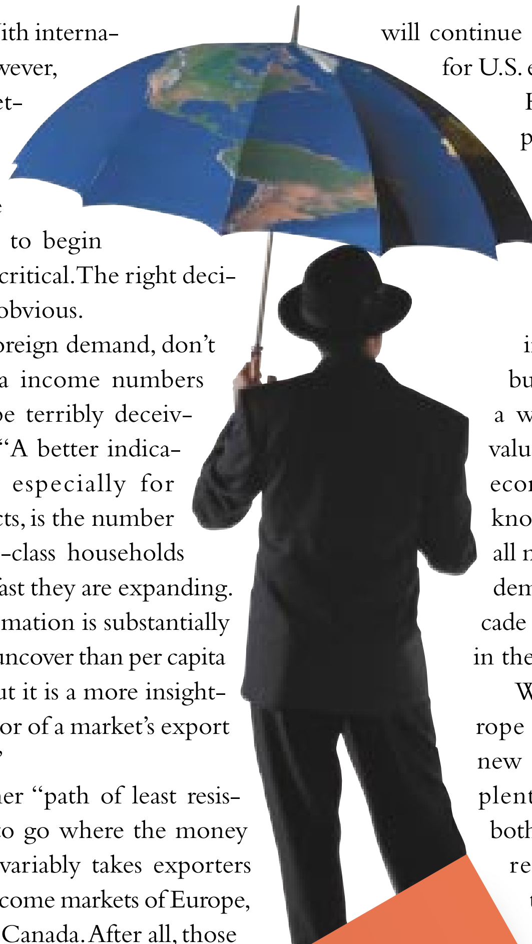
Going global–it's a gut-wrenching prospect for many small- to medium-sized companies. Ever since wooden ships were felled by storms at sea or robbed by pirates, successful businesses risked coming to grief crossing oceans. Modern entrepreneurs are more likely to drown in oceans of paperwork, however, and today's pirates sometimes wear tailored suits and deceptive smiles.

But staying home brings risks, too. The U.S. demand for high-value food products is growing at 3 percent. That may be enough to sustain certain companies in specific sectors. But when you consider that international demand is growing at two- to four times that rate, exporting becomes an attractive option–if not to you, than certainly to your competition.

With that in mind, here's some worldly advice on exporting from Mike Dwyer, an economist with FAS' Commodity and Marketing Program Area.

Picking a Winner Takes Savvy

Business owners who thrive in domestic markets know they need to understand their customers. With international markets, however, correctly interpreting market research–and looking at the right information to begin with–is especially critical. The right decisions may not be obvious.



"In gauging foreign demand, don't rely on per capita income numbers alone. They can be terribly deceiving," Dwyer said. "A better indicator of demand, especially for high-value products, is the number of middle-class households and how fast they are expanding. This information is substantially harder to uncover than per capita income but it is a more insightful indicator of a market's export potential."

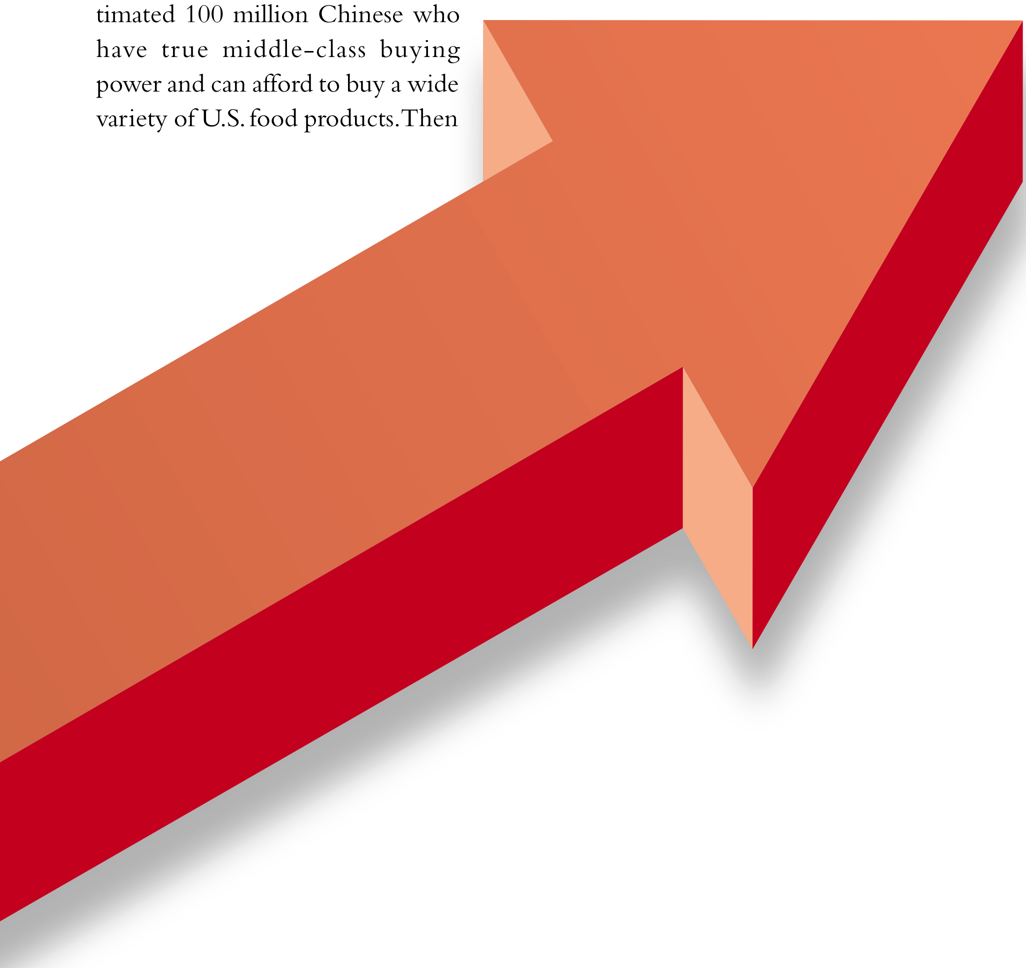
Another "path of least resistance" is to go where the money is. This invariably takes exporters to high-income markets of Europe, Japan and Canada. After all, those countries have been, and will continue to be, large markets for U.S. exporters.

However, growth prospects are greatest in a handful of emerging markets throughout the developing world. This is true to varying degrees for both bulk commodities and a wide range of high-value products. In fact, economists widely acknowledge that almost all new net food import demand in the next decade is going to take place in the developing world.

While Japan and Europe are great markets, new exporters will find plenty of competitors, both U.S. and foreign, already entrenched there. On the other hand, many developing nations have pockets of wealth that can rival those of more mature markets. You just have to be savvy enough to know where to look–and brave enough to take the plunge before the competition does. First-mover advantage, despite the greater risks, is a well-documented recipe for long-term business success.

"Think about China, a country with more than a billion people and a per capita income of less than $1,000 a year, and you could say 'That's a lot of consumers but they have no purchasing power,'" said Dwyer.

"But in Beijing and along the coast in China's major urban areas, there are an estimated 100 million Chinese who have true middle-class buying power and can afford to buy a wide variety of U.S. food products. Then you do the math–100 million people is essentially the market size of Japan."



Who *Are* These People?

What other facts should you be aware of about a country whose market you aspire to capture? Learn about the people.

"Demographic trends, obviously, are not the same in all overseas markets," said Dwyer. "In Japan, frankly, the demographics are not that impressive. Japan is among the world's wealthiest countries and is our largest agricultural export market. However, looking toward the future, we see a combination of stagnant incomes, zero or negative population growth, and a rapidly aging society. They have a large middle class, but it is not expanding," he said.

With these conditions, the patterns of food consumption may change, creating niche export opportunities for certain U.S. companies. But on the whole, prospects for net new food demand are not very different from those in the United States, Canada and Europe, which have similar food demand fundamentals.

"However, contrast this with some countries in other parts of Asia or Latin America," said Dwyer. "While overall population growth in these emerging markets has slowed in recent years, sharp gains in incomes have resulted in an explosion in the size of their middle classes."

These middle classes are younger, have rapidly growing disposable incomes, and are willing to spend their wealth on more and better food.

Domestic food companies know that marketing to younger people is a good long-term bet; they spend more on food. And it's wise to establish customer loyalty with young consumers who are open to new foods and diet trends.

"Favorable demographics will continue to lead to rapid growth in food consumption, especially in the premier emerging markets," said Dwyer. "This, combined with ongoing improvements in market access in the form of trade liberalization, creates a powerful economic stimulus for international trade. From my point of view, it is clear that the emerging markets in Asia and Latin America represent the best export opportunities for American agricultural exporters over the next decade."

Watch Out for the Competition

While there are lots of competitors vying for the world's $300 billion agricul-

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tural export market, there are really only two dominant players–the United States and the European Union (EU). Twenty years ago, the United States alone dominated world agriculture trade. Since then, the United States has steadily lost market share while competitors, especially the EU, have been gaining, Dwyer said. What happened?

"Worldwide, our competitors spend about $1 billion annually in agricultural export promotion activities. This is up over 50 percent since 1995. U.S. investment by government and producer groups totals roughly $250 million and that figure has not grown in the last five years," said Dwyer.

Our competitors also have had the advantage of a falling currency compared with the U.S. dollar, so their products are cheaper relative to U.S. offerings.

"More competitive prices plus increased promotion–that's a pretty lethal combination," said Dwyer.

An effective strategy might be to increase product promotions in new regions exhibiting the best long-term potential; the FAS Market Access Program provides resources for such activities. Another way is to meet with importers in these markets. FAS' AgLink program, which sponsors international travel to meet with importers in developing nations, can help.

Hot Spots for U.S. Agriculture

Which countries and regions might help U.S. exporters boost their share of world agricultural shipments? Dwyer has some suggestions with broad-based, intermediate and long-term potential: *China, Southeast Asia, Korea, Mexico, South and Central America and, in the more distant future, India.*

All these suggestions come with a common guideline: be patient and understand the inherent risks in emerging markets. Success will not come overnight and, by no means is it even assured. However, one thing is certain. The potential in these markets, which are still in the early stages of their growth curves, is significantly greater that in more mature, high-income markets.

Given its excellent prospects for income and middle-class growth**, China**, is perhaps the most promising frontier. However, frontiers by definition are somewhat risky.

"It's going to have its ups and downs over the next 10 years," Dwyer said. "With China's accession to the World Trade Organization, and its significant growth in overall food consumption, the country does offer promising long-term rewards for exporters with vision and patience."

Since the early 1990s, Chinese agricultural imports have been growing at a substantially greater pace than those of the rest of the world. With real economic growth expected to average over 7 percent a year during 2001-2005, combined with expected improvements in market access from WTO accession and the next trade round, it appears that China represents the single best growth opportunity for exporters over the next decade.

Southeast Asia and Korea have recently suffered economic woes, but with the region's stronger-than-expected economic recovery beginning in 2000, this is a part of the world to be looking at again.

"A lot of middle-class wealth was wiped out in Southeast Asia and Korea during the Asian crisis in 1998," Dwyer said. "Nevertheless, the region's long-term future looks great. Investor confidence has sharply improved and foreign capital is returning."

In addition, consumer confidence is rising, merchandise exports are bouncing back and domestic demand is showing solid signs of recovery.

"As a result, real economic growth in some countries has returned to the 6- percent range seen prior to the crisis," said Dwyer. "Assuming the region doesn't suffer any economic relapses, economic growth is expected to average a more sustainable 4.5- to 6-percent range over the next few years."

This should allow for significant expansion in the middle class, which bodes well for increased consumption of a wide variety of food products. Further trade liberalization, expected to result from the next trade round, should help make Korea and Southeast Asia premier markets for U.S. agricultural exporters over the next 10 years.

Mexico is also a good bet. Agricultural exports to Mexico already have reached a major new record high in 2000, with exports totaling $7 billion.

"Increases in U.S. shipments to Mexico have been going on for some time, bucking the larger global trends that have seen overall agricultural exports slip 15 percent since 1996," said Dwyer. "In fact, during the global crisis of 1998-99, our exports were falling to Southeast Asia, South America, Russia and almost everywhere else. But exports to Mexico continued to set records."

Mexico did have its own economic and currency crisis in 1995, and U.S. farm exports dropped during the ensuing recession. However, the country recovered quickly, and U.S. exports have not only rebounded, but set highs in nearly every year since.

ALONG CHINA'S COAST THERE ARE AN ESTIMATED 100 MILLION CONSUMERS WITH MIDDLE CLASS BUYING POWER—THAT'S ESSENTIALLY THE MARKET SIZE OF JAPAN!

"Looking ahead, we expect Mexico's economic growth to continue, averaging 4.4 percent a year through 2005," said Dwyer. "This, combined with the country's relatively few post-NAFTA barriers to trade, will continue to generate significant new food sales by U.S. exporters."

Mexico is not the only outstanding growth prospect in Latin America. **Central and South America** are showing why they too should be counted among the next wave of promising growth markets for U.S. exporters.

"Central America now has greater regional stability and new-found prosperity based on economic reforms," said Dwyer. "U.S. agricultural exports to Central America have grown to well over $1 billion a year and are headed much higher."

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With the region's real economic growth expected to average almost 5 percent a year during 2001-2005, Dwyer says he expects the area's middle class to continue expanding, so demand will surge for a variety of U.S. food and agricultural products. This includes consumer-oriented, high-value products, exports of which are at record highs, having more than doubled since 1996.

The export mix has become far more diversified in the last few years. Bulk commodities now account for less than 50 percent of the total U.S. agricultural exports to Central America, with virtually all the growth in overall agricultural sales coming in the high- value product area.

To most U.S. producers, the words "South America" are often synonymous with competition. However, of all the markets in the Western Hemisphere, South America's agricultural import market grew the fastest between 1992 and 1998. In fact, import purchases by those countries grew as fast as those in Southeast Asia.

Will this continue? It should, although, like other promising emerging markets, the road will have its share of ups and downs. The region, led by Brazil, is recovering from a crisis. While the recovery is still tentative, economists are optimistic about the region's long-term prospects.

Over the next five years, real economic growth is projected to average over 4 percent annually, with one top prospect, Brazil, leading the charge. The higher consumer incomes that will accompany this economic growth, combined with fairly good prices now available for agricultural products, indicate that food demand will expand at above-average rates. This, plus reduced market access barriers that should result from a new trade round, suggest the region's import demand growth will be among the most dynamic in the world over the next 10 years.

Over the longer term, **India** also looks promising and U.S. exporters should keep an eye on trade developments in the world's second most populous nation.

"Basically, India is off most exporters' radar screen because, throughout the past half century, they've had one of the most complex and restrictive import regimes in the world," said Dwyer. "High tariffs and stiff non-tariff barriers such as licensing, quotas, and near-complete reliance on state trading, closed India off to the outside world. But in recent years this has been changing."

By 2001, all import quotas will have been removed and licensing largely eliminated. However, in their place are high tariffs that effectively increase the price of imports to uncompetitive levels.

"Those tariffs will fall but it will not happen overnight, which clouds the immediate prospects for U.S. exporters," said Dwyer. "Over time, however, lower tariff rates plus rapidly rising incomes will boost the market for many U.S. agricultural exports."

India's economic growth is expected to average over 5.5 percent a year through 2020. The compounding effect on food demand associated with 20 years of above-average income growth on a population base already at 1 billion and one of the world's largest middle classes is impressive. As such, India should not be discounted by U.S. exporters with a long term view. ■

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