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Impediments Facing New Zealand Exporters Developing Markets in Southeast Asia

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The purpose of this study was to identify the impediments which New Zealand food exporters face when developing markets in Singapore, Malaysia, Indonesia and Thailand. A survey was conducted of large New Zealand food exporters. The findings are similar to those of Akoorie and Enderwick (1990) who found that high domestic real interest rates, (non) availability of government export assistance and the ability to finance overseas operations, were among the top five concerns of New Zealand exporters. In this study, the greatest impediment to the future development of markets in Singapore, Malaysia, Indonesia, and/or Thailand appears to be the depressed state of the New Zealand economy, accompanied by high interest rates and lack of export incentives, rather than any specific problems in the market itself. While the large firms which are already exporting to these markets will continue to expand their sales there, respondents felt that other firms would lack the financial capacity to enter the market.

Keywords: ASEAN, export markets, impediments, opportunities

Introduction

With a small domestic population, the New Zealand economy depends heavily on exporting its produce. Traditionally, Britain has been the main destination for the bulk of New Zealand's export trade. However, since Britain joined the European Economic Community (EEC) in 1973, New Zealand has been forced to follow a policy of market diversification in order to find new destinations for former British bound exports, and to ensure that New Zealand's welfare is not dependent upon events in one country.

New Zealand's need for new export markets coincided with an economic turnaround in the neighbouring Southeast Asian nations (ASEAN) of Thailand, Singapore, Indonesia, Malaysia, the Philippines and Brunei. These countries, with a combined population of 300 million people and the highest growth rates in the world, offer considerable opportunities for New Zealand exporters.

However, a study by Ahmad (1990) revealed that while other exporting countries have been quick to develop this market, New Zealand exporters have not been as aggressive. Although New Zealand exports to ASEAN rose by 8% between 1987 and 1988, the absolute contribution of ASEAN exports to New Zealand has fallen from 6.14% of total exports in 1982 - 1983, to 4.73% in 1987 - 1988 (Ministry of External Relations and Trade, 1989).

While a great deal has been written about the problems which New Zealand exporters face generally, there has been very little attention given to the specific problems faced by exporters in the ASEAN region. The purpose of this study, therefore, was to identify the impediments which New Zealand food exporters face when developing markets in Singapore, Malaysia, Indonesia and Thailand.

Method

Due to the limited amount of information on this subject, the research was of a preliminary nature. It was carried out by conducting ten face-to-face interviews with marketing or export managers of New Zealand organisations exporting to at least one of the four selected countries.

The study was restricted to four countries to reduce its scope. Singapore, Malaysia, Indonesia and Thailand were chosen because they are the four ASEAN countries in which New Zealand exporters are most active.

The study was further restricted to food exporters in order to keep the focus of the research on market-specific rather than product-specific problems.

The firms which were able to be surveyed are very large by New Zealand standards. A recent study by Akoorie and Enderwick (1990) found that the average size of New Zealand exporting firms was 128 employees, and that this was higher than for nonexporting firms. The average number of employees in this study was 1029, with only two firms having under 250 employees. Only two of the surveyed organisations had a sales turnover of less that $100m.

Furthermore, the companies in this study had considerably more experience in international trade than the average New Zealand exporting firm. Akoorie and Enderwick (1990) found that 64.2% of New Zealand exporting companies had been engaged in international operations for 10 years or less. All of the firms in this study had been exporting for 12 years or more, with an average of 31 years.

Finally, Akoorie and Enderwick found that international sales accounted for 50% or more of total sales revenue for less than 25% of their respondents in 1987. In this survey, 80% of the firms had export sales contributing over 50% to total revenues.

While a range of different sized firms would have been preferable, the sizes of the firms contacted are likely to be representative of the organisations trading to the countries under study.

Procedure

During the interviews the respondents were asked questions about a series of possible impediments which had been identified in a review of the relevant literature (Bolard, Holmes, Kersey & Thompson, 1989; Cullwick, 1983). These covered the following areas:

* establishment costs and profitability
* level of competition
* access to information
* trade restrictions
* political stability
* transportation difficulties
* distribution networks
* cultural/religious factors
* New Zealand economic and political environment

Results

Establishment Costs and Profitability

While none of the firms considered the cost of establishing business in Southeast Asian markets to be greater than elsewhere, they were considered to be long term markets where investments may not see a payback for a relatively long period of time. None of the firms surveyed considered this to be an impediment to their development of the markets. However, they are all large firms by New Zealand standards, and have the financial backing to be able to support a long term perspective.

Once established, respondents considered Southeast Asian markets to be at least as lucrative as the other international markets they were involved in.

Level of Competition

Southeast Asia, particularly Singapore, was seen to be highly competitive, with competition coming both from locally based companies and other exporting nations. Australia was the most common competitor and was seen to have a freight rate advantage. However, the high levels of competition were seen by respondents to be a norm of international business rather than an impediment.

Access to information

There was little evidence to support Cullwick's (1983) findings that information collection was problematic. Only one respondent considered the available information to be less than adequate, with the majority finding it to be of good quality and quantity. It may be that there have been improvements in information provision since Cullwick's article was written in 1983.

Trade Restrictions

Protectionism, particularly in the form of duties, continues to restrict the sale of many products. In all cases where companies faced high duties, the amount of product exported to the relevant country was restricted. Thailand and Indonesia are the most extensively protected. However, non-tariff barriers were not found to be as restrictive as suggested by Bollard et al. (1989), with duties being the main form of restriction.

Political Stability

There was no evidence to support the claim that political instability in ASEAN countries "harboured the biggest dangers for exporters" (International Business 1989).
Although the managers interviewed were wary of political issues, they did not consider them to be a problem in Singapore, Malaysia, Indonesia or Thailand. However, this study did not include the Philippines, which is the least politically stable country in ASEAN. The findings of this research suggest that problems in this country alone should not be generalised to the whole Southeast Asian block.

Transportation

The majority of respondents shipped their products to Southeast Asia, and all but one considered the cost of shipping to be too high. It was felt that there were not enough shipping lines for competitive rates to be offered, which supports Bollard et al.'s comments. The uncompetitive nature of New Zealand freight rates was a cause of concern for many of the respondents, as it gave them a price disadvantage in the market place, particularly against Australian products. While it had not stopped these companies from exporting, it may have had a detrimental effect on other companies which would like to export to the region, as it was noted that freight rates were pricing products off the market.

Distribution Networks

Respondents agreed with Cullwick (1983) that relationships with distributors took a long time to develop, and that personal contact was important. This was not considered to be an impediment in any way. The uneven distribution of wealth and relatively small base of affluence, however, was felt to restrict sales for some of the companies. New Zealand products are generally high quality, premium items, which restricts the market for them, particularly in parts of Indonesia.

Related to this problem was the lack of infrastructure and suitable retail outlets outside the cities. This restricted sales, especially of frozen goods. However, this problem was not viewed in a negative light because of the rapid growth in these economies. Rather, the respondents viewed the limited affluence of the present as a characteristic of the market which offered potential for the future. In fact, they tended to stress the importance of developing Southeast Asian markets now, in order to be in a strong position to take advantage of the potential as affluence spreads through the huge population. Southeast Asia was viewed as the growth area of the future.

Cultural or Religious Factors

Cultural and religious considerations were not considered to impede the development of Southeast Asian markets, except in one case where desserts could not be sold in muslim countries because they contained non-halal gelatine. Cultural differences, and the adjustments required in the marketing mix to accommodate them, were considered to be simply part of international marketing, and no more difficult to adjust to in Southeast Asia than elsewhere.
It was noted by several respondents that generally people did prefer to trade with culturally similar countries and would continue to do so provided the price was right. This may help to explain the relative unimportance of Southeast Asia to New Zealand export trade, but was by no means confirmed in this research.

New Zealand Economic and Political Environment

While some of the above problems identified in the Southeast Asian market place do cause exporters concern, the research indicated that companies' abilities to develop Southeast Asian markets, and indeed any export market, were most restricted by the problems the companies faced in New Zealand. Because the task of developing markets in South East Asia is a long term exercise which may not pay returns for some time, relatively few companies have the backing to be able to sustain the initial low returns while they are establishing their products in the market. The depressed economic climate in New Zealand coupled with high interest rates means that many companies are unable to make this investment. Where profits are low in New Zealand, companies are unable to fund investments and the risk of exporting is higher. High interest rates mean that the break even point for any investment is longer and the returns lower, thus increasing the risk. In this climate of risk and uncertainty, export incentives, which had previously cushioned exporters from the risks involved, have been discontinued.

These findings are similar to those of Akoorie and Enderwick (1990) who found that high domestic real interest rates, (non) availability of government export assistance and the ability to finance overseas operations, were among the top five concerns of New Zealand exporters.

Conclusions

In summary, the greatest impediment to the future development of markets in Singapore, Malaysia, Indonesia, and/or Thailand appears to be the depressed state of the New Zealand economy, accompanied by high interest rates and lack of export incentives, rather than any specific problems in the market itself. While the large firms which are already exporting to these markets will continue to expand their sales there, respondents felt that other firms would lack the financial capacity to enter the market.

The implications of these findings are that if New Zealand is to achieve an export-led economic recovery, some sort of assistance for developing international markets is going to be required to break the vicious circle of low profits in New Zealand, followed by low investment in overseas markets which thwarts the export-led recovery.

One respondent felt that rationalising New Zealand's efforts was the answer to these problems. While there are numerous arguments both for and against rationalisation, the success of the producer boards surveyed, as well as these case study findings, suggest that rationalisation should at least be considered as a means for developing markets in Southeast Asia.

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