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WHAT CHINA WANTS FROM FARMING 'DOWN UNDER'

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Abstract

What China wants has profound implications for the export income generated from New Zealand and Australia's agrifood sectors. A better understanding of 'down under' advantages in accessing the Chinese market, what this market demands, and how Chinese people go about business will benefit these farming sectors. Employing qualitative empirical research, assisted by academic and industry literature, together with our own ongoing industry networks, this article addresses the question "what does China want from farming 'down under' in New Zealand and Australia?" The greatest advantage of these 'down under' nations lies within our production and supply chain systems which enable us to supply safe and high-quality food products that Chinese consumers demand. In order to fully utilise this advantage, farmers need to integrate themselves within supply chains, which have necessary knowhow in accessing the Chinese market. This knowhow starts with understanding the importance of, and length of time that it takes to build, trusting guanxi (关系, relationships). Following this understanding, there is a need to appreciate the roles that Key Opinion Leaders (KOLs), daigou and mianzi (面子, 'face' or prestige) play within the nuances of reaching Chinese consumers and dealing with Chinese agrifood business people.

Keywords: Farming 'down under', Chinese consumers, food safety and quality, *guanxi*, *mianzi*, *daigou*

Introduction

The economic growth of China in recent decades means that what the Chinese market demands has a significant impact on export earnings of both New Zealand and Australia. For New Zealand, China overtook Australia to become its largest export market in 2013

(Statistics New Zealand, 2013), and has maintained this position ever since. China is Australia's leading trading partner, with a value more than double its second, Japan (Australian Government, 2018a). Much of this export income, particularly for New Zealand, comes from our agrifood sector (Ministry of Business Innovation & Employment, 2018). For Australia, agriculture, forestry and fisheries is its second largest export sector to China, following minerals and fuels (Australian Government, 2018b). For the agrifood sectors of both these 'down under' nations, what China wants and subsequently buys impacts greatly on farm incomes. Consequently, there is a need to better understand the China market, their consumer preferences, how they do business, and what the likely requirements from farm systems 'down under' are. In this paper, we use both empirical and secondary information to answer the question "what does China want from farming 'down under'?" This starts with a description of the methods used, followed by the advantages enjoyed by New Zealand and Australian' agrifood systems. We then outline the research results and discuss what China wants in terms of how they do business and what their consumers demand. Conclusions are drawn on what this means for farming 'down under'.

Methods

To answer the question above, we have reviewed the literature and employed empirical research. Our approach lies within the qualitative paradigm whereby we have sought to ask 'what', 'how' and 'why' questions. This has been influenced by elements within grounded theory (Bowen, 2006, Charmaz, 2003, Charmaz, 2006) and by the inductive theory-building principles of Eisenhardt (Eisenhardt, 1989, Eisenhardt, 1991, Eisenhardt and Graebner, 2007). While the empirical research focused on New Zealand agribusinesses' experiences in China, the learnings have implications for Australian agribusinesses too. The research utilised observation and semi-structured interviews (Kvale, 1996) of purposefully selected information-rich informants to answer the research question (Eisenhardt, 1989). Between 2012 and 2014, 38 informants were interviewed, of which 37 were from 25 New Zealand agribusiness, and one from an Australian agribusiness. All informants (except the Australian) were in middle to senior management positions in New Zealand agribusiness firms operating in and/or exporting to China. Of the 38 informants, 29 were of European descent, and nine were native Chinese. As the interviewer is a native Mandarin and fluent English speaker, who has lived in New Zealand for over 10 years, interviews were conducted either in English or Mandarin as preferred

by the informants to gain a thorough understanding of the issues under investigation. All interviews were digitally recorded and transcribed, then imported into NVivo, before being analysed for emerging themes and constructs (Eisenhardt, 1989).

Given the fast-changing nature of the Chinese market, we reviewed both academic and industry publications. We have also drawn on our own industry networks. Inferences are then drawn from both literature and empirical studies on what our findings mean for farming ‘down under’.

Results

To answer the first part of the question, what does China want, we draw from both the literature and our empirical findings. This then provides context to answer the second part of the question – What does this mean for farming ‘down under’?

Advantages of agriculture ‘down under’ in relation to China

Here in the ‘down under’ we enjoy advantages when accessing the Chinese market. Firstly, our farming is counter-seasonal, allowing farmers to supply some fresh produce when it is out of season in China. Secondly, our quality management in production systems is deemed superior by Chinese consumers, leading to greater trust in the quality of, particularly, our meat and dairy products (Ministry of Business Innovation & Employment, 2018). Being ‘down under’ and far away from the industrial hubs of the world, we are perceived to have pristine environments for food production. When native Chinese informants were asked what their first thoughts were when New Zealand was mentioned, words such as “paradise”, “out of this world” were often used. Connections between the quality of our environments and quality of our food products are drawn by Chinese people to place greater trust in our products. This trust is further enhanced by their confidence in our food safety regulations. Food produced in New Zealand and Australia is perceived to have achieved stringent safety standards and is therefore safe for consumption (Kaye-Blake and Saunders, 2017). Moreover, some exclusive ‘down under’ products are considered to have extra health benefits due to our unique environments. New Zealand’s manuka honey products is an example of this.

New Zealand and Australia’s wide range of climatic conditions lead to an extensive variety of food, beverage and natural fibre products being produced. This spans from tropical

fruits to pasture-based dairy and meat products, and from new world wines to fine merino garments - indeed, what the 'down under' offers is a suite of products, a 'food basket', that tick boxes of being clean, green, natural and safe, which are produced in high-quality natural environments that are important to Chinese consumers (Tait et al., 2018).

These advantages exist, but it's not because New Zealand and Australian can produce food and beverage products that China cannot. There is a wide range of climatic conditions, glasshouses, animal barns and other farming facilities to allow almost all kinds of food products to be produced in China. It is our perceived superior producing conditions, both physical and institutional, that meet the increasing demand of better quality and safer foods by Chinese consumers as their disposable incomes increase. This increasing demand has brought new food security challenges to China. The staple grains that were once used to feed the population are now also being demanded as animal feed (Veeck, 2013). New Zealand and Australia are particularly advantaged in supplying ovine and bovine related protein products, as the cost of production in China for these can be prohibitive due to low feed conversion rates.

What does China want?

We outline what China wants from two perspectives. First, what China wants in terms of how they go about agrifood businesses (Lucock, 2015), and secondly, what the Chinese consumer demands.

Agrifood business dealings

Chinese business culture relies heavily on relationships (*guanxi*, 关系), to the point that business relationships come first, and the actual business comes later (Seak and Enderwick, 2008). *Guanxi* is often translated as 'relationships', 'networks' and/or 'connections'. The concept of '*guanxi* circle' is used to indicate the boundary between the in-group and out-group. This *guanxi* circle, or a person's circle of trust, does not have fixed boundaries for the focal person, with members moving in and out of the circle according to the situation (Luo and Cheng, 2015). *Guanxi* is important for business operations in China, with benefits such as reducing transaction costs (Standifird and Marshall, 2000). This research finds *guanxi* to be important within the agrifood sector too. All our informants emphasised that *guanxi* is of uttermost importance for doing business in China.

I used to think that it's just at big enterprises you need big *guanxi*. Actually, knowing lots of people now that are in smaller enterprises, you still need *guanxi*. You just need it. That's because

at the end of the day you still have to pay tax, you still have to be involved with the local officials to do things, so you want things to be easier, you want relationships. *Guanxi* is not just with the official side of the business, it's actually about other things, about sales, distribution and everything else. It's about those relationships and networks across the country that help you in your everyday work. (A New Zealand CEO)

The reliance on *guanxi* can perhaps be attributed to the long history of China's non-separation of governance and judiciary. McNally (2011) suggests that the lack of separation between the party-state's governance and judiciary system and the continued deep government involvement in economic affairs gives local officials wide discretion, creating institutional ambiguity. This ambiguity encourages Chinese people to trust their personal networks and kinships, rather than those in power. Indeed the concept of *guanxi* is closely linked to trust. Chinese people only trust those who are within their trusted networks, and often at different levels, depending on the strength of the relationships. In many cases, the length of a business relationship carries great weight as to the trustworthiness of the business partner – the longer the better.

In business-to-business dealings Chinese require relationships based on mutual trust and seek interdependence. The general rule of thumb is that trust is not a 'given', and has to be earned over time. As one New Zealand senior manager explained:

You should start with a point of view that that person is not your friend, and that's what Chinese people do, because, you know, after 5,000 years of history, Chinese mentality has heard every single sweetie word that can possibly be said.

Interdependence gives Chinese people security in their efforts to build trusting relationships. As this New Zealand senior manager explains:

On my side of the business, my ... business relationships, I always need to make sure that the business partner needs something that we've got. [For example,] we need to retain control of the brand or the distribution system, [and ensure] that they are always reliant on us ... [for] that. As soon as we give that up, then they'll just take, take, take, then there is the potential that they say, 'Okay. We've got what we want. See you.'

While a trusting relationship is what Chinese business people ultimately want, it is the interdependence between the parties that gives them the reassurance of the strength and longevity of the relationship, as each party needs to benefit for the relationship to thrive.

Another important concept for Chinese business interactions is *mianzi* (面子, 'face' or prestige). When working with Chinese people, *mianzi* is always something one should keep in mind. One New Zealand business consultant explained:

Protecting a Chinese person's face is really, really important.... In particular, if you want to say something that could be perceived as critical, for goodness sake, don't make a comment that would appear to criticise a senior in front of a junior. You will lose them completely. They just won't talk to you again. If you insult them in front of their juniors, that's the end of a relationship.

What Chinese consumers demand

What Chinese consumers want is safe food produced in a trusted environment and handled by trusted people until it reaches them. The fundamental drivers for such wants come from a desire for health and wellbeing for those that they love and care for. This is driven by a lack of trust in food supply chains in China. Chinese food is often deemed imperfect due to the polluted environment it is produced in. Also, Chinese consumers do not trust the supply chains handled by untrustworthy Chinese people outside consumers' trusted networks. The rise of *daigou* (代购, meaning "buying on behalf of") in Australia is a result of these Chinese consumers' wants and distrust (The Nielson Company, 2017). These *daigou* often come from the same socio-economic segment of Chinese society as the final purchasers, who regularly make up the tourists to 'down under' nations, leading to synergies between agribusiness and tourism industries to further explore.

Chinese consumers have greater faith in products produced in and for a foreign (Western) market than those specifically produced for the Chinese market. The reason for this goes back to greater trust being placed on the integrity of the quality management systems in Western countries, such as Australia and New Zealand, than those in China. The height of this distrust was the Melamine Scandal in 2008, where several infants died and thousands of young children fell ill. This scandal arose through lack of integrity in the supply chain between producers and final consumers. It outraged Chinese consumers and domestic dairy marketers have been trying to regain consumer confidence ever since (Qian et al., 2011). Other food scandals, though not to the same devastating extent, have been regularly exposed on social media such as WeChat. The common element is fraudulent substitution occurring within the supply chain. These scandals, and the consequential distrust by Chinese consumers, provides the underlying support for the *daigou* market. Up until the emergence of the *daigou*, a missing link along the logistic channels is a trusted handler to bring overseas products into the hands of Chinese consumers, unless relatives and friends

were visiting overseas. With the rise of *daigou*, Chinese consumers can now have trusted handlers bring home food and beverage products that meet international certification standards, which they believe are safe and good for their health. “When it comes to safety and quality, the Chinese consumers will not make compromises – even for price. ... A Chinese consumer will pay up to a 100% premium on a product if there is an underlying quality assurance and a trusted person sourcing and delivering the product” (The Nielson Company, 2017).

New Zealand legislation currently prevents the flourishing of *daigou* supply chains for dairy products because exporters have to be licensed (The Nielson Company, 2017). In the case of a2 Platinum infant formula, this has led to the product being bulk-shipped to Australia and then purchased by Australian *daigou* for onward shipment to China (Craig Investment Partners, 2018). Despite the shipment via Australia, the supply chain is shorter overall compared to conventional ones which have multi-level within-China distributors.

Currently, there are expectations that the *daigou* trade will become more regulated by new Chinese regulations (Li, 2018). This is likely to see this trade becoming more structured, with smaller *daigou* coming under the umbrella of larger *daigou* who purchase products wholesale and manage the logistics through to China including customs clearance. However, the smaller *daigou* can still place their marks on specific items when they visit the wholesaler, with this specific identification photographed and sent to the final purchaser. Indeed, all of this is already occurring.

To date, infant formula has been the lead product in *daigou* trade from ‘down under’ to China. However, the same principles can apply to all food products. The system works because it minimises the risk of product-substitution within shortened supply chains, and gives Chinese consumers confidence that they are receiving products certified internationally.

One social phenomenon specific to Chinese consumers we found is the influence of Key Opinion Leaders (KOLs). Consumer purchasing behaviours are influenced by what these KOLs say and do. KOLs are online influencers, who have successfully dominated Chinese social media platforms over recent years. “Overseas brands and companies rely on KOL marketing to enter China market because they are effective. ... The average engagement results for KOL campaigns are six times higher than brand campaigns, and three times higher than brands’ own sales campaigns. KOLs are paid to create original content and then amplify that content on their own social media accounts” (Yoo, 2018). KOLs serve

as a source of trusted information. Their endorsement (or not) of a particular product brings about trust (or not) of consumers. Effectively, the trust in and/or admiration of a KOL functions as a form of trusted network for consumer decision-making.

Mianzi, which can be earned or lost, is also important to Chinese consumers. When the quality and provenance of a foreign product is guaranteed, a Chinese consumer might make a purchase, often at exorbitant prices, just to prove that he/she have the ability to do so. A Chinese senior manager points out the implications of selling luxury products in Asia due to the importance of face:

Particularly in Asia, in Japan and in China, things are expensive if they are precious. ... you can sell it for a sky-high. ... You say that 'This will cost 100 RMB to buy, and only I have it', and you will be able to sell it. This would be impossible in Europe. ... 'It's just an apple.' [In Asia,] no matter how expensive, some people will buy it. If you dare to sell it, then I dare to buy it.

What does this mean for farming from 'down under'?

With such reliance placed upon trusted networks, the care for prestige, and the belief in the safety and quality of food products from 'down under', how should we make the most of the advantages that we have within the agrifood industry? And what does this mean for those working with the land?

It could be argued that if the faith of Chinese businesses and consumers are in their trusted partners and networks, then there is less need to worry about the specifics of our quality assurance and traceability schemes. We would argue the opposite. For Chinese agribusiness people, quality assurance and traceability is of concern, if they want long-term relationships, according to our informants. The Chinese way of achieving high quality and traceability is by building trusting relationships with those who are able to achieve these attributes on their behalf. For Chinese consumers, we see the seeming lack of attention paid to issues of quality assurance and traceability systems as a reflection of their trust in their trusted networks. Word-of-mouth on the quality of products by a trusted network member carries weight, and often leads to purchases. Indeed, the whole *daigou* market flourished because of this. Word-of-Mouth marketing is by far the most powerful form of advertising for Chinese consumers who generally distrust advertising from large corporations. For example, a mother in Australia making a recommendation of what her child eats can have an enormous impact (The Nielson Company, 2017).

For farmers in New Zealand and Australia, the message is to carry on with what they are already doing in their day-to-day business, but with greater awareness that many of their on-farm practices have enabled our food, beverage and natural fibre products to achieve consistently high quality. These practices should continue to be carried out with pride, and strive for ongoing improvement, lest we fall behind competitors from other countries or China. There are opportunities to promote the integrity of our products by showcasing our high standards of on-farm practices – not through traditional channels such as TV commercials or YouTube clips online, but through people’s trusted networks – KOLs, and even selected final consumers themselves (who might become KOLs). With the combination of only trusting those within one’s trusted network, and the desire to earn ‘face’ or prestige, the ‘inside knowledge’ of what’s happening on farm ‘down under’ that eventually lead to superior quality products would be invaluable to many Chinese consumers. There is a role for industry bodies in organising such opportunities and working with trusted Chinese business partners to utilise their networks. The power from showcasing on-farm practices through trusted networks could be as equally powerful as the growth of the *daigou* market. Indeed, we know that some Chinese dairy companies are already trying out this marketing method.

Meanwhile, it is important for producers to integrate their farming businesses into supply chains that can meet the requirements of Chinese business partners and consumers. Individual producers will otherwise find it difficult to reach the final consumers in China, as many of the protocols used to produce high quality agri-products are set at a company or industry level. Farmers, at one end of the supply chain, need to have patience with those working in-market, as it takes time to build trusted Chinese business relationships. As some of our informants indicated, it takes time to find the right business partner, then it takes time and effort to build a trusting interdependent relationship. “Business partner[ship] is about trust, and that takes a long time to build” (A New Zealand senior manager).

Summary

What China wants is safe, high-quality food, beverage and natural-fibre products produced in trusted environments, handled by trusted individuals, who are ideally members of their own trusted networks. When Chinese do business, they want to take time to build trusted relationships (*guanxi*), secured by interdependency. New Zealand and Australia are already in a position to take advantage of this in terms of the safety and quality of our

agrifood products. Being a faraway ‘paradise’ gives us a superior market image. Better stories can be told about our high standards of on-farm practices, our supply chain integrity, and food safety and quality attributes resulting from this. These stories, however, should not necessarily be told via traditional communication channels – we should utilise Chinese people’s trusted networks, and their desire to earn *mianzi* (‘face’ or prestige), to achieve greater reach to Chinese consumers. However, this will take time. To satisfy the wants of Chinese businesses and consumers, farmers need to integrate themselves into supply chains. All the players within these supply chains should be prepared to take time to build trusted relationships with their Chinese business partners, and this has to happen before actual business can take place.

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