**Internationalisation of Food Manufacturing Industry of Chinese Emerging Food Markets, A case study of Dairy Producers**

# Abstract:

In 2013 the Chinese Government introduced the One Belt One Road strategy. This nationwide strategy is aimed at Chinese business to invest globally. However, China’s dairy products have been hindered due to breeches is food standards, and in consequence waned international confidence. This paper examines China’s dairy industry strategy to export and identifies key initiatives, historical blockers and what steps are being taken to reinforce the export of its dairy products. The paper looks at food producers, in which a cross section of 15 representatives of the Inner Mongolian Food Federation who represent 15,000 members were interviewed via semi structured interview questions via thematic analysis. The results reveal that many organisations operate without a recognised international certified food standard and whilst wanting to export their produce, have mainly focused on their domestic markets. The paper concludes with commercial recommendations to stay local or go global.

Key Words: Culture, Food Safety Systems, Globalisation, Strategy,

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# Introduction

Since the introduction of China's one belt one road initiative, the Chinese enterprise sectors have been encouraged to embraced the internationalisation strategy. In support, a series of policies have been adopted by the government to aid and advise enterprises to internationalise and export their products and services followed (Scullion, 2019). For example, the China-European train was constructed to gain transport efficiencies in terms of speed, capacity and fast track export tax refunds to encourage wider participation.

In terms of dairy enterprises, to export their products, they must attain an internationally recognised food safety management certification by third-party food safety certification institutions to reassure their adherence to safety and their proposed international supply chain. Whilst there are numerous certification bodies, the British Retail Consortium Global Standard (BRCGS), British Standards Institute (BSi) and Europe’s International Food Standard (IFS) in Europe have a firm and expanding foot hold in the market. However, due to the long-term commitment of Chinese food enterprises to focus predominantly on their domestic market, few enterprises have identified a business case to pursue the international certification route, as a result, the export of products is further hindered (Guo et al., 2019).

The challenges to export were further exacerbated in 2018 when the United States government commenced trade disputes against China with the introduction of tariffs on goods exported from China. This political manoeuvring further agitated political relations between China and the United States. Such tensions have broadened in scope, as United States and its political allies, such as Britain, Australia and other countries, have introduced additional policies to restrict the development of Chinese enterprises in their countries, for example, the United States forced TikTok to sell its American company, and the British government announced the gradual replacement of Huawei equipment, and Woolworth, Australia's largest retailer, has announced that there will be no more Chinese made goods in all of its stores. The collective actions have led to a slowdown in China’s economic growth (Lester and Zhu, 2020).

In early 2020, COVID-19 pandemic quickly spread across the global. In response countries around the world have implemented lockdown policies to restrict social movement which has further restricted China’s export market especially within the food sector. Thus, given such barriers to international trade and growing economic turbulence, should China's dairy enterprises focus on the domestic market or pursue its internationalisation strategy?

# Literature review

From 2012 to 2018, China's economic growth slowed to around 7% a year, compared with the previous growth rate of 10% (Chen et al., 2018). The primary reason is that the Chinese government is endeavouring to carry out its economic system of reform, which has transformed the economic development from infrastructure industry to service industry and high-tech industry (Chen et al., 2018). In consequence, China has been seeking to source new markets for its investments and output routes for its overcapacity of production to stimulate its economic growth (Aoyama, 2016).

In order to make the national economy development sustainable, the Chinese government believe the increased level of export of Chinese goods is required. In consequence, China has named its strategy as “One Belt, One Road” (Holland and Scullion, 2019). The Belt and Road supply chain operates through the continents of Asia, Europe, and Africa, connecting the East Asian countries and developing the European economy, thus encompassing countries with a huge potential for economic development (Imomnazar, 2018). The One Belt, One Road strategy concept is considered as an essential driver to forming a diversified trade partnership in China's foreign trade. Therefore, China's national strategy has shifted from expanding domestic demand to focusing on global exports. This has clearly imposed pressure on Chinese businesses not just in technology, e.g. Huawei’s 4G/5G communication and DJI’s drones but also in the food manufacturing sector such as seafood, vegetables and dairy products (Jia, 2017).

The Chinese government are specifically encouraging the involvement of small-scale milk producers and also drives the current national and regional policies which are aimed at bolstering regional development and achieving poverty alleviation (Chen et al., 2019). This has been corroborated by revised policies, particularly those that boost investment in infrastructure and policies focusing on safety procedures in the rearing of animals (Azuayi, 2016). However, it must be emphasised that food safety challenges and breaches are a common occurrence. Most notable, was the melamine scandal that occurred in 2008, in which the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (AQSIQ) discovered that China’s powdered milk production had been contaminated with melamine and resulted in 52,000 babies being admitted into hospital, Such a serious dairy food safety incident makes consumers lose trust in domestic dairy products (Chen, 2009a, 2009b).

According to the GAIN (2019) report, China's milk consumption in 2018 reached 37.7 million tons, an increase of 2.5% over that in 2018. The growth is mainly from consumers in China's second and third tier cities, such as Hefei, Hohhot and etc. China's per capita milk consumption is about 36 kg / person, 1 / 3 of the world average level and 1 / 10 of that of developed countries. With the development of China's economy, consumers' preferences have gradually change from having enough food to healthy eating habits, and consumers pay more attention to healthy diet (Guo et al., 2019). Dairy products, as health food, have received growing attention by consumers. In addition, consumers are increasingly critical of the quality and safety of the dairy products they consume (Jia, 2017). In short, China's consumption of high-quality dairy products seems to have room for substantial growth. Therefore, improve the competitiveness of dairy products, let consumers have confidence in the safety of dairy products, help enterprises win the market.

The introduction of internationally recognized third-party food safety management is a good way to ensure food production safety (GAIN, 2018). Guo et al. (2019) put forward a broad understanding, highlighting the limitations and obstacles of using third-party resources to implement the food regulatory system in China. The biggest difficulty of adopting the third-party food safety management certification is that enterprises need to increase the investment in food safety to meet the certification requirements. However, in the domestic market, there is no mandatory requirement that food enterprises must pass the third-party food safety certification, and the enterprises are not required to carry out the third-party food safety certification (Guo et al., 2019). Xiong et al. (2017) explained that enterprise size has a significant impact on the implementation of third-party food regulation or food management system, especially for developing countries such as China. However, Tian (2016) described the use of Hazard Analysis and Critical Control Point (HACCP) system, which defined 38% of the implementation process, and provided positive results for the food regulatory system of China's food industry. Tian (2016) believes that the positive feedback of enterprises on the implementation of the third-party food safety management mode is not high. Although the third-party certification provides recognition for the food safety production of enterprises, because the enterprises that have passed the third-party food safety management certification are all large and medium-sized enterprises, before passing the certification, the enterprises of such scale already have strict food safety management measures, which weakens the advantages of implementing the new food safety management system. Alternatively, Tse et al. (2017) believes that the 19% failure rate determines that the use of third-party certification is inappropriate, and that the Chinese food industry has not observed the expected results. The failure of quality Food Safety Management System (FSMS) is usually attributed to emerging food risks, customs rejection due to safety non-compliance, emerging processing technologies, marketing and distribution, and other complex factors (Patrick et al., 2017). However, if dairy enterprises want to export their products to European countries, they must pass the certification of British Retail Consortium Global Standard (BRCGS) or International Food Standard (IFS) to ensure the food safety of imported products (Xiong et al., 2017; Geng et al., 2013),

Despite the historic lack of trust in Chinese dairy products. The sustained development of China's economy, trade and science and technology has made the United States, as the world's largest power under pressure. Lester and Zhu (2020) argue that since 2018, the relevant departments of the United States have launched a comprehensive investigation against China and, on the pretext of the survey results, substantially increased tariffs on goods originating in China, covering almost all Chinese exports. However, China's total import and export volume in 2018 increased by 9.7% compared with that in 2017 (General Administration of Customs of P.R. China, 2019), but the total import and export volume in 2019 only increased by 3.4% year-on-year (General Administration of Customs of P.R. China, 2020). Therefore, the impact of China and US trade friction on China's trade is significant. Liu (2020) argues the trade friction between China and the United States has cast a shadow on the formulation and implementation of the internationalisation strategy of Chinese enterprises.

# Methodology

In this study, 15 representatives of dairy production enterprises from 15000 members of Inner Mongolia Food Federation were interviewed through semi-structured interviews and qualitatively analysed via thematic analysis. A decision was made to group the questions utilising the three factors of internationalisation; (1) Implementation of food safety management systems; (2) The influence of China and US trade friction on international strategy; (3) The impact of COVID-19 epidemic on internationalisation of enterprises. The anecdotal data collected from the research, will also form part of a final report to the Inner Mongolian Food Federation, validating obstacles of China's dairy export, and points out the main obstacles of China's dairy export. Analysing key issues raised and providing recommendations. The interview responders’ information is listed in appendix 1.

# Results and discussion

**Implementation of food safety management systems**

Through interviews with representatives of the food federation, it can be concluded that the third-party food safety certification, such as HACCP and BRC, has been widely recognised by enterprises, which is consistent with the research results of Guo et al, (2019). However, because the Chinese government does not require enterprises to pass the third-party food safety management system certified by foreign countries, enterprises rarely take the initiative to certify the third-party food safety management system. As a result, there are obstacles in the implementation of the third-party food supervision system. In particular, enterprises will try to avoid extra expenses, which is the same conclusion drawn by Xiong et al. (2017). Xiong et al. (2017) concluded the size of enterprises is the main factor affecting the third-party food safety certification. Only large and medium-sized enterprises will consider using sufficient funds to invest in the third-party food management system certification. In addition, the respondents also believed that the implementation of the third-party food safety management system in enterprises requires management training and credible supervision, otherwise the effectiveness of FSMs will be weakened. Many local enterprises lack effective staff training and efficient supervision mechanism. Even if the third-party food safety management system is implemented, it cannot maximise its benefits. The above issues are reflected in the following interview statement:

**Interviewee C:**

*“Our enterprises have passed some third-party food safety certification, such as HACCP and BRC and ISO series. However, we feel that when implementing the third-party food safety system, enterprises need to increase investment in staff training and management training. As middle-level leaders of enterprises, we are the most familiar with these food safety certifications, but we feel that higher-level leaders do not know much about the role of these safety certification for food safety production.* *The front-line employees at the bottom don't really understand the meaning of the code of practice they follow. We think that only when all employees of the company fully understand the regulations in food safety certification and the benefits that can be brought by working according to the regulations, the effectiveness of third-party food safety certification can be maximised.”*

**Interviewee A:**

*“Our company has hired a business planning team and market strategy team. For the third-party food safety certification, we mainly consider the market and consumer demand for this kind of certification. Our own enterprises have already implemented strict food safety management measures, and even reached the safety level of pharmaceutical production. Food safety production can already be guaranteed through these measures. If we carry out these third-party certifications, some rules and regulations need to be adjusted and additional investment is needed for improvement and audit, etc. we pay more attention to the return on investment. At present, the certification of third-party food safety certification is mainly used when we advertise products to make consumers feel that we have more security than our competitors.”*

**Interviewee E:**

*“As the Department responsible for the market, R & D and investment, we need to consider how to maximise the profits of enterprises, which includes how to lead the competitors. At present, in the dairy industry, the first to bear the brunt is the competition for milk sources. The company that can control more milk sources, then this company has already taken the lead in the competition, because it can also control the cost of milk source, the followed competition is food safety. Domestic consumers are still worried about the melamine incident in 2008. As dairy products are more classified as nutritional products in the Chinese market, infant formula milk powder accounts for a large part of our total sales. The introduction of the third-party food safety management systems, especially the food safety certification systems in the United States, the United States and Europe, such as HACCP, BRC, IFS, etc., can help us to ease consumers' concerns about the safety of domestic dairy products”.*

**Interviewee L:**

*“We have been committed to the research on the latest international and domestic food safety standards for a long time, and have also helped many enterprises to transform and upgrade their food safety production compliance. In our experience, all the enterprises that have passed the international third-party food safety certification are large and medium-sized enterprises, because the government has no mandatory requirements for enterprises to obtain third-party food safety certification. In order to save costs, small enterprises will not voluntarily do third-party food safety certification.”*

**The influence of China-US trade friction on international strategy**

Interviews revealed that the trade friction between China and the United States has not brought difficulties to the operation of dairy enterprises for the time being, because China's export volume of dairy products is very small which confirms the findings in GAIN (2019) report. However, this kind of trade friction has a great impact on the formulation and implementation of enterprises' internationalisation strategy. At present, China's large dairy enterprises are in the process of international layout. What can best reflect this point is that they have purchased a large number of farms in Australia and New Zealand, so as to obtain imported milk sources. Compared with domestic milk sources, the chemical residues of imported milk sources are less and the price is stable. Domestic milk sources are subject to land pollution and the increasingly strict environmental protection policies of the government, and the prices are rising steadily. Although Australia and New Zealand have not followed the United States in adopting trade restrictions on China, it is difficult to guarantee that they will not adopt trade restrictions in the future due to their close political relations with the United States. Similar concern’s raised by Liu (2020) about Chinese company’s international strategy in which the interviewed dairy enterprises were cautious about exporting their products to European and American countries, mainly because of the uncertain factors in the current world trade environment, such as sudden increase of tariff and additional customs inspection, which affect the price and shelf life of products. The above issues are reflected in the following interview statement:

**Interviewee D:**

*“In terms of quality control, we found that imported milk sources contain fewer chemical residues than domestic milk sources. The use of imported milk sources can improve our detection efficiency and reduce the possibility of food safety incidents such as food poisoning.* *Therefore, ensuring the supply of imported high-quality milk source can help us better ensure the quality of our products.”*

**Interviewee B:**

*“Our international layout is mainly divided into two parts: the first part is the import of milk sources, and the second part is the export of dairy products. In terms of milk source import, we mainly adopt the way of purchasing overseas pastures and raising dairy cows, and the imported milk sources are mainly concentrated in Australia and New Zealand. The export of dairy products is currently concentrated in Southeast Asia, because Southeast Asian consumers and Chinese consumers have similar eating habits, we do not need to make too many changes to the products, they can be directly sold in the Southeast Asian market. Although at present, other countries except the United States have not issued trade restrictions against China, but we have been preventing possible trade frictions. Therefore, we are more cautious in the formulation of our internationalisation strategy than before, and have greatly reduced the scale of overseas investment in the future plan.”*

**Interviewee H:**

*“Our domestic milk source price is the biggest uncertainty factor for our whole enterprise. Due to the government's requirements of environmental protection and ecological restoration, dairy feed is becoming more and more expensive, which leads to higher and higher feeding costs of dairy cows. The rise of raw material prices leads to the rise of costs, resulting in the lack of competitiveness of China's dairy products in the international market. Some Southeast Asian countries often artificially extend the customs clearance speed of Chinese goods due to diplomatic friction with China, which greatly affects the shelf life of our products after entering the foreign market.”*

**The impact of COVID-19 epidemic on internationalisation of enterprises**

According to interview’s, the pandemic has not caused shrinking sales which confirms the finding in GAIN (2020). The quality inspection departments of Chinese dairy enterprises have strengthened the virus detection of raw materials to prevent the virus from entering the production and processing. In terms of internationalisation, some governments have suggested that people should reduce going out and working at home, which has caused difficulties for overseas factories. As COVID-19 is still in the stage of pandemic, enterprises choose to postpone advertising in overseas markets and venture investment in expanding factories. The above issues are reflected in the following interview statements:

**Interviewee G:**

*‘In terms of quality and safety, we have strengthened the detection of COVID-19 virus in raw materials and employees, so as to ensure that the possibility of virus entering the food processing process is cut off from the source. For the raw materials that need to be imported, the General Administration of Customs of China are responsible for the inspection of the outer packaging, including containers, as well as the sampling and testing of the raw materials themselves. Therefore, our whole supply chain system is very safe and fundamentally prevents the spread of viruses through our products. The COVID-19 virus has not been detected in the products we export. Therefore, our food export has not been affected by the food safety.”*

**Interviewee K:**

*‘COVID-19 has a great impact on the internationalisation of our enterprises. Because our oversea ranches need a large number of workers and Chinese management personnel, but because COVID-19 is still in the pandemic stage,* *a large reduction in direct flights has led to a surge in travel costs. Some countries suggest that people work at home and go out less. The lack of employees has brought great trouble to the normal production of our overseas factories. The expansion plans of some factories have been delayed than the original plans at least six months.”*

**Interviewee H:**

*“Since the outbreak of COVID-19, the sales volume of dairy products in our domestic market has not decreased but increased. This is mainly because domestic consumers believe that dairy products can help improve their immunity and reduce the risk of being attacked by virus. In the international market, the products we exported were not detected to carry virus, so the export of goods was carried out normally. However, in terms of the expansion of the international market, due to the different severity of the epidemic situation in different countries and the measures adopted by the government to control the epidemic situation, we postponed most of the international market promotion plans in order to avoid investment risks, including investment on advertisement, negotiation with local agents, etc.”*

# Conclusion

The results of this study support Guo et al. (2019) and Xiong et al. (2017) opinions on the implementation of the third-party food safety management system by Chinese enterprises. Enterprise managers are not aware of the food safety benefits brought by the implementation of the third-party food safety system, which is related to the lack of effective and systematic staff training. Most enterprises give up the implementation of third-party food safety management system for the sake of enterprise operation cost, which is consistent with the research results of Tian (2016).

Trade friction between China and the United States has made enterprises more cautious in import, export and overseas investment. Chinese dairy enterprises are cautious that more countries will be involved in trade frictions in the future, which will increase the variables of other countries' trade policies on Chinese goods, and make the import and export of goods face the risk of tariff increase and customs inspection delays. Therefore, the management of the enterprise intends to adjust the internationalization policy and temporarily reduce and postpone overseas investment.

Surprisingly, the COVID-19 epidemic did not affect the domestic market sales of dairy enterprises, but was limited by the different policies of other countries to deal with the epidemic situation, and the internationalization process of enterprises slowed down. Through investigation and analysis, the double attack of trade friction and the COVID-19 pandemic, the internationalization process of Chinese dairy enterprises will be seriously restricted, which makes Chinese dairy enterprises not active in introducing international third-party food safety certification.

The current research has limitations and needs further investigation. The data only represents the opinions of enterprise managers. Ideally, future research should try to include the opinions of government departments, such as the Food and Drug Administration and the Bureau of Commerce, so as to have a clearer understanding of the government's support for the internationalisation of enterprises and its judgment on the evolving international trade tensions.

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## Appendix 1

Information of interview responders

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| --- | --- | --- | --- | --- |
| Responder’s code | Industry type | Job title | Years of current employed | Years of working in food industry |
| A | Dairy | Director of strategic planning | 5 | 15 |
| B | Dairy | CEO | 13 | 20 |
| C | Dairy | QC Manager | 6 | 10 |
| D | Dairy | QC Manager | 8 | 10 |
| E | Dairy | Marketing Manager | 6 | 8 |
| F | Dairy | CEO | 10 | 25 |
| G | Dairy | QC Manager | 6 | 7 |
| H | Dairy | Investment Manager | 10 | 10 |
| I | Dairy | R & D Manager | 6 | 15 |
| J | Dairy | QC Manager | 8 | 8 |
| K | Food federation | Chief Secretary | 5 | 5 |
| L | Food federation | QC Expert | 4 | 20 |
| M | Food federation | President | 5 | 10 |
| N | Food federation | Marketing Manager | 3 | 6 |
| O | Food federation | QC Expert | 3 | 15 |