CHALLENGES AND OPPORTUNITIES OF EXPORTING MALAYSIAN TROPICAL FRUITS TO GULF COOPERATION COUNCIL (GCC) MARKET

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ABSTRACT

The Gulf Cooperation Council (GCC) market is growing over time. It consists of six member countries which include Bahrain, Kuwait, Oman, Saudi Arabia, and the United Arab Emirates (UAE). The GCC was formed in 1981 in order to strengthen the members' economic, social, and political ties by harmonizing regulations in various fields including economy, finance, trade, and customs. Food and beverage imports were the third highest sector share of the GCC market after manufacturing and machinery and transport, an increase of 6.12% from USD 40.6 billion (2016) to USD 43.1 billion (2017). Food import is projected to rise to USD 53.1 billion by 2020, due to an increase in supply dependency on imported food products. The high share of food and beverage imports is due to the lack of agricultural land, cost of production, and an increasing population of expatriates and locals. Fruits and vegetables (including tropical fruits) are among the main sectors in imported agricultural products listed by the GCC. Therefore, this study aims to identify the issues, challenges, and opportunities of exporting tropical Malaysian fruits to the GCC (particularly UAE, Oman, and Qatar). SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis was carried out to determine the overall market structure. The analysis revealed huge opportunities to meet the demand and supply from the market, and Malaysia is one of the suppliers. However, freight charges, inconsistent supply, quality, and post-harvest handling are hurdles for exporters to fulfill the demand. These findings can potentially assist exporters to understand the market structure as well as increase their exports in the near future.

Keywords: Malaysian tropical fruits, challengers, opportunities, SWOT Analysis

1. INTRODUCTION

Exports of Malaysian tropical fruits to the Middle East began in the early 2000s. However, the trade and business relationship were relatively small compared to their 'traditional' trading partners (Asmak & Mohd Fauzi, 2009). With the exception of oil and gas commodity, Middle East countries have evolved significantly to be the fastest-growing region in the world. The Middle East refers to 15 countries namely, Yemen, Syria, the United Arab Emirates (UAE), Turkey, Saudi Arabia, Qatar, Oman, Lebanon, Kuwait, Jordan, Iraq, Iran, Egypt, and Bahrain. Meanwhile, the Gulf Cooperation Council (GCC), is a political, economic, social, and cultural coalition comprising six Persian Gulf Arab nations namely Saudi Arabia, the UAE, Qatar, Oman, Bahrain, and Kuwait. The GCC is well-known in the world economy for having a more dynamic market and politics than any other Arab country (Encyclopaedia Britannica, 2019). The Free Trade Agreement between Malaysia and the GCC was signed in 2011 but was postponed due to a number of issues and challenges including political uncertainty during the Arab Spring, the global financial crisis, and crude oil prices (Rupa, 2017).

Agricultural trade has played an important role in strengthening food security and safety to consumers across the globe. Being a neutral, modern, and prominent progressive Muslim state, Malaysia has been very active in the advancement of her trade by encouraging collaborations with numerous GCC countries (Irwan Shah & Muhammad, 2018). In January 2011, a framework agreement on economic, commercial, and technical cooperation between Malaysia and the GCC was sealed in Abu Dhabi (Abdurabb, 2011; Tajul *et al*., 2011). Malaysia is also involved in trade agreements with the Organization of Islamic Conference countries which comprises the GCC since the 1990s. This agreement is expected to benefit all partners in order to spur investment but also to produce growth in trade through the removal or reduction of customs barriers, the encouragement of contact between, and the establishment of economic, trade, and investment partnership (Abdurabb, 2011; Tajul *et al*., 2011).

In 2010, the Malaysian government introduced the National Agrofood Policy (NAP4) 2011–2020, as a masterplan to implement programs and projects for the development of the agricultural sector (Rozhan, 2019). One of the key focuses is to increase the export value of Malaysian agricultural produce including fruits (Chubashini, 2015). The Middle East market particularly the GCC countries is one of the main target export market of Malaysian tropical fruits in the NAP4 strategic plan. In 2017, the Middle East market contributed 4.02% (USD 8.696 million) from Malaysia's total global agriculture export (USD 216.428 million). A part of that 0.12% or USD 10.551 million is from edible fruit and nuts; peels of citrus or melons. All types of fruits, vegetables, cut flowers, and foliage are allowed to be exported to the Middle Eastern countries with approved phytosanitary certificate endorsement. No special treatments are required but it must be free from any plant pest and disease.

Dubai, a metropolis and popular city of the UAE is renowned as a transshipment hub or gateway for re-export activity to other Middle East countries and the African region. The UAE is home to over 200 nationalities, composed of 20% native residents, with the remaining 80% comprising of immigrants from India (accounting for 51%) (World Population Review, 2019). The UAE will be the second fastest growing food market at a compound annual growth rate of 4.9% by 2019 after Qatar's, 5.5% on the back growth of the younger population (International Trade Centre, 2015). The changes in preference and rising health consciousness among the younger generation has led to higher consumption of nutritional foods as well as tropical fruits. South Africa, Latin America, and the Asia Pacific region, including Malaysia are among the main exporters of tropical fruits to the Middle East. The UAE is the leading export destination of Malaysian tropical fruits with 44.3% market share, followed by Egypt (11.3%), Yemen (8.9%), and others (35.5%). Pineapple, watermelon, jackfruit, rambutan, star fruit, and papaya are the top fruits exported to the UAE. Despite a good relationship with the UAE, there is still room for improvement with the new emerging markets, Oman and Qatar.

Qatar is a country located east of the Arabian Peninsula next to the countries of Saudi Arabia, Bahrain, and the UAE. Known as the world's richest country in 2017 by the International Monetary Fund, Qatar's economic resources are from petroleum, oil, and natural gas; with 50% of Gross Domestic Product (GDP), 85% of export revenue, and 70% of government revenue (International Trade Centre, 2015). The country of Oman is located on the southeast coast of the Arabian Peninsula in West Asia and is an important route along the Persian Gulf estuary. Oman shares its border with the UAE in the Northwest, Saudi Arabia in the West, and Yemen in the southwest; making this Arab nation a fast developing country and categorized as a high-income country and listed as one of the 70 safest countries in the world. Oman's economic resources are from oil and gas production, which accounts for 45% of GDP, services (38.5%), manufacturing (16.6%), and agriculture and fisheries (1.3%). Examples of agricultural activities are camel, goat, and lamb breeding; dates and vegetables (Fanack, 2018).

The findings of this study provided market information that can assist the government in developing local tropical fruit marketing strategies in the UAE market and to embark on exports to new emerging markets. Therefore, the objectives of this study were:

i) To analyze the export trend of Malaysian tropical fruits to the UAE market.
ii) To employ SWOT analysis in identifying the issues, challenges, and opportunities in exporting tropical Malaysian fruits to the GCC (mainly to Oman and Qatar markets).

2. MATERIALS AND METHODS

2.1. Data Collection

Primary and secondary resources were used in the study. At the start of the study, a focus group discussion was held among Malaysian fruits exporter and related government agencies to identify export issues and challengers mainly for Dubai's export chain. Findings gathered from the focus group discussion were also used as a base for the structured questionnaire developed for interviews with industry players. A purposive sampling was applied to select the industry players among importers, distributors, procurement managers, and retailers to determine the distribution structure and the cost price of imported fruits in the Dubai market. Other than that, in-store observation at various categories of grocery outlets (retail stores, supermarkets and hypermarkets including Lulu Hypermarkets, Carrefour, Spinneys, Waitrose, and Union Coop) was also used to generate more information on the tropical fruits distribution network in the Dubai market. Secondary data of fruit trade statistics (import and export) from TradeMap's online database (2012–2016) was also used in the study.

2.2. SWOT Analysis

To explore new markets in Oman and Qatar, a SWOT analysis was conducted taking into account the overall relationship between internal and external market factors. This analysis is one of the frameworks in developing business and market strategies to evaluate strengths, weaknesses, opportunities and threats. Strengths and weaknesses are internal factors while opportunities and threats are external factors in the SWOT analysis.

3. RESULTS

3.1. Established Market, the Middle East

Exports of Malaysian tropical fruits to the Middle East market showed an increase with an average export growth of 38.62% per annum from RM12.2 million (2012) to RM35.7 million (2016) (MOA 2018). The sharp increase was in 2015 where exports increased by 59% from the previous year. Exports to the Middle East comprise of 14 countries as shown in Figure 1. The Middle East's primary market is the UAE (Dubai) which is the largest market (44.3%), followed by Egypt (11.3%) and Yemen (8.9%). Oman's and Qatar's market presence is less than 1%, but they are expected to potentially expand exports of fresh agricultural produce.

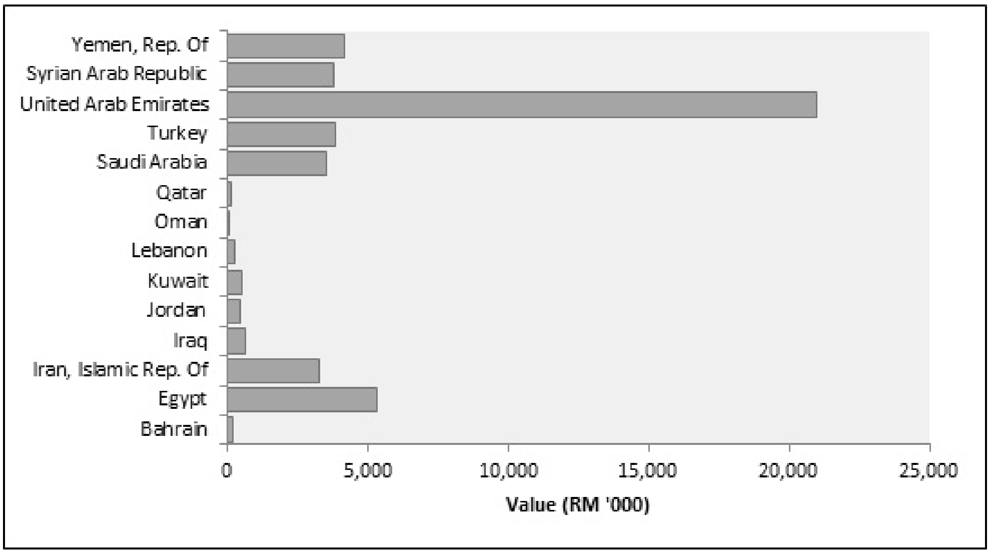

Figure 1. Export value of tropical fruit to the Middle East (2012–2016) Source : MOA, 2018

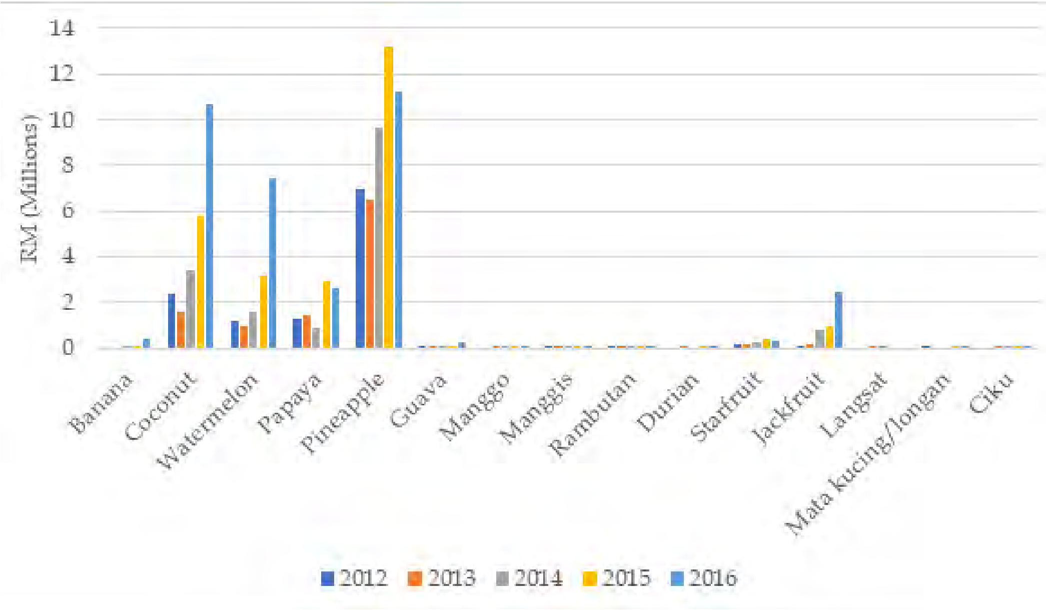

Figure 2. Total export value of tropical fruits export to the Middle East (2012–2016)[13].

3.2. Potential New Market, Oman and Qatar

The issues and challenges of exporting fruit to the Middle East especially to the UAE were identified based on interviews and focus group discussions with experienced Malaysian exporters with more than 10 years of exporting tropical fruits to this market. Some of the issues facing exporters are as follows:

i) The high cost of air transport is almost double the purchase price of the farm. For example, jackfruit is priced at RM 3.50/kg and air transport costs RM 7/ kg. These charges are from international air carriers such as Emirates, Qatar Airways, Oman Air, and others. There is no local air transport from Malaysia Airlines to the Middle East. Transportation charges continue to increase depending on the terms set by the airline. This will result in less profits for the exporters having to bear the rising costs, while the importers want cheaper prices. An alternative to air transportation is by sea which freight charges are cheaper. However, sea transport requires larger quantities. The travel distance is also long (9–14 days) while these fresh fruits have a short shelf life. In order to provide fresh fruit on the shelves, quality care and post-harvest handling are important practices.

ii) Exporters also face the problem of shortage of quality fruit and a consistent sale price. Purchase prices at the farm vary based on the fruit supply at the farm. Prices will increase if the supply of quality products is limited and exporters have to procure the products at a higher price. Exporters also face problems with shortage of supply despite ordering fruits from farmers. This issue is especially prevalent during the rainy season as production faces short supply.

3.3. SWOT Analysis

Figures 3 and 4 show the SWOT analysis conducted on Oman and Qatar markets.

Figure 3. Summary of finding from SWOT Analysis for Oman market.

Figure 4. Summary of finding from SWOT Analysis for Qatar market.

4. DISCUSSION

4.1. Trend Analysis for UAE market

The total value of fruit exports to the UAE increased by 90% from RM7.5 million (2012) to RM14.3 million (2017) (MOA, 2018). Figure 5 shows Malaysian fruit exports in the UAE market for 2012–2016. Three types of fruit, watermelon, starfruit and jackfruit showed an increase in export value. Meanwhile, export value of desiccated coconut and guava declined from 2012 to 2016. Among all of the fruits, jackfruit showed the most potential because its export value increased significantly by RM 278,460 a year.

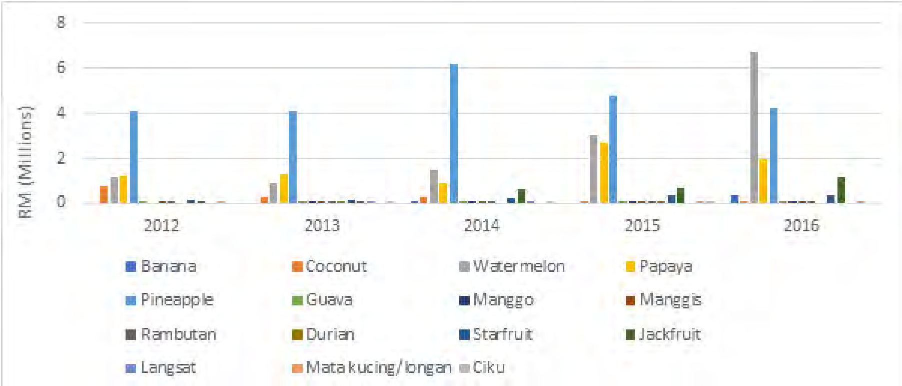

Figure 5. Total export value of tropical fruits export to UAE (2012–2016) Source: MOA, 2018

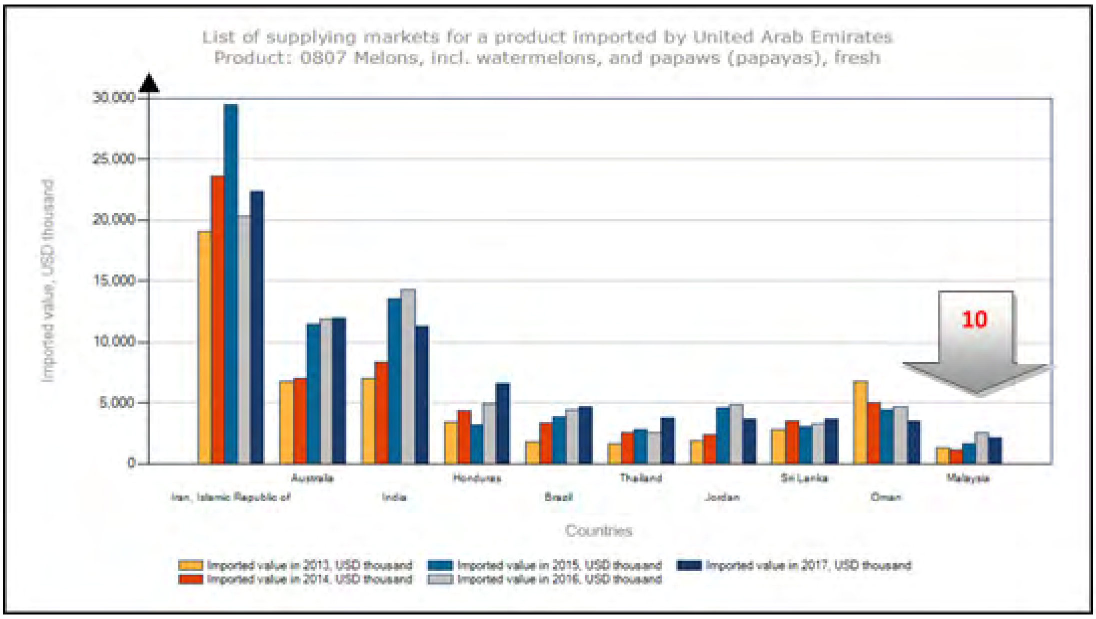

Figure 6. Malaysia's watermelon export rankings and competitors' market share in the UAE market (2013–2017). Source : Trade Map, 2018

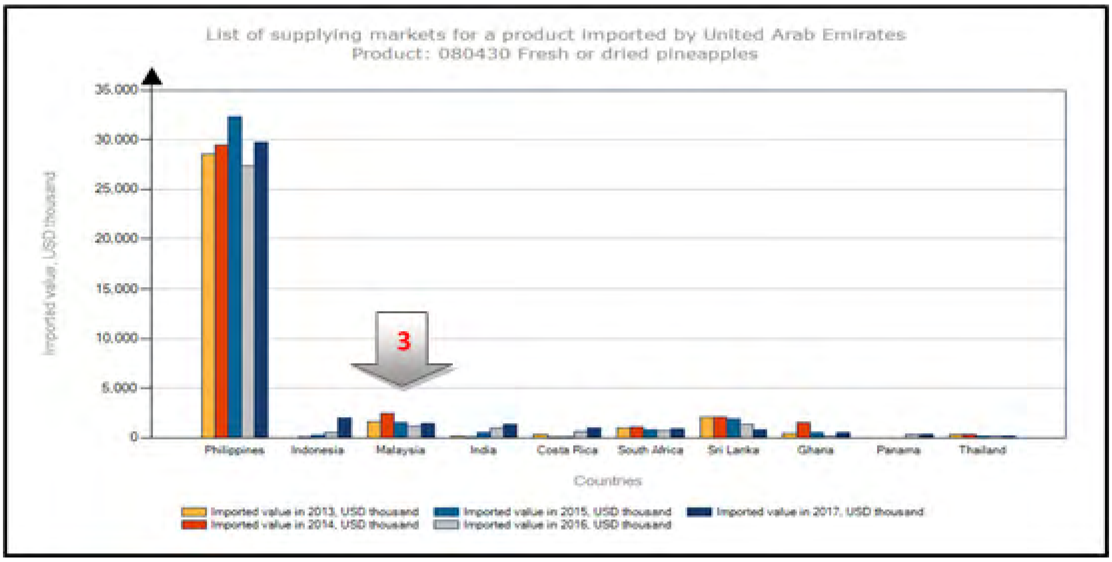

Figure 7. Malaysia's pineapple export rankings and competitors' market share in the UAE market (2013–2017). Source : Trade Map, 2018

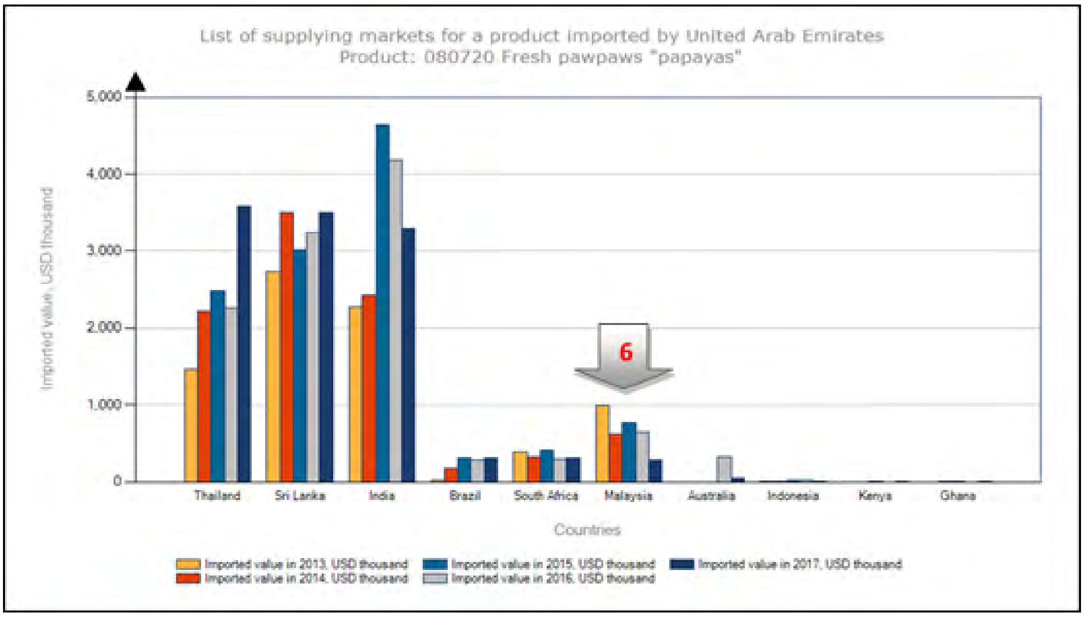

Figure 8. Malaysia's papaya export rankings and competitors' market share in the UAE market (2013–2017). Source : Trade Map, 2018

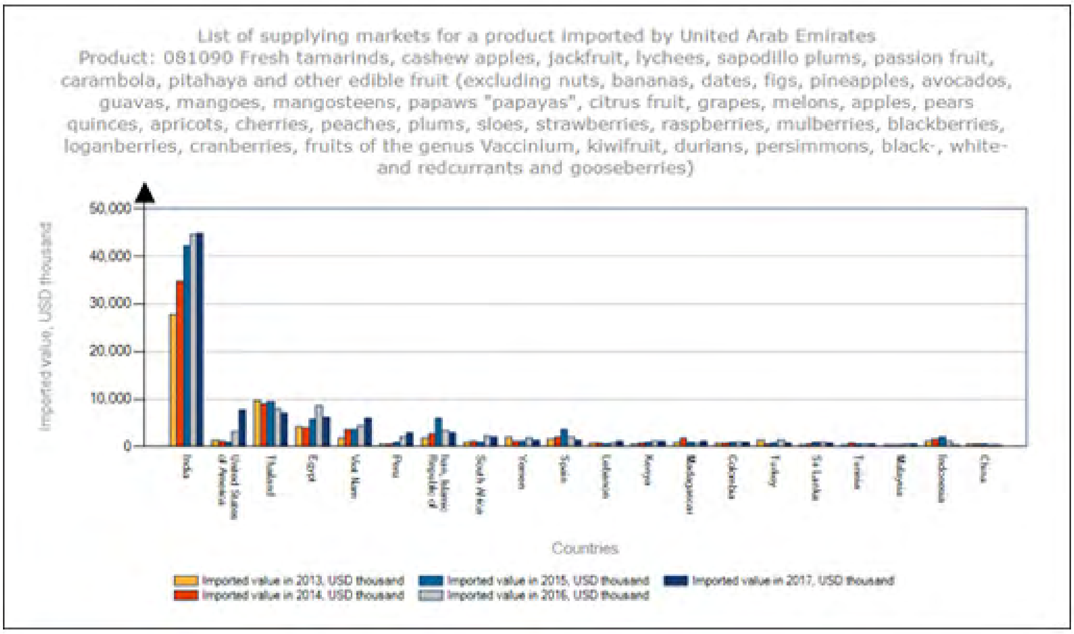

Figure 9. Total exports for Malaysia and competitor countries of other tropical fruits in the UAE market (2013–2017). Source: Trade Map, 2018

Figures 6–9 show the export status of selected Malaysian fruits and competitor countries. The countries exporting watermelons to the UAE are Iran, Australia, India, Honduras, Brazil, Malaysia, and others. Malaysia ranked tenth after Oman (Figure 6). In terms of pineapple exports, Malaysia was ranked third while the Philippines dominated pineapple exports with the highest number of exports compared to competing countries (Figure 7). MD2 pineapple varieties produced by the Philippines are well known among consumers in the UAE and the Middle East. Indonesia is a close competitor to Malaysia as it entered the UAE pineapple export market in 2015.

Overall, Malaysia ranks sixth in exports of papaya to the UAE after South Africa (Figure 8). The exported varieties are of the Sekaki type. Thailand, Sri Lanka, and India are the three largest exporting countries to the UAE market. The Sri Lankan and Indian varieties are as small as the Solo papaya. Figure 9 shows Malaysia's export position for other tropical fruits, such as jackfruit. Although Malaysia is in the eighteenth position, exports of jackfruit are increasing every year, signaling a promising upward trend. . India is the largest exporter of other tropical fruits in the UAE market followed by the USA, Thailand, and Egypt. This calculation is cumulative for several types of fruits including jackfruit, starfish, ciku (sapodilla), and passion fruit.

4.2. SWOT Analysis for Oman Market

The Strength of exporting Malaysian fruits to Oman is based on a history of good relations between the two countries. In addition, Oman's open policy is to diversify the country's economic resources by opening up more foreign investment opportunities. The duty-free port, Duqm, has been a driving force in Malaysia–Oman trade relations. The port is being upgraded with the best facilities for trade. In terms of the distance from Europe and the Middle East, Oman is the first port of the Persian Gulf. This makes the journey shorter (7–10 days) compared to the Jebel Ali Port in the UAE which takes 9–14 days.

The Weakness, on the other hand, is air transport charges which have become a major issue for exporting fresh fruits to the Middle East including Oman. High charges are imposed by foreign airlines causing the cost of sales to rise and thus increasing prices in the retail market. Sea shipment services are an alternative but deliveries need to be in greater quantities and take longer delivery times. There is a risk of delays and damage during operation on board. Therefore, to minimize losses, exporters should minimize risks in trading.

The Opportunity can be seen in the long run, since Oman market is viewed favorably as a good investment over the next 10–15 years. The Duqm port is currently being upgraded and expected to provide a strong rivalry to the port at Jebel Ali. Competition in business will provide opportunities and positive impact for the future of Oman market. In addition, Oman's state government wants diversification of economic power in line with the increasing number of locals and expatriates. Another opportunity that Malaysian exporters can tap is by targeting or capturing seasons of reduced competition when competitors from other countries cannot fulfill supply obligations. For example, by being an alternative supplier to the Philippines from September to December due to the monsoon season in the country.

The Threat of competition from other competing countries is one of the factors to consider. Excessive selling prices will reduce demand in the retail market. However, this can happen only if the quality and quantity of supply is observed for a particular market segment; for an example a caterer market or an agro-based product manufacturing institution. In order to ensure quality throughout the value chain, post-harvest management is very important and this can also be a threat to exporters if this factor is not taken seriously. In addition, the promotion and marketing strategies need to be continued in the Oman market so that the introduction of Malaysian products is known to local consumers.

4.3. SWOT Analysis for Qatar Market

The Strength can be seen as Qatar is a very potential and well-developed market. Malaysia–Qatar's bilateral alliance opens up opportunities for international trade especially for export of local tropical fruits. Trade history has shown that Qatar is Malaysia's largest trading partner after the UAE and Saudi Arabia for electrical products, appliances, and processed foods; and this is a strength factor for this market. Qatar is one of the countries rich in oil and natural gas resources. The small local population with high national income provides the people of Qatar with a high purchasing power. According to a report from Mohammad, The Peninsular (2017), the people of Qatar have assets of less than QR 100 million or equivalent to USD 102 million, which makes its population the wealthiest in the Middle East.

Similar Weakness as in the Oman market, which is the issue of air transport service charges resulting in export deficits in the country. Alternative transportation by sea requires a larger shipment and a greater risk of damage and loss. However, the strategy of minimizing losses can be devised by implementing good post-management practices.

The Opportunity. While products from Malaysia's closest tropical fruit competitor such as Thailand are still lacking, the strategy of expanding Malaysian agricultural produce market as a market leader is a great opportunity. In addition, with Qatar hosting the 2020 FIFA World Cup, which is expected to be watched by approximately 400,000 people, the need for food will increase. This will be an opportunity for Malaysia to become a major supplier of local fruits. and indirectly boost export performance while increasing the country's global reputation. Sanctions faced by Qatar from the allies of Saudi Arabia, the UAE, Bahrain, Yemen, and Egypt have not shaken Qatar's efforts to obtain food supply. In fact, they are aggressively upgrading trade infrastructure and logistics to import their own food supply from source countries without relying entirely on the UAE as previously practiced. This economic restriction once again provides an opportunity for Malaysia to establish closer trade relations with Qatar.

The Threats in terms of exports and imports abroad are from other competitors in terms of price, supply, quality, and service. Quality and consistent supply enable a country to meet the demand of local people. The management of post-harvest handling must be taken seriously by all exporters to ensure the quality of the exported fruits is maintained. In addition, continuous promotional programs for consumers should be continued so that Malaysian fruits are recognized and appreciated by Qatari consumers.

4.4. Recommendation

The main issue of exports of Malaysian fruits to the Middle East is air transport. Air transport charges increase every year up to 70% of total production cost in Malaysia. Despite this, air transportation is seen as a more efficient way of exporting Malaysian tropical fruits to the Middle East due to the short travel time (one day), low risk of damage, and quality is guaranteed despite transporting a limited supply. In this regard, it is proposed that a policy of incentives be targeted at exporters using air transportation based on their merits and annual export performance. The proposed incentive is to provide business tax exemptions collected as government revenue.

The second suggestion is to strengthen sea transport. Marine transport services are an alternative to air transport, but the challenge is to meet the demand in large quantities besides the risk of delays along with damage and loss to the shipment. In terms of service charges, marine logistics can reduce overall production costs. To help solve this problem, the government is advised to reduce the risk of export loss in the event of a malfunction or delivery delay that could result in a loss. The government should help cover 50% of the losses with business tax exemptions to exporters using sea transport.

5. CONCLUSIONS

Exports of Malaysian tropical fruits to the Middle East market showed an increase of 38.62% growth from 2012 to 2016. Pineapple was the main source of Malaysian exports. The UAE is the largest trading partner of Malaysian fruits among the other middle eastern countries (44.3%). Jackfruit is the most viable and competitive product to export as its value and quantity have increased significantly by RM278,460 a year. Malaysia is competing with other countries in the UAE in the tropical fruit market, ranking third for pineapple exports, sixth for papaya exports, tenth for exports of watermelons and eighteenth for other tropical fruits including jackfruit, starfruit, squash, and passion fruit.

The markets of Oman and Qatar are potential export markets to penetrate and expand. Through the SWOT analysis conducted, Malaysian exports will continue to grow in the Middle East if the demand in Oman and Qatar can be fulfilled. However, promotional programs need to be continued to raise awareness and increase consumer interest in Malaysian fruits.

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