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snapshot

WHAT ITALIAN AGRIPRENEURS NEED TO KNOW ABOUT THE AGRIFOOD SECTOR IN THE ASEAN REGION

Luca Sartorelli

A larger population and increased purchasing power have led to substantial growth in global demand for food in recent decades. While the contribution of agriculture to world GDP has, with very few exceptions (i.e., Ethiopia and Argentina), seen a constant decline, agrifood production has increased significantly since the end of World War II, and it is expected to double by 2050.[1] More efficient farm structures, technological innovations and better inputs are among the major contributors to this global miracle.

[1] Emiko Fukase, Will Martin (2017), *Economic Growth, Convergence and World Food Demand and Supply*, World Bank Group.

in collaboration with

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CENTRO LUIGI BOBBIO PER LA RICERCA SOCIALE PUBBLICA E APPLICATA
UNIVERSITÀ DEGLI STUDI DI TORINO
ICCS Italian Chamber of Commerce in Singapore

THE *ASIAPROSPECTS SNAPSHOT* SERIES
IS EDITED BY **GABRIELE GIOVANNINI** (T.WAI & UNIVERSITY OF TURIN)

[2] UN Comtrade and other sources.

Trade of agrifood commodities has also risen exponentially[2], boosted by a faster and cheaper transport system, easier capital flows and improved logistics.

Historically, the major producers and exporters of agrifood were concentrated in the West, mostly in Europe and the USA. However, with the emergence of new markets and the proliferation of larger manufacturers (one example is the Thai conglomerate Charoen Pokphand Group[3]), the global trade map now looks more intersected and complex than ever, and new opportunities are popping up for the agrifood sector.

[3] With a revenue of around 60 billion a year, Charoen Pokphand Group is one of the world's largest conglomerates and the largest producer of feed and meat in Asia. It also owns the Thai branches of the 7-Eleven convenience store.

This snapshot gives an overview of the ASEAN agrifood market and trade, with the aim of identifying opportunities for the Italian food value chain.

Agrifood represents around 10% of all Italian exports. In 2019, the sector reached nearly USD 50 billion, improving its overall performance of 5.3% from the previous year.[4] Loyal to the gravity model of trade,[5] the most profitable destination markets for Italy remain the EU and the UK, intercepting at least a third of overall exports (around USD 30 billion in 2019), while Asia and the ASEAN region play a lesser role. However, if we look at the most recent numbers, we can notice some positive signals. The hard work of our foreign missions, chambers and entrepreneur associations but also the determination of some resourceful agripreneurs and merchants are finally starting to pay off. In the wake of the more established trade routes with Japan and with the Republic of Korea, the trendiest markets in Asia, without mentioning China, the ASEAN channel has been in constant expansion, and it appears to be in better shape nowadays than it was just a few years ago. The chart below shows the changes in value of Italian agrifood exports to the most established ASEAN markets between 2015 and 2019.

[4] ISMEA (2019), *Scambi con l'estero: la bilancia agroalimentare nazionale nel 2019.*

[5] By which bilateral trade flows are stronger among neighbouring countries of similar size.

Source: Author's calculations from the UN Comtrade Database.

As the above table shows, the overall performance is excellent. ASEAN exports from Italy have grown fast in the last five years, by an average of 31%. There are some outstanding cases like the Philippines (+87%) or Indonesia (+49%), and some less impressive but still relevant cases like Thailand, which, despite a recent government shift that favoured internal production against imports, recorded a respectable +14% since 2015 and remains the largest destination market for Italian agrifood in the ASEAN region.

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We discussed these trends with Mr Francesco Cioffi, Resident Manager in Thailand for Conserve Italia, one of the largest European agrifood groups, which includes brands such as Cirio, Valfrutta, Yoga and Jolly Colombani. Mr Cioffi, who is also Thailand Country Manager of San Benedetto, a leading Italian beverage company, is positive about the future of agrifood, but he believes that Italian enterprises and merchants could do better in positioning themselves in the ASEAN region, a market that is bigger than the EU and the Russian Federation combined. While major European players such as France, Germany and the UK are for historical reasons well positioned in most ASEAN countries, Italy holds the advantage of the 'made in Italy' label. While it is true that this unique head start is not as powerful as in other sectors (i.e., automobile, luxury or fashion), it is also true that tastes and choices in food are becoming more influenced by global trends, and they are also becoming a sign of a person's status.
For instance, the Mediterranean diet is now widely considered an essential element of a healthy and fashionable lifestyle by the upper-middle classes in major ASEAN hubs such as Bangkok, Kuala Lumpur, Singapore and Jakarta.[6]

[6] **The Nation – Thailand, *A diet that sharpens the mind*, 24 September 2018; The Jakarta Post, *2019 dietary 'trend': Out with Ketogenic, in with Mediterranean*, 12 January 2019; The Strait Times (Singapore), *The Mediterranean diet works, but not if you are poor*, 8 August 2017.**

However, he infers, this is not enough. The bulk of consumption is still strongly supported by the Western expat communities and long-term (Western) tourists, segments of the market that are not expected to grow significantly in the near future. According to internal data provided to the author, the proportion of domestic consumption of Italian agrifood in ASEAN countries is below 10%. As a matter of fact, local customers are rarely seen in the Western departments of most of the grocery stores in Southeast Asia.

Traditional food forms an essential part of the everyday life of Asian families, and we cannot expect that linguine al pesto or pizza will have the chance to replace cornerstones of the Southeast Asian tradition such as pad thai, nasi goreng, pho or adobo. From education to architecture, and taking in medicine and religion, the millennial culinary culture permeates all aspects of Southeast Asian culture. Further expansion in the ASEAN F&B market is unlikely if Italian industry does not change its approach towards this region.

Francesco Cioffi, who is also brand ambassador of ALMA, a top international cookery school based in Parma, was one of the keynote speakers during Bangkok's 'Week of Italian Cuisine in the World' in 2019, promoted by the Embassy of Italy and the Thai–Italian Chamber of Commerce. While in Italy we are still embarrassed about Hawaiian pizza, last year's event focused on food education and promoted a culture of 'positive contaminations' as a strategy for hitting the ASEAN markets. Italy, according to Mr Cioffi, should help domestic consumers familiarize themselves with its best products and ingredients, forgetting about their original uses in Italian tradition. Selling food involves selling a piece of one country's culture, but we should make an effort to adapt it to the local cuisine. While rooted traditions are difficult to tarnish, Southeast Asia has actually demonstrated that it is very quick in assimilating changes.

Earlier this year, the Embassy of Italy in Myanmar organized the second Italian Food Festival, a social event to celebrate Italian culinary traditions, which attracted more than 4,000 people, an astonishing result in a country with very limited exposure to the Western world until a few years ago, and very little knowledge about Italian food and wine culture.

The long-term effects of initiatives of this kind should not be underestimated. Such strategies will need to become routine as they are key to making the industry more competitive and to positioning the brand 'Italy' in the ASEAN market. Promotional and educational events should be accompanied by a more solid presence online, with captivating tutorials and videos easily accessible via smartphones through major platforms such as LINE, Facebook, Instagram, and most recently TikTok.

Mr Diego Todone, Regional Sales Manager of Ethica Wines, one of the largest merchants of Italian wine in Southeast Asia, is on the same page. Wine education activities such as masterclasses, trainings or tasting events are critical in promoting the Italian wine culture and building a long-lasting relationship with the ASEAN customer, he says. They are win-win investments that help promote Italy as a respectable player in the ASEAN F&B market.

Wine is a critical product when we look at agrifood exports in ASEAN. While the ASEAN group is not expected to become a wine aficionado in the near future, we have observed some positive movements in the last five years. Singapore is confirmed as the main wine hub in the region, with an average of USD 18 million of trade value per year. Vietnam and Thailand are also performing well, reaching USD 13 and 12 million of trade value in 2019, respectively. Following the global trend, sparkling wines are the best performers (mostly Prosecco), while the market for traditional red wines looks quite flat. On a negative note, the Indonesian market, once a promising frontier market for wine, in 2019 lost more than 70% of its trade value as a consequence of the continuous pressure from the Islamic parties to ban alcohol. The dispute over palm oil imports to the EU also contributed to making the relation with Italian products more complex.[7] We hope that Malaysia will not follow a similar path, but the situation needs to be watched closely.

[7] Reuters, *Indonesia warns on EU trade deal, dairy imports amid palm oil spat*, 17 December 2019.

Source: Author's calculations from the UN Comtrade Database.

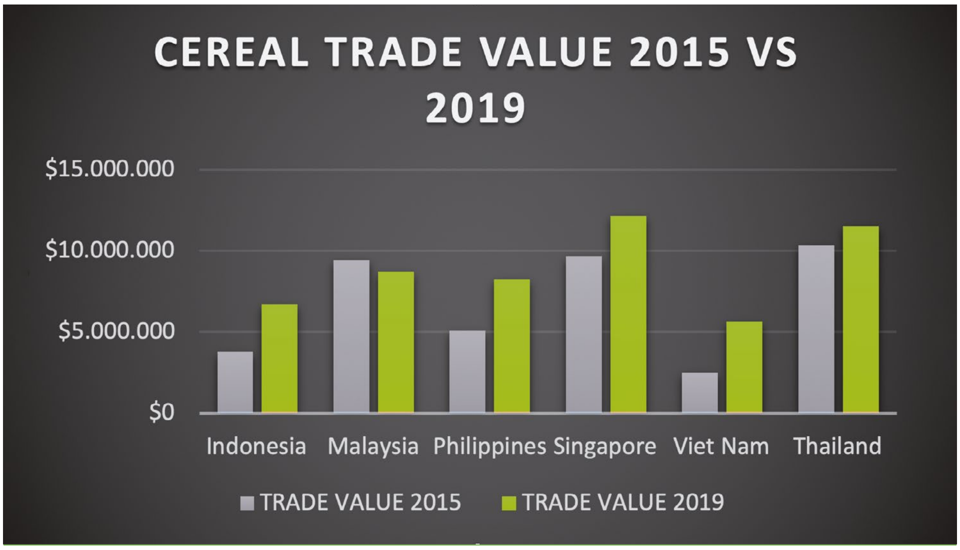
According to Mr Todone, without solid trade agreements, Italy will not have an easy time in the ASEAN region. In particular, in some ASEAN countries, increasing import duties on EU products represents a burden and penalizes their competitiveness. A free trade agreement between the ASEAN group and the EU would be a terrific boost for Italian producers.

We asked Mr Alessandro Chiandetti, an experienced wine trader with around ten years' experience in Asia, to give advice to Italian wine producers that want to move independently but have little experience abroad. He suggested first gaining some experience in neighbouring markets such as Germany, and then choosing as a starting point a mature market such as Singapore, an approach that will also avoid nasty surprises with taxation or custom issues.

Conversely, Francesco Cioffi suggested to agrifood SMEs that the easiest avenue through which to approach the ASEAN markets is to prepare a selection of premium products with high added value, rather than ordinary ones. And once again, he stressed the diversity of ASEAN markets. While the region is working hard to create regional standards for FDAs and common trading procedures, the taxation systems vary substantially, as do customer expectations. A solid knowledge of local cultures and practices is indispensable when navigating the ASEAN markets. Similarities remain, but the milieu in which a Muslim Indonesian middle-class household lives will be radically different from those of its Vietnamese, Filipino or Thai counterparts.

Another interesting sector is cereal, where we can observe some interesting trends in the last two years. Italian pasta is performing well, with more than five years of consecutive growth. However, it suffered on average a decline of 8% in all major ASEAN markets in 2019, Thailand being the worst performer with a 12% loss.[8] This is in line with the performance of other important Western players such as Germany and the USA. Other traditional Italian exports include food preparations such as sauces and ice cream. Both products made significant progress in recent years, and if we look at sauces, we see encouraging progress, particularly in Vietnam, Indonesia and Malaysia.

[8] Author's calculations from the UN Comtrade Database.



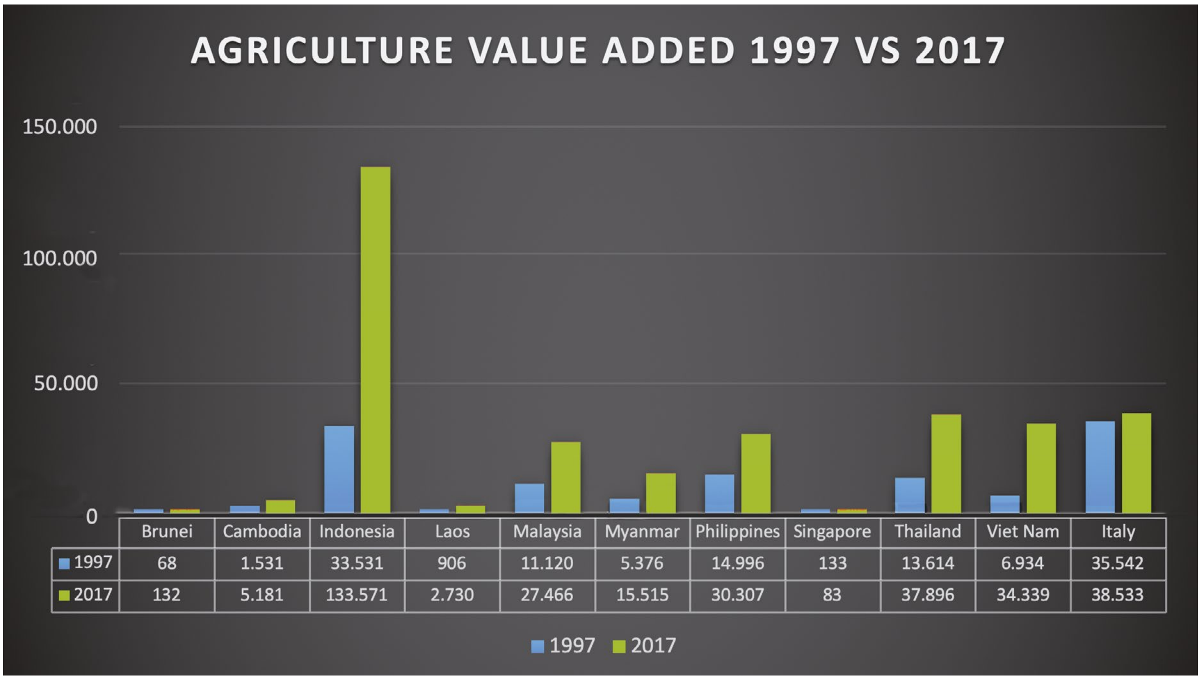
Source: Author's calculations from the UN Comtrade Database.

We had the chance to discuss this topic with a small Italian producer that recently started its business adventure in Vietnam. Molino Bigolin was historically a soft wheat grinder located near Bassano del Grappa, with little or zero experience abroad. Francesco, one of the owners of the mill, told us that the first months were not easy, but the language barrier and the difficulties of moving from a small Italian village to an overcrowded ASEAN megacity to meet new clients did not deter the stubborn Venetian entrepreneur. After one year of work, Molino Bigolin's flours are now listed and sold in the Vietnamese market through Ly Gia Vien, a local distributor of machinery and products for the F&B industry. Our interlocutor says it is difficult to predict the future of his flour in Asia, but he feels rewarded by these first results and hopes to solidify his relationship with the Vietnamese distributor. The mill is now trying to obtain IFS[9] certification and is getting ready to explore opportunities in other neighbouring countries.

[9] IFS Food Standard, a standard endorsed by the Global Food Safety Initiative.

Interest in the agrifood business and the related food supply chains are gaining momentum in the ASEAN region, and governments are allocating substantial resources to the sector. In absolute terms, also, value-added agriculture[10] has increased to an unprecedented extent. The table below analyses the variance in value-added agriculture in ten years in the ASEAN group. All countries show a substantial increase, the only exception being the city-state of Singapore, for obvious reasons. To make a comparison, in the same period the value of Italian agriculture saw a meagre increase of 8%.

[10] Agriculture and its added value, which normally includes forestry and fishing, is obtained from the sum of the net agriculture output and its outputs, subtracting all intermediate inputs.



	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Viet Nam	Italy
1997	68	1.531	33.531	906	11.120	5.376	14.996	133	13.614	6.934	35.542
2017	132	5.181	133.571	2.730	27.466	15.515	30.307	83	37.896	34.339	38.533

Source: Author's calculations from FAOSTAT data.

This exceptional trend in value added confirms that the ASEAN region has the potential to become one of the most vibrant markets for agricultural inputs. This could represent a unique opportunity for some of the sectors in which Italy excels, such as agricultural machinery and new technologies, transformation plants, agricultural inputs and animal fodder, and also agrifood know-how.

We will discuss how Italian excellence can fit into this new market in one of our next reports.

snapshot

e-commerce: the unexpected impact of Covid-19

One way to gain a quick understanding of the impact of the novel coronavirus (SARS-CoV-2) on the food and beverage industries and consumers is to observe the trends in e-commerce since the beginning of the pandemic and the consequent restrictions. According to internal sources at Conserve Italia, between January and March of this year (rumours of potential outbreaks were spreading in Asia weeks earlier than in Europe) online sales of Italian processed food in Thailand increased up to 150%, with little impact on the volume of retail stores. The situation is similar in other major ASEAN countries, and now that consumers are forced to rely on online products and are becoming familiar with grocery portals, the growth of this sector seems to be the natural consequence of these trying times. E-commerce is no longer an option that retailers were merely free to explore (or not) to increase sales. In many cases, placing products online is the only way to survive. Moreover, the confidence and habits acquired by consumers during the crisis will not disappear, and this is a golden opportunity for Italian agrifood. RedMart, a grocery e-store that in 2016 merged with Lazada (one of the largest e-stores in the ASEAN region) is already showcasing Italian oil and tins of tomatoes among its most popular products.

In Indonesia, Tokopedia and Bukalapak, Internet giants with more than 50 million visitors each, have recently opened up to grocery, in response to government restrictions. Zalora, a top e-retailer that operates all over Asia and specializes in clothing and fashion apparel, recently added a banner to its portal that states 'Shop Essential Supplies Safe from Home', and now sells anything from nuts to maple syrup.

THE AUTHOR

Luca Sartorelli has worked for the UN and INGOs in Asia, Africa and South America, managing both humanitarian and development programs. He is currently based in Myanmar with Cardno, a global provider of integrated infrastructure, environmental and social professional services. His academic background includes a Master of Arts in Public Policy and a Master's Degree in Sociology with a specialization in Land and Environment.