

AGRICULTURAL MACHINERY: OPPORTUNITIES FOR ITALIAN PRODUCERS IN THE ASEAN REGION

Luca Sartorelli

Agriculture and agribusiness still represent a crucial slice of most ASEAN member countries' GDP. However, the sector is changing, increasingly leaving behind traditional, labour-intensive production and transformation processes in favour of more advanced and highly technological practices. And it is looking for partners.

While the presence of Chinese, Japanese and Indian actors is substantial and well established, there are still golden opportunities out there. In the following lines we will look at the recent trends in imports of Italian agricultural machinery in the region, and also discuss the impact of the COVID-19 pandemic.



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¹ The ASEAN region has one of the smallest per capita arable land areas in the world: around 0.12 hectare.

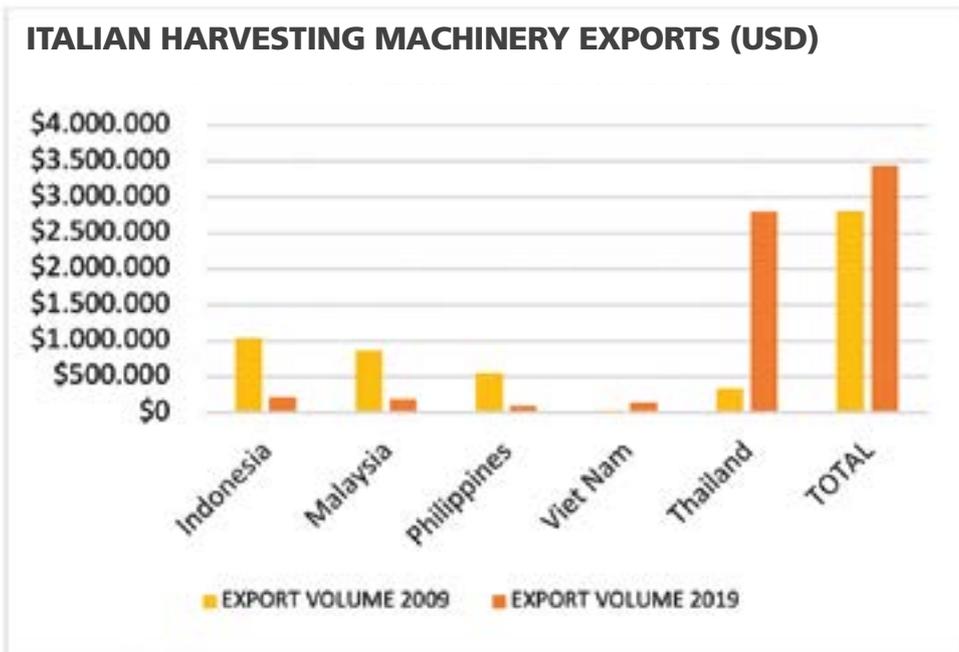
Southeast Asian demographics are quite steady, but the growth of the middle class and the progressive easing of intra-regional trade are boosting the demand for agricultural products. On the other hand, farmland is shrinking¹ and the number of farmers is diminishing. According to the Food and Agriculture Organization of the United Nations (FAO)² the increased demand in the region will require a growth in production of between 105% and 112% in the next thirty years. Governments have long been aware of this problem. Radical reforms have gradually transformed the major ASEAN economies into prominent players in the global marketplace. New models of production and productivity are also being introduced in the emerging group. Myanmar, a country deeply entrenched in its rural traditions, is catching up fast, and similar scenarios are observed in Cambodia and Laos.

² FAO, *The future of food and agriculture: Trends and challenges*, 2017. Rome.

As we have seen in previous Asia Prospects reports, the ASEAN region is a heterogeneous arena, with diverse needs and potentials, but it moves (and changes) fast.

³ World Bank Group, *Doing Business 2020*, 2019.

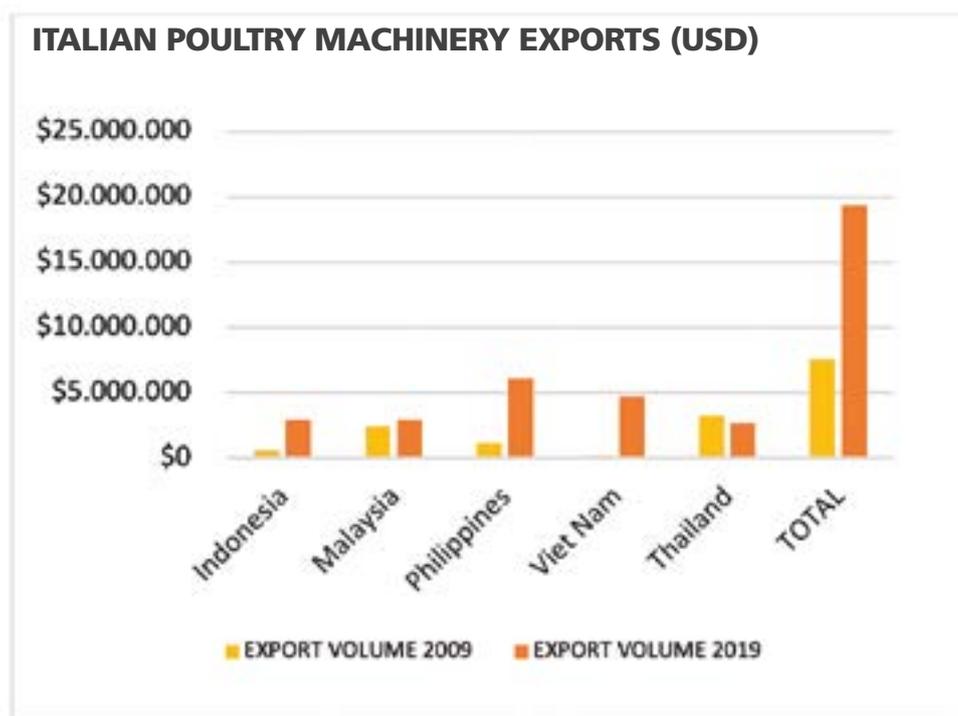
Within the most advanced group, members show totally different paths and trends. A top tourism destination in pre-COVID times, Thailand has also become a prominent automotive producer in the last decade. Its economy is valued at USD 540 billion in 2020, the second largest in the region after Indonesia, ranking twenty-first in the Doing Business Index.³ Its agriculture benefits from the legacy of the late King Bhumibol, with thousands of projects having been carried out during his term, among them the soil improvement initiatives and the extension services that have flourished nationwide. Thailand is also the motherland of CP Foods Group, one of the largest food conglomerates, a giant that is worth almost USD 70 billion. Looking at imports from Italy, we see an astonishing growth in harvesting and post-harvesting machinery in the decade 2009–2019 (as shown in the table below), including cleaning and sorting devices, while milking and dairy machinery imports recorded a 68% increase in the same period. The recent adoption of a new economic model known as ‘Thailand 4.0’ is expected to boost precision agriculture and diversification, promoting crops alternative to rice.



Source: Author's calculations from the UN Comtrade Database

Vietnam and the Philippines, with an estimated pre-pandemic GDP growth of between 6% and 7%, together had a total GDP of USD 620 billion in 2020. Earlier this year, Vietnam and Italy agreed to establish a Joint Commission on Economic Cooperation to boost trade coordination and knowledge sharing in many sectors, among others agriculture and industrial machinery.⁴ But Italian enterprises should also carefully monitor the Philippines, as a bilateral free trade agreement with the European Union (EU) has been on the table since 2015. While harvesting machinery imports have decreased substantially in the Philippines, and the same has happened with milking and dairy machinery in Vietnam, in both countries Italian imports of machinery linked to the poultry business increased between 81% and 97% (see table below).

⁴ Among the reasons for this growing interest are the rise in daily wages and the increasing availability of financing schemes for agriculture.

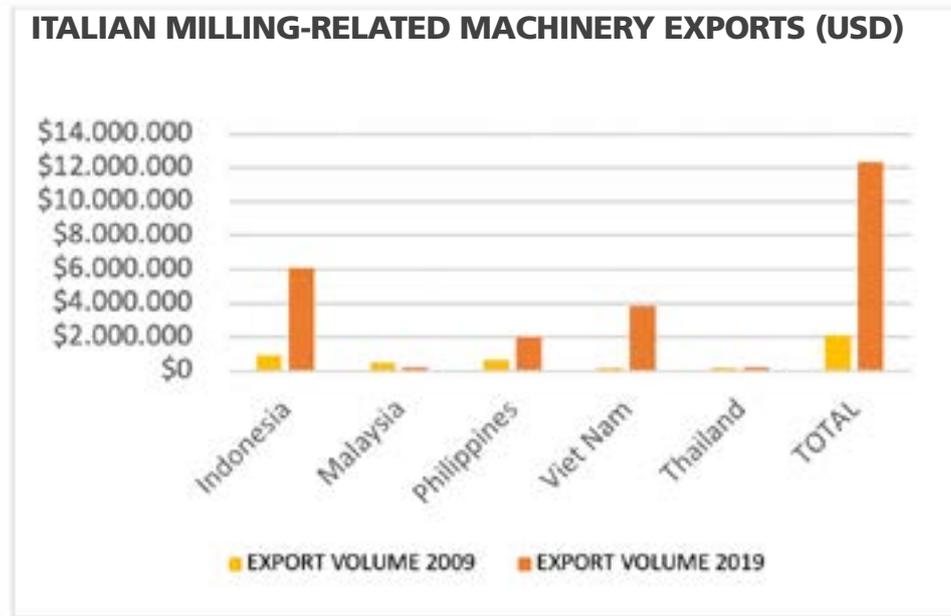


Source: Author's calculations from the UN Comtrade Database

Conversely, the performance of Italian farm tractors is mediocre. The Philippines, once Italy's biggest client in the region, has stripped its imports to the bone in the last couple of years. But the sector represents excellence in Italy and there might be some interesting chances in relatively virgin markets such as Myanmar and Cambodia, where the average number of tractors per hectare is still extremely low. According to a recent survey by the Mekong Business Initiative, some areas of Myanmar have recorded an average of 40% mechanized agriculture, with draft animals still largely being used, but farmers are increasingly interested in purchasing four-wheel tractors and combines.⁵

⁵ Among the reasons for this growing interest are the rise in daily wages and the increasing availability of financing schemes for agriculture.

Indonesia is another country to be watched closely. One of the world's major agricultural producers, it is losing hundreds of thousands of workers every year, and it is struggling to find suitable mechanization solutions. Indonesia's new 'Omnibus Bill', which should be approved soon, includes a series of advantages for foreign enterprises and foreign workers; for example, a work permit will not be required of expatriates in some categories, especially in start-ups. As shown in the table below, Indonesian imports of Italian machines for cleaning and sorting grain, used in the milling industry, were valued at more than USD 6 million in 2019.



Source: Author's calculations from the UN Comtrade Database

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the COVID-19 pandemic

The COVID-19 pandemic has hit agrifood production in Southeast Asia hard. Travelling within the ASEAN region had become easier and cheaper than ever before for its members, but the pandemic brought about an abrupt change. The commuting of millions of seasonal workers from the poorest areas of Myanmar, Laos and Cambodia to wealthier economies like Thailand, Vietnam and Malaysia was brought to a halt by the containment measures. Border crossing became complicated and expensive, often impossible, and this created a major burden for farms and food transformation plants, which during this past season have faced tremendous shortages of low-paid foreign workers, the engine of their production system. Italian experience in mechanization, precision agriculture and automation processes could represent a formidable asset for a market in urgent need of alternatives to labour-intensive practices. Moreover, technology can attract urbanized millennials back to the farms, as has happened in Italy in recent years. In the wake of the recent approval of Italy as ASEAN Development Partner,⁵ the COVID-19 impasse presents unique opportunities for new partnerships between Italian enterprises and ASEAN SMEs, including technology transfer and knowledge sharing.

⁵ Ministero degli Affari Esteri e della Cooperazione Internazionale, Press Release: Success of Italy's candidature as ASEAN Development Partner, 9 September 2020.

THE AUTHOR

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