

A Renowned Kitchen of the World: Thailand has room for further growth

Portrayed as a land with abundant food supplies and homeland of the world's infamous oriental food, Thai food industry has plenty of room to develop and prosper, while reinforcing its strong global position as the 'Kitchen of the World'.



Traditionally known as the country of farming and rice growing, everyone in Thailand has always known that agricultural industry plays an integral part of the country. However, from our principal of economics class, historical data has well shown that though 33% of our workforce lies in agricultural sector¹, it contributes to only 12% of the GDP². News on farmers protesting to secure prices of agricultural products or to write off their debts is fairly common. Sadly, agricultural industry could not highly contribute to the country's wealth. What's more? Our product champion in food industry, rice, has shown a poor yield of 3.10 ton per hectare, almost the lowest paddy yield in ASEAN just behind Brunei³. Our damaged land area from rice agricultural is also highest in ASEAN at over 660,000 hectares⁴.

With these data, could it imply that Thailand is no longer competitive in agricultural and food industry? This article will show you that this is not the case. Although, some segments have shown their poorer performance, socioeconomic changes and inherited geographic location still make the industry attractive. In fact, Thailand is still the second largest rice exporter in the world, whereas it is also doing pretty good in terms of preserved food exports (e.g. canned or frozen food), as well as processed food (e.g. ready-to-eat food)⁵. Since our country can produce tremendous volume of agricultural products even at the lower productivity rate, it is the strength that leads to opportunity for food industry. Room for improvement involve moving the industry towards higher value-added segment such as digitalized food service, advanced processed food, or more customized halal food.

Overall food industry also still reported a good prospective. In the first quarter of 2016, food exports reached 240 million baht, reflecting an impressive growth rate of 9.5% compared to the same period last

¹ Source: National Statistical Office

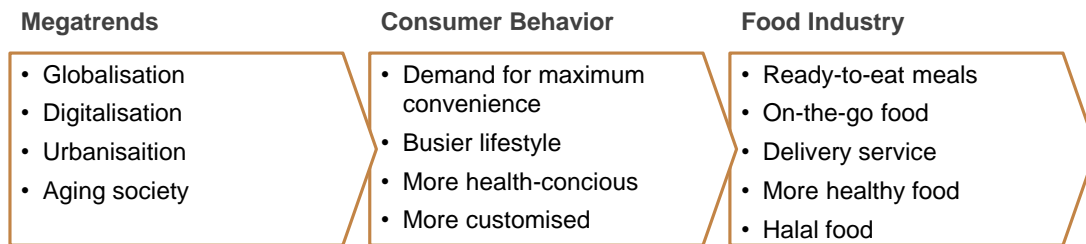
² Source: Trading Economics

³ Calculation is estimated from paddy production and planted area by country (Source: ASEAN Food Security Information System)

⁴ 1 hectare is equivalent to 6.25 rai or 10,000 sq. m.

⁵ Source: National Statistical Office

year. Though the agricultural and food industries seem to be traditional industries with lower growth than those of emerging digitalized industries or the service sector, megatrends and changes in consumer behavior have widened the market opportunity gap for potential challengers to explore⁶.



Understanding the Core Strengths of the Food Industry`

Before moving on to explore future opportunities, it is important to look at what drives the Thai food industry and places the country in a very strong position in terms of global market share in export value, and how Thailand could ensure that it stays competitive in the international food industry⁷.

One of Thailand's key strengths that distinguish the country from most other countries in the world is its innate prime geographic location and climate. The country is characterized by year-round growing seasons which provide abundant natural resources. More than 80% of food manufacture sources their raw materials locally⁸. With the nation's commitment to world class quality standards such as GMP, HACCP and Thailand Diamond Halal, Thailand is among a world's leaders in the international food industry.

If abundant natural resources have refined the country at the competitive edge, Thailand's accumulated history of meticulously cultivated agriculture and food-processing prowess in the food industry have further transformed into the country's another competitive tool. Thai manufacturers possess over 60 years of experience and this expertise comes into play in the development of processed food that creates value-added export quality products. For instance, with over 40% share of global canned pineapple market value, Thailand currently occupies the number one position for canned pineapple exports⁹. The value-added of processed pineapple could be represented by over 6-time increase in price from their conventional fresh pineapple¹⁰.

The skills and expertise have embedded into Thai's human resources, making food industry well-equipped to move into the higher value-added industry. Food service industry alone has employed over 1 million people in Thailand, while the workforce productivity in food manufacturing has increased considerably from a fair 14% to 30% over the past 10 year. World Bank's data has also shown ranking of Thailand in labour productivity of food processing outpacing their competitive peers such as China and

⁶ According to World Bank, service export of Thailand was valued over 2,000 billion baht in 2015 with over 10% YoY growth. While for digital industry, example of high-growth segment such as e-commerce industry also showed a strong double-digit YoY growth at 20.9%. Thailand's e-commerce industry was reported strong at 47 billion baht in 2015 from Pawoot.com.

⁷ According to National Food Institute, Thailand ranks in 14th position in terms of overall global food market share. Their market share was reported at 2.3%. In terms of ready-to-eat food, Thailand also gained a competitive share of 3% in global market.

⁸ Source: National Food Institute (NFI)

⁹ Source: National Food Institute (NFI)

¹⁰ Calculation is based on export price of canned pineapple from Thailand (Source: The Agricultural Exchange of Thailand), and selling price of fresh pineapple to the factory (Source: National Food Institute).

India. With the presence of numerous multinational corporates based in Thailand such as McKey Food Services, Tep Kinsho Foods, Dole, and many others, Thai food products are widely accepted for their high quality and safety standards. Although Thailand's production costs are not the lowest in the world, many corporations still prefer to have a manufacturing base in Thailand due to the country's high consistency with respect to quality.

Strengthening the Industry through Government Supports

Given the Thai food industry's many strengths and huge contribution to the country's economy, the government has implemented a number of incentives and supporting policies to help both Small-Medium Enterprises (SMEs) and big corporations grow and benefit from the growth of this sector.

The first and foremost gate of government support to the investors involves the Thailand Board of Investment (BOI), the government agency which aims to encourage investment in the country. The BOI offers a wide range of tax and non-tax incentives in the food industry. "Food Innopolis" also belongs to one of the BOI's targeted industries under the Super Cluster Policy¹¹. Tax-based incentives include the exemption of corporate income tax for up to 8 years, with an additional 50% reduction for five years and the exemption of import duty on machinery. Non-tax incentives include the permission to own land and the government's consideration of granting permanent residence status to foreign experts.

Perhaps the most renowned government effort – to help the country achieve a global position as the food innovation hub – involves the setting up of Thailand Science Park (TSP). Envisioned to offer fully integrated infrastructure for Research, Development and Innovation (RD&I) services to investors, TSP is expected to feature over 3,000 researchers, 10,000 students in Food Science and Technology, 9,000 food factories, 150 food research laboratories, 20 pilot plants and 70 universities¹². TSP will be located in Pathum Thani province, where it is surrounded by several industrial estates, including Navanakorn (4 km) and Bang Kadi (5 km), as well as several other universities.

Healthy and Halal, the Future Ahead

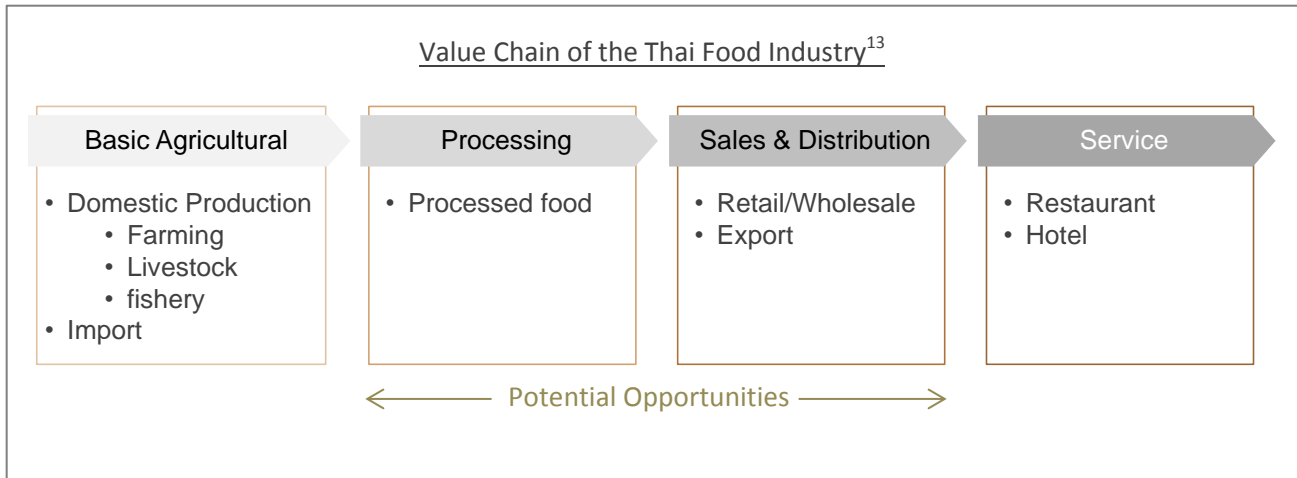
Although agriculture and farming will still play an integral role in the Thai economy, the food industry, particularly in the more value-added businesses will gain their substantial presence. As consumer lifestyle changes, the supply of food changes too. Several well-known megatrends have been making a major impact to the food industry, namely digitalization, globalization and urbanization. It is not uncommon nowadays to see office ladies having their healthy meal boxes delivered at the offices, or the housewife buying ready-to-eat meals to microwave at home. People tend to get busier and spend less time on making food, whereas for some sophisticated customer segment, they are more conscious to what they are eating.

This notable change in consumer behaviour has created the attractive market gap to explore. That's why we can see numerous food tech start-ups rapidly gain attention for revolutionizing food systems across the length and breadth of the country. Examples involve Polpa, Paleorobbie, Healthbox and Absolute Fit who offer delicious, nutritional meals directly to one's home, while HappyFresh promises a one-hour

¹¹ "Food Innopolis" defines a combination of food and innovation; or in another word any product or business process that involve value-added food.

¹² Source: Ministry of Science and Technology

grocery delivery service. Other start-ups that exploit the lifestyles of urban dwellers include Ginja, Chefs XP, GoTasty. These are a few of the food delivery companies that allow customers to order food from multiple cuisines and restaurants all over Bangkok to their home.



If exploring business opportunity online is not your appetite, Thailand has something else to offer. With an annual growth rate of 20% in global halal industry, the opportunities in this market have yet to be fully explored. Currently, the world’s population of Muslims is estimated at 1,700 million and this figure is expected to increase to 2,800 million in 2050. With over 5.8 trillion baht of global halal food imports¹⁴, and more than half of the world’s Muslim population living in South Asia and the Asia-Pacific region, Thailand’s dynamic halal industry is well positioned to serve this rising market segment.

Currently, the nation is ranked 13th among the world’s largest halal producers. The Thai government has also put the importance of halal food as a top priority in the 5-year plan (2016-2020) to position Thailand as one of the top five exporters of halal products and services in the world. Over 7,900 billion baht is planned to be allocated to enhance the potential of Thailand’s halal business even further.

In conclusion, although many investors are giving high interests in the emerging industries such as digital industry, core industry such as food industry will still play an important role in the economy. With the accumulated experience and presence of natural resources, coupled with the change in consumer demand towards more healthy food, busier lifestyle, or halal products, the food industry is not a mature industry but a challenging landscape that opens for competent investors to explore.

However, some obstacles could occur as moving the whole food industry towards higher value-added will be challenging. Though high-level movements have been made to support the Food Innopolis and set up the supportive infrastructure, solid government plan, sufficient funding and consistent monitoring of the implementation plan would be highly crucial. Government needs not to merely provide know-how and technical support to infused R&D capability to the producers, but also to promote the supportive industries such as logistics, food packaging and online payment. Learning from overseas case study is also a must to portray future outlook of the industry. Taking the case of Monsanto for example, this American biotechnology corporation has employed big data and algorithm

¹³ Source: The Office of SMEs Promotion

¹⁴ Source: Organization of Islamic Cooperation

to make precision in agriculture. While fields are to be mapped with GPS coordination, the tracking device is claimed to increase as much as 100 US Dollar profit per acre at a cost of 15 US Dollar per acre¹⁵.¹⁶ Additionally, with recent change on US regulation on the use of commercial drone, this high-technology is expected to set sail in agriculture to promote better planting and crop rotating strategy¹⁷. Besides preparing the knowledge and infrastructure, government is unavoidably needed to think of the strategic move towards whole loop. Law and regulations on intellectual property are also needed to be put properly into place so that the inventor, industry and the country could grow together as a whole.



About the author

Ms Panyapat Papangkorn is currently a senior analyst at Sasin Management Consulting of Sasin Graduate Institute of Business Administration, Chulalongkorn University. She has an in-depth knowledge in corporate strategy and strategic implementation with an expertise in resource-based view approach. Ms Panyapat holds an MSc in Economics and Strategy for Business, with distinction, from Imperial College London, UK and a Bachelor Degree in Business Administration (Accounting Major), with the first-class honors, from Thammasat University.

¹⁵ Source: Fortune

¹⁶ 1 acre is equivalent to 2.47 rai or 4046.86 sq. m.

¹⁷ Source: Fortune