

FOOD AND BEVERAGES SECTOR BRIEF

# THAILAND



## Country Overview

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Comprising an area of 514,000 km<sup>2</sup> in South East Asia, Thailand extends almost two-thirds down the Malay Peninsula. It is bordered by Lao PDR, Cambodia, Malaysia and Myanmar, as well as the Gulf of Thailand, with a total boundary length of 8,082 km.





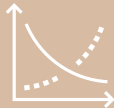

Thailand is regarded a newly industrialised country, the 8<sup>th</sup> largest economy in Asia. Thailand is usually around the 35-40<sup>th</sup> most competitive nation according to the World Economic Forum's global competitiveness ranking, among the 140 countries rated in the report. The industrial and service sectors are the main contributors to Thai gross domestic product (GDP), with the former accounting for 39.2%. Thailand's agricultural sector produces 8.4% of the GDP, lower than the logistics or communication sectors. The economy of Thailand is highly dependent on exports.

In 2020, the economy is projected to contract sharply as the pandemic suppressed household spending and heightened uncertainty hit fixed investment. Exports were hit hard by subdued external demand, while the prolonged nature of the viral outbreak amid stubbornly high global infection rates is a key risk to the outlook. Experts project the economy to contract 6.3% in 2020, before growing 4.6% in 2021 again.

Thailand was one of the countries with the lowest unemployment rates in the world, and just below the onset of the coronavirus pandemic, it was reported to be under 1%. But due to a large proportion of the population working in subsistence agriculture and in other vulnerable sectors, recent turmoil caused by the COVID-19 pandemic, has hit Thailand both economically and socially.



**SOME IMPORTANT FIGURES, BEFORE THE COVID-19 CRISIS:**

Indicator	 Population (million)	 GDP per capita (USD)	 Economic growth (GDP annual variation, %)	 Inflation rate (%)	 Trade balance (billion USD)	 Exports (billion USD)	 Imports (billion USD)
2016	67.5	6,132	3.4	1.1	35.8	213	178
2017	67.7	6,745	4.1	0.8	32.6	234	201
2018	67.8	7,454	4.2	0.4	22.4	251	229
2019	67.9	8,021	2.4	0.9	26.6	243	216

# Sector Overview

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Thailand is one of the world's leading agricultural suppliers, thanks to its abundant natural resources, tradition and well-developed food processing sector. The country has one of the most advanced food processing industries in South East Asia, which enables Thailand to export more value-added products to international markets, such as other ASEAN-countries, Europe, Japan, China and the US. The food and beverages sector is the country's third largest industry, contributing 23% to the gross domestic product (GDP). Major exports include processed meat, canned vegetables and dried fruits.

However, the export value of the food and beverage sector in Thailand is likely to expand within a limited range in the next between 2020-2023, mainly due to the COVID-19 pandemic and decreasing global demand, strong competition from newcomers on the market in ASEAN countries and the strengthening of the Thai baht. Large-scale Thai companies have expanded their production and distribution bases to Thailand's trading partners to replace exports; this can be attributed to a deceleration in the value of food and beverage export items such as fishery products, canned and processed seafood and non-alcoholic beverages

## General characteristics and trends

Food culture is a cornerstone of Thailand's identity and the food and beverages sector is more mature compared to others. The sector is always sensitive to foreign trends and changes in consumers preferences, but COVID-19 has only had a temporary impact on the sector's growth.

The most important factors of the sector's growth are:

- **Dynamic urbanisation:** mostly concentrated around Bangkok and Central Thailand, but other urban areas are also developing, especially in the North. Urbanisation is rapidly increasing per capita disposable income. This, in turn, has resulted in an increased frequency of eating out, which has boosted the food service segment.
- **Advanced use of technology:** Thailand has a high and still growing mobile phone, social media and internet penetration. As the average daily time spent using social media on any device is about 190 minutes, consumers are increasingly exposed to experiences and influence of friends and family, and information about novelties found on the market is spreading rapidly. This culminates in a growing interest for tasting imported food.
- **Growing e-marketplaces:** pre-COVID-19, the 'digital' food and beverages industry revenue was projected to reach US\$ 1.45 billion in 2020. Experts still agree that the annual growth rate between 2020-2025 can reach 15-17%, which could be one of the highest in the ASEAN region.
- **Export orientation:** With plenty of resources, and diverse cultures, Thailand has built an image of being 'the world's kitchen'. Therefore, Thai food products have received a lot of attention in foreign countries, which became a true market advantage over other ASEAN-countries. Now the main obstacle to further export growth is the development needs of logistics system to effectively bring products to foreign markets.

Consumer trends in Thailand do not vary from its regional neighbours', and the following aspects are affecting the food and beverages sector:

- **Increased interest in healthy food:** consumers in Thailand are becoming more conscious about the nutritional value of their meals, and in addition, as obesity is a rising health problem, sugar-free or low-carbohydrate products are performing well on the market. The beverage market specifically is expanding due to newly introduced sugar-free products. This product group is estimated to contribute to the annual growth of the beverage market by 2-3%.
- **Convenience food segment:** urgency is one of the keywords in urban food services, and time is considered a vital factor in urban society. Therefore, convenience food and fast food-services are thriving in Thailand, and the segment's average growth is higher than that of other product or service categories. There could be a contradiction with the growing interest for healthy food, but the real trend is to consume nutritious food at a fast pace.
- **Plant-based and insect-based proteins:** the more traditional meat substitutions are products based on manipulating and sometimes genetically modifying plants to taste like meat. Using soy beans and other options are not new for the average Thai consumer, so the high price of these products may not support their successful market entry. Another meat substitution might be insect processing products, which are a high protein food, as insects are often 50% protein, compared to other meat products that provide only 30% protein.
- **Foreign Direct Investment:** Thailand's food and beverages sector has historically been one of the strongest in South East Asia in terms of competitiveness. While its size cannot be compared to China, India or Japan, the FDI inflow compensates for this. Strong investor confidence in the country and the sector resulted in a record US\$ 1.6 billion inward FDI from 2015 to 2018. The Thai government also continues to attract investments through a series of tax incentives and other subsidies under the Thailand 4.0 scheme.

## Most important segments of the food and beverages sector

### Largest segments

By revenue, **bread and bakery products** is the largest segment within the food and beverages category. It was estimated to reach US\$ 8.9 billion in 2020, but the market is saturated, and a low growth of 1.2% is expected annually until 2025.

The Thai **seafood sector** is the third largest in the world, with 90% of output exported. This export orientation makes the sector quite vulnerable; trade policy, climate change, overfishing and other factors could eliminate its growth potential.

The **packaged food sector** is highly fragmented, with the top ten companies controlling only about one-third of the total sales value.

The **meat segment** generates US\$ 7.1 billion revenue per annum, but its growth has slowed down to 1.6% since 2015. The average per capita consumption stood at 19.2 kg in 2019.

### The largest product groups by consumption

Cornerstones of the Thai cuisine, soy sauce and fish sauce are on top of the list. Sugar and pasteurised milk continue to be popular, and the latter is consumed more and more. The most popular meat products are frozen and chilled chicken, which rank 5th with about 700,000 tons sold annually. The most popular beverages are frozen yoghurt and fruit juices, while ice cream ranks 8<sup>th</sup>.

### Most important export products

There are many agrifood products that have a significant part in global trade. According to the National Food Institute, cassava products have a 67% share in global trade, canned tuna 44% and canned pineapple 41%. Rice and sugar contribute approximately 20% of world exports.

## Retail Structure

Although new trends and modernisation have reached Thailand, the retail sector is still dominated by local small and medium-sized enterprises (SMEs). More than half of all retail purchases in the country are still made in SMEs and mom-and-pop shops. There are an estimated 300-500 thousand smaller outlets throughout Thailand. However, small, family-owned shops and traditional wet markets are being pushed out by modern retail chains in urban areas. The roughly 40 modern retail chains together command approximately 32% of the total retail market.

The largest vendors operating in Thailand are Central Group, The Mall Group, Big C supermarket chain, CP All which runs 7-Eleven stores, Lotus's (previously Tesco) and foreign companies like Aeon and Isetan Mitsukoshi Holdings.

Convenience stores lead the way with 10.4% average annual growth between 2010-2020. Supermarkets have recorded an average growth rate of 8.3%, and 5.3% growth was recorded in the hypermarket and supermarket categories. Growing at a projected aggregate annual growth rate of 7%, the grocery market was expected to top US\$ 145 billion in 2020, based on pre-COVID-19 predictions.

## Food service

The trends shaping the food service sector pre-COVID-19, are expected to continue post-pandemic:

- Trendy restaurants and food services are opening. In 2018, the food and restaurant industry held the highest share in terms of start-up deals in Thailand, even exceeding the e-commerce marketplace.
- Cafés and bars are still on the rise. In 2019, Thai's spent approximately US\$ 116 per capita in cafés and bars.
- Traditional street food and trendy eateries share their niche. The value of the street food market has been constantly growing since 2014.

Along with the restaurant and food service industry, food delivery has also become a common choice among Thai consumers, well before the COVID-19 pandemic. The key players are GrabFood, Foodpanda, Line Man, and in 2019 around 1,500 new food delivery businesses were established in Thailand. More than a quarter of the total online businesses are offering food delivery services and many local restaurants are using the professional and online food delivery companies to deliver their orders.



# Regulations



## Tariffs

Thailand uses the Nomenclature of the Harmonised System for the Designation and Codification of Goods. Most of the duties are ad valorem and are calculated on the CIF value at the customs office, or they are specific, calculated per unit, per volume or per weight.

Thailand's average applied Most Favoured Nation (MFN) tariff rate was 12.5% ad valorem in 2017. Approximately one-third of Thailand's MFN tariff schedule involves duties of less than 5%, and 30% of tariff lines are MFN duty free. Thailand has bound all tariffs on agricultural products in the WTO, but only around 70% of its tariff lines on industrial products are bound. Thailand has bound its agricultural tariffs at an average of 39.5% ad valorem, compared with its average applied MFN tariff on agricultural products of 25.1%. MFN duties on imported processed food products range from 30% to 50%. Tariffs on meats, fresh fruits, including citrus fruit and table grapes and vegetables, fresh cheese, and pulses, such as dry peas, lentils, and chickpeas are similarly high.

## Licences and registration

General customs clearing procedures for both imports and exports in Thailand require the submission of a customs' export entry form or import entry form. The form should be accompanied by standard shipping documents, which include commercial invoice, packing list, bill of lading/airway bill, and letter of credit, if relevant. Some products may require an import/export license and/or authorisation from relevant agencies. These include food products, processed or unprocessed, animals, and some agricultural products. The use of a freight forwarder to deal with import and export customs clearing in Thailand is highly recommended.

Import licences are required for 26 categories of items, many of them agricultural or food products. Even if a separate licence is not required, imported goods must comply with other regulations, and may be subject of other extra fees and certificate of origin requirements. Imports of processed food require licensing from the Food and Drug Administration, Ministry of Public Health.

## Labelling and packaging

Labelling is required by the Food and Drug Administration (FDA), on all processed food, imported, or locally produced. This authority is under the Ministry of Public Health. The label must bear the product's name, description, net weight or volume, and manufacturing/expiration dates. Consumers must be able to identify the manufacturer or importer (distributor) by its name and address, and the product's registration number must be shown. All labels must be printed in Thai, except for alcoholic beverages. More information on the FDA's website. The most important element of the regulation is that the Thai FDA requires pre-approval of labels for specifically controlled foods.

Labels for alcoholic beverages must display the percentage of alcohol content. There must also be a health warning, printed in Thai, on the label or on a sticker, with specific government-approved wording.

Agricultural products that need to receive label approval from the Thai Food and Drug Administration (TFDA) must present a certificate of food analysis issued by the government of the country of origin or any accredited private laboratory. This certificate should be issued not more than one year before the date of the label approval application.



## Non-tariff measures (NTM)

Non-tariff measures (NTMs) are official policy measures, other than ordinary customs tariff, that have an economic effect on international trade in goods and services. These effects usually cause changes in quantities traded, alter prices or both. NTMs can affect both exports and imports, and according to a study carried out by the International Trade Centre (ITC), the number of cases when NTMs were a real burden was nearly the same for importers and exporters of agricultural goods.

The most typical NTMs are technical standards, regulations on customs procedures, licencing, para-tariff measures, prohibitions, etc. Regarding agricultural trade, almost every business case involves dealing with non-tariff measures, at least phytosanitary and licencing regulations.

According to the ITC survey mentioned, the most burdensome measures in Thailand included large numbers of different documents, which were difficult to complete, too many organisations involved, information on procedures were not well explained and not all staff were equally trained. There were also criticisms related to high fees and charges for certificate and licenses, as well as occasional demands for informal payments.

# Market Entry

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Thailand with its growing wealthier classes, young population and global-leading tourism sector has been a very lucrative market for agri-food exporters until 2020. The COVID-19 crisis will certainly halt this long-term growth, but the overall expectations about the market remain positive for exporters.

## **Business culture, networking**

Thai business culture has some of the characteristics of other ASEAN-countries. However, as Thailand was never colonised, everyday business customs are less influenced by Western standards. Common values of South East Asia, such as collectivism, courtesy, saving face and strong hierarchy are all important in Thailand, but the business culture is also shaped by the concept of 'sanuk', the effort of achieve satisfaction in whatever one does and make the most of any situation. For foreigners, sometimes Thai business partners seem less focused, but exporters should adapt to the holistic view of life that transpires the business approach.

Hierarchies define not just the working environment, but Thai society as a whole. Individual status (i.e. age, level of education, seniority, rank within the firm) is always taken into consideration in social and business interactions.

Networking is key to achieving business success in Thailand, as well as continuous presence, availability, patience, and composure. It is worth finding business associations, chambers and other professional organisations that can help to start building-up a local network. Some examples:

- **Thai Chamber of Commerce:** TCC is a central organisation, which provides recommendations to the government on solving business problems, and developing the economy. The chamber has continuously developed and is now recognised as a leading private education institute, as well as working with promotion and trade with foreign countries.
- **Joint Foreign Chamber of Commerce in Thailand:** an association of foreign chambers, providing information on international trade, local regulations and offering regular networking opportunities.
- **Thai Agrobusiness Association (TABA):** founded mainly for promotion purposes, with a membership including both manufacturers and distributors.

### **Promotion**

Traditional promotion activities include participation at trade fairs and product shows, as well as showcasing products on promotional occasions, like gourmet-weeks, restaurant thematic weeks, etc. Due to the COVID-19 outbreak, most of these events were cancelled or delayed, although there increasingly successful online events.

There are special regulations about importing samples for promotion purposes. Generally, samples and advertising materials without commercial value are duty and tax free if they are useless for sale and used only for promotion purposes. If materials are not used or re-exported within six months, duties and taxes are charged.

### **Sales channels**

There are two main channels for exporting food ingredients to Thailand. The first, and most common way is through importers that have their own distribution network, and distribute directly to either manufacturers or the food service industry, such as restaurants, and hotels. The other channel is to export directly, through larger food processors that import directly to avoid having to maintain large stocks. Only major food processors import directly from the country of origin, and most imported food is marketed and distributed by exclusive or authorised distributors in Thailand. It is common practice when negotiating with a distributor that they ask for exclusivity. This allows the exporter to focus and control their technical support, while leveraging the distributor's network of wholesalers and direct end-users. The agent or distributor may also have relationships with key business and government officials.

### **E-commerce sales**

Despite high levels of internet use, online spending remains relatively low in Thailand. In 2019, the average shopper in the country spent just over \$100 on online consumer goods – and only a small proportion of this was food. To put this into perspective, the global average was US\$ 664. This was, however, still an impressive increase of 25% compared with the year before. Combined with the COVID-19 lockdown which has made most of the population try online food services, the future of Thailand's e-commerce industry looks promising.

## Recommendations and Trends

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The Thai agrifood sector has been more successful in adapting to international trends than most other ASEAN countries, but its conservative manner, built on hundreds of years of tradition can hinder development and innovation. Food processing and distributing companies from other ASEAN countries often look at Thai enterprises as role-models, thus creating a strong class of competitors in countries such as Viet Nam and the Philippines.

Critical points of the Thai food and beverages industry include:

- **Dependence on tourism and export markets:** In 2019, Thailand had nearly 40 million annual tourists, which has required a large amount of imported food. Many distributors and importers have specialised in supplying to the tourism industry. As the COVID-19 heavily impacted the tourist market, these companies have been suffering.
- **Food security issues:** even the largest agricultural countries showed their vulnerability during the COVID-19 pandemic. The Thai agrifood sector is built up to export, and food availability is rarely an issue when the neighbouring countries are happy to sell to Thailand. The COVID-19 pandemic has forced food security back on to the agenda.
- **Organic farming** can be an option for exporters to increase their income per rai (1 rai= 1,600 square metres). In the ASEAN region, excluding Singapore, the increasing consumption of organic food may help this segment reach double the growth rate of non-organic products.

Thai agrifood products, especially seafood, fruits, vegetables and flowers, are well-known, not just in the ASEAN region, but also worldwide. But as **consumer trends are changing**, Thai producers need to be aware movements and innovations of their competitors. State-initiations and export promotion efforts are also needed, and the institutional set-up of Thai trade promotion should be completely reorganised. Thailand does not have a specialised trade promotion agency similar to that of Viet Nam (Vietrade) and Malaysia (Matrade).