



OXFORD
ECONOMICS

EXECUTIVE SUMMARY

THE ECONOMIC IMPACT OF THE AGRI-FOOD SECTOR IN SOUTHEAST ASIA

2021





EXECUTIVE SUMMARY

Throughout a tumultuous year for the Southeast Asian economy, in which travel and logistics, trade, and business operations have been tested in unprecedented ways, the agri-food value chain has demonstrated its resilience. It has placed food on the table at stable prices, provided an income and employment for a huge proportion of the region's workforce, and created opportunities for businesses at each stage of the value chain.

From farm to fork, the agri-food sector holds an unparalleled position in the region's economy and plays a pivotal role in its future economic development. It is an economic powerhouse, responsible for millions of jobs and a major contribution to total economic output and government tax receipts.

Looking beyond the coronavirus, there are many challenges facing the agri-food sector that will have repercussions for the wider economy. These include major risks to food supply and demand. They also include risks resulting from governments adjusting spending and taxation policies to offset the impact of COVID-19 on public finances.

Oxford Economics was commissioned by Food Industry Asia (FIA) to assess the total economic impact of the agri-food sector in four major Southeast Asian economies: Indonesia, the Philippines, Thailand, and Vietnam. We use this as a platform to explore the risks this sector faces going forward.

THE AGRI-FOOD SECTOR'S ECONOMIC IMPACT

For the purposes of this study, we define the agri-food sector to include three critical components of the food value chain: agricultural production; food and beverage (F&B) manufacturing; and F&B distribution (including wholesale, retail, and hospitality services).

In 2019, the agri-food sector contributed USD 717 billion to the four Southeast Asian economies in our study. This represents a 30% increase, in real terms, from the sector's USD 610 billion contribution in 2015.

- In Indonesia, the sector contributed USD 374 billion to the economy in 2019, equivalent of 35% of total GDP.
- In the Philippines, it contributed USD 127 billion to the economy in 2019, equivalent to 30% of total GDP.
- In Thailand, the agri-food sector contributed USD 130 billion to the economy in 2019, equivalent to 25% of total GDP.
- In Vietnam, the sector contributed USD 86 billion to the economy in 2019, equivalent to 26% of total GDP.

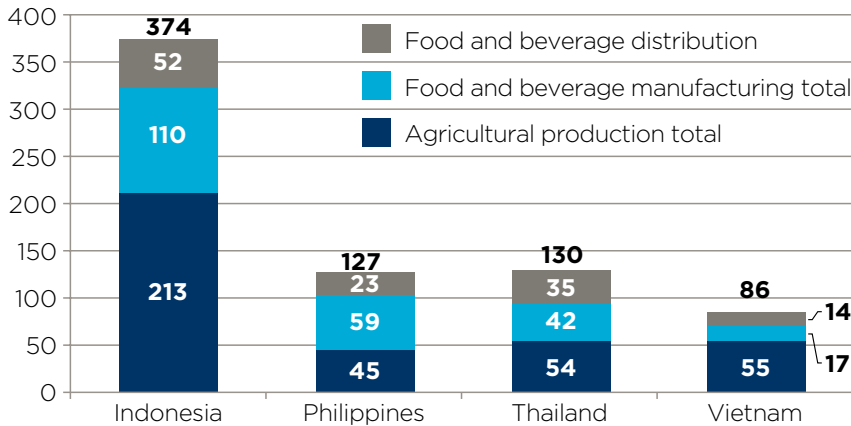
US\$717 bn

The agri-food sector's total contribution to 2019 GDP across Indonesia, Thailand, Philippines and Vietnam.



Fig. 1: Contribution of the agri-food sector to GDP

US\$ billion, 2020 prices

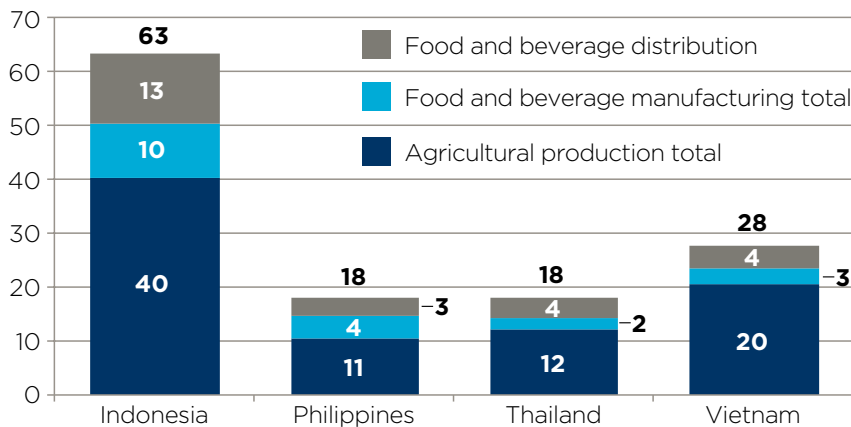


Source: Oxford Economics

It is difficult to overstate the importance of the agri-food sector's role in Southeast Asian labour markets. It sustained around 127 million jobs in 2019, across the four countries in our study. That includes more than half of all jobs in Vietnam, and more than 40% of jobs in the Philippines, Indonesia, and Thailand (Fig. 2).

Fig. 2: Contribution of the agri-food sector to jobs

Employment, millions



Source: Oxford Economics

Through corporation and income taxes, this vast economic footprint generated a valuable flow of government revenues. We estimate the sector to have contributed a total of USD 95.6 billion in tax revenues in 2019 across the four Southeast Asian countries in our study. This is equivalent to around 28% of total tax revenues that year, on aggregate.

127 million

Total number of jobs supported by the agri-food sector across Indonesia, Thailand, Philippines, and Vietnam in 2019.

28%

Share of aggregate tax revenues derived from agri-food sector in 2019, across Indonesia, Thailand, Philippines and Vietnam.

IMPACT OF COVID ON THE AGRIFOOD SECTOR

In spite of the highly challenging economic conditions during the coronavirus outbreak, the agri-food sector demonstrated its durability in 2020. F&B distribution — in terms of retail, wholesale, catering and hospitality — bore the brunt of policy measures to contain the coronavirus outbreak. We estimate a total of 910,000 jobs were lost in F&B distribution in 2020, compared to the year before, across the four Southeast Asian economies in our study.

Nevertheless, we estimate that the overall agri-food sector managed to maintain a more stable economic impact. In Indonesia and Vietnam, it grew by 2% and 4%, respectively, in real terms. In Thailand and the Philippines, the sector's total economic contribution shrank, but by less than the fall in GDP, revealing the essential nature of agri-food production and distribution.

MIXED OUTLOOK FOR THE AGRIFOOD SECTOR IN SOUTHEAST ASIA

With such an enormous and pivotal contribution to wider economic activity, the fortunes of the agri-food sector are intertwined with those of the wider economy. Beyond the initial impact of the coronavirus outbreak, the sector faces highly challenging conditions, which will have implications for employment, tax revenues, and wider economic performance.

Whilst the food supply chain remained relatively robust during 2020, new and unforeseen variants of the coronavirus could have different impacts on logistics and prices in the months ahead. The sector is also braced for an inevitable crunch on food and beverage demand in 2021. The pandemic will leave a legacy of unemployment, underemployment, and reduced household incomes, which will depress consumer spending across Southeast Asia.

Oxford Economics forecasts an annual reduction in total household food spending of 0.8% in SE Asia in 2021, in real terms. Furthermore, in Thailand and Indonesia, tourism traditionally accounts for 9.5% and 8.8% of total food consumption, respectively, and this will take longer to recover. Our latest projections suggest Asia will not see a return to 2019 levels of inbound tourism until 2024.

“ Oxford Economics forecasts an annual reduction in total household food spending of 0.8% in SE Asia in 2021, in real terms. ”

Southeast Asia's agri-food sector also faces longer-term challenges. As incomes have risen and populations have grown, Southeast Asian consumers are demanding more and better-quality food. There is an urgent need for land and labour productivity improvements, which requires technological innovation and skills development, as well as a sound and supportive policy environment. This includes the need for investment in new technologies to improve the resilience, efficiency, and environmental sustainability of the region's labour-intensive food value chain.

IMPACT OF FISCAL MEASURES ON THE AGRI-FOOD SECTOR'S RECOVERY

Following the extraordinary stimulus measures of 2020 and depressed economic activity thereafter, there is heightened pressure on Southeast Asian governments to restore their fiscal positions. The impetus to reduce public expenditure and raise tax revenues poses a risk to the recovery of Southeast Asia's agri-food sector.

For those countries with relatively generous agricultural subsidies, or relatively low excise and value added taxes on food products, the agri-food industry is potentially vulnerable to post-COVID-19 fiscal adjustment strategies. Poor sovereign credit ratings in Vietnam, Indonesia, and the Philippines will intensify the pressure on finance ministries to balance their books quickly.

To understand the risk of post-COVID-19 fiscal adjustment to the agri-food sector in Southeast Asia, we developed a Fiscal Risk Framework. This framework assesses a range of influential risk factors, including the damage done to government finances in 2020, the urgency of repairing those fiscal balance sheets, and the exposure of the agri-food sector to fiscal readjustment.

In Thailand and Vietnam, low prevailing sales tax rates, by global standards (i.e. 10% or less) increase the risks of a sales tax hike. Due to the high proportion of food spending in consumer baskets, such measures would quickly spill over to negatively affect business performance and household wellbeing.

In the Philippines and Indonesia, high prevailing agricultural subsidies raise the prospect of a cut in funding for the agri-food sector. An abrupt reduction in subsidies (currently worth around 3% of GDP per annum in Indonesia) would harm agricultural producers and pass through into the rest of the agri-food value chain. Around half of all inputs into the food manufacturing sector in both economies come from domestic agriculture.

“ The impetus to reduce public expenditure and raise tax revenues poses a risk to the recovery of Southeast Asia's crucial agri-food sector. ”

“ A good excise tax policy should be well designed, targeted, evidence-based, and efficiently regulated to raise the chances of success. ”

POORLY CRAFTED EXCISE TAXES COULD HARM THE AGRIFOOD SECTOR'S RECOVERY

Excise taxes on sugar, salt, and plastics have long been discussed in policy circles in Southeast Asia as potential tools to address health and environmental problems. The motivations behind these policy initiatives are timely and highly important. But international evidence has shown that for such measures to succeed, careful design, planning, and communication are essential. There are many examples of excise duties creating counterproductive results, including a disproportionate impact on small businesses, unforeseen damage to local industry, an unfair burden on low-income households, and a failure to generate fiscal revenues.

A good excise tax policy should be well designed, targeted, evidence-based, and efficiently regulated to raise the chances of success. We identify three core ingredients of a successful fiscal policy to meet health and environmental objectives.

- 1. Education and public information.** Raising awareness amongst consumers is key to managing behavioural change, and highly complementary to the use of fiscal measures. Accurate food and plastic labelling is a tried and tested public information tool to amplify policy effectiveness.
- 2. A comprehensive regulatory scope.** Excise taxes used on their own can be blunt, regressive, and poorly implemented. International evidence suggests the more effective the regulatory conditions, the more effective the tax compliance. Governments can use regulatory standards on such aspects as product reformulation and food labelling to nudge producers in the right direction.
- 3. Consultation and communication with industry.** To succeed with fiscal measures, governments must engage and communicate with stakeholders regularly to minimise the cost to business and the loss of jobs, whilst maximising collaboration and compliance. Regular communication with industry stakeholders equips policymakers with sector expertise and enables them to tailor policy effectively to achieve its intended outcomes.

ABOUT OXFORD ECONOMICS

Oxford Economics was founded in 1981 as a commercial venture with Oxford University's business college to provide economic forecasting and modelling to UK companies and financial institutions expanding abroad. Since then, we have become one of the world's foremost independent global advisory firms, providing reports, forecasts and analytical tools on more than 200 countries, 250 industrial sectors, and 7,000 cities and regions. Our best-in-class global economic and industry models and analytical tools give us an unparalleled ability to forecast external market trends and assess their economic, social and business impact.

Headquartered in Oxford, England, with regional centres in New York, London, Frankfurt, and Singapore, Oxford Economics has offices across the globe in Belfast, Boston, Cape Town, Chicago, Dubai, Dublin, Hong Kong, Los Angeles, Melbourne, Mexico City, Milan, Paris, Philadelphia, Stockholm, Sydney, Tokyo, and Toronto. We employ 400 full-time staff, including more than 250 professional economists, industry experts, and business editors—one of the largest teams of macroeconomists and thought leadership specialists. Our global team is highly skilled in a full range of research techniques and thought leadership capabilities from econometric modelling, scenario framing, and economic impact analysis to market surveys, case studies, expert panels, and web analytics.

Oxford Economics is a key adviser to corporate, financial and government decision-makers and thought leaders. Our worldwide client base now comprises over 1,500 international organisations, including leading multinational companies and financial institutions; key government bodies and trade associations; and top universities, consultancies, and think tanks.

ABOUT FOOD INDUSTRY ASIA

Food Industry Asia (FIA) was formed in 2010 to enable major food and beverage manufacturers and B2B ingredients suppliers to speak with one voice on complex issues such as health and nutrition, food safety, sustainability, and regulations and trade. From its base in Singapore, FIA seeks to enhance the industry's role as a trusted partner and collaborator in the development of science-based policy throughout Asia. To do so means acting as a knowledge hub for Asia's national industry associations and affiliated groups, to support with their engagement of public bodies and other stakeholders across the region.

2021

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The modelling and results presented here are based on information provided by third parties, upon which Oxford Economics has relied in producing its report and forecasts in good faith. Any subsequent revision or update of those data will affect the assessments and projections shown.

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