



## Executive summary

Discussions of food security in Asia have often centred on the issue of supply, but now the emphasis is shifting from quantity to quality. A succession of food safety crises has drawn the most attention but there are equal and growing concerns about rising obesity and the stubborn problem of under-nutrition. The ability to address the issue of food quality is complicated by the increasing complexity of the food supply chain in Asia. In an effort to secure sufficient quantities of affordable food and cater for a greater diversity of diets, countries have integrated themselves into global systems for agricultural production and food processing, leading to the creation of longer, sprawling food supply chains that could span numerous countries. This structural shift requires that food quality be viewed as an issue that extends beyond national boundaries. At the same time, the market for domestic production remains highly fragmented in many transition economies—China has some 200m smallholders raising poultry and fish stock, while India has an estimated 120m—making education and monitoring of producers on the virtues of clean, safe food extremely difficult.

Our research indicates that the need to address the quality, or safety and nutritional value, of food is not simply a public health priority, but one that is increasingly being driven by the

market. Hence, the response by the food industry and governments towards growing consumer concerns related to tainted food, and the changing dynamics underpinning the region's malnutrition story, are the major focuses of this report. It is based on extensive desk research and interviews with 18 industry executives, academics and policy makers.

Among the key findings:

- **Demand for safe and nutritious food will rise dramatically across Asia-Pacific in the next five years as purchasing power increases.**

The Economist Intelligence Unit projects a rise in consumer spending on food, beverages and tobacco from US\$2.8trn in 2012 to US\$3.7trn by 2016. As production and trade of food increases to meet this demand, improving food quality will be a challenge for producers and governments alike.

- **Rapidly growing cross-border trade in food and livestock is making monitoring of food quality difficult.** The demand for more and better food continues to rise in tandem with population growth and rising incomes. Food production systems are struggling to keep up with demand while maintaining profitability, leading to an increase in trade. Between 2003 and 2012, the value of food and livestock exports from Australia to the rest of the world rose by a Compound

Annual Growth Rate (CAGR) of 9%, reaching US\$26bn in 2012. Meanwhile, global food and livestock exports to China grew at CAGR of 19%, hitting US\$35.3bn in 2012. China is emerging as a critical supplier of food to Japan—the value of exports nearly doubled from US\$5.5bn in 2003 to US\$10.8bn in 2012.

- **Food companies will need to make investments to maintain the integrity of their supply chains, notably in China.** In some cases, this involves deeper vertical integration, and investments in processes and technology to bolster traceability. Co-operative and contract farming models have been used to good effect across both mature and developing countries.

- **Global food companies have a large role to play in improving food safety, yet in some markets they are discouraged from investing.** By importing their relatively stringent quality control standards, global food companies influence and incentivise local suppliers to meet their benchmarks, creating the potential to improve standards across local industry. Larger firms are able to invest in innovation and have brought new technologies and best practices in safe and efficient food transportation to Asian markets.

- **Market demand for safe food will be a major driver of corporate activity in the near future.** As respected foreign brands are discovering in China, there is huge demand for reliably safe food. This is not lost on local companies lacking in quality control know-how or brand credibility and they are seeking to team up with reputable foreign players to address these short-comings. Indeed, consumer demand for better food safety and quality will continue to be one of the drivers of corporate activity in the region and, increasingly, it will be a factor for companies when considering their regional strategy and the bottom line.

- **China's larger food companies are increasingly looking abroad to meet future demand for safe, high-quality food at home.**

From 2010 to September 2013, the value of major outbound M&A deals stands in excess of US\$9bn. This is a trend that is feeding into aggregate global M&A activity—in 2012, activity in the food and beverage sector was up 117% on the previous year.

- **Obesity is a rising concern in the region, and companies are likely to come under pressure to join governments in the battle against it.** The spike in obesity is particularly dramatic in China, where the World Health Organisation classified 45% of men as being overweight in 2010, up from 27.5% in 2002. Food companies selling processed food in the region are coming under growing public pressure to be more proactive in tackling the issue of obesity, as governments explore both public health campaigns and regulatory mechanisms to tackle the problem.

- **At the same time, demand for products perceived to be healthier is growing.** Greater consumer awareness of health and wellness is reflected in growing demand for “better-for-you” products. In Australia, the per capita consumption of carbonated drinks is projected to decline by 2.5% between 2012 and 2016, according to Mintel and The Economist Intelligence Unit. Though China will continue to see growth in this segment (13.3% between 2012 and 2016), growth in demand for beverages that are perceived to be healthier will surpass fizzy drinks significantly—consumption of juice per capita will jump by 42.5%, and bottled water by 59.3%.

- **The scourge of “hidden hunger”—or micronutrient malnutrition (MNM)—in Asia is focusing minds on the challenge of improving the nutritional value of staple foods.** The mainstreaming of fortification of staple foods with essential micronutrients has been a major success story for nutrition elsewhere in the world, and is an approach that some governments in the region are now seriously considering.

- **Addressing malnutrition at the bottom of the pyramid can make business sense.** BASF, a German conglomerate which is involved in

projects to improve uptake of vitamin-A fortified oil, and Britannia, an Indian food maker which sells iron-enriched biscuits, have shown that with the right partnerships companies can profitably address issues of malnutrition at the so-called bottom of the pyramid. But unless more private corporations make an effort to find a sustainable business model for such products, the impact will be limited.

- **A regional regulatory regime will be difficult to create, judging from Europe's experience.**

The capacity to enforce legislation and monitor

food safety varies greatly across Asia, both on a country and a corporate level. On regulation, the challenge remains to maintain a workable balance of regional co-operation and national autonomy on an issue that is highly politicised for many countries in the region. The increasingly regional nature of many food safety scares suggests that a continent-wide "rapid response" agency could complement national efforts to manage food crises, though this remains a distant prospect. Still, the numerous bodies being formed to address the issue of food safety on a regional level are reason for optimism. ■