

Asia's coffee revolution: From Indonesia to Vietnam, homegrown beans are back

More disposable income and TikTok trends push coffee ahead of tea

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TOKYO/SHANGHAI/JAKARTA/HO CHI MINH/SEOUL -- Not a day goes by without a cup of coffee for Leo Hao, a native of Shanxi Province in China now working in Shanghai. The branding executive used to drink tea but switched to coffee in 2013 under the influence of his then-girlfriend, who is now his wife.

"I got hooked by the fact that coffee could be both cheap and tasty," recollected Hao, 32, who brews his own but also consumes coffee from the growing number of coffee outlets across China's cities.

Hao is part of the reason why Asia's coffee consumption has grown by 1.5% in the past five years, compared to 0.5% growth in Europe and 1.2% in the U.S, according to the International Coffee Organization, turning the region into the coffee world's soon-to-be center of gravity. Traditionally a tea-drinking region, Asia's growing coffee consumption is largely driven by the rise of a middle class that is keen to try anything trendy.

But coffee is about more than disposable incomes and caffeine addictions. It is a cultural phenomenon as well -- wrapped up in a long legacy of colonialism and imported Western influence, from Meiji Japan to colonial Vietnam to Dutch coffee plantations in Sumatra.

In China, for example, coffee is now a barometer of Western influence, brought back home mainly by people who studied abroad. Hao's wife acquired a taste for coffee in the Netherlands before returning to China.



Leo Hao is one of many Chinese who have switched to drinking coffee from tea. He was influenced by his wife, who has lived abroad. (Photo by Lai Xinlin)

"In many parts of Asia, coffee farming and exporting, as well as local coffee drinking cultures, are deeply rooted in countries' colonial past, as we see in the case of Vietnam with France, and Indonesia with the Netherlands," Nobuko Kobayashi, a partner at EY Japan, told Nikkei Asia. She added that westernized lifestyles, coupled with urbanization, have fueled consumers' demand for quick coffee, such as instant brews and takeout options.

However, spurred on by the COVID-19 pandemic, Asian coffee drinkers' appetite for a more locally-produced caffeine hit has been growing in recent years. Domestic coffee producers own more of the value chain and indigenous coffee cultures are starting to rival Western imports like Starbucks and Costa. Currently, Asia produces 29% of the world's coffee beans, but the region (including Oceania) consumes only 22% of them.

Iman Kusumaputra, co-founder of Kopikalyan, an Indonesian coffee shop chain, is one of many coffee proprietors in Asia who see a massive business opportunity in balancing these numbers out. "Our vision is to become the first [international] coffee chain from a coffee-producing nation," he told Nikkei.



Iman Kusumaputra, left, hopes his Kopikalyan coffee chain makes homegrown beans more mainstream in his native Indonesia. (Photo by Dimas Ardian)

Kusumaputra noted that none of the big names such as Starbucks of the U.S, Costa Coffee of the U.K, Gloria Jeans Coffee of Australia or Arabica of Japan originate from coffee-producing countries such as Brazil, Vietnam or Indonesia. Kopikalyan is part of an Asiawide movement to break this trend, as home-brewers and coffee shop owners alike aim to reclaim coffee for the region that grows it.

Vietnam: The "crimson cherry" renaissance

Vietnam has been a coffee colossus in its own right, ever since French colonizers first harvested the crimson cherries (a fond nickname for the fruit of the coffee tree) in the 19th century. So deep-seated is coffee in Vietnamese culture that the crop has been integrated into the local lexicon: Bribes are "coffee money," and to socialize is to go *ca phe ca phao*. There is also the cultural export, *ca phe sua da*: thick robusta coffee made with teeth-rotting condensed milk,

historically enjoyed by the French who lacked refrigerators to store fresh milk. Today, that legacy has helped Vietnam to become both the world's top robusta exporter and a cafe society.



Vietnam, the world's second largest exporter of coffee beans, has been known for producing the "crimson cherries" ever since its days as a French colony in the 1800s. (Photo by Ken Kobayashi)

Vietnam's coffee culture is as old as the trees, but it is evolving. Just look at the UCC Coffee Roastery in Ho Chi Minh City. Outside, street carts charge \$1 for drip-filtered robusta that has been a cardinal feature of the country for more than a century. Inside, baristas specialize in siphon brewing, an entertaining task that makes the cafe look like a tiny science lab.

To demonstrate, a barista fires up a Bunsen-like burner that glows under a carafe of bubbling water. The pressure pushes the water through a siphon and into a beaker on top of the carafe, where the coffee steeps. The cafe is helping to push Vietnam past its robusta roots into an era of diverse, TikTok-fueled tastes, catering to two groups in particular: those who want something fun to try, like a frappe, and hobbyists busy with all the minutiae of terroir and roasting.

"Information is open, it's easier for people to research coffee origins and reviews now," UCC manager Phan Thi Kieu Nga told Nikkei over a cup of Kenyan arabica, fanning the steam to coax out its maple-syrup scent. "So people's knowledge of coffee quality is growing." Customers often ask Nga about flavor profiles or sourcing at her Ho Chi Minh City shop, which is populated with beans from three continents, an industrial roaster and kit like hand grinders for sale.

The pandemic planted a whole new batch of home-brewers, she said, who spent lockdown refining their pour-overs, mimicking Instagram influencers and acquiring a nose for single-origin grounds.



At UCC Coffee Roastery in Ho Chi Minh City, baristas specialize in siphon brewing, attracting coffee hobbyists looking for the latest trend. (Photo by Lien Hoang)

"Before, the focus was mostly on exporting," said Rolan Colieng, a fourth-generation farmer whose company, K'Ho Coffee, is named after her ethnic minority in the central highlands.

Over a crackling phone line from the jungle, she said Vietnamese now take a more active role in building up the quality and reputation of local coffee beyond the cheap robusta planted by French colonizers.

"Domestic consumers love [specialty] coffee ... creating very high value for farmers," she said. Now, farmers "also save the best coffee for themselves to drink."

Nguyen Duy, a 21-year-old sporting bleached hair and Nike sneakers, loves both coffee types: trickling from an aluminum filter, or gushing out of an espresso machine. He exemplifies the changing tastes of Vietnam's coffee consumers now that foreign chains that weren't present a decade ago, like Starbucks, are spreading the consumption of espresso-based drinks, such as macchiatos.

"It starts from my personality, I want to explore more, I like to discover new coffee," Duy told Nikkei in an airconditioned cafe on a hot afternoon. He learns about each country he visits by trying its coffee; while studying in Australia, he got into the habit of drinking americano, a brew that his parents hate. They hooked him on strong, bitter Vietnamese coffee as a child.

As a result of such diametrically varied palates, each city block today is a bricolage of cafes. Chains selling cappuccinos worth half a day's wage coexist next to sidewalk vendors with folding chairs and hand-scrawled cardboard menus. Caffeine fiends dispense their own coffee from machines at GS25, a minimart, or order a *moka* pot at Vietnam Coffee Republic, a trendy cafe.

Duy, who finds cafe trends on TikTok, says the draw of coffee shops, as opposed to home-brewing, is the fact that "people can sit on the street and enjoy the coffee. They like to have coffee and talk with friends and family."

Coffee houses also stand out as one of the last redoubts of street life, now that ever-wealthier Vietnamese are retreating behind malls and gated communities. Only at sidewalk cafes and restaurants do locals pull up in Porsches and quaff lattes, while street children and veterans stop by to hawk lottery tickets.

Indonesia: Homegrown hype

In Indonesia, Asia's second biggest coffee-producing nation, the cafe industry is also gaining momentum.

Iman Kusumaputra started Indonesia's answer to Starbucks as an afterthought six years ago when, returning from Melbourne, Australia, with a finance degree, he decided to set up a property company. "And then we thought, 'if we have a property office, surely it should have a small coffee shop,'" the 35-year-old told Nikkei in an airy and sleek Kopikalyan outlet in a bustling commercial area in South Jakarta.

"We -- my co-founders and I -- used to live in Melbourne, a mecca of coffee shops, so we'd really gotten used to drinking coffee. In the end, our coffee shop business kept running, but the property one did not."

Kopikalyan currently runs three coffee houses around Jakarta, and set up its first, and currently the only, overseas outlet in Tokyo in December 2020.



Kopikalyan currently runs three coffee houses in Jakarta and has big plans for overseas expansion. (Photo by Dimas Ardian)

Its coffee is made only of arabica beans sourced fully from Indonesian coffee plantations. As well as Western coffee shop standbys like espresso and cappuccino, Kopikalyan also sells locally popular blends like Es Kopi Susu (iced coffee with milk and palm sugar). It recently launched what it calls the Kopi Atlas project, which offers eight select single-origin coffees from different regions in Indonesia, from Aceh in the west to Papua in the east.

"Indonesia is interesting because, being the world's largest archipelago [nation], we're separated by a lot of seas, so flavors of coffees from one region to another can be very different,"

Kusumaputra said. "Indonesia has the largest number of single-origin varieties -- even one island can be home to several different single-origins."

Kopikalyan, which opened its first coffee outlet in 2016, is ambitious with its expansion plans. There have been plans to open outlets in some other major cities in Indonesia, as well as in Japan, the United Arab Emirates and Australia, but the COVID-19 pandemic and mobility restrictions have forced the company to put these goals on the back burner.

Kenny Tjahyadi, director of Kopikalyan Tokyo, told Nikkei: "Indonesian people are now starting to realize that their coffee is something that they should be proud of." Previously, arabica coffee and high-grade coffee were not consumed domestically, and most beans were exported, but since the cafe boom began in Indonesia, high-grade beans are being distributed, and people are starting to understand the potential of Indonesian coffee, Tjahyadi added.

While that is more of a long-term vision, Kopikalyan has reasons to be confident, at least with its home market, where appreciation for local origin coffee has been growing noticeably in recent years. Local coffee is the new hype, replacing beans imported by the likes of Starbucks, which began the coffee house culture in Indonesia in 2002 and keeps expanding, and the Vietnamese drip coffee trend that hit Jakarta several years back.



Customers socialize over cups of coffee at a Kopikalyan outlet in Jakarta. (Photo by Dimas Ardian)

"In 2016 when we started out, only a few people would ask the cashier, 'How's the taste of the coffee? How is it brewed?' We would call them coffee warriors," Kusumaputra said. "But now, Indonesians, in general, are more curious about where their coffee comes from, who the farmers are. ... And also there are a lot of home-brewers these days, so it's easier for us to sell our coffee beans. Overall we think the coffee trend in Indonesia is becoming much stronger."

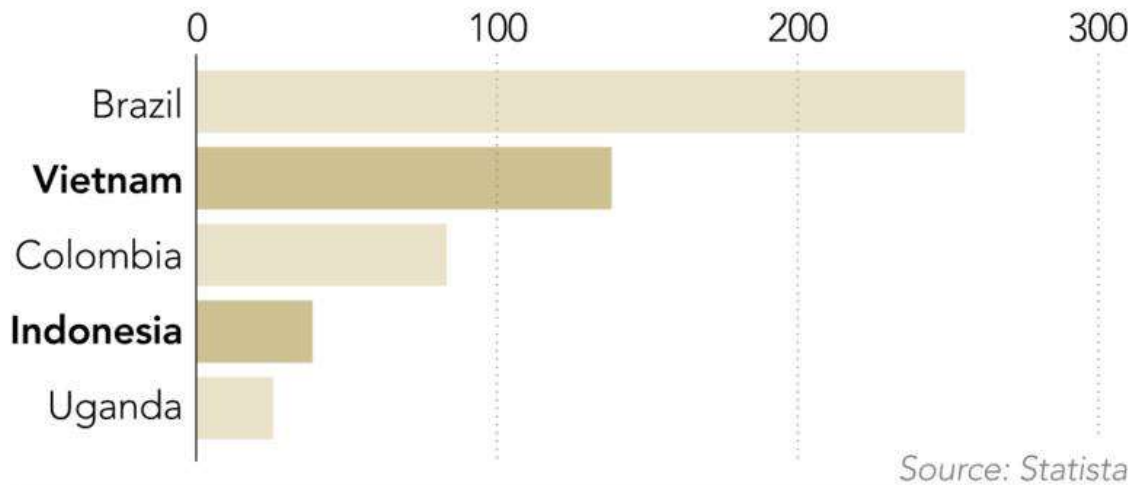
To support sales during the pandemic, Kopikalyan has developed different packaging for its coffee, including aluminum cans and drip bags, and partners with ride-hailing companies Gojek and Grab for deliveries, as well as local online marketplaces like Tokopedia to reach out to more customers. Tjahyadi mentioned that domestic brands are benefiting as more consumers become

keen to support local products rather than consume foreign brands, a trend triggered by COVID-19 concerns.

Despite the world's fourth largest exporters of the commodity, coffee in Indonesia - where tea is the traditional drink of choice - has only enjoyed a popularity boost in recent years, along with the pre-pandemic rise of the middle class and their disposable incomes, as well as the growing popularity of cafe culture among young urban populations. Tjahyadi also made the point that 90% of Indonesians are Muslim, so people are looking for a social drink that is not alcohol.

The world's top five coffee exporters

(In December 2020, in millions of kilograms)



"New age" players like grab-and-go coffee chains Kopi Kenangan, Janji Jiwa and Fore Coffee are joining the ride, filling in the need for affordable fresh coffee options and attracting global investors enough to make one of them, Kopi Kenangan, Indonesia's latest startup unicorn, DealStreetAsia reported in December.

Andita, a 23-year-old fresh architecture graduate in Jakarta, said she began frequenting coffee houses in her college days to work on class assignments. She now visits them to do work projects.

"I need coffee because I often work overnight," Andita said. "And since I started working in Jakarta a year ago, due to the work from home policy I often work in a cafe during the daylight, choosing ones with a nice ambiance."

On weekends, Andita meets friends at coffee shops like Kopikalyan. When she's at home, she often brews her own coffee using a French press.

Meralda Abida, an 18-year-old university student, said she started drinking coffee in high school to help her study for exams. Back then, her choices were limited to coffee sachets sold at convenience stores. Now, with classes at her campus still fully online due to COVID-19 restrictions, she often works on class assignments alone or with classmates at coffee shops.

"I have several favorite cafes near my house in South Jakarta that I visit once or twice a week," she said. "They have a nice atmosphere, areas to do work, and they sell food as well."

Meralda added that she also often orders grab-and-go coffee via Gojek or Grab.

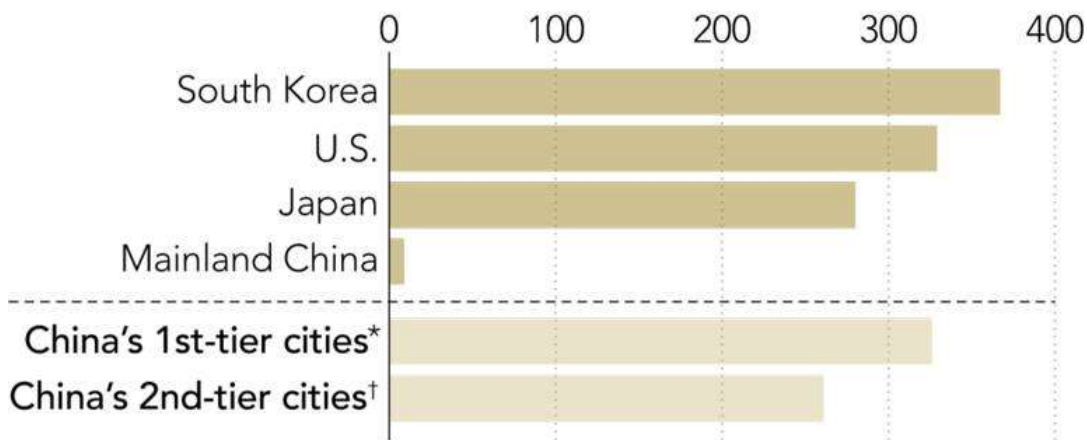
China: A nation of coffee-drinking youngsters

China is experiencing a similar trend. The arrival of foreign chains including Starbucks and Costa Coffee in the late 1990s stamped a mark across Chinese cities and attracted young consumers. But the emergence of local chains and roadside kiosks in recent years is now driving China's own coffee drinking culture.

According to a March 2021 report by financial news outlet Yicai, Shanghai now has the highest number of stand-alone coffee shops in the world, with 6,913 outlets. This is more than the 3,826 in Tokyo, 3,233 in London and 1,591 in New York.

As the Yicai study shows, coffee outlets in China are highly concentrated in affluent, urban areas, targeting the young.

Coffee consumption per capita (In number of cups per year)



*Shanghai, Beijing, Shenzhen, Guangzhou †Chengdu, Hangzhou, Chongqing, Xi'an, Suzhou, Wuhan, Nanjing, Tianjing, Zhengzhou, Changsha, Dongguan, Foshan, Ningbo, Qingdao, Shenyang
Source: Deloitte China, April 2021; Yicai Global's Ranking of Chinese Cities' Business Attractiveness

"[Young people] have the purchasing power and money to spend and they want to try new things," observed Min Chun, a project leader at Daxue Consulting in Shanghai. "If there is a new trend and products that are attractive, they are willing to try."

Initially, these young coffee aficionados with overseas experience were driving the market in China, another traditionally tea-drinking society. Then came local brands such as Manner Coffee and Luckin Coffee that set the trend with takeout service, gaining traction with on-the-go urbanites with prices ranging from 10 yuan (\$1.50) to 25 yuan.

"The younger generation doesn't have time to sit down in a coffee outlet," said Chun, who advises businesses on China's coffee market. "They just grab and go." Drinking coffee from outlets that typically bear a distinctive foreign name also reflects the growing urbanization and purchasing power of the population.

"Some don't really like coffee or know what a good coffee drink is," Chun said, "but holding one and walking around with it makes them [think they] look fancy."

"China's efficient delivery service really makes drinking coffee cheap and easy," said Wang Xiaoyi, who works at a trade services startup in Shanghai. Like many other urbanites, Wang uses mobile apps to satisfy her coffee cravings without leaving the office or house.

To strike a different note, specialty chains such as Seesaw Coffee and Mellow Coffee offer innovative drink menus of alcohol-mixed coffees targeted at urbanites. Seesaw has also linked up with Finnish designer Marimekko in co-branding, while at Manner, customers who bring their own cup get 5 yuan off the bill.

China's iiMedia Research in November projected the country's coffee market will maintain a 27% annual growth rate to reach 1 trillion yuan in 2025, up from 381.7 billion in 2021.

Investors seem to be paying attention to such ambitious forecasts. Manner, reportedly planning to float its shares, drew several rounds of funding in the past year from investors that included Singapore's Temasek, Meituan and ByteDance.

Seesaw, which runs fewer than a hundred stores, attracted hundreds of millions of yuan from Chinese milk tea operator Heytea in July and Costone Capital in December, pushing up its valuation to 1.6 billion yuan, according to Chinese data provider Itjuzi.com.

To Chinese coffee drinkers, these local operators with their localization bids reflect the *guochao*, or patriotic, trend that has swept consumer markets from apparel to cosmetics since trade tension with the U.S. began. Chun, the marketing consultant, told Nikkei that, unlike foreign players in China with their imported coffee beans, Chinese chain operators go for local beans out of cost considerations and customer preferences for local flavors.



Chinese chain Manner Coffee is popular among on-the-go city dwellers due to its takeout service. (Photo by Photo by Lai Xinlin)

"If [Chinese players] can prove that local coffee beans are as good, as sophisticated and tasty, I think [this tactic] will work. They are not targeting the foreigners but local young generations who are sensitive to this type of marketing," he added.

Coffee fan Hao's comments echoed this. "We don't necessarily like to drink Starbucks or Costa," he said when describing the cohort of consumers like himself. "When we come across outlets run by a self-proprietor, we are willing to try, just like how we like Manner for its environmentally friendly policy. We feel closer to the international society."

Danny Li, founder of Goffee-Coffee in Myanmar, has noticed a similar trend among his customers.

After graduating from a university in Taiwan, Li, who is of Chinese Burmese descent, opened his coffee shop in Mandalay in 2016 when there were almost no cafes, apart from restaurants, that offered coffee. "When I was studying [in Taiwan I] decided to bring back [coffee culture] to my home country," he said. Still, many of his customers are tech people, young engineers and expats, rather than locals.

To spread coffee culture, Li offers workshops in his cafe. Milk tea has been a staple drink on the streets of Myanmar, a former British colony, but the tide is turning as people start drinking coffee. "We tell people about coffee and how to distinguish good coffee."

Japan: Tea no longer reigns supreme

Another nation with a long history of tea-drinking, Japan has been experiencing a rise in coffee consumption in recent years. Japan's coffee market is the biggest in Asia, with coffee sales worth \$34.45 billion in 2020, according to Mersol & Luo.

"Tea consumption has been the mainstream in Asia so far, but I think that the number of people who drink coffee will increase, as we have seen in Japan," Masahiro Kanno, president of the Specialty Coffee Association of Japan told Nikkei. "Since Japan originally has a culture of drinking tea, we already have a custom of boiling water. I think it is easy to establish a culture of drinking sophisticated coffee, such as brewing pour-over coffee."



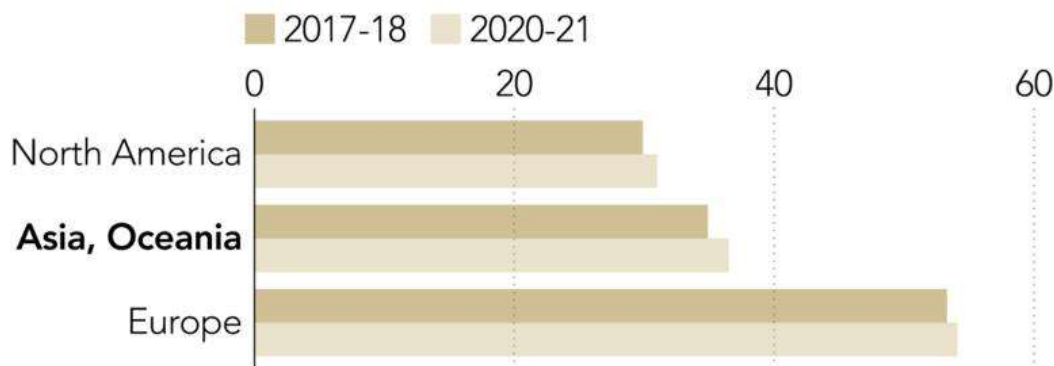
Starbucks opened its first cafe in Japan in Ginza, Tokyo in 1996. (Photo by Ken Kobayashi)

While coffee has become one of the most consumed hot drinks in Japan, tea consumption is decreasing. According to the Japanese Association of Tea Production, the domestic consumption of tea fell to 108,454 tons in 2019, down 30% from 2004, the most recent peak.

Herbert Yum, a research manager at Euromonitor International, admitted that "it is true that young consumers might be losing interest in tea in some markets like Japan and South Korea, in which coffee is the dominant hot drink thanks to the long-standing development of coffee culture."

Like many industries in Japan, it is not surprising that tea and coffee purveyors are facing issues brought on by the country's declining population. But in contrast to the tea market, Japan's coffee consumption has been rising, reaching 452,903 tons in 2019, up 5.8% from 2004 according to the All Japan Coffee Association.

Asia and Oceania's coffee consumption is rising faster than in Europe and the U.S. (In millions of 60 kg bags)



Coffee year ending Sept. 30
Source: International Coffee Organization

Even before the arrival of Starbucks in 1995, Japan's coffee drinking habit had been emerging since the Meiji period in the 1800s, with consumers' yearning for Western culture. But the entrance of the Seattle chain and its no-smoking policy helped increase the number of female coffee drinkers, many of whom had been put off by the smoky atmosphere of Japan's traditional *kissaten* coffee shops. Around 2010, the boom of brewed-to-order coffee at convenience stores contributed to the market expansion.

Although the pandemic hit cafes and convenience stores alike in 2020, the industry now sees an opportunity as consumers are spending more on specialty beans and equipment to use at home. "It's not true that people in their 20s and 30s don't have money, they have a consumption style that pays for whatever [they think is] valuable," Kanno said. "In Japan, due to the pandemic, the number of people who are particular about coffee equipment and beans has increased."

South Korea: Asia's coffee culture hub

In South Korea, home to Asia's second largest coffee market until it was overtaken by China in 2020, cafes have become an integral part of the social ecosystem.

Seo Young-woong, 37, goes to a Lusso Lab coffee house in downtown Seoul twice a week as the two-storey cafe built with red bricks offers him a shelter from the bustle of the city.

"I like it here because I can enjoy my own time and space," said Seo, who works for a senior welfare center. "Its seats are cozy and the venue is clean."



A barista prepares coffee at Lusso Lab coffee house in downtown Seoul. The cafe not only provides refreshments but also a space to socialize and study. (Photo by Jean Chung)

The cafe, run by CK Corporations, a local coffee chain, was filled with other customers as well when Nikkei visited on a December afternoon. The space caters to coffee consumers of all ages and backgrounds: A senior journalist was interviewing a source on the second floor, while three ladies in their 20s were chatting with each other over americanos and cake. A teenage classical music student also dropped by for an iced latte with a violin on his shoulder.

While Lusso Lab offers a shelter downtown, a Cafe Comma outlet in western Seoul, run by Munhakhongne Publishing Group, is a book cafe where people can sip coffee, read books and study. Thousands of titles fill bookshelves that stand tall in the five-story building.

A young couple was studying mathematics together on the second floor with a tablet PC, while a lady in her 30s was working with a laptop in a seat beside the window. It looked more like a library than a typical coffee house.

South Korea's coffee market has risen fast the past few years despite the pandemic, thanks to customers who adopted cafes as their second home, office or library. The country's imports of coffee reached \$916 million last year, up from \$738 million in 2020 and \$662 million in 2019, according to customs authorities' data. Hyundai Research Institute, a Seoul-based private think tank, said in a 2019 report that the country's coffee market is expected to grow to 9 trillion won (\$7.5 billion) by 2023.



A Cafe Comma outlet in western Seoul doubles as a library and studying space for a diverse range of customers. (Photo by Jean Chung)

Although this market expansion is in part a side effect of Asia's overall economic expansion and rising disposable incomes, Euromonitor's Yum told Nikkei that "the growth of the [coffee] category in the Asia Pacific is supported by the continuous development of coffee culture in the region."

Yum predicts that coffee will become even more ingrained in Asian societies as the years go on. "Asian consumers are pursuing something more for their lifestyle, including drinking quality coffee. These consumers typically have a middle-class background and they have been exposed to the lifestyles in Western countries, such as meeting with friends at cafes via social media," he told Nikkei. "Once they have adequate financial power, they just start realizing their lifestyle goals, including increasing their coffee consumption."