

Country Market Profile: China

Market Overview

Euromonitor International, a market research provider, reports that China's economy is forecast to grow at a slower pace in 2024, subdued by the property crisis, faltering exports, and soft domestic demand. Real gross domestic product (GDP) rose by 5% in 2023, slightly above the official target, yet well below the pre-pandemic average, especially given the low base for comparison from 2022. The recent economic data underlined continuing problems of China's real estate sector, with investment in property development falling 9.6% and real estate sales declining by 6.5% year on year in 2023. After the collapse of Evergrande, Country Garden and smaller real estate companies, the crunch has extended into the shadow banking sector as Zhongzhi Enterprise Group, one of the key Chinese shadow banks, filed for bankruptcy in January, putting even more strain on consumer and business sentiment.

China's exports shrank by 4.6% year on year in 2023, despite an uptick in the last two months of the year. While China managed to ramp up shipments to Russia nearly by half in 2023, its exports to the U.S., the EU and the ASEAN markets fell by 13.1%, 10.2% and 5%, respectively. The foreign trade landscape is set to remain challenging amid softer global growth and escalating tensions with the West, only partly offset by surging demand for Chinese electric vehicles and improving electronics exports.

Moreover, China is facing rising deflationary risks, with consumer prices falling by 0.3% in December in annual terms. While price pressures are set to normalize later in 2024 on the favorable comparison base, inflation will stay on the lower side due to weak domestic spending. The central bank of China (PBoC) kept the key policy rate unchanged in January. Despite mounting deflationary pressures and lackluster economic recovery, further monetary easing will be limited due to the PBoC's determination to ensure the stability of the yuan.

In 2023, China's population was just over 1.4 billion (CIA World Factbook Est.), an increase of over 118 million since 2000. The population, however, is growing at a decelerating pace. China is rapidly urbanizing. As recently as 1980, less than 20% of China's population lived in cities, but today more than half of all Chinese live in urban areas and up to 70% are expected to be urbanites by 2030. China is aging at a rapid pace. In 2023, the median age was 39.8 years, 9.4 years greater than the figure for 2000. It is expected to be 42.5 years by 2030 (well above the regional average). In 2023, the number of Chinese over 65 years totaled 199 million. This figure represented 14.11% of the total population. In 2030, a projected 17.4% of all Chinese (almost 248 million) will be over 65 years.

USDA's Agricultural Trade Office (ATO) in Shanghai, hereinafter referred to as FAS Post Shanghai, reports that as the largest export market for the United States, China provides a promising yet challenging and competitive market for agricultural products. U.S. Agricultural exports to China decreased significantly in 2023, with a decline of 24%

to US\$29 billion. That equates to a loss of US\$9.1 billion which adds to the U.S. trade deficit in food and agricultural products. China remains the top market currently, but it looks like it will be overtaken by Canada and/or Mexico if the decline continues.

China also remains the fourth largest market for the export of U.S. processed foods, totaling nearly US\$2.4 billion in 2023, a decrease of 7% from the prior year. Top processed food products exported to China in 2023 included:

- Food Preparations & Ingredients – down 3%
- Prepared/Preserved Seafood – up 26%
- Processed/Prepared Dairy Products – down 34%
- Prepared/Preserved Meat – down 5%
- Dog & Cat Food – down 2%
- Snack Foods – down 21%
- Syrups & Sweeteners – down 13%
- Alcoholic Beverages – up 41%

Market Opportunities and Key Issues for U.S. Exporters of Processed Food in China

Market Opportunities:

- Fast recovery from the COVID-19 pandemic and restorative growth achieved by catering business.
- The U.S.-China Phase One Trade Agreement expanded market access and improved competitiveness for some U.S. exports.
- A population of 1.4 billion, 65% urbanization, and a growing middle class create strong demand and potential for consumption of imported food and agricultural products.
- Well-established distribution channel and robust digitalization.
- Consumers perceive U.S. products as safe, high quality, and consistent.
- Strong consumer demand for value, quality, and diversity in food.
- A robust presence of USDA Cooperator and Agricultural Trade Offices (ATO) reinforce the reputation of U.S. products as safe, healthy, high quality.
- USDA-endorsed trade shows with USA Pavilions and educational seminars bridge the gap for importers unfamiliar with U.S. food and agricultural products.

Key Issues:

- China's retail sales are recovering but at a slower than expected pace after the pandemic.
- Uncertainty also exists in disposable income growth among Chinese consumers.
- Import requirements for food and agricultural products are sometimes unclear, unjustified, and unevenly enforced.
- Retaliatory tariffs against U.S. products are still in place, while 26 countries and regions have 19 free trade agreements with China.

- A perception of improved but uncertain bilateral relationship between the United States and the People's Republic of China (PRC).
- Consumers increasingly trust domestic food production, processing, and safety.

Retail Sector Highlights:

According to Euromonitor, retail sales in the packaged food market in China had been estimated to reach US\$327.6 billion in 2023. China is the second largest packaged food market in the world after the U.S. That also represents a growth rate of 12.4% or US\$36 billion since 2019. The forecast for growth in this market is outstanding. By the year 2028, the retail sales in the packaged food market in China is expected to reach US\$411.8 billion, a growth rate of 23.2% or US\$81 billion from 2024. High growth products in the forecast include:

- Pet food
- Baked goods
- Cheese
- Processed Fruit and Vegetables
- Sauces, Dips & Condiments
- Ready Meals
- Ice Cream
- Breakfast cereals

FAS Post Beijing reports that in 2022, the total retail sales of consumer goods decreased by 0.2% over the previous year. Two sales formats have emerged recently: convenience stores and membership supermarkets. Convenience stores are close to the community, and consumers can make multiple purchases daily. Membership stores such as Sam's Club and Costco provide a diverse selection of western-style, large-packaged goods and enjoy a great reputation for their high-quality sourcing. Online retail continues to play an increasingly essential role in China for daily necessities. The pandemic greatly accelerated digitalization of businesses and the proliferation of e-commerce and consumer technology adoption. As a result, e-commerce is set to continue to be the main growth driver of retail sales. Various sales/purchasing methods have surfaced in the last few years leaving many companies to adapt their marketing to meet consumer purchasing patterns.

In November 2021, Sam's Club announced that the number of paid members in China had exceeded 4 million. As of the end of 2022, Sam's Club had 42 stores in over 25 cities in China. Costco had four stores in China as of June 2023, with two more planned to open in 2023.

The sales revenue of the top 100 retailers in 2022 was RMB937 billion (US\$133 billion), up 3.2% from 2021. Fifty-two of the retailers, or more than half, experienced negative sales growth. However, compared with the number (32 companies) in 2021, the overall situation has improved. Walmart continued to hold the number one position in the top 100 supermarkets ranking, after returning to it from the seventh in 2020 and the fourth in 2021.

In 2022, China's consumer-oriented food imports reached US\$109 billion, an increase of 6.5% over the previous year. China kept importing significant quantities of seafood, beef, pork, poultry, tree nuts, fresh fruit, and dairy products in 2022. The United States is the fourth largest supplier of consumer-oriented food products with an 8.7% market share, behind Brazil with 12%, and both Thailand and New Zealand with 10.2%. China has signed 19 free trade agreements with 26 countries and regions. A further 10 FTAs are currently under negotiation, while 8 more are under consideration. These agreements provide lower or no tariffs, giving certain imported products a competitive advantage over comparable U.S. products.

Best Product Prospects:

FAS Post Beijing reports that the “Phase One Trade Agreement” included a commitment by China to make purchases of U.S. agricultural goods and address non-tariff barriers to U.S. agriculture and seafood products, including meat, poultry, seafood, rice, dairy, infant formula, horticultural products, animal feed and feed additives, pet food, and products of agriculture biotechnology. Tariff exclusions may lower the cost for Chinese importers of U.S. products.

U.S. high value products (HVP) with good potential in the Chinese market include snack foods, pet foods, bakery ingredients, dairy products, spirits, beer, and wine.

Foodservice Sector Highlights:

FAS Post Guangzhou reports that China ended its three-year long COVID-19 restrictions in late December 2022. Since then, hotels have generally had a robust return of customers, while restaurants performed differently. China’s economic woes are negatively affecting consumer confidence in spending. Changes in both demand and supply patterns for the hotel, restaurant and institutional (HRI) sector are reshaping HRI operations and supply chains. Demand for pre-prepared dishes grew by restaurants and caterers; however, some consumers have concerns about quality and safety due to the lack of regulatory standards for this emerging sector.

The zero-COVID-19 policies also reshaped restaurant operations and supply chains. Rising food prices, labor, and packaging costs mixed with logistical challenges related to delivery led many restaurants to utilize online platforms. The use of such foodservice supply chain businesses helped many restaurants manage costs and improve operational efficiency. For many restaurants and caterers, pre-prepared (also referred to as “prefabricated”) dishes grew in demand and helped restaurants achieve profitability.

Recent industry research suggests about 85% of pre-prepared dishes are sold to restaurants, while the remaining go to retail or family consumption. For restaurants, pre-prepared dishes save labor costs, require less kitchen space, shorten food preparation time, and maintain consistent tastes especially for chain restaurants. However, restaurants are not openly admitting their use of pre-prepared dishes, as consumers still have mixed feelings.

One industry study suggests China's pre-prepared dish market reached total revenue of US\$5.8 billion in 2022 and was expected to increase to US\$7.2 billion yuan in 2023. About 45% of demand for pre-prepared dishes is from tier 1 cities, where the pace of life is much faster, and 20% is from tier 2 cities, demonstrating demand reaching well beyond China's busiest metropolitan centers. Given the cost savings and convenience provided to consumers, many industry contacts believe the trend will continue. Although about 77% of pre-prepared dishes are based on proteins such as meat and seafood, opportunities exist in the space for a wide variety of ingredients.

China's HRI distribution is somewhat fragmented due to varied cuisine styles across provinces. Fresh food and ingredients account for a large portion of daily purchases in the HRI sector. Although high-level industry players have historically expressed a desire to create vast food supply companies that service restaurants and hotels (modeled after U.S. suppliers such as Sysco), no such company yet exists in China. And not one that operates across all of China. However, chain international hotels have economies of scale and the capacity to procure consistent food and beverage products with their centralized purchasing system. Similarly, most chain restaurants have increased resilience and stability within their respective internal ingredient supply chains. Restaurant and supermarket networks across China have been successful at providing supply chain services at competitive prices.

Regional cuisine boundaries are becoming blurred and foodservice-retail boundaries even more so. With supermarkets and convenience stores eroding the foodservice market, chain foodservice brands have launched pre-packaged products and easy-to-cook dishes. Most chains have central kitchens, and many are developing standardized products that only need heating.

While restaurants globally struggled with the pandemic, China saw a record number of new outlets in 2020. Several Western chains opened branches in first tier cities like Shanghai and Beijing. Popeye's opened its first outlet in Shanghai in May 2020, and now has nine outlets. Five Guys opened two stores in Shanghai in 2021. Others like Chili's, Red Lobster, Shake Shack, and Cheesecake Factory, as well as fine dining restaurants including Wolfgang's Steakhouse and Ruth's Chris Steakhouse were also performing well. Yum! Brands (KFC, Pizza Hut, and others) launched huge expansion plans. Starbucks had 5,410 outlets by November 2021.

With major international events, conferences, and trade shows, China's hotel and resort industry is immense and growing. Many internationally owned or managed hotel groups are rapidly expanding operations in second- and third-tier cities and top tourist destinations. In 2020, border restrictions made domestic travel the only choice for most consumers. Star-rated hotel guests have become mainly local or surrounding city consumers. Five-star hotels have few foreign guests. Some hotels began providing take-out services and closed executive lounges. Hotel and resort foodservice account for approximately 30% of average total revenue.

Hotel restaurants are not necessarily visited by only lodging guests, but instead are increasingly visited by outside guests. Hotel restaurants are considered to have superior quality and service. Hotels often purchase ingredients through a centrally managed system. Imported food products are often preferred by international hotels because they cater to a diverse clientele.

Best Prospects:

FAS Post Guangzhou reports that interest in wellness and health benefits among buyers in China increased dramatically following the end of the pandemic. Increasing disposable income and urbanization have fostered consumer preferences for nutritious, balanced foods as a key to good health. Instead of traditional carbohydrate-focused meals, consumers are adding more protein into daily meals such as beef, pork, poultry, and seafood items. Beverages including coffee and tea, and non-alcoholic products are trending, particularly among young consumers.

China imported 68,424 tons of coffee (roasted beans and extracts) in 2022; a 28% increase over 2020. Specialty coffee and tea shops, limited-service restaurants providing simple meals, and milk tea shops in street stalls and kiosks generated growing interest from consumers. Bakery goods are increasingly popular, boosted by the growth in café culture. Previously only seen in luxury hotels in China, stand-alone bakeries and pastry shops are also growing popular. Imported ingredients such as flours, butter, dried nuts, and dried fruits are crucial to producing high-quality, western-style bakery foods. Other luxury items such as caviar, oysters, and distilled spirits have increasing visibility on restaurant menus as they become more affordable and accessible in first- and second-tier cities.

Food Processing Sector Highlights:

FAS Post Guangzhou reports that China's food industry witnessed steady growth in 2022, with major companies reporting revenues of US\$1.3 trillion, a yearly increase of 5.6%. China continues importing increasing volumes of food ingredients. China reported Gross Domestic Product (GDP) growth of less than 3% in 2022. Growth was reduced by the PRC's response to COVID, a weak property market, and economic uncertainty. A full economic recovery will take some time, but imports of food and agricultural imports are expected to keep growing.

Throughout the COVID-19 pandemic period, the food processing industry demonstrated resilience. It reported a 12.6% growth in value year-on-year by the end of the third quarter of 2022, 2.6% higher than the average of China's industries. This growth is likely to continue.

The pandemic reinforced some diet trends such as eating at home, eating healthier, and a preference for time-saving cooking. As a result, a range of new food sectors emerged or were strengthened. These include semi-prepared food, plant-based food/beverages, as well as light meals. These trends are likely to keep evolving and increase demand for imported food ingredients like nuts, dried fruit, meat, seafood, pulses, and dairy products. The food and drink industry in China is expected to grow by approximately US\$30

billion in the coming three years. China will continue to be import dependent for key ingredients.

Best Product Prospects:

FAS Post Guangzhou reports that products present in the market that have good sales potential include plant-based ingredients, cheese, tree nuts, whey and modified whey, dried fruit, pulses including dried peas, lentils and chickpeas, and to a lesser extent barley malt and frozen fruit.