



An online review of Foreign Agricultural Service initiatives and services

Market and Trade Data

Food Processing in China Flourishing

By Daniel Taylor

China's 1.3 billion population is growing by 10 million people a year. With these numbers and a booming economy, China is one of the world's largest consumers of food. The country's annual food consumption is staggering:

- 51 percent of the world's production of pork
- 33 percent of rice
- 19 percent of ice cream
- 19 percent of poultry
- 12 percent of beef

Though just 30 percent of food consumed is now processed, compared to 80 percent in Western nations, the market for processed foods is growing, especially in urban areas.

Busy urban consumers want convenience, healthier choices, variety and quality — creating new demands for processed foods and new opportunities for U.S. ingredients.

Food Processors Center on East Coast

Disparate incomes highlight the urban-rural divide in China. Greater regional affluence, along with access to seaports and imported technology, has led most food processors to locate along China's industrialized eastern coast in the Shanghai, Guangzhou and Beijing areas.

Official statistics divide food production into three categories: food processing, food manufacturing and beverage manufacturing.

Primary food processing — milling, refining, slaughtering and processing of aquatic food products — has the highest growth rate, with the beverage industry second. The smaller food manufacturing segment is composed of packaged foods, pastries and confections, dairy products, canned foods, fermented products and condiments.

Though only an estimate, 2003 official statistics counted about 19,000 food processors with annual revenues over \$600,000 in China. This number does not include many smaller operations under the \$600,000 threshold. Unofficial estimates suggest the total number is closer to 900,000 food processing ventures —

from mom-'n'-pop operations to multinational corporations.

Medium-sized businesses account for the bulk of food processing, with no processor commanding a large market share. This sector fragmentation has been reinforced by the large gap between rural and urban consumer incomes, regional preferences and overall lack of infrastructure.

Consumer Trends

Urban areas show the most growth and the highest sales of value-added food items, led by dairy products, baby foods, oils and fats, meats and poultry, and seafood. While unprocessed grain consumption is decreasing, baked goods and processed cereals are increasing.

Growth in rural areas is concentrated in meat, dairy and fish products, while other products such as edible oils are declining.

Overall, new demand for convenience, health, low-fat and fortified products is expected. The organic market is fledgling, but being promoted by the government and aided by health and safety concerns.

About 88 percent of urban households have refrigerators, compared to only 16 percent of rural households. Less than 7 percent of urban households have freezers.

Changing retail sales patterns are conducive to increased processed foods--traditional street markets are declining while supermarkets and hypermarkets (where 46 percent of processed foods are sold) are expanding. Thriving catering firms and the ballooning restaurant sector are also increasing demand for high-value processed items.

Targeting Market Entry

The vastness, diversity and fragmentation of the Chinese market preclude one model for market entry. But some universal guidelines apply.

Personal relationships and market knowledge are critical. China has an ancient business culture that values efficiency and profit. But personal relationships and respect for hierarchy can trump economic advantage.

Best Prospects

In upcoming years, China's food processing industry is expected to focus on the development of corn, wheat and dairy products, food additives and seasonings. Demand for imported poultry, cereals, fish, tree nuts and soybeans is expected to continue along with new markets for baking ingredients and fruit flavorings.

Good prospects for U.S. products include:

- tree nuts — almonds, pistachios, hazelnuts and macadamias
- prunes and raisins
- oranges, cherries and table grapes
- poultry and pork
- potato flour and frozen potato products
- corn
- juices and concentrates
- lobster, scallops, salmon and pollock
- infant formula
- whey powder
- flour
- fruit flavorings
- processed food ingredients

Targeted research on specific consumer groups can reveal whether there is a market for your products and what pricing would be acceptable. Orders should be followed up to ensure that the product is making it to outlets. Promotions for new products often include information on how the product can fit in with established cuisines.

To be effective, distributors need established relationships with wholesale and retail outlets in the targeted region. Visits to the distributor's facilities are especially recommended to check out cold chain capabilities.

Distribution accounts for 30 percent of a product's cost in China. The distribution channel can be confusing for new exporters. But international standards of logistics, including distribution centers, are being introduced as more foreign retailers set up shop.

The three FAS Agricultural Trade Offices in China (Beijing, Shanghai and Guangzhou) and nearly 30 U.S. producer associations have direct experience and established relationships with the retail sector. They can provide valuable help in finding reputable distributors and providing market tips. Trade shows, held throughout China, offer exporters the opportunity to meet potential customers and develop the all-important personal relationships.

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