

## 2022 Country Market Profile: China

Euromonitor reports that China experienced a strong economic performance over 2021, driven by robust growth in industrial production and surging exports. However, the economy is forecast to lose growth momentum over 2022 as a property downturn deepens, supply chain disruptions persist, and strict COVID-19 curbs weigh on private consumption. As a result, China plans to boost infrastructure investment and loosen monetary and fiscal policies in 2022 to stabilize the economy.

- Following real growth of 7.9% in 2021, China's economy is expected to expand by an average annual real rate of 4.1% over the medium term.
- Inflation in China is forecast to increase to 2.2% in 2022 from 1% in 2021.
- As China's exports increased by 31.1% during 2021, the country's trade surplus reached record-high levels.
- Foreign Direct Investment (FDI) inflows in China continued to grow and reached an all-time high of US\$179 billion in 2021, supported by strong investment in hi-tech and services sectors.
- Public debt levels in China increased slightly to 67.6% of Gross Domestic Product (GDP) over 2021, standing below the regional average of 94.7%.

In January 2022, the Regional Comprehensive Economic Partnership (RCEP) came into force, creating a new Asia Pacific trading bloc between the 10 ASEAN (Association of Southeast Asian Nations) countries, Australia, China, Japan, New Zealand and South Korea. The RCEP is expected to boost China's economic development and promote stronger trading relationships between members through the effect of tariff reductions and simplification of trading rules.

In 2022, China's population was almost 1.4 billion (CIA World Factbook Est.) – an increase of over 107 million since 2000. 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 ageing at a rapid pace. In 2022, the median age was 38.4 years – 8 years greater than the figure for 2000 – and it will be 42.5 years by 2030 (well above the regional average). In 2022, the number of Chinese over 65 years totaled 172 million. This figure represented 12.3% of total population. In 2030, a projected 17.4% of all Chinese (almost 248 million) will be over 65 years.

On January 15th 2020, the U.S. and China reached an historic and enforceable agreement on a "Phase One" trade deal that requires structural reforms and other changes to China's economic and trade regime in the areas of intellectual property, technology transfer, agriculture, financial services, and currency and foreign exchange. The Phase One agreement also includes a commitment by China that it will make substantial additional purchases of U.S. goods and services in the coming years. Importantly, the agreement establishes a strong dispute resolution system that ensures prompt and effective

implementation and enforcement. The U.S. has agreed to modify its Section 301 tariff actions in a significant way.

The Agriculture Chapter addressed structural barriers to trade and will support a dramatic expansion of U.S. food, agriculture and seafood product exports, increasing American farm and fishery income, generating more rural economic activity, and promoting job growth. A multitude of non-tariff barriers to U.S. agriculture and seafood products are addressed, including for meat, poultry, seafood, rice, dairy, infant formula, horticultural products, animal feed and feed additives, pet food, and products of agriculture biotechnology. So far, even with the pandemic, the export results from the U.S. have been substantial.

USDA's Agricultural Trade Office (ATO) in Beijing reports that as the largest export market for the United States, China provides a promising yet competitive market for agricultural products. As the pandemic continues to restrict travel movements, U.S. exporters are encouraged to continue engaging with key Chinese stakeholders via online meetings, matchmaking events, conferences, and trade shows.

U.S. Agricultural exports to China increased significantly in 2021, with growth of 25% to a record high of US\$32.9 billion. This new record high means China remains the top U.S. market once again, having passed both Mexico and Canada in recent years. 2021 U.S. consumer oriented foods exported to China increased an impressive 25% to an all-time record US\$6.7 billion, a ranking of 4<sup>th</sup> highest overall.

China also remains the 5<sup>th</sup> largest market for the export of U.S. processed foods, totaling nearly US\$2.1 billion in 2021, and an increase of 27% from the prior year. Top processed food products exported to China in 2021 included:

- Processed/Prepared Dairy Products
- Food Preparations And Ingredients
- Prepared/Preserved Seafood
- Prepared/Preserved Meat
- Snack Foods
- Syrups & Sweeteners
- Canned, Dried & Frozen Fruit.

## Market Opportunities and Key Issues in the China Food Market

### Market Opportunities

- Fast recovery from COVID-19 and restorative growth achieved by catering business
- 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
- Diversity of U.S. food products

- The U.S.-China Phase One Trade Agreement expanded market access and improved competitiveness for some U.S. exports.

#### Key Issues

- Zero tolerance COVID-19 measures: prolonged port clearance, disrupted supply chain, and logistics costs
- Retaliatory tariffs against U.S. products are still in place while 26 countries and regions have free trade agreement with China
- Uncertainty in U.S.-China relationship - Slowing economic development with COVID-19 pandemic and uncertainty in disposable income among Chinese consumers
- Import requirements for food and agricultural products are sometimes unclear, unjustified, and unevenly enforced.
- Consumers increasingly trust domestic food production, processing, and safety

Effective January 1, 2022, Decrees 248 and 249 require foreign suppliers of specific food products to China to be registered with the General Administration of Customs of the People's Republic of China (GACC) before having products presented for customs clearance. FAS offices in China have issued several Global Agricultural Information Network (GAIN) reports on GACC Decrees 248 and 249. U.S. exporters should consult the most current information in the GAIN system, which provides points of contact at the GACC, to ascertain whether their enterprise needs to register and whether the company can self-register or needs to be recommended for registration by a U.S. competent authority.

#### Retail Sector Highlights:

According to Euromonitor, retail sales in the packaged food market in China had been estimated to reach US\$332 billion in 2022. China is the 2<sup>nd</sup> largest packaged food market in the world. That represents a growth rate of 21.1% or US\$57.9 billion since 2018. The forecast for growth in this market is outstanding. By the year 2026, the retail sales in the packaged food market in China is expected to reach US\$409.5 billion, a growth rate of 23.2% or US\$77 billion from 2022. High growth products in the forecast include:

- Cheese
- Breakfast cereals
- Baked goods
- Savory snacks
- Processed Fruit and Vegetables
- Sauces, Dressings & Condiments
- Processed Meat, Seafood & Alternatives to Meat
- Dairy (Ex. Cheese)

FAS China reports that after a slow down in 2020, the food retail industry picked up in 2021 with domestic sales of food, oil and grain reaching US\$263 billion. Sales in the

beverage industry increased by 20.4%. Online sales via grocery and food delivery apps surged. In 2020, grocery e-commerce sales increased by 31% which led to a bumper 2021 where sales increased by a further 30%. Traditional off line only retail chain market share continued to erode due to pandemic-related movement restrictions and consumer preferences for online grocery and food delivery.

In 2019, sales from the top 100 supermarket chains reached US\$140 billion, and accounted for 18.1% of food retail sales. The number of stores for the top 100 supermarket chains reached 26,000. E-commerce companies have diverted customer traffic from many of the largest traditional supermarket chains. In addition, some international retailers have withdrawn from China or sold their stakes to domestic firms given increasing labor and rental costs.

In June 2019, Carrefour sold its operations to a local retailer, Suning. In addition, Metro sold a majority stake in its China business to the domestic chain, Wu-Mart. Tesco, the largest retailer in the United Kingdom sold its Chinese business to CR-Vanguard. Some international players remain optimistic about the market, including Costco from the United States, which opened its first store in August 2019 and ALDI from Germany, which opened its first store in June 2019.

Euromonitor reports that proximity to residential areas is seen as a key factor amongst time-pressed urban Chinese consumers when shopping, especially in the wake of the COVID-19 pandemic. Consumers became more used to shopping close to their neighborhoods during the crisis. Many large modern grocery operators have therefore adopted a multi-format strategy and opened smaller format stores. Freshippo, Yonghui and Carrefour are all opening small-format supermarkets closer to the community with a greater emphasis on fresh food. Some of these stores also serve as warehouses for e-commerce orders and provide quick home deliveries. Yonghui in particular has rapidly opened Yonghui Mini Stores, as a supplement to its hypermarket and large supermarket business.

Euromonitor reports that supermarkets are expected to maintain solid current value growth in the forecast period (to 2026), with slower growth in the number of outlets. O2O is expected to become increasingly important for supermarkets. The average percentage of sales with hyperlocal delivery within supermarkets is already above 10%, and is set to rise. In fact, for supermarkets that are operated by e-commerce companies, such as Freshippo by Alibaba and SEVEN Fresh by JD.com, the percentage of sales with hyperlocal delivery is over 50%. The high share of sales through hyperlocal delivery can help supermarkets to increase their operating efficiency, increasing sales without increasing their store sales area.

In 2019, the convenience store sector grew by 13% with sales of US\$36.5 billion, and the number of stores reached 132,000. Convenience stores in Japan, which offer an average of 30% private label products, private label products carried by Chinese convenience stores account for less than 5% of total SKUs. Industry contacts expect that convenience store operators will increase their offerings of private label products in the future.

Euromonitor reports that Meiyijia maintained its leading position in convenience stores in 2021, accounting for a quarter of value sales. With its headquarters in Dongguan, Guangdong Province, Meiyijia has expanded rapidly, opening 200-300 new stores every month over the past five years. Therefore, it accounted for more than a third of outlet numbers in 2021, with a huge gap from the second-placed convenience stores brand Lawson, which held just a single-digit share of outlet numbers. The rapid expansion of Meiyijia lies in its franchise model, and the low initial investment for franchisees to set up a new store. International players in convenience stores, such as Lawson and Family Mart, tend to target white collar workers in tier 1 cities. By contrast, Meiyijia outlets are normally located in residential and suburban areas where rents are low, and target the mass consumer group.

Rising rents and labor costs have made it increasingly difficult for convenience stores to maintain their profit levels. Even Lawson only started to make a profit in 2020, 25 years after it entered China. However, it considers there is huge room for growth in convenience stores in China, and has a goal of opening 10,000 outlets by 2025.

One convenience store chain which has bucked the trend and achieved profitability early on has done so through digitalization. Convenience Bee stores require very few staff to run them, therefore saving on operating costs. Cameras and sensors detect what customers buy, electronic price tags update prices based on supply and demand in real time, and each store analyses and constantly changes its product selection and prices based on market factors and user behavior. By the end of 2023, Convenience Bee plans to reach 10,000 stores. Meanwhile, in July 2020, the Ministry of Commerce released a notice to promote the digital transformation of the retailing channel, encouraging companies to adopt digital technologies, such as the Internet of Things, big data and cloud computing. Moving forward, this is likely to ensure more players embrace digitalization to ensure their success.

#### Best Product Prospects:

FAS China reports that there is a wide array of U.S. food products available in the marketplace, ranging from infant formula to seafood and everything in between. Some of the top consumer-oriented product categories from the United States in 2020 meat and poultry, snack foods, pet foods, bakery ingredients and dairy products.

In 2020, the Phase One Agreement provided new or expanded access for a number of products, including certain retail food items like beef, pork, chicken, seafood, rice, fresh blueberries, avocados, and pet food.

#### Food Service Sector Highlights:

FAS China reports that China's Hotel, Restaurant, and Institutional (HRI) sector, the world's 2<sup>nd</sup> largest, recorded US\$573 billion in sales revenue in 2020, a 15.4% decline from 2019. COVID-19 led to many restaurant closures during the first half of 2020, but the industry rebounded in the second half and even exceeded the pre-pandemic scale by

the end of 2020. Catering businesses numbered 9.3 million by the second quarter of, 2021. Demand and supply patterns for the HRI sector underwent significant changes with the lingering pandemic and China's stringent COVID-19 preventive measures.

The Chinese food service is fragmented, but still dominated by Chinese cuisines (full-service, fast food, and hot pot). Chinese-Western fusion restaurants are also growing. Increasing health consciousness is driving innovation. According to China Catering Association, restaurants featuring light diet menus exceeded 1.1 million, 13% of the 2020 total. Plant-based meat has become popular, with several renowned chain catering groups launching new dishes.

COVID-19 and changing preferences prompted many chains to use more semi-prepared dishes from centralized kitchens or third-party suppliers. Frozen prepared foods and ready-to-eat dishes retail sales also increased dramatically. According to a report by iiResearch, China's pre-prepared dishes market was expected to reach US\$50 billion in 2021, up 18.1% from 2020, and US\$75 billion by 2023. About 80% of pre-prepared dishes are used by restaurants.

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 food service accounts 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 China reports that HRI professionals' industry and new catering retailers repeatedly confirm U.S. exporters should select top quality products for China. U.S. foods and drinks have a reputation for high and consistent quality, attractive appearance, convenient packaging, and safety. U.S. suppliers have better opportunities in niche markets and emerging regional markets in 2nd and 3rd tier cities.

Good opportunities exist for U.S. exports of Red meat (beef and pork); Tree nuts (almond, pistachios, pecan, hazelnut, macadamia); Dried fruits (cranberry, raisins, blueberry, tart cherry, prune); Dairy products (cheese, cream cheese, butter, pasteurized milk); Seafood (salmon, lobster, various fish especially Pacific red fish and cod, pollock, yellowfin sole, founders, sea cucumber, geoduck, dungeness and king crab); Fresh fruits (cherry, apple, citrus, table grapes, grapefruits); Sauces and condiments for Western restaurants and frozen processed potato products.

#### Food Processing Sector Highlights:

FAS China reports that China is the world's most populous country and the second largest economy. China's consumer market is disparate and complex with vast differences in food tastes and styles between provinces. Although food ingredients dominate the food processing sector, beverage ingredients grew by 12% in 2021. Strict COVID-19 pandemic-related lockdowns slowed sales of food products in 2020 but they grew by more than 12% in 2021.

FAS China reports that the food processing industry in China continues to develop and expand, creating products for the most populous country of consumers with increasingly distinguished tastes. Nutritious and healthy options are popular, as are bakery products and beverages. While COVID-related economic slowdown and expanding import requirements for registration and testing hamper trade, China's demanding consumers with more buying power create an attractive destination for U.S. ingredients.

In 2021, China accounted for more than half of global food and beverage revenue. Food production volume increased by 6.3% in 2021, despite continued challenges from COVID-19 lockdowns and outbreaks. Both food processing and manufacturing remain steady. China imports the bulk of their higher-value products while relying on domestic production for the bulk of food processing ingredients.

Already upgrading their consumption habits to include more quick-serve and processed foods, pandemic impacts have led consumers to focus more attention on nutrition and health of these products. With strict COVID-19 control measures enforced across China as it strives toward a "dynamic zero" policy, consumer demand for shelf stable products has grown. Quick frozen and quick-prepare meals are also in demand from consumers

and food service who seek easy solutions to food preparation. The U.S. continues to be a major supplier of premium ingredients to the sector.

With increased competition from online, retail stores are innovating and expanding processed food options, offering in-store sit-down meals, restaurant counters, and grab-and-go meal boxes. Food processing companies are supplying both finished product and quick-prepare ingredients for busy consumer or quick-serve restaurants to prepare.

China's food processing industry has seen sustained growth in recent years. Sales, production, and income in the sector increased in 2020, according to the Chinese Ministry of Industry and Information Technology (MIIT). China's major food processing companies recorded combined profits of 620.66 billion yuan (about US\$97 billion) in 2020, up 6.8% from the same period in 2019. Profit growth at these enterprises was 3.1% higher than the average of all industrial sectors, according to MIIT.

In recent years, China introduced stricter controls on food safety to help elevate the quality and safety of domestically produced food products. While this helped increase the overall quality of local food products, it also increased consumers' awareness of the importance of food safety. This new consumer emphasis on quality and safety helped create awareness of safe and high-quality imported food ingredients. The United States is among the top origins for premium ingredients.

The FAS office in Beijing reports that China's food processing industry is maturing, and growth is moderating. Consumers have becoming increasingly interested in eating more natural and healthier foods, while valuing convenience and attractive packaging. Food processing still accounts for 60% of the sector, however the fastest growth is now in the beverage sector, where the trend for natural, healthy, and convenient ready-to drink smoothies, yogurts, and juices represents China's transition from "eating full" to "eating well."

#### Best Product Prospects:

FAS China reports that products present in the market which 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.