

**Required Report:** Required - Public Distribution

**Date:** April 12, 2022

**Report Number:** CH2022-0039

**Report Name:** Food Processing Ingredients Annual

**Country:** China - People's Republic of

**Post:** Guangzhou ATO

**Report Category:** Food Processing Ingredients

**Prepared By:** ATO Staff

**Approved By:** Lindsay Malecha

**Report Highlights:**

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. Food processing ingredients with the potential for considerable sales include tree nuts, cheese, pulses, and frozen and dried fruit.

# Market Fact Sheet: China

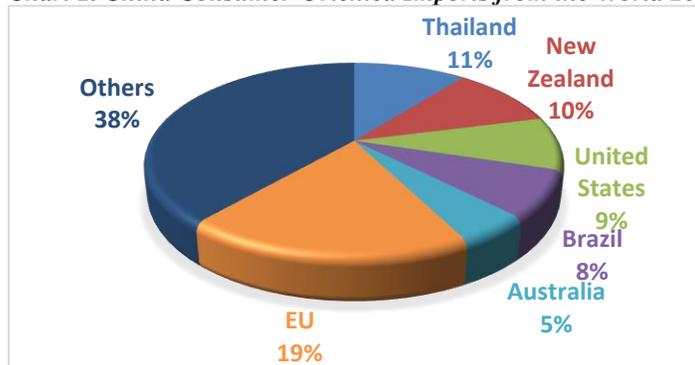
## Executive Summary

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 percent in 2021. Strict COVID-19 pandemic-related lockdowns slowed sales of food products in 2020 but they grew by more than 12 percent in 2021. U.S. agricultural exports to China totaled about \$33 billion in 2021, up from \$26.4 billion in 2020, again making it the largest market for U.S. ag exports.

## China's Imports of Consumer-Oriented Products

China's imports of consumer-oriented products are growing. The U.S. is the 5<sup>th</sup> largest exporter of consumer-oriented products to China, increasing sales but decreasing market share.

Chart 1. China Consumer-Oriented Imports from the World 2021



Source: TDM

## China's Food Processing Industry

In 2021, China accounted for more than half of global food and beverage revenue. Production volume increased by 6.3 percent in 2021 despite continued 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.

## Food Retail Industry

After a slow down in 2020, the food retail industry picked up in 2021 with domestic sales of food, oil and grain reaching \$263 billion. Sales in the beverage industry increased by 20.4 percent. Online sales via grocery and food delivery apps surged. In 2020, grocery e-commerce sales increased by 31 percent which led to a bumper 2021 where sales increased by a further 30 percent.

## Quick Facts 2021

### Imports of Consumer-Oriented Products

\$102.51 billion

### Products with Potential Growth in Host Market

- |                       |                        |
|-----------------------|------------------------|
| 1) Pork & Products    | 2) Dairy products      |
| 3) Fish products      | 4) Beef & products     |
| 5) Fresh Fruit        | 6) Food preparations   |
| 7) Poultry & products | 8) Meat products NESOI |
| 9) Wine & Beer        | 10) Tree Nuts          |

### Retail Industry Gross Sales

Total: \$6.95 trillion

Online share: 24.5%

### Top 10 Supermarket Chains

CR-Vanguard; RT-Mart; Yonghui; Wal-Mart; Lianhua; Fresh Hippo (Hema); Wu-Mart; Carrefour; Jiajiayue; Hyper-Mart

### Population/GDP

Population: 1.4 billion

GDP: \$17.7 trillion

GDP Per Capita PPP: \$17,210 (2020)

Per capita food expenditure: \$1,130

Sources: FAS, TDM, World Bank

## SWOT

Strength	Weakness
<ul style="list-style-type: none"> <li>U.S. ingredients are perceived as high quality with standardized grading, food safety, and wide variety</li> </ul>	<ul style="list-style-type: none"> <li>Increased tariffs and bilateral political uncertainty</li> <li>COVID testing on outer packaging adds costs, delays and risk</li> </ul>
Opportunity	Threat
<ul style="list-style-type: none"> <li>Chinese consumers value highly healthier, balanced, and lighter meals and snacks.</li> <li>Online and fresh grocery delivery</li> </ul>	<ul style="list-style-type: none"> <li>Uncertainty in the U.S.-China trade relationship.</li> <li>Consumers increasingly trust domestic processing, production and safety</li> <li>New registration requirements for U.S. food exporters (by GACC)</li> </ul>

## SECTION I: MARKET SUMMARY

In 2021, China’s food processing industry sales, production and income all rose between January – October. On average, food enterprises with annual revenue of more than 20 million yuan (US\$3.14 million) saw profits increase 4 percent year on year.

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.

### COVID-19 Testing Requirements

COVID-19 testing and disinfection requirements on imported products, initially started in January 2021, have generated added risk to the trade as new requirements, interpretation of these requirements, and unpredictable policy changes can vary widely between ports. While some importers operating at certain ports report manageable trade disruptions, others have indicated they are shifting away from the importing business because of the strict enforcement of the COVID-related import requirements at their location, and additional requirements for imported products, particularly those which will not go for further processing. Exporters are advised to be vigilant on monitoring changing COVID-related import measures.

**Table 1. Advantages and Challenges for U.S. Food Processing Ingredients**

<b>Advantages</b>	<b>Challenges</b>
Chinese consumers are seeking more balanced nutrition, healthier meals; U.S. ingredients carry this cache	A slowing economy and increased tariffs on U.S. imports make U.S. food ingredients comparatively expensive while domestic products are increasingly trusted by consumers.
Healthy snacks, replacement meals and beverages are increasingly popular for busy urban consumers.	Consumers appear to be more price sensitive and processors are hesitant to pass along price increases.
New technologies, including automation, shelf life and packaging, are rapidly improving	Ongoing changes to certifications, registrations, testing and customs clearances.

## SECTION II: ROAD MAP FOR MARKET ENTRY

### *Entry Strategy*

To enter the market, U.S. exporters have several options:

1. **Attend trade shows in China\*** to gain market information, gauge interest in your product(s), observe competitors, and meet potential Chinese partners. [\*NOTE: COVID-related travel restrictions to China are expected to remain in place for the foreseeable future.] Depending on the product, we recommend several high-quality exhibitions. Examples include Food Ingredients

China (FIC), Food & Hotel China (FHC), Bakery China (Shanghai), China Bakery Exhibition (Guangzhou), and China Food & Drinks Expo (also known as Tang Jiu Hui). Exporters should also consider attending major Hong Kong-based trade shows, all of which attract Chinese importers and distributors, such as Asia Fruit Logistica and HOFEX. Other noteworthy shows in can be found in the GAIN report, [China-Based Trade Shows FY2022](#), though note that some dates have changed due to COVID restrictions.

2. Participate in [State Regional Trade Group \(SRTG\)](#) activities, such as trade missions to China. Trade missions typically include site tours of processing facilities, one-on-one meetings with importers, exhibiting under a unified USA pavilion at trade shows, and attending exporter training and education events.
3. Work with [state departments of agriculture](#) and state trade promotion offices and participate in trade missions and activities similar to those organized by SRTGs.
4. Connect with [non-profit food and agricultural trade associations](#) (i.e., FAS Cooperators), who receive USDA funds each year to provide exporter assistance, sponsor trade missions, and help producers identify new market opportunities. Many Cooperators have representatives in China who can provide introductions to importers, food processors, and distributors.
5. Contact USDA FAS Agricultural Trade Offices (ATO) in China for information and trade facilitation assistance. These ATOs are strategically located in commercial regions (Beijing, Shanghai, Guangzhou, and Shenyang), and can provide tailored information about their respective areas. See Section IV for contact information.

### **Import Procedures**

Exporters may find the following reports particularly useful:

- The [China Exporter Guide](#) provides readers with market access information, entry strategies, import procedures, and demand trends.
- The [Food and Agricultural Import Regulations and Standards \(FAIRS\) Narrative report for China](#) provides comprehensive information on product-specific regulations and standards and includes product testing, labeling, packaging, and production facility registration requirements.
- The [FAIRS Certificate report](#) offers a brief outline of the import certificates and other documents needed to import U.S. products into China.

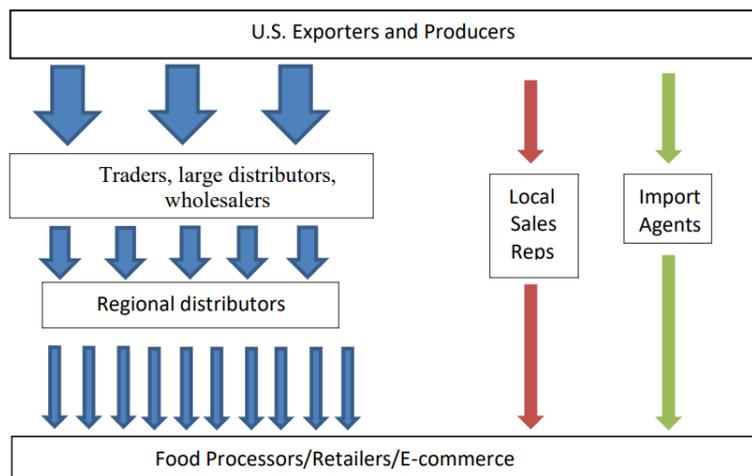
U.S. exporters should visit FAS' Global Agricultural Information Network ([GAIN](#)) system for the latest reports from FAS staff on-the-ground around the world. (Note: Updated FAIRS reports are planned to be released in spring 2022.)

### **Decrees 248 and 249**

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. Some enterprises may self-register while others need to be recommended for registration by a U.S. competent authority (ie FDA, FSIS). Potential exporters may find the most current information in the [GAIN system](#) and are strongly encouraged to check for updates. At publishing, the most recent list of required products is from March 4<sup>th</sup> ([Decree 248 March 4 Additions to Single Window List](#)). More information on the process is available in [Decree 248 Single Window User Manual and Training](#). With food products exported to China increasingly being produced after January 1, 2022, ATOs are receiving more assistance requests

regarding stuck shipments at Chinese ports. Exporters are encouraged to communicate with their importers and follow GACC’s requirements in correcting their registrations to release the stuck shipments. GACC has been cooperative in helping to release stuck shipments in relation to Decree 248 and 249. ATOs can be contacted for urgent communications with GACC directly when U.S. government intervention is needed. For more information, see [Clearing Detained Shipments Unofficial Guidance](#).

**Figure 1. Imported Food Ingredient Distribution Channels**



Note: Width of arrows denotes relative volume of trade.

Source: USDA

### Sector Trends

Following rising incomes and greater urbanization, Chinese society is transitioning to one that values “eating well” over “eating full”. The COVID-19 pandemic heightened this demand as consumers pay increasing attention to food safety and foods that support their health. The pandemic also gave rise to more food purchases online via e-Commerce to minimize person-to-person contact. To stay competitive, food processing companies are responding to the changing demand, and increasingly touting the safety, health, and nutrition of their products and consumers are checking nutrition labels and ingredient lists on packaging. There is also a move toward less processed or less sugary foods with a shorter shelf life. Replacement and light meals are popular with young consumers in first tier cities

Ongoing COVID-19 pandemic controls continue to impact consumer purchasing decisions. In contrast to the short-shelf-life products, canned and other long-shelf-life items also saw greater demand during the pandemic and are holding strong as consumers look to stock up in case of lockdowns and delivery delays related to pandemic control measures. Stocking up has also led consumers to look for larger-sized snack packs to share in households and more varieties of quick-frozen food products.

### *E-Commerce Grocery and Retail*

In addition to changing perceptions regarding *what* to eat, the pandemic spurred consumers to change their *where* to purchase behaviors and adopt e-Commerce shopping for food products to minimize contact and to stock up in the face of possible lockdown measures. Online grocery retail spending increased by 30 percent between 2020 and 2021. Buying food ingredients and packaged food products

from home is now commonplace for about half of Chinese consumers and is expected to play a growing role in purchasing channels. This demand spurred expansion of the delivery network making it easier to get products – both processed and fresh - around the country rapidly expanding the possible consumer base for products.

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.

### ***Bakery***



China is the second largest market for baked goods after the United States and USDA predicts this market will reach \$53 billion by 2025 (see report [China's Rising Bakery Sector](#)). China's bakery sector is regarded for its dynamic innovation on distribution and products. Primary imported ingredients include wheat, dried fruits, nuts, dairy, and preservatives. The sector is currently evolving in two ways – central factory supply and boutique bakeries. Central factories produce more standard recipes in volume for several different retailers and outlets, while boutique bakeries produce more specialized products.

Even boutique bakeries chains though, may often have a central headquarters and an ingredient supplier. These formats provide companies with volume purchasing power. Following the e-Commerce trend, many bakery chains, including boutique ones, are seeing significant growth using online platforms to sell to customers. These companies utilize the inexpensive and improved logistics infrastructure to get baked good direct to consumers.

The baking industry is more established and with a higher customer base in 1st and 2nd tier cities (Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu, and Xiamen). Bakeries have diversified their menus to include coffee, milk, and bubble and milk teas. Coffee shops are doing the reverse by adding baked goods. Consumers, ever curious to try something new, seek new recipes and novel products. Companies continue to innovate new recipes to grab these opinion leaders' attention but are quickly copied by competitors. Pastries and sweet pies (including those with bean, fruit, egg yolk custard, and other fillings) constitute the largest segment of bakery products and are in growing demand.



### ***Novel and Innovative Products***

Like bakeries, food processing companies also face strong competition. Many look to differentiate themselves with innovative products and packaging that will grab customers visual attention and taste.

### ***Beverages***

China's major beverage producers saw their output rise 12 percent to over 183 million tons in 2021 while retail sales of beverages grew 21.8 percent from January to October 2021 according to the Ministry of Industry and Information Technology. Economic development and increasing disposable income with younger generations drive increased beverage consumption. This is not only the case for new-style milk tea shops, but also from convenience and retail stores. Dairy-based, plant-milk based and not-from-concentrate juice, as well as flavored and nutrient-added water drinks are boosted by the increased demand for healthy alternatives. Meanwhile, single serve coffee and tea offer a grab-and-go option for busy consumers. Bakery and drink chains are also expanding their offerings to retail-ready beverages with a longer shelf life available through other channels and outlets.

### **SECTION III: COMPETITION**

Since 2018, trade friction between the U.S. and China has affected the competitiveness of many U.S. products. In 2020, China established a process for importers to seek tariff exclusions for retaliatory Section 301 tariffs on U.S. products, including agricultural products. While quality remains a key draw for products, pricing remains the largest obstacle to increasing U.S. exports. Furthermore, several key food ingredient exporting countries (e.g., Australia and New Zealand) have signed free trade agreements with China making U.S. products less price competitive (for further information on competition, please read [China Hastens Ag Import Diversification.](#)). Despite price constraints, food ingredients from the United States are still in demand.

### **SECTION IV: BEST PRODUCT PROSPECTS**

<b>Product Category</b>	<b>2021 China imports from U.S. (\$million)</b>	<b>2021 China imports from World (\$million)</b>	<b>Key Constraints for Market Development</b>	<b>Market Attractiveness for U.S. Exporters</b>
Cheese	\$45	\$813	Price competition from Australia and New Zealand	The ready-to-eat sector in convenience store chains are expanding consumption
Tree nuts	\$851	\$2,232	Price competition from Iran and Australia	The snack, beverage, and baking industries offer versatile applications.
Whey and modified whey	\$289	\$1,007	Price competition from New Zealand and Australia	Increasing nutritional demands of health products
Dried & canned Fruit	\$70	\$1,853	Price competition from Turkey and Chile	The baking industry is bolstering demand

**Cheese:** In addition to being an increasingly popular Western-style food, cheese is also considered a healthy ingredient. Calcium and protein are important to the health-conscious which has resulted in continued demand (in particular) for products such as single-serve cheese snacks. Cheese has become especially popular for children and young mothers seek these nutritious additions to kids’ diets. As China’s domestic supply of cheese remains weak, and demand grows, imports are likely to continue.

**Tree Nuts:** Tree nuts are in demand by consumers, cereal manufacturers and the baking industry. Consumers buy nuts as snacks via brick and mortar and e-commerce delivery for their nutritional, energy, and health benefits. Cereal manufacturers have responded to consumer demand for nuts by increasing the percentage of nuts in their cereals. The booming baking sector uses a range of U.S. tree nuts in their pastries, cakes, cookies, and bread. Popular nuts include pistachios, almonds, and pecans.

**Dried Fruits:** Dried fruits, particularly those classified as superfoods (blueberries, cranberries, cherries) are in demand. The United States has a vast range of dried fruits that boast nutritional values and taste. In addition to consumer demand for dried fruit as a snack, varieties – notably dried cranberries and raisins – are also used by food manufacturers and the bakery sector.

**Dairy Ingredients:** Demand for dairy ingredients is set to surge in China. Local producers cannot meet the demand or quality for the high-quality dairy ingredients for in-demand consumer products. This is an opportunity for U.S. exports. Skim milk powder, whey, butter, and cheese (as mentioned above) are some of the top dairy ingredients. The continuing trend of consumers to opt for meal replacements and nutritional supplements lends a further opportunity to high quality, high protein whey concentrate.

**Category B. Products Not Present in Significant Quantities but Possess Good Sales Potential**  
(Unit: US\$ million)

Product Category	2021 Imports from the United States	2021 Total Imports	Key Constraints for Market Development	Market Attractiveness for U.S. Exporters
Barley Malt & Hops	\$8	\$59	Price competition and lack of awareness of U.S. sources	Price competition and lack of awareness of U.S. specialty grains and U.S. sources of these products
Frozen fruit	\$1.2	\$658	Lack of awareness of U.S. suppliers	Industry pursuing lower ingredient cost

**Barley Malt & Hops:** Chinese brewing industry has shown interest in U.S. malt and hops products, and U.S. industry representatives have carried out activities to educate local Chinese brewers and maltsters on the merits of U.S. malt and hops products.

**Frozen Fruit:** Frozen fruits, such as blueberries, cranberries, and tart cherries have great potential due to the specific attributes of U.S. varieties. Augmenting growing domestic production, China can source

fresh blueberries from Chile and Peru; U.S. blueberries have a higher sugar content and softer skin which are sought after by food processors, especially in beverages and yogurts.

### **C. Products Not Present in the market because they face significant barriers**

**Non-GMO Food-Grade Soybeans.** Although non-GMO food-grade soybeans can be imported, they are traded in limited amounts due to China's zero-tolerance policy for the presence of biotech in a food-grade soybean shipment. If a trace amount of biotech soybeans is detected, the entire load will be denied entry. Expanding U.S. non-GMO food-grade soybeans is contingent upon China approving a low-level presence policy to address incidental contamination.

## **SECTION V. KEY CONTACTS AND FURTHER INFORMATION**

For more information about food and agricultural import regulations and standards, please contact:

### **USDA FAS Office of Agricultural Affairs**

U.S. Embassy in Beijing

Tel: (86-10) 8531-3600

Fax: (86-10) 8531-3636

[AgBeijing@fas.usda.gov](mailto:AgBeijing@fas.usda.gov)

For more information about this report and food ingredient marketing opportunities in China, please contact our network of ATOs, which cover China regionally:

### **Agricultural Trade Office, Beijing**

Tel: (86-10) 8531-3950

Fax: (86-10) 8531-3050

[ATOBeijing@fas.usda.gov](mailto:ATOBeijing@fas.usda.gov)

This office covers Beijing, Tianjin, and Chongqing; Hebei, Henan, Shanxi, Shaanxi, Qinghai, Sichuan, Yunnan, Guizhou, Hubei, Hunan, Jiangxi, and Gansu Provinces; Xinjiang, Ningxia, and Inner Mongolia Autonomous Regions, and Tibet.

### **Agricultural Trade Office, Guangzhou**

Tel: (86-20) 3814-5000

Fax: (86-20) 3814-5310

Email: [ATOGuangzhou@fas.usda.gov](mailto:ATOGuangzhou@fas.usda.gov)

This office covers Guangdong, Guangxi, Fujian, and Hainan Provinces.

### **Agricultural Trade Office, Shanghai**

Tel: (86-21) 6279-8622

Fax: (86-21) 6279-8336

Email: [ATOShanghai@fas.usda.gov](mailto:ATOShanghai@fas.usda.gov)

This office covers Shanghai, Jiangsu, Anhui, and Zhejiang Provinces.

### **Agricultural Trade Office, Shenyang**

Tel: (86-24) 2318-1380

Fax: (86-24) 2318-1332

Email: [ATOShenyang@fas.usda.gov](mailto:ATOShenyang@fas.usda.gov)

This office covers Liaoning, Jilin, and Heilongjiang Provinces

**Attachments:**

No Attachments