

Required Report: Required - Public Distribution

Date: September 26,2020

Report Number: CH2020-0127

Report Name: Retail Foods

Country: China - Peoples Republic of

Post: Beijing ATO

Report Category: Retail Foods

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Report Highlights:

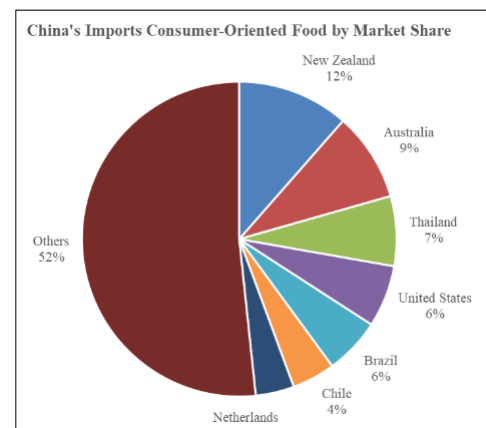
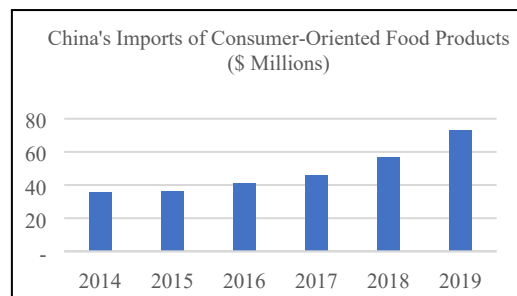
China's retail sector continues to grow to new highs as the number of middle-class consumers keeps growing. Online and offline stores continue to expand their footprint to attract customers who increasingly value quality, safety, convenience, and nutrition. The retail food industry held up relatively well despite the COVID-19 economic downturn during the first half of 2020. Imports of consumer-oriented food products climbed to a record high of \$73 billion in 2019, but U.S. sales were down because of China's retaliatory duties. However, imports of U.S. retail food products are gaining ground in 2020 because of the U.S.-China Economic & Trade Agreement.

Executive Summary:

China's retail sector continues to grow to new highs as the number of middle-class consumers keeps growing. In 2019, retail sales climbed to \$5.9 trillion, of which \$1.5 trillion was online sales. Food expenditures reached an estimated \$1.1 trillion. Online and offline stores continue expanding to attract customers who increasingly value quality, safety, convenience, and nutrition.

In 2019, imports of consumer-oriented food products climbed to a record of nearly \$73 billion. The U.S. market share slipped for the second straight year because of China's retaliatory tariffs. However, imports of U.S. consumer-oriented products in 2020 have received a huge boost from the U.S.-China Economic & Trade Agreement.

In contrast to the restaurant industry, the retail food sector was not hit as hard by COVID-19 as consumers bought more food to prepare at home.



Retail Sector Quick Facts (2019)

Imports of Consumer-Oriented Products

\$73 billion

Top 10 Imports of Consumer-Oriented Products*

- | | |
|-------------------------|-------------------------|
| 1) Seafood products | 2) Dairy products |
| 3) Fresh fruit | 4) Beef & beef products |
| 5) Pork & pork products | 6) Food preps |
| 7) Tree nuts | 8) Poultry & products |
| 9) Processed fruit | 10) Non-alcoholic bevs |

Retail Industry Gross Sales (US \$Trillion)

Total retail sales: \$5.9

Online sales: \$1.5

Top 10 Retailers

Gaoxin/ CR-Vanguard/ Yonghui/ Wal-Mart/ Lianhua/
Wu-Mart/ Bubugao/ Hema/ Carrefour/ Jiajiayue

GDP/Population

Population: 1.4 billion

GDP: \$14.2 billion

GDP per capita: \$10,127

Per capita food expenditure: \$869

Sources: Trade Data Monitor (TDM) and the 2019 China Statistic Book

*Note: consumer-oriented includes seafood.

Strengths/Weaknesses Opportunities/Challenges SWOT Analysis	
Strengths	Weaknesses
- U.S. food products are perceived as high quality, safe, and consistent	- Uncertain bilateral trade relationship
Opportunities	Threats
- Rising disposable income - Growing familiarity and demand for imported food products	- Preferential trade agreements with competitors - Local brands are making rapid progress

Section I. Market Summary

In 2019, China's retail sales climbed to a record \$5.9 trillion, of which \$1.5 trillion was online sales. Food expenditures reached an estimated \$1.1 trillion.¹ The rising middle class is driving rising retail sales. GDP per capita (current US\$) continues its decades-long upward climb, reaching a little more than \$10,000 in 2019.

The retail food sector has undergone a dramatic transformation in recent years and continues to evolve at a fast pace. This transformation has largely been fueled by the rising middle class. Today's consumer increasingly demands quality, safety, convenience, and nutrition in the food they are eating. They are interested in new and premium products that feature unique flavors and experiences. In order to attract these sophisticated consumers, retailers have opened new outlets and online platforms, while e-commerce companies have ramped up their online food offerings and opened offline stores.

Over the last several years, online and offline shopping channels have become increasingly integrated and interdependent. Brick-and-mortar retailers are opening online platforms to attract customers, while online companies are opening offline stores. Meantime, according to the China Store & Franchise Association, convenience stores and community supermarkets are among the fastest growing in terms of sales and numbers of physical outlets.

There is a wide selection of local and imported food products at many upscale stores in first tier-cities of Beijing, Shanghai, Guangzhou, and Shenzhen. The variety offered at these stores matches Western standards. Meantime, China's second-tier cities, many of which have more residents than the largest U.S. cities of Los Angeles or New York, boast growing populations, increasing disposable incomes, upscale retail development, savvy e-commerce customers, and improved cold chain and distribution networks. For more details about the emerging opportunities in second-tier cities, please refer to [GAIN: Second-Tier Cities Offer First Rate Sales Opportunities](#).

During the COVID-19 lockdown, offline supermarkets experienced some growth in sales as consumers started cooking more at home because many restaurants were closed or only offering limited service. By comparison, e-commerce sales of food and other items during this period skyrocketed since many consumers avoided going out, preferring instead to shop online from home. For more details about the latest trends in the e-commerce sector, please refer to [GAIN: COVID-19 Drives E-commerce in China](#) and [Using the Cross Border Ecommerce Channel to Increase US Food Imports to China](#).

There are several ongoing trends that continue shaping and redefining China's retail food industry.

- **Digitalization.** Traditional retailers continue to expand their online presence to attract customers. E-commerce companies are carrying an ever-wider range of food products.

¹ Post estimate. About 30 percent of household's total expenditures is on food.

- Specialization. There are increasingly more specialized retail outlets focused on one category of food products, like natural and organic products, meat products, dairy, baked goods, or fruit.
- Convenience. More specialty, community, and convenience stores are opening in response to consumers' demand for convenience. Retailers have added bakeries and restaurants with in-store ready-to-eat and take-away meals.
- Big data. Big data is increasingly used for product and store placement and enables quick delivery.
- Speedy delivery. Retailers, e-commerce platforms, restaurants, and other businesses promise quick and free home delivery service.

Some of the key advantages and challenges associated with selling U.S. food and agricultural products in China are listed in table 1 below.

Table 1: Advantages & Challenges of Selling U.S. Food & Ag Products to China	
Advantages	Challenges
U.S. agricultural products are generally perceived as high quality and safe. Positive perception of American culture, such as U.S. holiday traditions and dining experience.	Consumer recognition of U.S.-branded products remains low, especially outside first and second-tier cities.
The United States is considered a reliable supplier.	Competition from local and foreign suppliers is intense. China has preferential trade agreements with a number of key competitors
China agreed to purchase \$35-40 billion of U.S. agricultural products under the U.S.-China Economic & Trade Agreement (ETA) . The tariff exclusion process facilitates these purchases.	Interest in U.S. food products may be constrained due to the uncertainty resulting from the current bilateral relationship.
Fast-growing e-commerce sector with millions of users.	Finding the right e-commerce platform in which to promote U.S. products. Striking the right balance between online and offline sales.

Section II. Road Map for Market Entry

Entry Strategy:

Like any other market, in order to successfully penetrate China's retail market, a sizeable investment of time and financial resources is required. One of the very first steps in coming up with a successful sales and marketing game plan is to conduct market research to understand how to position a product for success. Spend time to understand the economic conditions and trends in the targeted sector and learn about your intended consumer audience. Take care to understand the relevant import requirements. Some of this market information can be found in FAS online reports in the [Global Agricultural Information Network \(GAIN\)](#). FAS also has Agricultural Trade Offices (ATO's) in Beijing, Shanghai, Guangzhou, and Shenyang that can assist U.S. exporters in this research.

As a next step, travel to China to visit wholesale and retail markets, retail stores, restaurants, convenience stores, and other relevant outlets to see firsthand how the market works. Attend [USDA-endorsed trade shows](#), such as SIAL China – China's premier food show – and other trade events to start building business connections. Building and maintaining personal relationships with existing and new buyers is essential to doing business anywhere, but especially so in China. While establishing these relationships through face-to-face meetings may not be practical at the moment given the current COVID-19 international travel limitations, introductions can still be made virtually.

In discussing potential sales, consult with the importer, distributor, and/or the end-user to make sure the U.S. product complies with relevant Chinese rules and regulations. These traders or their import agents should be able to handle customs, quarantine, and any licensing procedures needed for the food products. The [China: FAIRS Country Report](#) discusses many of the major requirements that apply to imported (and domestic) agricultural products.

FAS-China offices can help make the appropriate introductions with local business contacts and discuss market entry and expansion strategies. Consult the [China: Exporter Guide](#) for more information about the basics of selling U.S. ag products to China. The Commerce Department's [China Commercial Guide](#) is also a helpful resource to learn about doing business in China.

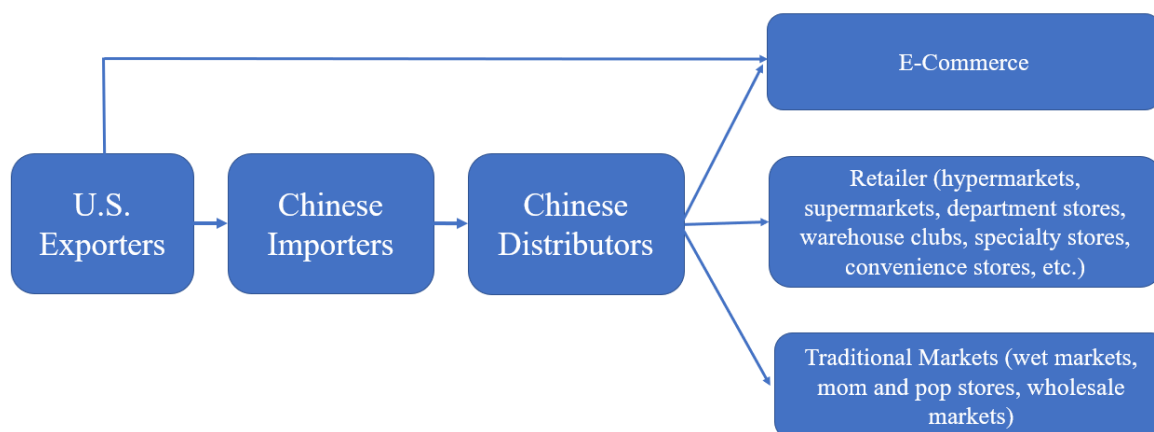
Market Structure:

Food and agriculture products are sold and distributed through three channels: e-commerce, retail, and traditional markets. See the diagram below. Retail is predominantly made up of hypermarkets, supermarkets, department stores, warehouse clubs (e.g. Sam's Club), specialty stores, and convenience shops. In recent years, due to increasing competition, the retail sector has undergone consolidation through a wave of mergers and acquisitions.

In response to a growing customer base and to maintain an edge over the competition, retailers have opened new brick-and-mortar stores, sometimes in different formats, as well as online platforms. At the same time, the e-commerce giant, Alibaba, was the first to open an offline store format known as Hema Fresh to reach customers.

The existing distribution channels bring imported products primarily into first and some second-tier cities. See figure 1 below. While fewer imported food items are available in second- and third-tier cities, there are opportunities to consider, especially as major retailers expand their footprint in these cities.

Figure 1 Distribution Channel



Company Profiles & Top Retailers:

The top ten national retailers' combined sales reached \$88.4 billion in 2019. See table 2 below. In response to growing consumer demand for retail food products, these leading retailers are expected to continue opening new stores and expanding their online presence for the foreseeable future. While considered national in coverage, some of these retailers may have a greater concentration of stores in certain parts of the country. Among these leading retailers, there are two internationally recognized brands, Walmart, and Carrefour. Walmart is the leading international retailer in China with its 400-plus Walmart stores and 23 Sam's Clubs.

In recent years, as a result of increasing competition and rising consumer demand, many retailers have invested in online platforms and added new stores. Fierce competition has led to a wave of mergers and acquisitions across traditional retailers and online platforms. For example, the online retailer Suning.com purchased an 80 percent stake in Carrefour China and Wu-Mart acquired Metro China in 2019.

Convenience stores are everywhere, and their numbers keep climbing in response to a growing number of consumers who are looking to save time in making quick purchases. The leading chain in terms of outlets is YiJie with more than 27,000, many of which are collocated in vehicle filling stations across the country. The only international convenience store is 7-Eleven. Like retailers, some convenience store chains are more heavily concentrated in certain parts of the country.

In addition, there are five major e-commerce players that carry an array of products, including consumer-packaged foods. [Tmall.com](https://www.tmall.com) is considered the largest, followed by [JD.com](https://www.jd.com), [VIP.com](https://www.vip.com), [Pinduoduo](https://www.pinduoduo.com), and [Suning](https://www.suning.com). Each platform has millions of active buyers.

When selecting a potential retailer, convenience store, or online platform with whom to partner, it is recommended to first have conversations with the company's headquarters to identify which product would have the best chances for success within a particular region. The company's regional offices can sometimes be helpful in these conversations. ATOs can assist in making these connections.

Table 2: Top 10 National Retailers and Convenience Store Chains				
Retailers			Convenience Stores	
Company	Sales (\$ Billions)	Number of Outlets	Company	Number of Outlets
GaoXin	14.6	486	Yijie	27,259
CR-Vanguard	13.6	3,234	Kunlun Haoke	19,700
Yonghui	13.3	1,440	Meiyijia	15,559
Wal-Mart	11.8	442	Suning Xiaodian	4,508
Lianhua	7.8	3,381	Tianfu	4,212
Wu-Mart	7.1	1,351	Hongqi	2,817
Bubugao	5.9	779	Quanjia	2,571
Hema	5.7	250	Shizhu Zhishang	2,141
Carrefour	4.5	233	Luoshen	1,973
Jiajia Yue	4.1	790	7-Eleven	1,882

Source: China Chain Store & Franchise Association (CCFA)

Note: Retailer data is from 2019 and convenience store data is from 2018.

Section III. Competition

Imports of consumer-oriented products have grown quickly over the past couple of decades. This growth has largely been fueled by the expanding the middle class, especially in first and second-tier cities where most of the imported consumer-oriented products are sold.

In 2019, China imported a record \$73 billion of consumer-oriented food products, such as beef, pork, chicken, tree nuts, fresh fruit, infant formula, milk powder, and wine. Of this total, \$4.6 billion was from the United States or about 6 percent of the total. U.S. market share has slipped two years in a row because of China's retaliatory tariffs. The United States is currently the fourth largest supplier of consumer-oriented food products with 6 percent market share after New Zealand (12 percent), Australia (9 percent), and Thailand (7 percent).

Major agricultural-supplying countries are among the top U.S. competitors of consumer-oriented food products. New Zealand and the EU are the top challengers in dairy products. Brazil was the lead poultry meat supplier, though is ceding ground back to the United States now that U.S. chicken has access again. Fresh fruit is primarily supplied by Thailand and Chile. The majority

of red meat is supplied by Brazil, Oceania, and the EU, but U.S. sales are gaining. Table 3 below shows competition for certain high-value products.

China is sourcing more food products from an increasing number of countries, which has led to a wider array of foods available on store shelves. In 2019, China imported nearly 2,300 different kinds of food products from 185 countries. China is also a major producer of many retail food products. This means that a new-to-market U.S. food item now faces much more competition than it did in decades past.

The recent gains in U.S. food (and agricultural) sales to China are linked to the [U.S.-China Economic & Trade Agreement](#), signed on January 15, 2020. The agreement, also known as the Phase One trade deal, further opens China's food and agriculture market to American products. As part of its agriculture purchase commitment under the agreement, China instituted a tariff exclusion process to waive the Section-301 retaliatory tariffs on imports of U.S. agricultural products. These waivers are critical to ensure U.S. ag exports have a level playing field on which to compete with local and imported products. For more information about the exclusion process, please see [GAIN: Updated Guidance on China's Retaliatory Tariffs and Tariff Exclusions Process](#).

China has [preferential trade agreements](#) with several key competitors, including New Zealand, Australia, Peru, and Chile. These agreements have lowered tariffs, in some cases to zero, giving certain imported products a competitive advantage.

Table 3: Import Competition by Product in 2019 & Latest Market Situation			
Product	Supplier Market Share	Noteworthy Developments	Current Market Situation
Pork Imports \$6.4 billion	1. Spain: 19% 2. Germany: 15% 3. United States: 12% 4. Denmark: 10% 5. Brazil: 9%	U.S. pork received expanded access under the Phase 1 trade deal. See Phase 1 Meat and Cattle Fact Sheet for details.	GAIN Report: Livestock and Products Annual (Aug 2020)
Beef Imports \$8.4 billion	1. Brazil: 25% 2. Australia: 21% 3. Argentina: 21% 4. Uruguay: 13% ... 6. United States: 1%	U.S. beef received expanded access under the Phase 1 trade deal. See Phase 1 Meat and Cattle Fact Sheet for details.	GAIN Report: Livestock and Products Annual (Aug 2020)
Fresh Fruits Imports \$8.6 billion	1. Thailand: 32% 2. Chile: 22% 3. Philippines: 9% 4. Vietnam: 7% ... 10. United States: 1%	U.S. avocados, nectarines, and blueberries were granted market access under the Phase 1 trade deal. See Phase 1 Horticulture Fact Sheet for detail as well as GAIN New-to-Market Product Reports: California Haas Avocados , Fresh Nectarines , and Fresh Blueberries .	GAIN Report: Stone Fruit Annual (Jul 2020) GAIN Report: Fresh Deciduous Fruit Annual (Nov 2019)
Poultry Imports \$2.0 billion	1. Brazil: 66% 2. Thailand: 11% 3. Argentina: 10% 4. Chile: 5% ... 9. United States: 0.01%	As part of Phase 1 trade deal, China re-opened to imports of U.S. poultry products. See Phase 1 Meat and Cattle Fact Sheet for details as well as GAIN New to Market Product Report: Poultry Meat .	GAIN Report: Poultry and Products Annual (Aug 2020)
Fish and Seafood Imports \$15.4 billion	1. Russia: 14% 2. Ecuador: 12% 3. India: 8% 4. Canada: 7% ... 6. United States: 6%	U.S. seafood products received expanded access under the Phase 1 trade deal. See Seafood Fact Sheet for details.	GAIN Reports: Continued Seafood Import Growth in 2019 (May 2020) ; Record High Seafood Imports in 2018
Dairy Products Imports \$12 billion	1. New Zealand: 40% 2. Netherlands: 15% 3. Germany: 7% 4. Ireland: 7% ... 7. United States: 3%	U.S. dairy products received expanded access under the Phase 1 trade deal. See Phase 1 Dairy & Infant Formula Fact Sheet for details.	GAIN Reports: Dairy & Products Semi-annual (May 2020) ; Dairy and Products Annual (Oct 2019)

Section IV. Best Product Prospects

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 2019* were pork and pork products, fish products (e.g. cod, salmon, lobster) tree nuts (e.g. pistachios, almonds), fresh fruit (e.g. cherries, oranges), dairy products (e.g. infant formula, whey powder), processed vegetables (e.g. french fries), beef and beef products, dried fruit (e.g. cranberries, raisins), and different beverages. These top product categories are similar for imports from all sources. See tables 4 and 5 below.

In 2020, the U.S.-China Economic & Trade 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. At the same time, China's tariff exclusion process is making it easier for these and other U.S. retail food products to compete in the market.

Table 4: Top Exports of U.S. Consumer-Oriented Food Products to China (\$ millions)								
Product	2015	2016	2017	2018	2019	Jan - Jul 2019	Jan - Jul 2020	% Change
Fish Products	1,037	962	1,232	1,053	822	451	389	-14
Pork & Pork Products	427	713	662	571	1,300	491	1,509	207
Tree Nuts	208	182	243	328	606	187	107	-43
Dairy Products	451	386	576	498	373	223	290	30
Prepared Food	91	126	139	183	240	135	159	18
Fresh Fruit	137	186	226	176	118	100	93	-8
Processed Vegetables	137	152	117	123	111	67	41	-39
Beef & Beef Products	-	-	31	61	86	38	69	82
Processed Fruit	95	100	134	116	85	49	32	-33
Wine & Beer	63	91	86	68	53	27	17	-38
Non-Alcoholic Bev. (ex. juices)	34	35	34	42	35	21	16	-21
Other Consumer Oriented	260	194	179	196	150	91	440	384
Total	2,940	3,127	3,659	3,415	3,979	1,880	3,162	68%

Source: [FAS's Global Ag Trade System \(GATS\)](#)

Table 5: China's Imports of Selected Consumer-Oriented Products from All Countries - (Millions of \$)					
	2017	2018	2019	%Δ 2019/18	5-year average growth rate 1/
Beef & Beef Products	3,141	4,913	8,355	70%	47%
Pork & Pork Products	4,343	3,601	6,393	78%	31%
Poultry Meat & Prods. (ex. eggs)	1,032	1,140	2,013	77%	22%
Meat Products NESOI	1,447	2,036	2,721	34%	18%
Dairy Products	9,401	10,776	11,959	11%	9%
Fresh Fruit	5,111	6,947	8,588	24%	16%
Processed Fruit	796	1,009	1,194	18%	20%
Tree Nuts	1,099	1,514	2,806	85%	37%
Food Preps. & Misc. Bev	3,081	4,067	4,578	13%	18%
Non-Alcoholic Bev. (ex. juices, coffee, tea)	330	454	578	27%	25%
Dog & Cat Food	90	206	307	49%	108%
Consumer-Oriented Sub Total	37,714	44,993	57,171	27%	15%
Seafood	8,285	11,844	15,641	32%	19%
Consumer-Oriented + Seafood Total	45,999	56,837	72,812	28%	16%

Source: Trade Data Monitor (TDM)

1/ Average growth rate for 2015-2019

Section V. Key Contacts and Further information

FAS has five offices in China, including the Office of Agricultural Affairs (OAA) located in Beijing, and four ATOs in Beijing, Guangzhou, Shanghai, and Shenyang. The OAA handles trade policy, commodity analysis, and market access issues. ATOs carry out a variety of marketing activities with different industry partners to promote U.S. agricultural products.

FAS-China	Contact and Coverage
OAA Beijing	Tel: 010-85313600; Email: AgBeijing@usda.gov Region: All China
ATO Beijing	Tel: 010-85313950; Email: ATOB Beijing@usda.gov Region: North and Southwest China - Shandong, Henan, Hebei, Beijing, Shaanxi, Inner Mongolia, Tianjin, Shanxi, Xinjiang, Gansu, Ningxia, and Qinghai
ATO Shanghai	Tel: 021-62798622; Email: ATOShanghai@usda.gov Region: East China - Jiangsu, Zhejiang, Hubei, Shanghai, Anhui, and Jiangxi
ATO Guangzhou	Tel: 020-38145000; Email: ATOGuangzhou@usda.gov Region: South China - Guangdong, Hunan, Guangxi, Fujian, and Hainan
ATO Shenyang	Tel: 024-23181338; Email: ATOShenyang@usda.gov Region: Northeastern China - Liaoning, Jilin, and Heilongjiang

Attachments:

No Attachments