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Date: 2/20/2001

GAIN Report #CH1612

# **China, Peoples Republic of**

## **Food Processing Ingredients Sector**

### **Food Processing and Manufacturing Report**

#### **2001**

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#### **Report Highlights:**

**The food processing and manufacturing industry in China has bright prospects. Its immediate and urgent needs are upgrading of the processing and manufacturing facilities to meet consumers' demands for better quality food items. Improvements of the facilities will create further demands for imported food ingredients and better quality control.**

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Includes PSD changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Guangzhou [CH3], CH

## Food Industry

### 1. Market Summary

China has a population of 1.2 billion. The food industry is one of the fundamental industries to meet people's basic living needs.

The food industry in China includes food processing industry, food manufacturing industry and beverage manufacturing industry (Another way of classification includes tobacco industry into the food industry, but this report will not cover tobacco industry).

Food processing industry includes rice milling, flour milling, oil refining, sugar refining, slaughtering, salt processing, feed processing and aquatic products processing.

Food manufacturing industry mainly involves the manufacturing of pastries and confections, dairy products, canned foods, fermented products, and condiments.

Beverage manufacturing can be subdivided into the manufacturing of alcoholic beverage (i.e. distilled spirit, beer, and wine), soft drink and tea.

In 1999, there were 19,773 food enterprises (about 12 per cent of China's industrial enterprises) with a total turnover of RMB595.89 billion and 3.84 million employees. Of these food enterprises, 11,231 were in food-processing, with a turnover of RMB321.12 billion; 4,963 in food-manufacturing, with a turnover of RMB118.37 billion; and 3,579 in beverage-manufacturing, with a turnover of RMB156.32 billion. (U.S.\$1=RMB8.265)

#### Distribution of Food Industry in China, 1999

|                        | No. of Enterprises | Total Dollar Value       |
|------------------------|--------------------|--------------------------|
|                        | <u>19,773</u>      | <u>RMB595.89 billion</u> |
| Food Processing        | 56.8%              | 53.9%                    |
| Food Manufacturing     | 25.1%              | 19.9%                    |
| Beverage Manufacturing | 18.1%              | 26.2%                    |

In 1999, the total retail sales volume of food, beverage and catering business in China amounted to RMB399.89 billion, accounting for 12.8% of the total retail sales volume of consumer goods.

#### Retail Sales of Food Industry in China, 1999

|                   | <u>Retail Sales Volume</u> | <u>Increase from 1998</u> |
|-------------------|----------------------------|---------------------------|
| Food              | RMB 72.22 billion          | 10.7%                     |
| Beverage          | RMB 7.71 billion           | 21.4%                     |
| Catering business | RMB319.96 billion          | 13.6%                     |

Each of the increase of three groups was higher than the average 6.8% increase of the total retail

sales volume of consumer goods.

#### Average Income and Expenditure of Chinese Families, 1999

|                | <u>Disposable Income</u><br>Per Capita | <u>Expenditure</u> | <u>Food</u> | <u>Food/Expenses</u><br>Per Cent |
|----------------|--|--------------------|-------------|----------------------------------|
| Urban Families | RMB5,854.02                            | RMB4,615.91        | RMB1,932.10 | 41.9                             |
| Rural Families | 2,210.34                               | 1,577.42           | 829.02      | 52.6                             |

In 1999, the estimated urban population in China was 388.92 million and the estimated rural population was 870.17 million. Thus, the amount of money Chinese families spent on food was close to RMB1,472 billion (or, U.S.\$178.3 billion). Add to this the food consumption in hotels, restaurants and various organizations, China's food market is enormous.

## II Road Map for Market Entry

### A. & B. Entry Strategy and Market Structure

The Chinese Government stipulates that all food on sale must have a health certificate issued by the Food Health Administration. This is the primary condition for entering China's food market. After obtaining the health certificate, the food-manufacturing enterprises usually distribute their products through the following three methods:

#### Distributing through Wholesalers

Through self-financing (including bank loans and private capital), specialized business organizations purchase large quantities of goods at the wholesale prices and sell them at the retail prices. The advantage is that large quantities of purchase result in lower wholesales prices. The difference between the wholesale price and the retail price determine the margin of profit. Because of the buyer's relationship with the manufacturers, it can assure of a sufficient supply of goods when a product sells well. The disadvantages of volume purchase are the tie-up of a large amount of capital and the sharing of market risk with the buyers.

#### Distributing on a Commission Basis

The manufacturers leave the goods with the businesses organizations and settle the payment after the goods have been sold. Many business organizations adopt this method of distribution of goods in a "buyer's market" and in a period of relatively low consumption – as was the condition in China in recent years. The advantage of commission sale is that the businesses organizations take no capital risk. This method is usually adopted in the commodities in which supply exceeds demand.

#### Distributing Directly.

The manufacturers sell their products directly rather than through the business organizations. The advantage is that the manufacturers can meet the consumers face to face and learn the market

condition and trends. They can also receive the profits promptly. The drawback is the manufacturers' lack of experience in sales and lack of understanding of the local market operations. The cost of direct distribution may increase because the manufacturers do not have a proven and extensive sales channel or network or a specialized sales team.

Establishing a working, business relationship with a reliable importer/distributor who has an extant distribution and sales network, with long-term commitment to equitable profit sharing is the most sensible strategy to market entry and development. Direct contact with the Chinese market is essential for establishing and developing a working business relationship.

### C. Company Profiles

The following companies dealing with food products were listed in the 100 biggest import and export companies in China in 1999:

#### Export:

Zhejiang Provincial Native Products and Livestock Products Import and Export Co.  
Jiangsu Provincial Light Industrial Products Import and Export (Group) Shareholding Co.  
Zhejiang Provincial Grain, Oil and Food Import and Export Shareholding Co.  
Fujian Provincial Grain, Oil and Food Import and Export Co.  
Jilin Grain Group Import and Export Co.  
Dongguan Grain, Oil and Food Import and Export Co. (in Guangdong Province)

#### Import:

China Grain, Oil and Food Import and Export (Group) Co.  
Zhonggu Grain and Oil Group Co.  
Dongguan Native Products Import and Export Co. (in Guangdong Province)  
Shanghai Food Import and Export Co.

As shown in the following table on the distribution of the top ten major food processing and manufacturing enterprises in each of the sub-sector of the food industry in China, the key centers for China's food industry are in Guangdong, Shandong, Zhejiang, Shanghai, and Jiangsu - the eastern and southeastern coastal area of China.

### Distribution of Major Food Processing and Manufacturing Enterprises in China

#### Types of Enterprise (Legend Below)

| Province     | T  | A | B | C | D | E | F | G | H | I | J | K | L | M | N | O |
|--------------|----|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Anhui        | 2  |   |   |   |   |   |   |   |   |   | 1 |   | 1 |   |   |   |
| Beijing      | 6  | 1 |   |   | 1 |   |   |   | 1 |   |   |   | 1 | 1 | 1 |   |
| Chongqing    | 1  |   |   |   |   |   |   |   |   |   |   |   |   |   |   | 1 |
| Fujian       | 3  |   | 1 |   |   |   |   |   |   | 1 |   | 1 |   |   |   |   |
| Gansu        | 1  |   |   |   |   |   | 1 |   |   |   |   |   |   |   |   |   |
| Guangdong    | 25 | 1 | 1 | 3 |   | 1 |   | 3 | 1 | 1 | 3 | 4 | 1 | 2 | 1 | 3 |
| Guangxi      | 7  |   |   | 7 |   |   |   |   |   |   |   |   |   |   |   |   |
| Guizhou      | 1  |   |   |   |   |   |   |   |   |   |   |   |   |   |   | 1 |
| Hainan       | 4  |   |   |   |   |   |   |   |   | 2 |   |   |   | 1 |   | 1 |
| Hebei        | 2  |   |   |   |   |   |   |   | 1 | 1 |   |   |   |   |   |   |
| Heilongjiang | 5  | 1 |   |   |   |   |   |   | 3 |   |   |   | 1 |   |   |   |
| Henan        | 6  |   |   |   | 3 |   |   | 1 |   |   | 1 |   |   |   |   | 1 |
| Hubei        | 7  | 1 |   |   |   |   | 2 | 2 |   |   | 1 |   |   | 1 |   |   |
| Hunan        | 3  | 2 |   |   |   |   |   |   |   |   |   |   |   |   | 1 |   |
| Jiangsu      | 11 | 2 | 1 |   |   |   |   |   | 1 | 3 | 1 | 1 |   | 1 |   | 1 |
| Jiangxi      | 1  | 1 |   |   |   |   |   |   |   |   |   |   |   |   |   |   |
| Jilin        | 1  |   |   |   | 1 |   |   |   |   |   |   |   |   |   |   |   |
| Liaoning     | 4  |   | 3 |   |   |   |   |   |   |   | 1 |   |   |   |   |   |
| Shaanxi      | 1  |   |   |   | 1 |   |   |   |   |   |   |   |   |   |   |   |
| Shandong     | 24 |   | 1 |   | 3 | 6 | 3 | 2 | 1 |   | 1 |   | 2 |   |   | 5 |
| Shanghai     | 11 |   | 1 |   | 1 |   |   | 1 | 2 | 1 |   | 3 |   | 2 |   |   |
| Sichuan      | 5  |   |   |   |   |   |   |   |   |   |   |   | 4 |   |   | 1 |
| Tianjin      | 6  | 1 | 2 |   |   |   |   | 1 |   |   |   | 1 |   | 1 |   |   |
| Yunnan       | 3  |   |   |   |   |   |   |   |   |   |   |   |   |   | 3 |   |
| Zhejiang     | 13 |   |   |   |   | 3 |   |   |   | 1 | 1 |   |   | 1 | 4 | 3 |

## Legend

|   |   |
|---|---|
| T | Total Number of Enterprises (153)                   |
| A | Food and Beverage Processing (10)                   |
| B | Vegetable Oil Processing (10)                       |
| C | Sugar Refining (10)                                 |
| D | Slaughtering & Meat & Egg Processing (10)           |
| E | Seafood Processing (10)                             |
| F | Salt Processing (6 only)                            |
| G | Baking Products and Confectionary (10)              |
| H | Dairy Products (10)                                 |
| I | Canned Food Products (10)                           |
| J | Fermented Food Products (10)                        |
| K | Condiments (10)                                     |
| L | Alcoholic Products & Spirits (10)                   |
| M | Soft Drinks (10)                                    |
| N | Tea (10)  |
| O | Other Food Processing & Beverage Manufacturing (17) |

## D. Sector Trends

After China's economic reform and open-up to the outside world in 1979, foreign food manufacturers gradually entered the China market. They initially sought a Chinese agent (either an organization or an individual) to represent and sell their products. They relied on the agent to do the market exploration, product promotion and supply, and delivery of goods. The agent was also responsible for deciding the product distribution method, the percentage of profit allotment and the settlement of payment of the goods in a certain market sector. Usually, one agent would represent several foreign manufacturers and promote and sell their products in a specific region of China, e.g., Northern China or South China.

## III Competition

According to the Chinese Customs, the total export and import value of food, live animals for food purposes, beverage and so on (hereafter referred as "food and beverage") was U.S.\$14.63 billion in 1999. The export value was U.S.\$10.89 billion and the import value was U.S.\$3.74 billion, accounting for 5.6% and 2.3% of the total export and import values of China, respectively. In the first half of 2000, the export value of food and beverage was U.S.\$5.99 billion, an increase of 22.1% than the same period of 1999. The import value was U.S.\$2.24 billion, an increase of 16.1% than the same period of 1999. They accounted for 5.2% and 2.2% of the total export and import values in the first half of 2000, respectively.

The food products exported by China included seafood, vegetables, grain and flour, frozen chicken and edible oil seeds mainly. The major export trade partners of China were Japan, Hong Kong, the EU (mainly Germany and the Netherlands), South Korea, and the United States.

The food products imported by China included edible plant oil, soybean, grain and flour, and

frozen fish. The major import trade partners of China were the United States, the EU (mainly France and the Netherlands), Malaysia, Australia, and Canada.

#### IV Best Products and Prospects

The stated Chinese public policy for food industry in year 2000 and beyond is to encourage developing green food and specialized agricultural products and breeding of aquatic products. The following items listed for foreign investment in the *Directory for Foreign Invested Industries* are indicative of China's priorities:

1. Developing high yielding, quality new species, and new technologies for agricultural products such as sugar, fruit tree, vegetable, flower, and pasture.
2. Systematizing the production of hydroponic vegetables and flowers.
3. Breeding good species of livestock, poultry and marine stocks.
4. Developing new technologies and equipment for storage, freshness preservation, desiccation and processing of grain, vegetable, fruit, meat and aquatic products.

Another indication of China's priorities for the food industry is in the *1999-2000 Directory of Scientific and Technological Developing Projects in the Light Industry*, as follows:

##### Group 1--

Research on systemic and industrial production technology of the traditional food based on soybean protein;

Research on using the technologies of gender altering, re-grading and molding of the effective ingredients in food to produce disposable instant food which can meet human needs for nutrition;

Research on the technology and equipment for filling beverage aseptically into glass bottles and plastic bottles;

Research on edible preservation film made of agricultural byproducts to preserve the freshness of vegetable and fruit;

Research on the technology of mensurating and analyzing the natural juice content in juice beverages;

Research on the species and territorialization of the ingredients of fruit juice (orange, apple, grape, yellow peach, pear, apricot) and vegetable juice (tomato, carrot);

Development of the technology and equipment for soaking and extracting highly dense plants for beverage concentrate;

Development of the production line for paper-made convenient cans;

Development of high speed beverage filling line (for glass bottles, convenient cans and polyester bottles);

Continuous research on fast and precise test on functional food and its ingredients;

Continuous research on the industrialization of the new technology for microwave food;

Continuous application research on the new separating technology (such as film separation, molecule distillation and super critical extraction);

Continuous application research on the technology and equipment for cryogenic freezing comminution and desiccation.

Group 2--

Continuous research on the techniques, energy saving methods and equipment for sugar making;

Application research on membrane separating technology (including super-filtration, anti-infiltration, electric filtration analysis) in the sugar-making industry;

Continuous research on the application of ion exchange resin in the sugar-making industry;

Research on automatic control and on-line test technology during the production process of sugar-making.

Group 3--

Research on the technology and equipment for raw salt lavation;

Research on the technology and equipment for lavation and comminution of edible salt.

Group 4--

Research on utilizing the residue produced by the food ferment industry (including using modern technology to reform the traditional ferment industry and developing complete sets of technology and equipment);

Research on the complete sets of technology for the domestic production of wine brewing ingredients;

Research on the management process to ensure stable quality of each batch of products in the beer brewing industry.

The following items were included in the *New Product Development*:

Food: health care food, microwave food, functional food, instant food, infant food, sets of food for primary and high school students, low calorie, low fat, low saturated fatty acid, low salt, low cholesterol, high fiber and high calcium food for older people.

Food additives: natural, nutritious and multi-functional food additives, antiseptics, antioxidant and nutrition fortifier with special usage.

Fermented products: diplococcus, low polysaccharide, functional peptide, germ fibrin, nucleotide acids and amino acid products.

Enzyme preparations: scour, enzyme preparation for leather making and feed and complex enzyme preparation for food processing.

Foreign investment is prohibited from the manufacturing of industrial salt, yellow wine, distilled spirits of well-known brands and natural spices.

V. Summary and Post Contact

The food industry in China has bright prospects. Its immediate and urgent needs are upgrading of the processing and manufacturing facilities to meet consumers' demands for better quality food items. Improvements of the facilities will create further demands for imported food

ingredients and better quality control. To be competitive in the China market, a food producer/processor might:

1. Improve the quality of food. Green food, specialty food (exotic and traditional), leisure food (including snacks for TV watching) and instant food will become more and more popular among the Chinese, to fulfill people's desire for good health, fast life pace and curiosity.
2. Improve the packaging of food. Small packages, eye-catching packages and "child-oriented" packages will attract buyers, whet their appetites, and motivate them to buy the product.
3. Improve the taste of food. More emphasis on developing food items that are of interest to children and young people who were more susceptible to impulse buying and food "temptation".
4. Set a realistic price. Pricing ought to be about the same as the existing price level of similar food items, neither too high nor too low.

The information Center, China's Statistical Bureau, provided data for this report. We welcome inquiries from interested U.S. producers, food processors and exporters. Our telephone number is 011-8620-8667-7553. And our fax number is 011-8620-8666-0703.