

THE CHINESE MARKET FOR COLORADO AND U.S. AGRICULTURAL EXPORTS

Analysis of the potential impacts of the establishment of Permanent Normal Trade Relations (PNTR) with China and Colorado's agricultural industry

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EXECUTIVE SUMMARY

The draw of China is very easy to understand. The Chinese market represents a potential market with over 4 ½ times the U.S. population. While China is the largest producer of many agricultural products, China has half the arable land of the U.S., which confirms the belief that China must import food to feed their growing population.

With the U.S. government approving Permanent Normal Trade Relations (PNTR) with China, there is a new emphasis on the Chinese market. Will this lead to new exports for the U.S. agricultural industry? How will this impact Colorado and U.S. commodities?

U.S. agricultural exports to China dropped by over 46% from 1995 to 1999, to \$2.33 billion dollars. U.S. exports of bulk agricultural products experienced the greatest decline, from \$2.227 billion in 1995 to \$480 million in 1999. U.S. exports of consumer-oriented agricultural products, ranging from chicken, beef, fruits and vegetables to beverages, are level with 1995 values in 1999, though down 15% from an all-time high in 1997 of \$1.46 billion.

The immediate beneficiaries of PNTR and the new trade opportunities will be the bulk commodities, and should add \$2 billion in agricultural exports by 2005. Overall, U.S. agricultural exports to China are expected to increase over 86%. Colorado is well-positioned to benefit from this growing market, with wheat exports achieving immediate increased sales. Beef exports to China will also benefit from the upcoming tariff reductions on beef, reducing import duties from the current level of 45% to 12% by 2004.

This report reviews the impact on wheat, beef and other major Colorado commodities, and the growing Chinese market for consumer-oriented products. The Chinese market is growing for U.S. foods from snack foods to breakfast cereals, to fruits and vegetables and wine and beer.

There is a ready team available to help to enter the Chinese market. Commodity associations have offices in China, and Colorado and the Western U.S. Agricultural Trade Association (WUSATA) have programs ready to bring your product to the Chinese marketplace. The U.S. Agricultural Trade Offices in Shanghai and Beijing, as well as Hong Kong, have already completed significant research on the growing Chinese market. Chances are, the first level of research on your product is already available. This report will guide you to these resources and outline what assistance is available from the Colorado Department of Agriculture, USDA and WUSATA.

The Agricultural Trade Office in Shanghai reports: “China can be a daunting but not impenetrable market.” Learn how to approach the market, where to get help, and how to determine if China merits your efforts.

The list of upcoming events includes several programs in Taiwan. Some U.S. companies target the “Chinese” market and include efforts in Taiwan concurrent with market development efforts in Mainland China and Hong Kong.

This report utilizes segments directly from the USDA ATO reports on China. They have created a significant library of reports on the Chinese market and should be read in detail as you look at the Chinese market.

THE CHINESE MARKET FOR COLORADO AND U.S. AGRICULTURAL EXPORTS

China has been viewed as the Holy Grail of export markets. With their 1.3 billion population, the pull of China has been strong for many years. Now that the U.S. has granted Permanent Normal Trade Relations (PNTR), will the Chinese market offer large new markets for Colorado and U.S. agriculture? This report will review the market, entry barriers, and examine the potential for exporting agricultural products from Colorado to China.

China has long been an important agricultural market for the U.S. The general assumptions on trade to China acknowledged the reality that a significant amount of U.S. food and agricultural products exported to Hong Kong ended up in China. With the unification of China and Hong Kong, the export statistics have been combined to provide a more complete understanding of trade with China.

It is important to recognize that the U.S. as a nation has a negative trade balance with China, importing far more products from China than we export. In agriculture, the opposite is true; we export more

U.S. China Agricultural Trade Balance					
Value in U.S. \$ millions					
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
U.S. Imports	1,139	1,252	1,455	1,621	1,887
U.S. Exports	4,338	3,809	3,614	3,050	2,333
Trade Balance	3,199	2,556	2,159	1,429	446

agricultural products than we import. It should also be noted that this trade balance is declining, due to significantly fewer imports in 1998 and 1999 than in 1995-1997. The declining imports are predominately in the bulk exports (grains, cotton and oilseeds) and will be reviewed in greater detail in this report in the "Bulk Agricultural Exports" segment.

Colorado's exports to China have followed the U.S. trend, with a decrease in exports since a high in 1995 of \$52.8 million. The majority of the decline from Colorado has been in the export of wheat. Meats (and hides), while small in value, have actually grown during this period from \$16.2 million in 1995 to \$18.4 million in 1997.

COLORADO AG EXPORTS TO CHINA			
Value in U.S. \$ millions			
	<u>1995</u>	<u>1996</u>	<u>1997</u>
	52.8	48.0	37.9
Primary export areas: wheat, meat and hides			

From 1996 to 1998, Colorado has also seen a growth in exports to China of sunflower seeds and a variety of other plant seeds such as melon, squash and sugarbeet seeds.

CHINA, PNTR AND CHINESE ACCESSION INTO THE WORLD TRADE ORGANIZATION (WTO)

The recent vote in Congress to approve PNTR status creates permanent trade relationships with China codifying many trade agreements important to the U.S. agricultural industry. While China has received annual normal trade relation status from the U.S. Congress on an annual basis, the passage of

PNTR provides the U.S. agricultural industry with many long sought-after trade agreements as a part of the U.S. approval of PNTR with China.

THE CHINESE MARKET

Recent reports from the U.S. Agricultural Attaché in China highlight the allure of the Chinese market. China is currently experiencing strong economic growth. GDP growth is projected at 7% through 2000. Currently the growth in China is concentrated in the coastal cities and the Yangtse River Valley.

A quick review of the U.S. and China reveals some interesting facts. China has 4 1/2 times the population of the U.S. This contrasts with the comparison of all land and arable productions, where China and the U.S. have almost the same land mass, China has half the arable land.

QUICK FACTS CHINA – U.S.		
	CHINA	U.S.
Land area (mil sq. km)	9.596	9.629
Population (millions)	1,262	276
Arable land (mil sq. km)	0.959	1.830
Perm. pasture	4,127	2,407
GDP U.S.\$ billion	4.8	9.3
GDP per capita	\$3,800	\$33,900
Exports U.S.\$ billion	165.8	663.0

While the world views China as a market of over 1.3 billion people, it is more realistic to view the Chinese market based on the population that has the ability to purchase imported U.S. agricultural products. The urban population of China is over 350 million. Of these, 200 million have adequate income to purchase U.S. goods on a regular basis. The rising urban incomes in the coastal provinces have created a consumer market of over 100 million consumers with an annual income of \$10,000 to \$40,000. The middle class is projected to grow to 580 million consumers by 2005.

The new Chinese middle class is driving new trends and opportunities for U.S. foods. Brand-name consciousness is growing and U.S. brands are becoming well-known. There is a rising demand for convenience foods; for instance, frozen chicken is replacing fresh in this market sector. American fast food restaurants are spreading in China. Sales opportunities exist for both the U.S. chains, as well as the locally-developed competitors. Key U.S. names in China now include: KFC, McDonald's, Pizza Hut, Subway and Starbucks. The introduction of U.S. fast food restaurants has traditionally also built consumer awareness and market interest in U.S. foods in the retail chains.

The new middle class is also driving a revolution in the retail food distribution system. The new Chinese market is building supermarkets throughout the urban areas, including strong growth in warehouse food retailing stores. Convenience stores appear throughout China and there is a rapid growth of frozen foods sales in supermarkets. Supermarkets in China regularly feature Ready-to-Cook meals, U.S. french fries and corn on the cob.

BULK AGRICULTURAL EXPORTS

China was a significant market for bulk agricultural commodities in 1995, purchasing over \$2.227 billion in U.S. commodities. Unfortunately, this dropped to less than half a billion dollars in 1999.

The USDA is projecting that this sector of U.S. agriculture will be an immediate beneficiary of China's

U.S. BULK AGRICULTURAL EXPORTS TO CHINA					
<i>Value in U.S. \$ millions</i>					
Product	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Key products include:					
Wheat	512.5	430.7	46.4	48.7	36.8
Coarse grains	638.7	14.2	0.665	44.5	15.5
Soybeans	50.9	414.5	410.6	273.5	359.2
Cotton	970.9	772.6	633.9	24.1	49.5
TOTAL	2,227	1,671	1,127	611.0	481.0

entry into the WTO. The decline in imports of U.S. bulk commodities is directly linked to the Chinese government's agricultural policies. These policies have promoted domestic production and created barriers to importing bulk commodities due to mandated trade through state trading companies and phytosanitary bans.

The Wheat Market

China is the largest producer of wheat in the world. The Chinese market for U.S. wheat has changed dramatically over the last ten years. Throughout the early 1990s, China imported from one to five-and-a-half million metric tons (MMT) of U.S. wheat each year. More recently, Chinese imports from the U.S. have declined significantly, to 195,000 metric tons in the most recent marketing year. But even that low number represents, over the past 18 months, over a 1/3 market share since China's imports, generally, have also declined significantly from over 12 MMT in 1995 to 498,000 tons in marketing year 98/99.

The government of China is undertaking reforms of the grain industry due to limited resources, more efficient and higher economic use of land, and population increase. Recently, the Rural Development Research Center of the State Council estimated China may consider a sufficiency level of 85% to 90% for cereal grains for food as the most appropriate target, with the remaining need met by imports. The Chinese internal debate over reform continues, but it is possible that China will soon need higher imports than at present, depending on the quality of stocks on hand, with estimates of import levels ranging from 5 to 10 MMT. Some estimates go even higher.

Chinese grain policies are also facing changes in preparation for their entry into the WTO and to address their overproduction. The Chinese government has lowered their wheat prices and begun to phase out government purchases of low-quality wheat. This is expected to reduce marginal areas planted to winter wheat in China and spring wheat areas in northeast China. Lower prices will reduce wheat production overall, may modestly increase consumption, and, in turn, fuel higher imports. The Southern Chinese market is the anticipated destination for much of the wheat imports where the demand exists for high-quality noodles, cakes, biscuits and pastries. North China should continue to be supplied primarily by domestic production, even though they also rely on imported wheat for blending purposes.

The Opportunities

- Despite large domestic wheat production, China's wheat quality is variable. This provides the U.S. with an opportunity to sell top-quality, high-protein wheat on a regular basis, especially to mills in urban areas.
- As part of the U.S.-China Agricultural Cooperation Agreement, China lifted a long-standing phytosanitary ban on U.S. wheat from the Pacific Northwest due to concerns over TCK smut, a minor plant disease occasionally found in U.S. grains. Exporting to China through Pacific Northwest (PNW) ports clears a major hurdle for increasing shipments from the U.S. by lowering shipping costs by up to 10%.
- When China accedes to the WTO, it will establish a tariff rate quota (TRQ) at 7.3 million tons, rising to 9.6 million tons in 2004. In 1999 China imported only 258,000 metric tons of U.S. wheat. Ten percent of this market opportunity is reserved for the private sector. The U.S. and China have agreed on specific rules for TRQ administration to maximize the possibility that quotas are filled. Unutilized quota amounts will be reallocated to other importers.
- Although China currently has a TRQ for wheat with an in-quota duty of 1% and an out-of-quota duty of 114%, the quota amount has never been announced. A state trading entity called the China National Cereals, Oils, and Foodstuffs Import and Export Corporation (COFCO) controls the market, allowing only minimal imports. China's concession to reallocate unutilized quota amounts to other importers presents a major market opportunity for U.S. wheat. The country's accession to the WTO will include a commitment to keep the in-quota rate at 1% and reduce the out-of-quota rate to 65% by 2004.

The Bottom Line for the U.S. Wheat Industry

- Expanded access to a country where the demand for quality wheat is growing means that farmers in the wheat industry have new market opportunities. China has committed to cap and reduce trade-distorting domestic subsidies, which will lower its domestic prices, decrease production and open the market to greater competition from suppliers such as the U.S.
- The Colorado wheat industry has funded export trade development through a market order check-off program since 1958. Through this effort, Colorado is a member of the U.S. Wheat Associates which is a grower-controlled organization that promotes worldwide wheat exports. This group currently has offices in Hong Kong and Beijing to promote the export of Colorado and U.S. wheat to China.

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Other Bulk Commodities

Colorado is historically a deficit state in coarse grains. We bring in corn from surrounding states for our feedlots; therefore, people sometimes question why our corn and grain growers remain interested in expanding U.S. grain exports. While Colorado does not export these grains, the U.S. market price is directly related to the global markets for these products. When the world is importing U.S. corn and grains, the U.S. market price, whether you as a farmer export or not, is directly linked to the total world market. Expanded grain sales to China will impact all Colorado corn and grain farmers through higher local market prices for their crops.

The USDA projects that China's participation in the WTO will produce an annual gain of \$1.6 billion in new U.S. exports of grains, oilseeds and cotton by 2005. For corn, China has agreed to allow imports of 4.5 million tons increasing to 7.2 million tons. It also promises to stop using export subsidies in selling their grains in East Asia which have disrupted historical markets for U.S. grains.

THE CHINESE MARKET FOR U.S. MEATS

The Chinese market has been a growing market for quality U.S. meat. In addition, the Chinese market is a strong market for hides from the U.S. processing plants. Combined,

U.S. EXPORTS OF MEAT AND ANIMAL PRODUCTS TO CHINA					
<i>Value in U.S. \$ millions</i>					
Product	1995	1996	1997	1998	1999
Hides	160.7	164.8	161.6	173.1	147.2
Animal fats/oils	40.7	4.2	5.6	9.6	24.8
Red meats	86.3	112.9	126.6	112.7	98.4
Proc. red meats	8.0	7.7	10.6	15.9	12.5
Poultry meat	436.4	480.1	488.4	408.5	456.5

China is a \$282.2 million market for U.S. meats, hides and fats. In addition, China imported \$456.5 million in chicken products, bringing the total market to over \$738.7 million in U.S. animal products.

China's successful entry into the WTO will dramatically cut import barriers currently imposed on American agricultural products, including beef. The bilateral accession agreement China signed with the U.S. locks in lower tariffs, allows U.S. companies to more freely market and distribute products, and commits China to use sound scientific principles for technical sanitary import regulations. These and other concessions will expand our access to a market of over 1 billion people. China's economy is already among the world's largest and over the past 20 years has expanded at a phenomenal rate of nearly 10% per year. Incomes among many segments of the population are increasing rapidly, raising demand for high-quality U.S. beef.

With Congress granting China PNTR status, the U.S. agricultural industry is guaranteed the benefits from the concessions the U.S. negotiated bilaterally under the WTO. Failure to grant China PNTR would have meant that our Asian, European and Latin American competitors would enjoy these benefits while American agriculture would lose out.

The Market

With current high import duties and technical barriers to trade, China has used artificial, non-market practices to limit imports. This practice means demand for high-quality beef is unmet and its growth restrained by the government. In 1999, China produced 5.1 million tons of beef, but imported only 6,000 tons. About 30% of this imported beef came from the U.S.

Although Chinese consumers increasingly demand higher quality beef cuts, the quality of domestically-produced beef remains poor. Costs associated with devoting good land to produce the forage needed for quality beef cattle outweigh profits, leaving China's beef production largely a draft animal by-product. Domestic beef production is further hindered by limited processing capacity and an inability to supply large volumes of single cuts, especially sliced for traditional menu items such as "hot pot." Increased per capita beef consumption, a likely outcome of continued economic growth, will be satisfied by imported beef and beef variety meats.

The Opportunities

- If China joins the WTO, tariffs on beef will be phased down from 45% to 12% by 2004 and beef offal tariffs will be reduced from 20% to 12% by 2004.
- U.S. companies will be able to more freely market, distribute and provide sales services through China's liberalized distribution system, a primary commitment sought by U.S. agricultural exporters. China now generally prohibits companies from distributing imported products, an obstacle that will be eliminated with PNTR. China's distribution commitment, phased in over three years, is comprehensive, covering commission agents' services, wholesaling, retailing, franchising, sales away from a fixed location, as well as related subordinate activities such as inventory management.
- At nearly 10 pounds, China's per capita beef consumption is well below levels in other Asian markets, such as Japan (27 pounds) and South Korea (25 pounds). China's large urban population and strong economic growth present a substantial export opportunity especially when, as demonstrated elsewhere in Asia, there is a sustained market development effort.
- Significant market opportunities exist for U.S. beef in urban areas where overall per capita consumption has been growing by more than 8% annually since 1990. Beef consumed in restaurants or sold in supermarkets is rising rapidly at more than 5% annually over the same period.
- Beef exports to China will not face unfair technical sanitary barriers if China is a WTO member. WTO membership for China will mean its technical sanitary measures must be based on sound, scientific principles. In April 1999, China signed a separate bilateral agreement, the U.S. China Agricultural Cooperation Agreement, thereby lifting its virtual ban on imports of U.S. beef and beef products. Any future disagreements can be settled through the WTO's dispute resolution mechanism.

The Bottom Line for the U.S. Beef Industry

- As a result of WTO accession, U.S. export growth is expected to accelerate. Reduced tariffs, coupled with China's elimination of the ban on U.S. beef due to implementation of the U.S. China Agricultural Cooperation Agreement, will significantly improve market access for U.S. meat products.
- In 1998, exports accounted for just 9% of total U.S. beef production, but exports offer one of the best opportunities for growth. While domestic consumption has remained relatively stable over the last ten years, exports have increased an average 12% per year. New markets overseas will be crucial to the future viability of the U.S. beef industry.
- Exports of beef and of animal products add value to U.S. feed grain and oilseed production, principally corn and soybeans, which are inputs for cattle on feed.

THE CHINESE MARKET FOR CONSUMER-ORIENTED FOOD PRODUCTS

The meat sector represents the largest segment of consumer-oriented food sales to China.

SELECTED U.S. CONSUMER PRODUCT EXPORTS TO CHINA					
<i>Value in U.S. \$ Millions</i>					
Product	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Snack foods	29.9	33.3	38.4	41.2	49.6
Breakfast cereals	7.8	8.6	12.0	12.9	6.0
Dairy products	32.2	44.9	57.4	53.7	59.7
Eggs & products	25.9	34.3	18.2	14.7	15.1
Fresh fruit	168.9	180.7	229.9	206.5	116.3
Fresh vegetables	26.6	29.2	32.1	30.8	24.0
Proc. fruit & Veg.	79.0	90.6	91.9	81.3	80.0
Wine & beer	51.8	41.9	43.7	32.2	21.6
Pet foods	3.0	5.5	6.1	5.2	7.4
Other consumer	149.5	187.3	222.7	111.7	133.0

The remaining segments are smaller, but represent the growing niche for U.S. food products in the Chinese market.

The most interesting trend in reviewing the 1995 to 1999 export figures by category is to see that while overall agricultural exports to China dropped during these years, the consumer products experienced

a growth in sales.

The outlook for American consumer foods in China is very promising. China, with its large population and rapidly modernizing society, has huge potential as a market for U.S. foods. Although disposable income has significantly decreased for the time being, the trend to modernization continues. China's urban, two-income families are shopping more often in supermarkets than traditional wet markets, frozen foods are gaining acceptance, and more trendy restaurants and bars are opening to cater to stylish youth. Major hotels, with their domestic and international clientele, also present big opportunities for U.S. suppliers.

Trade Restrictions

China's official trade barriers can be said to be numerous and onerous, but much of South China's imports avoid these barriers by coming in through unofficial channels. The published restrictions include high import duties, scientifically unjustifiable quarantine

restrictions, import quotas, and 13 to 17% value-added taxes. Other problems are a non-convertible currency and non-transparent trade regulations, such as restrictive import licensing and the requirement to obtain trading rights. These barriers have hampered many direct sales and force imports into unofficial channels. Using false-invoicing, under-invoicing and other methods, importers regularly bring in imported food products.

Although China's trade regime is restrictive, changes are occurring, albeit slowly. China's official import duties were reduced on October 1, 1997 as a concession in the WTO accession negotiations to equal an average of 17%. This change possibly has shifted some trade from unofficial channels to official ones, but true impact on trade flows is not yet clear from trade data.

In 1997, China lifted restrictions on U.S. cherries and grapes from certain regions, making these fruits, along with Washington apples, legally importable. The U.S. is urging China to reach a protocol lifting restrictions on U.S. citrus fruit imports.

China's labeling law is often cited as an impediment to imports; however, China's labeling requirements are not unusual and are not strictly enforced. While Chinese language is required, many imported products still use a stick-on Chinese label even though this practice was supposed to be discontinued by January 1, 1998. As a marketing requirement, the use of Chinese is essential, in any case, since most Chinese consumers cannot read English.

Consumers' Tastes and Consumer-Ready Product Market Trends and Opportunities

Guangdong Province and its capital Guangzhou (formerly known as Canton) have been a Chinese culinary mecca for centuries and are famous for Cantonese cuisine. The food styles are essentially the same as in Hong Kong, located only 60 miles away from Guangzhou. In recent years, as China has opened to the outside world, Western cuisine has penetrated the South China region. Western influence has come in via the new luxury hotels, American fast food chains, and modern food stores. Knowledge of Western foods also has come through travel by Chinese to Western countries and by the return of many overseas Chinese to China to do business. The proximity of East meets West in Hong Kong is also a major factor in spreading new food trends to South China. At the same time, while the level of foreign investment is highest in South China, the number of non-Asian expatriates living in Guangdong is actually far less than in Shanghai or Beijing. Thus, restaurateurs cannot count on the patronage of foreigners to make a Western-style restaurant profitable.

U.S. food products can be introduced to China's hotels and restaurants either by popularizing Western cuisine or by introducing U.S. ingredients into traditional Chinese recipes and menus. Today, the hotel/restaurant scene in South China is dominated by Chinese cuisine, but has sustained the influence of Western culinary styles and ingredients. It cannot be said, however, that there is a clear evolution toward growing demand for Western foods. Not only has economic growth faltered somewhat in the past

two years, but the number of non-Asian expatriates living in the region is small compared to Shanghai and Beijing and is not currently growing, partly because as of 1998, foreign investment has leveled off and partly because more foreign-invested companies are hiring Asians.

Nevertheless, modernization is continuing. For example, the trend towards purchasing foods for home consumption in modern supermarket-style food stores in place of the traditional outdoor markets is continuing and is encouraged by the government.

In the large coastal cities of China, there is a tremendous population of consumers with the wherewithal to dine in restaurants and engage in business travel and tourism. The size of the population of the middle and upper classes in China is practically that of the U.S. (approximately 200 million people) or one-sixth of the population of China. Guangdong province, where China's economic reforms have been in place the longest, is the home of a large number of these people.

The profile of this group is that they are in business or employed, may be from double-income families, and they have significant disposable income. Their household income is on a par of \$10,000 annually and large enough to afford a variety of imported food and beverage products. The balance of China's population in inland and rural areas has a much lower standard of living and spending power of less than \$1,000 per year. However, even the majority of low-income people in China's urban areas have probably tasted a can of Coca-Cola or an imported candy bar, or more likely, have bought these for their kids once in awhile.

With the low cost of housing and medical bills due to state subsidies in China, the generally low cost of staple foods, and rising incomes, more and better food is a strong priority. The Chinese tend to spend their extra income first on food, fruits, gourmet items, and spirits before housing, transportation or clothing. A cause for optimism in supplying foods to the Chinese is their split personalities about prices. On one hand, they are hugely generous and will spare no expense to obtain gourmet delicacies and impress their friends and business associates; on the other hand, they can be extremely price conscious about the price of staple foods. The share of income spent on food is over 50% for the Chinese on average, indicating a rise in living standards.

Dining in restaurants is overwhelmingly popular in China. People do not tend to have home dinner parties but rather host friends at restaurants for lunch or dinner. Many family and social occasions call for organizing a meal or banquet. Business relationships are also sealed through sharing a meal or more likely a banquet. The occasions for business entertaining are many and are an essential part of the economy in China. It is important that the host be generous to the point of waste in honoring his guests. The number and high cost of the dishes ordered by the host add to his social standing and "face."

Since men predominate in business, men eat in restaurants far more regularly than women. Liquor in the form of white spirits, cognac, red wine or beer usually

accompanies the meal, except any women in the group rarely drink spirits but choose tea or fruit juice. Chinese restaurant dining is still the overwhelming favorite and Cantonese chefs are well-trained and have high standards. There are numerous restaurants in Guangzhou that are famous for various traditional dishes such as various intricate recipes for chicken or 101 styles of cooking snake. The biggest draw for restaurants in southern and eastern China is to advertise seafood delicacies.

When people in the Southern China region of Guangdong eat out, they prefer Cantonese cuisine. Cantonese people crave seafood in all varieties from fish to eels to shellfish. They also keenly savor the flavors of fresh vegetables and fresh fruit, but they do not admit to liking hot and spicy foods. The Cantonese have a legendary appreciation for freshness of their foods. They will also insist that they prefer traditional, Chinese foods over foreign dishes. They do require the ultimate in freshness by wanting live seafood and live poultry that they watch being butchered. On the other hand, the reality is that food shoppers in the traditional markets readily buy frozen chicken parts and frozen seafood. Their cost consciousness gets the better of them for everyday meals.

Despite the preference for fresh/live foods, refrigerator ownership is high. More than 74 out of 100 urban households in Guangdong province own refrigerators, higher than the national average of 66. Freezer ownership among these same households though is still quite low. Less than one out of every 100 households in Guangdong own freezers. The national average is approximately three.

Another noteworthy characteristic of local tastes is that Cantonese people will eat literally anything and everything. Their chefs turn out tasty renditions of snake, mushrooms, fish stomachs, paws, snails, dogs, insects, turtles, and hundreds of other exotic fare considered too exotic for Western tastes. There are also strong beliefs about the individual characteristics, effects, and seasonality of foods. Foods may have hot or cold properties that make them inadmissible in the summer or not able to be served at the same time as incompatible foods.

So, freshness, Chinese-ness, seafood, and variety are the main characteristics of Cantonese preferences. Having said that, food industry people will admit the reality that frozen meats, fish, and vegetables, canned fruits, McDonald's hamburgers, and Western-style birthday cakes are selling extremely well. Despite the stereotypes, Guangdong people are said to enjoy new and different foods and new cuisine styles, such as Thai, Indian or Vietnamese. Guangzhou also has several Sichuan-style, spicy food restaurants that draw many customers. Sushi restaurants are popular, as well as Mongolian hot pot restaurants during Guangdong's mild winter season. Also, it is said that Cantonese people love sweets, so the style of Western-type bakery goods has traveled from Japan via Hong Kong in the form of ultra-sweet, frosted cakes and other bakery items. Dairy products are another up and coming sector affected by the youth market, bolstering ice cream, powdered milk and yogurt sales.

The U.S. is China's major supplier of many imported high-value consumer products. Chicken feet, chicken wings, oranges, table grapes, whey powder, celery, sweet corn,

almonds and pistachios are just a few. The U.S. supplies a third of all high-value consumer products and seafood re-exported to China through Hong Kong, the main import channel for most U.S. products.

One of the biggest impediments to more American products entering the Chinese market is the lack of knowledge of American products on the part of Chinese buyers. The language and writing problem and the difficulty of travel for Mainland Chinese who must obtain passports and visas are major impediments and explain in large part why Hong Kong middlemen are so important to the China trade. Chinese buyers tend not to be familiar with American growing seasons, American brand names, or American companies.

Despite the lack of knowledge, the Chinese have an excellent and positive view of the U.S. and are aware of and admire the great capacity of the U.S. to grow and process food products. Even without extensive marketing to date, the U.S. market share for total high-value consumer products and seafood imports is estimated at 25-40%.

U.S. high-value consumer products and seafood exports to China rose again in 1997. These U.S. exports reached a total of \$953.6 million, an 8.4% increase over the year before. Exports in 1996 were \$879.4 million. Sizable increases occurred in many of the old favorites, but not all. Products that showed the largest increases over the last year include pistachios and almonds, oranges, dairy products, canned and frozen vegetables, and canned fruits. Poultry wings, apples, grapes, fresh and chilled vegetables, and beer all experienced a decrease.

A large majority of U.S. high-value consumer products and seafood still enter China through Hong Kong, and not directly from the U.S. to China. In 1997, indirect exports to China through Hong Kong were \$717 million versus \$236.6 million in direct exports. When considering more specific product categories, over 80% of the most popular exports were shipped via Hong Kong. In regards to oranges and pistachios, all entered Hong Kong before coming to China. The main exception was seafood. Only 7% of U.S. seafood exports entered China indirectly, because these imports mostly are processed and a majority of China's seafood processors are in the north where direct exports occur more.

The U.S. is one of China's primary suppliers of high-value consumer products and seafood, if not generally the leading supplier. When only Hong Kong re-exports are counted, these statistics indicate that the U.S. supplies China with a third of all high-value consumer products and seafood. In many products, the U.S. supplies nearly half or more of China's imports through this channel. In the case of a few products, the U.S. is China's only supplier; i.e., celery and almonds.

MARKET SEGMENT ANALYSIS

Luxury Hotels

China's newer hotels are the social centers of cities. Soon after the policy of opening to the outside world was adopted after 1978, China began to encourage joint venture hotels. They insisted that these hotels be showplaces for the New China. This insistence on deluxe levels also offers a glimpse at the type of values for cuisine that Chinese have. Again, they like luxury, lavishness and show.

In Guangzhou, there are five five-star hotels, five four-star hotels, and an exclusive golf and country club. These hotels are the preferred venues for weddings, corporate banquets and seminars, and business entertaining. Beyond their hotel rooms, they offer high-status meeting places and Sunday stroll destinations. Along with a variety of Chinese-style restaurants, each hotel also has several restaurants that serve predominantly Western foods. Each has a high-end, continental-style restaurant, a delicatessen or Western-style bakery, and a so-called coffee shop. The coffee shops are the busiest of the Western restaurants. They offer hot meals, sandwiches, pizza and burgers. They tend to serve more food and to be higher-priced and more elegant than a coffee shop in a hotel in the U.S.

These hotel coffee shops have made an enormous contribution to popularizing Western food in China because they serve all-you-can-eat buffets for breakfast, lunch and dinner. The format appeals to both tendencies of Chinese diners -- luxury and the status of paying a high price, but also the chance to get great value if one can consume adequate quantities of the most high-priced items featured on the buffet table. Imaginative Western chefs go to great lengths in these hotels to put out delicious and attractive dishes. The buffets have introduced such novelties as salads, raw vegetables, rolls, French cheeses, ice cream sundaes, brownies, avocados, pates, smoked salmon, and cream cakes. It was also discovered that South Chinese diners love sushi and various Japanese dishes. Roast prime rib of beef, roast turkey, lamb chops, and beef tenderloin are all appreciated. The buffet creators know that to draw Cantonese customers, there need to be oysters, shrimp, and other seafood delicacies on the buffet table. Interestingly, while diners do love the Western-style desserts, they are even more likely to load a plate with fresh fruit, such as melons and oranges, to complete their buffet meals.

Fast Food and Western Restaurants

South China with its young, well-off urban population has been discovered by Western fast food chains. McDonald's, Pizza Hut, Kentucky Fried Chicken, Cafe de Coral from Hong Kong, and independent chains like Timmy's Hamburgers, and Chinese-style Da Xi Hao, are well-known and doing a fairly good business. In the opinion of the ATO, these outlets are not as overwhelmingly popular in Guangdong as further north because of the southerners' relatively lower appreciation of fried foods, but adding to their popularity is that single-child household parents and grandparents tend to dote on the "little emperors" engendered by China's one-child policy. These children beg to be taken to fast food

restaurants, particularly on weekends. Adult patrons also like the cleanliness and convenience, and women appreciate the smoke-free atmosphere.

There are also several smaller chains and independent restaurants that have built their businesses on Western-style foods. The Greenery, Green Island, Monte Carlo, and Western Cowboy chains all offer steaks. The Hard Rock Cafe has a mainly U.S.-sourced menu, and there are several trendy clubs such as the New City Club and Foreign Businessmen's Club that offer Western-style ambience. All of these restaurants must offer Chinese dishes alongside their Western offerings in order to please everyone.

The Gift Market

Traditional gift-giving seasons heavily influence demand for particular imported food and beverages. Mid-Autumn Festival, Chinese Lunar New Year, and Children's Day are prime gift-giving seasons. Gifts often include imported products for which gift givers are willing to pay a premium. Imported tree nuts, chocolates (especially chocolate-covered nuts), fresh fruit (especially apples), butter cookies, ginseng products, and alcoholic beverages are popular gift items. Retailers often offer special gift baskets during holiday seasons containing combinations of the above.

Supermarkets

The supermarket industry in south China has blossomed during the 1990s. With each year, local supermarkets come closer and closer to resembling their Western counterparts. Once only selling dry goods and sundries, nearly all local supermarkets have frozen food sections and some have even set up fresh produce sections. Despite these changes, local consumers mainly visit supermarkets to buy dry goods and still go to farmers' markets for their meats and vegetables. Imported products that have done well in supermarkets and should continue to do so in the future include nuts, snacks, canned goods, beverages and convenience foods. The widespread existence of frozen food sections in supermarkets also should point to the possible success for imported frozen food products. Local supermarkets with a few exceptions do not import food and beverages themselves, but rely on local wholesalers and distributors for these items.

Retailing reforms and rising consumer incomes are continuing to stimulate the expansion of the local supermarket industry. Hundreds of supermarkets now operate in Guangdong. Most are local chains, but several Hong Kong ones; i.e., Park N' Shop, CRC (China Resources), and Wellcome, have operations in the province too. The biggest change in the industry in the past three years has been the debut of hypermarkets. Wal-Mart (U.S.), Trust-Mart (Taiwan), Makro (Holland) and Carrefour (France) all have opened local stores with large supermarket sections and in the near future plan to set up more within the province. Their discount pricing, greater product selection, convenience and unique marketing styles have made them popular with local consumers. Ambitious local chains recognize their need to improve service, variety and management if they are to compete successfully with foreign-managed competitors. Most city governments support the move away from wet markets, for reasons of economics and public hygiene.

Fruit

U.S. fruit is very popular in China, especially in the south. Thousands of containers of American apples, grapes and oranges enter the country via Hong Kong every year. Although China's domestic fruit industry has made some progress in improving post-harvest handling and storage of their own harvest, it has not been enough to alleviate demand for imported fruit. In the near future, this situation most likely will not change. In addition, since southern consumers like fresh fruit and fruit-flavored products, other American varieties which may be new to the market might become successful if well-marketed.

Vegetables

China currently imports both fresh and frozen vegetables, but in the near term, opportunities for frozen varieties may be much better. In regards to fresh vegetables, celery and iceberg lettuce are the most popular imports. They should continue to do well in the local market, because local attempts to grow these varieties have met with only limited success in terms of both quality and quantity. The same can no longer be said of some earlier imported favorites such as broccoli. Local production has increased greatly, driving imports down. Although now grown locally, sweet corn and peas exported to China frozen have a good market. Growing seasonalities and limited domestic food freezing technologies should preserve this market niche over the coming years.

Meat and Meat Products

Meat offal is the biggest seller, not muscle meat. Frozen is the only product available. Handling and preparation techniques are poor and ill-informed. Chefs must keep product frozen until a customer places his order. U.S. beef is universally cited as too expensive in comparison with other sources such as New Zealand. Local product, other than spent water buffalo, is very lean and acceptable for certain cuts. The popularity of hot pot restaurants means U.S. beef could become more sought after in the future. Only the Hard Rock Cafe or the few top hotel restaurants stock U.S. beef. No distributor is providing chilled beef.

Poultry

Poultry had a difficult year in 1997/98. Even before the Hong Kong bird flu scare which depressed demand during the important Chinese New Year period in December and January, China's poultry meat was in over supply due to increased local production, lower export opportunities, and a slowing economy. U.S. exports of poultry meat to China are not expected to reach last year's levels due to domestic competition. While growth will be modest in the next year or so, China's average meat and poultry consumption rates are on the rise. U.S. product will continue to be competitive on a price basis, especially for wings, medium and large-size paws, and drumsticks. Chinese consumers' preference for fresh poultry meat remains a given, but cost-conscious shoppers and restaurants have no qualms about buying the far lower-cost frozen product. The major importers are located

in Guangdong and Fujian provinces on China's coast. They in turn ship imported product inland to Sichuan and also points north.

Food Ingredients, Food Processing, Joint Ventures

The Guangdong/Fujian region in the south is important for the food ingredients sector because it holds an important position in China for food processing and because it is a major entry point of China's food distribution for both domestic and imported products.

The Pearl River Delta around Guangzhou is the location of thousands of food processing factories. Snack processing, Western-style bakeries, sauce manufacturers and instant noodle plants are the most numerous. The region maintains this reputation as the origin of many imported and domestic food items such as fruits, nuts, meats, and spices that are brought here to market and then are transported far and wide to other parts of China.

Nuts

Guangzhou's Yi De Lu Street has been the street of the nut merchants for centuries in China. Buyers come from all over the country to purchase nuts from the wholesalers in Yi De Lu. Some of the most successful U.S. products being marketed in China are almonds and pistachios, with hazelnuts and macadamia rising in importance. Mixed nuts are popular for bar and home consumption, and processors are also asking for pecans for their mixtures. U.S. nuts have such an overwhelmingly popular image now with consumers that counterfeiting of logos and misrepresenting origins are serious problems.

Bakery

Western-style bakery products are catching on fast right now in China. The USDA/U.S. Wheat Associates partnership deserves much credit for this because of its long-term projects to train bakers in Hong Kong and China. The styles of breads, cakes and cookies appreciated by consumers have been influenced by tastes from Japan and then nearby Hong Kong. The use of butter is increasing, but lard is dominant. The preferred breads are light, airy and sweet, not whole-grain, European styles. Flavored cakes for birthdays and special occasions are mostly a pile of whipped cream topped with colorful canned fruits and cherries. This has meant a tremendous market opportunity for U.S. non-dairy whipped toppings, dairy ingredients, colorings, maraschino cherries, and canned peaches. Chocolate is not so essential a flavor as in the West.

Spices

American and European joint venture factories to produce spices and flavorings have been tremendously successful in South China. Both restaurant chefs and home consumers are willing and anxious to save time by using spice mixtures and prepared sauces to create traditional, Chinese dishes. Incomes are high enough so that consumers are able to purchase packaged or bottled spices instead of buying spices in the open-air wet markets. McCormick's, Knorr and Maggi all have factories in South China.

Dairy Products

The Agricultural Trade Office receives frequent calls requesting the names of exporters of dairy products. Whey powder, in particular, is frequently requested. Ice cream powder bases are being requested less frequently, although there has been interest recently in non-dairy, soft-serve style ice cream powder, a la the McDonald's model. Certainly the appreciation for milk is on the rise in China. Shoppers will often have a liter or two of usually long-life, UHT milk in their food baskets at supermarkets.

Frozen Dumplings

Dumplings are a staple within the Chinese market. Flavorings for the frozen dumplings are in high demand. Consumers have less time for cooking, and they worry about sanitation when they buy prepared dumplings in the wet markets. So, frozen dumplings and steamed buns are another popular purchase at supermarkets.

Sauces

Every household in China buys a variety of sauces for cooking. The tradition comes from the use of soy sauce and oyster sauce for flavoring foods. The custom is now being extended to new types of sauces and more use of chili sauce, and even ketchup. It may be that Cantonese people with their traditional preference for steamed, lightly-flavored foods, are turning to prepared sauces to make more piquant foods which they simply do not know how to prepare.

Best Products List for China (compiled by the US ATO in Shanghai):

Meat products

Lard	Hot dogs/sausages
Game meats--buffalo, rabbit, pheasant, venison	Offal
Frozen whole baby chickens	Chicken cutlets

Dairy products

Butter	Whipped cream
Cheese	Ice cream mixes

Fruits and vegetables

Avocados	Lettuce
Frozen potatoes -- french fries, shoe string potatoes, hash browns, baked potatoes	Salad bar ingredients
Grapes	Frozen corn, peas
Oranges	Celery
Apples	Iceberg lettuce
	Fresh fruits
	Figs

Dates

Processed foods

Canned beets
Non-dairy whipped cream
Non-dairy toppings and prepared cake frostings
Ice cream toppings
Canned cherries
Maraschino cherries

Bakery products
Fruit pies--apple, blueberry, cherry
Chocolates
Frozen dim sum
Sauces
Frozen apple pie
Chocolate blocks

Beverages

Bottled lemon juice
Orange juice

Wine

Nuts & dried fruits

Almonds
Pistachios
Raisins

Dried fruit
Hazelnuts

Seafood

Geoduck

Clams

Market Research

The ATO prepares and commissions market research reports on selected food and beverage topics to help U.S. exporters identify potential market opportunities and effectively compete in the Chinese market. Market briefs are available to U.S. food and beverage companies by contacting the ATO Shanghai or the Trade Assistance and Promotion Office of the USDA Foreign Agricultural Service (TAPO):

Phone: (202) 720-7420 Fax: (202) 690-4374 TDD: (202) 690-4837

To sample some of the available ATO Shanghai and ATO Guangzhou research, please visit the [ATO News](#) page and look for the Newly Released Reports section.

Or, access the [Attaché Reports Search Engine](#) on the FAS homepage at www.fas.usda.gov, where you can specify CHINA as the country (or other countries) and any specific product or commodity in which you are interested. Simply follow the instructions on the FAS page.

Below are some of the reports prepared by ATO Shanghai that you can read on the [FAS Homepage](#):

1. Shanghai Consumer Attitudes and Food Purchasing Habits
2. China's Packaged Food Products Labeling Law
3. Shanghai Supermarkets
4. China's Vegetable Market

5. Live Seafood
6. Dining With the Shanghainese
7. Dalian Consumer Food Purchasing Habits
8. Shanghai's Snack Food Market
9. Business Travel in China Update
10. Southern China Supermarket Update
11. Shanghai's Chocolate Market Update
12. Shanghai's Beer Market Update
13. China's Apple Market Update
14. Fast Food Restaurants in Shanghai
15. Brand Management in China
16. Shanghai's Beer Market
17. China Strategies for U.S. Seafood Exporters
18. Market Opportunities for Meat
19. Shanghai Supermarkets: What's for Sale?
20. China Food Market Overview
21. Confectionery and Chocolate in China
22. Trade Shows in China during 1999 and 2000

Exporter Business Tips, from ATO Shanghai Report

China can be a daunting but not impenetrable market. U.S. exporters should visit the market and meet importers to establish business relations and assess the market potential for their particular products. Personal relationships are critical in doing business. Contracts are not always held in the same regard as they are in the U.S., and enforcement through the Chinese legal system is erratic, expensive and rarely successful. Trust is more important than a contract's fine print, and buyers are more likely to purchase products from companies with which they have established personal relationships. Developing and maintaining these relationships requires frequent visits and a long-term commitment to the market.

Grading and standards are not well developed in China, and buyers often are unfamiliar with U.S. grades and standards. Teaching buyers about grades and standards can be a valuable market development activity. Financing can make or break deals, but companies must remember that contracts are difficult to enforce. All exporters should work with their international banks and, even when terms are provided, the transaction should utilize Letters of Credit to protect payment.

Use ATO and FAS Services

The Foreign Agricultural Service has Agricultural Trade Offices in Guangzhou (Canton), responsible for southern China; Shanghai, covering North China; and Hong Kong.

American exporters are strongly encouraged to participate in the USDA Foreign Agricultural Service's (FAS) endorsed trade shows in China as one means to assess the potential market for their products. We also encourage American exporters to make use

of USDA/FAS marketing services such as Buyers Alert, Foreign Buyer Lists, Trade Leads, and U.S. Supplier lists.

U.S. supplier lists are made available to local buyers by the Guangzhou and Shanghai ATOs. Specific product requests received by China ATO's from China buyers are disseminated to U.S. exporters via the Trade Leads service. Both ATOs submit periodically-updated lists of China buyers for dissemination by USDA/FAS under the Foreign Buyer service.

The China ATOs' doors are always open to individuals and groups promoting sales of American agricultural and food products to China. They strive to serve as a valuable on-site first point of contact for American product exporters.

Agricultural Trade Office/US Consulate Guangzhou

Telephone: (011-8620)8666-3388 Ext. 1283/Direct Line 8667-7553

Internet Email: ato@gitic.com.cn

ATO Shanghai/Amcongen Shanghai

Telephone: (011-86-21)6279-8622

FAX: (011-86-21)6279-8336

Internet Address: <http://www.atoshanghai.org/>

Internet Email: atos@public.sta.net.cn

Come Prepared

U.S. exporters should come prepared with product samples, plenty of bilingual business cards, product literature -- preferably in Chinese or at least with pictures -- and CIF price quotations for the cities they visit or nearest major port and Hong Kong. Given the shortage of English language skills in China, translation of basic product information and a price sheet will significantly enhance communications and sales possibilities. Follow-up faxes, also in Chinese when possible, will also enhance sales opportunities.

Food Labeling

Chinese law now requires that all food products (local and imported) must have Chinese labels clearly stating the type of food, brand name, trademark, manufacturer name and address, country of origin, ingredients, date of production and sell-by date. One or more foreign languages can also appear on the label but the Chinese (simplified characters) language requirements must be met. While there are differing label requirements for various food products, the above list provides only general information regarding the new Chinese labeling law. This law is a positive step in protecting consumers, food producers, and retailers and discourages fake, inferior or old food products from entering the market.

While the initial cost and energy involved in adapting to this law may be great, research suggests that the new labeling requirements are consistent with what consumers want and

will ensure greater sales down the road. Chinese consumers prefer to have both Chinese and the foreign language appear on imported food product labels, together with the place of manufacture. This combination takes advantage of Chinese (as it is easy to understand and informative for consumers) and the foreign language (which is often perceived as a symbol for high quality products). Buyers have indicated that beverage or food labels in a foreign language only would be rejected because most Chinese do not understand foreign languages.

For further information about China food labeling regulations, U.S. exporters should contact the Export Product Review Program, Office of Food Safety and Technical Services, FAS/USDA, tel. (202)-720-1301; fax (202)-690-0677. See also ATO Shanghai's Report CH7846.

Food Packaging

U.S. packaging is nearly always superior to domestic packaging, a real market advantage. However, this advantage is slowly eroding as joint venture and local food processors gradually improve technology. Transparent packaging is preferred for many products, as consumers want to evaluate quality and authenticity. Chinese consumers pay a premium for imports and the more the packaging reassures them of quality the better.

Large/bulk packaged goods for retail sale are not popular because homes are small and few people own cars. However, a few warehouse-style retailers are beginning to penetrate key Guangdong markets such as Guangzhou and Shenzhen and change may be on the way.

General Import and Inspection Procedures

There is no simple, clear picture of China's actual import procedures and requirements. American companies wishing to sell their product in China must find a well-connected partner who can resolve the import problems and find a means of bringing product into the country. U.S. companies with an attractive, competitively-priced product are likely to be sought out by the Chinese companies who have import rights or the required connections. (See ATO Shanghai's Report CH7851.)

Prior to customs clearance, imported products are expected to meet the following requirements:

- 1) Verification of the consignee's import license.
- 2) Verification of the documents of goods entitled to tax exemption.
- 3) Verification of the packing list, commercial invoices, and shipping documents.
- 4) State Administration of Entry & Exit for Inspection & Quarantine of the People's Republic of China (SAIQ) will check product for quality, quantity and weight. For animal or plant products (for both imported animals and plants must meet with the law of the People's Republic of China on the entry and exit animal and plant quarantine, see section V.) Quarantine inspection is required. SAIQ will also test for pesticides, antibiotics or any other visible and non-visible problems.

Note: SAIQ, which is under China Customs, is a recent merger of three previous departments. They were the China Commodity Inspection Bureau (CCIB), Health Quarantine Bureau (HQB), and Ministry of Agriculture's Animal & Plant Quarantine Bureau (CAPQ). This merger, completed at the national level in Beijing, is expected to be completed at the provincial and local government levels by October 1999.

Other Methods of Distribution Due to Trade Restrictions

China's official trade barriers can be said to be numerous and onerous, but much of China's imports avoid these barriers through smuggling or use of "unofficial" channels. During the 1990s over \$500 million worth of U.S. agricultural products were estimated to have entered China illegally to bypass the published restrictions which include high import duties, scientifically unjustifiable quarantine restrictions, and import quotas. Importers regularly get around the barriers to bring in imported food products. U.S. products ranging from frozen chicken meat, frozen french fries, fresh apples and oranges, tree nuts, and even hardwoods come into the Chinese market in liberal quantities via Hong Kong.

Changes are slowly occurring in China's official trade regimes. China's import duties were officially reduced on October 1, 1997 as a concession in the WTO accession negotiations to equal an average of 17%. This change has evidently shifted some trade from unofficial channels to official ones. Further, significant tariff reductions were promised for after WTO accession. In 1997, China lifted restrictions on U.S. cherries and grapes, making these fruits along with Washington apples legally importable. China has also pledged to end restrictions on citrus imports from the U.S. None of the quarantine barriers have been effectively enforced since about 1994, and U.S. fruit is prevalent in China's fruit markets and restaurants. According to a report by the U.S. Agricultural Affairs Office in Beijing, 1998 re-exports (via Hong Kong) of such U.S. fruits as oranges and grapes had a 366% and 521% increase, respectively. In general, prices for imported products in China have come down significantly in the past few years, so that most items are priced consistently with their country-of-origin price. Exceptions noted by the ATO are high-quality beef and California wines which are priced far higher in China than in the U.S. Other problems are a non-convertible currency and non-transparent trade regulations, such as restrictive import licensing, and the requirement to obtain trading rights. These barriers have hampered direct exports to China and forced a substantial amount of trade into unofficial channels: using false-invoicing, under-invoicing and importing via Hong Kong (a good portion of U.S. high-value products enter China via Hong Kong).

HOW TO GET STARTED

Are there “10 Steps to Succeeding in the Chinese Market”? The following represent a great starting point. Some will require research on your part, in other areas you will already know the answers.

1. Is there a market for your product in China? There is probably research done already to answer this question. Check out the internet links provided in this report or call the Markets Division and we will help you determine the Chinese market.
2. Are you (and your company) ready to export and what is the best format for exporting? Developing the Chinese market will take time and effort. You can use U.S.-based representatives and export management (or trading) companies, but it will still take a commitment from you and your company.
3. Need immediate sales? Exports are not the answer. Want to develop a new market that could offer new outlets within the next few years? Consider developing an export market.
4. Build an export team, both within your organization and within the industry. You should have your bankers, shippers, contacts to state, commodity and federal agencies built before you start developing your markets.
5. Review the WUSATA “Branded Program” funding options and sponsored trade events in China. If your products are within these categories, you will not find a more cost-effective way to explore the Chinese market.
6. Target what area in China you want to approach first. Shanghai, Beijing, Guangdong or Hong Kong -- each market should be viewed as a separate market. Start with one market for your primary entry point.
7. Consider using a U.S.-based agent. The Chinese market is built on relationships. There could be a U.S.-based agent who has the contacts within your target market already.
8. Always sell on a letter of credit. In fact, it should be an Irrevocable Letter of Credit confirmed on a U.S. bank. Not sure what that is? You should take a course from the World Trade Center on International Payments.
9. Learn about international shipping. Your product will only succeed in China if you have the quality, the price and the ability to ship your product to that market, all with competitive prices.
10. Stay in touch with the Colorado Department of Agriculture. We have new programs and opportunities developing. Stay in touch, we will keep you posted on what new opportunities exist for Colorado companies to expand their markets in China.

UPCOMING TRADE EVENTS WITH WUSATA

WUSATA will sponsor a variety of industry events for selling food products into the “Greater Chinese” market. This is defined as Mainland China, Hong Kong and Taiwan. It is useful for some companies to target several markets when exploring this region. To get the most current list of activities, check out www.WUSATA.ORG.

MAINLAND CHINA

Hotel and Restaurant Industry Trade Show for Consumer-Ready Products

WUSATA will participate in Food & Hotel China in Shanghai. This will help the new-to-market companies qualify buyers in a very fluid and often difficult system to determine who are legitimate agents/importers/distributors. For the companies already in the market, the representative will work with them on what markets they would like to expand to and finding the appropriate agent/importer/distributor for those markets.

Inbound Chinese Buyers’ Mission for Consumer-Ready Goods

A Shanghai contractor will organize an inbound buying mission of three to four buyers. He/she will qualify the buyers to make sure that they can purchase product and are interested in learning about the variety and quality of American products. Individual meetings and visits to production sites will be arranged. He/she will accompany them and, besides interpreting, will help them to conduct business transactions. New products will be targeted as well as new companies. However, existing business relationships will also be continued. Upon return, the contractor will work with the Chinese buyers to handle difficulties of communication or problems in obtaining product. They will also e-mail the state marketing officials if there are any problems with any companies in their state so as to facilitate ease of sales between both parties.

Food Ingredients Asia 2001 in China

U.S. food ingredient manufacturers are encouraged to participate in the Food Ingredients Asia 2001 food show in Shanghai. WUSATA will coordinate a section within the U.S. pavilion at the show. Two buying missions to the Western U.S. will be organized following the show. One group will come from Mainland China and another from Taiwan.

Bakery Ingredient Seminars in China

The major bakeries in the country will jointly sponsor bakery ingredient seminars in Beijing, Guangzhou and Shanghai. Other cities are possible depending on demand and market conditions. The seminars will be designed to feature 10 to 12 Western-style bakery recipes using U.S. dried fruit, fruit fillings and nuts. Participating bakeries will then feature selected products in their retail outlets for two to four weeks.

HONG KONG

In-Store Promotion in Hong Kong

In-store promotions with Hong Kong middle/upper market retailers will be used to promote Western U.S. consumer-oriented food products. Energy will be put into finding retailers that are seeking a variety of new products, have a high potential to order again, and charge little or no fees to participating Western U.S. companies. The Agricultural Trade Office in Hong Kong will organize a reverse trade mission to the U.S., in-store Great American Foods promotion, and the Great American Barbecue.

TAIWAN

Sinon In-Store Promotion and Buying Mission from Taiwan

A four-week in-store promotion will be held with Sinon supermarkets throughout Taiwan in February/March of 2001. Highlighted will be soups and canned goods, but promotions would also include sampling, displays, signage, advertising and special events for a wide range of products. A reverse trade mission to three or four Western U.S. cities will occur in November 2000, prior to the promotion to introduce new suppliers to Sinon.

Taiwan Organic Promotion

Two educational seminars and a product showcase for importers/wholesalers will be held in conjunction with the 2001 Taipei International Food Show, June of 2001. The seminars aim to show the credibility of the U.S. organic industry and the wide variety of products available. The Western U.S. companies attending the Taipei International Food Show will participate in one-on-one meetings with targeted importers/wholesalers. A buying mission will be organized for the importers and wholesalers identified through the show. This mission will cover three or four Western U.S. cities across several states. This buying mission will occur six months prior to the in-store promotions to allow new products to enter the importers/wholesalers product lines.

In-store promotions will take place in health stores and higher-end grocery stores that are customers of the importers/wholesalers that took part in the reverse buying mission. Care will be taken to choose stores that cater to higher-end, health-concerned consumers. Promotions will consist of samples, advertising, displays and cooking demonstrations.

Bakery Ingredient Seminars in Taiwan

Major bakeries will co-sponsor bakery ingredient seminars in Taipei and Kaoshung. Professional chefs from the U.S. will demonstrate ten to twelve Western-style bakery recipes using U.S. dried fruit, fruit fillings, and nuts. Recipes and in-store sampling will introduce new product lines.

LINKS TO INFORMATION ON CHINA

The following is a list of reports specifically relating to China. While you are welcome to contact the Colorado Department of Agriculture for information, we hope that these sites will provide additional information.

SUBJECT & LINK	DATE
China Trade Relations Working Group http://www.chinapntr.gov/	Ongoing
State export files and opportunities http://www.chinapntr.gov/StatebyState8/colorado.pdf	04-00
Industry Fact Sheets http://www.chinapntr.gov/industryfactjump.htm	02-15-00
The United States-China Business Council http://www.uschina.org/public/wto/	09-15-00
United States Consulate Shanghai http://www.atoshanghai.org/	06-28-00
Fact Sheets, Press Releases, Agricultural Fact Sheets and other links http://www.fas.usda.gov/itp/china/accesion.html	05-19-00
China country information (i.e. geography, people, etc.) http://www.cia.gov/cia/publications/factbook/geos/ch.html	01-01-00
State Department Background reports: http://www.state.gov/www/background_notes/index.html	
Search under China – miscellaneous http://www.fb.org/	Various