

**CHINA COUNTRY PROFILE**  
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**July 2007**

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## Synopsis

China is the world's fourth largest economy and has been strengthening in recent years. China is Alberta's fourth most important agri-food market, purchasing over C\$231 million from our province in 2006. China is Alberta's single most important export market for raw hides and skins (C\$62 million) and was the fifth largest market for canola seeds this year (C\$67 million).<sup>1</sup> For a country with nearly 1.3 billion consumers and limited natural resources, China's level of food imports is surprisingly low. China is nearly self-sufficient in food and is a major net exporter of many food products, including manufactured food and beverages, animal products, vegetables, fish and seafood, tea, and fruits.<sup>2</sup> Chinese consumers are price sensitive, but appreciate and are willing to pay for quality.<sup>3</sup> The Chinese market will continue to provide limited opportunities for Alberta's agri-food industry.

## Market Overview

The Chinese Economy is the world's fourth largest and its nominal GDP is a massive US\$2.63 trillion (2006 est.). On a per capita basis the country's GDP is low, at less than a quarter of that in Canada (\$7,700 for China vs. \$35,200 for Canada in 2006).<sup>4</sup>

China's economy during the last quarter century has changed from a centrally planned system that was largely closed to international trade to a more market-oriented economy that has a rapidly growing private sector and is a major player in the global economy. The Chinese GDP has been on the rise, posting growth of 10.4% in 2005, 10.7% in 2006 and is forecast to expand 10.5% in 2007.<sup>5</sup> Exports remain strong, as China has recently overtaken the US to become Japan's number one trading partner. Chinese consumer confidence remains low and tame inflation will continue. Consumer prices are expected to rise 2.4% in 2007, 0.9% higher than 2006.<sup>6</sup>

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<sup>1</sup> Alberta Government, Agri-food trade On-line.

<sup>2</sup> USDA, *China's Food and Agriculture: Issues for the 21st Century*, April 2002.

<sup>3</sup> Agri-Food Trade Service, *Agri-Food Consumer Profile China*, August 2004.

<sup>4</sup> CIA, *World Factbook*.

<sup>5</sup> The Economist Newspaper Limited, *Country Profile*, 2007.

<sup>6</sup> Global Insight Inc., *China Country Monitor*.

The Chinese currency, the renminbi, is pegged to the US dollar as far as the international market is concerned. Therefore, it will coincide with any fluctuations in strength. The government has made strong efforts to maintain the renminbi's stability, but China continues to post massive trade surpluses and attract huge sums of foreign direct investment (FDI), which have translated into gigantic foreign-exchange reserve accumulations. These external forces, in turn, have exerted tremendous upward pressure on China's money-supply growth and hence, further fueled investment overheating. With investment growth reaccelerating in 2007, the government will likely utilize the exchange policy to stem liquidity growth.<sup>7</sup> This will have limited effect on Canadian exporters.

Today, the People's Republic of China represents all of mainland China while the Republic of China continues to exist on Taiwan. The PRC is governed under the one-party system by the Chinese Communist Party, but the ROC has moved towards a more democratic government. Hu Jintao was elected President by the National People's Congress in March 2003. Responding to rising social tensions and China's wealth gap, he advocates a drive to build a "harmonious society" and has promised greater spending on health and education in rural areas.<sup>8</sup> His leadership will likely have limited effect on trade patterns between China, Canada and Alberta.

Chinese Population: 1,321,851,888 (July 2007 est.)  
0-14 years: 20.4% (male 143,527,634/female 126,607,344)  
15-64 years: 71.7% (male 487,079,770/female 460,596,384)  
65 years and over: 7.9% (male 49,683,856/female 54,356,900) (2007 est.)

At 73 years, China has a fairly low life expectancy. The median age is almost 43 years. The country's population control program, or "one child rule" began in the late 1970's and one consequence is that China is now one of the most rapidly aging countries in the world.<sup>9</sup>

Over 25% of the population is now considered middle-class consumers, and an estimated 810 million are expected to enter this consumer segment by 2025.<sup>10</sup> Over 798 million residents make up the Chinese labor force. Almost 31% of these workers are in the service sector. Approximately 45% of women are now employed outside the home.<sup>11</sup> China's unemployment had a 4.2% official registered unemployment in urban areas in 2005. The average Chinese daily calorie intake is around 1,200, significantly lower than in North America, where it is closer to 2,000 per day.<sup>12</sup> Over the past few decades, younger people have been adopting a more westernized diet, while older adults, especially in rural areas stick to a more traditional and generally healthier Chinese diet. Obesity is less common than in the West but rates are increasing. Approximately 7% of the population is obese which translates to 60 million people. The adoption of western

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<sup>7</sup> Global Insight Inc., *China Country Monitor*.

<sup>8</sup> BBC News, *Country Profile: China*.

<sup>9</sup> CIA, *World Factbook*.

<sup>10</sup> Agri-Food Trade Service, *Past Present and Future Report China*, December 2006.

<sup>11</sup> Euromonitor.

<sup>12</sup> Agri-Food Trade Service, *Agri-Food Consumer Profile China*, August 2004.

eating habits is considered the main cause of the rising rate. Increasing rates of diabetes and obesity are supporting the development of the health food industry.<sup>13</sup>

Accounting for 38% of household spending, food purchases are the largest expenditure category in a Chinese household. Discretionary income for the majority of is increasing slightly; younger consumers are now entering into their prime earning years and also have greater discretionary income.<sup>14</sup> Although Chinese consumers are generally price sensitive, they are willing to pay a little more for quality, convenience, and brand name products.

China and Canada are both members of the WTO and overall access to the Chinese market has been good. Nonetheless, there are some protectionist barriers in place, which affect some of Alberta's agri-food exports.

Over the past few years, the Chinese government has published a host of regulations governing standards and labeling for food products. Enforcement of these regulations is also becoming more rigorous. Although reputable distributors often deal with these issues on the exporter's behalf, exporters making a serious commitment to the China market are advised to study the relevant laws carefully and ensure that they are in compliance.

A series of unofficial translations are listed in the FAIRS Report Working Index, which is posted on the FAS website ([www.fas.usda.gov](http://www.fas.usda.gov)).<sup>15</sup>

## **Agriculture and Food Trade Overview**

Alberta's agri-food exports to China were valued at over \$231 million in 2006 and accounted for over 34% of Canada's total exports to that country. China is Alberta's fourth largest export market for agri-food products. In 2006, the province's top agri-food exports to China were canola seeds (\$67 million), raw hides and skins (\$62 million), crude canola/mustard oil (\$39 million), barley (\$30 million), processed potatoes (\$13 million) and wheat (\$10 million).<sup>16</sup>

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<sup>13</sup> BBC News, *Chinese Concern at Obesity Surge*, October 2004.

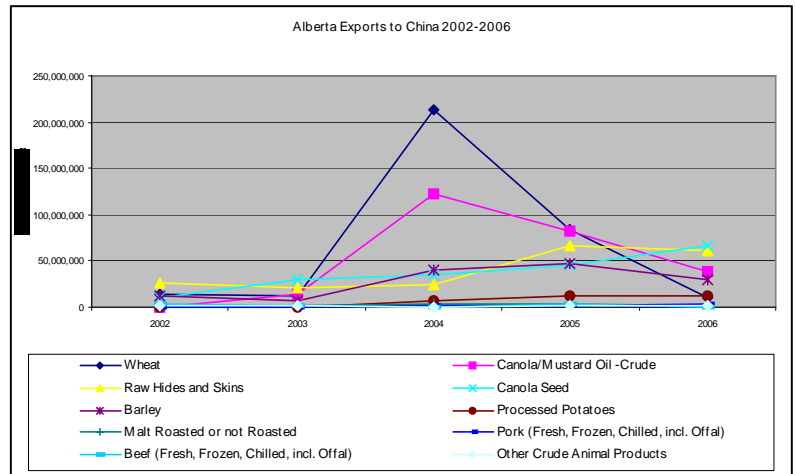
<sup>14</sup> Agri-Food Trade Service, *Agri-Food Consumer Profile China*, August 2004.

<sup>15</sup> USDA, *Exporter Guide – China*, 2006.

<sup>16</sup> Agri-Food Trade On-line.

### Alberta's Top agri-food exports to China In 2001 and 2006 in millions of \$CDN

Alberta's Top Exports to China in 2006	Value in Millions
1-Canola seed	67
2-Raw hides and skins	62
3-Crude canola/mustard oil	39
4-Barley	30
5-Processed Potatoes	13
6-Wheat	10
7-Pork	3.2
8-Malt	2.1
9-Other crude animal products	1.9
10-Foods and food material	1.2



A few changes have taken place in Alberta's exports to China over the last five years, the most noteworthy being the phenomenal rise of Alberta's raw hides and skins exports. China is the province's single most important export market for raw hides and skins and at \$62 million in 2006, the value of our raw hides and skins exports to China is almost ten times that destined for the US market.

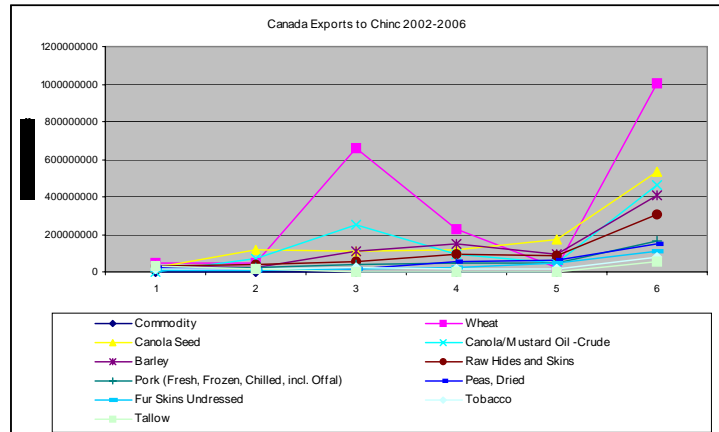
Canola has also seen a steady increase in exports to China and at \$67 million in 2006, was comparable with that destined for the US. Processed potatoes have also been steadily increasing and are at an all time high at \$13 million in 2006.

Beef exports have continued to decline over the last five years and are still struggling to re-enter the market, while pork has been increasing.

Canada's agri-food exports to China totaled \$668 million in 2006 making it the country's fifth largest export market. Alberta accounted for over one third of Canadian agri-food exports to China. Canada's exports share some similarities with Alberta's. Canola seed exports are the country's largest (\$170 million) followed by barley (\$95 million), raw hides and skins (\$86 million), dried peas (\$59 million), crude canola/mustard oil (\$49 million), undressed fur skins (\$49 million), pork (\$44 million) and wheat (\$27 million).

## Canada's Top agri-food exports to China In 2001 and 2006 in millions of \$CDN

Canada's Top Exports to China in 2006	Value in Millions
1-Canola seed	170
2-Barley	95
3-Raw hides and skins	86
4-Dried peas	59
5-Crude canola/mustard oil	49
6-Undressed fur skins	49
7-Pork	44
8-Wheat	27
9-Fruits and Vegetables	14
10-Tobacco	14



As a net exporter of agricultural commodities and products, China relies on imports to ensure its supply of materials. Canada's competitors in China are mainly the United States and Australia.

Competitors gain an advantage through better harvesting weather (which can vary from year to year) freight efficiencies due to location or volume and by the ability to offer products during their competitor's off-season (Australia vs. Canada and the US).<sup>17</sup> In 2006, China's top sources for consumer oriented agri-food products included the United States, Australia, Denmark, and Canada.

### Market Sector Structure and Trends

Chinese consumers are extremely sensitive to the freshness and quality of the food they buy. As a result, most Chinese prefer to make smaller shopping trips on a daily basis, rather than going on weekly or monthly shopping expeditions to a distant superstore. The retail food industry continues to grow and modernize as hypermarkets, supermarkets and convenience stores displace wet markets and other traditional outlets. While Chinese cuisine still dominates restaurant menus and home-cooked meals, Western-style foods are becoming increasingly popular as China's integration into the world economy accelerates. South China's growing middle-class, one of mainland China's earliest consumers of Western-style foods, has the purchasing power to afford imported foods. This group also has a strong preference for these products in part due to their reputation for high quality, but also for health and food safety reasons.<sup>18</sup>

<sup>17</sup> Meat & Livestock Australia.

<sup>18</sup> AAFC, China, Peoples Republic of China, Retail Food Sector, All China Retail Annual Report, 2006.

Hypermarkets constitute the single best retail venue for imported products. International chains such as Carrefour and Wal-Mart are both familiar with the products, and count large numbers of expatriates in their customer base. However, because of the high expectations vis-à-vis packaging, quality and service, only major foreign manufacturers can expect to make significant inroads in non-commodity type retail products. Nonetheless, there are opportunities in niche markets for smaller size manufacturers.

Traditional markets fall into three general categories: wet markets, variety stores (xiaomaibus), and fruit stands. Wet markets specialize mainly in fresh vegetables, meat, poultry (sold live), eggs, tofu and to a lesser extent, fruit and staple foods. Sanitary standards are extremely low, particularly for meat. Nonetheless, they persist. The main reason for this is a lack of alternatives for buying fresh vegetables and, to a lesser extent, meat. The selection and quality of vegetables in most supermarkets is poor, and hypermarkets are too far for daily shopping trips. Until competitive alternatives are widely available, wet markets will persist.<sup>19</sup>

As one of the earliest sectors opened to foreign investment in the 1980's, China's Hotel Restaurant and Institutional sector developed slowly until taking off in the early 90's. Driven by rapid and steady economic growth, rising urban incomes, and sustained prosperity, the sector has continued to enjoy double-digit expansion for each of the last 15 years. A growing urban consumer base combined with rising incomes has made the sector a key consumption driver. According to the Ministry of Commerce, despite Avian Influenza, SARS, and other scares, HRI revenues totaled \$109.53 billion in 2005 or 16.8% over last year, accounting for 13.9% of total domestic consumption sales revenue.

There will always be a market for imported food products in China because restaurants want to provide customers something unique. However, the nature and product mix is fluid due to intense competition and domestic substitution. Baked potatoes and onion rings have nearly vanished, only to be replaced with imported frozen potato wedges. Suppliers need to keep in mind, however, that the cost profile for imported food is far higher than for domestic food, and only a small percentage of China's 1.3 billion people can afford to eat in the kinds of restaurants that use imported food.<sup>20</sup>

### **Exporter Business Tips**

Since differences in language, customs and business practices make entering the Chinese market a very difficult task, the preferred route is generally to find a Chinese partner, who knows the market and understands local requirements and expectations. For many small and medium size companies, a local Chinese distributor can fill that role. More solid companies may choose to find a Chinese agent to handle their business in China.

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<sup>19</sup> AAFC, China, Peoples Republic of, Retail Food Sector, All China Retail Annual Report, 2006.

<sup>20</sup> AAFC, China, Peoples Republic of, HRI Food Service Sector, Mainland China HRI Sector Annual Report, 2006.

The Agriculture and Food Branch and the Alberta China Office can help Alberta companies find suitable partners in China.

China is a big country, four days by truck from Hong Kong to Beijing and six days from Shanghai to the Far West. Food products enter the country via two major routes: through Hong Kong by the so-called “gray channel,” and through five more northerly ports, often called “direct imports” because products don’t make a stop in Hong Kong.

The Chinese food distribution system is characterized by multiple layers of distributors and wholesalers who have developed close relationships with manufacturers, retailers, importers and other wholesalers. Specialized distributors typically handle competing product lines and some or all related promotional activities.

Chinese regulations vary according to the nature of the product imported into the country. There are regulations concerning everything from labeling and ingredients as well as pesticide residue limits. Since some ingredients used in Canada may not be allowed in China, Alberta producers are encouraged to work closely with their Chinese partners to make sure that their product conforms to Chinese regulations.

An English summary of the regulations involved in exporting food to China can be found on this website.

<http://www.fas.usda.gov/GainFiles/200708/146292078.pdf>

### **Market Opportunities**

China is highly self-sufficient, however due to water shortages and land resource limitations; coupled with its commitments to the WTO it will inevitably have to look to the international market place. This may occur in the form of raw resources for its own feeding and processing industry or through value-added products.

China’s imports are largely grains and oilseeds that are processed in China and used to feed their livestock industry and processing industry. Food preparation continues to occur in the home, limiting the demand for value-added products. This is changing as more households have higher incomes and less time to prepare meals. Alberta’s exports to China in 2006 represented 34% of all Canadian agri-food exports to China. Statistics show that greater than 50% of Alberta agri-food exports were grains and oilseeds.<sup>21</sup>

It is predicted that demand will increase for ready-to-eat food, green food, organic and nutrients food. In China’s beverage market, demand for fruit and vegetable juice is rising. In the future, reopening of the beef market will provide opportunity for Alberta beef products.

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<sup>21</sup>Agri-food Trade Online.

## **Alberta Advantages and Challenges**

Alberta and Canada have some great advantages in their pursuit of market share in China, one of which is Canada's pristine image with both consumers and the Chinese food processing industry. This advantage is not limited to image and Canadian standards for safety and quality are generally perceived as high. Another advantage is Alberta's strategic location in western Canada, which gives it a logistical advantage in servicing the Chinese market.

## **Contacts for Albertans**

The Agriculture and Food Branch of International Intergovernmental and Aboriginal Relations, has a trade officer dedicated to the Chinese market.

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