

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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### Market Opportunities for Key U.S. Products in South China

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**Approved By:**

Levin Flake

**Prepared By:**

ATO Guangzhou

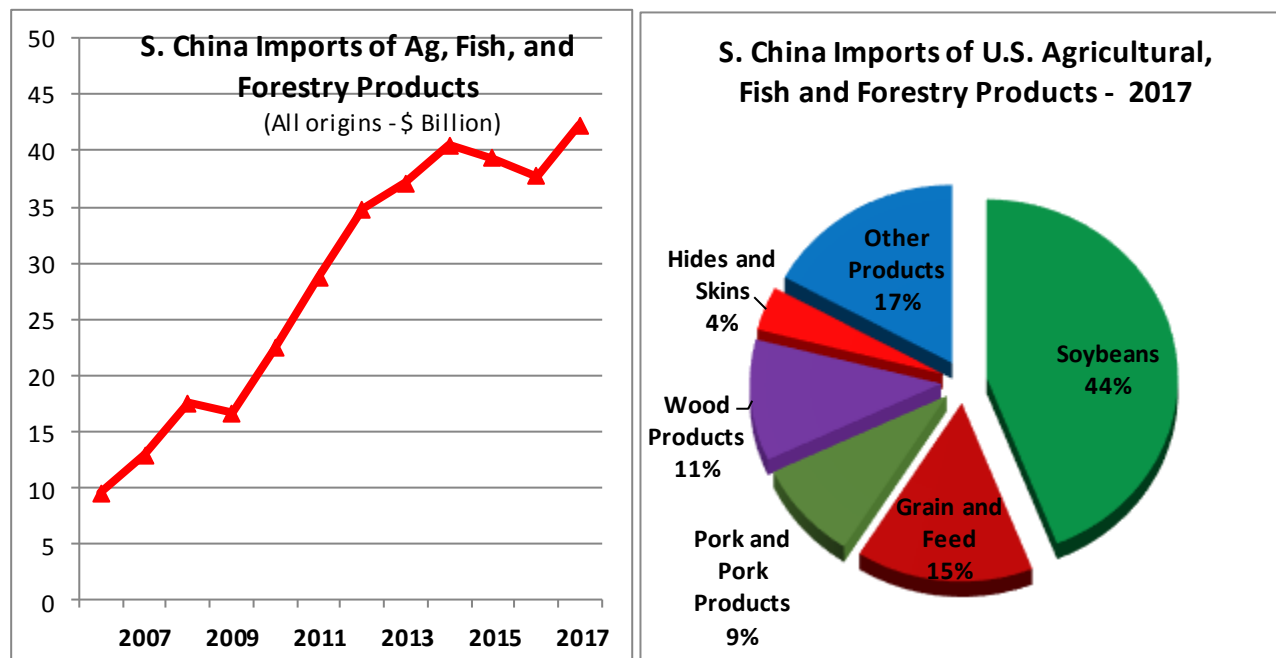
**Report Highlights:**

South China offers a huge and growing market for U.S. agricultural exports. Overall South China imports of agricultural, fishery and forestry products reached a new record in 2017, surpassing \$42 billion. This region imports approximately \$8 billion in U.S. agricultural and related products annually, making it one of the largest markets in the world for U.S. agriculture. Despite already large trade numbers, strong opportunities remain for growth in U.S. exports for a range of food, beverage, animal feed, and agriculture-related products.

## Market Opportunities for U.S. Exporters in South China

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## OVERVIEW OF SOUTH CHINA MARKET



South China offers a huge and growing market for U.S. agricultural exports. Overall South China imports of agricultural, fishery and forestry products reached a new record in 2017, surpassing \$42 billion. This region imports approximately \$8 billion in U.S. agricultural and related products annually, making it one of the largest markets in the world for U.S. agriculture. Despite already large trade numbers, strong opportunities remain for growth in U.S. exports for a range of food, beverage, and animal feed products. South China is dominated by Guangdong province, in which Guangzhou and Shenzhen are both located. Guangdong province is an economic powerhouse and the number one province in all of China in terms of population, GDP, retail and e-commerce sales. It is also the largest producing region for animal feed in China, and is the hub for imports of fresh fruit, tree nuts, and many meat products into China. The e-commerce sector is booming here and other sectors, such as for bakery ingredients, are also experiencing rapid growth.

U.S. agricultural trade with South China has been developing for over 200 years, as Guangzhou (previously called Canton) was the destination of the first U.S. shipment of products to China on a ship called the *Empress of China* (carrying hides, cotton, and ginseng) in 1784. Since that time, U.S. agricultural products have built a strong reputation in South China for their high-quality and safety. Strong consumer demand for imported agricultural and food products, continued robust economic and consumption growth, and excellent logistical connections and port facilities, all make South China a market with continued high potential for U.S. exporters.

## **12 Reasons Why U.S. Exporters Should Consider the South China Market**

- 1) **Buyers Here are Familiar with U.S. Food and Agricultural Products** – South China imports \$8 billion in U.S. agricultural products annually, and if South China were a country it would be the 5th largest market in the world for U.S. agriculture.
- 2) **South China Has a Huge Consumer Base** – Guangdong province in Southern China is the largest province in China in terms of population (110 million), and South China in total has nearly as many people as the entire United States.
- 3) **South China Has a Huge Economic Base** – Guangdong province is the largest province (of 34 provinces) in China in terms of GDP, and has an economy larger than Mexico and almost as large as Spain and Russia. Also GDP growth here is higher than the national average at 7.5 percent in 2016.
- 4) **Two Tier-1 Cities are Located Here** - China has only four tier-1 cities (based on population and economy) and two are located in Guangdong province—Guangzhou and Shenzhen. The other two are Beijing and Shanghai
- 5) **Retail Sales and E-Commerce are Thriving** – Guangdong province is the largest province in China for retail sales, which grew by 10 percent last year. It is also the largest for e-commerce sales, with growth in recent years at 25 percent annually. Cross-border e-commerce is also growing rapidly, and many South China e-commerce companies are interested in sourcing new U.S. food products.
- 6) **The Alcoholic Beverage Market is Booming** – South China is a large and rapidly expanding market for both wine and beer, with total imports doubling in value in just the past three years. The popularity of craft beer is especially strong, creating opportunities not just for U.S. craft beer, but also for U.S. ingredients such as hops.
- 7) **Animal Feed Production is Concentrated Here**— Guangdong province produces more animal feed (much of it using U.S. soybeans and sorghum) than any other province in China. As it is far from domestic Chinese grain production areas, South China feed millers and livestock producers are open to and interested in using a wide range of imported feed ingredients.
- 8) **It is a Hub For Meat Imports** – More than half of all Chinese imports of U.S. pork and pork products in 2017 came to South China ports, and a majority of poultry imports (from all suppliers) also entered through this region. With U.S. beef now allowed to enter China, beef imports here are surging.
- 9) **Most Fresh Fruit Imports Come Here** – South China consumers have a massive appetite for imported fruit, and two-thirds of all U.S. fresh fruit shipments typically arrive here. U.S. cherries, apples, grapes, oranges, plums, and other fruit are all in high demand.

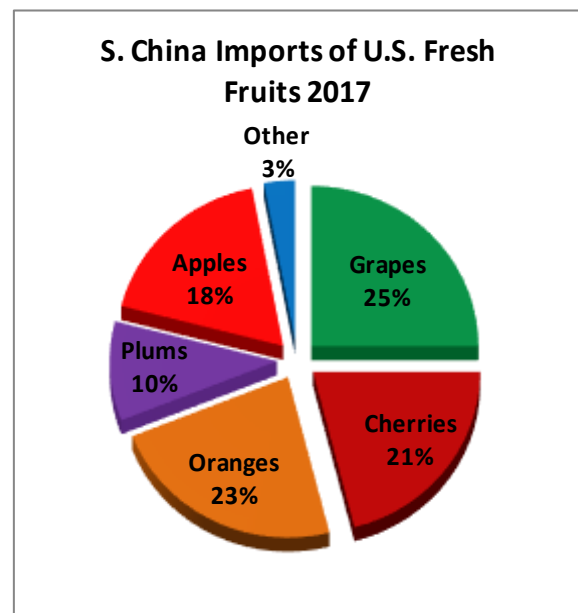
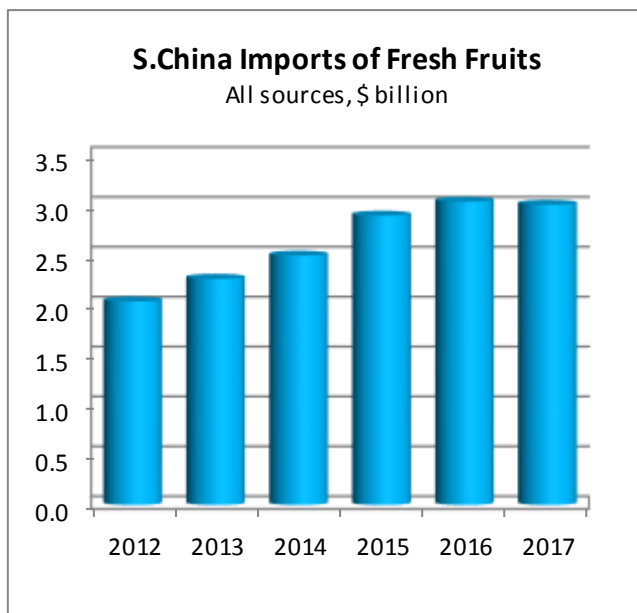
10) **The Bakery Sector is Growing Rapidly** – South China imports of U.S. baking ingredients have been strong in recent years due to the rapid growth of the bakery industry. The majority of U.S. tree nut exports to China come to South China (almonds, pistachios, walnuts, and pecans) and dried and frozen fruits are also in strong demand.

11) **South China Has Excellent Trade Logistics** – Guangdong is the leading province in China for imports (23 percent of the total) and exports (29 percent). It has a wealth of ports, including many of the largest container ports in the world.

12) **Consumers Crave U.S. Products** – South China Consumers are anxious to try more and more U.S. products. U.S. food and beverages have an excellent reputation, and as a result of domestic food safety concerns, Southern Chinese consumers have very robust demand for imported goods.

**NOTE:** Throughout this report, unless otherwise stated, the source of charts and text about South China imports is China Customs data. The source of charts and text about U.S. exports is FAS GATS data/U.S. Census data. Also, throughout this report “South China” refers to Guangdong, Fujian, Guangxi, Hainan, and Hunan provinces.

## FRESH FRUITS



South China is a large and rapidly growing market for imported fresh fruit, with total imports in recent years at over \$3 billion, and South China accounts for roughly 60 percent of China’s total fresh fruit imports. Although South China 2017 imports of U.S. fresh fruit (through November) have remained largely flat compared to the previous year at around \$180 million, growth for many major fruit products have been strong in recent years. In addition, U.S. fruit exports have diversified and excellent opportunities now abound in the South China market for several U.S. fruit categories. For example, whereas in 2013 and 2014 grapes accounted for over half of all U.S. fresh fruit sales to the region, now U.S. apples, cherries, oranges, plums and grapes are widely available in South China.

This increase and diversification in South China fresh fruit imports is driven by a number of factors, including continued urbanization, the further development of the retail sector (both online and offline) throughout the region and a preference among many middle-class consumers for imported fruit due to food safety and quality concerns.

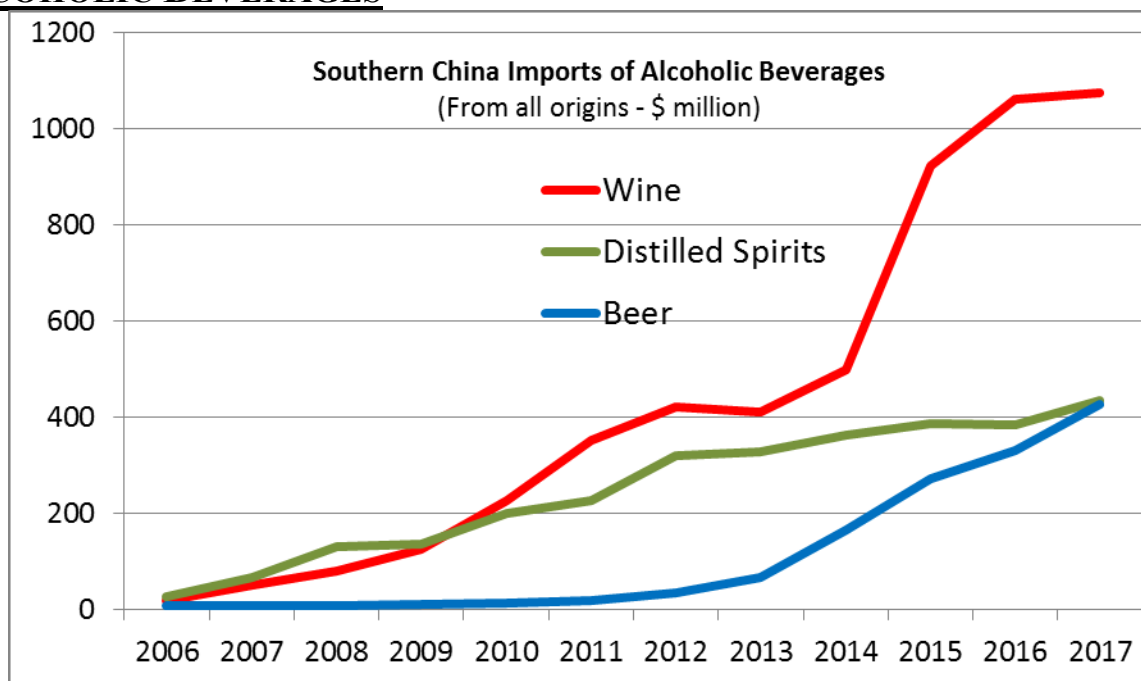
**Oranges:** Despite China being the largest citrus producer in the world, South China orange imports have ramped-up significantly in recent years. This increase in imports, from the United States and from other suppliers, is a result of robust demand for high-quality citrus exceeding domestic production capabilities, especially for oranges. 2017 South China total fresh orange imports reached over \$171 million, a 43 percent increase from the same time the previous year and more than double the value from 2015. South China's orange imports from the United States in 2017 reached \$41 million, also double the value of just two years ago.

**Cherries:** Over the past five years, South China's demand for imported cherries has skyrocketed. Retail industry contacts report that consumers in the region, especially the growing middle class, put a premium on imported cherries (as opposed to the domestically produced fruit) due to their consistently vibrant red color and sweeter taste. Imported cherries are especially popular for consumption and gifting during major Chinese holidays. Similar to South China import demand for oranges, imported cherries have greatly benefited from the development of the region's traditional and online retail industries, which has allowed consumers throughout the region increased access to imported products. South China cherry imports reached nearly half of a billion dollars last year, nearly triple the level of 2013. In terms of U.S. cherries specifically, South China imported over \$37 million worth in 2017, roughly the same amount as the previous year but nearly double the level from three years ago. China mainly imports cherries from Chile, the United States, Canada, New Zealand and Australia.

**Apples:** Although China is one of the world's largest apple producers, a preference for imported fruit by many consumers and a desire for a wider choice of apple varieties, have kept South China demand for imports at a steady level in recent years, reaching \$75 million in 2017. The United States is South China's largest supplier of fresh apples and trade has strengthened recently with 2017 imports reaching over \$32 million, up more than 8 percent from 2016. While between late 2012 and 2014, Washington apples were restricted from entering China, shipments have now returned to levels reached before these restrictions.

**Table Grapes:** South China's demand for imported table grapes has been fairly flat in recent years at around \$450 million, but grapes remain the second largest fruit import into South China after durian, a tropical fruit. A recent trend in the South China market is that seedless varieties have largely replaced seeded grapes as the dominant imported product. Retail contacts report this change is a result of robust consumer demand for high quality seedless varieties combined with the fact that importers now frequently prefer to trade in seedless grapes as the profit margin is much larger. U.S. table grapes are highly prevalent in supermarkets and specialized fruit retail chains in 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> tier cities throughout South China. Other major table grape suppliers to China include Peru and Chile.

## ALCOHOLIC BEVERAGES



South China's imports of alcoholic beverages have skyrocketed in recent years, with imports of wine and beer doubling between 2014 and 2016. Much of the strong growth in import demand has been as a result of Chinese consumers experiencing a "consumption upgrade" to higher quality products. Younger generations born in the 1980s and 1990s have become key purchasers driving this growth. These consumers, as compared to previous generations, are much more familiar with western brands and consumer trends as a result of internet use and foreign travel, and also are eager to try a wider variety of products and flavors. They also tend to be more health conscious than the older generations. Therefore, in general they drink much less Chinese distilled spirits (including baijiu) or mass produced domestic beers. While imports of U.S. alcoholic beverages have been rising, they are still just a very small fraction of total imports, and as a result there is significant market potential in South China for increased U.S. sales.

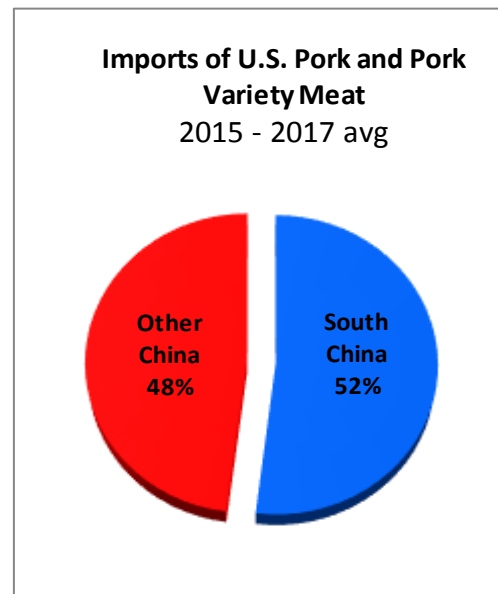
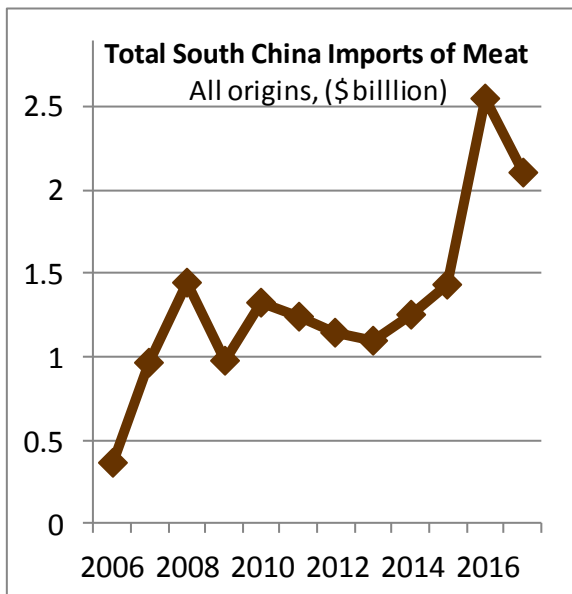
**Wine:** South China is the largest wine importing region of China, with most of this entering into Shenzhen in Guangdong province. Although wine import growth in South China slowed in 2017, it has again surpassed \$1 billion. Growth consumption for wine has shifted from just being a "luxury", to now being consumed much more frequently in business occasions and family gatherings. The popularity of online shopping has also given consumers much easier access to purchase wine. In addition, prices and mark-ups have been reduced which has made wine more affordable. Chinese wine consumption still remains less than half of the world average, so there is substantial room for consumption growth. Although China is also a major producer of wine, there is a strong preference among many consumers for foreign wines. France is the largest supplier to the South China market, followed by Australia and Chile (who both have Free Trade Agreements with China). South China wine imports from the United States rose last year by 36 percent to \$21 million.

**Beer:** China is the world's largest producer and consumer of beer, and although imports still

represent just an extremely small percentage of consumption, this share is increasing rapidly. South China accounts for about half of Chinese beer imports, with Fujian being by far the largest importing province. Imports in 2017 continued to show rapid growth, and were up nearly 30 percent. In addition to import growth, domestic craft beer production is on the rise, resulting in higher sales of U.S. hops and ingredients. Mexico, Germany, Portugal, and Netherlands are the largest beer suppliers to South China.

**Spirits:** China has a long history of distilled spirits (in Chinese as “baijiu”) consumption. And in April 2017, China's Kweichow Moutai surpassed Diageo as the world's most valuable liquor company. Despite strong consumption of local spirits, the younger generation of consumers is receptive to foreign distilled spirits. Although South China spirit imports in recent years had been largely stagnant, especially when compared with other alcoholic beverages, imports rose in 2017 by 13 percent. As Scottish and Japanese high-end products such as single malt whisky become popular in China, U.S. premium quality whiskey attracts more interests from the trade and fans. Some U.S. unique products such as rye whiskey may have great market potential due to its berry-like flavors and floral aromas, which are preferred by Chinese whisky fans. Effective December 1st, 2017, China reduced the import tariff for distilled spirits from 10 to five percent, which should help increase more U.S. exports to China.

## MEAT AND POULTRY



South China is one of the largest meat import regions in the world, importing \$2 billion worth of meat and poultry annually. Of this amount in 2017, about 61 percent was pork and pork variety meats, 30 percent poultry, and 8 percent beef. Meat imports hit a high in 2016 as pork and pork variety meat imports jumped due to high domestic prices. Despite a decline in imports in 2017, long-term growth is expected to continue. According to industry sources, high domestic prices, insufficient local production, and growing consumer demand for high-quality protein products are the main driving forces of imported meat and poultry products.

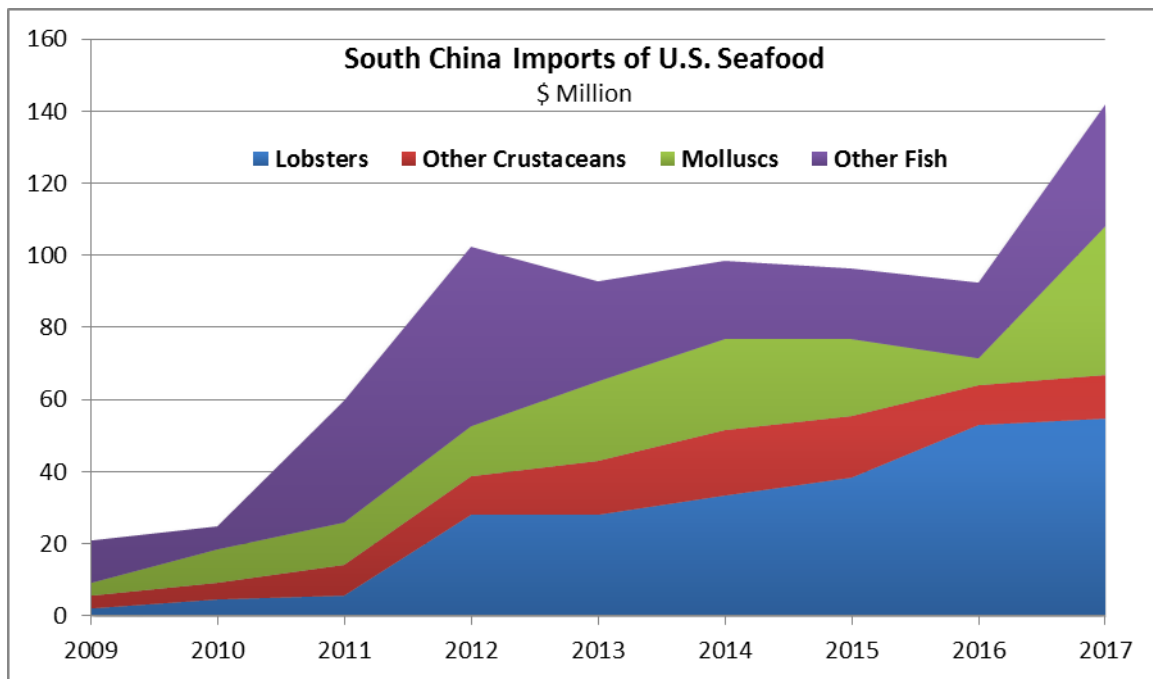


**Pork:** Despite being by far the world’s largest producer of pork (accounting for nearly half of global production), Chinese demand outstrips production and China remains an important import market. For South China, the United States is the largest supplier of pork and pork variety meats. In fact, typically more than half of all U.S. shipments of pork to China came to South China. These imports hit a high last year as a result of high domestic pork prices, and although trade levels were lower in 2017, they still reached \$662 million. Stricter domestic environmental regulations and enforcement in recent years have impacted domestic pork production, and have been a large driver of increased prices.

**Beef:** Although beef consumption in South China is lower than in Northern China, a substantial market remains for imported beef and beef products. With the reopening of the Chinese market to U.S. beef in late June 2017, the trade sees steady growth in imports and increasing interest in U.S. beef. Before the ban in 2003, U.S. beef dominated Chinese beef imports with a 70 percent market share. Many Chinese consumers are aware of the benefits and superior taste of grain-fed U.S. beef and demand is expanding. In addition to the traditional hotel and restaurant sector, more on-line e-commerce platforms are introducing high-quality U.S. beef through their websites. The industry expects the volume of trade will expand as the U.S. supply chain adjusts to meet Chinese requirements.

**Poultry:** South China is a huge market for imported poultry, with imports surpassing half a billion dollars annually, primarily from Brazil. Around 60 percent of all poultry imports into China come to South China. U.S. poultry has been restricted into China since 2015 following avian influenza outbreaks. Prior to this, South China was a key market for over \$100 million worth of U.S. poultry annually, primarily chicken paws.

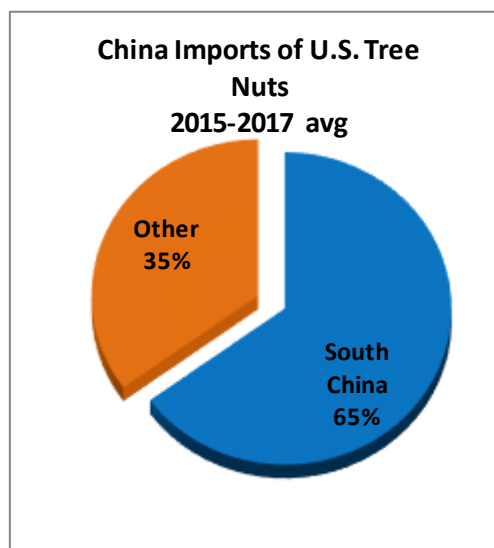
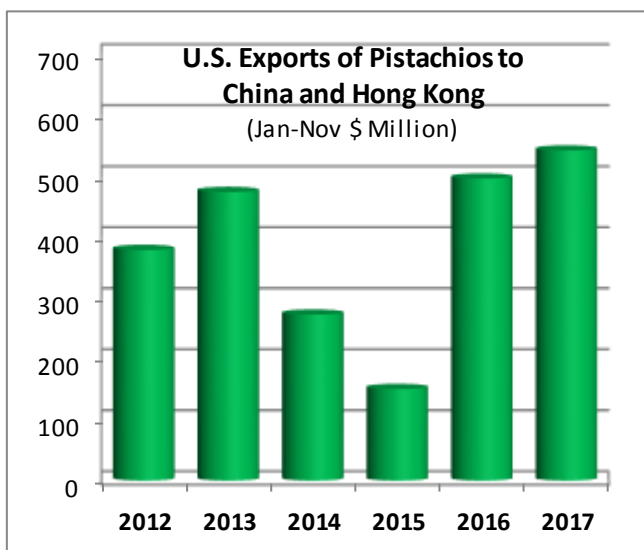
## SEAFOOD PRODUCTS



China is the largest market in the world for U.S. seafood, and South China is an important and expanding market for these products. While in other parts of China a large portion of U.S. seafood is processed and re-exported, South China imports are primarily high-end fish, shellfish, and other products that are destined for local consumption. In 2017, South China imports of U.S. fish and seafood surpassed \$141 million, up over 50 percent from the same period in 2016.

South China consumers are well known for their appetite for seafood and traditional Cantonese cooking usually features a wide array of premium seafood on the menu. Although only about 10 percent of total Chinese imports of U.S. seafood enter through South China, for premium seafood products it is much higher, especially for live mollusks (94 percent enter South China), rock lobster (50 percent), oysters (40 percent) and lobster (25 percent). U.S. lobster sales to South China have shown the most dramatic growth, nearly doubling in value over the past three years. U.S. lobster enjoys a good reputation in the market with consistent supply, reasonable pricing and stable quality. With the highest incomes in China, a very strong preference for seafood in traditional Cantonese cooking, and the presence of a large number of seafood importers and traders, South China is expected to continue to grow as a destination for high-value seafood.

## **TREE NUTS**



South China is a robust and expanding market for U.S. tree nuts, including almonds, pistachios, pecans, and walnuts. The Pearl River Delta region of South China is the historical hub for tree nut trading in China, with a very large number of processing plants as well as high tree nut consumption. As a result, this region accounts for around two-thirds of all U.S. shipments to China. A few key trends have helped drive growth in tree nut consumption in South China. First, increasing awareness and marketing of the health and nutritional attributes of U.S. tree nuts have helped boost demand. Additionally, the development of a wider range of tree nut products (including flavors), local brands and packaging has also resulted in higher sales. And finally, the rapid growth of the bakery sector has also created a strong demand for tree nuts as a baking ingredient.

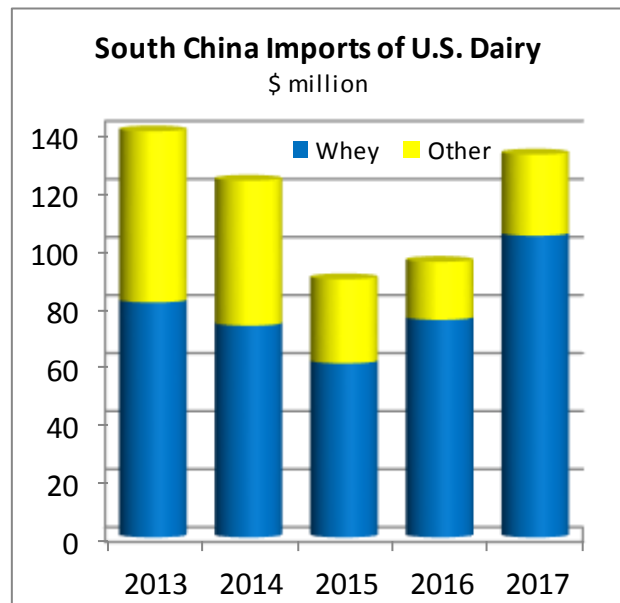
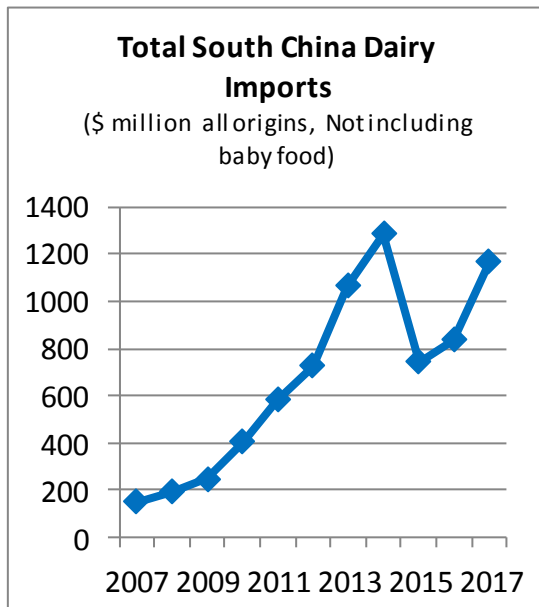
**Pistachios:** Half of all U.S. pistachio exports come to China and Hong Kong, and U.S. pistachio exports to these markets more than tripled during the past two years. Although China’s production of pistachios is very limited, they are highly popular in the South China market, especially during major Chinese holidays. Nearly all of China’s pistachio imports come through South China.

**Almonds:** Among the major South China tree nut imports, almonds have the most versatile application and are widely used in the region’s snack foods, bakery items, confectionary, dairy products and breakfast cereals. South China imports a large quantity of both shelled and in-shell almonds.

**Pecans:** China has been the top export market for U.S. pecans since 2011 and there has been a substantial uptick in South China imports over the past three years. This recent uptick in trade is due to increased use of pecans as a snack food and as a baking ingredient in the region. While most pecans are imported in-shell (for snacking), shelled pecan imports have shown strong growth, demonstrating that more pecans are being imported as an ingredient. In December 2017, China reduced the import tariff for in-shell and shelled pecans from 24 to 7 percent. Retail contacts anticipate further expansion in pecan imports in the coming year as a result of these tariff adjustments.

**Walnuts:** China is a major producer of walnuts and the country’s consumers have long recognized the nutritional value of this tree nut. In South China, walnuts are used as a snack and as an ingredient in bakery items and other foods. While the United States is China’s top supplier of imported walnuts (both shelled and in-shell), competition for market share for in-shell walnuts has increased in recent years due to China’s free trade agreements with Chile and Australia.

**DAIRY**



South China imports of dairy products continue to rise, both from the United States and other suppliers. Chinese domestic dairy supply growth has been constrained in recent years as stricter environmental regulations have been implemented. This has resulted in decreased milk production as the dairy industry consolidates and begins to modernize. In addition, as a result of domestic quality and food safety concerns, many consumers continue to prefer imported dairy products. New Zealand is by far the largest supplier to China (supplying more than half of total imports), followed by the United States and Australia.

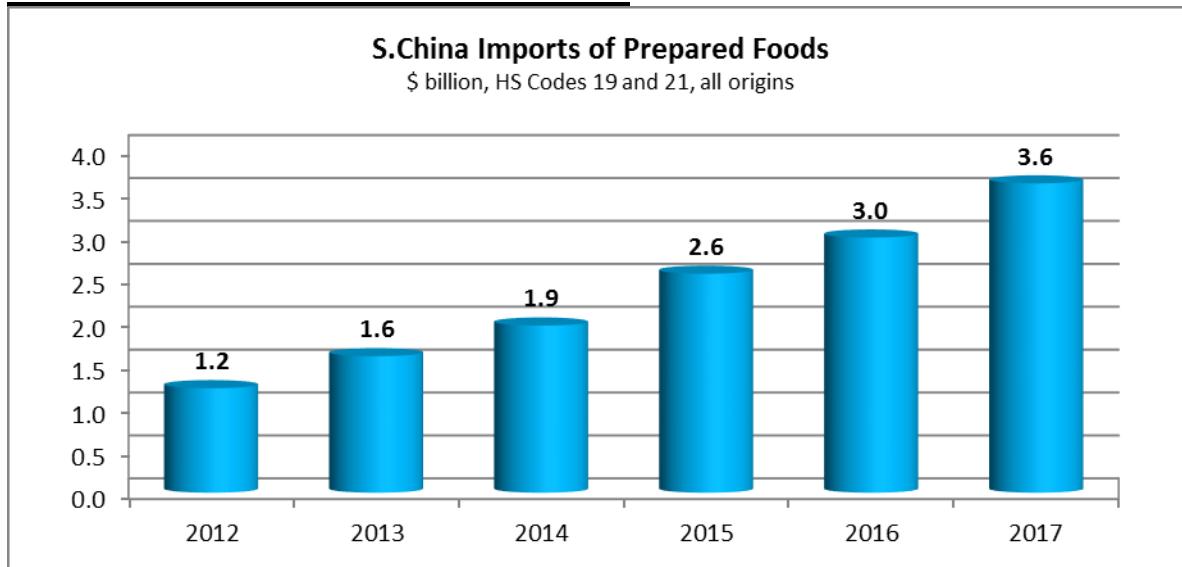
South China imports of U.S. dairy products have strengthened in recent years due to increased shipments and higher values, and were up another 40 percent in 2017. Whey, cheese and powdered milk are three major U.S. dairy products that have significant growth potential in South China.

**Whey:** Whey product consumption continued to grow in South China in 2016 and 2017. Apart from being used in the food processing and booming baking industry, whey is also increasingly being used as a functional food and wellness product in the region as well as a feed ingredient. China is by far the largest market in the world for U.S. whey and the South China region accounted for 40 percent of the country's total whey imports in 2017, with imports reaching over \$100 million.

**Cheese:** According to market analysts, South China cheese consumption has grown at a fast rate in recent years due to increased public recognition of the nutritional and health benefits of cheese products. American style cheeses, including cheddar and mozzarella, are now extensively used in the South China food service, baking and food manufacturing industries. Also, a new style tea house industry is currently booming in the region and has sparked additional cheese import demand. This "New Chinese Tea" combines traditional Chinese green/black tea mix with cheese and whipped cream and has become an extremely popular beverage for youth in South China. South China cheese imports nearly doubled over the past 2 years, rising to over \$120 million. In December 2017, roughly half of imported U.S. cheese (by value) saw tariff reductions from 12 to 8 percent. "Grated or powdered cheese, of all kinds" (HS 04062000) accounts for about 40 percent of U.S. cheese exports. This class of cheese is mainly consumed by the Chinese food industry as an ingredient in baking or other food processing. "Other cheese" (HS 04069000) accounts for roughly 20 to 25 percent of U.S. cheese exports. "Processed cheese, not grated or powdered" (HS 04063000) accounts for roughly 2-5 percent of U.S. cheese exports. These three classes saw reductions from 12 percent to 8 percent.

**Milk:** Most of the milk imported into South China is powdered milk, and these imports are expected to continue to rise. Imported whole milk powder products are viewed by Chinese consumers as being safer and more trustworthy and also enjoy a longer shelf life than domestic products. South China imports of powdered milk reached half a billion dollars in 2017. Although the U.S. share of this total is still small, imports from the United States into South China more than doubled in 2017 to nearly \$10 million.

## **PREPARED AND PACKAGED FOODS**



Over the past five years, South China imports of prepared and packaged foods have grown significantly, including from the United States. South China is the largest importing region for prepared and packaged foods in China, representing roughly 37 percent of the country's total market share in 2017. According to South China retail contacts, in-demand U.S. prepared and packaged foods include a wide range of products such as breakfast cereals, snacks, dried fruits & nuts, condiments, dairy, and other products.

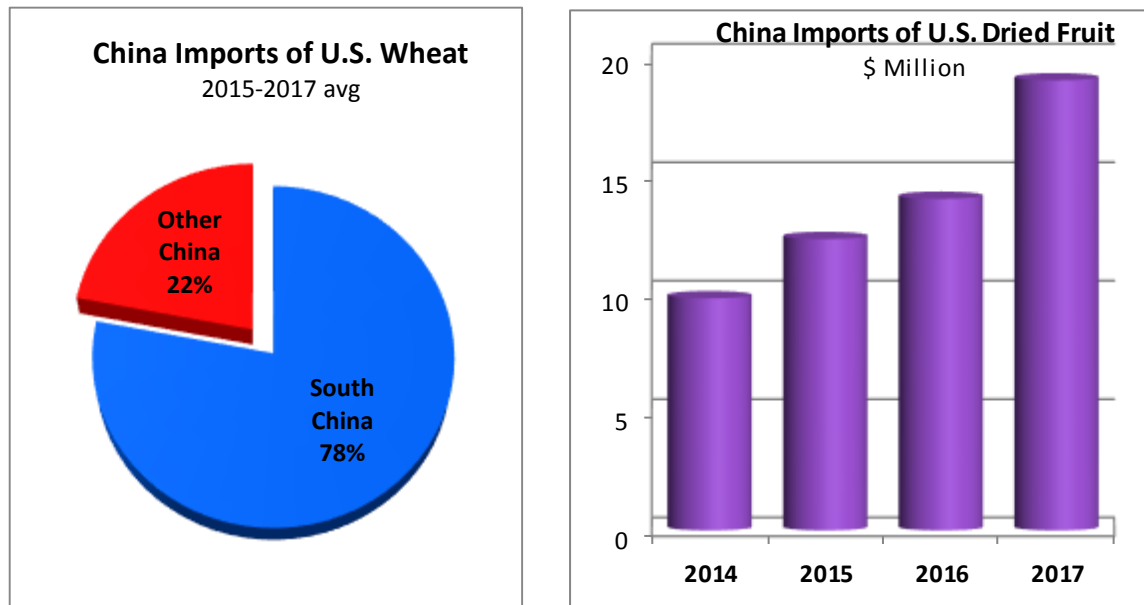
Strong consumer demand for imported packaged and prepared foods has led to a rapid increase in the number of South China retail businesses (both online and offline) that specialize in these types of products. Furthermore, due to substantial infrastructure investment, improvements in logistics and rapid urbanization, several major retailers are shifting their strategic focus from saturated 1<sup>st</sup> tier city markets to emerging 2<sup>nd</sup> and 3<sup>rd</sup> tier city markets in South China. This proliferation of modern retail outlets throughout the region has increased consumer access to imported products and has also dramatically increased competition amongst vendors.

Because of this increased competition throughout Southern China, retailers are seeking ways to differentiate themselves and provide better service to their customers. Many proactively look for new-to-market packaged products, have established their own online websites, and provide home delivery service within their respective neighborhoods. Additionally, as the region's growing middle class are highly concerned about food safety issues and are willing to spend more on products they know and trust, retailers are often very motivated to source well-branded products from abroad.

South Chinese consumers are paying much more attention to the nutritional value indicated on the packaging labels of the foods they purchase. There is also rapidly growing demand for ready-to-eat/convenient meals and snacks in the highly urbanized areas of the region. As South China consumers tend to shop more frequently and purchase in smaller quantities than in the United States, reduced-size packaging (as opposed to economy-sized) is also very popular. According to retail analysts, the region's consumers are also attracted to smart, elaborate packaging and will often pay a

premium for it. As South China continues to urbanize and more and more 2<sup>nd</sup> and 3<sup>rd</sup> tier cities throughout the region develop and become more connected with the rest of the country and internationally, demand for conveniently packaged and prepared imported foods is expected to continue to rise.

## **BAKERY INGREDIENTS AND DRIED FRUITS**



The bakery sector in South China has experienced rapid growth in recent years, and this has boosted prospects for U.S. bakery ingredients. There has been wide expansion in coffee shops and boutique bakery retail chains, and more western bakery products. With this expansion there has been a greater focus on high-quality, healthy ingredients. In addition, there has been an emergence of a “do-it-yourself” home baking trend as middle-class consumers in the region are baking their own products in order to ensure safety and quality. This type of activity is especially popular among new mothers and young couples who frequently showcase their home-made breads and cakes on social media. As these South China consumer and baking industry trends continue to rapidly develop, imported baking ingredients are in increasingly strong demand. Currently, the most popular imported baking ingredients in the region include tree nuts (almonds, pecans, walnuts, etc.), dairy products (cheese, milk powder, whey, etc.), wheat flour and dried/frozen fruits (raisins, cranberries, blueberries, etc.).

**Wheat:** South China’s imports of U.S. wheat were very strong in 2017, nearly doubling from the previous year to \$332 million. The vast majority of all U.S. wheat imported into China comes to South China. Much of this is high-protein U.S. wheat (such as Hard Red Spring) for blending. Demand for high-quality wheat has also been robust from the thriving South China baking industry, and U.S. wheat has a strong reputation among bakers. In addition to hard wheat varieties, U.S. soft wheat is also being imported into South China for use in traditional Cantonese dim sum, such as sweet steamed buns.

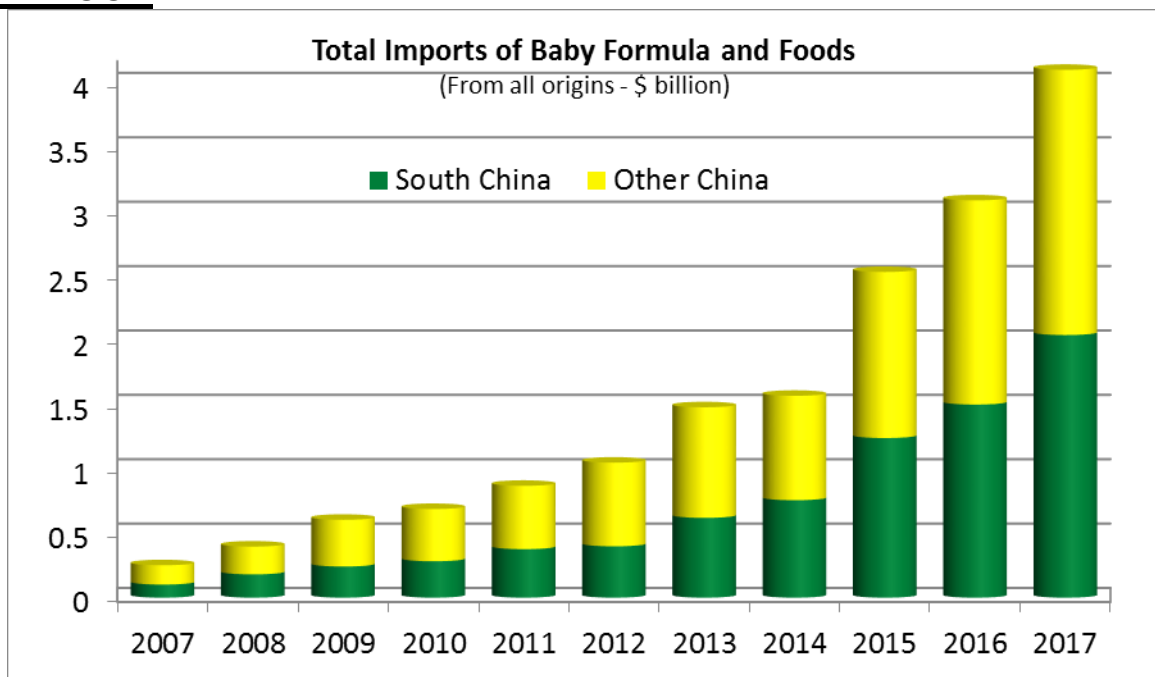
**Dried fruit:** Imported dried cranberries, raisins, black currants and dried blueberries are widely used

for both snacking and in the South China baking industry. Due to their consistent availability and versatility, imported dried cranberries have been especially popular in the South China baking industry in recent years. South China imports of dried cranberries have nearly doubled in the past two years. In December 2017, China reduced the dried cranberry import tariff from 25 percent to 15 percent.

**Tree nuts:** With healthy ingredients in food products now in high demand among South China consumers, imported tree nuts play an important role in the region’s baking industry. Almond slices/powder, pecan & walnut kernels and melon seeds are widely used in Western and traditional bread, pastry and mooncake products. The increased use of tree nuts in baking is illustrated by the recent growth in South China imports of shelled pecans.

**Dairy:** South China imports of dairy products have climbed recently, with whey and cheese product imports experiencing particularly strong growth. Demand in South China for dairy products for use as ingredients is expected to continue to grow as the baking industry expands.

## **BABY FOOD**

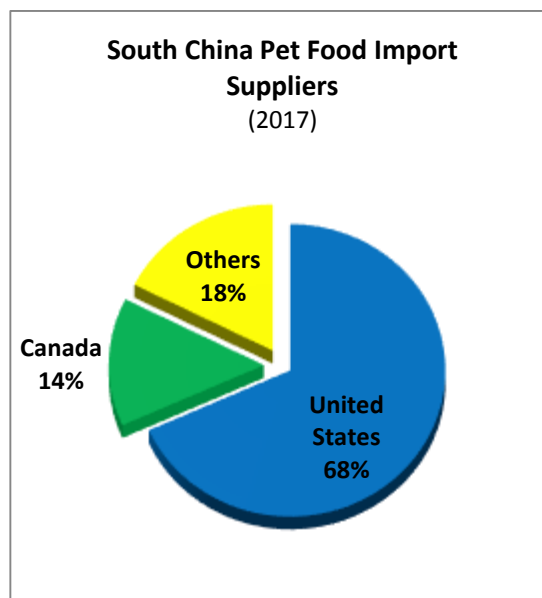
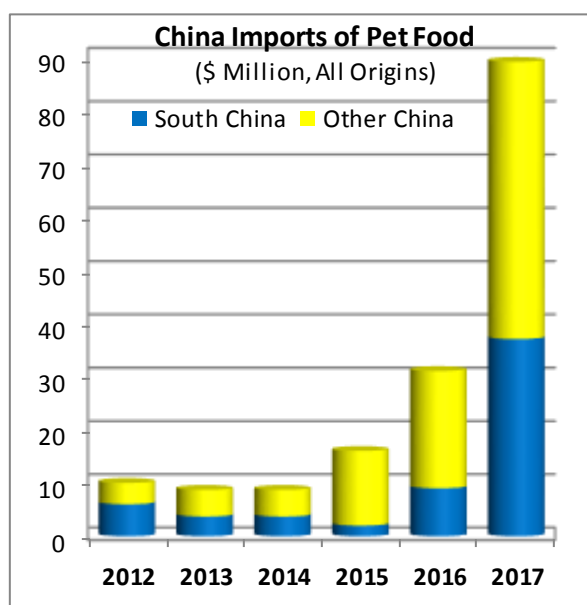


South China’s imports of baby food, and in particular infant formula, have soared in recent years, reaching over \$2 billion in 2017. This is triple the level of just three years ago and this increase is being driven by a number of key factors. One of these is that food safety concerns with domestic baby food, as a result of some high profile incidents, have boosted demand for imported products. In addition, because of these incidents the Chinese government has enacted much stricter production and registration procedures for domestic producers. Another key factor boosting imports is the change in the Chinese government policy from “one-child” to the current “two-child” policy. This policy change came into effect in January 2016 and has caused a rise in the birthrate, strengthening

demand for baby food. E-commerce has quickly become the preferred method in China for purchasing baby food, and China has the highest percentage of baby food purchases completed online in the world.

South China is the largest importing region in China for baby food, accounting for about half of total imports. European countries are by far the largest source of these products to China, with the Netherlands and Ireland the top two suppliers. U.S. market share remains low in South China, with imports averaging between \$20-40 million a year. In December 2017, the Chinese government announced tariff rate reductions on a number of products, including baby formula. The U.S. infant formula industry exports a wide variety of products to China, across a number of tariff classes. One of the largest classes (by value), “Other preparations for infant use, put up for retail sale” (HS 19011090), saw its tariff reduced from 15 percent to 2 percent.

## **PET FOOD**

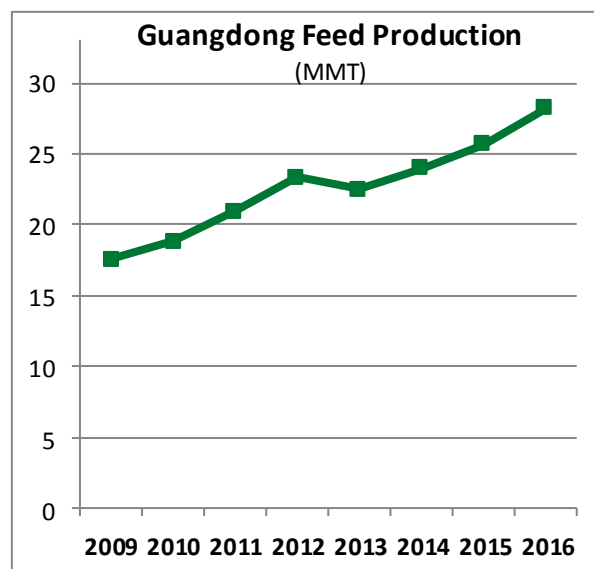
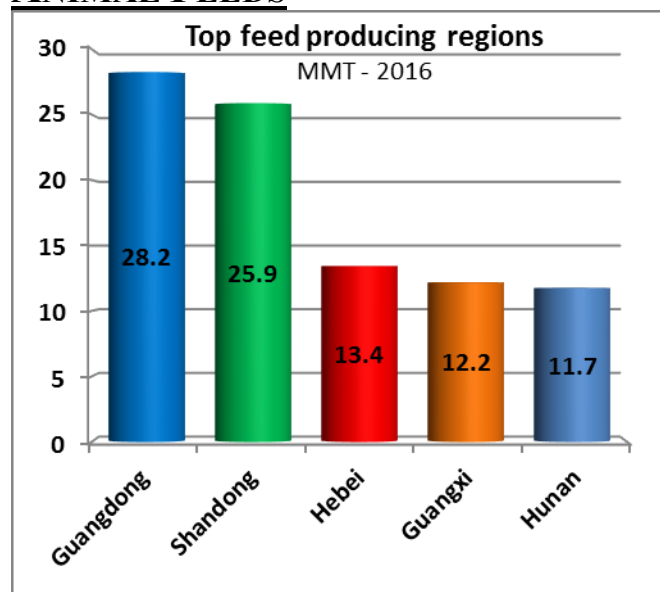


China, and especially South China, has massive potential as a market for imported pet food. South China imports of pet food have skyrocketed recently, and imports from the United States jumped to over \$25 million in 2017, up from \$6 million during the same period last year. Most of China’s imports of U.S. pet foods are through the cross border e-commerce channels, and South China accounts for nearly all (90 percent) imports of U.S. pet food.

In China, it is estimated that there are over 100 million pets (cats and dogs) and pet ownership is poised to grow. In fact, industry analysts expect China’s pet market to expand by 20-30 percent annually. An increasing number of new pet owners are young, well-educated and affluent consumers. These consumers are often less price sensitive when it comes to pet food, and prefer imports due to quality and safety concerns. Guangdong province in South China is estimated to have the highest number of pets in China.



## ANIMAL FEEDS



Source: China Ministry of Agriculture

South China is a huge producer of animal feed, and as a result, has a massive market for imported feed ingredients. Guangdong province is the largest feed producing province in all of China with feed production at 28 million metric tons in 2016, a growth of 10 percent from the previous year. Guangdong accounts for nearly 15 percent of China's total animal feed production. For 2017, industry analysts estimate that feed production in this province will have climbed to 30 MMT, of which 44 percent was for swine feed, 30 percent for broiler feed (both chicken and duck), 18 percent for aquaculture feed, 7 percent for egg layer feed, and 1 percent for ruminant feed.

The region's combination of having high feed production, being located far from Chinese feed grain producing areas, as well as having some of the largest seaports in the world, all make South China a key global importer of a wide variety of feed ingredients. Soybeans, sorghum, corn and corn distillers dried grains are the main U.S. feed ingredients exported to South China. Other ingredients include renderers' products (poultry meal), fishmeal, whey, alfalfa hay (baled), cottonseed meal, and rice bran.

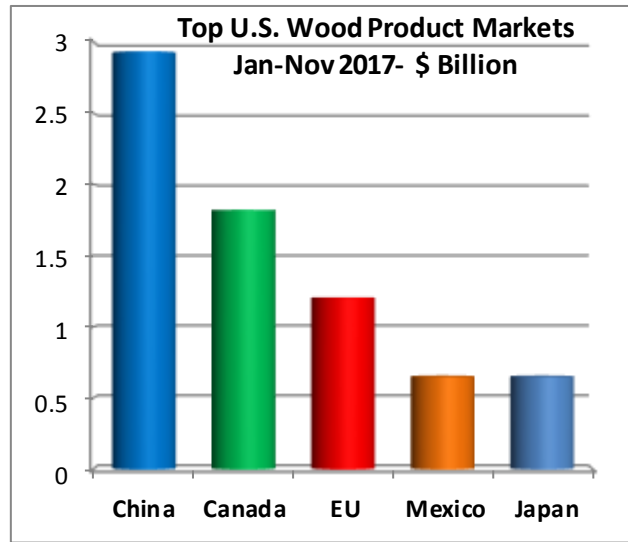
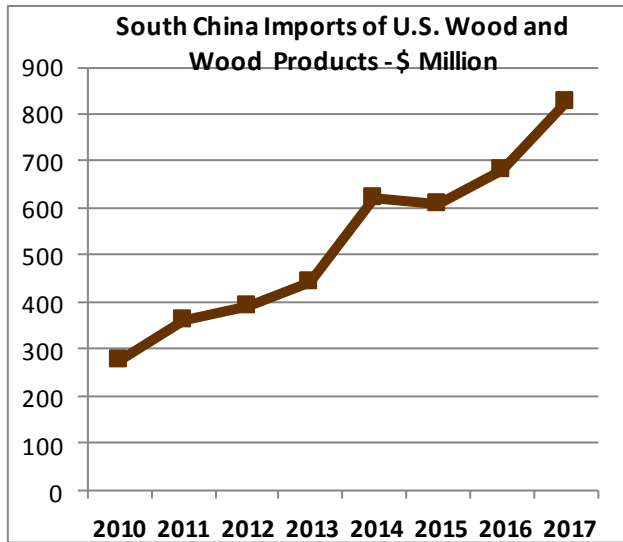
**Soybeans:** The volume of soybeans imported into Southern China continues to hit new highs every year, with import volume being up another 16 percent in 2017. Brazil is typically the largest supplier, followed by the United States, with imports of U.S. soybeans averaging around \$3.5 billion for the last few years. New crop U.S. soybeans usually begin to arrive into Southern China ports in November, and typically about 90 percent of all U.S. soybean imports take place in the November-March timeframe. South China is a major processing region for imported soybeans because of large feed/livestock sectors, huge consumer demand for edible oils, and convenient port facilities. Currently, soybean demand in the region is being driven by recovering swine production following a period of very high pork prices.

**Sorghum:** Starting in 2013, South China emerged as the world's largest importer of U.S. sorghum. In fact, considerably more U.S. sorghum is used for animal feed in South China every year than is

fed domestically in the entire United States. Although Southern China has very robust swine, poultry, and aquaculture production, very little feed grain is produced in this region due to the sub-tropical climate. As a result, grains must either be shipped from other growing areas in China, or imported from foreign suppliers. Typically, U.S. sorghum has been very attractive to Southern Chinese feed producers due to its lower price compared to domestic corn, and the absence of import restrictions. Although South China sorghum imports have fallen from the record of 2015 (primarily due to robust supplies of domestic corn and subsequent lower corn prices), 2017/18 imports are expected to strengthen, and as of mid-January 2018, U.S. sorghum sales to China were up nearly 50 percent compared to the same time last year.

**Other Feed Grains and Feeds:** Because of South China’s distance from major feed grain growing areas in China, feed millers are more adaptive in their feed formulas and there is demand for a wide range of U.S. feed grains and feeds. South China had been the largest buyer of U.S. distillers dried grains before protective duties were put in place by the Chinese government. South China imports of U.S. corn have typically been relatively small (as imports are limited by a tariff-rate quota) but in 2017 these imports reached a 3-year high to \$140 million. South China feed mills have begun importing U.S. sugar beet pulp (which was given market access in September of 2016) to add fiber for sow feed. South China imports of U.S. hay, although much smaller than imports into Northern China, have also been increasing for use in the dairy industry. And finally, imports of U.S. feed whey have also been rising, for use in suckling hog feed.

**FORESTRY PRODUCTS**



South China is one of the world’s largest and fastest growing markets for U.S. wood and wood products. Nearly 30 percent of China’s imports of U.S. wood come to South China, and imports grew another 20 percent in 2017. About two-thirds of these imports (by value) consist of lumber or other processed wood, and one-third being logs.

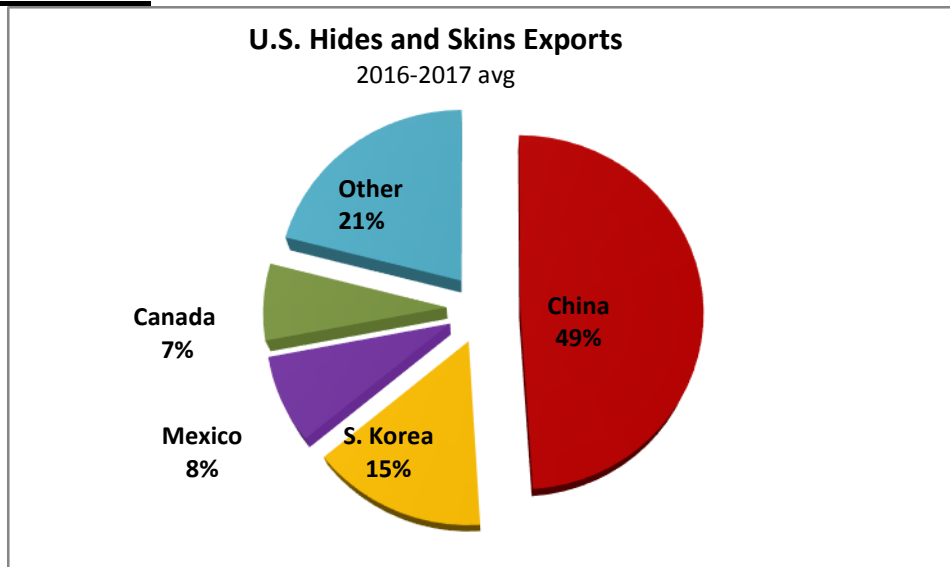
South China import demand is driven by the region’s massive furniture sector, the largest in China. In fact, according to China Customs data, over 60 percent of all Chinese wood furniture exports

come from South China. Guangdong province has the largest number of furniture producing companies in the country, and is also the largest distribution center for imported woods. Guangdong has held the number one position among Chinese provinces in total sales value of furniture for 17 straight years, and in 2016 it achieved furniture sales of over \$60 billion.

While previously the lion’s share of imported U.S. wood was used to craft products destined to be exported outside of China, this situation has changed. In recent years, domestic demand for wood furniture and other solid wood products has strengthened, and a greater percentage of these products have stayed in the domestic market. With continued economic and consumption growth, and rising incomes, this strong domestic demand for wood furniture and other products is expected to continue to be robust.

In Southern China, U.S. hardwoods are mainly used for furniture and flooring while U.S. softwoods are largely consumed by the construction sector and some furniture makers. Common wood species such as oak, walnut, cherry, ash, maple, cedar, pine, hemlock and spruce are popular in China. In response to recent consumer preferences for solid wood flooring, furniture and doors, more manufacturers are demanding premium grades of U.S. cherry, black walnut, red oak and white oak lumber. Consumption of softwoods is shifting from low-end applications to higher-end uses in outdoor parks, public projects, wood structured houses and interior decoration.

## **HIDES AND SKINS**



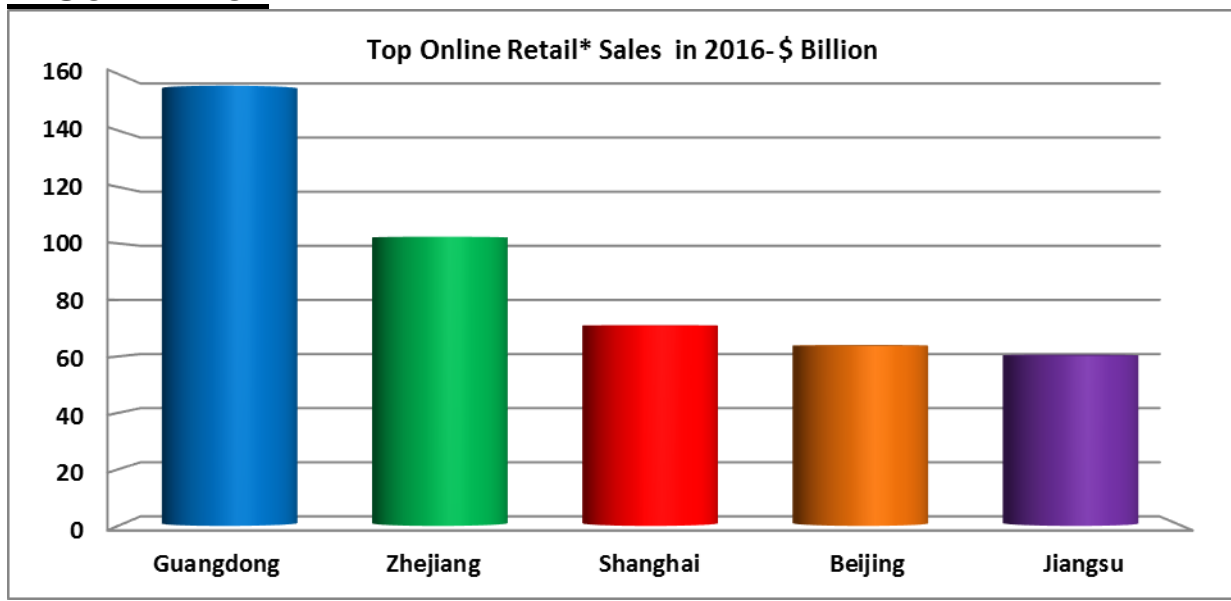
China is by far the largest buyer in the world of U.S. hides, accounting for nearly half of U.S. exports, and a large portion of this comes to Southern China. In fact, South China imports of U.S. hides surpassed \$330 million in 2017. This demand is driven by the huge tanning and leather producing industry in South China.

China is the largest leather producing country in the world with over 2,900 tanners and leather manufacturers. Additionally, the China Leather Industry Association recently reported that China’s finished leather production constitutes a quarter of the world’s total production. A number of

locations in South China (such as Dongguan in Guangdong province) are global leaders in leather shoe production. Importers and manufacturers in China prefer U.S. cattle hides because of their quality and consistency. This is in part due to the fact that many U.S. cattle are produced in feed lots, while competitors' cattle often graze more and tend to have more scratches and insect bites on the hides. U.S. cattle hides availability is expected to rise as cattle herd rebuilding continues in 2018.

Although industry consolidation and slower economic growth has impacted demand in recent years for U.S. hides and skins, 2017 did see a recovery in South China imports. It is expected that the leather industry in China will continue to grow with more domestic consumption for leather products, such as footwear and leather auto seats. In addition, imports of U.S. pig skins into South China have started to grow after being allowed to re-enter the market in 2015 (after suspension of trade in 2009 due to swine flu).

## **E-COMMERCE**



Data Sources: China Statistical Yearbook 2017 Average Exchange Rate: 6.64 \*Includes all tangible retail products

Notwithstanding the overall slowdown in Chinese economic growth, e-commerce in South China is exploding, including food and beverage sales. Guangdong province in Southern China (which includes the first-tier cities of Guangzhou and Shenzhen) has by far the highest online retail sales of any province in China, and statistics show online sales in Guangdong grew another 17 percent in 2016. Growth in 2017 is also estimated to have been at a rapid pace, and sales during Single's Day (the world's largest online shopping day) in November of 2017 smashed previous records. Although it is estimated that only 10 percent of China's online sales are for food and beverages, e-commerce in this sector is expanding very rapidly with some of the most popular products being nuts, dried fruit, candy, snacks, baby formula and wine.

In China, e-commerce of imported products includes two models. One is where products are imported through regular channels, and then sold on online platforms. The other model is via cross-border e-commerce. In cross-border e-commerce, for example, a shopper in China places an order online for a product of another country. The foreign seller will pack the product and ship it to the

buyer in China. When the package arrives, the buyer will pay a favorable 11.9 percent tax (if it is a food item) and then this order can be delivered to the shopper. This international trade model is popular because of the huge price gap between e-retailer and traditional stores, and consumers' belief that a product arriving directly from a foreign country protects the integrity of a product. The government developed a list of products that are allowed to be traded via this cross-border e-commerce mode. If a product is not on the list, then it has to be imported through traditional channels and incur regular tax levels and tariffs.

Additionally, in cross-border e-commerce pilot cities, such as Guangzhou and Shenzhen, local governments have appointed bonded warehouses in the Nansha and Qianhai areas, respectively, where imported products can be pre-shipped. Therefore, once a purchase order is placed by a consumer online, the imported product sitting in these bonded warehouses can be sent to the buyer as a cross-border ecommerce product but with a shorter wait time as opposed to receiving a package directly from a foreign country.

While there is huge opportunity for new-to-market U.S. food exporters to work with Chinese e-commerce companies (who are eager to source new products), it is crucial to find the right partner. In addition, branding and marketing are key for online sales, and consumers often respond better to products that have an interesting background story or a unique feature that can differentiate them from other similar products. Marketing costs for top e-commerce platforms can be extremely high, so another option for newcomers can be to start with smaller or regional e-commerce companies to test the acceptance of the products in terms of prices, packaging, taste or marketing costs.