

Examining China's Potential

By *Peter Moustakerski*

For decades, businesses from around the world have dreamed about selling their products in China. In the early years of the 21st century, the lure of the vast Chinese market remains powerful. When will the potential of this enormous market be fully realized? Certainly, China's membership in the World Trade Organization (WTO) has raised hopes among exporters from around the world that there will be a freer flow of their goods to Chinese customers.

But for the Chinese market to reach its full promise, there will have to be accelerated development of the country's transportation, distribution and logistics infrastructures to meet the growing demand for high-value food and agricultural products. In addition, the rising disposable income levels that are spurring a nationwide consumer revolution in China will have to continue.

The Potential Is There

China continues to have one of the world's fastest growing economies. For ex-

High-Value U.S. Products With the Best Prospects

- Red meats
- Poultry meats
- Dairy products
- Eggs
- Salmon
- Crab and crabmeat
- Surimi (fish paste)
- Roe and urchin
- Pet food
- Processed fruits and vegetables
- Fresh fruits and vegetables
- Snack foods
- Tree nuts
- Wines



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ample, in 2001, the official gross national product growth reached 7.3 percent, even as much of the world suffered recession. The country has been helped by its strong export business (in 2001, it accounted for 4.3 percent of world exports) and persistent direct foreign investment, especially since China joined the WTO.

In addition, after decades of restricting peasant migration into China's cities, the government has embraced a policy of urbanization, partly in the hope that this will increase consumer spending on everything from homes to electronics to recreation. Though the majority of Chinese people

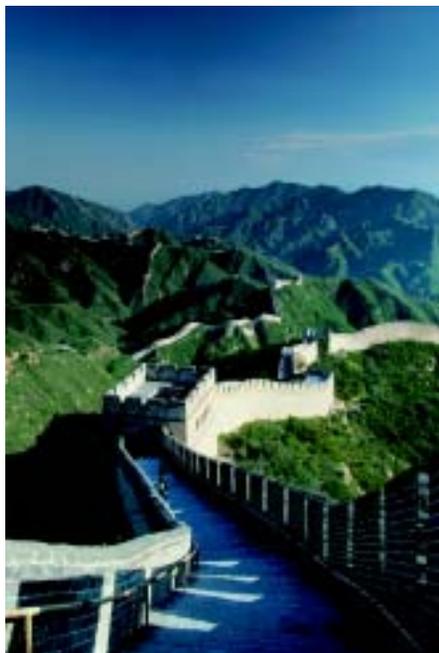
still live in the countryside, the trend is clear. In 2000, the population grew 9.9 percent in Beijing, 13.6 percent in Shanghai and 18.8 percent in Guangdong Province. Cities with the wealthiest and most cosmopolitan consumers are concentrated on China's seaboard.

There is no question that Chinese consumers have more to spend. Per capita consumption grew by 5 percent in 2001, to an average \$420 per person. The government has helped boost consumer spending by instituting longer national holidays and raising pay for civil servants. Rising disposable incomes are fostering an increasingly conspicuous consumer culture. People are willing to spend more on education, medical care, luxury goods, gifts and entertainment. The one-child policy, strictly enforced in cities, has contributed to the rise in disposable incomes.

U.S. companies that supply hotels and restaurants and export high-value products such as seafood, beef and wines and gift

products such as fresh fruits, chocolate and candy, are especially well positioned to benefit from these trends. Food and agricultural businesses also stand to benefit from greater awareness of health and food safety issues. Chinese consumers increasingly accept comparatively expensive imported food and agricultural products as higher quality, safer, more stylish and worth the money.

The market for consumer foods and beverages in China continues to develop and grow at an impressive pace. In 2000, the aggregate market (including wholesale, retail and food service) for consumer foods and beverages (including imports, but excluding tobacco and liquor) reached \$1.3 billion, up 11 percent over the previous year. Given China's gourmand culture and tradition of lavish family and business banquets, it comes as no surprise that more than 60 percent of the market is attributed to the food service sector, which has grown 15 percent overall for the past three years.



Chinese Consumer Tastes

- Chinese prefer fresh meats and produce to canned and processed ones.
- Chinese prefer smaller size packages to "jumbo packs" despite the promise of long-term savings.
- In the case of snacks and candies, Chinese like to see the actual product inside the packaging, so include a transparent window.
- Chinese respond to the attractiveness of the package, taking its size, colors and design into careful consideration.
- Chinese are attracted to big, established brand names, which they consider proof of authenticity and superior quality.

Currently, the prospects for U.S. consumer food and beverage products remain strong in food service, retail and processing. U.S. exports of consumer-oriented foods and agricultural products to China set an all-time record in 2001, \$285 million. The U.S.-China Agricultural Cooperation Agreement of 1999 resolved some longstanding disputes over U.S. exports of key agricultural commodities, particularly wheat, meats and citrus, and paved the way for the sales record. China's accession to the WTO could result in lower tariffs on U.S. imports and greater foreign investment in the country's infrastructure.

Give Yourself the Best Advantage

For U.S. food exporters wanting to tap into that immense Chinese market potential, it is essential to understand local business customs. Being unprepared for the cultural and practical aspects of doing business in China can cost businesses dearly. U.S. exporters should spend the necessary time to acquaint themselves with the basics of Chinese business etiquette and come prepared to recognize and tackle the cultural challenges facing foreigners doing business in China.

Keep in mind that consumer tastes in China vary considerably from region to region and are constantly evolving. Although they favor Asian products, consumers are open-minded and willing to experiment with new flavors and products, including many Western ones. Before committing resources to any product, concept or flavor, U.S. exporters should invest in targeted market research. Never make assumptions about the preferences of Chinese consumers. ■

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For details, see FAS Report CH2808. To find it on the Web, start at www.fas.usda.gov, select **Attaché Reports** and follow the prompts.

To be successful, U.S. exporters also must carefully study all relevant Chinese laws and standards that pertain to their field of business. English translations of relevant Chinese import laws are available online at: www.fas.usda.gov/gainfiles/200204/140683352.pdf

Detailed, step-by-step import procedures may be found at: www.fas.usda.gov/gainfiles/200111/130682601.pdf

