

January 2019

COUNTRY FOCUS REPORT: CHINA



China is the world's most populous country, with a population of 1.4bn. It is the fourth largest country in the world and the second biggest economy. China is also the world's second largest importer of goods – taking 10% of all global imports.

Though it spans a large area, China has a shortage of land suitable for farming and many mouths to feed. Although domestic agriculture is modernising quickly, demand outstrips supply in many sectors.

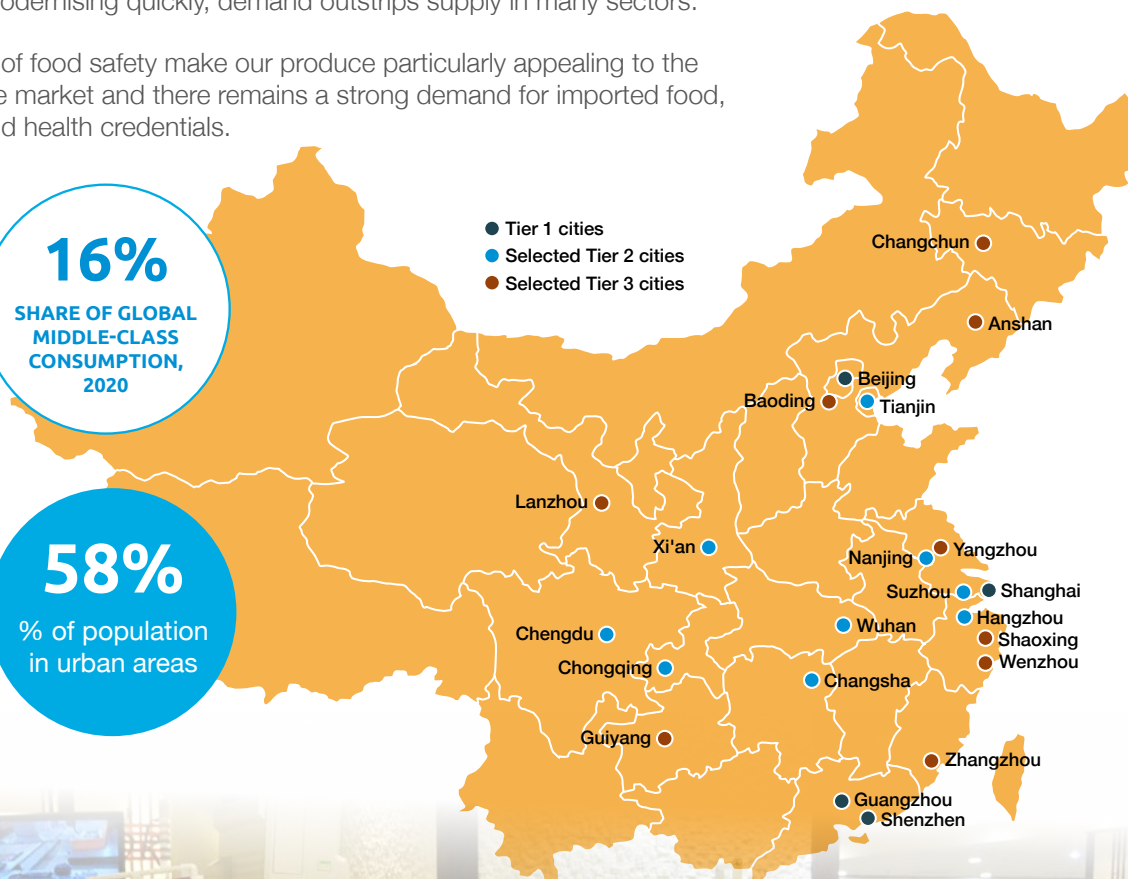
The UK's high standards of food safety make our produce particularly appealing to the safety-conscious Chinese market and there remains a strong demand for imported food, particularly with safety and health credentials.

1.4 billion
population

16%
SHARE OF GLOBAL MIDDLE-CLASS CONSUMPTION, 2020

USD \$8,827
GDP PER CAPITA

58%
% of population in urban areas



China is a nation of foodies. As the saying 民以食为天 goes, 'to people, food is god'. However, it is useful when considering the Chinese market to recognise that each region has its own distinct characteristics and preferences. One size does not fit all.

One major consideration is the urban-rural divide. There are clear differences in living standards between large, affluent, coastal cities and the rural inland provinces. This has driven rapid urbanisation, up from 26% in 1990 to nearly 60% at the end of 2017.

Chinese cities are unofficially classified into tiers, according to their level of development and economic output. Tier 1 cities (Beijing, Shanghai, Guangzhou and Shenzhen) have historically been the focus for exporters looking to crack China. However, opportunities lie outside the first tier. Tier 2 (such as Chengdu and Hangzhou) and Tier 3 cities (such as Wenzhou and Zhangzhou) are becoming increasingly affluent and are expected to account for 76% of China's middle class by 2022 (58% in 2002) (McKinsey & Co).

Table 1. Trade and consumption of meat and dairy in China

Sheep meat	Beef	Pig meat*	Dairy
Total consumption			
4,851,990	8,065,710	54,786,380	29,392,940
Total imports			
248,973	695,115	2,454,443	1,584,554
Exports from UK to China			
No access currently	No access in 2017	72,760	16,561

Source: Consumption (carcase weight equivalent) – OECD, Total Imports – IHS Maritime & Trade – Global Trade Atlas®/ China Customs, UK Exports – HMRC, 2017, tonnes *Includes processed and offal

CONSUMER TRENDS

Older, richer, urban

Since market reforms in the 1970s, China has enjoyed economic growth unprecedented in modern times, lifting 800 million people out of poverty. Many have joined the global middle class, driving consumer spending and an appetite for imported food. The eastern coast is densely populated and has been the focus of wealth creation, but incomes are now rising in inland cities at a faster rate. China's one-child policy, which applied mostly to urban dwellers, also means each family has more disposable income to spend on luxury items. This rule was recently lifted, but the fertility rate is still falling and there are worries about the strain of a rapidly ageing population on society.

Globalised diet

As wealth grows, Chinese diets are shifting to include more meat and dairy products and fewer grains and vegetables. From 1995 to 2010, meat and dairy consumption quadrupled among urban residents and grew sixfold for rural dwellers.

Consumers are increasingly exposed to global cuisines through media and travel. In 2017, Chinese tourists went on 75.5 million trips abroad and this is forecast to increase. Although Chinese cuisine remains a firm favourite, there is a growing interest in the food of other countries. However, consumers tend to eat these out of home as they lack the confidence and equipment to recreate western dishes in the home.

Dairy was not traditionally consumed in most Chinese cuisines but is growing in popularity because of its health benefits. Parents, in particular, buy dairy products for their children to help them grow tall and strong. Single-portion snacking products for children are popular, especially in cheese, drinkable yogurt and milk. Around 7 in 10 Chinese parents buy child-specific yogurt and milk (Mintel). Chinese consumers are less familiar with ripe cheeses, favouring instead soft and mild cheese. Most milk is consumed as UHT and flavoured-milk products are common.

Food safety

Chinese agriculture is highly fragmented, with a large number of very small farms. Managing the safety of domestically grown food is therefore challenging and food-safety scandals have shocked Chinese society in recent years – most famously adulterated milk in 2008. This incident, and many others, has severely dented trust in food safety in China – only 1 in 10 consumers associate local food/drinks with 'high quality', and nearly 6 in 10 agree that imported products are more trustworthy than those produced domestically. Imported food is often seen as safer and can carry a high premium. All big supermarkets sell imported foods, with higher penetration in Tier 1 cities and in dairy, wine and beer, fruit and beef. Brands and retailers are also using traceability as a selling point for high-end products. Alibaba launched a blockchain trial with Fonterra this year, to add traceability to their Anchor-branded dairy products.



Top reasons for purchasing imported food (% of respondents, Eastern China, USDA)

Health

Chinese understanding of healthy food is quite different to that in the West and linked to traditional beliefs on harmony and balance. Foods are thought to have a warming (yin), cooling (yang) or neutral effect on the body (unrelated to the food's temperature). Many Chinese people feel it's important to balance warming and cooling foods to maintain a healthy lifestyle. They may also prefer a different balance, depending on their age, gender or the climate.



However, more modern ailments are now becoming a concern. Obesity in China is on the rise, especially among children and urban dwellers. Changing diets and sedentary lifestyles are the main drivers and are propelling interest in exercise and food with health benefits. Claims of being low fat, natural and free from hormones are popular. In dairy, 37% of products carry a health or wellness claim (GlobalData).

Cheese-flavoured milk tea drink launched in China. Ready-to-drink milk teas are popular and cheese is a trending flavour. Labelling describes the tea as containing 'New Zealand imported milk powder' and natural polyphenols from black tea leaves, reinforcing nutrition claims

Source: GlobalData

Embrace of technology

Chinese consumers are tech-savvy and mobile-centric. Many platforms familiar in the West are blocked in China. Tech giants Tencent and Alibaba command a large share of the Chinese online world and are constantly innovating and diversifying their offering. WeChat, owned by Tencent, is a multipurpose app with 900 million daily users. Users can message friends, pay for goods, book taxis, order takeaway food, access government services and more, all without leaving the WeChat app. Alibaba specialises in ecommerce and owns a competitor mobile payment system, Alipay.

Mobile payments are well established in China, used by 87% of consumers in Tier 1–3 cities (Mintel). Consumers now expect a high level of convenience in their shopping experience. They expect to be able to research and understand a brand online and are comfortable with brands using their data to target offers and deals.

MEAL FOCUS

Meal types

Chopsticks and spoons are used at dinner tables across China. This means that all food, once served, is either in bite size pieces or soft enough to be picked apart with chopsticks. Chinese cuisine is prepared by frying, braising, boiling or steaming; most homes do not have ovens. Food is usually served communally with diners helping themselves from shared dishes. Care is taken to balance different flavours and appreciate a variety of textures.

Pieces of meat are commonly served on the bone, cut into pieces with a cleaver, as bones are believed to impart flavour. Mince is also commonly used to garnish vegetable dishes or in dumplings and stuffed breads. China is an important market for offal which appears in many traditional dishes.



Red braised pork belly. Only 29% of Chinese consumers associate leanness of meat with health

Source: AHDB/ICM

Regional flavours

China is a vast country with many regional cuisines and preferences. Rice is a staple food in the south, where it is commonly grown. Wheat is grown and consumed in the north, used to make breads, noodles and steamed buns. Consumers in the western provinces of Sichuan, Hunan and Yunnan enjoy spicy flavours, while sweet and delicate flavours are preferred in the east.

Pig meat is by far the most popular meat consumed in China, making up 63% of meat consumption. An exception is the province of Xinjiang, where a majority of the population are Muslim. Consumption of beef and mutton is low, apart from in the north-western provinces of Xinjiang, Ningxia, Tibet and Inner Mongolia, where much of it is produced.

RETAIL CONTEXT

Channel focus

Grocery retail in China is highly fragmented; the top 10 retailers account for less than 8% of the market. Many consumers still prefer to buy much of their fresh food from wet markets. Freshness is a top concern among Chinese shoppers, who will often shop every day to purchase the freshest food. Wet markets are usually in convenient locations for frequent shopping and provide an important social function too. Modern retailers are now adapting to meet these needs. They use messaging on freshness, create interactive shopping experiences and convenient solutions. Modern supermarkets and hypermarkets play an important role in the sale of imported foods.

Online

Online shopping is forecast to play an increasingly large part in grocery retail in China. Consumers are very comfortable with online shopping and delivery bikes are ubiquitous in all cities. Currently, 3.8% of grocery retail spend is online. IGD Asia forecasts this to grow to 11% by 2022.

Alibaba, which owns China's largest online retail platforms, has a customer base of 500 million and a wealth of data on their purchasing behaviour. It recently launched the Tmall Innovation Centre (TMIC) to offer product

development services to brands, using its data, market research and even product design to help brands target their products more efficiently. Mars recently used TMIC services to develop a new spicy flavour of Snickers that satisfied an untapped desire for spicy confectionary.

New Retail

Online retailers are beginning to experiment with a format dubbed 'New Retail', where online merges with offline. Alibaba and Tencent are moving quickly to develop this concept, using the huge amount of data they have on their consumers, which they use to adjust store inventories and tailor for the region and customer base.

In Alibaba's 'Hema Xiansheng' supermarket, which now has 65 stores, shoppers can scan each product with their Hema app to access 'farm-to-store' blockchain data, including place of origin, date of production and the temperature it has been stored at along the whole supply chain. Customers can select food and have it cooked by in-store chefs or delivered to their homes within 30 minutes, if they live within a 3 km radius. At the till, customers check out with facial recognition, automatically deducting the money from their Alipay wallet.

New Retail so far focuses on fresh goods and represents an opportunity for high-end products that can tell a story about heritage and provenance.

Smoked pig ears salad. China is an important market for offal exports



Foodservice

Socialising in China centres around food, and eating out is a way of establishing and maintaining close personal and professional relationships. Buying rare or expensive food for guests is a way of expressing social status and giving respect. Full-service restaurants take the majority of the market, but fast food is the second biggest foodservice sector, popular at lunchtime and among busy urban diners. Over 85% of Chinese consumers eat out at least once a week (Unilever) and it's estimated that in 2016, Chinese diners spent \$507 billion on eating out (Meituan Dianping). However, 81% of Chinese consumers agree that they would prefer to have slightly healthier food options when eating out. Regional Chinese cuisines dominate the market, while restaurants serving western cuisines account for around 5% of spend in the foodservice (USDA). Over 70% of internet users have used their smartphones to order restaurant or meal delivery in the last six months (Nielsen Global Connected Commerce Survey, 2015).

MARKET OPPORTUNITIES

Tier 2 and 3 cities

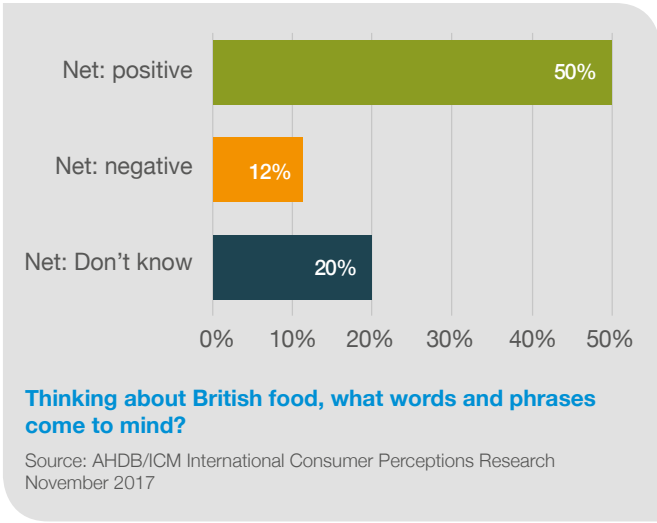
Residents of Tier 2 and 3 cities are becoming more wealthy and demanding more imported food. Competition is less fierce in these cities, but tastes may be more traditional than in Tier 1 cities, where many consumers are familiar with western dishes. This means products that fit into traditional-style Chinese dishes are more likely to succeed. Tier 2 and 3 consumers may also be more price-conscious and more likely to appreciate deals and promotions.

Online

Having an online presence is crucial to being successful in China as customers now expect to be able to research products and read about their credentials online. Exporters should think mobile-first and make the most of popular platforms like WeChat and Tmall, which offer sophisticated, targeted marketing tools. Brands can also use the online sphere to engage with their customers in interactive campaigns.

British context

Chinese consumers show positive feelings towards British food, associating it with quality and safety. Messages about heritage, safety and nutritional benefits are likely to do well, telling a story about Brand Britain that resonates with Chinese consumers.



Eating out is an important way of socialising in China

AHDB's export team works collaboratively with government, industry organisations and other levy boards to secure access to new markets which have the potential to provide our farmers, growers and exporters with a variety of opportunities overseas. The team travels the world promoting beef, lamb, pork, dairy products, cereals and oilseeds, and potatoes through a coordinated and targeted export programme. Working closely with AHDB's Consumer Insight enables the export team to not only identify emerging and priority markets but also gain a better understanding of the needs of different markets, consumer eating habits around the world and buying behaviour – all of which helps industry capitalise on lucrative markets.

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AHDB's Retail and Consumer Insight team actively tracks, monitors and evaluates consumer behaviour, reporting on the latest consumer trends and picking out what they mean for the industry and agriculture. To read more on consumer trends, go to ahdb.org.uk/consumerinsight



Ask the analyst

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