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China - Peoples Republic of

Retail Foods

Change and Opportunity

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Report Highlights:

China remains one of the most dynamic retail markets in the world and offers great opportunities for U.S. food exporters. Exporters should be aware of several new trends that are changing China's retail landscape. Imported food consumption growth is shifting from China's major coastal metropolitan areas (e.g., Shanghai and Beijing) to the dozens of Second-and-Third Tier cities throughout China. China is experimenting with new retail models, such as 24-hour unstaffed convenience stores and expanded mobile payment platforms. E-commerce sales continue to grow, but major e-commerce retailers are competing for shrinking numbers of new consumers.

We encourage U.S. exporters not to consider China as a single retail market but as five separate retail markets, with anywhere from 100 million to 300 million consumers in each region. There are five regions, Northeast China, the Beijing Capital region, Eastern China, Southeastern China, and Southwestern China. Each has its own consumer preferences, product channels, and logistics.

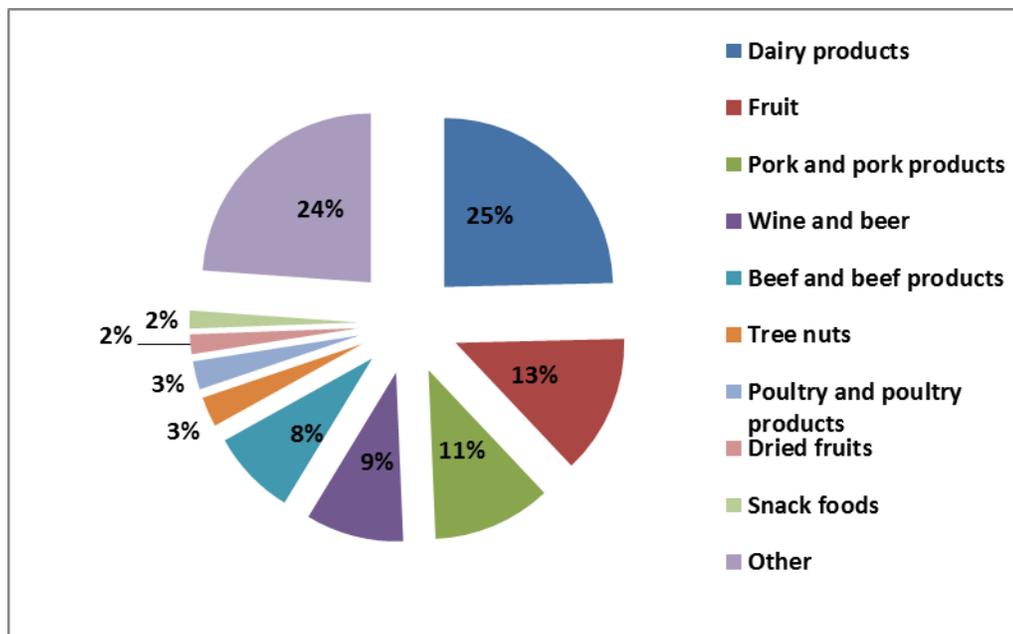
Post:
Shenyang ATO

China Market Fact Sheet

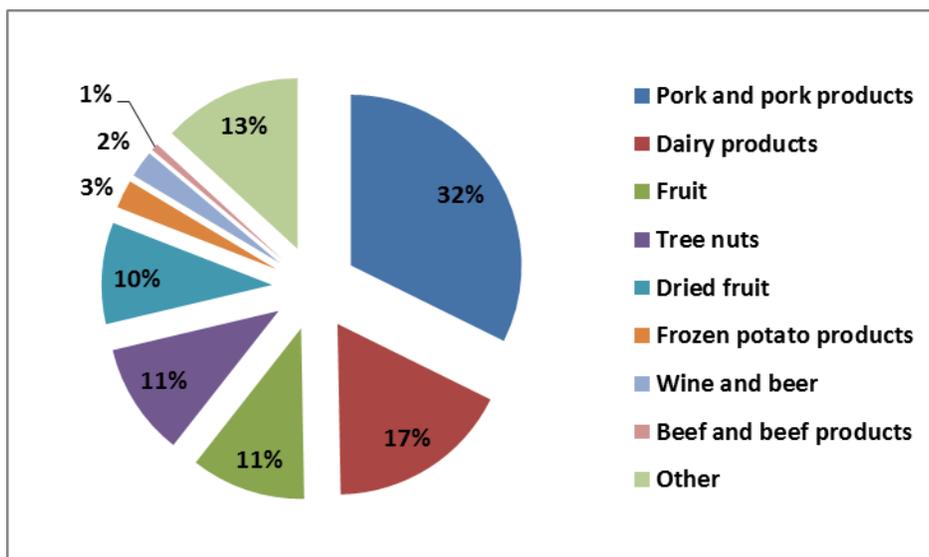
Executive Summary

In 2016, China's GDP reached \$11.4 trillion, positioning the country as the second largest economy in the world after the United States and the largest and most influential economy in Asia. China is a major producer of food and agricultural products and a major importer of grain and soybeans. Producers, food processors, wholesalers, retailers, food service operators, and food importers are all part of a well-developed agribusiness sector, contributing to a domestic scenario that is competitive and dynamic. China is also an important importer. In 2017, imports of agricultural products reached \$140 billion, an increase of 6.5 percent compared to 2016.

China's Imports of Consumer-Oriented Products from the World Reach \$38.2 Billion in 2017



**China's Imports of Consumer-Oriented Products From the United States
Reach \$3.6 billion in 2017**



Top 10 Growth Markets for Food in China

- | | |
|---------------|---------------------|
| 1) Dairy | 2) Tree nuts |
| 3) Vegetables | 4) Beef |
| 5) Poultry | 6) Aquatic products |
| 7) Eggs | 8) Fruits |
| 9) Wine | 10) Lamb |

China Market Indicators for 2016

China's Total Retail Sales for All Commodities:	\$4.980 Trillion
China's Total Food Industry Gross Sales:	\$1.300 Trillion
China's Total E-Commerce Gross Sales:	\$0.750 Trillion

Source: China's Statistical Yearbook 2017

Top 10 Retailers in China

1. *China Resources Vanguard*
2. *Ole' & BLT*
3. *RT-Mart*
4. *Wal-Mart*
5. *Carrefour*
6. *Yonghui*
7. *Lianhua*
8. *Dashang Group*
9. *Sam's Club*
10. *Wu-Mart*

China Chain Store & Franchise Association, May 2017

GDP/Population in 2016

Population (billions): 1.382

GDP (trillions USD): \$11.4

GDP per capita (USD): \$8,304

Source: China's Statistical Yearbook 2017

2018 Annual Retail Food Report for China

Executive Summary

China remains an important market for U.S. retail food exports and continues to enjoy strong economic growth, a growing middle class, and continued urbanization. In 2016, China's consumer goods retail sales reached a record 4.98 trillion U.S. dollars. Online sales alone accounted for 15 percent of all consumer retail sales. Convenience store purchases grew at the fastest rate compared to other retail layouts, such as hypermarkets and supermarkets.

In the past 10 years, we have seen e-commerce dramatically change how consumer goods are marketed, bought, and sold. In just a few short years, China has moved from a cash-based society to a world leader in utilizing mobile payment platforms. Inspired in part by Amazon.com, Chinese start-ups and established companies are testing new retail models, such as 24-hour unattended convenience stores and all-inclusive mobile payment platforms. E-commerce market leaders are also opening physical retail spaces throughout China, including second- and third-tier cities.

China is a large, diverse, and competitive market for imported food products. We urge readers to understand that while China is one country, it should not be considered one retail market. Over the past 10 years, China's middle-class has grown larger and more diverse, and China has become a collection of niche markets separated by geography culture, cuisine, demographics, and local commercial trends. Competition for these markets has become fierce. Shanghai and the surrounding region continues to lead national retail trends, however, Beijing and Guangzhou are important centers of retail innovation. Chengdu and Shenyang are two key cities leading China's economic expansion into international trade and commerce. Residents in Southwestern and Northeastern China are starting to purchase more imported food products, especially U.S. seafood. We urge U.S. exporters to carefully conduct market research, identify market niches, and consider which geographical locations are best suited for their products.

The U.S. Department of Agriculture (USDA) Foreign Agricultural Service (FAS) operates five Agricultural Trade Offices (ATOs) in China. ATO Shanghai covers East China which is home to China's most dynamic and innovative retail market. Shanghai remains the innovation hub for China's retail sector, and tends to be the trend setter for China's other large cities. ATO Beijing covers the greater Beijing region and many of China's western provinces. The Beijing retail market shares many characteristics with Shanghai, as both regions have growing numbers of consumers who purchase imported food products. ATO Guangzhou covers South China. Guangzhou is a key distribution hub for imported fruit and fresh and processed products in China. Its proximity to Hong Kong and China's southern manufacturing cities has led affluent consumers to seek imported food products. ATO Chengdu covers Southwest China. Chengdu is Southwest China's major city and plays a key role in the Chinese Government's One Belt One Road economic

initiative to extend trade with non-traditional trade partners in Central and South Asia. ATO Shenyang covers the Northeast region. Northeast China is China's major grain and heavy production region and has growing retail sector anchored in its port cities and inland transportation hubs. Demand for premium brands and fresh seafood is experiencing an upsurge in the region.

Post would add one critical caveat for U.S. exporters -- as of July 5, 2018, China is committed to enact an additional 25-percent tariff on U.S.-origin products on July 6, 2018. The additional tariffs are in response to the U.S. 301 Investigation and the proposed additional tariffs assessed on Chinese products exported to the United States. On June 16, 2018, the People's Republic of China's Ministry of Finance (MOF), State Council Tariff Commission (SCTC) announced a revised list of U.S. products would be subject to the additional tariff. The announcement is broken down into two schedules. Schedule I includes 545 total products, valued at approximately \$34.0 billion, which will enter into force on July 6, 2018, the same day the U.S. tariffs related to the 301 Investigation are enacted. 517 products on the list are food and agriculture-related products. Some of these products are also subject to tariffs in China's response to the U.S. 232 Investigation. FAS China understands that these two additional sets of tariffs will be calculated in aggregate. U.S. exporters of these commodities should be aware that the new tariffs may enter into effect on July 6, and should check with local importers to verify changes in tariff treatment. To see which commodities may be impacted, please go to:

<http://gain.fas.usda.gov/Recent%20GAIN%20Publications/China%20Responds%20to%20U.S.%20301%20Announcement%20with%20Revised%20Product%20List%20Beijing%20China%20-%20Peoples%20Republic%20of%206-21-2018.pdf>

Key Trends

Convenience: Successful products are easy to buy. Mobile payment services, such as Ali-Pay and WePay, are ubiquitous throughout China. Most middle-class Chinese already do not carry cash, and even some small retail establishments, such as coffee shops and bakeries, do not keep large amounts of cash. Successful retailers make mobile payment effortless and offer home delivery and customer support hotlines to keep purchasing easy and convenient.

Value: Chinese consumers are resourceful and collaborative. Consumers research a product's brand, social prestige, safety, and price relative to alternatives. Consumers regularly utilize social media and traditional social networks to share their feelings about products. **Consumer comments about products tend to travel much faster on social media in China than in many Western countries.** Customer service and product consistency are also highly valued.

Specialization: China's retailers are developing food product specialties. For example, retailers are **specializing in offering only organics, meat products, or fresh fruit on their sales platforms.** Retailers are also developing niche marketing schemes such as selling "farm-to-table" products. This is occurring in traditional and e-commerce retail sectors.

New Retail: In China, "New retail" is a concept that integrates online and offline shopping. Leading e-commerce businesses are using sophisticated datasets to find buyers and determine

where to open stores. While these stores may be relatively small, **retailers can use purchasing data to target customers and divert online customers to these physical stores.**

Retail Sector Overview

China’s retail sector is the primary channel through which U.S. exporters can reach consumers in China. Rapid urbanization and a growing middle class of several hundred million are driving China’s retail sales to record levels. China’s younger generation has become accustomed to consuming imported food products as they are now readily available in major cities. Imported products, especially from the United States, are perceived to be high quality, safe, and prestigious, an important factor in consumer decision making.

In 2016, total retail sales of consumer goods reached \$4.98 trillion, up 10.4 percent from 2015. In 2016, food consumption by China’s annual urban households rose 30 percent by value for. Large retailers are gaining market share as they develop better supply chains, wider distribution channels, and more effective quality control. At the same time, new retail business models, such as smaller convenience and specialty e-commerce stores, are opening exciting new avenues for U.S. products.

China’s food retail landscape is in transition. While quality and premium-priced food products are continuing to be successful in first-tier cities, retailers are now focusing on supplying second- and third-tier cities. China is home to over 100 cities with a population of at least one million each.

In China, there is a saying “民以食为天” (Mín yǐ shí wéi tiān), which means, “Food is Heaven.” To be successful, U.S. exporters should maintain and enhance Chinese consumer perception that U.S. food is of high quality, safe and prestigious. Consumers are particularly interested in imported foods that can improve their beauty, health, and social status. Successful Chinese retail establishments integrate consumer perceptions of quality, safety, and health into their promotions. Last but not least, packaging should be premium and sharable. For example, it is recommended that a three-pound bag of mixed nuts should contain 10 to 20 beautifully labelled mini-packs.

Consumer Purchasing Power

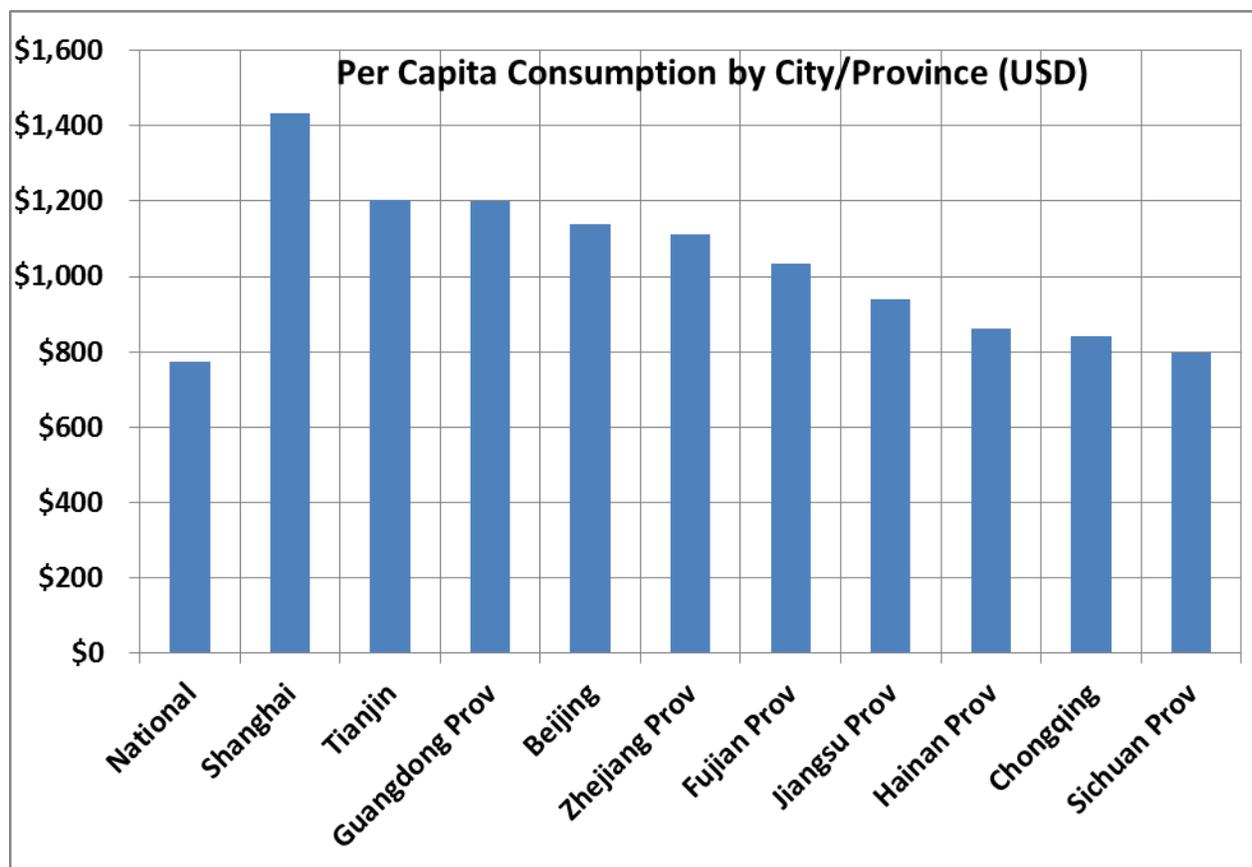
China is the world’s second largest retail market after the United States. In 2016, China’s average per capita urban household disposable income reached \$3,570, an 8.9 percent jump over 2015. In terms of per capita disposable income, China’s top areas include the cities of Beijing, Guangzhou and Tianjin and the Provinces of Guangdong and Zhejiang. Other provinces with healthy per capita disposable incomes include Fujian, Shandong, Inner Mongolia and Hunan. China’s first-tier cities continue to increase in population, per capita GDP, and disposable income (Table 1).

Table 1: First-Tier Cities at a Glance

2016	Shanghai	Beijing	Guangzhou	Shenzhen
Permanent Population (million)	24	22	13	11
Per capita GDP (USD)	\$17,468	\$17,713	\$21,767	\$25,671
Per capita urban household disposable income (USD)	\$8,646	\$8,583	\$7,634	\$7,297

(2017 China Yearbook, National Bureau of Statistics of China)

Figure 1: China Top 10 City/Provinces Consuming Food, Tobacco and Liquor



(2017 China Yearbook, National Bureau of Statistics of China)

While China’s average per capita expenditures on food, tobacco and drink reached \$772 in 2016, there urban areas significantly outspend rural areas. (Figure 1). This figure vastly understated the buying power of many of China’s cities and provinces. Shanghai’s per capita expenditure on food, tobacco and liquor exceeded \$1,400 or twice above the national level.

Consumer Demographics

For the first time in Chinese history, most Chinese live in cities and not farms. In 2016, 57 percent of China’s population is living in urban areas. In addition to urbanization, China’s population is also aging (Table 3). At the end of 2016, China had over 10.8 percent of its population aged above 65 years old. Because of China’s one-child policy and increasing life expectancies, this trend toward an aging population is expected to increase.

Table 2: China's Demographic Development (2013-2016)

Population	2013	2014	2015	2016
Total (billion)	1.361	1.368	1.375	1.383
Age above 65 (%)	9.7	10.1	10.5	10.8

(2017 China Yearbook, National Bureau of Statistics of China)

Consumer Groups Importing Food Products

Foreign nationals living in China seek products with which they are familiar and they are willing to pay premium prices. More chain retailers (e.g., BHG, Olé) are targeting these foreign consumers. Small local specialty retailers (e.g., City Super, Corner Deli, and Jenny Lou's) also have reported successes in attracting foreign nationals.

Affluent Chinese consumers seek high quality products that convey status. High-end retail chains (e.g., Sam's Club, Taste, Great, Treat) cater to these buyers, and tend to focus on products with special health claims. Labeling and brand image are important to these consumers.

Middle-class Chinese consumers seek the same high quality and safe products as affluent consumers and foreign nationals do, but are also seeking the best value. They tend to be somewhat price-sensitive and will compare several brands before they make a purchase. On average, this group is looking for food products that are fresh, easy-to-prepare, and consistent. Companies that offer value-added services and great customer service do well with this group of consumers.

China's younger generation is more knowledgeable about imported food products. Younger consumers prefer to shop in hypermarkets (where grocery and consumer goods are sold together in one store), supermarkets, and online. Healthy eating, convenience and novelty are important considerations for Chinese youth.

Food Retail Update

Table 3: 2016 Major Foreign Capital Chain Retailer Performance

Sales Rank	Name	Pre-tax Sales (million USD)	Sales Growth	Store Number in 2016	Store Number Growth
1	RT Mart	13,987	4.0%	368	9.9%
2	Walmart	11,499	4.3%	439	1.6%
3	Carrefour	7,568	25.9%	319	36.3%
4	Dennis Zhenzhou	3,118	15.6%	411	39.3%
5	Metro Cash & Carry	2,893	1.0%	87	6.1%
6	Watsons	2,778	2.3%	2,929	18.0%
7	Parkson	2,489	-8.3%	53	-8.6%
8	CP Lotus	1,949	-3.7%	82	0.0%
9	Jusco	1,675	4.9%	56	3.7%

(China Chain Store & Franchise Association, May 2017)

Foreign retailers continue to be successful in China, however, growth rates for some major chains slowed or even decreased in 2016 (Table 3). Traditional retailers are transitioning to include an online component to their business. Offline (i.e., no online offering) food retailers include hypermarkets, supermarkets, specialty stores, discount stores, neighborhood stores, and convenience stores (Table 4). Online food retailers, such as fruitday.com or chunbo.com, are two examples of specialty retailers that provide food products online and deliver their products directly to consumers.

Online retailers enjoy several advantages over traditional offline retailers. Online retailers are able to scale up quickly because they are not dependent on obtaining expensive real-estate in areas with high foot traffic. Real estate prices in China’s urban areas can be breathtakingly high. Online retailers can also buy warehouses outside of cities and have the food delivered to the consumer’s residence. Another advantage for online retailers is their ability to adjust to trends quickly.

In response to the growing competition from online providers, traditional hypermarkets and supermarkets are trying to differentiate themselves. Large hypermarkets and supermarket chains frequently launch in-store promotions and offer on-site demonstrations, even locating themselves in the basements of major shopping malls.

Inspired by Amazon.com, 24-hour unattended convenience stores developed rapidly in China in 2017. This type of store has less than 15 square meters and no staff. Customers enter the store after they scan a QR code posted on the door. Customers make purchases by scanning the product barcodes and paying by smart phone. Bingbo Box and Xiaomai are two leading 24-hour unattended convenience store operators in China. They each operate over 200 outlets nationwide.

Table 4: 2017 Major Traditional Retail Formats at a Glance

	Number of stores (unit)	Employees (1,000 persons)	Sales (\$ billion)	Purchase Value (\$ billion)
Specialty store	118,601	900	308	266
Supermarket	33,372	420	46	42
Franchise store	32,413	176	30	23
Convenience store	18,588	84	6	5
Hypermarket	8,452	535	77	70
Department store	4,987	263	58	48
Discount store	540	2	0.45	0.4
Warehouse club	97	12	4	4

(2017 China Yearbook, National Bureau of Statistics of China)

Major Hypermarkets and Supermarkets

Nearly all hypermarkets and supermarkets sell imported food products. In 2016, the leading retailers include China Resources Vanguard, RT-Mart (大润发), Wal-Mart, Lianhua (联华), Carrefour, Yonghui (永辉), Bubugao (步步高), Wumart (物美), Metro, and AEON China. High-end chains include Olé, BLT, Sam's Club, Bravo, and BHG. Foreign chains such as Wal-Mart, Carrefour, and Metro are facing keen competition from leading domestic chains like China Resources Vanguard and Yonghui (永辉). Foreign chains are transitioning from the older, central hubs of major Eastern coastal cities to newly established suburban areas. However, the number of stores has remained nearly the same over the past year.

In 2017, Alibaba took a \$2.9 billion stake in leading food retailer Sun Art Retail Group. Sun Art Retail Group operates 400 hypermarkets under the Auchan and RT-Mart brands. This investment will help Alibaba expand its offline business.

Beijing BHG: is the leading imported food supermarket targeting upper-middle level Chinese customers. BHG offers a wide range of international products with around eight percent from the United States. BHG completed an equity restructuring in June 2017. Since restructuring, Beijing BHG has spun off 15 BHG outlets.

Bravo YH: Bravo YH is Yonghui's high-end retail store selling imported fresh fruit, frozen beef and live seafood, especially lobsters and clams. There are 60 Bravo YH stores throughout China.

Bubugao (步步高): Bubugao has 420 retail outlets in Guangxi, Hunan, Jiangxi, and Sichuan. In 2008, this chain became a publicly-listed company on the Shenzhen Security Exchange. In 2013, Bubugao officially launched its online platform "Yunhou," which sells imported foods.

Carrefour (<http://www.carrefour.cn>): The second largest international retailer from France opened its first store in China in 1995. Currently Carrefour has 319 stores in 73 cities throughout China.

China Resources Vanguard (<http://www.crvanguard.com.cn>): Established in 1994 in Hong Kong and after years of mergers and acquisitions, China Resources Vanguard now has over 5,000 outlets. They manager several brands including *BLT*, *Legou Express*, *Leonardo Olé*, *Suguo*, *Vanguard*, *Vango*, *Vivo*, and *Voila!*. In 2015, China Resources Vanguard launched its online <http://www.ewj.com> platform and a cross-border shopping experiment called *EWJ Zone*.

Happy Family Group (兴隆大家庭): Happy Family Group is headquartered in Shenyang and is the largest privately-owned retailer chain in Northeast China. Happy Family Group operates over 30 shopping malls in Northeast China. In 2015, Happy Family opened its first dedicated imported goods store in Shenyang (called "OK") with a large area dedicated to fresh and processed food. Happy Family Group's retail sales revenue reached \$2.5 billion in 2017 and plans to expand its operations into Inner Mongolia, Hebei, and Beijing.

Ito-Yokado: A major Japanese retailer entered the Chinese market in 1997 and has achieved good results from its strategy of putting down local roots. Ito-Yokado's China headquarters are located in Chengdu and now has 6 stores in Chengdu and one in Meishan. In recent years, Ito-Yokado has

earned a good reputation by consumers for its strict management and excellent food quality control.

Lianhua (联华): There are 4,325 Lianhua stores in various retail formats, located mainly in eastern China. In 2013, Lianhua opened its online platform “Lianhua Yigou”, providing home delivery mainly in Shanghai area. In 2017, its sales revenues reached \$3.8 billion. However, Lianhua had a consecutive drop in sales and negative profits in 2016 and 2017.

Metro: Metro entered China in 1996 as a multi-channel retailer. Metro now operates over 80 stores throughout China with its headquarters in Shanghai. Metro’s target consumers are small and medium restaurants and/or individual consumers with medium to high income. Half of Metro’s stores are in the east, including the city of Shanghai and the provinces of Jiangsu and Zhejiang.

Olé & BLT: Currently there are over 65 Olé and BLT stores in China targeting high-end consumers in first- and second-tier cities. Olé is a popular retailer among foreign nationals because of its large sales floor and full range of foreign brands and product categories.

RT-Mart (大润发): RT-Mart has 368 hypermarkets throughout China. This retail chain, which originated from Taiwan, opened its first store in Shanghai in 1998. In 2011, RT-Mart joined hands with Auchan organized a new company named *Gaoxin Retail*, which is listed in the Hong Kong stock exchange. Unlike other retailers, two thirds of RT-Mart and Auchan stores are in third- and fourth-tier cities. Only nine percent of their stores are located in first-tier cities. In 2014, RT-Mart launched its “Feiniu (Flying Bull)” online platform and recently started its “Feiniu global sourcing” project aimed at international food and beverages. RT-Mart purchased FieldsChina.com in 2015.

Sam’s Club (<http://www.samsclub.cn>): There are 19 Sam’s Clubs in China, mostly in first-tier cities and the wealthy cities of Dalian and Hangzhou. Sam’s Club targets high-end consumers. The first Sam’s Club opened in Shenzhen and has the highest sales of all Sam’s Clubs globally. Sam’s Club has an online service and provides home delivery in first-tier cities.

Wal-Mart China: Wal-Mart established its first store in Shenzhen in 1996 and now has 325 stores throughout China. In 2015, Wal-Mart opened nine distribution centers for dry goods and 11 for fresh and frozen products. Wal-Mart’s main retail formats include Wal-Mart supercenters and Sam’s Club membership stores. After its acquisition of Yihaodian.com in July 2015, Wal-Mart launched its mobile shopping application which provides home delivery service in the Shenzhen area. In June 2016, Walmart and JD.com (China’s largest e-commerce company by revenue) announced a strategic alliance to better serve consumers across China.

Wu-Mart (物美): Established in 1994, Wu-Mart has over 500 stores in Beijing, Hebei Province, Ningxia Province, Tianjin, and Zhejiang Province. Wu-Mart manages hypermarkets, supermarkets, convenience stores, and department stores and targets middle to lower-end consumers. Wu-Mart began using electric labeling in its 48 outlets in eastern China in 2017. Inspired by Amazon’s Go, Wu-Mart created “Free Buy” for all its 148 stores in Beijing. Customers can scan products bar codes in these stores, and then check out via their smart phones. This allows them to simply walk out without lining up to check out.

Yonghui (永辉) (<http://www.yonghui.com.cn>): Yonghui owns 580 supermarkets in 150 cities, mainly in the cities of Beijing, Chongqing, Shanghai, and Tianjin, and the provinces of Fujian, Guizhou, Hebei, Henan, Jiangsu, Shanxi, Sichuan, and Zhejiang. In 2014, Yonghui set up its first “YH Wei store” that provided home delivery, in Fuzhou, Fujian Province. In 2015, JD.com invested \$660 million and acquired 10 percent of Yonghui’s stock.

Convenience and Specialty Stores

Overall, China’s convenience retail sector continues to grow (Table 5). Convenience stores and community stores can be found in public transportation centers (e.g., subway stations, airports, and train stations), shopping centers, and other high pedestrian traffic areas. Convenience store retail space varies in size, but averages 50 to 150 square meters. These stores target young urban consumers, mostly students, white collar workers, and tourists. Target customers are typically aged from 16 to 40 and lead a busy lifestyle.

Table 5: Convenience Stores by 2016 Sales Rank

Sales Rank	Store Name	Corporation	Number of Stores in 2015	Growth Rate
1	Ejoy	Sinopec Ejoy	25,000	3.3%
2	uSmile	PetroChina	17,000	3.0%
3	Meiyijia	Dongguan Sugar and Liquor Group	9,300	25.7%
4	Tianfu	Guangdong Tianfu Group	3,311	17.0%
5	Hongqi (Red Flag)	Chengdu Hongqi	2,704	18.9%
6	Shizu	Zhejiang Shizu	1,936	18.6%
7	FamilyMart	Shanghai FamilyMart Co., Ltd	1,810	20.6%
8	Quick	Shanghai Lianhua	1,551	-3.3%
9	Tang Jiu	Taiyuan Tang Jiu Group	1,420	2.2%
10	Kedi, Alldays	NGS Group	1,400	-6.7%

(2017 China Yearbook, National Bureau of Statistics of China)

Specialty retail markets appeal to affluent consumers in China. The stores are located inside downtown commercial buildings, close to high-end shopping centers, or within wealthy residential communities. The number of specialty supermarkets and boutique stores has increased over the past three years. Consumers value their high quality products that are available for purchase in a stress-free environment. Convenience stores in China can be quite crowded and not well kept. Specialty stores should be considered high-end equivalents to convenience stores.

City Shop: City Shop has 13 outlets in Shanghai. Established in the 1990s, City Shop has a loyal customer base of medium to high-end Chinese consumers and expatriates. Fruit Day bought City Shop in 2016. Fruit Day is an online retailer who would like to establish itself as an online-to-offline retailer competition with Alibaba and JD.com.

City Super: City Super is an upscale retailer growing in popularity. It operates three large stores in Shanghai's premium malls. City Super is known for offering a wide variety of imported foods. The chain is active in sourcing gourmet products, especially U.S. beef.

Corner Deli (每一角落): This chain has 12 outlets in Guangdong and Hainan featuring a wide range of imported food items. Examples include U.S. cheese, condiments, breakfast cereal, and packaged products, such as dried fruits, snacks, and nuts.

Dili Fresh (地利生鲜): Dili Fresh was established in 2016 in Shenyang and has about 80 outlets in Shenyang and 200 more throughout China. Dili Fresh sells vegetables, fruits, seafood, meat, nuts, and snacks. Some of its stores also sell rice, flour and cooking oil. Dili Fresh works with local farmers to provide fresh items at competitive prices. Stores are located adjacent to residential communities. Dili Fresh plans to expand to 500 outlets in Shenyang by 2018.

Jenny Lou's: A major specialty imported food chain in Beijing targets expatriates, upper-middle income Chinese consumers, and especially those who have lived abroad. In 2011, the company split into two separate companies, Jenny Lou's and Jenny's Store. Jenny Lou's operates in upscale communities, often near diplomatic compounds and missions. Half of the products sold by Jenny Lou's are from the United States.

Pagoda (百果园): This rapidly growing specialty fresh fruit retail chain operates over 1,500 outlets and has its head office in Shenzhen. Pagoda handles U.S. table grapes, cherries, apples, pears, and citrus.

Seven-Eleven: There are over 1,000 outlets nationwide providing 24-hour service. A typical Seven-Eleven outlet has 80 square meters and features snacks, wine and liquor, drinks, hot and cold delicatessen food items, and non-food items, such as small toys and magazines.

E-commerce

E-commerce sales continue to grow in China. E-commerce accounts for over 15% of total retail sales, which translates to about \$750 billion in annual sales. Industry insiders estimate 10 to 30 percent of retail food and drink imports are sold through e-commerce channels in China. Almost all major online retailers such as Amazon, JD, Tmall, Womai and YHD, sell food and beverages. Other niche retailers target fresh fruit, imported wine and spirits, cake, and tree nuts.

Cross-border e-commerce, which brings imported products from the country of origin directly to the consumers, is an emerging sub-sector although regulations and import tax policies are more complex than those for domestic product e-commerce channels. In 2016, e-commerce grew significantly in second-tier cities such as Nanjing, Wuhan, Suzhou and Xi'an. Major e-commerce retailers see these second-tier markets as their key to future growth.

E-commerce growth, especially in the first-tier cities, has begun to slow after the dramatic expansion of 2006 to 2016. Thus, major e-commerce retailers are beginning to experiment with new platforms, including opening physical retail outlets and utilizing their e-commerce platform to direct consumers to these retail stores. In 2016, China's e-commerce leader Alibaba opened its first offline store, HeMa Fresh, in Shanghai. Following Alibaba's lead, JD.com also entered the offline

market in 2017. JD.com will open one million convenience stores over the next five years. Also JD.com opened its first fresh food supermarket in January of 2018 and plans to open 50 more fresh food stores throughout China by the end of 2018.

Alibaba's HeMa Fresh: Alibaba is the largest business-to-consumer (B2C) online retailer in China. Alibaba offers several platforms that provide opportunities for American exports. Their platforms include Tmall, Tmall Global, and 1688. Alibaba recently expanded their services to offer online-to-offline shopping through its newly-established HeMa Fresh. HeMa Fresh now has 46 stores in China (15 of these are in Shanghai) and offers one-hour quick delivery within a three-kilometer radius of its stores. HeMa Fresh offers fresh fruit, vegetables, meat, seafood, and dairy as well as shelf-stable prepackaged products.

JD.com: JD (京东; Jīngdōng) is China's second largest e-commerce platform with a 30-percent market share and 250 million active users. JD benefitted by partnering with what has quickly become the most popular social media platform, WeChat. Over 80 percent of JD's users use mobile devices to place orders, and they can use WeChat to pay for purchases. JD.com established its Fresh Products Department in 2016 to strengthen its ability to source imported fresh products. JD signed a \$1.2 billion purchase agreement for U.S. beef and pork during President Trump's visit to China in November 2017.

Amazon.cn: While Amazon.cn accounts for less than one percent of market share in China's e-commerce sector, it launched its flagship store on TMall.com in 2015 focusing on directly sourcing products from overseas. Chinese customers can order products via Amazon's website in the United States, France, Germany, Italy Spain, and the United Kingdom. Amazon.cn launched its prime membership program in China in 2016 to lure more Chinese customers.

Netease Kaola: Netease Kaola is a leading cross-border e-commerce platform headquartered in Hangzhou. Kaola provides a one-stop service to overseas suppliers such as logistics, customs clearance, bonded warehouse storage, and customer service. Kaola's most popular items include mother-and-infant care and nutritional supplements.

For more information about Chinese government cross-border e-commerce policy changes, please [see the Global Agricultural Information Network report](#).

Regional (Smaller) E-commerce Business

Chunbo.com (春播网): Is a regional e-commerce business based in Beijing. Chunbo was founded in 2014 and operates organic farms in suburban Beijing. Its target customers are upper-middle income customers and young mothers. Customers can purchase fresh products, seafood, beverages, snacks, and health food. Chunbo.com has one million registered users. Chunbo.com opened two offline stores in Wuxi, Jiangsu Province.

Igetmall.net (爱购保税): Igetmall.net is owned by the Chongqing Free Trade Zone Committee. Relying on its existing warehousing and logistics resources, Igetmall.net provides customs clearance, warehousing, sorting and packaging. Their total sales revenue for the first three quarters of 2016 was \$9 million.

Sjgo365.com (世纪购): This e-commerce platform is operated by Chongqing General Trading E-Commerce Co., Ltd., which is a subsidiary of Chongqing General Trading (Group) Co., Ltd., the seventh largest state-owned retail group in China. Sjgo365.com total sales revenue for the first three quarters of 2016 was \$13 million.

Tiangou.com (天狗网): Was founded by the Dashang Group in 2014. Dashang Group is headquartered in Dalian and operates stores in 17 provinces. Dashang Group is the largest retailer in Northeast China. Tiangou's total sales revenue was \$45 million in 2017.

Xgqqg.com (西港全球购): Was founded by Yu'ou Chongqing in 2014. Xgqqg.com specializes in cross-border e-commerce. Xgqqg.com opened its first offline store which specialized in mother-baby food and products in 2015. Their total sales revenue for the first three quarters of 2016 was \$32 million.

Recommendations for U.S. Food Exporters Opportunities and Challenges

The China market offers many opportunities for U.S. exporters, however for all the opportunities there are also challenges to consider. These opportunities and challenges have been explained in detail in the preceding sections. For convenience, they are also summarized below:

Opportunities and Challenges for U.S. Food in the China Market

Opportunities:	Challenges:
<ul style="list-style-type: none"> • Increasing disposable incomes • Focus on healthy eating • U.S. food has strong reputation for food safety • Online shopping convenience • Large datasets allows retailers to quickly adapt to consumer preferences • Social media enhances consumer awareness of U.S. food products • Cold storage development • Enhanced distribution networks into second-, third-, and fourth-tier cities • Cross-border e-commerce • Popularity of private labels • Younger consumers readily adapting to dining on the go • Greater curiosity about American regional cuisines, e.g., Tex-Mex, Cajun, and New England seafood • More cities are hosting more trade shows 	<ul style="list-style-type: none"> • China’s overall (and potential) economic slowdown • Significant and increasing competition from other exporting countries at trade shows and exhibitions • Market access complexities • China grants lower tariffs to many U.S. competitors • Cultural differences make finding areas of common ground more difficult • Packaging size and labeling preferences are different • Most Chinese do not own or know how to use stoves • Lack of U.S. brand awareness • Short shelf-life • Logistics in third- and fourth tier cities still needs improvement • RMB under valued • GMO labeling, organic registration, and other labeling requirements • IPR protection still weak for U.S. exporters. • No bilateral organic equivalency agreement.

U.S. Food Products with a Strong Presence

The United States is the second largest supplier of consumer-oriented food products to China by value after New Zealand. A wide range of U.S. products and brands are available in China’s retail markets. Examples of successful U.S. brands include Blue Diamond, Coca-Cola, Kettle Potato Chips, Lays, Mars, Pepperidge Farm, Snyder’s Sun Maid, and Wonderful, among many others. Popular U.S. products with a strong presence in the market include tree nuts and dried fruit (prunes, raisins), seafood (especially live seafood, including lobster, crab and geoduck), pork, beef, vegetables (especially sweet corn and baby carrot), infant formula, dairy products (cheese and butter), baking ingredients and bread bases, cereals, fresh fruit (oranges, apples, especially cherries), premium ice cream, and red wine and spirits. While there brands are readily found in China’s first-tier cities, that is not the case in second- and third-tier cities.

Market Entry Recommendations

China is comprised of overlapping markets differentiated by geography, culture, cuisine, demographics, dialects, and economics. There is no single formula for success in China. Exporters must identify and follow a solid market entry strategy for their region. China’s retail business environment is evolving quickly; thus a market entry strategy should also be targeted and

adaptable. Exporters should be prepared to invest resources, staff, and time to encounter and overcome these difficulties. If an exporter is committed to adapting to the many challenges, then China offers great opportunities.

The following are market entry steps for U.S. food exporters. While the suggestions are relatively straightforward, in our experience some exporters have failed to consider these key steps. They are presented here for your benefit:

- Conduct tailored market research for your specific product.
- Research and understand basic Chinese import regulations and certifications.
- If possible, identify Chinese and local partners and develop a strategic plan.
- Attend food trade shows and/or exhibit your products at a trade show.
- Adapt your products to the particular market (make it work friendly, provide servicing support).
- Identify your product(s) likely distribution channel(s) such as online, offline, direct-to-consumer, and so on.
- Prepare your exporting documents and utilize local partners to confirm the accuracy and completeness of the documentation.
- Adapt and learn by attending USDA Agricultural Trade Office marketing activities.
- Participate in U.S. agricultural trade group seminars and trade missions.
- Invest in market promotions that are regularly launched by U.S. agricultural trade groups. There are over 50 Cooperators operating in China.
- Consider investigating Chinese social media to enhance your product awareness.
- Test your Chinese packaging labels with someone other than your consultant to verify their clarity and impact.

We encourage U.S. food exporters to approach Cooperators, local agricultural trade promotion offices, and [state and regional trade groups](#) to learn about promotion and partnership opportunities. U.S. food exporters may also approach the five USDA Agricultural Trade Offices (ATOs) in Beijing, Shanghai, Guangzhou, Shenyang, and Chengdu for information on the local retail market. However, be aware that while these organizations may provide your business with recommendations, distributor lists, activities, and other advice, they are not well suited (and many times unable) to provide you with a comprehensive exporting business plan.

China Regional Market Profiles

South China: ATO Guangzhou

ATO Guangzhou's South China region includes the provinces of Guangxi, Guangdong, Fujian, Hainan and Hunan. This area has a population of 274 million, an estimated per capita GDP of \$8,500, and accounts for roughly 32 percent of China's consumer oriented food and beverage imports (according to Chinese Customs data). As the primary manufacturing hub, this relatively affluent region has a dynamic economy. It has two first-tier cities (Guangzhou and Shenzhen) and several rapidly expanding second- and third-tier city markets (e.g. Dongguan, Zhuhai, Xiamen, etc.). Travel times to other major international trading hubs are diminishing with high-speed rail upgrades between Guangzhou and Hong Kong.

South China's GDP Overview

Province	GDP (Billion U.S. Dollars)			Per Capita GDP (U.S. Dollars)
	2015	2016	Growth	2016
Guangdong	1,120	1,244	11.0%	11,387
Hunan	445	485	9.2%	7,136
Fujian	400	443	10.9%	11,493
Guangxi	259	282	9.0%	5,850
Hainan	57	62	9.5%	6,823
TOTAL	2,280	2,517	10.4%	N/A

(2017 China Yearbook, National Bureau of Statistics of China)

The Southern China Retail Market Outlook

Opportunities:	Challenges:
<ul style="list-style-type: none"> • Wealth of port infrastructure and expanding direct South China to United States sea freight routes • Expanding middle-class with rising purchasing power • Continued growing preference for imported products by South China consumers • New Zhuhai-Hong Kong-Macau bridge and expected completion of high-speed Guangzhou to Hong Kong rail connection • Increasing awareness of the South China market by U.S. trade organizations, the United States, and export groups • Growth of specialized stores, including high-end grocery stores and specialized fruit chains • Rapid growth of “new retail” outlets - combining online and offline business models 	<ul style="list-style-type: none"> • Still lack of knowledge of how to handle and store U.S. food and ingredients in smaller cities • Despite the huge market size, U.S. exporters are still not as familiar with the South China market compared to other markets in China • Most of the key domestic trade shows are located in other regions of China • Some offline stores have closed due high rental fees in Guangzhou and Shenzhen • Online shopping platforms are squeezing offline retail margins in South China

North China: ATO Beijing

The North China region consists of Beijing and Tianjin; the provinces of Hebei, Henan, Gansu, Ningxia, Qinghai, Shaanxi, Shandong, and Shanxi; and, the Autonomous Regions of Inner Mongolia and Xinjiang. The region's population is over 490 million and accounts for 34 percent of China's population. The major sea ports in North China region are Tianjin and Qingdao.

North China's GDP Overview

Province	GDP (Billion U.S. Dollars)			Per Capita GDP (U.S. Dollars)
	2015	2016	Growth	2016
Shandong	969	1,047	8.0%	10,574
Henan	569	623	9.4%	6,550
Hebei	459	493	7.6%	6,625
Beijing	354	395	11.5%	18,184
Shaanxi	277	298	7.6%	7,848
Inner Mongolia	274	280	2.2%	11,087
Tianjin	254	275	8.1%	17,700
Shanxi	196	201	2.2%	5,466
Xinjiang	143	148	3.5%	6,241
Gansu	104	111	6.0%	4,253
Ningxia	45	49	8.8%	7,261
Qinghai	37	40	6.4%	6,697
TOTAL	1,686	1,797	6.6%	N/A

(2017 China Yearbook, National Bureau of Statistics of China)

The Northern China Retail Market Outlook

Opportunities:	Challenges:
<ul style="list-style-type: none"> • One of the most dynamic e-commerce regional markets in China • An increasing middle class in many regional second-tier cities • Geographical gateways are getting the green light from Beijing to expand (Xi'an is the gateway to Northwestern China and Zhengzhou is China's rail transport hub) • Consumer base with experience working and studying overseas • Youth have adopted western cuisine and lifestyles • New retail modes are emerging, such as offline store opened by e-commerce players and 24-hour unstaffed convenience stores 	<ul style="list-style-type: none"> • Retail market is saturated in first-tier cities • Fierce competition in imported food market in first-tier cities • Lack of direct connection with distributors based in second- and third-tier cities • Cold chain lacking in high potential second-tier cities • The income gap between high, middle and low-end consumers is widening.

East China: ATO Shanghai

East China is well known for its retail sector, and is a national leader in e-commerce, convenience store outlets, specialty stores, supermarkets, and wholesale markets. The East China region includes the city of Shanghai and the Provinces of Anhui, Hubei, Jiangxi, Jiangsu, and Zhejiang. As China's business center, Chinese companies have invested in the region's food distribution and food storage capabilities to supply its 323 million people.

East China's GDP Overview

Province	GDP (Billion U.S. Dollars)			Per Capita GDP (U.S. Dollars)
	2015	2016	Growth	2016
Jiangsu	1,079	1,191	10.4%	14,906
Zhejiang	660	727	10.2%	13,064
Hubei	455	503	10.5%	8,564
Shanghai	387	434	12.2%	17,933
Anhui	339	375	10.9%	6,086
Jianxi	257	285	10.6%	6,215
TOTAL	982	1,094	11.3%	N/A

(2017 China Yearbook, National Bureau of Statistics of China)

The East China Retail Market Outlook

Opportunities:	Challenges:
<ul style="list-style-type: none"> • Highest regional per capita disposable incomes in all of China • Strong consumer trend towards healthy eating and focus on high food safety standards • Open to new retail concepts • Active adoption of online data collection • Large datasets allows retailers to accurately and quickly adapt to consumer preferences • China's largest expatriate communities • Active and growing international consumer marketing events • Developed distribution networks with cold chain support into second-, third-, and fourth-tier cities • Cross-border e-commerce active in Shanghai, Ningbo and Hangzhou • Increasing numbers and formats of convenience and specialty stores 	<ul style="list-style-type: none"> • Economic growth slowdown and cost increases in labor, land and service • Consumers' frequent international travel allows easy access to high-value products in the country of origin • Lack of U.S. brand awareness • Professional buyers scout stores on behalf of consumers and industry groups to check label claims and verify compliance • Shanghai consumers are very price savvy and will use online apps to check for competing offers • Shanghai consumers consider the absence of additional product support services, such as on-site cooking demo or instruction video, to be a downgrade

Southwest China: ATO Chengdu

The Southwest region consists of the Provinces of Guizhou, Sichuan, Yunnan, the Chongqing Municipality, and the Tibet Autonomous Region. Southwest China’s major urban centers are Chengdu, Chongqing, Kunming, and Guiyang. These second-tier cities offer reasonable access to imported food products and serve as distribution hubs for imports in their respective provinces.

Southwestern China’s GDP Overview

Province	GDP (Billion U.S. Dollars)			Per Capita GDP (U.S. Dollars)
	2015	2016	Growth	2016
Chongqing	242	273	12.9%	9,000
Sichuan	462	507	9.6%	6,154
Yunnan	210	228	8.6%	4,784
Guizhou	162	181	12.1%	5,115
Tibet	16	18	12.2%	5,413
TOTAL	1,091	1,206	10.5%	N/A

(2017 China Yearbook, National Bureau of Statistics of China)

The Southwestern China Retail Market Outlook

Opportunities:	Challenges:
<ul style="list-style-type: none"> • U.S. products are regarded as high in quality • U.S. products are prized for their high safety standards • The region is well known for its passion for food • Consumers are very open minded and easily accept imported food • Southwest China’s major cities of Chengdu and Chongqing rank among China’s top 10 cities with the strongest spending power • More and more direct flights to the United States have created favorable conditions for importing U.S. fresh and premium foods • Rapid growth in retail chains has created the potential for bulk sales, with consequent improvement in pricing and handling • Big “new retail” stores are well developed 	<ul style="list-style-type: none"> • The region is located inland and lacks sea freight routes • The introduction of U.S. products mainly depends on importers from coastal cities • The high price of U.S. products has reduced the number of importers or distributors who carry U.S. products • As a second-tier region, local companies have less direct contact with U.S. companies and trade associations • Lack of knowledge about how to properly prepare U.S. products properly makes consumers hesitant to buy • Regional inspection and quarantine agencies have less experience in customs clearance of U.S. products

Northeastern China: ATO Shenyang

Northeast China, called *Dongbei* in Chinese, includes the three provinces of Liaoning, Jilin and Heilongjiang. The three provincial capitals are Shenyang, Changchun and Harbin. Each provincial capital is home to seven to ten million residents. Dongbei is home to 110 million people and has

30 more cities with populations of over one million. Northeast China has a land area of 780,000 square kilometers and is roughly the size of Pakistan. The port city of Dalian is the wealthiest city in Northeast China. In 2016, Dalian had six million people and per capita income of over \$14,000.

Northeastern China’s GDP Overview

Province	GDP (Billion U.S. Dollars)			Per Capita GDP (U.S. Dollars)
	2015	2016	Growth	2016
Liaoning	365	356	-2.5%	7,614
Jilin	229	242	5.9%	8,076
Heilongjiang	242	247	2.0%	6,062
TOTAL	932	845	1.8%	N/A

(2017 China Yearbook, National Bureau of Statistics of China)

Northeastern China Retail Market Outlook

Opportunities:	Challenges:
<ul style="list-style-type: none"> • Expanding direct sea freight commerce with U.S. West Coast • Winter climate makes E-Commerce popular even with breakfast foods • ATO Shenyang Market Seminars building importer, processor, and agent relationships • Region’s major cities are competing hard for Tier One status and more funding support from Beijing • High speed rail connections with Chengdu and Beijing to open in 2018 and 2019 • Increasing awareness of U.S. State and private trade organizations through food promotions, Cooperator visits, and ATO networking events • Region’s food business ready to rely on partners outside of the province • Largest beef and lamb consumers in all of China • Region looking to develop winter tourism, including ski chalet ambiance 	<ul style="list-style-type: none"> • Absence of direct air connections between the United States • Unfamiliarity with U.S. brands and snack foods • As a second-tier region, lack of direct contact with U.S. companies and trade associations • Major food shows moving outside of the region • Regional governments are less aware of the benefits of trade as a means of raising income and employment • Major hotel chains handle their menu purchasing through their head offices in Beijing, Shanghai, and Guangzhou

FAS China Contacts:

Organization	Address	Contact Information
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Beijing Agricultural Trade Office (ATO)	U.S. Embassy, Beijing, 55 An Jia Lou Road, Beijing, China, 100600	Tel: (86-10) 8531-3950 Fax: (86-10) 8531-3974 ATOBeijing@fas.usda.gov www.usdachina.com
Shanghai ATO	U.S. Consulate General Shanghai, Shanghai Centre, Suite 331, 1376 Nanjing West Road, Shanghai, China, 200040	Tel: (86-21) 6279-8622 Fax: (86-21) 6279-8336 ATOShanghai@fas.usda.gov www.usdachina.com
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