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**Prepared By:** FAS-China

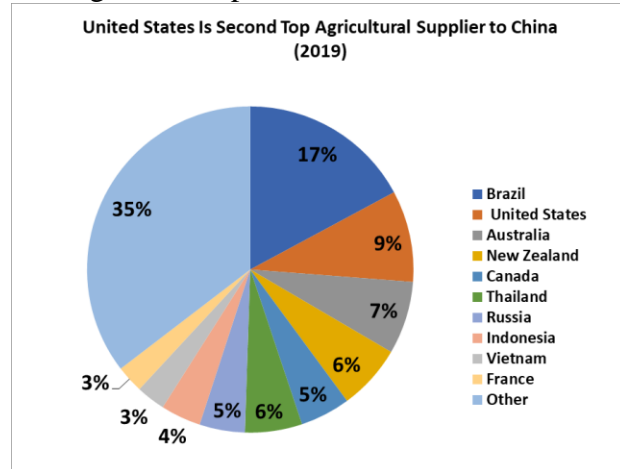
**Approved By:** Chris Frederick

**Report Highlights:**

Report Highlights: China's Hotel, Restaurant, and Institutional (HRI) sectors recorded \$687 billion in sales revenue in 2019, a 9 percent increase from the previous year. With the onset of COVID-19 in December of 2019, demand patterns for HRI sales underwent significant changes with first quarter sales contracting but rebounding in the second quarter of 2020. On the positive side, China instituted a tariff exclusion process to waive the Section-301 retaliatory tariffs on imports of U.S. agricultural products.

## Executive Summary

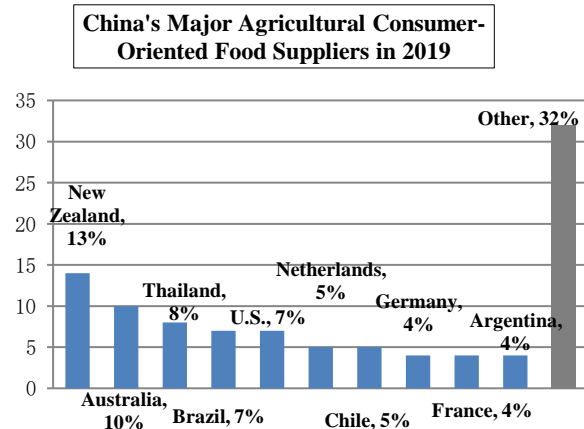
In 2019, China imported approximately \$18.2 billion of U.S. agricultural products, a more than six-fold increase since China's accession to the World Trade Organization (WTO) in 2001. China is a net importer of U.S. agricultural products.



Source: Trade Data Monitor (TDM)

## China's Imports of Consumer-Oriented Products

In 2019, the United States, previously the fourth largest exporter, became China's fifth largest food product supplier (behind New Zealand, Australia, Thailand and Brazil). In total, China imported \$3.2 billion of consumer-oriented products from the United States in 2019, a decrease of 3 percent.



## China Macroeconomic Overview

**Population:** 1.4 billion and growing; largest in the world (Source: World Factbook)

**GDP (in PPP terms):** \$25.36 trillion (in 2018); largest in the world; largest in Asia (Source: World Factbook)

**Per capita income:** \$18,200 (in 2018), with a growing middle class (Source: World Bank)

### Agriculture:

- Accounts for 7.9 percent of China's GDP
- Accounts for 27.7 percent of workforce
- World leader (by gross value) of agricultural output for rice, wheat, potatoes, corn, peanuts, tea, apples, cotton, pork, mutton, eggs, fish and shrimp (Source: World Factbook)

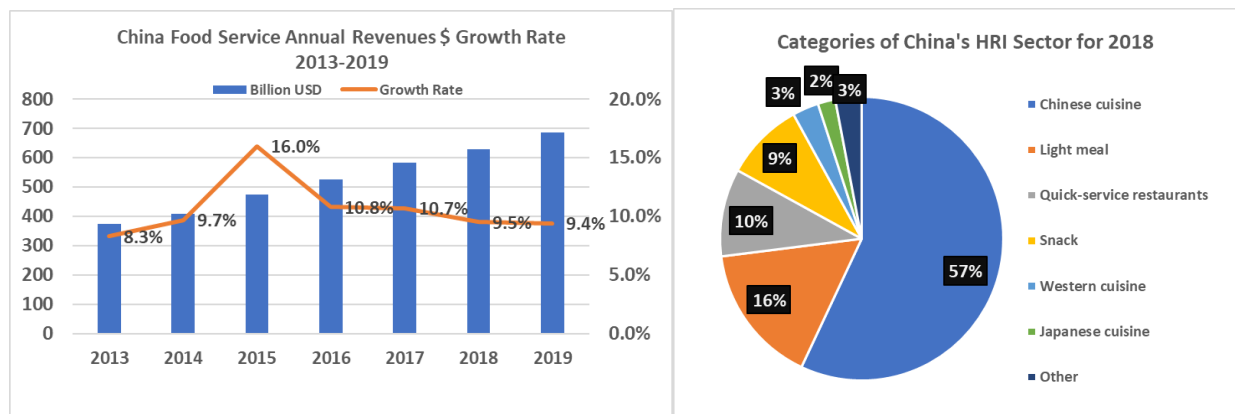
## HRI Sector-China Overview

China's Hotel, Restaurant, and Institutional (HRI) food sales reached \$687 billion in 2019.

Strengths/Weakness Opportunities/Challenges SWOT Analysis	
Strengths	Weaknesses
<ul style="list-style-type: none"> <li>- U.S. food products are perceived as high quality, safe, and consistent</li> </ul>	<ul style="list-style-type: none"> <li>- China's food product supply chain continues to be fragmented and underdeveloped, though this is improving, as illustrated by COVID-19</li> <li>- International cuisines are not as widely accepted as local cuisines</li> <li>- Higher tariffs, freight cost and longer port clearance time due to COVID-19 testing</li> <li>- Uncertain bilateral relationship between the United States and China</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>- Rising disposable incomes</li> <li>- Growing familiarity and demand for imported food products</li> <li>- Growth in ecommerce for food products</li> </ul>	<ul style="list-style-type: none"> <li>- Over 12 countries have free trade agreements with China while the United States does not</li> <li>- Domestic food supply is strong and diversifying</li> </ul>

## SECTION I. MARKET SUMMARY

China's Hotel, Restaurant, and Institutional<sup>1</sup> (HRI) sector is the second largest in the world, with \$687 billion in sales revenue in 2019, a 9 percent increase from the previous year.<sup>2</sup> Referring to 2018, the year for what we have the latest data, Chinese cuisine dominates the Chinese HRI sector with 57% of the market. Light meal and quick-service restaurants are follow behind at 16 and 10 percent respectively.<sup>3</sup>



China's HRI sector is driven by many economic and cultural factors, but the highlights below are especially important to note for this 2020 report:

- **Solid growth continues for China's HRI sector.** Driven by growing household incomes and the increasing popularity of dining out, China's HRI sector maintained solid dynamic growth in terms of value sales. The China Catering Association's latest report (2019) found that 51.8% of interviewees ate out more frequently than in 2018.<sup>4</sup> Moreover, the emerging middle-class born in the 1980's and 1990's have gradually become the main force of foodservice consumption.
- **Emerging "healthy eating" trends.** Consumers are becoming more conscious about their overall health and are paying more attention to the nutritional value of dishes and food.
- **Going digital.** The use of new technology is thriving in the Chinese food industry with food-service operators using online reservations, mobile ordering, and payment apps. Online food delivery maintained a strong momentum with nearly \$37 billion worth of meals being ordered through ordering apps, an 18.4 percent increase from the previous year, and 0.4 billion active online users.<sup>5</sup>
- **Positive perception of imported food products.** On average, imported food products are considered safer, of higher quality, and more consistent than domestic food products.

<sup>1</sup> Institutional is defined as hospitals, schools, government agencies, railways, airlines, state-owned enterprises, etc.

<sup>2</sup> 2020 Big Data of China Catering (中国餐饮大数据2020). In comparison, the United States foodservice sector supplied reached \$863 billion in 2019 according to the National Restaurant Association (NRA). <https://restaurant.org/research/restaurant-statistics/restaurant-industry-facts-at-a-glance>

<sup>3</sup> Source: China Catering Association

<sup>4</sup> Source: 2019 Annual Report on Catering Industry Development of China, General Report (中国餐饮产业发展报告2019) released on July 19, 2019.

<sup>5</sup> 2019 Annual Report on Catering Industry Development of China, General Report (中国餐饮产业发展报告2019).

The HRI sector is popular in China’s Tier 1 cities (Shanghai, Beijing, Guangzhou and Shenzhen) and is rapidly developing in Tier 2 and Tier 3 cities. Four and five-star hotels and restaurants in China that serve international cuisines, tend to be more expensive and offer an upscale ambiance. These establishments are more likely to use imported food products. Selection and purchase of U.S. food products as a preferred source of food can continue to increase with consistent education and communication about U.S. food products and how they effortlessly fit in and enhance traditional Chinese cuisines.

In 2020 and beyond, Chinese consumer demand for safe, high quality imported products will continue to be driven by China’s rising disposable incomes and increasing urbanization. To learn more about other trends and changing consumer preferences in China, please see the [2019 Exporter Guide to China](#).

<b>U.S. Supplier ADVANTAGES</b>	<b>U.S. Supplier CHALLENGES</b>
Products from the United States are perceived to be high quality, safe, and consistent.	Consumer recognition of U.S.-branded products remains low, especially outside first and second-tier cities.
American culture (e.g., holidays, dining experience, etc.) is well known in China.	Tariffs and uncertainty currently dominate the narrative about the trade relationship between United States and China and have residual impacts on food service operators.
China agreed to purchase \$35-40 billion of U.S. agricultural products under the U.S.-China Economic & Trade Agreement (ETA). The tariff exclusion process facilitates these purchases.	Competition from local suppliers is intense.
U.S. exporters and suppliers have access to a network of assistance provided by the USDA’s Foreign Agricultural Service and its five offices and USDA trade associations (please see section 5 below for key contacts and further information).	There are many alternative suppliers for similar products to China including those who have signed FTAs (ASEAN, Australia, Singapore, South Korea, Maldives, Pakistan, New Zealand, Chile, Peru, Costa Rica, Iceland, Switzerland, Georgia, Hong Kong, Macao, and Taiwan).

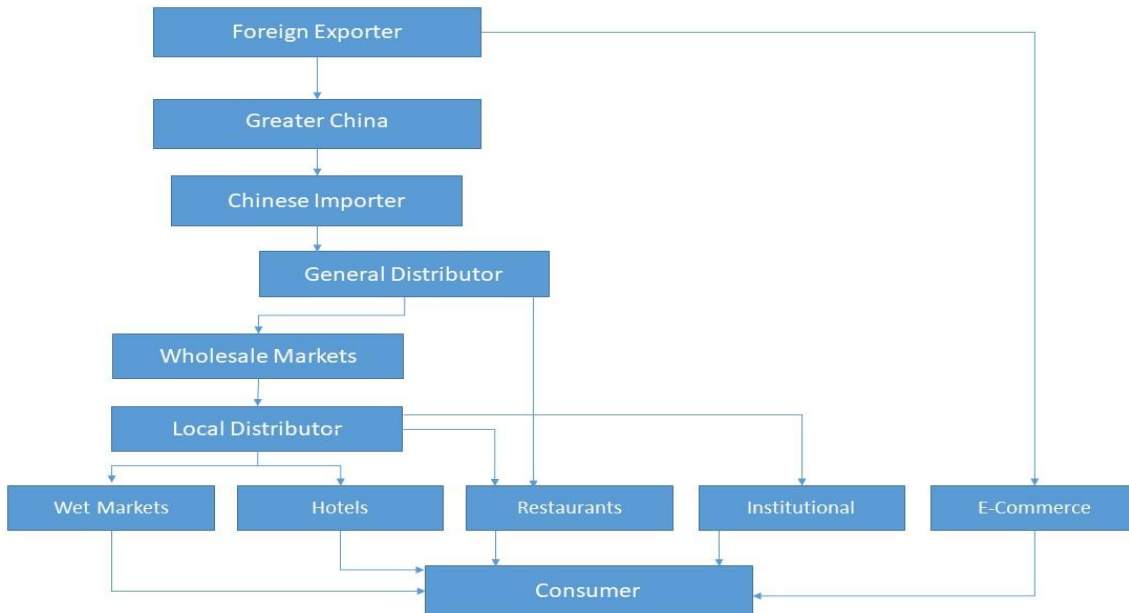
## **SECTION II. ROAD MAP FOR MARKET ENTRY**

Entering China’s HRI market can be rewarding but it requires a large investment of resources (e.g., time, financing). Selling and distributing your product in China often requires face-to-face contact, a special effort to educate key stakeholders about the product, and a sound and efficient distribution system. Entry strategy should focus on the elements below:

### **1. Selecting a distribution channel:**

There are multiple channels through which U.S. products can enter into the Chinese market. The appropriate channel depends on the type of product, level of desired control, and targeted consumer.

## Exhibit 1: Distribution Channels



USDA China strongly advises U.S. exporters to work with an importer, local import agent, distributor, and/or the end-user to make sure the products are in compliance with Chinese regulations and all proper documentation has been completed. For more on these regulations, please visit: [USDA's Food and Agricultural Import Regulations \(FAIRS\) Report](#).

### 2. Tailoring to the market:

Educating Chinese consumers about your food product(s) is important. Education can include everything from showing distributors how to handle the product, to demonstrating how to prepare the food product(s) to showing how the product(s) should be served. Catalogues, recipes, and handling instructions should be provided in Chinese. HRI promotions (e.g., chef demonstrations, menu promotions, kitchen takeovers) are an effective tool to inform end-users about the product(s). General advice for food product exporters on the HRI market is:

- **Conduct market research.** It is critical to understand the targeted consumer and prospective clients before you enter the market. Discuss the strategy with USDA Cooperators representatives who understands the local market and economic conditions. Take advantage of free market research reports and periodic FAS China reports to stay current on the latest commodity and regional HRI trends.
- **Adapt your products.** Incorporating western food ingredients into local Chinese cuisines will significantly increase sales potential. Be prepared to adapt your product(s) to the demands of Chinese end-user.
- **Find a local partner or distributor.** For smaller companies without the resources to directly market their products in China, a good distributor is critical to success.
- **Tell the story of your product(s).** Consumers in China value information about what they are consuming. Traceability and healthy/organic products are recent trends, especially among the younger generations.

### 3. HRI Sub-Sector Profiles:

#### **Hotels and Resorts**

Partially spurred by major international events, conferences and trade shows, China's hotel and resort industry is immense in size and continually growing. Many internationally owned or managed hotel groups are rapidly expanding operations in second, third-tier cities and top tourism destinations.

On average, food service operations in hotels and resorts account for approximately 35 percent of the total hotel's revenue. Unlike in many Western countries, restaurants in hotels are not necessarily visited by only lodging guests, but instead are frequently visited by outside guests. Generally speaking, restaurants in the hotels are considered to have superior quality and service.

Hotels often purchase ingredients and food products through a centrally managed system. Imported food products are often preferred by international hotels because the hotels cater to a diverse clientele.

#### **Restaurants**

Geographically large and regionally diverse, China has very distinct local and regional food and flavor preferences. While restaurants serving local cuisines continue to dominate the market, western cuisines are becoming popular in Tier 1 cities. Restaurants serving western cuisines account for approximately 3 percent of the total HRI sector revenue.<sup>6</sup> In general, ingredients for non-chain establishments are sourced from local distributors and markets. The chain establishments have the centralized purchasing point.

Demand for higher quality food products has risen in step with disposable incomes. Per capita disposable income has increased 47 percent since 2013, with a 9 percent increase from 2018 to 2019, reaching \$4,519.<sup>7</sup> However, this amount in more developed coastal areas is usually two times higher than the national figure. Upscale restaurants are beginning to take advantage of a high-end food market in which affluent consumers are willing to pay a premium for quality and international dining experiences.

#### **Institutional Food Service**

Traditionally, institutional food service in China was primarily for hospitals, government offices, army, schools, and transportation (i.e., trains, flights). According to the latest data from China Catering Association, the institutional food service sector reached \$176 billion in revenue in 2017 or 28 percent of revenue of the entire HRI industry. However, the institutional food service sector is facing many challenges, such as lack of known brands and unstandardized operational procedures, food safety control and management measures, and supply chain.

Due to extreme price sensitivity within much of the sector, the catering market has yet to use a meaningful level of imported food and beverage products. However, with increasing wealth, high-end office complexes and private companies, institutional food service could be a future market for imported food ingredients.

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<sup>6</sup> Source: China Catering Association

<sup>7</sup> China Bureau of Statistics – 2019 edition

### **SECTION III. COMPETITION**

Food products for the HRI sector from the United States compete both with domestic and imported foods. Since China joined the World Trade Organization in 2001, imported food products have become more accessible and with that, competition has increased. China currently has FTAs in development and existing FTAs with ASEAN, Australia, Singapore, South Korea, Maldives, Pakistan, New Zealand, Chile, Peru, Costa Rica, Iceland, Switzerland, and Georgia.

Most imported products face at least some locally manufactured, lower-priced competition, with only a few exceptions (e.g., olive oil). Significant competition also comes from large international corporations with local production. In general, locally produced products are also improving in quality, so chefs and purchasing managers are increasingly faced with balancing quality and cost when choosing imported or domestic supplies.

Moreover, the United States is losing ground in the HRI market due to the high tariffs imposed on imported food items and an uncertain trade relationship with China. As of writing, though many U.S. products which are subject to additional retaliatory tariffs, are eligible to receive exclusions for these. For the latest information, please refer to

[GAIN: Updated Guidance on China's Retaliatory Tariffs and Tariff Exclusions Process.](#)

## Exhibit 2: Competition Chart

Major Products, Market Shares by value, and Market Situations			
Product	Foreign Suppliers	Import Market Situation	Local Market Situation
<b>Beef</b> Imports \$8.4 billion	1. Brazil: 25% 2. Australia: 21% 3. Argentina: 21% 4. Uruguay: 14% 7. USA: 1%	Beef imports by China will reach 2.5 million tons in 2020, representing a 15-percent increase from 2019. GAIN Report: <a href="#">Livestock and Products Semi Annual</a>	The data showed production increased by 3 percent in 2019 and this level of growth is expected to continue in 2020.
<b>Pork</b> Imports \$6.4 billion	1. Spain: 19% 2. Germany: 15% 3. USA: 12% 4. Denmark: 11% 5. Canada: 7%	Pork imports are expected to increase due to the shortage of domestic supplies and high prices. GAIN Report: <a href="#">Livestock and Products Semi Annual</a>	Overall swine production and slaughter will remain depressed in 2020.
<b>Poultry</b> Imports \$2 billion	1. Brazil: 66% 2. Thailand: 11% 3. Argentina: 10% 4. Chile: 5% 7. USA: 0.01%	China's strong chicken demand will continue to drive imports. On Nov 14, 2019 GACC announced market access for US poultry. Please refer to GAIN report: <a href="#">New to Market Product Report - Poultry Meat</a> GAIN Report: <a href="#">Poultry and Products Annual</a>	China's chicken meat production will continue to grow in 2021 but at a slower pace. Local chicken dominates the market.
<b>Fish and Seafood</b> Imports \$15.6 billion	1. Russia: 14% 2. Ecuador: 12% 3. India: 8% 4. Canada: 7% 6. USA: 6%	China's seafood imports continued to grow in 2019. GAIN Report: <a href="#">Continued Seafood Import Growth in 2019</a>	China continued to be the world's leading seafood producer in 2019, local species still are still popular.
<b>Dairy Products</b> Imports \$12.0 billion	1. New Zealand: 40% 2. Netherlands: 15% 3. Germany: 8% 4. Ireland: 8% 7. USA: 4%	Imports of fluid milk will continue to rise in 2020 spearheaded by UHT milk imported via e-commerce channel. GAIN Report: <a href="#">Dairy and Products Semi-annual</a>	In 2020, China's fluid milk production will increase due to higher profits earned by dairy farmers. High input and production costs limit production of cheese and butter.
<b>Wine &amp; Beer</b> Imports \$3.3 billion	1. Australia: 26% 2. France: 23% 3. Chile: 10% 4. Mexico: 5% 9. USA: 2%	European wine is popular among Chinese. Chile and Australia offer competitive pricing. The imported craft beer industry is still in the nascent stages.	China's wine industry is evolving, but it may take years to catch up with international market leaders. Local beer dominates the market.
<b>Fresh Fruit</b> Imports \$8.6 billion	1. Thailand: 32% 2. Chile: 22% 3. Philippines: 9% 4. Vietnam: 7% 7. USA: 2%	China's fruit imports are expected to increase driven by demand for high quality products. GAIN Report: <a href="#">Fresh Deciduous Fruit Annual</a>	Overall fruit quality and variety is improving.



**SECTION IV. BEST PRODUCT PROSPECTS**

Interviews with HRI food service professionals repeatedly confirm that U.S. food exporters should select top quality products for export to China. U.S. foods benefit from expectations of high and consistent quality, attractive appearance, convenient packaging, and food safety.

**Exhibit 3: Best Prospective Products**

Products in Market with Continued Good Potential	Products in Market with Unrealized Potential	Products with Market Access Barriers but with Good Potential
<ul style="list-style-type: none"> <li>• Beef</li> <li>• Pork</li> <li>• Salmon, Sea cucumber</li> <li>• Geoduck, lobster, Dungeness crab, cod, squid</li> <li>• Tree Nuts (almonds, pistachios, pecans)</li> <li>• Dried fruit (cranberry, raisins, blueberry)</li> <li>• Fresh fruit (cherry, apple, citrus, strawberry, blueberry)</li> <li>• Milk chocolate</li> <li>• Mild and soft cheese, butter, Pasteurized milk</li> <li>• Sauces, spices, condiments, especially for pizza</li> <li>• Frozen potato products</li> <li>• Wine</li> </ul>	<ul style="list-style-type: none"> <li>• Wheat flour and pasta</li> <li>• Dehydrated potatoes</li> <li>• Confectionary</li> <li>• Sweet mixes and doughs</li> <li>• Breads, pastries, and cakes</li> <li>• Cookies, waffles, and wafers</li> <li>• Breakfast cereals</li> <li>• Craft beer</li> <li>• Rice</li> <li>• Poultry products</li> </ul>	<ul style="list-style-type: none"> <li>• Organic foods</li> </ul>

Note: China imposed tariff on most U.S agriculture products but the government is currently is accepting applications from importers for tariff exclusions.

**SECTION V. KEY CONTACTS AND FURTHER INFORMATION**

USDA’s Foreign Agricultural Service (FAS) has an unrivaled global network of more than 90 Offices of Agricultural Affairs (OAA) and Agricultural Trade Offices (ATO) that connects exporters to foreign customers and provides crucial information on international agricultural markets. FAS operates five offices in China. These include: one OAA located in Beijing; and four ATOs located in Beijing, Guangzhou, Shanghai, and Shenyang. Beijing OAA is responsible for trade policy and commodity analysis and assists with market access and sanitary and phytosanitary issues for all of China. Agricultural Trade Offices were created with the sole purpose of focusing on agricultural marketing efforts. All four ATOs in China provide support, assistance, and oversight to USDA cooperators, work directly with U.S. companies to help them gain the knowledge and contacts needed to begin exporting to China, and prepare and disseminate reports about China’s agricultural market. The offices coordinate U.S. participation in various trade shows, and sponsor marketing activities to introduce companies handling U.S. products to key retailers, foodservice and food processing companies throughout China, and provide guidance in the resolution of customs clearance issues.

### 1. Trade Shows in China

USDA has three endorsed trade shows in China for exporters to participate in. Many suppliers get excellent market information by scheduling their visit to coincide with one of the trade shows. The ATOs in Beijing, Guangzhou, Shanghai, and Shenyang can all provide contact details for show organizers upon request as well as recruiting distributors or traders to the show for matchmaking meetings. For additional information on USDA endorsed trade shows, please visit: [USDA Endorsed Trade Shows](#).

### 2. Stay in touch with USDA China

To see latest reports, please visit our USDA China website [here](#).

<b>FAS China</b>	<b>Office Contact and Coverage</b>
<b>OAA Beijing</b>	Tel: 010-85313600; Email: <a href="mailto:AgBeijing@usda.gov">AgBeijing@usda.gov</a> Region: All China
<b>ATO Beijing</b>	Tel: 010-85313950; Email: <a href="mailto:ATOBeijing@usda.gov">ATOBeijing@usda.gov</a> Region: North and Southwest China - Shandong, Henan, Hebei, Beijing, Shaanxi, Inner Mongolia, Tianjin, Shanxi, Xinjiang, Gansu, Ningxia, and Qinghai. Sichuan, Chongqing, Tibet, Yunnan, Guizhou
<b>ATO Shanghai</b>	Tel: 021-62798622; Email: <a href="mailto:ATOShanghai@usda.gov">ATOShanghai@usda.gov</a> Region: East China - Jiangsu, Zhejiang, Hubei, Shanghai, Anhui, and Jiangxi
<b>ATO Guangzhou</b>	Tel: 020-38145000; Email: <a href="mailto:ATOGuangzhou@usda.gov">ATOGuangzhou@usda.gov</a> Region: South China - Guangdong, Hunan, Guangxi, Fujian, and Hainan
<b>ATO Shenyang</b>	Tel: 024-23181380; Email: <a href="mailto:ATOShenyang@usda.gov">ATOShenyang@usda.gov</a> Region: Northeastern China - Liaoning, Jilin, and Heilongjiang

### 3. Chinese Resources on Import Regulations

China has strict documentation requirements for most of the imported food and agricultural products regarding quality, quarantine, origin, and import control. Products may also need to meet other criteria such as packaging requirements, pre-clearance (if applicable), treatment options, labeling requirements, and container conditions. In most cases, Chinese importers can provide enough information for U.S. exporters to assess trade feasibility. It is also important and helpful for U.S. exporters to know some general information about the most relevant government bodies, such as China's Ministry of Agriculture and the General Administration of Customs of the People's Republic of *China*. For specific Chinese Ministry websites and additional contacts, please review the [most recent China Exporter Guide](#).

#### **Attachments:**

No Attachments.