Market Opportunity Report: CHINA

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Growing Forward 2

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Canada

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INTRODUCTION

Introduction

The following report is part of a series of Market Opportunity reports created by Euromonitor International that explore export opportunities for agrifood and seafood producers in British Columbia (B.C.). The report was commissioned by the B.C. Ministry of Agriculture and funded by Agriculture and Agri-Food Canada and the B.C. Ministry of Agriculture through *Growing Forward 2*, a federal-provincial-territorial initiative.

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Purpose

The purpose of this report is to:

- Identify key macro trends influencing food purchase and consumption in China
- Analyse the Chinese food market to identify the largest and fastest-growing food categories
- Provide insight into China's participation in the global food market, including factors influencing its trade environment
- Highlight commodities offering B.C. exporters the greatest opportunity in the Chinese market

Scope

The geographic focus of this report is China. The report is divided into six main sections: Opportunities for B.C. Exporters, Market Opportunity, Barriers to Trade, Overview of China's Economy, Consumers in China, and Retail Landscape. The report begins by looking at the current state of B.C. exports to China in order to understand how this aligns with the dynamics of China's food market and to identify the areas of immediate opportunity. This is followed by the market analysis section, which serves as the support behind the highlighted opportunities. The report provides specific market analysis of two categories: agrifood and seafood. The report does not include analysis of non-alcoholic beverages, but does include a special section on wine. The market analysis includes total market size and growth, largest and fastest-growing subcategories, analysis of imports, and identification of where the largest opportunities reside. This is followed by a discussion on the barriers to market entry, which provide context for the logistics behind a market entry strategy. The final three sections of the report serve to provide context for the principle macro factors influencing China's food market, including economic performance, structure of the economy, participation in foreign trade, demographic shifts, consumer trends, and retailing landscape.

KEY TAKEAWAYS FOR B.C. EXPORTERS

China: A huge consumer market with growing demand for food

- ### Multiple food scares transform food consumption

A surfeit of food scares over the past decade is greatly altering what and where Chinese consumers eat. Growing increasingly distrustful of local food sources, many people are turning to organics and/or imported food items, which are perceived to be safer. Lesser trends have also developed, including urban farming and dining out less frequently due to recent food scares.

- ### Expansion of high income consumer segment opens door to premium products

While social class A (gross income 200% above average) is the smallest population segment in China, in absolute numbers it is huge at 130 million and growing. As the wealthiest group of Chinese consumers expands, opportunities will continue to emerge for premium products, such as organics, fortified foods and imports. As it is, many consumers already opt for organic fresh food and dairy products, which are perceived to be of better quality, while they are increasingly trading up from standard to health and wellness packaged foods.

- ### Growing consumer health consciousness boosts demand for healthy foods

Chinese consumers have generally focused on diet rather than medicine to cure what ails them. Thus, they are open to and embrace contemporary, healthy eating habits. Superfoods, for instance, such as cranberries and blueberries, are experiencing double-digit growth. Naturally healthy products are gaining popularity, which aligns well with the Chinese mind-set of diet and exercise. Meal replacement products are also seeing growth, as consumers are increasingly concerned about obesity, and view meal replacement to be healthier than most alternative weight loss methods.

- ### Doing business in China is challenging, but improving

There is enormous business potential due to the sheer size of the consumer market in China, but numerous regulations often slow down trade and business transactions. While the country scores high marks from the World Bank Doing Business Report in enforcing contracts, it ranks poorly in providing attractive conditions to start a business and protecting investors.

- ### Pork, wine, and crab offer greatest immediate opportunity

Among the products B.C. currently exports to China, pork, wine and crab offer the greatest immediate opportunity, due to current consumer preferences and dynamics in the Chinese market.

OPPORTUNITIES FOR B.C. EXPORTERS

TOP EXPORTS FROM BRITISH COLUMBIA

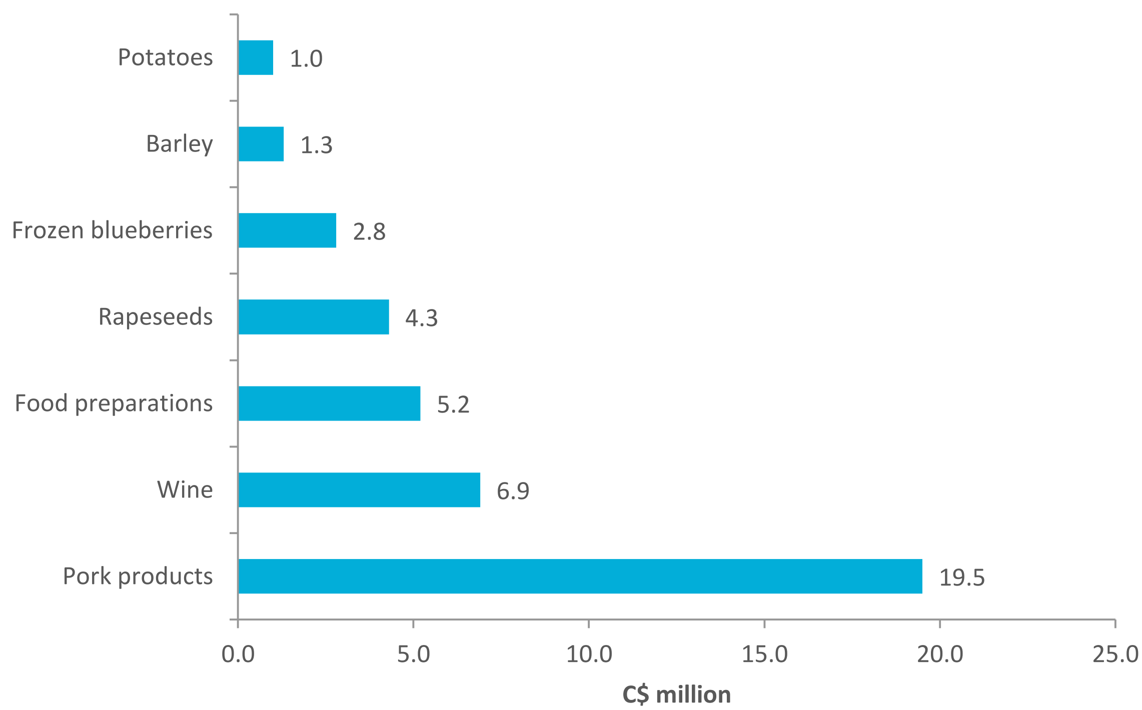
Agrifood

China represents the third largest export market for B.C. Agrifood

- B.C. exported C$48.8 million in agrifood products to China in 2012, representing three per cent of total agrifood exports and B.C.'s third largest export market for agrifood in 2012, behind the USA and Japan. Exports from B.C. to China have increased notably in recent years, up 25.5 per cent from 2010 to 2011 and up 14.4 per cent from 2011 to 2012. This suggests growing opportunity for B.C. products in the Chinese market.

- The top agrifood exports from B.C. to China in 2012 were pork products (C$19.5 million), wine (C$6.9 million) and food preparations (C$5.2 million).

Chart 1 Top B.C. Agrifood Exports to China: 2012



Source: CATSNET Analytics, February 2014 and Global Trade Atlas, February 2014

Pork products and wine offer B.C. the greatest opportunity in China

- Among B.C.'s top exports to China, pork products and wine offer the greatest long-term growth, both benefiting significantly from rising disposable incomes and higher living standards in the country. A growing percentage of China's population can afford to eat meat on a regular basis and pork is among the most popular types, representing 64 per cent of fresh meat consumption in 2012. Wine is still a niche product in China, but is in the middle of consumption boom as young consumers flock to this relatively unique product.

Table 1 Opportunity Assessment of Select B.C. Agrifood Exports to China

Top B.C. Exports	Explanation
Pork products	Already the most popular type of meat in China, pork products will continue to grow as more consumers can afford to eat meat on a more regular basis
Wine	Westernization of drinking habits and an influx of inexpensive New World wines are expanding interest in and access to this product
Rapeseeds	Growing rapeseed oil production in China as a result of increased production capacity and limited domestic harvests means growing imports
Frozen blueberries	Among the fastest growing fruits in China as a result of their "superfruit" status and purported health benefits
Potatoes	A key ingredient in Chinese cuisine, consumption is expected to remain at high levels for a long time

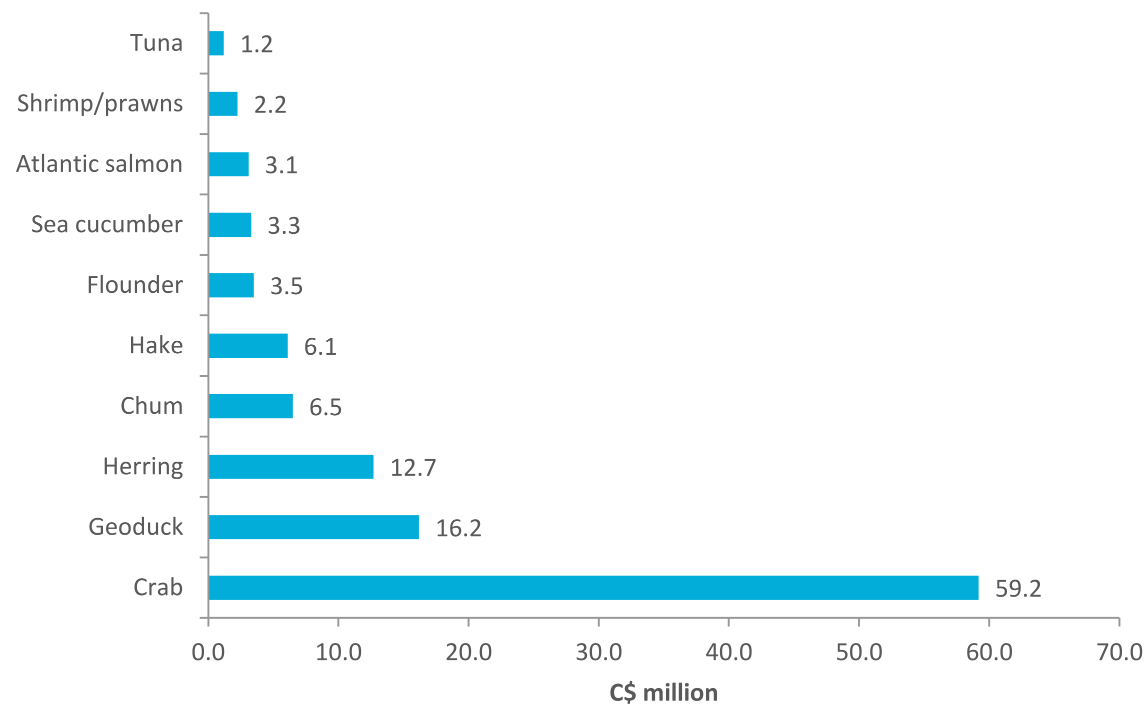
Seafood

China imports a wide variety of seafood products from B.C.

- B.C. exported C$120.9 million in seafood products to China in 2012, representing 13.9 per cent of total seafood exports and B.C.'s second largest export market for seafood in 2012, behind the USA.

- The top seafood exports from B.C. to China in 2012 were crab (C$59.2 million), geoduck clams ($16.2 million) and herring ($12.7 million). The majority of seafood exports was in fresh form ($77.3 million), followed by frozen ($29.3 million) and cured ($8.6 million).

Chart 2 Top B.C. Seafood Exports to China: 2012



Source: CATSNET Analytics, February 2014 and Global Trade Atlas, February 2014

Crab is by far the most important seafood export from B.C.

- Crab appears to offer the greatest long-term opportunity for B.C. exporters to China, due to the large demand for this crustacean amongst Chinese consumers. This is not only a popular import from B.C., but also represents China's largest imported fresh seafood product, highlighting its popularity in the country. Dungeness crab, in particular, is a species of crab in which B.C. has a competitive advantage in the Chinese market.

Table 2 Opportunity Assessment of Select B.C. Seafood Exports to China

Top B.C. Exports	Explanation
Crab	The largest imported seafood product into China should continue to offer strong opportunities
Geoduck clams	Increasing wealth is allowing more consumers to afford this seafood delicacy, supporting its position as a top seafood category in China

MARKET OPPORTUNITY

Key Points

- A multitude of food scares lead consumers to trade up to premium products and imports.
- Frozen versions of traditional foods increase sales within the frozen food category.
- Increasing consumer awareness of linkages between food and health results in rising consumption across numerous healthy food groups, such as cranberries, blueberries, nuts, meal replacement products and purple potatoes.
- Increasing Westernization of eating habits drives growth of cheese and seafood.

OVERVIEW

Plethora of food scares lead to uptick in premium and imported food purchases

- In addition to the well-publicized bird flu, China has had a number of food contamination scandals of late. This has led consumers with higher disposable incomes to trade up to organics and/or imported foods. Organic foods in China are more closely regulated than non-organic ones, while imported foods, especially meats, are perceived to be higher quality than domestic ones.

Traditional food finds new outlet in frozen food market

- Frozen food consumption in China is increasing, as frozen versions of traditional Chinese foods, such as dumplings and shrimp balls, grow in popularity. Part of this is due to the popularity of hot pot cuisine and the convenience of using frozen versions of popular ingredients, such as fish balls. Domestic companies currently dominate this category, due to their intimate knowledge of local cuisine.

Growing health consciousness lifts a number of categories, especially fresh fruits, vegetables and starchy roots

- Chinese consumers are becoming increasingly aware of the health benefits of various food groups, leading to sales growth across a number of product categories. Consumption of fresh vegetables was considerably higher than any other fresh food, while growth was exceptional for “superfoods” such as cranberries and blueberries. Nuts, purple potatoes, poultry, seafood, meal replacement products and red wine all reaped the benefits of growing health consciousness among consumers.

Increasing popularity of Western foodservice drives demand for imported seafood and cheese

- The expansion and trendiness of Western restaurants throughout urban China is increasingly exposing consumers to Western dishes such as pizza, hamburgers, and sushi. This, in turn, leads to rising demand for imported cheeses, such as mozzarella and camembert, and imported fish and seafood, such as sushi-grade fish, seafood platters, lobster and oysters.

Limits to domestic production, and depleted local fisheries increase opportunities for imports in the Chinese market

- Chinese consumers are increasingly looking abroad for many of their daily groceries as a result of several factors, including decreasing land for fresh food cultivation and reduced stocks in local fisheries. Moreover, increasing exposure to new types of cuisine is also fuelling interest in imported products.

- As a result of the aforementioned factors, product categories offering the most opportunity include meat (all types), fruits, cassava, frozen foods, cheese, baby food, crab, and cuttlefish/squid.

AGRIFOOD

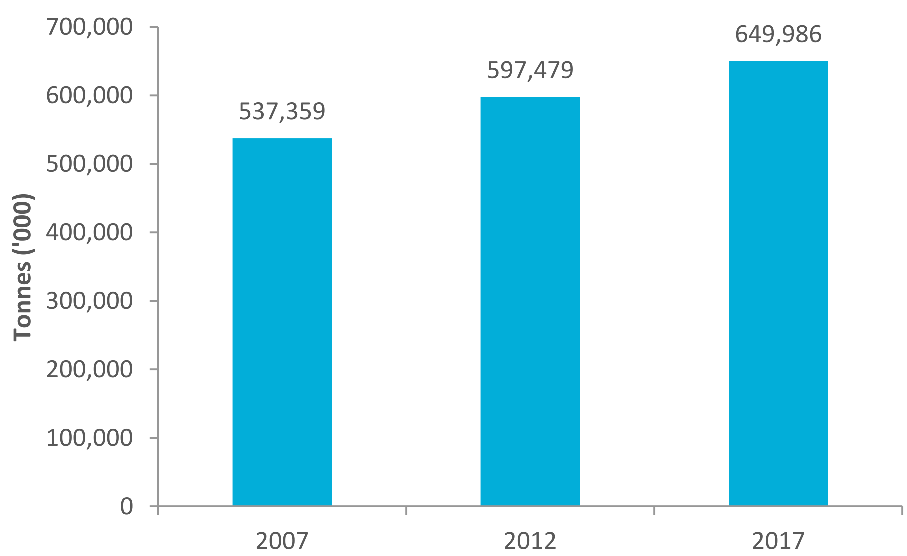
Fresh Food

Key Points

- Fresh food sees slow growth of 11.2 per cent from 2007 to 2012, registering 597 million tonnes in 2012. Multiple food scares over the period lead consumers away from locally produced fresh foods and toward premium ones and imports.
- Vegetables are the largest fresh food category in China, reaching 310 million tonnes in 2012.
- Apples and oranges are still the most popular fruits in China, with per capita consumption of 14 kg and 10 kg respectively, due to their availability and low unit price.
- Cranberries and blueberries register the highest growth of all fruits with 10.1 per cent in total volume terms in 2012, albeit from the low base.
- Pork remains the most popular meat in China, reaching total volume sales of 52 million tonnes in 2012.
- Cassava and various fruits lead fresh food imports.

New food safety regulations and agricultural upgrades will spur future domestic consumption

Chart 3 Total Volume Consumption of Fresh Food: 2007-2017



Source: Euromonitor International

With nearly three times the consumption as other fresh foods, vegetables are the clear fresh food leader

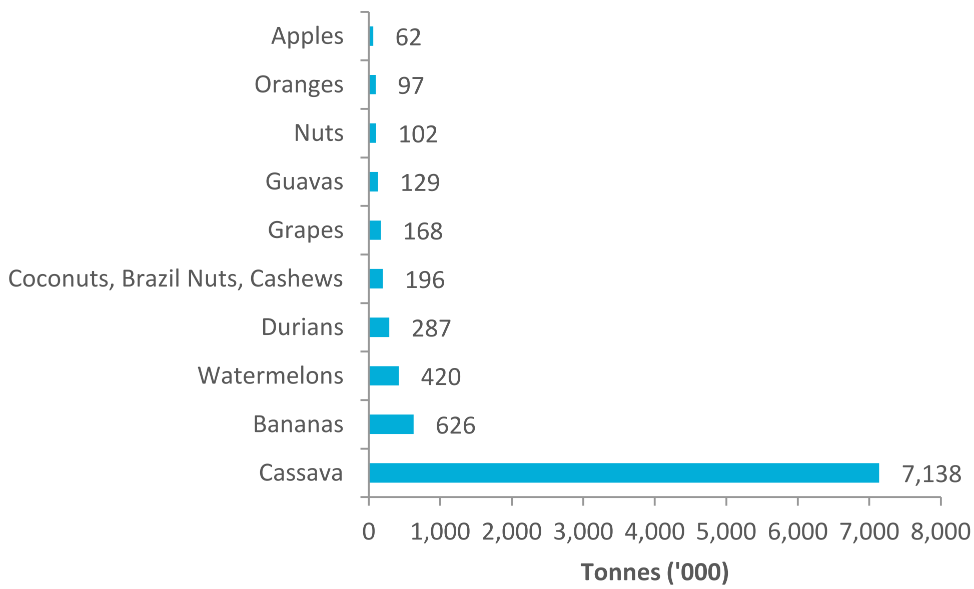
Table 3 Top Fresh Food Categories in China: 2012

Largest Categories	Fastest Growing Categories
1. Vegetables	1. Nuts
2. Fruits	2. Meat
3. Meat	3. Starchy Roots
4. Starchy Roots	4. Fruits
5. Eggs	5. Sugar and Sweeteners

Source: Euromonitor International

Cassava is the dominant imported fresh food into China, followed by a wide range of fruits

Chart 4 Top 10 Subcategories by Import Volumes of Fresh Food: 2012



Source: Euromonitor International

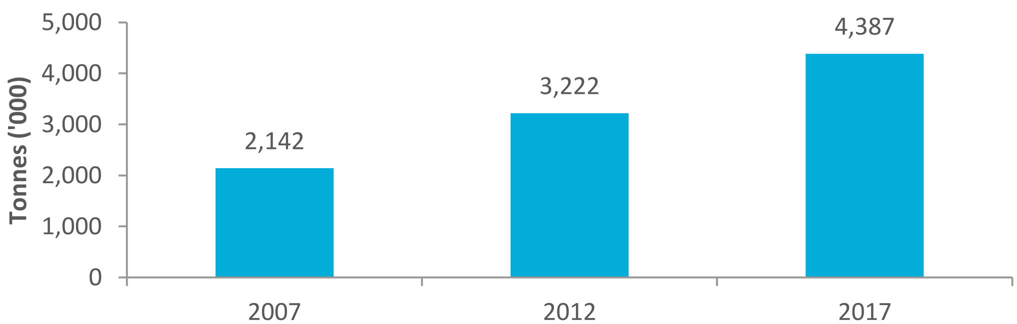
Frozen Food

Key Points

- Frozen processed food registered an increase of nearly eight per cent in volume terms to reach 3.2 million tonnes in 2012, benefiting from increased demands for convenient foods.
- The most popular category within frozen food is "other frozen foods", primarily consisting of popular Chinese foods such as dumplings, dim sums and wontons.
- Frozen potatoes and frozen red meat are expected to see the most growth over 2012-2017, due to increased demand for convenient starchy snacks and red meat used in Chinese cuisine.
- Domestic companies dominate frozen food sales, as a result of consumer preference for frozen versions of local foods.

Frozen food benefits from convenience amidst increasingly busy lifestyles

Chart 5 Total Volume Sales of Frozen Food[1]: 2007-2017



Source: Euromonitor International

There are only five types of frozen food in China, with frozen processed potatoes exhibiting the fastest growth due to increasing consumption of these products within the foodservice channel

Table 4 Top Frozen Food Categories in China: 2012

Largest Categories	Fastest Growing Categories
1. Other Frozen Processed Food	1. Frozen Processed Potatoes
2. Frozen Processed Poultry	2. Frozen Processed Red Meat
3. Frozen Desserts	3. Other Frozen Processed Food
4. Frozen Processed Potatoes	4. Frozen Desserts
5. Frozen Processed Red Meat	5. Frozen Processed Poultry

Source: Euromonitor International

[1]Total Sales is the aggregate of products sold through both the retail and foodservice channels. Does not include products that are used for other purposes.

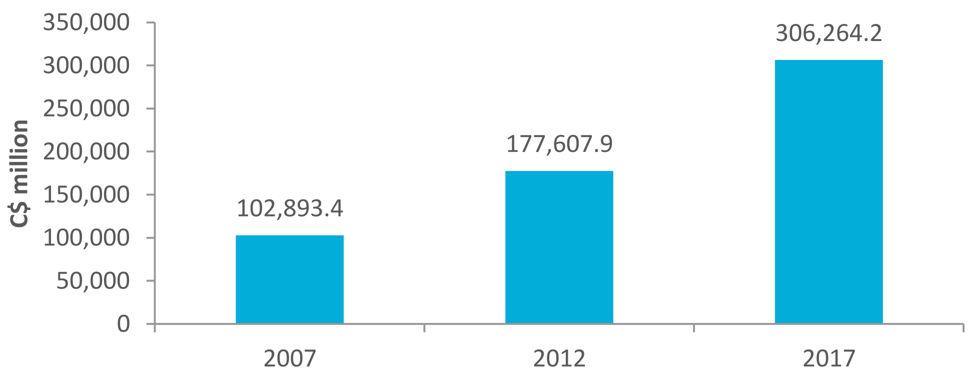
Packaged Food

Key Points

- Packaged food sales reached C$177.6 billion in 2012 and will continue to grow as a result of increased demand for healthier products with fortification and organic ingredients.
- Chinese consumers are benefiting from rising disposable income levels due to the country's economic growth and urbanisation. Consequently, consumer demand for better quality packaged food is rising, particularly due to the numerous food safety scandals in China.
- Western foodservice will continue to drive up demand for imported cheese, allowing it to be one of the fastest growing categories over the 2012-2017 period.
- Baby food offers foreign manufacturers strong opportunity due to growing preference for imported products and an expected boom in the baby population.

Product premiumisation drives value growth within packaged foods

Chart 6 Retail Sales of Packaged Food (C$ Million): 2007-2017



Source: Euromonitor International

Drinking milk products far outpace any other products in packaged food consumption, while cheese exhibits the fastest growth in China

Table 5 Top Packaged Food Categories in China: 2012

Largest Categories	Fastest Growing Categories
1. Drinking Milk Products	1. Unprocessed Cheese
2. Noodles	2. Cheese
3. Oils and Fats	3. Meal Replacement
4. Chilled Processed Food	4. Baby Food
5. Baby Food	5. Yoghurt

Source: Euromonitor International

SEAFOOD

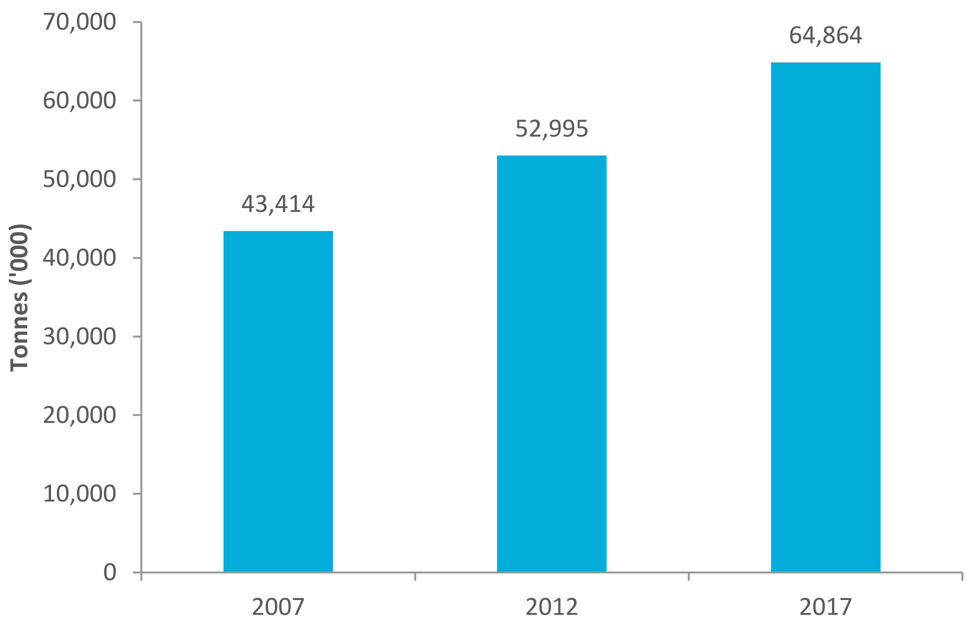
Fresh Seafood

Key Points

- The development of logistics and cold storage techniques contributed to the growth of fish and seafood in 2012.
- Booming local production and healthy eating habits contributed to strong growth of 22.1 per cent from 2007 to 2012.
- Growing popularity of Western restaurants results in increased consumption of non-traditional seafood dishes, such as seafood platters and sushi. This is expected to continue in the future.
- Crab is by far the largest import of fresh seafood into China.
- Canada, Norway and the USA are top suppliers of fish, molluscs and cephalopods and crustaceans.

Robust local production and growing consumer health consciousness spurs seafood consumption

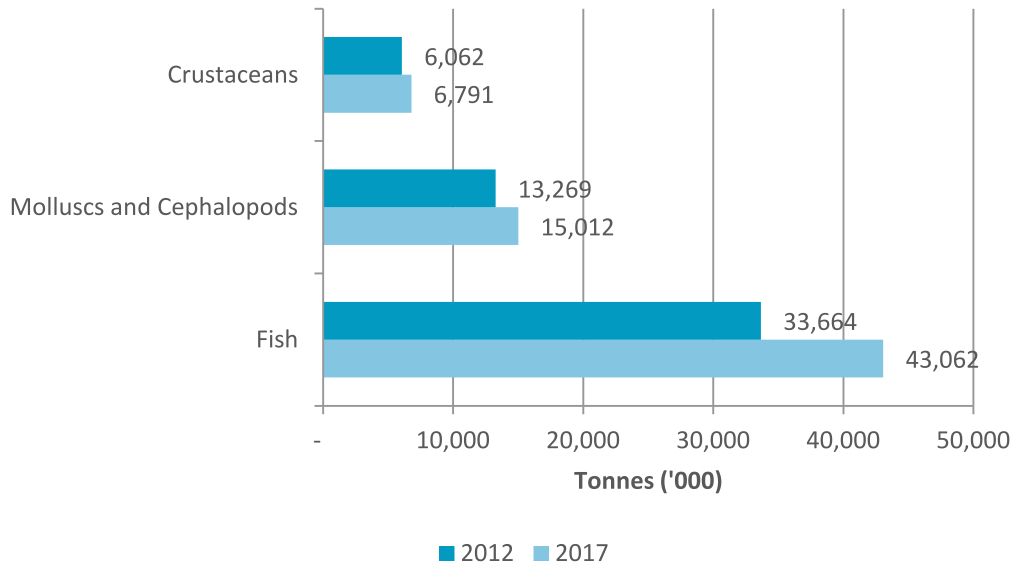
Chart 7 Total Volume Consumption of Fresh Seafood: 2007-2017



Source: Euromonitor International

Safety concerns regarding sanitation of local farms limits growth of molluscs and cephalopods

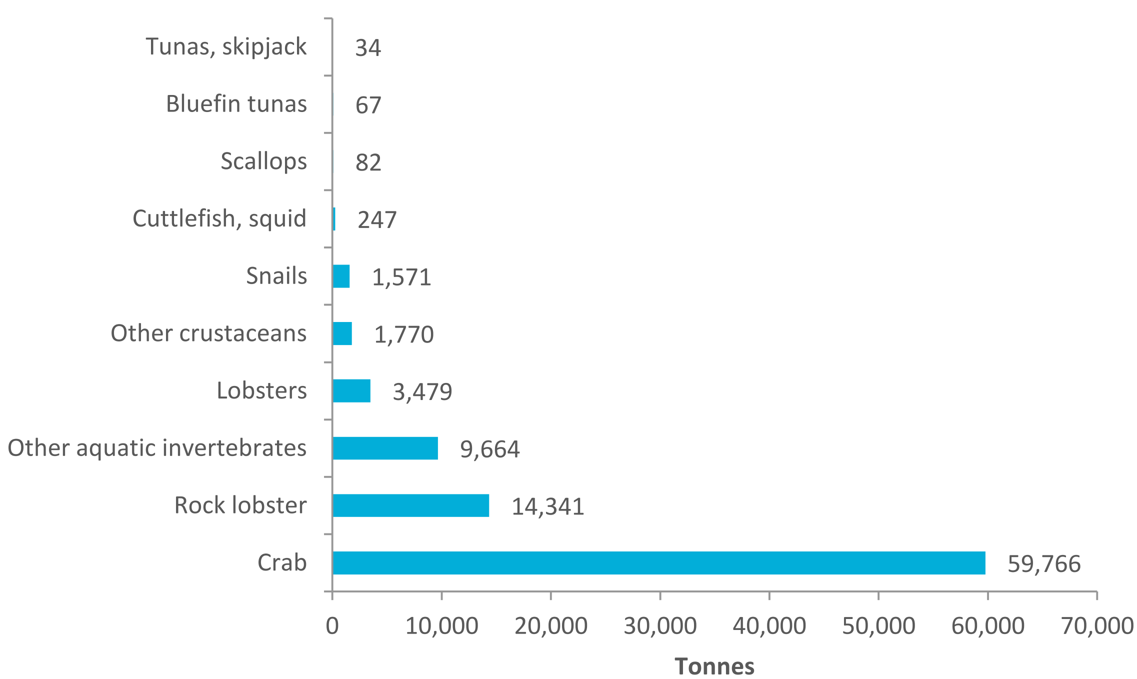
Chart 8 Volume Consumption by Fresh Seafood Category: 2012-2017



Source: Euromonitor International

Crustaceans lead in fresh seafood imports

Chart 9 Top Categories of Fresh Seafood by Import Volumes: 2012



Source: United Nations Comtrade

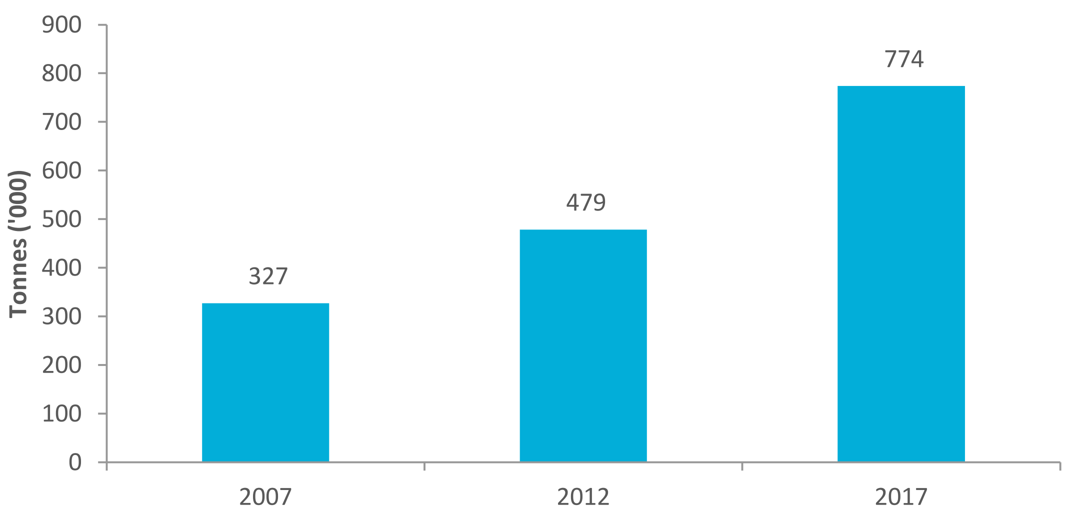
Frozen Seafood

Key Points

- Frozen seafood consumption continues to grow at a rapid pace, reaching 774 thousand tonnes by 2017.
- An affinity for hot pot dishes spurs sales of frozen seafood, especially fish balls and shrimp balls.
- Anjoy Foods is the leading manufacturer of frozen seafood in an extremely fragmented market.
- Cuttlefish/squid is by far the most imported frozen seafood variety into the country. These are often made into balls and used in hot pot meals.
- The USA is the leading supplier of frozen seafood to China.

Love of hot pot dishes sparks frozen seafood sales, since they are a popular ingredient in this national dish

Chart 10 Total Volume Sales of Frozen Seafood[2]: 2007-2017

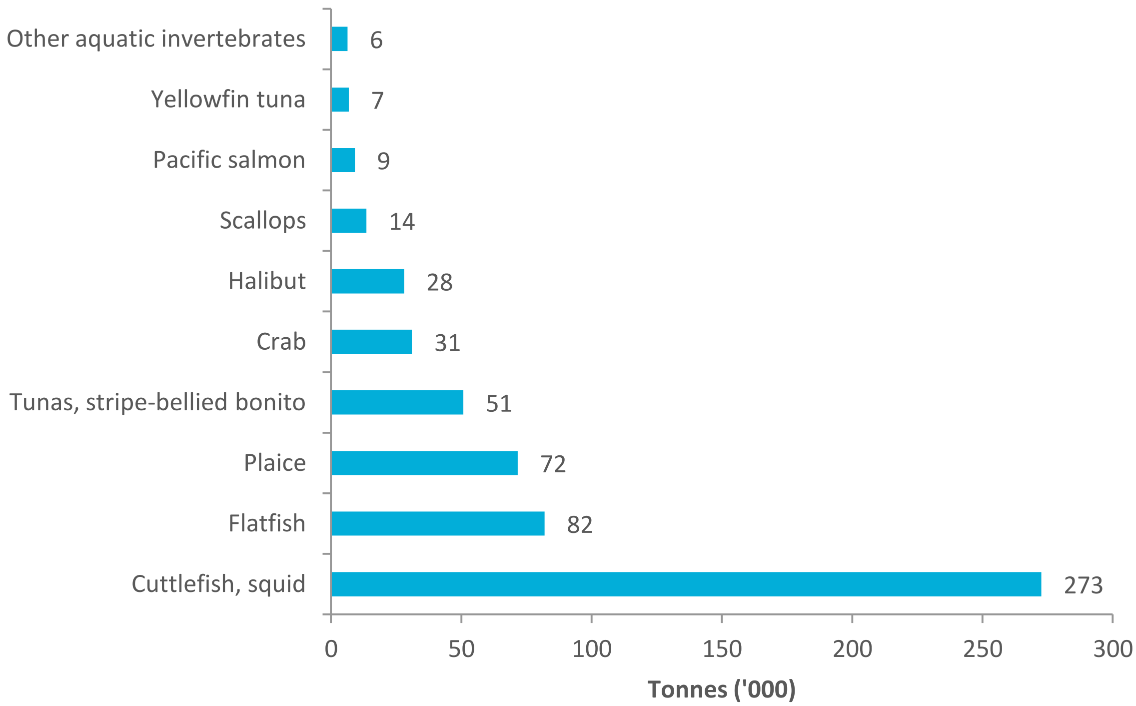


Source: Euromonitor International

[2]Total Sales is the aggregate of products sold through both the retail and foodservice channels. Does not include fish that is used for other purposes.

Cuttlefish and squid are the most important varieties of imported frozen seafood

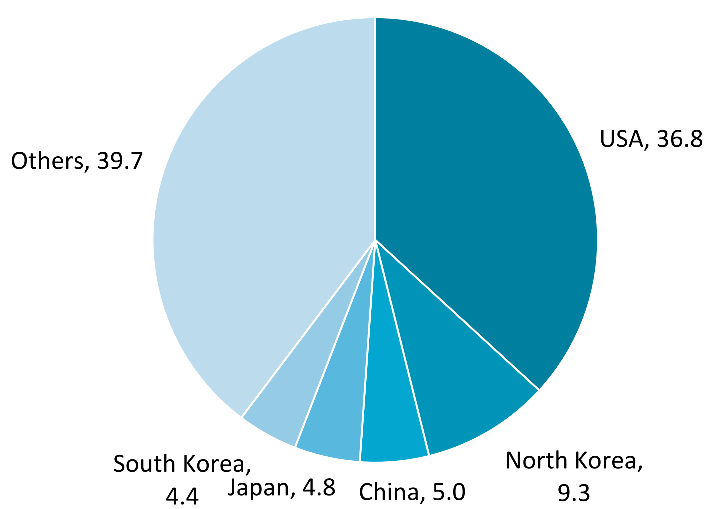
Chart 11 Top Categories of Frozen Seafood by Import Volumes: 2012



Source: United Nations Comtrade

The USA is top supplier of frozen seafood to China

Chart 12 Top Suppliers of Frozen Seafood by Import Volumes (per cent share): 2012



Source: United Nations Comtrade

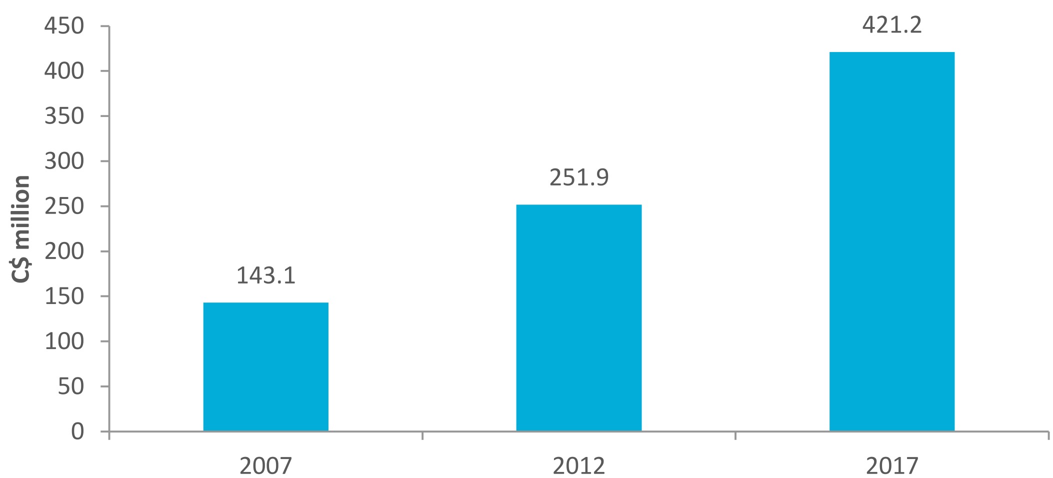
Canned/Preserved/Processed Seafood

Key Points

- Sales of canned/preserved/processed seafood reached C$251.9 million in 2012.
- Lack of flavour diversification will likely dampen sales. However, innovation and the healthy image of seafood compared to canned/preserved meats will continue to positively influence sales.
- Market share is extremely consolidated, with five local players accounting for 83.3 per cent of sales.
- Tuna/skipjack/bonito are the leading imports of canned/preserved/processed seafood into China.
- Led by Thailand with 52.8 per cent of canned/preserved seafood imports, Asian countries are an important source to meet domestic demand.

Innovation and the healthy image of seafood continues to positively influence canned/preserved/processed seafood in China

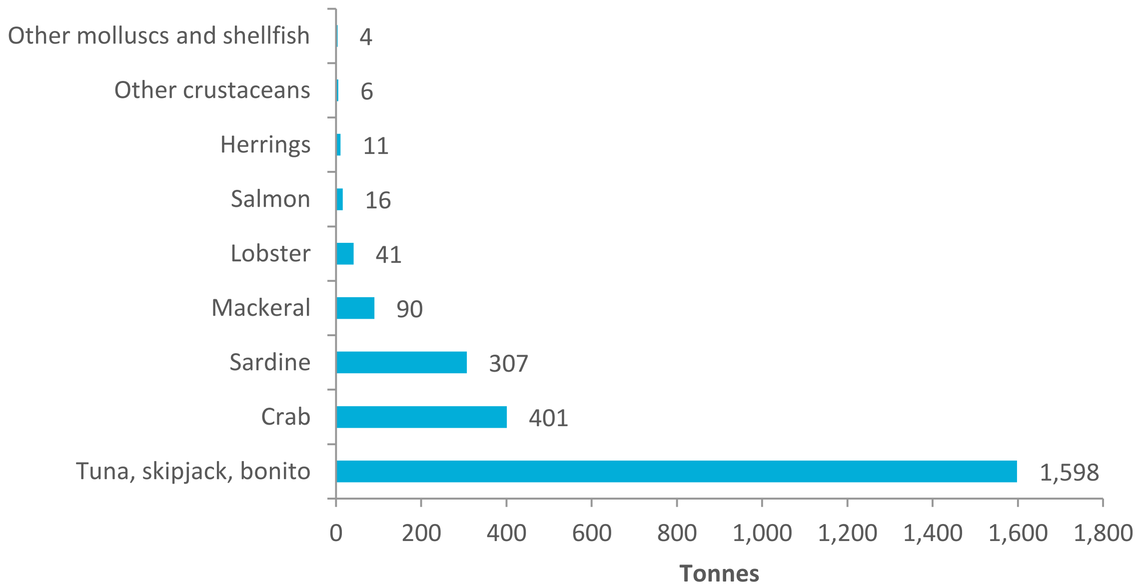
Chart 13 Retail Sales of Canned/Preserved/Processed Seafood (C$ Million): 2007-2017



Source: Euromonitor International

Tuna, skipjack, and bonito lead in preserved seafood imports

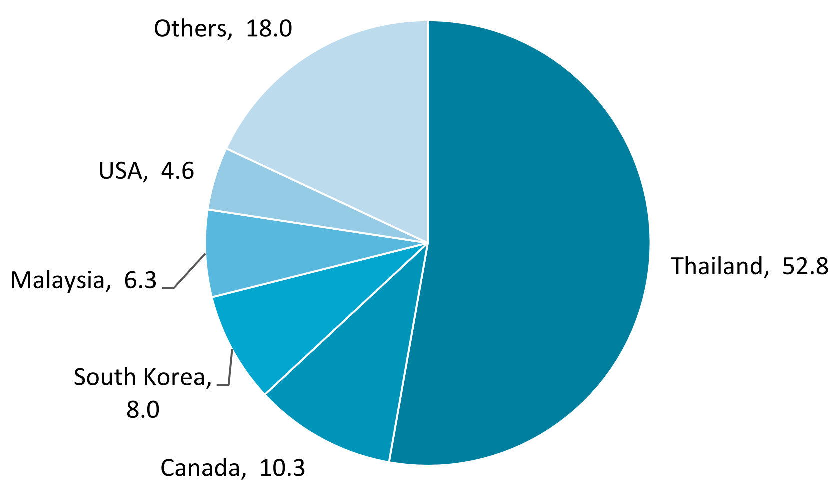
Chart 14 Top Categories of Preserved Seafood by Import Volumes: 2012



Source: United Nations Comtrade

Most imports come from regional suppliers

Chart 15 Top Suppliers of Preserved Seafood by Import Volumes (per cent share): 2012



Source: United Nations Comtrade

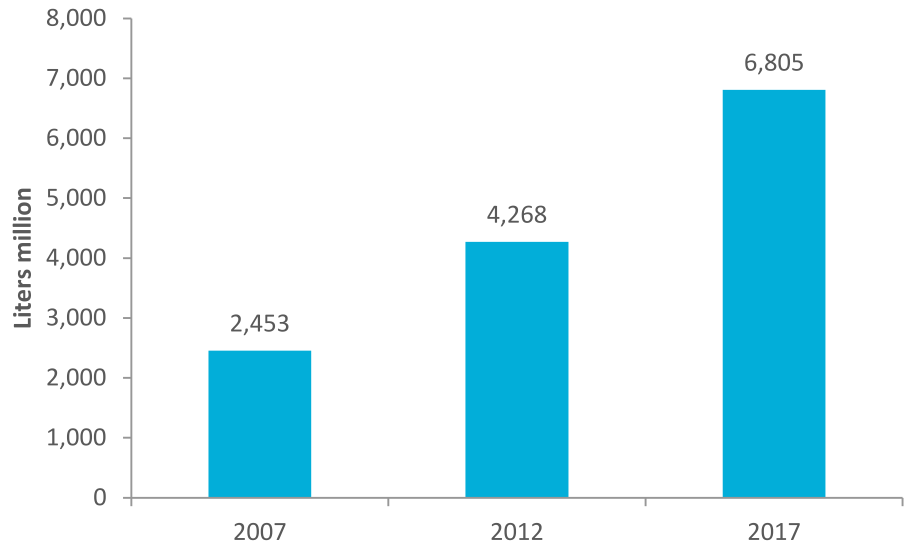
WINE

Key Points

- Wine witnesses robust volume growth in 2012, to reach 4.3 billion litres.
- While non-grape wine products have a longstanding tradition in China, grape wines, especially red wine, are stealing market share.
- Domestic grape wine manufacturers record a sluggish performance in 2012 due to the rapid expansion of imported wine.
- France is the largest exporter of wine to China, but New World wines are gaining in prominence due to their more affordable prices.
- Perceived health benefits will continue to positively influence wine consumption, with sales expected to grow to 6.8 billion litres by 2017.

Grape wine taking share from non-grape wine and imports thrive while domestic production fizzles

Chart 16 Total Wine Consumption: 2007-2017



Source: Euromonitor International

BARRIERS TO MARKET ENTRY

Key Points

- China's business environment is relatively attractive to foreign investors, with enormous potential present in its burgeoning consumer markets. However, a volatile regulations regime makes doing business challenging.
- China ranked 91 out of 189 countries in the World Bank's Ease of Doing Business rankings. Its main strength is in enforcing contracts, while its main weaknesses are in the conditions to start a business and protecting investors.
- Although the same treatment as national companies is not afforded to foreign companies, China's foreign direct investment inflows amounted to 31.9 per cent of Asia Pacific's total in 2012, illustrating its attractiveness as a foreign investment destination.

Doing business is China is challenging, but improving infrastructure and increasingly open trade policies is making it easier

Chart 17 Ease of Doing Business Ranking: 2007 vs. 2012[3]

Source: *Doing Business, World Bank*
Note: *This chart does not include all of the metrics that factor into the total ease of doing business, but rather highlights ones that are more applicable to foreign exporters.*

[3] Note: (1) Regulations in Doing Business 2012 are measured from June 2010 until May 2011. The data for all sets of indicators in Doing Business 2012 are from June 2010 until June 2011 (except for paying taxes data which refers to January–December 2010). (2) Rankings are based on data sets across 183 countries. (3) Doing Business presents quantitative indicators on business regulations and the protection of property rights that can be compared across 183 economies. A high ranking means the regulatory environment is conducive to the operation of business.

OVERVIEW OF CHINA'S ECONOMY

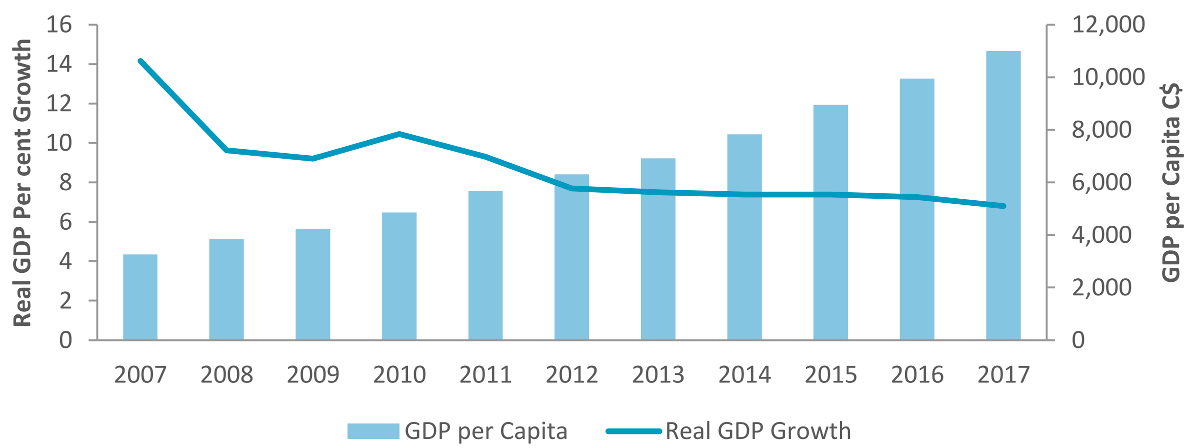
Key Points

- China's annual real GDP growth slowed to 7.8 per cent in 2012, the lowest rate in 13 years, largely due to reduced global demand for Chinese manufacturing. To combat this slowdown, the Chinese government is trying to move away from an investment-led to a more consumption-led growth model.
- With a share of 31.1 per cent in total gross value added (GVA), manufacturing remained the largest sector in China's economy. GVA from construction and wholesale and retail trade were, however, the two fastest growing sectors.
- The share of exports in GDP dipped sharply during the global recession but has begun to rise again as major importing markets recover. In 2013, exports amounted to 23.5 per cent of GDP, down from 31.4 per cent in 2008.
- China's exports are relatively well dispersed among major importing markets. In 2013, 42.5 per cent of all exports went to other Asian economies, 16.3 per cent went to the EU and 17.2 per cent was shipped to the USA.
- China is the world's largest importer of machinery and transport equipment, raw material and energy.

PERFORMANCE

Growth slows due to structural reforms and stalling external demands

Chart 18 Real GDP Growth and Per Capita GDP: 2007-2017

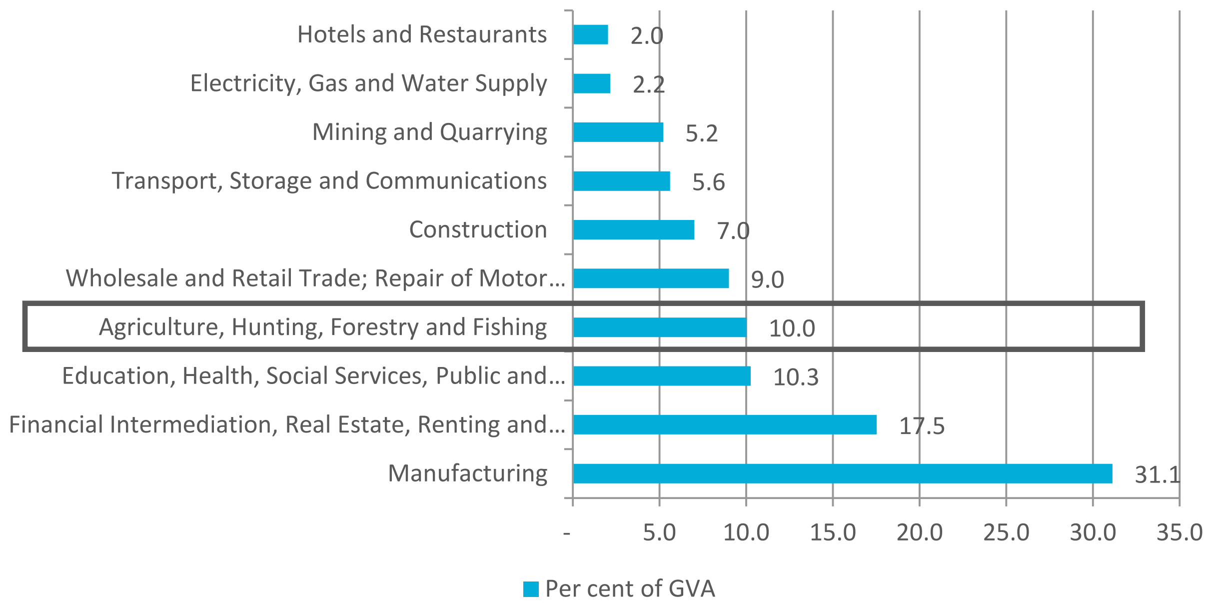


Source: Euromonitor International

STRUCTURE AND MAJOR INDUSTRIES

Global downturn adversely affects world's largest manufacturer

Chart 19 Gross Value Added by Sector in China: 2012



Source: Euromonitor International from national statistics
Notes: (1) Wholesale & Retail Trade includes Repair of Motor Vehicles, Motorcycles and Personal and Household Goods. (2) Financial Intermediation includes Real Estate, Renting and Business Activities. (3) Public Administration includes Defence and Compulsory Social Security. (4) Education, Health & Social Work includes Other Community, Social & Personal Service Activities

FOREIGN TRADE

China is the world's largest importer of machinery and transport equipment and raw materials

Chart 20 China's Foreign Trade: 2007-2012

Source: Euromonitor International from national statistics/OECD/IMF

CONSUMERS IN CHINA

Key Points

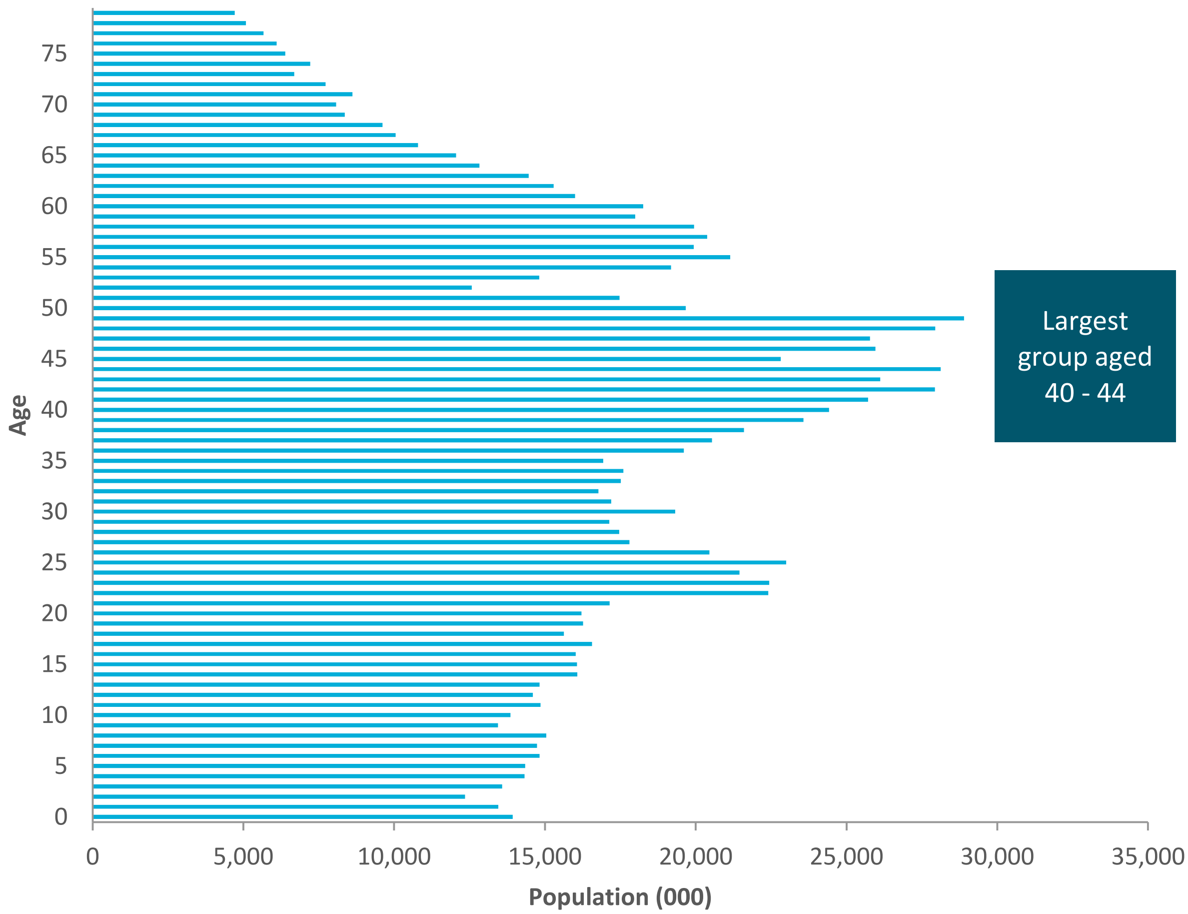
- In 2013, China's population amounted to almost 1.4 billion, an increase of about 425 million since 1980.
- The median age is steadily rising. In 2013, it was 40.3 years, 17.4 years greater than the figure for 1980. In fact, population ageing is occurring more rapidly in China than in most other countries.
- Social class A accounts for 11.6 per cent of the population over 15 years old, totalling 130 million consumers.
- Income inequality has been on the rise in China, suggesting that China's population has disproportionately benefited from the country's rapid economic growth. The income gap has widened significantly between urban and rural areas, as well as between skilled and unskilled workers.
- Consumers are turning to organic and foreign food brands amid recent food safety scares.
- Rising health consciousness leads to growth of health and wellness, especially naturally healthy and fortified food.

DEMOGRAPHICS

Income inequalities and demographic changes are major challenges

- Demographic changes including population ageing and a declining workforce are among the major social risks faced by China. In 2013, China's total population stood at 1.4 billion people, remaining the largest country in the world. Yet, population is growing at a decelerating pace and should reach its peak in less than two decades. Current methods of population control are being relaxed as the growth of population slows. The fertility rate is presently 1.8 births per female (below replacement level). It will rise slightly, reaching 1.9 births per female by 2020.
- Due to falling birth rates and the country's one-child policy, the share of the working population aged 15-64 to total population is expected to decline from 73.5 per cent in 2012 to 69.4 per cent by 2020. Meanwhile, the share of the elderly population aged 65+ to total population is expected to reach 16.0 per cent by 2020, significantly up from 10.6 per cent in 2012. Rapid population ageing and a shrinking workforce will pose serious challenges to China's pension system, while hindering the country's growth potentials.

Chart 21 Age Pyramid in 2012



Source: *Euromonitor International from national statistics/UN*

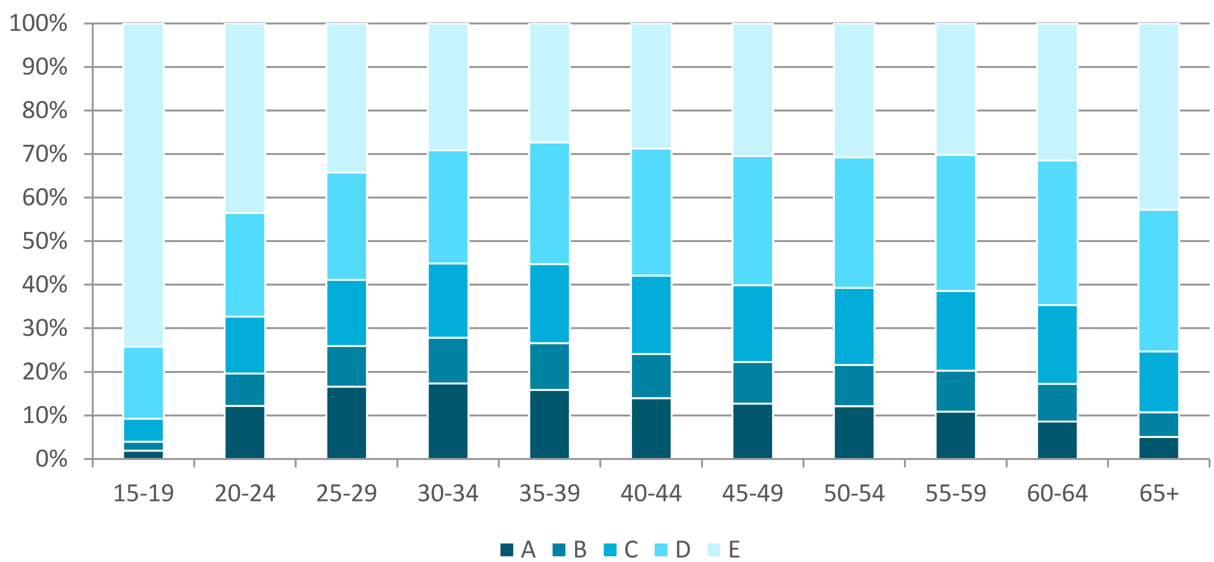
Low-income earners comprise the largest population segment, while the high-income earners segment is large and growing

- In 2011, social class E was the largest group, with 405 million people, accounting for 36.0 per cent of the Chinese population aged 15+, followed by social class D (28.0 per cent). This suggests that the bulk of the Chinese consumers are low-income earners, who still spend most on basic necessities like food, clothing and housing. Given their sheer size, however, China's social class E and D represent an important market segment with strong potential for budget products.

- In 2011, social class A consisted of 130 million, or 11.6 per cent of the population aged over 15. This is higher than in India, where social class A made up 9.3 per cent of the population aged 15+ in the same year. Backed by the country's strong economic growth, China's social class A is forecast to expand steadily in absolute terms to reach 136 million by 2020. The share of social class A within the total population aged 15+, however, is expected to remain largely unchanged, estimated at 11.5 per cent by 2020. The age group 40-44 accounted for the largest share (14.0 per cent) of China's social class A in 2011 but the younger age group 30-34 is forecast to take over by 2020 (14.3 per cent of social class A by 2020). Affluent young and middle-aged adults in China represent a growing demand for discretionary goods and services including home appliances, high-tech products, travel services, wellness and luxuries.

- The age group 15-19 which consists of students and young workers was most representative in social class E (14.8 per cent) in 2011. Pensioners and elderly people aged over 65, on the other hand, accounted for the largest share (14.1 per cent) of social class D in the same year. While the youth offer good opportunities for budget basic products, China's elderly population has growing demand for health goods and medical services. By 2020, social class E will continue to be the largest group which make up 35.9 per cent of the population aged 15+ by then. Due to China's rapid population ageing and low pension levels, the elderly population aged over 65 will become the majority, as they will account for 21.9 per cent of China's social class E by 2020.

Chart 22 Age Composition of Social Classes ABCDE: 2011[4]



Source: Euromonitor International from national statistics

[4] Social Class A presents data referring to the number of individuals with a gross income over 200per cent of an average gross income of all individuals aged 15+.
Social Class B presents data referring to the number of individuals with a gross income between 150per cent and 200per cent of an average gross income of all individuals aged 15+.
Social Class C presents data referring to the number of individuals with a gross income between 100per cent and 150per cent of an average gross income of all individuals aged 15+.
Social Class D presents data referring to the number of individuals with a gross income between 50.0per cent and 100per cent of an average gross income of all individuals aged 15+.
Social Class E presents data referring to the number of individuals with a gross income less than 50.0per cent of an average gross income of all individuals aged 15+.

CONSUMER HABITS

General Purchase Habits

The less thrifty over fifty

- Changing consumer habits of consumers in China over the age of 50 is something that will command more attention going forward. The number of senior citizens will reach over one quarter of a billion by 2015, and a growing proportion of these will continue to exhibit less conservative spending traits than they perhaps have in the past. A higher quality of life through increased expenditure on health, leisure, and especially new experiences is evident today.

- Older segments of the population are showing greater levels of familiarity and fondness for online shopping. Indeed, often it is younger and more mobile consumers who are associated with online shopping. But it is, in fact, the older consumer that is best able to gain from the options this form of retailer allows. Tmall, China's biggest online retailer, carried out an extensive survey of online shoppers in 2012 and found that 1.3 million consumers over fifty shop online. First-tier cities had particularly large proportional numbers within the elderly ranks, with Shanghai acting as a beacon for the potential in online retail amongst older Chinese.

Safety first benefits organic and foreign food brands

- The main concern for Chinese consumers today is food quality. The levels of trust between consumers and food producers, as well as the government, are perhaps at an all-time low across China currently. Frequent food scares involving various levels of contamination and policy failures at central and provincial government has altered perceptions of the domestic food production industries, and guilty by association are found in almost all domestic Chinese industries more recently. There have been numerous steps to ensure high levels of standard practice in the production of all items being sold in China, but this has not been enough to slow the rate at which new controversies hit the headlines, or hasten the recovery of trust within China's consumer society. Disillusioned consumers have turned to organic products or foreign brands, the importation of goods from Hong Kong and beyond, and less conventional measures in order to ensure food safety for themselves and their family.

- A small but increasingly visible trend for "growing your own" has emerged in the wake of the recent food safety controversies in China. This trend includes the use of miniature planters within the home and in shared urban gardens, but is developing far beyond these small in-the-home projects. Wealthy Chinese are renting land from farmers, or buying tracts of land outright, and the growing their own crops. With labour being relatively cheap in rural China, this seemingly outlandish mode of guaranteeing food safety is illustrative of how big the food safety issue has gotten. Farmers themselves are offering organic products for sale independently of the large wholesalers, for which they guarantee zero chemical pesticide use and as being 100 per cent non-GM. Some particularly enterprising Chinese farmers have even offered grow-by-webcam guarantees for consumers to watch their produce 24 hours a day online via streamed video link.

Eating and Drinking Habits

Snacking is big

- Eating as a means of socialisation is key to understanding many Chinese eating habits. Cooking at home is not a daily occurrence, and many households can go the entire working week only having consumed snacks within the home. Families comprised with elderly relatives prefer to eat at home, as it tends to be the elderly relatives that have the time and the faculty to cook. Home economic skills are somewhat lacking amongst younger generations who have generally been fast-tracked from the school to university to the office, with little time to develop any extracurricular skills or hobbies whatsoever, including any skills within the home that don't involve homework or revision for a seemingly endless barrage of tests.

- Snack culture is a huge growth area in China, owing to convenience and heavy marketing from international brands. Traditional snacks include fried and baked goods, as well as seeds and skewered fruit such as watermelon and pineapple. Although these snacks remain popular, it is the western snacks such as cookies, cakes, and potato chips that have really taken off amongst younger consumers. Potato chips and chocolate products in particular have been cited as major contributing factors to childhood obesity, as the "little emperor" syndrome associated with China's elite only-children has seen demand for after-school snacks surge amongst children and tweens, in particular.

- When Chinese households do prepare food in the home, they tend to seek out fresh produce to be used on the same day, or within a day of purchase. Local markets remain popular in older districts of major cities, as well as provincial towns, and major supermarkets are proliferating all over cities and towns to ensure nobody is ever far from a Walmart, Carrefour, or Vanguard branch. Chinese food shopping is beginning to resemble a more western trend of a big weekly shop, this brought about through the rise of under-one-roof supermarket convenience and home refrigeration, but many fresh vegetables and fruit are still bought for daily use. This is especially true amongst older generations who find it hard to break lifetime habits of shopping daily. Younger consumers are swayed by processed and frozen foods, especially given the relatively long working hours and lack of cookery skills exhibited by the new urban inhabitants of China's first and second-tier megacities. Young families tend to be extremely short on time and so if an elderly relative is not helping out with the rearing of young children and generally 'keeping house', then processed foods and semi-prepared meals are preferred.

Quick Facts on Dining Out in China

- Most popular formats:
  - **Full-service restaurants**
  - **Fast food**
  - **Cafes/bars**
- Top foodservice chains
  1. **KFC**
  2. **McDonald's**
  3. **Dicos**
  4. **Pizza Hut**
  5. **Xiao Wei Yang**

Growth of consumer foodservice industry slows due to cooling local economy

- Growth in consumer foodservice slowed slightly in 2012, largely due to the economic downturn in China and ongoing global economic instability. The downturn resulted in a number of independent foodservice outlets closing their doors as they struggled for business, while a number of chains also decelerated in terms of outlet expansion. In response to the downturn, foodservice operators took active roles in a variety of promotional activities, aiming to stimulate demand.

New retail developments fuel growth in upmarket eateries

- The rise of the multi-format retail zone and more traditional malls have increased the prevalence of more upmarket eateries across China, including fast food restaurants of western origin, which are still seen by the majority of China's population as aspirational and only a step under luxury dining. A typical new retail development will include a whole floor dedicated to on-service dining, with at least half of the restaurants being international food specific eateries, and with increasing numbers of dessert-only and confectionary retailers, often internationally recognized brands, also weighing-in. Particular trends building on the success of the now seemingly obligatory branch of Häagen-Dazs or Dunkin' Donuts, have been those associated with artisan ice-cream, frozen yoghurt, luxury Belgian chocolates, and macaroons. China's taste for the exotic is rapidly moving forward.

Health & Wellness Habits

Raising health awareness and food safety scandals behind strong growth in health and wellness

- In China, although living standards improve every year, more health problems like obesity, diabetes, high blood pressure and other health problems are common. Influenced by such diseases, consumers realised the importance of health and diet and adjusted their eating habits. An increasing number of consumers began to buy fortified/functional (FF) food like FF biscuits and naturally health (NH) food like NH high fibre bread. Meanwhile, growing health awareness of Chinese consumers came from the influence of government, media and various marketing campaigns conducted by leading manufacturers.

- Food safety scandals led consumers to lose confidence in packaged food in China, leading to consumption of health and wellness packaged food. For example, in late 2011, dumplings from Henan Synear Food Holdings Ltd, which produced frozen food like dumplings and desserts, were found to contain staphylococcus aureus during a random sampling test conducted by Beijing Administration for Industry and Commerce. In July 2012, Nanshan baby milk formula by Hunan Yahua Seeds Co Ltd was detected as containing the carcinogen of the Aflatoxin M1.

RETAIL LANDSCAPE

Key Points

- Intensifying competition and decelerating economic growth in China led to a conservative expansion strategy for most modern grocery retailers in 2012.
- Modern grocery retailers are gaining share against traditional grocery retailers, as Chinese consumers seek more choice, cleaner shopping environments, and economies of scale cost benefits.

Modern grocery catches on in China

- Chinese consumers are spending more in supermarkets, and big international chains such as Walmart and RT-Mart are leading this march to the checkouts. With urbanisation continuing its pace, and increasingly demanding consumers seeking more choice, as well as the cost benefits offered by economies of scale, supermarkets have taken the dominant position over the traditional neighbourhood market retail trade in China. Importantly, it is the middle classes and wealthy Chinese who are pioneering this change, with budget supermarkets, usually operated by local firms, providing a smaller supermarket experience for the less wealthy. Chinese consumers increasingly desire the hygiene levels and assurances of quality and provenance offered by the international chains, but at greater convenience to themselves. The Chinese habit for buying produce daily is changing, but not yet changed. Convenience through smaller local markets is being demanded just as local open-air markets begin to disappear across China's vast developing urban sprawls.

Grocery performance weakens due to slow 2012 economy

- Grocery retailers saw healthy growth in 2012, mainly contributed by supportive government policies, such as introducing modern retailing into rural areas, as well as ongoing urbanisation. Rising household incomes have also played a role in the strong value sales of grocery retailers, along with chained operators penetrating further into inland areas in China, supplying a wide range of consumer goods at competitive prices. Purchasing power in second- and other lower-tier cities is rising robustly, along with the dynamic grocery retailing market, as modern grocery retailers in first-tier cities are experiencing extremely fierce competition in an increasingly saturated market.

Table 6 Ranking of Largest Retail Distribution Channels in China by Outlets: 2012

1. Independent Food Stores
2. Supermarkets
3. Food/Drink Specialists
4. Convenience Stores

Source: Trade associations, trade press, company research, trade interviews, Euromonitor International estimates

REFERENCES

For data sources and more information on topics discussed in this report, please visit the links listed below.

Description	Source
Export Tools for British Columbians	http://www.britishcolumbia.ca/Export/Index.aspx
Exporting Your Products from British Columbia	http://www.britishcolumbia.ca/Export/Exporting-Your-Products.aspx
Contact our Trade and Investment Representative Office in China	https://www.britishcolumbia.ca/global/trade-and-investment-representatives/china.aspx
Agriculture and Agri-Food Canada - Agri-Food Trade Policy	http://www.agr.gc.ca/itpd-dpci/index-eng.htm
Foreign Affairs, Trade and Development Canada	http://www.international.gc.ca/trade-agreements-accords-commerciaux/index.aspx
Ministry of Agriculture of the People's Republic of China	http://english.agri.gov.cn/