Why China? Shanghai and food consumption trends

Exporting food to China

The Exporting Food to China report series is published by Australian Centre for Sustainable Business and Development, Agricultural Value Chains team. Read together, the reports serve as a valuable decision support tool that covers the full length value chain journey. Packaged beef from Queensland is used as an example in the reports. However, the principles discussed will be relevant to decision makers in most agricultural export industries. The series provides essential information for Australian businesses looking to enter the lucrative Chinese market.

The Australian Centre for Sustainable Business and Development (ACSBD) is a research centre of the University of Southern Queensland, Toowoomba, Queensland, Australia.

The ACSBD Agricultural Value Chains team is led by Professor Alice Woodhead. The team works with local and national industries to better understand critical infrastructure, product development and export opportunities, risks, pathways and consumer purchasing preferences.

The value chain research is founded in systems thinking. This enables the team to make sense of the complexity and emerging issues that define our agricultural and food systems and export markets.

The team works closely with a broad range of stakeholders with the aim of developing targeted and practical strategies and decision support material.

Project and steering committee

The project 'Facilitating the transformation of Queensland's agricultural value chains' is funded by Queensland Government and University of Southern Queensland.

The steering committee members include Prof. Steven Raine, Prof. Julie Cotter, Malcolm Letts, Elton Miller, Richard Routley, Russell Hoelzl, Jo Sheppard and Prof. Alice Woodhead.

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Introduction

This report is part of a series on the export of Australian food to China. The purpose of this report is to provide background information on Chinese food consumption trends. Shanghai is used as a representative example.

This report is supported by the others in the series. Considered together, these reports provide a picture of the supply chain from Australian farm gates to Chinese consumers. Developing a greater understanding in this area will enable new and expanding exporters to take the best possible advantage of the Asian food boom.

Why China?

China with a current population of 1.4 billion and is expected to grow and peak at 1.43 billion in 2028 has emerged as one of the world's largest agrifood market (World Bank 2015). The rapid economic development over the last two decades in China has changed food consumption patterns significantly, and this is particularly evident in urban areas. The reasons for this changing trend can be summarised into five key drivers; namely (1) rising income, (2) rapid urbanisation, (3) changing lifestyle, (4) changes in tastes and preferences, and (5) better organisation of food production and marketing (Zhou et al, 2012).

The rapid economic growth and development in China have resulted in raising disposable incomes in recent years. According to the National Bureau of Statistics of China (2014), the per-capital disposable income of urban households was about ¥$26,955 in 2013, which was an increase of 9.7% from previous year. This has led to changes in Chinese diets, in terms of the quantity, quality and composition where there is an increasing preference towards higher quality food, beef consumption, better cuts of meat, processed and packaged food, meals away from home, and food that is safer, more convenient, and healthier (Daxue 2014; Gale & Huang 2007). This shift in diet has also seen an increase in the total calorie (from 2,580 kcal in 1990 to 2,990 kcal in 2008) and protein (from 67 grams in 1990 to 89 grams in 2007) per capita per day intake in China (Food and Agriculture Organisation, Statistical Division 2011), in which livestock products (such as beef) have been a major source.

Since the initiation of the "reform and opening" policy, urbanisation has been a national priority in China and this has led to the rapid population growth in urban areas. By the end of 2013, there were approximately 53.7% of the total population living in urban areas, and this growth rate is expected to reach 60% by 2020 (Roberts 2014; Xinhua 2014). As urbanisation continues to expand in China, there is a greater focus on urban consumers who are often high income earners with busy lifestyles. These urban consumers are increasingly demanding a variety of imported high quality food products that are convenient and quick (such as packaged ready-meals, nutritionally valued beef cuts) which suit their lifestyles, and such demand is expected to continue to grow in the future (Business Monitor International 2014; Euromonitor International 2011). According to World Health Organisation (2015) and Food Agriculture Organisation (2010), urbanisation has been regarded as a major driving force influencing the demand for livestock products.

The increasing international cultural exchanges as well as the availability of different types of international restaurants, steakhouses, and hotels in urban cities China have exposed consumers to a greater diversity of food choices, which have facilitated changes in Chinese consumers' tastes and preferences (Zhou et al 2012). The changing demographics and diets occurring in China have also seen a change in the way food is being marketed. Modern and efficient food marketing chains with established quality and safety regimes have become increasingly prevalent in response to consumers' changing demands (OECD-FAO 2013). In addition, e-food market (using e-commerce as a platform) as a new trend in marketing accounts for an increasing proportion of food retailing in China and is expected to continue to grow and as a lifestyle option with urbanisation and young Chinese being very comfortable with online purchases (Volker 2014). This e-trend is further evident by the rapidly expanding online grocery market in China that has been estimated to be worth approximately $180 billion by 2020, which is about five times its current value of $41 billion in 2015 (Austrade 2015; IGD 2015). Some of the more successful e-food markets include: Jingdong (JD.com), Taobao, Tmall, Yihaodian, and ule.com (Australia Post cooperating with China Post).

Food safety has also emerged as a major concern in China with increasing number of scandals (e.g. melamine in baby formula, contaminated pork) appearing in the media regularly. Many urban consumers are now becoming more aware and understood the importance of food safety and integrity, which lead to greater emphasis on food quality standards (Austrade 2015).

Expats in Shanghai

According to China's National Census in 2010, there were at least 600,000 expats working or living in cities throughout China. Shanghai hosts about 209,000 of them, and therefore represented the biggest expatriate population in China. This is further supported by Shanghai being voted as the most attractive city for expats in China (Koshoibekova 2015). The figure below provides a brief summary of the number of expats working or living in cities throughout China.

This market segment is attractive to imported food and western restaurant because of their considerable higher income and greater level of exposure to foreign brand names. As a result, foreigners are more likely to pay a premium for a familiar food with consistent quality they can trust.

In summary China's consumers are becoming increasingly discerning and many are seeking food products with the following attributes (Austrade 2015):

- safety and ingredients' integrity,
- higher quality,
- better nutritional value,
- more varieties,
- modern packaging,
- freshness, and
- convenience.

The changes to the Chinese food consumption patterns have presented Australian food industries with a challenge, How to tap into this opportunity to boost business profits and efficiencies? While Australia has been recognised by many around the world (including consumers in China) for its integrity and reputation to offer high quality food products that are safe, clean and green, it remains critical that the beef industry is capable of taking advantage of this competitive edge in order to serve a growing consumer base that is prepared to pay a premium price for product assurance, reliability and safety guarantees. The China Australia Free Trade Agreement (ChAFTA) which was recently signed will also further enhance the competitiveness of the Australia beef industry as tariff barriers into China are significantly reduced.

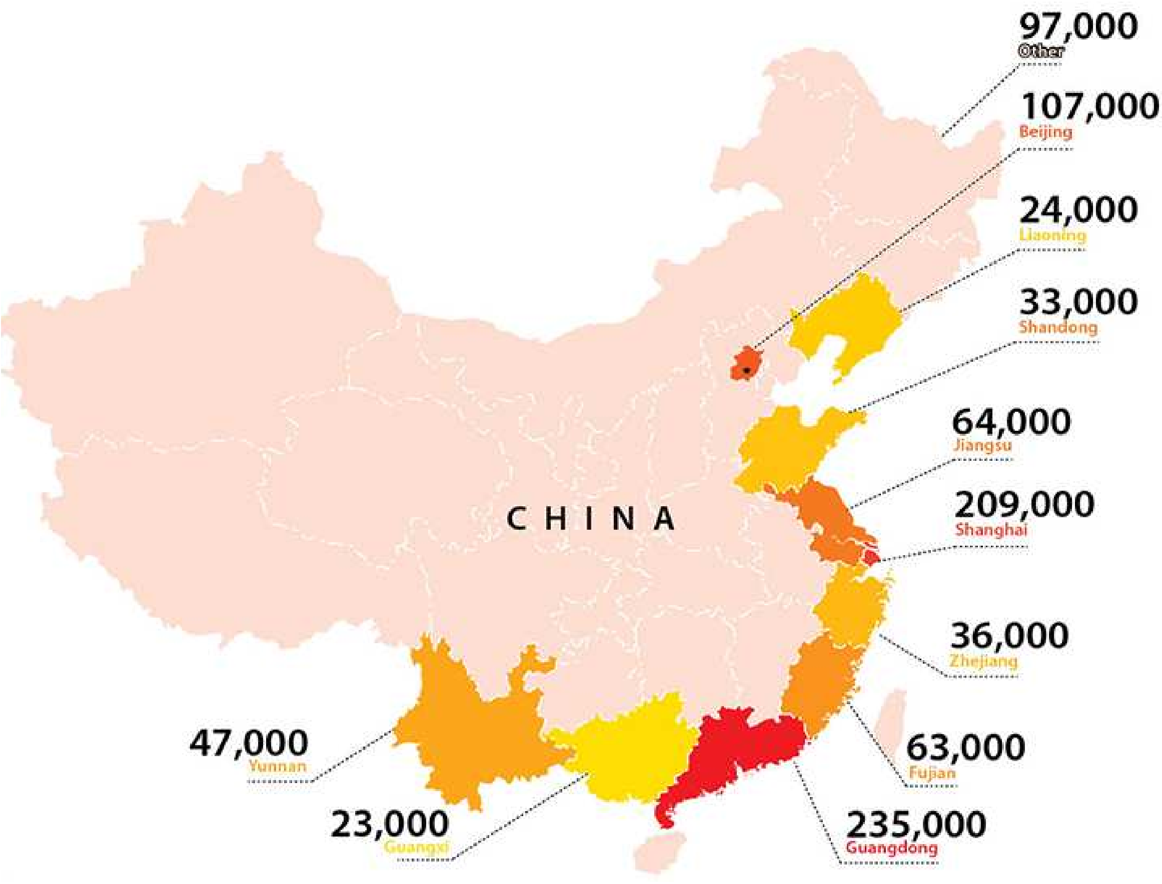

Figure 1: Expats in Mainland China

Location of Shanghai

Located at the heart of the Yangtze River Delta, Shanghai is not only the leading container port in China, but also the busiest container port in the world in 2013 which handled 33.6 million TEUs in 2013, up 3.3% from 2012 (HKTDC 2014).

Shanghai has established itself as a strong distribution base in China, especially in the Eastern region and Yangtze River Delta. This has resulted in many well-known foreign brands often choose Shanghai as the point of entry into the China market (HKTDC 2014).

Shanghai is considered as the largest consumer market among all mainland cities where consumers are being viewed as trend-setters for fashion and lifestyle products for the whole country. As Shanghai's retail sector continues to develop rapidly, many major foreign retail enterprises are establishing their presence which includes hypermarkets such as Carrefour, Walmart, Metro and Lotus Supercenter and department stores like Isetan, No.1 Yaohan and Pacific Department Store (HKTDC 2014; Hannover Milano Fairs China Ltd 2015). However, supermarkets and convenience stores remain mainly local enterprises.

Due to the increasing level of disposal income and lifestyle changes, there has been a trend towards eating out by people in Shanghai. In addition, they have switch their meal preference from pork to beef or seafood because they perceive pork as an inferior meat in comparison with mutton, beef and seafood (Rabobank 2013).

Table 1: Fiscal revenue

	Cities	**Fiscal revenue (2013)**	
		RMB/Yuan (billions)	**US$ (billions)**
1	Shanghai	410.93	67.81
2	Beijing	365.42	60.3
3	Tianjin	207.37	34.22
4	Shenzhen	172.71	28.5
5	Chongqing	169.07	27.9
6	Suzhou	132.71	21.9
7	Guangzhou	113.81	18.78
8	Wuhan	97.57	16.1
9	Hangzhou	94.29	15.56
10	Chengdu	89.69	14.8

Source: Red Luxury 2014a

Why is Shanghai, China an attractive market?

Shanghai is the second largest city with a population of 24.15 million in 2014 and is expected to grow to more than 50 million by 2050 due to the fast-paced urbanisation in the region and strong economic growth (World Population Review 2015). Although there were 24 million people in Shanghai, only 13.5 million of them were considered as permanent residents with the remaining being members of China's vast floating population. Each year about 3 million new job seekers flock to the city (Wang 2014).

Shanghai is the richest city in China, based on the size, population and industrial structure (Red Luxury 2014a). In 2013, the government revenues of Shanghai accounted for approximately US$67.81 billion (Red Luxury 2014a). The table below presents the top 10 cities in China for their fiscal revenue in 2013.

Shanghai has the highest per capita disposable income of RMB$40,188 (US$6,597), which was significantly higher than the average urban disposable income in China of RMB$24,565 (US$4,032.2) per person in 2012 (National Bureau of Statistics of China 2014). Table 2 below briefly outlines the top 10 Chinese cities with the highest disposable income.

Table 2 Disposable income

	Cities/regions	**Per capita disposable income 2012**	
		RMB/Yuan	**US$**
1	Shanghai	40,188	6,597.06
2	Beijing	36,468	5,986.41
3	Zhejiang	34,550	5,671.56
4	Guangdong	30,227	4,961.92
5	Jiangsu	29,677	4,871.63
6	Tianjin	29,626	4,863.26
7	Fujian	28,055	4,605.37
8	Shandong	25,755	4,227.81
9	Liaoning	23,223	3,812.17
10	Inner Mongolia	23,150	3,800.19

Source: Red Luxury 2014b

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