Voluntary Report – Voluntary - Public Distribution   **Date:** January 21, 2022

Report Number: CH2021-0186

Report Name: Food Service-Hotel Restaurant Institutional

Country: China - People's Republic of

Post: Shanghai ATO

Report Category: Food Service - Hotel Restaurant Institutional

Prepared By: FAS China

**Approved By:** Mark Hanzel

Report Highlights:

China's Hotel, Restaurant, and Institutional (HRI) sector recorded $ 573 billion in sales revenue in 2020, a 15.4 percent decline from 2019. COVID-19 led to many restaurant closures during the first half of 2020, but the industry rebounded in the second half and even exceeded the pre-pandemic scale by the end of 2020. Catering businesses numbered 9.3 million by the second quarter of, 2021. Demand and supply patterns for the HRI sector underwent significant changes with the lingering pandemic and China's stringent COVID-19 preventive measures.

In 2020, U.S. agricultural exports to China totaled $26.4 billion, up $12.6 billion from 2019. China was the largest market for U.S. agricultural exports, a position it last held in 2016.

Although it did not meet the targeted US $ 30 billion agreed upon in the US-China Economic and Trade Agreement (ETA), it represented an increase of 91% from that of 2019,

China's Agricultural Imports from the United States, 2011-2020
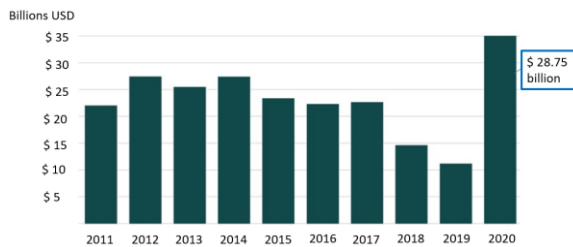
Source: Trade Data Monitor

In 2020, China imported consumer-oriented agricultural products from the United States worth nearly $7.1 billion. The U.S. consumer-oriented ag products export to China during Jan-June 2021 reached US $ 2.41 billion, a 26% increase year-on-year. The top goods to China are pork, beef, poultry, dairy, tree nuts, food
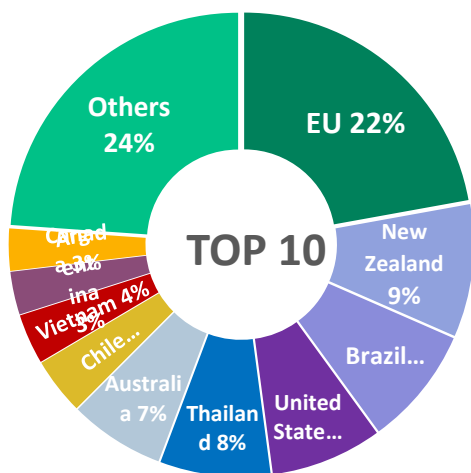
preparations, fresh and processed fruits, and processed vegetables.

Population: 1.398 billion (July 2021 est.), and global rank is No. 1. The yearly population growth rate is declining. (Source: The World Factbook)

GDP (current US$): $15.9 trillion

GDP per capita (current US$): $11,360

Per capita food expenditure: $1,004

Agriculture: According to the National Bureau of Statistics, China's total grain growing acreage in 2020 was 116.77 million hectares. The annual grain yield in 2020 was 669.49 million metric tons, the main crops are rice, wheat and corn. The total production of pork, beef, mutton and poultry was 76.39 million metric tons, and annual aquatic products production was 65.45 million metric tons.

China's Outline for the 14th Five-Year Plan (2021-2025) for Economic and Social Development and Long-Range Objectives through the Year 2035 emphasizes that, China will raise the production capacity for grain, and ensure safety of major agricultural products.

Sources: Trade Data Monitor (TDM) and the 2021 China Statistic Book
*Includes seafood

Food Service Industry Overview 2021

China's Hotel, Restaurant and Institutional (HRI) sector is the world's second largest, with 2020 revenue of US $573.07 billion[1]. The pandemic led to many restaurant closures in the first half of 2020, but the industry rebounded and exceeded the pre-pandemic scale by year end, reaching 9.17 million restaurants, up 1.2 percent. There were 9.3 million catering businesses by the second quarter of 2021. (Source: China Statics Bureau, China Catering Association, China Chain Store & Franchise Association)

Strength/Weakness/Opportunities/Challenges /Challenges (SWOT)	
Strengths	**Weakness**
- Fast recovery from COVID-19 and restorative growth achieved by catering business - Well-established distribution channel and robust digitalization - Consumers perceive U.S. products as safe, high quality, and consistent	- Zero tolerance COVID-19 measures: prolonged port clearance, disrupted supply chain, and logistics costs - Retaliatory tariffs against U.S. products are still in place while 26 countries and regions have 19 free trade agreement with China.
Opportunities	**Threats**
- Strong consumer demand for value, quality, and diversity in food - New access granted to U.S. products with further bilateral negotiations - Diversity of U.S. food products	- Uncertainty in U.S.-China relationship - Slowing economic development with COVID-19 pandemic and uncertainty in disposable income among Chinese consumers

Access to China's Food Service Sector – Quick Takeaways

1. The catering industry achieved restorative growth.
Many restaurants closed in the first half of 2020, but the industry started to recover by the third quarter, and year end new catering business registrations reached 2.364 million. Total catering businesses were about 9.61 million, a 1.2 percent increase from 2019.

2. Online orders for meals and ready-to-cook ingredients grew fast.
Cautious pandemic consumers stayed home and increased online orders for meals and ready-to-cook ingredients. Home delivery, take-out, and catering businesses owned by new retailers with online ordering of both meals and ingredients recorded fast growth.

3. Digitalization and capitalization promoted chain catering business growth.
Chain caterers were 15 percent of the 2020 total industry, 12.8 percent above 2019. Chain catering drove centralized sourcing and improved supply chain efficiency. China's cold chain logistics and last-mile delivery continued to improve.

---

[1] The exchange rate US $ vs. RMB in this report is 1: 6.8974, which is the average exchange rate for 2020 set by China State Administration of Foreign Exchange.

4. Chinese cuisine still dominates the food service sector, and healthy eating is booming.

The Chinese food service is fragmented, but still dominated by Chinese cuisines (full-service, fast food, and hot pot). Chinese-Western fusion restaurants are also growing. Increasing health consciousness is driving innovation. According to China Catering Association, restaurants featuring light diet menus exceeded 1.1 million, 13 percent of the 2020 total. Plant-based meat has become popular, with several renowned chain catering groups launching new dishes.

5. Packaged and ready-to-eat, convenient-to-cook foods skyrocketed.

COVID-19 and changing preferences prompted many chains to use more semi-prepared dishes from centralized kitchens or third-party suppliers. Frozen prepared foods and ready-to-eat dishes retail sales also increased dramatically. According to a report by iiRearch, China's pre-prepared dishes market was expected to reach $50 billion in 2021, up 18.1 percent from 2020, and $75 billion by 2023. About 80% of pre-prepared dishes are used by restaurants.

6. Foodservice plus retailing fuels sales.

Regional cuisine boundaries are becoming blurred, and foodservice-retail boundaries even more so. With supermarkets and convenience stores eroding the foodservice market, chain foodservice brands have launched pre-packaged products and easy-to-cook dishes. Most chains have central kitchens and many are developing standardized products that only need heating.
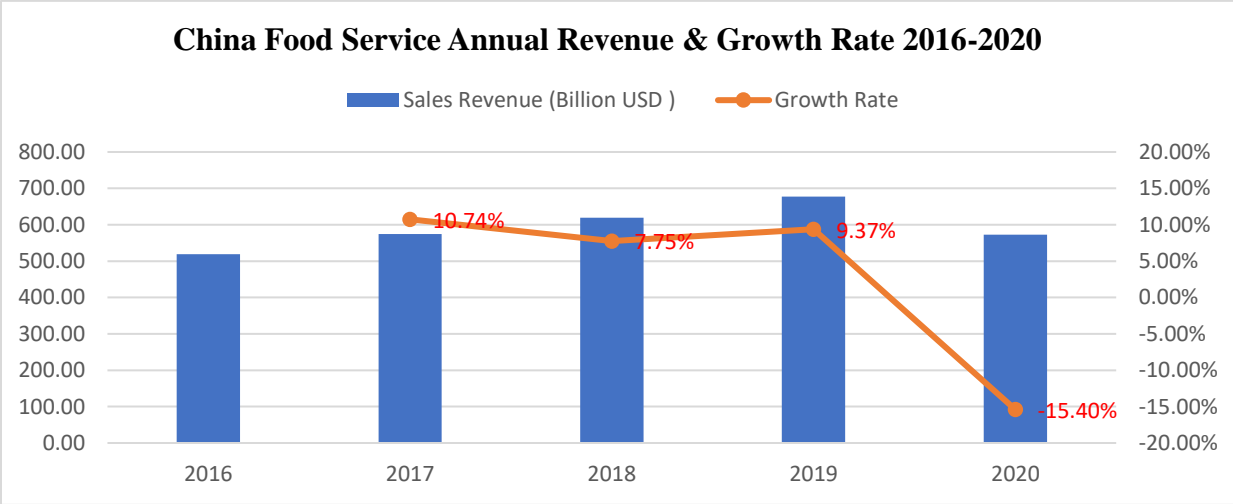
*Source: China Bureau of Statistics*

Section I: Market Summary

According to the National Bureau of Statistics, China's catering industry's 2020 revenue was $573.07 billion, down 15.4 percent from 2019. The catering market typically outperforms the general consumer market, indicating the industry has been more seriously hit by COVID-19. Despite that, the catering industry still shows many bright spots: the v-shaped rebound of the catering market, the acceleration of the recovery of catering enterprises above the stringent pandemic measures, and the explosive growth of online orders.

In the first quarter of 2021, about 626,000 new catering enterprises were registered, up 113 percent from 2019. The top three provinces for the sector were Guangdong with 1,124,000 catering businesses, Shandong with 793,000, and Jiangsu with 687,000

January to November 2021 food service sector revenue was 21.6 percent above 2020, reaching USD 609.71 billion. Digitalization drove supply and consumption. January to November online sales were USD 1.72 trillion, up 15.4 percent. Sales of physical goods online grew by 13.2 percent reaching USD 1.42 trillion, with sales of foods increasing 18.8 percent.

## Categories of China's HRI Sector in 2020
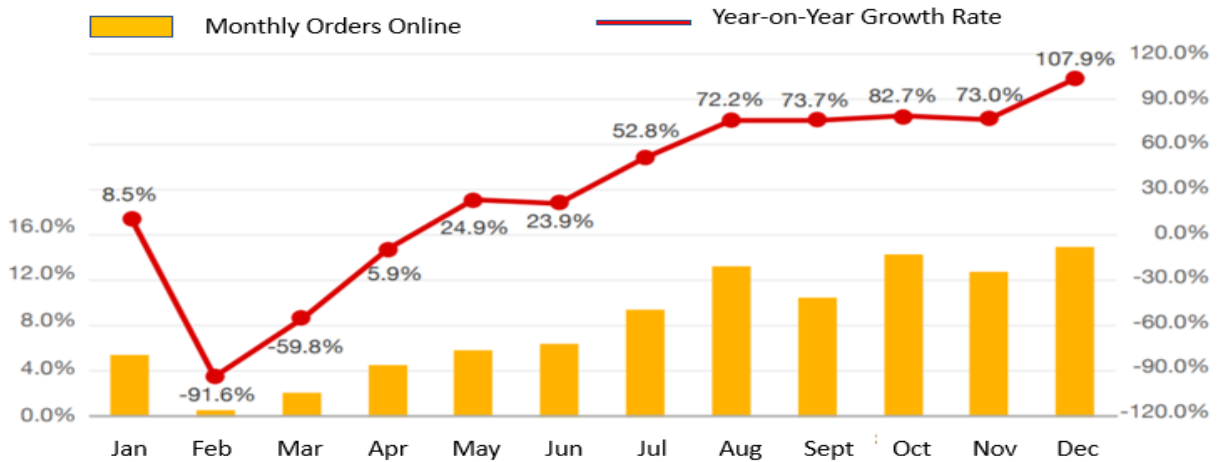
In 2020, new catering business registrations reached 2.364 million, an increase of 25.5 percent over 2019. By January 2021, China's catering-related businesses numbered 9.6 million. The industry can be roughly divided into Chinese cuisine, hot pot, Western cuisine, institutional, Japanese cuisine, quick-service restaurants, and others. Hot pot restaurants grew rapidly

China Catering Enterprises Registration Number (2015-2020)

Categories of China's HRI Sector (2020)
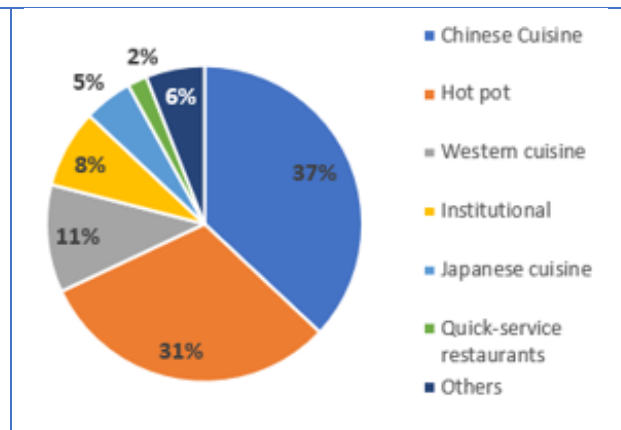
Source: QCC.com（企查查）, NCBD (餐宝典), China Catering Association

The food service sector is somewhat fragmented. The top 100 catering groups increased their industry share but took only 7.8 percent of total 2020 revenue. Further expansion and integration will increase the concentration, and chain groups will develop further. Chain catering is particularly noticeable, increasing from 13.8 percent of the market in 2019 to 15 percent in 2020.

Top Food Service Providers 2020

Rank	Brand	Enterprises
1	KFC	Yum! China Holdings Co., Ltd.
2	Hai Di Lao Hotpot	Sichuan Haidilao Catering Co., Ltd.
3	McDonald's	Golden Arches (China) Co., Ltd
4	Qian Xi He	Hebei Kinghey Foods Holding Company
5	Ding Qiao	Tianjin Ding Qiao Catering & Consulting Company
6	Yang Guo Fu	Shanghai Yangguofu Management Group
7	P-Shang Dolar Hot Pot	Jiangsu Pinshang Catering Franchising Group
8	Chao Tian Men Hot Pot	Chongqing Chaotianmen Catering Group
9	Zhong Kuai Foods	Shenzhen Zhongkuai Catering Group
10	Xi Bei	Inner Mongolia Xibei Catering Group

Source: China Catering Association

The pandemic has compelled innovation. Development trends include market integration, industry digitalization and capitalization, and internationalization of labor, all of which bring more opportunities to the industry to attract more consumers and enrich the dining experience.

Catering industry capitalization picked up after the initial 2020 COVID-19 hit. By August 2021, financing and investment was USD 6.37 billion, double all of 2020. Financing cases, however, decreased, indicating bigger per-unit investments. Fast-service restaurants, coffee shops, and tea shops were most popular for attracting capital.
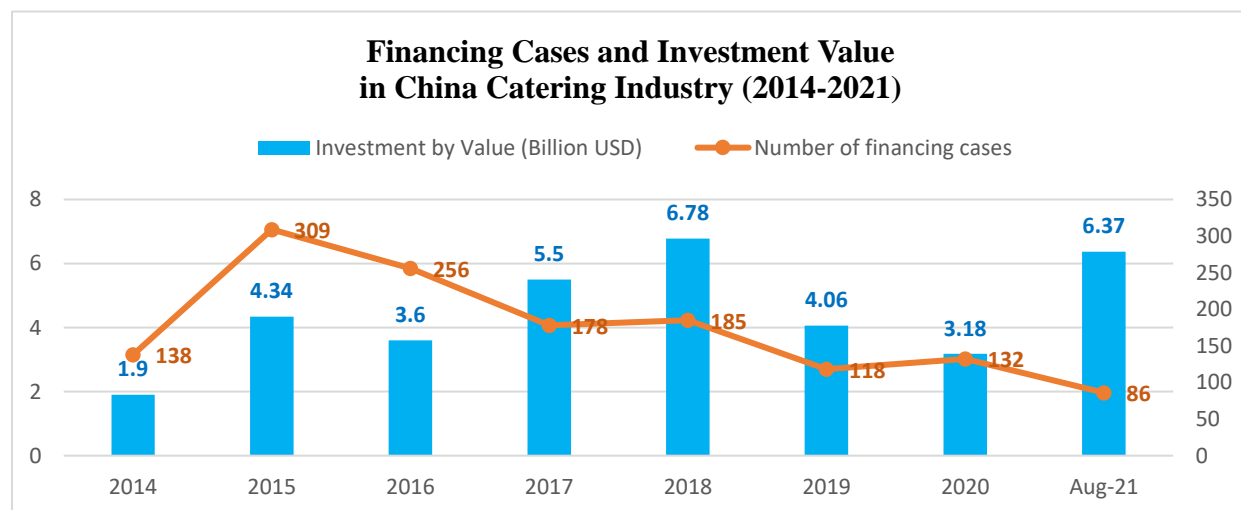
Source: CCFA and China Renaissance Capital

While restaurants globally struggled with the pandemic, China saw a record number of new outlets in 2020. Several Western chains opened branches in first tier cities like Shanghai and Beijing. Popeyes opened its first outlet in Shanghai in May 2020, and now has nine outlets. Five Guys opened two stores in Shanghai in 2021. Others like Chili's, Red Lobster, Shake Shack, and Cheesecake Factory, as well as fine dining restaurants including Wolfgang's Steakhouse and Ruth's Chris Steakhouse were also performing well. Yum! Brands (KFC, Pizza Hut, and others) launched huge expansion plans. Starbucks had 5,410 outlets by November 2021.

Some Western restaurants, however, haven't done as well. Fewer business events and no overseas visitors meant low attendance and shrinking customer bases for some high-end restaurants in Tier 1 cities. Some struggle to redefine themselves and their menus, and some have succumbed. Element Fresh, the American-founded fast casual chain announced in December 2021 it had entered bankruptcy due to pandemic-related operating losses and capital issues. Catering businesses face reduced income and tight cash flow, while labor, ingredients, logistics, and promotion costs have all increased.

U.S. Supplier Advantages and Challenges

Advantages

- Chinese consumers are growing more sophisticated and health-conscious about food. U.S. products are trusted and seen as high quality, safe and consistent in supply.
- The success of American-style restaurants provides an avenue for introducing U.S. food ingredients and drinks as well as recipes and cuisine culture into the Chinese diet.
- China agreed to purchase USD 35-40 billion of U.S. agricultural products under the U.S. -China Economic & Trade Agreement (ETA). The tariff exclusions agreed to in early 2020 facilitated purchases (though China fell short of its commitments).
- U.S exporters and suppliers have access to a network of assistance from USDA's Foreign Agricultural Service and its five offices and USDA trade associations.

Challenges

- Chinese consumers' awareness of U.S. brands in foods and drinks is relatively low especially in lower tier cities and rural areas.
- Competing countries including Australia, New Zealand, ASEAN countries, Chile, Peru, etc. have implemented trade agreements providing preferential tariffs and easier access, while retaliatory tariffs for U.S. products and uncertainty in bilateral relations are affecting confidence among food service operators in using U.S. products.
- Local suppliers are catching up quickly in quality and volume, and competition is becoming intense.
- Chinese buyers are expanding sourcing globally beyond traditional suppliers, encouraged by government policies such as the Belt and Road Initiative.

Section II: Road Map for Market Entry

There is no magic formula for exporters to enter China's food service market. Strategies vary by products and competition. U.S. suppliers should consider the following：

1. Understand the products that have market access, as well as the relevant laws and regulations for packaging, labeling, and documentation.

    The following reports and websites provide the guidance on exporting to China:

- USDA Food and Agricultural Import Regulations (FAIRS) Report presents the key regulations and standards applicable to food and agricultural imports, including changes to existing standards. In mid-March 2021, China issued 50 new national food safety standards and four revised standards. China's food regulations are dynamic, so U.S. exporters should verify all requirements with their China-based representatives or customers prior to shipping.
- China Exporter Guide provides information on local business practices, a review of consumer preferences, food standards and regulations, and import and inspection procedures.
- China: Decrees 248 and 249 - January 1 Implementation Date provides a translation of the General Administration of Customs of the People's Republic of China (GACC) Public Notice [2021] Number 103 with GACC Decrees 248 and 249 to take effect on January 1, 2022. It also provides information on various questions that have arisen regarding shipments in transit and other questions about registration. This report includes links to the announcement as well as additional information and links to background reports issued by FAS China.

2. Develop a strategy which may include the following steps:

- Conduct market research to determine potential, competitiveness, distribution channels etc.
- Participate in trade shows and trade missions to tap into the resources offered by FAS China, State and Regional Trade Associations (SRTG) and USDA Cooperators' local representatives. Due to COVID-19, most programs are virtual and are organized by either SRTG in-country representatives or regional Agricultural Trade Offices. (See Section 5.)
- Develop links with qualified local importers and distributors to target major HRI stakeholders. For smaller companies with limited resources, a good distributor will help determine HS codes for and related tariff rates, evaluate distribution channels, and adapt the products to the demands of the Chinese end-users to secure sales potential.
- Support the Chinese distributors' marketing efforts. Tell the story of your products. Chinese Consumers value information about what they are consuming. More restaurants are employing social media influencers or "key opinion leaders" (KOLs) to lead marketing events and attract diners. Farm information, traceability and health benefits, consumption trends in the U.S., and application of the products in Chinese cuisines are appealing to all parts in the value chain, from importers to distributors to catering business and consumers.

Distribution Channels

China's catering industry has one of the world's most complicated supply chain systems. Depending on whether the catering business is Chinese cuisine, Western cuisine, fast-service

chain restaurants, or hot pot restaurants, the supply chain structure varies. Generally, there are three categories of suppliers/distributors for food ingredients for China's catering industry.

1. Internet platforms

These were developed relying on e-commerce platforms, including Meicai.com, SongXiaoCai.com, Liannong.com, and JD group. They pioneered the concept of Internet + Agriculture, focusing on shortening the chain from field to restaurant with the Farm to Business (F2B) mode, offering comprehensive solutions from sourcing, warehousing, ordering, and delivery for millions of small catering businesses with support from third-party logistics (3PLs) services. They provide one-stop service with numerous ingredients and products for a small door-to-door catering business. However, a lack of unified standards for fresh produce makes it challenging for these internet-based supply chain platforms to provide consistent and high-quality products and services.

2. Catering enterprise extension

These supply chain companies are branches of leading catering groups. They are more like in-house sourcing companies that extend service upstream in their value chains and expand their services gradually to not only source ingredients and products for their own parent catering companies, but also to serve third-party enterprises as pure supply chain contractors. Shuhai Supply Chain, Zhong Mei Lian, and Xin Liang Ji are major category players. Shuhai Supply Chain is under Hai Di Lao, China's largest chain hot pot restaurant group, with nearly 1,300 outlets. Shuhai Supply Chain not only fueled the rapid growth of Hai Di Lao with hot pot ingredients, but also covered products from rice, flour, grain, oil, and vegetables and fruits for third-party clients. In addition, it provides market research and menu development services. These suppliers enjoy both economies of scale, and flexibility of comprehensiveness of supply chain service with solid support for their own catering businesses.

3. Supply Chain Service Suppliers

Beyond the above two types, supply chain service suppliers extend services from traditional procurement and distribution to food processing, repackaging, transportation, and warehousing. Cai Shi Xian Supply Chain within Yonghui Supermarkets is a typical supplier in this category. With its extended nationwide network, it can provide consistent, comprehensive supply chain services to institutional caterers, minimizing logistics service cost with a reliable and consistent supply of diverse ingredients in lower volumes.

Sub-Sector Profiles – Restaurants, Hotel and Institutional Food Service

1. HRI Sub-Sector Profiles:

Hotels and Resorts
With major international events, conferences, and trade shows, China's hotel and resort industry is immense and growing. Many internationally owned or managed hotel groups are rapidly

expanding operations in second and third-tier cities and top tourist destinations. In 2020, border restrictions made domestic travel the only choice for most consumers. Star-rated hotel guests have become mainly local or surrounding city consumers. Five-star hotels have few foreign guests. Some hotels began providing take-out services and closed executive lounges. Hotel and resort food service accounts for approximately 30 percent of average total revenue. Hotel restaurants are not necessarily visited by only lodging guests, but instead are increasingly visited by outside guests. Hotel restaurants are considered to have superior quality and service. Hotels often purchase ingredients through a centrally managed system. Imported food products are often preferred by international hotels because they cater to a diverse clientele.

Restaurants
China has 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. In general, ingredients for non-chain establishments are sourced from local distributors and markets. The chain establishments have centralized purchasing points. Demand for higher quality products has risen with disposable income. Per-capita food expenditures were US $ 1,004, though economic development is still unbalanced across China. More affluent consumers in more developed coastal areas spend more than the national figure. According to industry insiders and restaurant operators, upscale restaurants benefitted from pandemic travel restrictions, as consumers opted to spend money on premium dining for business or personal purposes as they could not travel abroad. The pandemic has led to fewer income sources and reduced catering consumption, but the high-end market in which affluent consumers pay a premium for quality and international dining experiences remains prosperous.

Institutional Food Service
Traditionally, institutional food service was primarily for hospitals, government offices, military, schools, and transportation (i.e., trains, flights). The latest China Catering Association data indicates the sector has been developing fast, and the top 10 catering businesses in China include five institutional suppliers. Fewer kitchen workers, quicker preparation time, lower overall cost, standardized dishes, and reduced waste are competitive advantages. The institutional food service sector, however, is facing many challenges, such as lack of known brands Some smaller players are suffering from unstandardized operational procedures, food safety control and management measures, and supply chain issues. 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. Despite that, with increasing wealth, high-end office complexes and private companies, institutional food service could be a future market for imported food ingredients.

Section III: Competition

U.S. HRI sector foods compete both with imports from other countries and lower-priced domestic foods. Since 2001, imported foods have been more accessible. China has existing or in-development FTAs with ASEAN countries, Australia, Singapore, South Korea, Maldives, Pakistan, New Zealand, Chile, Peru, Costa Rica, Iceland, Switzerland, and Georgia. Local products are improving in quality, so chefs and purchasing managers must balance quality and cost when choosing imported or domestic supplies. U.S. products also face competition from large, international corporations with local production.

Moreover, the United States is losing ground in the HRI market due to the high tariffs on imported food items and an uncertain trade relationship. At present, however, many U.S. products can receive exclusions for additional retaliatory tariffs. Please refer to [GAIN: Updated Guidance on China's Retaliatory Tariffs and Tariff Exclusions Process.](#)

According to the General Administration of Customs of China (GACC), in 2020, China imported 9.91 million tons of meat products, up 60.4 percent from 2019, with a total value of US $30.73 billion, up 59.6 percent. Pork imports were 4.39 million tons, up 108.34 percent, poultry was 1.43 million tons, up 98.28 percent, and beef was 2.12 million tons, up 27.65 percent. China imported 3.28 million tons of dairy products in 2020, up 10.4 percent from 2019, and the total import value amounted to US $ 11.71 billion, up 5.2 percent.

Section IV: Best Product Prospects Categories

HRI professionals' industry and new catering retailers repeatedly confirm U.S. exporters should select top quality products for China. U.S. foods and drinks have a reputation for high and consistent quality, attractive appearance, convenient packaging, and safety. U.S. suppliers have better opportunities in niche markets and emerging regional markets in 2nd and 3rd tier cities.

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
➢ Red meat (beef and pork) ➢ Tree nuts (almond, pistachios, pecan, hazelnut, macadamia) ➢ Dried fruits (cranberry, raisins, blueberry, tart cherry, prune) ➢ Dairy products (cheese, cream cheese, butter, pasteurized milk) ➢ Seafood (salmon, lobster, various fish especially Pacific red fish and cod, pollock, yellowfin sole, founders, sea cumber, Geoduck, Dungeness and King crab) ➢ Fresh fruits (cherry, apple, citrus, table grapes, grapefruits) ➢ Sauces and condiments for Western restaurants ➢ Frozen processed potato products	➢ Fresh fruits and vegetables (avocados, nectarines, blueberries, strawberry, potatoes) ➢ Dairy products (cheese, ESL milk, butter, permeate) ➢ Packaged wheat flour and pasta ➢ Pre-mix baking powders, frozen doughs, waffles, ➢ Breakfast cereals ➢ Breads, pastries and cakes ➢ Craft beer and spirits ➢ Rice ➢ Turkeys (whole and parts) ➢ Chocolate and chocolate ingredients ➢ Wines	➢ Organic products ➢ Edible oil ➢ Processed meat products including sausages

- [Livestock and Products Semi Annual](#)
- [Poultry and Products Annual](#)
- [Dairy and Products Semi-annual](#)
- [China Tree Nuts Annual 2021](#)

Section V: Key Contacts and Further Information

USDA's Foreign Agricultural Service (FAS) has five China offices. The Office of Agricultural Affairs (OAA) Beijing covers trade policy and commodity analysis and assists with China-wide market access and sanitary and phytosanitary issues. Agricultural Trade Offices (ATOs) focus on agricultural marketing, and provide support, assistance, and oversight to USDA Cooperators, work with U.S. companies to share market knowledge, and publish market reports. The offices coordinate trade show participation and sponsor activities to introduce U.S. products to key retailers, food service and food processing companies throughout China, and provide guidance in the resolution of customs clearance issues.

1. Trade Shows
   USDA has four endorsed China trade shows. Many suppliers get excellent market information by scheduling their visits to coincide with one of them. The ATOs can provide contact details and recruit distributors or traders for matchmaking meetings. For additional information on USDA endorsed trade shows, please visit [USDA endorsed trade shows](#).

2. Stay in touch with USDA China

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

3. Chinese Resources on Import Regulations
   China has strict documentation requirements for most imported food and agricultural products addressing quality, quarantine, origin, and import control. Products may also have other criteria such as packaging requirements, pre-clearance (if applicable), treatment options, labeling requirements, and container conditions. Chinese importers can typically provide information for U.S. exporters to assess feasibility. It is also important and helpful

for U.S. exporters to know some general information about the most relevant government bodies, such as the Ministry of Agriculture and Rural Affairs of China (MARA) and the General Administration of Customs of China (GACC). For specific Chinese Ministry websites and additional contacts, please review the most recent China Exporter Guide.

Attachments:

No Attachments.