EU-China Business Co-operation Opportunities on the Beverage and Food Industry

Instituto Español de Comercio Exterior

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This guide was researched and written by ACE, Asesores de Comercio Exterior, S.L. on behalf of the Spanish Institute for Foreign Trade (ICEX).

This guide is correct to the best of our knowledge and belief at the time of going to press. It is, however, written as a general guide so it is recommended that specific professional advice be sought before any action is taken, and therefore no responsibility whatsoever is assumed for the contents, including opinions, contained in this guide or for any actions based in such contents.

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I. RECENT EVOLUTION AND PROSPECTS OF THE BEVERAGE AND FOOD INDUSTRY IN CHINA

1 GENERAL INTRODUCTION

Over the past half century, China has changed beyond all recognition. A backward, underdeveloped, and semi-feudal nation has been transformed into one of the world's fastest growing economies. Since the founding of the People's Republic of China (PRC) in 1949 and the beginning of the 'open-door' policy in 1978, China's economy has grown swiftly from a low base and a wide consumer market has developed.

In late 1978, Deng Xiaoping marked a new course to modernize China by encouraging foreign investment and trade. The economic reforms that flowed from the 'open-door' policy have created an economic system often referred to as 'a socialist economy with Chinese characteristics'. Unlike the rigid, centrally planned economies in most traditional socialist countries, China's economy is a hybrid structure in which strategic commodities and industries are controlled by the state, while other industries, as well as the commercial and private sectors, are governed by a market oriented system.

In order to modernize the country's infrastructures and acquire new technologies, the economic policy of the Chinese government has focused heavily on attracting foreign investments and expertise. Now, new challenges and opportunities are emerging as China weathers the current economic difficulties in East Asia and continues to manage its two major transitions from a centrally planned to a market oriented economy and from a rural and agricultural to an urban and industrialized country.

1.1 Overview

With its 1,25 billion people, the People's Republic of China is the most populated country in the world. 30% of the population lives in the urban areas while the remaining 70% are concentrated in the countryside. China is the world's third largest country by area, covering 9.6 million square kilometers in the east of the Asian continent.

DEMOGRAPHIC PROFILE		
Indicator	1995	2020 f
Population ('000)	1,200,241	1,425,288
Labor Force ('000)	811,402	987,778
Life Expectancy (years)	69	73
Elderly (as % of population)	6.40	10.80

Source: World Bank, China 2020.

Mainland China is divided administratively into 31 provinces, autonomous regions and municipalities. Hong Kong is defined as a Special Administrative Region (SAR) under Chinese sovereignty. Macao became a SAR in December 1999.

China's central inland region is less developed that the coastal area and the west is the most undeveloped. Most part of China's economic and commercial activities is concentrated on the coastal areas respectively by the Bohai Gulf (which includes the municipalities of Beijing and Tianjin and the provinces of Hebei, Shandong and Liaoning), the Yangze River delta area (the municipality of Shanghai, and the provinces of Jiangsu and Zhejiang), and finally the Pearl River delta area (provinces of Guangdong and Fujian). These are the three areas in which large parts of the foreign investment are directed and where 60% of the Chinese GDP originates.

The pattern of China's economic development has changed substantially since 1949. After founding the People's Republic of China, the Chinese Communist Party devoted itself to the reconstruction of the national industry and agriculture, and heavy industries such as steel and mining were important beneficiaries.

In the 1950s, the USSR was China's only major source of financial and technical assistance. The economic development pattern of China was copied from the Soviet Union, adopting central planning of the economy. At this stage, China exported agricultural products to the USSR and east European countries, in return for manufactured goods and the capital equipment required for the country's industrialisation programmes. Development was set back during the Great Leap Forward (1958-59), as a result of three years of bad harvest (1959-61) in the agricultural sector, and during the Cultural Revolution (1966-76). The withdrawal of Soviet assistance around 1960 led China's leadership to experiment with the use of mass collectivisation and self-reliance to achieve rapid industrialisation. In the late 1970s, Chinese leaders began to shift their economic development focus from complete self-reliance towards the open-door policy and the absorption of western technology to raise the domestic economic level. Deng Xiaoping summarised the goal of national economic development in the term 'four modernisation' (development of industry, agriculture, defence, science and technology).

State-owned enterprises (SOEs) formed the backbone of the Chinese economic system. Before the reforms, productivity and costs were not linked. SOEs turned all their revenues over the state, and the state provided a budget through which the organisation covered the costs of its employees. The concept of producing and selling in the open market, and tying revenues to the costs of the organisation, were the revelations of Deng Xiaoping's economic reform.

Today, the reform of SOEs – turning them into economically viable production units that can survive in the markets without government intervention – is one of the central challenges facing China's transition to a market–based economy. Despite the fact that new forms of ownership have been in the works since the early 1980s, SOEs are still the centrepiece of the mainland's economic reforms. Even today they contribute to the 40% of the GDP.

SECTORS STILL DOMINATED BY SOES	
SOE SHARE OF INDUSTRIAL OUTPUT BY SECTOR	% Of Gross Industrial Output Value
Tobacco Processing	96.87
Logging (Timber & Bamboo)	93.99
Petroleum & Natural Gas Extraction	91.82
Gas Production & Supply	88.9
Petroleum Processing	82.55
Coal Mining	73.49
Electric Power & Steam Production	72.64
Smelting & Processing Of Ferrous Metals	70.39
Transport Equipment	47.44
Chemical Materials & Products	46.51
Beverages	45.29
Food Processing	39.2

Source: China Statistical Yearbook, 1998

With its system of national five-year economic plans, China has maintained steady economic growth over the past twenty years, with an average GDP of around 9.5% in real terms across the period.

Growth was strong throughout the 1980s, dipping towards the end of the decade and into the 1990s, before lifting again towards double-digit growth around the mid-1990. As for every Asian nation, the daunting East Asia's financial turndown has adversely affected the GDP growth trends of China. In 1998 Malaysia, Thailand, Japan and Indonesia fell into recession while Singapore and Hong Kong went through currency weakness and economic difficulties. China has experienced pressure on exports and revised GDP growth predictions as the effect of the Asian crisis adversely affected the country.

The much heralded 8% GDP growth target for 1998 was not achieved. In January 1999 the government announced that the actual figure for GDP growth in 1998 was 7,8%. However, other international agencies estimated that the real figure was probably two percentage points lower.

Together with the economic growth, people's living standard has improved as well. The official figure for average urban per capita disposable income for 1997 was 5,160 Yuan (621USD), up 3.4% in real terms over 1996. The per capita net income for rural residents was posted as 2,090 Yuan (252USD) for 1997, with an increase of 4.6% over the previous year.

However, it is important to emphasise that economic development in China has been unequal and much higher in coastal and urban areas, creating tremendous economic disparities between China's coastal and interior regions.

STRUCTURE OF THE ECONOMY(%GDP)				
	1977	**1987**	**1997**	**1998**
Agriculture	29.4	26.8	18.7	18.0
Industry	47.1	43.9	49.5	49.2
Services	23.4	29.3	32.1	32.8
General Government Consumption	7.5	13.5	18.5	14.3
Imports of goods and services	4.2	13.5	18.5	14.3
Wholesale And Retail Trade	7.7	5.9	5.4	8.5

Source: World Bank

SUMMARY OF MACROECONOMIC DATA AND FORECAST						
	1996	1997	1998e	1999f	2000f	2001f
Real GDP (% change)	9.5	8.8	7.8*	7	7	7.6
GDP (CNYbn, expenditure basis)	6,936.66	7,606.62	8,003.45	8,395.92	8,979.66	10,021.30
GDP (USDbn)	834.74	918.67	966.6	1,014.00	1,084.50	1,140.08
Fixed Asset Investment (%)	20	10.1	14.1*	17.5	15	14.5
Industrial Production (%,)	13.2	11.1	8.9	8.5	9	9.5
Retail Price Inflation (avg. %)	6.1	0.8	-2.6*	-0.5	2.6	4
Retail Price Inflation (end period, %)	4	-1.2	-2.7*	2.9	2	5.8
Consumer Price Inflation (avg. %)	8.3	2.8	-0.8*	0.4	3.2	6
Lending Rate (%)	10.08	8.64	6.39*	5	4	4
CNY/USD (avg.)	8.31	8.29	8.28*	8.28	8.28	8.79
CNY/USD (end period)	8.3	8.28	8.28*	8.28	8.28	9.3
Merchandise Exports fob (USDbn)	151.08	182.67	183.59*	175	183	201.3
Merchandise Imports fob (USDbn)	131.54	136.45	135.09	141.84	154.61	179.34
Trade Balance (balance of payments basis, USDbn)	19.54	46.22	48.5	33.16	28.39	21.95
Current Account (USDbn)	7.24	29.72	26.35	11.98	7.36	2.98
as % of GDP	0.87	3.23	2.73	1.18	0.66	0.26
Foreign exchange reserves (USDbn)**	105.03	139.9	144.96*	151	148	146
External debt (USD bn)	116.28	130.9	146.04	153	170	185
External debt (% of GDP)	13.93	14.25	15.11	15.09	15.68	16.23
* Actual. ** Excluding gold & other sources.						

Source: China State StatisticBureau, World Bank, Business Monitor International

AVERAGE ANNUAL GROWTH				
	1977-87	1988-98	1997	1998
Agriculture	6.4	4.4	3.5	3.5
Industry	10.9	14.1	10.8	9.2
Manufacturing	11.4	13.4	9.9	8.9
Services	12.7	8.6	8.2	7.6
Private Consumption	9.7	8.6	7.7	6.7
General Government Consumption	9.0	9.9	8.2	8.4
Imports of goods and services	19.2	12.5	12.7	11.5

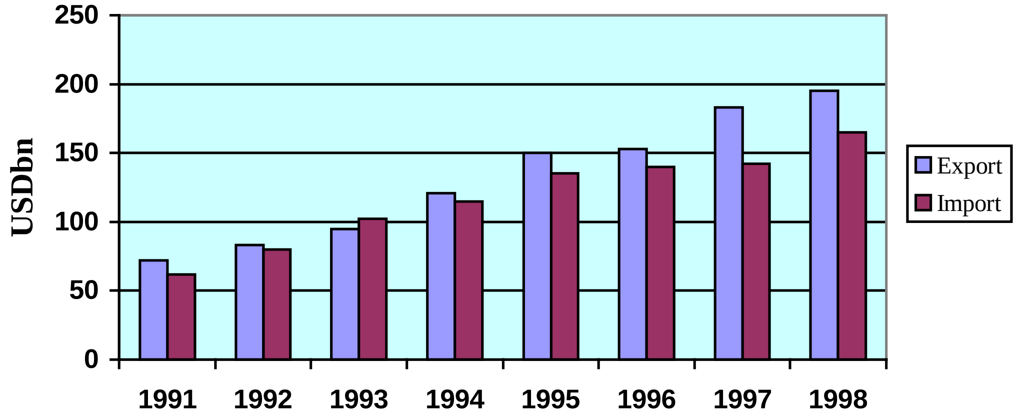
Source: World Bank

Chinese government was adept in controlling high inflation in the early 1990s without bringing the economy to a standstill. The austerity programme launched by central government in mid-1993 contributed to China's economic 'soft-landing' in 1996. In 1998 inflation stayed firmly negative and demand remained depressed.

China has accumulated strong surpluses from a solid international trading record and positive investment inflows. Foreign exchange reserves in 1998 hit a massive 141 billion USD, the second highest of any economy world-wide.

Currently, China is the 10^{th} largest trading nation in the world. Its share in the world trade is now around 2%, while its share in the increment of global trade has been close to 20% in recent years.

Foreign Trade, 1991-1998



Source: The General Administration of Customs

1.2 Foreign Direct Investment

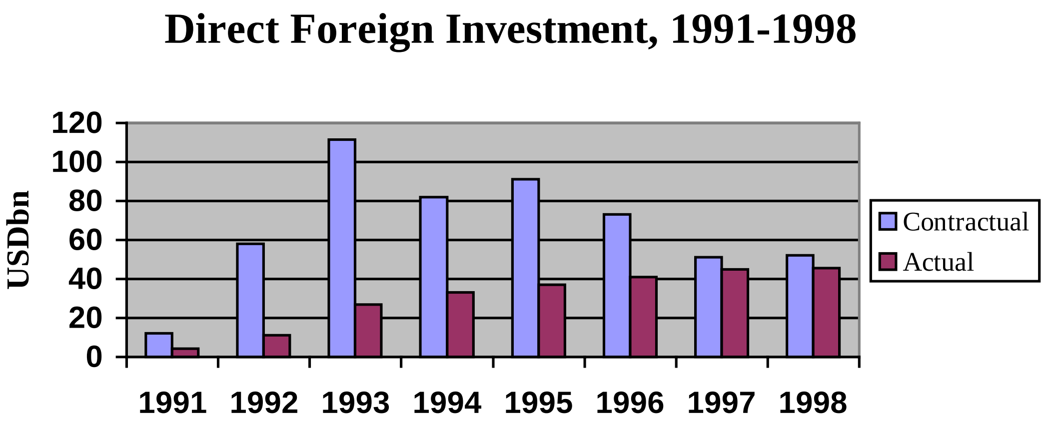
China is encouraging the infusion of foreign advanced technologies and management know-how. Information from the State Statistical Bureau shows that between 1990-98 China has attracted an estimated USD252.74 bn in actual foreign direct investment (FDI).

Small- and medium-sized firms from Hong Kong and Taiwan dominated the initial influx. Hong Kong still dominates, accounting for 41.4% of actual FDI inflows in 1997. MOFTEC also reported that China has so far approved 303,345 foreign-funded projects. In 1995, China held a 42% share of all direct foreign investment in Asia.

FDI inflows have played a massive role in China's recent economic success. In 1998, FDI inflows totaled USD45.6bn, up only 0.7% compared with 1997, while contracted investment rose by only 2.2%, to USD52.1bn.

MOFTEC officials have admitted that actual FDI inflows are unlikely to rise in 1999. China faces stronger competition for funds from South East Asia and South Korea, where sharp currency devaluation in 1997-98 and falling wages have reduced operating costs, and where massive financial and industrial restructuring has opened up a wide range of acquisition and business opportunities.

Also, slowing growth in China, combined with weakening consumer confidence, and fierce competition in some sectors, will undermine the appeal of the domestic market, at least in the short term.



Source: MOFTEC

1.3 The Use of Incentives

China has ended up with different types of special investment zones offering a variety of incentives. The largest areas are the five Special Economic Zones (SEZs, each based around a coastal city). The first four opened in 1980, and were the first areas to offer specific investment incentives to foreigners. The next layer comprises the 452 open zones and cities, offering tax incentives and ,in some cases, above-average infrastructure and other facilities. The most famous example is Shanghai's Pudong, home to five special sub-zones. There is also a range of other cities and zones where tax breaks are offered for investment in priority sectors.

MAJOR INVESTING COUNTRIES, 1997	
% Share	
Hong Kong SAR	41.14
Japan	8.38
USA	6.61
Taiwan	6.38
Singapore	4.98
South Korea	4.25
UK	3.55

Source: State Statistical Bureau

1.4 Investment Priorities

In 1995, the Interim Provisions on Guidance for Foreign Investment and the associated Catalogue outlined China’s foreign investment priorities. Foreign investments were listed in 4 different groups: encouraged, restricted, prohibited, and permitted. Any activity not included in the first three categories is considered to be permitted. According to the 1995 guidelines, the sectors that receive more favourable investment terms (key priority sectors) were grouped into the following areas:
projects developing agriculture, energy, communications and essential raw materials;
projects involving new technology and high-technology, including areas such as energy conservation, and the prevention of environmental pollution;
export-oriented projects;
high-tech projects located in China’s central and western regions;

The restricted sectors are:

- sectors where China already has many domestic producers as well as low-tech heavy industries;
- industries subject to overall state planning;
- some small scale production;
- exploration and processing of some minerals;
- A wide range of services like domestic and foreign trade, real estate, retail and wholesale trade, accounting, auditing, legal services, shipping, freight, advertising, education, and financial services like banking, insurance and foreign exchange trade.

Some of the restricted areas may be open to firms locating in the central and western region or those that export 70% of their output. The list of prohibited sectors for foreign investment includes defence, journalism, TV stations, video production and distribution, plus a number of traditional Chinese medicine and handicrafts.

The Chinese provinces, SEZs and other zones compete among themselves to attract FDI, and this competition has intensified as a result of the Asian economic crisis. The slump in FDI from South Korea and Japan will push local officials to become more adventurous in offering incentives and seeking out new markets in the EU and US. The larger special zones and industrial parks are now well established; suggesting that they will remain favored locations for FIEs. The inland provinces will continue to face an uphill struggle to attract foreign investment, although this will slowly improve as investor attention continues to shift towards exploiting China's domestic market.

CHINA: ZONES AND INCENTIVES		
Type	Location	Incentives
Special Economic Zones, SEZs	Xiamen (Fujian province); Shenzhen, Zhuhai, Shantou (all in Guangong province); Hainan Island	Flat corporate tax of 15% (compared with typical 33%). Waivers and tax holidays available for some sectors. Most items are VAT-exempt.
Open Zones And Cities	Shanghai's Pudong Area (a state-level zone)	Flat corporate tax rate of 15%. Efforts have been made to upgrade infrastructure (including large port facilities and a new international airport), and to develop local education and skills
Coastal port cities	There are 14 open coastal port cities as well as other open coastal zones	Corporate tax ranges from 15% to 24%.
Economic And Technological Development Zones	Around 400 local and 32 state-level ETDZs have been established (including in the open coastal cities). There are also 52 high- and new-technology zones.	In ETDZs a flat corporate tax rate of 15% is offered for companies engaged in production (as opposed to services), with waivers and tax holidays available. The flat 15% rate is also offered in high-tech zones.
Bonded Zones	There are 14 bonded (free-trade) zones	Duty-free imports; stored goods treated as being outside China's customs jurisdiction.
Inland Areas	The western and central regions are high-priority areas for investment.	Ranges of incentives are on offer. For example, provincial capitals in inland provinces may offer a corporate tax rate of 24%. Ten-year tax reductions are available in some underdeveloped areas. A 15% tax rate is applicable for some high-priority sectors (such as infrastructure).

Sources: The Hongkong and Shanghai Banking Corporation; MOFTEC; BMI.

1.5 What about FDI during the 2000 year?

Actual FDI in China have declined 12,1% year on year in the first two months of this year, nevertheless the foreign invested enterprises (FIEs) and their contracted investment both increased up to 20% in the first quarter of 2000.

Certainly the MOFTEC has approved 14.795 FIEs involving USD 27,844 billion of contractual foreign investment. These enterprises are formed by 98 countries and regions including 10.329 Sino – foreign equity joint ventures, 1.173 non-equity joint ventures, 3.267 wholly foreign – owned ventures, nine joint stock companies and 17 foreign banks.

Foreign Invested Enterprises

Country	Number of firms	Amount USD billion
Hong Kong	5.745	13,692
United States	2.434	3,209
Japan	1.261	2,059
European Union	757	2,207
Taiwan	1.658	1,293
British Virgin Island	210	1,179
Singapore	514	0,759
Republic of Korea	567	0,478

The fall in actual foreign direct investments follows an 11,4% decline last year that was blamed on the effects of the Asian economic crisis and in particular concern that Beijing would devalue the yuan.

Economic analysis expected that FDI should pick up when Beijing joins the WTO this year.

Anyway, the Chinese government spelled out policies to attract foreign investors, specially in order to improve the FDI in the west and inside lands that have largely missed out on the dynamic growth enjoyed in rich east coastal areas since the 1980s. They have selected a range of industries in the western provinces to be promoted to foreign investors by identifying industries with good potential in the west and compiling a special catalogue to direct foreign investment to these industries. Investors in these industries would be able to enjoy a two year tax holiday and the tax rates of only 15%, the same treatment as investments received in the coastal special economic zones. IN addition, enterprises more that 25% foreign-owned would be able to enjoy the privileges given to foreign firms. Always this is applied to industries identified by the government.

China is seeking additional foreign investment and is simplifying its approval process to help attract more foreign capital.

In a recent joint circular, the State Development Planning Commission (SDPC) and the State Economic and Trade Commission (SETC) announced that China is relaxing its application procedures and approval limits for certain foreign-funded projects. The responsibility for examining and approving such projects now can be transferred to the lower levels of governments of provinces, autonomous regions, and municipalities directly under the central governments, or to the governments of cities listed separately in the state budget. That proposal and feasibility reports coming within this category shall, in accordance with their construction characteristics, be submitted to either the SDPC or the SETC., in a way that the projects can be considered approved if the two state commissions do not raise any objections within one month..

There is an explicit list of the foreign-funded projects subject to overall state planning restrictions:

- ✓ Projects that require state investment, loans from state policy banks or from China's four state-owned commercial banks, as well as those projects that enjoy government infrastructure subsidies and loans for technology upgrading. Also included in this category are joint-venture projects that combine the aforementioned state capital and foreign investment through stockholding.

- ✓ Projects that are essential to the national economy and the people's livelihood. These include projects involving infrastructure, key industries, electronic equipment and telecommunications, aerospace and the mining industry.

- ✓ Projects for which the use of land must be examined and approved by the State Council as stipulated by related laws and regulations. This includes projects that would be located on forest land, as well as those that would use large quantities of water, and those that might damage or pollute water resources.

- ✓ Projects that require state import and export quotas and permits. These include new forms of foreign investment and trial projects in the areas that have just been opened to foreign investors.

The government will soon publish the Guiding Catalogue for Foreign Investors, and the Catalogue of Advantageous Industries in Central and Western China and its Supporting.

2 THE EVOLUTION OF AGRICULTURE AND THE BEVERAGE AND FOOD INDUSTRY IN THE CONTEXT OF THE EVOLUTION OF THE CHINESE ECONOMY.

China’s agricultural policy has changed direction many times since 1949 due to the implementation of political and ideological campaigns, five-year plans and several U-turns in policy.

However, there are still two identifiable phases in China's agricultural policy since 1949:

- Pre-reform: characterized by command-and-control systems in agriculture, with large-scale production units working on collectivized land.
- Agricultural reforms since 1978: family farming was reintroduced into Chinese agriculture alongside market reforms and elements of privatization.

2.1 The pre-reform period (1949-1978)

During this period, centralized control severely restricted farmers’ economic freedom and initiative. Land was collectivized into huge production units. Collectives worked on a quota basis and operated according to directives from political cadres, who were often unfamiliar with local conditions and sometimes lacked agricultural expertise.

Growth in agricultural production during the period was slow, scarcely keeping up with population growth. This ponderous growth was interrupted several times by severe crises, most notably by widespread and severe famine during the "Great Leap Forward."

Many different phases marked the period as numerous "campaigns" initiated by the state and the Communist party were introduced in order to boost agricultural production and accelerate rural development. These campaigns were all based on the idea that political cadres could design a master plan for the economy that would be implemented and enforced from above. Centralization not only failed in itself, it also created an environment that systematically discouraged individual initiative among the farmers.

2.2 Agricultural reforms since 1978

With the gradual introduction of economic reforms since 1978, agriculture policy has changed dramatically with privatization and market elements being widely introduced into the system. Family farming has become the dominant principle in China's agriculture. While the land is still legally owned by the state (or the "collective"), it is rented and cultivated on a longer-term basis by individual farm households, who are responsible for their own economic activities.

Farmers on commercial markets can now sell many agricultural products such as fruit, vegetables, and pond fish, either directly or through retail channels. Farmers in close proximity to large urban areas in particular, can often accumulate modest wealth by shipping their products to the free markets in the cities. While the city population, spoiled by state-subsidized food, have complained about the high prices on these farmers' markets, they have nevertheless appreciated the superior quality and more varied produce.

However, rice, wheat and grain are in general still produced under central planning and distributed by the state-procurement system. Farmers have to supply this system at fixed or negotiated prices that are higher than in the past, but still significantly below the free market price.

At least 50 million ton of grains are acquired annually by the procurement system at government-set prices. Another 40 million ton have to be provided by the farmers at negotiated prices. Only when these targets have been met farmers can sell additional grain on the free market.

The procurement system is used to balance grain deficits in certain provinces with surpluses in other parts of the country. Moreover, the procurement system is probably still necessary to provide such staple food at a low price to the urban poor including the growing number of unemployed people in cities. Thus in reality, since 1978 China has had a dual system of central planning and market orientation in agriculture.

2.3 Recent developments and problems

The stronger market orientation of Chinese farmers led to the increasing fear among Chinese officials that grain production might not keep up with demand.

Farmers were converting more and more cropland to horticulture, fish farming and the feed grain for livestock. These products could be sold on the free market and were becoming much more profitable than food crop cultivation at government-set procurement prices.

MAIN AGRICULTURAL SECTORS OUTPUT IN CHINA, 1997		
PRODUCTS	QUANTITY (TON)	Variation over 1996
Cereals	492,500,000	- 2.4
Sugar cane	78,790,000	15.5
Meat	53,540,000	8.0
Fruits	50,450,000	8.4
Sea Products	35,610,000	8.3
Vegetable Oils	21,500,000	- 2.8
Tobacco	3,920,000	33.1
Cow Milk	6,630,000	5.4
Tea	610,000	3.4

Source: China Statistical Yearbook

Government measures to counter the threat of shortfalls in grain production became known as the “Grain Bag policy”. Some measures were clearly aimed at tightening provincial government control over grain production; others were designed to favor decentralization and a more consistent supply of agricultural products and infrastructure investment. Simply put, provincial leaders became responsible for securing sufficient grain supply for their province. They are now required to stabilize or increase the sown area for grain, increase the supply of inputs to raise yields, and balance the demand of urban residents with available supplies.

If there is a grain deficit in their province, they have to purchase the necessary grain on the domestic market or request imported grain from the central government. Governors of provinces with grain surpluses are responsible for managing grain sales to provinces with grain deficits and establish long-term trade agreements.

Although the ‘Grain Bag’ policy has probably contributed to the increase of grain production in recent years, it is unclear at what costs. The central government has shifted primary responsibility for the grain transfers to the provinces. This decentralization has certainly increased flexibility, but at the same time burdened the provincial governments with additional control and management functions.

2.4 Successes and failures of agricultural policy since 1978

China's political reforms have greatly boosted food production since 1978. The long-term leasing of state-owned land to family farmers has resurrected the long-suppressed entrepreneurial spirit among Chinese farmers.

CEREAL GRAINS AREA AND PRODUCTION 1996 – 1999 (MILLION HA, MILLION METRIC TON)								
	1996		1997		1998		1999	
	Area	Prod.	Area	Prod.	Area	Prod.	Area	Prod.
Rice	31.5	195.1	31.8	200.7	31.5	185.0	31.2	195.0
Wheat	29.6	110.6	30.1	123.3	30.4	110.0	30.2	105.0
Corn	24.5	127.4	23.8	104.3	24.3	125.0	24.0	123.0
Subtotal	85.6	433.1	85.6	428.3	86.2	420.0	85.4	423.0

Source: China Statistical Yearbook, Ministry of Agriculture Statistical Yearbook

The land is still legally owned by the state, but the farmers now consider it as similar to private property. Additionally, they are motivated to increase productivity and maintain fertility. The introduction and liberalization of food markets and the gradual decline of the state-subsidized food distribution system have opened up new possibilities for farmers.

MINOR GRAINS PRODUCTION 1996 – 1999 (MILLION HA, MILLION METRIC TON)								
	1996		1997		1998		1999	
	Area	Prod.	Area	Prod.	Area	Prod.	Area	Prod.
Sorghum	1.3	5.7	1.1	3.6	1.1	5.0	1.1	5.0
Millet	1.5	3.6	1.4	2.3	1.5	3.0	1.5	3.0
Other Grains	3.9	8.9	3.8	9.2	3.9	9.0	3.9	9.0
Barley	1.0	3.5	1.0	3.5	1.0	3.5	1.0	3.5
Tubers	9.8	35.4	9.8	31.9	9.7	34.5	9.7	34.5
Soy beans	7.5	13.2	8.3	14.7	8.2	13.9	8.0	14.0
Other Beans	3.1	4.7	2.8	4.0	2.6	4.0	2.6	4.0
Subtotal	27.0	71,4	27.3	65.8	27.3	69.4	26.8	69.6

Source: China Statistical Yearbook, Ministry of Agriculture Statistical Yearbook

Those in close proximity to urban areas can sell their products on the free market. This has promoted greater market orientation in agricultural cultivation, which is a precondition for a commercial agricultural sector. This trend is clearly mirrored in the greater diversity of food production since 1978, which now includes more vegetables, fruits, tobacco, tea, meat, and fish. However, some old problems still exist and a few new problems have emerged, such as the decline of state investments in agricultural infrastructure. In addition, new family production units are often too small for the highly productive commercial agricultural sector.

Farmers can feed their own families and fulfill the state quotas for grain, but they can rarely generate enough profits to invest in machinery and better agricultural inputs (fertilizers, pesticides). China needs an improved farm structure with commercially viable production units.

Reform of China's farm structure is especially important, because private investment is urgently needed to improve and maintain the crumbling rural infrastructure, especially dams and irrigation systems.

TOTAL CEREAL GRAINS AND MINOR GRAINS AREA AND PRODUCTION 1996 – 1999(MILLION HA, MILLION METRIC TON)								
	1996		1997		1998		1999	
	Area	Prod.	Area	Prod.	Area	Prod.	Area	Prod.
Cereal Grains	85.6	433.1	85.6	428.3	86.2	420.0	85.4	423.0
Minor Grains	27.0	71.4	27.3	65.8	27.3	69.4	26.8	69.6
Grand Total	112.6	504.5	112.9	494.2	113.2	489.4	112.2	492.6

Source: China Statistical Yearbook, Ministry of Agriculture Statistical Yearbook

In recent years, the state has withdrawn from many of the tasks it had organized and financed during the period of collective farming - particularly maintenance - and adequate expansion of agricultural and hydrological infrastructure. State capital investments in agriculture have leveled off or even declined. Besides, the central government's spending on agricultural research has lagged behind investments in other economic sectors.

CENTRAL GOVERNMENT INVESTMENTS IN AGRICULTURAL RESEARCH				
			Average Annual expenditures (1990 Yuan)	
Period	Number of Researchers	Agricultural Research Intensity(1)	Total (millions)	Per scientist
1965-69	10,166	0.33	464	46,001
1970-74	10,618	0.41	720	68,518
1975-79	10,319	0.49	1,022	52,729
1980-84	33,111	0.44	1,404	42,482
1985-89	50,330	0.40	1,763	35,336
1990-94	61,385	0.39	2,063	33,276
Note: (1) Agricultural Research Intensity is the ratio of agricultural research expenditures to agricultural Gross Domestic Product.				

Source: Institute for Applied System Analysis

2.5 Future Perspectives

The Chinese government has announced a target of 490 million MT for grain production in 1999, about the same as 1998 production. The announcement explained that greater emphasis would be put on improving the quality of grain output next year rather than increasing quantity.

China sees itself heading into the 21st century having defied critics who predicted that its grain production would be unable to keep up with growing demand. However, China's success in increasing its grain production has carried a heavy price. Even though the government has lowered grain procurement prices, the cost of domestic grain is currently around 30 percent over world market prices. The government recently reasserted its control over China's grain marketing system, in the name of reducing government costs (which were running at around USD 1.8 billion a month in 1998). The government continues to buy grain from farmers at above world market prices, which then piles up in inadequate storage, where it is managed by a bloated national grain bureaucracy and where as much as 20 percent of the grain is lost to pests and decay.

In addition, the government is spending USD 30/MT to subsidize exports of corn. For the foreseeable future, China will continue to export corn and rice and continue to limit grain imports with high tariffs.

2.6 Beverage and Food Industry Evolution and Developments

After decades of buying generic food products manufactured by State-owned enterprises, China's consumers nowadays can choose from a growing array of domestic and foreign brand-name products each time they go shopping. Given the country vast size, some food industry analysts have tended to believe that the development of food brands in China, especially national-level brands, could take many years. Only brands of high-priced status 'goods' such as cars, stereos and clothing, were believed to have attained widespread recognition among China's consumers.

However, a national market for brand-name food products has already begun to emerge in China. China has more than 150 'national' food brands, defined as those brands available in the majority of the big cities. A number of major food categories, including baby foods, breakfast cereals, frozen foods, noodles and snacks, all have at least five brands that are distributed nation-wide. For soft drinks and biscuits – the two products for which markets are most developed in terms of size and the number of national brands – more than ten brands are distributed nationally. Many of the brands are Western, but Hong Kong, Japanese, and Taiwan brands are also major players. Foreign products with high sales volumes, such as powdered milk, soft drinks, and biscuits tend to be produced in China. Goods with lower sales volumes – cheese, butter, canned soups and vegetables – tend to be imported. Many analysts of the Chinese consumer market emphasise its fragmented, regional nature.

While there is considerable regional variation in product prices, the variations tend to be random. In fact, there is as much price variation within a particular city as between regions. In most of the world’s emerging markets, domestic brands and international brands, whether imported or produced locally, compete vigorously for market share. In China, the markets for processed cheese, baby food, ketchup, canned soup, mayonnaise, branded butter, UHT milk, pasta and instant noodles are all dominated by international brands. Local brands hold their own in relatively few markets, including beer, Chinese noodles, frozen foods, and soy milk powder.

Though China’s beer market has attracted investment from foreign brewers (Anheuser-Busch Inc., Asahi Breweries Ltd., Carlsberg-Tetley Alloa Ltd., Budweiser etc.), the market is so large that these foreign brewers have made only limited inroads so far.

As for frozen foods, perhaps because the sector consists largely of Chinese-style foods – flour based dumplings, wonton, vegetable rolls, and bean curd – the market leaders tend to be either domestic companies or PRC-Hong Kong joint ventures. The lack of reliable cold storage distribution networks may also explain why frozen foods are still dominated by domestic producers.

Despite the often-cited difficulties of distributing nationally in China, which stem largely from the country’s poor transportation infrastructure and the uneven reliability of private contractors, most foreign food-product investors initially source from only one plant. This one-factory strategy is possible because most processed foods have shelf lives of at least several weeks and can survive a lengthy trip from factory to store. The notable exception to the one-factory approach has been in the soft drinks market, in which the large volumes and relatively low retail prices have encouraged investors to set up regional plants. Unless a company has considerable financial resources, though, most find it best to start with one plant and expand to other locations as needed.

Regarding the importance to have a Chinese partner in the business, if only to facilitate access to local officials and distribution networks, more and more foreign companies that have been involved in joint ventures are moving to increase their equity shares or establish wholly owned plants.

For the most part, foreign-funded companies tend to specialise in lines in which the companies have prior product experience and knowledge. European and American companies typically market or produce Western foods in China, while their Asian counterparts focus on Asian food products. Many foreign investors in instant noodle production ventures, for example, are from Japan, South Korea, and Taiwan. Makers of such frozen foods as wonton and dumplings generally are based in Hong Kong.

Nonetheless, some foreign food producers have chosen to adapt their products to the Chinese consumers preferences. Some biscuit companies make products in China that they do not market back home, including biscuits in sesame and spring onion flavours, peanut, lemon, and mango wafers etc.

Asian manufacturers of instant noodles also adapted their product to China’s regional tastes: soy sauce-braised beef, shrimp, and black pepper beef.

Another key means of penetrating the Chinese food market is strict management of pricing. Retail prices for processed food products vary considerably, but the price variations within one city can be as great as between regions. Though several factors likely contribute to the price variations, it is possible that manufacturers and distributors are simply unable to control the retail prices of their products.

A foreign investor should be aware that attempting to position its product as a mass-market processed food by pricing it low could prove futile if Chinese retailers mark up the product’s price to boost its cachet. Some foreign soft drink makers have been able to set competitive prices for their products.
Pepsi and Coca-Cola have achieved this largely by managing at least some of their own distribution networks and maintaining national sales forces that can monitor their products retail prices.

Price segmentation (the availability of high- medium- and low-quality brands within one product sector) is commonly seen in developed markets, but most of China’s processed food markets are too immature for such segmentation. Imported brands of powdered milk, though, have started to compete with domestic brands in quality and price, and small volumes of high quality imported chocolate are finding a market among Chinese consumers. In China’s instant noodle market, which is growing at 20% per year, quality and price are becoming more and more important to consumer’s purchasing decisions. PRC-made noodles face stiff competition in urban markets from higher-quality, joint-venture products.

With a number of foreign food and beverage products on their way to becoming household names, some Chinese officials are becoming concerned that domestic producers face a difficult road ahead. Such developments give Chinese authorities reason to worry about the future of PRC brands. In some cases, PRC investment approval authorities require foreign companies acquiring PRC consumer goods companies to pledge that they will continue to support the local brand name. When Danone acquired a stake in Wahaha, a PRC dairy company, the French firm had to guarantee to preserve the Wahaha brand name. With such challenges from foreign companies, domestic firms will have to develop technical advantages or advanced marketing skills, or invite foreign investment, if they are to increase their competitiveness in the brand-name food products market.

The Chinese processed food market, however, remains constrained by distribution problems and inconsistent retail pricing. Foreign or foreign invested enterprises-made goods of many kinds have been able to develop quickly into national food brands because of the lack of a domestic competition. Establishing a brand does not guarantee profits, though, because of the small size of the market, so foreign companies in China must take long-term view profitability.

Drink It Cold – New Trends in Beverage Consumption

The whole concept of cold beverages is fairly recent in China. Until the 1990s, it was unheard of to drink cold water; it would have been rare to purchase water. Today, guests are frequently served cold bottled water in lieu of tea especially during the summer months, and urban dwellers frequently purchase bottled water. Along with the modern appreciation in China for soft drinks, this trend indicates that cold fruit juices will also grow in a similar manner to Hong Kong and Japan where consumers have progressed from drinking highly sweetened, juice flavoured drinks to pure fruit juices.

In the southern part of China, bottled tea drinks and water during summer are the big sales products. In addition, a recent survey published by a local newspaper, showed that 44.3% of the respondents claimed that they mostly drink carbonated drinks, 15.6% bottled water, and 4.2% juice flavoured drinks and 3.6% pure juice.

In 1997, China produced 4,820,700 ton of carbonated drinks, 1,944,600 ton of bottled water and 1,566,090 ton of juices.

2.7 Frozen and chilled foods

Far-reaching-changes are under way in the eating patterns of China city dwellers, from changes in diets and food purchases to an increase in the number of meals eaten outside of the home. Powerful economic and demographic forces in China, including higher per capita incomes, smaller household units and increasingly fast lifestyles, drive these changes.

To meet the demand among consumers and restaurants for frozen and chilled foods, China must move perishable food products quickly, efficiently, and hygienically from the farm or food processor to the consumer. China's cold chain infrastructure, though, is like much of the country's infrastructure: old, under-invested, and now scrambling to keep up with enormous new demand.

These pressures are forcing changes in each link of the cold chain network – from cold warehousing at the point of production or import, to temperature-controlled transport, to wholesale distribution, to the retail level.

The markets for consumer-ready frozen and refrigerated food in China have taken off only in the recent years, due largely to the rise in ownership of refrigerators, which are now found in an estimated 96% of urban Chinese households, and the emergence of new retail options, notably supermarkets.

Major urban markets now sell a wide range of consumer-ready frozen foods, including ice cream, frozen appetisers and entrees, and frozen vegetables, fruits meats, and seafood. According to estimates of China Refrigeration Association, domestic consumption of consumer-ready frozen products, excluding ice cream, is projected to grow over 5 million ton by year 2000.

But by all accounts, China's market for frozen foods is in the earliest stages of development. Per capita output of frozen foods in China was less than 3 kg in 1997, far below the 15 kg per head consumed in Taiwan, or the 53 in the US.

One indisputable frozen product success in China is ice cream. Global mass-market producers like Nestle and Unilever PLC (Walls) have invested heavily in China, while the Haagen-Dazs Co. Inc., Baskin Robbins International Co., and other manufacturers have established flagship shops in Beijing and Shanghai.

The variety of frozen products for sale in China is on the rise. The number of locally produced frozen entrees and appetisers catering to the Chinese tastes is growing rapidly. More than 50% of frozen food demand is for products such as steamed bread, buns, dumplings, spring rolls and sweet dumplings.

China exports increasing amounts of a number of frozen foods, most notably poultry and seafood. Much of China's frozen chicken, fish and vegetable exports have been destined to the Japanese market.

To accommodate both domestic and international demand for chilled and frozen food, though, China needs to continue improving its cold chain management infrastructure. Processed food markets in developed countries are characterised by a network of public cold storage warehouses and private companies that consolidate food from farms, processors, and packaged goods companies and then distribute to regional and local warehouses, which ultimately deliver foods to individual consumers. In China these crucial intermediary links have been slow to develop. Historically, the Ministry of Internal Trade (formerly the Ministry of Commerce), the China National Cereals, Oils, and Foodstuffs Import an Export Corp., and the Ministry of Agriculture and other bureaus throughout the country, directed the allocation of food products in China. Economic reforms have dismantled these former State-run distribution monopolies, leaving a fragmented system of small-scale traders with limited geographic scope.

Selecting a distributor though, is only the first step. Transporting frozen food from either the port of entry or local production centre entails navigating China's existing cold storage warehousing system, another remnant of the centralised command economy. From a distributor's point of view, frozen goods are easier to handle, as these products can more easily endure temporary breakdowns in the cold chain. Chilled meats, dairy products, and produce, on the other hand, have short shelf lives and will deteriorate rapidly without efficient handling under controlled conditions.

Cold warehousing facilities are one important link in the cold chain; temperature-controlled transportation is another. While all types of goods suffer from slow or inefficient transportation modes in China, the problems are particularly critical in the distribution of refrigerated and frozen goods, which require special equipment to maintain product quality.

Railways continue to be the most common channel for the large-scale distribution of food in China, including frozen food products.

Transporting frozen goods by rail in China, however, has enormous drawbacks, including the need for advanced bookings and special connections or guanxi with local stationmaster.

Fortunately, China's trucking industry is growing rapidly, fuelled by the competitive demands of free markets and the PRC's integration into international trade. Even though road networks in China are notoriously underdeveloped, improved highway segments are making regional truck distribution a more practical option for the food industry.

A last but critical link in the cold chain is food retailing. Despite the fact that Chinese tastes, customs, and culinary culture dictate a strong preference for freshness and a bias against packaged foods, supermarkets are beginning to make their mark in China.

The advent of supermarkets in China also promises greater sales potential for chilled products such as packaged meat or fish, which offers consumers the taste advantages of fresh products as well as the flexibility to store the wrapped and sealed product in the refrigerator for consumption a few days later. Consequently, packaging will play an increasingly important role in cold chain management and the extension of product shelf lives. For example, the need for high quality, high barrier plastic packaging for vacuum or modified atmosphere packing of meats goes hand in hand with the development of the delivery systems to get these packaged products to the retail outlet.

While traditional Chinese wet markets will continue to be a mainstay, the needs of urban dwellers, with smaller households units, greater household discretionary spending, and more hectic working days, favour the development of supermarkets and the popularity of chilled and frozen products.

The discount store format has also arrived in China and will have an impact on food purchasing habits. Carrefours, Wal-Mart, Price Smart etc. are developing on a steady basis. However, large discount stores are likely to develop more slowly than supermarkets, since Chinese shoppers likely will refrain from making large-volume purchases they would have trouble carrying home on public transportation.

Chinese consumer's expectations will continue to rise, demanding more convenience, fewer food-shopping and preparation hassles, and more options in how and where meals are purchased and prepared.

The major advances in China's food industry sector have been at either end of the distribution chain: processing and retailing. The constraints are in the intermediary links in the chain – lack of sophisticated cold storage warehousing, overburdened railways, lack of interprovincial highways, and inadequate stock of refrigerated carriers. Perhaps, most important, the absence of large-scale food wholesalers with wide geographic scope means that producers, distributors, and retailers cannot turn to any one source for an integrated solution to their distribution needs on either a national or regional basis.

2.8 A brief consumer profile

Despite the publicity surrounding the new-found spending power of the Chinese people and the successes of some foreign firms, a number of multinational corporations discovered soon after entering the market that China's huge population did not translate easily into a steady stream of customers. Many foreign as well as Chinese firms saw less than gratifying returns on their investments as they fell victim to the 'edifice complex': rushing to expand their operations in the country, they failed to understand fully Chinese consumers preferences. In large part, these miscalculations reflect the tendency of foreign marketing experts to view China as a single, homogeneous market.

COMPOSITION OF RESIDENTS' CONSUMPTION		
	URBAN	RURAL
	%	%
Food	46.41	55.05
Clothing	12.45	6.77
Household Goods	7.57	5.30
Healthcare	4.29	3.86
Transport and communication	5.56	3.33
Entertainment and Education	10.71	9.16
Housing and Utilities	8.57	14.42
Others	4.44	2.11

Source: China Statistical Yearbook

One popular misconception is that all of China's consumers have increasing disposable incomes and insatiable appetites for foreign-made goods. However, marketing a product to the Chinese consumer based on this kind of superficial assessment ignores the heterogeneity of the China market.

Chinese consumers are pragmatic, price and quality conscious, careful planners and patriotic. Chinese consumers tend to be more sophisticated and discriminating than many Western analysts anticipated. While they clearly prefer imported, high-quality products, they do not blindly buy Western. Foreign companies coming to China need to bear in mind that 70% of all Chinese live in rural areas and still live hand to mouth. Rather they look for quality at a good price. China's consumer preferences tend to differ according to geographic location, as regions vary in their levels of economic development. As a matter of fact, there are also significant differences in purchasing power and attitudes between rural and urban residents. A number of Chinese consumers can afford foreign-made appliances, food and other goods. But regional differences in level of economic development, infrastructure, consumer purchasing power and distribution and transportation logistics are serious stumbling blocks for any company hoping to develop one standard, national marketing strategy.

Foreign companies will not find a nation-wide, majority middle class in China like that in Japan or Europe. On the contrary, geographic factors, demographics and differences in attitudes, values, beliefs or even personality are all-important predictors of consumers behaviour.

3 MAIN OBJECTIVES AND STRATEGIES OF THE GOVERNMENTAL FOOD INDUSTRY POLICY

Rising incomes are likely to alter food consumption patterns. Typically, as incomes rise, demand for items such as meat increases, while among the higher income bracket, greater demand develop for package and convenience foods. Statistics indicate that the food industry is already one of the most rapidly growing sectors in China's economy. The gross output value of the food processing industry grew by almost 120% between 1993 and 1997. In comparison, the gross output value increased by only some 69% in all other industrial sectors. The increase in the food manufacturing industry was 107%.

GROWTH OF FOOD INDUSTRY VERSUS OTHER INDUSTRIAL SECTORS, 1993/1997

Number of Enterprises			
	1993	1997	Change
Sector	**Units**	**Units**	**Total (%)**
Food Processing	27,015	27,970	3.5
Food Manufacturing	15,442	14,304	-7.4
Beverage Manufacturing	12,705	12,711	0.0
All other sectors	394,054	413,521	4.9
National Total	*449,216*	*468,506*	*4.3*

Gross Output Value			
	1993	**1997**	**Change**
Sector	100 mm Yuan	100 mm Yuan	(%)
Food Processing	1,727	3,792	119.6
Food Manufacturing	630	1,303	106.8
Beverage Manufacturing	767	1,620	111.1
All other sectors	36,569	61,638	68.6
National Total	*39,693*	*68,359*	*72.2*

Source: Institute for Applied System Analysis

A modern food industry that can efficiently handle post-harvest processing, storage, packaging, preservation, and distribution of food is essential for the country’s food security.

Domestic demand for processed fruits, vegetables and meats is increasing and the government has emphasized development in these subsectors.

China's food industry and retail markets have a long way to go in introducing efficient methods of food preservation, packaging, storage, and distribution. The supply channels for the growing number of urban consumers are currently expanding and improving, as can be seen by the growing number of new supermarkets and shopping centers in China's major cities. This includes promotion of consumer-related technologies, such as a more widespread introduction of household refrigerators.

For what concerns agriculture, the government is seeking to encourage more efficient production. China’s 9th five-year Plan places sustained and stable growth in agriculture and the rural economy at the top of its agenda.

The Plan aims to:

- achieve greater self-sufficiency in grain;
- raise farmer’s standard of living;
- make better use of technology and speed up development of agroprocessing industries;
- eliminate poverty;

Future trends include the probable extension of longer land-use rights, as well as greater use of high quality seeds, improved harvesting and storage facilities, and increased mechanization. The latter is already resulting in demand for farm machinery including large tractors, which at present China has little capacity to produce, offering opportunities to foreign investors.

3.1 Food Processing: A Priority Sector

One area where foreign investment is likely to be encouraged is food processing. According to the UK Department of Trade and Industry, China currently only processes around 20% of its food, compared with a typical figure of around 80% for a developed country. Accordingly, the 1996-2000 Five - Year Plan has targeted the development of the food processing sector, focusing on raw materials processing, convenience foods, and processed foods for export and soft drinks.

New equipment is required to prepare different kinds of foods to meet changing consumer demands. Chinese want more processed food, milk, eggs, bread, meat, natural drinks, instant noodles, instant coffee and snacks.

4 RELEVANT ORGANIZATIONS CONCERNING THE FOOD INDUSTRY

Ministry of Agriculture
11 Nongzhanguan Nanli,
Beijing 100026, China
Tel: (86-10) 6419-2452
Fax: (86-10) 6419-2468

DEPARTMENTS AND OFFICES OF THE MINISTRY OF AGRICULTURE:

Administrative Department of Agricultural Mechanization
Ministry of Agriculture
11 Nongzhanguan Nanli
Beijing, China 100026
Tel: (86-10) 6419-2880
Fax: (86-10) 6500-2448

Department of Animal Husbandry
Ministry of Agriculture
11 Nongzhanguan Nanli
Beijing, China 100026
Tel: (86-10) 6500-3194

Department of International Cooperation
Ministry of Agriculture
11 Nongzhanguan Nanli
Beijing, China 100026
Tel: (86-10) 6500-4606

Import and Export Division
Office of External Economic Relations
Ministry of Agriculture
11 Nongzhanguan Nanli
Beijing, China 100026
Tel: (86-10) 6419-2404

Information Center of the Ministry of Agriculture
11 Nongzhanguan Nanli
Beijing, China 100026
Tel: (86-10) 6500-5842
Fax: (86-10) 6500-2448

National Feed Industry Office
Ministry of Agriculture
11 Nongzhanguan Nanli
Beijing, China 100026
Tel: (86-10) 6507-4257
Fax: (86-10) 6500-2448

Foreign Economic Cooperation
Department of Animal Husbandry
Ministry of Agriculture
11 Nongzhanguan Nanli
Beijing, China 100026
Tel: (86-10) 6500-3366 ext. 2824
Fax: (86-10) 6500-2448

ASSOCIATIONS AND SPECIALIZED CORPORATIONS:

These organizations play an important role in introducing machinery suppliers to potential Chinese end-users. Typically, they are under the direct authority of one of the ministries and are also responsible for organizing large agricultural machinery exhibitions in China.

China Agricultural Machinery Industry Association
26 Yuetannanjie,
Beijing, China 100825
Tel:(86-10) 6853 4358
Fax:(86-10) 6853 4358

China Agricultural Machinery Distribution Association
26 Yuetannanjie
Beijing, China 100825
Tel: (86-10) 6859 6528
Fax:(86-10) 6851 1582

China Irrigation and Drainage Machinery Association
1 Beishatan, Deshengmenwai
Beijing, China 100083
Tel: (86-10) 6201 7131 ext. 2471
Fax:(86-10) 6201 7326

Beijing Agricultural Machinery Corporation
1 Hongjunanjie, Guang'anmenwai
Beijing, China 100055
Tel: (86-10) 6326 2692
Fax: (86-10) 6326 0787

China National Forestry Machinery Corporation
Import and Export Business Department
25 Building, Hepingliexiqu
Beijing, China
Tel:(86-10) 6429 0891
Fax:(86-10)6421 4162

China National Feedstuff Group Corporation
45 Fuxingmennei Dajie,
Beijing,100801, China
Tel: (86-10) 6602-1398
Fax: (86-10) 6603-2179

China National Agricultural Machinery Corporation
Import and Export Business Department
26 Yuetannanjie
Beijing, 100825, China
Tel: (86-10) 6853 2109
Fax: (86-10) 6851 1583

China National Agricultural Machinery Corporation-East China
422 Hankou Road
Shanghai 200001, China
Tel: (86-21) 6322 1190
Fax:(86-21) 6351 4139

China National Agricultural Machinery Corporation-North China
10 Chifengdao
Heping District
Tianjin, 300041, China
Tel: (86-22) 331 3448; (86-22) 730 7783
Fax: (86-22) 330 4247; (86-22) 730 3391
Foreign Affairs Division

China Agriculture Academy
30 Bai Shi Qiao Lu
Beijing, 100081, China
Tel: (86-10) 6832-3306
Fax: (86-10) 6831-6545

China Dairy Cattle Association
11 Nongzhanguan Nanli
Beijing, China
Tel: (86-10) 6500-4934
Fax: (86-10) 6500-2448

China National Feed Corporation
45 Fu Xing Men Nei Da Jie
Beijing, 100801, China
Tel: (86-10) 6603-7665
Fax: (86-10) 6603-2179

OTHER MINISTRIES:

Ministry of Foreign Trade and Economic Co-operation (MOFTEC)
2 Dongchang'an Jie,
Beijing, 100731, China
Minister: Shi Guangsheng
Tel: (86-10) 6519-8804
Fax: (86-10) 6519-8904

OTHER TRADE INSTITUTIONS:

China Council for the Promotion of International Trade (CCPIT)
1 Fuxingmenwai Street,
Beijing, 100860, China
Tel: (86-10) 68013344
Fax: (86-10) 68011370

CUSTOMS:

General Administration of Customs
Foreign Affairs Division
6 Jianguomenwai DaJie, Chaoyang District,
Beijing, China
Tel: (86-10) 6519-5399
Fax: (86-10) 6512-8849

MAJOR REGULATORY AGENCIES:

Shanghai Bureau of Technical Supervision, Division of Standardization
381 Wanping Nanlu,
Shanghai, 200032, China
Tel: (86-21) 6438-9229
Fax: (86-21) 6468-3575

Beijing Bureau of Technical Supervision, First Division of Standardization
4 Zhichun Lu, Haidian District
Beijing, 100088, China
Tel: (86-10) 6202-2288 ext. 3911
Fax: (86-10) 6203-1010

Chinese National Foodstuff Industry Standardization Technology Commission
5 Dongli, Taiping Qiao, Fengtai District,
Beijing, 100073, China.
Tel/Fax: (86-10) 6327-1187

Shanghai import-export Commodity Inspection Bureau of the P.R.C.
13 Zhongshan Lu,
Shanghai, 200002, China.
Tel: (86-10) 6321-5135 ext. 102
Fax: (86-10) 6325-5134

State Administration of Entry&Exit Inspection and Quarantine
A10 Chaowai Dajie, Chaoyang District,
Beijing, 100020, China
Tel/Fax: (86-10) 6491-2746

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China Agribusiness Review
China Concept Investment (BVI) Ltd.
Suite 628-632, China World Tower
China World Trade Center
1 Jianguomenwai Dajie
Beijing, 100060, China
Tel: (86-10) 6505-1306/07
Fax: (86-10) 6505-4385

Agricultural Machinery Digest-Bimonthly
Published by Chinese Academy of Agricultural Mechanization Sciences
1 Beishatan, Deshengmenwai
Beijing, 100083, China
Tel:(86-10) 6201 7131
Fax:(86-10) 6201 7326

Agricultural Machinery Journal-Tri-monthly
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1 Beishatan, Deshengmenwai
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Fax: (86-10) 6201 7326

Agricultural Machinery Market-Monthly
Published by China National Agricultural Machinery Corporation
Qinghuadonglu,
Beijing, 100083, China
Tel: (86-10) 6233 6502
Fax: (86-10) 6233 6502

China Agricultural Mechanization Newspaper
26, Yuetannanjie
Beijing, 100825, China
tel: (86-10) 6852 6814
Fax: (86-10) 6853 3261

China Agricultural Equipment Information-Monthly
Published by Chinese Academy of Agricultural Mechanization Sciences
1 Beishatan, Deshengmenwai
Beijing, 100083, China
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Agricultural Machinery-Monthly
Published by Chinese Academy of Agricultural Mechanization Sciences
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Beijing, 100083, China
Tel: (86-10) 6201 7131
Fax: (86-10) 6201 7326

5 TRENDS OF THE BEVERAGE AND FOOD INDUSTRY IN THE ASIAN MARKETS

Aside from the particularities and cultural differences among countries, food as a whole is an issue of the greatest importance to every Asian market. In a country like China, with a very ancient tradition in its own habits, food is equivalent to “heaven” in the eyes of the Chinese consumers.

When in the past, the largest emphasis for Western consumers was also placed basically on food, the continuous economic development of last decades has been increasingly giving more significance to other questions such as housing or dressing, to the detriment of food in their shopping basket. However, food is still a vital consideration for most Asian countries, despite their respective degree of development. This is so even in the almighty Japanese economy and, of course, in the promising next superpower: China.

In this context, all Asian markets keep a tight grasp to their own costumes in terms of diet and ingredients mostly consumed such as rice, noodles or Soya, as opposed to others more common to a European consumer. But with that all, even the most isolated countries like China have been opening their doors to Western influences that have brought an increasing attraction for Spanish, Italian or French culinary cultures, together with other foreign ones. Thus, not only more European restaurants start to proliferate throughout its largest cities, but also products typically Mediterranean like red wine or olive oil start to be known among their consumers, especially in Japan. Such changes are encouraging many European companies to establish in these new markets to seize opportunities given by enormous markets like China, where it is estimated that about sixty million people have the resources to buy these new products and incorporate them to their diet.

Also, new labour and lifestyle habits are giving rise to this new fashion. In large cities such as Shanghai or Beijing (and, of course, very developed ones like Tokyo, Singapore, Hong Kong or Bangkok), tight work schedules make consumers buy more frozen or pre-cooked food easy and quick to cook, and visit fast-food restaurants more frequently. In fact, large food chains like McDonalds and Kentucky Fried Chicken find in these markets more and more consumers each day, who give them wings to spread out in their streets. Not in vain, McDonalds locate in China more centres than in other country of the world, only after the USA.

Nevertheless, excepting cases like the ones just mentioned Asian markets require from the Western investor to adapt their foodstuffs to the specific tastes and preferences of the Asian consumer. Snacks, chips, sweets, candies, confectionery and bakery products have in general been welcome where foreign companies have invested in Asia, but they have had to adapt them to what the Asian buyer demands, complying at the same time with market requirements in terms of quality and price. In China, for instance, increasing competition is forcing foreign companies to adjust prices to the utmost limit, taking also into account that Chinese per capita income is very low. Moreover, in Chinese consumers' eyes, foreign foodstuffs must be of higher quality than Chinese ones, on the grounds that foreign technology and know-how are much more advanced than local production means. With this background, foreign companies are being successful in selling foodstuffs such as cheese, butter, milk, pasta, ketchup, mayonnaise, canned soups, and baby food, among others. On the other hand, traditional Chinese products like beer, noodles or powder Soya milk leave fewer opportunities for foreign investors.

In addition, foreign foodstuff adaptation has to be undertaken not only on a country basis, but also on a regional or local foundation. For every consideration, China itself cannot be reckoned as a single market, but rather as a group of markets as different as, for example, Spain and Sweden might be within Europe.

Another issue of major concern seen in the most developed and developing Asian markets is the demand for healthy products. Products that traditionally have not been known by the Asian consumer, such as red wine, are finding an increasing demand, due to the beneficial effects that a moderate consumption of this wine can cause on human health. Likewise, natural and nutritious ingredients will surely be well accepted in these markets, providing that they convey a convenient relation between price and quality.

As developing Asian markets get more pervious to Western influences and have more supermarkets and modern shops established with adequate refrigeration systems, pre-cooked and frozen food are also more demanded than ever. However, this also requires adequate refrigeration systems at all levels of the distribution chain. In countries like China this is not the case yet, as most transportation means are not advanced enough in this regard.

Lastly, a big influence in this type of developing countries is given by advertising, especially on television. The Chinese consumer, for instance, tends to believe that foodstuffs advertised on television must be reliable and of high quality just for the fact of being on TV.

Regardless of other issues that would require a particular analysis in each case, the trends pointed out in this section are common for most Asian markets, especially developing ones. The more open the Asian market and the younger the consumer, the more influenced they become by Western patterns.

6 IMPORTS OF FOOD PRODUCTS IN CHINA. COMMERCIALIZATION CHANNELS.

6.1 Overview

Generally, foreign companies are not permitted to directly engage in trading in China, with the exception of the direct marketing of a portion of the products manufactured in China, or the establishment of wholly owned foreign trading companies in some free trade zones with limited access to markets outside these zones. Accordingly, exporters need to use a domestic Chinese agent for both importing into China and marketing within China. Only those trading companies authorized by the central government to handle exports and imports are permitted to sign import and export contracts (Foreign Trade Corporation, FTCs). Since the beginning in 1998, some private and collectively owned enterprises in the manufacturing sector have been granted this authorization. Some import/export trading firms extend their scope of business to represent foreign manufacturers as their distributors, in arrangements similar to a "manufacturers representative".

Foreign. Supplier Strengths, Market Opportunities, Weaknesses, and Competitive Threats

Opportunities	**Constraints**
Western products are regarded as high quality by local consumers	The lingering economic slow-down continues to dampen consumer spending
Customs enforcement of tariff payments and quarantine restrictions is lax	China maintains high tariffs on most high value consumer foods and beverages
Major urban centers (Shanghai, Guangzhou) have sizable populations of high income consumers	The average income of local consumers is much lower than in the West
Great interest in Western products on the part of both local distributors and consumers	Distribution tends to be based more on relationships than on western business practices
Continuing expansion of infrastructure to support the distribution of frozen foods and fresh produce	Infrastructure to support distribution of frozen foods and produce is still limited
Chinese traders often conscientious about maintaining good relations with overseas suppliers	Ignorant about international trade finance and its methods
Gift giving among friends and business contacts is essential, and luxury foods are preferred. Shoppers like new products for gifts, and for their children	Stores often do not have import rights and must source locally from distributors that have such rights
Many Chinese consumers are very open to using Western ingredients in traditional local cuisine	Western cuisine is traditionally not very popular among Chinese consumers

6.2 Import Tariffs and Custom Regulations

a) Tariff Rates:

The Customs General Administration (CGA) assesses and collects tariffs. In addition, it collects a value-added-tax (VAT), generally equal to 17%, on imported items. Import tariff rates are divided into two categories: the general tariff and the minimum (most-favored-nation) tariff. The five Special Economic Zones, open cities, and foreign trade zones may offer preferential duty reduction or exemption. Companies doing business in these areas should consult the relevant regulations.

b) Customs Valuation.

According to Chinese Customs regulations, the dutiable value of an imported good is its C.I.F. price, which includes the normal transaction price of the good, plus the cost of packing, freight, insurance, and seller's commission. In practice, Chinese customs valuation remains non-transparent and arbitrary. Customs officials have discretionary authority to ignore the invoice or transaction price as the principal basis for valuation.

6.3 Trade Barriers

China administers a complex system of non-tariff trade barriers. Some of the current trade barriers are:

a) Import Licensing:

The Ministry of Foreign Trade and Economic Cooperation (MOFTEC) is the main regulatory body governing the current import-licensing system. MOFTEC issues approvals and licenses for export and import. China uses the import-licensing system to restrict imports of consumer and luxury goods in order to conserve foreign exchange for other items. Foreign trade corporations (FTCs), which operate under a general license to import specific products, must obtain special licenses for the import of goods outside their approved businesses.

For foreign invested enterprises (FIEs) different rules apply. For imports of equipment and materials as part of the investment in a joint venture or a wholly foreign-owned enterprise, licenses are issued and the goods imported according to the investment contract.

An exemption from import licenses applies to commodities that FIEs import for incorporation into export-oriented production. Exempt commodities include mechanical equipment, vehicles for use in productive activities, raw materials, fuel, parts, components and accessories.

b) Quotas:

Commodities affected by quotas, include watches, automobiles, grains, edible oils, cotton, and motorcycles. Import quotas for machinery and electronic items, as well as carbonated beverages, are set by the State Economic and Trade Commission under the State Council, while the State Development and Planning Commission administers quotas for a variety of general commodities. Quota allocation largely remains non-transparent to outsiders.

c) Administrative Controls:

Certain designated commodities must go through an automatic registration process and secure a "Certificate of Registration for the Import of Special Commodities" prior to importation. The certificate is valid for six months.

6.4 Importation Procedures

Normally, the Chinese importer (agent, distributor or joint venture partner) handles documentation requirements. Necessary documents include the bill of landing, invoice, shipping list, sales contract, an import quota certificate for general commodities (where applicable), import license (where applicable), inspection certificate issued by the State Administration for Entry & Exit Quarantine and Inspection Bureau (SAIQ) or its local bureau (where applicable), insurance policy, and customs declaration form.

The environment of high duties and restrictive policies has forced most imports to go through semi-legal channels, creating a highly unpredictable trading environment. Many foreign companies sell their goods to Hong Kong importers. The Hong Kong trader then sells the goods to a Chinese foreign trading company, which then passes them to China-based wholesalers. Hong Kong traders obtain Yuan for the goods and are able to pay foreign sellers in hard currency in Hong Kong. Hong Kong's efficient port is one reason why most goods that enter China come through the territory. However, another reason is that Hong Kong traders are able to take advantage of 'duty-efficient' grey channels.

Conversely, foreign sellers can sell directly to Chinese government-owned foreign trading corporations (FTCs) without going through a Hong Kong trader, but either the full duty would be charged or the foreign seller would be forced to directly use the grey channels.

6.5 Prohibited Imports.

The following items are prohibited from entering China: counterfeit currencies and counterfeit negotiable securities; printed matter, magnetic media, films, or photographs which are deemed to be detrimental to the political, economic, cultural and moral interests of China; lethal poisons; illicit drugs; disease-carrying animals and plants; foods, medicines, and other articles coming from disease-stricken areas; old/used garments; and RMB. Food items containing certain food colorings and additives deemed harmful to human health by the Ministry of Health are also barred entry.

6.6 Inspection Standards

Import Commodity Inspection. Chinese law provides that all goods included on a published Inspection List, or subject to inspection pursuant to other laws and regulations, or subject to the terms of the foreign trade contract, must be inspected prior to importation, sale, or use in China. In addition, safety license and other regulations also apply to importation of medicines, foodstuffs, animal and plant products, and mechanical and electronic products.

Chinese buyers or their purchase agents must register or inspection at the port of arrival. The scope of inspection undertaken by local commodity-inspection authorities entails product quality, technical specifications, quantity, weight, packaging, and safety requirements. The standard of inspection is based upon compulsory Chinese national standards, domestic trade standards or, in their absence, the standards stipulated in the purchase or sale contract.

Quarantine Inspection. A 1992-quarantine law provides the legal basis for the quarantine inspection of animals, plants and their products, as well as the containers and packaging materials used for transporting these items. The law also establishes the Chinese Animal and Plant Quarantine Administration (CAPQ), since replaced by the State Administration for Entry and Exit Quarantine and Inspection Bureau (SAIQ), which is under the administrative control of China Customs. SAIQ has the responsibility to carry out import and export inspections.

The importer must submit an application in advance and the products must undergo the required inspections upon arrival in China. Contracts must specify the requirements for inspection under China's law, as well as indicate the necessary quarantine certificates to be issued by the appropriate agency in the exporting country. Catalogues of the Class A and B infectious or parasitic diseases of animals and the catalogues of the diseases, pests and weeds dangerous to plants are determined and announced by the SAIQ.

6.7 Labeling and Marking Requirements

Under Chinese law governing safety and product-quality standards, certain imported commodities must be inspected and certified to be in compliance with compulsory national, domestic trade or contractually stipulated standards (see Section I). Once a quality certificate for a product is issued, a safety label can be affixed.

All products sold in China must be marked -- in the Chinese language -- with the relevant information. The National Health and Quarantine Administration requires imported (but not domestic) food items such as candy, wine, nuts, canned food and cheese to be affixed with a laser sticker evidencing the product's safety. Importers are charged USD five to seven cents per sticker, and the stickers must be affixed under State Administration.

Food Labeling Law. As of October 1, 1995 a national Chinese regulation was put into effect for the implementation of food label standards. This Chinese law requires that all packaged food products (except bulk) must have Chinese labels clearly stating the type of food, brand name, trademark, manufacturer's name and address, country of origin, ingredients, date of production and sell-by date. This law applies to imported as well as locally packaged products. English-language versions of the new regulations and other rules about food additives, such as Food Laws, Labeling Requirements, Food Additives Regulations, Pesticides and other Contaminants, Organic "Green" Food Standards, and Copyright/Trademark, will be obtained in the Food & Agricultural Import Regulations & Standards Report (FAIRS).

***Customs Contact Information Beijing*:**

General Administration of Customs
Foreign Affairs Division
6 Jianguomenwai DaJie,
Chaoyang District, Beijing
Tel: (86-10) 6519-5399
Fax: (86-10) 6512-8849

The most comprehensive guide to Chinese Customs regulation is The Practical Handbook on Import & Export Tax of the Customs of the PRC, compiled by the General Customs Administration. This guide contains the tariff schedule and national customs rules and regulations. It may be obtained for 220 RMB plus shipping and handling from:

Xing Sheng Zhong Hai Fa Xing Zhong Xing Company.
6 JianNei DaJie
Dong Cheng Qu, Beijing 100730.
Phone: (8610) 6519-5923 Fax: (8610) 6519-5616.

6.8 Distribution and Commercialisation Issues

Foreign companies are faced with numerous obstacles to widespread, efficient and service-oriented distribution. The country's vastness requires goods to be distributed over long distances – a tiresome task impeded by inadequate transportation infrastructure.

Markets are highly regional and few experienced sales personnel are available for hire. Moreover, most Chinese manufacturers still rely on the nation's passive, crumbling, multi-layered state run distribution system.

Over the last decade, authority for foreign trade has been dispersed among several thousands government-owned foreign trading corporations (FTCs) who mainly act as commission agents for Chinese buyers and sellers. Foreign manufacturers now have much better access to their customers in China and can offer better after-sales follow-up than before. However, this system still presents a lot of problems and disadvantages.

Recent problems of distribution include lack of consolidation, multiple layers of distribution, regionalism, a weak sales culture and restrictions on foreign involvement in wholesaling. But one of the biggest problems has been the inability of Chinese buyers to make timely payments because they often have trouble securing foreign exchange. Besides, removal of state support has financially weakened many wholesalers. Most wholesalers are only strong in a single locality or region.

The question of whether a foreign company should import or manufacture determines the kinds of distribution channels it can employ and the level of control it can exercise. Foreign firms selling imported goods face tighter constraints as they are legally prohibited from directly hiring wholesalers. Consequently, they have little control over pricing and merchandising. On the other hand, by bending the rules, some companies have been able to circumvent this restriction and are heavily involved in distribution in China. Companies manufacturing locally have a variety of distribution options, depending on how involved they wish to be. Some firms let their Chinese partner manage distribution, while others – particularly marketing-intensive firms – prefer to have full control to their distribution.

Foreign invested enterprises (FIEs), which include Sino-foreign joint ventures and wholly foreign-owned enterprises, are restricted in terms of importing products required in their own production processes, and exporting their own products. Additionally, FIEs are not permitted to engage independently in foreign trade.

Foreign companies are prohibited from selling directly to China unless they manufacture locally. The proportion of domestic sales allowed depends on the initial joint-venture agreement. In all other cases, FIEs must use an intermediary, such as an import-export corporation, to make their way into China.

Imports of finished goods that are not manufactured locally are subject to heavy importation duty. Furthermore, such products must go through local import-export corporations, which then pass them onto numerous state-owned wholesalers over which the manufacturer has virtually no control. This process raises the cost of imports and largely reduces the ability of imported goods to compete in the market.

FIEs have been permitted to engage in foreign trade within China’s 13 special economic zones (SEZs). SEZs are considered separated from the rest of China, and no tariffs are imposed until the goods are ‘exported’ from the SEZs into China.

6.9 Local Agents

In addition to trading companies, China is witnessing an explosion in local sales agents who handle internal distribution and marketing. Most of these firms do not have import/export authorization. They are the next layers down the distribution chain, buying imported products from those that do. They may be representative offices of Hong Kong or other foreign trading companies, or domestic Chinese firms with regional or partial national networks.

Given China's size and diversity, as well as the lack of agents with wide-reaching capabilities, it makes sense to engage several agents to cover different areas, and to be cautious when giving exclusive territories. China can be divided roughly into at least five major regions: the South (Guangzhou), the East (Shanghai), the Central/North (Beijing-Tianjin), West China and the Northeast.

7 RETAIL SECTOR

7.1 Market Summary

- Growth is skyrocketing in China's food retail sector despite the slowdown in other sectors. Only in Shanghai, retail food sales exceeded 60 billion Yuan (US$7.2 billion) in 1998, up 13.5% over 1997 (source: Shanghai Commerce Commission).

- US high value products with good prospects in China include: poultry, red meat, fresh fruit, pork offal, tree nuts, dairy products, frozen ready made foods such as dumplings, and ginseng.

- China's chain supermarket sector is developing very fast, with Shanghai currently on the head and Guangzhou and Beijing catching up rapidly. Shanghai has more than 1200 supermarkets and approximately 20 hypermarkets, all in a sector that did not even exist a decade ago. However, competition is fierce and many chains claim operating losses.

- Shanghai leads the nation in the purchase of frozen and chilled food products, and demand nationwide is growing rapidly. Only the China's frozen dumpling market had an estimated value of $300-400 million in 1998 (source: Shanghai Commerce Commission.)

- Most domestic chain stores have not yet expanded outside their city of origin, and China's distribution system is highly fragmented and inefficient. The cold chain is largely non-existent outside major port areas. Market development must be approached on a regional or city basis.

- High tariffs and other barriers to introduce products, have prevented US market from entering China, but China's likely entry into WTO will reduce barriers and improve prospects for many product categories.

- Imported food generally has a less than 5% share of retail shelf space, although the percentage tends to be much higher for convenience stores. The lack of most retail stores import rights is caused by the self local source. That means imported food content will generally stay low in the medium term.

- The success of foreign-invested hypermarkets, such as Carrefour, is forcing supermarkets to reduce prices and consolidate or enlarge store areas to remain competitive. The Carrefour's combination of most local products into the right one format, the good partners and the strong management, have made it one of the few financially successful chains in China.

- Recent regulatory changes mean foreign retailers should be able to increase equity and expand more rapidly than in the past. However, central government protection of local operators has traditionally weakened the competitiveness of foreign operators, so it is too early to tell what the outcome of the new regulations will be.

Advantages and Challenges facing Foreign Products in China

Opportunities	Constraints
Major urban centers (Shanghai, Beijing) have sizable populations of high income consumers	The average income of local consumers is much lower than in the west
Customs enforcement of tariff payments and quarantine restrictions is generally lax	China maintains high tariffs on most high value consumer foods and beverages
The superior packaging of western products gives the impression of better quality	Domestic manufacturers are rapidly improving their product quality and packaging standards
Great interest in E.U. products on the part of both local distributors and consumers	Distribution tends to be relationship-driven rather than based on western business practices
Chinese traders are generally conscientious about maintaining good relations with overseas suppliers	Chinese traders are often ignorant of international trade and finance methods

7.2 Market Entry

a) Supermarkets, Hypermarkets, Clubs and Warehouse Stores

<u>**Entry Strategy**</u>

- Focus on the “Big Three.” Beijing, Shanghai and Guangzhou are China’s most developed markets and the primary destination for most imported food products. It is generally not worth investigating other cities in China until you have established a “beachhead” in at least one of these cities.

- Recruit a local distributor. Most retailers lack importation rights or access to credit, and the exclusive purchase of imported food and beverage products (for cash) from local distributors or wholesalers. Many distributors who handle imports and have national reach are located in Guangdong province. The most effective recruitment methods are:
- Exhibit at local trade shows. Due to the difficulties, many distributors confine their import buying to overseas companies that visit and learn about the local market.
- Work with the local state and regional trade offices, market development cooperators,..
- Invest in promotion. Many supermarket and hypermarket managers in China, feel that imported food and beverage products could become more popular in their store. In order to enhance consumer knowledge, the manufacturers and distributors should spend more resources on advertising and promotion. Many of these same managers, believe television is the best way to increase consumer knowledge, though being an expensive proposition. However, joint venture managers state that Point of Purchase (POP) materials and sampling are more effective in growing sales.

<u>Distribution Channels</u>

- China's distribution system is complex and very chaotic, especially in southern China where most imported products enter the market and where grey channel activity is rampant.
- Retailers rarely purchase imports directly from overseas suppliers, as it is uncommon for retailers to have import rights. The few exceptions are generally privately-owned companies catering to expatriate consumers or niche markets.
- The unofficial renting, selling, and trading of import rights has made it easy for many local companies to become imported product distributors. Yet at the same time, this system makes it difficult to assess whether a potential distributor would make a viable partner.
- Many distributors in South China rely on Hong Kong companies to be their supplier and financier of imported food and beverage products. Some stores reportedly send trucks to Hong Kong discount hypermarkets to purchase foreign products they wish to carry in their stores.
- A recent crackdown on the grey channel in South China has brought more trade to ports such as Shanghai and encouraged more trade into official channels. However, it is unclear what impact this will have on long-term trade patterns.
- Although slotting fees (charging for shelf space) are not universally applied, many retailers require special fees for getting good shelf space in-store advertising and other services.

Company Profiles: Selected Supermarkets and Hypermarkets in North and East China

Retailer name and outlet type	Ownership	Jan-May 1999 Sales (RMB) (Shanghai only)	Number of outlets nationwide (July, 1999)	Location (City)
Carrefour, Hyper	Sino-French	75,987,000	14+	Shanghai(4), Beijing, Tianjin
Auchon, Hyper	Sino-French	(newly opened)	1	Shanghai
Lotus, Hyper	Sino-Thai	58,443,000	3	Beijing, Shanghai
Metro, Club/Warehouse	Sino-German	123,036,000	5	Shanghai(3), Hangzhou, Nanjing
Trust Mart, Hyper	Taiwan	N/A	6	Beijing
Ahold Tops, supermarket	Sino-Dutch	19,248,000	39- (leaving market)	Shanghai
Wal-mart, hyper	US	N/A	5	Beijing
CRC, supermarket	Chinese	N/A	21	Shanghai
Lianhua, supermarket	Chinese	172,002,000	343	Shanghai
Park'N Shop, supermarket	Hong Kong	N/A	50 +/- (undergoing consolidation)	Shanghai (20+/-), Beijing
Hualian, supermarket	Chinese	102,776,000	312	Shanghai

(Shanghai TRINDE Consulting, July 1999)

Product purchasing managers usually do not actually solicit new products, but wait for manufacturers and distributors to come to them. However, retailers are often open-minded about trying out new products, allowing trial sales periods of one to four months before making a final decision. In these cases, the product sales need to be above average in comparison with similar products in order to remain on the shelves. Seasonally is usually taken into account. Generous payment of fees can extend the products shelf lives as well. Limited private labeling occurs in a few chains.

Supermarkets and hypermarkets require credit when purchasing most products. The re-payment period varies from chain to chain and from product to product. The current range averages between 60 and 90 days, but some chains delay this period even further. Some chains seem to delay payment in order to provide short term capital to finance their stores, using the sales revenues as a 'not-so-short-term' loan. The average repayment period has become longer in recent years and in return has caused some distributors to cease distribution to certain supermarkets and hypermarkets.

A few chains and specialty stores catering to the expatriate market in Shanghai are beginning to experiment with home delivery and use telephone or internet ordering. We expect to see these services become more common but not mainstream over the next several years as chains use service and convenience to distinguish themselves in this highly competitive market.

Hypermarkets have been highly successful in China over the last two years. There have been frequent stories in Beijing, Shanghai and other cities of thousands of would-be customers swamping new stores on opening day just to wander the store and gawk at the merchandise. The Chinese government has taken notice, and several locally-managed stores of a similar format have opened in the past year to a slightly less enthusiastic response. This sector is expected to develop the major growth over the next few years, and likely will continue to force the smaller, state-run stores to compete or consolidate.

b) Convenience Stores, Gas Marts, Kiosks

Market Structure

Convenience stores are a highly successful concept in China even being relatively new. Up to now, only a couple of the overseas chains such as 7-11, Lawson and am-pm have established themselves in China, although there are many Hong Kong managed chains, such as Kedi and Basics, as well. In addition, some gas stations are adding mini-marts, although most of China's cars are fleet-operated and make limited use of public gas stations. The main competition for convenience stores is the thousands of kiosks (small shops or even stands which are basically scaled-down independently in convenience stores), and not supermarkets and hypermarkets. As a matter of fact, they see their roles as a complement. One convenience chain executive claims that locating near a hypermarket is good for them, because these large stores tend to generate more business. Just in the Shanghai area, there are currently 21 (mainly local) major chains operating more than 1,000 convenience stores, accounting for US$206 million in retail sales turnover in 1998 (Source: Shanghai Commerce Commission).

Market entry and distribution methodologies for these kind of stores are generally the same as for supermarkets and hypermarkets, although some chains purchase from wholesalers. In fact, many of the Shanghai-based convenience store chains are part of the same conglomerates, such as their supermarket cousins and share the same distribution network. They mainly stock imported candy, snacks, alcohol, and cigarettes. Convenience stores earn sizable revenues from prepared foods such as hot dogs, dim sum and corn-on-the cob. The overseas invested convenience store chains usually buy products on short-term credit, one month or less, while kiosks often pay cash. Both convenience stores and kiosks generally sell the same types of food products, with the exception that convenience stores tend to specialize in prepared food items but no fresh fruit while some kiosks specialize in only fresh fruit. The state-run convenience stores are expanding rapidly, but have only recently begun to develop their product selection and merchandising to match foreign-managed competitors.

c) Traditional Markets, Foodstuff Stores, and "Mom and Pop" Stores Market Structure

These types of stores and markets are still popular among the local consumers, although the government is promoting a move away from them in favor of chain stores. Wet markets, for example, remain the main source of meat and produce, as they are still generally viewed as a cheaper and fresher source than supermarkets. Some imported products such as fruit and snack foods find their way into these places, but by the time they reach this level all knowledge of their origin is usually lost. It has been reported as well that some joint venture meat processors are attempting to sell excess capacity in the wet markets until demand for their higher-end products can be developped. Outside of major cities, chain store development is non-existent, and nearly all fresh food is purchased in wet markets.

Traditional "Foodstuff" stores are struggling against stiff competition from the chain stores, but they remain a viable market for tinned foods, health products, and snack foods and other dry goods. In time, they will likely continue to evolve in the direction of chain stores until they become virtually indistinguishable. Many of the foodstuff stores are owned by the same conglomerates which manage some state-run retail chains, so they will have a common distribution network and access to many of the same products.

7.3 Competition

- Western origin food products are highly considered by Chinese consumers, but are not always regarded as the highest quality in their category.
- China's food and beverage industry is fairly developed, and there are many joint venture competitors with local manufacturing plants which compete favorably against imports. Also, domestic competitors are quick to innovate and often emulate successful imported or joint venture products.
- Many countries have trade promotion offices in China. Furthermore, countries with a greater proximity to China such as Australia and New Zealand have a competitive advantage with beef, dairy products, wine and certain seafood such as lobster.

7.4 Best Product Prospects

Products in the market with good prospects:

- ✓ Fruit such as table grapes, Washington apples, and cherries
- ✓ Snack foods, especially nuts and dried fruits
- ✓ Cookies and bakery items/ingredients
- ✓ Candy/chocolate:
- ✓ Frozen french fries
- ✓ Milk powder, whey powder, infant formula
- ✓ Corn, frozen or canned (kernel or on the cob)

Products not present in significant quantity but which have good potential:

- ✓ Baby foods, particularly those made from fruits and vegetables
- ✓ Premium ice cream: there is a small market at present, but long-term potential looks good
- ✓ Citrus
- ✓ Poultry and beef (especially chicken feet, beef stomachs, etc.)
- ✓ Frozen ready-made foods such as dumplings

Products which are present but which have poor sales potential:

- ✓ Beer: domestic production over-capacity has killed margins, and high import duties make imported beer extremely expensive except for niche markets like expatriate bars
- ✓ Wine: China's once promising wine market is still in its infancy and there is limited growth potential in the short term. Domestic competitors sell for less than a half price of the cheapest imports.
- ✓ Rice: China strictly controls the import of rice as it encourages self-sufficiency for domestic producers. Only a limited amount of high-end (i.e. non-competitive) foreign rice is found in local markets, especially those catering to expatriate and upscale consumers.

8 HOTEL, RESTAURANT AND INSTITUTIONAL SECTOR (H.R.I.)

8.1 Market Overview

This is one of the most dynamic areas of the economy. The restaurant sub-sector experienced an explosive 15% annual growth in 1998, with total national sales of USD33.7 Billion. China's State Administration of Internal Trade projects that 1999 growth will match 1998 figures. The concomitant effects of a rapidly expanding consumer class and massive development in the restaurant sub-sector offers many opportunities for food exporters willing to pursue this market. The restaurant sub-sector in Shanghai, with a whopping USD1.1 billion in1998 revenues, is the nation's trendsetter. For this reason, the greater area of Shanghai is the primary focus of this report.

From trendy, upscale, fine dining to a quick bite beside a dilapidated dumpling cart, Shanghai's HRI sector literally has it all. This sub-sector includes family style restaurants (26.3%), fast-food chains (13.2%), and other types of restaurants (21%), such as dim sum shops, noodle shops, and tea houses.

With nearly 50% private ownership, these three segments are the most active and fastest growing parts of Shanghai's food service market. Owing to a workforce of more than 4 million plus 2 million students, the institutional sub-sector follows with a 28.3% market share. However, this sub-sector will likely shrink as unemployment rises due to national restructuring of state-owned enterprises. Hotel food service business has declined as well in recent years due to China's economic slowdown, the Asian financial crisis, and increased competition from the restaurant segment.

a) HRI Market Factors

- Long Culinary Tradition

  The Chinese are famous for their rich culinary tradition and gastronomic desires. There is an old saying, "Food is the people's heaven." In essence, food culture in China is highly developed, and the broad range of restaurants in major cities catering to every taste stands testament to this saying.

- Growth in Consumer Income

  The Shanghainese annual per capita income has more than doubled in the past five years from USD681 in 1993 to USD1,453 in 1998. Furthermore, Chinese workers typically receive various subsidies and bonuses to supplement their income, which gives them greater spending power.

- Family Demographics

  The average household in Shanghai is comprised of 2.8 members, approximately half of the total over ten years ago. With rising incomes and fewer family members to prepare meals for, Shanghainese are indulging themselves by dining out more often.

- Western Influence

The modern Shanghainese have become intimately familiar with the West Countries through television and cinema. Tourism (Overseas tourists visiting Shanghai) has increased from 311,800 in 1980 to 1.5 million in 1998. Furthermore, foreign investment continues to pour into Shanghai, fueling greater exposure to Western management practices and larger paychecks. The overall impact is a growing interest in sampling western food in the trendy new restaurants which dot the city.

Advantages and Challenges

Advantage	**Challenges**
Popularity of American culture carries over to western food.	Other foreign-style restaurants are also available in Shanghai, and many countries are vying to penetrate this market. Some imported products have already gained a foothold in the food service sector.
Western. fast food and restaurant chains are popular and familiar to Shanghainese consumers and more Chinese restaurants are adopting Western menu items on their traditional menus.	High cost restricts foreign. food to large luxury hotels and other high-end establishments, putting many products beyond the reach of the general public.
Western food products have gained a good reputation for high quality, unique taste and reliable supply.	High tariffs and other barriers still inhibit direct export of many foreign. food products to China.
Various channels have been established to import foreign. food products either directly or via Hong Kong.	The economic slow-down and the impact of the Asia financial crisis have eroded the premium restaurant market.

8.2 Market Entry

a) Entry Strategy

- Distribution

  ATO Shanghai recommends foreign. food exporters strive to use only the market's leading distributors, and to seek listings with more than one distributor, as none cover the whole Chinese market.

- Representation

  After securing effective distribution, foreign. food product exporters may seek a local representative for their product(s). Representatives can introduce product(s) to new customers, build relationships helpful to importation, and ensure that distributors maintain their products well and promote them positively.

- Promotion

  Foreign. food product exporters and/or their representative(s) should participate in activities which advance buyers' knowledge about and inclination toward their products. Effective activities include food service expos and trade shows, foreign. product promotions with end users, and specific product promotions within the HRI sector. These activities can provide brand recognition and increased sales.

- Professional Affiliations

  As Shanghai's international business community grows, so to do the number of social/professional organizations. foreign. food product exporters are encouraged to join the Shanghai Chamber of Commerce and the Shanghai International Chefs Association. Affiliation with these groups provides an excellent informal opportunity to foster critical business relationships. Foreign. food product exporters are also encouraged to provide informational seminars and tasting to Chinese associations.

- Hosting

  End users and distributors occasionally have the opportunity to visit the original countries.. Food product exporters should invite these guests to their production facilities, brief them on business activities, and host a special function in their honor.

- Integration

  The ultimate goal for foreign. food products entering China's market is to become part of Chinese cuisine. As the majority of people in China prefer Chinese food, it is important to develop Chinese menus which incorporate our . ingredients. Seek to appeal to Chinese tastes.

b) Market Structure

Hotels in the Shanghai area purchase food products through four main channels;

1. privately-owned importer-distributors,
2. wet markets,
3. joint venture (JV) manufacturer-distributors
4. direct importation.

It is important to note that state-run operations also rely heavily upon state-owned importer-distributors. Privately-owned importer-distributors are the major suppliers of meats, seafood, condiments, imported beverages, and specialty produce. Most of the privately-owned importer-distributors mainly purchase from consolidators, because demand from each hotel varies depending on its western chef's preference, and only a combined container can best serve these varied requests. Hotels also use wet markets to buy fresh produce. It is estimated that the vast majority of food products are obtained through these two channels. Direct importation is not as common, and normally handled through the hotel's parent company, if there is one.

The main suppliers to ***restaurants*** are;

1. state-owned importer-distributors,
2. privately-owned importer-distributors,
3. wet markets,
4. JV manufacturer-distributors,
5. wholesalers and/or warehouse clubs.

It is understandable that state-run traditional restaurants rely more on the state-owned importer-distributors, while privately-owned restaurants and foreign restaurants are likely to purchase from privately-owned importer/distributors. In any case, wet markets, JV manufacturer-distributors, wholesalers and/or warehouse clubs are utilized by all restaurants.

With approximately 27,000 eateries in town, restaurant business in Shanghai is highly competitive, leading to the widespread implementation of cost cutting measures in the last few years. JV manufacturer-distributors, such as Hormel, Purdue, and Budweiser, hope to gain the most as they tend to produce high quality products at lower than import prices. It is important to note that franchise operations are often required to purchase food products through a consolidator selected by the franchiser. Thus, exporters interested in selling to franchises should contact their franchise headquarters and follow the appropriate procedures.

State-run institutional segment outlets, such as staff canteens and student cafeterias, mainly purchase through state-owned importer-distributors, wet markets, wholesalers and/or warehouse clubs. A large amount of imported products available in wholesale and wet markets, such as poultry and offal, actually find their way through the grey channel from Hong Kong via Guangdong Province. Meanwhile, privately-owned importer-distributors still play an important role in supplying airline caterers and the hundreds of Shanghai bars.

It is also important to note that China so far lacks national distribution companies catering to the food service market. As a result, one restaurant has to deal with numerous suppliers: poultry from one supplier, pork from another, fish from yet another, and the list goes on.

Privately**-owned importer/distributors** represent the most important channel for exporters. They are the major suppliers of imported meats, seafood, condiments, beverages, dairy products, and specialty produce. Driven by a strong incentive to make profits, these companies are enthusiastic about introducing new products that can meet their customers' needs. Another advantage is their access to luxury hotels, foreign and Chinese restaurants. The potential reach of these companies is considerable, and the right product might find a very broad market.

c) Sub-Sector Profiles

1. Hotels and Resorts

Company Profiles

Name of Hotel Group	Food Revs. (1998)	No. of Hotels	Purchasing Agent
New Asia Group	USD66.2 million	22	Direct Import, Wholesaler, Distributor
Jin Jiang Group	USD32.5 million	9	Direct Import, Distributor, Wholesaler
Hua Ting Group	USD27.7 million	9	Direct Import, Distributor Wholesaler
Hengshan Group	USD5.4 million	6	Wholesaler, Distributor
Dong Hu Group	USD3 million	3	Wholesaler, Distributor

Hotel food service market share of the HRI sector is shrinking, however luxury hotels remain the leading buyers of imported products.

Two factors account for their decreasing market share:

- first is the influence of the Asian financial crisis and slow-down of China's own economy;
- second is the fierce competition from the standalone restaurant sub-sector, which now offers fine dining at a much lower price.

However, hotels still have their own market niche: a perfect venue to hold the ubiquitous high-level banquet, not to mention business receptions, seminars, and conferences. Furthermore, as Shanghai returns to international prominence, the current over-supply of five star hotels will not be a long-term concern.

According to official statistics, the local state-run hotel groups have traditionally dominated the Shanghai market, because they usually have several outlets in the same city. However, during the past five years, several international hotel chains have arrived in Shanghai, including: Ritz-Carlton, Hilton, Garden (Okura Group), Holiday Inn & Crown Plaza, Sofitel, Regal, Equatorial, Westin, and Shangri-La. These hotels' revenues have already surpassed the smaller state-run hotel groups like Hengshan and Donghu, and the 11 year old Shanghai Hilton's revenues were number one among all Shanghai single hotel operations in 1997. Nationwide, the top international hotel groups include Holiday Inn

(24), Shangri-La (13), Sheraton (12), Marriot (9 including 5 newly-purchased New World), and Accor (9).

While it is true that the local hotel chains use more local or JV products to cut costs, the luxury hotels still need to purchase a certain amount of imported products to preserve status. Western food products with great demand or potential include specialty produce beef, wine, and seafood.

2. Restaurants

Family Style Company Profiles

Company Name	Market Share	Sales (Year) Unit: Million	No. of Outlets	Purchasing Agent
Xinghualou Group	12%	USD57.9	40	Import Agent, Wholesaler
Xiaoshaoxing Group	6.4%	USD31.3	24	Import Agent, Wholesaler
Meilongzheng Group	4.6%	USD22.3	20	Wholesaler, Distributor, Wet market
Baolong Group	3.4%	USD16.7	30	Wholesaler, Distributor, Wet market
Kai Fu Company	2.3%	USD11	30	Wholesaler, Distributor, Wet market

The restaurant sub-sector continues to be the HRI leader in Shanghai, with about two thirds of HRI market share. Annual revenues of family-style restaurants alone reached approximately USD480 million in 1998, accounting for nearly half of total restaurant sales. This sub-sector is expected to grow 10% next year.

The Restaurant sub-sector was among one of first sectors of the economy opened to private investment during the last decade of reform. As a result, the number of privately-operated restaurants in Shanghai may have already exceeded that of state-run traditional restaurants. Though no official figures are available, we believe the sales of the following privately-owned restaurant chains are on par with the above mentioned state-run catering group: The Gap Cafe, Xiaonanguo Restaurant, Jin Yue Seafood Restaurant, Red Chicken Restaurant, Zhen Xing Seafood Restaurant, and Shenji Liangtang Restaurant. These privately-owned restaurants are the fastest growing part of the restaurant sub-sector. Unlike traditional Chinese restaurants which feature only one style, they embrace a cornucopia of all popular dishes, namely Shanghai-style, all in a trendy atmosphere. Privately-owned restaurants are beginning to incorporate a greater number of new Western ingredients and dishes. The products with the greatest demand and /or potential include beef (steaks, short plate, short ribs, offal), wine, seafood (squid, lobster, salmon, sea cucumber, geoduck, crab), fruit (table grapes & oranges), and vegetables (fresh celery, frozen sweet corn, frozen peas).

With more than 20,000 expatriates in town, foreign restaurants are also flourishing. It is estimated that there are around 100 foreign style restaurants in Shanghai offering a large variety of cuisine ranging from American, Mexican, Italian, German, Korean, Japanese and Thai to even Cajun/Creole. Shanghai's foreign restaurants currently include a well known list of international chains as well as a wide variety of new single proprietorships.

Foreign restaurants in Shanghai not only attract expatriates and tourists, but also high-income local consumers seeking something new. As Western-style restaurants are generally more receptive to using imported food products than traditional Chinese restaurants, they are excellent targets for foreign. exporters. They are major consumers of imported beef, seafood, seasoning, specialty produce, and herbs.

Fast Food Company Profiles

Company Name[1]	Market share	Sales (1998) Unit: Million	No. of Outlets	Nationality	Purchasing Agent
KFC	28%	USD69.5	52 (1998)	U.S./China	Import & Local Distributor
McDonald's	15%	USD36.1	23 (1998)	U.S.	Import & Local Distributor
New Asia Big Bun[2]	5%	USD12	30 (1998)	China	Local Wholesaler
Pizza Hut	2.6%	USD4.4	7 (1998)	U.S.	Import & Local Distributor
Niwota	2%	USD4.7	23 (1998)	China	Local Wholesaler

American fast food chains, such as KFC and McDonald's, are the market leaders. After more than 10 years operation in China, they continue to gain ground as popularity among Chinese for fast food restaurant increases. Chains like KFC and McDonald's are major consumers of French fries, corn-on-the-cob, and frozen sweet corn. With only 7 outlets in Shanghai, Pizza Hut still occupies a significant market share by catering to young couples

[1] The number McDonald's and KFC outlets refers only to their Shanghai operations.

[2] New Asia Big Bun plans to have 80 stores by the end of 1999.

Chinese fast food chains such as New Asia Big Bun are catching up. However, they are still not competitive with their Western counterparts. The main reason is that most of the Chinese fast food restaurants lack food preparation standards and systematic management.

Presently, courts- food offering dim sum-style fast food can be found in almost every downtown Shanghai department store. The stores usually rent the space to small catering companies, and food quality varies considerably from booth to booth. However, the Chinese fast food sector has little demand for food products as imported food costs would generally be too expensive for the targeted market. French fries and corn-on-the-cob have some potential in Chinese fast food operations which feature western menu items.

8.3 Competition

Chinese domestic food is no doubt the largest competitor for western. food products. The domestic food products enjoy 92% of the market share. Chinese food products dominate the market for three major reasons:

1. domestic food products are generally much cheaper than imported products;
2. consumers are more familiar with these products and chefs know the best way to cook and serve them;
3. the local supply is generally sufficient for most food categories.

Many foreign companies are also already selling to China. Most of these countries do not possess a large domestic market, which makes China an important market for them. Many countries provide substantial government and industry association support. For example the Netherlands, Australia, and Canada each have an Agricultural Trade Officer posted in their Shanghai Consulates. Also, the Norwegian Seafood Export Council, French Wine Association, Canada Beef Export Federation, and SOPEXA are among the most active foreign organizations operating in China.

8.4 Best Product Prospects

a) products present in the market which have good sales potential

1. Meat Products

Meat products still cannot be imported commercially through official channels except for use by foreign hotels. High tariffs, which also hinder the direct importation of these products, are expected to be reduced by 2004: beef from 45% to12%, pork and poultry from 20% to12%. However, implementation of this agreement will take time as the Chinese government must change its entry and inspection procedures to reflect the new rules.

- *Beef & Bovine Offal*

Beef is somewhat of a status symbol in Asia, but still has a limited market in China. The main customers are the luxury hotels, as western-style steak houses have not yet caught on here. Frozen chuck and short plate are widely used in traditional Chinese hot-pot. Bovine offal like omasum is used in a popular Chinese cold dish.

- *Poultry and offal*

The number one export (via Hong Kong) to China is poultry. The secret is simple: those chicken drumsticks, wings, paws and gizzards, happen to be Chinese delicacies.. chicken, duck and turkey cuts are among the few items whose price is even cheaper than the local products. Factors like a stable supply and consistent quality have contributed to the success of foreign. poultry in China.

2. Seafood

Chinese used to prefer only fresh water fish. Influenced by the Cantonese, seafood is now gaining in popularity. Cantonese restaurants generally specialize in seafood, and usually have live fish in tanks so that the customer can select their dinner. It is commonly held in China that live fish is more delicious and nutritious than frozen seafood. Norwegian salmon and Australian lobster were introduced several years ago and dominate some segments of the market. Seafood such as salmon, squid, black cod, lobster, geoduck, and king crab are gaining a foothold. Tariffs are expected to drop from 20% to 10% by 2004.

3. Wine and Distilled Spirits

Wine is replacing traditional white spirits, because it is considered to be more healthy. Besides luxury hotels and trendy family restaurants, Karaoke bars are also an important outlet for wine. Tariffs are expected to drop from 65% to 20% for wine, and 65% to10% for spirits by 2004.

4. Frozen Vegetables

Frozen vegetables such as sweet corn and peas are easily integrated into common Chinese dishes like sweet corn soup and fried shrimp with green peas. Competition comes from domestic and New Zealand products.

5. Fruit

To waive the phytosanitary barrier and high tariff, a large amount of fruit is imported through Hong Kong. Upon accession to WTO, China is expected to open its market to western. oranges, grapefruit and other citrus. The current tariff of 30%-40% is to be reduced to 10-13% by 2004, depending on the product.

b) Products Not Present in Significant Quantities But Which Have Good Sales Potential

1. Fresh Vegetables

Though China is a larger net producer of vegetables, western fresh produce is considered to be of a higher quality. For example celery, carrots, lettuce, and cherry tomatoes are all generally perceived to be superior to China's domestic ones. With the further development of the "fine dining" segment in Shanghai and other major cities, foreign vegetables have good potential.

2. Condiments, Seasonings, and Sauces

Condiments, seasonings, and sauces used by Western-style restaurant are largely imported due to lack of local availability. As Western food gains in popularity, so do these ingredients. A broad range of ingredients are now available in China, ranging from ketchup, mustard, mayonnaise, and BBQ sauce to a variety of spices.

3. Dry nuts

Western nuts sell well as a snack food in supermarkets and in the entertainment sector. Chinese appetizers consisting of several cold dishes, peanuts, cashews, and walnuts are also popular in restaurants. Nuts can even be incorporated into main dishes.

4. Dried Fruits

Raisins and prunes are beginning to be widely used for Chinese dim sum and Western-style baking.

c) Products Not Present Because They Face Significant Barriers

Rice is considered a strategic crop in China, and it is generally banned for import. The little imported rice which trickles in is generally intended for niche markets. Specialty foods such as ethnic or religious foods (Kosher, Halal) do not have a significant market here.

II. RECENT EVOLUTION AND PROSPECTS OF THE BEVERAGE AND FOOD INDUSTRY IN THE TARGET AREAS

1 SICHUAN PROVINCE

Highlights

- Sichuan -an inland province of China- is one of the most populated of t
- Sichuan is an important agriculture base in China and main producer of grain, oil crops, citrus and tea
- Sichuan is the first province in China in production of pork, beef and mutton
- Food processing level is low and food machinery and technologies need to be modernized
- The food industry is one of the six pillar industries of Sichuan and represents 17 % of the provincial industrial gross output value
- Liquor and cigarettes industries are the most profitable ones in the industry of Sichuan
- Foreign presence in the food industry of Sichuan is relatively small in relation with the coastal areas of China
- The are great perspectives of participation of foreign companies in the food industry of Sichuan
- The consumers of Sichuan have a particular liking for hot and chili food.

From November 10, 1999 to November 17, 1999, the survey group made a study of the food industry, the food market and the investment environment of Sichuan province and Chengdu, and on this basis made this report.

1.1 General Situation

a) General situation of Sichuan province

Sichuan province in situated in Southwest China, on the upper reaches of the Yangtze River, and between 97º21´ and 108º31´ east longitudes and between 26º03´ and 34º19´ north latitudes. Until the creation of Chongqing Municipality in 1997, Sichuan was China's most populous province. Now it is the third largest province in China in terms of population with nearly 85 millions people. Sichuan covers an area of 485.000 square kilometers, accounting for 5.1 % of China's total area and is bound with the provinces of Yunnan, Guizhou, Gansu, Shanxi, Qinghai, Tibet and the Municipality of Chongqing.

Sichuan has various types of geographical features being surrounded by high mountains with a basin at the center. From its southeast to northwest, Sichuan sequentially lies four different landforms of plain, hills, mountains and plateau. But the landforms Sichuan Basin are generally divided into two parts, plateau in its east and mountains in its west. The province is located in a subtropical zone with a mild and humid climate with an annual average temperature of 16.5º and an annual average 1,150 mm of rainfall. Affected by the geographical latitudes and land features, the climates presents very obvious regional variations.

The Province has 13 prefecture-level municipalities, 5 prefectures and 3 autonomous prefectures, plus 180 counties in total. Chengdu is the capital of Sichuan.

Abundant natural resources derive from very complex topography and surface, crossing water systems, various kinds of climate and superior biological environment. Sichuan (in Chinese “four rivers”) is also called in China “Province of Rivers” . The total water flow of the rivers in Sichuan is of 313 billion cubic meters. Main rivers in the province include Yangtze River, Jinsha River, Yalong River and Dadu River. The Yangtze River flows 892 kilometers across the province and its river basin covers a land of 300 thousand square kilometers. The quantity of water reserves per capita in Sichuan is 3,100 cubic meters. The theoretical potential resources of hydropower are 140 million kilowatts, which makes up 22 % of the country total, of witch 110 million kW can be utilized, which makes up 24 % of the country’s total and takes the first in China. Sichuan is one of the three biggest hydropower bases in China.

Sichuan is also rich in mineral resources, with 130 minerals already discovered. The reserves of 27 kinds take the leading position in China, such as titanium, iron, lithium, zinc, mica, iodine, platinum, etc. Mineral reserves in Panxi Area and Southern Sichuan are extremely rich. Panxi Area, only 0.7 % of the land area in China, possesses 13.3 % of iron, 93 % of titanium, 69 % of vanadium and 82 % of cobalt of the whole country’s reserves. The reserves of rare earth ranks the second in those of China (the largest light rare-earth mining are of China is located in Liangshan prefecture of Sichuan).

Sichuan has become one of the biggest base of natural gas industry in China. The annual output of natural gas in Sichuan makes up 45 % of the country total and nearly half of its production is used in the chemical industry of the province. For coal resources, the industrial reserves of the province are 6.45 billion ton; for iron ore, the industrial reserves are 3.62 billion ton; for cooper, the industrial reserves are 0.94 billions ton and for manganese, the industrial reserves are 121 billion ton.

Sichuan is noted for its forest reserves and is one if the three largest forest areas in China. It is rich in timber reserves (its timber storage ranks second in China) and one of the main production bases for medicinal plants in China. With a grass land of 17.93 million hectares Sichuan is also one of the five major pastoral areas in the country.

Because of the mild climate, fertile soil, abundant natural resources and a long history of developed agriculture, Sichuan is a big agricultural province in China and has long been called in the country as “the land of Abundance” and referred to as one the breadbasket of China. The multiple climate and geographical features give the province advantages to various kinds of agricultural products. Sichuan has 4.5 million hectares of cultivated land, accounting for 4.8 % of Chinas total and 20.1 % of West China. It is a major production area in China for grains, oil crops, silk cocoon, jute, citrus, tea and diversified cash crops and the output of vegetable ranked sixth in the whole country. It is also a big livestock producer. It is one of the five biggest animal husbandry areas in China and its total production of pork, beef and mutton ranks the first in the country. Following is a brief relation of the main products of agricultural production in Sichuan:

OUTPUT OF MAJOR AGRICULTURAL PRODUCTS IN SICHUAN-1998	
Grains	36,000,000 ton
Rapeseeds	1,123,300 ton
Fruits	2,177,700 ton
Jute and Bluish Dogbane	18,400 ton
Total output of pork, beef and mutton	4,791,300 ton

In the industrial field Sichuan is one of the main bases in west China. At present, the province has a group of important enterprises in the field of machine-building, electronic industry, space technology, aircraft, metallurgical industry, chemical industry, construction material, foodstuff, silk and leather. The are 796 large and medium-sized enterprises and by the end of 1998 Sichuan’s industrial added value was ranking the eleventh in China. In the energy industry, by the end of 1998, power installation capacity came up to 12.6 mega kilowatts, of which 7.6 are for hydropower and 5 mage kilowatts for thermal power. Major power producers are Jiangyou Power Plant, Gongzui Power Station, Tongjiezi Power Station and Baima Power Plant. The Ertan Hydropower Station, with 3,300 mega watts of total installing capacity, has the largest hydropower generating sets in China.

Sichuan is also a major producer of Chinas electronic products, and the number of its enterprises holds the top in China. Also Sichuan’s electronic industry stands at the top of the country in terms of the total output and the profit-tax generated. The main products in this sector included industrial radar, telecommunication equipment's, broadcasting and television equipment's, computer and their peripherals, electronic elements and devices, special electronic equality of color television set, video tape recorders, and special electronic materials. The city of Mianyang, in Sichuan, is the base of Changhong Electronics Group Co., the largest colored TV set producers in China, with a capacity of nearly 10 millions of color TV sets a year. Fifty per cent of the country TV market is dominated by Changhong Electronics Group Co.

Together with Liaoning, in the northeast and Shanghai in the East, Sichuan is one of the three leading bases in machine building in China with strong capabilities in heavy-duty mining machinery, petrochemical machinery, general basic parts and bearings. Some of the main enterprises includes No. 2 Heavy Machinery Plant, Dongfang Complete Power Equipment Company, and Chengdu Measuring and Cutting Tool Plant.

Being one of the most important raw material industries, Sichuan's metallurgical industry also takes an important position in China. Panzhihua Iron and Steel Company (Group), the Great Wall Special Steel Limited Company and Chengdu Seamless Tube Plants are among the most important metallurgical enterprises of the province. Special mention should be made to the Panxi area, for its rich iron ore reserves and favorable conditions for mining. Other important raw material industry of Sichuan is the chemical industry. Especially because of the rich resource of the natural gas, Sichuan's chemical industry plays a key role in Chinas chemical industry. The 40 % of the natural gas output of Sichuan is used for chemical industry. The main products of this industry in Sichuan includes sulfuric acid, caustic soda, soda, fertilizers, pure benzene, pure methyl alcohol, paint, dyestuff, plastics, tires and melamine.

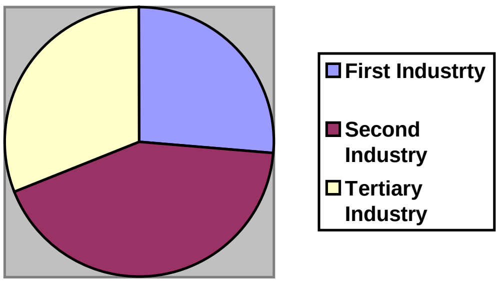
In the field of building material industry, Sichuan is an important construction materials and nonmetallic minerals suppliers in the country. Some important cement plants are base in Emei, Jiangyou or Panzhihua. Other products of importance include floor tiles and glazed tiles.

Following is a brief presentation of the output of major industrial products in Sichuan in 1998:

THE OUTPUT OF MAJOR INDUSTRIAL PRODUCTS IN SICHUAN-1998	
Raw Coal	56,964,200 ton
Natural Gas	7,742 million cubic meters
Electrical Power generated	45,560 million KW/h
Steel	5,679,000 ton
Cement	24,625,600 ton
Chemical fertilizer	2,456,000 ton
Color TV sets	7,714,700 sets

As a result of the open door policy and the economic reform in China during the past more than 20 years, the economy in Sichuan province has steadily improved. During the years from 1978 to 1998, the GDP has increased approximately 9.2 per cent every year. In 1998, Sichuan experienced an increase in its GDP 1.3 percent higher than the China national average. Sichuan GDP in 1998 was USD 44,750 million. The second industry is the main component of the GDP (42.7 %) follow by tertiary industry (31 %) and first industry (26.3 %).

➢ Structure of industries in Sichuan province-1998



Because Sichuan is an inland Province encircled by mountains, the communications of the Province in the past was not as convenience as in the coastal provinces of the country. Efforts has been made in the past years by the authorities and at the present moment Sichuan has completing diversified networks of railways, highways, waterways and airports. The province has a total of 2,464 kilometers of railroads already in operation, with six main lines: Baoji-Chengdu, Chengdu-Chongqing, Chengdu-Kunming, Xiangfan-Chongqing, Neijiang-Yibin and Chengdu-Dachuan. There is a total of 811,000 kilometers of roads in the province including some important expressways such Chengdu-Chongqing or Chengdu-Mianyang. The Province has a total of 62 navigable rivers with more than six thousand kilometers open to navigation. There are six civil airport in Sichuan, including Shuangliu International

Airport in Chengdu, the fourth largest one in China. Apart of internal flights, there are direct flight connection between Chengdu and Hong Kong, Singapore, Bangkok and Hiroshima.

As in other parts of China, during the last years telecommunications in Sichuan has experienced a high-flying period. A provincial telecommunication network has been established including facilities such as microwave, optical fiber, satellite, program control telephone, beeper and radio facsimile. More than one hundred counties in the province have been networked with the national automatic phoning system, and 17 cities with the international one. The popularizing rate of telephone service in Sichuan is 4.81 % and in the cities of the Province is of 26.1 %.

- General situation of Chengdu

Chengdu is the capital of Sichuan Province and one of most important cities in the Southwest of China. The Municipality has a total population of 9.89 million, and of them 3.18 million are urban residents. Chengdu is the government, commercial and financial center of Sichuan as well as the main communication and telecom hub.

Chengdu’s excellent agricultural condition and the rich soil of the Chengdu Plain make this city an important production base of grain, oil, meat and vegetable. In 1998, its grain output was four million ton; oil crops, 1.7 million ton; the output of pork, beef and mutton, 4.6 million ton, and the vegetable output was 31 million ton. The industrial sector in Chengdu is quite diverse including electronic, machine-building, metallurgy, chemical and textile industries. The city produces one-quarter of China´s steel tubes and its electronics industry is the fourth largest in the country.

In the past years, Chengdu has follows the opening policy and economic reform of the central government of China and made efforts to attract foreign investment to the Municipality. Until September 1999, a total of 2,379 foreign-funded enterprises has been approved to be established in Chengdu. The contractual foreign capital of those enterprises is $ 3.4 billion, and of them $ 1.4 billion is realized foreign capital. International companies with a presence in Chengdu include Coca-Cola, Toyota, Siemens of Bayer. Now there are 13 development zones in Chengdu, 5 of them are national or provincial ones (Chengdu Hi-tech Developing Zone, Chengdu Economic and Technological Development Zone, Chengdu BI-Strait Scientific Zone, Xidu Satellite City Industrial Development Zone).

1.2 Agriculture and food industry in Sichuan

a) General situation of the agriculture in Sichuan.

Sichuan is one of the biggest agricultural provinces of China. Its cultivated land area is 4.5 million hectares, accounting for 4.8 % of China´s total and around 20 % of West China. Sichuan is the biggest producer of grain in China, and its total production of pork, beef and mutton ranks the first in the country. The province production of cash crops include rape seed, cotton, sugarcane, tea, orange, natural silk and tung oil, with the output of rapeseed, orange and natural silk topping the whole country. Sichuan enjoys a great variety of fruit because of its gross natural conditions. Apart of orange, its production included lemon, kiwis, peach and grape. The output of the main agricultural products and domestic animals and aquatic products of Sichuan from 1996 to 1998 are listed in the following charts:

OUTPUT OF THE MAIN AGRICULTURE PRODUCTS IN SICHUAN PROVINCE			
Products	1996	1997	1998
Cereals (total)	34,831,000 ton	35,544,000 ton	36,263,000 ton
Rice	17,057,000 ton	17,002,000 ton	16,853,000 ton
Wheat	6,569,000 ton	6,873,000 ton	6,732,000 ton
Corn	5,486,000 ton	6,057,000 ton	6,594,000 ton
Soybeans	748,000 ton	778,000 ton	769,000 ton
Tubers	4,221,000 ton	4,006,000 ton	4,527,000 ton
Oil-bearing Crops	1,332,000 ton	1,342,000 ton	1,464,000 ton
Sugar Crops	1,641,600 ton	1,556,600 ton	1,617,300 ton
Fruits (total)	1,684,800 ton	1,851,300 ton	2,129,200 ton
Apple	134,700 ton	161,200 ton	177,400 ton
Orange	1,010,100 ton	1,068,900 ton	1,178,400 ton
Pear	181,700 ton	200,400 ton	249,700 ton
Vegetables	17,520,000 ton	18,507,000 ton	18,880,000 ton

OUTPUT OF MAIN LIVESTOCK PRODUCT IN SICHUAN PROVINCE			
Product	1996	1997	1998
Output of meat (total)	6,611,000 ton	4,537,000 ton	4,812,000 ton
Pork	5,473,000 ton	4,244,000 ton	4,471,000 ton
Beef	207,000 ton	207,000 ton	213,300 ton
Mutton	106,000 ton	106,000 ton	127,400 ton
Milk	240,000 ton	250,000 ton	270,000 ton
Eggs	870,000 ton	740,000 ton	800,000 ton
Honey	18,500 ton	19,400 ton	21,400 ton

b) *Food industry in Sichuan*

The food industry has long played an important role in the industry of Sichuan with a large proportion in the industrial output value of the whole Sichuan province. In the middle and late 1980s, food industry has ever ranked as the first industry of the province. However, due to the development of other industries in the province and the changes in its own structure, in 1990s the food industry developed at a more slow speed. In any case at the present moment the food industry is still one of the main industries of Sichuan province and a main source of income for the government budget. According with information provided by provincial food industry officials, in 1998 there are more than 10,000 food enterprises in Sichuan; 3,850 of them were at township or above township level. The total number of employees in this industry was nearly four million and there are more than 40 specific scientific research units. In 1998, the food industry output value was 34.45 billion yuan, representing 18 % of the provincial industrial gross output value and value added was 11 billion yuan, 18.8 % of the provincial value added of industry.

Profits and tax of the provincial food industry in 1998 totaled 6.8 billion yuan and nearly 100 % of them are coming from the beverage and the cigarette industries. The profits and tax of the beverage industry covered 55.22 % of the industry and the cigarette-making industry more than 41 %. Almost all the other industries, such oil processing industry, sugar industry, meat processing industry, can industry and tea-making industry, suffered loss. The good profits of the whole food industry of Sichuan at the present moment depend on the support of the spirits and tobacco industries. In the liquor industry, six main brands of Sichuan are well-know in China. They are Wuliangye produced in Yibin, Laojiao Tequ in Luzhou, Jiannanchun in Mianzhu, Quanxing Daqu in Chengdu, Langjiu in Guilin and Tuopaiqujiu in Shehong.

Between the main large and medium sized pillar enterprises of the food industry in Sichuan we can mention the followings: Lanjian Beer Group, Feiya Company, Miyi Sugar Co. Ltd., Zigong Jiuda Sallification Group, Leshan Emei Sallification Group, Yibin Oil and Food Product Company, Guocheng Monosodium Glutamate Factory, Dengyang Jingjing Food Factory, Sichuan Xipu Grease Chemical Group, Chengdu Xiwang Meihao Food Co. Ltd., Wenjun Liquor Factory, Wuliangye Co. Ltd., Luzhou Laojiao Co. Ltd., Jiannanchun Co. Ltd., Quanxing Co. Ltd., Langjiu Co. Ltd. And Tuojiu Co. Ltd.

c) *Main food industry enterprises in Sichuan*

According to the information offered by the food industrial association of Sichuan province, following are the key food enterprises in Sichuan:

- The processing of the meat industry

There are 160 large and middle-sized refrigerators in the province. Main enterprises for meat products with foreign participation include Sino-American joint venture Xiwang Food Co. Ltd. producing Meihao brand meat, Sino-Australian joint venture Xing'ao Co. Ltd. and New Zealand joint venture Wuliangye –Afuk-Jinniu Co. Ltd.

The meat products made by Delicious Co. Ltd.-Sichuan Branch and Shuanghui Group Co. of Henan also hold certain shares in the sale of supermarkets. The meat processing factories from Chengdu and Mianyang have imported equipment from German, Denmark and the Netherlands to manufacture smoke-dried sausage.

- Distilled spirits

In 1998, the spirit output in Sichuan amounted to one million ton, which accounted for 20% in China. Among them, the output of the 6 famous spirits, Wuliangye, Luzhoulaojiao, Jiannanchun, Quanxing, Langjiu, and Tuopai came to 360,000 ton with sales of 8.8 billion yuan, which accounted for 40% of the food industry profit in Sichuan. The export of the distilled spirits reaches $ 18 billion in 1998 and the Wuliangye alone accounted for 80% of that. The distilled spirits are mainly exported to Asia, the US, Russia and western Europe. In addition, Sichuan's spirits also have a very good sale in the home market.

The following are the main liquor enterprises of Sichuan:

ENTERPRISES	OUTPUT (1998)
Wuliangye Yibin Co. Ltd.	120,100 ton
Lanling Shangdong Group Co. Ltd.	114,900 ton
Tuopai Yeast liquor Sichuan Co. Ltd.	113,500 ton
Zhongzi Anhui Wine Factory	100,000 ton
Yangshao Henan Co. Ltd.	70,000 ton
Gujing Tributary Liquor Anhui Co. Ltd.	66,000 ton
Gaolu Anhui Wine Factory	58,500 ton
Hongxing Beijing General Wine Factory	57,200 ton
Sihong Guizhou	50,800 ton
Jiannanchun Co. Ltd.	48,900 ton

- Beer

In 1998, the beer output in Sichuan was 787,500 ton. There are main 33 beer enterprises in the Province and Lanjian Group is one of the most important. Its main products included Green Leaves, Red Sword and Blue Sword, with a high proportion in the market. The 2nd most important one is the beer branded Snowflake by Sichuan Huarun Beer Co. Ltd. The rest of more than a dozen small enterprises are established all over the Sichuan province and they occupy their local markets separately. Apart of the local production of Sichuan, products of the main producer of beer of China can be found in Sichuan market. Between the most important national brand we can include Tsingtao Beer, Beijing Yanjing Beer, Zhuhai Beer, Snowflake (from Shenyang), Chongqing Beer, Jinxing Beer (from Henan), Harbin Beer,and Wuhan Dongxihu Beer.

- Wine

The wine industry of Sichuan just starts. The wine available in the Sichuan market is from three homemade brands (Changyu, Dynasty, the Great Wall) and imported wines (in 1998 China's total wine output was only 0.189 million ton whereas the imported was as high as over 0.5 million ton). Now, some enterprises of Sichuan have start the production of wine, for instance, the dry red, dry white, semi-dry red and semi-dry white wine of Blue Sword are very popular in the local market. In 1998, Wuliangye Co. Ltd also began to make wine. In addition, Wuliangye Co. Ltd. and Tuopai Co. Ltd. initiated the development of the fruit liquor, such as green plum wine.

- Soft drink

There are many small carbonic acid drink enterprises with low profits in Sichuan. Their output in 1998 was less than 0.2 million ton and was below the nationwide average level. Among the foreign brand made in Sichuan there are two Chengdu-based factories belonging to Coca-Cola and Pepsi-Cola companies. Pepsi Cola's production capacity is 60,000 ton with actual output of 40,000 ton. Coca-Cola started its production in 1998 and has a production capacity of 60,000 ton with an annual output 30,000 ton. Apart from these two factories, two national brands - Jianlibao and Fenhuang- have a good market situation as well.

In Sichuan, 30% of the fruit is waste bad because of the backward fruit processing technology. By the end of the year of 1998, nine fruit juice production lines were imported. However, the production capacity and output of those new lines are limited. Therefore, the fruit juice market in Chengdu is still controlated by products from other places like : Great Lake, Huiyuan, Rougemont, and Long's.

There are over 100 mineral water bases and 33 small relevant enterprises in Sichuan. The annual production capacity of the largest enterprise—Emei Mineral Water Co. Ltd.—reaches 60,000 ton. At the same time there are 30 purified water enterprises in Sichuan, five of them relatively large ones: Wahaha Co. Ltd. Sichuan Branch with a capacity of 60,000 ton/y; Robust Co. Ltd. (60,000 ton/y) Wuliangye (100,000 ton/y) and Quanxing spirit factory (100,000 t/y). Hainan coconut Palm Group invested in Chengdu on the production of the purified water in 1998, and it has a capacity of 30,000 ton/year.

- Dairy products

In 1998, the per capita milk output in Sichuan was only 1.5 kg while the nationwide average was 7 kg. Due to the poor resources, only a little dairy in the China's market comes from Sichuan province. The main milk powder enterprises are Yangping Dairy Factory (annual output value, 40 million yuan) and Sichuan Hongyuan Dairy Factory.

- Canned food industry

The canned food consumption in Sichuan is quite low because of the dietary habits. The canned food enterprises are mainly for the exportation. Nine are the main canned food enterprises in the province: Chengdu Cannery; Tianyuan Food Co. Ltd. of Nanchong; Siuning Cannery; Weizhou Canned Food Co. Ltd; Changsi Cannery; Bashan Food Co. Ltd.; Luzhou Canned Food Co. Ltd., Dachuan Cannery and Shanghai Meilin Co. Ltd- Mianyang Branch. Apart of canned meat main production included canned asparagus and canned mushroom.

d) Characteristic of the food industry in Sichuan

The rich natural resources, mild climate and an important agricultural production level lay a solid foundation of raw materials for the development of food industry in Sichuan. However, compared with the coastal province of China, the food industry in Sichuan is still backward due to its geographic position, shortage of funds, small enterprises, low rate utilization rate, and backward equipment and technology. For example the by-products processed rate is less than 30 %. Although its pork output ranks first in China, only 10 % are used for processing while the rest 90% are frozen pork.

One characteristic of the present situation in Sichuan food industry is that there are too many rough machinery and raw material products, and few finish machinery and manufactured products, too many between-meal products and few healthy and green foods; too many native products and few up-to-date foods.

Another problem is the unreasonable industrial structure and imbalance of development. Sichuan province occupies a dominant position in raw salt, rice, frozen meat (mainly pork), spirits, beer and tobacco industry. But when it comes to other food industries, the pace is relatively slow. There is also a sharp contradiction between the rich resources of agricultural by-products and the lacking of further processing technology. Is mainly reflects in the processing industry of meat, vegetable and fruit. For example while the outputs of fruits and vegetables are better than that of some other provinces, few relevant products have applied fresh-keeping, dehydrating and juice-squeezing technology.

Bad quality of some agricultural by-products also is a obstacle for the development of the food industry. For example, due to the lacking of sunlight, the quality of the wheat is not so good. Therefore the wheat flour for the food industry had to be bought from other provinces. As rural families raise pigs, the quality of pork is not easy to control, and for this reason, it is common that the pesticide leftover goes beyond the permit standards, which as well hampers the exports.

e) Foreign participation in the food industry of Sichuan

The are not many foreign participation in the food industry of Sichuan if compare with the provinces of the south and east of China. Main participation include Cola-Cola and Pepsi-Cola, 100,000-ton purified water project of Robust; One.One food, Tongyi instant noodle, Yanggong orange juice and Meadow Gold ice cream. Main inversion came from Taiwan, HongKong and the USA, while European participation is very small.

During our stay in Sichuan, our Survey Group has detected the interest to introduce foreign funds and technology in the following fields of the food industry of Sichuan:

Meat processing. Although Sichuan is the number one province of China in pig output, the proportion of processing is less than 10%. There are possibilities for foreign enterprises to supply funds, technology and equipment for the production of food and canned food.

Vegetable and fruit further processing. Sichuan province is rich in vegetable and fruit with a great variety. However, a large number of vegetable and fruit went bad every year due to the backward processing technology. Therefore, advanced technology, such as freshness-keeping, dehydration, juice-squeezing are expected to be introduced in order to raise the utilization rate of vegetable and fruit, and strengthen the export sector.

Grain-processing technology. In spite of the high output of the grain, the processing technology of Sichuan is still backward. By cooperating with foreign companies, Sichuan wants to upgrade the quality of rice and wheat flour.

Oil industry. The climate in Guangyuan region is suitable for the olive trees planting, and advanced olives oil processing technology is needed. At present, China imports 3,000-4,000 ton of olive oil each year while its production is small. Guangyang region is now producing olive and the olive oil market has great potential for development. Now the provincial authorities are planning to develop some olive oil related projects in Guangyang.

f) Food Industry Commerce and Exports of Sichuan

The group carry out a survey in the main five supermarkets in Chengdu: Carrefour, Yiteng Yanghuatang, Hualian, and Blue Sword's as well in retail and wholesale stores. Through sampling survey, here are brands and prices of the foods that sell well in supermarkets, retail and wholesale stores:

- Meat

Yurun Sandwich Ham(Nanjing)	9.6yuan/490g
Yurun German Ham	10.8yuan/100g
Yurun Beef Sausage	7.0yuan/250g
Yurun Smoked Sausage	7.9yuan/100g
Delicious Sandwich Ham(Sichuan)	8.3yuan/400g
Delicious Sausage	8.6yuan/350g
Meihao Sandwich Ham(Chengdu)	7.5yuan/320g
Shuanghui Beef Sausage(Henan)	6.7yuan/300g
Wutian Sandwich Ham(Sichuan)	8.8yuan/250g
Wutian Beer Sausage(Sichuan)	8.8yuan/250g

- Beverage

Liquor (52%, 500ml bottled):	
Wuliangye	218 yuan
Jiannanchun	138 yuan
Luzhou Laojiao	45 yuan
Lang Jiu	43.6 yuan
Tuopai Yeast Liqueur	56 yuan
Quanxing liqueur	28.8 yuan

Wine (750ml)	
Dynasty Dry Read Wine	56 yuan
Yunnan Red Wine (Yunnan)	46 yuan
Great Wall Dry Red Wine	35.6 yuan
Chanyu Gantao Red Wine	34 yuan
Dynasty Dry White Wine	29 yuan
Zhonghua Dry Red Wine	29 yuan
Great Wall Dry White Wine	19.8 yuan
Jiate Black Wine (Sichuan)	15.5 yuan
Lante Red Wine (Sichuan)	13.1 yuan

Bottled Beer	
Hongjian Beer (Sichuan)	2 yuan/620 ml
Lanjian Beer (Sichuan)	2.5 yuan/620 ml
Lanjian Draft Beer (Sichuan)	4.6 yuan/640 ml
Snowflake Beer (Sichuan)	2.2 yuan/640 ml
Green Leaf Beer (Sichuan)	2.2 yuan/640 ml
Tsingtao Beer	4.6 yuan/500 ml
Calsberg Beer	6 yuan/640 ml

Tin Beer	
Carlsberg	5.6 yuan
Tsingtao	3 yuan
Snowflake	3.5 yuan
Budweiser	5 yuan
Blue Ribbon	3.4 yuan
Yanjing	2.9 yuan

Vegetable juice:	
Great Lake (bottled)	17.8 yuan/1000 ml
Long´s (Xian)	12 yuan/1000 ml
Huiyuan	14 yuan/1000 ml
Dole	20 yuan/1000 ml
Rougemont	14.8 yuan/750 ml
Tongli (Chengdu)	11 yuan/1000 ml
Chengdu Yanggong (bottled)	2.8 yuan/350 ml

Bottled Carbonic acid drinks:	
Coca Cola	7.3 yuan/ 2 l
Pepsi Cola	7.3 yuan/2 l
Sprit	7.3 yuan/2 l
Fanta	7.3 yuan/2 l
Future Cola	5 yuan/2 l

Tin Carbonic acid drinks	
Cola Cola	1.8 yuan
Pepsi Cola	1.9 yuan
Jianlibao	2.3 yuan
Sprite	2 yuan
Fenhuang Cola	1.9 yuan

Milk	
Tongli pure milk	2yuan/300ml
Life pure milk	2.2yuan/300ml
Guangming pure milk	2.8yuan/250ml
Jule pure milk	2 yuan/300ml
Huaxi pure milk	6.8yuan/1000ml
Nestle milk	8yuan/1000ml
Xiajin milk	1.9yuan/200ml
Zimu milk	10.4yuan/1000ml
Junyao milk	8yuan/1000ml

Yogurt	
Junyao yogurt	1.6yuan/250ml
Youmiao yogurt	2.3yuan/180ml
Jule yogurt	2yuan/250ml
Life yogurt	2yuan/250ml
Robust yogurt	2yuan/250ml

Milk powder:	
Yangping whole milk Sichuan	14.5yuan/400g
Yili whole milk	14yuan/400g
Nestle whole milk	19.9yuan/500g
Senyong whole milk	16.6yuan/400g
Yili whole milk	14yuan/500g
Dumex whole milk	22yuan/450g
Hongyuan whole milk	15.6yuan/400g

- <u>Cake and confection</u>

Cake	
Kleeber soda cookie	6yuan/220g
Ritz	3.5yuan/118g
Danone salt	10.8yuan/400g
Jiadun wafer	4.7yuan/100g

Chocolate	
Caesar chocolate	16.5yuan/4x100g
Dove chocolate	9.3yuan/80g
Cadbury chocolate	11yuan/2x45g
Le conté chocolate	19.1yuan/2x100g
Ferrero Rocher chocolate	30.8yuan/100g
Mon Cheri chocolate	30.8yuan/125g

Macaroni	
Lixiang macaroni(Guangdong)	6.9yuan/300g

The export sector in the food industry of Sichuan included mainly primary products and semi-manufactured goods with low technical content. (See chart below)

Export Of Food And Food Products Of Sichuan

Product	1997	1998
Animals and its products	91,000,000 USD	79,100,000 USD
Plants and its products	84,870,000 USD	64,550,000 USD
Food, beverage and tobacco	50,890,000 USD	47,570,000 USD
Liquor	14,000,000 USD	18,000,000 USD
Canned food	8,470,000 USD	3,740,000 USD
Meat	7,860,000 USD	3,360,000 USD
Fruit	37,600 USD	14,500 USD
Vegetable	560,000 USD	360,000 USD

1.3 Investment environment in Sichuan province

a) Foreign investment in Sichuan

Sichuan is an inland province and has opened to the outside world later than the coastal areas of China. The provincial authorities are making continuos efforts in order to accelerate the reforms and opening to the outside world focusing on improving the soft environment for investment. In 1991 the Central Government has take the decision that Chongqing (at that time part of Sichuan) and Chengdu can enjoy the preferential polices of the coastal opening cities. Sichuan has established some state-level high technological development zones in Chengdu and Mianyang that can enjoy the preferential policies of the Economic Special Zones. The provincial government also has decided to set up more than 50 economic, technical and tourist development zones. By the end of 1998 Sichuan 4,998 foreign invested enterprises have been registered in Sichuan. The province has attracted 11.70 billion USD of contractual foreign capital investment, including 6.7 billion USD of foreign-invested capital, 4.66 billion USD of foreign loans and 0.3 billion USD of other financing. The realized foreign invested capital has been up to 5.7 billion USD.

United States is the first foreign investor in Sichuan, follow by Hong Kong, Japan, Australia and Singapore. European inversion in the province is very limited with a few projects with companies of Netherlands, France, Italy, Sweden and Britain.

In 1998, between a total de 233 realized projects with foreign investment in Sichuan, the machinery industry is the field in which there are more foreign investment, follow by service and real estate. In the wholesale and retail trade and food and beverage there are 10 realized projects in Sichuan in 1998 with a total contractual foreign capital of 4.82 million USD.

Foreign Investment In Sichuan-1998 Statistics For Industries

Sectors	Realized Projects	Contractual Foreign Capital
Machinery	166	574,850,000 USD
Suppliers for Power, Coal, Gas and Water	4	38,380,000 USD
Social service	20	29,000,000 USD
Real Estate	11	19,790,000 USD
Civil construction	7	17,760,000 USD
Extractive Industry	3	11,000,000 USD
Transportation, storing keeping and post and telecommunication	3	10,530,000 USD
Wholesale and retail trade and food and beverage	10	4,820,000 USD
Agriculture, Forestry, Animal Husbandry and Fishery	8	1,020,000 USD

Foreign invested projects related with the food industry have high priority in Sichuan since agriculture industrialization is one of the main major fields of utilizing foreign capital in the province. The investment priorities of Sichuan included the following five fields:

- Infrastructure facilities
- Highways: freeway network with Chengdu as the hub, national highways across Sichuan's borders and roads linking up counties and townships
- Energy: large and medium-sized power station, sequential development of terraced water power stations
- Urban public utilities: water supply and waste water treatment
- Grafting and upgrading of state enterprises
- Exploitation of agricultural resources
- Development of An Ning River valley, hilly area in the central part of Sichuan Basin, and mountainous area surrounding the Basin; comprehensive utilization of agricultural resources; biological engineering; multipurpose use of livestock resources on the northwest plateau of Sichuan
- Industrialization of high and new technologies
- The industrialization of high and new technologies in biology, nuclear science, new materials and micro-electronics.
- Tapping of tourist resources

The investment mode accepted by the provincial government of Sichuan included the following options:

- Establish joint ventures, cooperatives, and whole foreign-invested enterprises
- Purchasing stock shares and purchasing stock certificates, bonds and other valuable negotiable securities
- Compensation trade as well as processing and assembling and share-holding supplied materials
- Purchasing real-state property
- Developing, gaining, and controlling the land and land right in a legal manner
- Leasing and purchasing small to medium size enterprises

b) Regulations for foreign investment in Sichuan

The authorities of Sichuan province has formulated and published a set of laws and regulations for preferential treatment to investors in the province and for the encouragement of foreign investment. The full text of the preferential policies of Sichuan province for the encouragement of foreign investment are included in this study as an attachment. A brief introduction on tax policies are included as follow:

1- Income tax

The due tax rate of foreign-funded enterprises is 30%.

Chengdu-based foreign-funded enterprises engage in production may pay business income tax by a reduced rate of 24%.

Foreign-funded enterprises engage in production, and high and new technology enterprises in the state-approved economic and technology development zones or high and new technology development zones may pay business income tax by a reduced rate of 15%.

In Chengdu urban district, technology intensive and knowledge intensive projects; foreign-funded long term project with investments of over $ 30 million; energy, transportation, and airport construction projects may be levied an corporate income tax at a reduced rate of 15 %.

2- .Tariffs on imported equipment and customs duties

Except for commodities within the Category of Non-tax Abatement Imported Commodities in Foreign Invested Projects, imported self-use equipment within the invested volume—in sectors belongs to encouraged sectors, and to technology-transferred foreign investment projects--are exempt from tariffs and customs value added tax. Contracted technology and due parts and fittings imported with equipment are exempt from tariffs and customs value added tax.

3- Reduction and exemption of tax

All the foreign-funded enterprises engage in production with operating periods over 10 years may, from the profit-making fiscal year, be exempt from business income tax in the first 2 years and pay business income tax by half from the third to the fifth year.

High and new technology enterprises may, from the first profit-making fiscal year, be exempt from the business income tax in the first 2 years and pay 50% of the due business income tax from the third to the eighth year.

Foreign-funded enterprises in the fields of agricultural exploration, further farm by-products processing and farm products export may, when the tax reduced and exempted period comes to an end, pay 30% of due business income tax in the following 5 years, after being approved by financial and tax offices.

4- Return of the reinvestment income tax

Foreign investors in foreign funded enterprises who utilize acquired profits in increasing enterprises' assets or establishing other foreign funded enterprises with operating periods no less than 5 years may be returned 40% of business income tax having been paid for the reinvestment.

Foreign investors reinvest in China for export-oriented enterprises or advanced technological enterprises with operating periods no less than 5 years may be returned all the business income tax having been paid for the reinvestment.

5- Accelerated depreciation of fixed assets

Should the fixed assets of foreign funded enterprises are in need of accelerated depreciation for special reasons, the accelerated depreciation may be done after enterprises applications approved by tax offices.

The procedures for establishing a foreign-investment enterprises in Sichuan included the following steps:

1) Submitting the project proposal and the feasibility study report to the administrative authorities concerned.
2) Applying for the enterprises´s name registration to the administrative authorities for industry and commerce.
3) Submitting the contract and articles of association to the foreign trade and economic cooperation authorities.
4) Applying for the business registration to the administrative authorities of industry and commerce.
5) The establishment of a wholly foreign-owned enterprises should follow the application and approval procedures as described below:
6) Applying for the enterprises name registration to the administrative authorities of industry and commerce.
7) Submitting the application report and articles of association to the foreign trade and economic cooperation administrative authorities.
8) Applying for the business registration to the administrative authorities of industry and commerce

The required Documents included:

1) Project proposal and feasibility study report.
2) Agreement signed by all the parties concerned in the joint-venture or in the cooperative project.
3) Foreign investors qualification certificates and credibility documents.
4) Environmental evaluation report approved by the environment authorities.
5) Name list of members of the board of directors and the designation documents from various parties.
6) Application form, and report for the establishment of wholly foreign-owned enterprise.
7) Application for registering of the enterprise in the administration of industry and commerce.

The relevant organizations involved in the issue of documentation and certificates need by foreign investment enterprises included as follows:

Engraving of enterprise seal:	Public Security Bureau
Financial registration:	Bureau of Finance
National tax registration:	National Tax Bureau
Local tax registration:	Local Tax Bureau
Foreign exchange registration:	Local Branch of Foreign Exchange Control Office
Customs registration:	Local Customs

After the establishment of an enterprise the following approval and formalities are need:

1. Examination and approval of construction and public works-Program and management bureau
2. Examination and approval of project-use water and gas -Bureau of public services
3. Examination and approval of project-use land -National land office
4. Application of project-use power -Electricity board
5. Identification of high and new technology enterprise-Science and technology committee
6. Sanitation inspection of construction project-Sanitation and anti-epidemic station
7. Inspection of charge -Office of price supervision
8. Formalities of foreigners' residence -Public security bureau
9. Account-opening formalities -Any the commercial banks
10. Claims of foreign-funded enterprises-Claim center for foreign investors

Investment formalities in Chengdu can be jointly handled in the Service Center for Foreign Investment of Chengdu People's Government. Tel: 028-6146366. All the development zones in Sichuan has established administration committees of Foreign Investment Inviting Bureau that provide services for the foreign funded enterprises.

In accordance with the current law of the P.R. of China on foreign investment, there is no maximum limitation on proportion of foreign investment but the lowest proportion of foreign investment should not be less than 25 % of the registered capital.

In relation with the proportion of registered capital for the total investment of the projects the stipulations are as follows:

- If the total investment is under USD 3 million the registered capital should not be less than 70 %.
- If the total is above USD 3 million to 10 million, the registered capital should take up at least 50 %, or which, if the total investment is under 4.2 million, the registered capital should not be less than USD 2.1 million.

- If the total is above USD 10 million to 30 million, the registered capital should take up at least 40 %, of which, if the total is under USD 12.5 million, the registered capital should not be less than USD 5 million.
- If the total is above USD 30 million, the registered capital should take up at least 33.3 %, of which, if the total is under USD 36 million, the registered capital should not be less than 12 million.

Foreign investors may invest the registered capital of the project at one time or by stages. For the one time investment, the capital should be totally invested within six months after obtaining the business license. If by stages, the first time investment, within three months of obtaining the business license, should take up at least 15 % of the total registered capital. The rest stipulations are as follows:

- If the registered capital is under USD 500,000 the total investment should be paid within one year after obtaining the business license
- f is above USD 500,000 to one million, the time is one and half year after obtaining the business license
- If is above USD 1 million to 3 million, the paying time is within 2 years after obtaining the business license
- If is above USD 3 million to 10 million, the paying time is within 3 years after obtaining the business license
- If is above USD 10 million, the paying time should be decided by the authorities according to the application of the investor and the execution of the project.

c) Areas and zones for investment in Sichuan

The are two key areas of utilizing foreign investment in Sichuan: the Chengdu Plain economic Sphere and the Panxi Area.

- <u>Chengdu Plain Economic Sphere</u>

The Chengdu Plain Economic Sphere included the cities of Chengdu, Mianyang, Deyang and Leshan. Chengdu Plain is located in the central part of Sichuan Basin. It is the most developed area with high density of population in Sichuan and the economic, communication and culture center of Southwest China. Cut up by lots of rivers, the plain is warn in winter and hot in summer with ample rainfalls. It abounds in mineral resources. It is also an important agricultural area and well-know in Sichuan for its electronics, aviation and textile industries. The decision of Sichuan authorities to form an economic sphere in this area is to make full use of the favorable geographical location and rich material and technical strength and make it an economic zone with high quality, high efficiency and high speed growth so that it will play the leading role of backbone in the economic development of Sichuan. One of the basic task is to build pillar industries with high and new technologies and high growth. The intention is that the economic development speed in the area will lead the whole province and reach the level of developed coastal provinces and cities of China

The Chengdu Plain Economic Sphere is a regional concept developed according to the geographical features and economic lies. The core of the economic sphere is Chengdu and the main part contains the Chengdu plain area and part of the surrounding lightly hilly areas. The sphere includes the following 32 cities, districts and counties:

- Chengdu City (including 20 counties and county-level cities): Jinjiang District, Qingyang District, Jinniu District, Wuhou District, Chenghua District, Gaoxin District, Longquan Yi District, Qingbaijiang District, Jintang County, Shuangliu County, Wenjiang County, Pixian County, Xindu County, Dayu County, Pujiang County, Xinjin County, Dujiangyan City, Qionglai City, Chongzhou City and Pengzhou City.
- Mianyang City (two districts): Fucheng District and Youxian District.
- Deyang City (five counties and districts): Jingyang district, luojiang County, Mianzhu County, Shifang City and Guanghan City.
- Leshan City (three counties and districts): Shizhong District, Emeishan city and Jiajiang county
- Meishan Prefecture (two counties): Meishan County and Pengsahan County.

➢ The Panxi Area

The Panxi Area is in the upper reach of the Yangtze River. This area is rich in hydroelectric resources, minerals and bio-resources. Thirteen percent of the iron deposit of China, 69 % of vanadium deposit and 93 % of talinum deposit of the country are concentrated in this area. The exploitable capacity of hydropower accounts for as high as 13 % of China´s total.

The development of Panxi has experienced two main stages in the past. The first stage of development of the area started at the beginning of the founding of the People’s Republic of China. The aim of the authorities was to make Panzhihua an industrial base. Starting from the mid-1960s, Panzhihua rose as the largest iron and steel production base and the largest vanadium-titanium production base in the western part of China.

The second stage of development was across the 1980´s with the development of the hydropower at Ertan, the prelude of the large scaled development of a cascade hydropower stations on the Yalong River. The Ertan Power Station, one of the biggest of China, is base in this area. The development of biological resources has also started in this stage. The sunshine of the north and the humid temperature of the south have created conditions for the growth of plants and animals.

Now, with the development of the Ertan Power Station, the second phase project of Panzhihua Iron and Steel Complex and the Chengdu-Kunming railway, the development of Panxi Area have entered a new period of development. Some important projects has been developed in this area such as the Dushui Power Station, the Pubugou Power Station and the Jinping Power Station.

The central and provincial authorities has established in Sichuan diverse economic and development zones in order to encourage the foreign investment. Main economic zones includes as follows:

1- Chengdu High and New Technology Industry Development Zone

This development zone was founded in 1998 with the approval of the State Council of China. In august 1993 it won the title of advanced high and new technology industry development zone from the State Science and Technology Commission. Located in the southern part of Chengdu city it is a major area for eastward and southward extension of the city. It covers 47 square kilometers with a population of 200,000. The zone is 6 kilometers from the International Airport and 4.5 kilometers from the city proper. It now has a startup industrial park, Singapore Industrial Park, the south of the railway station processing and trade zone, the Siyang Industrial Park and Straits Industrial Development Park. The development zone has invested more than two billion yuan in capital construction including power and water supply and roads and telecommunications. Put in use are more than 60,000 square meters of standard factory building, 12,000 kW thermal power station, 50,000-line program controlled telephone exchange and primary and middle schools. The zone has also started such services as banking, customs, bonded warehouse, import and export corporations, certified public accountants offices and offices of law, labor market and social insurance.

The main aim of the zone is to attract foreign investment in electronic and information technology, bio-medicine, food processing, new materials, optic-mechanical-electronic technology and nuclear technology applications. By the end of 1998 the zone has attracted 248 foreign-funded projects, totaling nearly 580 million US dollars in investment. Between the foreign companies with investment in this zone are Siemens, Motorola, Alcatel, Mitsui and Fuji Heavy Industries.

2-Chengdu Straits Science and Technology Industry Development Park

Located in Wenjiang County, a satellite town of Chengdu, the Chengdu Straits Science and Technology Industry Development Park was founded in 1992. The development zone covers six square kilometers. It is 23 kilometers from the Chengdu City proper and 21 kilometers from the International Airport. It was official became part of the Chengdu High and New Technology Development Zone and a state class industrial development park in 1998 with the approval of the Ministry of Science and Technology. According to the regulations concerning state class development zones, enterprises in this zone may enjoy all the more preferential policies with regard to land requisition and taxation.

By the end of 1998, the zone has attracted 30 foreign investment projects with a contracted investment topping 300 million USD. There are now 5 enterprises that has invested more than 10 million USD each. The main sectors of investment in this zone included food deep processing, light industry and electronics.

3-Chengdu Economic and Technology Development Zone.

Founded in July 1990 it is a provincial class development zone. It is located in the Longquanyi district of Chengdu City, 13.6 kilometers from the city center and 30 kilometers from the International Airport. The provincial authorities has invested 900 million yuan for road, water and power and heat supply facilities in this Zone.

A total of 365 projects, with a contractual investment topping 8 billion yuan, has been signed in this Zone and of them 162 projects have been put into operation. The total number of foreign-funded enterprises came to 71 with a contractual investment close to 300 million USD. Main industries in this Zone included electronics, machine-building, metallurgy, building materials and refined chemicals.

4-Mianyang High and New technology Industry Development Zone

This Zone was founded in 1992 in Mianyang City. The efforts of the Zone in the past years concentrated on converting military enterprises into civilian production and building high and new technology industries. By the end of 1998 there were 931 enterprises registered in the zone, including 44 foreign-funded enterprises such as Mitsui of Japan, Refined Chemical of Japan, Chia Tao of Thailand and Creation of Hong Kong. In 1998 the zone export earning was 6.3 million USD, and the total industrial output value was 20 billion yuan .

Electronic and information technology industries, optical, mechanical and electronic products, refined chemicals and new materials are the main sectors in this development zone.

d) Standards of charges for services and salaries in Sichuan

The standard of charge for electricity, water and gas for companies in Sichuan is including in the following chart:

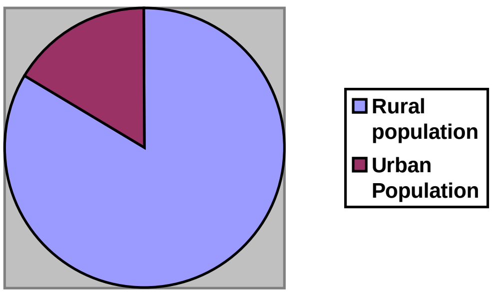
Item	Class	Unit	price
Electricity	< 1 kV	Yuan/KVH	0.5347
	1-10 kV		0.5298
	35-110 kV		0.5218
Water	Industrial water	Yuan/ton	1.8
Gas	Natural gas	Yuan/m^3	1.2-1.61

The standard income level in Sichuan for a non-trained worker is 400 yuan/person/month; 600 yuan for a skilled worker and 1,000 – 1,200 yuan for technicians and managerial personnel. Other fees related with employment include endowment insurance (24.6 %), medical insurance (9.5 %), unemployment insurance (3 %) and industrial accident insurance (0.301 %). This insurance are compulsory and shall be pay by the employers on the bases of the income of employees.

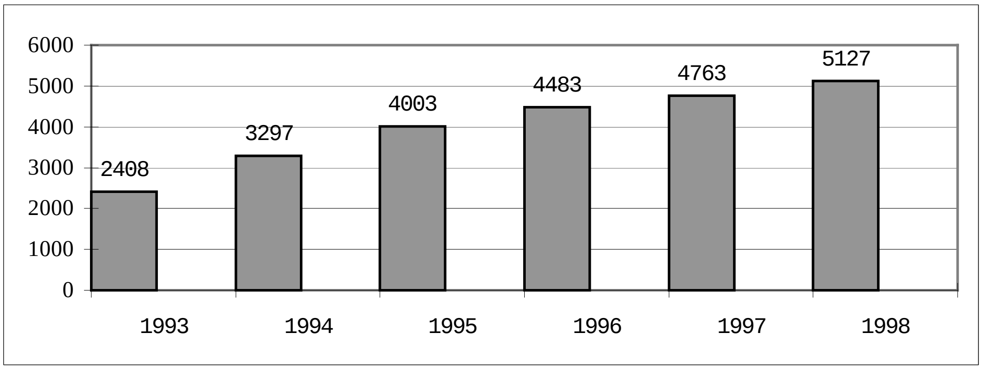
1.4 General situation of the consumers in Sichuan

By the end of 1998, the population of Sichuan was 84.3 million. Of them nearly 70 million are rural population and 14 million urban population. (see graph)

The birth rate in the province is 1.57 %, the death rate 0.7 % and the natural growth rate 0.875 %, lower than the national average of 1.006 %. The average family size in Sichuan is 3.44 person/household.



In 1998 the average disposable income per capita for urban residents in Sichuan reached 5,127 yuan and net income per capita for rural residents was 1,790 yuan. Evolution of the disposable income for urban residents in Sichuan in the last years are indicated as follows:

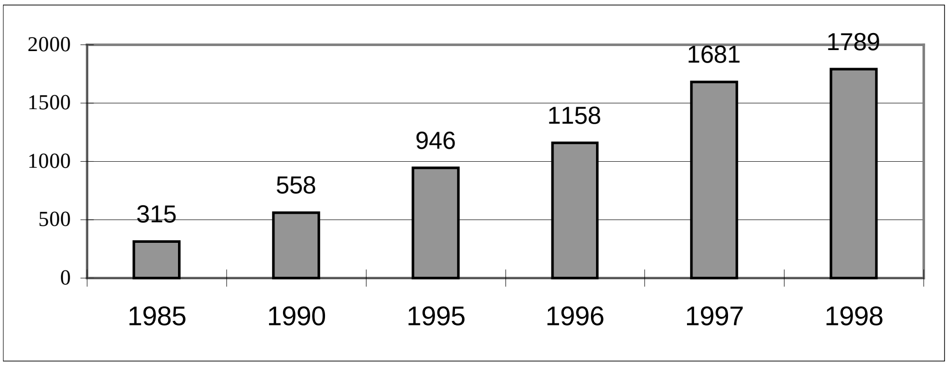


Consumer expense per capita for urban residents was up to 4,383 yuan in Sichuan in 1998 and necessity expense per capita for rural residents was 1,441 yuan. For urban residents, 45 % of consumption was for food (1,967 yuan). Consumption expenditure for urban residents in Sichuan is above the average nationwide level but below the level of the coastal areas of China.

Structure of the food consumption of urban residents in Sichuan are show as follows:

Product	**Expenditure**
Grain	199.08 yuan
Starches and tubers	20.07 yuan
Beans and bean Products	25.16 yuan
Oil and fats	89.38 yuan
Meat,poultry and related products	498.86 yuan
Eggs	67.63 yuan
Aquatic products	57.17 yuan
Vegetables	200.52 yuan
Condiments	36.93 yuan
Sugar	33.44 yuan
Tobacco	125.21 yuan
Liquor and beverages	88.24 yuan
Fruits	101.98 yuan
Nuts and kernels	20.95 yuan
Cake	33.22 yuan
Milk and dairy products	56.06 yuan
Others	18.91 yuan
Dinning out	294.69 yuan
Food processing service Fees	1.12 yuan
Total	*1,968.61 yuan*

The per capita disposal income of rural families in 1998 was 1,790 yuan; that is, 83% of the national average level. The evolution during the past years is show in the following graph:



In 1998 the per capita consumption expenditure of rural families in Sichuan was 1,441 yuan, 61% of which, i.e. 872 yuan, was for food consumption. Consumption expenditure was 91% of the average level of the national rural residents' average level, food consumption expenditure was 103% of the national mean level. Main per capita staple food consumption of rural families in 1998 are show in the follow graph:

Product	**Consumption**
Grains	244.4 kg
Vegetable	136.04 kg
Edible oil	6.06 kg
Pork, beef and mutton	22.10 kg
Eggs	2.65 kg
Aquatic products	1.36 kg
Sugar	1.36 kg

1.5 ANNEXES

ANNEX 1: **Sichuan-Main Figures 1998**

Area	448,000 sq km
Population	84,300,000
GDP (million USD)	44,750
GDP per capita (USD)	533
GDP increase-1998	9.1 %
First Industry in the GDP	26.3 %
Second Industry in the GDP	42.7 %
Tertiary Industry in the GDP	31.0 %
Disposable Income per capita for urban residents (in yuan)	5,127 yuan
Disposable Income per capital for urban residents (in USD)	641 USD
Net Income per capita for rural residents (in yuan)	1,790 yuan
Net Income per capital for rural residents (in USD)	224 USD
Registered unemployment Rate	4 %

ANNEX 2: **Sichuan Province-Gross Domestic Product**

Year: 1997 - Unit: 100 Million Yuan

Gross Domestic Product	3320.11
Primary Industry	919.28
Second Industry	1385.38
Industry	1175.27
Construction	210.11
Tertiary industry	1015.45
Farming, Forestry, Animal and Fishery	10.23
Geological prospecting and water conservancy	8.47
Transportation, Storage, postal and Telecommunications	135.78
Wholesale, Retail trade and Catering Services	308.36
Banking and insurance	204.49
Real Estate Trade	70.13
Social services	64.36
Health care, sports and social welfare	37.66
Education, culture, art, radio, film and TV	68.45
Scientific Research and polytechnical services	14.95
Government agencies and social organizations	82.48
Others	10.09

ANNEX 3: **Sichuan-foreign trade-1998**

Import And Exports

Exports	1,670 million USD
Imports	1,180 million USD
Total Import & Export amount	2,850 million USD
Proportion of Industrial finished products	77.6 %
Proportion of primary products	22.4 %

Sources Of Foreign Loans In Sichuan-1998

Foreign Government Loans	5.58 %
International Financial Organizations Loans	58.54 %
International Commercial Banks Loans	35.88 %

ANNEX 4: **Proportion Of People In Work By Industries-Sichuan-1998**

First Industry (Agriculture, Forestry, Livestock, Fishery)	62.4 %
Second Industry	19.5 %
Manufacturing Industry	11.1 %
Building Industry	5.4 %
Extractive Industry	3.0 %
Tertiary Industry	18.1 %
Industries of transportation, storing, post and telecommunication	8.3 %
Industries of wholesale, retail, trade, food and beverage	5.2 %
Industries of education, culture, art, broadcast, film and TV	2.2 %
Party and government organizations & social organizations	1.4 %
Industry of social services	1.0 %

ANNEX 5: **Sichuan-Food industry gross output value and its proportions in Sichuan industry (prices in due years**)

Class	1998		1997		1996	
	Gross output value (100 million yuan)	Proportion (%)	Gross output value(100 million yuan)	Proportion (%)	Gross output value (100 million yuan)	Proportion (%)
Provincial industries	1918.4	100	3469.1	100	2567.7	100
Provincial food industry	332.21	16.80	373.05	10.75	389.22	13.11
# food processing industry	131.35	6.85	159.11	4.59	165.64	5.58
# food manufacture industry	22.18	1.16	25.11	0.72	33.36	1.12
# beverage manufacture industry	132.32	6.90	4.08	4.08	128.58	4.33

ANNEX 6: **Main financial data of the food industrial enterprises at township or above township level in Sichuan in 1997** **Unit: 100 million-yuan**

Industrial enterprises	Number of enterprises	Number of loss-incurring enterprises	Sales of products	Total profits	Profits and tax	Total original prices of fixed assets	Annual average balance of current assets	Industrial gross output value	Industrial gross output value (constant prices)	Industrial added value	Annual average balance of fixed assets net value	Staff productivity of industrial added value (10,000 yuan/ person)
All food industries in Sichuan	3493	1182	352.05	20.04	66.3	167.85	197.16	373.05	253.77	133.68	121.51	4.40
Food processing industry	1791	585	140.12	-2.28	-0.44	59.47	56.92	159.11	112.23	39.09	43.53	3.19
Food manufacture industry	575	232	22.47	-0.30	0.65	20.84	15.05	25.11	19.31	7.70	14.82	1.39
Beverage manufacture industry	1459	360	141.4	21.8	40.55	67.41	91.71	141.65	85.38	57.95	46.36	4.87
Tobacco industry	18	5	48.06	0.82	25.54	20.13	33.48	47.18	36.85	28.94	16.80	24.94

ANNEX 7: **Financial Data Of The Main Food Industrial Enterprises In Sichuan In 1998**

Unit: 100 million-yuan

Industrial enterprises	Number of enterprises	Number of loss-incurring enterprises	Sales of products	Total profits	Profits and tax	Total original prices of fixed assets	Annual average balance of current assets	Industrial gross output value	Industrial gross output value(constant prices)	Industrial added value	Annual average balance of fixed assets net value	Whole staff productivity of industrial added value(10,000 yuan/ person)
All food industries in Sichuan	932	451	336.63	18.53	67.63	172.56	187.57	336.40	224.15	107.32	118.57	4.70
Food processing industry	515	286	121.36	-2.11	-0.69	51.84	43.85	131.35	92.13	22.17	37.55	3.19
Food manufacture industry	158	78	18.36	0.30	138	16.81	11.75	22.19	17.00	6.662	11.88	2.45
Beverage manufacture industry	245	86	146.05	08.13	38.19	79.71	96.94	132.32	78.66	57.07	52.72	6.37
Tobacco industry	14	1	50.85	2.22	28.76	24.20	37.04	50.55	36.36	20.66	16.42	20.66

ANNEX 8: **Competent Authorities Of The Food Industry In Sichuan**

NAME	UNIT	DUTIES	ADDRESS	TELEPH ONE	FAX	POST CODE
Yan Jicheng	Foreign trade office of Planning committee	Section chief	No.30, Duyuan Street, Chengdu	(028) 6604738	(028) 6668649	610016
Tian Liya	Foreign trade office of Planning committee	Deputy section chief	No.30, Duyuan Street, Chengdu	(028) 6604738	(028) 6668649	610016
Cheng Dean	Office of machinery, electronic and textile in Planning Committee	Section chief	No.30, Duyuan Street, Chengdu	(028) 6604662	(028) 6678549	610016
Jiang Xing	Office of scientific instruction in bureau of food supplies	Deputy section chief	No.67, Shangdong Street, Chengdu	(028) 6713639		610012
Liu Xianmou	Association of food industries	Vice director	No.30 Gennan Street, Chengdu	(028) 6136269	(028) 6132088	610015
Chen Yuanming	Association of food industries	Vice director	No.30 Gennan Street, Chengdu	(028) 6134373	(028) 6132008	610015
Qin Baoming	Association of food industries	General secretary	No.30 Gennan Street, Chengdu	(028) 6137148	(028) 6134202	610015
Shi Liang	Opening-to-the-outside office	Vice director	No. 12 Xiaohe Street, Chengdu	(028) 6130075	(028) 6158162	610012
Yu Hui	Opening-to-the-outside office		No. 12 Xiaohe Street, Chengdu	(028) 6145350	(028) 6145350	610012
Huang Yuanpeng	Opening-to-the-outside office		No. 12 Xiaohe Street, Chengdu	(028) 6142656	(028) 6142656	610012

ANNEX 9: **Sichuan Provincial Departments Concerning Foreign Affairs And Management And Service Institutions Of Foreign Investment**

INSTITUTION	ADDRESS	P.C.	TELEPHONE
Sichuan provincial project Office for Foreign Investment	No. 30, Duyuan St. Chengdu	610016	(028)6604753
Foreign Economic Department-Sichuan Planning Commission	No. 30, Duyuan St., Chengdu	610016	(028)6604737
Foreign Economic Department-Sichuan Economic and Trade Commission	No. 15, Yongxing St., Chengdu	610012	(028)6522396
Foreign Fund Department-Sichuan Foreign Trade and Economic Commission	No. 4, Chenghua St., Chengdu	610081	(028)3331115
Division for foreign Invested Enterprises	No. 4, Chenghua St., Chengdu	610081	(028)3338408
Foreign Economic Department-Sichuan Provincial Bureau of Finance	No. 37, Lanzin St., Chengdu	610016	(028)6657428
Foreign Tariff Administration Office of Sichuan State Tax Bureau	No. 88, Fuzhi St., Chengdu	610017	(028)6740338
Foreign Tariff Administration Office-Sichuan provincial local Tax Bureau	No. 37, Nanxin St., Chengdu	610016	(028)6653113
Foreign Fund Department-Sichuan Administration for Industry and Commerce	No. 118, Yusha Rd., Chengdu	610017	(028)6753017
Administration Office of Sichuan Ports	No. 30, Duyuan St.,Chengdu	610016	(028)6672016
Chengdu Customs Office	No. 67, Tongjin Bridge Rd. Chengdu	610031	(028)6401806
Foreign Exchange Administration Bureau of Sichuan Province Section	No. 2, Second Ring Rd., Chengdu	610041	(028)5214582

ANNEX 10: **Preferential policies of sichuan province for the encouragement of foreign investment**

One. Taxation

Production-type enterprises with foreign investment having an operation period of over ten years shall be exempted from corporate income tax from the first profit-making year for two years, and then levied at a tax rate reduced by half from the third to the fifth year. Those enterprises with an operation period of less than ten years and non-production enterprises with foreign investment having an operation period of over ten years shall be exempted from local income tax for one year starting from the first profit-making year and then levied at a tax rate reduced by half for the second year.

Production-type enterprises with foreign investment engaged in exploration and mining of mineral resources with an operation period of over ten years may, after the expiration of the period stipulated for exemption and deduction of the corporate income tax, continue to enjoy a reduction of local income tax by half for the period from the sixth to the tenth year, upon approval by the financial and taxation authorities against the application submitted by the enterprises.

Production-type enterprises with foreign investment established in the prefectures of Liangshan, Ganzi and Aba and Panzhihua City with an operation period of over ten years may, after the expiration of the period of tax exemption and deduction as prescribed in the previous article, continue to enjoy a reduction of local income tax by half for the period from the fifth to the tenth year, upon approval by the financial and taxation authorities against the application submitted by the enterprises. Production enterprises with an operation period of less than ten years may, after the expiration of the period of tax exemption and deduction as prescribed in the previous article, continue to enjoy a reduction of local income tax by half for the period from the third to the fifth year, upon approval by the financial and taxation authorities against the application submitted by the enterprises.

The exemption and deduction of the real estate tax, land use tax and vehicle and ship license plate tax for the enterprises with foreign investment established in the prefectures of Liangshan, Ganzi and Aba and Panzhihua City and the time limit shall be decided by the prefectural and municipal governments in accordance with relevant laws and regulations. The exemption and deduction of the real estate tax, land use tax and vehicle and ship license plate tax for the enterprises with foreign investment established in other areas of Sichuan shall be governed in accordance with the Provisions of Sichuan Province on the Encouragement of Foreign Investment. In case an enterprise still has difficulty to fulfil its taxation duty upon expiration of the period of tax exemption and deduction, the enterprise may be granted an appropriately extended period of tax exemption and deduction with the approval of the local people's government above county level.

The business tax on toll fees from expressways built with foreign investment shall be collected by the provincial taxation administration and refunded altogether to the foreign investor by the provincial financial administration before the investor recovers his investment, or reinvested in the construction of other expressways. The corporate income tax already paid shall be fully refunded by the provincial financial administration before the foreign investor recovers his investment.

Export enterprises with an export value amounting to more than 50% of the total annual output value for a given year may be exempted from local income tax for that year.

The unified preferential policies stipulated by the State for income tax exemption and deduction for enterprises with foreign investment are still applicable in accordance with the previous relevant State and provincial regulations.

(1).- Enterprises with foreign investment established in the Chengdu New and High Technology Development zone and Mianyang New and High Technology Development Zone recognized as new and high technology enterprises shall be levied an corporate income tax at a reduced rate of 15% starting from the day of recognition as the tax year.

(2).- As Chengdu City has been approved by the State to enjoy the related policies for coastal open cities, production type enterprises with foreign investment registered in Chengdu shall be levied an corporate income tax at a reduced rate of 24%. Enterprises engaging in technology and knowledge intensive projects with a foreign investment involving more than 30 million US dollars and a long payback period, production type enterprises engaging in energy development, transportation, airport and harbor construction projects may be levied an corporate income tax at a reduced rate of 15% upon approval by financial and taxation authorities against application by enterprises.

(3).- Technologically advanced enterprises with foreign investment may extend for another three years of reduction corporate income tax by half upon expiration of the period of tax exemption and deduction as stipulated.

(4).- Export enterprises with foreign investment having an export value amounting to more than 70% of the total annual output value for a given year, upon expiration of the period tax deduction as stipulated, may be levied an corporate tax reduced by half for the same year. Those enterprises which conform to the above mentioned conditions and pay corporate income tax at a reduced rate of 15% shall be levied an income tax reduced to 10%.

(5).- Enterprises with foreign investment engaged in agricultural development and in deep processing of farm produce and sideline products and in export products may, after the expiration of the period of exemption and deduction of corporate income tax as stipulated, continue to enjoy a reduction of 15-30% of the tax amount for the next five years, upon approval by the financial and taxation authorities against the application submitted by the enterprises.

(6).- Enterprises with foreign investment engaged inn comprehensive agricultural development and in deep processing of farm produce and by-products using new techniques and forestry development projects in the ethnic minority and remote areas including the prefectures of Liangshan, Ganzi and Aba may, after the expiration of the period of exemption and deduction of the corporate income tax, continue to enjoy a reduction of 15-30% of the tax amount for the next ten years, upon approval by the financial and taxation authorities against the application submitted by the enterprises.

(7).- A foreign investor who reinvests his share of profits obtained from the enterprise with foreign investment in that same enterprise to increase capital or in new ventures with foreign investment for an operation period of not less that five years shall be refunded 40% of the corporate income tax paid on the reinvested amount, with the approval of the financial and taxation authorities. In case the new venture is an export enterprise or technologically advanced enterprise with an operation period of not less that five years, the corporate income tax already paid on the reinvested amount shall be fully refunded.

Preferential policies for exemption and deduction of other items of taxation stipulated in the Provisions of Sichuan Province for the Encouragement of Foreign Investment.:

(1).- Non-production enterprises with foreign investment shall be exempt from real estate tax and vehicle and ship license plate tax for three years; production type enterprises with foreign investment shall be exempt from real estate tax and vehicle and ship license plate tax for ten years.

(2).- Enterprises with foreign investment which invest in projects of comprehensive agricultural development and in deep processing of farm produce and by-products with new techniques, forestry development, resource exploitation and multipurpose utilization, energy development and energy saving, transportation facilities, technical upgrading of existing large and medium size enterprises, projects of advanced technology, export-oriented projects, urban infrastructure construction, environmental protection and ecological balance, tourism development, and higher and secondary vocational education shall be exempt from real estate tax and vehicle and ship license plate tax within the period of operation.

Agro-technical projects developed by foreign investors by reclaiming barren slopes and wasteland shall be exempted from agricultural tax for five years starting from the year which yields fruits.

In case of reclaiming barren hills and slopes, wasteland and water resources untapped for the development of taxable special agricultural products, these projects shall be exempted from the tax on special agricultural products for three years starting from the year which yields fruits.

For the improvement of the grassland, grazing field, grass strain and stock breed, a preferential 3% tax rate is applicable.

The extra tax amount paid by enterprises with foreign investment set up before January 1,1994, due to taxation reform of replacing consolidated industrial and commercial tax with value added tax and consumption tax, shall be refunded within the stipulated time limit on rear basis, upon approval by the financial and taxation authorities against application submitted by the enterprises. In case the amount to be refunded is large in sum, the refund shall be proceeded with on quarter basis and settled at the end of the year.

The State taxation authority shall timely proceed with the tax refund in accordance with the related regulations on export commodities produced by enterprises with foreign investment.

Two. Foreign Exchange Control and Credits and Loans.

Enterprises with foreign investment may open exchange accounts at banks or other financial institutions authorized to handle foreign exchange business within the boundary of Sichuan.

Enterprises with foreign investment may, upon business requirement, raise foreign exchange funds with financial institutions, enterprises and individuals outside China, without any limit to the scale of loans.

Foreign investors of an enterprise with foreign investment may repatriate their share of profits in foreign exchange distributed legitimately according to law. Their share of profits distributed in RMB. may be changed to foreign exchange at banks designated by the exchange control administration with valid certificates including the decision of the board of directors of the enterprise and tax payment receipt and repatriate abroad according to law.

All banks in Sichuan should give the same treatment to foreign invested enterprises in need of working capital for the production of export commodities as to domestic enterprises in providing credits and loans.

Three. Use of Land.

Enterprises with foreign investment that have acquired the right of land use within the boundary of Sichuan through government allocation shall pay the land-use fee at 50% of the standard rate stipulated by the State.

Among them:

(1).- The enterprises with foreign investment engaged in projects of agriculture, forestry, urban infrastructure construction, environmental protection, education, scientific and technical research, and health and medicine shall pay a land-use-fee at 5-10% of the standard rate stipulated by the State. Those enterprises established in the prefectures of Ganzi, Aba and Liangshan and engaged in the above mentioned projects shall be exempt from land-use fee.

(2).- Enterprises with foreign investment engaged in the construction of highways, bridges, airports, harbors, and docks and power stations and the exploration and development of natural resources shall pay a land-use fee at 25% of the standard rate stipulated by the State. Those enterprises established in the prefectures of Ganzi, Aba and Liangshan and engaged in the above mentioned projects shall pay a land-use fee at 5-10% of the standard rate stipulated by the State.

(3).- Export enterprises and technologically advanced enterprises with an operation period of over ten years shall be exempted from land-use fee for five years starting from the year of operation.

(4).- Enterprises with foreign investment which have acquired the right of land use of river side by way of allocation shall be exempted from land-use fee for three years starting from the year of operation.

The land-use fee for enterprises with foreign investment shall be paid from the second year of use. For those enterprises which have used the land for more than six months but less than one year, a land-use fee for six months shall be charged, and for those which have used the land for less than six months, the land-use fee shall be exempted. The land-use fee shall be paid from the date of issuance of the land use certificate. The amount shall not change within five years.

The standard of the rates of land-use fee for enterprises with foreign investment may be readjusted every five years according to specific conditions. In case a lump sum is paid for 15 years, no readjustment shall be made within the period of validity.

State-owned large and medium sized enterprises which use foreign capital for technical innovation, in case the Chinese party makes an investment by allocation of the right of land use, may apply to pay 40% of the land transfer fee and acquire the right of land use for a limited period of time. In case with such arrangements the enterprise is still unable to get the holding position or the Chinese party fails to attain the proportion of capital payment agreed, the proportion of payment of the transfer fee may be still lowered appropriately, but not less than 15% of the transfer price. Those enterprises having real difficulty may apply for a postponed payment within a period of five years.

Enterprises with foreign investment engaged in the operation and construction of highways and docks have the priority of developing real estates and undertaking service facilities and highway and waterway transportation along highways and in the harbor areas under the same conditions.

Enterprises with foreign investment engaged in public housing development projects approved by the Provincial Public Housing Development Leading Committee shall be given the same treatment as State owned enterprises. The land used for construction shall be provided by way of allocation and exempted from or reduced for the charges for public utilities, commercial networks, and construction of air defense facilities, post and telecommunications surtax, fees for fire fighting equipment and surtax for improving the school system of primary and middle schools and fun raising for water and electricity supply. The housing finished shall be sold first and then rented at a price with marginal profit.

Four. Production and Business Operation.

The proportion of sales of products made by enterprises with foreign investment on domestic and international markets, with the exception of those stipulated specially by the State, shall be determined by the enterprises themselves without restriction. The balance of foreign exchange shall be made by the enterprises themselves.

Enterprises with foreign investment engaged in highway construction and operation shall be able to adjust the standard of toll fee rates in accordance with the price index upon approval by provincial department of finance, provincial prices bureau and provincial transport department.

Foreign investors of enterprises with foreign investment engaged in the construction and operation of airports, highways and docks shall be allowed the priority of sharing the interests from the revenue of the projects within the period of operation.

Five. Import and Export of Materials.

Commodity inspection administration should provide consultation and assist foreign-invested enterprises qualified for acquiring the generalized system of preferences certificate of origin to master the knowledge of the system and put into use the preferential treatment. Priority shall be given in issuing the certificate to each batch of commodities exported by foreign-invested enterprises to the countries that provide generalized preferences.

Properties input by foreign investors abroad or purchased from abroad by entrust of the foreign-invested enterprises should be inspected by the commodity inspection administration upon the application of the enterprises. The administration should provide quick, effective and fair appraisal.

Six. Labor and Personnel Management.

Cadres with the status of a working personnel of enterprises owned by the whole people who wish to work in foreign invested enterprises, with the exception of those subject to special stipulations of the State, should be allowed to transfer. Governmental personnel department and the personnel exchange organization under it should treat them the same as cadres going to work in other state-owned enterprises and actively proceed with the transfer procedures. Senior managerial personnel and technical personnel working in enterprises with foreign investment who wish to transfer should be governed strictly in accordance with the labor contracts signed by both parties. They must not sign labor contracts with new units without the consent of the original and without any proper reasons.

Returned students from abroad and graduates of universities, colleges and technical schools of the year going to work in foreign invested enterprises shall be recognized by the State their status of cadres of state-owned enterprises and shall retain the status. The personal files of specialized technical personnel and managerial personnel, postgraduates and students of universities, colleges and technical schools employed by foreign invested enterprises shall be administrated by personnel exchange organization under the personnel department of the local government.

The grading of technical personnel working in foreign invested enterprises with or the participation of these personnel in tests for qualification organized by the State shall be undertaken by the personnel exchange organization contorting their personal files under the personnel department in accordance with relevant regulations stipulated by the Leading committee for Title Reform of Sichuan Province.

Seven. Development of Mineral Resources.

Foreign investors engaged in exploration and mining of mineral resources, in addition to the preferential treatment stipulated by the State, shall enjoy the following preferential policies:

The expenses for exploration in designated regions may be amortized before taxation in a period of ten years starting from the year of commercial development of the mineral deposits. For projects with a mining permission license for less than ten years, the expenses may be amortized before taxation within the period of validity.

In the stage of commercial mining, the method of accelerating depreciation of fixed assets stipulated by the State may be implemented.

Projects for developing mineral resources in minority areas and under developed regions and projects adopting world advanced technology to extract low-grade ore which is hard to dress and mine may be charged a reduced mineral resource compensation fee according to the specific conditions.

Enterprises with foreign investment which suffer an annual loss due to force majeure can be charged a mineral resource compensation fee reduced by less that 50% or can defer the payment of the mineral resource compensation fee for the year of loss according to the specific conditions.

The mineral resource compensation fee for associated ores recovered by combined extraction and recovery in the designated mining areas shall be charged at a rate of less that 50% standard. In case the associate ore recovered is a variety restricted by the State, it is necessary to report to the provincial department of geology and mineral resources for registration, in case the ore is a verity categorized to be procured by the State, unified procurement shall be carried out by the department designated by the State.

The land-use fee shall be exempted or reduced for the temporary use of land for exploration.

Conveniences shall be provided by relevant units for smelting, processing and transportation of ores to be smelted and processed within the boundary of Sichuan.

Eight. Other Local Charges and Fees.

Foreign employees working in foreign invested enterprises, can pay their accounts in Renminbi for accommodation in tourist hotels and medical service in hospital within the administrative areas of Sichuan. By presentation of their foreign employee identification card they shall be charged by the same standard for Chinese citizens, or be treated the same in price and quality of the service.

The supply of water, electricity and gas to foreign invested enterprises with shall be included in the plan of supply in all localities. Those enterprises shall be given the same treatment as domestic non-foreigninvested enterprises and be charged by the same standard.

Foreign invested enterprises with may pay their telephone bills in Renminbi. The former regulations on payment by foreign exchange are abolished.

Vehicles for self-use by foreign invested enterprises with and vehicles brought in by the foreign investors shall be charged a road maintenance fee by the same rate standard as for other domestic enterprises.

2 SHAANXI

Highlights

- Shaanxi is an undeveloped province in the center of China
- Shaanxi is considered the door of Northwest China
- Shaanxi province is one of the major grain producers in China
- Shaanxi is the largest producer of apples and a main producer of other fruits in China
- Shaanxi production of walnuts and milk ranks in the top five of China
- Food industry is one of the six pillar industries of Shaanxi
- Foreign participation in food industry in Shaanxi is limited
- There are wide perspectives of development in the food industry, especially in the fruit processing industry
- Disposable income and consumption expenditure in Shaanxi are below China's national average

From November 1st, 1999 to November 9th, 1999, the survey group made a study of the food industry, the food market and the investment environment in Shaanxi province and Xi'an, and made this report on the basis.

2.1 General situation

a) General situation of Shaanxi province

Shaanxi province is situated at the center of China. It is 1,000 kilometers long from north to south and 360 kilometers wide from east to west. It cover an area of 205,600 square kilometers and has a population of 35,710,000 and the population density is 174 person per kilometer. Xi'an is the capital of Shaanxi.

Shaanxi is situated in the hinterland of the People's Republic of China adjacent to Shanxi and Henan provinces to the east, Gansu province and Ningxia Autonomous Region to the west, Hubei and Sichuan provinces and Chongqing City to the South and the Inner Mongolian Autonomous Region to the north. Shaanxi covers an area of 205,600 square kilometers, 2.1 % of the total national area. The land takes a strip-like form and the Guanzhong Plain is a low land and lies between two highlands in the north and the south. The whole province can be divided into three natural regions from the north to the south: the Northern Shaanxi Plateau, the Central Shaanxi Plain or the Guanzhong Plain and the

Qingling and Bashan Ranges. From the north to the south, it covers three different climate zones: the Temperate Zone, the warm Temperate Zone and the Northern Sub-tropical Zone. Its average annual temperature ranges from 8 to 16. Its average annual precipitation is 300 to 700 mm and its annual frost-free period is between 150 to 270 days.

One of the three natural regions, the Qingling Ranges, passes through the province from the east to the west as a major water division line. The northern area to the Qingling Ranges belongs to the Yellow River system that comprises the Weihe River, the Jinghe River, the Luohe River and the Wuding River while the southern area of the Yangtze River system comprising the Hanjiang River, the Danjiang River and the Jialingjiang River. The annual water flow in the whole province is 438,000 million cubic meters and the total hydraulic power capacity in the province is more than 14 million kW. The water conservancy resources in the province are distributed widely.

Administrative division of Shaanxi include seven cities (Xi'an, Baoji, Xi'angyang, Tongchuan, Weinan, Hanzhong and Yanan) and three prefectures (Ankang, Shangluo ad Yulin). The capital city is Xi'an with a population of 6,700,000 and an area of 9,983 square kilometers.

Shaanxi province is one of the cradles of the Chinese nation and its civilization. One million years ago the Lantian Ape Man lived in this land and six thousand years ago the Banpo primitive man left an entire village ruins in the prosperous maternal Dan period. Before the tenth century, Shaanxi has been the political, economic and cultural center of China. For a duration of more than 1,100 years, Xi'an served as the capital for fourteen dynasties, including the Zhou, the Qin, the Han, the Sui and the Tang. In the period of the Han and the Tang dynasties the ancient city of Xi'an, them called Changan, was the starting point of the Silk Road, the international commercial an trade center and the meeting place between the western and eastern cultures.

Shaanxi province is rich in coal, natural gas and other mineral resources. The province has 162 billion ton of coal under ground. Thick deposits and closeness to the coal formation characterize the Shenfu Coal Field with more than 134 billion ton of coal under ground. The coal is of high heat productivity and low in sulfur, phosphorous and ash. In addition, abundant natural gas resources have been discovered in Northern Shaanxi with over 300 billion cubic meters of natural gas under the ground. Up until now, 136 varieties of minerals have been discovered and 91 out of them have had their reserves verified. In term of reserves, seven mineral varieties, including rhenium and alkali-contained limestone rank first in China. Nine varieties, including molybdenum and mercury rank second; 11 varieties including coal, magnesium and asbestos rank third. The gold reserves rank fourth in China.

The forest covers 28.9 % of the total area in Shaanxi with 5,930,000 acres of forests. There are many kinds of economic forests. The raw lacquer production ranks first in China. Jujube, walnuts and tung oil are the provincial traditional exports. There are more than 3,300 species of wild plants and herbs in Shaanxi.

Since the founding of the People's Republic of China in 1949 Shanxi has been one of the most important industrial bases of the country. During the 1950´s, of the 156 national key projects developed in China, 25 ones were built in Shaanxi. Moving of a number of factories from the coastal areas to Shaanxi from the 1960´s to 70´s and the establishment of new-type enterprises during the period of China’s reform have made Shaanxi a complete industrial system. Machinery and electronic industries are the province’s backbone industries. These industries take an important part in the national economy producing passenger planes, cargo planes, digital exchange switches, ultra-voltage transmission equipment, heavy-duty trucks, industrial automatic meters, electronic devices, precision machine tools, petroleum instruments, precision rolling mills, engineering machines, color picture tubes, radar equipment, telecommunication, navigation equipment, computers and broadcasting equipment. The energy industry has a greater potential, such as coal, petroleum, natural gas and electricity generating. Moreover, light industry, medical industry, chemical industry, construction material industry, tobacco industry and food industry have developed rapidly in the province.

In total there are 163,000 industrial enterprises in Shaanxi. Among then there are 480 medium and large-sized enterprises. Of the total, there are 103,000 light industrial enterprises, accounting for 63.2 % of all the enterprises and 60,000 heavy industrial enterprises, accounting for 36.8 % of all the enterprises. Of all the enterprises, there are 3,149 state-run enterprises, accounting for 23 %; 9,794 collective enterprises, accounting for 71.6% and 258 corporate enterprises and 147 foreign-funded, private-funded and joint venture enterprises. Shaanxi ranks 18th in China by the number of enterprises in 19th by the value of fixed assets.

Shaanxi is one of the major grain producers in China with 3,360,000 hectares of arable land and 3,530,000 hectares of grassland. Over the past years, the comprehensive agricultural production ability in Shaanxi has increased fast and the annual agriculture grows by 5.4 %. Its diversified economy has also developed fast with the completion of ten production bases for agricultural commodities, such as cereals, oils, cotton, tobacco, fruits, milk goats, silkworm cocoons, tea leaves, sheep and wool. Shaanxi Province is one of the bases in China for the production of high-grade apples. With a the total production output of 2,840,000 tones of apples, Shaanxi ranks first in China. At the same time, egg and milk production in Shaanxi has been listed in the ten largest egg and milk production provinces in China.

SHAANXI PROVINCE-OUTPUT OF MAJOR INDUSTRIAL PRODUCTS

Product	Quantity
Coal	49 million ton
Crude oil	2.43 million ton
Natural Gas	2.17 cu Mts.
Pig Iron	1.02 million ton
Steel	479,500 ton
Steel products	423,400 ton
Cement	11.66 million ton
Motor vehicles	16,500 units
Trucks	5,500 units
TV sets	858,700 units
Household Refrigerators	479,900 units
Chemical Fiber	20,900 ton
Silk	1,200 ton
Machine-made paper and paperboards	906,400 ton
Sewing machines	252,300 units

Food industry is one the main six main in Shaanxi together with machinery, electronics, energy resources, chemical industry and medicine. Among the pillar products of the province we can included automobile, high-voltage transmission equipment, engineering machinery, new materials, household appliances, computers and telecommunication facilities. Industrial production has witnessed a two-digit growth rate in the past consecutive five years.

Food industry is a newly rising sector in the province. Best-knows beverages of Shaanxi include Xifeng Liquor, Taibai Liquor, Baoji Beer, Xi'an-Tsingtao Hans Beer and Rongshi drinks. Other products included cigarettes, Yanyousi series food stuff and milk products.

The largest industrial sector of Shaanxi is the *machinery industry* that employs large number of workers. Products in electrical engineering, electrical devices, instruments, meters, machine tools, heavy-duty trucks and engineering machinery enjoy high reputation and a larger proportion in the domestic market of China. Xi'an Electric Machinery Corporation is one of the two largest companies producing high and ultra-voltage transmission and transforming equipment in China. Xi'an Meter Factory ranks third in the field of meter industry in the country. Gears and spiral grinding machines produced by Qinchuan Machine Tool Factory and Hanjinag Tool Factory occupy more than 60 % of the total national production. Shaanxi province shows advantages in China in manufacturing heavy-duty automobiles, high-powered bulldozers, precision digital machine tools, internal combustion fork trucks, large windmills, medium and small-sized rolling mills, sewing machines of industry and petroleum machinery.

Industry energy resources industry is the second largest industry in Shaanxi province. Northern Shaanxi is a national heavy chemical industry base due to its important production of raw coal, natural gas and processed petroleum.

Electronic is now a pillar industry of Shaanxi. This industry took shape in the 1970´s and now has the ability to produce several hundred varieties of products within eleven categories including color picture tubes, radio communication and navigation equipment, color TV sets, refrigerators, air-conditioners, large integrated circuits, computers, electronic meters and devices. Rainbow Electronics Corporation Group ranks third nationwide in terms of its overall capacities and leads the country in color picture tube production. Shaanxi province lead the whole country in production and marketing of colored deflecting coils, colored deflecting cores, copper-clad plates and vacuum power switches.

The *medicin*e is also a new sector in Shaanxi. Most influential products in this sector are: medical products manufactured by Xi'an Janssen Pharmaceutical Company, Lijunsha anti-biotic medicine produced by Xi'an Pharmaceutial Plant, healthcare products by 505 Group Corp. Ltd, and Sanbaoshuangxi Group Corp. Ltd. and medical products of curing brain and heart diseases.

Shaanxi Province ranks first in China in the scale of its *military industry*. In recent years, it has made efforts in the development of civilian products and put large numbers of technology-intensive products into large-scale production. The Y-7 aircraft developed in Shaanxi is the main civil aircraft of China air industry. The Y-8 developed and produced by Shaanxi Aircraft Corp. is China's biggest medium-ranged and medium-sized cargo plane with a load of 20 ton and a maximum range of 6,515 kilometers. Shaanxi province has secured an important position in the mass production of up-to-date textile machinery, refrigerators, air compressors, mini-buses and deluxe buses.

Shaanxi has set up a *transport* network with Xi'an as the center. There are 13 trunk and feeder railways across the province combining traffic length of 2,867 kilometers. Xi'an Railway Station and its twelve marshaling stations make up the largest hub of rail transport in the northwest region of China. Baocheng, Xi'angyu and Longhai railway lines connect the northwest and southwest with East China. Xi'an-Ankang and Yanan-Shenmu railways are under construction. The central government has planned to build ten railway lines across the country in upcoming five years, four of which will cut through Shaanxi, they are Xi'an-Nanjing, Xi'an-Yangpinguan, Shenmu-Huanghua and Baoji-Chengdu railways.

Shaanxi highways have measured a total length of 41,202 kilometers, of which 355 kilometers is its expressway. With 8 state-level highways and 56 provincial highways, its highways system extends from Xi'an to all directions on the province.

The International Airport of Xi'an –the Xi'angyang Airport- is a largest hub of air transport in the northwest of China and has opened more than 80 domestic and international airlines. Xi'an airport rank eighth in passenger capacity and sixth in cargo dealing capacity all over China.

In *the finance field*, all the China state-run commercial banks and other financial institutions led by the People's Bank have formed a complete financial system in the province. There have been 1,377 financial institutions including 1,021 savings banks, 346 insurance companies, 5 trust companies, 3 security companies and 3 clearing firms in Shaanxi. The capital market in the province have been linked with the national first class trading networks and the stock markets have made some progress. The three major security corporations have established 42 trading centers in the province. There have been 16 A-share companies whose stocks are being traded in Shanghai and Shenzheng stock markets. In the commerce sector, there have been 347,800 consumer goods wholesaling and retail centers employing 1,260,000 workers.

- General situation of Xi'an

Xi'an, formerly called Chang An, is situated in the center of the Shaanxi province. Xi'an is one of the 4 ancient capitals of China, and it is also the largest central city in Northwest China. It is home of the famous terra-cotta warriors. With 8 districts and 5 counties, Xi'an covers an area of 9,983 km^2 an possesses a population of 6.68 million. As the political, economic and cultural center of Shaanxi province, Xi'an plays a key role in connecting its neighboring area in the respect of China's regional economic structure.

Xi'an is situated in the center of Guanzhong Plain and bounded by the Weihe River on the north and the Qinling Mountains on the south. It is surrounded by eight rivers: the Jinghe, the Weihe, the Chanhe, the Bahe, the Fenghe, the Haohe, the Zaohe and the Juhe. Xi'an has eight districts and five counties under its jurisdiction. The eight districts are Xincheng, Lianhu, Beilin, Yanta, Baqiao, Weiyang, Yanliang and Lintong and the five counties are Chang´an, Lantian, Gaolin, HuXi'an and

Zhouzhi. Xi’an has a total population of 6.68 million and of them 3.13 million persons live in the urban area.

Average 424 meter above sea level, Xi'an is in the temperature zone with continental climate. The average annual rainfall is 606 mm and the yearly sunshine time reaches 1,977 hours.

In the agriculture, the main crops in Xi’an include wheat, corn, rice, cotton, oil seed, tobacco and medicinal herbs. Special local products are walnuts, pepper, chestnuts, raw lacquer, pomegranates, kiwi fruit, edible fungus, persimmons and grapes.

In the past years Xi’an has developed an industrial system with machinery, electronics, textile, light industry and aviation as the backbone and has been supplemented by chemical industry, pharmacy, building materials, metallurgy and food industry. The city is the key production base of power transmission and transformation complete set of equipment, aircraft’s, textiles, instruments and meters, industrial sewing machines and electronic products. Its major industrial zones are the Electric Town in Yanliang District and the Engineering Machinery Industry Area in Hansenzhai. It has been verified that there are over 60 mineral spots (5 large-sized deposits and 7 medium-sized deposits) containing 23 minerals including iron, manganese, chromium, copper, gold, tungsten, jade, granite, marble and quartz.

Xi’an is one of the main historic and cultural cities of China. Famous places of historical interest and tourist spots include the Museum of Qin Terracotta Warriors and Horses, the Qin Shi Huang Mausoleum, and divers temples and pagodas. In 1998, 480,000 foreign tourists visited Xi’an.

Civil aviation in Xi’an is jointly managed by China Northwest Airlines and China United Airlines. It boasts 95 domestics routes linking Xi’an with 44 cities in China and some regional routes connecting Xi’an with Nagoya, Hiroshima, Fukuoka and Nogata in Japan, and with Hong Kong and Macao. The Xi’an Xi’anyang International Airport began operation in September 1991.

Xi’an is an inland open city for foreign inversion. From 1983 to August 1999 the number of foreign-funded projects totaled 2,011 with total investment of 6.63 billion US dollars. Productive enterprises accounted by 66 % of all the foreign-funded enterprises. Main inversion came from Hong Kong, Taiwan, USA, Japan and Singapore. Important companies such as Coca-Cola, HP, Johnson, Mitsubishi, Fujitsu, Hitachi, NEC, Mitsui, Siemens, Bosch, Hoechst, Volvo, Philips and Daewoo, has invested in Xi’an.

2.2 Agriculture And Food Industry In Shaanxi

a) General situation of the agriculture in Shaanxi

Shaanxi is one of the main grain producers in China with 3,360,000 hectares of arable land. Main crops included grains (principally wheat) and fruits. Apple is the main fruit and its cultivated area ranks second in China. Other important product include oils, cotton, tobacco, fruits, milk goats, silkworm cocoons, tea leaves, sheep and wool.

The output of the main agricultural products, livestock products and aquatic products are listed in the follow charts:

Shaanxi-Output Of Main Agricultural Products

Product	1996	1997	1998
Grain	12,173,000 ton	10,444,000 ton	13,031,000 ton
Rice	1,047,000 ton	934,000 ton	1,013,000 ton
Wheat	4,057,000 ton	5,627,000 ton	5,042,000 ton
Corn	4,723,000 ton	2,714,000 ton	4,811,000 ton
Soybeans	580,000 ton	2,267,000 ton	617,000 ton
Tubers	1,101,000 ton	633,000 ton	990,000 ton
Oil-bearing crops	374,200 ton	267,100 ton	355,000 ton
Sugar	27,500 ton	34,300 ton	49,000 ton
Fruits	3,621,5000 ton	3,265,500 ton	4,308,000 ton
Apple	2,958,900 ton	2,636,500 ton	3,440,000 ton
Orange	15,200 ton	20,100 ton	27,200 ton
Pear	244,000 ton	266,000 ton	376,000 ton
Grape	49,000 ton	39,000 ton	42,000 tones
Kiwis	20,100 ton	51,800 ton	86,700 ton
Vegetable	4,299,000 ton	3,911,000 ton	4,383,000 ton

Shaanxi-Output Of Livestock Products

Product	1996	1997	1998
Meat	828,000 ton	830,000 ton	846,000 ton
Pork	634,000 ton	616,000 ton	649,000 ton
Beef	75,000 ton	84,000 ton	65,000 tones
Mutton	45,000 ton	51,000 ton	51,000 ton
Milk	206,000 ton	298,000 ton	282,000 ton
Eggs	416,000 ton	460,000 ton	399,000 ton
Honey	3,000 ton	4,000 ton	3,000 ton
Freshwater aquatic products	41,400 ton	45,500 ton	50,400 ton

b) Food industry in Shaanxi

The food industry is one of the pillars in Shaanxi province. In 1998 the food industry output in the province was 8.8 billion yuan, ranks 3rd in the country, and the profits and tax reached 1.7 billion yuan, ranking 1st in China.

Shaanxi province is rich in fruit and milk resources. In 1998, the apple and kiwis output in Shaanxi was among the best in China. Fruit processing industry is one of the fields that the provincial government encourages to develop further. Output of main food industry products of Shaanxi are show as follows:

Shaanxi-Output Of Main Products In The Food Industry

Products	1996	1997	1998
Frozen fresh meat	40,400 ton	23,300 ton	24,200 ton
Edible plant oil	130,300 ton	145,200 ton	130,700 ton
Instant staple food	74,600 ton	56,400 ton	85,300 ton
Dairy products	29,700 ton	34,000 tones	26,300 ton
Canned food	29,800 ton	20,100 ton	23,000 ton
Distilled liquor	56,600 ton	59,800 ton	26,000 ton
Beer	180,600 ton	241,000 ton	264,000 ton
Yellow wine	32,800 ton	18,400 ton	14,300 ton
Wine	7,200 ton	2,700 ton	1,500 ton
Carbonic acid soft drink	44,300 ton	59,500 ton	43,000 ton
Mineral water	2,000 ton	6,600 ton	7,500 ton
Fruit and vegetable juice	9,400 ton	28,700 ton	28,700 ton
Cakes	16,600 ton	14,700 ton	12,400 ton

According with statistic offered by provincial food industry officers, there were more than 1,500 food enterprises at township or above township level in Shaanxi. Among these food enterprises, 746 were food processing enterprises, 451 were food manufacturing enterprises and 283 were drink manufacturing enterprises. Of that 1,500 enterprises, 451 has a special position in the industry of Shaanxi (of them 299 are food processing, 139 food manufacturing and 74 beverage enterprises).

In the food processing industry, enterprises of Shaanxi included grain and feed processing industry, plant oil processing industry, sugar-manufacturing industry, aquatic product processing and meat and egg processing industry.

The food manufacturing industry of Shaanxi included cake and confection manufacturing, dairy industry, canned food industry and flavoring industry. Finally, the beverage industry included alcohol industry, soft drink industry and tea industry.

In recent years, besides cigarette and spirits, a group of competitive and high quality food industries appeared in Shaanxi. For example, in fruit processing industry, 70 freshness-keeping storehouses have been built and processing capacity of 40,000 ton of fruit juice annually has been formed. With an annual capacity of 30,000 ton of dairy output Shaanxi ranks 5th nationwide. Other important product include fried instant noodle, fresh wet noodle and cooked meat products.

As the food industry in Shaanxi expanding its scale, a number of enterprises groups have been established. Usually one pillar enterprise with a combination of some medium and small sized enterprises heads them. The groups include: West Beer Group, Yiwu Instant Noodle Beifang Co. Ltd., Yansiyou Meat Group, Yinqiao Dairy Group, Shenguo Dairy Group and Heimi Group.

c) Main food industry enterprises in Shaanxi

According to the information offered by the Food Industrial Association of Shaanxi, the key enterprises of the food industry in Shaanxi are listed as the follows:

1-<u>The processing of the meat industry</u>

The meat products processing industry in Shaanxi is represented by Yanyousi Co. Ltd., an enterprise with productive capacity to manufacture 20,000 ton/year cooked meat products and an output value of 0.5 billion yuan.

Other important company is Shaanxi Yanyousi Co. ltd. It mainly produces Chinese style cooked meat series (Sanyuan Smoked Chicken, Spiced Pigs Trotters produced by this enterprise have been honored as provincial and national famous brands), for the local market and the neighboring provinces.

Shaanxi Bangjia Food Co. Ltd. has introduced German processing technology to manufacture Western style meat products and settled its own stores and counters in Xi'an urban district. Shaanxi Huashan Meat Product Factory and Xi'an Meat Factory also manufacture western style meat products.

2-<u>Distilled Spirits</u>

Shaanxi Xifeng Liquor Factory is the largest spirits enterprise in Shaanxi province. Its main product – Xifeng liquor- is honored as national famous spirits and enjoys a great popularity in China. In 1997, its industrial output value was 98 million yuan, with sales of 0.15 billion yuan, and 49 million yuan of profits and tax. Taibai spirit from Shaanxi Taibai Liquor Factory and Lukang spirit from Shannxi Ankang Lukang Liquor Factory also holds certain market shares.

3-<u>Wine</u>

Shaanxi Tianyun Spirit Co. ltd. is the most important wine maker in Shaanxi province. Tianyun wine is the only local wine that can be found in the market.

4-<u>Beer</u>

By the end of 1998, the yearly beer production capacity of Shaanxi was 45 million ton. Baoji Beer Factory is one of the main producers in the province. Its main products included Hans Beer (Hans 2000 and Hans Dry Beer). Another important enterprises is Tsingtao Beer Xi'an Co. Ltd. These two companies holds 60 % of maker shares in Shaanxi province and 80 % of market share in Xi'an.

5-<u>Fruit liquor</u>

At present the are 25 fruit liquor enterprises in Shaanxi province mainly producing high-sugar fruit liquor. They are low-grade and low popularity products without certain scale. Recently Canadian Royal Drink Co. ltd. introduced foreign technology to manufacture Aisweila, a fruit liquor with apple as raw material. Its annual product capacity reaches now 2,000 ton/year. Another company is Zhouzhi Qinmei Food Co. ltd. which produces kiwi liquor.

6-<u>Soft drink:</u>

Now there are above 60,000 fruit storehouses in Shaanxi with a storage capacity of 1.07 million ton. The number of enterprises dedicated to fruit processing is nearly one hundred, and of them the most actives are those who manufacture concentrated apple juice. Only in 1997 the new added fruit juice capacity increased by 0.14 million ton.

Having introduced three 250 ml-beverage production lines from Lile Company, Switzerland and a 1000ml non-germ aluminum-plastic compound package assembly line from PKL Company, Germany, Xi'an Haixing Modern Beverage Co. ltd. can manufacture 80,000 ton soft drink each year. Its Rong fruit juice series take possession of over 50% market shares in Xi'an and begin to aim at other domestic markets.

Xi'an Gongwang Modern Beverage Co. ltd. also introduced 2 non-germ aluminum-plastic compound package assembly lines from Lile Company, Switzerland, with an annual manufacture capacity of 30,000 ton soft drink.

Also more than 10 concentrated fruit juice lines were imported by Sino-US Baoji Huamei Fruit Juice Co. Ltd., Shaanxi Haishen Fruit Juice Co. ltd., Xi'an Yaqin Fruit Juice Co. ltd., Xiyang Fuan, Weinan Jinbite and MeiXi'an Hengxing.

In carbonic acid drink, Coca-Cola has established a join Venture with Xi'an Zhongcui Hans Food Co. ltd. with a yearly production capacity of 50,000 ton to be sale in the Northwest market of China.

In addition, Jianlibao, a national soft drink manufacture by Jianlibao Xi'an Beverage Co. Ltd., is also well received in the market.

7-<u>Instant food</u>

Instant food industry in Shaanxi is developing at a rapid pace. Their instant staple foods mainly include instant noodle, fresh wet noodle, instant rice and steamed stuffed bun. The non-staple food include western-style sausage, all kinds of smoked meat products, uncooked meal and specialties. Now, the output value of instant food can add up to 1.5 billion yuan. By the end of 1998, the annual instant noodle production capacity in Shaanxi amounted to 40 million cases.

Yiwu North Company, set up by Shaanxi Yiwu Food Co. ltd., possesses 6 branches with 36 instant noodle production lines, and can produce 20 million cases of instant noodle each year.

Xi'an Dingyi Food Co. ltd., a joint venture with inversion from Taiwan, possesses 8 instant noodle production lines and an annual production capacity of 3 million cases. Its main product -Kangshifu

Instant noodle- are mainly sold in the northwest region of China, and part of them are exported to the middle Asia.

Xi'an Jiulong Group has introduced 8 production lines from Japan to manufacture 0.44 billion package of fresh wet noodle each year.

8-Dairy Industry

As a primary food industry in Shaanxi, the dairy industry is developing rapidly with 46 enterprises, 30,000 ton production and 0.45 billion yuan output value. Its ranks 5th in China in terms of profits and tax with a figure of 19 million yuan .By the end of 1998, the dairy production capacity in Shaanxi amounted to 50,000 ton.

Xi'an Yinqiao Group, the largest dairy enterprise in Shaanxi, was among the best 10 companies in Shaanxi in 1997. Its Qinyong milk powder sells well in 28 of China provinces and is exported to the US, Philippine, Iraq, Taiwan and Hong Kong.

Guangming fresh milk made by Xi'an Guangming Dairy Products gets the best quantity sold in the 3 surveyed markets. Xi'an Hongxing Dairy Factory(cowboy brand) and Xi'an Oriental Dairy Factory (Orient brand) also holds certain market shares.

Other milk powders by Xi'an Weijia Dairy Products CO. ltd., Shaanxi Pagoda Dairy Co. Ltd., Sanyuan Dairy Factory and Xi'anyang Shenguo Group are mainly sold in Shaanxi province.

9-Canned food industry

The canned food industry in Shaanxi province is quite undeveloped. Only canned asparagus and canned mushroom can be mention and their production are mainly for export.

10-Cake confection industry

Chinese confection and cake made in Shaanxi almost can not be found in the supermarkets in Xi'an. The market is almost dominated by products from Shanghai and Guangdong. On the other hand, the local Chinese style cake factories only make products in some occasions in order to meet the requirement of the market. Some western style cake enterprises, such as Mickey and Angel, are well establish themselves in the market.

11-Native products

Shaanxi province makes good use of local resources and has explored series of health products, such as Chinese date, black rice food and giantarum series.

d) *Foreign participation in the food industry of Shaanxi*

Foreign participation in the food industry of Shaanxi is limited since in the past years foreign -funded enterprises have been concentrated in coastal China. The exception are Coca-Cola; Canadian Royal Drink, Sino-American Baoji Huamei Fruit Juice Co. ltd. and Xi'an Dingyi Co. Ltd.

One successful example of foreign participation is Coca-Cola. The Xi'an Hans Beverage Brewery –a national enterprises under the administration of Xi'an Municipality- set up a Joint-Venture with Zhongcui Investment Co. Ltd. situated inside Xi'an Economic and Technology Development Zone. It mainly produce Coca-Cola serial beverage. The project total investment is USD 20 million and 12 million is foreign funds. The projects has been put in operation in 1994.

During our survey, we have detected the interest to introduce foreign funds and technology in the following fields: Processing technology for apple, kiwis, pear, Chinese date, walnut, grape and orange; processing technology for pork, beef and mutton; vegetable dehydration and freshness-keeping technology; grain processing technology; exploration of healthy food and green food taking wild plants (seabuckthhorn fruit, tartary buckwheat,etc) as raw materials.

e) *Food industry commerce and exports in Shaanxi:*

The group carry out a survey in the 3 largest supermarkets in Xi'an - Friendship Supermarket, Haixing Supermarket and Home Supermarket-. The sales of Guangming milk is the first among many fresh milk products; Rong brand ranks first in fruit juice; most of carbonic acid drink's market shares are in the hand of Xi'an Zhongcui Beverage Co. Ltd.; Hans 2000 and Baoji beer are the 2 best in beer market and cake and confection market is occupied by non-local famous brands. By sampling survey, the following are some brands-- which sell well in the supermarkets--and their prices:

- Meat product

Bongah sandwich ham	10.2yuan/350g
Bongah chicken sausage	2.6yuan/100g
Bongah Ice Crystal ham	6yuan/400g
Shuanghui sausage Henan	7yuan/100g
Shaanxi Delicious Spiced ham	6.5yuan/350g
Shaanxi Jiayongxin preserved beef ham	14.5yuan/227g
Canned luncheon meat	7.5yuan/340g

Tianjin western style canned beef	7.9yuan/367g
Huangxi Chicken flavored sausage	4.25yuan/500g
Huangxi Landai ham	4.40yuan/500g

- Beverage

Liquor	
Xifeng (55%)	6 yuan/500 ml
Lukang (52%)	26 yuan/500 ml
Taibai (50%)	6 yuan/500 ml
Yili (46%)	25 yuan/250 ml

Wine	
Changyu dry red wine	35 yuan/750 ml
Dynasty dry red wine	46 yuan/750 ml
Dynasty dry white wine	28 yuan/750 ml
Great wall dry red wine	34 yuan/750 ml
Great wall dry white wine	21 yuan/750 ml
Xixiawang dry red wine	41 yuan/750 ml
Xixiawang dry white wine	29 yuan/750 ml
Tianyun dry red wine	42 yuan/750 ml
Tianyun dry white wine	42 yuan/750 ml
Zhonghua dry red wine	23 yuan/750 ml
Fengshou dry red wine	31 yuan/750ml

Bottled Beer	
Yanjing beer	3.6 yuan
Tsingtao beer	3.9 yuan
Budweiser	6.3 yuan
Becks	6 yuan
Baoji	2.3 yuan
Hans 2000	2.6 yuan
Hans	2.15 yuan

Tin beer	
Yanjing	3.2 yuan
Tsingtao	3.2 yuan
Budweiser	5.7 yuan
Becks	5.2 yuan

Baoji	2.6 yuan
Blue Ribbon	3.15 yuan

Fruit and vegetables juices	
Rong fruit juice series (Shaanxi)	9.9 yuan/1000ml
Huabang concentrated fruit juice series (Beijing)	5.7 yuan/260 ml
Dole concentrated fruit juice series (Guangdong)	20 yuan/1000ml
Tianci concentrated fruit juice series	23 yuan/1000 ml
Huiyuan concentrated fruit juice	17 yuan/750 ml
Rougmont fruit juice series	12 yuan/750 ml
Tongyi fruit juice	1.1 yuan/250 ml
Wangwang fruit milk	2.8 yuan/350 ml

Bottled carbonic acid drink	
Coca-Cola	6.7 yuan/ 2l
Fanta	6.7 yuan/ 2l
Sprit	6.7 yuan/ 2l
Pepsi-Cola	6.85 yuan/ 1.25 l
Xingmu	5.5 yuan/1.25 l

Tinned Carbonic acid drink	
Coca-Cola	2 yuan
Pepsi-Cola	2.4 yuan
Fanta	2 yuan
Xurisheng	2 yuan
Xingmu	2 yuan
Whatson soda	4.1 yuan
Wahaha Future Cola	2 yuan

Milk	
Guangming pure milk	6 yuan/950 ml
Nestle pure milk	6 yuan/950 ml
Robust pure milk	6 yuan/500 ml
Xiajin	2.4 yuan/250 ml
Junyao strawberry milk	4 yuan/435 ml

Yogurt	
Guangming yogurt	2.3 yuan/236 ml
Junyao yogurt	2 yuan/250 ml
Youmiao yogurt	3.1 yuan/180 ml
Orient yogurt	1.2 yuan/160 ml

Milk powder	
Shaanxi Qinyong Non-fat dried milk	11.5 yuan/400 g
Yili whole milk powder	10.4 yuan/400 g
Sanlu whole milk powder	10.8 yuan/400 g
Shengyuan milk powder	17.4 yuan/400 g
Weiwei bean milk powder	10 yuan/500 g

- Cake and confection

Biscuit	
Kleeber soda (Guangdong)	6 yuan/220 g
Kleeber biscuit	4.7 yuan/225 g
Ritz	2.4 yuan/100 g
Danone Salt (Guangdong)	17 yuan/480 g
Guanghe fruit pie	23.2 yuan/630 g

Chocolate	
Dove milk chocolate (bar)	18 yuan/150 g
Cadbury chocolate (bar)	10 yuan/82 g
Hershey chocolate (bar)	17.8 yuan/340 g
Le conté (Shenzhen)	10.8 yuan/108 g
Ferrero Rocher (Italy)	42.3 yuan/200 g
Mon Cherri (Italy)	38 yuan/125 g

Potato	
Dajiabao sliced	7.5 yuan/110 g
Pinke sliced	5.4 yuan/56 g
Ridge sliced	1.75 yuan/30 g
Shanghaojia	1.4 yuan/22 g

f) Foreign trade in food industry:

Edible plant oil is the main imported food in Shaanxi while low technology contented and primary products are the mainstays of the food exports of the Province. Main exports of this sector are show in the following chart:

Shaanxi-Main exports in the food sector-1998

Product	Quantity	Amount
Corn and corn powder	3,501 ton	927,000 USD
Frozen Pork	816 ton	1,375,000 USD
Frozen Beef	160 ton	280,000 USD
Frozen Rabbit	291 ton	791,000 USD
Natural honey	1,234 ton	1,192,000 USD
Bean	18,756 ton	12,806,000 USD
Peanut	3,429 ton	2,303,000 USD
Dry Pepper	1,827 ton	1,411,000 USD
Vegetable	18,108 ton	10,442,000 USD
Canned food		2,300,000 USD
Fresh and dry fruit	1,769 ton	2,961,000 USD
Fruit and vegetable juice		6,270,000 USD
Walnut kernel	503 ton	1,560,000 USD
Cheestnut	555 ton	907,000 USD

2.3 Investment environment in Shaanxi province

Situated in Middle Western China, Shaanxi is entitled to the national policy of promoting the development of the inland areas of the country and to attract foreign investment. The number of foreign invested enterprises as well as the total amount of foreign investment in Shaanxi are relatively small if compared with the coastal area of the country. The number of foreign investment projects were around 3,000 with a realized investment amount of 3.6 billion USD.

In the past years both the central and provincial authorities are making effort in order to accelerate the opening to the outside world focusing on improving the soft environment for investment.

Main objectives of investment in Shaanxi province include the following fields:

- Infrastructure construction. This category is concerned with highways, bridges, tunnels, railways, subways, power plants, water conservancy works, urban construction, gas supply, heating, water supply, real estate development, waste water treatment and environmental protection.

- Resource development. This category involves the development, utilization, in-depth processing and production of coal, petroleum, natural gas, metals, non-metallic minerals and raw materials.

- Agriculture. This category comprises the development of new strains of grain, cotton, vegetable and fruit; the dissemination and application of update food preservation and processing technologies, the introduction, breeding and processing of top-quality cattle, poultry and fish, and the implementation of export-directed agricultural projects.

- Tourism. This category is designed to create new travel destinations, construct and improve tourist facilities and develop new tourist products.

- New and high technology industries. This category is planned to further technological developments in the field of intensive agriculture, electronic information, new materials, manufacturing, energy resources, energy-saving and biological engineering. Overseas investors are encourage to expand their business operations in the economic and technical development zones of Weinan, Xi'anyang and Yangling.

In the field of food industry the projects encouraged by the Shaanxi authorities included:

- fruit processing industry
- dairy processing industry
- instant food processing industry
- fruit liquor industry

The investment mode in the province can included the following ways:

- ♦ Setting up sole proprietorships
- ♦ Setting up join ventures with Chinese enterprises
- ♦ Setting up cooperative enterprises with Chinese enterprises on contractual basis
- ♦ BOT or BOO
- ♦ Equity participation trade, tender offer of purchase of production and management rights
- ♦ Compensation trade, supplied material processing or assemblage of spare
- ♦ Operating Chinese enterprises on a lease or contractual basis
- ♦ Acquisition of small and medium-sized Chinese enterprises
- ♦ Setting up regional head offices in Shaanxi for their holding companies
- ♦ Providing credit loans for Chinese projects or enterprises

a) Regulations for foreign investment in Shaanxi

The authorities of Shaanxi province has formulated and published a set of laws and regulations for preferential treatment to investors in the province. The full text of the preferential policies of Shaanxi province for the encouragement of foreign investment are included in this study as an attachment. A brief introduction on tax policies are included as follows:

<u>Income tax</u>

The due foreign-funded enterprises income tax rate is 30%.

Xi'an urban district based foreign-funded enterprises engage in production may pay business income tax by a reduced rate of 24%.

Foreign-funded enterprises engage in production, and high and new technology enterprises in the state-approved economic and technology development zones or high and new technology development zones may pay business income tax by a reduced rate of 15%.

Technology intensive and knowledge intensive projects; foreign-funded long term project with investments over USD 30 million; energy, communication and harbor construction projects may, after being approved by the general tax bureau, pay business income tax by a reduced rate of 15%.

Foreign-funded enterprises falling into the national encouraged class may, after the expiration of tax reduced and exempted period, pay the business income tax by a reduced rate of 15%.

All the foreign-funded enterprises engage in production with operating periods over 10 years may, from the profit-making fiscal year, be exempt from business income tax in the first 2 years and pay business income tax by half from the third to the fifth year. When the tax reduced and exempted period comes to end, if the export-oriented enterprises engage in production achieve the annual exported products output value accounting for 70% of the annual output value may pay 50% of due business income tax. Foreign-funded advanced technology enterprises may, after the expiration of tax reduced and exempted period, enjoy 3 extra years paying 50% of due business income tax.

Return of the reinvestment income tax. Foreign investors in foreign funded enterprises who utilize acquired profits in increasing enterprises' assets or establishing other foreign funded enterprises with operating periods no less than 5 years may be returned 40% of business income tax having been paid for the reinvestment. Foreign investors reinvest in China for export oriented enterprises or advanced technological enterprises with operating periods no less than 5 years may be returned all the business income tax having been paid for the reinvestment.

Tariffs on imported equipment and customs duties

Except for commodities within the Category of Non-tax Abatement Imported Commodities in Foreign Invested Projects, imported self-use equipment within the invested volume –in sectors belongs to encouraged sectors, and to technology-transferred foreign investment projects- are exempt from tariffs and customs value added tax. Contracted technology and due parts and fittings imported with equipment are exempt from tariffs and customs value added tax.

Local income tax

The due income tax rate is 3%. Common foreign-funded enterprises engage in production may be exempt from the local income tax in certain operating period; foreign-funded export oriented enterprises, advanced technology enterprises, farming, forestry, animal husbandry, energy, communication and public services may enjoy local income tax abatement.

Value added tax (VAT)

Foreign invested companies pay Value Added Tax according with the Provisional Regulations on Value Added Tax of the People's Republic of China. However, some enterprises with certain conditions and investing in specific development zones may enjoy VAT return as governmental subsidies.

For instance, it is regulated in the High and New Technology Development Zone and Xi'an Economic and Technological Development Zone that foreign-funded enterprises engage in production with a certain scale and with relatively high profits may enjoy financial subsidies up to 10% of VAT paid by themselves within 3 years from the date of registration. In the high and new technology development zone, new foreign-funded enterprises with investments of over USD 10 million may enjoy 30% of VAT return.

Accelerated depreciation of fixed assets

Should the fixed assets of foreign funded enterprises are in need of accelerated depreciation for special reasons, the accelerated depreciation may be done after enterprises' applications approved by tax offices.

The procedures for establishing a foreign-investment enterprises in Shaanxi included the following steps:

1) Submitting the project proposal and the feasibility study report to the administrative authorities concerned
2) Applying for the enterprises´s name registration to the administrative authorities for industry and commerce
3) Submitting the contract and articles of association to the foreign trade and economic cooperation authorities-Applying for the business registration to the administrative authorities of industry and commerce

The establishment of a wholly foreign-owned enterprises should follow the application and approval procedures as described below:

1) Applying for the enterprises name registration to the administrative authorities of industry and commerce
2) Submitting the application report and articles of association to the foreign trade and economic cooperation administrative authorities
3) Applying for the business registration to the administrative authorities of industry and commerce

The required Documents included:

1) Project proposal and feasibility study report
2) Agreement signed by all the parties concerned in the joint-venture or in the cooperative project
3) Foreign investors qualification certificates and credibility documents
4) Environmental evaluation report approved by the environment authorities

5) Name list of members of the board of directors and the designation documents from various parties
6) Application form, and report for the establishment of wholly foreign-owned enterprise
7) Application for registering of the enterprise in the administration of industry and commerce.

The relevant organizations involved in the issue of documentation and certificates need by foreign investment enterprises included as follows:

Engraving of enterprise seal:	Public Security Bureau
Financial registration:	Bureau of Finance
National tax registration:	National Tax Bureau
Local tax registration:	Local Tax Bureau
Foreign exchange registration:	Local Branch of Foreign Exchange Control Office
Customs registration:	Local Customs

After the establishment of an enterprise the following approval and formalities are need:

1	Examination and approval of construction and public works
2	Program and management bureau
3	Examination and approval of project-use water and gas
4	Bureau of public services
5	Examination and approval of project-use land
6	National land office
7	Application of project-use power
8	Electricity board
9	Identification of high and new technology enterprise
10	Science and technology committee
11	Sanitation inspection of construction project
12	Sanitation and anti-epidemic station
13	Inspection of charge
14	Office of price supervision
15	Formalities of foreigners' residence
16	Public security bureau
17	Account-opening formalities
18	Any the commercial banks
19	Claims of foreign-funded enterprises
20	Claim center for foreign investors

In the establishment of foreign-funded enterprises, investors can make capital contributions in the form of cash, premises, equipment, materials, land-use rights, industrial property rights or patent technology. According with the Chinese regulations, their prices shall be determined by the relevant parties through consultation or by the agreed specialized agency.

In Shaanxi province generally foreign investors shall contribute at least 25 % of the total registered capital to Chinese-Foreign Join Ventures or cooperative enterprises. The ratio of investment to registered capital is specified as follows in Shaanxi:

Total Investment variables	Registered capital-Total Investment Radio
USD 3 million or below	7/10
USD 3 million to USD10 million	½
USD 3 million to USD 4.2 million	At least 2.1 million
USD 10 million to USD 30 million	2/5
USD 10 million to USD 12.5 million	At least USD 5 million
USD 30 million or above	1/3
USD 30 million to USD 36 million	At least USD 12 million

If the registered capital of a foreign-invested enterprise is paid in installments, each of the parties shall pays its share of the registered capital by 15 % within three months after the issuing date of the business license. The rest of the investment capital shall be subscribed as follows:

- ♦ If the registered capital is between 500,000 USD and 1 million USD, the total investment shall be paid off within eighteen months after the issue date of the business license.
- ♦ If the registered capital is between 1 million USD and 3 million USD the total investment shall be paid off within two years after the issuing date of the business license.
- ♦ If the registered capital is between 3 million USD and 10 million USD, the total investment shall be paid off within three years after the issuing date of the business license.
- ♦ If the registered capital exceed 10 millions USD, the time limit for capital contribution shall be reconsidered and set by the relevant examination and approval authorities.

Lump-sum investment shall be made within six months after the issuing date of the issuing date of the business license.

The duration of business operation for chinese-foreign joint ventures of cooperative enterprises shall be determined by the relevant parties in accordance with the reality of the industry and the project. The duration of a general joint-venture shall range from ten to thirty years. The duration of the products whose land-use rights are obtained through paid transfer shall be subject to that of paid land transfer. If the parties of the joint venture agree to extend their business operations, they shall file an application to the relevant examination and approval authorities six months prior to the date of expiration.

The Shaanxi Foreign Economic and Trade Department is in charge of confirm that a foreign funded joint venture is export-directed and advanced technology enterprises. This kind of enterprises must meet all the following requirements:

- ♦ They must turn out export-directed products.
- ♦ The annual output value of their export products (sold on an independent or commissioned basis) must account for 50 % of the total output value in the current year.
- ♦ They must achieve a balance or surplus between foreign exchange receipts and expenditures in the current operating year.

Advanced technology enterprises must meet the following requirements:

- ♦ Their technologies, technological process and major equipment must be advanced, practical and consistent with the priority project category.
- ♦ Their products must be short in the home market, updated or newly developed. They can serve as substitutes for similar domestic of imported products.

b) Areas and zones for investment in Shaanxi

The authorities of Shaanxi province has decided to focus its efforts in the development of the following five areas:

1) Construction of Yangling Agriculture

The Yangling District, 90 kilometers from Xi'an, is China's biggest agricultural base. Longhai Railway and Xi'an-Baoji Express-way traverse through the district. The Northwest Agricultural University, other eleven agricultural and forestry research institutes and a group of national key laboratories are scattered here. There are more than 4,000 technicians and scientists in agriculture, forestry, irrigation and other fields.

Few year ago, Chinese central government decided to establish here the first national agricultural high-tech model zone of the country with the participation of the province and other concerned state ministries. The total area of the whole high-tech zone is 21 square kilometers including a science park, an industrial park, an international cooperation park, a modern comprehensive agricultural park, a dozen of testing and popularization bases and five multi-functional parks. Within the zone, teaching, research, production and trade are conducted. The state also decided to establish national key laboratories and research and development centers to promote wheat research study, non-irrigated farmland techniques, water-saving irrigation techniques and water and soil conservation as well as conversion of scientific achievements. The zone aims at developing improved varieties of crops, safe insecticides, biological medicines, chemical forestry products, and processed farm products. Efforts are made to strengthen international cooperation and the introduction, utilization and popularization of new agricultural techniques.

Encouraged investment fields relevant to beverage and food industries include dairy products, green food, new food additive and storage, freshness-keeping, processing and utilization of farm products.

2) Construction of Northern Shaanxi.

Situated in Northern Shaanxi and the Weibei Plateau, this region covers 45 counties with an area of 108,000 square kilometers. It is an area hardest hit by soil erosion. In the recent years efforts have been made in the improvement of ecological conditions and in the promotion of its economic development. Altogether, there are 2.1 million hectares of forest, 250,000 hectares of grassland and 32,000 square kilometers of controlled area hardest hit by severe soil erosion. The central and provincial authorities have decided to make efforts to control soil erosion in this area.

3) Construction of Yanliang Aircraft Town

The Yanliang District, 45 kilometers from Xi'an, is China's most important aircraft research, production and testing base. It has processed and produced aircraft parts and vertical tails for American, French, Italian and Canadian aircraft corporations. In 1997, the central government decided to invest USD1.2 billion to build an aircraft assembly line in Yanliang to produce a passenger plane with 100 seats joint developed by China, the Airbus Group, Italy, Singapore and other seven countries. This project will be the most important in the development of China's aviation and will foster the development of Shaanxi's raw material industry, electronic instrument industry and machinery industry as well as improving modern management.

4) Construction of Yulin Energy Base

This is a rich mineral area situated in the northern tip of Shaanxi Province. More that 40 varieties of minerals of eight kinds have been discovered there. The total amount of coal deposit is 142 billion ton. The coal is of high heat productivity but low in contents of sulfur, phosphorus and ash. In addition, abundant natural gas resources have been discovered in Northern Shaanxi, with 300 billion cubic meters of natural gas under ground. It is a complete natural gas field. The total amounts of the initially discovered and discovered petroleum reserves are 300 million ton and 25 million ton. The discovered rock salt, kaolin and bauxite reserves are more than 100 million ton, 680 million ton and 23,19 million ton respectively. The rich resources of coal, petroleum, salt and natural gas provide favorable conditions for the construction of energy base.

Shenhua Group, CNPC and Huaneng --three larger enterprise groups- have been set up to develop energy resources in this area. Shenhua Group is responsible for the development of Shenfu Coal Field with an annual production capacity of more than 100 million ton. With an investment of 90 billion yuan, it is only second to the Three Gorges Project. China's Natural Gas Corp. (CNPC) undertakes the development of natural gas in this region. China's Huaneng Group focuses its attention on the construction of large-scale thermal power plants. The planned electricity generating capacity is 4.5 million kilowatts. Up till now, an investment of 3 billion yuan has been put into this project.

5) Construction of the Central Shaanxi High-Tech Development Belt

The Central Shaanxi –or Guanzhong- High-tech Development Belt have been established by Shaanxi authorities in the Guangzhou Plain, a region with more than forty universities and colleges, 340 scientific research institutes, and 300 enterprises with more than 600,000 professionals. Within the belt, there are Xi'an, Baoji and Yanliang high-tech zones at the state level, and Weinan and Xi’anyang high-tech zones at the provincial level. Situation of the development zones of this area are shows as follows:

Xi’an High-Tech Development Zone.

This is a state-level high-tech zone established in 1988. Within the zone, there are more than 22 universities and colleges, 49 research institutes and 20 large and medium-sized enterprises. With a planned area of 29.15 square kilometers, the zone includes five industrial parks. Its total income from technology, science and trade in 1997 exceeded 10 billion yuan. Five pillar industries have taken shape in the zone. They are: electronic and telecommunication industry with Datang Telecommunication Corporation as the pillar enterprise; energy-saving refrigeration industry with Qing'an Freezer Factory; information and computer industry led by Haixing Group and Sanqin Group; machinery and electric industry led by Brothers Corp. and new material industry with Sijia Group. There are 288 chinese-foreign enterprises with a total investment of 500 million US dollars in the zone. Foreign companies invested in this zone included Japan's Brothers Corp., US MEMC, Holland's Philips Company and Canada's North Electric Corp.

Baoji High-tech Development Zone

Approved by the central government in 1992 this is a state-level zone, focuses on the development of electronics, machinery and new materials. There are 67 enterprises in the zone and in 1997 its total income from technology, science and trade was 2 billion yuan and its export value was 4.7 million US dollars.

Xi'anyang High-tech Development Zone

This is a development zone with strong presence of the electronic sector. The output value of the electronic industry in this area accounts for half of that in electronic industry in all Shaanxi. In the development zone, there are enterprises dealing with electronic information, optional machinery, biological engineering, new medicines, color picture tubes, deflection coils and deflecting cores and copper-clad plates.

Weinan High-tech Development Experimental Zone

Established in 1992, the zone focuses on economic development. Three functional parks have been established, including a high-tech creative park comprised of knowledge-intensive research institutes and enterprise service centers, a high-tech industrial part, and the high-tech popularization park focusing on the remaking of the key enterprises within the zone. Its fine chemical industry takes the leading position in the Guanzhong Development Belt. There are 104 scientific development enterprises with an annual income of 74 million yuan.

c) Communication and transportation in Shaanxi province

Shaanxi province is called the door of the Northwest China and its links with the eastern and western regions. Its role as the hub of Northwest and the Southwest will be striking with the future construction of the railways Xi'an—Baotou, Xi'an—Ankang, and Xi'an—Nanjing.

Xi'an Xi'anyang International Airport, the largest hub for air transport in the northwest region of China, records and annual load of 240,000 flights and an annual turnover of 23,500,000 passenger. China Northwest Airlines, the main airlines based in Shaanxi province, has opened 58 flights lines to more than 60 cities in China and also to Nagoya, Hiroshima, Hong Kong and Macao.

The Railway Station of Xi'an and its 12 marshaling stations constitute the largest hub of railway transport in the Northwest region of China. Xi'an West Railway Station is one of the earliest freight stations and as well the largest one in the Southwestern and Northwestern regions. Its annual volume of goods transported is over 300 million ton. As one of the 8 largest stations in China, Xi'an railway station witnesses the arrival of 59 trains and setting-off of 40 trains each day.

Baocheng, Xi'angyu and Longhai railway lines connect the Northwest and Longhai railway lines connect the Northeast and the southwest with East China. The new Eurasian Continental Bridge starts from Lianyungang in Jiangsu province in the east of China, cuts through the central portion of

Shaanxi province and finally ends at Rotterdam in Netherlands. All the Shaanxi railways lines have a combined traffic length of 2,671 kilometers. There are 11 trunk and feeder railway lines across the province. The central government of China has planned to build ten railway lines across the country in the upcoming years, four of which will cut through Shaanxi province. They are Xi'an-Nanjing Railway, Xi'an-Yangpingquan Railway, Shenmu-Shandong-SuoXi'an-Huanghuia Railway and Baoji-Chengdu railway.

There are four state level highways and twelve provincial highways in Shaanxi Province. Its highways measure a total length of 39,621 kilometers. Its expressways have a total length of 421 kilometers. Xi'an-Baoji Expressway, Xi'an-Lintong-Weinan Expressway and Xi'an-Tongchuan Expressway have been brought into completion..

Mileage and charge standard for cargo from Xi'an to Beijing and Shanghai are enclosed as follows:

City	Mileage	Modes of transport	Cost
Beijing	1,260km	Railway, highway	bulk cargo: 0.05yuan/ton. km
Shanghai	1,500km	Railway, highway	

d) Standards of charges for services and salaries in Xi'an

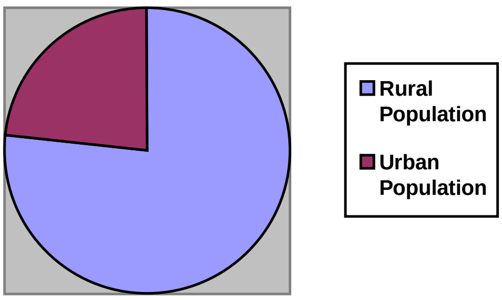
The standard of charge for electricity, water and gas for companies in Xi'an is including in the following chart:

Item	Class	Unit	Price
Electricity	Industrial power(10kW)	Yuan/kVH	0.433
	Industrial power		0.52
	Industrial illumination		0.63
Water	Industrial water	Yuan/ton	1.94
Heating	Industrial heating	Yuan/m^3/month	5
Gas	Natural gas	Yuan/m^3	78

The standard income level in Shaanxi for a non-trained worker is 400-600yuan/person/month and 800-1500yuan/person/month for technicians and managerial personnel.

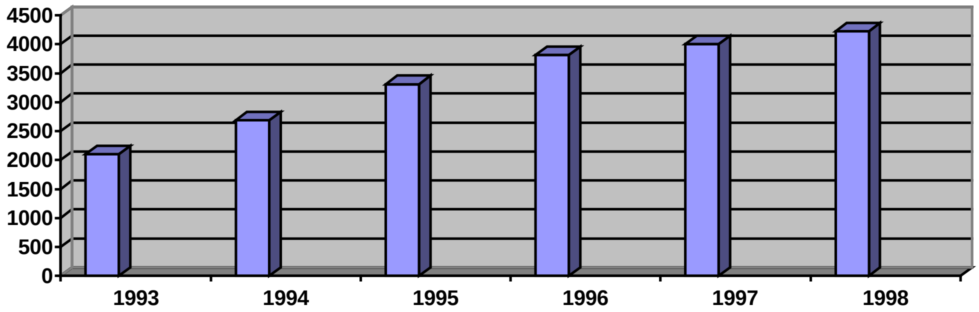
2.4 General situation in of the consumers in Shaanxi

By the end of 1998, the population of Shaanxi was 35.7 million of which around 8 million is urban population.



In 1998, the disposable income for urban families in Shaanxi was 4,220 yuan, 78 % of the national average level. Although is low compared with other regions of China it have been duplicated in five years as is show in the following graph:

Shaanxi-Per capita disposable income for urban families



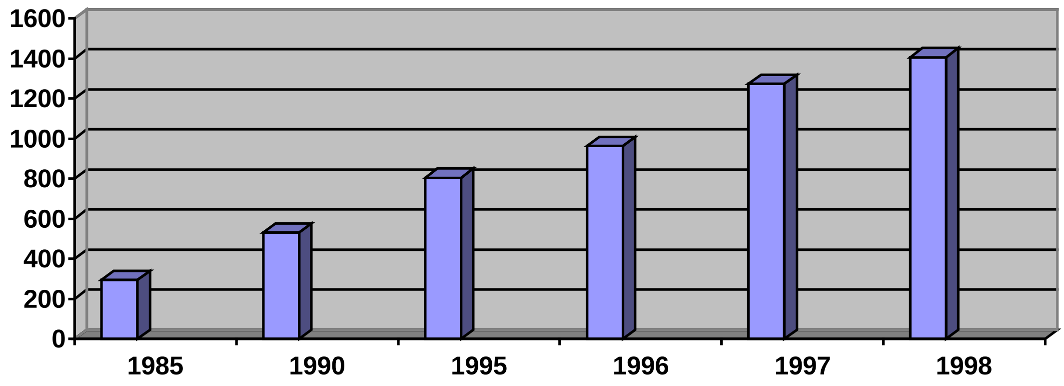
The annual per capita consumption expenditure for urban families in 1998 was 3,539 yuan, of which 41 % was for food consumption. Consumption expenditure was a 82 % of the average national level for urban residents and 75 % of the national average for food consumption expenditure.

The structure of the food consumption of urban residents in Shaanxi are shows as follows:

Product	**Expenditure**
Grain	218.22 yuan
Starches and tubers	20.96 yuan
Beans and bean products	34.54 yuan
Oil and fats	71.58 yuan
Meat and meat products	260.05 yuan
Eggs	53.67 yuan
Aquatic products	35.58 yuan
Vegetables	144.68 yuan
Condiments	25.23 yuan
Sugar	17.23 yuan
Tobacco	78.43 yuan
Liquor and beverages	62.88 yuan
Fruits	89.77 yuan
Nuts and kernels	26.29 yuan
Cake	39.68 yuan
Milk and dairy products	38.40 yuan
Others	23.62 yuan
Dinning out	212.45 yuan
Food processing service fees	1.06 yuan
Total	1454 .31 yuan

The per capita net income or rural families in Shaanxi was 1,406 yuan in 1998, 65 % of the national average level. The per capita consumption expenditure of rural families was 1,181 yuan, and of this figure 50 % was food consumption. Between the rural residents of Shaanxi consumption expenditure was 74 % of the average level of rural residents and theirs food consumption expenditure was in 1998 70 % of the national average level.

Shaanxi-Per capita disposal income of rural families Unit: Yuan



The per capita staple food consumption of rural families in Shaanxi in 1998 is indicated in the follow chart:

Product	Quantity
Grain	228.7 grain
Vegetables	63.45 kg
Edible oil	5.69 kg
Pork, beef and mutton	6.18 kg
Eggs	1.71 kg
Aquatic products	0.21 kg
Sugar	0.25 kg
Liquor	2.11 kg

2.5 ANNEXES

ANNEX 1: **Shaanxi Province-Main Figures**

Area	205,600 sk km
Population	35,700,000
GDP (in USD)	15.98 billion USD
Per capita GDP	448 USD
Exports	1,030 millions USD
Imports	680 millones USD
Capital	Xi'an

ANNEX 2: **Shaanxi Province-Gross Domestic Product**

Year: 1997 - Unit: 100 Million Yuan

Gross Domestic Product	1326.04
Primary Industry	271.52
Second Industry	555.86
Industry	456.94
Construction	98.92
Tertiary industry	498.66
Farming, Forestry, Animal and Fishery	5.44
Geological prospecting and water conservancy	8.98
Transportation, Storage, postal and Telecommunications	106.78
Wholesale, Retail trade and Catering Services	87.76
Banking and insurance	76.57
Real Estate Trade	14.07
Social services	27.90
Health care, sports and social welfare	19.19
Education, culture, art, radio, film and TV	54.71
Scientific Research and polytechnical services	14.16
Government agencies and social organizations	44.93
Others	38.17

ANNEX 3: **Shaanxi administrative divisions**

	Cities and Prefectures
1	Xi'an City
2	Baoji City
3	Xi'anyang City
4	Tongchan City
5	Yulin Prefecture
6	Yan'an Prefecture
7	Weinan City
8	Hanzhong Prefecture
9	Ankang Prefecture
10	Shangluo Prefecture

ANNEX 4: **Shaanxi-Food industry gross output value and its proportion in Shaanxi industry (prices in due years)**

Class	1998		1997		1996	
	Gross output value (100 million yuan)	Proportion (%)	Gross output value (100 million yuan)	Proportion (%)	Gross output value(100 million yuan)	Proportion (%)
Provincial industries	926.58	100	1268.9	100	1168.6	100
Provincial food industry	110.69	11.95	107.87	8.50	99.71	8.53
# food processing industry	37.36	4.03	37.20	2.93	36.08	3.08
# food manufacture industry	21.58	2.33	17.79	1.40	14.74	1.26
# beverage manufacture industry	19.69	2.11	17.83	1.40	15.38	1.32

ANNEX 5: **Main financial data of the food industrial enterprises at township or above township level in Shaanxi in 1997**

Unit: 100 million-yuan

Industrial enterprises	Number of enterprises	Number of loss-incurring enterprises	Sales of products	Total profits	Profits and tax	Total original prices of fixed assets	Annual average balance of current assets	Industrial gross output value	Industrial gross output value(constant prices)	Industrial added value	Annual average balance of fixed assets net value	Whole staff productivity of industrial added value(10,000 yuan/ person)
All food industries in Shaanxi	1506	404	98.18	-3.14	14.95	66.99	71.62	108.32	81.20	39.32	50.41	3.66
Food processing industry	746	216	36.95	-2.19	-1.31	20.98	30.03	37.20	25.88	6.78	16.19	1.83
Food manufacture industry	451	115	15.78	-0.30	0.48	12.65	9.32	17.79	12.72	4.43	9.85	1.51
Beverage manufacture industry	283	68	15.48	-0.87	1.53	17.48	12.51	17.83	12.09	6.51	12.64	2.63
Tobacco industry	19	5	29.75	0.22	14.25	15.88	19.76	35.50	30.51	21.60	17.73	13.84

ANNEX 6: **Financial data of the main food industrial enterprises in Shaanxi in 1998**

Unit: 100 million-yuan

Industrial enterprises	Number of enterprises	Number of loss-incurring enterprises	Sales of products	Total profits	Profits and tax	Total original prices of fixed assets	Annual average balance of current assets	Industrial gross output value	Industrial gross output value(constant prices)	Industrial added value	Annual average balance of fixed assets net value	Whole staff productivity of industrial added value(10,000 yuan/ person)
All food industries in Shaanxi	458	252	105.87	0.08	17.4	76.83	62.05	114.09	88.11	37.86	53.70	4.07
Food processing industry	229	146	37.22	-0.92	-0.45	19.56	18.16	27.36	25.69	5.61	15.32	1.63
Food manufacture industry	139	60	19.27	0.19	1.13	13.83	9.06	21.58	16.90	5.54	8.82	2.54
Beverage manufacture industry	74	42	17.95	-0.76	2.06	23.16	13.84	19.61	13.98	6.44	17.70	2.84
Tobacco industry	16	4	31.43	0.85	14.66	20.29	20.45	35.54	31.54	20.28	11.86	15.02

ANNEX 7: **Number Of Staffs In The Food Enterprises Of Shaanxi**

	1998	**1997**
All food industries in Shaanxi	92,900	107,400
Food processing industry	34,300	37,000
Food manufacture industry	21,800	29,400
Beverage manufacture industry	22,600	24,800
Tobacco industry	13,500	15,600

ANNEX 8: **Competent Authorities Of The Food Industry In Shaanxi**

Sequence number	Name	Unit	Change	Address	Telephone	Fax	Post code
1	Gao Yangsiu	Planning Committee of Shaanxi	Vice-director	Xi'an New city	(029) 7292654	(029) 7294181	710004
2	Zang Haixin	Foreign trade office of Planning committee	Section chief	Xi'an New city	(029) 7291895	(029) 7294181	710004
3	Du Zelin	Foreign trade office of Planning committee	Deputy section chief	Xi'an New city	(029) 7291485	(029) 7291473	710004
4	Chang Baoping	Foreign trade office of Planning committee	Deputy section chief	Xi'an New city	(029) 7291485	(029) 7291473	710004
5	Zhao Yueli	Foreign trade office of Planning committee	Deputy section chief	Xi'an New city	(029) 7292565	(029) 7292472	710004
6	Liu Ling	Food Industrial Office in Shaanxi	Section chief	Xi'an provincial government	(029) 7291508	(029) 7291573	710004
7	Zhao Hongzhuan	Foreign investment inviting bureau of the administration committee in Xi'an High and new technology development zone	Director general	Torch Building, Gaoxin Road, Xi'an	(029) 8211744	(029) 8210481	710075
8	Wang Kuanrang	Foreign investment inviting office in Xi'an Economic development zone	Minister assistant	North Weiyang Road, north suburb, Xi'an	(029) 6265975	(029) 6261102	710016
9	LiZhijun	Investment-promoting office of Xi'an foreign trade bureau	Deputy section chief	No.52, Xixing Street, Xi'an	(029) 7284865	(029) 7219186	
10	Yu Deqiang	Investment-promoting office of Xi'an foreign trade bureau		No.6 Xixing Street, Xi'an	(029) 7285432	(029) 7219186	

ANNEX 9: **Institutions For Foreign Investment Of Shaanxi Province**

NAME	ADDRESS	TEL
The Office of Shaanxi Province for Opening to the Outside	Xincheng District	7291527
Shaanxi Foreign Trade & Economic Cooperation Department	Xincheng District	7291551
Shaanxi Planning Commission	Xincheng District	7291473
Shaanxi Economic & Trade Commission	Xincheng District	7291837
Shaanxi Industrial & Commercial Administration Bureau	Xincheng District	7294411
Shaanxi People’s Government Foreign Affairs Office	272 Jiefang Road	7424979
Shaanxi Overseas Chinese Office	Xincheng District	7292511
Shaanxi People’s Government Taiwan Affairs Office	Jianguo Road	7210008
Shaanxi People’s Government News Release Office	10, Yan Ta Road	5202632
Shaanxi Land Administration Bureau	Northwest Road	7276933
Shaanxi State Tax Bureau	Bingjiao Lane	7610761
Shaanxi Local Tax Bureau	Bingjiao Lane	5261305
Shaanxi Tourism Bureau	15, Chang’an Road	5261305
China International Trade Promotion Commission . Shaanxi Division	Xin Cheng District	7291413
Xi’an Customs House	Zhuque Road	5262332
Shaanxi Import & Export Commodities Inspection Bureau	61 Han’guang Road	5263621
China National Bureau for Foreign Exchange Administration. Shaanxi Division	233 Jiefang Road	7426931
Bank of China. Shaanxi Branch	298 East Main Street	7261941
People’s Insurance Company of China. Shaanxi Branch	1 Yinhua Buyuan South Main Street	7233774

ANNEX 10: **Relevant Institutions Of Xi'an**

Institutions	Address	Telephone	Post code
Municipal Planning Commission	159,Beiyuanmen	7295821	710003
Municipal Bureau of Foreign Trade and Economic Cooperation	52, Xinin St.	7258342	710004
Municipal Economic Commission	159, Beiyuanmen	7295817	710003
Municipal Commission of Urban and Rural Construction	20, Houzaimen	7272096	710003
Foreign Investment Service Center	52,Xixin St.	7284910	710004
Municipal Office for Coordinating & Accepting Lawsuits of "Three Kinds of Fund" Enterprises	52, Xixin St.	7284845	710004
Municipal Bureau of Industry and Commerce Administration	27, Erfu St.	7295092	710004
Local Tax Administrative Bureau	28,Juhuayuan	7289710	710001
State Tax Administrative Bureau	266,Youyixilu Road	8499641	710068
Customs House	191, Zhuque Road	5262332	710061
Bank of China, Xi'an Branch	38,Juhuayuan, East St.	7284613	710001
State Foreign Currency Control Bureau, Xi'an Branch	Gaoxin Road	8226699	710075
Property Insurance Co. Ltd. of PICC, Xi'an Branch	111, East Moutoushi Road	7235584	710001
Municipal Labor Bureau	7, Yandian St.	7624720	710002
Municipal Land Administrative Bureau	30, East Section of South Huancheng Rd.	7893070	710054
Administration Committee of Xi'an Hi-tech Industrial Development Zone	General Xi'an Office Bd., Gaoxin Rd.	8210498	710075
Administration Committee of Xi'an Chanhe Economic	No. 1 Jiazi East Changle Rd.	3287184	710043

Development Zone			
Administration Committee of Xi’an Qujiang Tourism & Holiday Area	Xi’an Weier St. Yangkai Bldg. 4^{th} Fl	5213512	710061
Administration Committee of Xi’an Modern Agricultural Comprehensive Development Zone	Xi’an Caotan Farm	6672098	710021
Shaanxi Import & Export Commodity Inspection Bureau	61, Hanguang Zhonglu St.	5263610	710068
Office of Accounting Business	50, Baoensi St.	7613956	710002

ANNEX 11: **Encouraged Industries for FDI in Xi'an**

1.- Industry and Architecture

We will try to improve the technical level and scale benefit and to realize the industrialization of high-tech products.

- Electronic industry: Telecommunication, computers and their supplementary, video equipment, semi-conducting materials and electronic components.
- Machinery industry: Transportation equipment, high-tension power transmission and transformation equipment, freezing compressors, industrial fans and automatic instruments.
- Raw material industry: Petroleum and natural gas, basic chemical and refined chemical, medicine, building materials.
- Light industry: Food, leather, daily necessities, plastics and lighting appliances, printing, packaging and decoration.
- Textile industry: Developing textile raw material production and improving the ability of fabric post-finishing, raising the proportion of combing high-grade products, developing various high-grade light and thin woolen fabric products, knitted fabric, silk and clothing.
- Technical transformation of industrial firms: We encourage foreign-funded technical transformation of the present firms and introduction of advanced foreign technology, equipment and managing experience to promote transfer of enterprise mechanism and product regeneration.
- Architecture: Regard the building business as a center and develop the comprehensive industry of land development, construction and management while the priority should be given to greatly develop real estates, mainly constructing economic and suitable housing

2-Agriculture and Rural Economy

- Plantation: develop production of grain, cotton and edible oil and their basic construction; develop model areas of fine-grade fruits, vegetables, and the production basic construction
- Animal husbandry: building lean-meat commercial pig-raising base, Xi'an Chicken Farm, Xi'an Cattle Base and milk product projects.
- Aquatic product industry: promote development of fine-grade aquatic products and construction of their commercial fishery base on the banks of Weihe and Bahe Rivers and construction of the supplementary facilities.

- Forestry: building ecotype shelter forestry network; and comprehensive development of forestry.
- Water works: constructing irrigated area projects and projects for speeding up development and construction of urban water sources.
- Rural social service system: setting up rural economic information centers, and various technical service centers.
- Township enterprises and rural urbanization: mainly building a number of industrial gardens of township enterprises, introducing hi-tech products, utilizing achievements in scientific research and developing the competitive products.

3.-Tertiary industry

- Science and technology: Speeding up the pace of commercialization, industrialization of scientific and technological achievements, developing new mainstay products.
- Tourism: Develop tourist's products and develop tourism into an important mainstay industry in Xi'an, we will also speed up the development of tourism resources, make Xi'an into a large international city of culture, entertainment, sight-seeing, vacationing and commerce integrated.
- Commodity circulation: Based on the development strategy of large-scale commerce, circulation and market, we will build a number commerce and trade construction projects.
- Information consultation: We will speed up the pace of setting up information resource network, develop and complete the market information service systems.

4.-Urban Infrastructure Facilities

We will put more investment in projects of transportation, telecommunication, urban drainage, water supply, gas supply, electricity, heating, forested gardens and environment protection.

Public Utilities: We will develop the social utilities in education, culture, broadcast, television, health and sport.

3 CHONGQING

Highlight

- Chongqing is, together with Beijing, Shanghai and Tianjin, one of the four Municipality Directly under the Central Government of China
- Chongqing is the biggest Municipality of China
- Chongqing is a big agricultural base of China
- Main products are grain and pork
- Foreign investment in the food industry is limited
- Consumers in Chongqing have a liking for hot and chili food.

From November 19th, 1999 to November 25th, 1999, the surrey group made a study of the food industry, the food market and the investment environment in Chongqing, and made this report on the basis.

3.1 General situation of Chongqing

Before 1997, Chongqing was a city of Sichuan province, the biggest city not only in that province but also in southwest China. In March that year the Central Government decided to separate Chongqing from Sichuan province and to grand the city the right to report directly to the national leadership, a status that only other three cities enjoy now in China: Beijing, Tianjin and Shanghai. Chongqing is one of the four cities in China with the status of Municipality directly under the central government.

Sichuan was before 1997 the most populous province of China. It covers an area larger than that of France and its population numbers as many as that of Britain and France combined. This great size in both area and population presented administrative problems. This fact, combined with a recognition of Chongqing´s unusual position, prompted suggestions for tentative plans for separating Chongqing from Sichuan as far back as the early 1980s. Propose to change Chongqing to a Municipality Directly under the central government or to establish a new province under the name of Chuandong (Eastern Sichuan) or Sanxia (Three George's) were put forward, but were all voted down. After extender discussions the Chinese government decided that the best solution to the administrative problems presented by Sichuan´s enormous area and population was to establish Chongqing as a Municipality directly under the central government.

The Three Georges Dam Area, including the cities of Fuling and Wanxian and the Qianjiang prefecture have been taken from Sichuan and placed under Chongqing´s jurisdiction. One important reason in this decision of the Chinese government is that Chongqing Municipality will be able under the new situation to concentrate in the relocation of one million persons displaced by the Three Georges Dam. Without the Three Georges project there would not be one million displaced persons to be relocated and without the one million displaced persons the motion to make Chongqing a centrally administered municipality would not have been put forward. Analysts of the Government have come to the conclusion that economic development in the Three Georges Dam will require the active support of a large city.

Chongqing is situated on the upper reaches of the Yangtze River. The Municipality is unusually large in area, covering 82,400 sq. kilometers, 2.4 times the total area occupied by Beijing, Shanghai and Tianjin municipalities altogether. Chongqing, measuring 470 km from west to east and 450 km from north to south, borders Shaanxi province to the north, Hubei and Hunan to the east, Guizhou to the south and its former province, Sichuan, to the west. Generally speaking, the land is higher in the north and south, sloping lower into the Yangtze River Valley in the center. For the most parts, the terrain is characterized by lows hills, mostly less than 500 meters above sea level. The Municipality is home to the Daning River and is fed by the waters of the Jialing, Wujiang, Fujiang and Qijiang rivers, in addition to the Yangtze.

Chongqing has a humid subtropical monsoon climate, with little frost or snow, frequent clouds and mist, warm winters, hot summers, early springs and short autumns. The average temperature in January is 7.5º C and in July, 28.5º C, the mean annual temperature being 18ºC. There is abundant rainfall, with annual precipitation averaging 1,000 to 1,400 mm. Rain is particularly plentiful in the nighttime during the weeks when spring passes into summer.

Chongqing is rich in coal and natural gas. More than 40 mineral products have been found in Chongqing; 25 varieties, most importantly coal, natural gas, strontium, pyrite, halite, bauxite, mercury, manganese, barium, marble, limestone and barite, have proven reserves. With reserves of 320 billion cubic meters, it is one of China's principal sources of natural gas. Reserves of bauxite (74 million ton), halite (300 billion ton), and strontium (1.85 million ton) lead the nation. Reserves of manganese and barium rank second and third, respectively.

Chongqing is crisscrossed with rivers and dotted with lakes. This thickly woven watery web assures abundant water resources. Average annual volume of water resources total 500 billion cubic meters and hydropower reserves, 14.40 million kW, including 7.5 million kW as yet undeveloped, the most of any of the nation's large cities. The municipality's prominent limestone topography, with many limestone caves, abundant hot mineral springs and potable mineral water, provides good prospects for further development of water resources.

The are more than 2,000 species of vascular plants in Chongqing. Over 1,700 subtropical tree species can be found on Jinyun Mountain. These include the dawn redwood, a ``living fossil" avoiding extinction for 160 million years, and other such rare and precious plants as Bretschneidera sinensis and the oblong-leafed maple. The national nature preserve on Nanchuan's Golden Buddha Mountain plays host to more than 1,000 tree and 17 bamboo species. With thousands of species of plants used in traditional Chinese medicine growing wild or cultivated on the area's hilly expanses, Chongqing is an important source of these products. Coptis root, Chinese nut-gall, honeysuckle, Magnolia officinalis, Amur corktree, Eucommia bark and Rhizoma corydalis are harvested in the largest quantities.

Some 380 animal species can be found locally, including the zibet (Asiatic civet cat), otter, clouded leopard, macaque, red-breasted golden pheasants and other unusual wild animals. Around sixty livestock species are raised, including excellent breeds of pigs, sheep, cattle and rabbits. Rongchang is a famous base for raising pigs, while Shizhu raises, processes and exports the woolly hare. In addition, there are over 120 fish species; Changshou and Dahong lakes are important piscicultural centers of the region.

Chongqing’s economic has been greatly developed in the past 2 decades, with an annual gross domestic production growth rate of 9.8% and per capita GDP growth rate 9%. In 1998, its GDP amounted to 14.29 billion yuan.

Modern industry was developed in Chongqing at a relatively early date. In the past it was already an important industrial base. While heavy industry was its mainstay, it included a complete array of different industries and a strong capacity to manufacture complete sets of equipment. Today there are 360 large and medium-sized state enterprises locally employing 1.7 million people. Chongqing is an important production base for machinery, conventional weapons, chemicals, medical products, and meters and instruments. Pillar industries are machinery, principally automobile and motorcycles, chemicals, most importantly natural gas and medical chemicals, and metallurgy, represented by high-quality steel and aluminum products. Mechanical and electrical equipment, electronic information technology, building materials, food, household glass and ceramics and household chemical products all have a strong presence.

Chongqing is a major producer of natural gas. In 1996 natural gas output reached 2.61 billion cu m and climbed still higher in 1997.

Automobile and motorcycle manufacturing has developed rapidly in recent years. Heavy and light vehicles, minicars and economy cars suited for different incomes and uses are already being produced. In 1997, 160,900 cars and 1,768,200 motorcycles were produced. Chongqing is becoming the car production base for western China. Local military products industries have already taken advantage of their expertise and facilities for research and production to take the lead in producing goods for the civilian market, using the success of competitive products to build a new and rising industry that combines the military with the civilian. Today about 90 percent of the output value of such industries is for civilian use. Even now, the industries are changing their orientation. What once was a change from production for military use to civilian consumption is now becoming a change from domestic consumption to export.

More than 30 percent of the medical products output value of the southwest is produced in Chongqing. The city has a comparatively pronounced advantage in medicines manufactured from chemicals. Local meter and instrument manufacturers have the capacity to design and manufacture complete sets of equipment for automatic control systems for large projects. The local metallurgy industry can smelt and roll more than 1,000 metals. The Southwest Aluminum Processing Plant can produce aluminum to 13,000 specifications and takes the lead nationwide in terms of equipment and production research capability.

Chongqing has taken advantage of its position astride the Yangtze to become an important commodities clearing-house for the upper Yangtze and the southwest. Today, a network of more than 400,000 commercial, catering and service outlets can be found locally. In 1997, for example, the volume of retail sales of consumer goods totaled 50.79 billion yuan, a figure among the highest of China's large cities. There are more than 1,000 comprehensive markets selling nearly every kind of consumer and capital goods. More than 2,350 markets sell grain and cooking oil, meat, vegetables and fruits. The Chongqing Commodity Exchange, operating with comparatively standardized management, was the first futures trading market in the southwest and now does business throughout the country.

Financial organizations operate within a system under the leadership of the People's Bank of China. As the system has taken shape, state-owned commercial banks provide the main body, working in concert with other commercial banks, non-banking financial organizations and non-local financial organizations to cover the city and countryside. Some commercial banks, notably the Chongqing Branch of the Bank of Communications, have become regional banks doing business throughout the southwest. A number of foreign-invested banks have set up shop or are currently planning to set up shop in Chongqing. The Scotia Bank of Canada, the Sumitomo Bank of Japan, and the Paosheng Bank of Hong Kong have established branches in Chongqing. The foreign exchange market has developed rapidly, with the Chongqing Foreign Exchange Transaction Market becoming the largest in the southwest. The stock market is growing ever larger. By the end of 1997, 22 Chongqing companies were listed on the stock exchange, second only to Shanghai and Shenzhen. The Qingling (Group) Ltd's H shares are sold in Hong Kong.

Chongqing is the largest water, land and air transportation hub for both the upper Yangtze River and the southwest. It has a comprehensive transportation system comprising railways, highways, waterways and airways. Three electrified railway trunk lines, Chengdu-Chongqing, Xiangfan-Chongqing and Chongqing-Guiyang, are part of the national railway network. There is a Expressway between Chongqing and Chengdu, the capital of Sichuan as well as other 20 highways and 17 cross provincial lines connecting with Yunnan, Guizhou, Sichuan, Hubei, Hunan and Shaanxi. Water transportation relies on the Yangtze river. Chongqing has built tens of ports and passenger/freight wharves. Year-round one kiloton-grade ships can reach the open sea sailing down the river from Chongqing. With the completion of the Three Gorges Project, fleets of 10,000-ton-grade ships will be able to reach Chongqing sailing directly upstream. The Jiangbei Airport, currently being expanded and optimized to international standards, has regular routes to more than 40 major cities domestically and flights to Hong Kong and Macao and chartered flights available to Bangkok, Singapore, Kuala Lumpur and Nagoya. In 1997 local transportation companies handled 59.29 million ton in freight and 273.36 million passengers.

Chongqing is the command center for postal and telecommunications service in the southwest and an important communications hub for the entire nation. Five microwave mail line communication networks linking Chongqing to Wuhan, Xi'an, Guiyang, Kunming and Chengdu, and three large close-circuit electric cables connecting Chongqing to Wuhan, Xi’an and Chengdu are already in place. Direct dialing provides quick access to all of China and more than 180 countries and regions. Big and medium-sized cities in China can be reached through express mail and special delivery express mail. Reciprocal service agreements allow international postal service to more than 100 countries and regions.

Chongqing has nearly 1,000 scientific and technological development organizations of various kinds, including 17 key laboratories, engineering technology centers and enterprise development centers; 560,000 professionals staff these organizations, including more than 190,000 senior and middle-rank professionals.

In the education field there are more than 25,000 schools of all kinds at various levels with a total enrollment of more than four million students, including 25 institutions of higher learning, with a total enrollment of 90,000 students. Famous institutions of higher learning include Chongqing University, Southwest China Agricultural University, Southwest China University of Political Science and Law.

There are more than 4,700 medical and health organizations in Chongqing staffed by more than 88,000 professional and technical personnel and providing 66,000 hospital beds. The No.3 Army Medical University Hospital is one of the best in China in treatment of burns, liver and gall bladder diseases, urinary system diseases and traumatism. Anothr important hospital is The Chongqing Medical University Hospital. The Chongqing Emergency Medical Service Center, a product of Chinese and Italian cooperation, is equipped with a complete modernized monitoring and care system and equipment for examination, rescue and radio communication. It is one of China's largest emergency medical service centers.

3.2 Agriculture and food industry in Chongqing

a) General situation of the agriculture in Chongqing

The agricultural percentage in GDP was reduced from 36.90% in 1978 to the present 21.20%, and the agricultural labor force went down from 74.40% to 57.20%. However, Chongqing is still a big agricultural base in China.

Chongqing has a humid, mild subtropical climate. Its multiple and varied topographic features and land types are suited to agricultural development. Altogether 1.622 million ha of land are cultivated. Staple crops include rice, corn, wheat, tuber crops, beans, rape and cotton. It is an important grain and commodity pork producer and well known for the production of quality fruits, hot pickled mustard tubers, tung oil and flue-cured tobacco. Jiangjin tangerines, Liangping shaddocks, Fuling hot pickled mustard tubers, Wanxian tung oil, and Qianjiang flue-cured tobacco are famous nationwide. Agricultural and sideline products including silkworm cocoons, domestic fowl and tea also have a high market share.

In 1998, the grain production in Chongqing more than 11 million ton, (of that, rice output was 5.19 million ton), basically met the requirements of rural residents. The pig-raising industry is relatively developed, Chongqing not only has 6 of the 100 biggest pig-raising counties in China, but ranks among the 3 best nationwide. In 1998 there was 17 million pigs in the Municipality and the meat output was 1.4 million ton (mainly pork, 1.2 million ton).

Chongqing-Output if Main agriculture products-1998

Product	
Grain	11 million ton
Rice	5.19 million ton
Oil-bearing crops	250,000 ton
Sweet cane	72,800 ton
Tea	15,200 ton
Silkworm	29,200 ton
Fruit	741,000 ton
Orange	546,400 ton
Milk	46,500 ton
Eggs	224,000 ton
Aquatic products	17,800 ton

b) Food Industry in Chongqing

In 1998 the food industry yield value was 8 billion yuan, accounting for 12 % of that of the industries in Chongqing. The amount of profits and tax was 1.5 billion yuan. The percentage of the tobacco industry in the food industry of Chongqing is very large, accounting for 35 % of the whole food industrial value and 80 % of the total profits and tax.

According to the statistics of Chongqing Municipality, there are 242 main food enterprises in Chongqing. Among them 118 are food processing enterprises, 61 are food manufacturing enterprises and 52 are beverage enterprises. State-owned capital accounts for 53.73 % of the gross capital of these enterprises and foreign capital accounts for 4.08 % of the gross capital.

Among the output value created by those 242 main food enterprises, 41.14 % was from tobacco industry, 24,79 % was from beverage industry (mainly liquor industry), 21.12 % from food processing and 14.03 % from food manufacturing.

These enterprises has a total staff of 64,400 employees and 5.4 billion yuan of fixed assets. In 1998 their industrial output value was 7.94 billion yuan, 8.69 % of the total industrial output of the

Municipality. Nearly 40 % of the profits and tax of the industry in Chongqing Municipality are coming from those 242 enterprises, mainly from the tobacco and spirits sectors. This figure can show the importance of the food industry in Chongqing.

From an overall point of view, the reason for the good economic profits of the food industry is the pushing of high output value and high profits from tobacco and spirits industries. Howerer, the food processing industry and the food manufacturing industry do not run smoothly. In fact, food processing and food manufacturing are loosing money industries in Chongqing and in recent years, some middle-level enterprises shrieked or went bankrupt. For example, grain feed processing industry and plant oil industry have a large production capacity, but their low economic profits keep them at the breakeven point. Sugar and meat processing industries have been suffering losses for long and some of them have been out of business of taken over. The situation of confection and canned food industries are even worse.

The situation is much better in the beverage industry and distilled spirit (mainly medium and low grade) and beer enterprises have a large production capacity with great market shares. Soft drinks, mainly Sino-Pepsi Tianfu series, also gets certain market shares.

c) Main food enterprises in Chongqing

According with the information offered by the Food Industry Association of Chongqing, the pillar food enterprises in Chongqing are list as the follows:

1-<u>Meat processing industry</u>

Chongqing is well rich in pork resources. However the fresh and frozen meat is the mainstay of the meat consumption because of the backward meat processing technology.

The small-scale meat processing factories in Chongqing only have primary processing technology and their products acre mainly sausage and frozen meat. In the actual process of transformation from a planned economy to a market economy most state-owned meat processing factories suffered losses.

Main enterprises included a meat processing enterprises set up between Chongqing Wanxian Canned Food Factory and Henan Chundu Group of Henan province. Wanxianshi Chundu Co. Ltd. has an annual sausage output of 10,000 ton. Other enterprises included Chongqing Hengle Western Food Co. ltd. and Changjiang Food Factory. The best-selling meat product in

Chongqing supermarkets are coming from Nanjing Yurun Food Co. Ltd., Chengdu Xiwang Food Co. ltd. and Henan Shuanghui Group.

2-<u>Distilled spirits</u>

The are main 6 main distilled spirit enterprises in Chongqing. Jiangjin Liquor Factory, producing middle and low grade distilled sprits (Jiangjin Sprits), has a productive scale of 20,000 ton. The actual output in 1998 was 10,000 ton, and profits and tax of this company was of 12.8 million yuan. Jiangjin Sprits possesses a relatively fixed consumer group in northwest region, such as Xinjiang and Gansu. Chongqing Taibai Liquor Factory was taken over by Wuhan Beidou Group. Its main product is Shixian Taibai Liquor, and is well received in the market. Hechuan Liquor Factory is an invested project by Beijing Junshen Group

Other important factories included Yongchuan Shisong Liquor Factory (productive capacity, 20,000 ton), Yongchuan Luhuarong Liquor Factory (productive capacity, 2,000 ton), and Gufo Liquor factory(productive capacity 10,000 ton).

3-<u>Beer</u>

Chongqing Beer Group plays a leading role in the beer industry of the Municipality. Recently it has taken over, purchased or controlled 15 companies or their shares. In 1998, the group has a capacity of 550,000 ton and generated 210 million yuan in profits and tax. Its Shancheng, Chongqing and Maikewang beers get great market shares in Chongqing.

The second important company is Chongqing Shuanggui Beer Co. Ltd. with a productive capacity of 100,000 ton. Its sales in 1998 was 96.79 million yuan, and profits and tax, 28.52 million yuan.

Non-native beers mainly are Lanjian, Blue Ribbon, Huanghe(Lanzhou), and Budweiser.

4-<u>Other beverages</u>

Due to climate and soil, there are no wine enterprises in Chongqing. Wines available in the market chiefly are the 3 domestic brands (Changyu, Dynasty, Great Wall) and foreign wines. Experts in Southwest Agriculture University have been invited by the Dynasty Winery Co. Ltd. to make a feasibility study for a project to set up a wine factory in Shizhu county with a annual output of about 3,600 ton.

In addition, Chongqing Huamei Co. Ltd. has established a factory for potting imported French wine with annual production of 3,530 ton.

5-Soft drinks

The main carbonic acid beverage enterprise in Chongqing is Sino-US joint venture Chongqing Pepsi Tianfu Beverage Co. Ltd.. Its mains product are Pepsi-Cola, Tianfu Cola, Tup, and Tianfu Baining. Sixty per cent of its shares are controlled by foreign investors. The corporation enjoys an annual production capacity of over 100,000 ton, and the sales in 1998 was 163 million yuan. Profits and tax reached the figure of 14.78 million yuan. Its products are mainly sold in Chongqing and Guizhou.

Another important company in Chongqing is Hangzhou Wahaha Group Fulin Co. Its sales in 1998 was 206 million yuan and the amount of profits and tax, 47.74 million yuan. This is one of the 50 best enterprises in Chongqing. Its mineral water, Future Cola series and fruit milk all find a good market in Chongqing. The corporation plans to invest 200 million yuan in the near future for expansion. It will add a production line of 0.36 million bottles carbonic acid drink per hour that will raise its capacity to 240,000 ton and make sales 0.5 billion yuan.

The fruit juice market in Chongqing is still the world of some well-known products from other places such as the brands Great Lake, Huiyuan, Rougemont, and Long's. As a few former beverage factories such as Wanzhou Beverage Factory and Jinshan Beverage Factory could not meet the requirements of consumers in technology and quality, now they are all at the verge of bankruptcy. At present, an American company is exploring the possibilities of establish a fruit juice factory in the orange plant in Zhongxian County.

The company Chongqing Aquatic Products Group, in joint venture with and Beijing New Continent Company has imported Denmark equipment to produce ice creams. Its production capacity is 4,000 ton, and actual output in 1998 was more than 2,000 ton, accounting for 30% of the market.

Finally, Huashanyu Food factory have been transformed from confection and cakes production to that of soft drinks. It possesses 2 small production lines, and its products are very popular among the costumes.

6-Instant food

Kanfshifu instant noodle and other snacks made by Chongqing Dingyi international Food Co. Ltd. mainly market Sichuan, Guizhou, as well as Chongqing. The sales in 1998 was 434 million yuan, profits and tax totaled 61.75 million yuan. Most instant frozen foods are from Shanghai and Guangdong while native products hardly appear in Chongqing. The liking of Chongqingnese-hot and chili flavor-should be taken into consideration before the establishment of a food factory if its sales centering on local market.

7-Dairy products

Chongqing Dairy Company is the largest one in Chongqing with 3 branches. Its Tianyou milk and yogurt built a strong franchise in Chongqing. Many distributive stores were established offering fixed buyers preferential prices. The scale of this company keeps expending. The output in 1998 reached 10,000 ton, of them output of the milk powder was 2,000 ton. Its profits and tax reached 9.38 million-yuan.

Taiyi Dairy Co. Ltd., a privately owned enterprise, invested 40 million yuan importing an Italian production line, but the business hasn't been brought into full play for lack of milk resource.

8-Canned food industry

They are 4 designated export-oriented canned food enterprises in the Municipality: Chongqing Canned Food Factory, Tongnan Canned Food Factory, Wanxian Canned Food Factory (cooperating with Chundu Group), and Hechuan Canned Food Factory. However almost most of them either stop production or face bankruptcy due to problems of quality or export channels.

One exception is Chongqing Canned Food Factory. This company imported equipment from Sweden and Germany in the early 1990s, and from them has been producing canned meat, food and vegetable, and now establishes itself in the East Europe. This enterprises has a annual production capacity of canned food of 30,000 ton, beverage 10,000 ton of beverage and 5 million ton of fruit liquor.

9-Cake and confectionery

The cake and confection market in Chongqing is completed taken possession by products from Guangdong, Shanghai and other coastal provinces. The related state-owned enterprises almost stop production or are in situation of bankruptcy. One of the traditional companies - Guanshengyuan- has once imported chocolate bean production line, but the products haven't found a ready market. It also has imported a milk-weaning infant food production line from Sweden but also hasn't been made good use because of market problems.

There are privately owned enterprises (Qinyuan Food Co. ltd. and Huanshengyuan Food Co. Ltd.) make baked food. They cover over 40 distributive stores in the urban district of Chongqing and get a good economic efficiency.

10-Grain processing industry

Though there are more than 260 food processing enterprises in Chongqing, the daily production capacity of the largest one only amounts to 100 ton. The annual production capacity of wheat flour processing enterprises is 1.05 million ton and the actual output in 1998 was 0.48 million ton. As the consequence of the climate, the native wheat is of bad quality with low gluten and protein, and can not be made into edible wheat flour. Therefore, Chongqing Southwest Wheat Flour Factory introduced Italian equipment and import wheat from Canada, Holland, and North China for their production, but it can only meet 20% of the requirement of the market.

d) Characteristics of food industry in Chongqing

Large percentage of state-owned enterprises, large percentage of tobacco and spirits industries and small scale of enterprises are the main characteristic of the food industry in Chongqing.

Chongqing teems with natural resources, but the adaptability of farm product's processing is at low level because of the climate. The food industry in Chongqing is still backward and short of money. Generally speaking, the enterprises are small and scattered with low resource utilization rate.

Among the principal food industry enterprises in Chongqing, 38 % are state-owned companies, and more than 53 % of the gross capital of those enterprises is also estate-owned. This is an important characteristic of the food industry in Chongqing. The other one is the large percentage of tobacco and sprits industries. More than 65 % of the output value of the main 242 food industry enterprises of Chongqing comes from the tobacco and the beverage industry.

At present there are excess of rough machining and raw material products and few finish machining and manufactured products, excess of between-meal products and few healthy and green food, excess of native products and few of up-to-date foods.

One of the main problems in the sector is the irrational industrial structure and imbalance of development. While only few industries, such as pork, pickle, distilled spirit, purified water, dairy and tobacco have advantages, the others universally shrink or even go bankrupt.

The second main problem is the striking controversy between the rich agriculture by-products and the backward further processing technology especially in the pork, fruit and vegetable processing industries

e) Foreign participation in the food industry of Chongqing

The food industry has not been put into the class of pillar industries in Chongqing; therefore there are some differences between this and other sectors in the field of favorable policies for encourage foreign investment. That is one reason why the foreign investment in food industry is fewer than in other sectors. The two main foreign invested projects are Sino-US Pepsi-Cola (Tianfu Co. Ltd.) and Dingyi Group, an instant noodle company with investment from Taiwan. The rest of the inversion in this sector are in a small scale and most of them came from Taiwan and Hong Kong.

During our stay in Chongqing, our Survey group has detected the interest to introduce foreign funds and technology in the following fields of the food industry of Chongqing:

- Further meat products processing technology
- Further green processing technology
- Vegetable and fruit freshness-keeping and dehydration technology
- Establishment of green vegetable, fruit and milk base
- Food industry Commerce and Export in Chongqing

The group carry out a survey in supermarkets of Chongqing including Carrefour, Friendship Store and the New World Shop. Carbonic acid beverage market in Chongqing is in the control of the Chongqing Pepsi Tianfu Beverage Co. Ltd. while Chongqing Beer Group holds the lion share of the beer market. Confection (chocolate) and cake markets are occupied by well-known products from other provinces. Through sampling survey, here are brands and prices of the foods that sell well in supermarkets, retail and wholesale stores:

- Meat

Yurun Sandwich Ham(Nanjing)	10yuan/490g
Yurun German Ham	10.4yuan/100g
Yurun Beef Sausage	6.7yuan/180g
Meihao Sandwich Ham(Chengdu)	10yuan/418g
Shuanghui Ham(Henan)	2.0yuan/130g
Wutian Yak Ham(Sichuan)	8.2yuan/150g
Wutian Breakfast Sausage(Sichuan)	11.4yuan/300g
Hengle Beef Ham(Chongqing)	12.9yuan/500g
Changjiang Sandwich Ham(Chongqing)	12.2yuan/500g
CJ Ham(Qingdao, Korean company)	7.2yuan/150g

- Beverage

Liquor (52%, 500ml bottled)	
Luzhou Laojiao	45 yuan
Quanxing liqueur	29.8 yuan
Shixian Taibai	18.5 yuan
Jiangjin 45 o (Chongqing)	16 yuan

Wine (750 ml)	
Dynasty Dry Red Wine	42.8 yuan
Dynasty Dry White Wine	24.7 yuan
Great Wall Dry Red Wine	34 yuan
Great Wall Dry White Wine	22 yuan
Changyu Dry Red Wine	30 yuan
Multiluck Dry Red Wine	30.4 yuan
Daban Dry Red Wine	34.8 yuan
Tonghua Dry Red Wine	34.5 yuan

Bottled beer	
Chongqing Beer	2.9 yuan/640 ml
Chongqing Ice Beer	3.6 yuan/580 ml
Shancheng Beer	2.6 yuan/640 ml
Mekkiwang Beer	6.5 yuan/580 ml
Tsingtao Beer	6.3 yuan/640 ml
Beck Beer	6.8 yuan/640 ml
Carlsberg Beer	2.9 yuan/640 ml

Tin beer (355 ml)	
Chongqing Beer	2.4 yuan
Blue Ribbon	3.3 yuan
Carlsberg	5.5 yuan
Budweiser	5.5 yuan
Tsingtao	3 yuan
Jinlanjian	3.4 yuan

Vegetable juice	
Great Lake (bottled)	15 yuan/ 1000ml
Long´s (100%)	11.7 yuan/ 1000ml
Rougemont (100%)	16 yuan/ 750 ml
Dole (100 %)	19.5 yuan/ 1000 ml
Parmalat (100 %)	11.5 yuan/ 1000 ml
Whatson´s (100 %)	19.8 yuan/ 1000 ml
Huadu	12.4 yuan/ 1000 ml
Huiyuan	14 yuan/ 1000 ml

Bottled carbonic acid drinks (Bottled 1.25l)	
Coca-Cola (Chengdu)	4.6 yuan
Pepsi-Cola (Chongqing)	4.4 yuan
Tianfu-Cola (Chongqing)	3.5 yuan
Tup (Chongqing)	4.5 yuan
Tianfu Baining	3.7 yuan
Sprit	4.7 yuan
Future Cola	4.7 yuan
Xurisheng	12.9yuan/500g

Tin Carbonic acid drinks	
Pepsi-Cola	1.75 yuan
Coca-Cola	1.75 yuan
Tianfu Cola	1.4 yuan
Tianfu Baining	1.47 yuan
Sprit	1.8 yuan
Jianlibao	2.2 yuan
Fanta	2.1 yuan
Tup	1.8 yuan

Milk	
Tianyou pure milk	3.9 yuan/500 ml
Taiyi pure milk	2.1 yuan/250 ml
Parmalat pure milk	10.7 yuan/1000 ml
Nestle milk	9.8 yuan/1000 ml
Guangming pure milk	8.6 yuan/1000 ml
Junyao milk	5.9 yuan/1000 ml
Zimu milk	7.6 yuan/1000 ml

Yogurt	
Tianyou yogurt	1.6 yuan/150 g
Guangming yogurt	1.9 yuan/190 g
Junyao yogurt	2 yuan/250 g
Youmiao yogurt	2.3 yuan/180 ml

Milk powder	
Yili whole milk	14.6 yuan/414.6 yuan/400 g
Nestle whole milk	23.4 yuan/500 g
Dumex whole milk	21.5 yuan/450 g
Guangming whole milk	14.5 yuan/400 g

- cake and confection

cake	
Kleeber soda cookie	4.8 yuan/220 g
Ritz	3.2 yuan/118 g
Danone salt	2.6 yuan/100 g
Kleeber Wafer	4.2 yuan/200 g
Kangshifu	g

Chocolate	
Dove chocolate	8.9 yuan/80g
Cadbery chocolate	9.5 yuan/82 g
Snickers	4.5 yuan/59 g
Le conté chocolate	10 yuan/100 g
Ferrero Rocher chocolate	33 yuan/100 g
Mon Cheri chocolate	33 yuan/125 g
Hershey	55 yuan/40 g

Macaroni	
Lixiang macaroni (Guangdong)	7.2 yuan/300 g

Low technology contented farm products and raw materials are the mainstays of the food sector exports of Chongqing (see chart below)

Chongqing-Export Of Main Food Products-1998

Product	Quantity	Amount
Fresh frozen pork	285 ton	530,000 USD
Fresh frozen beef	110 ton	170,000 USD
Bean	459 ton	220,000 USD
Fresh,dry fruit	739 ton	320,000 USD
Vegetable	2,579 ton	4,810,000 USD
Canned pork	2,800 ton	4,930,000 USD
Canned mushroom	757 ton	630,000 USD
Sugar	349 ton	230,000 USD

3.3 Investment environment in Chongqing

a) Foreign investment in Chongqing

Chongqing Municipality have formulated a relatively comprehensive opening policy and relevant local laws and regulations, setting up a relatively optimal system attractive to investment. By the end of 1996, more than 2,000 local projects were using foreign investment, nearly 2,000 enterprises were foreign-invested and 3 billion US dollars in foreign investment had actually been put to use, making Chongqing the largest single city recipient of foreign investment in the southwest of China. Using this infusion of foreign capital and imported technologies and equipment, the city completed a number of urban infrastructure projects, transformed a group of mainstay enterprises, developed a number of key competitive products, cultivated and strengthened pillar industries, and promoted reform of the industrial structure and generally upgraded infrastructure. This work has laid a good foundation for Chongqing's opening to the outside world and foreign investment. Since its establishment as a Municipality Directly Under Central Government in 1997, it has opened still wider. According with the city Mayor Pu Haiqing ``Chongqing must open in all directions, if we are to achieve our ultimate goal of making it the economic heart of the upper Yangtze and an international metropolis."

As a newly rising centrally-administered municipality Chongqing´s “hard” investment environment presently falls short of that of the eastern coastal region of China. The city must rely on creating a first-rate “soft” investment environment, according with the local authorities. Today, Chongqing provides “one-stop” service for approval of local foreign-invested projects. Formerly, a foreign-invested project seeking approval would have to wind its way through sixteen departments each with its own set of procedures. Now that same project can be approved by one department, in and out. The whole process was thus simplified, the number of steps were reduced and charged items and amounts standardized. Since Chongqing achieved its new status, a markedly increased number of major financial groups and companies from the United States, Germany, France, Japan, Canada, Australia, the Republic of Korea, Thailand and other countries have sent representatives to investigate Chongqing's possibilities. Those foreign companies that had earlier invested in Chongqing are now increasing their investments. Japan's Isuzu, Britain's Glaxo and Thailand's Chai Tai and other such multinationals have increased their investments by tens of millions of US dollars. In 1997 more than 230 new foreign-invested enterprises were approved, and 19 large foreign companies set up their offices in Chongqing, and 940 million US dollars in foreign capital were actually put to use.

b) Regulations on foreign investment in Chongqing

In 1997 the Chongqing municipal government published “Preferential Policies to Encourage Foreign Investment". The text of this document is included in this work as an annex and the main contents are summarized below.

Foreign-invested enterprises involved in production which have been in operation for more than ten years will be exempted from local income tax from the first to sixth year that they start to earn a profit. Local income tax will be reduced by half for the seventh through tenth year. Projects operating for more than 15 years or with an investment of more than 30 million US dollars will be exempted from local income tax during the first eight years that they start to earn a profit. Local income tax will be reduced by half for the ninth through 15th year.

At the end of the term of the above tax reductions or remissions, foreign-invested enterprises involved in production operating in minority-inhabited areas, and state- or provincial-level poverty-stricken areas, or which engage in prospecting for or mining mineral resources, and which have been in operation for over ten years, after application to the tax authorities and approval, will continue to pay local income tax at half the normal rate. After ten years of operation, such foreign-invested enterprises involved in production at the end of the term of the above tax reductions and remissions, after application to the tax authorities and approval, will continue to pay local income tax at half the normal rate for an additional six to eight years. After the term of the remissions and reductions in local income tax have ended, foreign-invested enterprises involved in production for export for which output value of goods exported account for more than 50 percent of total output value for a given year will be exempted from local income tax for that year.

Foreign-invested enterprises engaged in the development and comprehensive utilization of natural resources or in the construction of power stations, airports, highways, bridges, harbors, wharves, waterworks (exclusive of pipe networks), water conservancy projects or other infrastructure projects will be exempted from local income tax.

Foreign-invested enterprises doing work for the government-sponsored housing project in relation with the Three Georges Dam Project, upon approval by the municipal government, will be exempted from local income taxes.

Income taxes on profits from tolls collected on high-grade highways constructed with foreign investment levied by the municipal-level tax office will be centralized and placed with the municipal financial office. That portion of the receipts scheduled for the municipal-level financial office will be returned to the investor until such time as he recoups his investment.

Foreign-invested enterprises which acquire relevant land-use rights over state-owned land through administrative assignment for productive use in agriculture, forestry, animal husbandry or fishery, or for scientific or technological, educational, or public health endeavors, or for the power stations, airports, highways, bridges, harbors, wharves, waterworks (exclusive of pipe networks), water conservancy projects or other infrastructure projects will be exempted from land-use fees. Foreign-invested enterprises constructing power stations, airports, highways, bridges, harbors, wharves, waterworks (exclusive of pipe networks), water conservancy projects or other infrastructure projects which acquire relevant land-use rights through private sale, upon the approval of the municipal government within the limits of their power of land examination and approval, can buy at the lowest price and on credit and pay in installments over a ten-year period beginning when the project is completed and put into operation. Foreign investors in minority-inhabited areas and state- and provincial-level poverty-stricken areas, with the approval of the Chongqing Municipal People's Government, will enjoy several other separately agreed upon preferential policies. With the exception of products specially prescribed by the national government, the proportion of goods produced sold domestically or for export will not be restricted, instead be decided by the enterprises themselves.

Encouraging the Direction of Foreign Investment Over the next 15 years, Chongqing must successfully resettle one million persons and effect the relocation, technological transformation and structural reorganization of 1,380 industrial and mining enterprises. Foreign capital must be acquired through a greater array of channels and that capital must be utilized on a greater scale and in a broader range of projects. Accordingly, the Chongqing municipal government will actively guide foreign investment to projects that deal directly with the people displaced by the Three Gorges Dam, or involve technological transformation of enterprises or energy resources, transportation, urban construction, developmental agriculture, environmental protection or social development.

Regulations on foreign investment in the field of beverage and food industries include the following three categories of projects:

1) Encouraged projects. Projects in the following field bellows to the encouraged projects category: grain , vegetables, fruit, meat, equipment and technologies for the storage, freshness-keeping and dryness of aquatic products

2) Restrained projects. Projects in the following fields bellows to the restrained projects category: production of table salt and industrial salt, production of non-alcohol beverage (including solid beverage) with foreign brand, production of “yellow wine” (a chinese rice wine) and chinese famous-brand spirits, grease processing industry.

3)Prohibited class. Processing industry of the green tea and special tea (black tea, famous tea) and processing industry related with wild animals and plants protected by the State are prohibited class for foreign investment.

The relevant offices related with foreign invested projects included the Planning Commission, the Economic and Trade Commission, the Bureau of Industry and Commerce, the Department of the Foreign Trade and Economic Cooperation, the Customs Administration, the State-owned Assets Management Department, the Foreign Exchange Control Department and the Financial Department.

The procedures for establishing a foreign-investment enterprises in Chongqing included the following steps:

1) Submitting the project proposal and the feasibility study report to the administrative authorities concerned
2) Applying for the enterprises´s name registration to the administrative authorities for industry and commerce
3) Submitting the contract and articles of association to the foreign trade and economic cooperation authorities
4) Applying for the business registration to the administrative authorities of industry and commerce

The establishment of a wholly foreign-owned enterprises should follow the application and approval procedures as described below:

1) 1.Applying for the enterprises name registration to the administrative authorities of industry and commerce
2) 2.Submitting the application report and articles of association to the foreign trade and economic cooperation administrative authorities
3) 3.Applying for the business registration to the administrative authorities of industry and commerce

The required Documents included:

1) Project proposal and feasibility study report
2) Agreement signed by all the parties concerned in the joint-venture or in the cooperative project
3) Foreign investors qualification certificates and credibility documents
4) Environmental evaluation report approved by the environment authorities,
5) Name list of members of the board of directors and the designation documents from various parties
6) Application for, and report for the establishment of wholly foreign-owned enterprise
7) Application for registering of the enterprise in the administration of industry and commerce

The relevant organizations involved in the issue of documentation and certificates need by foreign investment enterprises included as follows:

Engraving of enterprise seal:	Public Security Bureau
Financial registration:	Bureau of Finance
National tax registration:	National Tax Bureau

Local tax registration:	Local Tax Bureau
Foreign exchange registration	Local Branch of Foreign Exchange Control Office
Customs registration:	Local Customs

After the establishment of an enterprise the following approval and formalities are need:

1	Examination and approval of construction and public works
2	Program and management bureau
3	Examination and approval of project-use water and gas
4	Bureau of public services
5	Examination and approval of project-use land
6	National land office
7	Application of project-use power
8	Electricity board
9	Identification of high and new technology enterprise
10	Science and technology committee
11	Sanitation inspection of construction project
12	Sanitation and anti-epidemic station
13	Inspection of charge
14	Office of price supervision
15	Formalities of foreigners' residence
16	Public security bureau
17	Account-opening formalities
18	Any the commercial banks
19	Claims of foreign-funded enterprises
20	Claim center for foreign investors

In accordance with the current law of the P.R. of China on foreign investment, there is no maximum limitation on proportion of foreign investment but the lowest proportion of foreign investment should not be less than 25 % of the registered capital.

In relation with the proportion of registered capital for the total investment of the projects the stipulations are as follows:

- ♦ If the total investment is under USD 3 million the registered capital should not be less than 70 %
- ♦ If the total is above USD 3 million to 10 million, the registered capital should take up at least 50 %, or which, if the total investment is under 4.2 million, the registered capital should not be less than USD 2.1 million.
- ♦ If the total is above USD 10 million to 30 million, the registered capital should take up at least 40 %, of which, if the total is under USD 12.5 million, the registered capital should not be less than USD 5 million
- ♦ If the total is above USD 30 million, the registered capital should take up at least 33.3 %, of which, if the total is under USD 36 million, the registered capital should not be less than 12 million.

Foreign investors may invest the registered capital of the project at one time or by stages. For the one time investment, the capital should be totally invested within six months after obtaining the business license. If by stages, the first time investment, within three months of obtaining the business license, should take up at least 15 % of the total registered capital. The rest stipulations are as follows:

- If the registered capital is under USD 500,000 the total investment should be paid within one year after obtaining the business license
- If is above USD 500,000 to one million, the time is one and half year after obtaining the business license
- If is above USD 1 million to 3 million, the paying time is within 2 years after obtaining the business license
- If is above USD 3 million to 10 million, the paying time is within 3 years after obtaining the business license
- If is above USD 10 million, the paying time should be decided by the authorities according to the application of the investor and the execution of the project.

➢ *Areas and zones for investment in Chongqing*

Chongqing Economic and Technologic Development Zone

Chongqing Economic and Technologic Development Zone was the first State-level one in Southwest China. It was established in 1990 and approved in 1993 by the State Council for practicing a foreign economic policy as favorable as that of coastal cities. The food industry is one of the 4 pillar industries in this development zone.

The zone is located at Nanping Section, Nanan District on the southern bank of the Yangtze River. It covers an area of 96.6 square kilometers with its west part extending alongside the Yangtze River, the east part approaching Sichuan-Guizhou Highway (State Highway No.210). In the north, the Chongqing Yangtze River Bridge serves as a link between the development zone and downtown. In the south, the Chongqing Yangtze River No.2 Bridge connects the development zone with Chengdu-Chongqing Expressway. Owning to its good location, transportation in the open zone is very convenient for entering and leaving. The development zone is only 3 kilometers from downtown, 3 kilometers from a container port, located in Jiulongpo District, for water-land connection transport, and 28 kilometers from Chongqing Jiangbei Airport. In the development zone there are all relevant departments, branches and offices set up here in handing matters, as such banks, the customs, taxation, insurance, accountants and lawyers.

At present, the north part of the development zone with 4 square kilometers has been built into a comprehensive urban section containing mainly trade and finance, business and residence as well as some industrial enterprises scattered within. In the south part of the development zone, Dan Gui Industrial Area of 1.5 square kilometers in taking shape. So far, 215 enterprises with foreign funds involving a total of USD 500 million invested by 18 countries and regions have been established, including some famous-name overseas companies: Japanese-Honda, Japanese Electrical Appliances for Auto Industry Co.(Tian Chuang), Kanhsi Paint, and Taiwan Ting Hsin International Group. There is an Administration committee of Chongqing Economic and Technology Development Zone to offer investment-related services.(Tel: 023-62800085; Fax: 023-62800136)

Chongqing High-Technology and New Industries Development Zone

Chongqing High-Technology and New Industries Development Zone was established in 1988 and became a State-level one with the approval of the Sate Council in 1993. Entitled by the State and Technology Commission for Reconstructing Economic System, the zone has been a national comprehensive-experimental development one since 1993. With a total area of 20 square kilometers it is located in Jiulongpo District. This District is a large industrial district of Chongqing and a modern agricultural example district.

Since the establishment of Chongqing High-Technology and New Industries Development Zone, all the relevant organizational set up in the zone have come into operation promptly, including the administration of industry and commerce, the branch of tax bureau, the financial bodies. In accordance with the state existing principles, Chongqing municipal government always attaches great importance to simplify procedures and improve efficiency in handing affairs for investors to be registered in the development zone.

Foreign companies can contact with the Bureau of the Invitation of foreign investment of the People's Government of Jiulongpo District in Chongqing. Tel: 023-68400055, 68781759; Fax: 023-68429511.

Shapingba District

The Shazhong Street of Science and Technology is a new area in Shapingba District. The Shiqiaopu High-Technology Development Park, within this are, is taking shape, including more than 100 million RMB yuan invested for the construction of infrastructure facilities, 230,000 square meters completed as a total floor workshops in use. Already more than 2,000 enterprises have registered and entered the zone, mainly chinese companies with a total registered capital 600 million RMB yuan. The rest are 210 foreign related enterprises containing cooperation, joint venture and solely foreign-funded ones with a total investment of USD 380 million.

The development zone has received investment from companies such as Japanese Isuzu, the Northern China-Zheng Da Grouping, Zhuhai JuRen Grouping, French Air Liquid Company, German Hans Company and American Mobil Oil Company. The contacts of the Foreign Investment Inviting Office of the People's Government of Shapingba District in Chongqing are Tel: 023-65350353; Fax: 023-65301746; e-mail: da-wong@163.net; http: www.cq.gov.cn

➢ *Standars of charge for services and salaries in Chongqing*

The standard of charge for electricity, water and gas for companies in Chongqing are including in the following chart.

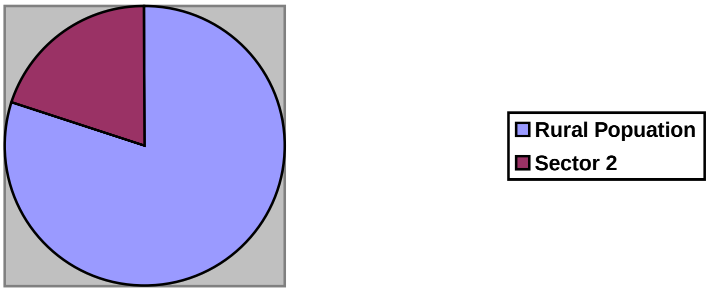
Item	Class	Unit	Price
Electricity	Industrial power	yuan/kVH	0.47
Water	Industrial water	yuan/ton	1.264
Gas	Natural gas	yuan/m^3	0.7658

The standar income level in Chongqing for a non-trained worker is 700-1000yuan/ person/month; 1,500-2,000 yuan for a technician and common managerial personnel and 2,500-3,000 yuan for senior managerial personnel. Other fees related with employment include endowment insurance (20%), medical insurance (6%), and unemployment insurance (2%). Those insurance are compulsory and shall be pay by the employers on the bases of the income of the employees.

3.4 General situation of the consumers in Chongqing

By the end of 1998, the population of Chongqing was 30.6 million. Of then more than 24 million are rural population .

Structure of Chongqing population



In 1998 the average disposable income per capita for urban resident in Chongqing was 5,467 yuan, one point higher that the national average level.

In 1998, the per capita consumption expenditure of city families in Chongqing was 4,977 yuan, 45% of which, i.e. 2,262 yuan, was for food consumption. Consumption expenditure was 115% of the average level of the city residents nationwide, and food consumption expenditure was 117% of the national average level.

The structure of the food consumption of urban residents in Chongqing are show as follows:

Product	Expenditure
Grain	200.47 yuan
Starches and tubers	24.17 yuan
Beans and bean products	34.91 yuan
Oil and fats	94.17 yuan
Meat and meat products	506.97 yuan
Eggs	81.47 yuan
Aquatic products	97.18 yuan
Vegetables	219.31 yuan
Condiments	43.79 yuan
Sugar	35.39 yuan
Tobacco	117.63 yuan

Liquor and beverages	84.83 yuan
Fruit	132.51 yuan
Nuts and kernels	20.69 yuan
Cake	45.94 yuan
Milk and dairy products	83.10 yuan
Others	24.23 yuan
Dinning out	414.75 yuan
Charge for food processing service	0.65 yuan
Total	2,262.16 yuan

In 1998 the per capita net income of rural families in Chongqing was 1,720yuan; 80% of the national average level. The per capita consumption expenditure of rural families in Chongqing was 1,343 yuan, 62% of which, i.e. 831 yuan, was for food consumption.

Consumption expenditure of rural families was 84% of the average level of the national rural residents' average level, and food consumption expenditure was 98% of the national average level.

Main per capita food consumption of rural families in 1998 in Chongqing are show in the follow graph:

Product	**Consumption**
Grain	239.45 kg
Vegetable	171.47 kg
Edible oil	5.92 kg
Pork, beef and mutton	24.89 kg
Egg	4.02 kg
Aquatic products	1.19 kg
Sugar	2.1 kg
Liquor	6.32 kg

3.5 ANNEXES

ANNEX 1: **Chongqing Municipality-Main Figures**

Area	82,000 sq km
Population	30,400,000
Non agricultural population	5,950,000
GDP (in USD)	16,270 million USD
GDP per capital	535 USD
Number of staffs and workers	2,870,000
Population density of urban districts	581 persons/sq km
Per capita living space	8.32 sq mt

ANNEX 2: **Main financial data of the food industrial enterprises at township or above township level in Chongqing in 1997.**

Unit: 100 million yuan

Industrial enterprises	**Number of enterprises**	**Number of loss-incurring enterprises**	**Sales of products**	**Total profits**	**Profits and tax**	**Total original prices of fixed assets**	**Annual average balance of current assets**	**Industrial gross output value**	**Industrial gross output value(constant prices)**	**Industrial added value**	**Annual average balance of fixed assets net value**	**Whole staff productivity of industrial added value(10,000 yuan/ person)**
All food industries in Chongqing	1299	387	89.17	-0.60	13.38	56.89	54.40	88.23	67.94	29.84	39.91	3.25
Food processing industry	512	187	29.53	-1.32	-0.71	16.24	12.74	29.94	19.90	6.96	10.90	2.08
Food manufacture industry	181	84	12.39	-0.35	0.40	12.82	8.72	12.85	10.51	3.87	8.63	1.61
Beverage manufacture industry	592	111	16.44	0.30	2.61	14.87	11.75	17.77	14.94	5.94	10.69	2.35
Tobacco industry	14	5	30.81	0.77	11.08	13.46	21.19	27.67	22.59	13.07	9.69	10.89

ANNEX 3: **Financial data of the main food industrial enterprises in Chongqing in 1998**

Unit: 100 million-yuan

Industrial enterprises	Number of enterprises	Number of loss-incurring enterprises	Sales of products	Total profits	Profits and tax	Total original prices of fixed assets	Annual average balance of current assets	Industrial gross output value	Industrial gross output value(constant prices)	Industrial added value	Annual average balance of fixed assets net value	Whole staff productivity of industrial added value(10,000 yuan/ person)
All food industries in Chongqing	242		79.98	6.61	15.37	53.82	50.82	79.35	61.69	29.08	46.68	4.51
Food processing industry	118		20.65	-0.64	-0.25	10.87	9.32	20.07	13.01	3.72	7.96	1.94
Food manufacture industry	61		10.43	-0.31	0.06	11.69	5.69	10.25	8.64	3.05	17.13	1.83
Beverage manufacture industry	52		17.32	0.67	3.43	17.65	14.93	17.63	15.32	5.66	11.00	2.94
Tobacco industry	11		31.58	0.89	12.13	13.61	20.88	31.40	24.73	16.65	10.59	17.53

	Total
All food industries in Chongqing	64,400
Food processing industry	19,100
Food manufacture industry	16,600
Beverage manufacture industry	19,200
Tobacco industry	9,500

ANNEX 5: **Competent authorities of the food industry in Chongqing**

Sequence number	Name	Unit	Duties	Address	Telephone	Fax	Post code
1	Qian Shourong	Industrial Department of Planning Commission in Chongqing	Section chief	No. 234 Renmin Road Chongqing	(023) 63852558	(023) 63852660	400015
2	He Bing	Industrial Department of Planning Commission in Chongqing		No. 234 Renmin Road Chongqing	(023) 63851771	(023) 63851258	400015
3	Fan Qingli	Office of Foreign Affairs in Light Industry Bureau of Chongqing	Deputy section chief	No.56 Jialingqiao East Complex Chongqing	(023) 63852493	(023) 63852629	400015
4	Kang Changsheng	Office of Foreign Affairs of Economic and Trade Commission		No.232 Renmin Road Chongqing	(023) 63850963	(023) 63852452	400015
5	Xu Dingya	Food Industrial Office in Chongqing	Director	No.270 Jiangbeiqiao North Complex Chongqing	(023) 67852781	(023) 67855033	400020
6	Li Rongtai	Food Industrial Office in Chongqing	Investigator	No.270 Jiangbeiqiao North Complex Chongqing	(023) 67856042		400020
7	Yang Chunzhang	Instrument Industrial Office in Chongqing		No.270 Jiangbeiqiao North Complex Chongqing	(023) 67855033		400020

ANNEX 6: **Policies of Chongqing for the Encouragement of Foreign Investment**

One.Taxation

Productive enterprises with foreign investment scheduled to operate for a period of more than 10 years shall be exempted from local income tax in the first six years beginning from the first profit-making years and shall have a 50%reduction in local income tax from the 7th to the 10rh year; Projects with an investment of over 30 million US dollars or with more than 15 years operation, shall be exempted from local income tax for 8 years beginning from the first profit-making year, and shall have a 50% reduction in local income tax from the 9th to 15th year. Productive enterprises with foreign investment scheduled to operate for a period of less than 10 years and unproductive enterprises with foreign investment scheduled to operate for a period of more than 10 years shall be exempted from local income tax in the 1st and 2nd profit-making year and allowed a 50% reduction in the 3rd to 5th year.

Productive enterprises with foreign investment located in the minority nationality regions in the poorest regions certificate by the state or province, and the productive enterprises with foreign investment engaged in the mineral prospecting and exploration scheduled to operate for a period of more than 10 years, shall continue to have a 50% continuing reduction in local income tax upon their application and approval by tax organs after the period for the tax exemption and reduction set by the government.

Productive enterprises with foreign investment scheduled to operate for a period of less than 10 years, shall continue to have a 50% reduction in local income tax from the 6th to 8th year upon their application and approval by tax organs after the period for the tax exemption and reduction set by the government.

Productive enterprises with foreign investment shall be exempted from local income tax in the years when the value of exported products make up over 50% of the total value of production set by the government, after the period of exemption of local income tax.

Enter-prices with foreign investment engaged in such infrastructure projects as resources exploitation and comprehensive utilization, power station, construction, airports construct on, road construction, bridges construction, harbors construction, docks construction, water supply factories construction(net work are not included), water control projects shall be exempted from local income tax.

Enterprises with foreign investment engaged in the development and construction of welfare house projects shall be exempted from local income tax upon the approval by the municipal government.

Two.Preferences on Enterprises Income Tax

Productive enterprises with foreign investment shall be levied on income tax oat the rate of 24%.

Productive enterprises with foreign investment located in the development zone of economy and technology with high and the enterprises with high and new technology, located in the development zone of high technology and new industries, shall be levied an income tax of a rate of 15%.

The productive enterprises with foreign investment engaged in the projects with intensive technology and knowledge in the projects with an investment of over 30 million US dollars which takes a long period of time to recover and in such infrastructure projects as energy, transportation and harbor constructions shall be levied an income tax at the rate of 15% upon approval by the tax organs.

Productive enterprises with foreign investment scheduled to operate for a period more than 10 years shall be exempted from income tax in the 1st and 2nd profit-making year, and shall be allowed a 50% reduction from the 3rd to the 5th year.

Enterprises with foreign investment and with advanced technology shall have a 50% continuing reduction in income tax for 3 more years after the period for tax exemption and reduction set by the government.

Import-oriented enterprises with foreign investment shall, upon the approval by the tax organs, be levied an income tax at a rate of 10% in the years when the value of exported products makes up over 70% of the total value of productions after the period of tax exemption of reduction set by the state.

Enterprises with foreign investment engaged in the projects of agriculture development, reproduction and exportation, shall, upon the application of the enterprises and the approval by the tax organs, be exempted from income tax at a rate of 15% to 30% in the following 5 years after the period of tax exemption and reduction set by the state.

Enterprises with foreign investment, located in the minority nationality regions, and the poorest alit regions certificate by the state or province, engaged in projects of agriculture development and reproduction with new technology and of forestry development, shall upon the application of the enterprises and the approval by the tax organs, be exempted from the income tax of a rate of 15%-30% after the period of tax exemption and reduction set by the state.

Those foreign investors who have made dirt reinvestment in their enterprises with profit they have made from the enterprises to enlarge their capital, or have made investment with such profit in other enterprises with foreign investment and the invested enterprises have been in operation for a period of no less than 5 years, shall get a refund of 40% of the income tax that has been levied on the income brought about by their reinvestment. Export-oriented enterprises or enterprises with advanced technology and the enterprises which have been in operation for a period of no less than 5 years shall get a refund of all the income tax that has been levied on the income brought about by their reinvestment.

Productive enterprises with foreign investment, located in the minority nationality regions and the poorest regions certificate by the state or province, shall be exempted from housing and land tax, license tax for the motor and boat vehicle.

Three. Industry and Commerce Registration

Foreign financial organizations are encouraged to set branches in the city; Foreign financial groups and big enterprises are encouraged to set joint-ventures, cooperations , solely foreign-owned capital enterprises and branches in the city.

Foreign investors are encouraged to invest in such infrastructure projects as power-station construction, airport construction, road construction, bridge construction, harbor construction, water-supply factory(net works are not included),water control projects by the way of joint venture or cooperation. These projects can be operated by solely foreign-owned capital upon the approval by the government. Foreign investors can invest and operate comprehensively in other kinds of industry and service enterprise.

Foreign investors are encouraged to operate the domestic enterprise by becoming a share holder, taking stock in purchasing, annexing contraction and renting.

The organizations with legal status and the private enterprises subordinate to the science institute are encouraged to joint venture and cooperate with the foreign in Vectors.

Overseas students are encouraged to invest enterprises in the name of foreign companies they work for, according to the regulations for the enterprises with foreign investment.

Four.Foreign Exchange and Credit

Enterprises with foreign investment may open foreign exchange accounts with banks including the bank of foreign-capital or other financial organs which are authorized to deal in foreign exchange with in the city's limits.

In special needs, enterprises of foreign investment may open, within the boundaries of the state, foreign exchange accounts with banks (including the banks run by the foreign capital) authorized to deal in foreign exchange, and may also open 1 or 2 current accounts and even more than 2 current accounts.

In operation needs, enterprises with foreign investment may raise funds abroad, without the limit to the scope of loans, from financial organs, enterprises, individuals and financial organs with foreign investment. Those loans may be exchanged for RMB to pay for the materials and equipment.

Enterprises with foreign investment may repay the loans with foreign exchange bought with RMB.
Foreign investors in enterprises with foreign investment may remit their legal profit to abroad.
They may, against the profit allocation resolution of the board of directors, the tax payment receipt and the other effective proofs concerned, exchange RMB for foreign currency, and remit their legal profits abroad through the banks authorized by the Administration of Foreign Exchange Control and make reinvestment in domestic market.

Enterprises with foreign investment shall be given credit support from the city banks on a part of circulating funds for the products exportation according to the regulations for the domestic enterprises.

Five.Land and House property

Enterprises with foreign investment, which have been allotted the right to the use of the land the use of the land for the purposes of operation, should pay 50% of the standard figure of fee for the use of the land including the fee for land development and the for the use of the land set by the municipal government; if the enterprises are developing new sites on their own, they should pay 50% of the standard figure not by municipal government of fee for the use of the land; if they are entrusted with development of the land , they should pay the fee for the development of land once and for all and also pay 50% of standard figure set by municipal government of fee for the use of the land.

Enterprises with foreign investment, which have been allotted the right to the use of the state-owned land, and which are engaged in such infrastructure projects as agriculture, forestry and animal husbandry, scientific, educational and medical establishment, and construction of power station, airport road bridge, harbor, dock, water-supply factory(networks are not induced) and water control projects, shall be exempted from the fee for the use of the land.

Export-oriented and technologically advanced enterprises with foreign investment shall be exempted from the fee for the use of site or the land in first 3 years beginning from the year when the enterprises go into operation and shall pay 50% of standard figure set by the municipal government of fee for the use of the land from the 4th year. Those enterprises scheduled to operate for a period of more than 10 years shall be exempted from the fee, for a period of 5 years for the use of land from the beginning when the enterprises go into operation.

Enterprises with foreign investment, located in the minority nationality regions and the poorest regions certificate by the state or provincial government, shall be exempted from the fee for the use of land.

Enter with foreign investment, engaged in such infrastructure projects as the constructions of power station, airport, road, bridge, harbor, dock, water-supply factory (networks are not included), water control projects, and allotted the right to the use of the land by purchasing, shall, upon the approval by the government, pay a lowest fee for the use of land. The funds for purchasing can be kept accounts and should be paid off within 10 years after the enterprises go into operation.

Enterprises with foreign investment should pay the fee for the use of the site or land when they go into operation and should be counted a half year payment when they go into operation for a period of less than 1 year, and also should be exempted from the fee for the use of land or site when they go into operation for a period of less than a half year.

The standard figure of fee for the use of the land or site by the enterprises with foreign investment, shall be readjusted every five years.

The standard figure of fee for the use of the land or site will not be readjusted for those enterprises that pay the fee of the 15 years use of land once for all.

Productive enterprises operated in the way of joint venture, cooperation and technology shares shall be exempted from the purchasing fee that the right to use of the land under the condition that the leading position of the legal statues of Chinese side not be changed.

Enterprises operated in the way of joint venture, cooperation and in which the legal statues have been changed and in which right to the use of the land have been appraised as the capital into the joint ventures and cooperation, may allotted the right to the use of the land when they apply for the 20% payment for the purchasing fee of the land. The enterprises in which the sino investments are difficult to arrive the proportion, may apply for a reduction in proportion of the purchasing fee, or may apply for delay payment within 5 years.

Enterprises with foreign investment engaged in advanced technology industries, the infrastructure projects and pubic good and construction of power station, airport, road, bridge, harbor, dock, water-supply factory (networks are not in clued), warfare house, great mansion, may, upon the approval by municipal government, be exempted from the extra charge for the road construction in the collective owned rural regions and from the fee of vegetable plot.

Enterprises with foreign investment engaged in the constructions and operations of high way, harbor, dock can share the estates, the operation of service facilities and the priority in the operation of water and land transportation.

Those enterprises can develop and operate, on definite conditions, the lands around the road, harbor, or dock which are allotted with favorable price.

Enterprises with foreign investment engaged in the public good, unprofit key constructions supported by the state as science and technology, education, power station, airport, broad, bridge, harbor, water-supply factory (networks are not included) water control projects, warfare house, great mansion shall be allotted the right of to the use of the land needed according to the law by the governments up the county government level.

Enterprises with foreign investment, engaged in such unprofit projects as production, operation, real estate and travel service, may allotted the right to the use of the land by purchasing, transferring, renting, according to the law.

Enterprises with foreign investment, allotted the right to the use of the land by renting, may rent and inherite the land but not transfer and mortgage during the period of contractility upon the approval by the government.

Enterprises with foreign investment shall be levied a fee on the use of land or site by the local governments of regions, counties and municipalities

Six.Production and Operation

Foreign investors located in the minority nationality regions and the poorest regions certificate by the state or provincial governments shall enjoy the special preferential polices upon the approval by municipal government.

The scale of products for domestic and export sales of the enterprises with foreign investment shall not be limited and shall be decided on the enterprises their own, except for some special regulations of the state.

Enterprises cooperated and engaged in such constructions as airport, road, bridge, harbor, dock, water-supply factory (networks are not included) and water control projects shall be allowed to share the profits in the changes of airports roads, bridges, harbors, docks, water-supply factory (network are not included) and water control projects.

Seven.Imports and Exports

Export-Oriented enterprises with foreign investment may set up protective tariff depositories of factories upon their applications and the approvals by the customs offices.

Enterprises, engaged in the progress of the immigration constructions development in the region of the three gorges reservoir, shall have the right to verify the funds for the use of materials and shall be refunded the total tariff and other funds of tariff concerned that they have paid before.

The local credit enterprises with important products, advanced science and technology, which are approved by the custom office and which are engaged in agriculture, in important projects, shall have the convenience and priority to declare at customs.

Eight.Personnel and labor

The cadres working in the state owned ship shall be allowed to transfer to the enterprises with foreign investment except for special reasons according working in the state-owned ship and shall go through the formalities actively.

Administrators and technologists working in the enterprises with foreign investment shall be allowed to transfer according to the contracts signed by both sides, and shall not be allowed to sign the new contracts with other unit if the original contracts have not been terminated.

Returned overseas students and graduates from the colleges and technical secondary schools working in the enterprises with foreign investment shall hold the original identities certificated by the state, and the identities will be recognized in the flow following years.

The personnel archives for the postgraduates, the graduates from the colleges and technical secondary school will be guaranteed by the local personnel departments and by the local personnel exchange service centers.

If necessary, enterprises with foreign investment may transfer the staff working in the state-owned ship to these enterprises while the staff working in the state-owned ship can also be on loan to these enterprises.

Nine.Other local charges concerned.

Foreign employees in the enterprises with foreign investment, by holding the identification for the foreign employees, may use RMB for settling accounts while staying in the hotels or going to see the doctors and may be charged according to the standards for the domestic citizens.

Enterprises with foreign investment shall be charged, according to relations and standards for the domestic enterprises, for the use of water, electric power and natural gas which have been in the plan for supply by the local government.

Enterprises with foreign investment shall be charged a road toll for the use of motor-vehicles and for the motor-vehicles brought in bound according to the standards for domestic enterprises. The original regulations of double times charge have been canceled.

Enterprises with foreign investment have the right to refuse the charges for the administrative and operative expenses, against the charges approved by the state council, the ministries and the municipal governments.

These regulations shall be implemented to the corporations and enterprises located in HongKong, Macao and other organizations and personal investment engaged in joint ventures, cooperation, and sole foreign capital enterprises.

These policies will come into force from the 1st January, 1997. Before these policies come into force, enterprises with foreign investment shall enjoy the preferences and shall be charged the tax according to the original regulations.

III. BUSINESS COOPERATION AND FOREIGN INVESTMENT IN THE FOOD AND BEVERAGE INDUSTRY

1 GENERAL EVOLUTION OF FOREIGN INVESTMENT AND BUSINESS CO-OPERATION IN THE FOOD INDUSTRY.

1.1 Overview

When China opened its doors to the new economy, foreign companies grasped the opportunity to start building businesses. The open door policy was intended as a way of bringing in foreign expertise, capital and to open the worlds markets to China.

In the beginnings, foreign food and beverage companies set up operations in China with some knowledge of the challenges, maximizing the advantages of cheaper labor, domestic raw products and reduced transportation costs.

As the economy developed, foreign investors began to more seriously investigate the market opportunities and cultivate the huge potential 1.2 billion-consumer market. Coca-Cola for example, entered the market in 1979 and has since grown to take 26% market-share.

Since those early days and despite losses foreign companies have streamed into the market and continue to express confidence and commitment to keep businesses running in China.

According to a report from the Agricultural Trade Office Shanghai (1997), China’s economy steadily churned out annual growth rates of about 13% from the late 1980’s onwards and is predicted to become the world’s largest economic center by the year 2020.

Consequently, China has become one of the worlds' largest recipients of foreign direct investment in the world, with more than 200 of the world’s biggest enterprises operating there.

1.2 China's Historical Evolution

With the founding of the Peoples Republic of China in 1949, China’s economy took its lead from the Soviet Union – guided by Five-Year plans and largely isolated from the rest of the world.

Beginning in late 1978, following the 11th Party Congress, China opened its doors to the outside world. Over the past 20 years, China's "reform and opening policy" has brought with it both opportunities and challenges.

The basic framework of China's economy has been to restructure consistent with the realities and problems faced daily by the Chinese people themselves. Structures have been allowed to develop gradually and while this process has not followed what IMF or Western theories recommended, it has assisted in achieving a dramatic rise in the overall well being of China's population.

Since the start of reforms China has achieved rapid and sustained growth and is now the 10th largest trading country in the world, according to "The Outlook for Retailing", Beijing Consultech (1999). China also maintained steady growth despite the Southeast Asian financial crisis and has begun to assume some responsibility for maintaining order in regional economic development.

However, "The Outlook for Retailing", also highlights that after years of such growth, the economy is showing some signs of sluggishness and the predicted 8% GDP growth target for 1998 was not achieved. In January 1999 the government announced 7.8%.

1.3 Foreign Investment in China

If China is to sustain growth it must increase foreign trade, continue to restructure the economy and allow a steady stream of foreign investment and trade technology.

Foreign trade, despite policies that restrict or prohibit foreign investment in many sectors of the economy, has stimulated much of China's growth. China has been notably successful at attracting to those sectors in which it wishes to encourage foreign investment.

In 1998, EU companies invested some 4.3 billion US dollars in China, making the EU that year the country's single largest investor. See the following graph.

Foreign Direct Investment in 1998

COUNTRY	UTILISED CAPITAL VALUE USDBN	CONTRACTED CAPITAL VALUE USDBN	NUMBER OF PROJECTS
EU	4.3	5.91	994
USA	3.91	6.21	2215
SINGAPORE	3.30	3.05	560
JAPAN	3.16	2.70	1188
TAIWAN	3.04	3.11	2937
KOREA	1.53	1.64	1307
OTHERS	26.34	29.51	10645
TOTAL	*45.58*	*52.13*	*19846*

Source: MOFTEC

In this decade China has absorbed almost one third of the total foreign direct investment (FDI) invested in the developing world (1990-1997) according to the UN Conference on Trade and Development.

China has accumulated strong surpluses from a solid international trading record and positive investment flows. According to Beijing Consultech, foreign exchange reserves in 1998 hit a massive USD141bn, the second highest anywhere in the world. Within a decade and a half China has developed into one of the world’s leading trading nations.

Constraints to increased exports to China for foreign companies are market access, internal policies, internal distribution, and China’s desire for food supply security exhibited as a preference for joint ventures over imports of processed food.

1.4 Political and Consumer Issues Related to the Food and Beverage Industry

Home to 1.2 billion people, approximately 22% of the world's population, and with only 7% of the world's arable land, China's great challenge is to feed its growing population. 70% of the population is engaged in primary agriculture, which is characterized, as high intensity and low productivity. Rapid growth in personal incomes is producing considerable shifts in demand for value added food products.

The Chinese Governments 9th Five Year plan accentuates economic and social stability over radical reform, a strengthening of central government macro economic control, and efficient use of existing capacities before developing new ones. Priorities identified were the strengthening of the agricultural sector, development of the food processing sector, more focus on raw materials production, convenience foods, processed foods for export and soft-drinks.

The Five Year Plan grants that improved diets, of greater variety and increased protein content require better technology and productivity; however, little in the way of investment or incentives has been committed.

As the Chinese GDP real growth continues, at an expected average annual rate of 10% and the purchasing power of the urban consumer rises, there will be an increasingly higher demand for greater quality and more variety in food. The market is responding with the removal of price subsidies and has resulted in an increasing variety of grains, oils and other food products in retail markets.

The domestic sector assisted by joint ventures is increasing the supply of consumer goods including frozen food, fruit and vegetable juices canned goods and packaged food. Food producers who adapt their products to the local tastes and demands will have strong position in gathering a large share of the Chinese market.

China is also making the transformation from a self-supporting agricultural economy to a large-scale commodity economy and from traditional agriculture to modern agriculture. As agriculture moves from centrally planned to a more market oriented system, new constraints to efficiency are developing.

Central to these are inadequate banking and legal systems and lack of adequate systems for timely information on market supply and demand. Also there are often considerable post harvest losses for many commodities due to inadequate storage, handling and transport facilities.

1.5 Consumer Patterns and Buying Habits

Like many other countries in the world higher income and living standards have led to changes in consumer diet and food purchasing patterns.

People’s living standards have improved and according to "The Outlook for Retailing", Beijing Consultech (1999), the annual urban per capita income growth has averaged 6.2% over the last two years. The official figure for average urban per capita disposable income for 1997 was 5,160 yuan (USD 621) and for rural residents 2,090 yuan (USD 252).

Rutledge and Patmon (1997) noted that the national average for food and related accounts represents 49% of disposable income with slight fluctuations from region to region.

While the majority of its population is located in the rural areas, wealth remains focussed in the cities usually among high-income earners. The two largest cities are Shanghai with a population of over 13 million and Beijing with around 12 million. Other large cities include Tianjin, Shengyang, Wuhan and Guangzhou.

Urban consumers seem to be the principal target market for both foreign and domestic retailers. The consumer market remains segmented with urban 18-35 year olds remaining the most significant segment and food is still the greatest expenditure for them.

Statistics from Beijing Consultech state that urban resident's food consumption expenditure reached USD 234 in 1997 accounting for 46.41% of their total expenditure.

The EIU believes that about 90% of China’s urban population can be reached by targeting 250 cities. Distribution to these cities is not easy but the market size justifies some effort.

As competition among multinationals heats up, capturing new consumer spending will require sourcing markets outside Beijing, Guangzhou, Shanghai and Chengdu, which remain the leaders in consumption. Distribution will be the key to success; food retail distribution is changing quickly.

The Chinese urban food sector is comprised of three basic components: free markets, supermarkets and grocery stores.

Still China’s most traditional and popular outlets for shopping are wet markets where fresh fruit and vegetables, fresh fish and seafood, fresh meat and poultry products can be purchased.

Most Chinese have a strong preference for fresh foods with limited storage space in their homes to store food. "According to a 1995 survey, 96% of Chinese living in major cities had refrigerators. 67% of those living in urban areas, 25% in rural areas." (Ho and Reynolds-1997). With refrigeration, storage of food is increased and so demand for frozen food especially frozen meat. This factor helped raise the total meat consumption by 50% since 1989. (Reynolds -1996)

According to the Agricultural Trade Office Shanghai, 90% of consumers over 55 will shop in wet markets. Supermarkets will attract younger and higher income consumers. Supermarkets are self-service stores with aisles and some cold storage facilities. They are mainly found in Beijing, Shanghai and Guangzhou. Originally set up for ex-patriates the consumer base is now expanding to include middle and high income Chinese.

"Four years ago nothing in Guangdong warranted the label of supermarket. Now not only have half a dozen local chains upgraded stores but also foreign invested companies have or are about to open operations in Guangdong." (Rutledge and Patmon -1997). This trend opens new avenues to imported products as well as a simplified distribution system to a large share of the affluent targeted market. “Most city governments support the move away from wet markets for reasons of economics and public hygiene." (Rutledge and Patmon -1997).

As cities develop at a faster pace, new high rises replace-wet markets with Western style supermarkets. Western style food markets appear to be capturing market share from older state run stores. Reduction in subsidies means these local stores have to compete on price and quality. Thus the joining of force with foreign supermarket chains and Joint Venture's like Carrefour.

As indicated by the Agricultural Trade Office of Shanghai the amount spent on shopping by Shanghainese in supermarkets is:

- Meat 38%
- Vegetables 29%
- Fruits 14%
- Breakfast foods 10%
- Snacks 9%

Grocery stores provide over the counter food sales to the general public. These stores carry packaged goods, take away food, and some have frozen food counters. They sell mostly domestic products.

The principal food markets include: baby foods, beverages, condiments, confectionery, dairy, energy bars and gels, fruit and vegetables, grain, meat, organic foods, seafood, snack foods, specialty and gourmet foods.

c) Other related sectors

The hotel, restaurant and fast food sector continues to grow and is a major market opportunity for imported foods. International Strategies Inc. (1995) notes that tourism has increased by an average of 13% annually since the mid 1980's and rose to 50% from 1993 to 1994, earning nearly USD 7 billion in foreign exchange. Food and beverage receipts accounted for about 30-35% of the total hotel revenues

In addition to foreign tourists, International Strategies Inc, (1995) highlights that there are also increasing numbers of Chinese citizens that frequent up-market hotel restaurants to sample Western style food. Managers estimate that anywhere from 25-40% of their clientele are locals.

The rapid expansion of fast food restaurants such as McDonalds and KFC provides yet another outlet for American suppliers. At the same time local restaurants are adding western style dishes to their regular menu in order to satisfy the demand of their newly affluent customers and the increasing numbers of tourists.

China has big plans to develop convenience foods, both Western and Chinese style. This includes raising quality, increasing variety and further improving packaging and preservation techniques.

2. MAIN SECTORS AND LOCATIONS

With approximately 9.6 million square kilometers, China is the world's third largest country. It is also the most populous nation on earth with 1.2 billion people and, therefore, continues to hold enormous potential for consumer goods manufacturers.

The majority of China's population is located in the rural areas, and real buying power is concentrated in the cities usually among high-income earns, in coastal regions such as Shanghai, Jiangsu, Guangdong and Fujian.

Nearly 90% of China's urban population can be reached by targeting 250 cities and although distribution to these cities is not easy the market size justifies some effort. The two largest cities are Shanghai with a population of over 13 million and Beijing with around 11 million. Other large cities include Tianjin, Shengyang, Wuhan and Guangzhou. As competition among multinationals heats up, capturing new consumer spending will require sourcing markets outside the four major cities. Distribution will be the key to success.

By the year 2000, 250 cities will have a per capita gross domestic product (GDP) of over USD 800. At present, most foreign consumer goods companies are targeting a market that ranges in size from 25 million to 79 million people.

2.1 Main locations

China is a collection of large and distinctly different regional markets. Studies have identified six regional markets each with a population of over 100 million and a GDP exceeding USD 27 billion. They are:

- Northeast – Heilongjiang, Jilin, Liaoning;
- Greater Beijing – Beijing, Tianjin, Hebei and Shandong;
- Central Provinces – Shaanxi, Henan, Hubei, Anhui, Hunan and Jiangxi; Sichuan;
- Greater Shanghai – Shanghai, Jiangsu, Zhejiang;
- Greater Guangdong – Guangdong, Fujian and Hainan.

Of these regions, Beijing, Shanghai and Guangdong play a leading role. The Central Provinces and Sichuan have low per capita incomes but population density may create returns in future consumer markets.

Northeast

The economy of the Northeast is dominated by heavy industry. The rate of growth of its economy is well below that of the three leading regions, Beijing, Shanghai and Guangdong. They are also the areas of greatest competition and will likely play a leading role in China's economic development.

a) Greater Beijing

This area is located in Bohai Gulf and includes the municipalities of Beijing and Tianjin, and the provinces of Hebei, Shandong and the south of Liaoning. Its whole extension is about the same as the size of Spain (or 5% of China), with a total population of 250 million people. Of the three leading regions, this is the one with the lowest purchasing power (about USD 600 urban per capita income), although it provides the entire country with the 23% of the total GDP.

Among its main advantages, this area offers a good infrastructure system, a big economic growth potential, and a high qualification of labor force.

Beijing is the capital of China. In addition to the authority of the central government, this municipality also possesses a broad agricultural base, and has good access to ports and an ambitious industry development policy. Along with Tianjin, Beijing enjoys the third highest per capita income of the country, only after Guangzhou and Shanghai, and is the biggest consumption market with the largest retail sales. Beijing has become the first cosmopolitan city of all China, where about 100,000 foreign people live in.

Tianjin is an important commerce center, with the best port (Xingang) in Northern China and, according to many experts, the best economic and technological development area (TEDA) of the country.

In general, the degree of development of the Greater Beijing area is not yet as high as that of Shanghai or Guangdong. Nevertheless, it comprises a big market constantly growing; endowed with good communications and a saving rate over 40% among its consumers.

b) Greater Shanghai

Shanghai is the core of the Yangtze Delta Region, which includes Jiangsu, Zhejiang and Anhui Provinces. There are more than 180 million consumers in this region over an extension of about the territory of Great Britain. Shanghai is the natural focal point of all the potential wealth on the Yangtze River basin. As communication, power and transportation keep developing in the basin, from Sichuan through the Central Provinces, the Shanghai area is about to surpass the regional wealth of South China.

Moreover, this area has the highest urban per capita income in China: roughly USD 750, about the same as Guangdong´s. During the first half of this decade, the region averaged an economic growth of 17%, which was a 30% higher than that of the entire country. Also, it accounts for a third of the industrial production total national, surpassing even the Pearl River Delta Region's. Likewise, foreign direct investment in Greater Shanghai has already surpassed the corresponding to Greater Guangdong, approximately 25% of the total FDI in China.

Shanghai is the main commercial, financial and industrial center in China, and is believed to become one of the largest of the entire Asian continent. Like Beijing, it is a cosmopolitan city that receives sound investments in public infrastructures. Also, the official support given to the development zone of Pudong is granting the area more resources.

With regard to distribution, Shanghai has a quite decent developed system. The Chinese government in this area has encouraged retailing, and the number of supermarkets rises systematically, as well as new forms of distribution such as hypermarkets mostly established as joint ventures, giving rise to strong competition in this sector. However, Shanghai consumers are traditionally reckoned as people open to foreign influences and fond of international brands. This fact together with their relatively high incomes has proven to be good reasons for foreign companies to invest in Shanghai.

As a result of Shanghai's economic power, other cities located in interior provinces, such as Anhui and Hubei, are developing more quickly than expected. Wuhan, for instance, is attracting many multinational companies lured by the rapid development of infrastructures, like the enormous project concerning the construction of the Three Gorges dam. But also markets in other Central Provinces and Sichuan will likely be pulled along in this development.

c) Greater Guangdong

This area includes the provinces of Guangdong and Fujian basically -although Hainan gets a big influence from them- and is known as the Pearl River Delta Region, which extends over a territory equivalent to the size of Italy. Population in these two provinces together is about 125 million inhabitants, and the urban per capita income roughly the same as Greater Shanghai. Nevertheless, Greater Guangdong represents the highest purchasing power market of the whole country.

Guangdong Province has been the main driver of China's economic growth, still in high digits despite the recent economic slowdown. This region is heavily influenced by the proximity of Hong Kong and Taiwan. Adjacent to Hong Kong, Guangdong has been the favored target for foreign investors. Over the next few decades, it will benefit substantially from the technological and manufacturing capability of Taiwan, the marketing and service strength of Hong Kong, and the abundance of land and labor in the region.

South China's most vibrant consumer products market is concentrated among the 20 million consumers in the Guangdong province. The rapidly growing middle class of Guangdong is consuming record rates: the province's total retail sales account for one tenth of the national total.

Guangdong province, where China's economic reforms have been in place the longest, has the highest consumer purchasing power in China and its urban consumers are among the wealthiest in China. Although Guangdong's per capita incomes are low in comparison to those in the European Union or Hong Kong, both real and disposable incomes are nearly double China's national average.

Between 1991 and 1996, Guangdong was the target of over 40% of total FDI coming to China. On the other hand, Fujian province is the main target of Taiwan´s investments.

Traditionally engaged in foreign trade, the Pearl River Delta Region was chosen by the Chinese government to be the first area to establish the so-called SEZ (Special Economic Zones) in the country: Xiamen in Fujian province; Shenzhen, Zhuhai and Shantou in Guangdong province. These SEZ have attracted many European, American and Japanese companies in the region favored by fiscal incentives. The majority of investments are made in light industries, mainly focused on the production of consumer goods.

Finally, this area channels more than 40% of total Chinese exports and has historically been the main entry door of imports into China. Due to a large extent to its proximity to Hong Kong and the massive imports entered through “grey” channels, Guangdong has become the neuralgic center of the country’s distribution system. However, as it happens in almost the whole country, distribution is underdeveloped and very inefficient. But like in Shanghai, Guangdong´s consumers are very receptive to foreign products and quite closer to Western standards when compared to Northern China’s consumers.

Some reports indicate that 100 million people in China’s coastal regions have a purchasing parity annual income of USD 10,000 - 40,000. In addition, it is estimated that China’s growing middle class could reach 445 - 580 million by 2005.

The national average for food and related accounts represents 49% of disposable income, with slight fluctuations from region to region (i.e. 46% in Guangdong, and 41% in Shanghai). Considering that those 100 million people who can afford to purchase imported food and beverages are concentrated in Guangdong, Fujian and Hainan provinces as well as in the cities of Beijing and Shanghai, it is easy to target those specific areas, while developing other areas as they become able to absorb the agricultural imports.

2.2 Main sectors.

The following five trends have a strong impact on the success of exports to the Chinese food markets:

In South China, 41.1% and 92.3% of the female population are respectively employed in the Fujian and the Guangdong provinces. This limits the time available to couples for shopping for and preparing it. At the same time, it raises the household average income sharply. This in turn generates the demand for greater variety and convenience food.

Almost the total majority of Chinese living in major cities have refrigerators, whereas in urban and rural areas the figures go down to about 70% and 25%, respectively. With refrigeration, storage of food is increased and so is demand for frozen food, especially frozen meat. This factor has and continues helping raise the total meat consumption by large amounts during this decade.

At the beginning of the 90s, nothing in Guangdong warranted the label of supermarket. Now not only have half a dozen local chains upgraded stores, but also foreign invested companies have opened operations in Guangdong. Shanghai used to have only one supermarket in 1991, while today there is over 1,000 in this city. This trend opens new avenues to imported products, as well as a simplified distribution system to a large share of the affluent targeted market. Most city governments support the move away from wet markets for reasons of economics and public hygiene.

The rapid expansion of fast food restaurants such as McDonalds and KFC provides another outlet for foreign suppliers. At the same time, local restaurants are also adding western style dishes to their regular menu in order to satisfy the demand of their newly affluent customers and the increasing numbers of tourists.

The policy of one child per family means that high quality food and beverage products targeted at children are finding a ready market.

Also, like many other countries in the world, higher incomes and living standards have led consumers to change their diet and food purchasing patterns. Chinese consumers are eating fewer grain products, and purchasing more meat, vegetables, and processed foods. At the same time, there is a shift toward higher quality grains, such as wheat and milled rice, and away from coarse grains such as corn, sorghum, and barley.

As the Chinese GDP real growth continues in high figures (7.8% in 1998) and the purchasing power of urban consumer rises, consumers are increasingly demanding higher quality and more variety in the food they buy. The market is responding with the removal of price subsidies and has resulted in an increasing variety of grains, oils, and other food products in retail markets. The domestic food-processing sector, assisted by joint ventures, is increasing the supply of consumer food products, including frozen foods, fruit and vegetable juices, canned goods, and packaged food products.

At present, China is simultaneously undergoing a transformation from a self-supporting agricultural economy to a large-scale commodity economy, and a transformation from traditional to modernized agriculture. As agriculture in China moves from a centrally planned to a more market-oriented system, new constraints to efficiency are developing. Central to these are inadequate legal and banking systems and lack of an adequate system for timely information on market supply and demand. Also, there are often considerable post-harvest losses for many commodities due to inadequate storage, handling, and transport facilities.

It is important to note that, although China is definitely a growing market for agri-food products, not everybody agrees with the actual magnitude and speed at which the market will develop. Despite factors such as a very large population base, rapid economic growth and rising incomes, which generate changes in consumption patterns, the basic fact remains that food “self-sufficiency” is China's primary agri-food policy objective. This is reflected in the efforts spent on improving the efficiency of agricultural production and the food processing and distribution sector. Since the speed with which reform policies will be implemented is uncertain, it is difficult to forecast future import demand, although it is generally believed that the need for imports will continue to increase in the medium term.

Furthermore, food producers who adapt their products to the local tastes and demands will have strong position in gathering a large share of the Chinese market. The principal food markets include: baby foods, beverages, condiments, confectionery, dairy, energy bars and gels, fruit and vegetables, grain, meat, organic foods, seafood, snack foods, specialty and gourmet foods.

For the purpose of this study we will concentrate on the following:

- Canned vegetables
- Confectionery
- Processed Meats
- Wine and Spirits
- Fruit Juices
- Pasta

a) Canned vegetables

Vegetables are one of the basic items in the shopping basket of Chinese consumers. In fact, the official policy concerning food states that average consumption per person should be 120 kilos/year, that is a 30% share of the diet recommended by the Chinese government. Only grain (53%) surpasses vegetables in this scale.

Demand for vegetables do not follow the old patterns focused exclusively on seasonal products any more, rather their range has extended to new varieties such as frozen, chilled, or canned vegetables, which are finding an increasing market given by new social and work habits. Still, though, popular taste requires a low level of cooking for vegetables, so that their vitamins keep changeless.

China is a large producer of vegetables, but new varieties like canned products are finding more consumers each day. Their presence is growing in the market and in big trade fairs throughout the country. The “Guangzhou Export Commodities Fair” has been a biannual event in Guangzhou for decades and was once the only place overseas companies could purchase Chinese made products. Most of the processed foods on display in recent exhibitions are canned goods that require only minimal processing. Canned products include mushrooms, bamboo shoots, leeks, and water chestnuts.

Packaging and labels have changed little and are still quite unsophisticated. For canned vegetables, most manufacturers still used old style labels. Characteristics include solid colours, plain wording, product drawings/pictures, and few details about the manufacturer or product expiration date. One recent label development has been the use of languages other than English. For many years, most of the canned goods had English wording along with Chinese on the label. However, at most recent fairs more and more labels and cans had Russian and Korean script printed on them.

Distribution of canned vegetable face the same general distribution problems in the People’s Republic of China. As a whole, distribution channels in China are underdeveloped, poorly managed and highly inefficient. Distribution and logistics remain the greatest challenges to manufacturers and importers of food products. Nevertheless, in the past five years distribution channels, and particularly the retail environment, in China have improved substantially. The advent of supermarkets, supermarket-type convenience stores, and lately hyper-marts, has created a retail environment which is cleaner, better organized, more efficient and with dramatically improved capability of handling frozen, chilled, fresh and canned goods. Department stores and traditional non-staple food stores are slowly adjusting and investing more in innovation in order stay competitive. Progress, although at a much slower pace, is seen in the way warehouses and delivery vehicles are being organized, equipped and managed.

While fresh vegetables are commonly sold in wet markets, where most Chinese consumers shop daily, canned products are usually found in A, B or C category of retailers (large department stores, food stores and supermarket chains, respectively), rapidly growing in the largest Chinese cities. Nowadays in Shanghai, for instance, there are roughly 1,000 supermarkets, when only eight years ago there used to be just one in the whole area.

b) Confectionery

The confectionery market in China is comprised of two main segments, sugar confectionery and chocolate confectionery. Sugar confectionery is the larger of the two segments.

As of the end of 1997, there were roughly 1,200 enterprises above the township level in China registered with a business license to manufacture confectionery. Their total production output for the same period, according to figures from the China National Food Industry Association, was 595,000 ton of sugar confectionery (including chewing gum) and 40,000 ton of chocolate. According to China's Statistical Bureau, the total sales revenues of the 798 confectionery manufacturing enterprises with independent accounting in 1997 were RMB 6.2 billion (or roughly USD 747 million). Independent research, though, indicates production numbers are even higher due to the additional output of the Difficult-to-account-for Township and village enterprises engaged in low-end confectionery production.

Candy manufacturers in China are commonly located within or in the vicinity of large cities, such as Beijing, Shanghai, Tianjin and the major provincial capitals. But overall, there are two traditionally distinct geographic areas in which confectionery production is concentrated. The most prominent confectionery region is Shanghai, with close to 300 enterprises engaged in pastry and sweets production employing over 30,000 people and generating output value of over RMB 4.7 billion (or roughly USD 566 million). Shanghai is also the most developed candy and chocolate consumption market in China, renowned as the home of the oldest Chinese food manufacturing factory, the "Guan Sheng Yuan Group", originally founded by a private entrepreneur over 80 years ago. This is also where "White Rabbit", the best-known Chinese brand of candy, is made. The "Made in Shanghai" label for a confectionery product, especially a domestic one, has a brand-name-like importance, almost automatically elevating it to a class above other local products.

The other region is Fujian and Guangdong provinces, where cheaper, bulk generic candy, widely found across the countryside market, traditionally comes from. This is also the home of distinguished generic candy makers "Xu Fu Ji" and "Lin Jin Ji". In recent years, newly established joint venture confectionery manufacturing facilities have also been concentrating around the cities of Shenzhen, Beijing, Tianjin, either because of proximity to major markets or to take advantage of government preferential policies offered to foreign invested companies.

The Chinese market bursts with an enormous diversity of confectionery products on display, particularly at the mid and low-end of the price range. A wholesaler's booth in an average city or town would normally have a minimum of 20 types of candy displayed. But there are several major types of confectionery, both traditional and recently introduced from abroad, that have come to dominate the market. Below are the most popular types of candy mainly positioned at the mid and high-end of the market spectrum:

- creamy toffee
- hard (sugar boiled) candy
- soft candy
- chewing gum
- nougat candy
- gummy candy
- lolly pops
- chocolate bars
- chocolate candy
- chocolate wafers
- chocolate-covered nuts
- mints
- jelly candy
- marshmallows

Candy is a traditional product in China. For Chinese people it is much more than one section of the food pyramid. Children and young women, who account for the majority of overall candy consumption, are the primary targets of confectionery manufacturers and retailers. New candy products come bundled with toys and other collectibles.

But candy is also a gift item of choice. When Chinese visit family and friends, particularly during holidays like National Day (October 1), Labor Day (May 1), Children's Day (June 1) or New Year's Day (January 1), the most common gift they bring for the hosts is candy or chocolates. Traditionally, this was loose toffee or hard candy that ended up on the host's dinner or tea table. Now with the slow but sure acceptance of chocolate and the technological and marketing advances in the domestic confectionery industry, candy gifts also include a wide variety of products such as chocolate bars and boxes, soft candy, gummy candy, jelly candy and toy packages. According to industry insiders, the gift candy sub-sector is growing at notable rates, with more high-end luxury products introduced to and accepted by the market.

During the Chinese lunar calendar New Year, or Spring Festival (usually falling between mid-January and mid-February), this tradition of giving candy as a gift and buying enough to put on every table at home is brought to its annual extreme. The month before Spring Festival is the zenith of the high season for all confectionery manufacturers, and during the several weeks of pre-Chinese-New-Year sales many of them record up to a third of their annual revenues.

Another major driving force in the confectionery industry is the Chinese tradition of giving out candies to all the guests at a wedding. And the most recent trend among confectionery consumers is their rising health awareness. Mothers concerned about their children's dental health are careful not to let them eat too much sugar. Young women increasingly abstain from food products high in calories. This is hurting some of the traditional confectionery producers, but on the other hand, creates an opportunity for quality low-fat, sugar-free foreign products.

The distribution and handling system for domestic confectionery products, particularly the more traditional ones, is well established and varies little from city to city. A domestic producer is generally able to handle distribution within his home city and surrounding areas. Most manufacturers, using their own sales force, distribute directly to local retailers, concentrating on the large department stores, food stores and supermarket chains (falling under the A, B or C category of retailers). Only a few confectionery producers distribute to "Mom & Pop" stores (or D stores), which is locally referred to as "direct sales", or sign up an agent to do it for them.
When a confectionery manufacturer expands its market to a remote city (or one outside its local distribution capability) its normally signs up a distribution agent to cover the entire city market. A distribution agent is either a state-owned or privately-controlled company whose main job is to sell, distribute and sometimes market the manufacturer's products within the retail (and occasionally wholesale) market of one city or region.

Large volumes of confectionery products still move through the traditional wholesale markets, heading mainly to the smaller towns and the rural countryside. Foreign brands and imported products are still relatively uncommon in these markets, but their growth potential is considerable.

Despite the general underdevelopment of distribution in China, retail conditions are improving together with the changes occurring in Chinese purchasing habits. Now that product is being handled properly through the improved distribution and retail channel, the seasons for products like chocolate and creamy toffee, traditionally restricted to winter sales only, are getting longer every year. Furthermore, the increasing number of foreign companies importing or setting up joint ventures to manufacture confectionery products has contributed to the rising level of sophistication and professionalism of product merchandising, marketing support and distribution management.

As ordinary Chinese people grow better off, they are becoming more selective and cognizant of quality confectionery products, primarily introduced through imports. Modern foreign packaging and marketing concepts are being applied to lure more Chinese customers. Fancy packages, gift packs and luxury items are widely available in stores and preferred by many customers to cheaper products. Chinese customers strongly believe in the link between brand name and quality, and, once they choose a favorite brand, they are generally very loyal to it.

Rising living standards and the Central Government's one-child policy have resulted in a strong trend towards healthier and more nutritional diets. Mothers are trying to limit the amount of sugar their child consumes, concerned about his or her dental health and overall fitness. They are also trying to secure an adequate intake of vitamins and minerals for the child. This has created a market for a new wave of healthy products in the confectionery sector. Sugar-free candy, vitamin C candy and products with added vitamin A, D and calcium are very popular in the market place.

Regarding competition, both the sugar confectionery and chocolate markets are extremely competitive. There are numerous players on each level, particularly in the non-chocolate candy sector. The products range from high-value, fancy foreign products to simple, locally made bulk candies of questionable quality. Experts seem to agree that there are good business opportunities at both extreme ends of the market spectrum. Selling large volumes of cheap candies to the smaller cities and countryside is big business for wholesalers around the country, but this market has so far proven to be well out of reach for foreign companies and their products. The high-value imported or joint venture products, on the other hand, offer good potential and generous incentives for distributors in a market that is growing steadily.

The importance of brands in the confectionery industry is reaffirmed by the their visibly dominant market share. Thus, more than 50% of the non-chocolate confectionery market is dominated by the top three creamy toffee brands. Furthermore, due to the adoption of a free market economy in many provinces and the government's intention to consolidate industries, the confectionery industry is expected to become more concentrated over the next five years.

While there is no "perfect" confectionery product for this market, many industry experts agree there are certain guidelines one can adhere to in order to identify prospective market winners. Consumption trends in the candy and chocolate industry are relatively short-lived, so innovation and product improvement are major driving forces of success in this market.

Because of the limited research and development (R&D) capabilities of domestic Chinese manufacturers, foreign confectionery companies have a competitive edge in this market with their more advanced, high-tech and innovative products that have been developed and tested abroad over the past few decades. Novel and unique flavors, shapes and packages of candy introduced by foreign manufacturers lure Chinese confectionery consumers. The downside is that these impulsive market fads only last for several months and local manufacturers are quick to come up with cheap counterfeits as soon as there is evident consumer demand. Naturally, the best products will be the ones that are technologically advanced enough so Chinese manufacturers do not easily reproduce them.

On the other end of the strategy spectrum is the long-term approach taken by many internationally renowned confectionery brands. Chinese consumers believe in foreign brands and the higher quality standards they stand for. International brand-name confectioners have a good opportunity in a vast, relatively “level-field” market, provided they are willing to adopt a more realistic strategy and be prepared to incur operating losses in the first couple of years. This, according to almost everybody in the industry, is the right approach.

Rising living standards of ordinary Chinese people and the resulting health awareness have created a strong market for healthy and nutritious foods. This presents high-tech foreign confectionery products, featuring advanced health and nutrition qualities, with an excellent business opportunity in a large emerging market.

Naturally, in all cases mentioned above, there are a number of particular elements that need special attention in order to plan for success. Pricing is probably the most important one. Price has to be controlled and fairly reasonable at least within the same category of products in the market. This is not to say that cheap products will automatically sell well, but consumers must be convinced they are getting good value for their money. Another important detail worth paying attention to is acceptance of flavors and packaging. Although Chinese consumers are generally open-minded and receptive to new intriguing tastes from abroad, there are certain products that remain unacceptable to their palate or cannot meet their hygiene perceptions.

Experts are unanimous that strong sweet taste is definitely “out” for confectionery products. Mothers are more wary of sweets damaging their children’s teeth and young girls are more careful with their sugar intake. Local customers perceive many foreign candies and chocolates as “too sweet". Strong bitter flavors, such as those of dark chocolate or liquorice, are also having a hard time winning Chinese consumers over. Cinnamon is proving to be a less accepted foreign flavor, too. Chinese seem to prefer pure, milky and fruity flavors.

While bulk is still a very popular way to sell candy to end users even in the big cities; bulk unwrapped candy is increasingly unpopular. Chinese customers regard candy that is not individually wrapped, even if it is packaged in bags or boxes, to be of lower hygiene standard.

Finally, it is strongly advisable that a company should engage in detailed research, using taste test and product design surveys, to determine the probable acceptance by Chinese consumers of a new product, even when merely entering a new city or regional market. Tastes and preferences vary greatly from province to province, along with the purchasing power and patterns of the general population.

c) Processed Meats

China is one of the most flourishing meat markets in the world. Production reached 54 million tons in 1997 (a raise of 8% over the previous year), making China the largest producer of this item with a 23% share of the world production. The average Chinese consumes 35 kg of meat per year, ten more kilos than the "ideal" diet recommended by the Chinese government, where meat accounts for about 6%, after grain and vegetables.

The most consumed type of meat in the country is pork. Not in vain, China has over 450 million heads of pigs, or 45% of the total on earth. Also, China shows a share of roughly 20% in chicken production. Beef, however, is not as popular as pork and chicken, although is having an increasing demand among young Chinese consumers in recent times.

According to a survey conducted in 1997 by the company "Gallup China" about Shanghai consumers purchasing behavior of food products, 92% of the respondents answered that pork was the most demanding meat item, followed by chicken, and beef in last place but growing. Among them, the average pork consumption was about 1.5 kilos per week.

In large and emerging cities, demand is also rising for meat products low in fat and cholesterol and high in proteins. As a result, the offer of other types of meat such as rabbit, quail, pigeon, and sparrow is equally growing in China. And so are new varieties of duck, beef, chicken, and bird, especially within the foreign community in cities like Shanghai and Beijing.

Generally, Chinese consumer’s taste differs considerably from that of Westerners. In the West, the demand for meat focuses on more consistent parts, such as sirloin. However, Chinese like better eating meat of parts like the head, the tail, the legs and the hoofs of the animal. These and other items such as liver and kidneys seem to have a promising future, as long as they are adapted to Chinese tastes.

Taking chicken in this regard, its best selling parts are wings (whole, mid section), and deboned dark meat (thighs). Deboned dark meat is used in cooking stir-fried Chinese dishes for immediate consumption and also for hot pots. Although deboned dark meat is a very good seller, it is sold inconsistently because of the intensive labor that is required to debone.

In China, slaughterhouses began to establish in the 70s and since then more facilities have been established. The majority of meats are sold in wet markets fresh, however, 10% is processed as minced meat or filling for sausages. Some meats are canned and exported mainly to Eastern Europe.

China's food processing industry is underinvested and, in general, consumers who can afford them are turning to imports and joint venture manufactured products. In any case, though, domestically produced products dominate China’s processed food market, since price is the main factor local consumers consider in their purchasing acts.

While China continues to be a price buyer, increasing consumer wealth provides an opportunity to differentiate European products on a quality basis. In general, the perceived high quality of imported food products is an advantage that can be exploited with the emerging middle and upper classes of China's consumers.

China has and will continue to devote resources to expand and improve production and processing capability to meet the rising expectations of Chinese consumers. Special attention is given to development of the livestock sector, especially for beef and poultry.

Besides, the rapidly increasing import market for consumer-ready food products is generating greater levels of competition between suppliers. Countries like New Zealand, Australia, and nearby countries in Asia together with the U.S. are the main competitors in the processed meats industry. For the red meats, New Zealand and Australia are quite competitive. These competitor countries are increasing their level of direct promotional activities, such as in-store and hotel and restaurant promotions, and their trade service and exhibition activities.

This is a sector that is difficult to determine the growth potential. In 1998, China imported prepared meat valued at USD 177,000, whereas the previous year such imports had been USD 235,000. Australia (first provider of prepared meat to China with a market share of 42% in 1998) mostly suffered this 24.7% decrease. However, followers like Brazil, Japan, and the US, in this order, increased substantially their sales to China that year.

Either case, the combination of rapid economic growth and market reforms is generating a faster pace of life and a demand for quality, variety, and convenience in food products consistent with the development patterns (Western styled supermarkets, changing diet and increasing income) observed a decade and more ago in other Asian markets. As a result, over the next several years, there will be significant opportunities in the food service as well as the retail sector for an increasing variety of processed meat products.

d) Wine and Spirits

The alcoholic beverages market in China includes spirits, beer and wine. Domestically produced goods dominate the market. It is diverse and fragmented with market potential varying by region. Nationally recognized brands are rare.

Spirits are the largest segment in China’s alcoholic beverages market and are classified as white, red or yellow. White spirits are domestically produced, and include most regional specialities. Red spirits are any imported spirits and rice wine is classified as a yellow spirit.

The beer market is developing rapidly and domestic production has increased accordingly. Beer consumption in China doubled between 1990 and 1996 from 6.9 to 16 billion liters. While domestic brands such as “Tsingtao” are among the most popular brands, many foreign firms such as “Budweiser” and “Carlsberg” have their own facilities and production through various joint ventures. Very few beers have a large national presence, although they may be strong in a particular region. “Tsingtao” controls less than 3% of the market and the top ten only account for 14% of total production. Local brands account for 95% of all beer consumed in China, whereas foreign licensed brands hold a 4% share and imported brands the remaining 1% in volume. China is expected to become the world’s largest beer market in the near future.

Wine is a very small segment although growing. Media reporting the health benefits derived from drinking wine has meant that many people have switched from drinking hard liquor to wine. The production of wine in China is very ancient, but it had been neglected for a long time. China's history of grape wine making can be dated back to the Tang Dynasty (618-907 AD).

It is estimated that one-fifth of China's current grape harvest is made into wine. Considering China's vast 1.2 billion population, the potential for wine mass production and consumption is gigantic. The fledgling Chinese wine industry now has about 130 wineries, eight of them joint ventures. Only 20 of these wineries make more than 10,000 ton of product per year. China's total output of wine in 1997 was about 450,000 metric ton, up 50% from 300,000 ton in 1996. The future augurs well for Chinese vintners, who predict an annual yield of 2.6 million ton by 2007. Except for the provinces of Guizhou, Tibet, Qinghai, and Hainan, the other 26 provinces, municipalities, and autonomous regions directly under the Central Government are all involved in making wine products. Judged by output, the current top five producers are Shandong and Henan Provinces, Beijing and Tianjin municipalities, and Hebei Province. In aggregate, these five produce about 60% of the total national output.

The China National Council of Light Industry (NCLI) has overall responsibility for the largest segment (70%) of wine production. Its responsibilities center on production policy, technical upgrades, development of products, and market research. Other government entities such as the Ministry of Agriculture, and China National Cereals, Oils and Foodstuff Import & Export Corporation (COFCO) are also involved in production. Under the policy guidance of NCLI, COFCO has responsibility, as its mandate, for wine, beer and distilled spirits distribution in China. This includes the primary national distribution network for alcoholic beverages, conducted through the various quasi-independent and regional Cereals, Oils and Foodstuffs branches. The principal focus of COFCO is to operate as the main official supplier of alcoholic beverages and key food commodities to the national hotel and restaurant circles in the People's Republic of China.

In comparison with other alcoholic drinks, wine output is not large but production has made reasonable and stable progress. Some of the domestic wine producers have eliminated many low-end wine products and expanded the production of middle and premier wine brands during a process of product realignment.

The NCLI has entered several new ventures in co-operation with foreign concerns, primarily French and Italian, to develop red and white wine production. Other Chinese organizations, including COFCO and the Ministry of Agriculture have also entered joint ventures with foreign firms to produce wine in China. Many foreign wineries see the joint venture as the best way to compete in the Chinese wine marketplace. The products they turn out are primarily dry white and dry reds and most of them sell in increasing quantities in the Chinese domestic market. The most widely known joint venture brands in China are Great Wall, Dynasty, Dragon Seal, Imperial Court, Huadong/Tsingtao, and Marco Polo. Joint ventures often involve foreign expertise and modern equipment. Therefore, joint ventures and technical transfer can be viable alternatives to product export for European wineries interested in equipment, technology, and ingredient sales. Furthermore, this offers greater control over local distribution in this fast growing market.

The year 1996 was a critical period in which a fundamental shift occurred. Before 1996, imported wines were rarely served at official functions except for the top end of the market because of their very high cost versus domestic wine. The main consumers of imported wine were foreigners patronizing four or five star hotels, expensive restaurants, and clubs. In 1996, the consumption of imported wine began to rise. On certain special occasions, affluent Chinese businessmen started ordering imported wine to entertain their clients. The majority of white and red wines featured on wine lists at star-rated hotels and luxury restaurants are French.

Since the beginning of 1997, the consumption of imported wine has been continually increasing. This has been due to increased local consumption rather than to foreigners and tourists. In the high-end market, many consumers have switched from expensive cognac to expensive imported wines.

Total world wine exports to China in 1995 and 1996 were valued at about USD4 million and USD6 million, respectively. In 1997, however, the total value of China's wine imports reached over USD35 million, a sharp increase of 483% over 1996, while in 1998 they raised to USD38 million (with Spain, France and Italy accounting for 54%, 25% and 10%, respectively).

Furthermore, a great majority of wine imports were shipped to Hong Kong first and then re-exported to China via "grey channels" and many of these transshipments to China were never registered with either the Hong Kong or the mainland authorities.

As import tariffs and taxes still boost the price of wine by 114.5 percent, the cheapest imported wines usually cost about 25 RMB (USD3.00) a bottle in Beijing. The majority of low end foreign wines retail from 50 to 80 RMB. On the low end, imports have trouble competing with popular domestic wines such as “Chang Yu”, a white selling for 10 RMB (USD1.20) per bottle. Other local beverages can be dramatically cheaper; a bottle of “Erguotou” rice liquor retails for RMB 5.80 (USD0.70).

Nevertheless, until such time as local Chinese brands can maintain consistency and a good quality standard, imported wines will continue to capture the upper class and expatriate communities, who considers quality more important than price.

Finally, in total there are currently 35,000 - 40,000 distillers in China, all with varying degrees of production capabilities and national distribution. Along with established domestic production, many foreign competitors vie for market share including Australia, New Zealand, Canada, France, the USA and the European Union.

French products dominate both the spirits and imported wine market, whereas the USA and the EU mainly dominate imported beer.

e) Fruit Juices

The whole concept of cold beverages is fairly recent in China. Until the 1990s, it was unheard of to drink cold water, and it would have been rare to purchase water. Today, guests are frequently served cold bottled water in lieu of tea especially during the summer months, and urban dwellers frequently purchase bottled water. Along with the modern appreciation in China for soft drinks, this trend indicates that cold fruit juices will also grow in popularity. Post anticipates that fruit juice consumption will grow in a similar manner to Hong Kong and Japan, where consumers have progressed from drinking highly sweetened, juice flavored drinks to pure fruit juices.

Fruit and vegetable juice beverage consumption is low. The average Chinese consumer drinks less than one liter a year of juice beverages. Despite low consumption in general, demand in the recent past has exceeded supply. According to statistics supplied by the “China Food News”, estimated consumption in 1996 was greater than local production by approximately 100,000 ton. This same source estimated that in 1999 overall supply would overtake demand. However, local industry participants believe that on an individual product level oversupply only applies to apple juice and not other varieties.

The main impediments to growth in local juice products consumption include image and price. Fruit and vegetable juice in China does not have the same positive image as in the West. Instead of viewing juice as a product with good nutritional value, local consumers often see it more as "snack food" consumed only to satisfy thirst and/or a poor substitute for fruits/vegetables.

Another factor restraining increases in local juice consumption is price. Juice tends to be more expensive than other types of beverages. In Guangzhou, for example, while many bottled water and tea drinks cost as little as one yuan (USD0.12) or less, juice beverages rarely are priced so low. Industry participants tend to agree that price is an important factor that heavily influences local consumers' drink consumption decisions.

Children and the more educated are the main juice beverage consumers in China. Others who consume juice on a regular basis are people who started the habit at an early age.

The most popular juice flavors among local consumers tend to be of fruits that are well known and grown in China. These fruit flavors include: apple, pear, peach, kiwifruit, mango, black currant, strawberry, and orange. According to industry sources, most domestic juice producers tend to rely on locally produced concentrate for their juice. The only exception is orange juice concentrate, which a good number of companies import from abroad.

Hotels in China are often major juice customers, especially for imported varieties, but with the development of the domestic juice industry more and more are turning to local suppliers. Lower priced product is the main reason for the switch, but pre-prepared juice being more user friendly for hotel staff is another important reason for the change.

In 1997, China produced 1,199,500 ton of juice beverages, 11.2 percent of total Chinese beverage production. In comparison between general categories, carbonated drink and bottled water production was much higher than juice and juice drink production that year. Carbonated drink production was 4,820,700 ton and bottled water production 1,944,600 ton. For 1999, juice and juice drink production is estimated at 1,566,090 ton. Of this total, only 80,000 ton are believed to be 100 percent juice beverages.

The regions in China with the largest juice product production are provinces that also produce large amounts of fruit. In 1996, the top producing provinces included Guangdong (citrus, tropical fruit), Hainan (tropical fruit), Fujian (stone fruit, citrus), Zhejiang (citrus), and Shandong (deciduous fruit). Their contribution to juice product production in 1996 equaled approximately 61 percent of total national production.

The majority of China's juice beverage manufacturers are purely domestic companies, but many big overseas companies in the 90s entered the market by setting up their own factories and/or joint ventures with local producers. According to published sources, approximately 130 brands of juice beverages currently exist in China, but an estimated ten control slightly over 50 percent of the total market. Most juice beverages only have local distribution. Only a few brands are available nationally.

The number of factories in China engaged in apple juice concentrate production is estimated at 52, but ten account for nearly half of national production. Most only operate for several months each year, beginning production for the year just after the commencement of harvesting. The number of citrus juice concentrate producers is estimated at 53.

Although China's potential to produce larger and larger amounts of apple juice appears great due to the ever-increasing production of apples, chances are that actual production will not reach its potential in the near future. The fall in worldwide apple juice concentrate prices over the last few years has dissuaded some producers from increasing production.

Aside from current low concentrate prices, local juice product manufacturers' storage conditions are another limit to greater production. Raw material storage is a rarity among these producers who often tend to leave fruit out in the open environment without protection from the elements before processing. This practice also tends to limit the factory production period to only several months every year.

Most domestic juice beverage manufacturers still mainly rely on glass bottles to package their product, but plastic bottles and laminated carton are becoming increasingly popular. For manufacturers, glass containers are convenient and low cost for labeling. The same container can be used regardless whether it is for apple or orange juice, only a simple paper label needs changing. With laminated cardboard containers, the variety / flavor is printed on the container and can not be changed. Some consumers prefer glass containers; because after the juice has been consumed the containers can be used as drinking glasses or teacups. This practice is particularly popular in the rural markets of the country.

The most popular package size for sales to individuals is approximately 250 milliliters. Manufacturers usually offer larger package sizes too; for example bars, restaurants, and smaller hotels instead of individuals and their families mostly purchase 1 liter, but these products.

China exports much more juice products than it does imports, but most of its juice product exports are of one product: apple juice. Apple juice exports accounted for 63% of the value and 69% of the quantity of China's total juice exports. For the year 1998, China's total juice exports equaled U.S.USD 88,361,000 in value and 116,187 metric ton in volume.

China's juice imports are concentrated among a few products. These products include: orange juice, grapefruit juice, and tomato juice. In regards to juice imports, more often than not, official imports exceed Hong Kong re-exports to China. Hong Kong re-exports to China are products destined for China, but initially transit Hong Kong. The value and quantity of these products are sometimes excluded from China's official import statistics (U.S.USD 9,170,000 in 1998), due to particular trade practices prevalent in the south China region. Concerning official imports, only frozen orange juice has been showing a continuous increase for the last three years. With Hong Kong re-exports to China, other orange and grape juices are the products that match the general upward trend since 1996.

f) Pasta

Together with rice, pasta is one of the most traditional ingredients in Chinese culinary culture. Particularly, middle and lower classes of China's consumers may eat noodles easily on a daily basis. Although such a market is dominated by local brands, foreign companies are increasingly gaining market share in the form of joint ventures with Chinese partners. In order for them to be successful, they have to adapt their products to the particular tastes and preferences of each different market's consumers. In large cities like Shanghai, many foreign pasta producers are showing good strategies for entering the market, where local buyers acknowledge their brands as high quality products.

Also, as many other food items of sweet taste, pasta are favored by the common curiosity of Chinese people, who like to try new foodstuffs similar to the ones they have.

Furthermore, in the present environment given by constant changes in social and work habits, new convenient foods adapted to local preferences are finding an increasing demand day by day. In this regard, pasta is an interesting item subject of incorporating quite a few different possibilities, in terms of ingredients included and ways of product presentation in stores.

Likewise in large cities, the growing presence of foreign restaurants is giving rise to new demands for foreign products. Here, pasta offers a great potential, especially as Italian restaurants become more popular among Chinese population. According to experts of the food industry in China, foreign brands of pasta products need to be recognized as high quality items when compared to Chinese ones, as well as inexpensive. In this task, foreign companies have to carry out in-store promotions and notorious advertising campaigns if they wish to sell well in a fierce competitive market like China.

Imports, however, are decreasing in recent years, as more and more foreign products are made within China, either from wholly owned foreign investments or joint ventures. The figures corresponding to the 10 main providers of pasta to China are shown in the following table, where almost all of them have seen their sales fall in 1998 with respect to the previous year.

Rank	**Country / Year**	**Millions of USD**			**% Share**			**% Var.**
		1996	**1997**	**1998**	**1996**	**1997**	**1998**	**98/97**
	-World-	5.103	3.393	2.086	100.00	100.00	100.00	-38.53
1	Korea	0.416	0.646	0.559	8.16	19.03	26.81	-13.41
2	Singapore	0.635	0.689	0.369	12.43	20.31	17.69	-46.45
3	Japan	0.477	0.443	0.256	9.35	13.06	12.29	-42.11
4	Hong Kong	1.021	0.311	0.227	20.00	9.17	10.86	-27.21
5	Italy	0.239	0.379	0.176	4.69	11.8	8.46	-53.49
6	U.S.A.	0.175	0.256	0.152	3.43	7.53	7.29	-40.47
7	Malaysia	1.529	0.198	0.110	29.97	5.84	5.28	-44.44
8	Thailand	0.133	0.038	0.058	2.60	1.13	2.80	52.17
9	Spain	0.000	0.001	0.054	0.00	0.03	2.57	540.00
10	Taiwan	0.244	0.163	0.052	4.77	4.81	2.51	-68.10

Source: China Customs.

3- LEGAL AND INSTITUTIONAL ASPECTS AFFECTING FOREIGN INVESTMENT IN THE FOOD SECTOR

According to the China Light Industry council, foreign investment in the food industry will be either encouraged, restricted (limited) or forbidden depending on the type of products to be produced.

The encouraged investment items are:

- the development of high quality sugar cane and beet;
- the high pressure and efficient cane boiler and special combination power station used in the sugar factory;
- the imports of engineering and equipment for fruit and vegetable cracker, soya protein and palm oil, ;
- the imports of modern packaging to keep high quality deserts fresh and the advanced technology and equipment for biological packaging;
- the encouragement of developing high concentrated fruit juice, fruit and vegetable juice, and high fruit juice content drinks as well as natural mineral water;
- the production technology of dry wine, sparkling wine and other fruit wines;
- the production technology for brandy, whisky, and distilled liquors made from fruit;
- the production technology of alcohol which has the alcoholic content over 90%.

The limitation investment items are:

- various kinds of candy and chocolate;
- various kinds of biscuits (only north-west China);
- frozen drinks (ice-cream drinks) (only north-west China);
- peanut products.

The forbidden items are:

- foreign brand carbonated beverages;
- xylose and xylitol;
- citric acid.

3.1 Hygiene regulations in the food sector

The Food Hygiene Law of the People's Republic of China was promulgated by the President of the People's Republic of China on and with effect from October 30, 1995. The Law supersedes the Food Hygiene Law of the People's Republic of China (for Trial Implementation) promulgated by the Standing Committee of the National People's Congress on November 19, 1982. This Law is very similar to the previous law though it does contain numerous amendments. Among these are the removal of the requirement that food additives be produced in factories designated by government departments and the requirement that departments in charge of production shall be responsible for organizing special production of products and coatings that come into direct contact with food.

The Law governs all food production and operation within the People's Republic of China. The Law also governs imported food, but explicitly states that food for export is subject to regulations separately formulated by the State Administration of Import and Export Commodity Inspection (SAIECI) and the Ministry of Public Health (MPH).

The Law applies to all food as well as additives, container, packing materials, instruments, equipment, detergents and disinfectants used in connection with food products. It also applies to the places, facilities and environment of food production and operations.

The State Council department in charge of hygiene (that is, the MPH) is vested with the responsibility for food hygiene supervision and management in the People's Republic of China. The MPH shall formulate, approve or promulgate state hygiene standards, measures for hygiene management, and rules for inspection.

The People's Governments of provinces, autonomous regions, and directly administered municipalities have the authority to set local hygiene standards for food that is not regulated by any state hygiene standards. The People's Governments at all levels shall encourage and support the improvement of food processing techniques and hygiene quality.

Imported food as well as additives, containers, packing materials, instruments and equipment used for food production must conform to state hygiene standards and hygiene management measures, and must be inspected by the hygiene supervision and inspection authorities at the entry ports prior to customs clearance. The importing units are required to provide inspection reports and relevant information on the pesticides, additives and fumigants used in the exporting countries.

Where there are no state hygiene standards on the imported food, the importing units must provide a hygiene appraisal issued by the health departments or authorities of the exporting countries. The imported food must then be examined and inspected by the hygiene supervision and inspection authorities at the entry ports and reported to the MPH for approval.

The SAIECI is responsible for hygiene supervision and inspection of export food products. The Customs will release the foodstuffs for export on the strength of the certificates issued by the SAIECI.

Food production and operation enterprises are required to implement a food hygiene control system for the entire work units and employ full-time or part-time food hygiene personnel. The site selection and design of construction, expansion and reconstruction projects of food production and operation enterprises shall meet with the hygiene requirements. The hygiene administration department must participate in the review of design and in project examination and acceptance.

Food and food additives in fixed packaging must indicate clearly on their packages or product descriptions the information required under the Law. If the food is to be sold in the domestic market, such information must be written in Chinese.

Finally, the Law puts into place a system of penalties for violation of the provisions, including the termination of production and operations, the confiscation of illegal income, the revocation of hygiene permits and the imposition of fines. Violators may be subject to civil compensation for causes of food poisoning or diseases and other harms. In serious cases, criminal liabilities may be brought.

3.2 Labeling regulations in the food sector

Although the food labeling law, referred to as the “General Standard for the Labeling of Foods”, went into effect on February 1, 1995, it was only for Chinese-produced packaged foods. Before long, an extension was granted to imported pre-packaged foods, but not until September 1, 1996 did the Chinese government apply the standard to imported foods. At that time, the government widely distributed a circular notification stating that all kinds of imported packaged foods not meeting the standards of the Chinese labeling law would be refused entry to China. It also required that modified compliance with temporary adhesive labels would also no longer be allowed.

However, in reality, many labels for pre-packaged foods in China still look like “magic boxes” puzzling common consumers both in terms of non-Chinese language and the incomplete or misleading fundamental elements which are required to be included on the labels by the law. The government carried out very few spot checks on food labels and the violators were generally not severely punished. The main reason for this could probably be attributed to the government’s worry over exerting too much pressure on Chinese manufacturers in changing old labels.

The law provides that each commodity for sale shall have a label to show and explain its features and properties. Since labels convey necessary information to consumers, labeling has become a foundation for fair business practice and competition. Food labels have become more important than labels for other commodities, because foods have a direct bearing on consumers’ health and safety.

China’s new food labeling law was laid down for pre-packaged food and beverage products to be marketed in China, including frozen foods, pre-packaged meats, special nutrient foods and alcoholic beverages. The law requires food labels to be truthful, precise, and consistent with other Chinese laws and standards. The law only applies to labels on “delivery units” that are pre-packaged for retail sales. The law does not affect “shipping units” and packaged foods sold for institutional use, nor does it apply to bulk foods, fresh produce, pharmaceutical foods and tonics.

Before the first Chinese labeling law GB 7718-87 was put into effect, the Chinese food labeling system had been in an anarchical state for a long time. There were many problems with domestically produced and imported pre-packaged foods being sold in the market at that time.

The new law (GB7718-94) applies to all pre-packaged foods for retail sale in China, including both domestic and imported food products, and closely follows standards recommended by the FAO and World Health Organization's CAC (CODEX STAN 1-1991). The extension granted to imported pre-packaged foods also stipulates that as of September 1, 1996, temporary adhesive labels (Chinese language stickers) would also be forbidden.

However, manufacturers or their distributors of any imported pre-packaged foods without Chinese labels on their packages, but in compliance with the "General Standard for the Labeling of Foods" and the other necessary regulations prescribed by the State Bureau of Technical Supervision can apply to the State Health Quarantine Bureau and the Secretariat of the National Food Industry Standardization Technology Commission under the State Bureau of Technical Supervision for the entry of their products into the Chinese market.

After a preliminary examination, a quadrupled application form needs to be filled out along with a sample of a newly designed Chinese label in accordance with the requirement set for a standard label for imported pre-packaged foods. All these materials should then be submitted to the local Health Quarantine Center of Imported foods for approval. Another quadrupled application form will then be filled up by the local Health Quarantine Center and submitted to the State Bureau. The State Bureau will jointly work out the appraisal with the State Bureau of Technical Supervision and notify the local Health Quarantine Center of Imported Foods about the result of the appraisal. Provided that the application was approved, the State Health Quarantine Bureau would issue a public notice granting an approval to the applicant allowing it to use the approved Chinese labels on their products.

In reality, it is not easy for a western company to change its labels, especially when it starts to explore the Chinese market with a limited number of products on a trial basis in the very beginning. However, it is a lot easier for a Hong Kong company to get a new Chinese food label approved by the Chinese government. Since these companies also sell the same products in Hong Kong, they usually just translate the English labels into Chinese and then submit these new Chinese labels with attached application forms to the Chinese local authorities concerned.

Usually one application case takes about one year's time to get the final approval from the Central Government level, but people just can not bear such a long time without products sales. The only way to stretch the rules is that the applicant pays a certain amount of money, averaging RMB 400 for each commodity label and buys a permission stamp for its application form. With that chop on the form, it is again allowed to use temporary Chinese stickers for its products before the date its gets final approval from the government.

In the future, pre-packaged foods will be distinguished between the foods as mere exhibits and as commodities for sale in exhibition events. If they are mere exhibits, they do not necessarily need Chinese labels on them, but if they are meant for shelves in a shopping background, they are required by the law to be labeled in Chinese. This practice also applies to those manufacturers or distributors of imported pre-packaged foods if they want to bring in any new products to test marketability.

To conclude this epigraph, the basic contents of the labeling are:

- Name of foods: as stipulated in article 5.1 of GB 7718, "General Standard for Food labeling".
- Ingredients: if one or several kinds of raw materials or ingredients are highlighted, their respective percentages (qualitative or volumetric percentages) should be marked.
- Calories: calorific values of the particular special nutrient food.
- Nutrients: contents of protein, fat, carbohydrates, vitamins, minerals and trace elements in the particular special nutrient food.
- Batch number: production (sub-packaging) batch number according to stipulations contained in Article 7.1 of GB 7718.
- Date mark and storage instructions: production date, shelf life, storage date and instructions per stipulations contained in GB 7718.
- Product standard code: it is imperative to mark the codes and/or serial numbers of the State standard, industrial standard or enterprise standard that the products should be governed accordingly.

3.3 Food additives regulations

In China, there are 21 categories of food additives according to their different functions. They are acidity regulator, anti-caking, defoaming agent, antioxidant, bleaching agent, raising agent, chewing gum base, colorant, color fixative, emulsifying agent, enzyme preparation, flavoring potentiator, flour improving agent, film former, moisture stabilizer, nutrition potentiator, antiseptic substance, thickening agent and other agents.

This standard supersedes GB 2760-86 “Hygienic Standards for Uses of Food Additives” and GB 2760-86 “Hygienic Standards for Uses of Food Additives (categories supplemented in 1988, 1989 and 1990)”. In time of the revision of GB 2760-93, the categories of the food additives have employed the classification, numbering, and coding of GB 12493-90 “The Classification and Numbering of Food Additives” and GB 14156-93 “The Classification and Coding of Flavoring Substances”.

The names of many foods were not unified in the original standard, hence revisions have been made according to the related standards and technical terms. This standard was published for the first time in 1977, and was revised for the third time in December 1996.

3.4 Pesticides and other contaminants

China’s standards for pesticide residues are generally simpler and less specific than those of the West. In fact, China regulates only sixty-two pesticides. For example, Chinese tolerances for specific chemicals usually apply to broad classes of products such as “fruits” and “unprocessed grain,” rather than specifying different tolerances for different kinds of fruits and grains.

Standards for pesticide residues are proposed by the Ministry of Public Health, and then evaluated and approved by the State Bureau of Technical Supervision. Provincial or local offices under the supervision of the State Administration inspect imported and exported products for Entry-Exit Inspection and Quarantine to make sure that they meet Chinese standards.

Under China’s Commodity Inspection Law, buyers and sellers are free to enter into private contracts specifying tolerances for chemicals that are not regulated by the government. If private contracts include clauses specifying tolerances for chemicals, which are not regulated by the government, provincial or local offices under the supervision of the State Bureau of Technical Supervision inspect domestic products.

China’s standards for specific pesticides are listed in a book called *The Comprehensive Compilation of National Maximum Residue Limits for the World’s Pesticides and Veterinary Drugs in Foodstuffs and Feedstuffs*. It was compiled by the State Administration for Entry-Exit Inspection and Quarantine (then known as the State Administration for the Inspection of Import & Export Commodities), and published by China Foreign Trade and Economic Press in 1995.

There has not been an updated version published since l995. The book contains regulations and standards for maximum residue levels for pesticides and veterinary drugs in foodstuffs and feedstuffs not only in China, but also in other countries. It also contains regulations and standards for key industrial crops, such as tobacco and tea. These standards apply to domestic, imported and exported products. Pesticide names are in either English or Latin, and Chinese, but the names of commodities are in Chinese only.

3.5 China law on the entry and exit animal and plant quarantine

All imported animal and plant products are subject to quarantine inspection by Chinese Customs. The inspection is based on the Law of the People's Republic of China on the Entry and Exit, Animal and Plant Quarantine. Unlike in the West, China has neither codes nor standards for specific products.

Prior to China's governmental reforms of 1998, China's Animal and Plant Quarantine (CAPQ) Bureau was a part of the Ministry of Agriculture. Two other inspection bureau were also involved with inspection of many food products: China Commodity Inspection Bureau checked products for quality, weight, and quantity, while the Health Inspection Bureau tested for pesticides, antibiotics, residues, and any other visible and non-visible problems. This system was cumbersome and required all three-inspection services to be present throughout the country at each port. Fortunately, the reforms of 1998 have led to the merger of the three inspection services into one new organization called the State Administration of Entry and Exit for Inspection and Quarantine of the People's Republic of China, which is now under China Customs. The new organization is commonly abbreviated as SAIQ and/or CIQ.

CIQ's reorganization is currently complete in Beijing but is not yet finalized at the provincial and local government levels. Each locality is waiting for instructions from Beijing about which of the former three bureau's directors will remain in charge of the new organization in each locality, along with decisions about all the other positions at each locality.

Once the products have been inspected and cleared, then products are subject to import tariffs based on the CIF price. For example, imported live birds are subject to a 12% tariff while a 20% tariff is applied to fresh, chilled, and frozen poultry. In addition to the import tariff, there is also a value-added tax (VAT) calculated on the total value of the product, which is the CIF price plus the applicable import duty. The VAT for unprocessed products is 13% and for processed products is 17%.

3.6 Import considerations in the food sector

The central purchasing agency China National Cereals, Oils, and Foodstuffs Import Export Corporation (COFCO) continues to play a key role in the importation of several commodities. The most important ones are wheat, rice, corn and edible oil. Products subject to restrictive licenses, quotas, and/or state trading include sugar, tobacco, and alcoholic beverages. This reflects the fluid nature of the situation in China. Liberalized sectors may revert to central control and centrally managed sectors may be liberalized at the discretion of central authorities. Quotas are also evident for various products, both state and non-state traded. These quotas are also non-transparent and subject to administrative discretion. For example, joint ventures importing some products that are purportedly "liberalized" (no longer subject to quantitative restrictions), such as oilseeds, have reported difficulty accessing import licenses.

The State Development and Planning Commission establish import quotas, in consultation with users such as the provincial governors and the Ministry of Internal Trade for distribution to various users including provincial and municipal state enterprises. Reportedly, COFCO now accepts requests from users for specific qualities, origin and type of product, but the system still lacks overall flexibility. One of the main problems for users is accessing key ingredients, normally produced by branches of the same company or through licensing or other close business relationships. Examples include the malting barley/beer industry and also the chocolate and other food manufacturing industries, which require specialized, highly consistent and often proprietary ingredients.

China is not yet a member of the World Trade Organization (WTO), meaning that adherence to agreed rules and guidelines is strictly voluntary and there is no formalized provision for regulation and settlement of disputes.

It should also be noted that China remains largely a cash economy. An absence of documentation for commercial transactions, as well as the administrative burden of collecting taxes, has left customs tariffs as a major governmental source of revenue. For the Chinese government to continue to meet its costs and obligations, any reduction in tariffs would need to be accompanied by the introduction of income taxes and/or other forms of taxation. Although some movement in this direction has taken place, tax reform remains a major long-term challenge for the Chinese authorities.

Chinese market access conditions are characterized by a lack of transparency, inconsistency in the application of rules, and the presence of administrative discretion, facilitated by the state-owned structure of many major businesses. With respect to lack of transparency, trade data and other information collection relevant to trade is often not undertaken, not published, and/or sources are not verifiable. In addition, rules, regulations and administrative decisions are often not published and there is no commentary period or consultative process in place to deal with procedural amendments.

Certain products, such as processed food products, may enjoy relatively open access, in theory. However, it may be difficult and costly to determine the import requirements for specific products and then to meet them. Chinese quality standards, testing, inspection, labeling, and certification requirements are often unrelated to international practice. Other products, which are subject to discretionary central purchasing, may enjoy relatively straightforward access, but only within strict quantitative limits. In addition, due to the lack of transparency, it is difficult to determine whether domestic products are treated the same as imported products, or whether foreign investors receive the same treatment as Chinese enterprises. Moreover, there is a strong perception that products that go through Hong Kong may be accorded different treatment, whether “officially” or “unofficially”, than products sent directly to China.

Some of the inconsistency is undoubtedly due to unusual trade practices, the presence of unofficial trade channels, and/or attempts to periodically raise invisible trade barriers. However, a good part is related to problems with internal communication in China, as well as overlapping jurisdictions and discretionary authority on the part of federal, provincial, and municipal governments. For these reasons, negotiation is considered a typical way of arriving at customs valuation as well as tariff and tax rates. Exporters have strong concerns about how this uncertainty with respect to tariff and value-added taxes affects their competitive position vis-à-vis other suppliers. The situation is particularly worrisome for joint venture operations in the North, who may be faced with paying more for their inputs than suppliers coming in, in input or final form, in more “liberal” regions.

Existing access conditions may make it relatively difficult and costly for exporters to test product in the Chinese market. This is particularly relevant, since the Chinese are such a broad and diverse group, whose tastes are changing rapidly as the result of increased incomes, travel, and general exposure to new products.

4. THE EXPERIENCE OF EUROPEAN COMPANIES

The China market has attracted and continues to attract substantial investments from foreign companies.

Whilst not always profitable, China during its current state of reforms faces both the challenges and opportunities of an emerging market. However, European companies show long-term commitment to a presence in China.

China is moving from a shortage economy, where investment policies were readily found, to a surplus economy with excessive production. Consumer confidence is weak with lower spending, wage cuts, and rising unemployment and uncertainty as the welfare system is reshaped.

“Imports” via South China have been a major issue in the past however; the anti smuggling crusade has now had an impact. The development of telecommunications and technology such as the Internet has also been astonishing and will continue to grow.

WTO will have a noticeable effect on reforms and cutting import prices. The potential removal of trade barriers and reduction in import tariffs may make it less attractive for foreign companies to manufacture in China. On the contrary as barriers fall there will be new opportunities for investment.

For example, foreign companies can not expect to produce their entire range of products in China but there will likely be scope for more trade, the freedom to handle imports independently and more effective sales channels.

Some companies have had to learn the hard way that China is a big country with different market requirements. Preparation and research are critical and some European companies have misjudged these aspects to their detriment.

The Delegation of the European Commission in Beijing notes that the most common and challenging issues experienced by European companies are: distribution and marketing, monitoring market developments, cash flows and company accounts, personnel development. These will be examined in greater detail in the subsequent paragraphs and case studies.

To stay one step ahead it is important for companies to set up and expand quickly. Setting up with a local partner with the right connections and establishing an extensive, efficient distribution system for quick market penetration are crucial.

Getting goods to market is one tedious aspect of distribution and transportation remains the weakest link in China’s overall infrastructure. The other is collecting payment within a reasonable timeframe and capital tied up with supply links can affect cash flow.

The competitive environment also has companies reconsidering their marketing strategies. No longer can they “test” a product in a small area, as the chances of competitors stealing this pre launch are high.

Another way to increase market share is to pick up local brands. For example, Unilever gained the lead position in the Chinese ice cream market by purchasing AS Watson's top selling Mountain Cream brand to add to its range.

Foreign firms, Coca-Cola being a good example, have learned the importance of advertising the Chinese name as well as the strategic advantage of spending heavily on advertising as early as possible.

It is also possible to sell existing products in China without any modifications for example, Coke. The most important consideration is to gauge whether the product needs to be modified to local tastes.

For marketers accustomed to the norms of the West, the behavior of Chinese customers is difficult to predict. Before launching a product, foreign companies usually conduct market research to gauge the needs and habits.

The need for training in technical skills, selling skills and service is another issue. High staff turnover is a significant problem in China and there is a need to provide opportunities for career advancement in an attempt to retain good staff.

"Success or Failure? Past Performance and Future Trends", supported by the European Commission in Beijing, found that European companies described the following as the difference between success and failure in the Chinese market.

Successful companies:

- Spent more time researching the market, followed a step by step strategy and invested smaller amounts in the beginning;
- Were more satisfied with their strategic approach than non-successful;
- Chose their location close to their customers with Chinese partner in mind;
- Were more realistic about market demand;
- Were more realistic about both local and international competition.

They also:

- More often transferred the same technology as used in Europe;
- Achieved better quality standard in their production;
- Were more satisfied with their supply structure;
- Adapted products to the local market conditions and priced lower than the international market;
- Had less of a gap between planned and actual sales;
- Encountered fewer parallel imports;
- Had more of a direct approach to the market i.e. trade shows, seminars;
- Used an international brand name;
- Were more careful about staff recruitment and incentives;
- Implemented more Human Resource Management activities such as training, performance management.

Other factors highlighted include:

- 53% of European companies say that general performance is under expectation.

- Break even time is 24 months to 3.5 years.
- 55% use the same manufacturing standards as in Europe.
- 77% planned to increase staff levels.
- 72% increased domestic sales by 50%.
- 43% encountered parallel imports.

4.1 Case study 1: Unilever

When Unilever entered the Chinese market in 1995, it targeted the consumer, invested in retail outlets stocking them with fridge's under the illusion of increasing loyalty, and envisaged capturing market share and strong sales.

The reality of the China situation struck when Unilever discovered retailers selling competitive stocks from their fridges; in addition market share was low and sales less than anticipated.

Subsequently, the strategy has changed. Unilever now sells stock at 50% of the original entry price, fridges have been removed and the new direction appears to be working.

Unilever has made its Walls brand hugely successful in the competitive Chinese ice cream market. Having recently purchased one competitor and adopted an aggressive distribution strategy, Unilever has caused competitors concern by rising from virtually nowhere to become number one.

Aware of the tremendous competition and attempting to retain its market position for as long as possible, Unilever is keeping a close eye on foreign competition. But, not only are the international competitors a challenge but also local competitor Yili. Yili has a long-term strategy, which few foreign companies would be able to or want to copy.

Per capita consumption of ice cream in China is 0.2 liters a year, which is low, compared with Europe where the average amount consumed is 6 liter's. Ice cream companies state that if the "active population" of urban consumers were counted, consumption would rise to 2 liters per year.

The market potential is huge and with double-digit growth in the last few years, more foreign companies are joining the marketplace setting up joint ventures, buying new equipment and expanding their businesses. State media claim that there are 100 imported production lines and 200 large-scale factories in China, which produce estimated 3000 types of ice cream.

Shanghai is probably the most competitive ice cream market in China and the experience of foreign companies warrants close attention. The success of Walls shows just how short-lived market dominance can be.

In 1995 when Walls entered the Shanghai market all the major multinationals had already established a presence. The top three brands at that time were AB Profetti, A.S Watson's Mountain Cream and Fuller Foods. Between them they took about 50% of the market and local companies made up the remainder.

With intense competition squeezing margins and driving prices down there were consequences. For example, Mountain Cream stated that despite experiencing the hottest summer on record and an increase in sales volume of 15%, the value of its sales were down by 15%. The parent company Hutchison Whampoa reported that its sales were down 30%.

AS Watson's Mountain Cream, after poor performance and looking to cut losses, was purchased by Walls. Watsons' Mountain Cream was the best selling brand in Shanghai and number two in Hong Kong and Southern China. The popular name will continue as part of Walls range of brands.

Now the Shanghai market has changed with the previous top three being completely displaced by Walls, Yili and Nestle. Yili has been at the top of the market since 1995 and was reported to have 20% market share followed closely by Walls.

Walls, acutely aware of the complexities of the market and not to be complacent about its new position, hit the market with a new company logo and price cuts of 25-30%. Cost reductions through localization and local production enabled this (price-cutting) and gave consumers access to high quality products at a lower price. Walls were therefore able to target the medium to lower income groups who could previously only afford Yili.

Price is not the only differentiating factor between Walls and Yili. The two strategies are also very different. Walls adjusted its China marketing plan to emphasize intensive coverage of a smaller number of markets and focussed its efforts on Beijing, Shanghai, Guangzhou and Wuhan. It wanted to develop brand loyalty in large trend setting markets and bet on the most affluent existing markets as the source of future sales.

Yili by contrast adopted Mao's catchphrase "using the rural areas to encircle the cities" and won the nations largest market share over the past four years. In Beijing where Walls already has 50% of the market, Yili targeted the outskirts of the city with relatively low priced products. After getting a good grounding around Beijing, Yili then infiltrated the downtown area.

Walls still has largest market share but Yili has a solid presence. The company has used the same entry strategy in Shanghai as well as other cities nationwide. Suburbs serve as the base for Yili to target both urban and rural consumers. Poorer consumers may never reach the high per capita consumption levels as the cities do but the size of the market means that large sales volumes are possible.

Yili's strategy is based on the belief that economic development will not remain confined to major urban centers but will spread more to the rural areas. Thus it plans for much of its growth to come from these areas.

Walls strategy ignores small and medium sized cities as well as the rural market. Yili hopes to establish a dominant presence in these areas and hopes to establish an unbreakable hold on the brand loyalty of those consumers.

Time will tell whether the suburban markets are as tumultuous as those of Shanghai are.
(Adapted from the China Food and Agriculture Magazine, 1999)

4.2 Case study 2: Carrefour and Makro

Carrefours characteristic tactic in most markets is to offer ample parking as a way of attracting customers. This strategy was not a certainty in China.

One thing that is certain about China is that retailer with low price advantages, such as Carrefour and Makro, have won approval from the Chinese consumers. The most popular of these low price formats being hypermarkets and warehouse stores.

The originators of these types of stores are of course Carrefour from France and Makro from the Netherlands who both entered the Chinese market and compete directly and widely in Beijing.

Carrefour entered the market through local channels and was approved by the local rather than central government. Carrefour opened in 1995 and subsequently, in Shanghai, Guangdong, Tianjin, Chongqing and Liaoning applied for separate licenses from each local government.

Makro on the other hand, prepared to enter the market according to the requirements and procedures of central government and obtained its operating license one-year after Carrefour. In 1996 its first store opened in Guangzhou co-funded by Thailand CP Pokphand, Netherlands SHV Makro and Guangzhou Jiajing Company.

Makro received approval for the establishment of its chain store by central government and could therefore set up multiple outlets without having to obtain approval for each store.

Carrefours main target customers are families and household goods take up the majority share of its product portfolio. The 4000 square meter store is located near Beijing's Third Ring Road with good transport facilities. About 100 customer cars can park although statistics show that few drive to Carrefour. They can also come by bus or bike. The average consumer spends around 200 Yuan (USD24) per visit.

By contrast, Makro targets small merchants/peddlers, working units and wealthy families who have their own transport and buy in large quantities. Makro is located in the conjunction of Beijing's urban and rural areas with no convenient public transport and communication facilities. There is a large parking area, which takes about 400 cars. Most of Makros products are in large packages and most members are companies. Makro also acts as a wholesaler/source for Beijing's small merchants and pedlars. The average consumer spends about 300 Yuan (USD36) at each visit.

Carrefour is roughly 4000 sq. meters smaller than Makro in terms of shopping area and yet is carries 5000 more products (20,000) than Makro. Many customers shop at Carrefour because of its wider product portfolio. The ratios of food and non-food items are similar although Carrefour carries more fresh fruit, vegetables and meat than Makro. Makro provides a greater variety of frozen or store cupboard food products.

Carrefour has 400 salespeople and Makro about 350. Most of Makro's employees work as temporary employees paid on an hourly basis. All new staff working at Makro are permanent employees and, receive systematic training about products and services making their service quality better than Carrefour.

Both Makro and Carrefour offer low price advantages. Before Makro entered the market Carrefour enjoyed advantages over local Chinese retailers and often adopted a competition based pricing strategy. When Makro opened its first store in Beijing, Carrefour focussed its competitive pricing mainly on food, beverages and dried fruits but applied a cost plus for most other products. The competition-based approach is still followed by Makro. Since Makro attracts customers mainly through its low price strategy it must maintain price advantage over other market players.

Both Carrefour and Makro use sales promotions as the best way to attract customers in China and increase sales. Carrefour launches promotions everyday, setting up special display areas at each end of the shelf line. The goods being promoted change every 10-15 days and are priced around 10-20% lower. The majority if not all the 10-20% allowances are borne by the manufacturers and Carrefour often charges them for display space.

Makro issues its own promotional newsletter every two weeks announcing specials. All products listed will be below normal price for two weeks. They also introduced sales promotions by way of posters on the door and have since April 1998 launched a series of promotional activities for example a special meat offer on Tuesdays.

Carrefour has 56 electronic cash registers where cashiers input the price manually. This lowers efficiency, as does the fact that all price tags are usually loosely attached and thus hard to find. This sometimes means that cashiers need to ask the customer to pick up another of the same item which also effects efficiency at checkout. However, Carrefour offers customers bags free of charge, which they like, and also means they act as walking advertisements.

At Makro there are 35 cashier counters all equipped with scanners. This makes for greater efficiency at check out, and the till receipt displays item, names, codes and price which Carrefour does not. Makro does not have free bags but offers them for sale at check out.

Carrefour offers a free home delivery service whereas Makro does not. Customers at Carrefour are eligible for free delivery if they purchase over 5000 Yuan at one time and live within 30 kilometers of the store.

Carrefour and Makro are equally successful in the Chinese market.

(Adapted from "The Outlook for Retailing in China", Beijing Consultech (1999).)

4.3 Case Study 3: Nestle

The Swiss based Nestle group, the world's largest food company, has a long established presence in China. Nestle branded products have been well known and trusted by the Chinese consumers for a century, as Nestle opened its first sales office in Shanghai in 1908.

Nestle was one of the first companies to enter the Chinese market in a totally committed way. In the early 1980's, Nestle had already entered negotiations with the Chinese authorities to invest in the establishment of local production centers and to transfer to China its best know how and vast expertise in nutrition and food processing.

The first of many joint ventures in China started its local production in 1990. In doing so Nestle is helping China to replace expensive imports in foreign currency by locally manufacturing products of equal quality. Today some 95% of Nestle products sold in China are locally manufactured.

Nestle is the worlds largest manufacturer of pure soluble coffee, chocolate and confectionery, dairy products, infant nutrition, mineral waters and one of the leading manufacturers of ice cream and many other food and beverage products.

In China, the Nestle Group has made direct foreign investment from Switzerland over the last decade. Today Nestle operates 15 modern plants in China: 3 in Shanghai, 3 in Tianjin, 3 in Dongguan, 2 in Qingdao, 1 in Beijing, 1 in Guangzhou, 1 in Shuangcheng and 1 in SAR of Hong Kong. Nestles annual sales in 1998 in China, excluding water and ophthalmic products amounted to about USD 400 million.

The well trusted Nestle brand, “Que Chao”, is one of the most established and trusted foreign brand names in China, covering a large range of products manufactured according to the highest international standards such as milk powders, yogurts, breakfast cereals, ice cream, soluble coffee, bottled water to name but a few.

Wherever possible and economically feasible, Nestle helps the rural population by buying and processing their agricultural produce, thus providing them with a steady income. Also as an example, Nestle has pioneered in helping development of fresh milk production in Heilongjiang Province and in Shandong Province, where it collects about 200,000 ton of fresh milk annually. In Yunnan Province, Nestle has set up an experimentation and demonstration farm, helping farmers grow high quality coffee. Therefore through the existence of its many factories spread across the country, the population at grassroots level benefits in many ways directly and indirectly from Nestles activities.

Nestle offers permanent employment to about 5,000 local staff in China and provides considerable training. Nestle in highly committed to China and its people.

a) A Success Story in Shuangcheng

Still rather a small town attracting little attention from the outside world, Shuangcheng got excited in the early 1980's when word spread that Nestle, the biggest food producer, would come to build a factory. People talked about the news with much curiosity.

It is hard to blame them. Indeed, in 1982, when China fist kicked off its reform from the South, the conditions were extremely poor; there was not one single road which could be really called a road, the telephone switchboard in use was the most antiquated, and the average per capita income was below the state-stipulated poverty line. Apart from a vast black earth, few houses were in good shape. However, the top management of Nestle had already made up their mind to develop on this black soil because it is always Nestle's spirit to start and grow from scratch.

After a series of hard negotiations going on for four full years, Nestle Shuangcheng Ltd. was formally established in March 1987.

What was needed was the adequate supply of high quality raw materials, i.e. fresh milk, in addition to capital, technology and pioneering spirits, in order to build and run a large dairy product factory meeting the Nestle standards. Nestle's basic policy is to localize the source of materials, using the factory as a locomotive to drive up the development of the cow farming industry in the whole region, therefore to improve the living standards of the local people. It is this main objective that led to the cooperation between Nestle and Shuangcheng City Government. Since then, a "laowai" and a team of Nestle veterinarians are seen bustling about among local farmer's everyday. Their efforts don’t go unrewarded in the end; a daily fresh milk intake of 85 ton collected from 5,000 farmers in 1991 has risen to a current level of 500 ton taken from 12,000 farmers.

Nestle always makes it a priority to develop local staff. The Shuangcheng factory has set a leading example in this respect. The staff from Nestle Shuangcheng has increased from 248 employees in 1991 to 733 in 1999. Of which 730 are local staff and 3 are expatriates. Now, many local engineers and high-level management personnel can be seen working in the important positions.

Nestle Shuangcheng Ltd. contributed RMB 400 million to the local economy in 1998 in the form of payment of fresh milk to farmers, taxes paid to the government, payments for various raw materials, energy and services, and salaries to staff.

No wonder local people like to say that ever since Nestle came to the Shuangcheng, the area has become well known nationwide, the city has prospered and local farmers have become better off.

5. THE EXPERIENCE OF COMPANIES FROM OTHER COMPETITOR COUNTRIES

The China market has attracted and continues to attract substantial investments from foreign companies.

Whilst not always profitable, China during its current state of reforms faces both the challenges and opportunities of an emerging market. Regardless, foreign companies still demonstrate long-term commitment to a presence in China.

5.1 Case study: Alliance Brewing: Beer-brand building

China is a battleground for international and regional beer brewing competitors such a Fosters from Australia, Lion Nathan from New Zealand, Miller Brewing USA, European brewers Carlsberg, Heineken and Beck’s.

Each has adapted different entry strategies: buying old breweries with plans to expand; building new breweries to target specific market segments; locating beer producing facilities within one definable market area or scattering plants through several geographic areas.

The beer market is developing rapidly and domestic production has increased accordingly. Beer consumption in China doubled between 1990 and 1996 from 6.9 liter's to 16 billion liter's, according to a report on the Beverage Sector in China, by the Department of Foreign Affairs and Trade in 1997. China is expected to become the world’s largest beer market in the near future.

While domestic brands such as Tsing Tao are among the most popular brands, many foreign firms such as Budweiser and Carlsberg have their own facilities and production through various joint ventures. China has a large number of breweries due to the poor distribution network and the vast size of the country. Most major international brewers have Chinese partners or subsidiaries in various regions.

Very few beers have a large national presence although they may be strong in a particular region. The largest brewer Tsing Tao controls less than 3% of the market and the top ten only account for

14% of total production, according to a report prepared by Team Canada Research Center and the Canadian Trade Commissioner (1998).

The US based Asian Strategic Investments Company has about 17 joint ventures in China, where it has been operating for the past four years. Two of these are in the beer industry and include a 60% share in Five Star Brewery joint venture (which owns two breweries in Beijing) and 54% of the Three Ring Brewery in Miyun County. All three brew the Five Star Beer Brand which aside from Tsingtao is China's only nationally distributed beer.

In 1996 Alliance Brewing launched its 20 cities project with the aim of expanding its distribution operations in China. The cities were selected on the basis of population size with each city holding above average per capita income and beer consumption and relatively high awareness of Five Stars. Distributors were selected based on capability. The 20 cities project utilized an equal mix of state and private distributors.

Prior to Alliance Brewing involvement, both the Five Star and Three Rings companies were selling Five Star beer in the same area in Beijing, effectively competing against each other. Alliance Brewers first step was to reorganize distribution so that Five Star and Three Ring distributed Five Star beer in different areas of Beijing. Three Ring Brewery then focussed further afield on the cities of Chengdu and Nanjing, and under Alliance Brewers tutelage has been reasonably successful.

Three Ring used advertising to build brand awareness but more importantly obtained product placement with retailers. Three Rings success can be attributed in large part to its strategy of providing the product initially on consignment.

Traditionally building brand equity has not been the focus of beer manufacturers; instead price has been the primary concern. Alliance found changing that culture a great challenge.

One quarter of the Five Star products is distributed through Seema Asimco Miller. A joint venture distribution company set up by USA's Miller Brewing Seema and Asimco. Prior to the formation of the SAM, Five Star products reached retailers through third party distributors.

The main purpose of the SAM venture was to push the Miller brand and to see if Alliance Brewing could penetrate the Beijing market by providing superior distribution services, such as assisting with in store promotions. Furthermore they sought a reporting and financial system that would assist marketing efforts by enabling distributors to buy stock on credit.

To date they company hopes that experience will continue to be the key to success.
(Adapted from “Distribution in China” Charting a Course to Profit, 1999.)

5.2 Case study: Coca-Cola

Despite limitations and restrictions in the soft drinks sector beverage companies have found the attraction of China's potential consumer market too much to ignore.

Take Coca-Cola for example, the world's best-known brand, which entered the Chinese market in 1979. No one believed that it would grow so quickly and become so dominant. However, Coca-Cola according to China Beverage, a magazine distributed within the drinks sector, now claims a 26% national market share in the soft drinks sector (versus Pepsi, which claims about 10%.)

Since the 1980's Coca-Cola has made significant investments in China realizing the potential of such a huge nation. One of the keys to success was establishing the right connections and as such, Coca-Cola made close ties with both Kerry and Swire and operate a joint venture system.

Coca-Cola has two concentrate bottling plants and 22 bottling plants throughout China, which are run by Swire in southern China, and Kerry in the north. Both manage half the operations each. The bottling companies manage the plants, which are joint ventures between the bottler, Coca-Cola and local Chinese companies in each location. Coca-Cola itself acts as the marketing arm and advises the bottling plants on marketing strategy and training resources.

Further to establishing the right connections Coca-Cola's strategy for success is quite simple: increase sales and increase market share. This was to be achieved by increasing per capita consumption and improving the distribution of its products. The bottling plants produce well-known products like Coke, Fanta, and Sprite, which have wide recognition and distribution. However, new local products Tian Tu Di, a tea and water mixture, and also a juice called Smart have been added to the range as a way of increasing sales and "stomach" share.

The bottling plants also manage the sales and distribution teams, which include about 20,000 staff of which 5,000 are sales and 15,000 plant. According to China Staff Magazine, a Human

Resources magazine, another strategy for Coca-Cola to help increase sales and market share was training the bottlers, distributors and sales force to bring in more revenue.

Additionally, Coca-Cola like other multi-nationals faces a challenge with distribution. Like other foreign multinationals in China, Coca-Cola has had to rely on a combination of distribution methods - direct distribution and third party wholesalers. Coca-Cola's distribution is as close to a nationwide distribution system as it can get.

Initially Coke had to be bottled in Hong Kong and imported to China until the Beijing plant opened. In the absence of a central national distributor, the American soft drinks company forged alliances with a number of regional distributors who concentrate on small, remote retail outlets, whereas in house distributors focus on a 50 kilometer area around the factory and work closely with customers to improve merchandising at point of sale. About 30% of distribution can now be handled in house, with the proportion slated to climb to 50% by 2000. Direct distribution allows Coca-Cola more control, efficiency and improved customer service.

Another challenge Coke faced when it re-entered China in 1997 was the poor condition of the road system, which made transport by the company's biggest trucks difficult. Major congestion in the cities is an issue and to counter this Coke uses satellite centers in densely populated areas.

The company says the shortage of warehouse and storage space has not been a significant problem since it has been able to build its own facilities with its local partners. Coke will likely continue to use its system of distribution using road, river and rail to whoever desires it. As the company opens in new areas it will create its own distribution centers to serve those markets best.

(Adapted from Distribution: Charting a Course to Profit, 1999.)

5.3 Case study: Fast Food Outlets, KFC and McDonald's.

As incomes and lifestyles change, Western style fast food meals such as McDonalds and Kentucky Fried Chicken (KFC) have found a receptive market in China. KFC outlets for example, have reported serving up to 20,000 customers in a week, ten times the average served at the same outlet in USA.

One major challenge for these companies is getting the standard ingredients (French fries, coleslaw, hamburger patties) to the fast food service outlets, mainly due to the poor infrastructure. KFC, for example, aware of the tedious logistics involved in obtaining fresh produce from farmers to make coleslaw for its restaurants outsource to Creative Food Technologies (CFT), a wholly owned foreign enterprise which supplies all the lettuce and coleslaw.

CFT obtains and processes cabbage into coleslaw at its modern, temperature controlled and hygiene conscious processing facilities in Beijing and Shanghai; they then transport the goods, same day in company owned refrigerated trucks.

McDonalds Corp, also well known here in China, has 128 restaurants. Its challenge is to improve its supply networks and it has attempted to draw suppliers from its operations in North America to assist. For example, JR Simplot established a french-fry processing plant in Beijing and experimented with growing potatoes on farms in Hebei Province. Additionally, frozen deserts are made in Beijing by another supplier.

Havi Group, McDonalds main US distributor, has established the wholly foreign owned Husi Food Company, which operates out of leased space in local cold storage warehouses in Beijing and Shanghai and acts as the consolidator and distributor. Husi uses its own trucks for delivery. Ideally Husi wants to develop a centralized distribution warehouse but inadequate roads, overcrowded transportation, shortages in temperature controlled highway, rail and water borne transportation are still some of the hurdles to overcome.

(Adapted from the China Business Review)

IV MANAGING A FOOD COMPANY: MAIN QUESTIONS AND SUGGESTIONS

1. SETTING UP THE JOINT VENTURE COMPANY

As is the case with every type of business to be developed in China by foreign interests, the consideration to set up a joint venture in the scope of the food industry poses quite a few aspects which must be analyzed, in order to aid in the success of the business. The Chinese economic structure and its development during the last decades have been radically different from that of the Western world. This fact, although immersed in a process of continuous changes, has been of enormous influence on every company working in China and it will most likely continue to be essential in the future.

From a cultural point of view, the performance of the joint venture will be determined to a certain degree by the quality and level of relationships held with the government agencies involved in this industry, aside from the different bureaus and offices directly related to foreign trade and foreign investment authorities. In the People's Republic of China (PRC), the legal environment is still nascent and the general market structure is ambiguous, as it is rapidly growing in the present. When a concrete legislative system does not exist, the corresponding agencies come in to play making an executive decision to sort the problem out.

In order to convert this necessary dependency on the Chinese Administration into an advantage, the joint venture must keep relationships at different scales within the rigid PRC hierarchy. For instance, if we have a factory in a town, we will have to keep a good relationship with the authorities of that particular town. But, at the same time, we should also have a good relationship with the District leaders, with the Province authorities, and so on, in a chain that finally ends in the hands of the National leaders. Thus, depending on what point of the chain a problem arises, the joint venture might use its upper level contacts to resolve the situation.

For this very same reason, it is of the utmost importance for the joint venture to count on the support of its own government in a public manner, which would be recognized by the Chinese side. In China, more so than in the majority of other countries, it is essential that the foreign investment enterprise (FIE) display a tight relationship with its own embassy or trade commission operating in the PRC. One of the most significant macroeconomic magnitudes contributing to the GDP in recent years is foreign direct investment together with foreign trade. Both are major concerns of, and carefully observed by the Chinese government, determined to encourage the continuous modernization of its economy. Considering how significant relationships are, it is essential to invest money and time on establishing the necessary contacts with the most relevant institutions, such as the Ministry of Foreign

Trade and Economic Co-operation (MOFTEC), the State Development and Planning Commission (SDPC), the State Administration for Industry and Commerce (SAIC), the State Administration for Foreign Exchange (SAFE), the Ministry of Agriculture, the Ministry of Light Industry, and the CCPIT (China Council for the Promotion of International Trade), etc. In China, this is usually done through banquets, visits to Europe, etc.

To set up a joint venture in the PRC, the foreign entrepreneur must be patient and tenacious. These characteristics are vital for the future success of the business, due to the fact that his/her capability to handle difficulties will be tested systematically.

1.1 Seeking a partner

The first differences arising between the foreign party and the Chinese one strongly reflect the differences between the West and the Far East. These contrasts cover historical, cultural, spiritual and economical aspects, taking into account that the changes that have occurred in China are very recent and still in progress. Most likely, the Spanish, Italian or Belgian entrepreneurs initial contact with the sought after Chinese party will also be their first contact with the oriental culture. What seems at first glance to be mere superficial disagreements turn out to be obstacles hard to overcome. We should not forget that in the future relationship between both parties, the human component would be as significant as the sheer economic interests involved.

Therefore, when we look for a partner in China, we have to look for a specific person, considering that the entrepreneurial figure does not exist in the PRC. At the same time, we have to consider the large regional differences of the country, taking into account that business development in cities like Hong Kong and Shanghai is not comparable to that of most parts of China.

Generally, most of the joint ventures established in China have the PRC itself as a partner, in the form of a state-run company, a local government, etc. To this day, there are few private Chinese companies appropriate to be part of a joint venture. The few that do exist are small, so the best options available to the foreign investor are found among companies belonging to the State, the Province, and the City.

Bearing this phenomenon in mind, the troubles arising from the regular operations of the joint venture usually stem from misunderstandings during the initial negotiations of the joint venture contract. Once the company is operating in the market it is almost impossible to renegotiate each party's responsibilities. For this reason, it is essential to clarify the scope and reach of each party from the very beginning of the negotiation process.

In order to find a good partner, the foreign entrepreneur must clearly define what it wants from the Chinese party, what the Chinese party may or may not contribute to the joint venture, to what extent the Chinese party can solve problems, and what the responsibilities of the Chinese party should be.

One of the best examples of a well-run joint venture in China is that where the foreign party owns the majority of the capital and the Chinese party cannot get involved in the management of the company. The foreign side manages and controls the daily affairs of the business, and expects the Chinese partner to apply his/her knowledge and know-how in public relations without interfering in the administration of the company.

1.2 Main differences with the Chinese partner

Among others that may show up depending on the particular circumstances of each case, the most common differences found in joint ventures of the food industry with respect to the Chinese partner are the following:

- The Chinese partner is not an entrepreneur and, consequently, does not have a business mentality as we reckon it in the West. There is though a mercantilist mentality that looks for a profit in buying and selling as quickly as possible, but it is hard to find that business administrator who is concerned with the generation of added-value and the capitalization of the company. The Chinese partner usually shows two aspects that characterize him/her: scepticism and pragmatism. Both values are reflected in his/her lack of trust in non-immediate results and in his/her particular interest in short-run profit-making deals.

- The Chinese concept of enterprise reflects the idea of everyone providing a service that benefits the society as a whole, ensuring that it lacks nothing. This is the idea of collectivism advocated by the communist revolution that gave birth to the PRC, as opposed to individualism. Generally, the Chinese partner does not comprehend the objective of profitability, a concept basic to any Western company. He/she would rather look for the distribution of wealth created on an immediacy basis, as if all that is generated in China belongs to China and should be distributed to its people through salaries or other means.

- The view of capitalism is clearly different for the Chinese people. The rapid changes occurring nowadays in the PRC have brought a new and very aggressive economic system. Besides the search for fast returns, the Chinese party normally tries to obtain the maximum benefit from everything, without regard for the welfare of its workers, the quality of raw materials purchased, etc.

- The Chinese partner usually hurries to sign the joint venture contract, as the primary goal being to get something from the foreign party immediately, such as financial resources, machines, equipment, or even a trip to the foreign partner's country. Therefore, at that specific moment, the Chinese side would not consider the future cash flows but rather the instantaneous benefit supplied by the foreign entrepreneur. In his/her mind, the only thing that counts is the present.

- A basic difference is, of course, the language. Taking into account that the commercial relationship with the Chinese partner has to be based on a personal relationship, the language is inevitably essential. The nuances of our own language, the specific ways in which we express our thoughts and, in short, everything implied in our mother tongue, lose effectiveness. Part of the message does not reach its objective regardless of the interpreter's skills. Moreover, in China the periods of silence in a conversation are very different from those in Europe (despite our own differences among European languages). When involved in a negotiation, the foreign side may be anxious because of the need of extra time for the interpreters to do their task and the uncertainty of what the Chinese party specifically wants to communicate. However, the foreign party must take advantage of these waiting periods to think over and organize his/her ideas.

- One more difference lies in the courtesy rules practiced in China, which the foreign party must know and respect in order to avoid further misunderstandings.

To summarize, during the initial contacts with the Chinese party, the foreign party must adapt to the Chinese culture and way of understanding business, without falling into their traps. The task of finding a good partner in China demands great efforts that in hindsight will be worthwhile. It is a task of great importance, a decision that will affect the whole life of the joint venture. For this reason, communication is vital and so is the choice of a professional and trustworthy interpreter. Likewise, the resolution of problems has to be done in a Chinese fashion. In China, trying to solve problems dramatically is inconceivable, there is no room to put somebody between the devil and the deep blue sea. Undoubtedly, the worst scenario is to make Chinese person "lose face". After such a situation a second opportunity to settle the differences would not arise. Thus, the foreign party should grant a vote of confidence to the Chinese one, managing at the same time to discourage any trickery by the Chinese side. If the Spanish, Italian or Belgian entrepreneur demonstrates that he/she is reasonable, fulfils his/her word, knows how to act in times of troubles, and works on the basis of what has been agreed upon, it is very unlikely that the Chinese party would adopt a negative attitude.

As in the case of institutional relations, the foreign party has to invest all types of resources, mainly human, to explain how things should be done for the sake of the joint venture and to create that link necessary to guarantee the success of the business.

With these considerations in mind, in the following paragraph we will analyze the types of joint ventures available in China for the establishment of a food company.

1.3 Legal forms of the Joint Venture

Two joint venture formats are available to the foreign investor in China: the Co-operative, or Contractual, J-V and the Equity J-V. Although still a possibility, the first mentioned has little to recommend it, as recent legislation has tended to truncate the additional flexibility it used to offer the joint venture parties in the areas of tax and control. Also, the larger the project, the more likely the government will insist on an equity joint venture model. Given the available legislation and stronger experiential record of equity joint ventures, such ventures are more predictable and have fewer disadvantages for foreign investors when compared with the co-operative ones.

a) Equity Joint Ventures

Following the Chinese government's decision to seek foreign investment in the late 1970s, the equity joint venture was the first foreign investment vehicle formally permitted to be established in the PRC. In 1979, the first law to regulate this new mechanism for foreign investment in the country was passed. Since then, many laws and regulations directly concerning equity joint ventures have been issued, making them the most regulated investment vehicles in China. In addition to the *Sino-Foreign Equity Joint Venture Law Implementing Regulations* of 1983, which contain detailed provisions on many aspects of the establishment and operation of equity joint ventures, regulations have been promulgated governing labor management, management autonomy, capital contributions, debt/equity ratios, and the term of equity joint ventures. Other operational aspects of equity joint ventures such as tax, accounting and financial management is now governed by legislation applying to all FIEs. Equity joint ventures are also regulated by legislation like the *Foreign Economic Contract Law* as of 1985, which applies to all foreign-related economic activities, and legislation of general application such as the *Civil Law General Principles* of 1986.

Although many regulations apply to equity joint ventures, gaps and inconsistencies in the regulatory framework still exist, and these can create uncertainties and difficulties for foreign investors. One of the best ways of dealing with these problems is through contractual provisions that fill in the major gaps in the law. Over the years, the Chinese government with the intention of providing a more attractive investment environment for foreign investors has promulgated basic equity joint ventures legislation has been amended, and additional regulations. Unfortunately for the foreign investor, PRC governmental interests have filled many of these gaps that have protected themselves with policies and the so called *neibu* (internal policies and unofficial rules) that are not available to the foreigner in the negotiation or implementation of the joint venture. In fact, the possession of some of this *neibu* could violate Chinese State secret regulations and result in imprisonment of the possessor.

An equity joint venture has to take the form of a limited liability company, where profits will be divided among partners in direct proportion to their equity stakes. In the registered capital of an equity joint venture, the proportion of the investment contributed by the foreign parties shall in general not be less than 25 percent, and the profits, risks and losses of an equity joint venture shall be shared by the parties to the venture in proportion to their contributions to the registered capital. Each party to an equity joint venture may contribute cash, capital goods, industrial property rights, etc, as its investment in the venture. Despite the specific mention of the liability carried by each party made by the Chinese law, foreign parties still often insist that the implications of limited liability be finally clearly defined in the joint venture contract. Not in vain, a look at the actual enforcement of the PRC judicial and arbitrate awards against Chinese parties as compared with the enforcement of judicial and arbitrate awards against foreign parties indicates that often foreigners do not receive the same treatment as PRC parties.

The rule applied by the SAIC, in force since 1987, sets the minimum percentages of the joint venture capital in proportion to the total investment as it follows:

Total Investment	Minimum Capital
Above US$30 million	33,33% (minimum of US$12 million)

Between US$10 million and US$30 million	40% (minimum of US$5 million)
Between US$3 million and US$10 million	50% (minimum of US$2.1 million)
Up to US$3 million	70%

Furthermore, there are other requirements for joint ventures on minimum capital depending on the activity to be developed:

Type Of Activity	Minimum Capital
Production and wholesale distribution	500,000 Yuan (US$ 60,400)
Retail distribution	300,000 Yuan (US$ 36,200)
Research, consultancy and services	100,000 Yuan (US$ 12,100)

Also, the *Equity Joint Venture Law Implementing Regulations* does not allow the joint venture to reduce capital along the whole life of the company as it is established at the beginning. Regarding disbursement, the law provides that the capital may be paid out at once (within 6 months following the approval of the Chinese authorities of the joint venture) or in more than one term, the first one being, at least, 15% of the amount of each party's contribution to the registered capital, within 90 days from the joint venture registration as a limited company.

As it is specified in the law, the technology or equipment contributed by any foreign party as investment shall be truly advanced and appropriate to China's needs. Nevertheless, this contribution in technology or equipment must not exceed 20% of the total joint venture investment. In cases of losses caused by deception through the intentional provision of outdated equipment or technology, compensation will have to be paid for such losses. The investment contributed by a Chinese party may include the right to the use of a site provided for the equity joint venture during the period of its operation. However, in case such a contribution does not constitute a part of the investment from the Chinese party, the venture shall pay the Chinese Government a fee for its use.

Although in some industries the foreign shareholder is limited to a 50% stake, in most of the economic sectors in China higher limits on foreign shareholding apply. This is the case for the food industry, where the foreign investor can own the majority of the joint venture. Whereas in the 1980s a large number of joint ventures were set up on a 50-50 basis, nowadays most foreign companies look for a minimum of at least 70%.

Silent local partners are increasingly common in more developed investment zones in Guangdong and Shanghai. Often the zone itself will have an investment holding company, the main purpose of which is to act as a silent partner in joint ventures in the zone. The reason to create a silent partner joint venture, rather than a wholly foreign-owned enterprise, is generally political. Local and central government officials prefer to see a Chinese party benefit directly from foreign investment, while foreign investors are wary of the hassles of active joint ventures partners.

The *Equity Joint Ventures Law Implementing Regulations* provide that this type of associations are legal persons, or “enterprise legal persons”, as a notion included in the Chinese *Civil Law General Principles* mentioned above and the *PRC Company Law* of 1993. Thus, the legal person in the Chinese legislation would be roughly equivalent to the Western concept of a “corporate person”, that is to say, the legal person has the right to own, use and dispose of property, the right to carry out management and production activities independently and the capacity to sue and be sued in the people’s courts.

In its purchase of required raw and semi-processed materials, fuels, auxiliary equipment, etc, an equity joint venture shall give first priority to Chinese sources, but may also acquire them directly from the international market with its own foreign exchange funds.

An equity joint venture is encouraged to market its products outside China. It may distribute its export products on foreign markets through direct channels or its associated agencies or China's foreign trade establishments. Its products may also be distributed on the Chinese market.

For the guidance, assistance and supervision over the joint venture, the Chinese law requires them to have a department in charge, which will normally be the government department in charge of the Chinese party. This concept derives from the internal structure of the Chinese economy where, until recently, all significant economic units have effectively been government organs controlled by an arm of the economic bureaucracy.

b) Co-operative Joint Ventures

Co-operative or contractual joint ventures have been popular foreign investment vehicles since the first half of the 1980s because of the flexibility they offer compared to equity joint ventures. First regulated by the *Sino-Foreign Co-operative Joint Venture Law* as of 1988, the legal characteristics of this type of joint ventures have, however, come to resemble more closely those of the equity joint ventures since the promulgation of the *Sino-Foreign Co-operative Joint Venture Law Implementing Rules* of 1995. Unlike the equity ones, a co-operative joint venture can be created without legal person status, and its foreign party may be authorized to recover its investment before the end of the joint venture.

The approval, registration and capital contributions of co-operative joint ventures are generally the identical to those of equity joint ventures, as it is detailed in the next block. Only the time limit set out for responding to the application for setting up a co-operative joint venture is shorter than in the case of an equity joint venture, according to what is stated below. Nonetheless, approval authorities tend to scrutinize very closely the nature of the co-operation and may request many changes. Indeed, most authorities prefer equity joint ventures rather than co-operative joint ventures. Either MOFTEC or COFTECs (Commission for Foreign Trade and Economic Co-operation) often stall approval of co-operative joint ventures hoping that the partners will lose patience and switch to an equity structure.

One of the most significant features that distinguish co-operative joint ventures from other investment vehicles in the PRC is that the profit sharing ratio need not adhere to the ratio of each party's interest in the registered capital. Therefore, more attention can be given to the strategic importance of each partner in the venture when defining the profit sharing ratio. Co-operative joint venture contracts also often provide for variations in this ratio over the joint venture's term. For instance, in a co-operative joint venture where each party holds a 50% interest, the foreign investors may be entitled to 70% of distributed profits during the first half of the joint venture's term and to 30% during the second half. In other cases, profit is distributed in kind, such as finished products after processing.

On these grounds, co-operative joint ventures are most frequently used in the following cases:

- when the contribution of the Chinese partner is a non-quantifiable asset;
- in major construction projects where the foreign investor wants to recoup the investment in a fixed period of time and then get out.

A co-operative arrangement may also be used when the partners are dissatisfied with the valuations of assets contributed as capital.

For investors in a one-off project, the co-operative joint venture contract precludes the need to go through formal liquidation procedures at the end of the project's lifetime. For that reason also, investors interested in establishing a longer term presence in China but shopping around for the right partner with whom to do so may find the co-operative joint venture structure a useful testing ground. In the event that the partnership does not work out, the break can be cleanly orchestrated.

The rules for dissolution and liquidation of co-operative joint ventures are generally the same as for other FIEs, but the *Co-operative Joint Venture Law Implementing Rules* provides that, where a party's failure to perform its obligation creates a situation where it is impossible for the co-operative joint venture to continue to operate, the non-breaching party or parties can directly submit an application for dissolution without a board decision. The party in breach is also under an obligation to indemnify the non-breaching parties against losses arising from the breach. In practice, however, the right to unilaterally initiate dissolution is largely untested.

In the case of co-operative joint venture without legal person status, the Company Law does not apply, liability is unlimited and is shared between the parties according to the proportion of contributed funds or according to the provisions of the joint venture contract. The parties, however, assume joint liability where stipulated by law or when agreed to between them. In practice, the organization of the co-operative joint venture without legal person status may leave much greater management control in the hands of the Chinese side than would be the case in an equity joint venture. Thus, the foreign investor may lose control over the venture's operations and over the funds and assets invested.

Outlined the main differences between equity and co-operative joint ventures, the last ones closely follow the equity ones model in general. Thus, the next sections will refer indistinctly to both types of joint ventures as an important instrument available in China to undertake an investment in its food industry, bearing in mind though that equity joint ventures are the most common vehicle to operate.

1.4 Establishment formalities

A joint venture is established through the signing of a joint venture contract and articles of association by the parties, and the approval of and registration with the authorities in China. Joint venture contracts are generally for a fixed term, which may be renewed upon agreement by the parties and approval by the authorities. Although there is no specific mention in the Chinese law about a limited duration for the life of a joint venture, most PRC parties claim that the law requires a 50-year maximum. However, this figure only alludes to the land use laws that limit industrial use to 50 years.

It would be beneficial for foreign parties to insist on an unlimited, or unspecified, term for the joint venture while acknowledging the land law limitation.

The value of the land in China may range from 1 yuan (US$ 0.12) per squared meter and year in some regions to over 100 yuan (over US$ 12) per squared meter and year in the business areas of the most important Chinese cities.

a) Approval authority

Joint ventures in China can only be established through government approval and registration. The actual level of authority responsible for approval of joint ventures is dependent on the size of the total investment in the project. Projects with a total investment in excess of US$100 million must be approved directly by the State Council; projects with a total investment above US$30 million must be approved by the SDPC and MOFTEC in Beijing, and projects with a total investment of less than US$30 million will be approved by a local COFTEC. This information and the corresponding type of location where the new joint venture must be established are included in the following table:

Total Investment	J-V Location	Approval Authority
Above US$100 million	P.R.China	State Council
Above US$30 million	P.R.China	SDPC and Central MOFTEC in Beijing
Above US$10 million	Coastal provinces, autonomous regions and municipalities reporting directly to Beijing, and Special Economic Zones	Local provincial, autonomous region, municipal and zone authorities through the local Planning Commission and COFTEC
Above US$0 million	Other PRC locations not mentioned above	Local provincial and municipal Planning Commission and COFTEC

Around 80% of joint-venture location decisions are determined by the location of the Chinese partner, who often offers land or the plant itself as its major capital contribution. However, the foreign investor should keep in mind that the quality of the partner is often more important than the quality of the location. A good partner can make a dreary location profitable, and a bad one can easily nullify all the tax breaks and investment incentives a local government offers.

b) Approval process

The procedures and documents required to set up either equity or co-operative joint ventures in the PRC are summarized in next page (the procedures may differ according to geographic region and locality in China):

STEP	PROCEDURES
1	Parties sign a Letter of Intent, Memorandum of Understanding, or a Preliminary Agreement
2	The Chinese Party prepares a Project Proposal Report (1)
3	MOFTEC or COFTEC (2) and Planning Commission approve the Project Proposal Report (1)
4	Both parties jointly prepare a Feasibility Study Report for the project which is then submitted to the MOFTEC or COFTEC and relevant Planning Commission for approval (1)
5	Relevant government authorities are consulted
6	MOFTEC or COFTEC and Planning Commission approve the Feasibility Study Report (1)
7	Both parties negotiate and sign the Joint Venture contract and the articles of association and submit them to MOFTEC or COFTEC for approval
8	MOFTEC or COFTEC approves the Joint Venture contract, the articles of association and the establishment of the Joint Venture company
9	A business license is issued to the Joint Venture company by the SAIC

(1) – The Project Report and the Feasibility Study Report referred to in Step 2 and Step 4, respectively, may be submitted at the same time. Step 3 and step 6 may take place at the same time.

(2) – COFTEC, depending on the amount of total investment, has been delegated approval authority by MOFTEC.

Once an agreement is reached between the partners-to-be for the establishment of a joint venture, the first stage of the negotiating process is, generally, the writing of a Letter of Intent, Memorandum of Understanding, or a Preliminary Agreement, that normally includes a brief description of the proposed field of business and each party's objectives for the joint venture. This Letter of Intent will allow the PRC party to obtain the permission of the competent ministries and authorities to go ahead. With this consent, the local party will be able to apply for the use of land, foreign exchange or Chinese currency to finance the project.

Although the Letter of Intent is not legally binding for both parties, it is highly recommended that this document mention the intention to prepare a Feasibility Study Report as well as to sign a definitive joint venture contract. Chinese partners sometimes choose to ignore the pledges they made in the letter, while trying to hold foreign partners to everything they promised. For this reason, investors should try to keep letters of intent as general as possible.

The Project Proposal Report is the Chinese party's responsibility to submit to local COFTEC (or MOFTEC and the SDPC for projects requiring central government approval) and the SAFE. This should include an assessment of the project's infrastructure needs and some information about required equipment, labor and materials. SAFE will decide whether the project has the capacity to balance foreign-exchange revenues and expenditures, and either COFTEC or MOFTEC (depending on the scale of the project) will give it final approval no later than 20 days after the documentation is deemed complete.

Like the Letter of Intent, the Feasibility Study Report is not binding for the parties (unless it is incorporated as an appendix to the joint venture contract), but is the base for the first assignment (decided by the Chinese government) of raw materials and basic equipment to the joint venture. For the Chinese party, its importance lies in the fact that it justifies the project before the authorities in order to get their approval. It should include information on the type and quantity of product, the target market, sales projections and equipment, infrastructure, labor and foreign exchange requirements. An environmental-impact statement may also be required.

The last stage is the signing of the joint venture contract and the articles of association. Although in many respects the contents of the joint venture contract and the articles of association may overlap, the contract sets out the relationship between the parties and their role in the joint venture, while the articles of association deal with the internal structure of the joint venture and its operation. In case of conflict between their respective contents, the PRC law pronounces that the joint venture contract will prevail over the articles of association. This step is really important in the whole process, taking into account that once the joint venture contract has been signed and registered, it is virtually impossible to change. Therefore, it is essential that both parties clarify to the utmost detail every aspect involved with the running of the new company in an unambiguous language.

All of these documents mentioned above must be written in Chinese, being allowed a translation in a foreign language that will have the same validity as the Chinese version. Normally, the joint venture contract refers to other complementary contracts that may be included as annexes to it, like the "technology transfer", "brand licensing" and "agency for export of joint venture manufactured products" contracts.

After submitting the agreements, contracts, and articles of association to MOFTEC or the competent COFTEC for examination and approval, the authority will decide whether to approve or disapprove them within 3 months (45 days in the case of co-operative joint ventures), though it often asks for additional documentation or facts that may delay the approval process for months. It is best to consult with MOFTEC frequently while drafting the Feasibility Study and contract to minimize questions or ambiguities later in the process.

Once approved, the joint venture shall register with the concerned department of the SAIC within a period of 30 days and start operation after receiving its business license. Lastly, the joint venture will have to register with the local tax bureau, customs office and SAFE within another 30 days. SAFE will issue a "Foreign Investment Enterprise Foreign Exchange Registration" certificate, which is required to open a foreign-exchange bank account and gain access to foreign-exchange centers. The amount a joint venture may hold in its foreign-exchange account is limited according to the joint venture's paid-up capital or a combination of capital and the level of exports.

1.5 Negotiation of the Joint Venture contract

A principle the Chinese negotiators usually come up with at the earliest stages of conversations for the set up of a joint venture is the so-called "equality and mutual benefit" statement. Such a principle that, at first glance, may seem obvious, turns out not to be so innocuous in many cases, as the supposed position of equality for both parties is after all not that equal. In this respect, to Chinese negotiators this phrase means quantitative rather than qualitative equality, to the point, for instance, where the foreign party would appoint the manufacturing manager, while the Chinese party would appoint the finance-accounting one.

Control is the key concept behind every position that the Chinese negotiating team will take during joint venture negotiations, which is involved in issues of timing, intellectual property licensing, voting for general board resolutions, liquidation and any issue that could become critical to the viability of the joint venture. In negotiating control, the PRC party can distort the meaning of "equality and mutual benefit" so that a consensus is required for everything in the term of the joint venture Company.

In the negotiation process, the foreign party should bear in mind the cultural differences implied in the way of understanding business on the Chinese part. On the grounds that, from their perspective, China's market belongs to China, and the premise for permitting foreign investment in China is to strengthen the development of the Chinese economy, they will usually require the foreign party to provide the technology, know-how, management and marketing skills, and foreign currency. On the other hand, the Chinese side is dependent upon to facilitate labor, land, factory buildings and knowledge of, and access to, the Chinese economic system and market. Unfortunately for the foreign party, Chinese partners often bring expertise only in relation to their present markets, which develop along political rather than economic lines, so they do not have much to add once the project gets underway. Also, they are usually unwilling to challenge the economic, market or political systems, and this further diminishes their value as partners do.

Investors should remember that their Chinese partner would normally be a small part of a large administrative bureaucracy. It is very important to determine the interest of these bureaucratic actors, and the extent to which they differ from, or coincide with, those of the foreign investor. Furthermore, the foreign party should establish whether the interests of the Chinese side and its department in charge are the same.

Trademarks, patents, intellectual-property rights licensing, leases for land and buildings, supply agreements, and any other commercial factors that might affect the business should be dealt with either in the main contract or in annexes. It is also crucial to include clauses on how partners may exit the venture.

1.6 Board members and Management

Depending on each party's capital contribution to the joint venture, the board of directors will be either equally divided or more inclined to one side. The chairman is still the legal representative of the joint venture by law, but this does not give him/her a casting vote. There are no nationality or residential requirements for Chinese joint venture board members. Also, since the joint venture investor does not hold shares, there are no official shareholder or members meetings or forums. On the contrary, the board of directors formally decides everything. Furthermore, for certain critical decisions such as amendment of the articles of association, merger, increase of capital and liquidation or dissolution of the joint venture, there must be unanimous agreement from the board members and approval from the original approval authority.

There must be no fewer than three members of the board of directors (no maximum is specified) and they should serve at least a four-year term, which may be renewed.

The overall management power structure of joint ventures tends to be symmetrical. The chairman has a vice-chairman, the general manager has a vice-general manager, the director of operations has a vice-director, and so on. The Chinese party will usually want its nominees appointed to positions so that they "equalize" the foreign party's nominees, that is, where there is a foreign general manager, the Chinese side will require a Chinese deputy general manager. This demand for equalization makes it necessary to define the relationship between the Senior and the junior officers.

a) Project priority

In spite of the repeated slogan of "equality and mutual benefit", the interests of the foreign investor are not the primary consideration for the Chinese authorities or even the Chinese parties to joint ventures. The People's Republic of China places a number of general conditions and restrictions on the establishment of joint ventures intended to ensure that the expected benefits are realized. Moreover, the laws do not seem concerned with the effect on the Chinese parties, but only in the role the joint venture plays in the centrally controlled economy.

With these considerations in mind, the State Economic Commission and MOFTEC list the types of investment into 4 categories:

- Encouraged
- Permitted
- Restricted
- Prohibited

Normally, projects involving high technology, new materials or satisfying international market demands are encouraged. Projects which involve technology that has already been developed in China or the industries which have exclusive selling rights within China are set in the "restricted" category, whereas projects that endanger the national security, damage the environment, or harm the public interest are listed in the "prohibited" category. In order to obtain approval from the Chinese authorities, joint ventures shall be careful on which category the subject matter of the proposed Joint

Venture belongs to. In our case, a joint venture belonging to the food industry falls into the headline of "permitted", providing that, like every joint venture:

a) adopts advanced technical equipment and scientific management that enable expansion of the variety of products and raise the quality of and savings in energy and materials;
b) provides benefits in terms of technical renovation of enterprises that result in lower investment costs, faster returns and higher profits;
c) enables expanded production of exports and result in increased foreign exchange earnings;
d) enables the training of technical and managerial personnel.

b) Advantages and Disadvantages

The following are among the main advantages of joint ventures, whether equity or co-operative, in China:

- They are often the only vehicle officials will permit.
- They are a good way of establishing business relationships.
- They are a way of acquiring land.
- They have on-the-ground experience.

On the other hand, the main disadvantages are:

- Inflexibility.
- Inability to combine different operations.
- Conflict of interest between partners.
- The need for a partner in a joint venture may mean that a foreign investor's entry to China can only be gained at the cost of a loss of some control over its business decisions.

According to a very recent confidential survey supported by the Delegation of the European Commission in Beijing, 33% of the respondents (foreign companies' managers in China) are satisfied with their joint venture partner, and 42% find that their partner is still acceptable. Only 19% are not satisfied, and 6% find that their partner is unacceptable. However, when asked if they would establish a joint venture again if other legal structures were available, 63% answer no.

1.7 Incentives to set up a Joint Venture

A joint venture may, in accordance with provisions of the relevant laws and administrative rules and regulations of the State on taxation, enjoy preferential treatment for reduction of, or exemption from taxes.

A foreign party who re-invests any part of his share of the net profit within Chinese territory may apply for the restitution of a part of the income taxes paid.

Please refer to section 4.2. which contains more detailed information regarding taxes and incentives to set up a joint venture.

1.8 Governing law

Besides the *Equity Joint Venture Law Implementing Regulations*, there is no legal requirement in China for the application of Chinese laws to any other ancillary contract involving the joint venture. Such contracts may apply the law of another country, even the country of the foreign investor, according to the *Foreign Economic Contract Law*.

Just in the case of equity joint ventures, if the joint venture is terminated or if it expires, either one party must buy the other out or liquidation of assets and dissolution of the legal person occurs. The *Foreign Investment Enterprise Liquidation Procedures* (1996) provide guidelines for joint ventures that wish to liquidate or dissolve. There is little precedent in their application, and the joint venture contract is the right instrument to provide for these situations.

Also, it is frequent for the parties to agree on a clause of arbitrage for the settlement of disputes to be held out of China's borders. Stockholm, Zurich and London are the main cities for that purpose.

2. INCENTIVES AND FINANCIAL INSTRUMENTS SUPPORTING THE SETTING UP OF JOINT VENTURES IN CHINA. MULTILATERAL INSTITUTIONS SUPPORT. NATIONAL SUPPORT IN SPAIN, BELGIUM AND ITALY.

The annual increase of Foreign Direct Investment (FDI) in China has averaged more than 40% over the 1990s, and peaked in 1993 at an astounding 175%. Although 1999 is going to be the first year in which total FDI will fall (by more than a fifth)[1], China remains the most important developing country recipient of FDI. With a growth rate of 7,8% in 1998, a market of 1,3 billion people and an increasing consumption power, the foretold world biggest economy by 2020 will surely continue to attract a big share of the total FDI directed to developing countries.

Other than the incentives offered by the country itself, there are different institutional incentives that foster investment in the country and that should be taken into account by the prospective investor. We will discuss in this section the different financial instruments that support the setting up of Joint Ventures in China for private companies.

Taking into account the different origins of this institutional instruments, this section will be divided in three parts: the first one will discuss the incentives designed by the government of China; the second one, will include financial instruments offered by the Multilateral Financial Institutions, both at a European and at a world-wide level; the last part will present the incentives offered by the national governments of Spain, Italy and Belgium.

2.1 Incentives offered by the government of China

China reformed its commercial and industrial tax system in 1994. The reform embraced six main taxes. After the reform, foreign investment enterprises were entitled to the same treatment as Chinese enterprises and nationals with regard to all taxes except the Enterprise Income Tax and some local taxes.

Projects, which introduce new technologies and export-oriented investments, are the most favored by the Chinese authorities. Also, some areas are more favored than others are. In this section, the terms of the enterprise income tax for foreign funded companies will be presented first, followed by the terms offered in the preferential zones. Last, some additional incentives will be discussed.

a) Provisions on tax preferential terms for foreign investment in China

According to the 1994 Tax reform, the profits of joint ventures are subjected to a national tax on enterprises of 30%, and a local tax of 3%. Both are evaluated and levied at the same time, making a global Enterprise Income Tax of 33%.[2]

1) Preferential Terms for aiding new enterprises: for productive Foreign-Financed Enterprises (FFE) with an operational duration of more than ten years, the Enterprise Income Tax is not collected during the first two years of profit making and it is reduced by 50% until the fifth year. FFE, which are technologically advanced or export a significant amount of their production, may benefit from better exemptions.

2) Preferential Terms for encouraging re-investment: if a foreign investor in a FFE does not remit abroad the after-tax profits drawn, but uses them as continued investment in China with a term of no less than five years, 40% of the re-investment part of the paid income tax will be refunded.

3) Preferential Terms for offsetting losses: the annual losses incurred by a FFE, engaged in production and operations may be offset by the income made in the next tax payment year. The longest offsetting period must not exceed 5 years.

4) Preferential Terms in pre-deduction of income tax: the following cases are exempt of the income tax:

- Incomes from the interests on loans extended by international financial institutions to the Chinese Government and the incomes made by state owned banks.
- Incomes made by foreign banks from the interests of loans with preferential interest rates extended to Chinese state-owned banks.
- The royalties derived by providing patented know-how for scientific research, energy development, the development of the transport sector and production of agriculture, forestry and animal husbandry, as well as the development of technology, the income tax will be levied and collected at the reduced rate of 10%; those with advanced technology or with preferential terms are exempted.

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[1] Source: The Economist, 25 Sept 1999, "Infatuations end"

[2] Joint ventures established in China before 1994 (year of the Tax Reform) may choose to continue their activity under the old tax rates and exemptions, if this suits their needs better.

- China does not levy tariffs or the import linked value-added tax on imported equipment and technology and a reasonable amount of imported accessories for the importers' own use and parts imported together with the equipment in accordance with contracts for projects involving foreign investment that are "encouraged" by the Chinese government. The same is applied to government loans and loans extended by international financial institutions.

b) Preferential terms to investors in specific economic areas and sectors

The Chinese government established areas that offer special tax incentives for foreign direct investment:

- Special Economic Zones (S.E.Z.): Shenzhen, Zhuhai, Shantou, Xiamen and Hainan
- Economy and Technological Development Zones (E.T.D.Z.): After 20 years of preferential policies applied in the E.T.D.Z. the Chinese government has decided to abolish this incentive to foreign investment. This decision will affect both local and foreign enterprises established in 44 cities. In 1999, 10 of the 44 cities lost their preferential status. After a transitional period, within the next four years the remaining 34 cities will also loose their privileged status.
- Coastal Open Economic Areas (C.O.E.A.)
- Old urban areas where the Z.E.E. and the Z.D.E.T. are located.

The different tax incentives are described below. However,

- FFE engaged in agriculture, forestry and livestock breeding, or established in remote areas, in addition to enjoying the same preferential terms of tax deductions and exemption in the first five profit-making years as newly established enterprises, can also continue to enjoy the preferential term of a 15-30% cut in the income tax over the next ten years to come;
- for FFE established in the S.E.Z., for FFE that have established agencies in S.E.Z. to engage production operations, for FFE established in E.T.D.Z., the enterprise income tax will be reduced to 15%;
- for productive FFE established in C.O.E.A. and in the old urban areas where the S.E.Z. and the E.T.D.Z. are situated, the enterprise income tax will be reduced to 24%;
- for FFE established in S.E.Z. engaged in the service sector, whose foreign investment exceeds five million US dollars and which have an operational duration of more than ten years, upon approval by the special economic zone taxation department, beginning from the first profit-making year, the enterprise income tax will not be collected in the first year and will be collected at a reduced rate of 50% in the second and third years;

- if the annual export value of a FFE export-oriented, exceeds 70% of its product output value in the same year, the enterprise income tax may be levied at a reduced rate of 50%;
- if technology advanced FFE remain as technologically advanced after the expiration of the term of exemption from and reduction of the income tax, the enterprise income tax may be levied at a reduced rate of 50%.

c) Other incentives for foreign direct investment

The local authorities collect a tax of 3% of the profits. In addition to the preferential tax system offered by the central government to foreign investors, the local authorities are empowered to grant further incentives to foreign investment including extended tax holidays and concessionary local tax rates. The local tax system often escapes the central government's control over it and thus is negotiated locally, the local government paying for it out of "its own pockets".

It is best to beware of any local no standardized incentives for foreign investment, and double-check with other foreign companies whether these offers have been honored in the past. In addition to this, maintaining good relations with the Chinese authorities may save a lot of trouble to foreign investors. As we have stressed in section 4.1., the lack of a sufficient legislative frame in China is often substituted by executive decisions of the different government agencies. For this reason, concessionary terms are often granted by this "executive decision" of a local authority and have no further backing. It is thus important to have contacts both in local organisms and at a higher level institutions to ensure that the offer will be maintained.

2.2 Incentives and financial instruments offered by the Multilateral Financial Institutions

This section will present the incentives and financial instruments designed by the European Union(EU) and by other international organizations in order to encourage the setting up of joint ventures in China.

The EU and other international organizations consider China a "developing country". From the EU's point of view, encouraging the setting up of joint ventures in China has the double objective of supporting mutually beneficial economic co-operation by contributing to the social-economic development of the country and by promoting the internationalization of the European Companies. From other international organizations' point of view, the main objective is to promote social-economic development of the country. For this reason, these international organizations favor projects, which contribute to stimulating the local economy and the country's growth.

a) The European Community

The European Community supports sustainable economic growth in the developing countries of Asia, Latin America, the Mediterranean and in South Africa. Its economic co-operation policy aims at improving the economic environment of these countries by promoting trade, investment, research etc.

Within this frame, there exist three main instruments that a private company may use for investing in China: on the one hand, the European Union offers the ECIP scheme and the Asia Invest Programme; on the other hand, the European Investment Bank also offers loans at special conditions.

❖ *ECIP (European Community Investment Partners):*

The ECIP is the financial instrument of the EC for the creation of Joint Ventures, privatization and private infrastructure projects. Such support is provided through a set of Financing Facilities, which cover the various phases of an investment project and include:

- Grant money for identification of projects.
- Interest free advances for preparation of projects.
- Equity or equity loans for investment.
- Interest rate free loans or grants for human resources development.

Originally run for a three-year pilot phase (1988-1991), ECIP is an established EC Financial Instrument that has approved over 250 million ECU of finance between 1988 and 1997.

The ECIP is composed of five different “facilities”, each designed for different the phases of the projects. A summary of the ECIP Instrument is presented in the following table:

<table>
<tr><th colspan="6">Ecip – European Community Investment Partners</th></tr>
<tr><td>Facility</td><td>1</td><td>2</td><td>3</td><td>4</td><td>1-B</td></tr>
<tr><td>Type of Operation</td><td>Identification of potential joint venture projects and partners</td><td>Feasibility studies or pilot projects</td><td>Joint Venture capital requirements</td><td>Training, technical or management assistance</td><td>Preparation of a privatization or a Build Operate Transfer (BOT) or a Build Operate Own Scheme in Private infrastructure, utilities or environmental services</td></tr>
<tr><td>Beneficiaries</td><td>Chambers of commerce, professional associations... PRIVATE COMPANIES may not use this facility</td><td>Companies wishing to undertake a Joint Venture, a privatization or a private infrastructure project</td><td colspan="2">Joint Ventures established in the ALAMEDSA countries with locals by EU partners, or local companies which operate under a licensing and technical assistance agreement with an EU company</td><td>ALAMEDSA governments and public agencies</td></tr>
<tr><td rowspan="2">Type of ECIP Finance</td><td rowspan="2">Grant of up to 50% of the eligible costs</td><td rowspan="2">Interest free advance of up to 50% of eligible costs</td><td>Equity holding or equity loan of up to 20% of the incremental capital of the joint venture</td><td>Interest free loan for large companies, or a grant for small or medium size companies of up to 50% of the eligible costs</td><td rowspan="2">Grant of up to 100% of the eligible costs</td></tr>
<tr><td colspan="2">The Financial Institution must co-finance the project</td></tr>
</table>

<table>
<tr><th colspan="6">Ecip – European Community Investment Partners</th></tr>
<tr><td>Facility</td><td>1</td><td>2</td><td>3</td><td>4</td><td>1-B</td></tr>
<tr><td rowspan="2">Maximum amount available</td><td rowspan="2">ECU 100,000</td><td>ECU 250,000 (within this amount 50% of pre-feasibility costs may be financed up to ECU 10,000)</td><td>ECU 1,000,000</td><td>ECU 250,000</td><td rowspan="2">ECU 200,000</td></tr>
<tr><td colspan="3">The maximum total support per project is ECU 1,000,000</td></tr>
<tr><td>Access</td><td>The beneficiary may apply either directly to the EC, via the ECIP Technical Assistance Unit or through a ECIP Financial Institution</td><td colspan="3">Application must be made through an ECIP Financial Institution</td><td>Directly through the EC</td></tr>
</table>

Source: The European Commission, Directorate General, Commerce and Investment, ECIP Scheme.

ECIP Financial Institutions	
Belgium	Banque de Bruxelles Lambert Générale de Banque KBC Bank N.V. Société Belge d'Investissement Internationale
Italy	Banco di Napoli Banca di Roma Banca Nazionale del Lavoro Banco Ambrosiano Veneto Cariplo Finlombarda Instituto Bancario San Paolo di Torino Instituto Nazionale per il Commercio Estero (ICE) Mediocredito Centrale Monte dei Paschi di Siena Simest
Spain	Banco Bilbao Vizcaya BSCH Banco Español de Crédito Banco Exterior de España Banco de Sabadell Caja de Madrid COFIDES

Source: The European Commission, Directorate General, Commerce and Investment, ECIP Scheme.

- *Asia Invest Programme:*

One of the most important initiatives developed by the EC to support mutually beneficial economic co-operation between the European Union and South East Asia is the Asia Invest Programme.

This programme promotes business co-operation between companies in the European Union and Asia. It provides a range of instruments to help companies research new markets, to do business in unfamiliar cultural environments, to meet and evaluate potential partners and to identify investment opportunities.

The Asia Invest Programme, launched by the European Commission in 1997, covers a five-year period with a budget of Euro 45 Million. Asia Invest is intended to encourage European and Asian companies to form long-term partnerships.

Applications for Project proposals should be submitted by organizations such as industrial and trade organizations, federations of employers and Chambers of Commerce, representing groups of companies. Individual companies are eligible for this programme only through their intermediaries as part of a group of companies from the same or a related commercial or industrial sector.

The Business Priming Fund is one of the major instruments under the Asia Invest Programme. It provides financial and technical support through 3 sub-instruments:

a) Research and monitoring of Asian markets for groups of European Companies.
b) Practical training courses for acquiring international business and language skills for groups of European and/or Asian companies.
c) Technical assistance to groups of companies or business associations in the less developed Asian countries in economic sectors in which opportunities for EU-Asia economic co-operation exist.

Through the Asia Invest Programme, the networks of BC-Net (Business Co-operation Network) and the BRE (Bureau de Rapprochement des Entreprises – bringing companies together) are being extended to Asia.

The Asia Invest instrument may not be as direct for supporting the setting of joint ventures for private companies as the ECIP Scheme is, but it is a good option for previous research and market studies funding, for identification of opportunities, for funding previous training of human resources, and specially to boost the networking possibilities with different organizations.

The first project promoted by this Programme in the Chinese food industry took place in Beijing in April of 1999, within the context of the "Agro-Foodtech 99" Exhibition. Together with CCPIT and Chambers of Commerce from Spain, France and Germany, it gathered more than 40 European companies seeking to establish economical and technological co-operation agreements with Chinese companies of this industry.

❖ *The European Investment Bank (EIB):*

EIB loans may be granted to public or private borrowers in support of projects in all sectors of the economy. The EIB finances large-scale projects by means of individual loans (upwards of EURO 25 million) concluded directly with promoters or through financial intermediaries. The small and medium-scale projects are funded indirectly through global loans made available to banks or financial institutions operating at a European, national or regional level.

As a borrower on the markets, which support viable projects that help achieve the objectives of the European Union, described above, the EIB attaches special importance to financing projects that conform to one or more of these objectives. To this purpose, the EIB monitors the project until completion as well as during the loan repayment period.

In 1998, the EIB provided finance of EURO 150 million to projects in Asia. This quantity is relatively small if compared with the total funding of projects outside the European Union (EURO 4.410 million, which means that only 3% were directed to Asia). Still, the EIB provides good financial facilities for projects that comply with the EU objectives. Unlike other banks and financial institutions, it does not command resources drawn from deposit or current accounts. It raises its sources on the world's capital markets where it can mobilize significant volumes of funds on the finest terms available at the time ("AAA").

As it operates on a non-profit making basis, the Bank passes on to its borrowers the benefits of its credit rating. The borrowers may choose the currencies of their loans. Outside the EU, the majority of its bond issues are in US Dollars, Swiss Francs or Japanese Yen.

b) Other Multilateral Financial Institutions

The Chinese government is progressively reducing its reliance on Multilateral Financial Institutions through a long-needed reform of the financial sector. The World Bank together with other European and Japanese donors are assisting the authorities to study key issues that have focused on enhanced bank supervision by the Central Bank, development of financial infrastructure, bank strengthening, bad debt resolution deposit insurance and establishment of asset management corporations.

- *The World Bank Group:*

China has been a member of the World Bank since 1981, and has been the Bank's major borrower of investment financing since 1992. In the fiscal year 1999, the World Bank Group lending to China totaled US$2,1 billion (US$1,7 billion in IBRD -International Bank of Reconstruction and Development - and US$422,6 million in IDA - International Development Agency), bringing cumulative lending as of June 30, 1999 to about US$33,2 billion. On a per capita basis, however, this amounts to about US$2,50 per person, the lowest proportion of lending per capita in the entire East Asia Region.

The main borrower is the Chinese government itself, but the loans often finance infrastructure projects where foreign companies are involved, these being the ultimate beneficiaries. About 72% of the lending go to agriculture, transportation and energy.

- *The International Finance Corporation (IFC):*

The IFC is a member of the World Bank Group and shares the primary objective of all the Bank Group Institutions: to improve the quality of the lives of people in its developing member countries.

The IFC is the largest multilateral source of loan and equity financing for private sector projects in the developing world. This institution participates in an investment only when it can make a special contribution that complements the role of the market operators.

A Company or entrepreneur, foreign or domestic, seeking to establish a new venture or expand an existing enterprise can approach the IFC directly. IFC will request a detailed feasibility study or business plan to determine whether or not to appraise the project. As a rule, the enterprise IFC finances must be majority private sector owned.

IFC's largest activity is project finance. Using its own funds IFC provides both loan and equity finance to private sector projects which cannot get financing from other sources on reasonable terms. IFC also offer quasi-equity and financial risk management products. It is important to point out that, although IFC lends on market terms, IFC does not compete with, but rather complements private capital. Another major activity is that of resource mobilization, IFC raises additional funds from foreign commercial banks through its loan participation programme. More recently, a third increasingly important activity is providing country, industry, and financial and technical advisory services.

IFC's presence in a project is considered beneficial, from a political as well as technical and a financial point of view.

To ensure participation of other private investors, IFC's investment is usually limited to 25% of the total project cost. Investments in small and medium projects range from $100,000 to $1 million, and in standard-size projects from $1 million to $100 million. IFC provides a wide range of financial products from which its clients choose.

Although the bulk of the funding lies with private sector owners, IFC provides a mix of financing to suit the needs of each project.

- Loans: IFC's main product. It provides fixed and variable rate loans in any of the lending currencies. The maturity of this loans vary from 8 to 12 years, with grace periods and repayment schedules determined on a case-by-case basis, in accordance with the borrower cash-flow needs. If warranted by the project, IFC provides longer-term loans and grace periods.

- Equity: IFC is never the largest single shareholder and does not take an active role in company management. It maintains equity investments for a period of 8 to 15 years. It then tries to sell its shares through the domestic stock market.

- Quasi-equity: Full range of quasi-equity finance, including convertible debentures, subordinated loans, loans with warrants and other instruments.

- Other Financial Products: since the 1990's IFC offers other financial products which include currency and interest rate swaps, options, forward contracts and other derivative products, equity lines, venture capital and leasing

- IFC Resource Mobilization: Mobilizing funds from other investors and lenders is one of the Institution's functions, as it actively seeks partners for joint ventures and raise additional funding by encouraging other institutions to make investments in the projects.

- *Multilateral Investment Guarantee Agency (MIGA):*

MIGA was established in 1988 as the newest member of the World Bank Group. Its purpose is to encourage the flow of foreign direct investment to developing member countries for economic growth.

It provides guarantees to foreign private investors against the risks of currency transfer, expropriation, and war and civil disturbance in developing countries. It also offers technical assistance and advisory services to developing member countries on means to promote private investment opportunities in their economies.

The Guarantee Program is designed to promote the flow of private foreign investment by mitigating political risks associated with a project. MIGA offers long term, non-cancelable political risk insurance for qualified investments. This programme offers additional advantages, as banks that obtain MIGA guarantee to cover a loan or investment, may be exempt from provisioning requirements for country risks.

MIGA's standard term of coverage is 15 years but eventually it may be increased to 20 years. The contract term for investments other than equity generally follows the duration of the insured agreement. MIGA cannot terminate the contract unless the insured defaults on its contractual obligations.

MIGA covers the following risks:

- Currency transfer: Protects against losses arising from the investor's inability to convert local currency returns (profits, principal, interest, royalties...) into foreign exchange for transfer outside the country. Currency devaluation is not covered.

- Expropriation: Protects against partial or total loss of the insured investment as a result of acts by the host government which may reduce or eliminate ownership of, control over, or rights to the insured investment.

- War and Civil Disturbance: Protects against losses from damage to, or the destruction or disappearance of, tangible assets caused by politically motivated acts in the host country.

The eligible investments are new investments (e.g. establishment of a branch bank) originated in any country and destined to any developing member country. It covers various forms of cross-border shareholder investments, such as equity investments in financial/non-financial projects, shareholder loans and shareholder guaranties of loans made by others. In all cases, loans to be insured must have a minimum term of three years. Long term loans to unrelated borrowers (i.e. project lending) can also be insured, provided that a foreign sponsor's investment in the borrower is insured concurrently by MIGA. It generally will insure up to US$4 of bank debt for every US$1 of shareholder investment it insures in the same project, subject to the overall limit of US$50 million.

The premium rate schedule is defined in relation to the type of industry and coverage, and takes into account general economic and political conditions of the country. Premiums are paid in advance on an annual basis.

❖ *The Asian Development Bank (ADB):*

The Asian Development Bank (ADB) provides finance directly to private enterprises and financial institutions through loans, underwriting, investment in equity securities, co-financing and guarantee.

On the one hand, during the 1995-1998 period the strategic focus of the ADB shifted from sector and project lending to support for macroeconomic stabilization and structural adjustment and public sector and governance reform.

On the other hand, in 1989 the Bank established the Asian Finance and Investment Corporation Ltd. (AFIC), the private finance branch of the Bank. The ADB owns 30% of AFIC, the rest belonging to an association of Japanese banks. It concentrates largely on mid-sized projects and transactions that the Bank would find too small, especially in sectors such as industry or manufacturing.

The Private Sector Group (PSG) of the ADB is responsible to provide direct financial assistance to selected private sector projects without government guarantees. The main focus of assistance is currently on projects for financial intermediation, capital market development, and infrastructure provision, with projects in the industry and other sectors being considered only if justified by strong social-economic merits. PSG undertakes the processing of loans, equity investments, underwriting commitments, guarantees, and other appropriate forms of private sector support from the Bank. PSG also helps mobilize external resources for the assisted projects in co-ordination with other concerned departments and offices in the Bank. The Bank offers various loan modalities, to suit the economic characteristics of project cash flows, particularly in terms of currency and interest rate.

2.3 Incentives offered by the national governments

The national governments of Spain, Italy and Belgium promote business internationalization by offering different instruments and incentives, which encourage investing abroad, particularly in developing countries.

a) Incentives and financial instruments supporting joint ventures in Spain

The financial relations of China and Spain have been channeled mainly through mixed lines of credit of the FAD[3] (Development Aid Fund), and export credits.

This section will focus on national financial incentives that support the setting up of joint ventures in China. However, although the FAD line of credit promotes mainly the export activity of Spanish companies instead of direct investment, its importance in the Sino-Spanish commercial relations and the link between both activities justifies its inclusion in this study.

Three types of incentives should be distinguished: tax concessions, lines of credit and special insurance schemes.

- ❖ *Tax concession to foreign investors:* the following measures have been approved by the Spanish government:

- Reduced rates over the Corporate Income Tax for activities linked to exports: the rate is reduced by 25%.
- Financial treatment of the earnings obtained and taxed in China: the Spanish company investing abroad will compensate the following five fiscal years, the part of deduction for double international taxing not applied in the year.
- Deduction of the quota of the taxes over distributed dividends for a non-resident company: the Spanish investor is allowed to deduct the Corporate Income Tax levied in China of a non-resident company or of any of its branches, if it maintains a substantial participation on them.
- Grouping of income for the calculation of deductions for the double international taxing.

❖ *Commercial and Financial Incentives that encourage the setting up of Joint Ventures:*

a) Agreements of the Hispano-Chinese Intergovernmental Commission (Peking, Nov 1998): During the last official visit of the Spanish authorities to China, a meeting of the Financial Working Group was held. The most important financial instrument used by the Spanish government to support the internationalization of the Spanish companies in China has been the soft credits of the FAD line.

In accordance with the 1999-2000 Financial Bilateral Programme signed by China and Spain on FAD lines of credit, the government of Spain put at the disposal of the Chinese government Pts100,000 million (USD700 million) in order to finance exports of products and services to China. This Programme supports particularly projects that foster Spanish investment in China facilitating the establishment of the Small and Medium Enterprises in this country. The financial facilities must comply with the standards fixed by the

[3] *FAD: Fondo de Ayuda al Desarrollo*

OECD for concessional credits to developing countries, and will adopt the form of mixed credits, that is, 50% of FAD and 50% of commercial credit for each project (this percentage may vary). Also, according to the OECD consensus on soft lines of credit, 35% of the FAD must be a donation. This donation element must be of 50% for Less Developed Countries (LDC), according to the World Bank classification.

The volume of FAD for 1999-2000, the biggest offered by the Spanish government in the last decade, reveals a strong will of the authorities of increasing the presence of Spanish companies in China. The FAD finances mostly projects in the telecommunications and the industrial equipment sectors.

The governments of Spain and China have also agreed on a donation of USD5 million from the line of credit established for financing the viability studies of projects and programmes. Both countries also made special reference to promoting direct investment and joint ventures in China.

In order to be eligible for this soft credits, the projects must not be "financially viable", that is, the project does not produce the sufficient cash flows to meet the costs of the operation and debt repayment of a commercial credit.

b) Other Institutional Incentives:
Spain signed in 1992 an agreement with China on mutual protection of . These agreements (Bilateral Agreements on Mutual Promotion and Protection of Investments) signed with countries outside the OECD, provide a greater legal security for Spanish investors in China, as they recognize additional rights and guarantees to those recognized by the Chinese government.

c) The External Commerce Institute (ICEX[4]) and the Official Credit Institution (ICO[5]):
The ICEX and the ICO have signed various agreements in order to support productive investment and developing commercial channels abroad. ICO has designed three main lines of credit:

[4] *ICEX: Instituto de Comercio Exterior*
[5] *ICO: Instituto de Crédito Oficial*

- Line of credit for Small and Medium Enterprises (Línea PYME)

Limits of credit: up to 70% of the project, or Pts 250 million (Euro1,5 million)

Interest rate: Euribor + 0,25

Terms: 5 or 7 years

Handling: Through commercial and savings banks established in Spain.

- Line of Credit for the internationalization of Enterprises (Línea para la Internacionalización de la Empresa Española)

Limits of credit: up to 70% or Pts750 million (Euro 4,5 million)

Interest rate: fix or variable

Terms: 5, 7, or 10 years

Handling: Through commercial and savings banks established in Spain

- Finance Programme for larger projects of Spanish Enterprises abroad (PROINVEX)

Limits of credit: approximately up to 70% of the project Pts750 million (Euro 4,5 million)

Interest rates: Dependent on the terms offered by the market, Fix or variable

Handling: Contact ICO directly

- Mutual Compromise of Interests Contract (CARI[6])

Mechanism of support for exports, which facilitates the obtaining of lines of credit by Commercial and Saving Banks, to finance exports at the rates and terms fixed by the OECD.

Handling: Through commercial and saving banks established in Spain.

ICO also participates in other enterprises which complement the means of the organization in order to achieve its objectives. It holds 15,25% of the capital of the Development Fund Company (COFIDES[7]), which also offers support to Spanish companies investing in developing countries.

[6] *CARI: Contrato de Ajuste Recíproco de Intereses*
[7] *COFIDES: Compañía de Financiación del Desarrollo*

d) COFIDES:

COFIDES is a mix capital (private and public) company which supports investments in the Less Developed Countries (LDC), contributing both to the country's economic development and the internationalization of the Spanish companies.

COFIDES' own resources amount Pts 7,000 million and the organization has the capability of obtaining other resources from other financial institutions to complement the finance scheme of the projects. It offers total support at all stages of private investment projects in any developing country in the world, for the industrial, commercial or services sectors.

1998, with 37 approved projects of foreign investment in 17 different countries, totaling Pts 4,083 million, has been a record for COFIDES, both in number of projects and volume. About 80% of these projects take place in Latin America, and Northern Africa, the two "priority regions" for Spain. Although Asia is somehow "a second rank priority", a considerable volume of the funds have been used in projects in China.

In 1998, the volume of funds approved for each project varies from Pts 22 million to Pts 300 million, averaging Pts 110 million for project. 44% of the funds compromised correspond to equity investment in the companies formed in eligible countries. The rest are mainly mid and long term loans (39%) and co-investments (17%). It is important to note that the instrument of participation in the capital of the companies is now being used more frequently. The spectrums of companies which participate in these projects are 11% micro-enterprises, 43% small enterprises, 35% medium enterprises and 11% larger companies.

The funds come mainly from the ICO/ICEX line of credit for the Internationalization of the Spanish Enterprise. Another source is the European Community Investment Partners Programme (ECIP), described in section 4.2.2.1. on European Instruments and Incentives.

e) Spanish Company of Credit Insurance for Exports (CESCE[8]):

CESCE offers different insurance schemes designed for investments abroad. Many companies investing in China use the possibilities of the CESCE insurance policies and the risk coverage of the Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group. Also,

[8] *CESCE: Compañía Española de Seguros de Crédito a la Exportación*

conflicts arising from investments abroad can be solved through the Center of International Arbitrage.

With China, CESCE offers an open coverage with quantitative restrictions of a limit of risk assumption in the mid and long term. In the short term, no restrictions are specified. The open coverage policy only takes into account the solvency of the client in China.

Incentives and financial instruments supporting joint ventures in Italy

During 1998, the Italian government has renewed its efforts to promote the internationalization of Italian companies abroad through foreign direct investment and exports.

a) The CIPE Commission:

The CIPE Commission[9] was established for the strategic direction of the external commercial policy of the country, coordinating the programmes designed by the different Ministries and organisms.

b) SIMEST:

Starting in 1999, all the institutional support for the internationalization of Italian Companies was transferred to SIMEST, the Italian Institution for the development and promotion of Italian business abroad.

It was created in 1991 as a joint stock company controlled by the Ministry of Foreign Trade. Its shareholders include banks, firms and business and sector associations. It was created to support entrepreneurs on all aspects of business internationalization with the additional aim of buying minority shares in joint ventures set up abroad (outside the EU) by Italian companies. SIMEST is the financial point of reference for Italian companies operating on foreign markets.

SIMEST manages funds on behalf of the State designed to Italian business support on exports, foreign market penetration, foreign investments and participation in international tenders.

The Foreign Investment Incentive is designed to assist Italian companies to acquire shares in SIMEST holdings in countries outside the EU. The loans contracted have an interest subsidy.

[9] *CIPE: Comitato Interministerale per la Programmazione Economica.*

Concessionary financing is granted at a fixed rate of 50% of an internal rate of reference for a duration of five years with a pre-amortization period of no more than three years. It will cover part of the Italian held quota of a foreign company's venture capital. SIMEST also offers Concessionary Financing for Market Penetration Programmes, designed to help Italian companies establish in non-EU countries through permanent branch offices of sales and customer services networks and of specific promotions outlets (market research, advertising). Financing covers up to 85% of the programme's estimated costs to a ceiling of ITL 3 billion (ITL 4 billion if the creation of permanent structures accounts for more than 30% of the total cost of the programme), and for a maximum duration of seven years including a pre-amortization period of no more than two years.

c) SACE[10]:

In 1998, the Service for Insurance of External Trade, SACE, became independent of the INA. It operates according to the CIPE directives, with autonomous management and financial resources. The new organization provides special insurance schemes to encourage the internationalization of the Italian companies.

d) ICE:

The National Institute for External Trade, ICE, also offers support to Italian companies through its regional offices all over the world.

Belgian national and regional incentives and financial instruments supporting the setting up of joint ventures in China

The Belgian government supports the setting up of joint ventures by local companies through national and regional financial instruments and incentives.

❖ *National incentives:*

a) Financial co-operation:

State-to-State loans and Copromex interventions: State-to-state loans (SSL) and Copromex interventions are financial instruments designed to provide support to the export of Belgian equipment goods in line with the OECD's Arrangement on guidelines for officially supported

[10] *SACE: Istituto per i Servizi Assicurativi del Commercio Estero*

export credits. The Belgian government upon advice of the Finexpo committee decides SSL and Copromex interventions. Finexpo comprises representatives of the relevant government departments (foreign trade, finance, etc) of the Regions as well as of institutions like the OND/NDD (National Credit Insurance Agency) and the Belgian Foreign Trade Board (BFTB).

The SSL are credits allocated to developing countries, that contribute both to promote the internationalization of the Belgian companies and to the development of the country. For this purpose, the SSL credits are allocated in special conditions:

The duration of the credit is 30 years;
A 10 years grace period is granted for the capital and interests;
The interest rates of 0% or 2% according to the economic situation of the country

SSL credits are usually mixed with commercial credits, in order to reach an interest rate with a gift element consistent with the OECD's Arrangements. In 1998, the volume of SSL awarded to China was BEF 200 millions, allowing for an annual financing of contracts amounting to BEF 350-400 million.

Copromex has for fundamental mission to alleviate the charges arising from the financing of exports. This intervention is designed to maintain the cost of credit at a level likely to successfully confront competition. Copromex interventions are granted directly to the exporter's bank and can take the form of stabilization or supersubsidy.

- Stabilization: The bank granting an export-credit in foreign currency must guarantee a fixed rate at medium and long-term while it re-finances itself on the short-term currency market, generally less expensive. The variability of the rate at the stage of re-financing implies that, in order to be able to guarantee a long-term fixed rate to the exporter, this rate must be a high one. A high rate constitutes a competitive disadvantage for the exporter. Therefore, in order to avoid this effect, Copromex intervenes by covering the difference between the variable rate of re-financing and the fixed exit-rate of the export credit.

  Supersubsidy: Supersubsidy consists in the reduction of the rate of the credit to a very low-level, i.e. approximately 0%-2%.

- Development Aid Grants: The Belgian government can provide funds for the financing of development projects in developing countries. The General Directorate for International

Cooperation of the Ministry of Foreign Affairs, Foreign Trade and International Cooperation is responsible for the designing of the cooperation policy. The Belgian Technical Cooperation (BTC) is responsible for the implementation of the projects. During the visit of Belgium's Prime Minister, Jean Dehaene in 1998, the Integrated Social-Economic Development Programme in the Shaanxi Province of China (BEF 300 million) was signed.

b) Equity finance:

The Belgian Investment Company is a mixed (public and private sectors) company, which provides mid and long term equity financing for companies located out of Belgium. The BIC is currently not active in China.

c) Special Insurance policies:

The Belgian Export Credit Agency is a public institution promoting international economic relations by insuring the risks involved in exports, imports and investments abroad. It currently has an open policy in China.

d) Logistical Support:

The Belgian Foreign Trade Board can assist private companies investing abroad through different schemes designated to facilitate information and contracts.

- *Regional Incentives:* The regional governments and the regional foreign trade boards (Export Vlaanderen, AWEX and Brussels Foreign Trade Department) can assist Belgian investors' abroad through different schemes, usually providing logistical support. The Flemish government designed the Flanders Fund Asia scheme, which provides equity, loans or guarantees to Flemish investors. In 1999, the FFA has decided to support its first project in China by taking equity in a joint venture.

3. MAIN OPERATIONAL PROBLEMS OF A JOINT VENTURE

The main operational problems of a joint venture in the PRC can be analyzed in the context of the different areas addressed below.

3.1 Personnel area

The personnel issue is a key field for any FIE in China and is the most delicate aspect to deal with when setting up a joint venture. There are no clear advantages between local and foreign personnel, given that each one has its own characteristics and neither is more effective than the other is in general terms. The only clear difference we can find from experience in China is between valid and non-valid personnel, either local or foreign. Thus, having expatriates run a company in China is not the infallible formula to ensure success, nor is having solely local people. Neither will be 100% adequate unless both acquire each other's advantages.

Although we cannot present a strict differentiation on a country basis, in the following, we proceed to establish a profile analysis of locals and expatriates according to their corresponding deficiencies and virtues.

The Chinese laws allow for open recruitment of joint ventures employees, and there is little need for the parties to assure the use of their own people except for key positions. The Chinese party may also insist on application of PRC labor and company law, which mandates attendance by labor representatives at certain board meetings. This access is best handled by providing that the labor representative may attend, without voting rights, only those parts of the board meeting that involve workers rights, remuneration and welfare.

Local personnel

The first advantage of employing Chinese workers is that they act as a mirror reflecting the changes happening in China. Typically, the life style of the average Chinese person has been characterized by his/her work habits. The worker used to go to a state-run company where he/she was given very low wages but also would receive fringe benefits such as a room and board, etc. The work rhythm was at slower pace and the tasks quite mechanical. As the country started to change and to attract foreign investments, this situation also changed. Now the Chinese worker's attitude towards work is similar to that of the Western worker, although so many years of the central planned economy has left its mark and still present in most Chinese people.

In this respect, the biggest difficulty is how to get their loyalty and understanding of the "business administration" concept. In the words of an employee working for the American company Motorola, which has a sound experience in joint ventures in China, local workers look at foreign companies as if they were dairy cows coming to their garden. They try to milk them to the limit of putting cows life in danger the very first day, without understanding that if they milked the cows in a normal manner, the cows would remain in their gardens. This metaphor illustrates the historic view of the Chinese people, who think that the present conditions can change overnight, so they have to seize every tiny opportunity in the short run without considering future consequences. Thus, local workers tend to be very attracted to large companies. The bigger the better, so they can milk a bigger cow.

In China, leadership is very important, perhaps more important than in many other countries, particularly now. China is a country of leaders and its people like to follow leaders they worship.

Also, labor mobility is quite high. In an emerging market like China, many companies are set up, providing quite a lot of job opportunities. If an executive is offered better conditions in another company, he/she is most likely going to accept the position right away and again and again as new chances appear. This situation is starting to change now as the economic scheme in the country stabilizes, especially in the biggest cities, because workers start to realize that they are just running on short ways instead of making a long career in one company or a few. Now the priority has shifted from the search of easy money to the search of a longer career in an interesting company adequate to one's individual profile.

In some cases, foreign executives are also to blame when they only reckon China as a "passing through stage" in their professional lives to obtain a higher status and return to their country as soon as possible. Local personnel quickly spot these behaviors. They tend to lose motivation as they observe the top gun using his/her position exclusively for personal benefit. For this reason, China is a market for real entrepreneur and leaders committed 100% to the project, not for employees that implement a halfway management model.

Along these lines, the foreign manager has to establish a relationship with his/her Chinese employees based on confidence and constant communication (a good strategy is to teach them the language of the foreign party). We should not forget the enormous importance of personal relations and "guanxi" in

China for the sake of business. Due to this fact, nepotism is pretty common and it is something the corporate foreign leader will have to deal with in the most effective manner.

It is always a positive to try to solve problems according to the characteristics of the local personnel, yet at the same time to act firmly when necessary. Chinese workers should not confuse good will with weakness, so the balance between a fluent relationship and firmness must be established in the daily company routine. We also have to take into account that historically; Chinese leaders have always shown an authoritative and sharp leadership style. For this reason, this kind of attitude is familiar to the Chinese people and at times recommendable in business management.

Considering the departments or divisions of the joint venture, we can find a higher quality of professionalism in technical and production areas. However, the most problematic department is commercial marketing, due to the little exposure China has had to the new techniques of this field.

With regard to wages, the range may swing from 400 yuan (about US$ 50) up to 40,000 yuan (about US$ 5,000). Excluding expatriates, even foreign employees living in China would earn the equivalent of local employees. In any case, unskilled labor is much cheaper in China than in Europe, although there will always be two prices from the local suppliers of raw materials and other necessities for the production process: one price for the Chinese and another higher price for the foreigner. In this case, it could be wiser to hire a local purchasing manager to save money, rather than a foreign one.

Either way, before starting a selection process it is convenient to gather information from foreign companies associations in China and suggestions from compatriot managers and from one's trade commission.

Expatriate personnel

Having said that employing expatriate workers does not ensure the success of the joint venture, we can distinguish between employees by categorizing those who are sent from the head office of the foreign enterprise and those who are non-native employees hired in China. Since the expected gain is different from either group, so generally are the conditions offered. In the first group, a joint venture usually seeks in-depth knowledge of the particular type of business, whilst in the latter awareness of the local market and the techniques of Western management are sought. Not so long ago, the figure of the foreign "adventurer" used to be very common. He/she would be well paid for the mere fact of being in China and would become the "China expert", in spite of his/her lack of adequate training for that purpose. Those times are coming to an end, considering that the need for skilled labor is growing in China.

Nevertheless, the expatriates' ability to adapt to local condition difficulties keeps being as important as ever. Some companies study not only the psychological profile of the executives they send to China, but also the psychological profile of their spouses to assess the degree of success they will have in adapting to this country. No one doubts that it is necessary to count on open-minded people who have an appropriate level of "emotional intelligence" to be effective in China.

Another basic issue is the firm commitment from the expatriate personnel to stay in China for a long period of time. It is not unusual to find foreign people unwilling to live there more than 2-3 years. However, such a span of time does not seem to provide the foreigner with a sufficient experience in China. The first year is basically a time for adapting and learning, whereas the last six months is a time for transferring responsibilities to the new expatriate coming to China, and organizing everything concerning the return home. In such a case, hiring local workers will always be advantageous, rather than the typical expatriate's mentality about working in the PRC for only future personal gain.

A good way of assuring the expatriate's dedication to his/her work is by making him/her participate in the economic results of the joint venture. This can be implemented by giving out shares, by making a part of the wages depend on the profits obtained, or by any other means through which the employee efforts in an adverse environment become rewarded.

This is reason why we stated above that China is a country for real entrepreneur. It is also a market for big companies, because it requires a big financial capacity to get through unforeseen situations. In the present PRC there is no room for strategies pegged to the "company manual", which is incompatible with current events such as the bargaining of some taxes. We should not forget that the legislation framework in China is still quite nascent and therefore may be very ambiguous. The expatriate personnel have to be well prepared for circumstances of this type as well as for continuous negotiations. For this reason, an employees capacity to adapt to China personality is as important as training.

Expatriates usually fill top positions in the joint venture, from the General Manager down to other specialized staff and technical departments. In the finance division his/her presence is essential. So is in the production department and wherever specialists are needed in the particular technology and know-how of the joint venture.

To conclude this section, there is also a system that proves to be very effective, based on expatriates' visits to China in order to perform a very specific job. They come to the joint venture for short periods of time, from two weeks up to eight months, to carry out concrete tasks along that time span. These people normally get excellent results, taking into account that they develop a good grasp of their activity and are not largely affected by the contrasts of the country in such a short time.

There is not then an infallible rule of thumb when deciding whom to employ to work in a joint venture in China. The more defined the position is, the bigger the chances to choose well and get good results. In the case of expatriates, the foreign company will have to consider all the aspects involved, from training and personality issues to more familiar implications (marital status, children...), given that subjects like housing, school, and health care are still very expensive in the today PRC.

Outsourcing

The general trend for joint ventures in China is to employ as many services as possible through outsourcing. In the PRC there are two ways of doing outsourcing: through local agencies and through international ones.

The cost of specialized services provided by engineers, architects, auditors, etc, range widely between both types of agencies. For instance, the difference in an auditing done by a local agency may be up to ten times cheaper compared to the one done by an international one.

Thus, price is one of the reasons for the joint venture to choose the services provided by local agencies. Another one is their experience in the local market and their contacts. Lastly, in some cases it would not be possible to opt for an international agency, either because the Chinese legislation does not permit foreign business to engage in such an activity, or because there are not foreign competitors yet in the market. For example, foreign lawyers are not licensed to work directly in China, but can render advising or consultancy services, having to count on local lawyers for practice issues.

The main drawback of local agencies is the lack of know-how in comparison with international experts in Western markets, since the local market development is still far behind those markets. This is, on the other hand, the biggest advantage joint ventures find in international agencies. They have a world-wide recognized name that proves quality and ample experience. In any case, for the services of the international agency to be worth contracting, the joint venture has to assure that the agency counts on personnel experts in the tasks entrusted, so that the joint venture does not have to do their job later on.

Whether a local or an international agency, the more unskilled employees the joint venture has in China, the more need there will be for outsourcing. For Spanish, Italian and Belgian joint ventures engaged in the food industry, their respective trade commissions can provide them with information and advisory services in this regard.

3.2 Production area

China is a country with a strong industrial tradition. Despite the fact that many state-run companies are obsolete, the production area usually comprises very skilled workers. For this reason, it is the most developed department joint ventures in the PRC have.

In this section, we will go over the main points concerning supplies and raw materials, utilities, and quality control.

a) Supplies and raw materials

Although in the PRC a joint venture in the food industry can find every type of supplies and raw materials needed, it is quite frequent to have problems with the reception of basic orders in terms of time and quality. It is very difficult to guarantee that supplies arrive in a timely and consistent manner. In such a case that they do, the quality specifications previously indicated does not always remains the same upon arrival of such supplies. In order to shun unexpected situations of this nature, it is very important for the joint venture to operate an effective quality control system, a system that refuses everything not in compliance with the required specifications for the supplies and raw materials starting at the entrance of the production chain.

Generally, quantity has been considered more significant than quality in a Chinese perspective. In truth, the traditional planned economy used to look more for quantity objectives as opposed to quality ones, and that is still a big influence on today's workers. Thus, for those joint ventures not wanting to take any risk in purchasing local raw materials, they can order directly from their head factory at home to guarantee the efficiency of the production process in China. Within China, the best supply areas are concentrated on the S.E.Z. and along the coast.

Relationships with local suppliers follow the typical pattern of general relations in China. In a beginning stage they show a lack of confidence and only later do they loosen the conditions. This fact, not exclusive to Chinese negotiators, should be combined with a previous statement where we referred to their short-term perspective. Although this is changing, many still fix prices as if it were just a deal not to be continued subsequently. What really interests the Chinese supplier in such a case is the immediate transaction, getting the maximum benefit without seeing the joint venture as a regular client for future deals.

This is especially true in the case of state-run companies. Their sales managers may see such transactions as not worthwhile, more work for the same pay, so why bother. Fortunately, as competition increases in the market, such behaviors diminish. This is the reason why private supply companies offer better conditions and seek a long-term relationship with their customers. In any case, the prices of supplies and raw materials are much cheaper than in Europe, although the profit margin of processed food is always lower than that of a food company in Spain, Italy or Belgium. However, the size of the Chinese market and the possibility of export to other markets fully justify smaller unitary profits.

b) Utilities

Again this point cannot be generalized, it does not apply throughout the PRC, since the quality and price of every utility varies depending on the geographical area considered, a district, a province, a city, etc. Nonetheless, for some utilities such as industrial use electricity, its cost is proportionally larger in China than in other countries, such as Spain. On the other hand, petroleum and diesel oil is much cheaper than in Europe, because their tax burden is much lower in China.

Although all these utilities suppliers are state bodies, joint ventures can indeed negotiate prices with them. Petroleum as well as electricity and natural gas can be purchased cheaper from some suppliers in different locations.

c) Quality control

Besides the quality problems inherent to Chinese culture derived from the old times of the planned economy, in some cases the joint ventures themselves are also to blame. Although many production lines installed in China are brand new, some others are totally obsolete, generating a much lower output quality than that obtained with the better technology in Europe.

Until the arrival of foreign companies, China was not aware of the term “quality” as we understand it in Europe. The economy was completely focused on optimizing the output without regard for quality. However, as more and more foreign companies enter the Chinese market, competition increases and local consumers begin to demand higher quality. Today, as the economy modernizes, the perceived quality strongly depends on the degree of transformation applied to the finished output.

Nevertheless, the worker’s point of view still reflects the ways of the old school, to the extent that it is very common to hear the Chinese expression “cha bu duo” from suppliers, meaning “it lacks () not by much”. This can be interpreted as “this does not comply with the specifications indicated, but it is not far off”. It is exactly this kind of mentality joint ventures have to work with in order to get rid of old vices and get manufacturing outputs of European quality.

3.3 Commercial area

It is the least developed area of companies in China as compared to the Western countries. The Chinese people are starting now to have an incipient market economy and notions such as consumer or market society. This breeds difficulties for those foreign ventures that try to sell their foodstuffs to a market still very immature. For this reason, one of the most determinant factors of demand in the food industry of China is the adaptation of foodstuffs to local consumers needs and tastes.

Some products are still little known and far from being part of the Chinese diet. For instance, it is not unusual to see ice added to dry wine or even cola drinks added to red wine to sweeten its taste. Brandy, who is currently very successful, is drunk as table wine. In the beginning, Chinese people associated McDonalds and its clients with high status.

We need to bear in mind that it was not until about ten years ago that the Chinese market started to develop and to open to foreign influences and habits. Today it is characterized by a nascent and aggressive capitalism growing in both extremes, where upper range and lower range products are well sold. Also, in big cities like Shanghai, new labor habits and life styles are favoring the fast-food business and restaurants, the consumption of frozen food, and the rapid spread of supermarkets, coming close to what we know in developed Western markets. However, this situation is quite exclusive to the biggest urban centers, and does not apply to the majority of China.

a) Marketing: advertising and promotion

Marketing itself is logically in low levels of development when compared to the more sophisticated marketing applied in the West. However, the tactics used in China convey positive results, especially in advertising. Any marketing strategy a joint venture wishes to implement in China requires a serious market research to be aware of local markets particularities. Everything from brands, logos, packaging, promotion materials, etc, to any communication supporting material must be thought of, designed and written in Chinese.

If foodstuffs themselves must be adapted to local needs and tastes, so must all the variables included in a marketing strategy. Joint venture products may have to change the logo, the packaging design, its color..., but they usually keep the foreign brand together with the Chinese name in order to show the local consumer that the product was originated in a Sino-foreign joint venture. Not in vain, the Chinese buyer does appreciate joint venture foodstuffs as having higher quality than those manufactured by wholly owned Chinese companies. To further contribute to this goal, the container of many joint venture foodstuffs visibly displays the actual contents to the consumer.

Regarding advertising, this is proving to be very effective in the PRC, especially through television. The Chinese consumer tends to think that foodstuffs shown on television are well known and, because of that, of high quality. Besides, advertising in China has not reached the saturation level that exits in Western markets, so the Chinese consumers are still easily influenced by its effects.

There are two ways of designing a TV advertisement for the Chinese viewers: translating into Chinese the original one shown in Europe, or making a new one fully adapted to the Chinese consumers. Neither of them proves to be better than the other, given that this really depends on the type of message the joint venture wishes to send and the nature of the product announced.

Promotion is a basic instrument of success in China. Taking into account the curious personality of Chinese people, every promotional tactic of foodstuffs such as try-outs, give-away, free samples, 2 for 1, 3 for 2, etc, has proven to be very effective to attract local consumer’s attention. However, as is the case every where else, due to its constant use by joint ventures, it is increasingly recommended to implement new and creative ways of promotion in order to introduce distinctive elements in a growing competitive environment.

b) Prices

The belief in China those foreign products are more expensive than Chinese is generalized. Considering foodstuffs manufactured by joint ventures, the prices offered in the market may be as inexpensive as the locally manufactured ones. In any case, if the quality is higher, the price should also be higher. This relationship is truly assessed by the Chinese consumer, who has plenty of foodstuffs to chose from, among local, joint venture and imported brands.

Before fixing prices the joint venture must analyze its market, carrying out a deep segmentation according to the size of population, the frequency of purchase, etc. For foodstuffs of massive consumption the most employed strategy by foreign companies is to enter the market with the lowest possible price. Price is after all one of the most significant factors local consumers take a look at in their decision making process, on the grounds of a low per capita income and a highly competitive environment.

c) Distribution

Success in distribution determines success or failure of the whole joint venture strategy in China. Given the underdevelopment of many infrastructure systems of transportation and others, distribution turns out to be the hobbyhorse of foreign companies established in the PRC. Some joint ventures distribute by their own means, while others outsource it with specialized companies.

To date, only foreign companies that manufacture within China are allowed to distribute, and only their own products, via the different licenses applicable to each different location where their foodstuffs are sold. While, foreign companies belonging to the distribution sector cannot do business in the PRC, and every kind of product not manufactured within the country must be distributed through a Chinese company with the corresponding license to do so.

Also, there are differences between public and private distributors. Public ones are normally big corporations. They are slow moving in a very dynamic market, but are reliable. Private distributors tend to be more aggressive, but they entail a bigger risk. One way or the other, as in the case of suppliers, it is not easy to find distributors willing to establish long-term relationships. Again, here applies the notion of the short-term mentality, the more immediate the better. Experience in China shows cases of products selling well that disappear from the market overnight because the distributor has stopped buying them suddenly.

Regarding retailing development, the majority of retailing in China is based on very small shops and market stalls, and only big cities (especially Shanghai) offer big facilities such as supermarkets and hypermarkets. Little by little, more and more hypermarkets is established in these big centers and their purchasing power is increasing. Where in Shanghai there used to be just one supermarket nine years ago, today it surpasses a thousand, as a mirror where the rest of Chinese cities will most likely reflect the same development model.

d) Unfair competition

There are basically two ways of unfair competition in the PRC: one derived from plagiarism, and another one from state companies financed by the Chinese government.

Plagiarism is one of the most serious problems a famous foreign brand may bear in China. The first step a foreign company wishing to establish in China must do is to register its brands and patents. We can find two types of illegal copying. One reproduces the foreign product and copies its brand, whilst the other imitates the foreign brand.

The solution for the first type rests on legal protection. Chinese legislation considers the harmful effects that this kind of copies can cause on the foreign brand image and its sales, since the quality of the copy is generally much lower than the original foreign product. However, the legal procedures in this regard are always costly and not worth it when the most likely result is going to be a mere fine. Thus, the best action to undertake is through the administrative route and to ask the authorities for help.

For the latter, the best defense is to count on a good product and a competitive sale price. The Chinese customers will probably be loyal to a good foreign brand as long as the price difference with respect to the copy is not much higher, say higher than about 10%.

The other type of unfair competition is found in loss making state companies that are financed directly or indirectly by the Chinese government in order to keep their employment rate stable. Thanks to this financial cushion they can sell at very low prices without making any profit. This situation tends to change slowly, as the government continues to carry out the economic reforms passed in 1998 aiming at making state-run companies competitive in the so-called Chinese socialist economy market.

3.4 Finance and Administration areas

Finance in general terms is closely linked to the current state of the PRC banking system and the tight controls imposed on foreign exchange. Getting resources for the daily business is not impossible but quite complex via a Chinese bank. On the other hand, trying to do it through a foreign bank requires asking for foreign exchange (basically US dollars) and exchanging it for yuans, along with all the bureaucratic process implied in China. In any case, obtaining local currency will always be more convenient, as the debt will later be written off also in yuans.

Since the financial instruments supporting the setting up of a joint venture in China has been studied in section 4.2. of this report, we will not expand on this subject here. We will point out though that the prerequisites to get a loan in local currency are quite unique. According to them, the joint venture has to deposit a certain amount of US dollars in a bank against which the bank can grant up to 90% of that amount in yuans. Another possibility is to get a guarantee from a foreign bank to cover the Chinese bank's loan. Mortgages or any kind of properties are not accepted as payment guarantee for a bank loan, only cash.

One way or the other, everything in China is subject to negotiation. Furthermore, it is precisely within this context that the Chinese party of the joint venture has to utilize its contacts and knowledge to get the best possible conditions.

a) Banks

As we hinted above, the banking system reform in the PRC lags well behind with respect to the development of the market as a whole, causing continuous troubles to the current evolution of business. International banks are beginning to work commercially in the local currency but only in the S.E.Z., where they can also handle accounts in US dollars. In most cases though, foreign banks can only operate as representative offices within China. Their activity is limited to stand for their interests in China and to offer advising services on financial instruments like letters of credit and other related issues.

For this reason, it is generally necessary to make use of Chinese banks for daily money transactions. Although the Chinese banking system is quickly developing towards Western models, it still shows plenty of deficiencies. There is not a complete network where all the banks and their branches are connected with each other, and it is not possible to make a particular transaction in a different branch of the same bank. For instance, there is no way to make a deposit in a branch of the Bank of China on an account opened at another branch of the same bank. Rather, a new account would have to be opened to make the deposit in that particular branch.

Chinese banking system has a non-payment ratio of about 25-30%. Credit policy is normally inaccurate under Western standards, and is more dependent on personal relationships than on commercial criteria.

Problems in the financial system give rise to problems in the administrative divisions of joint ventures. Due to the underdevelopment of automated payments, joint ventures need to have personnel responsible for charging customers in person, and at the right moment. Obviously, such a "manual" procedure may bring infinite operational problems to the administration department, in terms of timing and control of payments, internal information system, accounting, etc. Besides, in China there are not protective systems of credit and caution, nor are there risk insurance systems as there are in Europe. For this reason, joint ventures must have collection risks well under control.

b) Profits repatriation

Article 21 of *People's Bank of China Regulations on Foreign Exchange* allows for the possibility of repatriating profits obtained by a FIE in the PRC, while SAFE recently published a new regulation containing the formalities required to send profits, dividends and interests abroad. In practice, all of these procedures must be done through a bank with a license to do so. The joint venture has to provide the bank with the following documentation:

- Official Corporate Income Tax from the previous year.
- Auditing report containing the amount of profits, dividends and interests obtained the previous year.
- Board decision on delivery of profits, dividends and interests.
- Foreign exchange registration certificate.
- Tax payment verification certificate by an auditing company.
- Any other document required by SAFE.

After examining the above documents, the bank will validate (in the Foreign exchange registration certificate) that the company complies with all the formalities required for the repatriation of profits, dividends and interests. Next, it will carry out the necessary bureaucratic process to inform the corresponding Local Administration for Foreign Exchange about it.

c) Accounting

The accounting system in the PRC is dependent upon the Ministry of Finance. The *Accounting System Law for Foreign Invested Companies* of 1992 provides for the basic regulations that joint ventures must observe in their accounting books. These regulations are governed by internationally accepted accounting principles, under the system of double entry accounts. Sino-foreign joint ventures are allowed to keep the books either in local or foreign currency, but once one of the possibilities is adopted, it cannot be changed without obtaining approval from the Bureau of Finance.

However, the books must be written in Chinese. The joint venture can also keep books in English, but only for internal purposes, since the official books are the Chinese ones. There are software programmes to do the accounting both in Chinese and English. They have to comply with the *Basic Functions of Commercial Accounting Software Rules*, among the most used in China are:

- Accpac (version 3.0)
- Jin Die (version 3.0)
- Li An Da (version 2.0)
- Xin Yong. Qi Zheng (version 1.0)
- San Men (multi-users version 2.0)
- Zhong Cai (version 1.0)

These software programmes are recognized by the corresponding Chinese authorities, although joint ventures can also develop their own particular programmes. Either choice, during the first three months books must be kept hand-written as well as through the software programme simultaneously, until the Ministry of Finance finally makes a decision on whether or not to permit the joint venture to keep using that particular software for its accounting.

With regard to specialized personnel in the accounting area, it is easy to find skilled Chinese people to carry out such a job. In China, there is a professional qualification called CPA (Certificate of Public Accountant) which all Chinese accountants normally hold.

4. WHOLLY FOREIGN OWNED ENTERPRISES & OTHER TYPES OF INVESTMENT

In this section, we will focus basically on wholly foreign-owned enterprises, but will also discuss holding companies and joint-stock companies as other investment options in the PRC.

4.1 Wholly Foreign-Owned Enterprises

In legal terms, a Wholly Foreign-Owned Enterprise (WFOE) is a wholly owned subsidiary of the foreign parent establishment. It is normally a Chinese legal entity established with limited liability under the PRC "Wholly Foreign-Owned Enterprises Law" (1986) and the PRC "Wholly Foreign-Owned Enterprises Law Implementing Regulations" (1990). The extent of liability should be in compliance with the relevant Chinese laws and regulations governing the relevant form of doing business. Currently, most WFOEs in China are established by one foreign investor, but the WFOE Regulations allow two or more foreign investors to apply jointly for the establishment of an enterprise.

Traditionally, WFOEs have not been greatly encouraged by the Chinese authorities that have been reluctant to allow the existence of business entities over which they might have little control. For many years there was clear discrimination against WFOEs in their tax treatment as compared with that of joint ventures, and their requirements for establishment were more strictly circumscribed than for joint ventures. Thus, for the first half of the 1990s, the majority of foreign investment in China took the form of equity joint ventures with Chinese state-owned companies.

However, the situation has changed in recent years and now, as legal restrictions have eased, WFOEs take the lead. In fact, if over 70% of foreign-invested companies approved in 1992 were traditional equity joint ventures, by 1998 that share had slipped to 41%, while more than 48% of new projects were wholly foreign owned. Moreover, many foreign companies are now converting their ventures to WFOEs by buying out their joint venture partners, as they increasingly seem to find that joint venture partners are more of a burden than they are worth.

The characteristics of a WFOE differ from equity and co-operative joint ventures in the following ways:

- it is wholly owned by foreign investors;
- there is no Chinese capital;
- management or partners are involved;
- a WFOE will normally be a legal person;
- Unlike co-operative joint ventures, all profits may be remitted to the foreign parent company.

As in the case of joint ventures, foreign investors capital contributions to a WFOE may be in the form of foreign currency, machinery, equipment, industrial property, proprietary technology or, upon approval, Renminbi profits derived from their other investments in China. Capital contributions are subject to the prescribed debt: equity ratios and restrictions on reduction or increase of registered capital applicable to equity joint ventures.

Under article 3 of the Implementing Regulations of 1990, a WFOE established in China must be beneficial to the development of the Chinese economy, achieve significant economic results and comply with at least one of the following two sets of conditions:

- adopt advanced technology and equipment, engage in the development of new products, economize in the use of energy and raw materials, achieve product upgrading and replacement, or produce substitutes;

Or

- Have annual exports amounting to at least 50% of the value of its total product output for the year and achieve a foreign exchange balance or surplus.

In reality, these requirements are often ignored. The primary remaining formal restrictions are given by the MOFTEC´s list of industries in which WFOEs are no permitted under the “Foreign Investment Industrial Guidance Catalogue”. These are the following:

- the media;
- domestic commerce, foreign trade, tourism, real estate and most service industries;
- construction and operation of most infrastructure projects;

- fully assembled sedan cars, motorcycles, light vehicles and engines for motor vehicles and motorcycles;
- management and operation of postal and telecommunication businesses;
- construction and operation of electricity networks, urban water supply and sewage, gas and thermal energy supply networks;
- Other industries as specified in the Catalogue and by the Chinese authorities.

Despite their restrictions, there are a number of advantages that attract foreign investors to WFOEs. They, together with the existing drawbacks, are presented next.

a) Advantages and disadvantages:

Among the main advantages we find the following:

- The most important is probably the greater control that a foreign company has over the management and operation of a WFOE as opposed to the other types of Foreign Invested Enterprises. The foreign investors may make there own plans and fit its China operations within their regional and global strategy without taking into account the interests of a Chinese partner. The WFOE also provides the foreign investor with greater control over product quality and labor management and incentives.

- Naturally, the foreign company also retains complete control, within statutory restrictions, on the use and distribution of profits.

- The WFOE may afford greater control over the confidentiality of technology than is possible in the case of joint ventures, where a partner may be tempted to transfer technology into another company under his/her control and set up competing operations.

- The WFOE generally requires a much shorter time frame to become established (sometimes within weeks) than joint ventures because there is no need to negotiate a joint venture contract with Chinese partners.

- A joint venture can only be liquidated prematurely on the agreement of both parties or through a court order. Dissolution of a WFOE still requires government approval, but is in principle not hard to accomplish.

- A WFOE is not constrained in its choice of site. While joint ventures are usually sited wherever the local partner happens to have an existing plant, WFOEs are free to build on Greenfield land.

The potential advantages of WFOEs have to be weighed against the drawbacks. The disadvantages to establishing a wholly foreign-owned venture are few, and often surmountable:

- The most important practical disadvantage is the lack of direct contact with the domestic Chinese economy and important bureaucratic organizations offered by a local partner. Nevertheless, this lack of contact can be overcome by the WFOE building up a system of relationships of its own with other Chinese economic entities and bureaucratic actors.

- Little more than partner-less joint ventures, WFOEs cannot set up subsidiaries or issue shares.

- Officials in some areas, especially inland, still prefer to see a Chinese partner involved. Government authorities may also be less willing to increase the domestic sales quotas for WFOEs than for joint ventures.

- Whereas joint ventures may convert to joint-stock companies and issue shares on the Shenzhen and Shanghai stock exchanges, WFOEs may not. Companies get around this, however, by forming joint venture holding companies that may seek a domestic listing, and still represent the interest of their subsidiary ventures.

To conclude this epigraph, we should bring forward one of the implications noted in section 1.8. Of this study, with regard to the confidential survey supported by the Delegation of the European Commission in Beijing recently, where 63% of the respondents (foreign companies managers in China) answered no when asked if they would establish a joint venture again if other legal structures were available. This trend favoring the establishment of WFOEs in China is most likely to continue if the government opens more industries to foreign businesses as promised.

b) Approval process:

Any project with a total investment below US$ 30 million can apply for approval to local MOFTEC. However, MOFTEC authorities in Beijing should approve projects with a total investment above US$ 30 million.

The first major step in the approval process is the preparation of a Preliminary Report briefly describing the project, that should include the purpose of the company and the proposed scope and scale of operations; what products are to be manufactured; the technology and equipment to be used; an estimate of export sales in terms of percentages of products; land requirements and area of land needed; and the requirements for water, electricity or other forms of energy as well as other utilities. Such a Project Proposal must be approved or denied within 30 days of its submission to the relevant government authorities.

As in the case of joint ventures, also a Feasibility Study has to be prepared, providing an analysis of the project with respect to all inputs required, costs and projected revenues, and projected markets.

Together with the response of the approval authorities to the Project Proposal and the Feasibility Study, the following documents have to be submitted to the corresponding MOFTEC:

- Articles of Association;
- a list of the chairman and directors on the WFOE´s board of directors (along with their resumes and copies of their passports);
- a copy of the certificate of incorporation and certificate of good standing of the foreign investor;
- a letter from a reputable bank attesting to the investor’s creditworthiness - some areas also require the balance sheets of the investor for the previous three years;
- a detailed list of the equipment and materials to be imported by the WFOE;
- a power of attorney on behalf of the person executing the application documents on behalf of the investor; and last
- If the investor intends to contribute know-how as part of his/her registered capital, the investor must also provide documents such as patents to evidence the value of such know-how at the time of application.

Upon submission of the application package, the approval authorities have 90 days to issue their decision.

Once approved, the next step is to register the enterprise and obtain a Business License. For this purpose, the foreign investor must submit the following documents to the local office of the Administration of Industry and Commerce within 30 days of the issuance of the Certificate of Approval:

- a registration application signed by the chairman and vice-chairman of the board of directors of the WFOE;
- the Project Proposal, Feasibility Study Report and their corresponding approvals;
- the Articles of Association and Approval Certificate from MOFTEC;
- certificates of creditworthiness for the foreign investor;
- a list of persons in charge of the enterprise (directors, general manager, deputy general manager) and their appointment letters;
- the Business License of the foreign investor - that is the certificate of incorporation; and
- A registration fee of 0.1% of the first RMB 10 million of registered capital and 0.05% of the next RMB 90 million.

The SAIC will then issue a Business License, usually within a few days, and the new enterprise will be so legally established in China.

4.2 Holding companies

The main option for companies with several individual enterprises seeking to rationalize and integrate their operations is to establish a holding company, which allows them to centralize support functions such as sales, human resources and, now, distribution. A holding company (referred to by Chinese law as "investment companies") is a wholly foreign-owned company established as an investment vehicle. In addition to holding the foreign party's investments in joint ventures or WFOEs, holding companies may also provide limited support and other services to these investments in China.

At present, holding companies are governed by the "Provisional Regulations Concerning Investment in and Establishment of Investment Companies by Foreign Business Entities", issued by MOFTEC in 1995. Under MOFTEC´s policy, holding companies are exempted from the export or advanced technology requirement applicable to other WFOEs. To gain approval to form a holding company, a firm must have either:

- 10 existing manufacturing or infrastructure ventures in China with a combined capital of at least US$ 30 million;

Or

- A minimum of US$ 400 million in total global assets, at least 1 existing foreign-invested enterprise, and at least 3 China projects worth US$ 10 million that have already been approved.

Holding companies are prohibited from doing many of the things they can do elsewhere in the world. Under the 1995 regulations, they may only:

- assist subsidiary enterprises with purchasing capital equipment and production inputs outside China for their own use;
- assist subsidiary enterprises with sales, after-sales service and market development;
- balance the foreign-exchange accounts of subsidiary ventures;
- assist subsidiary ventures with human resource functions;
- obtain loans and provide guarantees on behalf o subsidiary ventures; and
- Perform other consulting services on their subsidiary companies behalf, such as accounting services.

Although holding companies are essentially non-profit making firms, supplementary regulations released by MOFTEC in August 1999 allow holding companies to expand their business scope. Therefore, under the new provisions, holding companies may:

- provide distribution services for their subsidiary ventures, including transportation and warehousing;
- act as sales agents and distributors for the products of subsidiary ventures; and
- Purchase commodities in China and export them for sale or use abroad.

However, the new regulations still omit two crucial functions of holding companies in other countries: consolidation of accounts and intra-company lending.

In any case, the principal advantage of a holding company is that it can co-ordinate and centralize non-production activities for various invested entities, and act as a unified voice with which to lobby the central government - a function performed in the past by a representative office.

4.3 Joint-stock companies

A joint-stock company is similar to a standard limited-liability company except that the number of shares it holds defines an investor's stake in the business. Liability is also limited to the value of the investor's shares, and there are no restrictions on foreign participation.

Joint-stock companies may issue shares either internally or publicly through the Shanghai or Shenzhen bourses. In fact, all Chinese companies planning to list must first reorganize themselves as joint-stock companies. Sino-joint ventures are also allowed to do so, with the approval from MOFTEC, and gain the same privileges as domestic joint-stock companies. However, WFOEs may not convert.

Foreign-invested joint-stock companies must have:

- a registered capital of at least RMB 30 million;
- At least 5 promoters (half of them, at least, domestic).

If foreign-invested joint-stock companies choose to list in China, they may only do so as B-shares.

Last, the major advantage of joint-stock companies over traditional foreign-invested enterprises is that the Chinese party retains no minority veto rights.

ANNEXES

PROJECTS IN SHAANXI

1- PROJECT: THE SYSTEMATIC PROJECT OF BIOLOGICAL PREPARATIONS AND FUNCTIONAL DAIRY PRODUCTS BY XI'AN DAPENG COMPANY

Project unit

XI'AN DAPENG BIOLOGICAL ENGINEERING COMPANY LTD., a joint stock enterprise with a registered capital of 30 million RMB yuan, integrates research, production and Sale and has powerful. Scientific capability and rich technological reserves it has won 1993 International Science & Peace Award and China Science & Technology Brilliance Award the selenium-rich dairy products have won not only the appreciation of Chinese consumers but also the attention of some American countries and South Africa.

Project Description

The project will effect an annual processing capacity of 60, OOO tons of milk(About the yield of 10,000 cows a year). The capacity for the first phase is 10,000 tons of milk a year.

Market Prospects

The project will use biochemical and bioengineering technologies and 'follow' the Principle of food chain. Active elements will be extracted either through the cow's Physical biochemical functions or from the related active substances. These elements will be mixed with fresh milk' in the right percent Age to produce dairy products that may postpone aging, decrease fat, resist mutation, reduce weight, promote intelligence and have cosmetic effects. These functional dairy products include milk drinks fiber milk V & TE dairy (vitamins and Trace elements) products, etc after completion.

Profitability analysis

The project will bring an annual sale's income of 11º. 825 million yuan (RMB) with 36.023 million as profit. The investment can be recovered in 2 years.
It needs a total investment of 138. 68 million RMB yuan.
The percentages of con Tribulations are open to negotiation

Cooperation ways

JOINT MANAGEMENT, setting up joint stock enterprise or project loans

Project data

CONTACT: Liu Peng
ADDRESS: 24 Yantalu Road (M) 1 Xi'an, Shaanxi Province
POST: 710061
TEL: 029-5527567
FAX: 029-5511741

2- PROJECT: THE PRODUCTION LINE OF CHESTNUT PRODUCTS IN ZHASHUI COUNTY

Project unit

ZHASHUI COUNTY FOREST PRODUCTS INDUSTRIAL GENERAL CORPORATION has under its jurisdiction 4 branch companies, 2 processing factories and a Sino-foreign joint venture.
It boasts a total assets value of 12.1 million -RMB yuan and 430 employees, 30 of whose are technical persons.

Project Description

Zhashui County has a total chestnut planting area of 168,OOO mu with an annual yield of 900 tons, which ensures an ample supply of raw materials. The factory is near to the County seat and enjoys convenient transport. Ready are the site, the workshops, a 800-ton air-conditioned storehouse and the supply of water and power.
We plan to build a production line with an annual capacity of 3,250 tons of chestnuts.

Market Prospects & Economic Benefits:

Owing to its nutrition and heath-preserving value, the chestnut has been a favorite food at home and abroad. The deplaned for chestnuts and their processed products keep growing in China and the market prospect is very promising.

Profitability analysis

The project needs a total investment of 17 million RMB yuan. The percentages of the contributions are negotiable.
After the project is completed, it will bring a yearly sales income of 36. 91 million RMB yuan with 11. 08 million as profit and tax and 5.98 million as profit.

Form of cooperation:

Wholly owned, joint venture or other modes

Project data

CONTACT:	Wu Zhenghua,Yao Xingyong
ADDRESS:	Merchants office,Zashui County,Shaanxi Province
ZIP CODE:	711400
TEL:	0914-4321146 4321557

3 PROJECT: THE PROCESSING OF YANGTAO SERIES IN ZHOUZHI COUNTY

Project unit

ZHOUZHI COUNTY ECONOMIC & TRADE COMMISSION

Project Description

We plan to import 8 syrup production equipment, purchase 3 Chine-made auxiliary equipment, import 6 fruit juice production equipment and buy 8 China-made auxiliary equipment and 19 equipment for the air-conditioned storeroom. Oar purpose is to construct a production line with an annual capacity of 3,000 tons of Yangtao syrup,1O,000 tons of Yangtao juice drinks and 240 tons of natural essence, totaling 13,240 tons.

Market forecast

According to China Fruits Research, the consumption of fruit juice grows by 25% on an average in China. It grows by 45% in the coastal regions. The fruit juice has great potentials on the overseas market. Yangtao juice will get increasingly competitive on the domestic and foreign markets of beverage

Profitability analysis

The pro3ect will bring an annual sales income of 149. 6 million RMB yuan with 34. 7918. Million as profit the profit-tax ratio of the investment is 54.27%

This project needs a total investment of 95. 4 million RMB yuan with 84.8 million as fixed assets and 8. 6 million as circulating funds. The proportion of the investment is open to negotiation.

Form of cooperation

Joint venture or cooperation.

Project data

CONTACT:	Wang Jun_ Wu
ADDRESS:	16 Zhongxin Street, Zhouzhi County, Xi'an, Shaanxi Province
ZIP CODE:	700400
TEL:	029-8811280 '
FAX:	029-8811298

4 PROJECT: THE PROCESSING LINE OF KETCHUP AND OTHER JAMS BY SHANXI RUNDI COMPANY

Project unit

SHAANXI RUNDI INDUSTRIAL & TRADE COMPANY LIMITED, a private-owned enterprise registered on August 17,1998, deals in the wholesale and retail of agricultural and sideline products, native products, and products of light industry, electronics, machinery and chemical industry.

Project Description

We plan to import Italian technology and equipment so as to boost our annual capacity to 18,OOO tons of ketchup, 25,000 tons of apple jam and other products and 10,100 tons of other jams. The company has a floorage of 4,600m and a 5,000-mu large plantation. Approved by Yangling Demonstration Zone, the project has entered into the preparatory stage.

Market forecast

The jam series are mainly exported to Europe, the USA, Australia, and Asia where jams are in great demand. Shaanxi Province is rich. In resources and a favorable place for tomato growth its output of apples is already surplus. Therefore the processing, of jams is of great economic benefits.

Profitability analysis

It needs a total investment of 39. 7 million RMB yuan. The percentage of the partners is negotiable.

Form of cooperation

Joint venture or cooperation.

Project data

CONTACT:	Zhao Wench, Lie China's
ADDRESS:	6 Xinonglu Road, Yangling County, Shaanxi Province
ZIP CODE:	7121000
TEL:	029-7012948 7012971
FAX:	029-7012971

5 PROJECT: THE PRODUCTION LINE OF YILEBAO INSTANT-STERILIZED FRESH MILK AND SOYMILKPOWDER

Project unit

XI'AN YINQIAO GROUP CORPORATION, its main body being Sino-Foreign Yinqiao Dairy Company Limited, is a multi-level and multi-functional union of enterprises Which integrates research, production, advertisement and decoration. There are 680 staff members, 25% of whom are technical persons. Its products have been graded as Provincial and ministerial quality commodities. It is a key enterprise in northwestern
China whose production equipment are advanced, whose testing devices are complete and whose sales volume is the greatest.

Product Description

To meet the needs of the market, we plan to build, in the vicinity of Lintong Economic Development Zone, a production line with an annual capacity of 5,OOO tons of instant-sterilized fresh milk and soybean milk powder

Profitability analysis

It needs a total investment of 20 million RMB yuan. The two partners may negotiate for the proportion of the investment.
After the completion of the project, it will bring an annual sales income of 80 million RMB yuan with IO million as profit and tax.

Form of cooperation

Joint venture or cooperation

Project data

CONTACT:	Liu Guohua
ADDRESS:	Xiangqiao Township, Lintong District, Xi'an, Shaanxi Province
ZIP CODE:	710604
TEL:	029-8315093

6 PROJECT: THE 36,OOO-TON WALNUT SYRUP PRODUCTION LINE BY SHAANXI SAMNA INDUSTRIAL CO., LTD.

Project unit

SHAANXI SANMAO INDUSTRIAL COMPANY LIMITED, a private-owned enterprise group which integrates commerce, industry, trade and service 1 boasts 30 million-yuan worth assets. Its annual turnover reaches 25 million RMB yuan with 2. 6 million as profit and tax, Among its B50 employees, 45 are college graduates and 52 are technical persons.

Project Description

In addition to the existent 1500-ton Sanmao Walnut Syrup production line, we plan to build a 36,000-ton production line. The annual capacity of the whole factory will hit 41, 000 tons and its technological level will be internationally advanced.

Market forecast

Sanmao Walnut Syrup is a health-preserving beverage, which nourishes the brain, helps develop intelligence, relieves coughing and moistens lungs. The product has been popular in the economically developed. Regions of China and has positive market prospect.

Profitability analysis

It needs a total investment of 49. 87 million RMB yuan. The proportion is open to negotiation.

Cooperation ways

Joint venture

Project data

CONTACT:	Wang Qui
ADDRESS:	64 Yan'anlu Road, Tongchuan City, Shaanxi Province
ZIP CODE:	727007
TEL:	0919-2683340

7 PROJECT: NATURAL FERMENTED SOYBEAN BEVERAGE SHAANXI YANYOUSI GROUP CORPORATION.

Project unit:

SHAANXI YANYOUSI GROUP CORPORATION comprehensive enterprise which deals in foodstuff processing r scientific research and development, training and hospitality, possesses 170 million RMB yuan worth assets with 64 million as its net assets. It
Boasts IOO sets of equipment and 2 refrigeration stoppages with space for 3,000 tons of meat. The Corporation is one of the first meat processing factories designated and approved by the authorities. .

Project Description

The fermented soybean beverage is based on modern food science, fermentation Engineering and microbiology. Using some of the research achievements of the soybean research institutions in Japan and the USA, the soybean fermentation research group of the Northwest Light Industry Institute has successfully turned soybean juice into a fermented beverage through microbiological directional fermentation after near it ten years of hard work.

Market forecast

Some experts in marketing have estimated that the demand for fermented beverages is the western countries will be great. The demand in our neighboring countries is estimated to be over 2.3 million tons a year. The demand in China will get increasingly great with the bettering of people's livelihood and the improvement of their diet.

Profitability analysis

It needs a total investment of 36 million RMB yuan and the proportion is negotiable.

Cooperation ways

Joint venture or joint management

Project data

CONTACT: A Xiongruo

ADDRESS: Chiyanglu Road (E), Sanyuan County 1 Shaanxi Province

TEL: 029-2282399

8 PROJECT: THE PRODUCTION OF APPLE WINE BY SHAANXI FRUITS PROCESSING FACTORY

Project unit

SHAANXI FRUITS PROCESSING FACTORY whose total assets are worth 49 million RMB yuan, produces 2,500 tons of fruit 3uice a year by an imported production line. Its yearly output value is 20 million-yuan. There is a 3,000-ton cold storage. It boasts all the necessary facilities. The apple juice produced by the factory has been rated as
Shaanxi Brand Name product and half of it has been exported.

Project Description:

The project proposes to brew apple wine out of the concentrated apple juice the factory is producing. The raw material is in ample supply and the quality guaranteed.
The unique fermentation technique and automatically controlled equipment ensure the quality and the Oxidization resistance of the products. The wine is rich in various organic acids, vitamins and trace elements.

Market forecast

The project can both boost the comprehensive benefits of apple deep processing and satisfy the needs of consumers for health. It accords with the state industrial policies and goes with the consumption trend.

Profitability analysis

After completion, it will bring an annual sales income of nearly I00 million RMB yuan with profit reaching 28.26 million yuan. The investment utilization ratio is 39%.
It needs a total investment of 53. 37 million RMB yuan with one third raised by the factory and two thirds contributed by the partner.

Cooperation ways

Joint venture, cooperation or joint management

Project data

CONTACT:	Yang Shengwen
ADDRESS:	North of Yongledian, Jingvang County, Shaanxi Province
ZIP CODE:	713702
TEL:	0910-6381831
	0910-6381829

9 PROJECT: THE PRODUCTION OF 2, 500 TONS OF FRESH PERSIMMON JUICE BY SHAANXI SHANGZHOU SHENLI COMPANY

Project unit

SHAANXI SHANGZHOU SHENLI COMPANY is a newly established private enterprise backed by the Biological Research Institute of the Public Health Ministry and supported by the prefecture leaders. It is a science and technology entity, which integrates scientific research, industry and trade.

Project Description

The persimmon, a traditional fruit in Shangluo Prefecture whose planting area reaches 4, 095 mu, is in sufficient supply (the prefecture's yearly yield is 25, 750 tons). To exploit the resources, the company has developed this product (the patent No. 97108604. 4) by adopting biological engineering technology after several years of experiment. The initial work has been completed.

Market forecast

Fresh persimmon juice, which is composed, of fat, protein, vitamin B2, fruit acid, various minerals like iron, calcium and phosphorus, and vitamin C, removes evil heat and inflammation, quenches thirst, moisten the throat, resolves phlegm, warms up the stomach, softens blood vessels, lowers blood pressure and resists cancer. It is a nutritious and health-preserving natural beverage. So it enjoys broad market prospects.

Profitability analysis

It needs a total investment of 15. 12 million RMB yuan with 11.43 million for fixed assets. The investment percentage is negotiable.
It will after its completion, bring an annual sales income of 34. 5 million RMB yuan with 9. 86 as profit and tax and 4. 83 million as profit.

Cooperation ways

Joint venture or cooperation

Project data

CONTACT:	Wang Wei, Zhou Hong
ADDRESS:	38 Dongguan, Shangzhou City, Shaanxi Province
ZIP CODE:	726000
TEL:	0914-2322007

PROJECTS IN SICHUAN

1. PRODUCTION LINE OF 50 TONS OF MATERIALS EXTRACTED FROM GINKGO LEAF

Project Data

Juridical Person: Huan Minhua.

Project Unit

DEYANG SHUTAI GINKGO DEVELOPMENT COMPANY is a collective ownership.

Project Description

Expansion of 4,000 M2 of workshop and 3 production lines that will be built to form the annual capacity of 50 tons of materials extracted from ginkgo leaf.
This project will take one year and a half in the city of Deyang.

Market Forecast

The capacity and output of Main products turn to be 60 tons of ginkgo leaves, 15 tons of extracted materials, 120 tons of ginkgo liquor, 1,000 tons of ginkgo soft drinks and 20 tons of ginkgo tea.

There are more than 100 medical compositions within ginkgo leaf, which have the effects of anti-senility and prevention and cure of cancer. 6 millions pallets of ginkgo leaf extracted materials are daily consumed in the world. The demand of dry ginkgo leaves on the international market is 60,000 tons and the annual output of dry ginkgo leaves in China is 10,000 tons, only 1/6 – 1/8 of the demand on the international markets. According to the statistics, the sale revenue of the products from ginkgo leaves extracted materials is more than 500 million USD on the Asian and European Markets.

30% of the product will be sold on the domestic market and 70% of which on the international market.

Profitability Analysis **Unit. 0, 000 USD (1 USD=8.3RMB)**

It needs a total investment of 741.9.
The annual sale revenue: 108.433 million USD
Profit and tax: 25.157 million USD
Profit: 2.174 million USD
Internal return rate: 20%
Investment recovery period: 3.5 years(including construction period)
Investment return rate: 70%

Cooperation Ways

Joint-Venture cooperation.
Foreign investment: 70%, namely 3.636 million USD cash used as registered capital. Our investment: 30%, namely the existing factory will be converted into share.

2. ANIMAL AND LIVESTOCK MEAT DEEP PROCESSING

Project Data

Juridical Person: Cheng Gen.

Project Unit

SICHUAN OVERSEA-CHINESE PHOENIX GROUP COMPANY is a share-holding company.

Project Description

Combination of food and meat processing plants in Sichuan to produce cut meat, prepared food and deep processing meats in the city of Chengdu.
This newly built project takes one year and a half.

Market Forecast

The capacity and output of Main Products consist of producing and selling plastic packages, granule feed;engaged in the lines of housing development and decoration. Annual production value reaches 36,200,000 USD.

Through the market investigation, the existing processed food can't satisfy people's need, especially the deeply processing meats. With the improvement of people's living standard, the consumers will have higher requirements for its quality and variety. So that, it is a trend to produce more nutrient food, healthy food, green food and fast food in order to satisfy people's need.

Profitability Analysis **Unit. 0, 000 USD (1 USD=8.3RMB)**

It needs a total investment of 358.4.
After its complexion the economic benefit generated is Profit+tax / investment ratio 13.7%.

Cooperation Ways

Joint-Venture, Co-operation and/or investment.

3. RAISING BASE FOR 30,000-HEAD OF COMERCIAL BEEF CATTLE.

Project Data

Juridical Person: Zhu Min.

Project Unit

GONG COUNTY MAOYUAN BEEF DEVELOPMENT CO., Ltd., is a state-run company.

Project Description

A raising base for 30,000-head of Commercial beef cattle and a 1,500-ton beef processing factory will be built in Gong County.
This expanding project takes 3 years.

Market Forecast

Gong County is one of main area for raising oxen in southern mountain area in Sichuan. There are 50,000 hectares of forest farm and kinds of grassland 280,000 hectares with the output of fresh grasses 600 million kg, plus kinds of straws. They are enough for raising 80,000 head oxen.
The county has a 300-year history for raising oxen. The oxen products have a good reputation and have been sold on Sichuan market.

Profitability Analysis **Unit. 0, 000 USD (1 USD=8.3RMB)**

It needs a total investment of 144.4. The period considered to recover this investment is 3 years.

Cooperation Ways

Join-Venture.

4. DEVELOPMENT OF MILK PRODUCTS

Project Data

None.

Project Unit

YANGPING BREEDING CATTLE BASE, is a state-own company.

Project Description

Introduction of germ-free canning equipment, production of milk drink.
This newly built project is developed during one year in Hongya County.

Market Forecast

Annual production milk powder 1000 tons, supplying the fine cattle 200 heads.
In recent years, the milk powder named "Yangping" produced in the farm has been honoured as the famous green products by the Sichuan province at the first time. Now the products can't satisfy the market with the rise of price steadily. With the improvement of people's living standard, demand for the milk products will be greater, but the present production capacity and products variety in the farm fails to satisfy the market need. The farm is not only the state key livestock farm, but also the green food production base of the state, Moreover, it also the sole SIMWRATER fine cattle farm in the Southwest area.

Profitability Analysis **Unit. 0, 000 USD (1 USD=8.3RMB)**

It needs a total investment of 671.

IRR is 27.7%, the period for investment recovery is 5 years (including constructing period).

Cooperation Ways

Joint-Venture and Co-operation and/or investment.

5. THE PROJECT OF BLACK-BONE CHICKEN PRODUCT SERIES.

Project Data

Juridical Person: Lian Zejun.

Project Unit

SOUTHERN MOUNTAINOUS BLACK-BONE CHICKEN DEVELOPMENT CO.,Ltd., a state-owned company.

Project Description

Further developing deeply processing the black-bone chicken products series.
This expanding project is developed during half a year in Xinwen County.

Market Forecast

The company has the capacity to butcher 300,000 chicken and to produce 250 tons extracts, 200 tons soft & hard cans and typical food per year.
The fashionable trend for black food in the world has made black-bone chicken known to everyone. It's sales volume is increasing day by day. It seems a good prospect in both domestic and the southeast Asian market, particularly in Hong Kong, Cacao, Taiwan and Japan where the demand is enormous and the price is high.

Profitability Analysis **Unit. 0, 000 USD (1 USD=8.3RMB)**

It needs a total investment of 42.

The investment profit rate is 16%, thought to be recovered in 5 years.

Cooperation Ways

Take-over purchase; investment holding in a joint venture. Leasing operation.

6. WHITE TARO PRODUCTION BASE CONSTRUCTION PROJECT

Project Data

None.

Project Unit

PINGSHAN COUNTY TARO DEVELOPMENT OFFICE.

Project Description

Expansion plantation of white taro of 4,000 ha., total production of fresh taro 7,500 tons.
This expansion project is developed during 3 years in Pinshan county.

Market Forecast

At present, there are only 1,200 ha. of white taro plantation with its' total output 2,250 tons.
Pinshan county is the origninal place of white taro foundation. FMC Company of the USA affirms that its' glycoside is higher than of other products after its' quality test. At present, the fine power of white taro producing in Pinshan county is about 100 tons or so. However, the requirement of foreign consumers have reached 2000 tons, the supply fail to satisfy its' market.

Profitability Analysis **Unit. 0, 000 USD (1 USD=8.3RMB)**

It needs a total investment of 96.3, thought to be recovered in 7 years.

Cooperation Ways

Joint venture, co-operation and/or investment.

7. ESTABLISHMENT OF 50,000 MU OF ASPARAGUS PLANTATION BASE AND DEEP PROCESSING BASE

Project Data

Juridical Person: Zhang Lianyun.

Project Unit

SICHUAN JIN FENG MODERN AGRICULTURE Ltd., is a share-holding company.

Project Description

Annual production of 30,000 tons of asparagus refined products and other deep processing products. This expansion project takes three years in Jing Tang County.

Market Forecast

Production of 25,000 MTPA of quick-frozen asparagus, dehydrated asparagus and canned asparagus, 5,000 MTPA of asparagus drinks, 5 MTPA of asparagus tea, 100 MTPA of rutin and of folic acid and 200 MTPA of asparagus wine.
Asparagus is commonly accepted as a kind of vegetable with anticancer and health protection effect. Asparagus and its processed products sell well in the world. China export asparagus to Germany, Japan and USA. At present, Asparagus processing is in the stage of simple and rough processing. 90%of its' products are quick-frozen and canned food. So, it is reliable to increase its overall benefit and economic value through deep processing and comprehensive use.

Profitability Analysis **Unit. 0, 000 USD (1 USD=8.3RMB)**

It needs a total investment of 1587.3.

IRR is 36.8%, the period of investment pay back is 3 years.

Cooperation Ways

Joint-Venture, Co-operation and/or investment.

8- RUO ER GAI INSTANT DRINKING MILK PRODUCTION LINE

Project Data

Juridical person: Zhou Mazu.

Project Unit

CHUANXI HONGYUAN MILK PRODUCTS GROUP, is a state-run company.

Project Description

Annual production capacity of 5000 Tons.
This newly built project takes 2 years in Aba Prefecture.

Market Forecast

Annual production of 100% standard sterilized milk 2,000 tons, different varieties of milk 1,500 tons, yogurt 1,500 tons.

Fresh milk is the green food of plateau. With the improvement of people's living standard, the requirement for instant milk will be increased continuously. Therefore, the production of high quality instant milk will have a bright market.

Profitability Analysis **Unit. 0, 000 USD (1 USD=8.3RMB)**

It needs a total investment of 347.2, due to be recovered in 4.7 years.
The profit/investment ratio is 22.82%.

Cooperation Ways

Joint-Venture, Co-operation and/or investment.

PROJECTS IN CHONGQING

1- JIANGJIN VEGETABLE PRODUCTION INDUSTRIALIZATION PROJECT

Project Unit

JIANGJIN VEGETABLE PRODUCTION AND SALE SERVICE COMPANY.

Project Description

1. ***Necessity:*** Jiangjin City has a long history of vegetable Production, but with the rapid development in market economy, the management present of vegetable production can not fit the market situations in the fierce competition. To resolve this problem the vegetable production increase the accumulate and strength, to speed up the development of modern agriculture, to raise the agriculture level in our city, and to meet the need of the vast market. So it is very necessary and lager to realize the vegetable production industrialization.

2. ***Construction Scale****:* A base of 50,000 mu for producing 2500,000 tons of fresh vegetables per year; a base of 500 mu for seeding; a vegetable distributing store house; five wholesale markets; 25 distribution nets will be built.

3. ***Total Investment****:* 68 million-yuan RMB.

Market Forecast

Jiangjin, one of Chongqing's satellites, lies to the south east of Chongqing. It is a typical large agricultural Coty with 230,000 mu for vegetable production, among which 110,000 mu are yearly planted and 120,000 mu are seasonally planted. The total reaches 600,000 tons.420, 000 tons, about 70 percent, are consumed in Jiangjin. About 130,000 tons are exported, among which about 80 percent are exported to Chongqing. Vegetable production is the key industry of the rural economy of Jiangjin, which is the exterior base of Chongqing. So it is very realist to carry out the project, which will both increase the peasant's income and guarantee the supplies for cities and countryside.

Profitability Analysis

The investment recovery time is 2.44 years.

Investment profit is 30.16%

Output value profit is 6.91%

Cooperation Ways

Cooperation or Joint Venture or foreign owning

Project data

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2- INDUSTRIALIZATION OF 1.5 MILLION MEAT DUCK PROJECT

Project Unit

The JIANGJIN MODERN FARM OF BREED, established in 1993, is the only farm of parent duck in Chongqing, permitted by the bureau of Industry and Commerce and the bureau of Farming, Fishing and Animal husbandry of Chongqing. Now with over 7,000 duck, it provides with 1million ducking of fine breed to the market.

Project Description

1. ***Necessity:*** Being the main source of non-stapled food, poultry play an important part in people's life. According to the statistics in the developed countries one person consumes 20.6kg poultry, in the USA 45.69kg, but less than 3kg in China, so there must be a prospect market for it. Especially since Chongqing became a new city under the direct administration of the central government, and with an increasing population, he demand for poultry has been rising. Therefore, it is necessary to combine the production, processing and sale of poultry of Jiangjin to develop the industrialization of 1.5 million meat duck.

2. ***Construction Scale**:* 1.5 million meat duck per year.

3. ***Total Investment:*** 25.15 million yuan.

Market Forecast

According to the calculation that one that one person per year consumes the flesh of one domestic animal in the area of the Three Gorges reservoir, the market demand for meat duck will be the flesh of 40 million domestic animals. In addition, the whole area of Europe and Asia has an increasing need for it, while the frozen chicken and duck in the present market are of low quality and high price, with a high cost of transportation. So here is much prospect and high competitiveness of the development of the project.

Profitability Analysis

The total profit with duty is 16.51 million yuan per year. The rate of investment profit is 65.63% and the rate of income is 70% per year.

Cooperation Ways

Joint venture and cooperation.

Project data

Having got the permission of the plan Committee of Jiangjin.

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3- QIANJING COUNTY CHONGQING TUBER CROPS, CORN DEEP PROCESSING AND COMPREHENSIVE UTIIZATION PROJECT

Project Unit

Located in the southeast of Chongqing, QIANJIENG OIL & FOOD STUFFS GENERAL COMPANY borers Hubei and Human, at the site of Qianjiang Development Zone, the total asses 220 million yuan, the fixed asset 75 million yuan. It now has warehouse capacity of 2000 tons. The annual; processing ability is 15 thousand tons of rice, 12 thousand tons of flour 10 thousand tons of vermicelli, 5000 tons of plant oil, 10 thousand tons of pellet. The productive plant buildings and equipment can be matched with the project, worth over 10.13 million yuan. The newly built "oil and food stuffs wholesale Market of Southeastern Shichuan" has begun for take shape. The business floor space is 7500 square meters. The business scope includes purchasing and selling of oil and food stuffs, oil and food stuffs processing, hotel entertainment, planting and breeding industry, building, installing, transportation services, etc.

Project Description

1. ***Necessity:*** Tube crop and corn resources are very rich in Qingjiang County and the surrounding areas. Within the distance of 150 kilometers, the annual production of tuber crops is 2 million tons, including 70 percent of potato and 280 thousand tons of corn. Owing to having no specialized enterprise in undertaking in undertaking comprehensive deep processing of tuber crops and corn in southwestern area tuber crops and corn produced locally are mostly used as food, only a small part is used as food or sold at low price. Due to the long-term idleness of this area's rich farming products resources from exploitation and utilization economic development in rural areas ahs been obstructed. As a poor county at national level, how to make the peasants escape poverty and become rich, the most straight means is to fully use this area's preponderance of natural resource. So there is a great necessity in undertaking deep processing and comprehensive utilization of tuber crops and corn.

2. ***Construction Scale:*** To produce 4500 tons of sliced yam food, 750 tons of dried yam food, with yam as the Leisure food 48000 tons, with buckwheat, oats and corn as the raw material; To produce a certain amount of corn oil and starch, with the side-produced

objects as the raw material. It can process coarse cereals such as buckwheat 50 thousand tons and yam 200 thousand tons only.

3. ***Total Investment:*** 70.80 million RMB yuan

4. ***Construction Situation:***

Electricity Energy:

This prefecture's electric grid is connected with those of Hubei and GuiZhou, with a high surplus, so it can entirely guarantee the project's energy requirement.

Water Supply:

Water supply capacity of this country's existing running water plant each day is 200 thousand tons, and a new water plant is being built for 200 thousand tons, so water supply is guaranteed.

Hardware Conditions:

The two categories of products of this project can be produced through technical transform. Facilities such as plant building and ware house which are 5150 square meters for utilization, and facilities for water and electricity supply are all profits, without extra investment. The newly established project does not need additional land-collecting.

Other Productive Condition:

Qianjing county has a comfortable natural ecological environment. Without pollution little fram posts hazard, a small amount of farm pesticide for utilization, with the fram manure being the main fertilizer, so it is a ideal place for producing green food, and this area has very cheap laborer for recruitment.

Market Forecast

As an ancient cultural nation, China has a long history in food culture. With the increase of the people's living standard, food with nutrition, health convenience and good taste has been the target of consumer's peruse, such foods that can balance the nutrition and have the same effects as medicine are now being more expensive. Coarse cereal products are the first of them in yam food in southeastern area, so they often can't be bought in markets. The three kind of products have a tremendous potentiality in market.

Profitability Analysis

After the project's construction is finished, the yearly sales income will be 475.78 million yuan, profit 38.33 million yuan, tax 25.32 million yuan, with interal process's rate 47.53 percent, the investment return period 3.65 years

Cooperation Ways

Joint Venture. Exclusive Investment.

Project Data

The project has been ratified by approval document: "Chong Ji Wei Gong [1997] No. 914" by Chongqing Municipality Planning Commission. At present, it is being under feasibility proof.

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4- CHONGQING ZHONG LIANG SHAN BULDING PROJECT COMPANY PROJECTOF DEVELOPING CHONGQING HUA YAN MINERAL WATER

Project Unit

CHONGQING JIU LONG PO DISTRICT ZHONG LIANG SHAN BUILDING PROJECT COMPANY is a city construction enterprise value 10 million-yuan RMB. It has an area of 4000 m^2 including area $1000m^2$. There are 110 employees and 48 technicians, one of who is senior engineer, 8 of whom are engineers and there are different kinds of technicians in the company.

This company can build 16 storied building of 24m spans, whose height is below 50m.

Project Description

1. ***Necessity :*** Hua Yan Mineral Water is kind of fine and rare water from the deep ground. It is appraised by three classes Mineral Water test centers in Chongqing, Chendu and Beijing. It's content of zinc, strontium and silicon aid accord with the state standard of mineral water. It also includes many tiny elements, such as lithium, iodine, bromine, and selenium that are good to people's health. It is fine and rare. The amount of Zinc in it is up to the standard and so it is especially rare and has high value to be developed, and the well of the mineral water is in a place with good transport service. Once it is developed, it has good social and economic profit.

2. ***Construction Scale and items***

   Annual output of mineral water is 10 million standard bottles.

   Items

- model HY-6.0 production line to filter mineral water (made in China) 80000 yuan RMB
- A model HY-5000 auto canning line (made in China) 330,000 yuan RMB
- A model HC-j-2 auto plastic bottle-blowing machine(made in China)
- Ozone killing germs installation (made in China)
- Fixing and examining the equipment and training the employees 100,000 yuan RMB
- Chemical test equipment 2000,000 yuan RMB
- Production buildings, $2000m^2$ 2 million yuan RMB
- Electric power increase 100 KVA 200,000 yuan RMB
- Water for living 20,000 yuan RMB

- Fork-lift and transportation tools 200,000 yuan RMB
- Cost of digging well 5000,000 yuan RMB (done)
- Registered trademark and production permitted card 500,000 yuan RMB
- Cost of advertisement 1.5 million yuan RMB
- Circulating fund 2 million yuan RMB

3. ***Total investment*:** 8 million yuan RMB

4. ***Construction Conditions***

The newly built mineral water plant lies in Ren He Chang (It was called Lenshuichang).
Its well lies in the eastern hilly part of Guan Yin Yan (its company is here). The height of entrance to the well is 287.4 M. The hilly top is 300M, with tall trees and is close to Hua Yan scenery.
Its position: it is located at 106 26'E, and 29 25' N.
It is about 15KM from downtown, 8KM from Yang Jia Ping, 5KM from Da Du Kou. The highway links the well and the place.

Market Forecast

At the end of 1984, the annual output of mineral water is only 20,000 tons. With the people's realization about mineral water and the change of the consumption habit, the need of mineral water is increasing so fast that late 1995 the annual production ability is 3.5 million tons, 1.5 million tons of mineral water were produced that year. It is analyzed that in 1996 there was only 10000 tons of mineral water produced by 15 factories in Chingqing.
In recent years, the reformation of the wrapping of mineral water makes its consumers drink it more and more.
It is estimated that in the year 2000, the need of mineral water will be 4.2 million tons in our country. In Chongqing it needs 130,000 tons.

Profitability Analysis

- Total investment 2.87 million yuan RMB
- Annual tax 2.7 million yuan RMB
- Annual total profit 3.575 million yuan RMB

- Rate of return on investment 45.4%
- Rate of investment profit tax 79.7%
- Return on investment 30.40%
- Investment recovery period 2.64 year
- Financial internal rate of return (total investment) 31.02%
- Financial pure value (I=12%) 7.703 million yuan RMB
- The amount of break - even selling 4,120,000

Cooperation Ways

Joint venture, cooperation, Individual Proprietorship and so on.

Project Data

The land is obtained and the wells have been dug. Those materials are reported to Sichuan under ground mineral Bureau, the given exploiting permission is expected.

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5- CHONGQING, FULING BLACK AND MEAT-TYPE RABBIT INDUSTRIALIZATION PROJECT

Project Unit

CHONGQING SHUNFENG ANIMAL HUSBANDRY CO.LTD is a state-owned enterprise founded with investment from China's Ministry of Agriculture. Chongqing Municipality and Fuling District with USD 2,180,000 fixed assets, the company is non-engaged in the business of stock and poultry farm, which can provide about 10,000 meat rabbits of pure breed and 300,000 breeding eggs or young poultry every year. There are foodstuff processing factory with producing capacity of 5000 tons/year enriched feed and 3000 tons/year feed additives and a meat processing factory, which can slaughter 500 pigs and 100 heads of beef cattle every day, with a cold storage at a freezing capacity off 25 tons per day. With top priority for developing industrialized stock farming but also diversifying into other businesses, the company, capitalizing on the opportunities offered by the TGP relocation program, is moving in the direction of forming consortium and modernization through extensive corporate capital restructuring.

Project Description

1. ***Necessity:*** Meat packing industry in Chongqing has traditionally concentrated on pork and beef processing. There is now no processors of mutton or rabbit meat in the city, which ahs been one of the main factors that has limited extensive utilization of vast grass hills and grassland in the southeast parts of Chongqing for production of black goats and meat rabbits, which consume less grain feed than other domestic animals. The project is aimed at providing sufficient assurances for goat and rabbit raising by farmers in the TGP region through an operation decentralization arrangement in which individual rural house hold contract with our company for goat and rabbit farming, and our company will be responsible for marketing their products, thereby ensuring them more earnings.

2. ***Construction Scale*:** The project will involve in building a farming base with a production capacity of 450,000 goats and 800,000 rabbits every year. And a processing facility, which will process annually 800,000 rabbits and 450,000 goats and provides 1200 tons of rabbit meat, 4000 tons of mutton and 1,250,000 skins of goat and rabbit.

3. ***Total investment*:** The project will require a total investment of USD 5,270,000**.**

4. ***Construction Situation:***

a. Rich resources: with its uniquely favorable geographical position and plentiful natural grassland resources and straws and stalks from agriculture operations the Fuling area provides a ideal ecological environment for developing the production of meal rabbits and goats. Since the 1980s, the area has made great efforts to building rabbit and goat farming bases, and has achieve substantial progress.

b. Well established technologies: Our company has strong technological capabilities, and considerable advances have been make in farming base development. It has received several ministerial, provincial or municipal-level awards for its excellent achievements in the processing of traditional meat products, and currently it is actively seeking cooperation from research institutions for developing innovative meat products, and currently it is actively seeking cooperation from research institutions for developing innovative meat products.

c. Availability of fund: the company's meat processing factory is one of the enterprises to be wholly relocation from the TGP reservoir area, and will receive a compensation grant of USD 1,670,000 for the relocation, which will be used as part of the project's capital.

d. Accessibility and utilities: the site of the project's processing facilities lies in the Qiaonan Development Zone, Only 3KM from Fuling, and convenient transport, utilities (including water, electricity and gas supply) and telecom services are available. The project's farming base is located along the fuling-fengdu Highway and in Baitao, Jianshi and some other places, all within 30km of the processing factory.

Market Forecast

As China's economy expands and living standard improves, people's demand for mutton and rabbit meat, which contain more protein and less fat, will be increasing steadily, resulting in a more balanced diet mix. Currently consumption of beef, mutton and rabbit meat accounts for between 20 and 30 percent of the total consumption of meat product, and is growing continuously. According to one market study there is a potential market for about 1000 tons of mutton and rabbit meat every year in the Fuling area alone, based on an estimated per-capita consumption of mutton and rabbit meat of only 1kg. A literature scans reveals no enterprise that is now engaged in developing commercial production of goat and meat rabbit and there fore our project holds an attractive market prospect.

Profitability Analysis

Once completed the project to expected to generate annual sales revenue of USD 30 million, with USD 3.6 million profits and USD 960,000 taxes. The payback period is 4.75 years for static investment, and the profit and tac on investment and the financial internal return rate are 30 and 17.23 percent respectively.

Cooperation Ways

Joint venture or other forms of cooperation

Project Data

The Project has been approved by the Chonging Planning Commission. The feasibility study report is now being prepared, and economic assessment is being conducted by the government agencies concerned.

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6- JIANGJIN CITY SELENIUM-RICH NATURAL FOOD DEVELOPMENT PROJECT

Project Unit

THE JIANGJIN JINCHENG INDUSTRY CO.LTD., is a state-owned company developed from a fine variety orange breeding demonstration base, and is one of the leading enterprises in the city's efforts to promote commercial production of agricultural products, with USD 1.2 million fixed assets and 186 employees. The Yuxi farm, one operating unit under the company, has been designated as a state, fine-variety, orange, breeding demonstration base, and produces over 600 tons of five varieties of orange and over 1 million of scions of fine-variety orange every year, with substantial financial benefits.

Project Description

1. ***Necessity:*** Selenium is one of the trace elements that are essential to the normal functioning of the human body, and food with a high selenium content can provide a wide range of beneficial effects, including helping prevent Cancer, keshan disease, liver disease, Kaschin-Bech disease, and Cataract, improving functioning of heart and visual nerves, and protect against harmful radiation. Th south hilly region of Jiangjin is a selenium-rich area, with a selenium concentration of 4 PPM in soil, 0.58-0.8 PPM in rice, and 1-1.8 PPM in tea. Taking full advantage of these rich selenium-containing resources is both necessary and feasible.

2. ***Construction Scale:*** the project's stage one will develop a capacity of producing 50,000 tons of selenium-rich and 1,000 tons of selenium-rich tea every year.

3. ***Total Investment***: The project will require a total investment of USD 1.566 million.

4. ***Construction Situation*****:** The project proposal has been submitted to the Chongqing Municipal Planning Commission, and procedural formalities are now being dealt with for obtaining all necessary approvals and permits.

Market Forecast

As a natural health-giving product, selenium-rich food has substantial market potential and is in great demand, and its consumption in Japan, the U.S. and Southeast Asian countries is growing steadily. Back in China, as people are becoming ever more aware of various favorable effects of the element., the demand for high-selenium food will rise continuously. At a per-capita Consumption of selenium-rich rich of 10kg a month, for example, there would be a market for 480,000 tons of this rice in Chongqing alone. But currently it is produced only on a limited scale, and therefore falls far short of meeting the market demand. So selenium food may hold much promise of becoming a thriving segment of the food market as a result of efforts to develop high selenium product using rich resources in South Jiangjin.

Profitability Analysis

The project will generate a total annual output value of USD 25.9 million, with USD 1.8542 million tax and profits. The pay-back period of 2 years (excluding construction time)

Cooperation Ways

Joint Venture or exclusive investment.

Project Data

Jiangjin Planning Commission has approved the project.

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7- DIANJING WHITE SHADDOCK PRODUCTION BASE PROJECT

Project Unit

DIANJING FRUIT PRODUCTS CO.LTD. is specialized in fruit production research and development, and has 30 employees including 2 senior agronomists, 8 agronomists, and 20 assistant agronomists and other technicians. The company was chosen as single contractor to undertake the job of building the Gaoming horticultural farm in Changlong and the Jinfeng horticultural farm in Huangsha, two of the fruit development projects in the upper and middle Changjiang valley, that were rated Class a plus project and Class a project, respectively, by China's Ministry of Agriculture.

Project Description

1. ***Necessity:*** Dianjing shaddock is well known nationwide for its many attractive features, such as large size, bright color, crisp and juicy pulp, and rich taste. It is both sour and sweet to the just right point. In 1989,1994 and 1998 it was named the National Top-Quality Fruit, and in 1995 it received the Gold Medal in China's Second National Agricultural Food Fair. The Dianjing Shaddock is now grown mainly in Huangsha, Changlong, Gangjia, Yongan and Gaofeng in the country, with about 5 million Shaddock trees distributed over and Area of 100,000 mu of land (1 mu=1/15 ha.). mainly marketed to Chongqing, Chengdu and other large cities, this fruit is in great demand and has huge market potential, so there is an immediate need to boost its production scale, to modernize outmoded orchards and to develop associated fruit terminal markets, storehouses and processing lines.

2. ***Construction Scale*:** a. building high-grade orchards with a total area of 50,000 mu, including 30,000 mu of newly opened fruit fields and 20,000 mu of upgraded old fruit fields. B. Setting up technology extension system, including a 1000-m^2 county-level technology extension center and 700-m^2 township-level extension center. C. Setting up a 5000-m^2 fruit terminal market. D. building a 500-t fruit storehouse. E. Building a 10,000 t/a fruit processing line. F. Buiding a shaddock juice extraction line.

3. ***Total Investment***: the Project will require a total investment of RMB 100 million, including 45 million for opening up new high-grade orchards, 25 million for modernizing outmoded

existing orchards, 2 million for setting up technology extension centers, 3 million for building fruit terminal market, 2 million for building fruit storehouse, 8 million for building fruit processing line and 15 million for juice extraction and processing line.

4. Construction Situation:

A The Dianjing white shaddock is a good fruit variety which offers a resource advantage for the project. It provides rich nutrients and has a long economic lifetime, and can generate substantial financial benefits by comprehensive utilization of the fruit.

B. The natural conditions are favorable for the project. Dianjing has a tropical monsoon climate, which is common in Central Asia, with a mean annual precipitation of 17.3 C, a cumulative annual temperature(>=10 C) of 5403 C, and a mean annual precipitation of 1183mm. The annual sunshine time is 1062 hours and the frost-free period is 289 days. The county has a semisandy and semi-clay soil or a sandy soil mixed with gravels and a total water reserves of 834 million cubic meters.

C. Advanced telecom and transport services are available. 156km from chongqing city, Dianjing is strategically located along the route leading from Chongqing to wanxian and further to Wuhan and Shanghai. The trunk roads within the county have all cement surfaces, and every township and village is linked by road. Modern post and telecom facilities provide a large coverage.

D.. The county government and party committee have designated shaddock farming as one of the county's economic pillars, and have planned measures designed to make Dianjing become China's "home of white shaddock " by 2005. To achieve the goal, the county government has introduced a series of incentive schemes aimed at promoting the development of shaddock production.

Market Forecast

1. **Domestic market**: as a nationwide famous fruit variety, the Dianjing shaddock have been much in demand, and in 1998 its price was RMB 5 or 6 per kg at sources and RMB 8 to 10 in the consumer market. One market study reveals an annual demand for more than 50,000 tons of shaddock in Sichuan, Chongqing and neighboring provinces.

2. **Overseas market**: according to Shen Zhaomin, director of the Chinese Citrus research Institute, the global consumption of citrus fruits will reach 100 million tons by 2000, with a percapita consumption of 16.3kg. And citrus export volume will increase to 12 million tons,

including 1.2 million tons of shaddock exports, which will be growing faster than other varieties of citrus.

Profitability Analysis

The project is planned to be started in 1999 and completed in 2003. Once completed it will generate an annual profit of RMB 39.5 million on sales revenue of RMB 166.77 million, with RMB 24,536,000 taxes, as shown in details as follows:

1. **Benefits from orchards**: During the early fruition years(2005 to 2009), the total yield will be 20 million kg a year. Once into the full fruition period (beyond 2010) the total yield will grow to 75 million kg. Based on a commodity rate of 80 percent and a price of RMB 3 per kg, the orchards will generate annual revenue of RMB 109 million, with a profit of RMB 30,565,000.
2. **Benefits from fruit storehouse**:
   annual revenue: RMB 1,404,000.
   Annual profit: RMB 2,050,000.
3. **Benefits from fruit terminal market**:
   annual revenue: RMB 6,850,000.
   Annual profit: RMB 2,050,000.
4. **Benefits from commercial processing line**:
   annual revenue: RMB 9,446,000.
   Annual profit: RMB 1,800,000.
5. **Benefits from shaddock juice extraction and processing line**:
   annual revenue: RMB 20 million.
   Annual Profit: RMB 5 million.

In addition the project will produce substantial social and ecological effects, such as improving forest cover, mitigating soil erosion, cleaning up air and beautifying the environment.

Cooperation ways

Joint venture or other forms of cooperation

Project Data

The project has been approved by the Chongqing Municipal Planning Commission.

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8- ATTRACTING BUSINESS PROJECT OF CHONGQING BAI SHI YI PRESSED SALTED DUCK AGRICULTURAL INDUSTRY

Project Unit

Chongqing Bai Shi Yi pressed salted Duck factory lies in the center of Chongqing western part, 3kms away from the 1st exit of Chongqing road on Chen Yu high Way, 40kms away from Chongqing Railway Station. This factory covers an area of over 30 mu, with 121 working employees and 25 retired people.

This factory ahs 16.15 million yuan RMB of fixed assets, 11.28 million yuan RMB of net output value, long period debts of 7.8 million yuan RMB and the rate of assets debts is 69.85%.

This factory produces "Bai shi Yi " brand pressed salted duck and duck gizzard as its main products and has 8 kind of packing products. Its main markets are Chongqing and its suburbs and its products cover 70% among the same kind of products in Chongqing.

Project Description

1. ***Necessity***

   This project accords with the policies for developing poultry by the Nation, it is good to people to improve and adjust foods and expenses. "Bai Shi Yi " brand pressed salted duck is a kind of famous food all over the country especially in its native places and In the places around. It is the favored food for holidays and nice present sent to relatives. This project will have cooked pressed salted duck and those ducks for holidays to fill in the blanks of the same kinds of products.

   Bai Shi Yi pressed salted duck was been named the Famous and highly qualified product several times by pre-China bussiness department, golden prize of the 1st Chinese food exhibition and the 1st and 2nd Ba Shu Food Festivel. "Bai Shi Yi" brand is the famous brand in Sichuan Province and in Chongqing. Its products are very famous in Chongqing and in the Southwest parts for a long time, it is sold to Shen Zhen, Hu Nan, Beijing and Shang Hai and so on. During the holidays, the products Supply can not meet need.

   "Bai Shi Yi Pressed Salted Duck" has very high value. In order to get more benefit, our factory is going to develop new products to lead the farmers who raise ducks to form models of agricultural industry and make raising boultry, processing and selling have a good future.

Now our factory's Bai Shi Yi pressed salted duck is half-cooked food, which can be eaten after being cooked and steamed. It is not fit for the modern fast living. To meet with the needs of the people, we should produce cooked pressed salted duck and keep its old flavor. It is estimated that 2.50 million ducks can be sold in the markets of Chongqing and 2.50 million ducks can sold outside Chongqing.

With the skill of producing pressed salted duck, ducks' gizzard, ducks' feet and duck's tongues will be produced as holiday food which has special flavor, which are good to eat and are special food for travelling. They can be sold at home and abroad and have a good selling. It is an important task to develop those cooked pressed salted duck and the foods for holidays above and it will have low cost and high value.

So our factory has decided to cooperate with foreign businessmen to set up a new processing food enterprises with present equipment (such as 1000t freezing warehouse, stoves and factories), brands and items and so on.

2. ***Construction Scale***:

(1). Training special people for raising ducks and raising 5 million good ducks.

(2). Killing living ducks 5 million

(3). Pressed salted ducks 4 million, 2352 tons.

(4). Food for holidays 9.5million bags, 190 tons.

(5). Newly- built factory buildings 7800 m2, bringing in processing technics, equipment for poultry and meat: buying 42 sets of equipment and 28 sets of technologic equipment for killing, processing, packing and transportation.

3. ***Total Investment***

Total investment is 41.054 million yuan RMB, among which its fixed assets investment is 24.333 million yuan RMB, interest in construction is 0.65 million yuan RMB, circulating fund is 16.070 million yuan RMB.

We plan to attract foreign capital of $2.3 million (19.78 million yuan RMB).

4. ***Construction Conditions***

(1) This project is done in Bai Shi Yi Pressed salted Duck factory which covers an area of 20000 m2 so there is no need to take over land.

(2) Its main raw materials are living duck. There are hundreds of families who raise ducks there and they can supply more than 10 million ducks/ per year.

(3) This factory has one set of 315 KVA transformer, after the project is done, we can have one more set of 315 KVA transformer for Chongqing electricity supply is enough and so we can increase our electricity capacity.

Water: water is supplied by Bai Shi Yi water factory.

Coal: Coal is used as fuels in stoves to produce vapor and used in picking up hair, steaming and cooking pressed salted ducks and so on. Coal is not used in a large scale and it needs 1016 tons/ per year.

Market Forecast

1. on Feb.9th ,1993 the state council premier meeting pointed out in the documents(the out-line of reforming and developing Chinese foods in 90s) that "by the end of this centry, pork will have decreased 70%, poultry, beef and mutton will have increased more than 18% and 12%", so the development of duck production is fit for the needs of the nation and the people.

2. People have changed their expenses for living, they want to eat well and be in good health, so the duck products and their processing can meet with the people's needs.

3. Fast food urges the development of increasing poultry food.

4. Because of the lack of the products, the supply can not meet the need. It is sold to shen zhen, Beijing, Chengdu and Hu Nan and so on. It sells well all over the markets.

Profitability Analysis

(1). Construction period: two years, implementing period is one year. In sept, 1999, the traditional pressed salted duck productive line will be pub into operation and at the end of 1999, all the project will be finished.

(2). The period of investment recovery: 3.57year.

(3). The rate of income: 48.16%.

(4). Rate of investment profit: 47.58%

(5). The income of selling is 110.977 million yuan RMB after it works, its selling tax and extra charges is 6.893 million yuan RMB, total profit is 19.533 million yuan RMB, its income tax which must be handed in (according to the present policies and being an individual proprietorship at home) is 5.592 million yuan RMB, profit after paying off the tax is 13.941 million yuan RMB

Cooperation Ways

1. Forms of joint venture: to build a new food process company for pressed salted duck, foreign control and join.

2. Cooperation period: more than 15 years.

Project Data

Its possible research report is done in July, 1998.
This factory is regarded as a head enterprise in the project of Chongqing Agricultural industry.

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9- LEAN-TYPE PIG INDUSTRY PROJECT

Project Unit

a) *Background:* CHONGQING GALLOP INDUSTRY CO., LTD, is a private enterprise. Its sub enterprises, Chongqing Gallop Breed Pig Farm and Gallop Fodder Plant are the direct project sponsors. The two enterprises has more than 25 million Yuan RMB of fixed capital and covers 136 mu of land. The first-phase construction costs 15 million Yuan RMB of investment. We have the following breed pigs: Canada Landrace, England Landrace, Canada York, England York, American Duroc, R1 and some hybrids of LY, LY. There are totally 2000breed pigs. For the second stage construction, in the future the pig farm can produce 50 thousand pigs Meantime, a Fodder Plant will be established for producing 50 thousand tons of fodder in one shift and another additive compound fodder plant will be established. Now, It is the leading enterprise in Chongqing Lean-type pigs. The whole enterprise has more than 130 employees including 25 middle and high-level technicians (3 of them are professors).

b) The company's performance in the past 3 years:

Unit: 10 thousand Yuan

YEAR	SALES INCOME	TOTAL PROFIT
1996	1032.56	-38.06
1997	2015.53	180.56
1998	2512.36	341.22

Project Description

1. ***Necessity:*** the current pork production can't meet human's need and price of the pork is very low causing serious loss. Improving the quality of the breed pigs and pork can only solve this situation. The project intends to recommend excellent foreign breed pigs, it plans to use the high-quality fodder and fodder additives to improve the quality of the pork, increase the sales price of the pork and make more profit. Only the above measures taken can speed up the smooth development of the pig-raising industry.

2. ***Construction Scale****:* the company is responsible for the following operations.

i. Pig-raising farm: totally to raise 300 breed pigs per year (1450 for Landrace, 1450 for York, 100 for Duroc), to produce 2000 heads of hybrids, 10000heads of pure breed pigs, 22000 heads of piglets for porkers. \

ii. Fodder processing plant: To produce 5000 tons of several kinds of fodder annually

iii. Fodder Additives Plant: to Produce 1000 tons of fodder additives

3. ***Total Investment:*** 49.9308 million-Yuan Rmb, among which tree million US dollars are planned to for the project.

4. ***Construction Situation:*** the pig farm locates in Xiyong Economic Development Zone of Shapingba District. Big avenue reaches to the door of the plant and it is only 6km to the Chen-Yu Highway and 10km to Chongqing downtown. Raw materials including the fodder and the related accessories can be purchased locally. Water and power supply can satisfy the requirements. The products won't cause any serious pollution to the environment. The regular pollution caused (for example the pig shits and production wastewater and so on) can be treated thorough biological and physical technologies the purification standards). Noise and dust caused by fodder plant are also efficiently controlled through improving the equipment and plant greening.

Market Forecast

a) **Overseas market***:* the main import countries will import 3 million tons of pork every year. The world trend of pork consumption is still increasing. The pork consumption in 1994, 1995 and 1996 is 78.954 million, 83.17 million and 86.634 million tons. But the world export of pork is decreasing in the recent years. For example, the development of pork production in Holland was restricted and Germany never exports pork in future but it imported 180 thousand tons of port every year. Taiwan province of our country exports more 7 million heads of pigs every year, but due to the pig disease, the export was forced to stop until now. This gap needs to be filled by the mainland. In Asia, Singapore and Thailand every year import live pigs from China. But China can offer only export more than 200 thousand tons of pork due to the low quality of the pork. If we improve the leanness of the pigs and improve the quality of the pork, there is great potentiality for export.

b) **Domestic Market***:* From the report of FAO, we know that China's per capita production of pork is only 33.05 kg, much lower than that of the countries like Denmark, Holland, Hungary, France, Germany, Canada and so on. If 15 million persons are increased every year, then the pork consumption will increase by 460 thousand tons. With the improvement of people's life, 12 billions of Chinese will consume additional 1.2 million tons of pork if one person consume 1kg pork more every year. That is totally 23.75 million heads of pigs, showing there is gread market for the pig-raising industry.

Profitability Analysis

1. Project construction cycle time: 1.5 years.
   Investment return period: 4.65 years.
2. 6.52 million RMB Yuan can be earned after tax when the project runs normally.
3. Financial internal return rate is 35.58%.
4. Net present value (after tax) is 1.63 million RMB Yuan.

Cooperation Ways

a) Cooperation method: joint-venture (foreign side can offer breed pig)
b) Cooperate period: 15 years.

Project Data

Chonqing Gallop Industry Co., Ltd. is the leading enterprise of Chongqign lean-type pig production. It has been approved to develop breed pigs by the CJWL Doc#(1998) 141. The constructions of the three production lines to produce 10000 piglets have already been finished. Two of them have been put into use. Currently, 2000 heads of pigs at different age period are raised. Fodder plant and fodder Additives plant have also been built and put into use. The laboratory for testing fodder quality just started to work. 1000 square meters of office building and living building have been completed too.

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10- DEMONSTRATION PROJECT FOR COMMERCIALIZED ZHACAI AND VEGETABLES PRODUCTION

Project Unit

FULING ZHACAI GROUP CO. LTD is China's largest producer of Zhacai (pickled mustard tuber, a special vegetable product from the Fuling region of the country). A large-size State Second Class enterprise, it leads Chongqing's 12 producers of commercial agricultural commodities, and operates in diverse areas including production, distribution, and technological development and modernization. Its main product line is the Wujiang Brand Zhacai, which comes in 4 major series, covering 52 different products such as low-salt small-bag Zhacai and pickles. In 1997 it produced 35000 tons of various Zhacai products, and its soft-packaged Wujiang Brand Zhacai had a 66.7% of the domestic market. The company has received quality contraction from the US Food and Drug Administration (FDA). Now it has USD 31 million fixed assets and a 50000 t/a Zhacai processing capacity.

Project Description

1. ***Necessity:*** agriculture has been one of Chongqing's economic pillars, and 80 percent of the city's population live its vast rural areas, so one of the top priorities on the Chongqing Government's agenda is to promote commercialized agricultural production. Chongqing is prolific in production of mustard tuber (or "qingcaitou" as local people call it), the raw material for making Zhacai, and the riparian areas along the Changjiang River, in particular, abound in this product, with 83%of farmland available in these areas being used of growing it. Now 1.5 million farmers are engaged in qingcaitou cultivation, making it one of the leading products in Chongqing's commercial agricultural production program. The fuling Zhacai is one of the world's 3 famous pickles, and in recent years the company has evolved a nationwide renowned brand name-Wujiang Zhacai.The company is one of the enterprises that must relocate from the TGP reservoir region. This project, therefore, is proposed as part of the TGP relocation program, in addition to maximizing the area's resource advantage, strengthening the company's capabilities and contributing to local economic growth.

2. ***Construction Scale***: The project will build a 32500-mu raw material production base (1mu=1/15 ha.), and various associated facilities with a total floorage of 27111 square meters. Once completed it will produce 28000 tons of various high-grade Zhacai products and 1500 tons of chili products every year.

3. ***Total Investment***: the project will require a total investment of USD 13.56 million.

4. *Construction Situation*
    1. The site for the project will be located in the Qiaonan Development Zone in Fuling, by No319 National Highway, only 4km from the center of Fuling, thereby making it easily accessible.
    2. The Fuling area abounds in raw material for Zhacai production, with an annual output of more than 300000 tons.
    3. 12 new Zhacai products have obtained type approval and commercial production has begun for them, and various kinds of packaging material are in ample supply.
    4. Utility services, including water, electricity and gas supply, are available in good condition.
    5. The environmental protection facilities have passed evaluation and examination by the Fuling Environmental Protection Bureau.

Market Forecast

New products developed by our company using advanced food production technologies are in great demand both in domestic and overseas markets, and during 1996 to 1997 their sales grew at between 100 and 300 percent. In the home market need for our products are increasing very fast in the Northeast, Northwest and the regions along the Changjiang River, whereas in overseas markets such as Japan, Singapore, Malaysia, Hong Kong and the Americas, there is already a daily demand for over 60000 tons of our products, the US FDA has granted quality certification to our Zhacai products, which will provide additional boost for further expanding exports of these products. As diverse new products, such as Zhacai for Muslims and for air passengers and green Zhacai are introduced, the Wujiang Brand Zhacai will extend its reach into more foreign markets including the Islamic countries, Europe and the US.

Profitability Analysis

Once completed the project will produce USD 45.8 million sales revenues, with USD 17.5 million profits and USD 2467000 taxes. The project’s construction time will be 2years, and the pay-back period will be 4 years, that is all investment will be recouped in 2 years after official operation begins. The project is designed to be able to survive even severe market risks.

Cooperation Ways

Joint venture or other forms of cooperation.

Project DATA

The project’s feasibility study report has obtained approval, and arrangements regarding production equipment purchase and raw material supply have been settled. Land acquisition procedure has been completed for the production base and the factory buildings, and the working design is currently in progress.

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11- CHONGQING HONGXUE DRINK FACTORY COOPERATE INVESTMENT OUNDING FACTORY PROJECT

Project Unit

CHONGQING HONG XUE DRINK FACTORY is a government ownership complex which was Chongqing special steel (Group) crop level enterprise, it has the qualification of independent legal person, is has founded for over twenty years. The fixed assets are five million Yuan, with 292 employees. Old house and factory owns mealy 20000 square meters. In 1997, it has founded again a standard producing factory. It owns 20 acers. Standard house and office owns 8000 square meters. It has high qualitative rock water well, which comes water 150 tons per day. It has one line which automatic producing drink from Japan and five lines, which produce juice nourishment drink. Producing over 40 tons per day, three kinds of twenty categories products, more than 100 saler, HongXue water and cola keep department and province level.

Nearly several years sale income averages five million-Yuan, it is Chongqing drink produce chief complex.

Project Description

1 ***Necessity***

i. Drinking and eating in the town structure changes into health development

ii. Agriculture development demands agriculture products which high additional value and nourishment useful machinery.

iii. Chongqing Food Drink demands rapidly developing to increase competition ability. Chongqing Government admits the project.

2 ***Introduction to the project***

i. Producing nourishment drink.

ii. High Vitamin contains I vegetable nets drink.

iii. Rock water and eating pure water for family.

3 ***Project investment***

Machine, coffers, technique.

The total investment of the project is 25 million Yuan.

4 ***Investment condition***

It’s in the Xin Feng Street Shapingba district ChongQing New factory is in the Yu-Nan high way(210 state high way) Tong Jia Qi Bei district.

Water supply and power supply is available.

Market Forecast

Chongqing Govement admits the project, with people’s life level rising. Demanding nourhment drink increases. Because of river pollution. Water for family and eating tums into natural rock water and pure water. The future market will be fine.

IV the project benefit analysis

The total investment of the project is 25 million Yuan. Predicting year sale income 32.5 million Yuan, the recovery rate is percent.

Cooperation ways

Co-operation

Sino: House and part machine

Foreigner: Technique (patent) cash

The invested profit scheme-meeting talks.

Project Data

Background of the project has finished. Only few road covering and equipment perfecting. Intention is successful, investment three to four months, it may produce.

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12- THE PROJECT FOR PROCESSING ANNUALLY 10,000 THOUSAND DUCKS

Project Unit

This project is understand by CHONGQING SHINYSTAR SCIENCE & TECHNOLOGY GROUP CO., LTD. with self-raised funds. The estimated investment is 36.06 million yuan RMB.Up-to-date two bases have been established:

a) **Tuzhu Base**: Now it breeds four kinds and totally 17 thousand stock ducks. The base has 180 standard duck sheds and a newly-build duck feed factory, whose snnual output is 24 thousand tons and is well equipped with electricity and water equipment. It covers 78 mu land and is ready to make a requisition of 47 mu land for blood refine and cooked food process. The fixed asset is 21million yuan RMB.

b) **Xiushan Base**:. A Holland-import slaughtering line with the product capacity of 1.6 million/year has been introduced. The slaughter-house covers a land of 31 mu.Also, the base has a cooked food processing factory, a feather processing factory, a freezer and freezer and a full set of electricity and water supply equipment. Now the base covers 76 mu land and the fixed asset is 15.06 million yuan RMB.

Project Description

1. ***Necessity:*** Duck breeding and processing is an important component of government "Vegetable Basket" project. Breeding duck through scientific and traditional mode makes it enjoys rich nutrition, unique flavor and medical usage and is suitable for the change of customers' consuming custom: from fill-eat to nutrition. Chongqing, as the Center City in upper reaches of Yangtze River, will offer a prosperous market and considerable profit for commercial duck. On consumption of 24 thousand tons of ducks/year to 6 million people in Chongqing, the annual nee of commercials ducks will be 30 million .The east and coastal economic developed cities with 240 million people will consume large scales of ducks, but their self-beeding can't match up. The main support relies on middle and west regions. On the other hand, Japan, Korea and European countries consume over 33 pounds/person annual and mainly rely on import. The project will bring good social and economic profit.

2. ***Construction Scale:*** The annual process capacity is 10 million ducks, need 4 slaughtering lines,4 cooked food producing lines,2 feather factories, a SOD processing factoy and a feed factory with 80 thousand tons output.

3. ***Total Investment:*** The fixed asset is 143.43 million-yuan. The base circulating capital is 20.24 million yuan. Total investment is 163.67 million-yuan RMB.

4. ***Construction Situation:*** The two bases are well equipped with good road, communication apparatus and water &electricity installations. This project is in line with the state policy of agriculture industrialization and was presented as a key protective one by the regional government .It was also branded as the leading project by municipal & regional governments and enjoys the most preferential tax and loan.

Market Forecast

PRODUCT	SALES AT HOME(%)	EXPORT (%)	NATIONAL MARKET NEED	NATIONAL OUTPUT
Brea duck	80	20	0.8 mil-tons	0.6 mil-tons
Eider down	40	60	3000 tons	5000 tons
SOD	50	50	20 tons	5 tons

Profitability Analysis

The estimated financial internal revenue ratio after tax is 22.04%,rate of profit to investment is 32.27%,the static investment pay-back period is 6.41 years (after tax, including 2 years construction period),the loan pay-back period is 5.02 years.

Cooperation Ways

Joint venture, cooperation or financing.

Project data

The first period of construction has been completed, the second one has been started.

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13- POULTRY FOOD PROCESSING AND BIOLOGICAL MEDICINE PROCESSING PROJECT

Project Unit

RONGDA (GROUP) CO., LTD. has more than 106 million fixed assets,28 million flow capital,2800 mu of land 885 employees ,among which there are 130 all kinds of technicians, including 3 professors and 20 associate professor-level technicians .

THE COMPANY'S PERFORMANCE IN THE LAST 3 YEARS

YEAR	SALES INCOME	PROFIT TOTAL
1996	1478.3	52.2
1997	3446.6	92.5
1998	6041.2	160.3

Unit: 10 thousand Yuan RMB .

Project Description

1. ***Necessity***: To speed up the development of the chick-raising industry must be based on improving the chick breed , the quality of the eggs and further processing to increase the additional value. This mainly includes the processing of eggs, chicken meat and meat products, and meantime process them into Chinese and foreign-style instant food, little-packed tourism food ,egg drinks ,yolk antibody ,ovum phosphatide ,yolk oil, cyspine , SOD, hydrolysis amino acid, Serum protein and other biological medicines through biological engineering technology and biology. Only in this way can the chick-raising industry be developed smoothly.

2. ***Construction Scale:*** To use "Company +base + farmers" to realize the industrialization of chick raising .The main enterprise (C-company) is responsible for the following operations:

1). Grand-father Chick-Raising Farm;

Annually raise 1000 sets of egg chicks, produce 70000 sets of parent chicks, 3000 sets of meat chicks and 200000 chickens of parent generation.

2). Egg Processing Factory:

To produce 10000 tons of ferment drinks of egg-milk, 8,100,000 tons of frozen chicken meat and mini-packed tourism food

3). Biological Medicine factory:

Produce yolk antibody, ovum phosphate, yolk oil, SOD, hydrolysis amino acid and serum protein etc.

4).Feather processing factory: Produce 2800 Produce 2800 tons of feather powder and corresponding cyspine.

3. ***Total investment:*** total investment is about 78.7114 million yuan RMB, among, which civil construction costs 18 million yuan RMB, equipment costs 35 million yuan RMB and 26 million yuan RMB for current capital.

4. ***Construction Situation:*** This project is located at West Mountain, Changshou County. The place is 890-920 meters high above the sea level, Chuan-Yu highway crosses the factory and it is only 10 km away from Yuchang Expressway ,50km away form Chongqing Downtown .The raw materials including fodder and some accessory materials can be purchased in the local. The water can be supplied from the reservoir and there is sufficient electricity supply. And the coal at the bottom of the West Mountain and from the nearby area can supply sufficient fuel to the plants. The products won’t cause any serious pollution. The minor pollution (for example, the chicken shit, wastewater and so on) can be treated to the purification standards through biological and physical technology.

Market Forecast

It is planned that 26 million of meat chicks will be produced annually, 37 thousand of high quality chicken meat is produced every year, 1.23kg per capita for totally 30 million Chongqing people. It is estimated that till 2000,China will consume 1.5 billion meat chickens. Hong Kong, Macao and other oversea areas will consume 500-700 million excellent meat chickens. It is planned to raise 2 million chicks with 33000 tons of eggs, 1.1kfg per capita for

30 million Chongqing people. The oxydate enzyme, hydrolyzed amino acid, seromucoid, lecithinum and yolk oil are the materials urgently needed by the chemical industry, medical and food industry, even they are on short in the foreign countries. Especially, the yolk lecithinum is much better than the other lecithinum. The medical and food industry need 2000-3000 tons of such mater material. But China is just starting to produce this material, the production volume is just a little. Tourism and leisure food will be the leading products and the prospect is great. The drinks will be transit from carbonic drink to nutritious drink. The product of this project is just indented for this purpose. The designed production volume can be consumed in Chongqing market with 0.3kg per capita per year

Profitability Analysis

Construction cycle time is 3 years. Investment return period is 5.3 years.
Financial evaluation in some of the above products (egg, drinks, meat and so on): total production value reaches 833 million yuan RMB with 51.5 million yuan RMB of tax and profit and 3.5 million U.S dollars of foreign exchange.
Financial internal rate of return is 19.75%.

Cooperation Ways

Establish joint-venture (cash, equipment investment) or cooperation in technology, sales etc. Cooperation period: 15-20 years.

Project data

Rongda (Group) Company is the leading enterprise of Chongqing chisk-raising production, approved by Chongqing Planning Committee (JWL Doc#1997-113). Meat chicken production as named the key project by the Ministry of Science and Technology. The market investigation and information collection on the wxydate enzyme, hydrolyzed amino acid, seromucoi, lecithinmun and yolk oil has been finished. The main road to the factory is now being renovated and will be finished my March 1999 as estimated. There is access for the mobile phones and telephone lines. 200KVA transformer facilities have been put into use and it can be increased to 1000KVA. Now we have collected about 18 million Yuan RMB capital.

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IV. SOME CHINESE SECTORS

Fresh Fruit market

1- INTRODUCTION

The Chinese fruit industry has undergone dramatic changes since the economic reform that occurred in the late 1970s. Fruit production has increased significantly, reaching a record high of 35 million metric tons in 1994. Fruit distribution channels have been improved considerably and the establishment of fruit wholesale markets has significantly facilitated fruit distribution. The street-stand style of fruit retailing also has substantially improved the fruit retail system. This newly emerged fruit distribution and retailing system in China ensures that perishable fresh fruit can reach consumers in a timely fashion.

Chinese fruit consumption patterns have also changed considerably. Fruit has increasingly become a popular food item in the Chinese diet and per capita fruit consumption has more than doubled in the last ten years. As family income increases, Chinese consumers have demanded new varieties and higher quality fruit, which has included imported fruit.

In recent years, there has been a remarkable increase in China's fruit trade, including both domestic inter-regional trade and foreign trade, due to the substantial increase in fruit production and the liberalization of fruit marketing.

2- FRUIT PRODUCTION

China currently is the world's leading fruit-producing country, with total fruit output of 35 million metric tons in 1996, which is a 16.7% increase over the previous year. China's diversified climate allows many types of fruit to be produced, including apples, oranges, pears, bananas and grapes.

Fruit production has dramatically increased since the liberalization of the fruit sector in 1984, especially for apples, pears, bananas, and citrus fruits. The rapid increase in fruit production has been primarily driven by the increase in planted orchard areas and the adoption of new high-quality and high-yield varieties.

Economic reform has given peasants more freedom to make production decisions. In recent years, fruit production has been a popular choice nationwide for peasants, especially in mountainous (hilly) regions where the land is not suitable for other crops.

Besides focusing on general quality characteristics during variety selection, China has also attempted to select or develop new fruit varieties which have early or late maturity to extend the market season. Recent efforts to improve fruit varieties have also focused on the adoption of virus-free seedlings for new orchards.

China plans to further expand its fruit industry. According to the initial planning of the Ministry of Agriculture of China, by the year 2000, China's orchard area could reach 8 million hectares and total fruit production could reach 55 million metric tons. Per capita fruit production could be 43 kg. By the year 2010, China's total orchard area could increase to 8.26 million hectares and total volume of fruit production could increase to 90 million metric tons. Per capita fruit production could reach 63 kg.

Although China's fruit production volume is very large, the actual utilization may be considerably smaller than the production level due to severe waste problems. It is estimated that 15 to 30 percent of apples produced are lost because of poor post-harvest technology, limited cold storage capacity, and poor transportation and distribution systems, especially in rural areas.

Due to the geographic variation of climate and resource conditions, fruit production in China is regionally concentrated. In 1993, total fruit production in China was 30 million metric tons, half of which (mainly apples and pears) was produced in the North while the other half (mainly oranges and bananas) was produced in the South (geographically, China is divided into northern China and southern China by the Yangtze River). In theory, this regionally concentrated fruit production should lead to greater inter-regional fruit trade. However, due to poor transportation conditions, especially in rural areas, inter-regional fruit trade is still limited.

3- COST OF FRUIT PRODUCTION

It is evident that the largest component of production cost is labor, accounting for nearly half of the total variable costs.

The next largest cost category is fertilizer, accounting for 20-30% of the total variable costs, followed by chemicals. The combined costs of fertilizer and chemicals account for 35.36% of total variable costs, which is much higher than the 14.92% average in Washington State Machinery costs are the smallest component of fruit production costs, accounting for less than 2.5% of total variable costs.

Machinery costs account for 12.07% of total variable costs for fruit production in Western countries. The low machinery cost in China indicates the labor-intensive nature of fruit production, especially in small-scale orchards.

It is apparent that the average production cost is very low in China, which is partially due to land and other fixed investments such as irrigation not being included.

4- THE STRUCTURE AND MANAGEMENT OF THE FRUIT SUPPLY SECTOR

Orchards in China are classified in terms of size and ownership:

(1) large scale state-owned orchards;

(2) newly emerged large scale privately-owned orchards; and

(3) small to medium scale privately-owned orchards. It should be clarified that, technically speaking, private land ownership is still not allowed. However, private individuals can lease land from the state or rural county-villages which evolved from the former People's Commune system and own most farm land. The county villages lease land to private individuals through a contract of up to 50 years for an orchard. During the contract period, private individuals essentially gain ownership of the land and can transfer ownership by selling the contract.

The first two types of orchards, (large state and privately owned) are relatively closer to Western standards in terms of utilizing new technology (such as new varieties, new grafting and pruning techniques, and management skills). The production technology in small to medium, privately-owned orchards is generally outdated. In recent years, the number of privately-owned orchards has increased dramatically. Since the initiation of economic reforms in the agricultural sector in the late 1970s, the so-called Production Responsibility System, farmers have had more freedom to transfer part of their crop land into orchards. Occasionally, a group of farmers who were affiliated with the same production brigade under the previous commune system, devotes some of their collectively owned crop land to large scale orchards. It is believed that privately-owned orchards are primarily responsible for the recent increase in China's orchard acreage.

In terms of structure, orchards in China can be further classified into four groups:
(1) collectively-managed;
(2) multi-family contracted;
(3) single-family contracted; and
(4) family-owned.

The ***collectively-managed orchards***, some of which were formerly commune-owned, are either state-owned or village-owned. The usual management style for this type of orchard is by an appointed team specializing in fruit production.

The ***multi-family contracted orchards*** are village-owned, but managed by several families who have a contract with the village. This is the most common type of orchard setting. To set up this type of orchard, there are usually several groups of farm households who unite together to engage in fruit production. Each group submits a bid to the village. The group with the highest monetary return to the village gets the contract. Within the group, profits on fruit production are distributed among the member families based on their individual inputs (e.g., initial resource endowment and labor).

The ***single-family contracted orchards*** are similar to the multi-family contracted orchards except that the operation is on an individual family basis. Sometimes, for the villages with large fruit acreage, fruit trees are assigned to every family according to the family size. The individual families are responsible for managing these trees and returning a predetermined amount of revenue to the village.

The number of ***family-owned orchards*** has increased significantly since the mid 1980s and now accounts for approximately one third of the planted apple acreage in China. Traditionally, family-owned orchards were considered to be only sideline businesses for individual farm households and were set up in farmers' backyards. Since 1984, when the fruit sector was further liberalized, many farmers have converted part of their cropland into orchards due to the relatively higher return in fruit production. Some farmers also have developed family-owned orchards on mountainous or desert land through a 20-30 year lease with the village.

Government agencies have some indirect influence on orchard management. For example, during the construction of a new orchard, local government bureaus in charge of fruit production usually help farmers obtain technical assistance from professional extension services at universities or research institutes for orchard design and selection of varieties. After the orchards have been established, most of the privately-owned large scale orchards hire professional services for grafting, pruning, pest and insect control. Post-harvest management for all types of orchards above-mentioned is considered to be outdated. For example, after harvest, apples are often hand sorted before being packed into cardboard boxes for immediate shipment, or they are placed in reed baskets for simple storage due to the very limited cold storage capacity. Commercial packaging facilities for fruit are generally not available in China.

Since management standards are relatively low and technology is outdated for most of the orchards, the fruit industry has to rely on improved varieties to increase yields, especially imported varieties to graft onto native root-stock. Current virus-free root stocks are badly needed and China has begun purchasing virus-free, dwarf-type seedlings from foreign countries.

In terms of the organizational structure of the fruit industry, there are currently no national or state level fruit commissions and grower associations or national marketing boards. In many Western countries, growers' associations provide services such as information to facilitate production, marketing and long-term planning and market assessment. National marketing boards can coordinate marketing and distribution to ensure a reasonable return for producers. In this sense, China's fruit industry is not well structured compared to its western counterparts since there are no institutions for macro-level controls and coordination in production and marketing of fruit products. Basically, each orchard is on its own in terms of making production and marketing decisions. Orchard planting decisions are usually based on current prices without consideration of future market conditions, which could create a destructive cycle in fruit production.

China's fruit industry has experienced a serious lesson in the case of haw fruit production where production has fluctuated violently in response to price. Some experts say that this could happen to other fruits unless accurate market information (including market assessment and forecasts) can be disseminated to farmers in a timely fashion. The lack of organizational structures such as grower’s associations and commissions will weaken the individual grower's ability to absorb limited market information published by government agencies and/or to compile their own market information and hence could jeopardize the fruit industry. However, this situation could change to some degree in the next few years as vertical integration occurs in the Chinese fruit industry.

Some vertical integration is occurring in the Chinese fruit industry as large fruit companies have become involved in production, distribution, and retailing. It is expected that the trend of large fruit companies to vertically integrate will accelerate in the next few years. Currently, some of the large publicly owned fruit corporations are undergoing a privatization process by issuing stock to the private sector. As a result, these fruit corporations have adequate funding to finance vertically

5- FRUIT PROCESSING AND STORAGE FACILITIES

Since the economic reforms, China's fruit processing industry has advanced rapidly in terms of both size and facility modernization. In major fruit producing regions, large-scale processing plants have been established, some of them through joint ventures with foreign investors. Currently, annual fruit processing capacity has reached 5-6 million metric tons. Processed products include canned and dried fruit and fruit juice, wine and jam. Since 1981, China has imported 36 fruit juice processing lines, with a fruit-processing capacity of 370,000 metric tons.

Recently, the Chinese fruit processing industry has encountered difficulties due to the dramatic increase in input prices and shifts in consumers' preferences from canned to fresh fruit, especially for urban consumers. The production of canned apples was 14,000 metric tons in 1991, which was a 21.12% decrease over the previous year. Many fruit processing plants are running at half-capacity and some have been closed.

China's fruit storage facilities have improved considerably in recent years. It is estimated that China annually stores 4-5 million metric tons of fresh fruit using various methods, including limited modern cold storage, traditional underground storage, and caves. Current cold storage capacity for fresh fruit is approximately 1.5 million metric tons.

Although modern cold storage facilities for fresh fruit are still very limited, China has potential to expand its cold storage facilities, especially as storing fresh fruit becomes more profitable relative to other perishable food items such as seafood and meat products. Currently, storing high value seafood and meat products is most profitable. However, storing imported high value fruit products may be more profitable. It is expected that as more high value imported fruit floods into China, a fairly large number of cold storage facilities traditionally used for storing seafood may be converted to storing the imported fruit.

However, there are obstacles for the Chinese fruit industry to significantly increase the cold storage facilities including the often interrupted electricity supply, especially in rural areas, and limited capital. Commercial controlled atmosphere (CA) storage for fresh fruit is not available in China because the large investment needed to build CA storage is usually beyond the budget of most private and semi-private fruit companies. Currently, most of the cold storage facilities in China are state-owned or semi state-owned although some of those facilities have been contracted out to private companies. China still relies heavily on traditional storage methods including caves and underground facilities.

6- FRUIT DISTRIBUTION AND MARKETING CHANNELS

The Chinese fruit distribution system has undergone dramatic changes since 1984. Prior to that time, fruit distribution was basically under the centrally planned economic system and was handled primarily by state-owned fruit buying-selling agencies who were involved in both fruit wholesaling and retailing.

After liberalization in 1984, the dominant role of the state-owned agencies in fruit distribution has gradually decreased. By 1989, state-owned fruit agencies handled only about one third of total apple distribution in China. This share further decreased to 10 percent by 1993.

Private middlemen now play a dominant role in China's fruit distribution. There are currently four fruit distribution channels in China; wholesale markets, wet markets, corporations, and street-stands.

Each of these distribution channels has its own characteristics.

At the **wholesale** level, there are several different types of markets. Agricultural wholesale markets, including fruit wholesale markets, are a relatively new phenomenon in China. Wholesale markets were previously considered taboo according to Communist philosophy because they promoted capitalism. However, Chinese policy makers now have realized that agricultural wholesale markets play an important role in establishing a market-oriented economy. Wholesale markets can facilitate product distribution, especially in the early stage of economic reform towards a free market system. Currently, it is estimated that China has more than 2,000 different fruit wholesale markets. Approximately 120 of these wholesale markets have annual trade volumes reaching 10,000 metric tons.

In large-scale wholesale markets, the commonly used trading method is that both sellers and buyers negotiate prices according to market conditions through brokers, and then pay a brokerage fee for the services. There is relatively limited room for price negotiation. This indicates that in these wholesale markets, both buyers and sellers have relatively good knowledge of the current market conditions. Some wholesale markets are regulated by government agencies, which impose price caps on products in an attempt to control inflation. These large-scale wholesale markets are usually located in suburban areas and have relatively modern facilities including computer networks, cold storage, and market information publications. They also have special railway lines reserved for fruit transportation, and provide hotel, banking and postal services, as well as other services for their customers.

In general, fruit wholesale markets are successful in China. They facilitate the distribution and marketing of perishable fruit products and help in preserving the freshness and quality of products. However, their development is still in the very early stage.

Most of the fruit wholesale markets are still regional in nature due to perishability, poor transportation, and limited cold storage facilities. Except for a few large-scale wholesale markets, the coordination and information exchange among wholesale markets is limited, making price determination in a particular wholesale market primarily a function of local supply and demand conditions rather than overall market conditions. There are very limited grading and packaging facilities in the wholesale markets. Fruit prices are, in general, not stable.

However, some of the variation is attributable to seasonality and quality variation. There is a great deal of imperfection in internal price mechanisms such as inadequate information exchange between different wholesale markets. The dissemination channels for market information to guide marketing decisions are limited, especially in medium and small size wholesale markets.

The second type of fruit distribution channel is the **wet market**. These markets usually have both wholesale and retail functions. Relatively speaking, they have limited facilities compared to wholesale markets.

Many sellers in wet markets are fruit producers and a majority of buyers are final consumers. In wet markets, prices are freely negotiated. For a particular fruit product, there is normally a large difference between the seller's initial asking price and the buyer's initially offered price. Generally speaking, in wet markets, sellers tend to ask much more than they are willing to settle for, while buyers tend to offer much less than they are willing to pay. The final price agreement usually can not be reached without several rounds of negotiation. One possible reason for this price discrepancy between buyers and sellers is that both sides are not well informed about reasonable market prices or lack knowledge on price formation in the market. This phenomenon also reflects price uncertainty by buyers and sellers and frustration about the hyper-inflation in food prices in recent years. In this case, both buyers and sellers want to negotiate the best deal they can through a trial and error process to find out the other party's willingness to pay or willingness to offer.

Compared to wholesale markets, wet markets are usually not regulated and there is very little government intervention. Overall, fruit wet markets play an important role in facilitating fruit distribution in China.

The third fruit distribution channel is run by **fruit corporations**. Most fruit corporations in China were previously publicly-owned enterprises that are now fully or partially privatized. These fruit corporations directly purchase fruit products from producers and sell to consumers. They can improve their economic efficiency by avoiding the charges by wholesalers. There is usually no price negotiation on the fruit products sold by these fruit corporations, and consumers usually pay the listed prices. There is traditionally no bargaining allowed in publicly-owned entities.

The last fruit distribution channel is the **street-stand**. In China, fruit retailing is primarily by private individuals who set up small fruit shops or fruit street stands. This type of fruit retail establishment exists everywhere, but especially in large metropolitan areas, making it is very convenient for consumers to buy fresh fruit. Street-stands are the major fruit retailing channel in China and play a very important role in facilitating retail-level fruit distribution.

Besides the four fruit distribution channels described above, some large (upper) scale supermarkets in central metropolitan areas also have fresh fruit counters selling high quality fruit products, including imported fruits.

Fruit markets in China are primarily fresh markets. Historically, over 95 percent of fruit utilization went to fresh markets. However, in recent years, the processed fruit market also has expanded considerably. Fruit markets vary significantly across China in terms of fruit varieties available. In South China, the extensive variety of fruits grown provides fresh fruit nearly all year and easy access to international fruit markets via Hong Kong fills in market shortages.

In northern China, fruit markets sell local products as well as those from the south and, in some cases, imported products are available. However, in the winter, due to the limited refrigerated storage and non availability of commercial CA storage, only fruits that store well, such as Red Fuji and some local varieties, are available. In northern Chinese markets, except in large cities, imported fruit is not readily available.

7- NEWLY EMERGING MARKETS FOR IMPORTED FRUIT

Economic reform and open-door policies have enabled China to achieve a double-digit rate of economic growth and dramatically increase the affordability of high quality imported consumer goods. It is estimated that ten years ago only one million Chinese consumers could afford imported consumer goods. Currently, approximately 100 million out of an estimated 1.2 billion Chinese can afford imported goods. Three years from now, this number could reach 300 million.

Niche markets for imported fruit have been rapidly developing, especially in large metropolitan areas. The recent development of imported fruit markets in China can be summarized by the phrase "three increases and two changes".

The **first increase** refers to the variety of imported fruit. For example, prior to 1992, bananas were generally the only imported fruit that was evident in China. Since 1992, the variety of imported fruit increased rapidly, reaching more than 20 different products, including, California table grapes and raisins, cherries and kiwi, mangos, lemons and peaches. The rapid increase in imported fruit products reflects the increasing demand for high quality food.

The **second increase** refers to import sources. In the past, China only imported fruit from Southeast Asia and South America. Due to trade negotiations and domestic initiatives on foreign trade, China gradually opened its markets to many fruit exporting countries to meet the increasingly diverse demand for various fruit products. Now, China imports fruit products from all over the world, especially South America, North America, Oceania, and Southeast Asia. As the number of import sources increases, it is expected that the competition among the major fruit exporters in Chinese fruit markets will be intensified.

The **third increase** refers to the number of wholesalers and retailers involved in marketing imported fruit. There are two major reasons causing this increase. The first is government removal of requirements for import permits for selected fruit products. The second is the potential profitability of marketing imported fruit products, especially in metropolitan areas. In China, everyone engaging in fruit marketing wants to take the lead in this emerging potential market.

There are two changes in the retail sale of imported fruit. The **first change** is the adoption of fruit packaging in retail sales to promote the sale of high quality merchandise. Traditionally, fruit was sold unpackaged in bulk quantities. This is suitable for low-value domestically produced fruit, but not for high-value imported fruit, especially when the imported fruit is used for gift purposes. Fruit retail stores, especially the up-scale supermarkets, have begun prepackaging imported fruits, either in an individually wrapped form or in an attractively designed fruit basket to promote them as gift items. Some retail stores also provide packaging and wrapping services to their customers.

The **second change** is that for most easily countable fruit products such as apples, pears, and peaches, the retail price has changed from being based on weight to being based on actual count of the products. Traditionally, when people buy fruit, the amount purchased is usually in integer weight in terms of a commonly used weight measure, the Chinese Ji (equal to 500 grams). In general, one Chinese Ji of imported fruit would cost more than one count of the fruit. Charging by count instead of by weight could entice curious consumers, who generally feel they cannot afford the imported fruit on a per Ji basis, to make the purchase. In addition, charging by count is also labor-saving for the retailers.

In China, giving gifts to friends and relatives is an important tradition, especially during holiday seasons and usually a considerable portion of household income is spent on gifts. For ordinary Chinese, it is considered to be polite, respectful, and caring to buy high value food items as gifts for friends and relatives when one visits them.

Food plays an important role in Chinese culture and many Chinese consider that enjoying food is the most important facet of life. This philosophy is reflected in Chinese willingness to spend a high proportion of their income to buy food and to devote substantially more time to preparing it. Hence, there is no surprise that Chinese commonly choose food products as popular gift items.

In China, the choice of food items as gifts has also changed in recent years. For example, ten years ago, popular gift items were meat, seafood, and canned fruit products. Recently, high quality fresh fruit has become more popular for gifts due to increasing knowledge about the nutritional value of fruit and public education programs promoting fruit and vegetables as health foods. One striking observation is that, in Beijing, imported fruit is readily available near hospitals, which makes it convenient for people to show their love and care by purchasing imported fruit as gifts for friends and relatives who have been hospitalized. Since imported fresh fruit has become increasingly popular as a gift item, the potential market in China has increased dramatically because imported fruit is not only purchased by high income consumers but also by middle class or even low income consumers as gifts.

Given the income-elastic nature of fruit demand and the size of population in China, as consumer income increases rapidly, the increase in demand for imported fruit could be substantial. China's demand for imported fruit would increased by 70 percent compared to the demand in 1998. By the year 2005, the demand for imported fruit could triple. Furthermore, when the rapid increase in the number of newly wealthy Chinese consumers is accounted for, the potential market for imported fruit could be even larger.

In sum, the market for high-quality imported fruit has a great potential in China. As the purchasing power of Chinese consumers increases, people will demand more high quality imported fruit products for their own consumption and/or as gifts.

8- FRUIT TRADE

Fruit trade, including domestic inter-regional trade and foreign trade, has increased remarkably during the last 10 years due to the liberalization of the Chinese fruit sector and the rapid increase in family income. For domestic inter-regional trade, the liberalization of fruit marketing in China gives various marketing entities (distributors, wholesalers, and retailers) more freedom and incentives to distribute fruit products across the country. Prior to economic reforms, publicly-owned fruit corporations had sole statutory authority for domestic fruit trade and distribution. During that time there was a tremendous amount of inefficiency and bureaucracy encountered in inter-regional fruit trade and, as a result, inter-regional fruit trade in China was very limited.

China has a large land mass and many different climatic patterns, including tropical, temperate, and cold climatic zones, which are suitable for growing a variety of fruit products.

Since the economic reform, China's fruit production has tripled, which has created large regional surpluses and provides more incentives for inter-regional trade. The rapid growth in family income has also increased the demand for fruit products produced in other regions. For example, as income increases, consumers in the north demand more tropical fruit produced in the south while consumers in the south demand more fruit (such as apples) produced in the northern regions. However, prior to the economic reform, the availability of fruit produced in distant regions was very limited, except in large cities. Since the late 1980s, inter-regional fruit trade in China has grown rapidly and, currently, annual inter-regional fruit trade in China is estimated to be approximately 5-7 million metric tons.

Since fruit production is regionally concentrated, different fruits have different inter-regional trade patterns. For example, Shandong, Shaanxi, Liaoning, Henan, Hebei, Shanxi, and Gansu provinces are major net exporters, while Heilongjiang, Jilin, Zhejiang, Hunan, Guangdong, Guangxi, and Shanghai are major apple importers.

Chinese fruit trade with foreign countries has also increased considerably for the last few years. The substantial increase in fruit production and strong desire to earn foreign currency to finance the dramatic increase in imports has put pressure on increasing fruit exports.

A significant source of fruit imports into China is through unofficial channels. Hong Kong is the major source of unofficial shipments

Unless China further reduces its import. However, it is expected that China's admission to the World Trade Organization (WTO) could significantly reduce import tariffs on most of agricultural products, including fruit, which could significantly increase China's imports of foreign. fruit, especially from official channels. Also, the merging of China and Hong Kong in 1997 may have a substantial effect on shipments through unofficial channels.

9- GOVERNMENT POLICY AND REGULATIONS

Government can influence the economy via fiscal and monetary policies and trade regulations and is generally heavily involved in most sectors of the economy, especially agriculture in most countries in the world. Governments can influence the cost, supply, trade, and prices of agricultural products. The same is true in China. Agriculture in China is heavily regulated by various means, including price support and price stabilization policies, especially for grains.

However, relative to other Chinese agricultural sectors, the fruit sector is less regulated. Government agencies are usually not directly involved in fruit production and marketing. The Chinese fruit economy at present is nearly market oriented due to government policy of liberalization in the fruit sector. After super inflation occurred in the early 1990s, the Chinese government imposed a price cap on most food products including fruit in wholesale markets and some large scale retail outlets.

Regarding government policy on production subsidies, fruit production is usually not subsidized since fruit is considered a cash crop. However, the government does provide some technical assistance to orchard farmers in terms of new orchard design and variety selection. Nearly every county in China has fruit extension offices to provide technical assistance and training for farmers. In low income regions, subsidies have also been introduced for fruit production in order to improve farmers' economic status through low interest or no interest loan programs. For example, through government assistance, an Asian Development Bank loan was recently directed toward the Loess plateau areas, such as Henan

Some of the loan will be used for enhancing orchard construction. It is expected that the fruit production in these regions will significantly increase and with it the farmers' income.

With regard to government policies on fruit trade, China has tried to promote fruit exports to earn foreign currency. Traditionally, earning foreign currency via export was China's top priority even if domestic demand for the product was strong. In other words, exports are always put first relative to domestic consumption.

To enhance the competitive position of the Chinese fruit industry in the world market, governments at both central and local levels have assisted farmers in improving fruit quality by providing assistance on variety selection and technology transfer from abroad. In order to improve fruit quality and increase fruit exports, the local government in the Yantai Prefecture of Shandong Province has adopted an "Introducing Foreign Expertise" (IFE) policy to the region to help farmers design new orchards and teach them the key techniques for fruit production and orchard management.

After 8 years of the IFE policy, the orchard conditions and management standards have been substantially improved. Pre-harvest management is on par with Western standards. It is estimated that it would normally have taken 40 years via Chinese traditional ways for the orchard farmers in this prefecture to reach such standards. Due to the significant improvement in orchard conditions and fruit quality, fruit exports from this prefecture have also increased remarkably.

China has made notable progress in liberalizing its fruit markets by reducing tariff and non-tariff barriers. Since China has been applying for membership in the World Trade Organization (WTO), the central government has tried to make trade more transparent and more consistent with the WTO regulations. It is expected that the tariff and non-tariff barriers for imported fruit will be further reduced when China joins the WTO.

10- FRUIT CONSUMPTION BEHAVIOR

Per capita fruit consumption in China has increased dramatically since the early 1980s as a result of the substantial increase in family income and the dramatic increase in market availability of fruit The rapid increase in fruit consumption is also associated with the increasing knowledge of food nutrition and diet-related health problems. Government educational programs and the medical profession have advocated fruit as a type of "healthy" food.

Traditionally, fresh fruit has not been very important in the Chinese diet. However, since the economic reform and a rapid increase in family income, fruit has become a more important food item and now fruit quite often appears on the shopping list of ordinary Chinese consumers.

For Chinese consumers (especially those with high incomes), there is a fad in fresh fruit consumption in that it is considered trendy to consume fresh fruit. This new fruit consumption behavior is reflected in the following five aspects considered by Chinese consumers during their fruit purchasing.

a) Aspects of Fruit Important to Chinese Consumers

"NEW" means that consumers have a desire for trying new things and want to taste fruit products they never had before or exotic fruit (such as imported fruit products), especially as incomes increase. In general, as incomes increase, consumers will tend to purchase a wide selection of products, including novelty and specialty items, such as imported fruit (O'Rourke, 1994).

"EARLY" means that consumers would like to consume fruit products in the early season or off-season period to satisfy their early-season consumption appeal. For example, people would like to consume grapes and strawberries in January and good apples in the summer. Due to limited cold storage facilities in China, the quality of domestically produced fruit usually can not meet the demand for this type of in-advance consumption need. Their in-advance consumption demands create opportunities for imported fruit, such as Washington apples, to target off-season markets.

"RARE" means that there is a limited quantity available in the market. In Chinese there is a famous saying which explains that, for something to be desirable to consumers, "rare means value and luxury". Consuming these rarely available products can show off wealth to other people and satisfy consumers' need for esteem, especially for newly rich Chinese who have ostentatious spending behavior. Many wealthy Chinese enjoy flaunting their success by spending lavishly on food, and imported fruit products which are usually in limited supply, just fit this particular demand.

"QUALITY" means that products have good quality attributes. Imported fruit is usually superior to domestic fruit products in terms of quality characteristics such as size, color, texture, taste and flavor. In this case, imported fruit may fit the quality need for Chinese consumers.

"APPEARANCE" means that consumers would like to purchase nicely packaged fruit products, especially for gift purposes. Imported fruit which is usually well wrapped in 5-10 kg attractive packages or containers has been highly demanded for its appearance. Although the prices of imported fruit products are far above those of domestic fruit, Chinese consumers are still willing to pay a high premium for them.

11- QUANTITATIVE DEMAND ESTIMATES

Eight first fresh fruit groups are apples, citrus, peaches, pears, bananas, grapes, watermelons, and other fresh fruit., apples and "other fruit" have inelastic conditional expenditure elasticities while citrus, peaches, and watermelons have elastic conditional expenditure elasticities. Pears, bananas, and grapes have almost unitary conditional expenditure elasticities.

This indicates that citrus, peaches, and watermelons are more "desirable" fruit items as perceived by Chinese urban consumers. Apples are perceived as a less desirable fruit.

12- MARKET OPPORTUNITIES

The rapid increase in consumer income and strong demand for high quality fruit in China create market opportunities for imported fruit, especially given the inferior quality of domestically produced fruit and limited cold storage facilities.

Given limited storage facilities, Chinese pears cannot supply the market year round, which may create a market opportunity for. pears if the off-season market is targeted, especially during the Chinese New Year holiday in February. peaches and nectarines may also find markets in China, especially in southern provinces such as Guangdong and Fujian and in large metropolitan areas. China has limited production of both peaches and nectarines. However, Chinese consumers have a special preference for peaches and nectarines.

According to Chinese culture and tradition, the peach is a legendary food which is considered good for health and long life. This can be easily seen in famous Chinese classical novels and a series of ancient legends. Given the limited production, poor storage facilities and transportation, Chinese peaches can not meet market demand, especially in southern China where there is no peach production. California table grapes may also have fairly large export potential in China given their superior quality.

In addition to fresh markets, processed fruit products such as raisins, fruit juice or fruit drinks may also find a large market in China, especially in southern and coastal regions.

Fruit juice is popular among newly rich Chinese consumers, especially the natural (no artificial additives) and processed fruit juices which are perceived as prestigious and nutritious foods. Consumers are willing to pay high prices for these products. Consuming processed fruit juice or drinks is also considered to be trendy for some consumers. However, China's current processing technology and processing capacity for fruit juice or drinks is quite limited, which may create marketing opportunities for foreign. products.

The market potential for imported fruit in China is very promising. The actual size of the market for various imported fruit could easily surpass any of the current estimates which are based on targeting the top 5-10% of consumers. Imported fruit is not only appearing on the daily shopping list for rich Chinese consumers but also reaching middle class consumers as prestigious food items for themselves or as gift items.

13- SUMMARY AND CONCLUSIONS

The Chinese fruit sector has been growing rapidly since its liberalization in 1984. The fruit market system has undergone dramatic changes.

Fruit distribution channels have been considerably improved and the establishment of fruit wholesale markets has significantly increased the efficiency of fruit distribution. Street-stand style fruit retailing also substantially improved the fruit retailing system. Since the liberalization of the Chinese fruit sector, fruit production has increased significantly, reaching a record high production of 35 million metric tons in 1997. Fruit has increasingly become a popular food item in the Chinese diet. Per capita total fruit consumption has tripled in the last ten years. The rapid increase in family income also enables Chinese consumers, especially urban residents, to purchase high-quality fruit products, such as imported fruit.

At the current stage, China's fruit industry is not a major competitor for the foreign. fruit industry in the world market. The limited cold storage facilities, outdated post-harvest technology, and poor transportation systems in major fruit producing regions lessen the competitiveness of the Chinese fruit industry. Improvements in the above three areas requires a large capital investment, which at the present time is beyond the capability of the Chinese fruit industry.

The lack of organizational structure in China's fruit industry (such as fruit commissions and grower associations) weakens the ability of China's fruit industry to compete in the international market. In addition, China's domestically produced fruit is usually low in quality and cannot compete with certain foreign fruit in niche markets. However, it needs to be recognized that China's fruit industry could be very competitive in the future given the diversified climate suitable for various fruit production, large land mass, and inexpensive labor, especially when the cold storage facilities including CA storage, post-harvest technology, and transportation infrastructure are significantly improved.

Recently, the Chinese fruit industry has devoted considerable effort to improve its fruit varieties via conventional selection, genetic breeding and direct imports from foreign countries. It is expected that the quality characteristics of China's domestically produced fruit would be dramatically improved in the future. This would give the Chinese fruit industry an additional competitive edge in the world market, especially given the high degree of price competitiveness of Chinese fruit.

14- CITRUS MARKET IN ZHEJIANG

China: Orange and tangerine crops in China for 1996/97 are forecast up 6 percent, to an all-time high of 1.84 and 5.86 million tons, respectively. In a broad belt across several southern China provinces, citrus plantings are being encouraged as an income-enhancement program for farmers with small land holdings. A World Bank loan is being used to develop a "citrus belt" in the upper Yangtze Valley in Sichuan, Hubei, and Hunan Provinces. Most new plantings are tangerines, although in Jiangxi Province, one prefecture is promoting plantings of navel oranges. In Guangxi Province, the area planted to grape fruits is expanding rapidly.

The citrus market has expanded rapidly in China since the freeing of the economy in the early 1980's. It has become the second most important fruit crop in China, after apples. China has now become the third largest citrus producer in the world, after Brazil and the US.

Recent output of citrus in China has exceeded consumer demand, leading farmers to look to trading as a means a selling surplus citrus fruit. Investment by foreign companies like Dole and Seagrams has fueled advances by the processing industry, which is dominated by canned citrus and makes up 50% of all processing. Foreign investment has also sparked orange production in China.

Exports of Chinese citrus are dominated by mandarins, the major markets being the former Soviet Union and Asia. Exports of oranges are still small, with the majority going to Vietnam. There are many opportunities for foreign investment in the citrus market, involving joint ventures to increase citrus exports.

Zhejiang has 45 million people with over 30 million tourists each year to the beautiful West Lake area. The capitol city, Hangzhou, has over 5 million people with 33 million in the immediate vicinity. Zhejiang is the citrus-growing capital of China. Peaches, pears, plums and arbutus have been in continuous production for over 2,500 years and Mandarin oranges have been cultivated for 2,300 years. Mandarin oranges are the primary citrus variety along with grape fruit production. Only 10 percent of the Mandarin orange production goes to processing, with the vast majority eaten fresh during the limited season. Production is in October and November with availability on the market for longer times due to storage.

Chinese are developing a taste for oranges, Xia said. Many Chinese are unfamiliar with the fruit, he said. The citrus market in China is limited primarily to mandarin oranges, with other varieties scarce and the overall crop small.

But foreigners will have to spend some money on promotion and distribution networks before they can sell many oranges, lemons and grapefruit to China's 1.3 billion consumers

Zhejiang has 130,000 hectares in citrus production with 2.1 million metric tons produced this year. China produces about 8 million pounds of citrus, mostly tangerines and lemons. The only modern packing facility is a joint venture constructed by Australia. Zhejiang is looking for potential joint ventures in the construction of temperature controlled storage to have extended shelf-life for grape fruit.

It is warned that shipping citrus and other agriculture products to China still may not be easy. China has a history of dickering over the interpretation of treaties, Pest control concerns will be resolved for the most part by the inspection tour but the Foreign and China still need to work out procedural issues. The biggest hurdle remaining may be for foreign. growers to find importers to buy and distribute the product in China.

Zhejiang’s problems are in post harvest storage and technology, and Florida’s problem is accessing the Chinese market.

Zhejiang province provides a land base of operation for foreign agriculture interests in China.

Geographically, Huanzhou in Zhejiang is strategically important for foreign shippers since it lies less than two hours drive from Shanghai via a newly constructed interstate system, thus accessing the greater Shanghai market of 88 million people. Additional transportation can be by rail or water and an international airport will be finished in Hangzhou/Xiaoshan by the end of 2000. Huanzhou will hold an economic advantage for potential packing or marketing operations.

Officials in Zhejiang desire cooperation on personnel exchange, technology, packing expertise and general marketing strategies.

Other competitors.

Florida is already in Beijing, able to sell one of its showcase agricultural products in the most populous nation on earth. Three containers of Florida citrus – of 40,000 pounds apiece – were making their way to China by ship. Those shipment are being made by DNE World Fruit Sales, of Fort Pierce, which has buyers for the fruit in Beijing and Guangzhou.

Crawford's trip to China and the large commercial shipments that are occurring at the same time follow a decision by China one week ago to permit U.S. citrus to be sold in China.

That means how hard could be to introduce this type of products in this country that already produce citrus.

Trade Balance Spain -CHINA Citrus Sector millions PTAs.

	Export 1999	**Import 1999**	**Balance 1999**	**Export 1998**	**Import 1998**	**Balance 1998**
January	271,31	0,00	271,31	0,00	0,00	0,00
February	362,38	0,00	362,38	0,00	0,00	0,00
March	79,22	0,00	79,22	0,00	0,00	0,00
April	34,17	0,00	34,17	1,92	0,00	1,92
May	185,75	0,00	185,75	0,00	0,00	0,00
June	36,84	0,00	36,84	0,00	0,00	0,00
July	0,00	0,00	0,00	0,00	0,00	0,00
August	0,00	0,00	0,00	0,00	0,00	0,00
September	0,00	0,00	0,00	0,00	0,00	0,00
October	1,91	0,00	1,91	0,00	0,00	0,00
November	130,04	0,00	130,04	0,00	0,00	0,00
December	0,00	0,00	0,00	0,00	0,00	0,00
TOTAL	**1.101,62**	**0,00**	**1.101,62**	**1,92**	**0,00**	**1,92**

Citrus Market

1- MARKET OVERVIEW

China’s citrus production is expected to increase this year to 9.6 million tons, a 12 percent increase over last year’s harvest. Tangerines varieties still make up the majority of production with 5.7 million tons, but orange varieties are becoming more popular, reaching 2.9 million tons. Grape-fruits’ portion of total production should equal 915 thousand tons. China’s citrus production in 1998 was 8.6 million tons, a 15 percent decrease from the year before.

Contributing to the increase in citrus production has been good weather conditions throughout the growing season this year, the absence of natural calamities (i.e. floods, frosts, etc.) in the growing areas, new production areas starting to bear fruit, improved citrus fruit prices the year before, and the alternating big/small production year cycle phenomena.

Much of China’s citrus is good quality at harvest time, but the quality quickly declines due to excessive handling during distribution and sales. Post-harvest practices of washing, waxing, and packing tend to be rare.

In regards to citrus production, the national government continues to follow the strategy of passive encouragement, but rarely gives actual assistance. Provincial and local governments tend to be more active in giving their support to the citrus industry. The most widely given form of assistance to citrus growers is low interest loans.

Most of China’s citrus is consumed fresh and the country’s processing industry uses less than 10 percent of the crop every year. Canned fruit is the main processed citrus product and Mandarin oranges is the variety of choice for most canners.

Oranges and lemons make up most of China’s citrus imports, while tangerines represent the major share of its exports. China’s tangerine exports are many times larger than all of its citrus imports combined.

The exchange rate used for this report is 8.27 Yuan equals one U.S. dollar. Another Chinese currency ratio used throughout this report is ten Mao equal one Yuan.

Production

China’s total citrus fruit production for the crop year 1999/2000 will be 9,636,000 tons, a 12 percent increase over last crop year. Of the total, tangerines will make up an estimated 59 percent or 5,732,000 tons, and sweet oranges an estimated 30 percent or 2,881,000 tons. Grape-fruit production, should reach 915,000 tons, 9.5 percent of total citrus production. As for lemons, during this crop year, their production is estimated to be approximately 13,000 tons.

China’s main tangerine varieties include the Mandarin orange and the Peng/Lo tangerine. The Mandarin is the preferred variety of most of the country’s citrus canners. In regards to sweet oranges, Jin and Navel oranges are the most widely grown. Most Navel orange production in China occurs in Sichuan, Chongqing, Hubei, and Jiangxi. Lemon production is concentrated in Sichuan and Chongqing. The main varieties are the Eureka and the Beijing. However, locally grown Eurekas tend to have low levels of acidity and vitamin C.

China also classifies its citrus fruit according to when its ripe enough for harvest. The classifications are early harvest, middle harvest, and late harvest. Early harvest refers to citrus that can be harvested before November, middle during November and December, and late after December. An estimated 80 percentage of China’s citrus fruit is harvested during November and December of each crop year. Local citrus experts say that an effort is underway to switch towards more late harvest varieties in order to extend the harvest and processing seasons. By early in the next century, these experts predict that their efforts hopefully cause late harvest varieties’ production to equal 25 percent of total output. At the present time, 15 percent of China’s citrus production is early harvest and only five percent late harvest.

Chinese Provincial Citrus Production

	1996		1997		1998	
PROVINCE	Hectares	Metric Tons	Hectares	Metric Tons	Hectares	Metric Tons
Shanghai	4,700	85,361	4,800	124,342	N.A.	N.A.
Jiangsu	4,100	42,886	4,800	51,747	N.A.	31,306
Zhejiang	138,300	1,804,133	137,600	2,105,054	N.A.	1,496,872
Anhui	2,300	4,426	2,700	8,458	N.A.	2,806
Fujian	164,800	1,316,360	162,900	1,538,981	113,333	1,464,206
Jiangxi	175,740	332,978	188,300	483,034	178,000	295,719
Henan	3,600	5,937	2,900	7,944	N.A.	10,899
Hubei	102,700	598,310	111,470	849,249	110,000	730,900
Hunan	235,700	895,864	239,700	1,341,400	240,000	899,125
Guangdong	101,900	984,262	92,700	866,913	95,000	756,912
Guangxi	96,700	794,750	108,000	1,006,996	107,100	869,857
Hainan	2,500	10,020	2,400	9,221	N.A.	N.A.
Chongqing	(1)	(1)	56,000	456,672	N.A.	546,494
Sichuan	202,900	1,443,055	146,200	1,068,944	153,333	1,178,350
Guizhou	18,400	59,326	23,100	84,632	N.A.	86,624
Yunnan	15,700	62,433	16,800	77,434	N.A.	81,524
Shaanxi	9,000	15,169	8,000	20,072	N.A.	27,672
Gansu	700	1,316	800	1,107	N.A.	1,522
TOTAL	1,279,740	8,456,586	1,309,170	10,102,200	1,300,000	8,590,360

(1): In 1996, Chongqing production statistics were included as a part of Sichuan province's statistics.

Sources: China Agricultural Yearbooks 1997 and 1998, China 1999 Statistical Yearbook, various provincial agriculture bureau estimates

China's 1999 Citrus Production Estimate by Variety (Metric Tons)

Variety	Amount	Percentageof TotalProduction	Main ProductionProvinces	Notes
Mandarin Oranges	3,276,000	34.0%	Zhejiang, Fujian, Hubei,Guangxi, Hunan	1, 3
Peng/Lo Tangerines	1,156,000	12.0%	Zhejiang, Fujian	1
Red Oranges	771,000	8.0%	Sichuan, Chongqing	1
Jiao Tangerines	289,000	3.0%	Guangdong, Guangxi	1
Other Tangerine Varieties	240,000	2.5%		1
Navel Oranges	916,000	9.5%	Sichuan, Hubei, Jiangxi	2
Jin Oranges	770,000	8.0%	Sichuan, Chongqing	2
Snow Oranges / Xue Gan	675,000	7.0%	Zhejiang, Fujian	2
Red River Oranges	230,000	2.4%	Guangdong	2
Other Sweet Orange Varieties	290,000	3.0%		2
Shatin Grape-fruits	412,000	4.3%	Guangdong, Guangxi,Sichuan, Chongqing	
All other Grape-fruit varieties	503,000	5.2%	Guangdong, Guangxi,Sichuan, Chongqing	
Lemons (all varieties)	13,000	0.1%	Chongqing, Sichuan	
Unknown/Not Specified/Other	95,000	1.0%		
TOTAL	9,636,000	100.0%		

Notes

1) Tangerine Variety

2) 2) Sweet Orange Variety

3) 3) includes ordinary Honey TangerinesSource: Estimates based on interviews with local citrus industry officials

Climate and Soil Characteristics of Selected Chinese Citrus Growing Provinces

	Average YearlyRainfall (mm) (a)	Days withoutFrost each Year	Soil pH LevelRange	Average YearlySunshine (hours)
Sichuan	1,000 (b)	280 - 300	7	1,200 - 1,600
Chongqing	1,000	280 -350	7 - 8	1,100 - 1,450
Hunan	1,200 - 1,700	N.A.	N.A.	1,000 - 1,300
Hubei	750 - 1,500	220 - 300	5 - 7.5	1,800 - 2,000
Guangdong	1,500+	300+	5.5 - 6.5	1,800 - 2,400
Guangxi	1,200 - 1,800 (b)	300+	4 - 7	1,400 - 1,900
Zhejiang	1,200 - 1,800	235 - 250	6 - 7.5	1,800 - 2,100
Fujian	1,032 - 2,100	N.A.	N.A.	N.A.
Shanghai	1,000 - 1,100	225 - 235	8 - 8.5	2,000 - 2,200

Notes:
a) Average for whole province unless otherwise noted
b) Average in the province's main citrus growing areasSources: various citrus production reference books and interviews with local citrus industry officials

Crop Area

On an east-west basis, the belt stretches from Zhejiang and Fujian provinces in the east to Sichuan province in the west. Even parts of Tibet are known to grow some citrus fruit. Forty-six percent of China’s 2,126 counties grow citrus fruit.

A substantial amount of China’s citrus fruit is grown on hilly, uneven land, because much of the country’s flatter lands are reserved for grain production. In places where citrus is grown on flatter land, grove size tends to be larger. Tree planting patterns also tend to differ between even and uneven land. Scattered planting tends to prevail on uneven lands, while rows often dominate even land. Planting styles also differ from location to location. In Zhejiang province, for example, citrus trees planted in rows are usually on rows of raised mounds which are flanked by shallow trenches. The trenches are used to facilitate irrigation and the application of fertilizers. However, in Sichuan, citrus trees planted in rows tend to be even with the ground and not on raised mounds. Trenches are absent too.

Inputs

The use of fertilizers and pesticides is quite common among China's citrus growers, while the use of machinery is extremely rare. Fertilizer, pesticide, and various other agricultural chemicals often are growers' largest expenses, ranging from 30 to 60 percent of their total growing costs per year. In regards to pesticides, China has established standards on residue tolerances that cover a wide variety of chemicals. However, enforcement of these regulations is uncertain.

Most citrus growers in China do not use any machinery in the growing or harvesting process, because of their groves' topography and size. The hilly, uneven land on which most of China's citrus fruit is grown is unsuitable for the use of machinery. In addition, the small sizes of most groves prevent growers from gaining cost savings through economies of scale with labor saving machinery. Labor costs remain very low in China, especially in the rural areas, and most growers only have less than two mu of land dedicated to citrus growing. One mu equals one-fifteenth of a hectare.

The use of growth regulators is not common either, except among navel orange growers. These growers tend to use these regulators to control the timing of the bloom period. The two most popularly used regulators are known as BA and GA4. Usage costs tend to range from one to three Yuan ($ 0.12 - 0.36) per tree at dosage of 100 to 500 ppm.

Irrigation practices mainly rely on labor and simple devices. Mechanized irrigation systems for citrus do not exist in China, because these systems are expensive for most growers and equipment theft problems are common in the countryside. The period when citrus growers pay most attention to irrigation of their trees is the bloom period, approximately March to May, for nearly all of the country's citrus varieties.

Overall production costs vary throughout the country, but tend to be higher in the coastal provinces than in the inland ones. In Guangdong province, for example, the investment cost for the first three years, the non-fruit bearing years, on average is 3,000 Yuan per mu ($ 5,440 per hectare) and afterwards upkeep per year equals around 1,500 Yuan per mu ($ 2,720 per hectare). In the inland provinces of Sichuan and Chongqing, the costs are considerable less. In Sichuan, initial investment on average equals 1,700 Yuan per mu ($ 3,083 per hectare) and after three years 470 to 500 Yuan ($ 852 - 907 per hectare) per year. In Chongqing, the costs are 2,000 Yuan ($ 3,628 per hectare), followed by 500 to 600 Yuan per mu ($ 907 - 1,088 per hectare) every year. Costs along the coastal provinces tend to be higher, because urbanization is encroaching on some growing areas, enhancing the value of the land for purposes other than agriculture. Labor costs are also higher in the coastal areas.

Yields

The widespread use of Trifoliate Orange as rootstock by Chinese citrus growers has probably been one of the major influence on domestic citrus yields. Its popularity stems mainly from trees using it as rootstock tend to grow to a moderate size, allowing for greater density in groves. In addition, Trifoliate Orange is not as susceptible able to diseases such as tristeza. Trifoliate Orange rootstock is used in almost every one of China’s citrus growing provinces, except for Guangdong and Guangxi. In these provinces, the preferred rootstock varieties are Sour Orange and Red Limeng. As for other rootstock varieties, Red Orange is popular in Chongqing, Sichuan, and Hubei provinces. In Sichuan, a few growers are experimenting with the use of grape-fruit rootstock to grow oranges.

Citrus trees throughout China on average lead productive lives of 20 years or more, providing they receive proper care and management. According to local officials in various growing regions throughout the country, good grove management tends to be the norm. However, in Guangdong, the situation is different. According to officials connected with the citrus industry, poor grove management is more prevalent and has decreased the average productive life span to 10 to 12 years.

Some citrus growing areas in China are susceptible to weather anomalies. Typhoons have been known to cause damage in the south coastal provinces of Fujian, Guangdong, and Guangxi, but crop destruction is usually limited to those places close to the coastline. Frosts are known to sometimes affect Jiangxi, Hunan, Hubei, and Sichuan (areas above 500 meters sea level) provinces. Since the early 1950's, citrus crop damaging frosts have occurred in Jiangxi province eight times and in Hunan province four times. The last citrus crop damaging frost struck in late December 1991 and extremely low temperatures continued into January 1992, affecting both Hunan’s and Jiangxi’s provincial citrus crops. Before the 1991/1992 frost, the previous one occurred in Jiangxi in November 1979. In Hunan province, when damaging frosts struck, citrus crop losses have ranged from 39 to 80 percent. In 1999, no known weather anomalies negatively affected China’s citrus production.

Crop Quality

China's citrus groves can produce good quality fruit, but the quality of much of the crop every year is quickly degraded by poor post-harvest handling techniques. It is not uncommon for a piece of citrus fruit to be handled by a half dozen or more pairs of hands before it is finally touched by the end consumer. Washing, waxing, or even packaging the fruit before sale often is not done by growers or distributors. In addition, many domestic distributors and wholesalers will loosely store their fruit in the back of trucks with limited to no protection from the elements and dump the fruit on the ground at the market. A majority of China's citrus fruit is distributed by private distributors and wholesalers instead of state-owned companies or individual growers.

No nationally accepted citrus fruit grading system currently exists in China. Some local distributors and processors practice simplistic grading systems based on fruit size. Under these systems, often only two grades exist: big and small. The definitions of big and small size can differ between distributors and processors throughout the country. To measure sizes, simple tools are used. Two known examples include a wooden card with two holes indicating the appropriate big and small sizes and a couple of metal rings welded together, one the big size and the other the small size.

Disease and insect damage to China's citrus crop every year usually is extremely limited in most of the country's growing areas, less than 10 percent of the crop, due mostly to improved tree management techniques and liberal usage of pesticides. The main diseases that concern China's citrus growers are: Liepi Disease (Citrus exocortis viroid), Tattered Leaf Disease, Citrus Canker (Xanthomonas campestris pv. Citri (Hasse) Dowson), and Yellow Dragon Disease. As for insects, mites tend to present the biggest problems, including Red Spider Mites and other types.

Production Policy

China's national government continues to provide passive support for citrus production, but does not pursue policies of active assistance. However, at some provincial and county levels, the government is more actively involved. Specific assistance activities and policies differ between locales.

The most widely offered form of local government assistance available to China's citrus growers probably is low interest loans. These loans allow growers to purchase fertilizers, pesticides, pruning services, and other necessities during the growing season. Subsidized inputs are rarely available to the citrus growers, except in special cases.

In Chongqing where citrus production is deemed important by the local government, government assistance takes many forms. They include: low interest rate loans, free seedlings, free training, and free technical assistance. Hubei province is another location that has been actively encouraging citrus growing, because in the wake of the Three Gorges dam project the need to plant trees to prevent soil erosion has become important. Provincial officials feel increased citrus tree planting will not only accomplish their task to fight soil erosion, but also bring economic benefits to the local population.

Local government intervention in the citrus market is rare, but has occurred in recent times. In 1997, citrus farmgate prices in Zhejiang province hit extreme lows of less than one Mao ($ 0.01) per kilogram, particularly for Mandarin oranges. These low prices quickly lead to the cutting down and abandonment of citrus tree. In an effort to halt grove destruction, during late December 1997, the governments of several counties in Zhejiang province started buying citrus fruit from the growers at the price of eight Mao ($ 0.10) per kilogram and then in turn sold it to government owned or controlled factories and offices at the same price. Despite the late intervention, from 1997 to 1998, Zhejiang citrus production dropped over 30 percent.

Current citrus farmgate prices currently vary throughout the country, depending on location and variety. In Zhejiang province, the farmgate prices for Mandarin oranges this year range from two to six Mao ($ 0.02 - 0.07) per kilogram. This price is lower than in 1998 when the range was one to three Yuan ($ 0.12 - 0.36) per kilogram, but higher than in the Autumn of 1997 when the price was less than one Mao ($ 0.01) per kilogram. In Chongqing and Sichuan, both Jin and Navel orange farmgate prices this year fall into the range of seven to nine Mao ($ 0.08 - 0.11) per kilogram. As for lemons, in Sichuan, the farmgate price per kilogram is less than two Yuan ($ 0.24). In Guangdong, Shatian grape-fruits are currently commanding a farmgate price of approximately two and a half Yuan ($ 0.30) per kilogram, a price higher than the year before. These prices are for average quality fruit. Better quality fruit often commands a higher price.

Consumption

Fresh Consumption

Over 90 percent of China's citrus crop is consumed fresh every year. Fresh fruit in China, including citrus fruit, remains a popular snack, gift, and concluding dish at the end of restaurant meals. Accompanying China's economic growth, fresh fruit purchases at least by urban households continue to rise. Households with higher average incomes still buy much more fresh fruit than those with lower average incomes.

Urban Households' Per Capita Annual Purchases of Fresh Fruits and Melons (kilograms)

	1995	1996	1997	1998
National Average	36.56	40.72	45.48	47.86
Highest 10% (1)	51.32	56.15	61.73	63.37
Lowest 10% (1)	22.21	26.46	29.03	31.20
(1) In terms of household income				

Source: China Statistical Yearbooks 1996 - 1999

Guangdong Province: Urban Households' Average Per Capita Annual Purchases of Selected Fresh Fruits (kilograms)

	1995	1996	1997	1998
Apples	5.70	6.20	6.33	6.22
Citrus	**3.15**	**2.79**	**3.23**	**3.61**
Oranges	**1.00**	**0.91**	**1.41**	**1.04**
Bananas	3.01	1.83	3.66	3.41
Grapes	0.62	0.76	0.82	0.81

Source: Guangdong Province Statistical Yearbooks 1996 - 1999

In rural areas, citrus growers are known to keep a certain percentage of their crop every year to consume themselves. Exact amounts vary depending on location and citrus variety. In Chongqing, for example, this percentage tends to be approximately 20 percent.

Processing

Less than 10 percent of China’s citrus crop every year is processed into other products. The main processed products are canned fruit, juice, and jams. In 1997, published sources stated China’s production of canned citrus was 300,00 to 400,000 tons, juice concentrate approximately 100,000 tons, and jams/other products 10,000 to 20,000 tons. However, according to these same sources, the country’s citrus processing capacity is greatly underutilized, over 500 processors with a combined capacity of over 3,000,000 tons per year. Reasons for underutilization include: the short processing season, poor processing technology, limited supplementary facilities (i.e. transport, storage, etc.), fruit supply instability, and failure to carry out proper marketing activities.

Provincial processing rate vary throughout the country. Zhejiang, China’s leading provincial citrus producer, often processes 10 percent or more of its harvest every year, while Guangdong, a big provincial producer, processes very little of its harvest every year. Other provincial citrus processing rates include: Hubei, approximately seven percent, and Jiangxi, three to five percent.

The citrus processing season only lasts a few months every year, starting in October and ending in March. However, a majority of the production usually occurs from November to January. The main reason for such a short season is the lack of proper and large-scale storage facilities for domestic citrus. Neither local distributors or processors in general have been interested or willing to invest in such facilities.

In regards to canned citrus, the main variety used is Mandarin oranges. Except for a few factories that can kumquats, nearly all canned citrus in China is canned Mandarins. Citrus canning factories in China, even those producing for export, tend to be labor intense operations. These factories employ hundreds of people to peel, segment, sort, and fill cans, while using machinery to only attach lids and move the cans to the packaging area.

Unlike canning, citrus juice concentrate processors in China do not rely on one particular variety. In the eastern part of the country, processors mainly use Mandarin oranges and Peng/Lo tangerines. While in the western part, processors prefer sweet orange varieties such as the Jin and Hamelin oranges, both of which are good for juicing. Citrus concentrate produced in China often lacks pulp, because low labor costs allow processors to hire many workers to peel the fruit before processing.

Since the citrus crop this years appears to be larger than last year's, processors are paying very low prices for their fruit. Some factories in Zhejiang province, the center of the canning industry, are paying growers two to three Mao ($ 0.02 - 0.04) per kilogram for Mandarin oranges. When transportation and other costs are included, the cost to bring the fruit to their factories' doors is three point six to four Mao ($ 0.04 - 0.05) per kilogram. Last year, the price range was one to three Yuan ($ 0.12 - 0.36) per kilogram. Most fruit processors in China set up operations near growing locations to better guarantee supplies. Many processors also purchase their fresh fruit directly from growers instead of using distributors to acquire supplies.

Overseas investment in the citrus processing industry has been limited. The only major investment project at the present time is a citrus concentrate plant and demonstration farm, established by Seagram's of Canada. Located in Zhong county of Chongqing, the plant is currently under construction and will be ready for production in a few years. Its demonstration farm will produce Jin, Hamelin, and Valencia oranges to be processed at the plant. The farm also is serving as an educational tool for helping local farmers better understand the company's citrus needs and in turn they will produce citrus which meets these needs. Seagram's invested amount is U.S. $10 million. Tropicana which ran a similar operation in Beihai, Guangxi is closing down their project this year. Their total investment was U.S.$ 50 million.

Trade

China’s direct imports of citrus fruit in 1999 most likely will surpass re-exports to China via Hong Kong in oranges, tangerines, lemons, and grapefruit. Although only Hong Kong re-export data for the first six months of 1999 and Chinese customs import data for the first nine months of 1999 are available, the difference in all cases is substantial. However, the leading exporting nations for each of these fruits is different between the two data sets, indicating that actual Chinese imports are much higher than either data set reveals. In the case of oranges, fresh and dried, the Hong Kong re-exports to China list the United States, Israel, and Spain as the top three origins. The Chinese customs data though shows that New Zealand, South Africa, and Taiwan are the top three origins. In the case of Tangerines, fresh and dried, Hong Kong re-exports to China indicate that Israel is the source of nearly all of the fruit. However, Chinese customs import data covering the same fruit show that none came from Israel and most originated from either New Zealand, Taiwan, or the Philippines. Similar situations apply to lemons and grapefruit. During most of the 1990s, Hong Kong re-exports of citrus fruit to China were much higher than the direct imports as indicated by China’s customs statistics.

When comparing China’s imports and exports of citrus fruit, both Hong Kong re-exports and direct imports of oranges and lemons separately are higher than exports. However, Chinese exports of tangerines and grape-fruits are higher than the combined amounts of the two different import data sets. Tangerines are China’s major citrus fruit export and amounts are higher than all of the country’s citrus imports. Most of the exported tangerines go to the countries of Southeast Asia and Hong Kong. China’s 1998 tangerine exports were 151,357 tons and for 1999's first nine months 92,229 tons.

China’s canned mandarin orange exports continue to be substantial as indicated by figures from the category; citrus fruit, preserved and/or prepared, in airtight containers. Although only the first nine months of Chinese customs export data is currently available, 1999 exports likely will be at the same levels as 1998. Japan, Germany, and the United States are the main destinations for most of China’s canned citrus exports. China’s exports of canned citrus in 1998 equaled 112,111 tons and for 1999's first nine months 98,376 tons.

Tables: Hong Kong Re-exports to China

Hong Kong Re-exports: ORANGES, FRESH OR DRIED (HS 0805.1000)
(Value: $'000, Quantity: Metric Tons)

	---CY 1998---		---CY 1999/JAN TO JUN---	
Origin	Value	Volume	Value	Volume
U.S.A.	42,546	58,781	5,896	9,326
U.S. Oceania	98	161	0	0
Australia	634	746	67	88
South Africa	1,680	2,743	220	349
Brazil	0	0	9	12
Chile	0	0	20	36
Canada	127	291	0	0
Spain	0	0	258	450
Egypt	0	0	35	46
Morocco	0	0	158	236
Israel	0	0	700	1,232
Thailand	12	17	22	42
Other	0	0	0	
TOTAL	45,097	62,738	7,385	11,816

Source: Hong Kong Department of Census, Customs Statistics

Hong Kong Re-exports: TANGERINES, FRESH OR DRIED (HS 0805.2010, 0805.2090) (Value: $'000, Quantity: Metric Tons)

	---CY 1998---		---CY 1999/JAN TO JUN---	
Origin	Value	Volume	Value	Volume
U.S.A.	0	0	0	0
Australia	167	146	8	11
Taiwan	12	22	0	0
Israel	0	0	281	535
Pakistan	0	0	0	0
Other	6	14	0	0
TOTAL	185	182	289	546

Source: Hong Kong Department of Census, Customs Statistics

Hong Kong Re-exports: LEMONS AND LIMES, FRESH OR DRIED (HS 0805.3000) (Value: $'000, Quantity: Metric Tons)

	---CY 1998---		---CY 1999/JAN TO JUN---	
Origin	Value	Volume	Value	Volume
U.S.A	873	963	166	288
Australia	0	0	43	60
South Africa	12	20	87	161
Argentina	0	0	35	68
Chile	0	0	26	16
Canada	13	41	0	0
Thailand	10	5	16	25
Netherlands	9	2	2	1
Taiwan	1	0	0	0
Israel	0	0	9	12
Other	0	1	0	0
TOTAL	918	1,032	382	631

Source: Hong Kong Department of Census, Customs Statistics

Hong Kong Re-exports: GRAPEFRUIT, FRESH OR DRIED (HS 0805.4000)(Value: $'000, Quantity: Metric Tons)

	---CY 1998---		---CY 1999/JAN TO JUN---	
Origin	Value	Volume	Value	Volume
U.S.A.	331	474	43	81
Thailand	178	491	30	77
Chile	0	0	17	33
Israel	0	0	87	223
Other	0	0	1	0
TOTAL	508	965	178	414

Source: Hong Kong Department of Census, Customs Statistics

Hong Kong Re-exports: FROZEN ORANGE JUICE (HS 2009.1100)

(Value: $'000, Quantity: Metric Tons)

	---CY 1998---		---CY 1999/JAN TO JUN---	
Origin	Value	Volume	Value	Volume
U.S.A.	112	109	35	29
Brazil	326	219	360	244
South Korea	134	60	0	0
Japan	0	0	28	18
Armenia	0	0	13	6
Mexico	71	40	0	0
Taiwan	25	16	0	0
Other	0	0	0	0
TOTAL	668	443	436	297

Source: Hong Kong Department of Census, Customs Statistics

Hong Kong Re-exports: ORANGE JUICE, NOT FROZEN (HS 2009.1900)(Value: $'000, Quantity: Metric Tons)

	---CY 1998---		---CY 1999/JAN TO JUN---	
Origin	Value	Volume	Value	Volume
U.S.A.	1,292	1,872	398	615
Brazil	25	38	112	75
Denmark	54	32	0	0
Germany	0	0	4	1
Hungary	42	28	0	0
Spain	1	1	0	0
France	10	19	6	13
Great Britain	9	12	1	1
Australia	219	247	56	74
Singapore	47	27	0	0
South Africa	13	19	0	0

Indonesia	31	17	0	0
South Korea	0	0	12	15
Malaysia	17	9	0	0
Philippines	52	42	0	0
Other	0	0	0	1
TOTAL	1,808	2,361	588	795

Source: Hong Kong Department of Census, Customs Statistics

Hong Kong Re-exports: GRAPEFRUIT JUICE (HS 2009.2000)(Value: $'000, Quantity: Metric Tons)

	---CY 1998---		---CY 1999/JAN TO JUN---	
Origin	Value	Volume	Value	Volume
U.S.A.	314	479	111	140
Spain	0	0	8	7
South Africa	5	9	0	0
Other	0	0	0	0
TOTAL	322	491	119	147

Source: Hong Kong Department of Census, Customs Statistics

Tables: China’s Official Imports

Imports: ORANGES, FRESH OR DRIED (HS 0805.1000)(Value: $'000, Volume: Metric Tons)

	---CY 1998---		---CY 1999/JAN TO SEP---	
Origin	**Value**	**Volume**	**Value**	**Volume**
U.S.A.	121	352	283	759
Australia	154	439	300	744
South Africa	1	2	1,320	3,277
Canada	746	2,214	133	311
New Zealand	212	627	3,086	7,972
Chile	8	29	20	60
Brazil	2	4	6	7
Japan	3	9	0	0
Philippines	1	2	236	556
Malaysia	12	37	152	376
Thailand	10	30	10	24
Taiwan	0	0	705	1,743
Egypt	0	0	148	451
Spain	0	0	142	400
Indonesia	0	0	125	290
Uruguay	0	0	79	197
Argentina	0	0	55	135
Israel	0	0	31	79
Turkey	0	0	11	29
Morocco	0	0	7	18
Other	2	7	1	1
TOTAL	1,272	3,752	6,850	17,429

Source: China's Customs Statistics

Imports: TANGERINES, FRESH OR DRIED (HS 0805.2010, 0805.2090)(Value: $'000, Volume: Metric Tons)

	---CY 1998---		---CY 1999/JAN TO SEP---	
Origin	**Value**	**Volume**	**Value**	**Volume**
U.S.A.	0	1	0	0
Canada	31	92	5	11
Australia	2	7	12	26
New Zealand	15	3	307	914
Indonesia	0	0	38	77
Malaysia	1	1	74	148
Nepal	47	130	13	37
Philippines	0	0	149	298
Taiwan	0	0	146	291
Thailand	3	9	0	0
Other	4	11	0	0
TOTAL	103	254	744	1,801

Source: China's Customs Statistics

Imports: LEMONS AND LIMES, FRESH OR DRIED (HS 0805.3000)(Value: $'000, Volume: Metric Tons)

	---CY 1998---		---CY 1999/JAN TO SEP---	
Origin	**Value**	**Volume**	**Value**	**Volume**
U.S.A	7	19	63	159
Canada	94	293	28	63
Malaysia	0	1	0	0
Taiwan	6	18	82	183
Philippines	0	0	32	70
Thailand	118	157	128	248
Indonesia	0	0	22	49
Argentina	0	0	23	51

Chile	0	0	17	43
New Zealand	0	0	345	1,088
South Africa	0	0	117	263
Other	2	6	1	1
TOTAL	227	494	858	2,218

Source: China's Customs Statistics

Imports: GRAPEFRUIT, FRESH OR DRIED (HS 0805.4000)(Value: $'000, Volume: Metric Tons)

	---CY 1998---		---CY 1999/JAN TO SEP---	
Origin	**Value**	**Volume**	**Value**	**Volume**
U.S.A.	0	0	8	12
Canada	2	8	0	0
South Africa	0	0	14	27
Japan	35	112	0	0
Australia	0	0	1	4
Israel	8	33	0	0
Malaysia	0	0	12	49
New Zealand	0	0	6	19
Thailand	259	926	230	756
Taiwan	7	28	35	77
Other	0	0	1	0
TOTAL	311	1,107	307	943

Source: China's Customs Statistics

Imports: Other Citrus Fruit, Fresh and Dried (HS 0805.9000)(Value: $'000, Volume: Metric Tons)

	---CY 1998---		---CY 1999/JAN TO SEP---	
Origin	**Value**	**Volume**	**Value**	**Volume**
New Zealand	15	2	0	0
Other	0	0	0	0
TOTAL	15	2	0	0

Source: China's Customs Statistics

Imports: FROZEN ORANGE JUICE (HS 2009.1100)(Value: $'000, Volume: Metric Tons)

	---CY 1998---		---CY 1999/JAN TO SEP---	
Origin	**Value**	**Volume**	**Value**	**Volume**
U.S.A.	1,417	1,646	1,354	1,403
Brazil	1,072	820	2,155	1,667
Australia	5	2	0	0
Netherlands	0	0	18	9
Taiwan	0	0	64	54
Mexico	104	88	0	0
Hong Kong	1	1	0	1
Israel	1,132	658	327	281
France	4	8	0	0
South Africa	15	14	0	0
Iran	0	0	187	184
Belgium	0	0	210	170
Italy	325	216	270	176
Other	0	1	3	1
TOTAL	4,075	3,454	4,588	3,946

Source: China's Customs Statistics

Imports: ORANGE JUICE, NOT FROZEN (HS 2009.1900)(Value: $'000, Volume: Metric Tons)

	---CY 1998---		---CY 1999/JAN TO SEP---	
Origin	**Value**	**Volume**	**Value**	**Volume**
U.S.A.	187	409	37	52
Australia	289	524	320	563
New Zealand	0	0	13	15
Canada	29	37	8	16
Brazil	0	0	197	446
South Africa	0	0	2	6
Hong Kong	100	191	525	1,555
Japan	94	37	10	9
Malaysia	5	11	0	0
Philippines	31	84	7	11
Singapore	0	1	0	0
South Korea	13	26	12	25
Thailand	7	17	1	2
Taiwan	28	61	28	44
Denmark	51	36	58	42
Germany	34	45	24	26
Netherlands	2	2	10	4
France	11	6	14	13
Great Britain	0	0	11	28
Spain	5	20	11	16
Austria	23	41	0	0
Hungary	27	75	4	12
Other	5	20	0	1
TOTAL	941	1,643	1,292	2,886

Source: China's Customs Statistics

Imports: GRAPEFRUIT JUICE (HS 2009.2000)(Value: $'000, Volume: Metric Tons)

	---CY 1998---		---CY 1999/JAN TO SEP---	
Origin	**Value**	**Volume**	**Value**	**Volume**
U.S.A.	193	258	286	359
Australia	0	0	0	0
Canada	14	17	1	3
Singapore	4	3	0	0
South Africa	2	2	0	0
Netherlands	0	0	8	12
Germany	0	0	3	1
South Korea	7	5	0	0
Other	1	1	2	2
TOTAL	221	286	300	377

Source: China's Customs Statistics

Tables: China's Official Exports

Exports: ORANGES, FRESH OR DRIED (HS 0805.1000)(Value: $'000, Volume: Metric Tons)

	---CY 1998---		---CY 1999/JAN TO SEP---	
Origin	**Value**	**Volume**	**Value**	**Volume**
Hong Kong	332	2,078	323	2,286
Japan	0	0	0	0
Macau	2	10	0	3
North Korea	0	0	2	1
Mongolia	45	239	0	0
Philippines	38	96	0	0
Singapore	26	117	18	98
Vietnam	416	2,219	379	1,866
Kazakhstan	5	17	0	0
Kirghizia	4	16	0	0

Russia	229	638	95	169
Other	0	1	1	0
TOTAL	1,097	5,431	818	4,422

Source: China's Customs Statistics

Exports: TANGERINES, FRESH OR DRIED (HS 0805.2010, 0805.2090)(Value: $'000, Volume: Metric Tons)

	---CY 1998---		---CY 1999/JAN TO SEP---	
Origin	**Value**	**Volume**	**Value**	**Volume**
Hong Kong	3,599	23,141	1,234	11,384
Indonesia	1,342	4,322	1,405	5,515
Brunei	174	464	96	327
North Korea	139	709	58	327
Macau	99	563	52	270
Malaysia	4,894	14,063	5,219	18,898
Philippines	5,666	16,459	3,848	15,245
Singapore	8,378	26,340	4,285	25,058
Thailand	72	159	4	44
Vietnam	4,376	22,174	2,400	10,288
Burma	9	38	8	27
India	9	48	8	24
Panama	17	48	0	0
Netherlands	28	141	0	0
Mongolia	6	50	5	40
Kazakhstan	29	95	15	33
Kirghizia	32	97	0	0
Russia	8,120	25,919	1,082	3,950
Canada	6,639	16,408	287	799
Other	33	119	0	0
TOTAL	43,661	151,357	20,004	92,229

Source: China's Customs Statistics

Exports: LEMONS AND LIMES, FRESH OR DRIED (HS 0805.3000)(Value: $'000, Volume: Metric Tons)

	---CY 1998---		---CY 1999/JAN TO SEP---	
Origin	**Value**	**Volume**	**Value**	**Volume**
Hong Kong	18	22	2	2
Russia	58	145	21	69
Singapore	13	11	0	0
Other	0	0	0	0
TOTAL	88	178	22	71

Source: China's Customs Statistics

Exports: GRAPEFRUIT, FRESH OR DRIED (HS 0805.4000)(Value: $'000, Volume: Metric Tons)

	---CY 1998---		---CY 1999/JAN TO SEP---	
Origin	**Value**	**Volume**	**Value**	**Volume**
Hong Kong	1,128	8,579	232	2,290
Indonesia	0	0	0	0
Macau	75	375	11	59
Philippines	2	10	0	0
Singapore	66	288	24	174
Great Britain	5	10	0	0
Netherlands	3	4	1	0
Italy	0	0	2	2
Netherlands	0	0	1	2
Canada	88	218	88	337
U.S.A.	0	0	0	0
Other	0	1	0	2
TOTAL	1,366	9,485	359	2,866

Source: China's Customs Statistic

Exports: OTHER CITRUS FRUIT, FRESH AND DRIED (HS 0805.9000)(Value: $'000, Volume: Metric Tons)

	---CY 1998---		---CY 1999/JAN TO SEP---	
Destination	**Value**	**Volume**	**Value**	**Volume**
Canada	694	1,511	5	15
Singapore	186	746	11	57
Hong Kong	154	1,339	174	2,411
Russia	119	513	0	0
Australia	45	59	0	0
Vietnam	42	250	0	0
Malaysia	25	88	12	45
Philippines	25	68	6	22
Mongolia	4	17	0	0
Japan	1	11	59	55
Burma	2	9	18	125
Macau	2	8	0	0
North Korea	0	0	18	210
Other	0	0	1	0
TOTAL	1,299	4,619	304	2,939

Source: China's Customs Statistics

Exports: FROZEN ORANGE JUICE (HS 2009.1100)(Value: $'000, Volume: Metric Tons)

	---CY 1998---		---CY 1999/JAN TO SEP---	
Origin	**Value**	**Volume**	**Value**	**Volume**
Israel	82	23	0	0
Hong Kong	1,678	1,222	1,213	866
Japan	132	56	0	0
Malaysia	0	0	17	22
Taiwan	312	530	85	204
Other	0	1	0	1
TOTAL	2,203	1,832	1,315	1,093

Source: China's Customs Statistics

Exports: ORANGE JUICE, NOT FROZEN (HS 2009.1900)(Value: $'000, Volume: Metric Tons)

	---CY 1998---		---CY 1999/JAN TO SEP---	
Origin	**Value**	**Volume**	**Value**	**Volume**
Hong Kong	748	669	638	677
Macau	0	0	1	2
Burma	0	0	25	54
Portugal	0	0	15	16
Philippines	25	19	0	0
South Korea	162	116	0	0
Mongolia	0	0	7	12
United States	0	0	6	6
Canada	0	0	3	4
Other	1	1	0	0
TOTAL	936	805	695	771

Source: China's Customs Statistics

Exports: CITRUS FRUIT, PRESERVED & PREPARED, IN AIRTIGHTCONTAINERS (HS 2008.3010)(Value: $'000, Volume: Metric Tons)

	---CY 1998---		---CY 1999/JAN TO SEP---	
Origin	**Value**	**Volume**	**Value**	**Volume**
North Korea	7	24	0	0
Hong Kong	340	548	211	286
Japan	36,518	47,498	44,805	52,507
Malaysia	144	270	81	173
Philippines	33	57	9	16
Saudi Arabia	135	131	84	137
Singapore	112	183	131	179
South Korea	306	482	221	304
Thailand	222	452	246	409
U.A.E.	40	50	0	0
Yemen	50	75	0	0
Taiwan	96	159	140	211
Great Britain	318	556	299	449
Germany	10,462	18,279	3,943	5,744
France	40	41	0	0
Italy	20	33	1	1
Netherlands	767	1,269	569	834
Norway	38	54	31	36
Sweden	156	210	83	99
Russia	8	13	0	0
Czech Republic	335	630	202	305
Argentina	11	15	0	0
Canada	2,056	3,039	2,003	2,431
U.S.A.	26,996	37,687	28,787	33,910
Australia	224	294	149	178
New Zealand	36	48	21	30
Other	11	14	118	137
TOTAL	79,481	112,111	82,134	98,376

Source: China's Customs Statistics

Monthly Re-exports of Citrus to China,Hong Kong Customs Data (Metric Tons)(Marketing Year 1996/97-1998/99)

Month	1996/97	1997/98	1998/99
November	544	1,887	2,721
December	1,293	685	1,314
January	1,754	5,536	2,155
February	1,619	3,099	2,893
March	2,685	4,258	1,928
April	1,655	4,473	2,475
May	1,432	3,917	1,275
June	1,394	3,877	1,091
July	1,022	16,583	N.A.
August	813	4,656	N.A.
September	681	7,044	N.A.
October	1,914	5,263	N.A.
TOTAL MY	16,806	61,278	15,852

Monthly Imports of Oranges,China Customs Data (Metric Tons)(Marketing Year 1996/97-1998/99)

Month	1996/97	1997/98	1998/99
November	369	114	361
December	301	605	902
January	93	117	84
February	48	88	440
March	542	139	1,271
April	645	263	1,104
May	423	257	363
June	520	357	1,782
July	225	430	3,522
August	329	323	2,858

September	444	214	6,005
October	774	302	N.A.
TOTAL MY	4,713	3,209	18,692

Monthly Exports of Oranges,China Customs Data (Metric Tons)(Marketing Year 1996/97-1998/99)

Month	1996/97	1997/98	1998/99
November	171	53	607
December	1,912	1,030	2,453
January	2,579	599	547
February	6,278	541	1,740
March	2,709	427	556
April	2,123	596	156
May	1,167	129	700
June	266	25	428
July	7	8	160
August	11	23	135
September	5	0	0
October	13	23	N.A.
TOTAL MY	17,241	3,454	7,482

Monthly Exports of Tangerines,China Customs Data (Metric Tons)(Marketing Year 1996/97-1998/99)

Month	1996/97	1997/98	1998/99
November	14,284	21,819	16,517
December	33,033	56,605	34,293
January	44,556	39,746	43,828
February	24,690	29,455	29,587
March	18,533	17,370	15,106
April	13,073	7,280	1,966
May	1,321	1,175	1,424
June	19	224	5
July	8	213	3
August	6	12	0
September	145	104	310
October	12,112	4,967	N.A.
TOTAL MY	161,780	178,970	143,039

Policy

While trade tariff and regulation changes brought about by China's upcoming entry into the World Trade Organization are expected to increase the country's fresh citrus imports, a vast majority of Chinese growers and officials do not expect the changes to have a major impact on local production in the near term. They believe that lower priced local citrus will continue to enjoy widespread consumer demand. However, in Guangdong, a few officials with connections to the local citrus industry feel that increased citrus imports caused by World Trade Organization membership could hurt the production of local orange varieties, but are uncertain about the details of such an impact.

At the present time, China's import tariff rate on all varieties of fresh citrus fruit is 40 percent. In addition, importers must pay a Value Added Tax of 13 percent on the total value of the fresh citrus fruit after the import tariff has been included. The import tariff rates for processed citrus products are slightly lower, 30 percent for canned citrus and 35 percent for citrus juice. However, the Value Added Tax on these products is 17 percent.

China Citrus Import Tariffs and Value Added Tax Rates

COMMODITIES	Import Duty Rate		Value-AddedTax Rate	Eff. Min.Duty Rate 3/
	Min. 1/	Gen. 2/		
FRESH:				
Oranges	40	100	13	58
Tangerines	40	100	13	58
Lemons	40	100	13	58
Grapefruit	40	100	13	58
Other citrus	40	100	13	58
CANNED:				
Citrus	30	90	17	52
Other Citrus Preps	30	80	17	52
FRUIT JUICE:				
Orange Juice (frozen)	35	90	17	58
Orange Juice (unfrozen)	35	90	17	58
Grapefruit Juice	35	90	17	58
Other citrus juice	35	90	17	58

1/ Minimum rate is applied to imports from countries enjoying most favored nation (MFN) trading status.

2/ General rate is applied to imports from non-MFN trading partners.

3/ Effective Minimum Duty Rate =

Duty Rate + (1+Duty Rate) * Value Added Tax Rate

Note: All duties and taxes are applied on a CIF ad valorem basis.

Import Tax = (CIF Value)* Duty Rate

VAT Tax = (CIF Value + Import Tax) * VAT Rate

Source: PRC Customs Tariffs Handbook 1999

Marketing

For establishing and building ties among Chinese companies, conducting seminars, distributing Point of Sales materials, and participating in major trade exhibitions are all methods proven to be beneficial.

Marketing activities should also cover consumer education. Methods to consider include: retail promotion and consumer trade show participation. Regarding retail promotion participation, the focus probably should be on the hypermarkets, because practically all carry fresh fruit and their sales volumes tend to be higher than regular local supermarkets.

The most difficult marketing period for imported fresh citrus fruit is from November to April. Although Chinese New Years often inspire sales for gift purposes, the recently harvested domestic crop is also available at that time and at prices lower than imported varieties. Price still is a major factor in Chinese consumers' purchasing decisions.

Canned Deciduous Fruit

1- MARKET OVERVIEW

Local consumers prefer fresh fruit to canned varieties, but the potential consumption of canned fruit in the baking sector is great. Chinese consumers are showing greater appreciation of cakes and bakery items, many of which contain canned peaches and pears.

a) Production

China's canned peach production for the Marketing Year 1999/2000 was estimated to be 133 thousand tons net weight, an increase over the year before. Canners expectations of better domestic economic conditions combined with a belief in higher exports during the coming year are the main reasons behind the increase.

Fresh peach production also was expected to rise this year. The canned fruit industry holds a minor place in China's agriculture and food processing sectors. Although the Chinese government policy is not to subsidize the fruit canning industry, the government would like to attract overseas investment to modernize the industry.

This year's sizable increase in peach production was mainly due to good weather conditions during the growing season. The summer' drought conditions in northern China had little impact peach production, because the hot and dry weather came during the latter part of the growing season and not during the more critical early growth months in the Spring. China's peach production is almost evenly split between white and yellow flesh varieties. Although the yellow flesh peaches are mainly used for canning, production of white flesh ones is slightly greater.

Fresh peaches are available to Chinese consumers for only a brief period every year, July-September, just after harvest. This situation is due to the lack of proper storage facilities.

Post-harvest handling and storage for fruit in general is backwards compared to western standards. Chinese fruit growers often store their harvest on the farm, either underground or under straw. Over the last few years, more and more cold storage facilities have been built to store domestic fruit, but most of the space has been dedicated for use by fruit varieties other than peaches or other stone fruits (i.e. apples) or is not properly set up to store peaches for longer than a month or two.

Post-harvest fruit spoilage usually ranges from 10 to 15 percent of production, but this year might be much higher due to the large increase in production.

Peaches, nectarines, and apricots in China are grown in the same locations as the major deciduous fruits: apples, grapes, and pears. China’s main production provinces include Hebei, Shandong, Shanxi, and Shaanxi. Although the eastern part of northern China is the main production area, Xinjiang in the country’s far west grows many apricots. For peaches, Shandong province is probably China’s main production area. In 1997, the province produced over 560 thousand tons on an area of nearly 49 thousand hectares, an estimated one-fifth of that year’s national production.

Canned peach production in China during Year 1999/2000 is estimated to be 133 thousand tons net weight, an increase over the year before. Accounting for the increase are expectations of an improved domestic economy and a belief in higher export demand this year. Production in the long term should remain steady or decline, because the long term trend for domestic demand is down. Domestic consumers prefer fresh fruit to the canned variety and improved distribution of fresh fruit within China should continue to allow them this choice. Canned peach production for Marketing Year 1998/99 was estimated at 120 thousand tons net weight.

Industry sources estimate that the current number of fruit canneries in China is approximately 1,000. Of this number, approximately 200 are large and medium size canners. In addition, 400 canneries have official export authority. Chinese government offices only give export authority to canneries that have high quality standards.

Most of the medium and large scale canners are State Owned Enterprises (SOEs) whose numbers may decline in the near future due to financial problems.

China’s canneries usually do not specialize in any one product and sometimes not even in a specific category of products, i.e. fruit. Despite the existence and wide enforcement of national product standards, canned food quality, including canned fruit, greatly varies. Higher quality product usually is exported. The industry appears to realize that quality is inconsistent across the industry and would like to see improvement. However, their focus seems to be on new canning machinery and materials and little on proper supply management techniques or pre-processing fruit storage facilities.

China’s canneries tend to be located near their product supply source. All of the companies involved in canning peaches are located in northern China. The bigger canneries are in the area’s major cities, but many small townships within the area also have their own canning operations. Most of China’s canned fruit production is located in the coastal provinces, i.e. Shandong, Hebei, and Zhejiang.

The peach canning season in China usually runs about 2 to 3 months each year. Although late July is the start of harvest time for peaches, canneries usually acquire their fruit in June or early July before it ripens. Canneries follow this practice, because they often lack proper storage facilities. Buying ripe fruit limits the time available to prepare and package it. Growers try to only sell their lowest quality fruit to canneries, because they can get higher prices for the better quality fruit from fresh fruit wholesalers.

Canning industry, uses both metal cans and glass jars. Exported product tends to be in metal cans and product for the domestic market in glass jars. Glass jars are preferred in the domestic market by both the producers and consumers. On the producer side, the reason is expense. Glass jars are generally less expensive than metal cans. Consumers like glass jars, because they allow the consumer to see the actual product before purchasing it and the jars are re-sellable. However, domestically produced canned fruit in metal containers is appearing in the market with increasing frequency, because consumers will often associate it with imported product which is always in metal cans and believed to be better quality. For exported canned fruit, 425 gram capacity is main size used.

b) Consumption

Local canned fruit consumption is declining in China, especially in the north, because of preferences to eat fresh rather than canned fruit and greater availability of fresh fruit during winter months. Consumers in general prefer to eat fresh fruit rather than the canned equivalent. The reasons mainly are that domestic canneries’ food packaging sanitation standards tend to be poor and more often poorer quality fruit usually is used by canneries. As for availability, improved domestic distribution infrastructure in recent years has improved northern consumers’ access to fresh fruit from China’s south during the winter.

Fresh fruit is consumed with most meals and is a popular snack. It is often purchased as a gift, especially during Chinese New Year and other holidays. Rising incomes are increasing the number of consumers who can purchase fresh fruit, but the increased availability of processed foods at the same time has created more competition.

One area where the consumption of canned fruit has been rising in recent years is the bakery sector. The number of bakeries in China's major cities has been greatly increasing during the 1990s to meet rising consumer demand for breads, pastries, and other bakery products. Since many Chinese consumers prefer fruit on their pastries and other baked goods, bakers have turned to using canned fruit due to the relative ease of use in comparison to fresh fruit.

Only a small percentage of fresh fruit goes into domestically processed foods. For peaches, nectarines, and apricots, the amount is estimated at approximately five percent of total production. Canning is the main type of processing practiced, but over the last several years interest in producing jams, puree, and juice concentrate has become more popular. Both the local and central governments are trying to recruit overseas investment in food processing, including fruit processing.

2- TRADE

During the last Year, China's canned deciduous fruit exports overall were larger than its imports, even when Hong Kong re-exports are considered. This situation also applied to individual products. The only exception was canned fruit mixtures. Both its official imports and Hong Kong re-exports were greater than official exports. Hong Kong re-exports to China are products that initially enter Hong Kong before being sent to China. Upon entering China, many are not counted by the local customs officials, because a sizable number of importers often use unofficial channels to bring in the products in order to avoid paying full tariff duties and/or abiding by burdensome inspection/quarantine regulations. Compared to the previous Marketing Year, China's imports of canned deciduous fruit were higher while exports approximately the same. The specific trend differed from product to product.

Canned peaches continued to be China's biggest canned deciduous fruit export, but its volume fall compared to the previous Year. China's exports of other canned deciduous fruit products remained very low in comparison with canned peaches. During the same Year, canned pear exports equaled 3,602 tons, canned apricot exports 122 tons, and canned fruit mixtures exports 1,527 tons. Japan continued to be China's main export destination for canned deciduous fruit, especially peaches, but Hong Kong, Russia, South Korea and select European countries were important buyers too.

China's imports of canned deciduous fruit during the Marketing Year 1998/99 continued to be small relative to the country's exports. The only exception was canned fruit mixtures. Both official imports and Hong Kong re-exports in terms of volume and value were larger than official exports. During Year 1998/99, official imports of the product were 7,303 tons with a value of U.S.$ 2.012 million and Hong Kong re-exports 5,989 tons with a value of U.S.$ 5.628 million. Thailand, the Philippines, and other countries of Southeast Asia were the main source of China's canned fruit mixtures imports. South Africa was the main source of China's imported canned peaches. According to China's official import statistics, no imports of fresh apricots were recorded for either Marketing Year 1998/99 or 1997/98.

Stocks

China's canned fruit stocks tend to be small every year, because most canners only produce according to pre-harvest orders. This arrangement is especially true for exports. In addition, most canners along with other fruit processors have limited storage facilities for their raw materials (i.e. fresh fruit) and the finished products.

3- POLICY

Nowadays, government presently allows free market forces to determine fresh fruit prices and production, including peaches, nectarines, and apricots.

Handling, treatment, and storage technology still is backward. Although some officials realize the necessity, funds and management for such activities are limited. In many cases, officials hope that overseas investment will come and take care of the need. Overseas investment in this area is occurring, but its pace still is slow.

In regards to trade, China still maintains relatively high tariffs on canned deciduous fruit, peaches, and apricots. Tariffs for most canned deciduous fruits are 30 percent, plus additional 17 percent Value Added Tax which is paid on the imports' value after regular tariff charges have been assessed. Only canned fruit mixtures have a slightly lower tariff, 25 percent. Tariffs on fresh peaches and apricots are the same as their canned varieties, 30 percent. However, their Value Added Tax is a little lower, 13 percent, because they are classified as "raw materials" by customs. In addition, these fresh fruits are officially restricted from entry for phytosanitary reasons.

4- MARKETING

Given the Chinese preference for fresh fruit and concern about canned products' level of sanitation, only limited export opportunities for retail sales exist. However, Chinese tastes for fruit in their cakes and pastries may indicate the potential for institutional sales to China's bakery industry. Peach and pear pieces often are ingredients. South Africa, already has realized the potential and begun focusing their marketing activities on these end-users.

CHINA'S CANNED FRUIT MIXTURES IMPORTS: MY 97/98, 98/99(Volume: Metric Tons, Value: $'000)

ORIGIN	MY 97/98		MY 98/99	
	VOLUME	VALUE	VOLUME	VALUE
Philippines	1,210	287	1,605	495
Thailand	257	73	4,640	1,263
Indonesia	64	10	15	6
Singapore	10	3	5	2
Malaysia	96	19	163	41
Hong Kong	176	27	501	68
Taiwan	2	0	4	15
Germany	0	0	0	1
Italy	0	0	3	1
Australia	2	1	5	1
South Africa	5	7	98	21
U.S.A.	184	57	263	97
Others	0	2	1	1
Total	2,006	486	7,303	2,012

Source: China's Customs StatisticsHS Code: 2008.9200

CHINA'S CANNED FRUIT MIXTURES EXPORTS: MY 97/98, 98/99

(Volume: Metric Tons, Value: $'000)

DESTINATION	MY 97/98		MY 98/99	
	VOLUME	VALUE	VOLUME	VALUE
Japan	608	818	351	337
Hong Kong	195	51	84	53
Thailand	60	11	19	6
Singapore	17	16	46	44
Malaysia	0	0	4	5
Germany	48	50	16	12
Belgium	34	36	0	0
Israel	0	0	201	142
Italy	54	56	3	3
France	73	57	17	13
Czech Republic	0	0	16	16
Netherlands	0	0	283	158
Saudi Arabia	0	0	54	38
Cape Verde	0	0	3	2
Costa Rica	0	0	50	36
Paraguay	0	0	67	48
Argentina	0	0	17	9
Yemen	0	0	17	12
Australia	2	3	3	6
Russia	2	3	0	0
Canada	67	54	60	44
U.S.A.	37	39	216	185
Others	14	16	0	0
Total	1,211	1,210	1,527	1,166

Source: China's Customs StatisticsHS Code: 2008.9200

Fruit Juice Market

Opportunities are available to foreign companies to enter the Chinese fruit juice market, with tax and land incentives offered to lure foreign business to China's special economic zones, and tariffs lowered to invite imports.

The fruit juice market in China is dynamic, with many opportunities for international competitors to enter the sector.

Given recent trends towards healthier lifestyles among younger Chinese consumers, the nutritional advantages of fruit juice are expected to spur significant growth in the sector, providing good opportunities for foreing exporters. Stronger promotion of the freshness, taste, variety of flavours, and nutritional benefits of juices will help gain market share and increase sales.

Exporters should note that as the market continues to expand, several international competitors are establishing a greater presence in China. The most notable international competitors are from the United States, Australia, South Africa, Brazil and Singapore.

Despite the Chinese government practising a degree of liberalization, exporters must overcome a number of obstacles. Two of the main constraints to exporting to China are high tariff duties of 55%, applied to all juices entering China, and a 17% VAT assessed on the cargo's value. In addition, a number of non-tariff barriers exist in the form of licences, quotas and other import controls.

1- MARKET OVERVIEW

Fruit juice is one component of the larger soft drinks market, which also includes carbonated beverages, mineral water, tea and coffee. In fact, the fruit juice segment has emerged as the second largest in China's soft drinks market (behind carbonates), posting sales of $1.3 billion in 1997 C more than doubling 1993 sales. Forecasts speculate that the fruit juice market could grow by as much as 40% between 1998 and 2002.

Fruit juice accounted for a decreasing share of the soft drinks market for the period 1993-1997, however fruit juice sales increased by 103%. Exporters should note that as carbonated, energy and health drinks become more popular, analysts predict that fruit juice may lose an even greater share of the soft drinks market, though its sales will likely increase.

Table 1. Percentage Growth of Soft Drinks Retail Sales Value by Sector in China 1993-97

	1993	**1994**	**1995**	**1996**	**1997**
Carbonates	50.3	50.3	54.4	57.2	58.3
Fruit juice	28.4	28.0	24.3	21.8	20.3
Mineral water	13.7	12.3	11.1	10.4	10.0
Energy/health drinks	5.2	6.8	7.8	8.2	9.0
Vegetable juice	1.7	1.8	1.7	1.6	1.5
Ready-to-drink tea	0.7	0.8	0.7	0.8	0.9
TOTAL	**100**	**100**	**100**	**100**	**100**

Source: *Euromonitor/Emerging Markets*, June 1998

With the growth of the fruit juice market, per capita consumption will likely increase, as juice becomes more popular. Per capita fruit juice consumption in China is roughly 10% of that in developed countries. Typically, marketing efforts have not focussed on the nutritional benefits of drinking juice, making juice susceptible to increased direct and indirect competition from carbonated drinks, tea, and fresh fruit. Many of these competing products also retail for a price equal to or less than that of juices. Marketing strategies promoting the quality, taste, variety of flavours, and nutritional benefits of fruit juices could quickly reverse this, and lead to increased consumption of juices.

Generally, fresh 100% juice is not very common in China, holding just 10% of the fruit juice market, and dominated by small and medium-sized local companies. Increased demand for juices, and growing awareness of its nutritional benefits may lead to a shift in production toward juices of higher pure juice content, however. The most popular fruit juice varieties in China contain only 10% to 30% real fruit juice, though large urban centres demonstrate a different trend. For instance, the most popular juices in Shanghai are Dole 100% juices, made in Guangzhou, in southern China. Local production enables Dole to keep prices low and affordable to many locals and foreigners.

Within the fruit juice segment, frozen concentrated orange juice is expected to remain the top import, followed by frozen concentrated apple juice. In general, while orange and apple are the two most popular juice flavours, consumer preferences vary between northern and southern regions in China. Northerners tend to prefer more sour and stronger flavoured juice drinks, while southerners opt for sweeter and weaker flavoured drinks. The top fruit juice varieties in the north are apple, grapefruit and tomato, while the best sellers in the south are cherry, orange and apple juices. Sales throughout the country are highest during the spring, summer and Chinese New Year.

a) Key Factors Shaping Market Growth

"Socialized liberalization" the regulated opening of markets, has created opportunities in the markets for joint ventures and various importing options. This liberalization will allow foreign companies to establish production facilities within China to avoid the high tariffs charged to imports, thus making foreign products more competitive with local brands.

China's "one child" family planning policy, combined with increasing disposable income from two working parents and two sets of grandparents, has led to a largely urban "Little Emperor" phenomenon. Small financial rewards and extra attention paid to the child result in more money being spent on luxury goods and treats, both by and for young children.

China's economic prosperity has fuelled higher disposable incomes among most Chinese consumers. Greater wealth, coupled with growing health concerns, has driven growth in the fruit juice sector. More specifically, young and middle-aged consumers (ages 25 to 50) based in urban areas have increased packaged/refrigerated fruit juice purchases, however cola soft drinks remain the most popular beverages in the market. Mineral water and freshly brewed tea also remain popular alternatives.

Another factor fuelling growth of the fruit juice market is the fact that tap water in most large cities and throughout rural China is undrinkable. Traditionally, the Chinese have remedied this situation by drinking tea or boiling water; however, many younger consumers are starting to turn to fruit juices, which have the appeal of added flavour and health benefits, as well as to bottled mineral water. In some cases, mineral water is the preferred alternative since it is less expensive than imported and locally produced fruit juices. However, Chinese consumers are generally unaware of the nutritional value of drinking juices, a situation easily remedied by more aggressive educational product promotion and advertising.

b) Opportunities

Demand for foreign fruit juice labels is increasing, since Chinese consumers view these products to be of better quality and with more durable packaging than local products. Although imported juices are usually priced much higher than local juices, Chinese consumers are generally willing to pay more for better quality, superior packaging, and better-tasting products. Increasing consumer demand for beverages with higher fruit juice content will have a positive effect on fruit juice imports.

Actual and Planned Projects

In January 1998, Seagram Company Ltd. announced a $55-million joint venture with the Chongquing Three Gorges Construction Group to build a technology centre, seedling nursery, and demonstration grove, to provide technical assistance to help farmers design groves, raise citrus trees, and do soil analysis. In early July 1998, PepsiCo bought Tropicana Beverages, the world's largest marketer and producer of branded juices, from Seagram Co. in an effort to enter the Chinese market. The purchase of Seagram, and thus Tropicana, gave PepsiCo a huge share in the market, which will expand as the seedling nursery develops and its produce help establish a domestic fresh fruit source for future Tropicana juice production. Domestic production will lower the cost of the company's juices.

Kirin Beverage Corporation, a subsidiary of Japan's largest beer brewer, Kirin Brewery Company, Limited, formed joint ventures with companies in Shanghai and Wuxi in early 1997.

The first joint company, formed with Shanghai Jin Jiang (Group) Company, called Shanghai Jin Jiang Kirin Beverage & Food Co., released Kirin Orange, a naturally coloured orange drink with 20% juice content, in January 1998. In April 1998, the drink was introduced in hotels and restaurants. The company has plans to add 100% apple and pineapple drinks to its product line.

Wuxi Kirin Beverage Corp., the second joint venture company, currently produces two juice-based carbonated drinks, Kirin Apple and Kirin Litchi. Kirin Beverages is promoting its products as healthy options, and will subsequently compete more directly in the juice market than in the market for cola-based carbonated beverages.

Both joint venture companies have significantly increased their marketing staff for a strong "hands-on" marketing approach, and to monitor inventory levels and expiration dates of Kirin Beverage products in over 800 supermarkets. More aggressive marketing strategies are being undertaken in the hopes of strengthening direct ties with retailers, to compensate for China's poor distribution networks.

2- COMPETITIVE ENVIRONMENT

a) Local Capabilities

Growing 8 million tonnes of oranges per year, China is the **third-largest producer of citrus** products, after Brazil and the United States. Tapping local sources drastically reduces operating costs for both local companies engaged in fruit juice production and their foreign partners. However, large citrus production also means indirect competition from fresh fruit, as an alternative to juices. Some consumers prefer fresh fruit to juices due to flavour, nutrition, or cost.

Guangdong Jianlibao Group Co. Ltd., one of China's 500 largest companies, has one of the most recognized labels in China from its involvement in packaging, plastics, clothing canning, and drinks. While the company focusses on sports drinks, it also produces juice drinks. Jianlibao sources its ingredients domestically, except for passion fruit, which comes from Taiwan. The company uses a network of 30 agents, originally established for its sports drinks, to market its juice drinks in all of China's provinces, except Tibet and Xinjiang. The company also sells juice drinks to China Southern airlines and the local railway service companies.

Hai Kou Ye Shu Mineral Water Co. Ltd. markets the most successful brand of fruit juice, Ye Shu, which held over 6% of the Chinese fruit juice market in 1997. A rival fruit juice, Rong Shi, produced by Rong Shi Co. Ltd., held over 4% of the market in 1997.

Also, there are hundreds of small and large juice drinks producers. For example, the Hainan Coconut Tree Group ranks first in China's fruit juice drink trade with a natural green coconut juice drink. Over 200 thousand tonnes of Natural Coconut Juice is produced annually, maintaining its number one position for five consecutive years.

b) International Competition

The major players in the juice import market in China and Hong Kong are the United States, Australia, Brazil, and Spain, with the majority of imported juices entering through Hong Kong. In 1998, $119.1 million in fruit juices entered China through Hong Kong, while only $13.6 million entered China through other ports.

Total juice imports into Hong Kong declined significantly in 1998, from imports of $186.7 million in 1997, while imports into China increased marginally. Much of the 1998 decline was the result of juice imports from the United States, which fell from $82 million in 1997 to $49 million in 1998. A $17 million decline in imports of frozen orange juice explained much of the difference. Australasia, the region with the second largest exports of juice to China and Hong Kong, experienced a 50% decline in exports to Hong Kong, reaching $17 million in 1998, following exports of $37 million the previous year.

Xi'an Seastar Science and Technology Enterprises (Group) Company of China and Lead International Company of the U.S. formed Xi'an Seastar Modern Drinks Co. Ltd. produce one of the most popular brands of juice in the Chinese market. "Rong" juices contain 40% juice, were recognized as the 1996 "National Famous Brand" and ranked first in 1997 sales in China.

Two soft-drink giants recently entered the fruit juice market, using different approaches in forging joint ventures.

- The first, PepsiCo, prefers bi-lateral arrangements, and invests to achieve the maximum company shareholding allowed by law in each country. PepsiCo's recent purchase of Tropicana gives it solid footing in the Chinese juice industry. Tropicana was introduced to China in the summer of 1998, shipped in pure-juice form from Florida and sold at US$5 per litre C triple the U.S. price. By the time Tropicana's orange juice production is operating in China, in several years, Tropicana hopes to lower its prices by half.
- The second major foreign company, Coca-Cola, prefers a third-party joint venture in which Coca-Cola takes a minority share in a newly created joint venture company. In January 1996, Coca-Cola and Swire Beverages (Dongguan) Limited introduced the first brand of fruit juice specifically designed for the Chinese market under an international label. Called Tian Yu Di ("Heaven and Earth"), the fruit juice entered the market, gaining a 1% share by 1997, but incurred losses. The companies were aiming to break even by 1999.

3- PRIVATE-SECTOR CUSTOMERS

Higher levels of personal income in China have resulted in more spending on fruit juices, and have also prompted the development of a more discriminating consumer. Price is still the first determinant when purchasing, but convenience and appearance are also considered. Transportation, tariffs and other import costs result in premium pricing on most imported foods, often making it difficult for foreign brands to compete with locally-produced items.

Consumers will also accept relatively higher prices when they are familiar with the brand. With the ever-proliferating number of players in the growing Chinese juice market, brand recognition will become very important. Other considerations in purchasing are flavouring, which creates perceptions of quality, sanitation (especially in large urban centres), and familiarity.

The number of supermarkets in China has grown over the past few years, with broader selections of foods, moving a significant amount of business away from the numerous smaller independent shops. Large selection of products and exposure to Western foods have made supermarkets and convenience stores very popular, particularly among younger generations of consumers. The growth will continue, as more supermarkets continue to open to service the growing demand.

Upscale Western-style restaurants are becoming common in some of China's larger centres. Both these and hotel restaurants are excellent venues for introducing new products since they cater to upper-middle-class Chinese consumers and expatriates, both of whom have higher disposable incomes.

Hotels, restaurants, airlines and railway companies are potential customers for fruit juice products. Joint venture products, or imported goods, particularly recognized brand names, tend to be items perceived as being of higher quality.

4- MARKET LOGISTICS

Due to the fact that each region within China oversees its own food and beverage distribution system, inter-regional trade has traditionally been weak. As a direct result, local officials often regard regional economies as proprietary, frequently creating barriers for products from other regions or countries. The development of retail chains is expected to improve this situation. Companies exporting to China may wish to invest in their own distribution infrastructure, or form distribution agreements with other western companies, to avoid any logistical problems or delays.

Given China's internal transportation difficulties and developmental disparities across regions, distribution systems vary significantly by region and market. Exporters are therefore encouraged to explore regional or metropolitan markets rather than attempting national distribution. The eastern costal regions of China, which include the states of Shanghai and Beijing, represent the strongest consumer markets for imported goods.

a) Channels of Distribution

Distribution options available to the foreign exporter include direct sales, existing distribution networks and warehousing, agents and sales representatives, or establishing independent distribution networks. Of these, the best option for the small exporter exploring the Chinese market is likely the use of an agent or sales representative. There are attractive aspects to each of the other options, however, the market and retail knowledge possessed by an agent, in addition to established business contacts, make it the most cost effective option. As the exporter becomes more successful in the Chinese market, other channels of distribution will likely be more feasible and advantageous.

One of the most common import methods used by foreign companies is through a third-party import-export company based in Hong Kong. While these companies can manage product clearance through customs, and subsequent distribution in China, many of these companies use grey channels, including smuggling and false documentation, to avoid Chinese tariff and VAT requirements. The producer loses control over distribution by using these routes, sometimes resulting in the product being sold at prices determined by the distributor and retailer. Some products also never reach their destination, instead being re-exported for prices several times higher than the original price.

Importers and Intermediaries

Chinese importers usually prefer to establish direct trade links with foreign suppliers or to work through an intermediary in Hong Kong.

Direct Sales

Foreign companies generally are not permitted to directly engage in trade in China, other than through direct marketing of goods they have manufactured in China. The exception to this is that stores partially financed by foreign investment can import juice products directly, bypassing import and wholesale agencies.

For companies with small sales volumes, there are benefits to establish a sales branch office to perform direct sales to retailers.

Agents and Sales Representatives

Agents and sales representatives can provide vital links to distributors, wholesalers and the retail sector in general and can offer exporters a physical presence in the local market.

Importation and distribution are undertaken by the manufacturer's agent or a trading firm. In cases where companies wish to establish their own distribution network, or to use another company's privately operated network, agents can assist in making contacts.

Distributors and Wholesalers

Distribution through existing networks will be less expensive than establishing new networks.

State/private wholesalers handle the majority of distribution in China. They are often the result of decentralization of state companies, becoming regional private sector companies with good government contacts to facilitate customs clearance and minimize bureaucracy, but limited in geographic area served. Prices are often competitive, with rapidly improving services, however product damage through poor handling can occur.

The choice of retailer to which the wholesalers deliver products is vital to the success of the product. Retail outlets in China can be classified into state-owned, collectively owned and privately owned enterprises, including individually owned distribution outlets.

b) Market-entry Considerations

Pricing

One of the main concerns when entering a new market is the pricing strategy.

Endeavouring to enter the market by low product pricing may be futile if Chinese retailers mark up the price to boost their profit margins. Many foreign products are victims of premium pricing, despite marketing efforts to avoid this result. It may be necessary to endure this while trying to build better business relations with retailers through a Chinese agent. As brand recognition is established, and the product becomes more successful in the market, a move to produce locally will help lower manufacturing costs. The combination of lower manufacturing costs and being a local producer will help in lowering pricing, or increasing profit margins. However, a premium pricing strategy centred exclusively on restaurants worked extremely well for the introduction of Rougemont juices to the Chinese market.

Packaging

Packaging is a key consideration for successful product marketing. Packaging needs to be perfectly tailored to the unique conditions of the Chinese market as a whole (ie. adhering to Chinese packaging laws), while also appealing to the specific target consumers. For example, despite the fact that many Chinese consumers view it as unsanitary, laminated paper Tetrapak-style packaging is widely used in China, particularly by airlines and other institutional sectors, since it is more durable than other styles and allows for easier and more efficient storage. Package size is also an important consideration for many retail consumers, who prefer smaller packaging, since they tend to have little storage space in their homes. In addition, the fact that Chinese refrigerators tend to be smaller than those in North America means that there is little demand for multi-serving containers.

Advertising:

Television advertising is the best means of reaching the huge mass market, and can be a key to increasing brand awareness and establishing brand loyalty among younger consumers (aged 18 to 35). However, only a small percentage of Chinese families own televisions; therefore regional and market specific advertising is more advisable than a national campaign.

Outdoor advertising is also becoming more common. Wall posters, billboards, bus shelters and lamp-posts are all popular methods of outdoor advertising. Outdoor advertising is a longer-term investment, but can be ineffective if not used in conjunction with strong in-store promotions and point-of-sale material.

Import Regulations

High tariff duties continue to be one of the main obstacles to exporting to China. A 55% duty is applied to all juice varieties entering China. In addition, importers must pay a 17% VAT, assessed on the cargo's value. Unlike alcoholic beverages, no consumption tax is assessed against juices.

China maintains a large number of administrative controls to implement its trade and industrial policies, while having removed some non-tariff measures [NTMs], such as quotas and licensing requirements, on select items. months.

6- PROMOTIONAL EVENTS

Event / Description	Organizer
BevTek & BrewTek China '99 July 14-17, 1999 Shanghai, China Brewing & beverage production, bottling and packaging technology & equipment, ingredients & supplies, handling, storage, coding systems, dispensing, retail marketing displays.	Overseas Exhibition Services Ltd. 11 Manchester Square London, England W1M 5AB Tel: (44-171) 486-1951 Fax: (44-171) 413-8212 Internet: http://www.montnet.com
Food China' 99 / Hotel China '99 August 31 - September 3, 1999 Shanghai, China Food & food products; alcoholic & non-alcoholic beverages; products & services for the hotel & restaurant industries.	Hong Kong Exhibition Services Ltd Unit 901/902 9/F Shiu Lam Building 23 Luard Rd. Wanchai, China Tel: (852) 2804-1500 Fax: (852) 2528-3103

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Dairy Market

1- INTRODUCTION

There has been a wide misconception that the Chinese populace is lactose intolerant thus limiting the dairy industry's potential in China. This is not true. In fact, the limited sales of dairy products in China has been primarily due to the little exposure that the Chinese have had to dairy products. This is changing rapidly, however as from 1994 to 1998 the consumption of dairy products almost doubled (from 258,000 tons to 525,000)

The dominant product in the dairy sector is yogurt, which accounts for over 80% of all consumption followed by milk (powdered and fresh), ice cream, cheese and butter. The product showing the fastest growth in retail sales and volume of all of the products is liquid and powdered milk. This sector has been most successful in coastal provinces such as Shanghai, Guangzhou and Beijing, where people are more conscious of the health benefits of such products.

2- IMPORTS AND EXPORTS

In 1998, China imported 24,000 tons of dairy products at a value of over US $21million. The growth in value of imports has risen 196% during the time from 1994-1998. While statistics indicate that Hong Kong is the largest exporter of dairy products to China, this number is misleading as in most cases Hong Kong is only acting as a distributor for the leading supplier nations. Australia and New Zealand are the leaders followed by lesser supplying nations such as the Netherlands, France, Switzerland and Denmark.

With the exception of yogurt, most forms of dairy products have been imported or have been produced and marketed in China by the establishment of joint-venture production facilities by such companies as Kraft, Walls and Nestle. Shanghai, along with Guanzhou and Beijing/Tianjin, is one of the few areas where some of the more "exotic" products such as cheeses and butter have been introduced with success. Milk and milk powder on the other hand have been more widely distributed and marketed to both the coastal areas as well as inland regions.

a) Imports Regulations

In general, dairy products will have to pass through the following bureaus for inspection when products are being imported and prior to customs clearance:

1) China Commodity Inspection Bureau checks products for quality, weight, and quantity;

2) China Animal and Plant Quarantine inspection is concerned with health and sanitation of imported animal and plant based products;
3) Health Inspection Bureau will test for residues of pesticides, antibiotics and other visible and non-visible problems. This bureau also administers and approves labeling requirements for processed food products.

If a dairy product is fully processed and will not be re-packaged in China, it may fall under new labeling requirements as administered by the China Health Inspection Bureau. As of September 1, 1996, imported food items must have a Chinese language label approved by the China Health Inspection Bureau with the following information:

- Chinese name of the product
- Date of production
- English name of the product
- Ingredients
- Net weight
- Country of origin
- Shelf life
- Method of Storage
- Importer
- Address

In addition to these requirements, there are also specific import duty rates for selected dairy products. The following is a list the specific products and specific rates which are levied on the CIF (Cost + Insurance + Freight) of the imported product.

Product	***Import Duty Rate***
Yogurt	65%
Cheese	65%
Milk	30%
Ice Cream	65%
Butter	65%

Aside from the customs import tariff, there is a Value-Added Tax (VAT) of 17% levied on the total value of CIF and the China import duty.

b) Consumer Behavior

When it comes to dairy products, Chinese consumers will base their decision mainly on quality. Currently, the quality of imported dairy products far surpasses local brands, thus making it a favorite among consumers. Besides yogurt, ice cream is also a very popular treat among the Chinese people, especially during the hot summer months. The sales of ice cream in China has grown 20% annually for the past several years. As well, growth potential exists in other dairy products such as cheese and powdered milk.

c) Concerns Specific to this Sector

The critical concerns specific to the importation and marketing of dairy products into China include:

- Lack of adequate refrigeration in transportation and handling;
- High import tariff rates on the majority of products;
- Consumer education - marketing an "exotic" product to the Chinese that does not have a local counterpart;
- Determining the Chinese palette - for example: cheese importers and joint-venture manufacturers have discovered that the local market prefers mild and processed cheeses;
- Competition - especially in the areas of powdered and liquid milk. These dairy products are the most widely accepted by the Chinese consumer and also have the most aggressive advertising and marketing campaigns in the food sector;
- Labeling - the new Chinese language labeling law, which has now come into effect may have a negative impact on cost and pricing of Canadian products.

3 - DAIRY IMPORTERS AND DISTRIBUTORS IN SHANGHAI

Shanghai Foodstuffs Import & Export Corporation

Mr. TANG Min Hui, General Manager

26 Zhong Shan Dong 1 Lu

Shanghai 200002

Tel: (021) 6321-6233

Fax: (021) 6329-1730

The largest state-owned foodstuffs importer in Shanghai, but also covers most of the East China region, handling a wide range of food products from overseas.

Shanghai Jie Qiang Tobacco, Sugar & Cigarette & Wine Co. Ltd.

Ms. DING Gui Lan, Import Manager

626 Chang Ning Lu Shanghai 200001

Tel: (021) 6252-2018

Fax: (021) 6252-2005

A large chain company, well connected with the local government. Along side with alcohol, cigarettes, and confectionery products, the company also deals with dairy products.

Edward Keller China Ltd. Shanghai Office

Mr. Run Qi TANG, Consumer Products Division

21/F Tomson International Commercial Building

710 Dong Fang Pudong, Shanghai 200020

Tel: (021) 5830-0518

Fax: (021) 5830-0519

An active foreign-based food distributor dealing in high-quality dairy products, mainly catered for the expatriates' market.

Shanghai Friendship Foodstuffs Supply Corporation

Mr. SHEN Jian Min, General Manager

501 Wu Zhong Dong Lu Shanghai 200233

Tel: (021) 6439-0764 Fax: (021) 6439-1307

One of the largest food distributors in the Shanghai area; the major supplier of many hotels and local supermarket chains in Shanghai.

Inchcape JDH Shanghai Office

Mr. Derek LAI, Resident Manager

Jing Guo Yuan Mansion

245 Tian Ping Lu Shanghai 200030

Tel: (021) 6473-8080

Fax: (021) 6472-8381

Headquarters in Britain, Inchcape is a well-known distributor of foreign goods, most of which caters to the expatriate community and fine hotels.

Shanghai Dairy Corporation Supply/Sales Department

Ms. JIANG Hong, Manager

251 Feng Lin Lu Shanghai 200032 Tel: (021) 6404-1393

Fax: (021) 6404-1150

A major state-owned company which specializes in various types of dairy products.

WAF Food Trading Shanghai Co., Ltd.

Mr. WANG Wei, General Manager

Suite 704, East Building, Huai Hai Mansion

128 Pu An Lu Shanghai 200021

Tel: (021) 6386-9403

Fax: (021) 6386-5282

A Hong Kong based trading company who is very active in the dairy product sector.

4 - DAIRY PRODUCTS ENDUSERS IN SHANGHAI

Lian Quan Foods Co., Ltd.

Mr. CAO Sheng Yi, General Manager

(A Western-style cake company affiliated with many branch manufacturers)

5 Lane 414 Yao Hua Lu

Pudong, Shanghai 200126 Tel: (021) 5874-7278

Fax: (021) 5847-7248

A large Western-style bakery with many affiliated branches around Shanghai.

Shanghai Calina Food Products Co., Ltd.

Ms. LU Ting Zheng, Deputy General Manager

(A joint venture with Canada)

721 Dong Yu Hang Lu

Shanghai 200082 Tel: (021) 6535-0958

Fax: (021) 6512-7222

A well-established joint venture with Canada with large sales in Shanghai.

Shanghai Bread Factory

CHEN Zhi Yong, Director

320 Cao Bao Lu Shanghai 200233

Tel: (021) 6408-6760

Fax: (021) 6408-5750

The oldest local bread producer in the Shanghai area.

International Nutrition Company Limited

Mr. Djorn Olesen, General Manager

(A joint venture dairy products manufacturer)

88 Bei Er Lu

Jin Qiao Export Processing Zone

Pudong, Shanghai 201206

Tel: (021) 5899-0899

Fax: (021) 5899-5155

A joint-venture, specializing in manufacturing dairy products.

Shanghai Jing An Bakery House

Mr. ZHANG Wei Yong, Purchase Manager

370 Hua Shan Lu Shanghai 200040

Tel: (021) 6248-1888

Fax: (021) 6248-7535

A well-known local bakery which specializes in Western-style bakery goods.

Shanghai Ruby Food Company Ltd.

Ms. WENG Man Jun, General Manager

Suite 3601, Jing An Hotel

370 Hua Shan Lu Shanghai 200040

Tel: (021) 6248-1888 Ext. 3601

Fax: (021) 6248-6542

A well-established joint-venture with UK manufacturing Western-style cakes.

The Confectionery and Chocolate Market in China

1- MARKET OVERVIEW

a) Main types of confectionery in the market

The confectionery market in China includes two different segments, sugar confectionery and chocolate confectionery. Sugar confectionery is the largest of the two confectionery segments.

China's confectionery market is dominated by domestically produced products. The market is diverse and extremely fragmented, and market size and potential vary by region. Most domestic production involves goods which are specific to regions which has limited the impact of nationally recognized brands.

Confectionery has universal consumer appeal in China, but with the higher cost of imported confectionery and the low average wages of China's rural regions, exporters should direct their products at China's 340 million urban residences.

Candy manufacturers in China are commonly located within or in the vicinity of large cities, such as Beijing, Shanghai, Tianjin and the major provincial capitals. But overall, there are two traditionally distinct geographic areas in which confectionery production is concentrated.

- The most prominent confectionery region is Shanghai, with close to 300 enterprises engaged in pastry and sweets production employing over 30,000 people and generating output value of over RMB 4.7 billion yuan (USD 566 million). Shanghai is also the most developed candy and chocolate consumption market in China..

- The other region is Fujian and Guangdong provinces, where cheaper, bulk generic candy, widely found across the countryside market, traditionally comes from.

- In recent years, newly established joint venture confectionery manufacturing facilities have also been concentrating around the cities of Shenzhen, Beijing, Tianjin, either because of proximity to major markets or to take advantage of government preferential policies offered to foreign invested companies.

The Chinese market bursts with an enormous diversity of confectionery products on display, particularly at the mid- and low-end of the price range.

- creamy toffee
- hard (sugar boiled) candy
- soft candy
- chewing gum
- nougat candy
- gummy candy
- lolly pops
- chocolate bars
- chocolate candy
- chocolate wafers
- chocolate-covered nuts
- mints
- jelly candy
- marshmallows

This market segment is highly fragmented as a result of two principal factors.

> First, all manufacturers have been obliged to limit distribution to the province in which they are based because of the size of China. The centrally planned economy has many barriers to inter-provincial trade.
>
> Second, underdeveloped infrastructure and other natural barriers, such as the distance between the provinces with adequate consumer classes, inhibit inter-regional trade.

However, with the adoption of a free market economy in many provinces and the governments, intention to consolidate industries, the confectionery industry is expected to become more concentrated over the next five to ten years.

In 1998, China consumed 21 700 tons or 17.8 grams per capita of chocolate confectionery, which is roughly less than one western sized chocolate bar per person. The market for chocolate confectionery in China is small, not only in absolute terms, but also in relation to the size of the market for sugar confectionery.

There are very few domestic producers of chocolate confectionery, given the size and population of the country. The quality of domestic chocolate is considered poor, and consumers are just recently being introduced to high quality imported chocolate. Product storage problems during warehousing, distribution, and retailing have also slowed the development of this sub-sector. As a result, both chocolate and sugar confectionery are currently oriented towards children, students and higher income groups in major urban centers.

Domestic chocolate confectionery is made from sweet chocolate, where as imported chocolates are made from sweet or semi-sweet chocolate. Many popular chocolate confectionery products contain nuts, fruits, and raisins. The perception of chocolate coated products is that they are a healthier product and their popularity is in line with the building popularity of healthy foods processed in China.

The Competitive Environment

Domestic products dominate the confectionery market in China. Nevertheless, multinational corporations have entered the market because of China's sheer size and potential. Although traditional Chinese products dominate the market, they are under threat from increasingly popular western-style products.

There are more than 30 producers of chocolate confectionery in China, with joint venture companies being the most dominant.

b) China confectionery imports estimate

Although import duties on confectionery are rather low (15% for sugar confectionery and 12% for chocolate) only a fraction of imported products enter China through legitimate channels. Over 84% of sugar confectionery and 60% of chocolate imports into China enter through Hong Kong, unaccounted for by Chinese Customs. This is particularly true for cheaper no-brand Southeast Asian products as well as higher-end European products with some brand recognition in China. Most leading sources of imported sugar confectionery ship in the vast majority of their products through Hong Kong’s gray channels. In contrast, American, Australian and Belgian chocolate importers tend to invest more in their brand name, develop a longer term marketing strategy and bring in most of their products, directly through legitimate channels.

The Asian crisis has severely affected Southeast Asian confectionery exports to China. Under such difficult market circumstances, the apparent success of Korean, French and Canadian sugar confectionery, as well as that of American, Belgian and German chocolates, is of even greater significance and suggests a strong long-term potential for these products.

China imports of chocolate confectionery by country of origin

Rank	Country	1996	1997	1998	1997-98 Change
		(Millions of US Dollars)			(%)
	The World	23.07	29.21	23.50	-19.5%
1	Italy	10.14	12.05	10.26	-14.9%
2	United States	2.94	4.58	4.88	6.6%
3	Australia	2.37	4.28	2.20	-48.6%
4	Belgium	0.51	0.73	1.64	124.7%
5	Switzerland	2.54	1.87	1.29	-31.0%
6	Germany	0.28	0.38	0.54	42.1%
7	Malaysia	0.79	1.12	0.42	-62.5%
8	New Zealand	0.33	0.26	0.39	50.0%
9	Hong Kong	0.76	0.65	0.36	-44.6%
10	Singapore	0.09	0.66	0.25	-62.1%

Source: The World Trade Atlas, China Edition (China Customs data) and Hong Kong External Trade Data

c) Key market drivers in the confectionery industry

Candy is a traditional product in China. For Chinese people it is much more than one section of the food pyramid. Children and young women, who account for the majority of overall candy consumption, are the primary targets of confectionery manufacturers and retailers.

New candy products come bundled with toys and other collectibles. In-store displays and POP materials are designed to attract kids, girls and young women.

While similar consumption and market trends can be observed in the snack food sector, candy occupies a special place in Chinese traditional culture. It is a gift item of choice. When Chinese visit family and friends, the most common gift they bring for the hosts is candy or chocolates. Traditionally, this was loose toffee or hard candy that ended up on the host’s dinner or tea table. Now with the slow but sure acceptance of chocolate and the technological and marketing advances in the domestic confectionery industry, candy gifts also include a wide variety of products such as chocolate bars and boxes, soft candy, gummy candy, jelly candy and toy packages. According to industry insiders the gift candy sub-sector is growing at notable rates, with more high-end luxury products introduced to and accepted by the market.

During the Chinese lunar calendar New Year, or Spring Festival (usually falling between mid-January and mid-February), this tradition of giving candy as a gift and buying enough to put on every table at home is brought to its annual extreme. The month before Spring Festival is the zenith of the high season for all confectionery manufacturers, and during the several weeks of pre-Chinese-New-Year sales many of them record up to a third of their annual revenues.

Another major driving force in the confectionery industry is the Chinese tradition of giving out candies to all the guests at a wedding. This tradition has practically created a niche sub-sector of the candy industry, the *xi tang* or “happy candy”. Again, historically the *xi tang* was a pocket-size sachet pack containing eight pieces of toffee or hard candy. It is imperative that the principal color of the package is red (some yellow is allowed) and features the auspicious Chinese character for “double happiness” as its central design element. One pack of *xi tang* for each guest is placed on every table during the reception, and packs or pieces are given out to neighbors, relatives, colleagues and friends. This market is still dominated by the old traditional Chinese brands like White Rabbit and WoWo, but has recently been invaded by most joint venture or foreign licensed brands. For example, a Shanghai company producing butterscotch candy under license from the Italian company Perfetti has introduced an original *xi tang* package - a red and yellow paper box with 8 pieces of candy inside. Dove chocolate and Hershey’s have both introduced new *xi tang* products. Overall, *xi tang* is a handy addition to a brand’s product range, offering great exposure, and generating decent supplementary revenues during the two popular wedding months - September and May.

The most recent trend among confectionery consumers is their rising health awareness. Mothers concerned about their children’s dental health are careful not to let them eat too much sugar. Young women increasingly abstain from food products high in calories. This is hurting some of the traditional confectionery producers, but on the other hand, creates an opportunity for quality low-fat, sugar-free foreign products.

d) Confectionery industry SWOT analysis

Strength	Weakness	Opportunity	Threat
Higher living standards and health education are driving consumers towards better quality and imported confectionery.	The “traditional” sugar candy (toffee, hard fruity handy and soft candy twist-wrapped or pillow-packaged) market has been shrinking by about 30% for 2 years in a row.	Chinese producers have little or no R&D capabilities, so they are slow to introduce new/novelty candy products to the market.	Counterfeit products appear in the marketplace as soon as a branded product is relatively successful.
The market for chocolate and high-quality imported candy has been growing steadily during the period 1992-97.	Chocolate is still considered a “foreign” taste by most Chinese.	Chocolate is capturing the younger, better off Chinese consumers in a significant way, both as a trend and as a new taste.	A number of foreign chocolate brands have entered the market in the past 5 years and most of them have established domestic manufacturing.
Candy is a preferred gift item, traditionally presented at weddings, birthdays and New Year’s celebrations.	The market is distinctively price-driven, both on the wholesaler and consumer level.	Innovative packaging, novelty candy and cross-branding are very scarce and underdeveloped.	Economic slowdown in 1997-98 is affecting the domestic confectionery market.
	Candy is still a distinctly seasonal commodity. The saying goes: “Candy and liquor in the winter, ice cream and beverages in the summer”	High-tech, good quality foreign products, that do not melt in the summer, can capture market share during the traditional low season.	Local producers are already acquiring Japanese and Korean technology for products that have had successful pilot sales in the Chinese market.
	There are too many producers in this very fragmented market. In the smaller cities and countryside, candy is almost a commodity item.	Outside the big cities the market is very under-supplied throughout the year, with a limited variety of quality candy products.	Little brand awareness and loyalty, especially outside the cities, except for the old Chinese brands like White Rabbit.

2- MARKET STRUCTURE AND TRENDS

a) Distribution channels for confectionery products

The distribution and handling system for domestic confectionery products, particularly the more traditional ones, is well established and varies little from city to city.

Traditionally, confectionery manufacturers are located in close proximity to their major consumer market. Thus, historically, Shanghai had the highest concentration of sugar candy and chocolate producers, but now many joint-venture facilities are being built around Beijing and in Guangdong province.

A domestic producer is generally able to handle distribution within his home city and surrounding areas. Most manufacturers, using their own sales force, distribute directly to local retailers, concentrating on the large department stores, food stores and supermarket chains. Only a few confectionery producers distribute to “Mom & Pop” stores, which is locally referred to as “direct sales”, or sign up an agent to do it for them.

- A *distribution agent* is either a state-owned or privately-controlled company whose main job is to sell, distribute and sometimes market the manufacturer’s products within the retail market of one city or region. Most distribution companies require exclusivity for the area they cover. Distribution agents generally work to target the city market and cover the full spectrum of retailers. Most agents are themselves food retailers or have a retail subsidiary. They own or have access to warehouse facilities and keep a rolling stock of their main products. They own their own vehicles and deliver directly to the retailers. Depending on the product’s performance and popularity, distributors may pay up-front for stock or may only accept a product on consignment..

  Very useful to confectionery manufacturers to expand his market.

- A *designated wholesaler* is generally a private company such as a large successful wholesaler, whose main job is to sell and promote the manufacturer’s product at one wholesale market. The designated wholesaler gets preferential discounts and money incentives based on performance, has limited storage facilities, and rarely owns any delivery vehicles.

Useful to foreign brands and imported products are still relatively uncommon in these markets, but their growth potential is considerable

- *Secondary wholesalers*. the primary wholesalers' major customers are the so-called They are relatively small private wholesalers from surrounding towns and villages that buy all their products (food, beverage and consumer goods) from the same city wholesaler. Generally, they sell to small local retailers of the Mop & Pop caliber, although sometimes their products go onto tertiary wholesalers in even smaller localities.

The retail price formation formula varies significantly for different products as they move through the above distribution channels. Generally speaking, lower-value bulk confectionery products are modestly marked up by manufacturers and wholesalers and rely on large volumes to achieve profitability, whereas high-value, imported or gift products allow for generous mark-ups at each stage of the distribution chain. All successful distributors prefer to work with high-value premium and imported products, since the profit margins are much higher than those of traditional local products. This is, of course, provided that the manufacturer or importer backs them with adequate marketing support to make the product a success in their particular region.

In the case of imported confectionery, product is first handled by the regionally appointed Chinese importer, who is usually only responsible for bringing in the product, clearing customs and other import formalities, labeling it with the hygiene inspection hologram, storing and delivering it. Then a city or regional distribution agent is chosen by the foreign exporter. This agent often also represents an array of domestic confectionery and snack food products. The distribution agents are only responsible for meeting sales and market coverage targets and making timely payments. Once the product is in China, it moves through essentially the same channels as its domestic rivals, so the above described distribution structure generally applies to imported confectionery, too.

b) Trends and structural patterns in the confectionery distribution system

As a whole, distribution channels in China are underdeveloped, poorly-managed and highly inefficient. Distribution and logistics remain the greatest challenges to manufacturers and importers of food products. Nevertheless, in the past five years distribution channels, and particularly the retail environment, in China have improved substantially. The advent of supermarkets, supermarket-type convenience stores, and lately hyper-marts, has created a retail environment which is cleaner, better organized, more efficient and with dramatically improved capability of handling frozen, chilled and fresh foods. Department stores and traditional non-staple food stores are slowly adjusting and investing more in innovation in order stay competitive. Progress, although at a much slower pace, is seen in the way warehouses and delivery vehicles are being organized, equipped and managed.

As a result of the better retail conditions, purchasing habits are slowly changing, too. Now that product is being handled properly through the improved distribution and retail channel, the seasons for products like chocolate and creamy toffee, traditionally restricted to winter sales only, are getting longer every year.

Furthermore, the increasing number of foreign companies importing or setting up joint ventures to manufacture confectionery products has contributed to the rising level of sophistication and professionalism of product merchandising, marketing support and distribution management.

c) Recommendations for new-to-market confectionery exporters

It is important to develop a long term strategy and build a brand. Brands are extremely important in China today. Chinese consumers are constantly bombarded with new, innovative, cheaper and different consumer products. They and their families have no particular history of consuming most of these products, and therefore almost no brand or product loyalty. They have to trust their perceptions, which today are largely influenced by the mass media and the art and science of marketing.

Building a brand is the only way a company can differentiate its product from the rest and ensure long-term success in this very competitive market. Backing your brand with consistent high quality is a winning formula and the reason why so many relatively expensive foreign products are gaining the upper hand over local ones.

d) Confectionery consumption trends

In many ways, Chinese people remain very traditional in their confectionery consumption habits. Candies are still one of the most common gifts that Chinese people exchange, particularly during traditional holiday seasons. Wedding candy, or *xi tang*, is the inevitable customary fixture of Chinese wedding ceremonies and rituals. Children, young girls and women, who according to industry experts consume over 80% of all candy in China, continue to be the primary marketing targets of confectionery manufacturers and distributors. Historically, candy only came in bulk form and various styles of packaged confectionery have only been introduced to the market in the last 10 years. Bulk candy, which is perceived as cheaper, is still widely sold to retail customers.

However, as ordinary Chinese people grow better off, they are becoming more selective and cognizant of quality confectionery products, primarily introduced through imports. Fancy packages, gift packs and luxury items are widely available in stores and preferred by many customers to cheaper products. Chinese customers strongly believe in the link between brand name and quality, and, once they choose a favorite brand, they are generally very loyal to it. An interesting side effect of this is the modest emergence of cross-branding marketing techniques domestically. Established brands are introducing products outside their traditional range or are being bundled with other brands in a different but related sector.

Rising living standards and the Central Government's one-child policy have resulted in a strong trend towards healthier and more nutritional diets. Mothers are trying to limit the amount of sugar their child consumes, concerned about his or her dental health and overall fitness. They are also trying to secure an adequate intake of vitamins and minerals for the child. This has created a market for a new wave of healthy products in the confectionery sector. Sugar-free candy, vitamin C candy and products with added vitamin A, D and calcium are very popular in the market place.

Perhaps the most significant and clearly noticeable development in Chinese confectionery consumption is the advent of chocolate. This is still happening slowly and on a relatively small scale, and some old habits or customs are in the way of this process. However, the potential is substantial.

ANNUAL CONSUMPTION OF CHOCOLATE

(thousand tons)	1992	1993	1994	1995	1996
China	***13.0***	***16.6***	***23.4***	***23.4***	***34.4***
Hong Kong	9.8	10.1	10.5	10.9	11.3
Japan	190.3	190.0	185.0	189.8	174.7
Korea	35.1	42.3	49.0	58.0	63.5
Taiwan	13.2	13.7	14.1	14.6	14.7

Source: Shanghai Food News Magazine

Annual Per Capita Consumption of Chocolate

(kg)	1992	1993	1994	1995	1996
China	***0.01***	***0.01***	***0.02***	***0.02***	***0.03***
Hong Kong	1.70	1.74	1.80	1.86	1.92
Japan	1.53	1.53	1.48	1.44	1.39
Korea	0.08	0.96	1.10	1.29	1.40
Taiwan	0.64	0.65	0.67	0.68	0.68

Source: Shanghai Food News Magazine

Percentage of Chocolate within Overall Confectionery Consumption

(%)	1992	1993	1994	1995	1996
China	***2.54***	***3.04***	***3.98***	***4.37***	***5.11***
Hong Kong	23.8	24.8	26.3	27.5	29.2
Japan	41.2	41.0	40.3	39.6	38.8
Korea	53.8	57.9	61.4	63.8	65.6

Source: Shanghai Food News Magazine

China’s chocolate market is still smaller than Japan’s or Korea’s and its per capita consumption of chocolate confectionery is just a tiny fraction of that of Hong Kong or Taiwan. Yet, as the above numbers show, the growth rates are impressive and the room for expansion is enormous. All this makes China an important potential market and an attractive one to foreign chocolate manufacturers

e) Confectionery manufacturing trends

Over the past five years, foreign confectionery companies have been extensively testing their brands and products in the Chinese market. Initially, all foreign branded candy and chocolate products were imported and distributed by local companies. The more successful and long-term-oriented companies, like Le Conté, Mars, Wrigley’s and Nestle, were first to establish local representation and later joint venture or wholly foreign owned production facilities. They were followed by other international brands, such as Cadbury’s, Hershey’s, Mentos and Chupa Chups. Some of these, like Hershey’s and Mentos, are still produced abroad and imported to China, but the overall trend set by the multinational companies interested in capturing a leading market share is to establish production facilities locally. By doing this, they not only eliminate the burden of import duties and formalities, but also take advantage of China’s inexpensive skilled labor and the preferential policies offered by the government to foreign invested enterprises. But perhaps most importantly, they are able to build and control their own sales and distribution network, devise and implement their own marketing strategies, and ultimately establish and position their brand in line with their strategic plan for the China market. Manufacturers in China, including joint venture and wholly foreign owned ones, are legally permitted to distribute, wholesale and even retail their own products in China. Imported products, however, may only be brought in and distributed by Chinese agents.

For many foreign confectionery manufacturers, selling to China and developing the Chinese market still seems like a risky and unjustified investment of time and money. A relatively safe way for them to test their products in the market, without affecting their brand name, is to sign a licensing agreement with a local confectionery manufacturer, whereby the foreign company provides the technological know-how, the rights to the brand name and possibly some of the key equipment. Naturally, the biggest risk in this case is that, once the product is successful in the market, the Chinese partner may steal the technology and reproduce the product at a lower price point. Another possible vehicle for the licensing approach is to establish a contractual joint venture enterprise (a.k.a. cooperative joint venture), which will acquire all the rights to technology and intellectual property. Since these joint ventures are protected by the Chinese Joint Venture Law they offer a safer solution for foreign companies to enter in licensing agreements without committing to sizable equity investments.

On the other hand, many of the successful Chinese confectionery makers are actively investing in foreign technology, know-how and machinery to add new, modern and high-tech products under their already well-known and established brands. The influx of foreign imports has put even such famous Chinese brands as White Rabbit and Wo Wo on the defensive, scrambling to innovate their outdated product lines. A recent prominent example is the Wo Wo group introducing their extra-rich creamy toffee with technology and equipment from Japan.

An interesting and relatively unexplored alternative, presenting a very good opportunity for both local brands and foreign exporters, is the creation of private labels for the Chinese market by repackaging and branding of imported bulk confectionery. Enterprising local manufacturers have already been working with Southeast Asian companies (mostly from Korea, Malaysia, Japan and Thailand) for years, bagging their higher-quality products in China (or abroad, but for the China market) under a local Chinese brand name.

Confectionery manufacturers, pressured by the competitive market, are trying to offer more variety of flavors and packaging styles, sacrificing large-volume business. This has also to do with consumption habits, particularly in more traditional areas of China, where people like to buy a little from different kinds of equally-priced candies, making their own "cocktail" to bring home or give as a gift.

f) Company profiles tables

Firms in the non-chocolate sugar confectionery industry

Company	Brand Name	Products	Setup / Profile
Guan Sheng Yuan Food Group Co. (GSY)	White Rabbit	creamy toffee, hard candy, nougat and various	Local group co., biggest local brand, has several J/V's
Shanghai WoWo Food Group Co.	Wo Wo, Jia Jia	creamy toffee and hard candy	Pudong township co., has J/V
Gold Monkey Group Co.	Gold Monkey (JinSiHou)	creamy toffee and hard candy	Local group from Henan
Suzhou Magna Foods Co.	Kopiko	coffee hard candy	Indonesian J/V
Shanghai Perfetti Confectionery Co.	Alpenliebe	butter scotch hard candy	Licensed coop-J/V with Italy
Shanghai Chupa Chups Food Co.	Chupa Chups	lolly pops	J/V with GSY
Shanghai ABC Confectionery Co.	A-Mi (Kitty)	creamy toffee and hard candy	American-born Chinese J/V
Guangdong Xi Zi Lang Group Co.	Xi Zi Lang	jelly bites	local, family-owned
Wrigley's Confectionery Co.	Wrigley's	chewing gum	J/V
PT Van Melle Indonesia Co.	Mentos	mint candy	import
Dongguan Xu Fu Ji Food Co.	Xu Fu Ji	various hard and soft candies	local

Firms in the chocolate confectionery industry

Company	Brand Name	Products	Setup / Profile
Effem Foods (Beijing) Co.	Dove / m&m's	chocolate candies, bars, gift pack and boxes	J/V
Hershey International Co.	Hershey'	chocolate candies and bars	Import, with rep. office in Shanghai
Cadbury Food Co. Beijing	Cadbury	chocolate bars	J/V
Shenzhen Le Conté Foodstuff Co.	Le Conté	chocolate candies and bars	J/V
Tianjin Nestle Co.	Kit Kat	chocolate wafers	J/V
Shanghai Coline Cocoa Products Co.	Cémoi	chocolate candies and bars	J/V
Shanghai Shen Feng Foods Co.	Shen Feng	chocolate candies, bars, gift pack and boxes	Locally controlled J/V, No.1 in Shanghai
FERRERO S.p.A.	Ferrero Rocher	chocolate specialty candy	import
Lindt & Sprüngi (Schweiz) AG	Lindt	chocolate bars and boxes	import

3- COMPETITION

a) Competitive analysis and market shares

The sugar confectionery and chocolate markets are both extremely competitive. There are numerous players on each level, particularly in the non-chocolate candy sector.

Experts seem to agree that there are good business opportunities at both extreme ends of the market spectrum. Selling large volumes of cheap candies to the smaller cities and countryside is big business for wholesalers around the country, but this market has so far proven to be well out of reach for foreign companies and their products. The high-value imported or joint venture products, on the other hand, offer good potential and generous incentives for distributors in a market that is growing steadily.

Top 6 best-selling non-chocolate confectionery brands in China for 1998

Rank	Brand Name	Products	Market Share (%)
1	White Rabbit	creamy toffee, hard candy, nougat	28.60
2	Wo Wo, Jia Jia	creamy toffee, hard candy	20.70
3	Da Da	chewing gum	10.15
4	Wrigley’s	chewing gum	10.08
5	Gold Monkey	creamy toffee, hard candy	5.20
6	Perfetti (Alpenliebe)	butter scotch candy	3.50

Source: China National Food Industry Association

Similarly, the top four best-selling brands of chocolate occupy over 50% of the market.

Top 10 best-selling chocolate confectionery brands in China for 1998

Rank	Brand Name	Products	Market Share (%)
1	Dove	chocolate candy and bars	21.25
2	Cadbury	chocolate candy and bars	10.35
3	m&m	chocolate candy	10.08
4	Le Conté	chocolate candy and bars	8.59
5	Jin Sha	chocolate candy gift boxes	6.97
6	Shen Feng	chocolate candy, bars and gift boxes	5.79
7	Dah Chong Children’s Food	chocolate candy and bars	3.08
8	Kit Kat	chocolate wafers	2.72
9	Hershey’s	chocolate candy and bars	1.92
10	Wei Sha	chocolate candy gift boxes	1.80

Source: China National Food Industry Association

b) Imported vs. local confectionery

The past several years have seen tremendous growth in the number of imported foreign confectionery products entering the Chinese market. Rising living standards and quality awareness of ordinary Chinese have allowed candy imports, perceived to be of better quality and value, into the market despite their higher price and limited popularity. Market penetration and effective distribution throughout China still remains an uphill battle for imported confectionery products.

d) Comparative analysis of imported vs. local confectionery

	Local	**Imported**
Advantages	· CHEAP · widely available · some brand recognition · customer loyalty · manufacturers can distribute and sell directly	· consistent high quality · perceived high value for money · attractive/novel packaging · strong marketing support · trendy · distributors make good margins · high-tech, difficult to counterfeit
Disadvantages	· lower quality, no consistency · few novel products and innovative packaging styles · weak marketing · tiny margins for distributors	· higher price · low brand recognition · no established distribution · unfamiliar or unaccepted taste · must go through local agent to import and distribute

4- BEST PRODUCT PROSPECTS

a) Best product prospects

Because of the limited research and development capabilities of domestic Chinese manufacturers, foreign confectionery companies have a competitive edge in this market with their more advanced, high-tech and innovative products that have been developed and tested abroad over the past few decades. Chinese confectionery consumers are lured by novel and unique flavors, shapes and packages of candy introduced by foreign manufacturers. The downside is that these impulsive market fads only last for several months and local manufacturers are quick to come up with cheap counterfeits as soon as there is evident consumer demand.

Chinese consumers believe in foreign brands and the higher quality standards they stand for. International brand-name confectioners have a good opportunity in a vast, relatively “level-field” market, provided they are willing to adopt a more realistic strategy and be prepared to incur operating losses in the first couple of years. This, according to almost everybody in the industry, is the right approach. However, it involves long-term commitment of considerable resources and major investment in developing the brand and the market demand for it.

Rising living standards of ordinary Chinese people and the resulting health awareness have created a strong market for healthy and nutritious foods. This presents high-tech foreign confectionery products, featuring advanced health and nutrition qualities, with an excellent business opportunity in a large emerging market.

There are a number of particular elements that need special attention in order to plan for success. Pricing is probably the most important one.

- Price has to be controlled and fairly reasonable at least within the same category of products in the market. This is not to say that cheap products will automatically sell better, but consumers must be convinced they are getting good value for their money.
- Another important detail worth paying attention to is acceptance of flavors and packaging. Although Chinese consumers are generally open-minded and receptive to new intriguing tastes from abroad, there are certain products that remain unacceptable to their palate or cannot meet their hygiene perceptions.

b) Products that will not do well in the market

Experts are unanimous that strong sweet taste is definitely “out” for confectionery products. Mothers are more wary of sweets damaging their children’s teeth and young girls are more careful with their sugar intake. Many foreign candies and chocolates are perceived as “too sweet” by local customers. It is important to conduct taste and flavor tests before launching a product in the Chinese market.

Strong bitter flavors, such as those of dark chocolate or licorice, are also having a hard time winning Chinese consumers over. Cinnamon is proving to be a less accepted foreign flavor, too. Chinese seem to prefer pure, milky and fruity flavors.

Some industry insiders believe soft candies in general have a limited future in China. They are perceived to melt and deform easily and are widely regarded to be passe in the marketplace.

While bulk is still a very popular way to sell candy to end users even in the big cities, bulk unwrapped candy is increasingly unpopular. Chinese customers regard candy which is not individually wrapped, even if it is packaged in bags or boxes, to be of lower hygiene standard.

Finally, tastes and preferences vary greatly from province to province, along with the purchasing power and patterns of the general population.

APPENDIX A -- Trade Shows and Promotional Venues

Food and Hotel China	August 1998 Annual Shanghai, China	Hong Kong Exh Services Ltd. 9FI Shia Lam Bldg., Wanchai, HK Telephone: (852) 2804-1500 Facsimile: (852) 2528-3103
Baking & Confectionery China International Bakery and Confectionery, Snack Foods & Ice Cream Industries Exhibition.	August 1998 Annual Shanghai, China	Hong Kong Exh Services Ltd. 9FI Shia Lam Bldg. Unit 902-2, 23 Luard Rd. Wanchai, HK Telephone: (852) 2804-1500 Facsimile: (852) 2528-3103
China Supermarket	March 1998 Biennial Guangzhou, China	Blenheim Exh Pe Ltd. 75 Bukit Tirrah #06-06 Boon Siew Bldg. Sing. 0922, Singapore Telephone: (65) 338-2868 Facsimile: (65) 338—6823
Bakery and Confectionery International	August 1998 Pechino, China	Overseas Exhibition Services Ltd. 11 Manchester Square, London, England W1M 5AB Telephone: (44171) 486-1951 Facsimile: (44171) 486-8773

APPENDIX B -- Key Government Contacts and Support Services

Chinese Government Offices in China

China Council for Promotion of International Trade (CCPIT)
1 Fuxing Men Waidajie,
Beijing 100860
Telephone: (01) 801-3344
Facsimile: (01) 801-1370

Customs General Administration
Building East, 6 Jian Guo Men Wai Dalie
Beijing 100730
Telephone: (01) 519-4144
Facsimile: (01) 512-6020

Guangdong Province Foreign Economic Relations and Trade Commission
305 Dongfeng Road C
Guangzhou 510030
Telephone: (020) 333-0860
Facsimile: (020) 334-4112

Guangzhou Foreign Economic Relations and Trade commission
1 Fu Qian Road, Guangzhou 510032
Telephone: (020) 333-0360
Facsimile: (020) 334-0362

Ministry of Agriculture
11 Nonzhanguan Nanli, Hepinili
Beijing 100026
Telephone: (01) 500-3366
Facsimile: (01) 500-2448

Ministry of Foreign Trade & Economic Cooperation, Guangzhou
Foreign Trade Centre Building
117 Liu Hua Road, Guangzhou 510014
Telephone: (020) 667-8000 Ext. 86011
Facsimile: (020) 667-7040

Ministry of Foreign Trade & Economic Cooperation (MOFTEC)
2 Dongchangan Jie, Dongcheng Qu
Beijing 100731
Telephone: (01) 519-8114
Facsimile: (01) 512-9568

State Economic and Trade Commission
25 Yuetan North Street, Beijing 100834
Telephone: (01) 839-2227
Facsimile: (01) 839-2222

Ministry of Foreign Trade & Economic Cooperation, Shanghai Commissioner
1 Yongfu Lu, Xuhui Qu
Shanghai 200031
Telephone: (021) 431-7212
Facsimile: (021) 431-7065

Ministry of Foreign Trade & Economic Cooperation, Tianjin Commissioner
59 Nanjing Road, Tianjin 300042
Telephone: (022) 317-060
Facsimile: (022) 307-742

Shanghai Foreign Economic Relations and Trade Commission
33 Zhongshandongyi Lu
Shanghai 200002
Telephone: (021) 323-2200
Facsimile: (021) 323-3798

State Administration of Import and Export Commodity Inspection
12 Jian Guo Men Wai Dalie,
Beijing 100022
Telephone: (02) 500-3344
Facsimile: (02) 500-2387

Ministry of Foreign Affairs
225 Chaoyangmennei Dalie, Dongsi
Beijing 100701
Telephone: (01) 513-5566
Facsimile: (01) 512-9568

Chambers of commerce and industry associations

China Chamber of International Commerce
1 Fuxingmenwai Dajie, Beijing
Telephone: (86-10) 6851-3344
Facsimile: (86-10) 6851-1370

China Chamber of Commerce for Import/Export of Foodstuffs, Native Produce, and Animal By-products
95 Beiheyan Dajie
Dongchengu, Beijing, China
Telephone: (86-10) 6513-2569
Facsimile: (86-10) 6513-9064

Chamber of Commerce CCPIT Shanghai Sub-Council
14/F New Town Mansion
55 Loushanguan Lu
Shanghai, China
Telephone: (86-21) 6275-0700
Facsimile: (86-21) 6275-6364

The Chinese Wine Market, An Industry Analysis

China’s wine-making industry has made great progress recently in terms of technological innovation and equipment improvement. Chinese consumers are now purchasing higher-quality and drier wines instead of lower quality sweeter wines. At the moment, the leading wines are French – style Dynasty (dry red & white) and Imperial Court red, white, and champagne.

1- MARKET OVERVIEW

The origins of fermenting and drinking wine in China go far back in time. Without any doubt, wine occupies an important place in the Chinese culture. China has a 6,000 year history of grape growing, and a 2,000 year history of wine making, but even during this century, the wine’s style produced in China still remains very different from the one recognized in the West.

In fact there are near 100 wineries in China. The problem is that many of these wineries only produce brandy or traditional Chinese alcoholic beverages and medicines. Jiu is the Chinese term for all alcohol, and they tend to lump them all together in their minds, whether it is grape wine (putao jiu) or beer (pi jiu) or liquor (jiu), they refer to them interchangeably. This is one of the most important insights to the Chinese wine industry.

It is estimated that one-fifth of China’s current grape harvest is made into wine.

Premium cork finished wines made from vinifera grapes (such as Cabernet and Chardonnay) are still a minority. The wines (and from here out I will refer only to European style wines) tend to be very light although reasonably well made.

There are two major problems plaguing the Chinese wine industry.

- The first is getting the farmers to let the grapes ripen. Most of the times the grapes are recollected early so the farmers have no fear of rot or other harvest dangers, and this leads to have to ad a great deal of sugar to produce table wines.
- The second is an economic problem. A bottle of wine could be sold for no more than $3 each to compete in the market, and the Chinese $3 bottles of wine are not unlike $3 bottles of wine in western countries.

Table wine is at the bottom rung of the consumer preference list, with brandy being much higher.

The Chinese government in 1987 began to encourage the Chinese people to drink grape wine over the sorghum based "baijiu" (almost a pure alcohol white liquor). This would switch public consumption from grain based to fruit based beverages, very important in a country struggling to feed its masses; as well it would bring down the average ethanol content consumed in the market. This program has met with limited success, but good response can be found in the younger markets which bodes well for the future.

The desire to embrace western products is the single most important driving force in the adoption of wine as a viable import in China. Alas economics, as usual, is the final arbitrator. With a 750 ml bottle of beer costing around US$.60, it is difficult for the Chinese consumer to spend even the $2- $4 that a bottle of Chinese wine fetches. Imported wines with their average price around US$10 a bottle and up, is far beyond the reach of most consumers. As the cost of living and the economic growth of China continues to skyrocket, there will soon come a day when this price resistance will be less dramatic.

The Chinese people have a sense of brand loyalty that almost borders on the fanatic. Once a brand name is established, anything with that name is sure to be well done.

Alcohol related regulations, as far as distribution and labeling, are almost non existent; although with the bureaucracy in China being what it is, it is supposed to change at any given moment.

a) One of the single greatest barriers of exporting wines to China is the duties. As of spring 1996, the duties for wines imported into China were an exasperating 65%, down from 80% the year before. This high duty makes it especially difficult to compete at the under US$5 retail level, where most wine is now being sold.

b) The distribution system for wines in China is currently chaotic. Once the domain of the government, distributors have now found themselves out on their own with no support from the central government, who still expects their cut. There is no such thing as a wine cellar or refrigerated storage in China, a major obstacle. Because of the lack of regulation, any new wine venture in China would create and well consider their own distribution system.

The main competition for imported wines in China comes not from the Chinese wines, but rather the other forms of alcoholic beverages. The French Cognac houses, who are the main players in China, usually in the form of a joint Franco/Sino venture (e.g.,. Dynasty and Great Wall Wineries), have discovered that brandy, and not table wines are the current top sellers in China. The reason is the consumer is looking for the effects of the ethanol, rather than the taste of the beverage.

By far and away the most compelling aspect of the Chinese market is the demographics. While there is not currently any portion of the market that would be likely to drink table wine on a regular basis, the shear numbers are staggering. In fact, grape wine now is the preferred alcohol beverage among the younger generation as well as professionals and the country's new entrepreneur class. It has been enormous changes in its political, economic, societal, and cultural landscape. Not only have traditional wine-making techniques and drinking habits continued to find favor, imported wines have also gained acceptance. The range of wine choices when dining friends and relatives has widened. This has not only enriched the pleasure of drinking, it has also made the wine-drinking culture of Chinese people more colorful.

In summary, any venture to export wines to China must be prepared to establish their brand over a long and potentially unproductive period. They must be able to price their product, after paying 70% duties in order to compete with other alcoholic beverages, especially beer. They must be willing to create or support a distribution system in each major urban area. They must create not only their own storage facilities, but help their customers learn about storing, and even opening bottles of wine. With perseverance, and deep pockets, the potential to market wine to 1.2 billion people is a staggering concept with great potential for profit, in a long term. Education overall is required before the Chinese people will become a wine drinking nation of even the most meager sort.

China, a nation of 1.2 billion people, has a history of grape growing dating back to the Han Dynasty (121-136 BC) and of grape winemaking dating from the Tang Dynasty (618-907 AD). Vitis Vinifera wine production, however, is a more recent 20th-century innovation. While only about one-fifth of China's current grape harvest is made into wine, the potential for wine production and consumption is enormous. Importing and exporting wine is gaining the attention of the newly emerging economic structures of China and foreign investors and partnerships. Both Chinese government and private-sector wine interests are eager to welcome and learn from foreign viticulture and enology techniques and methodologies.

a) Advantages

+ Historical and cultural connections with wine.
+ Western products and styles have appeal and there are not enough suppliers meeting the demand for imported wines.
+ Chinese domestic wine industry won't meet consumer demand for decades to come, it is estimated that there are 300 million Chinese who can afford wine beverages.
+ Youth and young business classes are change-minded and looking for a more prosperous and comfortable life style.
+ Whole nation is undergoing a building-construction boom, further promoting change. More wage earning employment is increasing public desire for more consumer goods.
+ Government entities are freer to establish direct business contacts with foreign companies (government's monopoly control of distribution systems of major products, i.e., grains, oil, sugar and alcohol).
+ Small private sector businesses are present everywhere, adding a stimulus to the development of alternative distribution and marketing systems within the country.

b) Disadvantages.

- Established and growing foreign competition.
- Established cultural identification with tastes of traditional products, i.e., sweeter, heavy bodied, high alcohol content and flavored wines.
- Higher prices and limited availability of foreign products.
- Government bureaucracy, out of date regulations, paperwork, etc.

2- BUSINESS TRADE CONSIDERATION

- Patience and long-term commitment are necessary.
- Joint venture connection with government or government connected organization best for near future.
- Establishment of dependable distribution and warehousing system is key.
- Capital investment is offset by inexpensive labor costs.

- Targeted advertising strategy is essential, building product identification and product appeal.
- Networking international hotels and restaurants.
- Developing wine expo's and other public wine education/appreciation events.
- Current alcohol beverage market:
- Distilled spirits traditional, brandies and cognacs are king.
- Beer is being brewed locally in all cities. Beer popularity and consumption is growing rapidly throughout the country.

a) Imports

Right now, the wine tariff reaches 65% but it is expected to be reduced to 20% by 2004 because China will need to live under the rules of international trade by opening up investment and insuring transparency of rules and regulation.
Anyway, grape wine is becoming the favorite imported alcoholic drink in China.

Statistics from Beijing Customs showed that in the first eight months of the year 1999, the nation's capital imported 5,43 million liters of alcoholic drinks, exceeding the total of imports in the last two years.

Of the total, imports of grape wine accounted for 4,41 million liters, with a value of 3,27 M USD, replacing whiskey to become the number one beverage on China's list of imported alcoholic drinks. The majority of these imported grape wine are from Spain and Chile, with French and Australian brands following behind.

3- DOMESTIC PRODUCTION

a) The China National Council of Light Industry (NCLI) has overall responsibility for the largest segment (70%) of wine production. Its responsibilities center on production policy, technical upgrades, development of products, and market research.

b) Other government entities such as the Ministry of Agriculture and China National Cereals, Oils and Foodstuff Import & Export Corporation (CEROILS) are also involved in production.

Under the policy guidance of NCLI, CEROILS has the responsibility, as its mandate, for wine, beer and distilled spirits distribution in China. This includes the primary national distribution network for alcoholic beverages. The principal focus of CEROILS is to operate as the main official supplier of alcoholic beverages and key food commodities to the national hotel and restaurant circles in the People's Republic of China.

In comparison with other alcoholic drinks, wine output is not large but production has made reasonable and stable progress. Some of the domestic wine producers have eliminated many low-end wine products and expanded the production of middle and premier wine brands during a process of product realignment.

The Chinese wine giants enterprises

Name of the Company	**1998's Yearly Yield (Tons)**
Yantai Chang You Winery	13,000 (Wine , Champagne)
Tianjin Dynasty Wine Co., Ltd.	10,000 (Wine)
China Great Wall Wine Co., Ltd.	8,500 (Wine)
Qingdao Hua Guan Wine General Cooperation	8,500 (Wine, Champagne)
Tong Hua Wine Co.	5,000 (Wine)

The China National Council of Light Industry (NCLI) has entered several new ventures in cooperation with foreign concerns, primarily French and Italian, to develop red and white wine production. Other Chinese organizations including CEROILS and the Ministry of Agriculture have also entered joint ventures with foreign firms to produce wine in China.

4- STATISTICS

Top Five Grape Producers in China in 1998

PROVINCE	unit: 1,000's of tons output
Xinjiang	5,028,660
Tianjin	3,047,210
Shandong	2,105,550
Liaoning	1,854,210
Henan	1,015,200

Source: China Statistical Yearbook 1998

Yearly Output of China's Grape Production from 1980 - 1998

Year	GROSS OUTPUT
1980	1,038,500
1982	1,110,000
1984	3,614,090
1986	4,415,900
1988	6,408,780
1990	7,922,470
1991	8,742,450
1992	8,585,250
1993	9,158,820
1994	11,251,020
1995	N / A
1996	13,547,700
1997	15,220,830
1998	17,417,070

Source: China Statistical Yearbook 1998

World Vineyard Hectares / Acreage by Country in thousands of hectares and acres (000)

1997	1997		1996		1995	
Country Rank	**Hectares**	**Acres**	**Hectares**	**Acres**	**Hectares**	**Acres**
Spain	1,155	2,854	1,162	2,871	1,196	2,955
Italy	914	2,258	916	2,263	927	2,291
France	914	2,258	919	2,271	927	2,291
Turkey	602	1,488	602	1,488	607	1,500
United States	315	778	309	763	305	753
Portugal	260	642	259	640	261	645
Romania	254	628	256	633	253	625
Argentina	209	516	211	521	210	519
China	188	465	177	437	164	405
Greece	132	326	132	326	135	334
Chile	132	326	125	309	123	304
WORLD TOTAL	**7,814**	**19,308**	**7,824**	**19,272**	**7,893**	**19,502**

Source: Wine Institute based on data from Office International de la Vigne et du Vin (O.I.V).
Numbers reflect totals for wine, raisin and table varieties.

World Wine Consumption by Country (000) hectoliters and gallons

1997	1997		1996		1995		1994	
Country Rank	**Hectoliters**	**Gallons**	**Hectoliters**	**Gallons**	**Hectoliters**	**Gallons**	**Hectoliters**	**Gallons**
1. France	34,941	923,071	34,795	919,214	36,515	964,653	36,663	968,563
2. Italy	33,820	893,457	34,693	916,520	35,623	941,088	33,025	872,454
3.United States	19,835	524,000	19,191	507,000	17,791	470,000	17,337	458,000
4. Germany	18,580	490,846	18,580	490,846	18,580	490,846	18,196	480,702
5. Spain	14,528	383,801	14,459	381,978	15,336	405,146	15,336	405,146
6. Argentina	13,505	356,775	13,365	353,077	13,888	366,893	14,407	380,604
7.United Kingdom	8,157	215,492	6,811	179,933	6,303	166,513	6,732	177,846
8. Russia	5,900	155,866	5,900	155,866	6,000	158,508	11,500	303,807
9. Romania	5,889	155,576	7,260	191,795	6,554	173,144	5,041	133,173
10. Portugal	5,600	147,941	5,800	153,224	5,695	150,451	5,762	152,221
11. China	4,388	115,922	4,098	108,261	3,941	104,113	3,463	91,486
12. Greece	3,200	84,538	3,200	84,538	3,200	84,538	3,100	81,896
WORLD TOTAL	**222,568**	**5.879,809**	**220,172**	**5,816,516**	**221,068**	**5,840,172**	**224,750**	**5.957,756**

Source: Wine Institute based on data from Office International de la Vigne et du Vin (O.I.V).

Trade balance. Spain-China Wine Industry

	Export 1999	**Import 1999**	**Balance 1999**	**Export 1998**	**Import 1998**	**Balance 1998**
January	385,31	0,00	385,31	200,13	0,00	200,13
February	125,74	0,00	125,74	277,28	0,00	277,28
Mars	517,68	0,00	517,68	138,15	1,10	137,05
April	103,27	0,00	103,27	422,74	0,00	422,74
May	385,58	0,00	385,58	525,79	0,00	525,79
June	179,69	0,00	179,69	247,73	2,40	245,33
July	54,80	0,00	54,80	319,07	0,00	319,07
August	63,56	0,00	63,56	155,87	0,00	155,87
September	52,70	0,00	52,70	7,02	0,00	7,02
October	88,37	0,00	88,37	64,28	0,00	64,28
November	276,98	0,00	276,98	155,86	0,00	155,86
December	0,00	0,00	0,00	260,45	0,00	260,45
TOTAL	**2.233,68**	**0,00**	**2.233,68**	**2.774,37**	**3,50**	**2.770,88**

5- PROMOTIONAL ACTIVITIES

Annual Spring Season Candy and Wine exhibition was held from March 22 to March 25, 2000. More than 100,000 businesspeople and traders representing 3000 companies and enterprises form all over China attended this exhibition. Five American companies took part in the show. The value of contracts which resulted from the show reached RMB12.013B (U.S.$1.45B) in this exhibition.

The annual Spring Season Candy and Wine Exhibition is the biggest food products fair in China. There were 3000 exhibition sites occupying a space 55,000m². More than 15,000 types of food products were displayed at the convention with wine, candy and beverages being the major products.

Although this was a food products fair, some food processing equipment, package materials and processing factories' brochures were displayed in the exhibition.

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