



Agriculture and
Agri-Food Canada

Agriculture et
Agroalimentaire Canada

Agri-Food COUNTRY PROFILE

CHINA

August 2004



Canada

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AGRI-FOOD COUNTRY PROFILE

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Executive Summary

- China has the worlds largest population and is the third largest country in the world in terms of land area.
- China is the second largest economy in the world in terms of purchasing power parity, the sixth largest economy overall, and the world's largest destination for Foreign Direct Investment (FDI).
- In 2003, China's GDP reached US\$1.4 trillion, registering a growth rate of 9.1% , its highest in seven years.
- In 2003, China's imports reached US\$413 billion, surpassing Japan as the world's third largest importer.
- China has strong demand for imported food and agri-products. It is forecasted to become the world's largest food and agri-products market within 10 to 20 years.
- China's GDP is projected to increase by 8.5% in 2004 and is expected to triple by 2020.

Canada-China

- Bilateral trade between Canada and China reached a record high of US\$16.6 billion in 2003.
- Canada exported \$349 million worth of agri-food products to China in 2003.
- Canada's agri-food imports from China in 2003 were valued at \$315 million.
- Canada's top 5 agri-food exports to China in 2003 were canola, non durum wheat, canola oil, bovine hides, and bovine sheep and goat fat.

The Government of Canada has prepared this report based on primary and secondary sources of information. Readers should take note that the Government of Canada does not guarantee the accuracy of any of the information contained in this report, nor does it necessarily endorse the organizations listed herein. Readers should independently verify the accuracy and reliability of the information. This report is intended as a concise overview of the market for those interested in its potential and is not intended to provide in-depth analysis which may be required by the individual exporter.

China

COUNTRY PROFILE

Economy

With one-fifth of the world's population and one of the world's fastest growing economies, China has the potential to become the world's largest consumer market for agri-food products.

China's economy has undergone a significant change shifting from a planned economy to a market economy. With its accession to the WTO, greater integration with the global economy allows for China's rapid new economic growth amid some pains from reforms and readjustment.

Overview

China has experienced remarkable progress and its economy has more than quadrupled in size since economic reforms and market liberation in the late 1970's. China is the 6th largest economy in the world and second largest in terms of purchasing power parity. The economy has shown impressive sustained growth at an average rate of 9.4% for more than 20 years. Although problems which have long haunted the economy still remain prominent, high growth rates and continuing economic reforms lead most to predict a bright economic future.

Investment, export and consumption have always been regarded as the three motivating forces of the Chinese economy. Investment in fixed assets approached US \$663.3 billion in 2003 - up 27% over 2002.

The surge in industrial output is now the major driving force behind China's rapid economic growth. In 2003, the industry sector accounted for 53% of the officially measured GDP. Heavy industry took the lead in industrial growth, signifying the start of a comprehensive upgrading of the economy.

Agriculture continues to play an exceptionally important role in China's economic stability. It

employs approximately 60% of the population, and accounted for 15% of the GDP in 2003.

The service sector is one of the most dynamic sectors of the economy. It is dominated by the restaurant sector accounting for roughly 60% of the total sector's revenue. During the 1980s, as agriculture's share in GDP fell, the share of the services sector rose from 20% of GDP to over 30%. Since 1990, the relative share of the services sector has remained steady. However, the sectors growth is expected to match that of the overall economy as purchasing power, tourism and modernization continue to expand.

Gross Domestic Product	
GDP	US\$1.6 trillion (2004)
GDP Growth	9.7% (2004) 9.1% (2003)
GDP Per Capita	US\$ 1,238 (2004) US\$ 1,019 (2003)
GDP by Sector	
Agriculture	15%
Industry	53%
Services	32%

China's exports have been increasing. In 2003, exports grew by 35% as China continued to reap the rewards of entry into the WTO, and the benefits of continued high levels of Foreign Direct Investment (FDI). Meanwhile, imports, propelled by strong domestic demand and the impact of the WTO-induced tariff cuts, grew by an even more impressive 41% in 2003. China's total imports and exports hit a record high of US \$851.5 billion in 2003, an increase of 37% over 2002.

Concerns about the economy include the widening gap in income growth between urbanities and rural residents, increasing pressure on employment, the generally weak condition of China's banking system, energy shortages, lack of labour mobility, and real-estate concerns in key cities such as Shanghai.

The on-going economic growth in China is affecting certain areas of China to a greater extent than others. Until very recently the market for western imports in China was limited to coastal areas such as the provinces of Shanghai and Guangdong. These areas are fully developed consumer markets with prominent regional economies and a total population in excess of 200 million people. Income levels and population size in these areas fuelled interest in the Chinese market. More recently surrounding areas have benefited from a trickle down effect. Regions surrounding China's original star markets are now experiencing accelerated growth due to their proximity to fully developed regions.

Despite the ongoing spread of wealth and economic development the interior of China, some regions are decades behind their neighbours in technology, and remain agrarian based with large numbers of subsistence farms.

Current situation

China is currently going through a phase of rapid economic growth under a reform process that is having a significant impact on people's lives. According to China, its economic growth cycle is rising from recovery to a flourishing stage although some deep-seated problems in the economic structure remain unsolved.

In 2003, China's GDP reached US\$1.4 trillion. Despite the impact of disease outbreak (SARS) and a global economic downturn, China's fast-expanding economy grew by a surprising 9.9% in the fourth quarter of 2003. Total growth in real GDP for the year was 9.1% according to official Chinese figures. It was the fastest growth rate recorded since the Asian financial crisis (1997-1998) and also brought per capita GDP in China above US \$1,000 for the first time ever.

China's economic development now serves as an engine in the Asia Pacific region. For instance, Japan's economic growth in 2003 depended largely on the growth of exports and China accounted for 80% of this growth.

In view of the slow pace in world economic growth,

China's surging economy has increasingly become the driving force behind many countries' expanding exports and continuing economic growth. In the early 1980's China's total foreign trade stood at US \$20.6 billion. In 2003, China's imports alone reached US \$413 billion, surpassing Japan as the world's third largest importer.

Government Role

China is a Communist state with a hybrid system of strong political controls and growing market influences. The system operates within a political framework of strict Communist control. However, the economic influence of non-state organizations and individual citizens is steadily increasing.

At the March 2004 annual National People's Congress (NPC), China's leaders unveiled policies to slow economic growth and lift hundreds of millions of farmers out of poverty, making special mention that agriculture remained the government's priority in 2004.

China plans to create a consumer society in the countryside by boosting government spending of 2004 to record levels in its rural economy and increasing the budget for training peasants to work in other sectors sixfold. The central government has set aside a record US\$18 billion of its 2004 budget to bolster rural development. The money will be used mainly to upgrade ecological conditions, develop education, training for young farmers and build more infrastructure facilities.

By signing up to strict WTO entry terms, the government is forcing the pace of reform and breaking down resistance from vested interests. It is also giving more room to private interests, which may now compete more effectively with state-owned enterprises for markets and resources. Finance, retail, telecommunications and other service sectors will be opened up gradually in line with China's WTO accession commitments and its own policy objectives.

Although China's private sector has grown tremendously since economic reforms began, state-owned or state-controlled entities continue to play the leading role in the economy. Besides economic

policies, China's Communist Party maintains its authority to oversee managerial appointments in all financial institutions and major industrial enterprises. Although the authorities' long-term plan is to sell all or part of the government share in most state-owned enterprises and financial institutions to the public, ultimate control over managers of these assets will remain in the hands of the Party.

Although direct price controls on most commodities have been eliminated, prices for thirteen broad categories of items, including electric power, transportation, telecommunications, and some services, remain subject to varying degrees of government "guidance". The government also sets interest rates and fees at financial institutions, which has distorted the cost of capital and limited banks ability to adjust for risk.

Forecast

The Government presented a strategy for 2004 that aims to achieve stable and even growth. In 2004-05 officials will seek to cool rapidly growing investment demand. The government announced cuts to state investment in sectors that provided much of the rapid growth in recent years. In an attempting to lift hundreds of millions of farmers out of poverty, agriculture taxes will be phased out by 2009 and official spending will aim to raise rural incomes by 5% per capita in 2004. Also, due to the influence of factors like trade barriers and China's policy of refunding taxes on exported goods, the rapidly rising level of exports should see a small slowdown in 2004.

The global economy is recovering and world trade growth is picking up speed. This should create more opportunities for developing the Chinese export market. A favorable environment for investment and a cost-efficient workforce are factors that will continually attract large amounts of FDI and speed up the shift of the world manufacturing industry to China.

Although there may be a small economic downturn, China will stay on the track of rapid development. The national economy is expected to grow by roughly 9% in 2004.

Consumer Market

China has the world's largest potential consumer market with 1.3 billion people; a market with a growing discretionary income and a taste for international goods and services. However, China's population and consumer base for imported goods are two completely different things. It is estimated that roughly 300 million can be considered consumers of imported processed food. China's consumer market has experienced strong income growth and rapid urbanization. These changes are diversifying the Chinese diet from staple grains and starches toward animal proteins and fish. It also creates demand for high-value and specialty food products. Statistics also show that the increase of consumption is determined not only by peoples' income level, but also by their confidence in the macro-economic situation.

Demographics	
Total Population	1.3 billion
Population Growth Rate	0.6%
Breakdown by Age	
0-14 yrs	22.1%
15-64 yrs	70.4%
65 yrs and over	7.5%
Life Expectancy	
Male	70 years
Female	74 years
Total	72 years

China's middle class; distinguished by assets valued from US\$18,000-\$36,000, has increased rapidly and will continue to grow in the future. According to a recent national study, almost 50% of households in urban areas of China are considered middle class. The study estimated that the middle class covered 19% of the total population in 2003. This percentage is projected to reach 40% by 2020 if growth continues at the current pace.

China's highest-spending consumers are concentrated in the country's southern and eastern coastal cities. However, the Chinese population is still largely rural based. Grain is still the major component of the rural diet, and rural households grow much of their own food as they have less access to markets, stores, processed foods, and refrigeration. China is

placing a high priority on urbanizing and raising the incomes of its huge rural population. When people move to cities or towns, they tend to consume more meat, processed foods, restaurant meals, and less grain.

Major Cities	Population in millions
Shanghai(east)	13.2
Beijing(north)	7.2
Tianjin(north)	3.9
Wuhan(central)	4.1
Shenyang(northeast)	3.5
Guangzhou(south)	3.2
Harbin(northeast)	3.1
Xian(central)	3.4

The share of food in a household's total expenditures continues to fall in China, from the 1982 figure of 59% to 37% in 2003.

Largely connected to the one-child policy, China's population growth will diminish and the population will age rapidly. The need to support the growing retired population may increase savings rates but slow down future growth in disposable income. Research shows that in China, seniors usually consume more rice, fruits and vegetables, while younger generations consume more beef and beer.

China currently has three main distinct generation groups: the generation born the period 1946-1964, the generation born the period 1965-1976 and the generation born after 1976. While the two older generations display certain differences, both are price sensitive and more conservative. However, the most recent generation of consumers have embraced a consumption oriented lifestyle and are much more willing to spend money and experiment with new products and tastes. These consumers are gaining rapidly in importance as they become income earners.

Tastes vary widely between areas in China and are constantly evolving. As a general rule, Chinese tastes favor Asian products, particularly those with a strong similarity to Chinese foods or heavily influenced by China. However, consumer willingness to experiment with new tastes is growing. Key regional distinctions include:

- North and Northeast China (Beijing and north), where dishes tend to be salty;
- East China (centered on Shanghai) where the taste is for sweet food and spicy dishes are unpopular;
- Central China, famous for hot and spicy food;
- South China, famous for delicate tastes and an appetite for the exotic.

Overall food preferences shared by most Chinese consumers include a preference for fresh meats and produce as opposed to canned or processed meats. Many consumers buy live fish or fowl butchered on the spot. Consumers prefer small-sized packages to 'economy' sizes, even though the unit cost may be higher. In the case of snacks, candies or breakfast cereals, Chinese consumers like to see the actual product inside the package. This is especially important for new-to-market products. It is a good idea to include a transparent 'window' on the package. The attractiveness of the package is important. Size, colors and design are all taken into consideration.

Chinese consumers tend to be conservative and price sensitive when it comes to personal spending. Acceptance of imported products as high-quality is becoming more common in China and Canadian products are well recognized for their high quality. Chinese buyers are attracted to established brand names, because they are seen as a guarantee of authenticity and superior quality.

In addition to national and regional preferences, China is home to over 55 ethnic groups, 10 of which have a population exceeding 2 million. These various ethnic groups could provide valuable niche markets.

Infrastructure

China's infrastructure system is developing rapidly, but is still well below western standards. Basic market infrastructure, including highways, railway track, storage, and refrigeration has grown dramatically over the past decade. However, lack of cold storage and port facilities still constrain both

international and domestic trade.

Transportation of agri-food products in China is usually done by train and truck. Railways carry over 40% of all cargo in China. With the exception of Tibet, every province is connected to the railway system. The demand for railway transportation is rapidly increasing, but the extension and upgrade of the railway system is slow. Many manufactured goods, including food products, are assigned a low priority, and as a result, long delays can be expected when using railways.

Truck transport is an option, but road conditions may limit the speed. There is also a general lack of refrigerated transportation equipment. China has a large but underdeveloped highway system. This situation is improving rapidly, as the first highway built in early 1990's, and by 2003 China had established its own highway network with a total length of 30,000 kilometres, second only to the US.

Waterway transport holds an extremely important position in China's cargo transports. It is concentrated in the coastal area in eastern and southern China. China's coast is over 18,000 km long and the navigable inland waterways totals 110,300 km. China has more than 60 ports along the coasts. At least 85% of its foreign trade goods rely on ocean transport. Major ports and harbors are located in Dalian, Fuzhou, Guangzhou, Haikou, Huangpu, Lianyungang, Nanjing, Nantong, Ningbo, Qingdao, Qinhuangdao, Shanghai, Shantou, Tianjin, Xiamen, Xingang, Yantai, and Zhanjiang.

China's telecommunication sector has seen rapid development. Advanced telecommunications networks allow for convenient communication with any terminal within and outside of China. As of the end of 2003, the total number of telephone users in the country climbed to over 530 million, of which 259 million landline subscribers and 263 million cell phone users. Since 1997, China's telecommunication industry has registered an average annual growth rate of 20 percent.

The internet service market is growing rapidly as well. In 2003, surfers numbered over 79 million, ranked second in the world. Broadband users with ADSL doubled to 12.5 million. Internet access is still limited due to government controls.

Distribution and Sales Channels

Lack of efficiency in China's distribution system reduces flows of both international and domestic interregional trade. However, as consumers have increased their demand for convenience and quality in food products, China's retail food sector has matured rapidly, providing improved channels for food imports.

Given China's internal transportation difficulties and developmental disparities across regions, distribution systems vary significantly by region and market. The eastern coastal regions of China, which include the cities of Shanghai and Beijing, represent the strongest consumer markets for imported goods. Exporters, at this point, are encouraged to explore regional or metropolitan markets rather than attempting national distribution.

Several ports of entry exist in China. However, Hong Kong's role as a major import port for China will likely continue for the next half century. Agri-food products can be sold to China directly to importers at the local level or through Hong Kong-based food distributors. Exporters may also wish to establish joint-ventures.

Distribution options available to the Canadian 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 establishing business contacts, makes 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.

China's food retail sector was transformed dramatically during the 1990s by the rapid rise of supermarkets, including large domestic chains. More recently, supermarkets have been joined by foreign hypermarket retailers that offer low prices and an array of goods and services under one roof. These hypermarkets have extensive dry goods and frozen goods sections, fresh and frozen meat and seafood, prepared foods, and food service counters.

They also include restaurants, fashion and sporting goods outlets, and other specialty shops.

Despite their obvious advantages, Hypermarkets have only captured a small share of the national market, and are located primarily in wealthy coastal cities. As domestic chains respond to the success of these stores, the competition from hypermarkets have led to even more choices for consumers in domestic stores and stimulate improvements in the efficiency of the food distribution system. The trend in China toward hypermarkets is paralleled by growth in smaller convenience food stores, which seem to complement hypermarkets, capturing the market for sales of small purchase items. Many convenience stores are operated or franchised by well-known domestic chains.

Imported items are not common in domestic supermarkets and are rare in smaller food retailers. They have a more substantial presence in hypermarkets, although even in these stores imports constitute no more than 5% of the stock. Nevertheless, the streamlining of distribution channels brought about by hypermarkets is likely to make it easier for imported food items to reach Chinese consumers. China's WTO commitments are expected to make it easier to distribute imported goods within the country. It may also enable imports and foreign retailers, currently concentrated in a few large coastal cities, to penetrate smaller cities and interior provinces.

Trade Agreements

China is a member of the International Monetary Fund (IMF), the World Bank, and the Asian Development Bank (ADB). It is also a member of the Asian Pacific Economic Cooperation Conference (APEC), an economic organization that aims at promoting free trade and economic cooperation in the Asia Pacific region.

China formally joined the World Trade Organization (WTO) on 11 December 2001. In keeping with its WTO commitments, China agreed to lower tariffs and abolish market impediments. It has become easier for foreign-based companies to enter local markets through direct imports, technology transfers, service provisioning and joint ventures.

In recent years, China has stepped up regional

economic cooperation with ASEAN countries, Japan, South Korea and other neighbouring countries. China-ASEAN Free Trade Zone is expected to be established by the year 2010.

Foreign Direct Investment

The strong economic performance of China in the wake of the global downturn, as well as accession into the WTO, are credited with increasing foreign direct investment (FDI) flows into China. In 2002, China received nearly US \$53 billion in FDI, making it the number one recipient in the world. In 2003, even after the impact of SARS, FDI in China reached an all time high of US \$53.5 billion.

FDI opportunities and access has improved greatly in China. Reduction in bureaucratic hurdles, and improvements in the legal environment for dispute resolution and equal treatment for foreign and Chinese firms have spurred the flow of investment.

Also, China has agreed to implement tougher intellectual property protection and to increase efforts to ensure compliance. However, intellectual property protection will continue to be an issue, particularly for processed foods and beverages, seed and turf products, and anything to do with technology and life sciences.

China has been remarkably successful in attracting foreign investment to specific sectors it has targeted for investment, such as electronic information, biotechnology, new materials, chemical industry, and construction. This is especially true in the coastal regions and Special Economic Zones.

Market Access

Despite China's attractiveness as a market for exporters there are a number of market access issues which must be considered. 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 and comply to import requirements for specific products. Chinese quality standards, testing, inspection, labelling, 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. 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. In addition, 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 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 in comparison with other suppliers. The situation is particularly worrisome for joint venture operations in the North, which may be faced with paying more for their inputs than operations in more "liberal" regions.

China remains largely a cash economy. An absence of documentation for commercial transactions, as well as the administrative burden of collecting taxes, has left import 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 increases in 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.

Trade Barriers

Tariffs are being reduced as a result of China's accession to the WTO. However, there will be continuing concerns regarding non-tariff barriers and an uneven application of rules and regulations. The non-tariff barriers include customs valuation, certificates/licences, quotas and other import controls.

Non-tariff barriers are administered at national and sub-national levels by the State Economic and Trade Commission (SETC), the State Development Planning Commission (SDPC), and the Ministry of Foreign Trade and Economic Cooperation (MOFTEC).

With China's entry into the WTO, licences and quotas will be abolished by 2005. Also, Central government agencies have published many of their import administration laws and regulations, a step that is making China's trade regime more transparent.

Import Quotas

Import quotas are established by the State Planning Commission, in consultation with users such as the provincial governors and the State Administration of Internal Trade for distribution to various users including provincial and municipal state enterprises. Reportedly, China's National Cereals, Oils and Foodstuffs Imp. & Exp. Corp (COFCO) now accepts requests from users for specific qualities, origin and type of product, but the system still lacks overall flexibility.

The rules, agreed to by China for its entry into the WTO, ban quotas and other quantitative restrictions. China eliminated quotas on products such as fibre-optic cable immediately after entering the WTO and will phase out all other quotas by 2005.

Tariff-rate Quota

In its WTO accession agreement, China committed to establish annual tariff-rate quotas (TRQs) for major bulk commodities such as wheat, corn, cotton, barley and rice. TRQs establish specific quantities that may be imported to China at low tariffs of 1% for grains and fibers, 9% for vegetable oils, and 20% for sugar. TRQs are not minimum purchase commitments, and the quotas need not be filled each year.

TRQ's can eventually be converted to bound tariffs, or re-negotiated after their time frames have expired. If re-negotiation is considered unnecessary - the last established TRQ's remain.

Regulatory Control

With the partial elimination of licences and quotas, China retains regulatory control over imports through commodity inspection, registration requirements and quarantine rules. The Law on the Inspection of Commodity Import and Exports requires the State Administration of Quality Supervision, Inspection and Quarantine to establish a list of products that must be inspected when crossing the border. Import or export of products that fail inspection will not be allowed to be traded. Products on the list for mandatory inspection include those potentially harmful to the safety and health of people and animals, to the environment or to national security.

Labelling Requirements

Canadian exporters to the China market must investigate and meet new labelling requirements for consumer products. These labelling regulations are complex and still somewhat ambiguous and will have a significant impact (cost and time) on Canadian exporters of packaged food. Companies should contact the Trade Officers in the Canadian Consulates in the cities where they plan to do business. As Hong Kong has a different import regime from China, Hong Kong's labelling requirements, which are similar to Canada's, do not correspond with the Chinese requirement.

Import Documentation

Commercial invoices are required for exports,

accompanied by the signature of the supplier, with the following information:

- name and address of the supplier;
- nature of goods;
- country of origin
- name and address of the customer/destination
- terms
- rate of exchange
- price per unit
- total value of shipment
- total weight of shipment
- HS tariff number and description
- gross weight of each package
- full description of shipment

Authentication of Documents

Documents that need to be authenticated, such as certificates of sale and letters authorizing an exporter's local agent or importer to act on their behalf, must first be notarized in Canada. At no cost to the exporter, the notarized documents can be authenticated by sending them to:

International Trade Canada
Authentication and Service of Documents Section (JLAC)
125 Sussex Drive, Ottawa K1A 0G2
Telephone: (613) 995-0119
Facsimile: (613) 944-7078

Sanitary and Phytosanitary (SPS), and Technical Barriers

In order to facilitate market access, Canada negotiated, updated, or signed protocols with China with respect to the export of cattle and swine. Although the terms represent a considerable improvement over the old protocols, the veterinary requirements remain problematic. China does not accept the Canadian veterinary certificates and a Chinese veterinarian must oversee the inspection process before the animals leave Canada. The high rejection rate of animals on post inspection testing is due to differences in testing procedures used by China and Canada.

With regard to plant health issues, China only has a general plant health law in place with no specific regulations on how the requirements are to be met.

This contributes to a lack of consistency in application. With the exception of a number of plant products (including winter wheat from Ontario, corn seed for planting, tobacco, and all potatoes), Canada has no major phytosanitary problems with China. Regarding the prohibited plant products, Canada has proposed specific certification procedures which would ensure that the products are free from the pests of concern to China. Canada and China are engaged in discussions in the hopes of developing common testing procedures.

Agriculture And Agri-food Overview and Outlook

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 agriculture 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.

Roughly 60% of China's labor force is engaged in agriculture, even though only less than 10% of the total land area is suitable for cultivation. The most productive agricultural areas in China are concentrated in the eastern part of the country within three fertile river plains of the Yellow river, Yangtze river and the Pearl river valleys.

China is among the world's largest producers of rice, potatoes, sorghum, millet, barley, peanuts, tea, and pork. Major non-food crops, including cotton, other fibers, and oil seeds, provide China with a large proportion of its foreign trade revenue. Yields are generally high because of intensive cultivation, but China hopes to use plant and animal genetics, fertilizers, and technology to increase and solidify production.

Incomes for Chinese farmers are stagnating, leading to an increasing wealth gap between the cities and countryside. Figures released by the Chinese government show that the per capita average disposable income of rural residents was only US

\$121 a year and their per capita net income rose at an annual rate of only 4% from 1997 to 2003, barely half that of urban residents. Currently, food security is not a problem for the country's huge population. Food-consumption levels have grown and will continue to grow as the country grows richer. However, this will further strain China's limited land and water resources.

China is nearly self-sufficient in food and is a net exporter of food products, including processed food and beverages, animal products, vegetables, fish and seafood, tea, and fruits. China's agricultural exports go primarily to neighboring Asian countries, including Japan and South Korea.

Despite near self sufficiency of bulk commodities, primarily wheat, China uses most bulk agricultural imports as intermediate inputs for further processing. Imports of fertilizers have greatly aided China's domestic crop production, further reducing the need for food imports.

Agricultural Policy

China's food policy objectives have seen little change over the past 40 years despite an overall liberalization of the economy. China's agricultural priorities remain to ensure adequate urban food supplies; to accumulate grain reserves; to stabilize food prices; promote self sufficiency; to engage in agricultural world trade; and to improve farm income.

Agricultural productivity has grown rapidly since the abandonment of collectivized agriculture in 1979. However, crops deemed essential to social or economic stability, such as wheat, barley, rice, soybeans, corn, and cotton, remain under government regulation.

China's government plans to address low farming incomes with reform on rural taxes. Government aims to rescind the agricultural taxes by 2009, with incremental decreases until that time. These measures seek to reduce the financial burden on the countries farmers by approximately \$4.8 billion yuan a year.

China seeks to increase competition in domestic markets through their participation in the WTO. The Chinese government has developed programs

to improve the quality and safety of their agri-food products. China aims to introduce advanced, appropriate technologies into the rural areas urging farmers to rely more on new science and technology, promote rural productivity, and facilitate sustainable, rapid and healthy development of agriculture and the rural economy.

As part of the reforms to its agriculture sector, China has committed itself to the creation of five animal disease-free zones. In 2002 these zones were introduced to reassure the international community of China's dedication to quality beef production.

In early 1995, the central government initiated a new grain policy giving provincial governors the responsibility of maintaining the "grain bag". The policy applies to all grain crops (wheat, corn, and rice) and some oilseed crops. The policy seeks to stabilize grain and edible oil prices, and in addition develop a means to control grain markets, control 70-80% of commercial grain sales, control grain imports and exports, and raise the level of grain self-sufficiency. The end result of the "grain bag" policy has been an increase in the level of food self-sufficiency and reduced imports in certain product categories. However, the drive to increase food self-sufficiency has been costly. Considerable resources were expended by government to implement the policy. Land that could have been planted with more competitive crops, such as fruits and vegetables, spices, and nuts, ended up in grain, delaying China's transition to producing a greater mix of agricultural products.

Finally, the government is pursuing a strategy that seeks to channel rural people into second and third-tier cities. How this urbanization will impact small scale farmers, as well as medium to large scale farming is yet to be determined.

Agri-Food Import Market Competitors

In 2003, China imported roughly US \$17 billion worth of agricultural products and roughly US \$1.9 billion worth of fish and seafood products. China's top export sources are Japan, Taiwan, South Korea, the US, Germany, Australia, and China's other Asian neighbors.

Japan is China's largest source of imports, accounting for 18% of the total, followed by Taiwan

at 12%, South Korea 10% and the US 8%.

Canada faces strong competition from the US, Australia, New Zealand and the EU. The US and Australians are particularly well established in some areas as the result of years of investment by companies, industry associations and governments. China's Asian neighbors like Japan, South Korea, Malaysia, and Singapore are key competitors in the agricultural import market as well.

The most significant competitor in China's processed food sector is their domestic industry. The quality of the domestic industries' products may not always be as good as the imported equivalents, but their lower price is still a primary consideration for Chinese consumers. The domestic sector predominately produces regional specialties which also helps it remain competitive. Hong Kong's new status within China has aided the quality and strength of the domestic processing sector.

Canada - China Trade and Investment

Since the establishment of diplomatic relations between China and Canada on two-way trade has risen tremendously. An economic partnership between China and Canada is a key element in supporting long-term relations and encouraging China's further integration into global and regional political and economic institutions.

China is Canada's fourth largest trading partner behind the US, Japan, and the UK. However, when Hong Kong's trade is included, China is Canada's third largest trading partner, well ahead of the UK. In 2003, bilateral trade between China and Canada reached a record high of nearly US\$17 billion, making Canada China's 10th largest trading partner of China.

Canada's merchandise trade exports to China in 2003 were valued at over US \$3.3 billion, representing an increase of US \$700 million over 2002. Canada's major exports to China included: wood pulp, vehicles, organic chemicals, electrical machinery, machinery, reactors, boilers, fish and seafood, and fertilizers. These products accounted for 67% of Canada's export in 2003.

Canada's imports from China for 2003 were valued

at US\$13.3 billion, representing an increase of US \$3.1 billion over 2002. Major imports from China included: electrical machinery, machinery, reactors, boilers, toys and sports, furniture and bedding, woven apparel, and footwear. These products represent nearly 61% of total imports from China annually.

Until 1992, Canada traditionally maintained a trade surplus with China. This imbalance has shifted to an ever growing trade deficit which increased to \$9.9 billion in 2003. This trend mirrors the experience of most foreign nations as China's economy develops.

Canada - China Bilateral Trade 2003	
Total trade	US\$851 billion
Exports	US\$438 billion
Imports	US\$413 billion
Balance	US\$25 billion
Canada - China Trade	\$23.4 billion
Exports	\$4.7 billion
Imports	\$18.7 billion
Balance	\$14 billion
Canada - China Ag-Trade	\$708 million
Exports	\$393 million
Imports	\$315 million
Balance	\$78 million

China is Canada's fourth largest agricultural export market. In 2003, Canada exported \$392.8 million worth of agricultural products to China. This represented a 27% increase over 2002. However, in 2002 and 2003, Canadian exports to China were well below previous year. This large change in exports was as a result of a significant decline in wheat exports in 2002 and 2003. Exports of this commodity were in the range of \$134 million in 2001 and dropped dramatically to \$43.5 million in 2002 and increased slightly to \$45 million in 2003. This simultaneously effected the overall product category of grains, that experienced a large volume export year in 2001 reaching totals of \$302.6 million, which followed the same trend as the wheat export market to China, dropping to \$77.5 million in 2002, and to a low of \$66 million in 2003. Though these numbers show great decrease in the market, they also speak volumes in the opportunity the market once held and the potential to reach the high

export numbers exhibited in 2001.

Canada's largest agricultural exports to China in 2003 were: canola, \$116.9 million; wheat, non durum, \$45 million; canola oil, \$40.6 million; bovine hides, \$29.3 million; barley, \$21.1 million; bovine sheep and goat fats, \$17.7 million. These products represented 64.3% of total agri-food exports to China in 2003.

Canada's agricultural exports were dominated by both bulk and intermediate goods with a value of \$202.6 million and \$149.1 million respectively. Consumer oriented goods exports were valued at \$41.1 million.

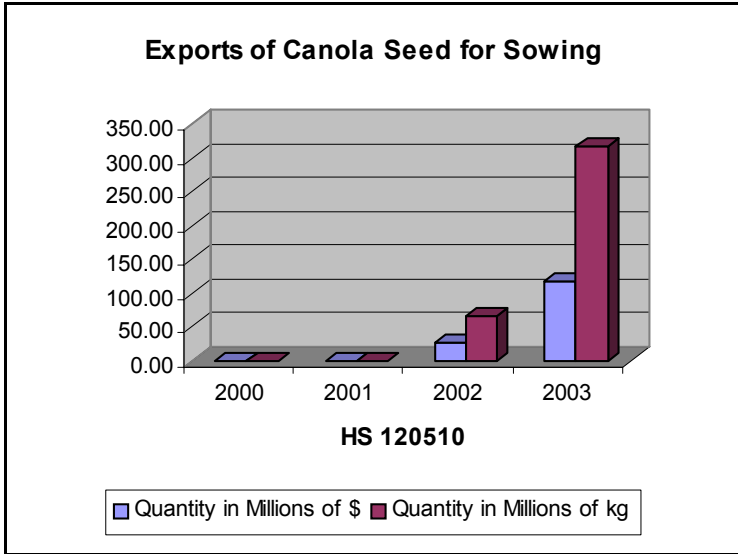
Canada's agri-food imports from China in 2003 were valued at \$315.3 million. This represented a 10% increase over 2002. Canadian top five agri-food imports from China in 2003 were: apple juice, \$16.5 million; plants for pharmaceutical purposes, \$16.2 million; mandarins, \$15.5 million; ground nuts (shelled), \$14.6 million; mushrooms (prepared or preserved), \$14.5 million. These products represented 28% of the total agri-food imports from China in 2003. These figures illustrate the fact that no dominant exportable commodity exists, China imports a diverse range of products offering a wide range of opportunity for exporters in various product categories.

By the end of 2003, Canadian direct investment in China amounted to US \$ 3.9 billion covering over 694 projects. More than 400 Canadian firms have a permanent presence in China and are establishing vital commercial and technological linkages with Chinese companies. A range of key sectors have seen Canadian involvement (although modest) including agriculture, transportation, telecommunications, financial services, energy, mining, construction, forest products, biotechnology and life sciences.

As a developing country, Chinese FDI into Canada to-date has been modest. In 2003, Chinese direct investment in Canada reached US\$444 million covering over 155 projects. Investment Partnerships Canada has stated that China may have the potential to become a major source of FDI in the next 3-5 years.

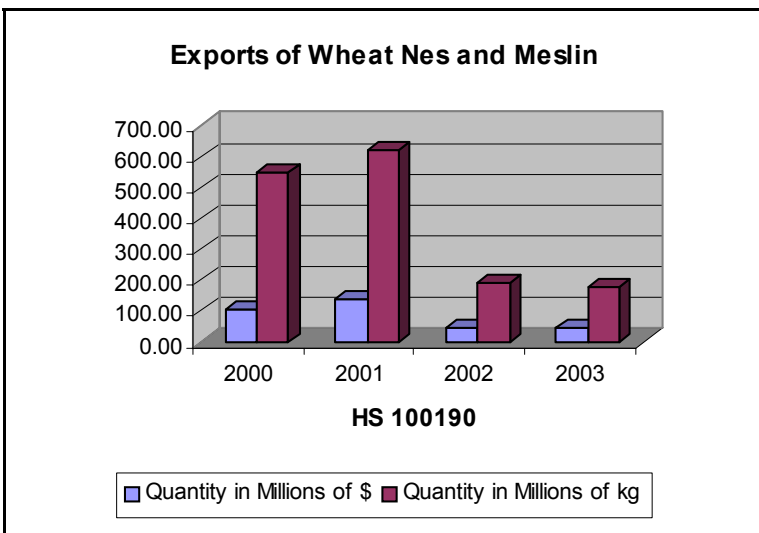
Canada's Exports to China

The following seven products represented 72.4% of Canada's agricultural exports to China in 2003. Source: Statistics Canada (Canadian \$)



Exports of canola seed for sowing represented 29.8% of Canada's agri-food exports to China in 2003. China was Canada's 4th largest market for this product.

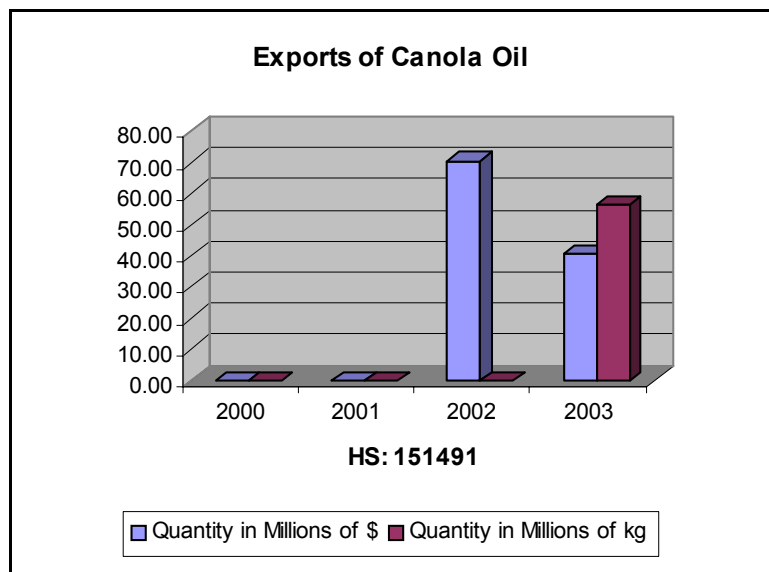
Canada exported \$116.9 million canola seed for sowing to China in 2003. This was a large increase, roughly \$92 million, over 2002.



Exports of wheat represented 11.4% of Canada's agri-food exports to China in 2003. China was Canada's 14th largest market for this product.

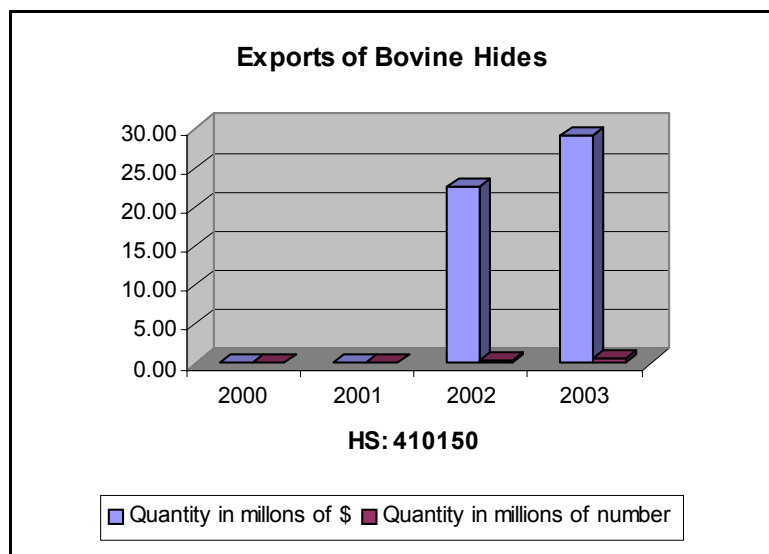
Canada exported \$44.9 million of wheat to China in 2003. This was an increase of \$1.4 million over 2002.

Canada's Exports to China



Exports of canola oil represented 10.3% of Canada's agri-food exports to China in 2003. China was Canada's largest market for this product.

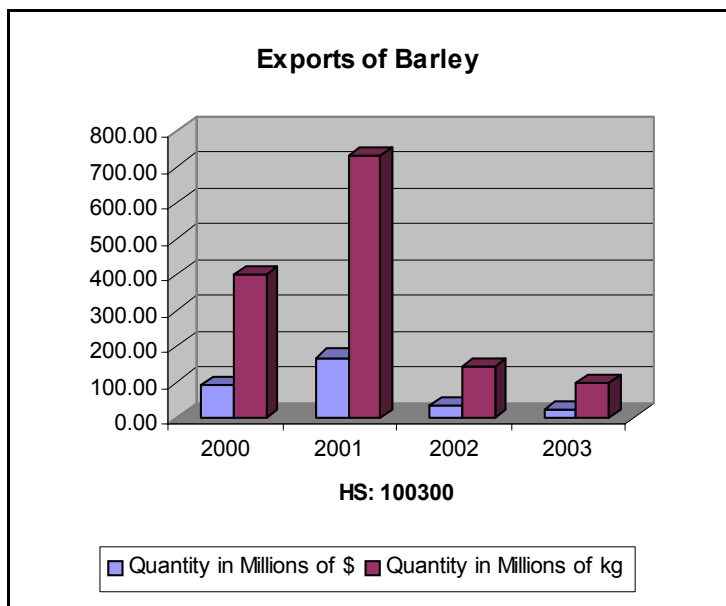
Canada exported \$40.6 million of canola oil to China in 2003. This was a large decline of roughly \$30 million over 2002.



Exports of bovine hides represented 7.4% of Canada's agri-food exports to China in 2003. China was Canada's third largest market for this product.

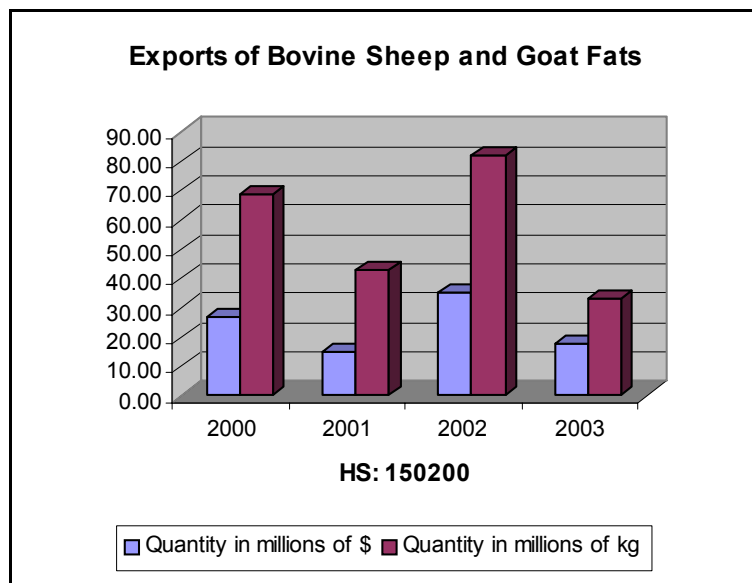
Canada exported \$29.3 million of bovine hides to China in 2003. This was an increase in value of \$6.6 million over 2002.

Canada's Exports to China



Exports of barley represented 5.4% of Canada's agri-food exports to China in 2003. China was Canada's fourth largest market for this product.

Canada exported \$21.1 million of barley to China in 2003. This was a decline of roughly \$13 million over 2002.

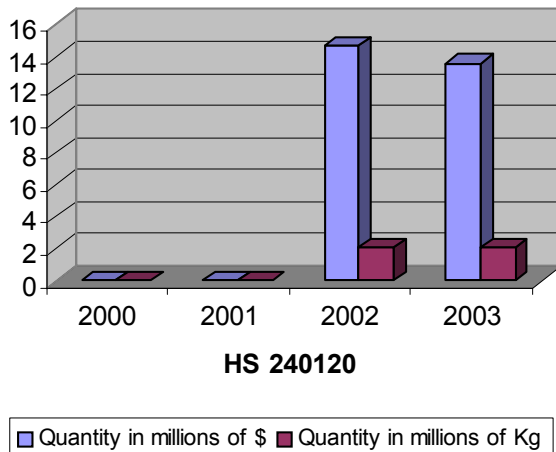


Exports of animal fats represented 4.5% of Canada's agri-food exports to China in 2003. China was Canada's second largest market for this product.

Canada exported \$17.7 million of animal fats to China in 2003. This was a large decline in value over 2002, down \$17.4 million.

Canada's Exports to China

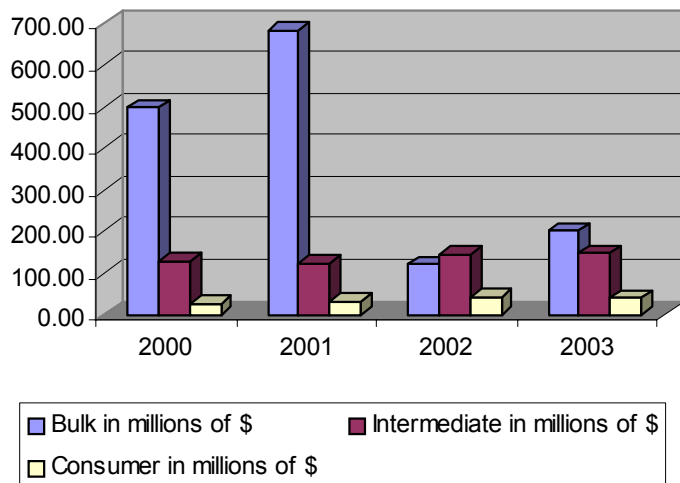
Exports of unmanufactured Tobacco



Exports of unmanufactured tobacco represented 3.5% of Canada's agri-food exports to China in 2003. China was Canada's fourth largest market for this product.

Canada exported \$13.6 million of unmanufactured tobacco to China in 2003. This was a \$1 million decline over 2002.

Bulk, Intermediate and Consumer Good Exports (BICO)



Bulk exports to China totalled \$202.6 million in 2003. This number was an increase of \$82 million over 2002 but is well below 2000 and 2001.

Intermediate exports to China totalled \$149.1 million in 2003. This was a slight increase of \$2.7 million over 2002 and represented a four year high.

Consumer ready exports to China totalled \$41.1 million in 2003. This was a slight decrease of \$1.2 million from 2002.

Additional Information

Promotional Venues

Beijing Material Handling and Food Industry Exhibition

April 18 - 20, 2004
Beijing International Exhibition Centre
Beijing, China
Tian Yingda Culture Development Co.
Tel: 86-10-66013371

China Beijing Exhibition for Retailing, Franchisees, Shop building and Food Industry

April 20 - 22, 2004
Beijing International Exhibition Centre
Beijing, China
Beijing Heyaqlong Exhibition Service Co.
Tel: 86-10-85819522

China International Agriculture, Husbandry and Food Industry Exhibition

April 21 - 23, 2004
China Agriculture Exhibition Centre
Beijing, China
Tel: 86-10-64194401

China International Husbandry Exhibition

April 21 - 23, 2004
China International Exhibition Centre Beijing, China
Tel: 86-10-84600186

2004 Beijing International Food Industry & Dairy Industry Exhibition

May 08 - 12, 2004
China International Science & Technology Convention Centre
Beijing, China
Beijing Jingmao Exhibition Service Co.
Tel: 86-10-88410016

International Agricultural Products Fine Processing Technology & Equipment Exhibition China 2004

May 17 - 20, 2004
China Agricultural Exhibition Centre
Beijing, China
Vantage Exhibitions Limited (Hong Kong)
Tel: 86-10-63332561
86-10-63332562
86-10-63332563
Fax: 86-10-63331446
E-mail: vantagebjo@263.net

2004 China International Wine and Technology Exposition

June 02 - 06, 2004
Beijing International Convention Centre
Beijing, China
Contact: Chen Yuanyuan,
Zhong Desheng
E-mail: ChinaWineExpo@163.com
Web site: www.ChinaWineExpo.com

Promotional Venues

Food & Hotel South China (The 3rd International Food, Drink, Supermarket, Hotel, Restaurant & Food Service Exhibition)

June 23 - 25, 2004

Jinhan Exhibition Centre

Guangzhou, China

Internet: <http://www.fhc-sc.com>

Retail China (The 2nd International retail Equipment, Logistics and Technology Exhibition)

June 23 - 25, 2004

Jinhan Exhibition Centre

Guangzhou, China

Internet: <http://www.fhc-sc.com>

International Meat Industry 2004 (Slaughtering, processing, testing, packing, additives, ingredients)

August 25 - 28, 2004

National Agricultural Exhibition Hall

Beijing, China

Contact: Ms. Xu Yao,

Canadian Embassy in Beijing

E-mail: yao.xu@dfait-maeci.gc.ca

World Dairy Expo & Summit/ /China 2004

September 7 - 9, 2004

International Convention Centre

Yantai, Shangdong Province

Contact: Tel: 8610-6874-8924

Fax: 8610-6874-1993

E-mail: Liugsh@chqje.com

Web site: www.dairyexpo.com

International Plant Protection Expo China; International Horticultural Fertilizer Expo China

September 21 - 23, 2004

Beijing Agriculture Exhibition Centre

Beijing, China

Contact: Tel: 86-10-64194401/02/03/04

Fax: 86-10-65918986

E-mail: ccpitssa@public3.bta.net.cn

Agro-Newtech China: China International Agriculture and Husbandry New Technology Exhibition

October 13 - 15, 2004

Venue is to be determined

Fax: 86-10-6874-8993

2004 China Tea Expo

October 21 - 24, 2004

Exhibition Hall of China World Trade Centre

Beijing, China

Contact: Mr. Li Jian

Tel: 86-10-64283436

86-10-64283691

Fax: 86-10-64283382

Internet: <http://www.tea-expo.com.cn>

Key China Contacts

Embassy of the People's Republic of China

515 St. Patrick Street,
Ottawa, Ontario
K1N 5H3, Canada
Tel: (613) 789-3434
Fax: (613) 789-1911

Customs General Administration of the People's Republic of China

Avenue Jian-Guo-Men Nei, 6
Beijing, 100730
Tel: 86-10-6519-4114
Fax: 86-10-6519-4004

General Administration of Quality Supervision, Inspection, and Quarantine of the People's Republic of China (AQSIQ)

No. 9 Madiandonglu, Haidian District,
Beijing, 100088
Tel: 86-10-8226-2176
Fax: 86-10-8226-0216

Ministry of Agriculture

11 Nongzhanguan Nanli, Hepinli
Beijing 100026
Tel: 86-10-6419-3366
Fax: 86-10-6419-8904

Ministry of Foreign Affairs

2 Chaoneidajie
Beijing 100701
Tel: 86-10-6513-5566
Fax: 86-10-6512-9568

Ministry of Commerce of the People's Republic of China

2 Dongchang'an Avenue,
Beijing, 100731
Tel: 86-10-6512-1919
Fax: 86-10-6519-8173

Consulate of the People's Republic of China

240 St. George Street
Toronto, Ontario
M5R 2P4, Canada
Tel: (416) 964-7260
Fax: (416) 324-6468, 324-9013

Consulate of the People's Republic of China

3380 Granville Street,
Vancouver, British Columbia
V6H 3K3, Canada
Tel: (604) 736-5188
Fax: (604) 737-0154

China Council for Promotion of International Trade (CCPIT)

1 Fuxing Men Waidajie,
Beijing 100860
Tel: 86-10-68020229
86-10-68034823
Fax: 86-10-68030747
86-10-68011370

China Chamber of International Commerce

1 Fuxing menwai Dajie, Beijing, China
Tel: 86-10-68021275
Fax: 86-10-68023554

Key China Contacts

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180 Dundas Street West, Suite 1502
Toronto, Ontario CANADA M5G 1Z8
Tel: (416) 954-3800
Fax: (416) 954-3806

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515 West Hastings Street, Suite 2600
SFU at Harbour Centre
Vancouver, B.C. CANADA V6B 5K3
Tel: (604) 291-5190
Fax: (604) 291-5039

Beijing Location:
Suite 18-2 CITIC Building
19 Jianguomenwai Street
Beijing 100004
Tel: 86-10-65126120
86-10-85261820
86-10-85261821
86-10-85261822
Fax: 86-10-65126125

Guangzhou Location:
Suite 801, China Hotel Office Tower
Liu Hua Lu,
Guangzhou 510015
Tel: 86-20-86660569
Fax: 86-20-86672401

Shanghai Location:
Suite 912, Central Plaza 227
Huang Pi Bei Lu, Shanghai, China 200003
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86-21-63598909
Fax: 86-10-63759361

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28 Jinling Xi. Rd.
Shanghai, China
200021
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Fax: (21) 6386-9915

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666-999 Canada Place
Vancouver, British Columbia CANADA V6C 3E1
Tel: (604) 684-5986
Fax: (604) 681-1370

Guangzhou Foreign Economic Relations and Trade Commission

1 Fu Qian Road
Guangzhou, China 510032
Tel: 86-20-333-0360
Fax: 86-20-334-0362

Guangdong Province Foreign Economic Relations and Trade Commission

305 Dongfeng Road C,
Guangzhou 510030
Tel: 86-20-3330860
Fax: 86-20-3344112

China Chamber of Commerce for Import/Export of Foodstuffs, Native Produce and Animal By-products

95 Beiheyuan Dajie
DongChengqu, Beijing, China
Tel: 86-10-6513-2569
Fax: 86-10-6513-9064

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19 Dongzhimenwai Dajie

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Tel: 86-10-65323536

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Fax: 86-10-65325544

86-10-65324072

Email: beijing-td@dfait-maeci.gc.ca

Internet: <http://www.beijing.gc.ca/beijing/en/index.htm>

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8 Connaught Place 11-14th Floors,

Tower 1, Exchange Square

Hong Kong

People's Republic of China

Tel: (852) 2810-4321

Fax: (852) 2810-7561

Internet:

<http://www.dfait-maeci.gc.ca/world/embassies/hongkong/menu-en.asp>

Canadian Consulate General - Guangzhou

Suite 801, Office Tower, China Hotel

Guangzhou 510015

People's Republic of China

Tel: 86-20-86660569

Fax: 86-20-86670267

Internet:

<http://www.beijing.gc.ca/guangzhou/en/index.htm>

Canadian Consulate General -Shanghai

American International Centre

West Tower, Suite 604

1376 Nanjing Xi Lu

Shanghai, 200040

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Tel: 86-21-62798400

Fax: 86-21-62798401

Internet: <http://www.shanghai.gc.ca/welcome.php>

Canadian Consulate - Chongqing

Suite 1705, Metropolitan Tower,

Wu Yi Lu, Yu Zhong District

Chongqing, 400010

People's Republic of China

Tel: 86-23-63738007

Fax: 86-23-63738026

Internet:

<http://www.beijing.gc.ca/chongqing/en/index.htm>