

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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China - Peoples Republic of

Food Service - Hotel Restaurant Institutional

Food Service Industry Sector Overview - China - 2017

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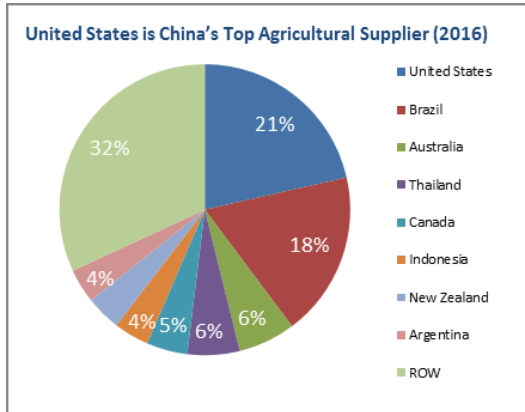
Report Highlights:

China's Hotel, Restaurant, and Institutional (HRI) sectors recorded USD \$539 billion in sales revenue in 2016, a 10.8 percent increase from the previous year. Restaurants accounted for the largest share of the sector with USD \$352 billion in sales revenue, or approximately 65 percent of the HRI sector. Hotels accounted for USD \$109 and Institutional food service accounted for USD \$78 billion, approximately 20 and 15 percent respectively.

HRI Report: China

Executive Summary

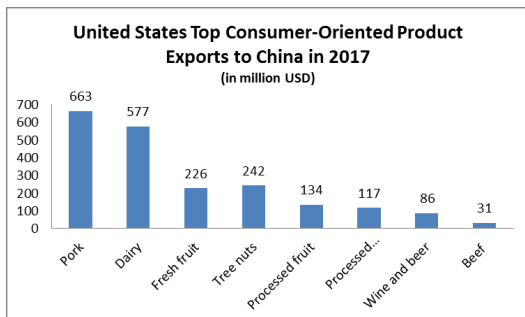
In 2017, China imported approximately US \$24.1 billion of U.S. agricultural products, a more than ten-fold increase since China's accession to the World Trade Organization (WTO) in 2001. China is a net importer of U.S. agricultural products.



Source: Global Trade Information System (GTIS)

China's Imports of Consumer-Oriented Products

The United States was China's second largest consumer-oriented product exporting country in 2017. According to the USDA's Global Agricultural Trade System (GATS), the United States exported US \$2.4 billion in consumer-oriented products to in 2017.



Source: Global Trade Information System (GTIS)

Food Service Industry – China Overview

China's Hotel, Restaurant, and Institutional (HRI) food sales reached US\$539 billion in 2016. The Chinese food service industry is comprised of 26,300 registered companies (*companies with annual revenue over US \$315,000) and many small family-owned foodservice restaurants. As disposable income levels increase, consumers in China are demanding higher quality food products to be served in the HRI sector. Healthy eating has become a strong trend amongst the middle and upper-classes.

China Macroeconomics

Population: 1.38 billion and growing; largest in the world (Source: World Factbook)

GDP (in PPP terms): \$11.2 trillion (in 2016); second largest in the world; largest in Asia (Source: World Bank)

Per capita income: \$8,123 (in 2016), with a growing middle class (Source: World Bank)

Agriculture:

- Accounts for 8.6 percent of China's GDP
- Accounts for 28.3 percent of workforce
- World leader (by value) of agricultural output for rice, wheat, potatoes, corn, tobacco, peanuts, tea, apples, cotton, pork, mutton, eggs, fish and shrimp (Source: World Factbook)

Food Service Industry – Quick Takeaways

Tailor to the market: Local cuisines dominate the restaurant sector. To improve the applicability of your product, adapt to local cuisines and Chinese food preparation techniques.

Be consistent: Importers and restaurants often complain that imported food products from the United States will have inconsistent supply. Once you establish a relationship with partner restaurants you should be in constant contact to understand sale trends and to make sure the supply of your product is adequate.

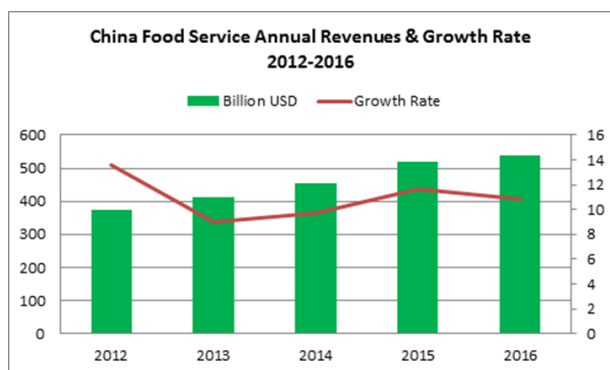
Product education is important: Be prepared to work with your partner restaurants to make sure the product is being served properly and presented in the most effective manner. Informing the chef and staff about the product will enable them to sell it more effectively to the end-consumer.

Strengths/Weaknesses/Opportunities/Challenges SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> - U.S. food products are perceived as high quality, safe, and consistent 	<ul style="list-style-type: none"> - China's food product supply chain continues to be fragmented and underdeveloped - International cuisines are not as widely accepted as local cuisines
Opportunities	Threats
<ul style="list-style-type: none"> - Rising disposable incomes - Growing familiarity and demand for imported food products 	<ul style="list-style-type: none"> - Over 12 countries have free trade agreements with China - Domestic food supply is strong and developing

SECTION I. MARKET SUMMARY

China's Hotel, Restaurant, and Institutional (HRI) sectors recorded US \$539 billion in sales revenue in 2016, a 10.8 percent increase from the previous year¹. Restaurants accounted for the largest share of the sector with US \$352 billion in sales revenue², or approximately 65 percent of the HRI sector. Hotels accounted for US \$109 and Institutional food service accounted for USD \$78 billion³, approximately 20 and 15 percent respectively.



China's HRI sector is driven by many economic and cultural factors but the below are especially important to note for the intentions of this 2017 report:

- An ever growing urbanization and the expansion of China's middle class population is fueling the sales increase of the food service industry;
- China's HRI sector is highly fragmented and dominated by small-to-medium enterprises;
- Regional diversity greatly influences the many cuisines and consumer consumption trends of China;
- Restaurants serving China's regional cuisines (e.g., Sichuan Hot Pot, Southern Chinese dumplings, etc.) continue to be more popular than restaurants serving international cuisines (e.g., Steak houses, pizza and hamburger restaurants, etc.), especially in Tier 2 and Tier 3 cities;
- On average, imported food products are considered safer, of higher quality, and more consistent than domestic food products. However, this is rapidly changing as China develops/improves food safety standards and the food industry matures;
- Product traceability is rapidly becoming popular in China as consumers demand to know more about the food products they eat;
- Chinese consumers view dining out as a way to establish and maintain close personal and professional relationships.

¹ In comparison, the United States foodservice sector supplied approximately USD \$731 billion worth of food in 2014 according to the USDA Economic Research Service (ERS). <https://www.ers.usda.gov/topics/food-markets-prices/food-service-industry/market-segments/>

² 2017 China Statistical Yearbook, Chapter 17-1

³ Institutional is defined as hospital, school, government agencies, railway, airline, state-owned enterprises, etc. The institutional figure was derived from a Ministry of Commerce's Service and Goods Division report on China Catering Industry Development report (中国餐饮行业发展报告)

HRI Report: China

The HRI sector is highly competitive in China’s Tier 1 cities (i.e., Shanghai, Beijing, Shenzhen) and is rapidly developing in Tier 2 and Tier 3 cities. Restaurants in China that serve international cuisines, which tend to be more expensive and offer an upscale ambiance, are more likely to use imported food products. U.S. exporters should strongly consider training food service chefs and staff on the proper preparation and presentation of the various U.S. food products when supplying any establishment in the HRI sector. While the HRI sector is developing, many food service professionals lack experience in using U.S. ingredients and other imported food products.

According to China’s National Bureau of Statistics, the Chinese diet is composed predominately of produce and grains. Fresh and dried produce, including vegetables and fruits, account for approximately 41 percent of the average Chinese consumer’s intake⁴. Grains are the second leading category, accounting for 37 percent. Meats account for just 7 percent. Chinese diets vary according to region, age, and economic class. On average, as per capita income has risen in China over the past 2 decades, the daily intake of grains has decreased while the consumption of proteins (e.g., meats, dairy, eggs) has increased.

Dietary Guidelines for an Average Chinese Person – Chinese Nutrition Society



Figure A: CNS Recommended Diet

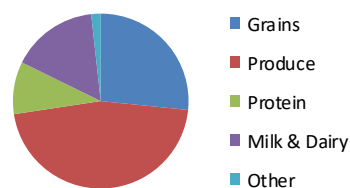
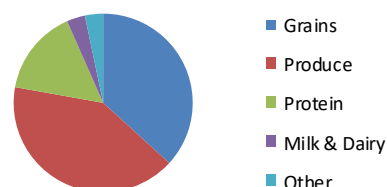


Figure B: Actual Diet



Consumers in China have greatly changed over the last decade and they now increasingly demand high quality food products that are consistent and safe. In a recent consumer preference research report commissioned by the U.S. Department of Agriculture (USDA), consumers responded with favorable perceptions of food products from the United States (i.e., they believed U.S. tree nuts, animal products, and fruits are superior to the same products from other countries). For more on that report, please visit: [GAIN Report on Consumer Preferences](#).

⁴ National Bureau of Statistics of China – 2017 China Statistical Yearbook

HRI Report: China

U.S. Supplier ADVANTAGES	U.S. Supplier CHALLENGES
Products from the United States are perceived to be high quality, safe, and consistent.	China has many Free Trade Agreements (FTAs) in development and existing FTAs with ASEAN, Australia, Singapore, South Korea, Maldives, Pakistan, New Zealand, Chile, Peru, Costa Rica, Iceland, Switzerland, Georgia, Hong Kong, Macao, and Taiwan.
American culture (e.g., holidays, dining experience, etc) is well known in China and perceived positively.	Chinese cuisine dominates the market. Adapting U.S. food ingredients to Chinese local cuisine and taste profile require a great deal of flexibility from the suppliers' side.
U.S. exporters and suppliers have access to a network of assistance provided by the USDA's Foreign Agricultural Service and USDA trade associations (please see section below on provided types of assistance).	There continues to be many market access issues, including restrictions on poultry, select fresh fruit and vegetables, and more.

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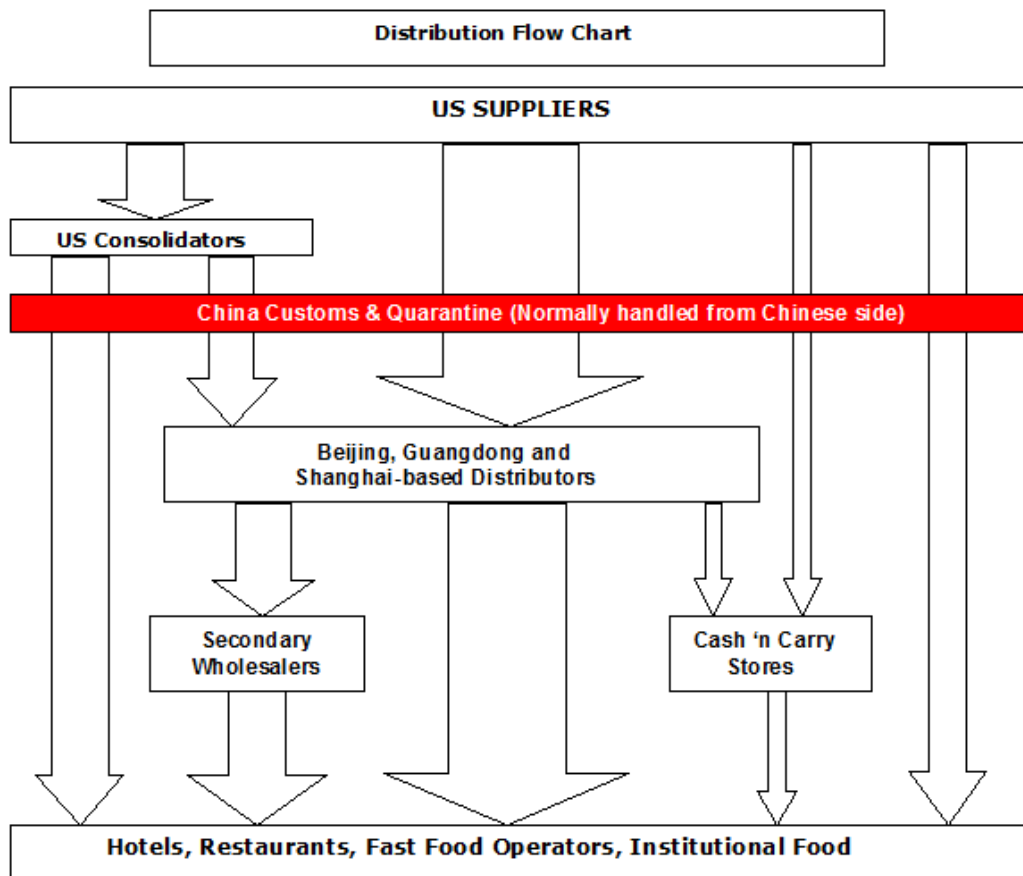
SECTION II. ROAD MAP FOR MARKET ENTRY

Entering China’s HRI market can be rewarding but it requires a large investment in resources (e.g., time, financing). Selling and distributing your product in China often requires face-to-face contact, a special effort to educate key stakeholders about the product, and a sound and efficient distribution system. Entry strategy should focus on the elements below:

1. *Selecting a distribution channel:*

There are multiple channels through which U.S. product can enter into the Chinese market. The appropriate channel depends on the type of product, level of desired control, and target consumer. In general, most companies will import through one of the following:

Exhibit 1: Distribution Channels



- **Option 1:** Full-service importers/distributors will purchase the products and take full ownership of the sale and distribution in China. The majority of full-service importers will seek to obtain exclusivity agreements with exporters but exporters should be cautious with exclusivity agreements.

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- **Option 2:** U.S. consolidators fill orders for China-based distributors and/or fill direct orders for restaurants and hotels in China. U.S. consolidators usually offer efficiency and an understanding of the processes/regulations.
- **Option 3:** Direct sale to an end-user is extremely rare and complicated and usually limited to high volume customers (e.g., fast food chain, hotel chains). Even if an exporter is engaged in direct to end-user sales, it is advisable for the exporter to have local agents to handle the paperwork and licensing as unexpected issues/hassles are common.

A distributor in China should be able to handle customs, quarantine, and any licensing procedures needed for the food product. A number of distributors will complete the necessary paperwork themselves, while others will use an import agent. For some products, multiple documents and certificates may be needed. Post strongly advises U.S. exporters to work with the importer, the local import agent, distributor, and/or the end-user to make sure the products are in compliance with Chinese regulations and all proper documentation has been completed. For more on these regulations, please visit: [USDA's Food and Agricultural Import Regulations \(FAIRS\) Report](#)

2. *Tailoring to the market:*

Educating Chinese consumers about your food product is important. Education can include everything from showing distributors how to handle the product, to demonstrating how to prepare the food product, to showing how the product should be served. Catalogues, recipes, and handling instructions should be provided in Chinese. HRI promotions (e.g., chef demonstrations, menu promotions, kitchen takeovers) are an effective tool to inform the end-user about the product. General advice for food product exporters for the HRI market is:

- Take time to study the market. It is critical to understand the target consumer and prospective clients before you enter the market. How a product is prepared in the United States is often different than how it is prepared in China.
- Incorporating western food ingredients into local Chinese cuisines will significantly increase sales potential. Be prepared to adapt your product to the demands of the end-user.
- Consider the regional cuisines when presenting your product. Many successful companies will focus on one region and then expand the product into other regions once a deeper understanding is acquired.
- Recognize the opportunity of promoting your products during locally celebrated holidays, festivals, and customs.
- Be prepared to tell the story of your product. Consumers in China value information about what they are consuming. Traceability and organic products are recent trends, especially amongst the younger generations.

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SECTION III. HRI PROFILES

1. *Hotels and Resorts*

Partially spurred by major international events, conferences and trade shows, many internationally-owned or managed hotel groups are rapidly expanding operations in China. Although most international hotel chains are located in first tier markets such as Shanghai, Beijing, Guangzhou, and Shenzhen, international hotels have also been aggressively expanding in second, third-tier cities and top tourism destinations.

On average, food service operations in hotels and resorts account for approximately 20 percent of the total hotel's revenue. Unlike in many Western countries, restaurants in hotels are not necessarily visited by only lodging guests, rather they are frequently visited by outside guests. Generally speaking, restaurants in the hotels are considered to have superior quality and service. Hotels often purchase ingredients and food products through a centrally managed system. Imported food products are often preferred by international hotels because the hotels cater to a diverse clientele.

For a list of international chain hotels and resorts in China please see appendix.

2. *Restaurants*

Geographically large and regionally diverse, China has very distinct local and regional food and flavor preferences. While restaurants serving local cuisines continue to dominate the market, western cuisines are becoming popular in Tier1 cities. Restaurants serving western cuisines account for approximately 5 percent of the total HRI sector revenue⁵. In general, ingredients for non-chained establishments are sourced from local retailers and markets.

Important trends for the restaurant sector:

- As disposable income levels increase, consumers in China are demanding higher quality food products. Disposable income has increase 30 percent since 2013, with an 8.4 percent increase from 2015 to 2016⁶.
- Restaurants are highlighting product of origin as a selling point. For example, restaurants will label dishes with titles such as "U.S. beef" or "Boston lobster" to market the dish at a premium price point.
- Bakery shops continue to be popular in both first and second-tier cities. Imported dairy, sugar, flour, nuts and dried fruits are widely used in mid to high-end bakery stores because the quality of imported ingredients is perceived to be higher.

⁵ China's Ministry of Commerce (MOFCOM): <http://fta.mofcom.gov.cn/english/index.shtml>

⁶ China Bureau of Statistics – 2017 edition

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General advice for the restaurant sector:

- Tailor to the market: Local cuisines dominate the restaurant sector. To improve the applicability of your product, adapt to local cuisines and Chinese preparation techniques.
- Be consistent: Importers and the restaurants they supply often complain that imported food products from the United States will have inconsistent supply. Once you establish a relationship with partner restaurants make sure to be in constant contact to understand how sales are going and to make sure the supply is adequate.
- Teach the chef and restaurant staff: Many restaurant owners and operators will complain that high quality chefs and/or staff are difficult to find in China. Be prepared to work with your partner restaurants to make sure the product is being served properly and presented in the most effective manner. Informing the chef and staff about the product will enable them to sell it more effectively to the end-consumer.

3. *Institutional Food Service*

Traditionally, institutional food service in China was primarily for hospitals, government offices, army, schools, and transportation (i.e., train, flights). However, as China slowly transitions into a services economy, institutional foodservice has expanded into office complexes. The majority of institutional food service providers are small in scale. International institutional catering groups take only a small share in the market.

According to the China Catering Association, the institutional food service sector reached \$78 billion in revenue in 2016, or 15 percent of revenue of the entire HRI industry. However, the institutional food service sector is facing many challenges, such as lack of known brands and unstandardized operational standards, food safety control and management measures, and logistical procedures.

Due to extreme price sensitivity within much of the sector, the catering market has yet to use a meaningful level of imported food and beverage products. However, with increasing wealth, high-end office complexes and private companies, institutional food service could be a future market for imported food ingredients.

For more information on the HRI sector for specific regions of China, please see appendix and the following GAIN reports: [Wuhan Market Research Report](#), [Nanjing Market Research Report](#), [Hangzhou Market Research Report](#).

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SECTION IV. COMPETITION

Food products for the HRI sector from the United States compete both with domestic and imported foods. Since China joined the World Trade Organization in 2001, imported food products have become more accessible and with that, competition has increased. China currently has FTAs in development and existing FTAs with ASIAN, Australia, Singapore, South Korea, Maldives, Pakistan, New Zealand, Chile, Peru, Costa Rica, Iceland, Switzerland, and Georgia⁷.

Most imported products face at least some locally-manufactured, lower-priced competition, with only a few exceptions (e.g., olive oil). Significant competition also comes from large international corporations with local production. In general, locally-produced products are also improving in quality, so chefs and purchasing managers are increasingly faced with cost considerations when choosing imported or domestic supply.

Exhibit 2: Competition Chart

Major Products, Market Shares by value, and Competitor Situations			
Product	Foreign Suppliers	Foreign Supplier Situation	Local Supplier Situation
Beef Imports \$3.1 billion	1. Brazil: 28% 2. Uruguay: 22% 3. Australia: 21% 4. New Zealand: 13% 5. Argentina: 12% 7. USA: 1%	FAS Post forecasts China's beef imports will continuously grow to reach 1.1 million tons in 2018, a 15 percent year on year increase compared to 2017. While U.S. beef began shipping in June of this year, South American countries, led by Brazil, will still be the top suppliers for the China market and occupied a roughly 62 percent market share in 2017. GAIN Report: Livestock and Products Annual	FAS Post forecasts China's 2018 beef production will reach 7.1 million tons, about a 0.5 percent increase from 2017. The majority of production gains will come from scale farms. Despite beef prices being down slightly in 2017, the price is still strong and has been stable since the end of 2013.
Pork Imports \$4.3 billion	1. USA: 27% 2. Spain: 15% 3. Germany: 14% 4. Canada: 11% 5. Denmark: 9%	FAS Post forecasts China's pork imports will decrease by 11.1 percent in 2018 to about 1.6 million tons. With the increased supply of domestic production, the pork price will continue its downward trend. Furthermore, Chinese consumers' pork consumption is already at a very high level and will remain flat. Thus the increased domestic supply will directly translated into reduced demand for imports. GAIN Report: Livestock and Products Annual	FAS Post forecasts pork production in 2018 will increase slightly to 54.1 million tons. The sow herd replenishment will continue in 2018, forcing prices downward. As prices decrease, more pigs will be slaughtered and thus pork production will increase.

⁷ China's Administration for Quality Supervision Inspection and Quarantine (AQSIQ) <https://www.aqsic.net/fta>

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<p>Poultry Imports \$1.0 billion</p>	<p>1. Brazil: 85% 2. Argentina: 11% 3. Chile: 4% 4. Poland: 0.4% 7. USA: 0.005%</p>	<p>FAS Post forecasts China's imports will slightly increase by 4 percent to reach 500,000 tons in 2018. Post anticipates that imports from Brazil will continue to dominate the import market in China. In addition to Brazil, other South American countries have benefited from other economies being banned from the market.</p> <p>GAIN Report: Poultry and Products Annual</p>	<p>FAS Post forecasts China's poultry production will continue to decrease in 2018 by 5.2 percent to 11.0 million tons. A factor that will influence poultry production levels in 2018 is weakened Chinese consumer confidence in the safety of domestic poultry. From the fall, 2016 till spring, 2017 (this time period is known as the "fifth wave"), China experienced its worst-ever outbreak of H7N9 bird flu.</p>
<p>Fish and Seafood Imports \$7.8 billion</p>	<p>1. Russia: 17% 2. USA: 13% 3. Canada: 10% 4. Norway: 6% 5. New Zealand: 5%</p>	<p>Imported seafood is believed to be higher quality, cleaner, and containing higher nutrition (consumer insight). Seafood is also regarded as a premium food item in most restaurants throughout China. New Zealand, Norway, Canada, Russia and U.S. are China's major seafood suppliers. Most popular U.S. export seafood are Maine lobsters, salmon, codfish, king crabs, and processed sea cucumber.</p>	<p>Traditional Chinese restaurants prefer live seafood and fish. While the supply chain is developing to allow for live lobster and crab from the United States, most imported fish and seafood products are frozen/chilled.</p> <p>China is a major supplier of many fish and seafood products, including squid, shrimp, cod, siluriformes, cuttle fish, eel, crab, and more.</p>
<p>Dairy Products Imports \$9.4 billion</p>	<p>1. New Zealand: 38% 2. Netherlands: 14% 3. France: 9% 4. Germany: 9% 6. USA: 7%</p>	<p>New Zealand and Australia have aggressive suppliers, low costs, and advantages in shipping time. Chinese regulatory hurdles limit eligible U.S. supply.</p> <p>GAIN Report: Dairy and Products Semi-annual</p>	<p>China's dairy industry is growing very rapidly but still in an early stage of development. It produces milk and yogurt but doesn't really compete in cheeses or butters.</p>
<p>Wine & Beer Imports \$3.6 billion</p>	<p>1. France: 32% 2. Australia: 20% 3. Chile: 9% 4. Spain: 7% 8. USA: 3%</p>	<p>Wine from European union enjoys a higher awareness among Chinese consumers. Wines from Chile enjoy a zero percent tariff and Australia wine enjoys a 2.8 percent tariff as of January 1, 2018, due to the Free Trade Agreement.</p>	<p>China's wine industry is evolving with a few good wines; however it may take decades to catch up with international market leaders.</p> <p>The craft beer industry is nascent with many local breweries starting new operations.</p>
<p>Fresh Fruit Imports \$5.1 billion</p>	<p>1. Chile: 20% 2. Thailand: 20% 3. Vietnam: 13% 4. Philippines: 10% 5. USA: 8%</p>	<p>Chile is counter-seasonal supplier of similar U.S. products. Most southeast Asian fruit differs from U.S. product. The imported fruit market become more competitive as more fruits from different countries are gaining market access.</p>	<p>Local products cannot compare with the quality, variety and taste of U.S. imported products. However, the quality of local fruits is improving. Some of the local substitute such as apples and citrus are very competitive in pricing.</p>

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SECTION V. BEST PRODUCT PROSPECTS CATEGORIES

Interviews with HRI food service professionals repeatedly confirm that U.S. food exporters should select top quality products for export to China. U.S. foods benefit from expectations of high and consistent quality, attractive appearance, convenient packaging and food safety. FAS Post has consistently found that it is difficult for most U.S. food products to compete with Chinese domestic products on price in the HRI market. Instead, suppliers should target niche as well as regional markets.

Exhibit 3: Best Prospective Products

Products in Market with Continued Good Potential	Products in Market with Unrealized Potential	Products with Market Access Barriers but with Good Potential
<ul style="list-style-type: none">• Beef• Pork• Fishery products (Salmon, Geoduck, lobster, Dungeness crab, cod fish)• Tree Nuts (almonds, pistachios, pecans)• Dried fruit (cranberry, blueberry)• Fresh fruit (cherry, apple, citrus)	<ul style="list-style-type: none">• Dairy products• Wheat flour and pasta• Dehydrated potatoes• Chocolate• Sugar confectionary• Mixes and doughs• Breads, pastries, and cakes• Cookies, waffles, and wafers• Breakfast cereals• Vegetable oils• Alcoholic beverages• Sauces and condiments	<ul style="list-style-type: none">• Rice• Fresh fruits and vegetables (Berries, avocados)• Poultry products• Organic foods

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SECTION VI. TRADE ASSISTANCE FOR EXPORTERS

USDA's Foreign Agricultural Service (FAS) has an unrivaled global network, of more than 90 Offices of Agricultural Affairs (OAA) and Agricultural Trade Offices (ATO), that connects exporters to foreign customers and provides crucial information on international agricultural markets. FAS operates six offices in China. These include one OAA located in Beijing and five ATOs located in Beijing, Chengdu, Guangzhou, Shanghai, and Shenyang. Beijing OAA is responsible for trade policy and commodity analysis, and assists with market access and technical phytosanitary issues for all of China. Agricultural Trade Offices were created with the sole purpose of focusing on agricultural marketing efforts. All five ATOs in China provide support, assistance, and oversight to USDA cooperators, work directly with U.S. companies to help them gain the knowledge and contacts needed to begin exporting to China, and prepare and disseminate reports about China's agricultural market. The offices coordinate U.S. participation in various trade shows, sponsor marketing activities to introduce companies handling U.S. products to key retailers, food service and food processing companies throughout China, and provide guidance in the resolution of customs clearance issues.

1. Trade Shows in China

The U.S. Department of Agriculture has four endorsed trade shows in China for exporters to participate in. Many suppliers get excellent market information by scheduling their visit to coincide with one of the trade shows. The Agricultural Trade Offices (ATO) in Beijing, Shanghai, Guangzhou, Chengdu and Shenyang can all provide contact details for show organizers upon request as well as recruiting distributors or traders to the show for matchmaking meetings. For more information on endorsed trade shows, please visit: [USDA Endorsed Trade Shows](#).

Trade Shows Featuring Food & Agricultural Products in HRI Sector			
Trade Show Name	2018 Dates	Location	Website
China Food and Drinks Fair (Tang Jiu Hui)	March 22 - 24	Chengdu	http://www.qgtjh.com/
Food Ingredients China	March 22-24	Shanghai	http://www.cfaa.cn/lxweb/toIndex.action?type=fig.en
HOTELEX	March 26-29	Shanghai	http://en.hotelex.cn/shanghai-exhibition/
HOTELEX	August 10-12	Chengdu	http://en.hotelex.cn/chengdu-exhibition/
SIAL China	May 16 - 18	Shanghai	http://www.sialchina.com
Bakery China 2018	May 12 - 15	Shanghai	
China Fisheries & Seafood Expo	November 7-9	Qingdao	http://www.chinaseafoodexpo.com/
Food & Hotel China (FHC)	November 13-15	Shanghai	http://www.fhcchina.com/en/index.asp

2. USDA China eNewsletter

To learn more about the monthly eNewsletter, please visit our USDA China website [here](#). Contact atoshanghai@fas.usda.gov to subscribe to the USDA China e-Newsletter.

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SECTION VII. APPENDIX

1. Hotels and Resorts – HRI Supplemental Report

China's hotel and resort sector continues to expand, increasing by nearly 8 percent over the past 5 years. The World Tourism Organization (WTO) estimates by 2020 China will become the world's most popular tourist destination.

Major International Star Rated Hotel Chains in China (2016)			
Brand Name	Subsidiary Brands in China	Headquarters / China Headquarters	Number of Hotels in China
Intercontinental Hotel Group	<ul style="list-style-type: none"> • Intercontinental Hotels & Resorts • Crown Plaza • Holiday Inn • Holiday Inn Express • Hotel Indigo • HUALUXE 	UK / Shanghai	292
Accor Hotels & Resorts	<ul style="list-style-type: none"> • Sofitel • Fairmont • Swisshotel • Pullman • Grand Mercure • Mgallery • Ibis • Banyan Tree • Huazhu hotels 	France / Shanghai	650
Cendant Corp.	<ul style="list-style-type: none"> • Howard Johnson • Wyndham • Ramada • DaysInn • Super 8 Motel 	USA / Beijing	110
Marriot Hotel Group (*merged with Starwood Hotels & Resorts Worldwide in 2016)	<ul style="list-style-type: none"> • Renaissance • Marriott Hotels & Resorts • Courtyard Marriott • The Ritz-Carlton • JW Marriott • Sheraton Hotels & Resorts • Westin • Le Meridien • Four Points • A Loft • W Hotels • St Regis • The Luxury Collection • Element 	USA / Hong Kong	424 (121+303)
Shangri-la Hotel	<ul style="list-style-type: none"> • Shangri-la Hotel 	Singapore /	55

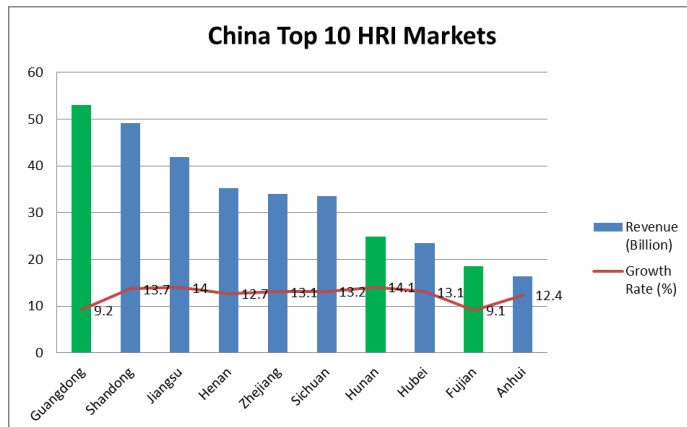
HRI Report: China

	<ul style="list-style-type: none"> • Traders Hotel 	Shanghai	
Kempinski Hoteliers	<ul style="list-style-type: none"> • Kempinski 	Germany / Beijing	22
Hyatt Hotels Corp.	<ul style="list-style-type: none"> • Hyatt Regency hotels • Grand Hyatt • Park Hyatt • Hyatt Hotels & Resorts • Andaz • Hyatt Place • Hyatt House 	USA / Beijing	57
Carlson Rezidor Hotels	<ul style="list-style-type: none"> • Radisson • Regent • ParkPlaza • ParkInn • Radisson Blu 	USA / Singapore	40
Hilton Hotels Corp.	<ul style="list-style-type: none"> • Hilton • Double Tree • Conrad • Hilton Garden Inn • Waldorf Astoria 	USA / Shanghai	110
Four Seasons	<ul style="list-style-type: none"> • Four Seasons Hotels 	Canada / Shanghai	9

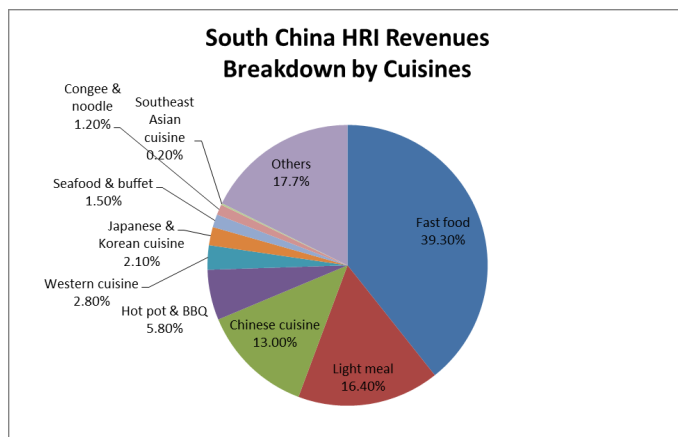
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2. South China Regional Profile – HRI Supplemental Report

South China includes five provinces, Guangdong, Guangxi, Fujian, Hainan and Hunan and is one of the most vibrant HRI markets in China. Guangdong continues to take the lead in national HRI revenue, and in 2016, the province’s HRI sector reached \$53 billion (10 percent of total national HRI revenue), a 9.2 percent increase from the previous year. In addition, Hunan (\$25 billion, 14.1 percent increase) and Fujian province (\$18.5 billion, 9.1 percent increase) were also top ten HRI markets in Mainland China.



While Guangzhou, Shenzhen, Xiamen and Changsha are the four most well-known cities for foodies in South China, consumer preferences in these cities are quite different. Cantonese food, together with different regional cuisines, is very popular among local residences and the migrant population in Guangzhou. In Shenzhen, however, the consumer base is younger and from all over China, and has many young white-collar professional workers. As a result, over 50% of HRI revenue comes from quick service restaurant and fast food. Changsha consumers are more inclined to have local Hunan cuisine, and consumers would prefer having milk tea and fresh fruits during snack time. Consumers in Xiamen are fond of Western cuisines and cafés.



Sources: CBNData and Koubei.com

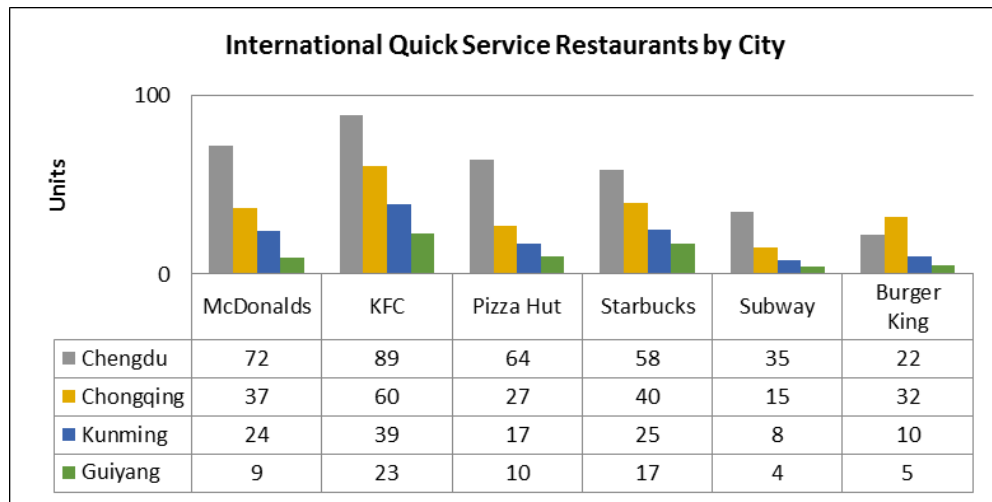
HRI Report: China

3. Southwest China Regional Profile – HRI Supplemental Report

Southwest China’s foodservice sector continues to grow steadily. In 2016, Southwest China’s year-over-year increase in restaurant and hotel revenue increased by more than 12 percent. In comparison with the rest of the country, Southwest China has recently seen the highest increase in per capita consumption of food, with a 9.3 percent increase in 2016.

In Southwest China, four/five-star hotels and upscale restaurants are the establishments most likely to use imported products. These establishments target Southwest China’s affluent and upper-middle class consumers. According to the China Statistical Yearbook, China’s Southwest region had about 2,700 hotels in 2016, a 10.3 percent increase over 2015. International hotels are a major contributor to recent growth, such as Marriott International, IHG, Starwood, Hilton Worldwide, Hyatt, Carlson Rezidor. A major source of revenue for four/five-star hotels is in-house food service. In 2016, food service accounted for \$2.26 billion of the region’s total hotel revenue of \$6.31 billion, or approximately 36 percent, which is well above the national average of 20 percent.

Quick service restaurants (QSR) have been rapidly expanding in major Southwest cities. Although this category mainly consists of standalone restaurants, it also includes international fast food chains. Opportunities for imported products in this sector remain limited. Both international and Chinese QSR chains predominantly use domestic sourcing for their products to keep prices low.



HRI Report: China

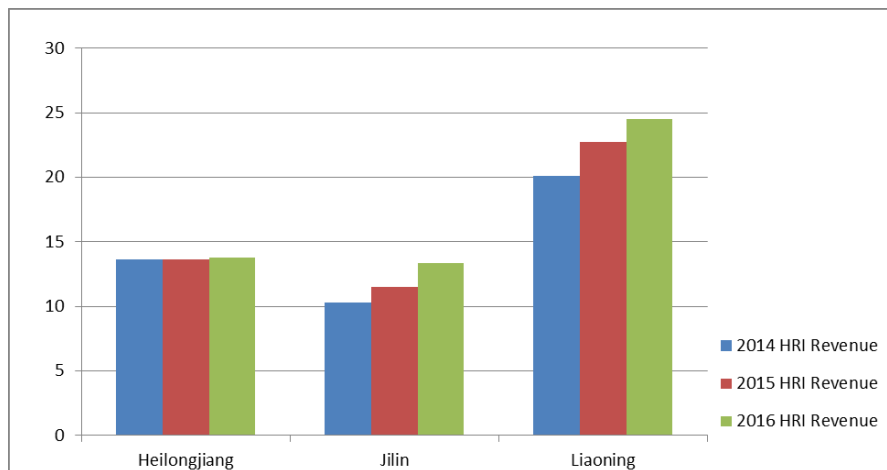
4. Northeast China Regional Profile – HRI Supplemental Report

Northeast China, called Dongbei in Chinese, includes the three provinces of Liaoning, Jilin and Heilongjiang. The three respective provincial capitals are Shenyang, Changchun and Harbin. Each provincial capital is home to seven to ten million residents. Dongbei is home to 110 million people and has 30 more cities with populations of over a million people each.

Northeast China’s food service industry is large. Despite China’s economic slowdown in 2015, food service sales grew in 2016. In 2016, China’s total food and beverage industry earned \$539 billion in revenue, of which \$52 billion was in Northeast China. Northeast China food service revenue grew by 8 percent in 2016 from \$23 billion in 2015 to \$25 billion in 2016. Liaoning has the largest HRI sector of the three Northeastern provinces.

HRI Revenue in Northeast China by Province

Unit: Billion USD



Source: China Catering Association

Food consumption patterns in Northeast China have changed significantly with improved standards of living. More Northeast Chinese are enjoying a greater variety of food, especially imported products. Northeast Chinese love going out at least twice a week for dinner with friends or business colleagues. Dining at a hotel is nearly as popular as eating at a restaurant or pub. Chinese consumers are increasingly choosing popular western foods such as pizza, french fries, and fried chicken when they dine out. Northeast Chinese also enjoy BBQ, hotpot and seafood.

HRI Report: China

Major International Hotel Chains in Northeast China

Brand Name	Subsidiary Chains in Northeast China	Numbers of Hotels in Northeast China	Hotels Expect to Open in 2018 and 2019 in Northeast China
Starwood hotels & ResortWorldwide	<ul style="list-style-type: none"> • Sheraton Hotels & Resorts • W Hotel • Westin • Le Meridien • Four Points • Aloft • The Luxury Collection 	9	W hotel will open in Shenyang in 2019 Westin will open in Dalian in 2019
Intercontinental	<ul style="list-style-type: none"> • Intercontinental Hotels & Resorts • Crown Plaza • Holiday Inn 	8	
Hilton Hotels Corp.	<ul style="list-style-type: none"> • Hilton • Double Tree • Conrad 	7	Hilton will open in Shenyang in 2018
Shangri-La Group	<ul style="list-style-type: none"> • Shangri-La Hotel • Hotel Jen 	6	
Hyatt Hotels Corp.	<ul style="list-style-type: none"> • Grand Hyatt • Hyatt Regency • Park Hyatt 	5	
Accor Hotels & Resorts	<ul style="list-style-type: none"> • Sofitel • Pullman 	3	

Major International Fast Food and Café Chains in Northeast China

Company Name	Global Brand Owner	Number of Outlets
KFC	Yum! Brands Inc.	488
McDonald's	Jin Gongmen Group	363
Burger King	Burger King	310
Pizza Hutt	Yum! Brands Inc.	229
Starbucks	Starbucks	189
Subway	Doctor's Associates	113

HRI Report: China

5. North China Regional Profile – HRI Supplemental Report

ATO Beijing covers north China including Beijing, Tianjin, Hebei, Henan, Shandong, Shanxi, Shaanxi, Inner Mongolia, Ningxia, Gansu, Qinghai, Xinjiang provinces. According to the China Cuisine Association, Beijing's HRI sector sales were \$14 billion in 2017, a 4 percent increase from 2016. The HRI sector continues to grow, however the government's anti-corruption campaign caused some trend setting high-end famous restaurants out of business, while others transformed into focusing on family and middle-class diners. Star rated hotels used to focus on promoting extravagant business banquets, however now even five-star hotels are booking more modest wedding banquets and creating affordable menus for families.

Northern Chinese consumers have become more knowledgeable and aware of the food they eat, and they care about food's effect on human health. E-commerce platforms provide consumers the opportunity to learn about popular or trustworthy overseas foods and beverages. For example, some middle to high income consumers do not trust domestically produced or harvested seafood products. They are afraid the seafood came from polluted waters, and the antibiotics used in aquaculture are harmful. International deep ocean caught seafood is considered safer by many consumers. When consumers dine out they also look for these imported products.

Branding is important to consumers in the Beijing region. If a restaurant's menu labels certain well-known product brands it will receive better recognition from consumers. Since 2000, international brands have gained important recognition from students who studied abroad. Students who have lived abroad will look for products that they are familiar to them, and restaurants can provide meals using those ingredients.