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## China's food industry: a land of opportunity?

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### **A new report offers an overview of China's emerging value-added food industry.**

China's food industry is rushing to modernize its technology, equipment, quality standards and structural organization in order to generate income from their exports and to meet the needs of an increasingly prosperous population.

A report from Technology Catalysts International Corp., Falls Church, Va., written by experts in Shanghai, details the current status of the industry and describes business opportunities in China today. It analyzes 14 sectors of the food industry and identifies the national goals that have been set under the ninth five-year plan period.

The report suggests that there are a number of opportunities for U.S. food companies in China. They include creating a market for branded products, supplying ingredients, marketing food manufacturing equipment and systems, licensing processes and technology, importing food specialties from China, and using China as a low-cost food manufacturing base.

Demand for high quality, diverse, convenient food is strong in a country of 1.2 billion people, with 14% annual population growth. Per capita income, though only \$460 per year at present, is growing since the transition from a planned economy to a market economy began in 1992-93. The food industry, the country's second largest, is a key contributor to economic growth. Fifty thousand companies produced about \$50 billion worth of product in 1994, and annual growth in the recent past has averaged 17%.

### **Oil Crops and Modernization**

China is still fundamentally an agrarian society. The output value of its agriculture in 1994 was about four times the \$50 billion generated by the processed food industry. This ratio is much smaller in developed countries. In the future, more agricultural products from the farm will be moved into value-added foods. Chinese consumers are shifting from commodity items purchased in bulk to high quality packaged brands.

In the past, the food industry in China has been composed of thousands of small producers that sold their products locally. Unable to modernize their plants and equipment, some of them produced low quality products and did not develop branded or specialty products. Since the mid 1980s, however, the government has encouraged the formation of large, more technologically modern plants. Foreign enterprises have entered the country establishing large, state-of-the-art plants that produce high quality, branded products.

A prime example is the edible oil industry, which produced products worth \$3.81 billion in 1994. An everyday necessity, and a basic ingredient in other products such as cakes, rice and noodle products, more than 10 varieties of oil are produced from soybeans, vegetable seeds, peanuts, sesame seeds, sunflower seeds and tea seeds.

As China has changed to a market economy, the number of oil producers declined from 1,394 in 1991 to 1,202 in 1994 because some enterprises were unable to adapt to the new system. Output of oil declined and the government took measures to strengthen macro-economic control, such as promoting oil crops and raising government purchase prices. In 1994, output rose and the market stabilized, and then 1995 saw a bumper oil crop.

Oil extraction techniques have improved, with 53% of factories using an oil leaching technique as well as extrusion worm presses to obtain the best yields. Researchers have designed leaching or pre-pressing leaching equipment. A few of the larger oil producers have brought in advanced refining technology from Germany, Sweden and Britain - processes for degumming, dephosphorizing, decoloring and deodorizing. Such producers are supplying first-quality cooking and salad oil. Specialty oils such as corn germ oil, bran oil, wheat germ oil and redflower oils are produced for the health market.

The exploitation of wild oil materials is under study. Technologies to develop by-products of vegetable oil have been developed. They include the production of fatty acid derivatives and comprehensive use of protein in oil crops. Fatty amines, fatty alcohols and phospholipids can be produced on a certain scale.

As the Chinese food industry develops, it may have some very intriguing new ingredients to offer to other countries. For example, new food colors have been researched intensively. By the end of 1991, 48 food colors were approved by the Ministry of Health, 39 natural and 9 synthetic. Some of the colors include hawthorn red, turmeric yellow, crocin yellow, paprika red, cacao husk pigment and powdered red kojic, made from rice. In some cases, these colors need more refinement before they meet international standards, but the red kojic is said to be of international quality.

### **Soft Drinks To Health Foods**

The soft drink industry in China is dynamic and young, and is growing at 30-40% per year. In 1994 there were more than 60 producers whose annual output was more than 10,000 tons. Consumers can choose among carbonated soft drinks, natural mineral water, fruit and vegetable juices, high solids drinks, and others including vegetable protein, milk and sports drinks.

Carbonated soft drinks represented 50% of the market in 1994; natural mineral water accounted for 14.8%; fruit and vegetable juices 14.5%; and high-solids drinks 2.2%.

Older beverage producers suffer from a lack of technical personnel and specialization, low production rates, co-existence of old and new equipment. Products from some medium and small sized enterprises are of unstable quality. Modernization is proceeding rapidly, however. Although the juice concentrate industry is not well developed, one enterprise has installed a concentrated apple juice production line from Italian Dubeiqui Co. Ltd. that features double pressing and super-mode filtration. With sterile canning for increased shelf life, the line produces 3,300 tons of concentrated apple juice and 1,000 tons of concentrated hawthorn juice per year.

In a technical breakthrough, the Shanghai-based Huadong Food & Drink Industry Research Institute has developed an ambient temperature canning technique which saves on power and cooling water. It involves aerating the water at under 20 [degrees] C and meeting Chinese national standards.

The Coca-Cola Co. has invested more than \$500 million and operates 23 canning factories. In 1996 Coke introduced Sky & Land juice, its first local brand, available in litchi, mango and guava flavors and made from Chinese-produced concentrates.

At the end of 1995, Pepsi-Cola had 12 factories in China, representing an investment of \$100 million. Their plans are to invest \$400-500 million over the next several years to establish eight more factories and expand the existing ones. Joint ventures with other American, Japanese and Korean companies produce fruit and vegetable juices, sports drinks, and vegetable protein drinks.

China's food industry is still 10-20 years behind developed countries in terms of infrastructure, technology, plant manufacturing facilities, process skills and quality control equipment, according to the report. Although less than 5% of the 50,000 food companies in China are foreign funded, they are developing rapidly because they are adaptable to a market economy, operate under preferential policies, are well funded, and don't have social welfare burdens.

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