China: Food Processing Equipment Industry
Overview of Emerging Tier II Markets

The JLJ Group
Solutions for China Entry & Growth

INTRODUCTION

Objective of this report is to provide an overview of the Chinese market for food processing equipment, with focus on five key emerging markets beyond established cities such as Shanghai and Beijing. A quick but necessary overview of the demand side (food processing market) is also included, as trends in the food processing equipment market closely follows the food processing market. This report focuses only on pure import strategies for foreign companies.

EXECUTIVE SUMMARY

Only about 30% of food in China is processed, compared to about 60-80% in Western countries.

Food processing market. The Chinese food processing industry has grown at more than 20% CAGR between 2001 and 2006 to reach about $288[1] billion in 2006. The industry is highly fragmented, with a large number of very small companies or family enterprises. There is still room for growth as only about 30% of food in China is processed, compared to about 60-80% in Western countries. Driven by rising disposable incomes and increasing urbanization, consumers are increasingly favoring the convenience of processed and packaged food; the market is expected to continue growing at about 9% CAGR until 2010.

Food processing equipment market. The food processing machinery industry in China grew 23% to reach about $5.6 billion in 2006. Domestic production of food processing machinery is relatively mature, although products are still concentrated in the low-mid end segment of the market; Chinese producers usually manufacture only one or two types of equipment and only a few are able to offer "turn-key" solutions. Overall, China is a net exporter of food processing machinery – it is increasingly exporting machinery while imports are being replaced by domestically produced equipment.

Food safety. Awareness of food safety issues has increased with the rejection of Chinese exports in overseas markets and a series of food safety incidents in the domestic mar-

1 All US$ equivalent in this report are calculated at USD-RMB exchange rate of 7.6

ket. Many of the food safety problems can be traced back to the farm level since farmers rely on heavy use of chemicals; in addition, the fragmented supply chain makes it difficult to trace problems and enforce standards. Nevertheless, the government is strengthening enforcement of food safety regulations, which creates opportunities for testing equipment manufacturers, especially for microbiological and temperature testing equipment.

Best prospects for equipment. Foreign exporters may serve the top food processors (both foreign and Chinese) as smaller companies do not have the financial resources to purchase imported equipment. Key segments which offer good prospects for foreign exporters include meat processing equipment (meat mincers, saws, slicers and meat drying equipment); dairy processing equipment (mixing, pasteurization, homogenization, storage and fermentation equipment as well as boilers and refrigerators); grain processing equipment (wheat peeling and milling equipment and flour milling machinery); and beer & soft drinks processing equipment (brew machinery, presses, pulpers, juicers, strainers, mixers).

Key emerging markets. Besides the established Tier I markets, there are opportunities in rapidly growing Tier II cities such as Tianjin, Dalian, Qingdao, Zhuhai and Chongqing, which are the focus of this report. Tianjin and Dalian are the two largest importers of food processing equipment after Beijing and Shanghai, while Qingdao accounted for the second highest increase in equipment import in 2006 (56%); all three cities are strong bases for seafood, grain and dairy processing equipment. Zhuhai, strong for sweets and seafood processing equipment, registered the highest growth in import in 2006 (80%). Chongqing is a fast growing import market, and is a good location for grain and meat processing equipment.