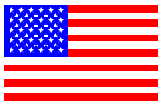




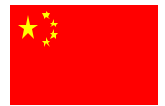
DAIRY INGREDIENTS FAX

Published by the Dairy Products Technology Center - Dairy Ingredients Applications Program



CHINA: A GROWING MARKET FOR DAIRY PRODUCTS AND INGREDIENTS IN THE NEXT MELLENNIA

By Phil Tong, Cal Poly DPTC



It seems like only yesterday that talk about market opportunities in the next millennia seemed so far away that the conventional wisdom said, "yeah, right... Tell me something that I can utilized today and not something in the distant future". Now the dawn of the next millennia is within the turn of the next page of our monthly calendars and what was once a distant thought is now upon us. Are we ready to capitalize on any new opportunities that may be emerging in the dairy marketplace in the next millennia? Do we have the portfolio of goods and services that are needed to compete in the world marketplace of the next millennia?

I do not have answers to these questions, but one of the first steps in "getting the business" is knowing the customer and the potential competitors for the customer. Recently, I was invited to spend two weeks in China as part of a project team under the People's Republic of China - United States Scientific and Technical Exchange Program administered jointly by PRC Ministry of Agriculture and the US Department of Agriculture. Joining me on this "Chinese Dairy Economy: Production, Consumption, Domestic Marketing and Trade Team" were Drs. Frederick Crook, Agricultural Economist, USDA -ERS (Team Leader); Francis Tuan, Leader, China Program, USDA -ERS, and Art Coffing, Agricultural Economist, USDA -FAS. Our objective, simply put, was to "get to know the marketplace/customer." Two weeks is not enough time to go in-depth into such a complex undertaking. However, during this period we did have several valuable meetings with key government officials, industry leaders and academicians involved with the China dairy industry in Beijing, Nanjing, and Shanghai. This included meeting with key executives of the top two dairy companies in China, Shanghai Bright Dairy Corporation and Beijing Sanyuan Food Company, Ltd.

These meetings, coupled with some simple facts about China, and observing consumers at the increasingly popular Chinese supermarkets leads me to believe that there is real opportunities to work with the Chinese to capitalize on the tremendous market potential that is brewing in China. The recent news that China will join the WTO could result in lower tariffs for US agricultural products imported into China further highlights China as an increasingly viable trading partner. My colleagues on this trip, who have studied the agricultural, marketing and consumer sector of China for over 30 years concur.

MY TOP TEN OBSERVATIONS ON CHINA

- 1) China's per capita milk consumption of approximately 6.8 kg, while other Asian countries such as Singapore and Taiwan consume 56 kg/capita, current U.S. per capita consumption of milk of 128 kg, and the world average of 90 kg/capita.
- 2) Approximately 23% of the world's population lives in China.
- 3) The Chinese government has openly stated they will be educating the public and promoting the consumption of milk and dairy products as a matter of policy to improve the health status of China.
- 4) Yogurt, yogurt drinks were popular and of high quality in the urban marketplace.
- 5) A wide array of milk powders for infants, toddlers, adults and the elderly were available and marketed aggressively for nutritional and functional properties by multinational companies and Chinese dairy/food companies.
- 6) American fast food chains (e.g., McDonalds, Pizza Hut, Dairy Queen, Kentucky Fried Chicken) were prominent and popular in the Chinese cities visited.
- 7) Executives from the leading dairy companies were optimistic that growth rates of 20-30% in dairy product sales would continue for the next few years. Strong growth was anticipated in fresh pasteurized milk, fermented milk and yogurt products, and ice cream.
- 8) Milk production remains underdeveloped and totaled 8.4 million metric tons or approximately 1/10th of U.S. milk production. Average milk production per cow in China is 1/3 the US production per cow. Limited resources for raising quality feed and predominance of small 2-3 cows household dairies leads to relatively low quality milk supplies which will challenge China's ability to meet any growing demand for milk.
- 9) Poor quality, relatively high cost domestically produced milk powder is remaining in inventory and cannot compete with the quality and price of available imported milk powders.
- 10) According to China Customs statistics, China imported from New Zealand, Australia, United States, Netherlands, and Germany approximately 111,031 metric tons of dairy products with a total value of \$85 million US in 1998. In the first 7 months of 1999, New Zealand has exported 25,800 metric tons of dairy products into China valued at \$33.5 million and reflects approximately 28.5% and 37.9% of China's total dairy import volume and value, respectively (*from BOABC, China Dairy, Issue #7, September, 1999*).

MARKET IMPLICATIONS OF THESE FACTS?

- Each kg increase in per capita consumption of milk in China means 1.25 billion kg increase in total milk demand. If China only reached 1/4 the per capita consumption of its neighboring Asian countries, they would need to be supplied with an additional 16 billion kg of milk. This increased demand is equivalent to about approximately 5% of the world milk production, 20% of the U.S. milk supply or approximately 80% of the California milk supply.
- As new generations of Chinese are educated about nutritional value of milk, and they are introduced to more dairy products through government school milk programs and American restaurant/fast-food establishments in China, demand for milk and dairy products will grow and exceed the available domestic milk supply.
- Immediate opportunities exist to market high quality milk and whey powder to fortify milk for yogurt manufacture, ice cream manufacture, and to use in custom blended milk powders. Many processors from throughout the major dairy producing regions with aggressive export programs are successfully providing products to China.

THE OPPORTUNITY AND CHALLENGE

China, with nearly one of every four inhabitants of this planet, is a country becoming increasingly friendly to foreign investment and exchange. However, its many years of past isolation from the rest of the world make it difficult for foreign nations to appreciate its culture, values and needs. Nevertheless, growing interest in milk and dairy foods makes it potentially the largest market for consumption/export of dairy products worldwide. Some companies (American, and other foreign companies) have already invested heavily in developing markets for their goods and services. In 1945, no one would have believe you if you had predicted that the Japanese with all their cultural differences to America and recent ending of WWII could successfully study our markets and sell us Toyotas, Hondas and the like. Hence, why shouldn't the name of one of the American dairy firms with all their market savvy and productivity skills become a household name in China?