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Report Highlights:

As the PRC dismantles it's zero-COVID policy measures, there is great optimism about the economy and, particularly, the HRI sector. Stakeholders expect a rebound in travel to fuel recovery in hotels, restaurants, and other outlets. PRC agricultural production, processing, and transportation logistics were resilient during the pandemic, but full economic recovery will be slowed by structural headwinds and cautious consumers. PRC food and agricultural imports – critical to the food security balance sheet – remain strong and are expected to grow faster than the rate of GDP. The PRC remains the United States' largest food and agricultural product export market with sales reaching a record $41 billion in 2022.

Summary

The Peoples Republic of China (PRC) pursued a zero-COVID policy from the start of the pandemic until late 2022. The zero-COVID policy, and its roll back in 2022, had a dramatic impact on all aspects of the economy, including the food and agricultural sector. Zero-COVID resulted in closed borders, lockdowns, and volatile and slow growth.

As COVID surged before and after the end of COVID restrictions, there was an immediate - albeit short - shock on the labor and consumer sectors. It affected the Hotel, Restaurant, and Institutional (HRI) sector more dramatically than the food production and processing sectors. After a long year of strict COVID restrictions, economic growth slowed to an estimated 3 percent in 2022. Recent demographic data show that China's population has declined for the first time in decades.

With the end of COVID-related restrictions, there is optimism that economic growth will return to roughly five percent in 2023, and the return to domestic and international travel will boost the HRI sector. At the same time, there are structural issues that may constrain the Chinese economy.

Overall, the food and agricultural sector has proven to be quite resilient. U.S. exports of agricultural and related products to the PRC reached a record $41 billion in 2022 – though this was supported by higher commodity prices. The slowdown in economic growth and consumption in late 2022 led to larger inventories for some key commodities and subsequently softer prices. However, there is optimism for stakeholders in China's food and agricultural sectors.

Section I. Overall Effect of COVID

COVID in China

The human cost of COVID on Chinese society, as in the rest of the world, has been profound. It has been most devastating to elderly and vulnerable populations. While the societal cost of COVID is impossible to measure, this report will focus on how the pandemic, and the response to it, changed the food and agriculture economy in China.

Regarding the economic and business cost, we note that hotels and restaurants were hit particularly hard over the past three years. Many importers, especially of cold chain products, saw business dry up and costs increase. COVID-related port and business slowdowns and closures shook supply chains around the world. The expat population plummeted. COVID-related expenses and falling tax receipts drained local government coffers. And countless Chinese, especially in the service sector, lost their livelihoods.

The first hospitalization for COVID was reported on December 8, 2019. The PRC ultimately controlled the initial outbreak of COVID through isolation and mass testing – including locking down entire cities. International travel became rare, and life in China was punctuated by school closures, and district, city, and regional lockdowns. The PRC also imposed non-science-based disinfection requirements on imported products. The virus, however, was largely controlled, and the economy partly recovered, until the March – May 2022 lookdown of Shanghai.

The Shanghai lockdown was eventually successful in controlling COVID at the local level, but more transmissible COVID variants led to the rapid and broad-based transmission of the virus. Despite additional restrictions, starting in late October 2022, there was sustained and growing transmission of COVID in cities across China.

On December 10, 2022, the PRC relaxed controls on its population and abandoned the zero-COVID strategy. The PRC issued notices on December 27 that, effective January 8, 2023, downgraded the COVID virus from a Class A to a Class B disease. This resulted in the resumption of passport and visa issuance and the end of other COVID related policy controls affecting the importation of goods, including cold-chain products.

Economic Overview

The International Monetary Fund (IMF) forecasts 2023 and 2024 Chinese economic growth at 5.2 percent and 4.5 percent, respectively, as the economy rebounds. They also forecast growth "at below 4 percent over the medium term amid declining business dynamism and slow progress on structural reforms"

This growth is lower than the growth rates that the Chinese are accustomed to. It is also lower than the "about" 5.5 percent GDP growth target the PRC announced in March of 2022, and the six to seven percent long-term growth rates the IMF is forecasting for India, Vietnam, and the Philippines. The slowing is only partly due to COVID and related policies. China's workforce was already shrinking before the pandemic, family and local government finances were already dependent on an overvalued housing market, and the PRC already favored import substitution. These issues were all affected by COVID, but they predate it.

Like the IMF, most forecasters are expecting a slow start to 2023 and a strong rebound in the second half. The biggest uncertainties appear to be consumer spending, and the effectiveness of PRC policy changes in the property sector. There are also concerns about local government income, unemployment, new and sustained COVID outbreaks, and supply chains shifting out of China.

Table 1. Agricultural Imports and GDP Growth

Chinese Agriculture Product Import and GDP Growth

Percent Change

	2017	2018	2019	2020	2021	*2022*	*2023*
Ag Imports from World *	13.8%	9.4%	6.1%	10.9%	28.2%	*6.3%*	
Ag Imports from U.S. *	3.0%	-28.9%	-18.5%	60.2%	62.7%	*7.1%*	
China GDP **	6.9%	6.8%	6.0%	2.2%	8.1%	*3.0%*	*5.2%*
						Estimates	

Notes: * TDM Chinese import data for Agriculture and Related Products. 2022 is Jan - Nov data.
** International Monetary Fund, World Economic Outlook Update, January 2023.

Chinese imports of agriculture and related products should continue to grow rapidly. As illustrated in Table 1, imports have been growing more quickly than Gross Domestic Product (GDP) - even during the U.S. - PRC trade tensions in 2018 and 2019. The outsized import growth is primarily driven by China's resource constraints and economic growth in both rural areas and third and fourth tier cities. That said, a slowing economy will probably result in a somewhat slower rate of growth in food imports.

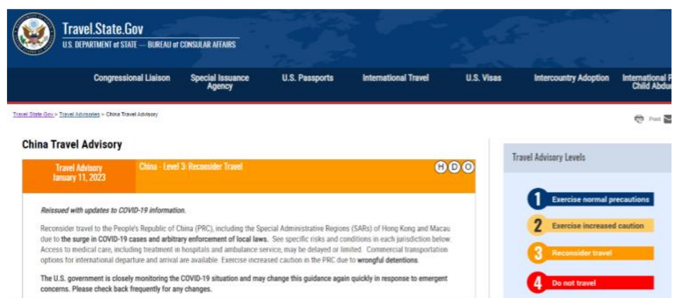
Figure 1. Yuan – Dollar Exchange Rate

The Chinese yuan is currently at approximately the same levels as in late 2019 and early 2020. The yuan generally strengthened against the U.S. dollar from May 2020 through February 2022. The Federal Reserve began raising rates in its March 15 meeting. The yuan began weakening before then, in February 2022, and fell through October 2022. The yuan has generally strengthened since then. Foreign exchange markets and the strength of the dollar are reviewed on page 13 of this November 2022 report to Congress from the U.S. Department of the Treasury.

Travel Restrictions

On December 26, 2022, the PRC Embassy in Washington DC announced it would begin to issue visas. While travelers need to take a Nucleic Acid Test (PCR) for COVID and submit results to PRC officials, individuals traveling to China after January 8 no longer need to quarantine on arrival. Additionally, on January 8, 2023, PRC authorities provided guidelines on the requirements for visa issuance for "commercial and trade" travel. As of January 11, 2023, the United States Department of State travel guidance still encourages American citizens seeking to travel to China to "reconsider" their visit.

Figure 2. Department of State Travel Advisory



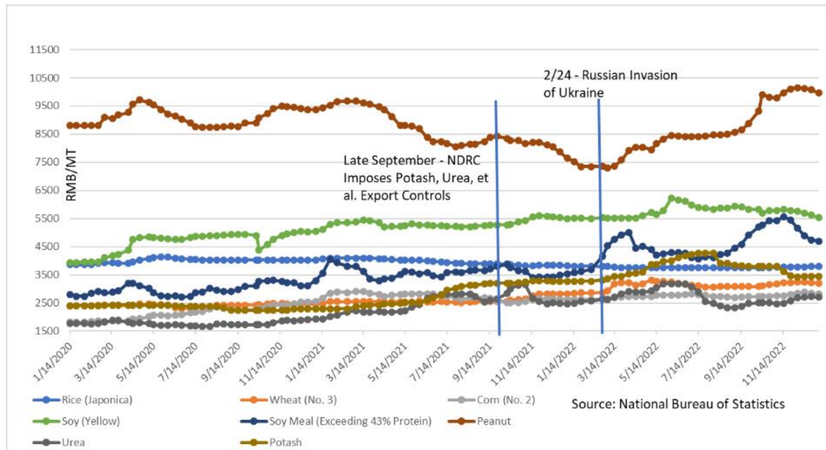
Previously, in March 2020, the PRC changed requirements for travel into and out of China, and annulled previously issued multiple-entry, multiple-year visas. After some time, the PRC resumed issuing visas but under very strict conditions. Although data on business or commercial travel visas issued by PRC authorities is not available, subject matter experts believe the number of visas issued for such travelers was minimal from March 2020 through December 2022.

From March 2020 through December 2022, PRC authorities required varying pre-arrival and post-arrival isolation, COVID testing, and quarantine requirements. At one point, requirements included a 7-day pre-travel isolation, 14-day strict quarantine on arrival in designated hotels, and 7-days of additional quarantine in those same hotels (or, in some instances in approved residential compounds). Further, if travelers were determined to be positive for COVID on arrival, the individuals would be moved and kept in designated fever hospitals – a precondition and cost that most business travelers, even those who were able to receive a new visa, were unwilling to assume; it could lead to prolonged detention in a hospital with no clear path for release.

Given the difficulties of traveling to China, FAS China hosted virtual engagements with U.S.-based Market Access Program (MAP) and Foreign Market Development (FMD) program participants. Held at least twice a year, and beginning in November 2020, the engagements kept stakeholders apprised of market and policy developments in China.

Section II. Chinese Agricultural Production and Processing

Figure 3. Nominal Producer Prices



Agricultural Production

FAS China saw little to no interruption of agricultural production due to COVID. According to media reports, during the period from March 2020 through the present, PRC officials made a concerted effort to guarantee that food and feed production continued uninterrupted. Even with the downgrading of COVID, the State Council and the Ministry of Agriculture and Rural Affairs sent a message that rural areas need to remain vigilant against the disease. Some PRC announcements discouraged travel to rural areas during the 2023 Lunar New Year holiday period (January 15 – February 5).

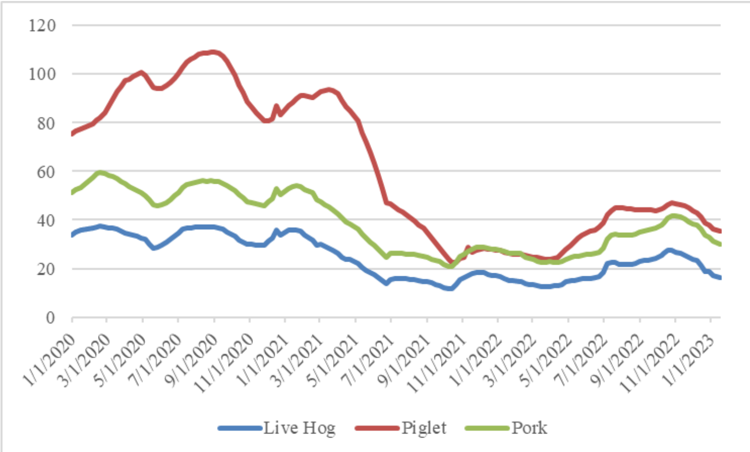
During the pandemic, as shown in Figure 3, nominal commodity prices as recorded by the PRC's National Bureau of Statistics as part of their "Producer Price" series have had little overall movement. There were noticeable upticks for many goods with the onset of COVID, but many other price movements are either more clearly tied to geopolitical events and/or weather phenomena.

PRC authorities place primacy on ensuring food production and domestic food security. During the winter/spring planting season in Northeastern China in 2022, local officials exempted agriculture producers from movement controls so that they could work the fields. Furthermore, during the Shanghai lockdown, some of the only people allowed to leave lockdown were transporting agricultural products to downstream consumers.

Domestic Meat Production and Processing

Domestic meat production and processing were relatively unaffected by COVID restrictions. Pork production and prices were affected by the African Swine Fever (ASF) disease outbreak in 2018. Disease issues affected hog and pork production through the end of 2020. Domestic poultry and beef production were similarly unaffected by COVID restrictions. COVID appeared to quicken and solidify changes in consumer purchasing and consumption habits, including a shift towards diversified animal protein consumption (poultry, beef, and seafood products) and increased use of e-commerce platforms for grocery purchases.

Figure 4. MARA Weekly Average Hog/Pork Prices



Lockdowns, restrictions on in-door dining, and travel limitations affected demand throughout the pandemic. Following the Shanghai lockdown in April 2021, national and local COVID restrictions intensified through the end of 2022. These restrictions caused demand to weaken for imported products, such as imported beef and poultry, consumed through high-end retail and quick service restaurants, respectively.

In September 2020 the PRC implemented various testing and disinfection measures for imported cold-chain products (see GAIN Report CH2022-0085). These additional steps included extensive documentation and certification for imported cold-chain products. They caused distribution bottlenecks, added cost and extensive time delays for the movement of imported products, including highly perishable meat products. These requirements did not apply to domestic meat and have recently been removed for imported products.

Mills and Crushing Plants

China's feed and wheat mills ran at near normal levels throughout the pandemic. While lockdowns, and more recently worker illnesses, have affected mill's ability to run at full capacity, concerted efforts were made to prioritize agricultural production and ensure mills were running.

Ports and feed mills reported high rates of COVID infection in December and early January. This appears to have challenged the ability of certain facilities to operate for short periods but hasn't affected overall capacity. Transportation from some facilities has been constrained, but workers are returning much more rapidly than they would have under the zero-COVID policy. Facilities generally prefer the new situation to the prior policy with long lockdowns - which would hamper their business more and drag on for an uncertain amount of time.

Section III. Domestic Transportation and Logistics

PRC policies aimed at controlling the spread of COVID in China severely affected the logistics industry. Authorities issued measures based on a scientifically unjustified fear that the virus would spread on surfaces, especially in cold environments, and treated the detection of inert virus particles and live virus as equally hazardous. This particularly affected cold chain products. GACC recently abolished nucleic acid testing requirements for the entry of imported food. On January 12, FAS China contacts reported that centralized warehouses for imported cold-chain products are closing.

The logistics system in China has not fully recovered. Systemic logistics failures during the pandemic have created gaps in pre-pandemic transport networks, and it remains to be seen how many drivers, cold-chain workers, and other affected laborers have permanently changed their careers in search of stable employment.

Logistics Overview

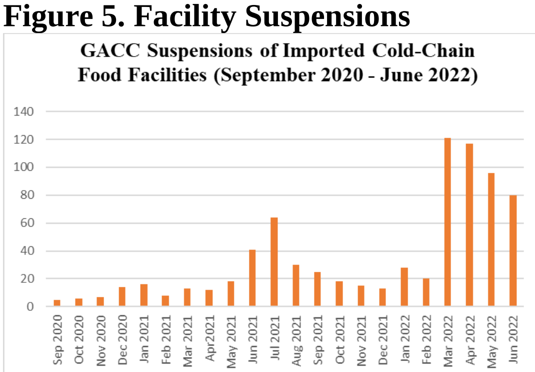
During the pandemic, provincial, municipal, and district officials crafted a patchwork of rules that proved extremely difficult for importers, distributors, retailers, food transport companies, and transport workers to navigate. These zero-Covid policies slowed food distribution, raised prices, and encouraged retailers and restaurants to stock their businesses with local products rather than risk delays and losses due to logistics issues.

FAS China contacts estimate that logistics costs for packaged products increased an average of about 10 percent over the past three years, which in turn resulted in about 10 percent retail price increases. However, they indicated that cold-chain product costs increased as much as 40 to 50 percent. Many businesses discontinued the import or sale of certain cold chain products because of the cost of compliance with PRC COVID controls.

In June 2020, inspectors at Xinfadi Wholesale Market in Beijing allegedly detected COVID on a cutting board used to cut imported salmon and identified this as the source of virus transmission for 355 people. The market was closed and imported products were placed under greater scrutiny until the market reopened in August, subject to a litany of strict new “epidemic control and prevention” rules. The incident became a flashpoint for Covid-control measures in Beijing and elsewhere.

Heightened testing at cold chain facilities led to detections of inert virus, which reinforced the PRC’s narrative about virus spread. This led to the PRC suspending foreign cold chain facilities, implementing mandatory package testing and sampling procedures at Chinese cold chain facilities, and, in 2021 and 2022, implementing additional mandatory disinfection and distribution rules for imported cold chain products within China.

Figure 5. Facility Suspensions



The PRC suspended international cold chain facilities for detections of virus fragments throughout most of the pandemic. In September 2020 GACC began suspending facilities for detections of COVID virus fragments (their phrase was “nucleic acid of the coronavirus”) on cold chain food or its packaging. GACC modified its policy in early July 2022 and stopped reporting facility suspensions. Figure 5 charts facility suspensions, that lasted 1-4 weeks, by month. Under the July 2022 revision, plants were still subject to suspension of imports and revocation of registration.

Logistics in China throughout the pandemic ranged from nearly normal to sometimes gridlocked. Upon the release of the State Council’s New Ten Policies on December 7, 2022, many of the previous policies were nullified, and industry experts anticipate a complete recovery in 2023.

Media reports and industry analysts widely documented the increased costs of doing business with and in the PRC during COVID. According to a 2022 Deloitte report, logistics labor costs across China had increased by more than 10 percent as of the end of March 2022. China's coastal bulk freight cost increased by 25 percent over 2020, and China's export container prices increased 166 percent after 2020. High oil and gas prices contributed to shipping challenges and container shortages as businesses made strategic changes to their usual cargo shipment schedules to avoid unrecoverable expenses.

Checkpoints, Bottlenecks, and Labor Shortages

Disinfection requirements created three types of checkpoints and bottlenecks in China: at customs clearance, at central supervised warehouses, and at provincial entry checkpoints. With the roll back of zero-Covid policies the checkpoints have been removed.

Across China, transportation workers were required to hold negative 48-hour nucleic acid tests. A driver who tested positive on any stretch of their journey would typically be sent to a central quarantine facility while the transport company was left to find a new driver. Widespread labor shortages ensued until later in 2022, when the cross-provincial testing requirements were scrapped in the wake of criticism that the extra checkpoints were overly burdensome, slowing the flow of goods, and causing transport costs to skyrocket.

SAMR built central supervised warehouses (CSW) all over China, requiring all imported cold-chain food products transiting a provincial border to immediately go to a CSW for disinfection and often a holding period before the CSW would issue a permit for the product to be further processed or sold in the province. By February 2022, there were 869 operational CSWs. In addition to or in combination with a CSW, SAMR required provincial entry checkpoints. In December 2022, highway checkpoints began closing.

Section IV. Import Demand, Capacity, and Port Operations

Chinese port operations are returning to normal with some backlogs. Air and ocean freight rates are far below their peeks but are still elevated. And while demand for imports was depressed by Covid-related requirements, logistical issues, a weak restaurant sector, and low growth, those constraints are dissipating. According to media reports, imports of some cold-chain foods are rebounding. Shipping and trade contacts report that shipping delays for U.S. agricultural products are due to global container shortages and the shortage of U.S. longshoremen and truck drivers.

Importers of U.S. agricultural products have been facing higher tariffs, pandemic controls, and delayed shipments. Their relationship with exporters has changed dramatically. The transfer of costs is not fixed; if China's demand is large enough importers are more willing to accept cost increases. Even if there are alternative suppliers, importers are very cautious. They attach great importance to the smooth flow of logistics and are not willing to change suppliers easily.

Freight Rates

According to a source in the shipping industry, the ocean transport sector will largely 'normalize', and exporters and importers will benefit in 2023, after two painful years of extremely costly—and record high—prices since the onset of the pandemic, driven largely by unsustainable consumer goods demand, shipping under-capacity and chronic shipping disruptions.

Figures 6 and 7, below, illustrate the ongoing normalization in international freight markets. They depict container and U.S. - China airfreight rates, respectively. Both container shipping and airfreight rates are well below their pandemic peaks. Note that figures 6-9 depict spot freight rates. Most containers are shipped under long term contracts.

Figure 6. Container Freight Rates

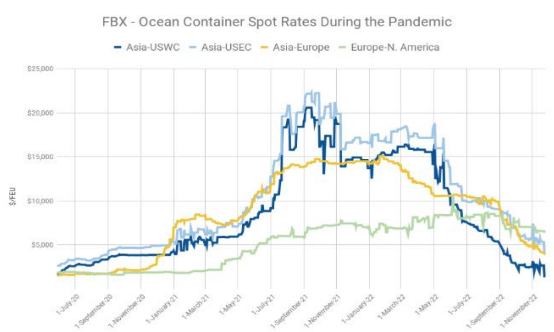
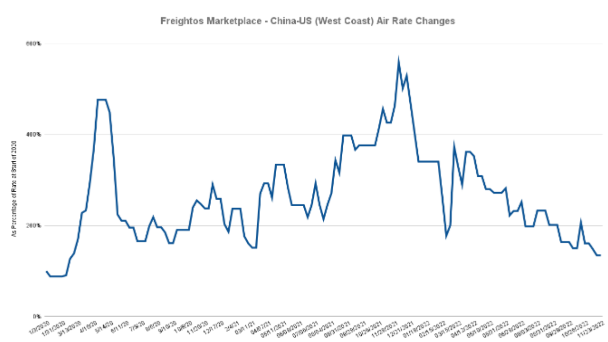


Figure 7. Airfreight Rates



Figures 8 and 9, below, show spot container prices for trade between the United States and Shanghai. Figure 8 is for exports to Shanghai from the Midwest (orange) and West Coast (red). Figure 9 is for shipments from Shanghai to Los Angeles. These rates have also come down from their peaks during the pandemic. Note that the peak in container shipping cost from Shanghai to Los Angeles was almost $12,000, while the peak from the Midwest to Shanghai was roughly $2,700. Container prices for Chinese exporters have come down much more than those for their U.S. counterparts, but from a much higher level.

Figure 8. U.S. to Shanghai Rates

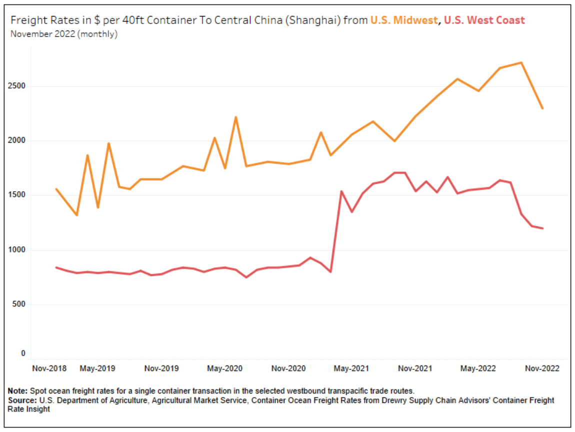
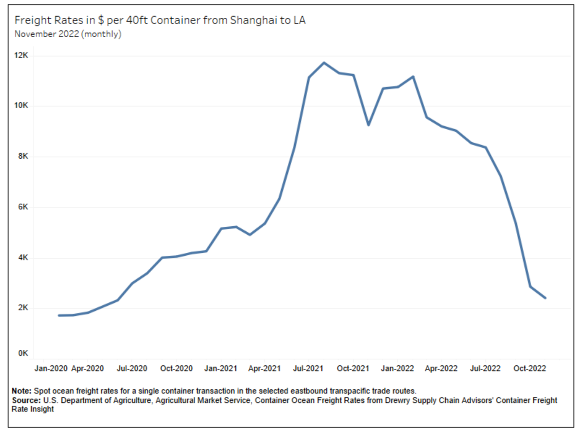


Figure 9. Shanghai to U.S. Rates



V. HRI Sector

The COVID pandemic and the PRC's zero-COVID policy response had an outsize impact on China's Hotel, Restaurant, and Institutional (HRI) sector, decimating thousands of small businesses and stretching the limits of an industry reliant on travel and socializing. Hotels, restaurants, and institutional food service providers were forced to contend with an ever-changing set of measures that limited travel, restricted large gatherings, disrupted supply chains, and canceled major events - including trade shows, ceremonies, and other celebrations.

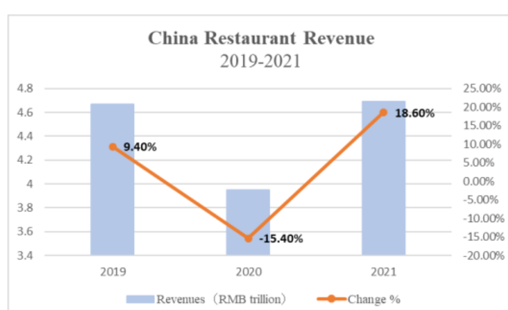
Some restaurants successfully transitioned in-store sales into online sales with China's restaurants as a whole reporting a 22 percent increase in revenue through on-line platforms between 2021 and 2022. However, in most cases such increases failed to make up for losses from closed dine-in facilities or fewer dine-in customers.

Many top travel destinations and resorts saw significant declines in visitors. Sanya, a tropical city and popular tourist destination on Hainan Island, received 24 million tourists and had 63.32 billion yuan in revenue in 2019; in the first ten months of 2022 visitors declined to 10.9 million and it had 36.34 billion yuan of revenue. With the end of China's zero-COVID policy, FAS China contacts in the HRI sector have expressed greater optimism, however many remain cautious and expect a long road towards full recovery.

Restaurants

Restaurant revenue fell more than 15 percent in 2020, recovered in 2021, and declined 4.6 percent over the first nine months of 2022. Data is not yet available on the fourth quarter of 2022, but on-premises business stopped completely for many restaurants in December.

Figure 10. Restaurant Revenue



In terms of total revenue decline, 2022 may not be as severe as 2020, but it comes after three years of challenges. Costs had increased, and balance sheets were depleted. Firms entered the pandemic unprepared for a downturn – much less two severe ones. The decline in revenue in 2022 was driven by lockdowns across the country, stricter enforcement, and ever-changing policy.

The zero-COVID policy also reshaped restaurant purchasing and supply chains. Food prices, labor and packaging costs all rose. This, combined with the challenge of delivering products to consumers, led many restaurants to increase cooperation with online platforms. Restaurants also worked more closely with food service supply chains businesses to better control costs and improve operational efficiency.

Hotels

All types of travel were negatively affected by COVID. Accordingly, China's hotel sector struggled to cope with empty rooms, cancelled events, and postponed trade shows. Hotel revenue plummeted in 2020, at the start of the pandemic before slightly rebounding in 2021. However, heightened restrictions in late 2021 and 2022 again led to sharp declines in revenue.

According to the China Tourism Academy, the total number of domestic tourists in 2022 in China was 2.77 billion and total domestic tourism revenue was 2.35 trillion yuan, down 14.38 percent and 19.5 percent, respectively, year-over-year. The burden of on-going operational costs forced some hotels out of the market. For example, from 2019 to Q3 2022, 38 star-rated hotels in Guangzhou closed their business. Similar situations were reported throughout major cities across the country.

HRI Outlook

While the PRC is currently dealing with a wave of infections, contacts across the HRI sector are cautiously optimistic about 2023 - as nearly three years of pent-up demand for travel and hospitality are unleashed. However, in the first quarter of 2023, many sources expect a slower return of demand. The economy continues to grow at a historically low rate and many consumers are postponing big purchases, including travel.

The hospitality industry expects three stages of recovery in the coming 12 to 18 months. From the end of 2022 through the first quarter of 2023, with rising infection numbers and a slow restart to travel, most hotels are expected to continue to see fewer customers and suffer losses. The industry now expects a rebound in the spring of 2023, with more business travel, trade shows and recreational travel. For the second half of 2023, the industry expects occupancy to nearly recover, though the larger economic situation could hamper a full recovery. In one bright spot, Sanya, a popular destination, saw a double digit increase in both air (50 percent increase) and hotel reservations (30 to 60 percent increase) in December 2022.

Table 2. Hotel Revenues and Occupancy

China Star-rated Hotels Facts (2019 - Q3 2022)					
Year	**Number of star-rated hotels be reviewed**	**Total revenues (in RMB billion)**	**Portion of food revenues**	**Portion of hotel room revenues**	**Average room occupancy rate**
2019	8,920	190.78	38.19%	42.49%	55.18%
Q1 2020	7,101	17.8	43.24%	36.70%	22.83%
Q2 2020	6,345	21.82	39.67%	38.91%	33.08%
Q3 2020	7,060	36.86	40.80%	42.50%	49.02%
Q4 2020	7,222	42.44	44.21%	38.83%	49.81%
Q1 2021	7,104	27.06	43.49%	38.51%	35.39%
Q2 2021	6,894	37.3	40.06%	44.92%	50.06%
Q3 2021	6,999	35.39	39.76%	41.94%	43.68%
Q4 2021	6,801	36.13	43.11%	38.67%	42.22%
Q1 2022	6,684	23.61	44.05%	38.23%	32.11%
Q2 2022	6,698	24.86	39.04%	41.86%	36.73%
Q3 2022	6,505	35.35	41.42%	41.66%	45.49%

Source: China's Ministry of Culture and Tourism

VI. Retail Sector

Retail sales contracted 5.9 percent in November 2022, the largest contraction since May 2022, when Shanghai was under a two-month-long lockdown. Despite the contraction, online consumption grew steadily. Traditional retailers' sales were hit by zero-COVID restrictions and had significantly less traffic. People avoided going to crowded places and many city governments implemented strict controls on large-scale gatherings.

During the pandemic, services such as grocery delivery, curbside pickup, and online sales promotion that once seemed extravagant became mainstream. Traditional retailers have developed rapidly growing online shopping platforms. Both online sales and community group purchases increased dramatically during COVID. An industry contact for an online platform based in Fujian province noted a tripling of sales since 2020. From January to November, the national online retail sales of physical goods increased by 6.4 percent year-on-year, growing faster than offline sales. They accounted for 27 percent of retail consumer goods sales.

Local delivery services struggled during COVID recent waves in Beijing and Shanghai. Similar situations are expected to occur in other cities. In Beijing during the COVID wave in late December and early January courier companies closed delivery points due to couriers testing positive, resulting in reduced staff. Both distribution and sorting personnel were reportedly seriously short-staffed. In Shanghai express delivery and pressure on online suppliers is surging. Users in Shanghai report a slowdown in logistics and delivery services, as well as an overload of orders on fresh food platforms. The number of takeaway food orders in Shanghai has been on the rise recently, increasing by more than 30 percent week on week.

Despite COVID, retail businesses are resuming normal operating hours. Based on recent conversations with retailers, we believe retailers will be open for approximately 80 percent of their pre-COVID hours by the Spring Festival this year. In December 2022, major shopping malls in some major cities shortened their business hours. Some were reduced to 5 hours a day, others were locked down periodically, and takeaway services in some stores was also suspended. Since January, the business hours of shopping malls have gradually increased. This is especially true for restaurants and bars.

During the pandemic major retailers were cautious about introducing new items, especially imported items. Major retailers were reluctant to arrange in-store promotions. Planning and stock replenishment (especially for new items) became more difficult due to the uncertainty caused by COVID controls.

VII. Bakeries

Strictly speaking, the bakery sector is a part of the retail or HRI sectors - depending on the transaction. But the sector is full of examples of how companies were affected by COVID and adapted to it.

Bakery owners report that bakery sector sales increased over the past three years. However, shopping mall bakery store sales decreased by at least 20 percent during the past three years due to lockdowns and lower traffic. Baking flour consumption also enjoyed steady growth over the past three years. In 2022, baking flour consumption reached 5.61 million tons, a compound annual growth of 7 percent over the past five years.

Many bakeries did not survive the pandemic, however. The number of bakeries in China fell by 18.6 percent in 2020, to 390,000, according to data from www.askci.com and Meituan. Registration of new baking enterprises continued over the three-year period but appear to have slowed. Registrations reached 6,395 in 2021, and 2,815 in the first half of 2022. Several large national bakery chains were forced to close or enter bankruptcy, while local bakeries suffered from weaker demand and higher costs associated with unpredictable pandemic controls.

Some bakeries were able to turn the crisis into an opportunity for growth. Community bakeries increased sales due to strong demand for convenience foods and 3rd party delivery services. Bakeries with strength in group-buying and sales to institutions also benefited. Many businesses and other organizations gave bakery shopping benefits to their employees. Bakeries with brick-and-mortar stores, online order platforms, and delivery services generally remained strong and grew their business during the pandemic.

Demand for bakery products was strong during the pandemic, but many customers faced income declines, and bakers limited price increases. Demand for bakery ingredients followed. Demand for imported baking flour remained strong. Formulations of mixed domestic and imported flour are gaining popularity due to reduced cost.

According to ingredient importers, demand for imported dried fruits and tree nuts did not change much. However, with increasing operating costs, some bakeries sought lower-cost dried fruits and tree nuts.

Demand for imported dairy products, especially butter and cream cheese, was stable and strong. Due to stringent measures on imported cold chain products some bakeries were forced to seek local replacements for imported cheese and butter. However, in 1st tier cities, especially for chain bakeries targeting middle-and-above-class consumers, imported cheese and butter products are regarded as core ingredients and did not suffer much sales fluctuation.

Bakery chains, which need large volumes of imported ingredients, struggled with logistics over the past three years. Higher supply chain costs and unreliability led many bakeries to source more ingredients from within China. Cold chain products faced noticeable shortages resulting in higher prices. Other ingredients required quarantine at port for extended periods and segregated storage, increasing overall production costs.

Consumers tried to buy more health and wellness-related products, including short shelf-life bread, during the pandemic. However, due to the limited space of refrigerators, long-term lockdown in some areas and lockdowns, demand for long shelf-life baked goods increased.

VII. Conclusion

People are hopeful and optimistic about China. Families can get back together again, and recreation, travel, and tourism are expected to grow. The disruptive and unpredictable zero-COVID measures have been removed. Online retailing has established itself, even if it might suffer a setback now that people can reliably go into a real store. Some businesses have become stronger, and companies have an opportunity to rebuild relationships and form new ones.

However, structural constraints remain, and COVID remains a persistent threat as it spreads through a population that has limited vaccine immunity. Consumer spending will remain somewhat restrained. Debt needs to be worked through and businesses rebuilt. Local governments don’t have booming consumption or property sales to finance them.

Meanwhile, China will remain the largest export market for U.S. food and agricultural products, with trade expected to continue to grow above GDP growth rates.

Attachments:

No Attachments.