



# 天津市捷旭国际贸易有限公司

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**Spring 2012 has come, but a severe winter for export of Chinese frozen foodstuffs will last for some while.**

## **I. Overall Survey of the Market for Chinese Frozen Foods**

### **1. Negative Effect on Chinese exports due to Up-valuation of RMB**

The exchange rate of RMB against US\$ keeps increasing. It was 8.27 RMB against one US\$ in July, 2005, now it has become 6.30 in early March, 2012. RMB has up-valued by 31% in six and half years. The up-valuation weakens the competitive power of the Chinese product sharply. Most frozen foodstuffs are low added value, once the price is raised, the advantage of the Chinese products might disappear. For this reason, spread shipment for a long period is not welcome for Chinese suppliers.

### **2. High Inflation Rate in Fast Developing Countries such as China**

Huge amount of "hot money" have been generated by many governments in recent years. Part of this money has been floating to economically fast growing countries like China. which pushes the CPI to higher levels. Agricultural products are those most extreme items whose prices are up sky-high or down to hell in the following season. Green asparagus spears 1kg retail packaging were offered by China at US\$ 1,650/t CNF European main port in summer 2009, the same product was offered at approximately US\$ 4,400./MT CNF in the same period in 2011. Garlic was just the opposite..

### **3. Influence of the Rising Cost of Labor**

Once upon a time, extremely cheap labor costs were among the most competitive powers in the export of China products. However, now the situation has changed. Salaries have almost tripled in less than 6 years. At present, although labor costs are still cheap in China compared with other developed countries, it is not as cheaper as before. China has lost the advantage of low labor cost compared to other countries such as Vietnam or India.

Why? Firstly, the Chinese "birth control" policy has cut down the number of babies in every Chinese family. Approximate 400 million less population in China since this policy was in force earlier the 1980's.

Secondly, one typical Chinese family has four grandparents, two parents and just one child. Most younger generation are spoiled. Less young people would like to work in a production plant where you'll have 10 hours hard work a day. Today, young or middle age laborers below 40 years old are hard to find in production plants.

### **4. Production Costs Keep Rising**

Along with a fast growing economy, the cost of electricity, water, sewage purification, land rent, and everything else is rising.

### **5. Financial Crisis and the European Debt Crisis**

The financial crisis started in the USA, and spread worldwide. Later on the European Debt Crisis also deeply affected the world economy and daily life in Western countries. Consumption habit is changing in those countries. Families' personal saving has risen and this means consumers spend less money than they used to do. People do more shopping, and prepare meals and eat at home, which means less money are spent on food from restaurants and hotels.

#### 6. **Booming Demand in Chinese Domestic Market**

Nowadays, the demand of certain IQF products is booming in Chinese domestic market, such as sweet corn kernels and green peas. Younger generations spend less and less time shopping, to prepare for their meals. Frozen foodstuffs are the best solution for quick cooking.

Health foods draw more and more attention from Chinese consumers. Blueberries are an excellent case, because they are regarded as a healthy berry fruit nowadays. However, several years before, Chinese seldom drank or ate blueberries. The situation has now changed. Blueberry juice is available all around China. Consequently, China has become one of the largest importers of blueberries in the world, instead of exporters.

#### 7. **“Quick Money” Rush in China**

Under the fast growing economy in China, lots of Chinese are working for “quick money”. Young generation are thinking to enter the Middle Class by owning their own apartment and a private car by the time of getting married (25-30 years old in China now). Young girls are looking for their Mr. Right who has an apartment and a car in the city. This has pushed housing price up dramatically.

The plant owners are thinking of “quick money” too. So the investments flows to real estate, the stock market, Pu 'er tea, traditional Chinese furniture or jade, but not to industrial production. We have not seen any new plants built since 2007. Meanwhile, many IQF plants went bankrupt or switched into other businesses since then.

### **II. Forecast for exports of Chinese IQF agriculture product**

1. Chinese exchange rates can't keep rising for ever as Western country would like to see. Chinese Prime Minister Mr. Wen Jiabao stated that the current exchange rate has almost reached the bottom limit in March, 2012. This is a good sign to Chinese exporters that the RMB will stop its up-valuation as it has been doing since July, 2005. It might happen that the RMB may be devalued in order to keep Chinese exports and imports balanced in the near future.
2. High inflation rates will certainly come to an end as less hot money comes from outside China and stable financial policy is put in place by the central government in Beijing as of Dec. 2011. Also, the CPI is down to 4.1% this Feb., a serious decrease compared with the same period in 2011.
3. Obviously, labor will not get cheaper but can be replaced by machines. Whenever we discuss with plant owners, it is comprehensively agreed that application of more machines is the only solution for this industry. Today, we have already seen this trend in many modern plants in China. They may not be fully automated as in Europe or north America, nevertheless, as more investments are made, China will close the gap day by day.
4. For many products you can find them nowhere else except in China, like black fungus, bamboo shoots, nameko mushrooms etc. Consumption will continue once prices remain stable with little or no change.

5. For many items such as green leafy vegetables, beans, and fruits, Chinese consumers still prefer fresh because of thousands of years of the tradition that will not change easily. We can't say this will never change, but it will certainly take a long time for Chinese consumers to accept frozen vegetables to cook at home as much as the westerners. But for the industrial customers, this might be another story. As Western foods get more popular, frozen vegetables will be welcomed by big canteens and food services.
6. As economies in Europe and America are recovering, more frozen foods from China will be demanded.
7. It is clear that speculation is not good for any economy. The central government in Beijing understands this as well. Since the beginning of 2011 Beijing has set certain strict rules to push housing prices down. On top of that, the rate of Chinese banking reserves against deposits has been raised as of late 2011 so that certain amounts of money was blocked. Consequently, housing prices are down in all Chinese cities. Speculative businesses are all under huge pressure as well. We believe more investments will go into real economic production including frozen foodstuffs production.

Best regards,

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