

China: An Emerging Market for Fresh Fruit Exporters

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Abstract: China, the world's eighth largest fruit and vegetable exporter, has been a net importer of fresh fruits since 1998. The United States' share in China's fresh fruit import market has been relatively small, but has grown rapidly since the mid-1990s, in part because of China's relaxation of trade barriers. China's imports from the United States are concentrated on three categories of fruits: grapes, citrus fruits, and apples. The prospects for U.S. exporters are good despite domestic and foreign competition.

Keywords: China, United States, fresh fruits, WTO, market access, grapes, citrus fruits, apples.

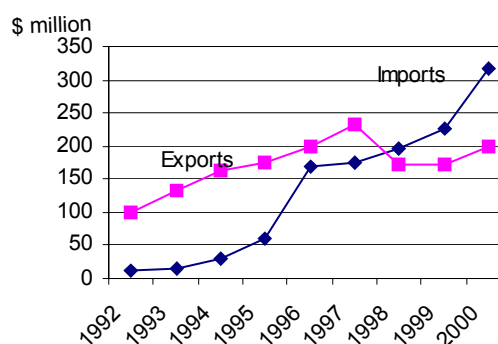
China has been a large net exporter in its overall trade in fruits and vegetables for decades. Exports exceeded imports by nearly eight times, and China ranked eighth in world exports of fruits and vegetables during 1998-2000. China's fresh fruit trade has been an exception, however. Imports have increased so drastically since the mid-1990s that China has been a net importer of fresh fruits since 1998 (fig. A-1). Fresh fruit imports have become the dominant item in China's overall imports of fruits and vegetables, increasing uninterruptedly from less than 20 percent of total import value of fruits and vegetables in the early 1990s to more than 60 percent in 2000. The surging fresh fruit imports were made possible in part because of China's relaxation of trade barriers since the mid-1990s. With its accession to the World Trade Organization (WTO) in late 2001, China is expected to further relax its trade barriers for imports, including fresh fruits, providing increased market opportunities for global exporters.

Changing Composition of China's Fresh Fruit Imports

For years, fresh fruit imports in China—the world's largest fruit producer—were mainly to supplement domestic production in certain kinds of fruits. Traditionally, tropical fruits such as bananas, guavas, and mangoes dominated China's fresh fruit imports.

In the 1990s, while banana imports continued to gain ground, the relative importance of other tropical fruit imports declined considerably. Meanwhile, imports

Figure A-1
China: A net fresh fruit importer since 1998



Source: United Nations trade data.

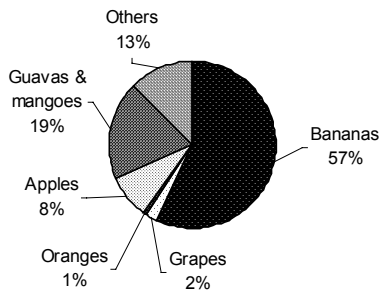
of oranges and grapes surged dramatically, so their share in the overall composition of China's fresh fruit imports increased substantially by the late 1990s. Even as apples became a smaller proportion of fresh fruit imports, the total quantity of apple imports grew and continued to be one of China's major fresh fruit imports in the 1990s. The changing structure in the composition of China's fresh fruit imports in 1992-94 compared with 1998-2000 is shown in figures A-2 and A-3.

Because of China's heavy leaning toward tropical fruits in its fresh fruit imports, South America and countries in the Association of Southeast Asian Nations (ASEAN) are naturally China's main suppliers. During 1998-2000, ASEAN accounted for 46 percent of China's fresh fruit import market, while

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Figure A-2

Composition of China's fresh fruit imports, average value of 1992-94



Source: United Nations trade data.

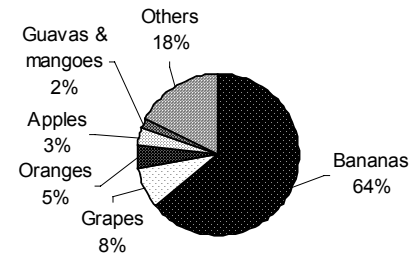
the share from South America was 35 percent (fig. A-4). Most of China's fresh fruit imports from South America are bananas (mainly from Ecuador) and, to a much smaller degree and only recently, grapes (mainly from Chile). China's main fresh fruit imports from ASEAN are also bananas (mainly from the Philippines) and, to a lesser degree, other tropical fruits such as guavas and mangoes. In comparison, the United States' share in China's fresh fruit import market is relatively small. The U.S. share, however, grew the fastest in the 1990s—from less than 4 percent of China's fresh fruit import market in 1992-94 to nearly 10 percent in 1998-2000. This growth in the U.S. share would be even more dramatic if banana imports were excluded—from 8 percent in 1992-94 to nearly 27 percent in 1998-2000. China's major fresh fruit imports from the United States during 1998-2000 included grapes, oranges, and apples. The last important supplier for China's fresh fruit imports is Oceania countries (mainly Australia and New Zealand), with a 5-percent share in China's market during 1998-2000, supplying mainly citrus fruits and apples.

Improved Market Access Through Relaxation of Trade Barriers

The growing size of China's fresh fruit imports is in part due to the relaxation of its trade barriers, particularly its stringent phytosanitary regulations. In October 1992, the United States and China signed a market access memorandum of understanding that called for the adoption of import quarantine regulations to be based on sound science. Since then, China's official door for fresh fruit imports has opened gradually. By the end of 1993, China had eliminated its phytosanitary restriction to permit the

Figure A-3

Composition of China's fresh fruit imports, average value of 1998-2000

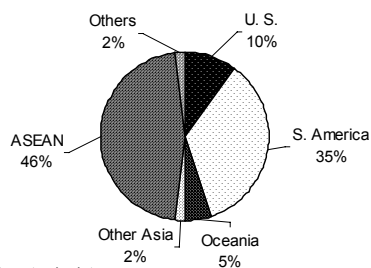


Source: United Nations trade data.

import of apples from Washington State. Changes, however, were slowly occurring in China's official trade regimes. Until 1995, Washington apples were still the only U.S. fruits that could enter China's market officially. The only legal exceptions were for small amounts of other types of U.S. fresh fruit for hotel/restaurant use or special events such as trade shows. Even then, the imports were only by special permission from the China Animal and Plant Quarantine Service of the Ministry of Agriculture.

Between 1995 and 1998, however, China made some progress on agricultural sanitary and phytosanitary issues by signing bilateral protocols for several agricultural items, including fresh fruits. A notable example included apples from Oregon and Idaho, in addition to Washington (April 1995); cherries from Washington (March 1996); grapes from California (May 1997); and cherries from Oregon, Idaho, and California in addition to Washington (May 1998). Moreover, by May 1998, all of California's table grape-producing regions had gained market access to China. Later on, in April 1999, China and the United States signed an agricultural trade agreement that was part of China's WTO membership bid. The agreement included the lifting of Chinese phytosanitary restrictions on the importation of American fresh citrus fruit from Arizona, California, Florida, and Texas. Recently, China added more counties in the four States mentioned above to the list of approved export origins. In March 2000, the first official shipment of California oranges in 20 years made its way to Shanghai and Beijing. For two decades, China had used Mediterranean fruit fly

Figure A-4
Sources of China's fresh fruit imports
(average value of 1998-2000)



Source: United Nations trade data.

occurrences in urban Los Angeles in the 1970s as a reason to ban the entry of all citrus fruit from the United States into China.

The entry agreement for China's accession to the WTO in December 2001 will further relax China's trade barriers. In the agreement, the tariffs for several fresh fruits, including grapes, oranges, apples, and cherries, will be reduced more than two-thirds by January 2004. Specifically, tariffs on oranges, lemons, and grapefruit will be gradually reduced from pre-WTO levels of 40 percent to 12 percent; the tariffs on apples, pears, cherries, and peaches will be lowered from 30 percent to 10 percent; and the tariff on grapes will fall from 40 percent to 13 percent. China's Value-Added Tax (VAT) on all imports, however, remains and the rates are unchanged. The current VAT rates for all varieties of fresh fruit are 13 percent on the total value of imports. In addition to agreeing on the tariff reduction, China committed to fully abide by the terms of the WTO Agreement on Sanitary and Phytosanitary Measures, which requires that all animal, plant, and human health import requirements be based on sound science.

The Prospects for U.S. Exporters are Good Despite Domestic and Foreign Competition

According to the United Nations Trade Statistics, three categories of fruits alone accounted for 98 percent of China's fresh fruit imports from the United States during 1998-2000: grapes (57%), citrus fruits (24%), and apples (17%). China is a net importer of grapes. However, China is a large producer of apples and citrus fruits--the largest in the world for apples and the third largest for citrus fruit, after Brazil and the United States. According to China's official statistics, it produced 20.43 million tons of apples, 8.78 million tons of citrus fruits, and 3.28 million tons

of grapes in 2000. In addition to the competition from domestic production, U.S. exporters also face other foreign competitors that are aggressively making inroads into China. Australia, South Africa, New Zealand, and Chile have already gained significant presence on the produce market. Despite this competition for the vast and growing fresh fruits market in China, the prospects for U.S. fresh fruit exports to China remain good.

Compared with imported produce, China's quality is poor. In general, the quality of local Chinese produce is still poor--only one-third of all fruits are of good quality and only 5 percent out of the total production are competitive in the world market. Even if China can produce good quality fruits, their quality quickly declines after harvesting because of limited cold storage facilities and outdated post-harvest technology. Although China's fruit distribution and storage infrastructure improved over the last several years, post-harvest technology gaps remain. According to China's Ministry of Agriculture, storage capacity for the country's total fruit production amounts to about 20 percent of each year's crop. This percentage includes simple on-site underground storage facilities. Furthermore, post-harvest practices of washing, waxing, and packing tend to be rare. The challenge for China's growers to maintain their quality after harvesting is serious when considering the highly perishable character of fresh fruits and also that many varieties of the same fruit may ripen at the same time period. For example, for the millions of tons of apples that China produces annually, the harvest season starts in August and continues until November, but much of the actual harvesting occurs in October. Similarly, approximately 80 percent of China's citrus is harvested during the months of November and December, while most of China's grapes are harvested between the months of August and October every year.

China will continue to be a good market for some varieties of U.S. fresh fruits. U.S. table grapes that Chinese consumers prefer, such as Red Globes and Flames, have almost no domestic rival. In the late 1990s, Red Globe grape production made its debut in China, but the acreage presently is limited. During 1998-2000, U.S. grapes accounted for two-thirds of China's grape import market. The main foreign competitor is Chile. With a 30-percent market share, Chilean Red Globes are seen in China largely when California's product is out of season.

Although China is a major citrus producer, imports--mainly oranges--compete favorably compared with domestically produced alternatives that are often blemished and not uniform in size. In addition, most local production are tangerines rather than oranges. Orange imports, however, tend to be greatest during the summer when domestic citrus production is not in season. According to China's official data, the United States had a 56-percent share in China's citrus import market in 2000. Other major importers included New Zealand and South Africa.

China's domestic apple availability peaks in late fall, with Fuji apples accounting for half of the production. In general, domestic fruit is quite seasonal and not usually allocated space in cold storage because of its low value. Even faced with stiff domestic competition in the case of apples, imported U.S. Red Delicious apples--much higher than domestic prices--are widely available in China. While U.S. apples dominate China's apple import market, competition in the market remains strong, particularly from New Zealand Gala apples.

In general, imported fresh fruits sell well in China despite higher retail prices versus domestic produce. Many consumers, though price conscious, trust the quality of imports and are willing to pay higher prices. U.S. fresh fruits, in particular, are quite appealing to the Chinese because the fruits convey a certain expectation of quality. For example, California table grapes, Sunkist citrus, and Washington Red Delicious apples are well recognized by China's urban consumers, and these fruits are prized as the best tasting and most attractive fruits among the imports.

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