

## Growth Opportunity between China and Thailand in the Processed Food Sector

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### Abstract

The processed food business is a highly important sector for Thailand that increasingly generates major revenue for the country. As Thailand is located in the heart of Indochina and a major hub linking between ASEAN countries and China through, Yunnan, a province in the south-west of China, with strong fundamental linkage on economic and culture, as well as the facts that Thailand enjoys a healthy relationship with China for a long time in terms of economics, politics and culture, there are a number of potentials to expand business opportunities and promote the expansion of trade in processed food products between Thailand and China, under the ACFTA agreements implemented over the past decade. In 2012, Thailand's processed food sector generated global revenue of approximately THB 1 trillion, or about 10% of GDP, while China, with a population of about 1.3 billion, offers a huge processed food market.

This research project is a qualitative one with the data collection from secondary sources as well as from focus group interviews of business operators and government officials in Yunnan and Thailand. With increases in population and income, as well as changes in lifestyles, the demand for the food, especially Thai processed foods with good reputations for safety, taste, and quality, is rising exponentially. This paper identifies major areas of growth opportunities between China and Thailand for trade in processed food, including: product standards and strategy; promoting competition on brand and quality; road show and trade exhibitions; centralized logistics and distribution development; market penetration through partnerships with distribution channels; and trade-dispute services and compliance with relevant regulations. Recommendations for future research are: the study of the Chinese processed food market as a whole, and other selected provinces, and the study on the list of Thai processed food products with strong potential in the Chinese market.

*Keywords:* Growth opportunity between China and Thailand, Processed Food Sector.

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### 1. Introduction

The key achievement of ASEAN's efforts to promote economic ties with China was the China-ASEAN FTA, where initial discussions began since 2000. On 4 November 2002 in Phnom Penh, Cambodia, the Framework Agreement on Comprehensive Economic Co-operation between China and ASEAN was signed to create the ASEAN-China Free Trade Area (ACFTA) within 10 years. On 29 November 2004 in Vientiane, Laos PDR, ASEAN and China signed the Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Co-operation between ASEAN and China, which included a schedule of tariff reductions and eventual elimination of most tariffs (except certain sensitive products with longer tariff reduction phase-out periods) between China and the more-developed ASEAN6 nations (Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand) effective on the target date of 1 January 2010, as well as between China and the remaining ASEAN nations (Cambodia, Laos PDR, Myanmar, and Vietnam) effective on the target date of 1 January 2015. On 14 January 2007 in Cebu, the Philippines, the Agreement on Trade in Services of the Framework Agreement on Comprehensive Economic Co-operation between the ASEAN and China was signed. Finally, on 15 August 2009 in Bangkok, Thailand, the Agreement on Investment of the Framework Agreement on Comprehensive Economic Co-operation between the ASEAN and China was signed.

A strong growth in trade and investment in goods and services under these ACFTA agreements has benefited Thailand over the past decade, including its processed food sector, which in 2012 generated revenue of approximately THB 1 trillion, or about 10% of GDP. Thailand is a major hub linking ASEAN countries and China through Yunnan, a province in southwestern China. China, with a population of about 1.339 billion, has undergone rapid economic development during the past 30 years and becomes a huge

market that cannot be overlooked by countries around the world. Multiple published research reports, especially from the US Department of Agriculture (USDA GAIN Report, 2009, 2011, and 2012), have documented the development of huge potentials of China's food market. However, few Thai operators in this sector have entered the processed food business, despite the vast potential to expand trade in processed food between Thailand and China. Therefore, the study of growth opportunities between China and Thailand in the processed food sector is extremely important.

This research paper starts by briefly outlining the objectives and methodology and reviewing various research papers on China-ASEAN relations and other FTAs, and China's seafood and processed seafood markets. The paper then looks at the background of Yunnan Province in China, Thai processed food business in Yunnan, and identifies major factors for further developments between China and Thailand in the processed food sector. The Thai processed food sector was selected because China offers a huge market to Thailand's processed food sector, whose global revenue contributed about THB 1 trillion to the Thai economy in 2012.

## **2. Objectives**

2.1 To study the Thai processed food business in China and the growth opportunity between China and Thailand in the development of the processed food sector.

2.2 To identify major factors that require mutual solutions from Thailand and China to enhance further development of the processed food sector.

## **3. Research questions and methodology**

As the sustainable and strong growth of the Thai processed food in China will, to a large degree, require mutual solutions and support by China and Thailand, the leading research questions which could further support such growth opportunity are:

3.1 What are the characteristics of the Thai processed food business in Yunnan Province, China?

3.2 What are the major business and regulation issues requiring mutual solutions between China and Thailand in the development of the Thai processed food sector in China?

This research project is a qualitative one in which the research methodology involves the data collection from secondary sources, including research papers and on-line newspaper articles from government agencies, educational institutions, the private sector and highly reputable business newspapers, as well as primary data collected from focus group interviews of business operators and government officials, both in Yunnan and Thailand, conducted under the International Institute for Trade and Development's research project on "Opportunity & Market Entry Strategy of Thai Processed Food and Tourism Industry in Yunnan, China" from June to September 2012. This approach to data collection is crucial to gain the most updated market information on what developments have taken place in local markets and what the needs of businesses are in this important sector to promote further development.

## **4. Literature review**

The China-ASEAN FTA agreements are major economic events that have attracted much attention from businesses and academics. Several research reports document the details of China-ASEAN relations and integration, the analysis of China-ASEAN integration and cooperation and the impact of the FTAs, the study of business potentials and opportunities in the processed seafood sector in the context of the China-ASEAN environment, and further trade and investment cooperation in goods and services between China and Thailand.

A report to the US Congress (CRS Report for Congress, 2008) quoted a speech by Prime Minister Wen Jiapao on the occasion of the 15<sup>th</sup> anniversary of relations between China and ASEAN in 2005 that marked the peaceful development in the growth of China-ASEAN relations in pursuing a policy of good neighborliness and friendship. At the same time, the foundation of China-ASEAN relations was built on equality and mutual trust so as to obtain mutually beneficial cooperation, and the driving force behind China-ASEAN relations has successfully gained the people's support. In response, in 2006 the Secretary General of ASEAN declared that China was viewed by ASEAN as a close neighbor and important potential for greater trade and investment because China represents a huge consumer market for ASEAN products

and services and a major source of future Foreign Direct Investment in ASEAN, as well as providing potentially a large number of Chinese tourists for the ASEAN region.

The research report on “China: One Country, Many Provinces, and Different Regulations (Panishsarn et al., 2006) reported that China’s economic platform is very large and enjoys a leading role in international trade, but requires Thai manufacturers and traders to conduct business in China on the individual province basis because each province covers a vast area with a large population that enjoys constant economic growth, rising income, and diverse tastes, lifestyles, and cultures under specific regulations for its own market. China’s huge area leads to severe limitations on the nationwide distribution systems of goods and services which deliver products from the distribution system in the more advanced business regions into local, rural distribution networks, thus enabling local government agencies to have more control of the local distribution channels and apply certain trade protection and discrimination measures. Accordingly, China cannot be viewed as a single market and related analysis of potentials and market opportunities in individual provinces for Thai products requires several factors for consideration, including population income and related large income gap between people in the urban areas compared with those in the rural areas; the spending pattern of Chinese consumers with increasingly higher purchasing power; the diverse tastes, lifestyles, and cultures in different provinces such as simple lifestyle and less luxurious people in Yunnan residents versus those in the Eastern industrialized provinces; and the classification of Chinese consumers in the Eastern Seaboard provinces into: 1) consumers in the metropolitan urban areas; 2) consumers in the urban areas with population of more than 5 million; 3) consumers in the urban areas with population of less than 5 million; 4) consumers in the rural areas.

The potentials and opportunities for trade between Thailand and Guangdong, Jiangsu, and Shanghai provinces account for two-thirds of total trade volume between Thailand and China; while total trade between Yunnan and Thailand ranked among the top 15 of all provinces in China, Yunnan is close to Thailand and enjoys a strong cultural link with several provinces in Northern Thailand. China’s central government designates Yunnan as the bridgehead linking China to countries in South-East Asia and South Asia. However, Yunnan’s volume of imports and exports with Thailand is still minimal and reflects the difficulties of trade between Thailand and individual provinces in China with respect to the factors on the infrastructure on products distribution, transportation, and related logistics structure in China; the problem of distribution channels controlled by local business operators and large importers with strong bargaining power; the problems of import protection with non-tariff barriers including the protective measures to support Chinese manufacturers; measures on product standards, import inspections, and customs procedures; trade-related regulations at the central, provincial, and local government agencies; the competition from Chinese manufacturers with lower production costs; the Chinese consumers’ attitudes toward the high price of Thai products; and the problems of Thai manufacturers’ competency of how to deal with business partners in China.

The research study provides the following recommendations: adoption of a “Rise with the Dragon” strategy for trade and investment; extensive review of existing trade and investment agreements in goods and services between Thailand and China; construction of Thai government distribution centers for Thai products in key provinces in China; identification and development of key Thai products identity from Chinese consumers’ points of view; exchange of trade and investment information between government agencies and the private sector; and bilateral agreements on trade in goods and services and investment between Thailand and individual provincial governments in China to capture value-added production processes in Thailand for global exports.

Sussangkarn (2006) argued in his “CLMV and East Asian Integration” paper that the larger market resulting from ASEAN and East Asian Integration should create greater demand for ASEAN products on goods and services, including tourism. However, there are also concerns that manufacturing capacities built up in ASEAN in the past could be adversely affected by the competition from lower cost but efficient manufacturing production bases in China. ASEAN’s market share on many products has already been lost to China, but ASEAN has been compensated by greater exports from ASEAN to China in recent years, though the prospects for ASEAN manufacturing remain uncertain. It is well understood that multinational firms own a significant percentage of the manufacturing production capacity in ASEAN, but how these multinationals will strategically position their regional production capacity in the region in the future under

a freer trade environment is still unclear. One possibility is that the multinationals will forgo further investments in their ASEAN production bases to focus on expansion in China. On another possibility, the multinationals may decide not to risk putting all their investments in one basket, given uncertain economic and political developments in China which will eventually unwind as well as lingering tensions between China and its neighbors in the South China Sea; in this scenario, ASEAN will still be able to attract FDI to a certain degree.

Wignaraja et al. (2010) claimed that Thailand has focused on regional trade agreements as a vehicle for commercial policy since the 1990s, and by December 2009, has become one of the East Asia's most active users of free trade agreements, with 11 FTAs concluded and six more under negotiation. The study reported that Thailand's FTAs have had a positive impact on the behavior of exporting firms, with evidence suggesting reasonable use of preferences in existing Thai FTAs: in particular, foreign electronics and auto/auto parts firms that reported the influence of FTAs on their business plans. The adoption of harmonized rules of origins by a large number of firms had reduced transaction costs under FTAs. Under the policies to build awareness of the impact from FTAs, related government agencies should provide timely information on FTA provisions and progress made in the FTA negotiations, arrange regular conferences to educate SMEs and other firms on the potential effects of FTAs and ways in which firms can make use of the preferences, and assess the effects of enacted FTAs to help mitigate the losses and capitalize on the gains. As to policies to encourage use of FTA preferences, the responsible government agencies need to make customs procedures simpler and more transparent, arrange workshops and conferences to introduce new e-customs and related systems to importers and exporters, create a campaign to build a convenient approach to using preferences, and negotiate for the best possible tariff preference reductions in the FTAs. In addition, the government agencies should implement the policies to increase competitiveness of local firms by restructuring those tariffs that are unnecessarily high and distorted; encourage further technology transfer; continue to improve and upgrade existing standards, quality, and other technology support services, particularly for SMEs; and support industrial clustering to strengthen linkages on technology upgrading and supply chains. Finally, in dealing with the regional ASEAN effect, the Thai government should support the benefits of harmonized rules of origins within ASEAN to facilitate the choices of suppliers among ASEAN members.

The research study on "Transmission of the Subprime Crisis to the Thai economy via an International Trade Channel: Processed Seafood" (ITD Research Report, 2010) documented the strength of the processed seafood industry in Thailand to compete in the international market, and reported that the processed shrimp and frozen shrimp industry, as well as the canned tuna industry, did not encounter strong effects from the Subprime Crisis. Major operators in these sectors avoided negative effects because they are very experienced with a number of years in operation, possess highly reputable and quality brands acceptable to their trading partners, use high standards of production processes, and have a large scale of operations that enable them to implement necessary risk management techniques. On the other hand, the small and medium-sized enterprises in these sectors adopted minimal risk management measures or, in some cases, totally left their operations exposed and unprotected. Both the shrimp and the canned tuna industries have strong potential to generate high growth in the Thai economy because these operators have high standards and quality products embraced by the world market, which will be difficult for their competitors to match. However, local labor shortages leading to the use of foreign labor may force business operators to move their production facilities to other countries, especially in the canned tuna industry. In addition, the canned tuna industry face additional, serious raw material problems related to illegal, unreported, and unregulated (IUU) fishing practices under the European Union regulations which prohibit the canned tuna exports to the EU if unable to comply with IUU regulations.

The in-depth analysis in this research project reported that the processed seafood industry created a very high value chain in Thailand as most of the production processes until the final production point prior to the exports to countries of destinations, have taken place in Thailand. The processed seafood industry has adopted several advanced competitive measures, including continual research and development activities, to produce high value-added products such as ready-to-eat seafood products; development of their own proprietary brands by large manufacturers to capture more value from the products than the production under the market leaders' contracts, as well as enjoy the brand loyalty from consumers; the fully integrated

market strategies developed by large business players to strengthen their competitive and market positions, such as the vertical integration and strategic partner alliance strategies and the in-house production technology developments with the tailor-made production processes designs, custom machinery and equipment assembling, production process management, and efficient quality control processes to ensure that their products meet the international quality standards. However, the networking of their production facilities in different countries is still under-developed, except for the transfer of production facilities to the low labor-cost locations, as the main production activities in the supply chain still operate in Thailand. Thus, the network linking with the international market of Thai processed seafood business players is still weak and vulnerable to a global economic crisis because they are highly dependent on direct exports from a single production location.

At the same time, the study on the Seafood Industry in China (Glitnir, 2007) reported that China is the world's largest seafood production industry, accounting for about 35 percent of global seafood production. The annual demand for seafood in China will be 35.9 kilograms per person in 2020. Seafood production in China was 51 million metric tons in 2005 and is located in Dalian, Qingdao, Zhejiang, Fujian, and Guangdong. China has enjoyed the benefits of WTO membership as of 11 December 2001 for seafood production because of a major reduction in import duties and an increase in soybean imports as the ingredient for shrimp and fish feed. The major trading partners in seafood for China are the EU, the US, and Japan. Despite a strong demand increase in the domestic market, China certainly expects to meet most of the domestic demand surge. China leads the world in shrimp aquaculture farming, with annual production capacity of more than 1 million tons. This study indirectly indicated that the seafood production market in China is well supplied and the target market identification for imported processed seafood products must be carefully positioned and planned.

##### **5. Yunnan province in China**

Yunnan Province is in southwest China, bordering Guizhou, Sichuan, and Xizang (Tibet) provinces, and neighboring Vietnam, Laos PDR, and Myanmar. As the southwestern gate of China, Yunnan is the counterpart to Laos PDR, Myanmar, Thailand, Cambodia, and Vietnam in Greater Mekong Sub-region (GMS). Yunnan and Guangxi also link the ASEAN Economic Community (AEC) by land with the Pan Pearl River Delta (Pan-PRD) area, which covers nine major economic provinces in the mainland (Sichuan, Jiangxi, Fujian, Hunan, Guizhou, Guangdong, Hainan, Guangxi, and Yunnan) and the Closer Economic Partnership Arrangement (CEPA) between the mainland and two Special Administrative Regions (SARs), Hong Kong and Macao, which have benefited greatly in terms of foreign direct investment (FDI), trade, and tourism flows.

Yunnan and Guangxi enjoy strong cultural links to Thailand and the AEC. Thai is the second most popular foreign language, after English, in Yunnan, with more than 30 universities offering Thai-language courses for over 4,000 students. About 25 universities offer Thai courses for about 3,000 students in Guangxi. In addition, 1,200 Chinese students from Yunnan and 2,000 Chinese students from Guangxi study in Thailand. The Dai people from various locations of Yunnan such as in Xishuangbanna, Ruili, and areas along Mekong River are closely related to the Lao and Thai people who form large minorities in Laos PDR and Thailand.

ASEAN countries such as Myanmar, Vietnam, Laos PDR, and Thailand are important trade partners for Yunnan. In 2011, trading value between Yunnan and Thailand amounted to over USD 700 million, or about 10% of the total trade value of USD 7 billion between Asia and Yunnan; Yunnan exports to Thailand totaled USD 402 million, while imports from Thailand to Yunnan at USD 335 million. Three border trade zones link to Myanmar, Vietnam, and Laos PDR: Ruili trade zone with Myanmar, Hekou trade zone with Vietnam, and Mohan trade zone with Laos PDR, which is the main trade gateway to Northern Thailand. The economic link between Yunnan and Thailand could be done through Mekong River; an air connection between Changshui and several international airports in Thailand including Suvarnabhumi, Phuket, Chiang Mai and Chiang Rai airports; the Kunming-Bangkok Expressway or R3E through Laos PDR; the R3W through Myanmar; and the Pan Asian Railway planned for completion by 2020 with three main routes connecting Kunming and Bangkok through Laos PDR, Myanmar, and Vietnam-Cambodia. The new Changshui airport in Kunming began operations in June 2012 with a planned annual passenger

capacity of 38 million people in 2020 and 65 million people in 2040, compared with Suvarnabhumi's current annual passenger capacity of 45 million people and planned increase to 100 million people in the future.

As a designated bridgehead for China-ASEAN linkage, Yunnan provides the economic platform and linkage for trade in goods and services and investment potentials between China and the AEC.

## **6. Thai processed food business in Yunnan**

Yunnan's value of trade with ASEAN is greater than that with the United States and Europe. The Chinese government has the policies for developing and promoting the production of high-tech agricultural products and free trade areas for exports to the middle and western regions of the country which includes Yunnan province. As a result, the overall level of economic development in Yunnan grew rapidly over the past decade. But Yunnan still needs to import food from many countries as a result of the rapid growth of the city and the steadily increases of population migrated to the urban areas under the *Hukou* system (Shi, Li, 2008; J.P. Morgan, 2012). With an increase in population and income, as well as the changes of the lifestyle, the demand for food, especially the processed food, is exponentially increasing.

Thai food sold in Yunnan market can be divided into three types: 1) condiments, which include pastes, powders and sauces; 2) snacks, which include seafood snacks, fruits and nuts, biscuits, desserts and sweets, and instant noodles; 3) canned fruit, juice and coffee. The major competitors of Thai foods are the foods from the country or region in ASEAN and East Asia. Comparing to the competitors, Thai food is superior in taste, standards of quality and low cost. Consumers in Yunnan buy Thai food mostly from specialty stores, to a lesser extent from the grocery stores, and only rarely from the supermarkets. When Yunnan consumers are asked why they buy Thai food, they cite the unique taste of Thai food and their desire to buy imported food at reasonable prices to use as gifts to others. Yunnan consumers are satisfied with safety and quality of Thai food, and agree to recommend it to friends. In order of importance, the two most significant factors in deciding to buy Thai food are safety and taste. Of lesser importance are quality, price and convenience respectively. Moreover, it was found that Thai food enjoyed a higher regard from those who had traveled to Thailand than those who have not.

As the nationwide refrigerated rail transportation system in China is still undeveloped, the transportation of the high-value imported goods, goods that require temperature control, and processed food can be done directly from the importers to the local retail stores by truck distribution directly from Shanghai and Guangzhou. The development of goods distribution by multi-modal refrigerated rail transportation that connects major cities in mainland China is still a work in progress, which when completed will make for a better distribution system. At the same time, many multinational retailing companies are taking part in developing and creating a modern cold chain and distribution system together with the Chinese. When distributing imported food products in China, it must be considered that China is not a single market; instead, it is separated into many small markets throughout the country where the markets may have overlapped and separated by geographical boundaries, as well as with different culture, tastes, age groups and languages. Therefore, no single formula exists for the markets in China. Currently, the most successful markets for imported foods are hypermarkets and specialty stores, because of their expertise in supplying imported processed foods and with foreigners as their target customers. They are also gaining popularity from high-income Chinese customers.

Entering the Yunnan market can be done by exporting, licensing, franchising, contract manufacturing (OEM), setting up a local office or branch in Yunnan, joint venture, mergers and acquisitions, or by investing in a company in Yunnan (greenfield and wholly owned subsidiaries). Currently the most popular methods to enter the Yunnan market for Thai processed food companies is by exporting through importers dealing with specific products in China, exporting through a single distributor in China, exporting through local partners in China, or by manufacturing products under an OEM (original equipment manufacturer) agreement for brands in China or as a joint venture with a factory in China. When setting up the price of processed food in Yunnan, the company should take into account of the value perceived by the consumers, the cost of logistics, the cost of importing from Thailand, and the competition.

As logistics improve in Yunnan, so will opportunities. The Kunming – Bangkok Highway (Kun-Man Gong Lu or the North-South Corridor) is a major land route that Thailand is a major hub links between

ASEAN countries and western China over a distance of about 1,850 kilometres. It takes only 20 hours to travel between Bangkok and Kunming. Currently, the construction of the fourth bridge crossing the Mekong River linking “Chiang Rai – Bokeo” is recently completed in the second half of 2013. Moreover, the new Kunming airport, Changshui, opened on 28 June 2012. The target customers for this new airport are passengers from South-East Asia and South Asia.

Regulations that Thai exporters should comply with when supplying food products to China market include the regulation of registration requirements for food manufacturers outside China (USDA GAIN Report, 2012), which became effective 1 May 2012; the labeling regulations for food products (USDA GAIN Report, 2011), which require packaging of processed food products sold to consumers in China be verified and labeled in Chinese, which is effective from 20 April 2012; and the certification regulations for imported food and agricultural products (USDA GAIN Report, 2011) under the Food Safety Law of China (USDA GAIN Report, 2009), which took effect on June 1, 2009. In addition, Thai processed food manufacturers who want to export to China are also required to comply with the transportation regulations, the regulations of China Inspection and Quarantine Bureau, as well as regulation from different customs in different provinces in China. For those who want to invest in China, the regulations for trade and investment in China should be investigated properly.

#### **7. Key factors requiring mutual solutions between China and Thailand in processed food business**

Major issues requiring mutual solutions between China and Thailand in the processed food sector involve factors related to marketing, product quality, product distribution, regulatory compliance, and government support.

The positioning and strategies for processed foods in China as premium products are very critical, as China has enjoyed high economic growth over the past 30 years with diverse cultural values and varied economic development in different regions. But the most important issue in the food business is the difference in flavour and taste of food for people in different provinces of China because of the diverse ethnicities and cultures. Therefore, product strategies include positioning the product as a recognized brand as well as designing the products to suit the tastes and flavours of each region. Pricing strategy should focus on how to draw the attention of customers with the products that have the same price level as the competitive products. It is suggested that the Thai government be involved directly in market analysis and research of different provinces of China to provide a database and market fundamentals information for the processed food business operators.

Quality is the competitive advantage of Thai processed foods. Thai processed foods have been recognized as quality foods in China. Southwestern Chinese people increasingly demand convenient products, health products and processed foods. Therefore, the demand for Thai processed foods is likely to grow. Nowadays, food safety is an important issue among Chinese consumers. As a result, Thai processed food manufacturers as well as related Thai government agencies are strongly encouraged to jointly promote the quality and safety of Thai foods in order to enter the Chinese market, especially for those large Thai food manufacturers that export to global markets under world-class quality and safety standards.

The distribution of Thai processed food exports is an important issue, because the distribution channels for processed foods are quite different from other food products, and the implementation of modern cold chain and distribution systems developed jointly by the Chinese operators and the Chinese government are immediately required. In addition, the retail markets in China have begun to change their operations. Starting from the acquisition and merger within the industry, the retail leaders such as Carrefour and Wal-Mart have acquired retail businesses and can extend to the outer metropolitan areas. Moreover, direct sourcing is a new approach to retailing, especially for imported products that need to keep food temperatures and imported processed foods. Neighborhood supermarkets are also a new approach to retailing. Wal-Mart, Carrefour and Tesco have expanded their businesses in the form of mini-supermarkets such as Tesco Express and Carrefour neighborhood outlets. Prices in these mini-supermarkets are no different from those in hypermarkets. Therefore, it must be realized that China represents the world's largest market for processed foods. The processed food market in China is not a single market with same characteristics all over the country. It should be emphasized that finding importers and distributors who are experienced, stable, and possess good relations with target customers is critically important and the Thai

government could provide direct linkage and business-matching assistance. Trade shows, with strong and consistent leadership by related Thai government agencies, are a low-cost, effective method to understanding the market. Similarly, the Chinese trading culture is very important because of its unique Chinese commercial relationships or *guanxi*.

The processed food manufacturers exporting to China should work closely with the Chinese government and follow the relevant regulations. In addition to following the regulation of the registration of manufacturers outside China (effective May 1, 2012), the labeling regulations for food products on the packaging (effective April 20, 2012), the regulations on the certification of agricultural products and imported products under the Food Safety Law of China (effective June 1, 2009), the transportation regulations, as well as the regulations of China Inspection and Quarantine Bureau, the manufacturers of processed food should establish a strong and healthy relationship with both central and local governments in China and related agencies under the government of Thailand. Because processed foods are highly sensitive to issues of quality and hygiene, the Chinese government needs to audit the operations of Thai processed food manufacturing sites and requires the strong support and cooperation from related Thai government agencies. The applicants who submit the application for registration as the processed food manufacturers outside of China, with related supporting documents as required by the Certification and Accreditation Administration of People's Republic of China, or CNCA, must be approved by the responsible agency of the Thai government for exporting processed food into China. The CNCA is required to form a team of experts to assess the documents submitted by the responsible agency in the country where processed food manufacturers exporting to China are located, and must establish an assessment team to monitor and evaluate the production process at the factory location with coordination and support from the Thai government. In addition, the government of Thailand must confirm that the Thai processed food manufacturers exporting to China comply fully with the relevant regulations of China (USDA GAIN Report, 2012).

The processed food manufacturers exporting to China need another aspect of strong support and cooperation from the Thai government, because of some food manufacturers' intellectual property violation problems on products and brands. Thai food manufacturers are encouraged to ask for assistance from the Department of Intellectual Property, Ministry of Commerce, to coordinate negotiations with the Ministry of Commerce of China to jointly resolve the problems. At the same time, the processed food manufacturers exporting to China need assistance from the Thai Government to clarify the food import tariffs imposed by China and to confirm whether the products are Normal Track or Sensitive Items. Even though fresh fruit is not included in the categories of processed foods, fresh fruits enjoy high demand in China and only 23 items are listed as zero tariff. To export Thai fresh fruit to China, it is required to gain permission from the Chinese Inspection and Quarantine Bureau (CIQ) at custom entry points as well as to process applications through the State General Administration of the People's Republic of China for Quality Supervision and Inspection and Quarantine (AQSIQ) in Beijing for a license to import or import permission. In addition, to obtain the import duty exemptions under the Free Trade Agreement, or FTA, Thai processed food manufacturers exporting to China should certify the products are manufactured according to the Rule of Origin (USDA GAIN Report, 2011). All these processes should be coordinated with the Bureau of Trade Preference, Department of Foreign Trade, Ministry of Commerce, in order to be entitled to an Import Duty Reduction or Exemption Certificate from the Chinese Customs.

## **8. Conclusion and recommendations for future research on processed food**

This research project focuses on the scope of study in Yunnan Province because it is the closest province to Thailand connected by the Kunming-Bangkok Expressway, the Mekong River, and air transport. In addition, the Chinese government economic development plan designates Yunnan as a major economic center in southwest China, and the county's most important outpost linked to the AEC, which will officially take effect in 2015 (B.E. 2558). With a population of about 1.3 billion people and a strong rise in income as well as the changes of the lifestyles, the demand for food, especially for Thai processed foods such as condiments, snacks, canned fruit, juice, coffee, and refrigerated processed foods (which immediately require the completion of a multi-modal refrigerated distribution system) is increasing exponentially. Thai food products in China enjoy a strong reputation of safety, superior taste, standard of



quality and low cost. Major factors that will support growth opportunities between China and Thailand in the processed food trade are identified as: product standards and product strategy; promoting competition on brand and quality; road show and trade exhibitions; centralized logistics and distribution development; market penetration through partnership with distribution channels; and trade dispute services and compliance with related regulations.

It is recommended that research projects on growth opportunities in the processed food sector be expanded to cover the Chinese market nationally and in selected provinces, and cover the list of Thai processed food products with strong market potential.

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