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## China, Peoples Republic of

### Market Development Reports

### Emerging City Market: Dalian, the Pearl of the North

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**Approved by:**

LaVerne E. Brabant  
ATOBEIJING

**Prepared by:**

Amy Zecha

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**Report Highlights:** Known for its beautiful cityscape, major port, strategic location, and budding IT and software industry, this emerging city is often called the 'Pearl' of North China. With 6 million urban consumers, a thriving port, booming economy, rising incomes, and expanding HRI sector, Dalian offers diverse opportunities for U.S. food and agricultural product suppliers. As a central shipping hub for much of Northeast Asia, 80 percent of North China's exports pass through this key port city. Identified by both Chinese and international communities as a market leader among China's Emerging City Markets, Dalian provides significant opportunities for U.S. suppliers looking to gain a foothold in the lucrative food and agricultural product markets in China's rising second-tier cities.

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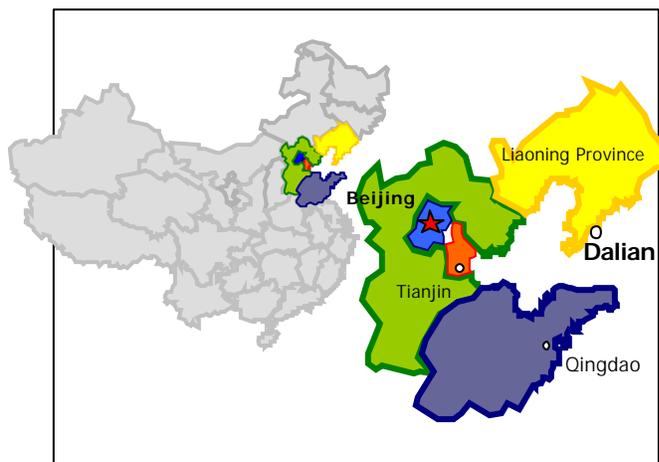
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## Dalian: A Shining Gem

Often referred to as the “Pearl of North China” Dalian is the most important port city in Northeast China. Located at the southern tip of the Liaodong Peninsula in Liaoning Province, the port city lies about 300 miles east of Beijing across the Bohai Gulf. It is the city’s prime location that has made it one the principal entry points for imports destined for North and Northeast China.

In addition to being the largest port in Northeast China, Dalian also claims the title as the largest port in all of Northeast Asia. Its economy is ranked among the top four in *Dongbei* or the Northeast along with Harbin, Changchun, and Shenyang.

### Dalian, Liaodong Peninsula, Liaoning Province



Known not only for its large port and booming economy, Dalian is also renowned for its highly competitive soccer team, trend-setting fashion industry, environmentally conscious development, and robust wedding industry. Additionally, Dalian is famous for its high-quality seafood and unique historical architecture. Formerly occupied by both Russia and Japan, Dalian’s architecture is an eclectic combination of Chinese, Russian, Japanese, and European styles. Lushun, known as Port Arthur when under British rule, lies on the western edge of Dalian and is now part of the Greater Dalian Area. This historic area, coupled with the city’s colorful past, helps make Dalian a popular tourist destination for domestic and international visitors alike to Northeastern China. In 2006 more than 700,000 overseas tourists visited Dalian generating nearly RMB 27 billion in foreign exchange revenue.



Dalian’s Green Spaces

While maintaining rapid economic expansion Dalian continues to display its strong commitment and support for environmentally friendly and sustainable development. From the mid-1990s through 2001, the city’s mayor, Bo Xilai, enacted a series of radical city planning policies. Instead of building high-rise apartments or office buildings in the city’s less developed areas, he chose to create parks and green spaces throughout Dalian. While not a particularly popular decision among Dalian residents at the time, today the resulting parks and public squares in Dalian are a particular point of pride for the city.

In 2001, Dalian was awarded the UN Environment Program’s “Global 500 Award” which honored the city for its environmental conservation efforts. Today Dalian has earned a reputation as one of the cleanest and greenest cities in all of China. Urban green spaces in Dalian now account for approximately 42 percent of the total area of the city, and public green land has reached an unprecedented 10 square meters per capita.

Labeled as one of China’s leading Emerging Cities, Dalian is an example of one of North China’s best cities. With its growing tourism industry and resulting HRI sector, rising urban disposable incomes, strong economy, and exposure to a variety of cultures and foods, Dalian offers a wide range of opportunities for U.S. food and agricultural suppliers.

## A 'Blooming' Economy: A Growing Port Industry

In terms of economic strength Dalian ranks as the 7<sup>th</sup> strongest economy in China. For over a decade Dalian has enjoyed double-digit growth rates which have contributed to its status as one of the leading cities in Northern China. With a growth rate of 16.5 percent in 2006, the highest level of growth attained by the city over the last 12 years, Dalian's future as a leader among China's Emerging City Markets is bright. In 2006, Dalian's GDP reached nearly RMB 260 billion, with urban disposable income equal to 13,350 RMB per capita, up slightly over 11 percent from 2005.

A significant portion of this growth is attributed to the large volume of import and export activities of the port, valued at RMB 236.8 billion in 2006. Imports alone increased by more than 23 percent reaching RMB 108.3 billion and exports increasing by nearly 26 percent to RMB 128.5 billion. Port throughput in 2006 reached 200 MMT of cargo and 30 million containers (TEUs), thus doubling the Port of Dalian's cargo throughput in only four years.

### *Infrastructure, FDI and Future Growth*

Part of Dalian's development strategy has been to create a strong commercial and transportation network. The port itself covers 346 square kilometers of water and 15 square kilometers of land. To improve efficiency of movement of goods in and out of the port, Dalian has 160 kilometers of specialized railway lines, 300,000 square meters of warehouse space, and 1.8 million square kilometers of stacking yards with over 1,000 units of loading and discharging machinery and equipment. Additionally, Dalian has an extensive expressway system of 244 kilometers connecting it to major cities in the North and Northeast region including Beijing, Shenyang, Changchun, and Harbin.

With advanced port facilities, a variety of Special Economic Zones, and excellent geographical location, Dalian is receiving much interest from international companies looking to invest in China. As of 2006, over 10,000 foreign affiliates of multinational corporations have been approved by Dalian's Municipal Government, of which approximately 4,000 are already in operation. Much of the FDI entering Dalian originates in Japan and Korea with 40 percent of Dalian's international trade accounted for by these two countries. With direct flights to and from Korea as well as Japan facilitating business travel, many companies based in these countries have identified Dalian as a prime location for investment in China. Over half of all overseas-funded businesses in Dalian come from either Japan or Korea.

In line with the municipal government's highly successful development strategy, overseas investment in a variety of industries has been encouraged to enhance the city's overall development and improve its human capital resources. Currently, these areas include information technology, bio-engineering, bio-pharmaceutical, environmental protection, petrochemicals, green agriculture, machinery, and service and trade sectors.

Economic Indicators at a Glance - 2006	
<b>Population:</b>	6,000,000
<b>Gross Domestic Product (GDP):</b>	RMB 256,970,000,000
<b>GDP Growth Rate:</b>	16.5 percent
<b>Annual per capita living expenditures:</b>	RMB 10,534
<b>Urban per capita disposable income:</b>	RMB 13,350
<b>Percentage of per capita disposable income spent on food:</b>	39.9 percent
<b>Agricultural Products:</b>	Grain, corn, sorghum, cotton, soybeans, sea cucumber, fish, prawns, abalone, apples, grapes, peaches, cherries, etc.
<b>Key Industries:</b>	Food processing, machinery, IT, electronics, garments, petrochemicals, household goods, textiles, shipbuilding, pharmaceuticals, and locomotives.

*Dayaowan Bonded Harbor Area*

The Dayaowan Bonded Harbor Area in Dalian was approved in late 2006 and is the third of its kind in China. Shanghai's Yangshan Bonded Harbor Area and Tianjin's Dongjiang Bonded Harbor are China's other two bonded harbor areas. Plans for a 4<sup>th</sup> bonded harbor area (to be located in Hainan Province) were officially approved in late 2007. The opening of the Dayaowan Bonded Harbor Area in Dalian is seen as a major step towards the formation of a free trade zone between China, Korea and Japan.



Dayaowan Bonded Harbor Area

Bonded harbor areas enjoy preferential taxation and foreign exchange policies designed to promote shipping and logistics industries in China. These preferential tax policies include removal of tariffs on foreign cargo, tax rebates for domestic cargo, and exempting businesses from VAT and consumption taxes on trade occurring within the boundaries of the bonded harbor area. Still under construction, it is estimated once the port is fully operational that the efficiency of the port will increase by more than 20 percent. The Dayaowan Bonded Harbor Area is expected to be completed by the end of 2008 with a final total area of 6.88 square kilometers.

*Dalian's Pioneering Areas Leading the Way*

Dalian's four other pioneering areas, including the city's Economic and Technological Development Zone, High-tech Industrial Park, Golden Pebble National Resort, and the Central Business District of Dalian Xinghai Bay, have also contributed to the city's economic success.

With 22 colleges and universities churning out thousands of graduates every year, Dalian is investing heavily in its human capital resources. Seen by the Chinese and international communities as a model developing city, Dalian's graduates are helping raise the city's status by shifting its industry focus to include not only lower-skilled factory work and processing but also more highly skilled and increasingly technical jobs.

This is especially true in the area of information technology (IT) and software development. To increase the city's attractiveness, the municipal government reportedly offers tax breaks for businesses involved in software, genetics, aerospace technology, and other high-tech industries and ventures. Competing against international IT destinations such as Bangalore (India), Dublin (Ireland), and the Silicon Valley (California), Dalian has successfully won favor with over 230 international IT companies, including large firms from the U.S. such as Hewlett-Packard, IBM, and Dell. In 2006, Dalian's IT industry generated more than RMB 14 billion in revenues, a 50 percent increase over 2005.

*Food Processing in Dalian*

Food processing is one of the top industries in Dalian. Famous for its fruit production bases, as well as for its aquatic and seafood products, Dalian's annual food production in 2006 was valued at RMB 39.05 billion. In 2006, Dalian processed 2.54 MMT of vegetables; 1.06 MMT of fruit; 653,000 MT of meat, and more than 234,000 MT of poultry and eggs.

Due to its strong logistics industry, port infrastructure, and the preferential trade policies related to the Dayaowan Bonded Harbor Area, Dalian has placed itself in a prime position for food processing. Seafood processors in Dalian have earned a reputation throughout the

Northeast for producing high quality products, and much of the processed seafood is exported to Japan, Korea, EU, and the U.S. Many international seafood suppliers take advantage of Dalian's processing expertise and geographic position, and a majority of the foreign-origin seafood arriving in the port is frozen or smoked by processors in Dalian specifically for re-export. However, the local seafood processing industry has not kept pace with Qingdao, another important Emerging City Market which is the top seafood processing destination in China.

### Retail Outlet Situation

As in many first and second-tier cities in China, the presence and influence of multinational retailers in Dalian is growing. Big international retail outlets such as Carrefour, Wal-Mart, and Tesco, are established fixtures in the retail landscape. Especially with the high-profile media coverage of food contamination issues over the past few years, consumers are increasingly concerned with food safety and have turned toward hypermarkets and supermarkets and away from traditional 'wet market' formats when purchasing food. The convenience, hygiene, and cleanliness of these newer retail formats are attractive features for many urban and increasingly well-heeled consumers. Offering an extensive variety of fresh produce, fresh and frozen meat and seafood, prepared food, and food service sections, these retail formats continue to grow in popularity. Many of these outlets are located in malls or other large family-friendly shopping destinations complete with restaurants, cinemas, fashion boutiques, sporting goods stores, and other specialty shops. Shoppers in Dalian are known for shopping frequently, sometimes more than once a day.

<b>Dalian Retail Outlet Snapshot – 2006</b>			
<b>Type</b>	<b>Name</b>	<b>Ownership</b>	<b>Outlets</b>
Hypermarkets	Carrefour	French JV	2
	Wal-mart	U.S.	3
	Metro	German JV	1
	Tesco (Hymall)	British/Taiwanese	1
Supermarkets	DaShang	State-owned	7
	Hualian	State-owned	2
	Trustmart	Taiwan JV	2
	Lego	Taiwan JV	3
Convenience Stores	LianHua	State-owned	50

Internationally owned or operated supermarkets and hypermarkets are the main vendors of imported consumer products although imports only account for a small percentage of sales. However, with the growing influence of multinational retailers in Dalian's retail sector, opportunities for U.S. imported products are increasing. This is especially true for 'premium' imported items which are reputed among Chinese consumers to be of higher quality and safer than domestic substitutes. However, because of the high prices of many U.S. products few urban consumers buy U.S. imports on a regular basis, but instead prefer to purchase them during holidays as gifts. Chinese holidays are very different from Western ones, so it is important to learn about Chinese holiday periods to gain a better understanding of the opportunities available for U.S. food and agricultural imports. Key Chinese holidays for U.S. food and agricultural imports are Spring Festival, Golden Week, and National Day Holidays.

### HRI Sector

Only an hour by air from Beijing, Dalian is a popular and convenient location for international and domestic conferences and conventions. In September 2007 the World Economic Forum held the world's first Summer Davos meeting in Dalian. The World Economic Forum chose

Dalian as the location for its "Inaugural Annual Meeting of the New Champions" because of its economic success and commitment to environmental protection. Immediately following the Summer Davos meeting was the 33<sup>rd</sup> China Daily CEO Roundtable. Entitled the "Strategic Partnership between Emerging Cities and Entrepreneurs: The Dalian Vision" the Roundtable brought together business and government leaders to discuss the importance of collaborative and cooperative efforts between cities and businesses in today's rapidly globalizing world. The editor-in-chief of the China Daily was quoted as saying that Dalian was an ideal location for the meeting because "Dalian represents the emerging cities of the world. It's a city where we would like our children to live and grow up."



Interior of Furama Hotel Dalian

Other conventions and meetings that have been held on a regular or irregular basis in Dalian include the city's annual International Fashion Festival, a week-long event promoting exchanges between Chinese and foreign fashion designers; the China Fisheries & Seafood Expo; and the Dalian Import & Export Commodities Fair. In 2006 alone, 119 large exhibitions were held in Dalian. Various industries including software, seafood, biotech, and port logistics have selected Dalian as their choice for a variety of conferences, expositions, and meetings, generating revenue for Dalian's growing HRI sector.

Due to the demand created by Dalian's international and domestic visitors, the city's collection of five-star hotels continues to expand beyond its current collection of ten. In August 2007, the Xinhua News Service reported that Dalian plans to build 20 new five-star hotels over the next decade. This plan to expand the industry's first-class accommodations is indicative of the service industry's increasing importance to the domestically and internationally driven economy of Dalian.

This is indeed good news for U.S. food producers and exporters as high-end hotels are the primary end-users of imported U.S. food products in Dalian. Most of the city's Western-style restaurants are located in Dalian's upmarket hotels. Thanks to changing tastes among Dalian's more urban and prosperous residents and the influx of international travelers visiting the city, Western-style restaurants have gained in popularity. For many of Dalian's affluent citizens, dining in one of the expensive Western restaurants located in a five-star hotel is a way to demonstrate economic success and prosperity. Overall, high-quality, premium U.S. meat, seafood, and alcohol including wine are the main beneficiaries of this trend.

The nightlife in Dalian, as in many large cities in China, has evolved in recent years. Popular entertainment areas filled with bars and restaurants include Russian and Japanese Streets, as well as the downtown area immediately around the Furama and Shangri-la Hotels. These areas may provide additional market opportunities outside five-star hotels.

Despite the promising outlook for U.S. food imports, it is important to note that U.S. products still face stiff competition from other foreign producers, particularly Japan and Korea. With their geographical proximity to Dalian and historical ties, Korea and Japan have distinct advantages over U.S. suppliers and products in the HRI and retail sectors. The strong Japanese and Korean expatriate population combined with the influential business travelers from these countries, ensures Korean and Japanese imports enjoy solid demand.

U.S. exporters should be conscious of the competition from these sources as well as established local suppliers offering less expensive domestic substitutes. This is especially true for seafood products which are in abundant supply in Dalian. In order to effectively establish

a significant level of market share of the import market, U.S. food and agricultural products must be differentiated from competitors' products through proper branding and marketing.

*Wedding Bells in Dalian*

Due to its picturesque environs, favorable weather conditions, and short distance from Beijing, Dalian enjoys a booming wedding industry. With one prominently displayed electronic billboard located in its downtown square welcoming visitors to "Dalian - the City of Romance," the city proudly accepts the moniker. Dalian's wedding industry offers a wide array of services to provide blissful couples with wedding photos, custom-made wedding attire, wedding hall facilities, post-wedding reception banquets, and tourism.

These features make Dalian an attractive location to hold weddings, and indeed many of the five-star hotel facilities in the city are booked well in advance. According to the Food and Beverage Director of the Furama Hotel, the hotel already has wedding reservations through 2009. Wedding banquets play a major role in Chinese weddings, and are an important source of revenue for Dalian's high-end hotels, and may be a potential market segment specific opportunity for high quality, premium imported food products.

**SWOT Analysis**

U.S. imports encounter a variety of unique advantages and disadvantages in Dalian. The following analysis highlights some of the key points that U.S. exporters and producers should bear in mind when developing their entry strategy for this particular emerging city market.

<p style="text-align: center;"><b>Strengths</b></p>	<ul style="list-style-type: none"> <li>- US products enjoy a strong reputation for being safe and of high-quality</li> <li>- 'premium' US products are popular among wealthy, urban consumers wishing to display their economic success</li> </ul>	<p style="text-align: center;"><b>Opportunities</b></p>	<ul style="list-style-type: none"> <li>- catering to local tastes</li> <li>- Young consumers seeking novelty</li> <li>- Wealthy consumers in search of high-end products</li> <li>- High-end HRI sector</li> </ul>
<p style="text-align: center;"><b>Weaknesses</b></p>	<ul style="list-style-type: none"> <li>- Some US products are unfamiliar to less sophisticated consumers, and uncertainty regarding preparation and consumption can turn potential consumers away</li> </ul>	<p style="text-align: center;"><b>Threats</b></p>	<ul style="list-style-type: none"> <li>- Failure to provide proper consumer/retailer education or training on how to prepare or eat US food products</li> <li>- US suppliers face competition from Japanese and Korean competitors</li> <li>- Cheap domestic substitutes</li> </ul>

## Recommendations

There are several basic steps that producers and exporters should consider before attempting to enter into the Chinese consumer market, especially in China's Emerging City Markets, such as Dalian. The following course of action is advised:

- **Research the Market and Target Consumer-Base:** The consumer market in China is not homogenous and it is important to develop a market-entry strategy that takes into account regional consumer tastes and preferences.
- **Find a Local Distributor:** Develop a relationship with local distributors with experience in providing products to the targeted market. Collect as much insider-information as possible, and identify which products are likely to succeed in Dalian.
- **Provide Consumer and Retailer Education:** Unfamiliar imported products (e.g. mustard, salsa, etc.) may confuse retailers and consumers, so it is important to use marketing and lifestyle campaigns to educate consumers and stimulate demand.
- **Consider a 'Premium' Pricing Policy:** Like many Emerging City Market cities in China, Dalian is still a relatively price-sensitive market. However, consumers are increasingly willing to purchase 'premium' brand imports, especially if the product is thought to meet stringent quality and safety standards.
- **Promote Brand Awareness:** Chinese consumers are more brand conscious than their counterparts in other countries, and it is important to capitalize upon this fact. Media campaigns, demonstrations, sales, and other marketing promotions can be useful in differentiating a product from its competitors.
- **Keep Chinese Holidays in Mind:** Demand for imported products is particularly high during holidays. Purchasing high-quality imported food, especially from the U.S., allows consumers to display their affluence and economic status. Important holidays associated with gift giving include Spring Festival, Golden Week, and National Day Holidays.
- **Potentially Popular Products:** High-end seafood and alcoholic beverages are likely to sell well in Dalian, as well as meat products, especially beef once import restrictions on U.S. beef imports are lifted.

## North and Northeast China's Emerging City Markets (ECMs)

To learn more about China's Emerging City Markets please visit [www.fas.usda.org](http://www.fas.usda.org) and view FAS China's reports available under **Attaché Reports**. ECM reports and city profiles are updated throughout the year, so be sure to check the website regularly or subscribe to FAS Attaché Reports to receive information about new Attaché Report publications.

Several ECM reports regarding cities in North and Northeast China have been released in 2006 and 2007. Cities recently covered include Tianjin (CH7414), Xi'an (CH7411), Qingdao (CH6414), Shenyang (CH6407), and Harbin (CH6406). A report containing information about the economic potential of Emerging City Markets in China (CH 7403) was published in early 2007 and clearly defines the specific characteristics and attributes of ECMs.

**Contact Information and Useful Websites:****Agricultural Trade Office, Beijing  
Embassy of the United States of America**

Tel: (86-10) 8529-6418  
Fax: (86-10) 8529-6692  
Email: [ATOBeijing@fas.usda.gov](mailto:ATOBeijing@fas.usda.gov)  
Web: [www.USDAChina.org](http://www.USDAChina.org)

**Office of Agricultural Affairs, Beijing  
Embassy of the United States of America**

Tel: (86-10) 6532-1953  
Fax: (86-10) 6532-2962  
Email: [AgBeijing@fas.usda.gov](mailto:AgBeijing@fas.usda.gov)

**Agricultural Trade Office, Chengdu**

Tel: (86-28) 8558-3992  
Fax: (86-28) 8513-8698  
Email: [ATOChengdu@fas.usda.gov](mailto:ATOChengdu@fas.usda.gov)  
Web: [www.USDAChina.org](http://www.USDAChina.org)

**Agricultural Trade Office, Guangzhou**

Tel: (86-20) 8667-7553  
Fax: (86-20) 8666-0703  
Email: [ATOGuangzhou@fas.usda.gov](mailto:ATOGuangzhou@fas.usda.gov)  
Web: [www.USDAChina.org](http://www.USDAChina.org)

**Agricultural Trade Office, Shanghai**

Tel: (86-21) 6279-8622  
Fax: (86-21) 6279-8336  
Email: [ATOShanghai@fas.usda.gov](mailto:ATOShanghai@fas.usda.gov)  
Web: [www.USDAChina.org](http://www.USDAChina.org)

**Animal and Plant Health Inspection Service  
Embassy of the United States of America**

Tel: (86-10) 6532-3212  
Fax: (86-10) 6532-5813

**Official City of Dalian Website**

<http://2003.dl.gov.cn/i18n/en/>

**Dalian Foreign Trade and Economic Cooperation Bureau**

<http://www.dalian-gov.net/index-e.asp>

**Dalian News**

<http://www.runsky.com/en>