



USDA Foreign Agricultural Service

GAIN Report

Template Version 2.09

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 10/25/2004

GAIN Report Number: CH4618

China, Peoples Republic of Market Development Reports

Jiangnan: An Emerging Fresh Fruit Wholesale Market in South China

2004

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Report Highlights:

Jiangnan wholesale market has become an important commercial hub in the past 12 months, stimulating massive economic growth through its innovative marketing strategies and ability to attract fruit and vegetable vendors. As demand continues to increase for imported products, Jiangnan's role as the mainland's largest fresh fruit and vegetable distribution center will remain for years to come.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Guangzhou [CH3]
[CH]

Commercial Hub for Imported Fruit

China has been one of the fastest growing economies for over one decade, experiencing double-digit growth per year. Although China is one of the largest fresh fruit producers in the world, consumption of imported fruit such as fresh apples, oranges, and table grapes continues to grow. Consequently, the Jiangnan wholesale fruit and vegetable market has recently become China's leading trading center for the majority of this produce.

In South China, the Jiangnan wholesale market plays a leading role in the pricing and distribution of imported fruit for the mainland. Most Jiangnan vendors have exclusive relationships with Hong Kong importers, who not only discuss the types of products that they want to sell, but where they should be sourced. Therefore, the majority of imported fruit enters Hong Kong and is transshipped to Jiangnan. The matrix below illustrates the heavily concentrated flow of imported oranges, apples, and table grapes into South China in CY 2003.

China: Fresh Orange Imports CY 2003 (by region) ¹			
	USD millions	%	
South China ²	\$32.12	83.07%	
All China	\$38.67	100%	

China: Fresh Apple Imports CY 2003 (by region)			
	USD millions	%	
South China	\$21.69	91.34%	
All China	\$23.75	100%	

China: Fresh Table Grape Imports CY 2003 (by region)			
	USD millions	%	
South China	\$39.10	93.96%	
All China	\$41.61	100%	

Source: China Customs

Market Demand?

Currently, China's demand for high quality fresh fruit imports remains steady; however, it has incrementally grown in the past few years based on China Customs data. Aggregate table grape imports have increased from USD \$2.2 million to \$41.6 million from 1997-03,³ with the United States as one of the strongest players, exponentially increasing its sales from USD \$ 1.1 million to \$18.4 million within the same time frame. Apple and orange imports have undergone similar growth from 1997 to 2003,⁴ with oranges increasing from USD \$1.44 million to \$38.6 million, and

¹ Source: China Customs data, accessed through the World Trade Atlas database.

² South China includes only those ports which have been reported by China Customs: Guangzhou, Shenzhen, Huangpu, Gongbei, Jiangmen, and Xiamen

³ Source: China Customs. Data from 1997 to 2000, although not illustrated in Appendix I, was found on the UN Trade Statistics website: <http://fastnet.usda.gov/untrade/>

⁴ Ibid.

apples from USD \$3.4 million to \$23.7 million. The US also holds a strong position in both of these categories, having a market share of 44.3% for apples and 53.1% for oranges in 2003 (see Appendix I for data tables).

Strong competition exists between countries. Competitors bid for market share within China by offering products that are not only high quality, but have low prices. Chinese consumers are willing to pay more for imported products because it is considered safer than domestic produce, which is often thought to have excess pesticide residues; however, few are able to spend a substantial sum. According to Appendix I, in CY 2003 the US faced stiff competition from Chile in table grapes, which has a 55.3% market share, and New Zealand, which has a 40.8% market share in oranges. Market share for apples is practically in a dead heat between all three nations.⁵

History and Renovation



The Jiangnan wholesale market, originally established as a fresh vegetable market within Guangzhou City, has been active for more than 10 years and has quickly become China's leading imported fruit wholesale market. Last January, market management offered special trading terms and rebates to distributors who sold imported fruit. The Lishui Market, a local competitor, was unable to compete with these favorable terms and consequently lost most of its fruit vendors to Jiangnan.

Although the rebate has been discontinued, most of Lishui's old vendors have chosen to stay at Jiangnan because of its attractive location inside the Guangzhou beltway and modern renovation projects, which have created better facilities and allowed for enhanced service.

About one year ago, the Guangzhou City Government funded major renovations, demolishing old buildings and constructing new, state-of-the-art trading facilities. Improvements include pulling down old vegetable trading buildings and erecting huge, modern stalls. Furthermore, a new three-story auction building (expected in 2005) will host fruit and vegetable trading, an exhibition center for vendors to market their products, on-site processing, delivering, and packaging, and an auctioning area equipped with a radio auction system, radio-mobile auction transport, internet, and TV monitors located throughout the building broadcasting live auctions. In the coming months, Jiangnan will construct an additional 4,000 ton space for cold storage, processing facilities, and a bank. Another 100,000 sq. meters is still available for future expansion.

⁵ See Appendix I for statistics on US fruit exports and market share in comparison to other competing countries and total Chinese imports.

Market Management

A management team centrally organizes Jiangnan, which includes renting out space to vendors and renovating the area with new buildings and facilities. However, the management does not completely own or control the wholesale market; instead, they jointly operate with Guangzhou's municipal government, allowing not only for the generation of joint public and private initiatives for future market development, but public funding for renovation projects, which has amounted to over 200 million RMB.

Layout and Design

Jiangnan occupies 400,000 sq. meters, designating 160,000 sq for vegetables and 150,000 sq. meters for fruit, with over 420 trading stalls and 26,000 sq. meters for water-leaf vegetable trade. It currently has a 1,000 ton capacity cold storage facility and 50,000 sq. meters for parking. Vendors have immediate access to ice shops, foam-packing stores, transport teams, and rest houses.



The market is divided into various sections for different types of fruit, allocating space for Western, Southeast Asian, and domestic products. Imported fruit from Southeast Asia typically includes durian, dragon fruit, lychee, and mangos, while Western countries showcase table grapes, lemons, apples, oranges, kiwifruit, cherries, plums, and lemons. Domestic fruit is also traded, such as watermelon, fragrant pears, apples, table grapes, citrus fruit and hamigua, a famous cantaloupe melon that is trucked in from China's far Northwest Xinjiang Province. Although there is a large volume of fruit trade, domestic vegetables continue to dominate the Jiangnan market including (but not limited to) cucumbers, carrots, onions, ginger, garlic, and cabbage. Overall, around 70% of the imported fruit in China is currently traded through Jiangnan. Approximately 40-50 containers of imported fruit and 8,000-10,000 tons of domestic vegetables are sold on a daily basis, with larger quantities traded during the Chinese holiday seasons, such as the fall Moon Festival and the Chinese New Year.

Transactions



Payments occur with cash, electronic transfer, checks, and short-term credit, which must be paid in 20-30 days. Jiangnan distributors do not typically use promissory notes unless requested; for example, retailers such as Vanguard who purchase from these wholesalers often utilize them for protection. Checks, cash, and electronic transfer are seldom used as a first form of payment, with short-term credit as the most common transaction option. However, there are many problems in providing such an alternative.

Business relationships are built entirely on trust, which is why short-term credit has traditionally worked for most Jiangnan vendors. However, there is no formally established credit check system that allows vendors to examine the backgrounds of 2nd and 3rd tier purchasers, which has created problems. For example, several traders recently claimed that they lost RMB \$4 million from a purchaser who skipped town during the Moon Festival in late September 2004. Unfortunately, when these situations occur, victims have little recourse to recover the loss since the police provide insufficient assistance and the court system is bureaucratic and expensive. Black lists do exist; yet, it is mostly by word of mouth and not very effective.

Import Licenses and Transportation Certificates

The Chinese government now encourages distributors to apply for import licenses by lowering the fee. Two years ago, the cost for an import license was RMB \$30 million, which subsequently was lowered to RMB \$1 million in 2003 and now only costs RMB \$500,000. However, the acquisition of an import license does not necessarily mean that a company has the right to bring imported products into the mainland. The Chinese government requires a permit that allows for the importation of foreign goods, which are regulated by a quota system. The process is not as transparent as the acquisition of an import license, and must be handled directly in Beijing. Currently, none of the traders interviewed could give solid information on general procedure, time frame, fees, and appropriate channels (i.e. federal, provincial, or municipal) for attainment of the permit.

Services from Hong Kong

Many Jiangnan wholesalers use Hong Kong companies to service their importation needs. Four different kinds of Hong Kong firms exist: 1) importers that have Chinese licenses and make payments directly to foreign exporters; 2) logistic centers that pay the VAT, customs duty, any other fees associated with the imported commodities, and find transportation companies to transship the products to the mainland; 3) transportation companies that move the imported items to the mainland; and 4) one-stop-shops that provide all of the aforementioned services.



Fees vary for each of the above companies. Hong Kong businesses that have Chinese import licenses and only aid in importation charge a HKD \$1,000 service fee, facilitating the financial transaction between the Chinese buyer and the foreign exporter. The Chinese purchaser usually gives a 50% deposit of the amount owed before the product arrives and then the other 50% after delivery (sometimes a 15-20 day grace period is given for the second payment). Because exporters require payment in HKD, the Hong Kong company usually earns most of its profit through arbitrage while converting Chinese RMB into HKD.

Logistic centers generally charge a 50% fee on any profits made from the imported items. Therefore, Jiangnan distributors are obligated to reimburse these centers within 20-30 days after the products have reached the market and are sold. However, if no profits are earned, then the Hong Kong companies do not receive their 50% commission and must accept a loss. One-stop-shops that provide all of these services typically have an all-inclusive fee that encompasses all of the charges mentioned above, sometimes at more competitive rates. Yet, these companies do not own their own transportation businesses and instead contract these facilities. Fees for transportation companies vary based on the type of fruit transshipped. A few basic numbers are supplied in the matrix below.

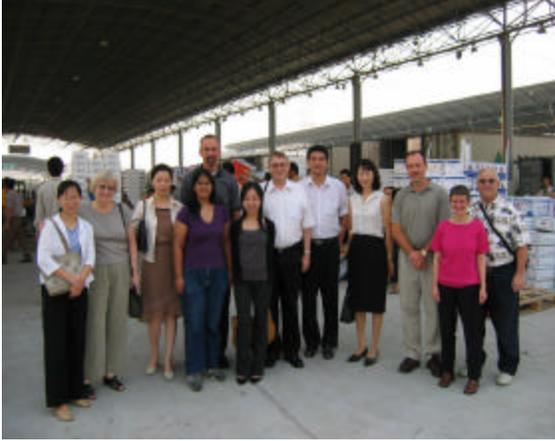
Transshipment Costs from Hong Kong to Guangzhou			
	# of Cartons	Pounds	RMB
Orange	950	n/a	48,000
Apple	1,029	n/a	46,000
Lemon	1,080	n/a	51,000
Durian	unknown	unknown	19,500
Table Grape	1,540	19	52,000
Table Grape	1,540	21	55,000
Table Grape	1,680	19	55,000
Table Grape	1,680	21	58,000
Table Grape	2,040	19	62,000

Source: Local Jiangnan Trader

Jiangnan distributors are not obligated to use any or all of these Hong Kong companies, and many have created their own businesses in Hong Kong to take care of these services. For example, one trader, who has an import license, created a business that deals with importation, payment to exporters, and other financial and logistic operations. However, because he does not have a permit for transshipment, he still must deal with a third party to transport the products to the mainland. Therefore, Jiangnan wholesalers have a variety of options and may pick and choose which Hong Kong companies to utilize, or start their own Hong Kong firm.

Wholesale Center of the Future

Jiangnan has become the largest fruit and vegetable wholesale market in South China. Its recent development has attracted fruit importers, distributors, and wholesalers from other marketing centers, generating a thriving base for China's fruit and vegetable trade. As a result, it will remain a prominent pricing and distributing center that services mainland China for the next few years.



In the future, Jiangnan's management plans to expand its services as an export center, as well as increase the handling and quality of its fruit, thereby, making it a stronger competitor with foreign produce. Consequently, US exporters should pay more attention to fruit originating from Jiangnan, since this will directly affect their world sales and market share. A demand will always exist for high-end imports in China as well as in other parts of the world, but China's potential for improving its domestic produce has the promise of allowing it to become a formidable international contender.

Appendix I: Chinese Imported Fruit Data

Chinese Imported Fresh Grapes CY ⁶										
Current USD \$	2001		2002			2003			2004 (January-August)	
	Value	Market Share (%)	Value	Market Share (%)	Change (%)	Value	Market Share (%)	Change (%)	Value	Market Share (%)
World	\$33,738,153	100.0%	\$32,215,201	100.0%	-4.7%	\$41,611,551	100.0%	22.6%	\$47,470,741	100.0%
Chile	\$19,455,538	57.7%	\$20,580,444	63.9%	5.5%	\$23,015,458	55.3%	10.6%	\$40,588,441	85.5%
United States	\$14,269,076	42.3%	\$11,587,112	36.0%	-23.1%	\$18,455,576	44.4%	37.2%	\$6,489,581	13.7%
Other	\$13,539	0.0%	\$47,645	0.1%	71.6%	\$140,517	0.3%	66.1%	\$392,719	0.8%

Chinese Imported Fresh Apples CY										
Current USD \$	2001		2002			2003			2004 (January-August)	
	Value	Market Share (%)	Value	Market Share (%)	Change (%)	Value	Market Share (%)	Change (%)	Value	Market Share (%)
World	\$17,117,561	100.0%	\$22,425,831	100.0%	23.7%	\$23,759,492	100.0%	5.6%	\$23,301,437	100.0%
Chile	\$1,953,915	11.4%	\$7,552,914	33.7%	74.1%	\$7,672,734	32.3%	1.6%	\$9,444,725	40.5%
United States	\$11,269,016	65.8%	\$8,685,092	38.7%	-29.8%	\$10,530,203	44.3%	17.5%	\$10,028,825	43.0%
New Zealand	\$3,875,474	22.6%	\$6,160,114	27.5%	37.1%	\$5,487,627	23.1%	-12.3%	\$3,804,504	16.3%
Other	\$19,156	0.1%	\$27,711	0.1%	30.9%	\$68,928	0.3%	59.8%	\$23,383	0.1%

Chinese Imported Fresh Oranges CY										
Current USD \$	2001		2002			2003			2004 (January-August)	
	Value	Market Share (%)	Value	Market Share (%)	Change (%)	Value	Market Share (%)	Change (%)	Value	Market Share (%)
World	\$25,385,400	100.0%	\$22,545,349	100.0%	-12.6%	\$38,669,335	100.0%	41.7%	\$26,048,462	100.0%
United States	\$16,665,564	65.7%	\$10,202,169	45.3%	-63.4%	\$20,552,311	53.1%	50.4%	\$20,656,816	79.3%
New Zealand	\$8,712,669	34.3%	\$10,950,103	48.6%	20.4%	\$15,763,826	40.8%	30.5%	\$4,084,662	15.7%
Other	\$7,167	0.0%	\$1,393,077	6.2%	99.5%	\$2,353,198	6.1%	40.8%	\$1,306,984	5.0%

⁶ Source: China Customs Data/Global Trade Atlas. Please note there are discrepancies between Chinese import data and foreign export trade statistics due to transshipments and gray channel trade.