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City Profile: Dalian, An Emerging City Market in

North China

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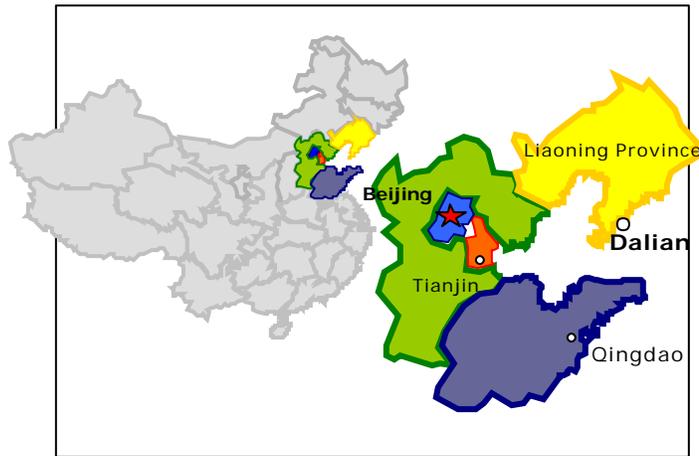
Report Highlights: Dalian or "Pearl of North China" is one of the fastest growing cities in China and gateway to the large yet relatively untapped Northeast China market. With natural harbors, highly developed industrial base, beautiful environs, and home to a growing number of international exhibitions, the City attracts more than fourteen million visitors annually. One of the fastest growing Emerging City Markets (ECM) in China, Dalian has experienced rapid growth with GDP jumping 16.2% over 2003 to more than \$23.6 billion in 2004. The Dalian market offers a number of excellent and unique marketing opportunities for U.S. food, agricultural product traders and commodity associations.

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“Pearl of Northern China”

Located at the southern tip of Liaodong Peninsula, 290 miles east of Beijing and across the Bohai Gulf, Dalian serves as the major logistics-trade gateway to Northern, Eastern, and Northeast China. Identified as one of the fastest growing Chinese cities in the mid 90’s, the ‘medium sized’ city of 6 million is known as the “City of Soccer, City of Fashion, and Home of Romance”. In 2001, Dalian became the first Chinese city to make the United Nations Environmental Program (UNEP) Global 500 Honor Roll for Environmental Achievement. It is no wonder the city’s clean environs, lush green landscapes, and Japanese and Russian influenced architecture of the past, attracts fourteen million visitors annually.

Dalian, Liaodong Peninsula, Liaoning Province



The Port of Dalian ranks in the top ten Chinese ports, and third in total food imports. Dalian has a long history of relations with other countries, much of which stemmed from occupation by Russia and Japan. In more recent times relations have been more positive with rapidly increasing trade between Dalian, Japan, Korea and Russia. The focus of past and current Asian investment, the city supports a vibrant restaurant and entertainment sector.



Dalian Enjoys 41.5% Green Space.

Dalian’s highly lauded developments began in the late 70’s. In 1984, Dalian was designated as an “open city” by the Central Government thus improving the climate for foreign investment. During the same year, the Dalian Economic and Technology Development Zone opened and the Dalian Export and Processing Zone was created in 1992. Under the leadership of former Mayor Bo Xilai (now the Chinese Minister of Commerce), Dalian attracted public and private sector investment that stimulated economic growth to move the city from under development to it’s current modernity.

Dalian, a Booming Economy

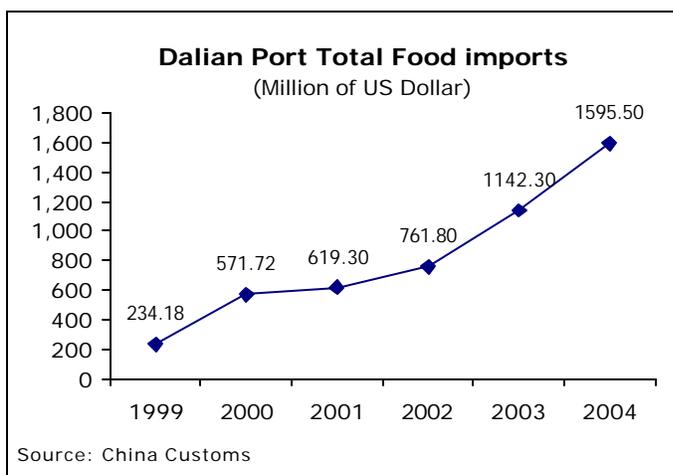
Although economic growth has slowed as compared to the Bo Xilai boom years, Dalian continues to experience rapid growth. For the last thirteen years, double digit GDP growth has been achieved averaging 15.2% since 2002. GDP increased 16.2% over 2003 to total \$23.6 billion in 2004.

Supported by well-developed commercial and transportation networks trade is flourishing. The city is also home to more than 600 commodity exchange markets with annual transactions in excess of \$6 billion. Established in 1993, the Dalian Commodity Exchange (DCE) has become one of the top three futures bourses in China with soybean transactions the largest in Asia and second globally only to Chicago. In 2004 Exchange trade volumes surpassed \$120.9 billion, accounting for 58% of China's total. E-commerce, consumer credit, etc., are all increasingly part of the local scene as Dalian continues to move into the 21st Century.

Dalian is host to more than 60 domestic and international conventions and exhibitions each year. Xinghai Exposition Center is equipped with state of the art facilities and is home to the Dalian Import and Export Fair and Dalian International Garments Fair, etc. Since 1996, Xinghai has hosted more than 300 exhibitions (automotive, household appliances, furniture, metal ware, fishery products, electronics, telecommunications, etc.) with a total trade of more than \$12.5 billion involving 16,000 companies from 65 countries-regions. In July 2005 the WTO mini-Ministerial's were held for the first time in Dalian by the Central Government.

With authority to administer local economic and investment practices, Dalian Municipal has played an important role in the development of China's economy as well as its own. Over the past decade the municipal government has moved toward a more service-oriented approach through simplification of registration and approval procedures, improved services, reduction of fees, etc. As a result, foreign investment in Dalian is estimated at \$6.0 billion and boasts an impressive portfolio of international firms such as HP, IBM, Coca Cola, General Electric, Pfizer, Nokia, Ericsson, Dell, and Microsoft. The IT industry represents half of the total in all of Northeast China with 50% annual growth. Currently, there are over 10,000 foreign-invested firms in Dalian, including 69 of the world's top 500. Dalian's effort to expand its industrial, IT, financial and tourism sectors is part of an overall transformation the city has undertaken to move from a regional to an international shipping and trading center equivalent to Hong Kong, Singapore, New York or Rotterdam.

Dalian At a Glance	
Population	6 Million
GDP	\$23.6 billion (2004)
GDP Growth Rate	16.2% (2003/04)
GDP/Capita	\$4,000
Major Industries	Food processing, machinery, IT, electronics, garments, petrochemicals, household goods, textiles, locomotive, shipbuilding, pharmaceuticals.
Key Agricultural Products	Grain, corn, sorghum, cotton, soybeans, sea cucumber, fish, prawns, abalone, apples, grapes, peaches, cherries, etc.



Many industries, domestic and foreign, favor Dalian because of the excellent port conditions. With shipping links to more than 300 ports in 160 countries and regions worldwide, Dalian handles 70% and 90% of cargo and container traffic respectively in Northeast China. Dalian is also the largest air cargo transport center in Northeast China ranking fourth nationally in number of air routes, linked cities, and flights. Given transportation links and other advantages, Dalian is one of the most convenient gateways into Northeast Asia from the Pacific. Compared with Qingdao in Shandong, and Tianjin further west in Hebei, Dalian's location at the mouth of the Bohai Gulf is ideal in terms of sea routes. As Dalian expanded infrastructure, suppliers are now able to import larger quantities at lower prices directly, rather than via traditional southern routes like Guangzhou or Shanghai. Reduced costs have resulted in lower prices thus making products more accessible to the large and relatively untapped Northeast market. Agricultural, fish and forestry imports from the world via Dalian reached \$990 million in calendar 2004, with a 29% increase over 2003. More importantly, local consumers are increasingly interested in imported food and agricultural products.

Retail Industry, Transforming

In 2003, the average annual income in Dalian stood at \$1,027 and although less than southerners in Guangzhou and Shanghai, it's well above national and urban averages. Similar to many cities in China, as the economy and consumers have matured, traditional wet markets are disappearing. Today, consumers shop at supermarkets seeking higher quality, consistency, sanitation and convenience. During the last few years Dalian's food retail sector has undergone a radical transformation given the rapid rise of supermarkets and hypermarkets. These retail formats have extensive dry and frozen goods, fresh and frozen meat and seafood, fruit, vegetables, prepared food, and food service sections. Many of these outlets are located in mall settings or a shopping destination for the whole family with restaurants, theatres, fashion boutiques, sporting goods stores, and other specialty shops.

Dalian Retail Outlets at a Glance			
Type	Name	Ownership	Outlets
Hypermarkets	Carrefour	French JV	3
	Wal-mart	U.S.	3
	Metro	German JV	1
Supermarkets	DaShang	State-owned	7
	Hualian	State-owned	2
	Trustmart	Taiwan JV	2
	Lego	Taiwan JV	3
Convenience Stores	LianHua	State-owned	50

Source: ATO Beijing

Relative to domestic supermarkets, imported foods have a significant presence in foreign operated supermarkets and hypermarkets even if imports account for no more than 3-4% of total store sales. However, local retailers should not be ignored either as Dalian's very own 'national' retail food chain Dashang recorded the second highest sales for all of China in 2003, well ahead of Carrefour (4th) and Wal-Mart (10th), not to mention a 42.2% increase over 2002 sales. Most retailers state the main reason they do not stock more imports is the high price. While Dalian residents consider U.S. food to be equal or superior to most other imports, high prices are the largest constraint. Retailers have found consumers are often willing to pay a 10-20% premium for U.S. foods, especially during the holidays, but do or would not purchase U.S. foods regularly. Most urban dwellers in Dalian have eaten at local KFC or McDonalds restaurants, demonstrating willingness to try Western food.

In the late 90's, although the cost of living in Dalian is 20% less than Shanghai, residents paid equal or higher prices for imported food due to strict enforcement of import rules and transportation costs associated with products via Guangzhou or Shanghai. However, growing demand for high-end food imports in Dalian and North China is resulting in more direct imports via Dalian's port. Many distributors no longer satisfied with bringing small volumes of imports from the South import products directly to supply Dalian and other Northern cities. These traders enjoy the benefits of reduced costs, improved product delivery and higher profit margins. As local authorities ease barriers, importers are able to pass part of the savings onto consumers, further increasing their competitiveness in a price-sensitive market.

ATO Beijing organized a trader team to the Produce Marketing Association (PMA) Expo last fall. During the visit, working with state officials in the U.S., Chinese traders were introduced to U.S. exporters, visited packinghouses, and so forth. As a result, a local fruit distributor began importing U.S. fruit directly via the port of Dalian and importing more than 70 containers as of today. "Before, I bought imported fruit from South China in Hong Kong or Guangzhou, with limited product, size, packaging and trading terms, but now direct imports have created new opportunities for us to provide larger size, better quality and lower cost choices for our customers in Northeast China."

Dalian's Hotel Restaurant Institutional sector (HRI) is on the rise

With excellent transportation, brand new highways, expanded port facilities, new international airport, more than fourteen million visitors flock to Dalian annually for its weather, beaches, gardens, exhibitions and tourism. In 2003, eleven million visitors spent \$1.52 billion in the city even in the aftermath of a global SARS scare. Its coastal roads provide views of sandy beaches, crashing waves, ragged cliffs; so no wonder high-level Central Government leaders favor Dalian as a place to relax. In addition, the city has not one, but two world-class aquariums and a seashell museum.



Bangchuidao Beach

Thanks to the city's tourism and exhibition industry, there is no shortage of first-class accommodation. Increasing numbers of domestic and foreign travelers continue to add greater diversity to the local food mix. Currently, very few imported food items can be found in Chinese restaurants. Western kitchen/cuisine restaurants are the primary end-users of imported food. Most of these western restaurants are located in high-end hotels. Dalian has six 5 star hotels, including the Shangri-la, Oriental Palace, Furama, Kempinski and Swiss Hotel. Internationally managed hotels like Shangri-la, Kempinski, and Oriental are all major users of food imports in their western restaurants.

Due to the current unavailability of U.S. beef in the China market, major U.S. food imports have been restricted to poultry, frozen potatoes and condiments. Based on discussion with local HRI professional and Northern or "Dongbei" preference for meat, there is still good potential for value added meat products such as pork. While Dalian imported \$346 million worth of seafood in 2004, fresh and inexpensive local seafood is abundant. Given Dalian's geographic proximity, and influential Korean and Japanese expatriate population, many Korean and Japanese imports have long enjoyed dominance in HRI and retail. U.S. importers

must beware of stiff competition from established suppliers, local preferences, and less expensive domestic substitutes. However, as a local buyer points out "there is great potential for seafood exporters who want to go after custom or niche markets here."

Market Entry Tips

ATO Beijing interviewed several local importers, distributors and buyers, and they offer the following tips for those interested in entering the Dalian market:

- Education is key: A major reason some products fail is because consumers have no idea what or how to use them - sometimes the retailer or distributor doesn't know either (i.e. Mustard, Tortillas...).
- Increase product awareness: Advertisements, product demonstrations, sales, and other marketing promotions help.
- Price: Like most other major ECM cities, despite rising incomes, Dalian is still a price-sensitive market. Be very carefully selling-competing solely on price with similar local products in the market. Establishing brand as 'premium quality' is a must if selling products in a competitive environment.
- Research: Take time to investigate the market, find a good distributor. Successful ventures require qualified-experienced distributors who know the local market.
- Baby Steps: Take baby steps unless you are already supplying large quantities in the market. In the beginning, be prepared to offer limited quantities or mixed containers.
- Holidays: Demand for imported products is increasing, particularly during holiday seasons where purchasing U.S. food products demonstrates status-prestige.
- Reports: Please refer to Gain Report *CH5407 China HRI* and *CH4405 North China Food Retail Sector* for more general market information, situations and strategies.

Contact Information and Useful Websites

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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/>