



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

**Date:** 12/28/2005

**GAIN Report Number:** CH5829

## China, Peoples Republic of

### Market Development Reports

### Wuxi: In the Heart of the Yangtze River Delta

### 2005

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**Report Highlights:**

Wuxi is a second-tier city located 128 km to the west of Shanghai, in the center of the Yangtze River Delta. A GDP growth rate of 17.4% combined with a rapidly evolving consumer culture reveals real potential for U.S. food products in this market. A key obstacle continues to be a lack of familiarity with imported food ingredients and international cuisine among Wuxi's increasingly affluent consumers. ATO/Shanghai has conducted a number of retail and HRI activities in Wuxi, with excellent results.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Shanghai [CH2]  
[CH]

## Introduction:

Wuxi was until recently only known as a manufacturing hub and tourism destination for domestic travelers. That reputation is quickly changing. Forbes ranked Wuxi No. 2 among the best cities for business in mainland China, and the Chinese government rates it among the ten most dynamic economies in the country. Additionally, Wuxi claims to offer the best living conditions and quality of life in Jiangsu province. The city's economic success is due to a cluster effect of mutually supporting development zones that are propelling its industries forward and attracting ever-greater FDI. Additionally, Wuxi has a prime location within the Yangtze River Delta, allowing it to serve as a regional transportation hub. With 4.5 million residents and an astounding 2004 GDP growth rate of 17.4%, Wuxi has the potential to become an important market for U.S. food products. Per capita disposable income of urban residents was \$1,680 in 2004, with 27% of that going to food expenditures. According to authorities, about 50% of food demand is met by local production.

## Wuxi and the Yangtze River Delta



## Background: "Little Shanghai"

Wuxi is the birthplace of Wu Culture, one of China's 5 ancient kingdoms. Water is the central element in the city's history, economy and culture. Built along the ancient Grand Canal, Wuxi continues to serve as an important commercial and communications hub for eastern China. A network of national highways, railway lines and water routes converge in the city, making it an excellent distribution hub for regional markets. Wuxi is 128 km east of Shanghai (population 20 million) on the road and rail line to Nanjing (6 million) 183 km to the west, and only 30 minutes east/40 km of Suzhou (6 million) by car or rail. The well-developed water transportation system includes the Yangtze River to the north, Lake Taihu to the south and the Beijing-Hangzhou Grand Canal. The Port of Shanghai is 165 km from the city, and the Jiang Yin Container Port is only 38 km away. Wuxi is near to a number of international airports: Shanghai Pudong (160 km), Shanghai Hongqiao (120 km) and Nanjing Lukou (180 km).



Referred to as "the Pearl of Lake Taihu", Wuxi is a meeting point for the Yangtze River, Lake Taihu (one of China's largest lakes) and the Grand Canal

### The Modern Marketplace: A Hotbed for Overseas Investors

Wuxi's industrial sector is composed of four national, seven provincial and five city-level development zones as well as a series of special industrial regions. Wuxi is home to several science and software parks, labs and engineering technology centers, as well as 11 independent universities and colleges, including the Southern Yangtze University. This combination of maturing industrial zones, an educated labor pool, a technological base and an increasingly sophisticated consumer market lead pundits to

Wuxi At a Glance (2004)	
Population	2.2 million (Wuxi City) 4.5 million (Wuxi District) 74 million (Jiangsu Province)
GDP	\$16 billion (Wuxi City) \$29 billion (Wuxi District)
GDP growth rate	17.4% (Wuxi District)
GDP/Capita	\$7,293 (Wuxi City) \$6,532 (Wuxi District) \$2,579 (Jiangsu Province)
Major Industries	Textiles, mining, electronics, IT, auto parts, pharmaceuticals
Key Agricultural Products	Freshwater fish, pork, cow's milk, poultry, vegetables, silk, peaches, flowers
Major Food Retailers	Carrefour, Auchan, Metro Cash & Carry, Fu-Mart, Beijing Hualian, Lotus, RT Mart, Trust Mart

suggest that Wuxi's economy has achieved the critical mass needed to take off, much as its neighbor Suzhou has done. Though the municipality only has 0.04% of China's total population, it contributed 1.8% to total national GDP and received 4.5% of the nation's foreign investment in 2003. At present, the textile industry is the leading economic sector, followed by mining, electronics and IT. Of growing significance are the auto parts, biotechnology and pharmaceuticals industries. Investors in Wuxi's industrial parks include General Electric, Hitachi, Sharp, Sumitomo, GM and VW, with some of the largest international investors in 2005 being Bridgestone, Lanxess Chemicals, Astra Zeneca and Mobis.

Wuxi has an expanding modern retail sector. Retail sales revenue in 2004 is estimated at \$7 billion, up 18.9% from the previous year. Sales at the wholesale level were almost double that amount. Shopping centers are approaching the quality and sophistication already found in Shanghai, and include venues such as the Wuxi New World Department Store, Wuxi Parkson Department Store, Wuxi Yaohan, Wuxi Commercial Mansion, Wuxi No. 1 Department Store, Wuxi Grand Ocean Department Store and BAOLI Plaza. B&Q, a foreign-invested home improvement store, is also operating in Wuxi.

Wuxi is also cashing in on its long history and ideal location to become an increasingly popular tourist destination. Its proximity to Shanghai, in particular, allows it to serve as a weekend destination for car-owning Shanghaiese bound for the shores of Lake Taihu. The growing affluence of nearby Nanjing (the capital of Jiangsu with a population of over 7 million) is likely to generate additional tourism in the future. The number of international tourists is also rising, with 504,434 visitors reported in 2004, a 28% increase on the year before.



Wuxi is quickly turning into an important regional economic center

The gross output value of Wuxi's agricultural sector was \$11.5 billion in 2004. Wuxi is famous for freshwater fish, such as silver needlefish and white shrimp, coming from Lake Taihu. The hog industry is expanding and dairy is also important, with two major companies, Everbright and Wai Gang, leading the way. Key locally produced processed foods include cocoa products, egg products, canned peaches, beer and other alcoholic beverages.

### **Sectoral Analysis: Cuisine, Food Processing, HRI and Retail**

#### **Cuisine - A Sweet Tooth**

Wuxi cuisine has similarities to that of the rest of the Yangtze River Delta, a preference for sweet over spicy, heavy use of oil and a preference for seafood. However, there are also significant differences. Wuxi cuisine is even sweeter than that of Shanghai and the consumption level of chicken, milk and milk products, spaghetti and hard liquor is greater. People from Wuxi tend to eat more dumplings and regard pork ribs stewed in a sweet, heavy soy sauce as a signature local dish.

#### **Food Processing**

As noted above, Wuxi is home to a significant dairy processing industry as well as some medium-sized food manufacturers, particularly chocolate confectionery. Apart from dairy, however, the local food manufacturing industry is not particularly strong in the context of other Yangtze River Delta cities. Wuxi's real strength in the food processing field comes from the Southern Yangtze University (SYU), which hosts one of China's strongest food science programs. SYU has beefed up its programs, and actively seeks to work with organizations that can bring provide insights into new food processing technologies and methods. The U.S. industry's cooperation with SYU began with an Almond Board of California-supported activity to develop new almond-based products through a contest between different teams of students in the food science program. The winning team was offered the opportunity to work with a major food manufacturer to bring their product market, providing the students with the opportunity to develop real-world product development experience, while supporting imports of U.S. almonds. Since that time, ATO/Shanghai has developed a strong relationship with SYU, utilizing their skills and facilities for additional market development activities. With the Chinese government undertaking a campaign to improve the quality, safety and scale of the domestic food processing industry, programs like that at SYU are likely to play an increasingly important role as both centers for innovation and as sources of future leadership for the food industry.

#### **HRI**

Wuxi's restaurant industry had revenues of RMB 8.1 billion (about \$1 billion) in 2003. The choice of cuisine is still limited mainly to the local Chinese fare but is expanding to match the pattern in the more developed cities nearby, such as Suzhou. As elsewhere in China, hotel restaurants lead the way in introducing international cuisine. However, the Wuxi Sheraton is currently Wuxi's only international 5-star hotel. Kempinski is planning to open a hotel in 2007 and Shangri-La is also considering coming into the market. The Wuxi Sheraton uses a significant amount of imported ingredients, primarily in its pub, which caters to foreign residents. These include wines, beef, seafood, dairy products, baking mixes, seasonings and condiments. Discussions with



Celebrity Chef John Griffin and ATO Director Ross Kreamer cut the ribbon at the latest American Food Festival at the Wuxi Sheraton, Nov 2005.

the Sheraton have found that the hotel restaurant's business extends well beyond hotel patrons, serving as a major center for a local expatriate community that still has a limited range of dining options for international cuisine. There are also two Chinese-owned 5-star hotels, Taihu Hotel and Hubin Hotel, but they and the lower ranked hotels use few imported ingredients.

Hotels and restaurants report buying some of their imported food from local hypermarkets such as Metro, Carrefour or the Wuxi Food Shang Cheng. Typically, food is imported through Shanghai. Competition among suppliers is light and orders are small. The Sheraton uses one primary supplier that ships directly from the U.S. and Australia.

### **Retail**

Wuxi's food retail sector is considerably better developed than HRI. Most hypermarkets operating in Wuxi are foreign invested companies, while the supermarkets are local chains. Hypermarkets are more likely than local supermarkets to carry imported food items, though the number of imported items remains relatively low: Carrefour indicated that approximately 1% of its fresh section sales consist of imported produce. Hypermarkets are enjoying increasing appeal, pulling in customers who not only live in the immediate vicinity but also further afield. Part of the hypermarkets' appeal is a conviction among consumers that they are less likely than smaller operators to sell inferior or counterfeit items. On any given day, a more popular hypermarket will see 10,000 – 15,000 customers, with over 20,000 on weekends. There are relatively few foreigners living in Wuxi and most imported food purchases are made by local Chinese.

Most hypermarkets use Shanghai as a central buying point for imported items. The cold chain between Wuxi and Shanghai is well developed and distributors are usually responsible for arranging delivery of the items. Management at one hypermarket

explained that they were not aware of any counterfeit problems encountered while working with their current distributors.

### **Best Prospects**

While sources that have worked in Wuxi's food industry for a number of years report that there is increasing demand for imported food ingredients, the market is far less developed than nearby Suzhou. Consumer familiarity with high-quality U.S. food products remains limited and local Chinese restaurants still complain of there being few supply channels for imports. However, there is a demonstrated willingness among residents to spend money to try new dishes. ATO/Shanghai has conducted a number of activities in Wuxi that have been effective in popularizing imported ingredients. Press coverage is relatively easy to obtain, and TV coverage has been particularly effective in attracting people to these activities. Continued efforts at the development of distribution channels, training of HRI staff in the

<b>Major Retailers</b>	
Carrefour (1) (+1 in 2006)	Hypermarket
Auchan (1)	Hypermarket
Metro Cash & Carry (1)	Hypermarket
Lotus (3)	Hypermarket
RT Mart (1)	Hypermarket
Trust Mart (1)	Hypermarket
Fu-Mart (1)	Hypermarket
Beijing Hualian (1)	Hypermarket
Hao Mai De (1)	Hypermarket
Wal-Mart (opens 2006)	Hypermarket
Hy Mall (opens 2006)	Hypermarket
Zhong Bai (14)	Supermarket
Bai Ye (10)	Supermarket
Tian Hui (36)	Supermarket
Yong An (17)	Supermarket
Kedi (30+)	Convenience Store

handling and preparation of U.S. products, and consumer education will be essential to further develop this market and to build consumer confidence and demand.

Fresh fruit from the U.S. is fairly common in Wuxi, while there are virtually no vegetable imports beyond frozen mixed vegetables and sweet corn. A key challenge for fruit is the short shelf-life remaining by the time it arrives in retail venues, as well as reports of inconsistent quality due to poor handling. These problems have dampened sales by raising market risks for distributors. U.S. beef remains extremely popular in high-end venues, but the current import ban has made it difficult to obtain. U.S. wines have established a toehold in Wuxi, appearing on a number of retailers' shelves and in restaurants, opening the door for future expansion. Wuxi's relatively recent rise to prominence has been helpful in this regard, as it has only recently begun to attract the attention of competitor wine exporters.

Strong demand exists for pork, chicken and turkey offals, which are popular in Chinese cooking. A visit to the Wuxi Wholesale Market is a good indicator of current and potential demand for such product. The market serves wholesalers, factories and processing plants in Anhui and Jiangsu provinces, and across the country. One of the largest such markets in China, sales revenues reached roughly \$600 million last year, half of which constituted frozen meat. Ten to twenty distributors in the market carry U.S. meat at any given time. One of the more established of these distributors brings in between 100 and 200 containers of freight each year, depending on market conditions. Importers move product directly from ports to the Wuxi market in trucks, using the import licenses of Shanghai or Wuxi-based licensed importers. U.S. pork variety cuts are the most common import from the U.S.: John Morrell pork tongues and maws, Premium Standard Farms pork ears and Seaboard Farms pork hearts. Also available were Jennie-O-Turkey Store turkey necks and Gold Kist chicken feet. Competition from countries such as Brazil is tough, Chinese pork and poultry products are improving in quality. Interviews with distributors found that they could get the types of U.S. products they wanted, but not from the specific processing plants they desire. Current plans are underway to transform the wholesale market into a more sophisticated meat exchange for making contracts rather than simply exchanging physical product.

<b>Wuxi: Best Product Prospects</b>		
<b>Product</b>	<b>Market</b>	<b>Notes</b>
Beef	retail and restaurant	Imports of U.S. beef are currently suspended, however retail contacts indicate that it was a top-selling product prior to the ban. U.S. certified beef enjoys a strong reputation in this market. Presently, high-quality beef is imported from Australia, though there are significant amounts of beef claiming to be U.S. entering through gray market channels.
Apples	Retail	Chinese consumers like and can afford high-quality U.S. apples, and Washington State apples sold particularly well at a recent ATO/Shanghai retail activity in Wuxi. Green apples have also done well in this market.
Oranges, grapefruit, lemons, table grapes	Retail	Sunkist oranges are widely recognized and sell well in this market, doing very well during the recent retail activity.
Seasonings and condiments	retail and restaurant	Ketchup, syrups, honey, mustard, vinegar, olive oil sell well in the HRI sector.
Dairy products	retail and restaurant	Local F & B managers see growing demand for these products, though considerable competition

		exists from sources such as Australia and Italy.
Wine	retail and restaurant	California wines are doing well in this market and are competitive with French wines. The Sheraton Wuxi indicated that some of their most popular wines are from the U.S.
Chocolate	retail and restaurant	Wuxi Carrefour indicated that there are always good sales in imported chocolates. Strong competition exists in this market segment, however.
Almonds	retail and restaurant, food processing	Commonly roasted and salted as a snack food or put in chocolate and bakery products. ATO/Shanghai assisted in the First Wuxi Almond Product R&D Student Competition in 2004, demonstrating this products increasing appeal.
Pistachios	retail and restaurant	Though expensive, pistachios have enjoyed considerable success, often as a gift item.
Fish (black cod and salmon)	restaurant and retail	Potential exists given the local taste for seafood. U.S. seafood is currently losing the price war to cheaper imports from places like Norway, Australia and the Philippines, though wild-caught products from the U.S. can command a higher price.
Poultry	retail and restaurant	Chicken is even more popular in Wuxi than in other areas of the Yangtze River Delta where it is already quite popular.
Chicken feet, turkey necks, pig heart, ear, tongue and stomach	retail, wholesale, food processing	There is significant demand that will only increase as incomes rise and demand for meat increases, out-stripping supply. Current competition exists from Brazilian product that is presently enjoying a high reputation. Local product quality has also improved greatly in the past couple of years, creating additional competition.

### In Our Sights: ATO Targets Wuxi

Proximity to Shanghai, growing affluence and a relatively underexploited market for imports all make Wuxi an ideal target for ATO activities, and Wuxi has featured in a number of ATO/Shanghai's efforts. Most of these have been multi-city activities targeting the transportation corridor between the two largest cities in the region, Shanghai and Nanjing. This experience has provided some insights into the peculiar features of this market.

- ❖ HRI is an excellent venue for promoting new products, especially those with western tastes. However, there are not enough western restaurants at present to support a dedicated HRI distribution industry for imported foods. Existing western restaurants tend to rely on local retailers for specialty products, making retail a potentially important component in HRI activities.
- ❖ Western restaurants in Wuxi serve a different role than in Shanghai or Suzhou. Where high-end restaurants in those cities serve an ever-changing mix of expatriates, tourists and adventurous Chinese customers, Wuxi's tend to serve as centers of the resident expatriate community. This provides them with a small, but very loyal customer base.
- ❖ U.S. condiments and sauces have a wider audience, being widely used in bars and fast-food venues as well as western restaurants, hence the distribution systems for these products are better developed.

- ❖ For volume sales, ingredients with either specific appeal to Chinese tastes, or generic ingredients that can be adapted to Chinese cuisine tend to do the best. The former includes chicken feet and other offals, while the latter includes seafood, fresh fruit, nuts and dried fruit.
- ❖ Although high-end and specialty products must target niche markets, these can be highly lucrative. Demand for high-end U.S. beef cuts, for example, is strong enough to draw in gray-market product, even at a significant price premium.
- ❖ Major retailers and chain hotels in Wuxi tend to share distribution systems with stores in Suzhou and, to a lesser extent, Shanghai. Distribution should not pose a major barrier for products already available in Shanghai, provided that retailers can be convinced that sufficient demand exists. Retailers in the region tend to be extremely risk-averse in carrying new products, making this a key barrier to new products in emerging city markets such as Wuxi.

### Recent ATO/Cooperator Activities

ATO/Shanghai has made a concerted effort to develop market in Wuxi as part of a larger strategy to develop the Shanghai-Nanjing corridor. Recent activities by ATO and USDA cooperators include the following:

- ❖ November 2005 – Starwood Jiangsu American Food Festival at the Wuxi Sheraton – An American themed menu promotion with a celebrity chef.
- ❖ September 2005 – Nationwide American Food Promotion - With participation from the Wuxi Carrefour.
- ❖ July 2005 – American Fruit Festival, Nationwide Fruit Promotion - With participation from the Wuxi Carrefour.
- ❖ September 2004 – Starwood Jiangsu American Food Festival at the Wuxi Sheraton – An American themed menu promotion with a celebrity chef.
- ❖ June 2004 - Almond Board of California's (ABC) competition for best recipe using almonds.

### Join Us!

ATO/Shanghai is continually working on new activities in Wuxi as well as other Emerging City Markets throughout the Yangtze River basin. For more information, please contact us directly.

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