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## China, Peoples Republic of

### Market Development Reports

### Chengdu: An Emerging Market In China's Heartland

### 2006

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**Report Highlights:**

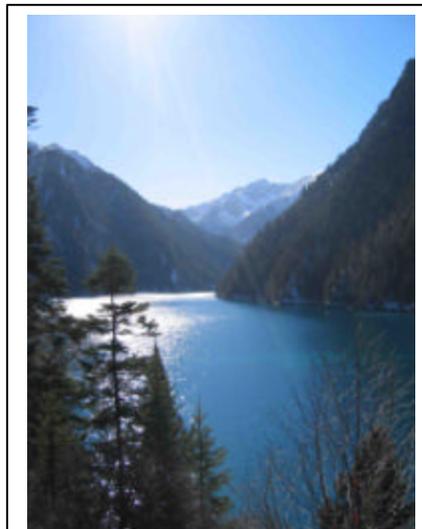
The city of Chengdu is one of the most prosperous and affluent cities in China's interior. Capital of Sichuan province, Chengdu is world famous for its spicy Sichuan-style cuisine, but as ATO/Shanghai's recent experience indicates, is also very much open to U.S. foods and food ingredients. Distribution remains the primary obstacle for imported products in this deep inland city. Best product prospects for this market are outlined in the report.

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[CH]

## Gateway to West China

Located deep in China's interior, Chengdu is the capital of Sichuan province and one of the most affluent cities in Western China. The city has a population of 10.5 million and a GDP of over RMB 218 billion (\$26 billion) in 2004, making it one of the largest and most economically important cities in the country. It is also home to some of China's most successful domestic companies, including the massive Hope Group conglomerate, which originated as a food processing company, but has since branched into a wide range of real estate, investment and manufacturing enterprises. Chengdu is a relatively well-developed urban island in a largely agricultural province regarded by many as China's heartland and breadbasket. Sichuan province ranks 3rd nationwide in population (87.3 million), 9th nationwide in GDP (\$79 billion), but only 19th out of 32 in per capita income. Interestingly, although per capita food expenditures are only average, per capita spending on meat and poultry is among the highest in the country. Like other interior provinces, Sichuan is growing rapidly, with GDP growth of 12.7% in 2004, which is likely to be matched in 2005.



Chengdu is the jumping off point for Sichuan's many scenic parks. Pictured is Jiuzhaigou

## China's Heartland

Sichuan lies astride the Yangtze River, with Chongqing (Chunking) on the east and Tibet on the west. The province forms a giant bowl valley in the center of China with mountains on both sides, surrounding the Yangtze River. To the east, the famous Three Gorges formed where the Yangtze cuts its way through the mountains. The climate varies widely. The central part of the province, where most of the population lives, is a humid and rainy valley, with warm summers and winters that are cool but not cold. The mountains on the west connect to the Himalayas. Sichuan is an important producer of rice and rapeseed, but is known primarily as China's largest pork producer. It is also a major tourism destination, embracing many of China's most famous natural parks, including the world famous Woolong Panda Preserve and Jiuzhaigou natural park. Sichuan and Chengdu loom large in China's history, and several sites in or near Chengdu have been granted World Heritage Site status by UNESCO. Bordering on both Tibet and Yunnan, Sichuan is also home to a large number of China's ethnic minorities.



Chengdu, the capital of Sichuan, has been the focus of most of the province's development efforts. Always a major rail hub for west and southwest China, new highways and a new airport has further reinforced the city's position as the primary transportation hub for the region. Strong industrial growth is fueled by pro-business policies and incentives at the municipal, provincial and national levels that have helped to attract a threefold surge in FDI from 2000 to 2004. Over 98 Fortune 500 Companies have set up shop in Chengdu's development zones in the past few years. Industrial growth in nearby cities is also helping to

support Chengdu: nearby Mianyang is a major manufacturing center for television components, and a significant economic center in its own right. Every spring, Chengdu hosts China's largest domestic food show, Tangjiuhui (the Spirits and Candy Festival). Tangjiuhui is a gargantuan event that attracts the entire range of food manufacturers from all parts of China. ATO/Shanghai frequently participates in Tangjiuhui and is planning to attend in 2006 with a contingent of U.S. companies and cooperator groups. The city launched a new trade show, Go West, in the Spring of 2005. ATO/Shanghai led a group of U.S. cooperators and local distributors to the trade show, arranging booths, U.S. food samplings and a chef seminar with a celebrity American chef.

### A Booming Retail Market

Food retail development in Chengdu is both strong and appropriate to the size and economic strength of the city. Carrefour, Lotus, Auchon, Ito Yokado and Metro are all present, and Wal-Mart is constructing several stores. Despite this, retailers report that margins are good compared to other cities in West China, where recent expansion of retail outlets has outstripped demand. One retailer has stated that Chengdu is the only city in the region to show consistently strong growth in sales over the past several years. ATO/Shanghai's recent retail promotion with Ito Yokado confirmed the potential of this market (see GAIN report CH4831). Although per capita incomes are lower than in some coastal cities, the residents of Chengdu have a consuming interest in food, and those with the wherewithal are happy to pay a premium for higher quality. The September 2005 All-China promotion with Carrefour confirmed Chengdu's strength in retail, with sales of U.S. products in Chengdu performing on par with more accessible coastal cities such as Qingdao. While foreign-invested companies are a major factor in hypermarket retail, Chinese-owned chains dominate the supermarket and convenience store sectors. Convenience stores, in particular, have developed much more rapidly than in other interior cities, and are overwhelmingly dominated by a local Chengdu chain called Hongqi (Red Flag). China's supermarket giant Lianhua has also established a presence.

### A Burning Hunger

Chengdu is ground zero for China's famously spicy Sichuan cuisine, recognized worldwide as one of the four major styles of Chinese cooking (the others being Hunan, Cantonese, and Yangzhou). Reflecting both local residents' obsession with food and Chengdu's role as a major tourism center, the restaurant industry is well developed, but lacks knowledge about imported products and cooking methods. The Chengdu Cuisine Association has noted that not only are restaurant chefs and owners unfamiliar with

Chengdu At a Glance (2004)	
Chengdu	
Population	10.6 million (Chengdu) 87.3 million (Sichuan)
GDP	\$26.4 billion (Chengdu) \$79.2 billion (Sichuan)
GDP growth rate	13.6% (Chengdu) 12.7% (Sichuan)
GDP/Capita	\$2,490 (Chengdu) \$907 (Sichuan)
Major Industries	Machinery and tools, chemicals, metallurgy, aircraft, instruments
Key Agricultural Products	Pork, rice, rapeseed, peanuts, sesame seed
Major Food Retailers	Ito Yokado, Carrefour, Metro, Lotus, Auchon, Wal-Mart (under construction), Lianhua (supermarkets), Hongqi (convenience stores)

imported products, but the distributors themselves have little knowledge about correct handling and preparation. Although ATO/Shanghai's market development activities have included training for distributors, there is still a great deal of work to be done.

## Dedicated to Food

The Chengdu Cuisine Association (CCA) is unique in China, being an entirely private, for-profit organization run by a successful local restaurateur. By contrast, ex-government officials run most industry organizations in China. The Association has been extremely aggressive in popularizing Sichuan-style food and sees the incorporation of imported ingredients into Sichuan cuisine as an effective way of standardizing and popularizing the style outside of Sichuan. Their efforts have been recognized by the Chinese government, which has awarded this association a national prize for its unique market-driven approach. The city is in the process of setting up a food ingredient development zone for food processing firms, many of which are owned by national hotels and restaurants. This unique development effort is a progressive step to further their goal of standardizing and popularizing Sichuan cuisine in China and internationally. In September 2004 ATO/Shanghai worked with the CCA in a market development exercise that successfully introduced a wide range of U.S. products to Chengdu's restaurants. (This was part of a larger program that included chef training, product table-top shows, a chef competition, a baking competition and demonstration and retail and menu promotions, all profiled in GAIN report CH4831). Surprisingly, in the heartland of China's pork production area, the hit of the restaurant activity was boneless pork butt, which sold out several times, underscoring the point that Chengdu's restaurant owners and customers are sensitive to product quality and willing to pay for that quality when they understand the product.



Massive crowds bear testament to the size and popularity of the Tangjiuhui food trade show, hosted every spring in Chengdu.

## Bright Prospects

As a market for imported products, Chengdu is still small relative to both its population and income, but is certain to grow quickly. The market is largely undeveloped for imported foods, and competition comes almost entirely from local products. Due to the lack of imported and foreign foods, early arrivals in this market are likely to have a disproportionate impact on local residents' ideas about foreign foods. ATO/Shanghai's recent success in developing the market for U.S. pork in Chengdu made clear that even where locally-produced substitutes are easily available at low prices, local residents tend to view imports as a separate category of product, making the competition less direct than might otherwise be expected. Apart from ready-to-eat processed foods, taste is not a major barrier, as Sichuanese appear more than happy to adapt and incorporate new products into their own cuisine. A more serious concern is the impact of counterfeits, i.e. domestic products masquerading as imports. The extremely high prevalence of counterfeits has made consumers suspicious of the authenticity of any product claiming to be imported. During ATO's activity at Ito Yokado, the presence of guest chef Eric Perez, triggered much larger than expected sales as it gave consumers confidence that the products were genuine imports.

## Obstacles: Distribution Links Are Weak

The primary obstacle to food imports in Chengdu and most other interior markets is the lack of distribution channels. ATO/Shanghai's initial research into this market discovered that sensitive products such as meat and seafood were being imported into Shanghai, then re-

sold several times on their way to Chengdu, changing ownership as many as four or five times before reaching retailers and restaurants. As a result, prices were substantially higher and quality often deteriorated by the time products reached consumers. As with most other parts of China, retailers appear uninterested in importing directly, preferring instead to buy from a local distributor—only the largest chain restaurants source directly from Shanghai or Guangzhou. During recent market development activities with retailers and restaurants, ATO and participating USDA cooperators were able to introduce Shanghai-based importers and distributors to their counterparts in Chengdu, and reduce the number of times product changed hands. Nonetheless, distribution remains an enormous problem. As a case-in-point, there is still only one reliable distributor in Chengdu for imported frozen meat, seafood and quite a few other imported products. Experience also indicates that individual retailer stores are hesitant to source directly. Local distributors serve an important risk-mitigation function for many retailers, through contracts that, for example, allow stores to return unsold product at no expense to the retailer. Further market development efforts are clearly needed, and ATO/Shanghai will continue its efforts in Chengdu.

The key transportation challenge for Chengdu is that goods shipped in our out generally must pass through Chongqing, Luzhou or Leshan. Although roads and rail within the province are excellent, those connecting Sichuan with neighboring provinces are still not on par with the east coast. The government has been investing in the airport and a second runway in order to increase daily flights (including cargo) to and from destinations throughout China and weekly flights to destinations in East Asia. However, once the transportation challenges are mastered, Chengdu can serve as an excellent entry point into more far-flung markets to the west.

### Target Market

As noted elsewhere, ATO/Shanghai has made the development of markets in Chengdu a priority. To this end, in September 2004 ATO launched a major market development exercise with retailers and restaurants in Chengdu, designed to establish and streamline distribution channels for US products, while introducing new food products to consumers and chefs. Chengdu Carrefour participated in the ATO China nation-wide American Fruit Promotion in July 2005, followed by the grocery promotion American Food Festival in September 2005. ATO has also participated for several years in the Tangjiuhui trade show. These activities and ATO's interviews with distributors, retailers, restaurant owners and media indicate good potential for a variety of products.

Chengdu: Best Product Prospects		
Product	Market	Notes
Dried fruit and nuts	Retail and Restaurant	Already present in the market. Nuts sell best in-shell. Retail sales are particularly strong. Main competition appears to be Iranian pistachios and Xinjiang (West China) sweet almonds and raisins. Hawaiian macadamias are present, albeit on an irregular basis.
Beef short plate	Retail and Restaurant	Imports of US beef have been suspended, but retail contacts indicate this was one of their top-selling products prior to the ban. Popular in super-spicy Sichuan hot pot, which is common in both restaurants and at home.
Boneless pork butt	Restaurant	This new-to-market product sold out several times during one of ATO's market development activities. Distribution, however, is a major obstacle.
Table grapes	Retail	U.S. red grapes have proven popular. However, logistics for fresh fruit is a major obstacle, dampening their sales and marketability. Black table grapes were very

		successful at the 2005 American Food Promotion in Carrefour.
Apples	Retail	Popular primarily as a prestige or gift item.
Scallops/shellfish	Restaurant	Popular but expensive in this seafood-starved inland area. Distribution is a major obstacle, and consumers and restaurants both require education in proper cooking methods. Competitor products (New Zealand, Korea, Canada) are available, but only infrequently and in small quantities. U.S. crab has sold well when available.
Poultry	Retail and Restaurant	Only recently returned to the Chinese market, the most popular items are offals such as wingtips and feet. Local distributors are frequently unaware of the availability or non-availability of imported poultry. U.S. frozen chicken wings sometimes appear on retail shelves.
Potato products	Food service	Widely used in U.S.-style fast food restaurants and hotels, there is still room for expansion. Distribution is a significant problem, and product is not as readily available as on the coast.
Salmon	Restaurant and Retail	Still a relatively new product in this market. Norwegian salmon is also present, on a seasonal basis. Popular, but consumer education is needed, and salmon faces the same distribution and logistics problems as other meat and seafood.
Condiments/ Seasonings	Restaurant	Heinz products are already present in the market, mostly being supplied to hotel restaurants.
Fresh vegetables	Restaurant	At least one distributor is supplying imported fresh vegetables, albeit on an infrequent basis. Logistics is a major obstacle, and loss due to spoilage is extremely high.
Frozen vegetables	Restaurant and Retail	Frozen sweet corn and frozen mixed peas/carrots/corn are as popular here as they are elsewhere in China.
Dairy (cheese and butter)	Retail and Restaurant	Local retailers believe there is substantial demand for these products, though competition from Australia is strong and logistics are a problem.
Wine	Retail and Restaurant	Retailers indicate strong potential, but note that wines over \$12 per bottle can only sell as high-end gifts. Wine was a top selling item at the 2005 American Food Promotion in Carrefour.
Popcorn	Retail	Has done well at the hypermarket level.
Breakfast cereal	Retail	Surprisingly, another top selling item at the 2005 American Food Promotion in Carrefour.

### Contact Information

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

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