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City Profile: Harbin, North China Emerging Market

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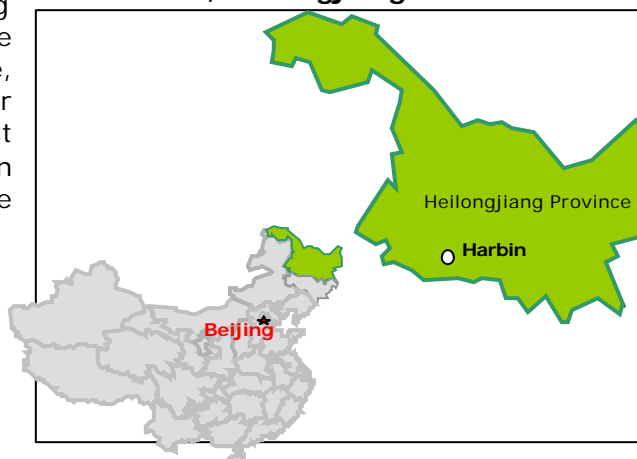
Report Highlights: Known as China's Winter Wonderland, Harbin has quickly emerged as a major regional market for Northeast China, and beyond. The Northeast has gone through a series of dramatic changes, yet renewed and government-led initiatives have revitalized the economy of Harbin, and surrounding Heilongjiang Province. Traditionally cosmopolitan and commercially oriented, Harbin is the major trade, transportation, and communication hub for North China with a wealth of natural resources, bountiful supply of skilled labor and excellent positioning on the Chinese-Russian Far East border right next to Korean and Japan. Harbin offers considerable market opportunities for U.S. food, and agricultural products.

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Winter Wonderland, "City of Ice"

Located in southern Heilongjiang Province along the banks of the Songhua River, on the Songnen Plain, Harbin is the major trade, transportation, and communications hub for Northeast China. At the vortex of the two most important railroads in Northeast China, Harbin is also the main freshwater port for the Songhua River. Harbin is China's premier ski and winter holiday destination. Also, it is increasingly a popular summer travel destination for urban travelers from the South seeking cooler climates, and fresher air.

Harbin, Heilongjiang Province



Harbin's strategic geographic positioning, well developed transportation systems, wealth of natural resources, large talent pool, somewhat progressive government, and blue skies all combine to make the city a highly attractive place to do business. China's Central Government initiative known as 'Revitalize the Northeast', has resulted in significant changes and development over the past two to three years. Middle class consumers are on the rise along with an explosion in retail, HRI and entertainment venues. Perhaps Anheuser-Busch International, CEO & President, Steve Burrows sums it up best, "Harbin is the commercial center for Northeast China and an important commercial hub for all of northern Asia."

Harbin, "Revitalized Economy"

Heilongjiang or 'Black Dragon River' Province derives its name from the rich black topsoil of the area. In spite of its northern latitude and very frigid winters, Heilongjiang is referred to as China's 'Bread Basket.' Historically, the region was the primary source of grain, timber, oil and coal. Heilongjiang and Harbin were at the center of China's State-planned mining, steel production, and heavy engineering industrial period, but as China's market economy evolved, these State-operated industries declined along with Harbin's economic fortunes.

Harbin At a Glance	
Population	9.6 Million
GDP	\$17.15 billion (2004)
GDP Growth Rate	17% (2003/04)
GDP/Capita	\$2,000
Major Industries	Chemical, pharmaceutical, power generation equipment manufacturing, aeronautical, metallurgical, mechanical, electrical and food processing.
Key Agricultural Products	Oilseeds (soy, rape), grains (corn, sorghum), potatoes, forestry products, caviar, etc.

Harbin has gone through a series of dramatic changes and renewed development over the past few years thanks to a Central Government-led initiative known as 'Revitalize the Northeast.' A US \$1.8 billion Harbin-Daqing-Qiqihar (HDQ) industrial corridor development initiative is currently under way, and is expected to continue over the next 15 years. Pearl River and Yangtze River Delta development successes indicate just how important regional co-operation can be to development. Northeast China's economic integration is enabling the rapid development of its three provinces: Jilin, Liaoning, and Heilongjiang. Co-operation, resource sharing as well as information and planning remain key to HDQ Initiative success. Located at the geographic center of the region, Harbin is benefiting as neighboring Korean and Japan continue a shift from manufacturing to high-tech industries. Heilongjiang's geographic location on China's border with the Russian Far East, its wealth of natural resources, and bountiful supply of skilled labor all reinforce the Northeast's revitalization.

Investment Developments In 2004, Anheuser-Busch purchased China's 4th largest beer brand 'Harbin Brewery', demonstrating both confidence in the China market but more importantly Northeast China's market potential. Other developments in the region include the opening of the first processing facility in Harbin by McCain Foods Ltd last year, the world's largest frozen French fry manufacturer. Its first processing facility in Asia, the plant is servicing Chinese as well as regional markets in Korea and Japan. Also, in 2005 Chinese home appliance maker giant 'Haier' opened a regional production, and distribution center to service both the growing Northeast China, Russian Far East, and North Asia markets.

Retail Industry, "Heritage in Full Play" Harbin quickly developed into a cosmopolitan city after being declared an 'Open City' in 1917. Flooded by White Russian refugee's in the same year, the city had one of the largest European populations in East Asia. By the 1930's, Harbin boasted 16 foreign consulates, 200,000 expatriates, more than 1,000 manufacturing and financial businesses with a well established multi-modal transportation network. The contribution of thousands of Jewish refugees was largely responsible for Harbin's flourishing banking, insurance, medicine, retailing, catering businesses and world-renowned symphony orchestra of the era. Historical imprints can be found all around the city including an old Jewish Section on the city's busiest shopping street 'Central Street', several synagogues including one recently restored into a museum located in this area as well.

In 2004 Harbin's GDP ranked 17th in China at US \$17.149 billion, and for the very first time, per capita GDP broke through a US \$2,000 ceiling. Today, similar to many Chinese cities, as the economy and consumers mature, traditional wet markets are disappearing only to be replaced with modern retail formats. However, unlike many other cities, Northeasterner's prefer to buy bulk once every week or two rather than shopping daily. A flurry of retail madness swept Harbin in 2005 with many new stores forced to close or sell out by year's end. Key retail players include Carrefour, Metro, Wal-Mart, Lianhua, and others expanding into the Harbin market. Local supermarkets, convenience stores and other retail formats have a complex ownership structure, making them likely candidates for future consolidation.

Real estate development is booming with new modern communities springing up complete with mid-high income consumers seeking higher quality, consistency, improved sanitation, and convenience. Most new stores are located in mall settings that include restaurants, theatres, fashion and sporting goods stores, and other specialty shops. The new retail formats have extensive dry and frozen products along with a large offering of domestic and imported fresh fruit, seafood, etc. Thanks to the climate and tradition, the city is also the hands down fur fashion capital and de facto trading center for China's growing up-market fur fashion trade. Of the top 9 fur wholesale and retail operations in China, 5 are located in Harbin with combined annual sales of 15,000 garments at prices averaging in excess of US \$5,000. China is now the US's largest farmed mink market on a volume and value basis.

Harbin Retail Outlets at a Glance			
Type	Name	Ownership	Outlets
Hypermarkets	Carrefour	French JV	3
	Wal-mart	U.S.	3
	Metro	German JV	1
	R-T Mart	Taiwan	1
Supermarkets	Hualian	State-owned	2
	Lianhua	State-owned	4
	Harbin No.1 Store	Local	1
	Zhong Yang Hong	Local	1
	Trust mart	Taiwan JV	2
Convenience Stores*	Yan Da Tian Mai	Private-owned	70

Source: ATO Beijing

* Convenience stores in Harbin have limited hours of operation compared to similar formats in other parts of China. However, store formats and product offerings are similar. Winter weather, and cold temperatures drive the Northeast China market.

On the last day of 2005, Dashang, a regional retail chain based in the port city of Dalian, announced its merger with the Harbin No. 1 Department Store, one of largest department stores in China. Dashang currently operates 120 stores in 26 cities in Northeast and North China. The new venture preserves the name of the Harbin No. 1 Department Store, and creates on its original site, a large retail shopping-pedestrian mall in Harbin's fashionable Daoli District. The merger should expand and strengthen Harbin's growing retail sector.

Consumer's View toward Imported Products:

- Price is still a major concern, particularly in Northeast China
- Market promotion is very important, with money and effort required to educate consumers (product availability, how to use products, nutritional benefits, etc.)
- Compared to other Dongbei (Northeast) cities, Harbin consumers are often more willing to try and accept new concepts and products
- The 'Holiday-Tourist' economy is 'hot' like a number of other cities in China. January-February is a peak retail-HRI sales season due to 'Ice Festival', Spring Festival, etc.

Currently, the volume and diversity of imported products available in local retail formats is limited, yet increasing considerably in recent years. For example, Yuanda Tiantian Supermarket expanded its imported food offerings (many from the US) from one shelf to an entire section last year. Harbiners are very quality oriented, increasingly health conscious, and willing to pay a slight premium for the high quality or healthy food products.

Harbin's Tourism/Exhibition Economy Triggering HRI Sector Rise Harbin is an ethnic melting pot given its history as home of two Chinese dynasties - Jin (1115-1234) and Qing (1644-1911). Chinese nationalities include Han, Manchu, Korean, Mongolian and six other ethnic minorities. Saint Sophia, a Russian Orthodox Church completed in 1932 is still one of the city's leading landmarks and tourist attractions. As a result of moderate summer and fall temperatures, during China's National Day (Golden) Week, nearly 800,000 tourists visited Harbin. Yet, Harbin is probably best known for its 'Ice and Snow' Festival, first held in 1985, that has evolved into an international event. Large ice sculptures, often 2-3 stories high with colorful electric lights



frozen inside the structures has made the annual festival a major international tourist and trade event. The operators of the Yabuli Ski Resort, one of the best winter sports facilities in China, are promoting Harbin as a possible potential site for the 2014 Winter Olympic Games.

As Harbin's traditional heavy industries restructure, tourism has become a key economic driver for Harbin and Heilongjiang. The City has plans to develop an ecological friendly 'Garden City' given Heilongjiang's status as one of six pilot provinces. And, the annual International China Harbin Trade and Economic Cooperation Fair (Harbin Trade Fair) is second only to the Canton Trade Fair in China. Held each June, the 16th Harbin Fair in 2005 had more than 12,000 trade visitors from over 80 countries. While not specific to the food trade, it's a possible venue for US food trade exporters and commodity organizations wishing to showcase products in Northeast China. Harbin's privileged status as a regional Chinese-Russian trade hub makes it doubly important to domestic and international traders.



While the city's tourism and exhibition sectors are booming, Harbin continues to suffer from a lack of high-end lodging-accommodations. Currently, only 3 5-star, 9 4-star and 18 3-star hotels are operating with only the Shangri-la, Singapore, and Good Fortune Hotels having International management. However, we understand several overseas operators are seriously looking at the Northeast market, Harbin and Dalian in particular.

Based on interviews and staff outreach experiences, post has a first-hand appreciation for Harbin's well-deserved reputation as a drinking and meat eating culture. Food consumption patterns there often resemble more those of westerners than countrymen in southern China. Historically the city's restaurants included Russian, Greek, German, French and British cuisine. As incomes and the standard of living continue to rise, Harbiners are returning to their cosmopolitan roots. A recent survey found 60% of Harbiners frequent restaurants every week, probably as a result of Northeastern social habits. Harbin's restaurant sector alone accounts for nearly US \$500 million with per capita restaurant consumption around US \$100 annually in more than 10,000 restaurants. The absolute size of Harbin's high end HRI market (defined as US \$8 and above per capita), is about 5% that of Beijing. However, portions sizes are large and about 3,000 restaurants have seating capacity above 1,000.

Chinese and Western Kitchen cuisines are flourishing as increasing numbers of domestic and foreign travelers inject and demand greater diversity into the local food scene. Harbin 'red' sausage originally brought by Russian refugees is a staple of Harbiners' 'hearty' winter diet. Pizza Hut, KFC and McDonald's compose the large legion of 50-80 Western Fast Food (Quick Service) Restaurants that enjoy a brisk business. KFC's estimated Harbin revenues are around US \$4 million. The recent opening of a seasonal 'Ice Restaurant' made completely of ice on Sun Island in the middle of the Songhua River, continues to impress locals and tourists alike. The frosty eatery's signature dish is 'Hotpot.' The creativity of Harbin's new cadre of restaurateurs appears to know no bounds. A Chicago-based company the Harbin Business Exchange, recently announced plans to open a chain of Hollywood-themed restaurants across China and starting in Harbin.



ATO Beijing: Harbin MenuPromotion

ATO Beijing, "Market Development in Action"

As Harbin is a major emerging city market in Northeast China, ATO Beijing actively began market development outreach to the area in 2005. Two highly targeted and successful marketing activities were held there in 2005:

- The "Russia River Garden Menu Promotion" in two mid-to-high end Chinese Kitchen restaurants, with about 40 dishes developed to feature Alaska Seafood, U.S. Pork, California Almonds, U.S. Poultry and U.S. Potatoes. The 10-day event generated great trade and consumer interest, and excellent sales
- ATO Beijing and USMEF co-sponsored chef training for 50 Chinese chefs at the Xiang E Qin Restaurant in the Russian River Garden District area. The training focused on how US pork and other product use in the Chinese Kitchen. Post also arranged for Harbin traders to participate in Beijing activities in 2005: FHC Beijing, WGA Visit, etc.
- Beijing also worked with NASDA to recruit key players from Harbin for participation in both the FMI and NRA Exhibitions sponsored by USDA in Chicago each May.

The success and high level of interest in these and other activities carried out by cooperator groups demonstrates the willingness of people in North East China to try new things and more importantly, try American food products prepared in the Chinese style. More recently, post ATO Menu promo, sales agents for California Almonds and US French fries have appeared in Harbin. Known for its traditionally high per capita consumption of tree nuts, post understands CA Almonds now account for a 30% share of the local HRI almond market.

Market Entry Tips

ATO Beijing interviewed several local importer, distributor and buyer contacts, and they offer the following tips for those interested in the Harbin market:

- Education: Many products fail because end-users have no idea what or how to use them - sometimes the distributor doesn't know either (i.e. Mustard, Salsa, Tortillas...)
- Increase product visibility: product demos in the Chinese Language including usage instructions, advertising support, and other marketing promotions
- Price: Like most other major emerging city markets, Harbin is still a price-sensitive market. Establishing a brand or item as 'premium quality' is a must if selling products in a highly competitive environment
- Research: Take time to survey the market, find a good distributor. Successful ventures require qualified-experienced distributors who know the local market
- Baby Steps: Take baby steps in the beginning; be prepared to offer limited quantities, or mixed containers, etc.
- Holidays: Demand for imported products is increasing, particularly during holiday seasons when U.S. food products may confer or display status
- Multiplier effect: Harbin is a regional trade hub, so think beyond just Harbin and to the Northeast as a region when considering establishing trade
- Use leads: Successes of local peers and veterans in China, and the US can be helpful
- Best potential US products: Beef, Pork, snack food, fruit (for holiday gift giving)

Contact Information and Useful Websites

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<http://www.usembassy-china.org.cn/shenyang/>

Official Harbin Website

<http://www.harbin.gov.cn/english/>

International China Harbin Fair

<http://www.00615.net/e14th/index.php>