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## China, Peoples Republic of

### Market Development Reports

### City Profile: Shenyang, An Emerging City Market

### 2006

**Approved by:**

LaVerne E. Brabant  
U.S. Embassy, Beijing

**Prepared by:**

Yang Mei, Michael Jewison, Christina Greene

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**Report Highlights:** A traditional industrial and transportation center, Shenyang is steaming ahead to become the manufacturing and commercial hub for Northeast China. A key element in the Government's Northeast revitalization in preparation for the 2008 Olympics, Shenyang is drawing high levels of foreign direct investment. Along with its six satellite cities, greater Shenyang offers a booming market with great potential business opportunities for U.S. agricultural product suppliers. Like many Chinese emerging city markets, consumer price sensitivity is one of the largest obstacles for American producers. Extensive market research and development are core drivers of success in thriving Shenyang.

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**Shenyang, "Industrial Center of North China" ..... 3**  
**The "Oriental Ruhr" ..... 3**  
**Shenyang's Development Zones ..... 4**  
**Exhibition and Tourism Pushing HRI Sector Growth ..... 4**  
**Consumer Preferences..... 6**  
**U.S. Marketing Activities in Shenyang ..... 6**  
**Market Entry Tips ..... 6**  
**Contact Information and Useful Websites ..... 7**

### Shenyang, “Industrial Center of North China”

The high growth rates of Emerging City Markets across China offer many new opportunities for investors seeking options beyond the saturated markets of Shanghai and Beijing. In Northern China, the city of Shenyang is enjoying an economic revival and is rapidly becoming a new industrial powerhouse. The capital of Liaoning Province, Shenyang is located 485 miles northeast of Beijing. It is the only other city in China besides Beijing that features a historic Imperial Palace. Although smaller than the Forbidden City, the Shenyang Imperial Palace is unique in its Manchu-style architecture. The city is becoming a very popular travel destination, with many tourists coming to enjoy the cooler summer weather.



Shenyang At a Glance	
Population	7.4 Million (2005)
GDP	\$20 Billion
GDP Growth Rate	15.5%
GDP/Capita	\$2,703
Major Industries	Heavy Industry, Automobiles, Manufacturing, Petrochemicals, Pharmaceuticals
Key Agricultural Products	Corn, Rice, Wheat, Soybeans, Apples, Oil Seeds, Cotton, Sugar

The Chinese Government has been actively investing in Shenyang’s industry and infrastructure. Overseas capital has also been pouring in to take advantage of the tremendous growth potential of the city. Over the past few years, large multinational corporations such as General Electric, BMW, Cargill, Bridgestone, Michelin and Mitsubishi have moved into Shenyang. Presently, there are 26 large foreign ventures operating in Shenyang.

### The “Oriental Ruhr”

Capital investment from both the central government and overseas has generated a great potential for growth in Shenyang. Shenyang has been labeled the “Oriental Ruhr,” and is regarded as an ideal site for industrial operations.

The city serves as a logistical center for all of the surrounding industries in the province. Every major industry is represented within 100 km of Shenyang. These industrial cities include: Tieling, a major producer of coal and grain; Anshan, a major steel center; Benxi, a city of coal and iron; Liaoyang, a city of chemical fabrics; Panjing, a petrochemical hub; and Yinkou, a major port city. Including these satellite cities, the population of greater Shenyang jumps to 21 million. Shenyang is also the largest railway hub in Northeast China, boasting the highest railway network density in the country. Its road and railway network connects all the major cities in

### Shenyang, Liaoning Province



Liaoning, and also includes major international routes to Korea, Mongolia, and Russia. In addition, local authorities are planning to build an expressway linking five major port cities to Shenyang to aid in the transportation and distribution of goods.

The municipal government is pursuing a very aggressive development plan and hopes to expand the city 11 fold in the next 5 years. A series of policies aimed at increasing foreign investment in Shenyang is currently being implemented. Local authorities will grant subsidies of \$62,500 to multinational companies for locating their regional head offices in Shenyang. A subsidy of \$125,000 will be given to companies that establish their head China office in the city while \$12,500 will be extended to those who set up branches or representative offices. Investors who construct factory buildings with a total area greater than 1 million square meters will be exempted from factory rent for the first year. The second year of rent will receive a 50% discount.

To provide funding for planned future expansion projects, the Liaoning provincial government is establishing the Northeast Revitalization Bank, modeled after the Shenyang City Commercial Bank. The bank will provide financial support for the revitalization of northeastern China, and will assist in financing and upgrading regional financial resources. This is not the first time the Chinese government has picked out potential regions for growth. In the 1980s the government set up a similar bank in Shenzhen, and in 1992 also established a Development Bank to push growth in Shanghai.

### **Shenyang's Development Zones**

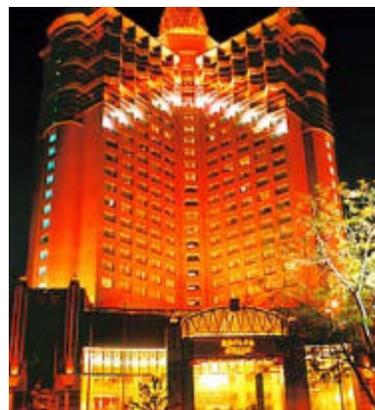
Shenyang currently has four development zones, each aimed at increasing foreign investment and giving preferential treatment to specific industries. The Finance and Trade development zone was established in 1992 with the aim of making Shenyang the regional trade and finance center of northeast China. Total foreign capital has been marked at \$200 million. The Tiexi New Area, also called the Tiexi Industrial Belt, was started in 2002 and is home to over 60% of the industrial output in Shenyang. Forty-three multinational companies have set up businesses in this zone, of which nineteen are Fortune 500 companies. The third zone is the Hunnan New District. Founded in 2001, it is the home to advanced manufacturing, bio-pharmaceuticals and electronic industries. Export volume from this area reached \$500 million in 2004, and accounted for 37% of Shenyang's total exports.

The fourth zone is the Shenyang Agricultural Zone, established in 2001 with the help of the Communist Party of Shenyang and the Shenyang Municipal Government. Located in the suburbs east of the downtown area, natural resources available in the zone include a cultivated land area of 35,200 mu, forest of 19,500 mu, wetland of 3,200 mu, and orchards of 2,400 mu. With good water, soil, and air quality, the Agricultural Zone is an ideal location for developing environmentally friendly cyclical agriculture. The local government has prioritized development in the agricultural zone and offers preferential policies and credit programs for investors. This zone is being developed as a center for Chinese and international high-tech agriculture with the goal of creating an agricultural Silicon Valley. It is hoped that Shenyang will become a center for creating and industrializing new high-tech agricultural products and processes.

### **Exhibition and Tourism Pushing HRI Sector Growth**

The exhibition and tourism industry continues to fuel the growth of Shenyang's HRI sector. Currently there are 117 star-rated hotels in Shenyang. Major international five star hotels are moving in to take advantage of the growing HRI sector. Hotel chains such as the Inter-Continental, Marriott, Sheraton, and Kempinski have opened facilities. In addition, there are 16 four star-hotels and 37 three-star hotels.

There is an extensive variety of cuisines available in Shenyang. Ten percent of the restaurants in the area are international, including Japanese, Korean, Muslim, and Western style restaurants. With its close proximity to Korea, Shenyang is famous for its Korean Barbeque. Many of the Korean restaurants located in Shenyang are as cheap as conventional lower-end Chinese restaurants. However, the better restaurants in terms of food service and consistency tend to be found in hotels. The Lin De Court Restaurant, located in the four-star Inter-Continental, offers Cantonese favorites such as shark's fin, bird's nest, and a host of seafood options. Mikado's, a Japanese restaurant located inside the five-star Marriott, delivers fine Japanese cuisine.



Shenyang is home to over 22,000 restaurants, most of which are Chinese. International chains such as McDonalds, KFC, and Pizza Hut have established a large number of local restaurants. In 2005, food service consumption was greater than \$1.5 billion, and is expected to grow to at least \$1.7 billion in 2006. Much of this growth can be attributed to the China Horticultural Exposition, which is being held in the city in 2006. The Expo, which will run through September, is expected to draw 10 million visitors.

Shenyang Retail Outlets			
Type	Name	Ownership	Outlets
Hypermarkets	Carrefour	French JV	4
	Wal-mart	U.S.	2
	Metro	Germany	1
Shopping Centers	HY-Mall	Taiwan	4
	Zhong Xing	Local	2
	Da Shang/Xin Mate	Local	1
Convenience Stores	Civic Moon	Private-owned	30
	MeiZhiGou	Private-owned	263
	CoCo's	Private-owned	40

In 2005, Shenyang registered 23 new chain stores and more than 382 new outlets. This increased the total number of chains to 338 and the total number of outlets to more than 4,200. Chain stores and franchises continue to make great strides in Shenyang. As operations of many of these stores have matured, franchises are gaining popularity in Shenyang, particularly in the HRI sector. The growth of chain stores can particularly be seen in the MeiZhiGou Convenience Store chain, which increased its number of stores to 263 in 2005.

Franchise tradeshow also continue to achieve great results. This June, Shenyang hosted the 3<sup>rd</sup> Annual

Northeast China Chain Store and Franchise Exhibition. The event drew participation from franchises in 16 cities from around China, and included more than 68 enterprises.

At the end of 2005 there were approximately 87 large-scale general and sector specific supermarkets with commercial space above 5000m<sup>2</sup>. Among these retailers, 56 have over 10,000 m<sup>2</sup>. Consumer buying power also grew in 2005 by 12.1% at \$1,100. Additionally, per capita consumption is about \$900, a 7.8% increase over last year.

The food processing industry in Shenyang has yet to reach its full potential. Many of the food products sold in stores and wet markets are from Southern China.

## Consumer Preferences

Entry into Shenyang's market requires familiarity with the tastes and preferences of the city's consumers. According to one Shenyang trader, residents remain loyal to local cuisine, which compared to the rest of China, is heavy in meat and starch. When adventuring into foreign cuisine, Shenyang residents are often attracted to products that are prestigious and have a reputation for higher food safety standards. As many chefs and consumers are unfamiliar with Western food products and preparation techniques, marketing and training is critical for the introduction of American products. Successful past promotions have involved creation of menus and recipes that adapt Western products to the Northern Chinese palate.

Interviews with local traders, cooperators and retailers reveal that considerable interest in U.S. products exists. Accompanied by proper marketing, there are many opportunities for products such as California Wine, U.S. beef, boxed cereals, and canned fruits and vegetables.

It is important to note that Chinese consumers are very price sensitive and domestic substitutes for many imported products are available at substantially lower prices. However, with proper promotion of a product's premium quality or safety benefits, the all-important consumer price sensitivity on the part of consumers can be sacrificed.

## U.S. Marketing Activities in Shenyang

The most active promoters of U.S. agricultural products in Shenyang have been American Legend (AL), the National Association of State Department's of Agriculture (NASDA) and the U.S. Meat Export Federation (USMEF). For the last five years, NASDA has organized annual international buyer missions to visit the NRA and FMI shows, and at the same time has built up a good network of HRI contacts. Many of these HRI businesses have experienced tremendous growth; one local restaurant chain added six new outlets in the last five years with annual turnover per branch exceeding \$1 million. Trade interest in U.S. shows continues to grow.



American Legend, a mink farmer cooperative, has also had great success in the Shenyang market thanks to the region's cooler climate and uncompromising consumer standard for fashion aesthetics. USMEF, despite a modest local presence in Shenyang, has successfully promoted U.S. pork and beef products in both Shenyang and surrounding cities. Events such as a May 2006 chef promotion targeting local Japanese/Korean restaurants proved extremely successful. Feedback provided by these three organizations and others reinforce Shenyang as a pivotal Emerging Market City in Northeast China.

## Market Entry Tips

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

- **Consumer Awareness:** Many products fail because distributors and consumers are unfamiliar with the products. Often many products are not labeled in Chinese and chefs lack proper training on handling American products. This is especially true for condiments and sauces, but also applies to items such as pork.

- **Product Knowledge:** In-store product demos and marketing promotions in Chinese can be very successful advertising support. Promotions that focus on adapting U.S. food ingredients to Chinese cuisine are well received. One retailer shared that a popular promotion centered on matching Western wines with Chinese dishes.
- **Price:** Shenyang is still a price-sensitive market and imported items must compete with low priced domestic products. Generally consumers lack brand loyalty. Establishing a brand or item as 'premium quality' is a must if selling products in a highly competitive environment. Western products are often appreciated for meeting stringent safety standards.
- **Research:** Take time to survey the market and find a good distributor. Successful ventures require qualified and experienced distributors who know the local market.
- **Baby Steps:** Take baby steps in the beginning; be prepared to offer limited quantities, 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:** Shenyang is the center of Liaoning Province, so think beyond Shenyang and in to Liaoning 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, Boxed Cereals, Processed Foods, and Wine**

#### **Contact Information and Useful Websites**

##### **Agricultural Trade Office, Beijing American Embassy in China**

Phone: 86-10-8529-6418

Fax: 86-10-8529-6692

E-mail: [ATOBeijing@usda.gov](mailto:ATOBeijing@usda.gov)

Website: [www.USDAChina.org](http://www.USDAChina.org)

##### **U.S. Consulate in Shenyang**

Phone: 86-24-2322-0848

Fax: 86-24-2322-2374

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

##### **Official Shenyang Website**

<http://www.shenyang.gov.cn/zgsy-e/index.htm>

##### **Horticultural Expo 2006 Shenyang**

<http://www.expo2006sy.gov.cn/index-eg.htm>