



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.08

Voluntary Report - public distribution

**Date:** 8/15/2006

**GAIN Report Number:** CH6414

## China, Peoples Republic of

### Market Development Reports

### Qingdao

### 2006

**Approved by:**

LaVerne E. Brabant  
U.S. Embassy, Beijing

**Prepared by:**

Li Xueqing, Michael Jewison, Caleb O'Kray

---

**Report Highlights:** The strong and vibrant Qingdao economy continues to drive a number of food and agricultural product markets, that should result in potentially significant growth over the next decade. As local incomes expand, the mix of products is becoming more diverse, especially in the High Value Product categories. Local and central government efforts to develop Qingdao's economy, the co-hosting of the 2008 Olympics, and the ever-rising quality of life is providing excellent market opportunities for many food and agricultural products. Increased direct imports to the Port of Qingdao, an improved distribution system, rapidly expanding middle-class, and increasing demand for high quality foods will all continue to make Qingdao a market U.S. food and agricultural product exporters cannot ignore.

---

Includes PSD Changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Beijing [CH1]  
[CH]

**Table of Contents**

**Qingdao, an Emerging City Market (ECM) ..... 3**  
**Qingdao, a Booming Economy ..... 3**  
    Graph 1: GDP and Wages for Emerging City Markets in Northern China..... 4  
**A Transforming Retail Industry ..... 4**  
    Table 1: Qingdao Retail Outlets at a Glance ..... 5  
**Hotel Retail Institutional Sector (HRI) is on the Rise ..... 6**  
**Seafood’s the Rave ..... 7**  
**Market Entry Tips ..... 7**  
**Summary ..... 8**

### Qingdao, an Emerging City Market (ECM)

Located at the southern tip of the Shandong Peninsula, Qingdao lies directly on the Pacific Ocean. Identified as one of the fastest growing cities in China, the medium-sized city of 7 million boasts the number one ranking for quality of life in the nation.

#### Qingdao, Shandong Province Map



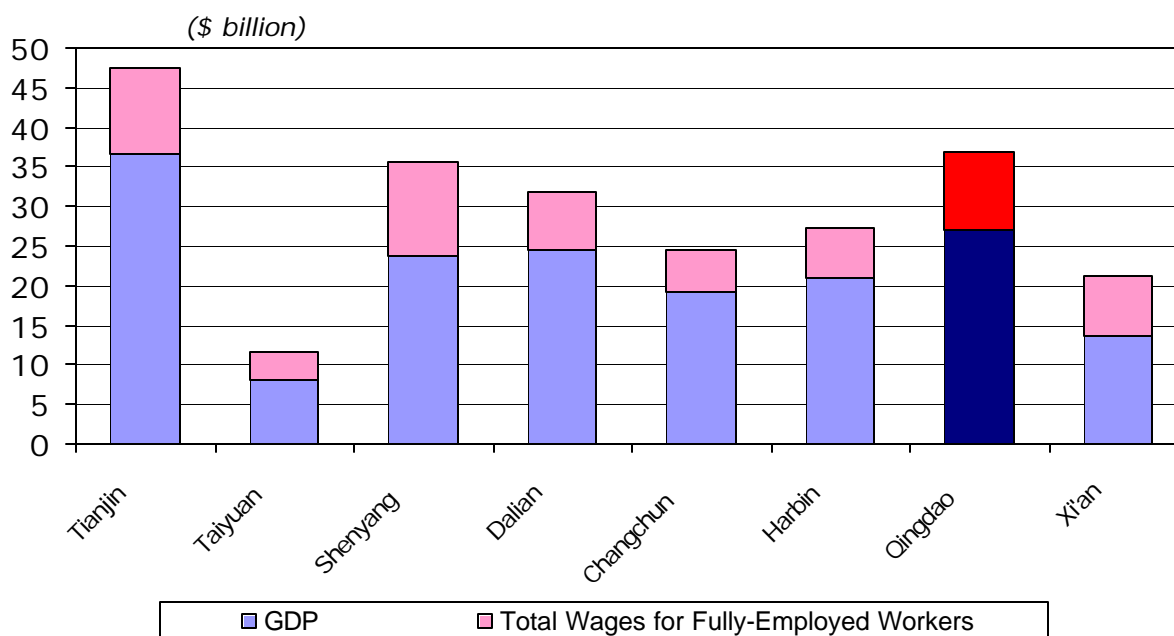
Qingdao is the industrial heart of Shandong Province, and the regions economic engine. This important Emerging City Market also ranks in the top 5 ports in China, and more importantly is the country's largest agricultural product import-export port by volume with more than 450 ports exchanges globally. Long recognized for its rich history and natural beauty, the summer resort by the sea still reflects much of the 19<sup>th</sup> Century German colonial flavor with its many European-style buildings. Also famous for the beer bearing its name, Tsingdao Beer is one of the most popular Chinese beers in the world. As co-host for the 2008 Beijing Olympics, Qingdao continues to benefit from a prolonged and ambitious urban makeover in preparation for the games.

*Source: ATO Beijing*

#### Qingdao, a Booming Economy

Qingdao continues to experience rapid economic growth, and over the past five years city GDP growth averaged about 17 percent reaching \$33 billion in 2005. Urban per capita income also increased nearly 14 percent in 2005 over 2004. With authority to administer the local economy and investments, Qingdao has played an important role in the development of not only its own economy, but also China's overall economic well-being. As a result, foreign investment in the city is estimated around \$6.0 billion and the city boasts an impressive portfolio of international firms such as Coca-Cola, AT&T, L-G, Lucent Technology, Nestle, Nike, and Mitsubishi.

Major industries in Qingdao include: textiles, railway equipment, rubber goods, fertilizer, chemicals, and food processing (not to mention beer). The Qingdao port is ranked second in China for container handling capacity, and is a major international-regional sea route. In addition, air routes and land transportation are all quite efficient, making Qingdao one of the major transportation hubs in the Yellow River Valley. Qingdao handles more agricultural trade (in and out) than any other single port in China. China customs data indicates China's agricultural, fish and forestry imports from the world via Qingdao reached \$20.87 million Jan-June 2006, with a 31.5 percent increase over 2005 for the same period. Both imports and exports of agricultural products via the Port of Qingdao are the largest among all ports in China. Qingdao imports 20 percent of all China's agricultural products from the United States. During the first six months of 2006 Qingdao imported 95 percent of China's meat, 21 percent of its fish and seafood, 14 percent of China's vegetables and 15 percent of its prepared meat and fish.

**Graph 1: GDP and Wages for Emerging City Markets in Northern China**

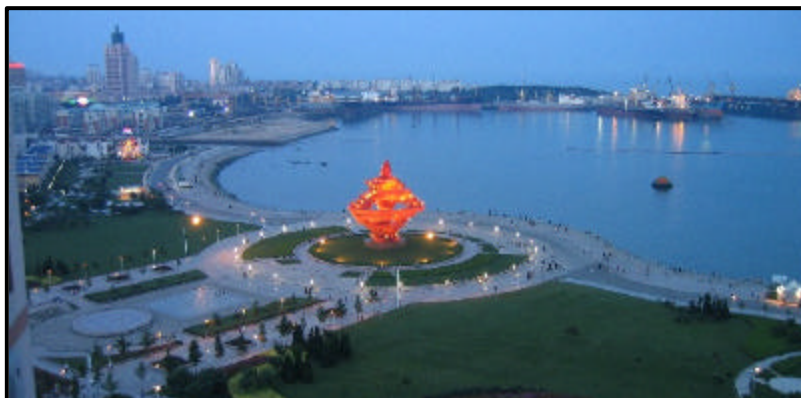
Source: China Statistical Yearbook 2005

Qingdao ranks second in GDP among the ECMs in Northern China. Increasing wages mean higher disposable incomes for high-end food products. However, there is still room for expansion. As one of the largest and most important aquatic products processing bases in China, Qingdao has made large improvements in a variety of areas including cold storage facilities and processing technologies meeting international standards. Most of the processed seafood products are for overseas markets such as South Korea and Japan but Europe is a significant market as well. In 2004, total processed seafood exports reached \$537 million, which made this category the largest among Qingdao's agricultural product exports. In recent years, Qingdao has also become an important center for poultry product processing.

A growing economy and rising incomes are driving the imported food market in Qingdao. Cultural factors influence many of the ways newly affluent *Qingdaoese* spend and consume. Consumption or purchasing of imported products as gifts provides "face" or status and is often considered fashionable as well.

### A Transforming Retail Industry

During the past few years Qingdao's food retail sector has been dramatically transformed by the rapid rise of supermarkets and hypermarkets. Like many other cities in China, modern supermarkets and hypermarkets have become destinations for the entire family. These retail formats have extensive dry and frozen goods sections, fresh and frozen meat and seafood, prepared foods, and food service counters. They also include restaurants, fashion and sporting goods outlets, and other specialty shops. ATO Beijing has organized a "Great American Food In-Store Promotion" partnering with two Carrefour stores in Qingdao. An encouraging factor is that local customers show curiosity as well as great interest in U.S. food products. U.S. food products sales increased 45 percent during the 2004 promotion period.



Views of Qingdao's Port



Carrefour-Mingda Qingdao

Table 1: Qingdao Retail Outlets at a Glance

Type of Retailer	Name of Retailer	Ownership	Number of Outlets
Hypermarkets	Carrefour	French JV	2
	Jusco	Japan JV	2
	K-Mart	U.S.	1
	Wal-mart	U.S.	1
	Metro	German JV	1
	MaiKaile	Dalian Da-shang	1
Supermarkets	RT Mart	Taiwan JV	1
	Hualian	State- owned	6
	Liqun	State-owned	10
Convenience Stores	Liqun	State-owned	20

Source: ATO Beijing

Among all retail outlets, Carrefour and Jusco are the two major players in terms of sales revenue and sheer volume of shoppers. Carrefour-Mingda Qingdao has the highest sales revenue among all the Carrefour stores in China and daily number of shoppers is near the top of the list for all Carrefour stores worldwide (See North China Retail Update Report CH6403).

Imported items are not widespread in domestic supermarkets and even less common in smaller food retail outlets. Imports have a more substantial presence in foreign supermarkets and hypermarkets, although even in these stores imports constitute no more than 4 percent of inventory. As the number of middle-class consumers expands, Qingdao

retailers tend to target the mid-to-high-end market. The Qingdao upscale Sunshine Department Store will establish its supermarkets that carry imported products only by September 2006. Most of these food imports have been supplied via coastal cities, such as Guangzhou and Shanghai. However, increasing demand for high-end food imports in Qingdao and Shandong Province has resulted in more direct imports via the Port of Qingdao. Many distributors are no longer satisfied with bringing small volumes of imported items from the South; instead, they choose to import products directly to supply Qingdao and other Shandong cities. These importers enjoy the benefits of reduced cost, improved product delivery times and higher profit margins. "It will be much easier for me to import fruit directly via Qingdao", said one trader who distributes U.S. fruit to Carrefour, Jusco and RT Mart. This trader finally decided to import directly as a result of participation in an ATO Beijing organized Trader/Buyer Mission to the Produce Marketing Association (PMA).

In 2005 sales of the top 10 Qingdao retailers experienced growth of near 40 percent. According to one local trader in Qingdao, "in addition to supplying big retailers such as Jusco and Carrefour, I decided to open my own imported food store in 2006 due to the expanding numbers of expatriates and the rising incomes of local consumers in Qingdao." This trader was part of an ATO Beijing sponsored Buyer Mission to FMI in 2005, and has imported nearly \$5 million in food products from the U.S. In March 2005, ATO Beijing partnered with Qingdao Jusco to organize an American In-Store Food Promotion soon after Jusco's completion of a new 30,000 square meter store space expansion. Nearly 350 U.S. food and beverage items including U.S. Pork, Alaska Seafood, Washington Apples, Sunkist Citrus and processed products, including salsa, were featured during the 2-week promotion. As a pleasant surprise, the majority of U.S. food product shoppers turned out to be local consumers and not expatriates.

### Hotel Retail Institutional Sector (HRI) on the Rise

Like most people in North China, Qingdao residents have traditionally eaten most meals at home. However, due to increasing disposable incomes, more and more *Qingdaoese* are dining out for family gatherings, special occasions or just for fun. Local residents especially appreciate and favor fresh seafood consumption. Seafood restaurants such as Yiqinglou and Haimengyuan operate highly successful chains in Qingdao.

Currently, very few imported food items can be found in Chinese restaurants. Western Kitchen (Cuisine) restaurants are the main users of imported food, most of which are located in high-end hotels. Qingdao has many five-star hotels, including the Shangri-la, Crown Plaza Holiday Inn, Hai Tian Hotel, Surf Plaza Resort Hotel, and Huiquan Dynasty. Internationally managed hotels, such as the Shangri-la and Crown Plaza, are some of Qingdao's largest users of imported food, acquired for their western restaurants. The Alaska Seafood Marketing Institute organizes menu promotions at the Shangri-la Qingdao periodically, and even though Qingdao is a major seafood processing center for China, Alaska seafood drew much interest and excitement from

With the opening of the ATO Beijing at the end of 2003, Post actively began market development outreach in Qingdao. A number of highly targeted and successful marketing activities have been held there including a Great American Food In-store Promotion with Carrefour, participation in the China Seafood & Fisheries Show and FMI-NRA recruitment efforts. The rapidly developing Qingdao market economy and rising incomes provide a unique opportunity for U.S. food and agricultural product suppliers.

hotel patrons. According to the Deputy General Manager of the state-run Huiquan Dynasty Hotel, Qingdao's hotels are trying to modernize management and develop new restaurants and food services to meet market demand. Hotels are considering using imported food products as part of their regular menu offerings to improve food quality and attract more up-scale customers.

Local taste and food import preferences reflect the strong presence of Japanese and Korean expatriates in Qingdao. It is estimated that the Korean population in Qingdao reached 100,000 in 2006. These increasing populations have helped both support an internal market for Western-international cuisine food as well as introduce new foods and tastes to the indigenous population of Qingdao and Shandong Province. Korean cuisines are the vogue in Qingdao; various well-decorated, authentic Korean restaurants have become popular dining areas for the locals.

Travel is also a significant driver of imported food consumption in Qingdao. The increasing flow of international and domestic travelers continues to add diversity to the local food mix. Every day, the famous "Yunxiaolu" and "Mingjianglu" food streets are packed with both tourists and locals looking for fine dining experiences. In 2004, for example, Qingdao experienced a sudden boom in Western-style pubs and cafes. Domestic tourism in China is booming, and Qingdao is ranked as one of the top Chinese tourist destinations, fueling growth in new hotel and restaurant development. The 2008 Olympics are expected to provide a large boost to China's tourism and Qingdao appears well positioned to expand its tourism into the international arena.

### **Seafood's the Rave**

A positive future for Qingdao and its seafood industry stems from the role of seafood in modern China. China views seafood consumption as an important source of protein; seafood constitutes an essential part of the traditional Chinese diet. Per capita seafood consumption has been increasing yearly across the country and Qingdao residents themselves spend as much as 5 percent of their disposable income on seafood products. Growing incomes and easier accessibility are driving the seafood market boom and according to recent surveys, quality is more important than price for seafood consumers along the coast. The majority of *Qingdaoese* consumers eat their seafood at restaurants, although home consumption trends are increasing. Norwegian and Alaskan salmon are two of Qingdao's favorite fish products.

### **Market Entry Tips**

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

- Take time to investigate the market, and partner with a good distributor. Successful ventures require qualified and experienced distributors who know the local market.
- Take baby steps in the beginning, unless you are already supplying
- Target Quick Service Restaurants, hotel groups do not ship large volumes of product.
- Be very careful about selling products that may drive up the price of similar local products. Despite increasing income, Qingdao is still a highly price-sensitive market.
- Play the health, nutrition, and fashion angle to the hilt, since many Qingdao consumers believe that it is both safer and fashionable to consume imported products.



## Summary

The strong and vibrant Qingdao economy should continue to drive a number of food and agricultural product markets, resulting in potentially significant growth over the next decade. As local incomes expand, the mix of products should become more diverse, especially in the High Value Product categories. Local and central government efforts to develop Qingdao's economy, the co-hosting of the 2008 Olympics, and the ever-rising quality of life should provide excellent opportunities for many food and agricultural products. Increased direct imports to the Port of Qingdao, an improved distribution system, a rapidly expanding middle-class, and an increasing demand for high quality food products will all continue to make Qingdao a market U.S. food and agricultural product exporters cannot ignore.



**The Qingdao Nightscape**