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### **Changsha, central China's dynamic pioneer**

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#### **Report Highlights:**

Located in the center of Hunan province, the capital city, Changsha, leads the province's development. It is linked with coastal cities and serves as distribution hub to central China. The booming economy fueled more disposable income, and Changsha consumers are already famous for their willingness to spend and openness to try new products. Both the city's retail and HRI sectors demonstrate good potential. Imported food items, especially fruit, crackers, frozen potato products and cheese are becoming popular. The local livestock sector would like to see more high quality U.S. purebred swine to further boost production. The prominent Changsha market presents opportunities for U.S. agricultural products.

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**I. Changsha Overview**

Hunan province is not only the birthplace of Chairman Mao, it also produces abundant agricultural products to feed the Chinese people. Located in the center of the province, Changsha, the capital city of the province, is closely connected with the developed coastal areas via air, train, highway and waterway. As a key transport hub in South-Central China, Changsha has demonstrated to the world with vibrant economic development and ample business opportunities.



**Guess who?**  
**A: Chairman Mao as a teenager**  
*(Source: ATO Guangzhou)*

As Changsha’s market is mainly dominated by domestic rather than international trade, the city is better positioned than many to weather the global economic downturn in China.

Changsha has seen substantial development over the past few years. In 2008, the city recorded US\$44.13 billion in GDP. Per capita disposable income was US\$2,689, 13.2 percent higher than the national average. The city successfully attracted US\$1.8 billion Foreign Direct Investment (FDI). Over 2,900 FIEs (Foreign Invested Enterprise) had established their presence in Changsha, including 26 Fortune 500 companies. The city has established “sister city” relationships with several cities from abroad, including St. Paul in Minnesota and Jersey City in New Jersey.

With over 30 universities, Changsha is one of the important educational centers in China providing a continual supply of well-educated workforces. The booming economy enables more dispensable expenditure while the Changsha people are famous for their willingness to spend. Imported food items are widely available in all major retailers.

The city has developed sound infrastructure facilities with easy access to costal cities, such as Shanghai, Guangzhou and Shenzhen. The strong academic atmosphere as a font of well-trained workforces maintains cost advantages over coastal cities.

Hunan is the hometown of Chairman Mao. As the old saying goes: “The area is known for its celebrities.” Hunan people tend to be independent, staunch and generous. Contacts tell Post they are spenders even if they don’t earn that much. Thus, it’s not a surprise to see countless restaurants, tea houses and bars packed with customers in Changsha.



**Fireworks light up grand opening of the Beijing**

**Olympics**  
(Source: Xinhua Net)

Changsha has a humid monsoon climate with clear distinction between seasons. The moderate climate and abundant rainfall, together with fertile farmland make this area one of the major agricultural bases in China. Rice, citrus, swine, freshwater fish, tea and linen products all enjoy superior reputation in the country.

The amazing fireworks show at the 2008 Beijing Olympic Games captivated the world. Beijing Olympics used more than 120,000 fireworks and created a new world’s record of four times higher than the total amount consumed at the previous Olympic games. Seventy percent of the fireworks at the Beijing Olympic Games came from Liuyang County, a 30 minute drive from Changsha. Liuyang County has more than 1,300 years of history in making fireworks. The area has more than 1,000 firework manufacturers and reached US\$1.45 billion (RMB9.86 billion) sales in 2008. It was said that Liuyang fireworks account for 56 percent of the world’s total production and more than 60 percent of China’s firework exports.

**Table 1: Changsha at a glance**

<b>Changsha at a glance</b>	
<b>1. City area</b>	11,800 square kilometers, or equivalent to 4,556 square miles (including five districts and four counties)
<b>2. Urban area</b>	556 square kilometers, or equivalent to 214.67 square miles
<b>3. Population</b>	6.59 million
<b>4. Urban population</b>	3.95 million
<b>5. Climate</b>	Changsha has long and humid summers and mild winters with an annual average rainfall of 1,310 mm (51.57 inches) and temperature of 18°C. (64 degree Fahrenheit?)
<b>6. GDP in 2008</b>	US\$44.13 billion
<b>7. Per capita annual disposable income (urban residents)</b>	US\$2,689 in 2008
<b>8. Major agricultural products</b>	Rice, pigs, citrus, tea
<b>9. Hotel (star-rated)</b>	10 five-star hotels and 17 four-star hotels
<b>10. Retail</b>	International chains: <ul style="list-style-type: none"> <li>• Wal-Mart (2 stores)</li> <li>• Carrefour (2 stores)</li> <li>• Lotus (1 store)</li> <li>• RT Mart (1 store)</li> <li>• Metro (1 store)</li> </ul> Local chains: <ul style="list-style-type: none"> <li>• Your-Mart (3 stores in Changsha, total 14 stores in Hunan province)</li> <li>• Best (7 stores)</li> </ul>

	<ul style="list-style-type: none"> <li>Bubugao (4 stores in Changsha, total 87 stores in Hunan province)</li> </ul>
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*(Source: Hunan Statistics Yearbook 2009 & ATO Guangzhou interviews)*

**II. Improving infrastructure helps boost the economy**

Changsha is one of the most important transportation hubs in central China. The city is closely linked via air, railway, highway and waterway to coastal and inland areas.

**A. Air**

The Changsha Huanghua International Airport is only 15.5 miles (25 kilometers) away from the city center and has two expressways connected to the city. Several airlines operate frequent non-stop flights to over 40 major cities in China. Changsha also has several flights to overseas destinations, mainly within Asia, such as Hong Kong, Bangkok, Seoul, Kuala Lumpur, Nagoya and Fukuoka.

Airfreight cargos are also available from Changsha. It takes two days for air cargo to reach other Asian cities from Changsha, three days to Australia and the west coast of the US, and four days to the east coast of the US and Europe.



**B. Rail**

Changsha is a large hub of railway transportation in China. There are several major rail lines that pass through Changsha, including the Jingguang Railway (Beijing to Guangzhou), Zhugui Railway (Zhuzhou to Guiyang), and Hangzhu Railway (Hangzhou to Zhuzhou). Thus, the city has very convenient access to every major city in China through the rail network.

The government is building a new passenger high speed train line (up to 220 miles or 350 kilometers per hour) between Wuhan and Guangzhou, which will run through Changsha. Upon its completion by 2010, it will take a mere three hours train ride from Changsha to Guangzhou, half the current travel time.

**C. Highway**

The highway network in Changsha is well developed. By the end of 2008, the city built 193 miles (311 kilometers) of expressways. The city is connected to two major highways in China, the Jingzhu Highway (Beijing to Zhuhai) linking the north to the south, and Shangrui Highway (Shanghai to Ruili) linking from east to west. Changsha is also the starting point of several expressways that connect other major cities in Hunan province.



**River barges carry soy meal, unload at Xianing Port**

(Source: ATO Guangzhou)

- Chang-Yong Expressway: Changsha to Yongan, connecting the eastern part of Changsha to the Huanghua International Airport and with further extension to the Jing-Zhu Highway (Beijing to Zhuhai).
- Chang-Tan Expressway: Changsha to Xiangtan, connecting Changsha with Xiangtan to the south which forms the Chang-Zhu-Tan Economic Circle of Hunan province.
- Chang-Chang Expressway: Changsha to Changde, connecting Changsha with the northwest part of Hunan province and further extends to Southwestern China.

#### **D. Waterway**

Changsha is connected to the Yangtze River through the Xiangjiang River and Dongting Lake. The Changsha New Port, also called the Xianing Port, is the largest river port in China. The Xianing Port covers a total area of 13.4 acres (33 hectares), with 8,000 ton berths at the moment and will build four more berths by 2012. The port has a total length of 2,018 feet (615 meters) along the quay. The water depth is 95 feet (29 meters). An exclusive train line connected the port to the major cargo railway station is being planned. Upon completion, it will greatly help to increase handling capacity and improve efficiency.

River transportation is the most cost-effective method of long distance domestic transport. It costs about US\$350 to ship a 20-foot container from Changsha to Shanghai. Usually goods are transported to overseas via Shanghai or Shenzhen. The port is 956 miles (1,540 kilometers) away from Shanghai and takes 72 hours to reach the Shanghai Port.

The Xianing Port has an annual handling capacity of 150,000 TEUs and could reach 300,000 TEUs by 2012. Throughput in 2007 reached 93,000 TEUs. The port handles 70-80 percent of Hunan province's export containers, if shipped via waterway.

Major export commodities through the Xianing Port include fireworks, centralized air conditioners, engineering equipment, and pickled garlic. The port also handles large volumes of corn and soybean meal from Northern China to meet feed requirements by local swine industry. Given the port does not have grain elevators, all corn and soybean meal products are packaged in

bags. Items brought in include mechanical parts for machinery, pump lifts, auto parts, autos and television parts.

### III. Tourism, not just about Chairman Mao

In 2008, Changsha received 32.97 million visitors who spent US\$4.41 billion (RMB30.02 billion), up 15.9 percent from the previous year. Most visitors came within China and only 1.6 percent were overseas visitors. However, overseas visitor spending accounted for nearly 10 percent of the total tourism revenues. Major sources of overseas visitors are South Korea, Hong Kong, Macau, Taiwan, the US and Japan. Most visitors choose Changsha as their first stop in Hunan province, given the convenient transportation network with major tourist attractions in the province. Most Chinese travelers stay in Changsha and pay a one-day visit to Chairman Mao's hometown, Shaoshan County, which is about an hour's drive from Changsha.



***An old street recently renovated into a popular bar and restaurant area in Changsha***

*(Source: ATO Guangzhou)*

In addition, Changsha is closely connected with major tourist attractions (Zhangjiajie, a world known place for Karst topology; Fenghuang County, referred as one of the most beautiful countrysides in China) in the province via highways, railways and flights. The Chang-Zhang (Changde to Zhangjiajie) highway has shortened travel time from Changsha to Zhangjiajie to only three hours. Travelers can choose to take a bus or train to Fenghuang County.

### Chang-Zhu-Tan Economic Circle

There are seven cities within a one-hour drive from Changsha. Zhuzhou, and Xiangtan are the most well known ones. The strong economic and transportation links with Changsha have formed an economic circle around the city. By the end of 2008, the area had a population of 41.11 million, representing 79 percent of Hunan province's total GDP, at US\$128.82 billion (RMB876 billion).

**IV. Retail, imported foods are getting into Changsha people’s shopping list**

Economic development in Changsha has enabled its citizens to acquire growing purchasing power. Per capita GDP in Changsha reached US\$6,730 (RMB45,765) in 2008, and per capita disposable expenditure was US\$2,689 (18,282), one of the highest in inland China. Changsha people are famous for their willingness to spend. They are very openminded about trying new products. Total retail sales in Changsha recorded US\$18.73 billion (RMB127.39 billion) in 2008, nearly a 23 percent of increase from the previous year.

The many up-scale shopping malls in Changsha successfully attract wealthy consumers within the province. The assertion about Changsha people’s propensity to spend is supported by escalating retail sales. The Chang-Zhu-Tan Economic Circle has close links to three cities within an hour’s radius. Thus, consumers can shop and dine in Changsha, the entertainment and shopping capital of the area more easily. Industry insiders believe that the retail business will continue to grow in Changsha for the next ten years.



Attracted by the fast growing retail market in Changsha, many international retail giants, such as *Wal-Mart*, *Carrefour*, *Lotus*, *RT Mart* and *Metro* have entered the market and continue to expand. Local retail chains, such as *Your-Mart*, *A-Best*, and *Bubugao*, are also speeding up to maintain their market shares.

The Changsha consumer is curious about imported products, while they have higher expectations. The consumer pays more attention to quality and freshness and willing to pay a premium for better quality products. Once the consumer perceives the product as good value and good quality, they will continue to purchase and spread the good word among contacts.

Essential education on foods, such as free tastings and free gifts are effective in opening up the market. Smooth logistics will be another focus of imported foods, which will ensure consistent supply and longer shelf life. It’s important to know the consumer and preferences. Value and good prices are important since they are still price sensitive.

**Table 2: Changsha major retailers**

<b>Name</b>	<b>Number of outlets in Changsha</b>	<b>Country of origin</b>
Wal-Mart	2	US
Carrefour	2	France



Lotus	1	Thailand
RT Mart	1	Taiwan/France
Metro	1	German
Your-Mart	3 in Changsha and 14 in Hunan province	China
A-Best	7	China
Bubugao	4 in Changsha and 87 in Hunan province	China

(Source: ATO Guangzhou survey)

**A. Wal-Mart**

The world’s largest retailer opened three *Wal-Mart Supercenters* in Changsha. Each *Wal-Mart Supercenter* occupies more than 107,600 sq. ft. (10,000 square meters) of space. Similar to other *Wal-Marts*, Changsha stores have several dedicated shelves for imported foods, such as crackers, candies, chocolates, dried nuts and wines. Imported fruits are also available in Changsha stores. Its strategy is to offer a wide range.

During a Post reporting trip last year, an interviewed store manager stated the per check purchase was about US\$7.30 (RMB50). Food purchases are the dominant item, at about 70 to 80 percent of total purchases. Seventy percent of fresh products are sourced locally while the rest, mainly imported packaged foods, are distributed through their Shenzhen distribution center. All imported fruits are supplied by a Shenzhen based company.



American foods on the shelf included California raisins, *SunMaid* raisins, *Sunsweet* pitted prunes, *French’s* mustard, pasta sauces, *Tabasco* pepper sauces, Washington apples, Florida citrus, almonds and *Snapple* drinks. U.S. fruits, usually apples are packed in gift boxes during major Chinese holidays, such as the Spring Festival (Chinese New Year) and the Moon Festival, for gift giving to relatives, friends and important business contacts.

A couple of wines from California and Washington state were displayed on the imported wine shelf fighting armies of local and imported rivals from France, Australia and Chile. The best selling local wine prices ranged from US\$6-9 (RMB40-60) per bottle.

Lack of proper education is the main constraint for imported foods in *Wal-Mart* stores. Consumers are usually attracted by the nice packaged imported foods and are very curious about the products. However, they prefer trying the products out before buying, given the higher

price. Tastings are crucial.

In 2006, the Changsha *Wal-Mart* store participated in a nationwide *American Food Festival* held by ATO Guangzhou. The store manager confirmed that the promotion helped attract consumer attention and boosted sales during the promotion period. However, timely delivery and consistent supply remains the top difficulties for imported products.

**B. Metro**

Attracted by the great potential that Changsha demonstrated, another retail giant Metro entered the market in 2003. The Changsha *Metro* store enjoys a very good reputation among the middle to high-end consumers in Changsha. They view *Metro* as a reliable source for high quality products, especially for imported products. According to a store manager, the Changsha store has more than 2,600 imported items, the largest in the region.

The Changsha *Metro* store carried a total of 725 SKUs of products from the US, which accounted for 27.5 percent of imported items totaling 2,600 SKU's. U.S. table grapes, cherries, red delicious apples, California prunes, mixed vegetables, Haribo gummi candies, spaghetti sauces, BBQ sauces, tortilla shells, Tabasco pepper sauces, canned soups, canned sweet corn kernels, clam chowder, refried beans, tortillas, salad dressing, ketchup, Tabasco sauce, cranberry juice, Snapple drinks, American hand-made beers, spring water, bourbon and wines were readily available at Changsha *Metro*. However, sales revenue of all U.S. products only accounted for 6.5 percent of total sales of imported items. Lack of knowledge of U.S. products, higher prices and inconsistent supply deter sales.



If consumers like the products after trying, they will continue to come back for more. That's why U.S. cherries, table grapes, canned sweet corn kernels, mixed vegetables, frozen potato fries were all selling well in Changsha Metro store. We were told that consumers especially like the sweet and juicy taste of U.S. cherries and table grapes (black seedless and red globes), and sales far surpass both domestic and overseas competitors. U.S. fruits account for 30 percent of imported fruits' sales or 15 percent of all fruits' sales in Changsha *Metro* store.

It was said that imported food accounted for half of total sales of fruits or 13-14 percent of total food sales. Post was told that customers care about quality and popularity of a product. Price wasn't so much a consideration for gift giving.

Intense TV ads by local wineries such as *Changyu Castel Premium* US\$54 (RMB370 per bottle) and the *Great Wall* have introduced wine drinking culture to Changsha consumers. Wine consumption, mainly red wine drives this market. By contrast, imported wines rake in 54 percent of the share in the Changsha *Metro* store. The most popular imported wine origins are first France, followed by Australia, Chile, Germany and Italy. Selected U.S. red and white wines are competing with others on the shelves.

According to the store manager, the store sold around US\$132,353 (RMB 900,000) worth of wine monthly, about 80-90 percent of wine sales is generated by red wine.

Discounted prices, free tasting and additional gifts are the most effective way in promoting wines. *Jack Daniels*, a brand of Tennessee whiskey used to be popular, but increased prices plus encroachment of fakes slowed sales. U.S. beers were not selling very well as they were considered too expensive. Post was told consumers sought German beers. There were no U.S. crackers or cookies on shelves.

### **C. Your-Mart**

*Your-Mart* supermarket is owned by Hunan province's largest retailer, the *Friendship & Apollo Group*, with 14 outlets in the province and three in Changsha. The *Your-Mart* supermarket position itself as a community store and focuses on mid-end consumers with average monthly income at about US\$294-US\$441 (RMB2,000-3,000). Average per check food purchase at *Your-Mart* last year was US\$8.82 (RMB 60), while its flagship store can be as high as US\$14.71 (RMB100), because prime location.

Most products at the *Your-Mart* supermarket are sourced locally, while small portion of foods are imported. U.S. food products, such as *California Almond Roca nuggets*, *Planter's* salted peanuts, California almonds and pistachios, Red Delicious apples and Sunkist oranges, were seen on shelves. Biscuits from South Korea, Denmark cookies, Japanese fruit candies, dried taro and banana slices from Thailand, and milk powders from Australian were also found on *Your-Mart's* inventory list. When interviewed last year, the store manager estimated that for imported salted crackers and candies, 80 percent were for own consumption and the rest was for gift giving. U.S. grapes aren't carried because local quality and prices were good, and the transport time would be a challenge. Northwest cherries were considered too expensive for their targeted customers.

Most wines and liquors at *Your-Mart* were local brands with a few Australian wines, sourced from a Guangzhou based supplier. The customer still prefers local wines as a result of heavy publicity

campaigns conducted by the Chinese wineries.

**V. HRI, spices up people’s lives**

**A. Hotel**

As one of the major cities in Central China with ideal geographic location to many national tourist attractions, such as the home town of Chairman Mao, Zhangjiajie and Fenghuang County, Changsha is becoming a hub for business, conventional events and tourism. The city has ten five-star hotels and 17 four-star hotels. The booming economy and increasing expenditures have attracted more investment in luxury hotels. According to industry insiders, the city is going to have many international hotels, such as *Shangri-La*, *Marriott*, and *Hilton*, in the coming few years.



**A Changsha restaurant made to look like a grand, ancient palace**  
 (Source: ATO Guangzhou)

**Table 3: Changsha Five-Star Hotels**

Name	Location
Sheraton Changsha Hotel Yunda International Plaza	Downtown Changsha
Crowne Plaza City Centre Changsha	Downtown Changsha
Hunan Huatian Hotel	Downtown Changsha
Changsha Tongcheng International Hotel	Downtown Changsha
Hunan International Film & Television Exhibition Center Hotel	Suburb Changsha
Hunan Huaya Huatian Hotel	Downtown Changsha
Changsha Shennong Hotel	Downtown Changsha
Preess Resort & Hotel	Suburb Changsha
Hunan Jiacheng Hotel	Downtown Changsha
Plaza Royale Furongguo Changsha	Downtown Changsha

(Source: ATO Guangzhou survey)



**Lots of spices used in Hunan cuisine**  
(Source: ATO Guangzhou)



**Spicy steamed fish head, a famous Hunan dish**  
(Source: ATO Guangzhou)

Customers who stay at Changsha's five-star hotels are mainly for business or conventional events. One of the five-star hotel managers told us that about 80 percent of their guests are for business purpose and majority of them are from overseas. Major sources of overseas visitors come from South Korea, the US, Japan, Hong Kong and Taiwan.

Sources state that Changsha has some 2,000 expatriates, who usually work at the international invested companies in Changsha. Most tend to stay in hotel service apartments for comfort and easy access to authentic home foods. They are solid customers for the hotel operated western style restaurants. Meanwhile, Changsha people don't hesitate to try new things and are willing to spend on food. They believe western restaurants located inside five-star hotels are authentic. One five-star hotel food & beverage executive said that food and beverage takes up to 60 percent of the hotel revenue.

One amazing fact Post learned was that the *Sheraton Hotel* in Changsha was ranked first among all 42 *Sheraton Hotels* in China in terms of HRI revenue, recorded US\$14.66 million (RMB100 million) in 2008. This again proves the willingness of Changsha consumers to spend on decent foods and their strong buying power.

Post was told the average per check consumption at a five-star hotel restaurant is about US\$22 (RMB150) without drinks. However, food and wine pairing is still on its early stages so there is not much wine sales in hotels.

Post was told customers liked to mix wine with *Sprite* to kill the wine taste so education was in order. On another note, it was recommended promotions be conducted with Chinese restaurants where government sponsored dining was held.

Five-star hotels like to organize theme promotions to attract consumer attention. One interviewed hotel manager told us that food promotion should be linked together with culinary cultures.

Another interviewed five-star hotel executive chef said his hotel uses imported cheese, seasonings and condiments, dried fruits and nuts and meat products. All imported foods used in Changsha are either from Guangzhou or Shanghai. However, many local suppliers cannot provide imported

products consistently, thus, the hotel turns to Metro for most of its imported supplies. He even mentioned the price competitiveness of Australian products versus American and said price is another concern for cost control.

An interviewed five-star hotel executive provided similar supporting market information. He specifically mentioned the importance of consistent supply. The hotel needs to offer its customer whatever on the menu, thus, the logistic difficulty in Changsha for imported products has forced the hotel to source alternative local supplies.

A trader told Post that U.S. suppliers should supply consolidated service which would help local distributors introduce more products.

**B. Restaurant**

Changsha people are proud of their cuisine, the “Xiang” (meaning Hunan) style, which is salty and uses lots of spices. The most famous Hunan dishes include spicy steamed fish heads, smoked pork, sauté sliced tofu with pork and stinky tofu. However, Cantonese style is the second popular style, given its use of expensive ingredients provides status.

The city has diverse restaurants. For example, Post dined at one designed to look like an ancient palace with over 6,000 seating capacity for traditional meals (but was told it does not use any U.S. ingredients). Compare that to a unique restaurant where patrons are guided into the pitch dark section of the restaurant, then get served and left to dine in complete, eerie darkness.



***A trendy restaurant in Changsha with Western atmosphere***  
*(Source: Wing Cafe)*

There are many small and unique places for different styles of foods for the adventurous Changsha patron. It’s not surprising to see a menu combine Xian style with western foods and Southeast Asia dishes in Changsha restaurants.

Despite the province’s modest average income, the HRI revenue of the province ranks in the nation’s top ten. Changsha is the most important contributor to the province’s HRI revenue. According to industry source, the city recorded US\$2.8 billion (RMB19.01 billion) sales in 2008.

There are several leading restaurant chains in Changsha. All name themselves “Chinese Western” restaurants, because most consumers prefer Hunan cuisines over pure western, but appreciate the western atmosphere. One interviewed restaurant manager said that Hunan cuisines accounted for 80 percent of revenue and Western style of food took the other 20 percent.

**Table 4: Leading chain restaurants in Changsha**

<b>Name</b>	<b>Number of outlets in Changsha</b>	<b>Percent revenue generated by Chinese foods</b>
Jono Chinese Western Restaurant	7 in Changsha, total 16 in Hunan province	70-80%
Greenery Cafe	8	60-70%
Wing Cafe	6 in Changsha, total 9 in China	60-70%
Milo Cafe	10 in Changsha, total 35 in Hunan province	30%
Houcaller Beef Steak House	4	Less than 10%
Papa John’s	2	0%
Takebao	8 in Hunan province	40%
Haixianglai Beef Steak Restaurant	4	Less than 10%
Guilinren	6	90%
Katelan	2	50%
Shushidai	2	90%
Hatebobo	4	50%
Meni	3	55-60%
Huazhilin	8	30-40%
Dio	12	40%
U.B.C. Coffee	15	90%
rbt	4	Less than 10%
Fruity Mix	5	Less than 10%
Tangbaobao	18	90%

(Source: ATO Guangzhou survey)



**Beef steak is the most popular dish in Western style restaurants in Changsha**  
 (Source: ATO Guangzhou)

Beef steak is the most popular dish when Changsha customers want Western style food. Given the current import ban on U.S. beef, restaurants serve Australian or local beef. The most popular beef cuts are ribeye, sirloin and T-bone steak. Average per check consumption in restaurants varies depends on chains, from US\$5-12 (RMB30-80), without drinks.

U.S. potato fries, cheese, Alaska cod cakes and seasonings are used in these chain restaurants. All imported ingredients are sourced from importers in Guangzhou or Shenzhen. Many chain restaurants hire Cantonese chefs to manage kitchen operations, saying Cantonese chefs are innovative and stay on top of food trends. However, chef training programs are greatly needed to provide proper handling of imported food ingredients.

For U.S. fast food chains, *Changsha* has *McDonald's*, *KFC*, *Pizza Hut*, *Papa John's* and *Subway* sandwich. Other than American, there are other chain restaurants either from Taiwan or local presented in the market. Incidentally contacts told Post that *Changsha's McDonald's* ranked number four in sales for China.

Proper education is key for U.S. products to get a foot hold in *Changsha's* HRI market. As a follow-up on post's ECM research, U.S. Agricultural Trade Office (ATO) Guangzhou hosted a highly successful chef program in *Changsha* in November 2009 that featured a renown American chef who trained over 160 executive and sous chefs. First, over 70 executive chefs from leading hotels and restaurants in *Changsha* and surrounding areas attended a half-day chef seminar at a five-star hotel. In addition, Post conducted individual chef training and consultations with two additional 5-star hotels and two chain restaurants which counted over 90 executive and sous chefs. New recipes, plate setting skills, menu design and latest design trends for restaurants were the most welcomed topics by local chefs.



***Chefs pays rapt attention during an individual consultation with a leading restaurant chain in Changsha***  
(Source: ATO Guangzhou)

### **Changsha HRI market outlook**

- Consistent supply is the key to build up restaurant confidence in continuing to use American ingredients.
- Menu promotions would be a good way to promote American food products, but should plan in advance to ensure readily available ingredients.
- Theme promotion will be a good way to establish consumer recognition on American products. Culinary culture and different style of cuisines from the U.S. will attract curious *Changsha* consumers.
- Chef training is needed to nurture the market.
- The leading position of the *Changsha* HRI market provides a head start when it comes to showcasing and promoting U.S. food products to consumers in central China.

### **VI. Baking industry, poised to expand**

Contacts tell Post that the baking industry in *Changsha* is in its initial stages. The city has three major bakery chains targeting middle to high-end customers and many individual bakery shops for low-end market. The high-end bakery in *Changsha* differentiates itself by offering more product variety, good quality, higher price and well decorated store.



It was said that high end bakeries receive US\$1.50-2.21 (10-15 RMB) more per receipt than mid-end ones. High end bakeries follow trends faster. Bakeries follow trends in Korea and Japan.

**Table 5: Leading bakery chains in Changsha**

<b>Name</b>	<b>Ownership</b>	<b>Number of outlets in Changsha</b>	<b>Targeted market</b>
Rosa	Taiwanese	60 +	Middle to high-end
Mario	Macau	45	Middle-end
Wan Lilong	Chinese	42 (in Hunan province)	Middle-end
Lucky’s Cake Shop	Chinese	6	High-end
Maky	Chinese	2	High-end
Break Talk	Singapore	2	High-end

(Source: ATO Guangzhou survey)

Bulk baking ingredients, such as wheat flour, sugar and oil are sourced locally, while imported cheese products and certain dried fruits & nuts such as almonds & crane berries are used in middle to high-end products. Australian dairy products dominate the market, with limited U.S. presence in the market, but whipping cream was said to be sourced from the States. The most widely used dairy products are cream cheese, cheddar and mozzarella. Changsha consumers are health conscious about baked products. Thus, whole wheat bread, mixed grain bread and baked products with cheese are getting popular.

Imported ingredients are preferred by Changsha consumers and can add a premium to the baked products. Per check purchase at middle to high-end bakeries is around US\$2.20-2.90 (RMB15-20). The young, middle-class and female white-collar consumers are the major customers at these bakeries.

One interviewed leading bakery chain manager said consistent training to baking and pastry chefs is crucial to maintain competitiveness. The company has worked with U.S. producer associations on certain American ingredients and appreciated the opportunity to learn more on quality baking ingredients. A unified training plan would better help the bakery chain to learn different ways of using American baking ingredients in a systematic way. Thus, the U.S. Agricultural Trade Office’s (ATO) role as a program coordinator is critical.



Like many other bakery chains, moon cakes are the most profitable business, providing about 20

percent of the total revenue. Changsha consumers prefer the Cantonese style of moon cake with a thin crust and lots of sweet lotus seed paste. However, health concerns have pushed some bakeries to carry sugar-free moon cakes.

**VII. Agriculture, rich land offers fruitful production**

Hunan Province is one of the most important agricultural production areas in China. The province’s economic center, Changsha, also plays an important role in the agricultural production. The city recorded US\$3.40 billion (RMB23.1 billion) revenues in agricultural sector in 2007, 14 percent increase from the previous year.

The rich land in Hunan province allows fruitful production of various agricultural products. Major agricultural products include rice, pig, beef, tea, citrus and fresh water fish. Changsha is home to the world-famous hybrid rice research company. Its hybrid rice seed produces over 65 percent of China’s total rice production. Swine, citrus, freshwater fish and linen products also enjoy superior reputation in China.



Changsha also exports rice, pickles, kiwi and tea to the States. Post was told by government officials there was a lack of advance processing technology and the challenge was how to add value. Naturally farmers, they said, were eager to learn crop management, equipment and technology.

**Table 6: Major agricultural production in Changsha**

Product	Production Volume in 2008	Hunan province production volume in 2008
Rice	2.41 million tons	26.64 million tons
Citrus	87,856 tons	2.89 million tons
Tea	24,703 tons	91,885 tons
Hogs	4.46 million head	44.95 million head
Slaughtered pigs	8.36 million head	74.65 million tons
Cattle and buffaloes	143,084 head	4.66 million head
Pork	576,032 tons	5.17 million tons
Beef	10,461 tons	171,699 tons
Fresh water fish	96,395 tons	1.79 million tons

(Source: Hunan Statistics Yearbook 2009)

### A. Rice

Rice is one of the major agricultural productions in Changsha and harvested 2.41 million tons in 2007. It is consumed both by local market and outlying markets, such as Guangdong. The city has a world renowned seed research company founded in 1999 and formerly a state owned entity called *Yuan Long Ping High-Tech Agriculture Co.* The company uses *Yuan Long Ping* name, a world famous agricultural scientist and educator who developed hybrid rice varieties in the 1970's. As much as which as half of China's total rice fields grow his hybrid rice species and yield some 60-65 percent of rice production in China. The hybrid rice variety is widely planted in China for its high yield, good resistance to pesticides and climate changes and wide adaptability to different planting environments. One interviewed manager told Post that the hybrid rice can produce 20 percent more yield than the regular variety, at about 408 lbs. (900 kg) per acre.

### B. Swine

Swine production is another pillar agricultural industry in Changsha. The area raises 4.32 million pigs and provided 8.32 million heads to market in 2007. In addition to local consumption, the pig also supplies to Guangdong, Hong Kong and Macau market.

According to an interviewed pig farm manager, Guangdong is the biggest consumer which buys 25 million live pigs annually from neighboring provinces, such as Guangxi, Jiangxi, Hunan and Sichuan province. Hunan swine farmers supply pigs, including fattened pigs and piglets to Guangdong, Hong Kong and Macau. The province's latest statistics reported 1.66 million head of piglets sold outside the province.



**State-of-the-art swine farm newly built for American breeding hogs, with advanced technology and design from the US**

(Source: ATO Guangzhou)

Swine farmers in Changsha and Hunan province prefer to source genetic stock (crossbred offspring of U.S. Duroc boar, Yorkshire sow – a.k.a. "Large White" – and Landrace sow) from the US, because of enviable appearance, strength, rapid growth rate, high fertility, disease resistance and adaptability.

The company also contracted the U.S. supplier for farm facility design, ventilation system and waste treatment technologies. A total of US\$17.65 million (RMB120 million) investment had been pooled for the purchase, transportation, quarantine and farm construction and installation of facilities.

Amazingly, it took this company only one year to build a brand new headquarters office building, a

state-of-the-art breeding swine farm and meat processing plant with annual capacity of 100,000 tons. In 2008 a well-know U.S. breeder shipped 1,200 head purebred pigs to the company. In July 2009, these pigs gave birth, and the population grew to 5,668 head. Each sow on average gives birth to 26 piglets yearly. The breeding farm has three barns with sophisticated automatic ventilation, feeding system and CCTV monitoring system. It can house 20,000 head which requires only nine staff to manage. The U.S. company regularly sends U.S. technicians to the farm to provide technical assistance. Key swine performance data is collected and sent back to the U.S. database. Data is analyzed and submitted to the National Swine Registry (NSR). It helps the Hunan company breed better pigs and gain market advantage. The company expressed interested in importing frozen boar semen due to an import ban on live pigs due to the H1NI epidemic.

### **VIII. American wood products, warmly welcomed**

The booming housing market has created a market for U.S. wood decoration materials

The quickly growing economy in Changsha has enabled its citizens to pursue better life. Home ownership is a definite improvement in living standard. Wealthy middle-class and company owners are willing to invest in their own houses or apartments.

Wood, which is usually associated with natural and comfortable, is widely used in middle to high-end residences. Thus, the opportunity for high value U.S. interior wood decoration emerged.



One local distributor ascertained this trend and opened an all wood decorated demonstration house in Changsha in late 2007. Many high value wood products, such as door, flooring and decorative panels, made with American hardwood are displayed in this demo house. According to the store manager, the wealthy and well-educated population, such as university professors and doctors and company owners are the main buyers of high value wood products. Best selling American hardwood varieties include cherry, American gum, red oak, white oak, maple and red pine.

The same trader stated that he believed Changsha customers were more willing to spend for beauty while Cantonese would rather save and buy laminate. Those most able to afford such products would have homes spanning a minimum 1,937 sq. ft (180 sq meters) or more.

Like elsewhere, Changsha consumers prefer the natural appearance of wood products. Thus, only

clear paint is applied to finished wood products, to better show off the natural texture.

The interviewed distributor believed proper education on American hardwood products will help to cultivate market demand. The demo house will present the actual application of hardwood products to the consumer and let them touch and feel the real products. In addition, providing education to interior designers in Changsha would be another way to reach potential consumers.

**IX. Conclusion**

Changsha, with close ties to developed coastal areas and markets in central China, presents a viable market opportunity for U.S. imports. Consumer education, distribution network build up and smooth logistics are essential to success in the long run.

A range of imported foods are available in major retailers. The most promising U.S. foods include fresh fruits, dried nuts, breakfast cereals, biscuits and crackers. In the HRI sector, selected U.S. food ingredients established their reputations in the market, such as beef, pork and sauces. Wine consumption is getting started as a trend, while local brands dominate the market. If U.S. wines want to get a foothold in this market, thorough marketing plans and educational activities are the keys to success. In the husbandry sector, U.S. genetics and breeding swine are taking the lead in the market. U.S. soybean products have a bright future with expansion of the local animal husbandry sector.

**Table 7: Promising U.S. Products**

<b>Product</b>	<b>Markets</b>	<b>Notes</b>
<b>Beef</b>	HRI	Beef steak is the best seller of western style dishes. Most imported beef are from New Zealand and Australia given the ban on U.S. beef since 2003. The HRI sector has a strong interest in introducing beef back on menus once the ban is lifted as consumers like its taste and quality.
<b>Seafood</b>	HRI	U.S. seafood has great potential if menu promotions are held at leading five-star hotels, better in international managed ones. Consistent supply and smooth logistics are key.
<b>Wine</b>	Retail, HRI	Market starts to emerge, but must compete with local, European, Chilean and Australian counterparts. Usually wineries will rely on an established importer based in first tier cities like Guangzhou and Shenzhen to develop the second tier and newly emerging market.
<b>Bakery ingredients</b>	HRI	Promising, if bakers’ training is provided. Consumers, particularly younger generation patrons, are more receptive to bakery products such as pizza and cheesecake.
<b>Tree nuts</b>	Retail	U.S. pistachios and almonds are shipped in bulk and

<ul style="list-style-type: none"> <li>• Pistachios</li> <li>• Almonds</li> </ul>		repackaged in processing plants in South or East China. All retailers in Changsha carry various brands of snack packs.
<b>Fresh fruit</b> <ul style="list-style-type: none"> <li>• Cherries</li> <li>• Oranges</li> <li>• Red Delicious apples</li> <li>• Table grapes</li> </ul>	Retail	Promising. Changsha consumers love the sweet and juicy taste of U.S. cherries. Red Delicious apples are packed in gift boxes for Chinese holidays, such as the Lunar New Year (in late January or February) and Moon Festival (in late September or earlier October).
<b>Frozen potato products</b>	HRI	Promising, but nutritional information is needed by the consumer since there has been negative media reports on deep fried foods, such as fries.
<b>Dairy products</b>	HRI	Very promising, but need to compete with Australian, New Zealand and European products. The young generation are more receptive to cheeses with the introduction of pizza and cheesecake.
<b>Dried fruit</b> <ul style="list-style-type: none"> <li>• Raisin</li> <li>• Prunes</li> </ul>	Retail	U.S. dried prunes and raisins are available in Changsha market in snack packs. Dried tropical fruit and vegetable (such as jackfruit, banana, sweet potato and taro) products from Southeast Asian countries also seen on shelves.
<b>Feed</b> <ul style="list-style-type: none"> <li>• Soy meal</li> <li>• Corn DDGS</li> </ul>	Feed	Soy meal (particularly high protein concentrate soy meal) and corn DDGS could have big market potential in Hunan province for swine, poultry and aquaculture production.
<b>Breeding pigs</b>	Livestock	U.S. breeding pigs enjoy superior reputation in Hunan province. However, competition from Denmark, Britain and Canada cannot be neglected.
<b>Wood products</b>	Furnishing	High value wood furnishing products made with U.S. hardwood are getting popular in middle to high-end market in Changsha, for its comfort, color and quality.

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\* Covers the five provinces of Guangdong, Guangxi, Hunan, Hainan and Fujian

**XI. ATO Guangzhou Emerging City Market (ECM) Reports**

<b>GAIN #</b>	<b>Issued</b>	<b>Title</b>
1. CH7603	01/25/2007	Xiamen: Fujian's Booming Southern Port City
2. CH7608	06/28/2007	Sanya: China's Tropical Paradise
3. CH7616	12/12/2007	Nanning: Strategic Gateway to Southwest China
4. CH8604	05/14/2008	Guilin: Rock formations soar, but what about demand for U.S. agricultural imports?
5. CH9609	05/13/2009	Made in China. Made in Dongguan!
6. CH9614	08/20/2009	Shantou, South China's diamond in the rough
7. CH9620	11/24/2009	Changsha, central China's dynamic pioneer
8. CH9621	11/24/2009	Zhuhai, South China's city of romance. . .and more
9. CH9622	11/25/2009	Quanzhou, Fujian's city of light reignites
10. CH9623	12/02/2009	Fuzhou, propelled by the ocean's legacy, sails on

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