

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Voluntary - Public

Date: 4/27/2010

GAIN Report Number: CH0404

China - Peoples Republic of

Post: Beijing ATO

Hebei Province Report

Report Categories:

Market Development Reports

Approved By:

Eric Trachtenberg

Prepared By:

Wang Tong

Report Highlights:

Named for its location north of the Yellow River, Hebei Province is famous for its agricultural production, mineral resources and industry. Although the region is home to almost 70 million people, the province lives in the shadow of its more glamorous neighbors in Beijing and Tianjin. Despite this, Hebei's high growth and increasing standard of living have contributed to a rapid evolution of the local food market. The low cost of doing business, proximity to good ports and a rapidly developing food market make Hebei a promising market for many US food exports.

General Information:

Introduction



Hebei has long history that can be traced back to the Spring and Autumn Period (770 BC – 476 BC). At the time it was known as “The Land of Yan and Zhao” named after two states that dominated the region. Reflecting its proximity to the capital, the region was later known as “Zhili”, or simply “Directly Ruled (by the Emperor)”.

Hebei has an area of 187,700 sq km with a population of nearly 70 million. The provincial capital is Shijiazhuang, a railway hub and commercial center about 270 km south of Beijing. Eastern Hebei Province is a flat, alluvial plain used mostly for field crops while the west is much more rugged and produces a mixture of tree fruit and field crops. Hebei is also famous for its production of coal, oil, textiles, iron/steel, ceramics and processed foods.

Hebei Province has a rich cultural heritage and beautiful coastline. Major cities include Qinhuangdao, Tangshan, Zhangjiakou and Shijiazhuang.

Hebei at a Glance (2008)	
Population	69.9 million

GDP	\$233.60 billion
GDP growth rate	10 percent
Per Capita GDP	\$3,353
Car Ownership	9.07 : 100
Major Industries	Petrochemicals, textiles, metalworking, engineering, and petroleum
Key Agricultural Products	Wheat, cotton, peanuts, soybeans, sesame , paddy rice, and tobacco

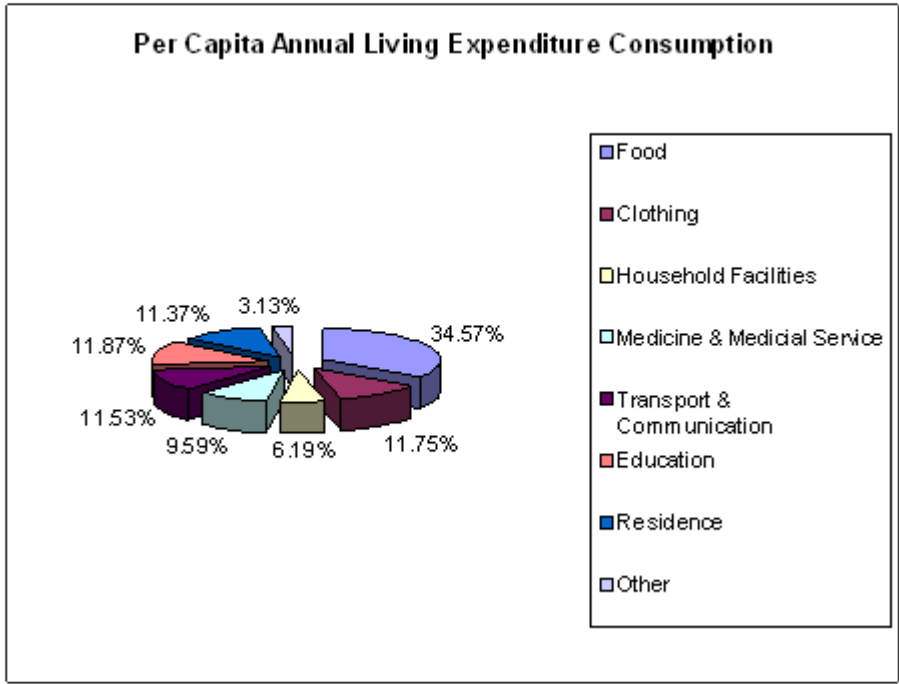
Economic Development

Hebei's economy grew steadily in 2008 reaching \$233.6 billion, an increase of 10.1 percent over the previous year. Although this number is high, the growth rate was 2.7 percent lower than the year before. Despite rapid development, agriculture continues to be an important sector. It contributed \$29.36 billion in GDP or 12.6 percent of the total. Hebei's location and history have fueled a substantial tourist sector which attracts visitors from nearby Beijing and Tianjin to historical sites and the famous resort of Beidaihe, which is located near Qinhuangdao. According to Hebei's current development plan, tourism revenues will account for 8 percent of GDP by 2020.

Per capita GDP reached \$3,353.39 in 2008, up 9.3 percent from 2007. Despite this, incomes are much lower than in neighboring Shandong Province where incomes reached \$5,255 in 2008.

Comparison of Northern China Provincial Growth Rates

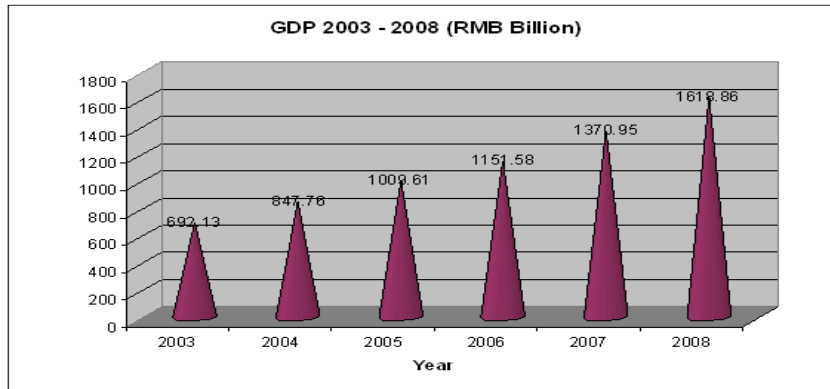
Province	Growth Rate of GDP in 2009	Rank
Hebei	10.00 percent	25
Shanxi	5.50 percent	31
Inner Mongolia	16.90 percent	1
Shandong	11.90 percent	17
Henan	10.70 percent	22



Strong economic growth was a result of the multiple stimulus plans by local as well as the central governments.

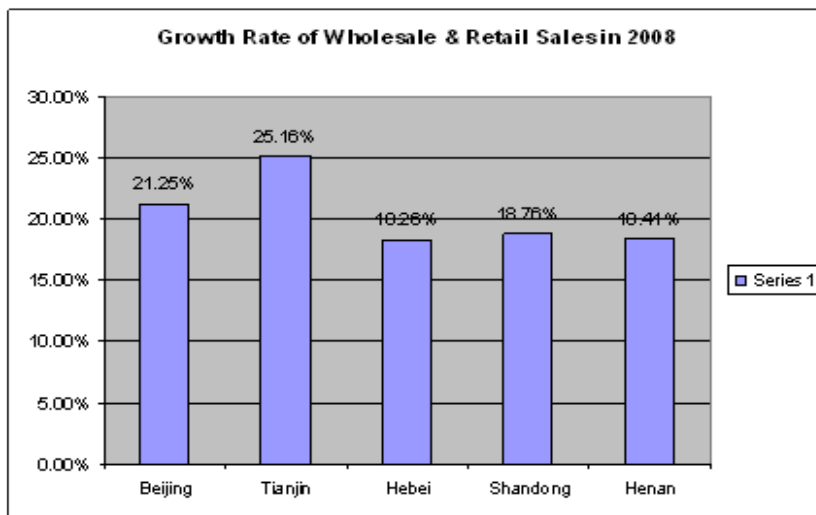
Hebei is part of the Circum-Bohai-Sea Region along with four other provincial capitals: Beijing, Tianjin, Shandong and Liaoning. This area is China’s third fastest growing region after the Pearl River and Yangtze River Delta Regions. Within the zone, China continues its preferential financial, industrial and land policies in support of local development.

For example, the Caofeidian Development Zone located in Tangshan has been particularly active. Based on local media reports, China’s port construction, steel, and power industry giants plan to pour \$28.2 billion into the development of infrastructure and construction in Caofeidian. To date, \$9.5 billion has been invested in 105 infrastructure projects adding 200 million tons of port handling capacity to the zone. This has attracted industry giants such as the Beijing Capital Iron and Steel Group while other state-owned conglomerates such as PetroChina and Huadian Power Group are planning major investments in the area. According to the Hebei’s long-term development blueprint, the zone will become the largest steel production center in China by the end of 2010.



The Retail Sector

The retail business has developed quickly in Hebei Province despite being almost dominated by local Chinese companies. This local dominance in retail was especially remarkable in the capital of Shijiazhuang. In this city, strong and well-managed local retail outlets have taken prime locations and won the consumer loyalty. This has made Shijiazhuang a challenging area for international retailers. Despite this, the city's retail market is booming and many upscale retail outlets are setting up with special imported food sections or shelves to attract upper and middle class consumers. These outlets often feature chocolates, candy, cookies, snack food and wine. Confectionary products are also popular.



Imported food products can be sourced in third tier cities such as Tangshan and Qinhuangdao although the products are somewhat limited to cookies and snack foods originating mostly from Korea and South-East Asia. Outside Shijiazhuang international retailers have made some inroads. Taiwan-based

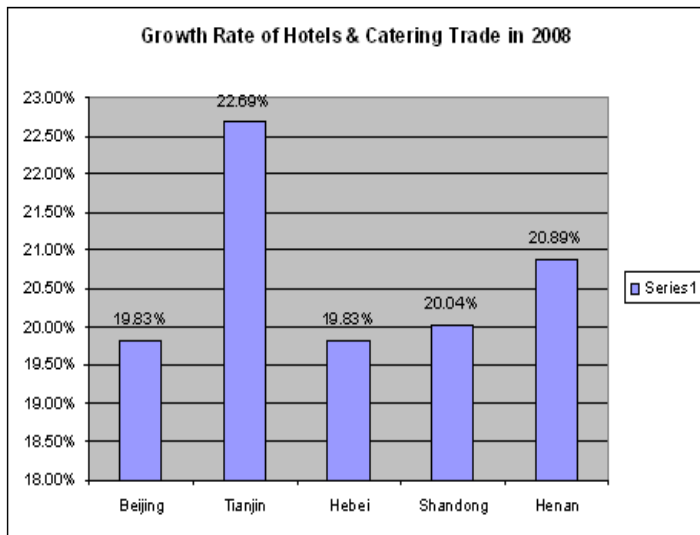
RT-Mart operates the most popular retail outlet in Tangshan while Wal-Mart, Carrefour and Jusco are now in the process of developing outlet locations and operations.

Tesco just secured its first location in the new Life Space Shopping Mall in Qinhuangdao this past January. Tesco owns the land and rents store space to better allow the company to control operation costs. The store has a special imported food shelf featuring cereal, pasta, seasonings, canned food, cookies, beverages and imported wine.

The HRI/Food Service Sector

Most of the hotels in Hebei are operated by local companies with only one five star hotel in Shijiazhuang operated at an international standard. Holiday Inn is the only international hotel operator in Hebei with one property located in Qinhuangdao. However, some international chain operators are exploring possible locations in Hebei Province as first tier cities markets mature and emerging city market incomes increase.

Western fast-food is popular in Hebei with KFC, McDonald's, and Pizza Hut easily accessible in the downtown area of Shijiazhuang, Tangshan, Qinhuangdao and Chengde. However, these international fast-food brands mostly attract the young while Chinese cuisine still dominates the market in other demographics.



The Food Processing Sector

The food processing industry has developed rapidly in Hebei Province over the past five years given its abundant agricultural production, energy resources and low operation costs. In 2007, food processing reached \$20.3 billion in terms of total output value and ranked seventh in China. It was up 26.92

percent over the previous year. Primary products are dairy, noodles, wine, wheat flour, MSG, cookies, edible vegetable oil, meat products and beverages. Dairy and fast food noodle production output ranked second in China.

As a result of the infamous melamine scandal of 2008, the San Lu Production Facility based in Shijiazhuang, local authorities have increased food safety oversight and regulation. San Lu itself was bought by San Yuan, a company not implicated in the melamine scandal. Local authorities have also implemented education campaigns targeted at local retailers and consumers to educate them about food safety. However, improvements are hit and miss. ATO Beijing was not allowed to visit the plant.

Major Cities in Hebei Province

Shijiazhuang

The provincial capital is the fastest growing city in Hebei and a major transportation hub and economic center. It is the crossroads between Beijing and Guangzhou, Taiyuan and Dezhou, and is home to major transportation links such as the Shuozhou-Huanghua railroads, and the Beijing-Shenzhen and Taiyuan-Cangzhou Expressways.

The city is a major center for China's pharmaceutical and textile industries. The local retail and HRI sectors continue to grow vigorously, especially over the last five years. In 2008, total retail sales of consumer goods reached \$14.7 billion, increasing 22.4 percent over 2007. This is the highest growth in a decade. In addition, HRI sector revenues reached more than \$1.45 billion in 2008 which was a 27.4 percent increase over 2007. It seems that the economic crisis did not affect Shijiazhuang in a significant way.

Tangshan

Tangshan has a history of more than a hundred years and its name comes from the nearby Dachengshan Mountains. The city was rebuilt after an 8.2 Richter scale earthquake in 1976 killed more than 240,000 people. The quake flattened the entire city – save for two buildings. Tangshan today is an important center for heavy industry dominated by machinery, motor vehicle, chemical, textile, glass, petroleum, and cement production. In 2008 Tangshan's GDP reached \$50.38 billion ranking first in Hebei and 19th in China. Per capita GDP reached \$6,817 although income gaps are very large because of sharp income difference between business owners and residents who work in the mineral and steel businesses. While the old city center dates back to just after 1976, the local government is building a

new town on the Northern side of the city called New Phoenix Town. While much of this has been driven by China's ongoing property bubble, the construction is also a result of an ongoing surge of new money into the city. As a sign of this, the Shangri-la Hotel Group is currently looking for a location in New Phoenix.

Qinhuangdao



Qinhuangdao is the primary port of Hebei Province which was a co-host city for the 2008 Beijing Olympics Soccer Games. Qinhuangdao also includes the famous resort area of Beihaiide beloved by Beijingers and senior government officials. It's essentially the Camp David of China. The port is the largest coal shipping port in China. With recent expansion, its capacity reached 209 million metric tons last year. In addition, the China Ocean Shipping Co, China's biggest shipping company, expects to spend \$49 billion on further port development over the next five years as the industry tackles bottlenecks created by China's unprecedented economic boom.

In 2008, Qinhuangdao's GDP reached \$11.81 billion with an increase of 12 percent compared with 2007. Total retail sales of consumer goods reached \$3.51 billion, which was up 21.2 percent compared with 2007. In addition, HRI industry revenues reached \$480 million, up 21.7 percent over the previous year.

Post Contacts and Further Information

For further information about this market, please contact the following USDA offices in China.

Agricultural Trade Office (ATO), Beijing
No. 55, An Jia Lou Road, Beijing, China, 100600

Ph: (8610) 8531-3950

Fx: (8610) 8531-3050

E-mail: atobeijing@fas.usda.gov

Office of Agricultural Affairs (OAA), Beijing

No. 55, An Jia Lou Road, Beijing, China, 100600

Ph: (8610) 8531-3600

Fax: (8610) 6532-2962

E-mail: agbeijing@fas.usda.gov

Animal and Plant Health Inspection Service (APHIS), Beijing

No. 55, An Jia Lou Road, Beijing, China, 100600

Ph: (8610) 8531-3030

Fx: (8610) 8531-3033

E-mail: osvaldo.perez@aphis.usda.gov