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Qingdao Update

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Report Highlights: The strong and vibrant Qingdao economy continues to drive food, beverage and agricultural product markets which are expected to grow significantly over the next decade. As local income increases the product mix in demand continues to become more diverse, especially for high-value food products. Central and local government effort to develop Qingdao's economy; co-hosting of the 2008 Olympics, and an ever-rising quality of life have all combined to produce excellent market opportunities for food and age products. Increased direct imports via the port of Qingdao, improved distribution, a rapidly expanding urban middle-class as well as increasing demand for high-quality, safe food makes Qingdao a market that U.S. food and agricultural product suppliers can not afford to ignore.

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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 the nation, the coastal and medium-sized city of 7 million boasts the number one ranking for quality of life in all of China.

Qingdao, Shandong Province Map



Qingdao acts as the industrial heart of Shandong Province as well as a regional economic driver. The unique combination of German and Chinese architecture in the city centre, combined with modern high-rises and freeways, along a coastline of sandy beaches, rocky uplands, ever present and picturesque cypress trees, give Qingdao a distinct ambiance not found anywhere else in China. Famous for the beer bearing its name, Tsingdao Beer, is one of the most popular Chinese beers abroad and at home. As a co-host of the 2008 Beijing Olympics, the City of Qingdao continues to benefit from a prolonged and ambitious urban makeover in preparation for the Olympic Games.

A beautiful coastline, highly temperate climate, and most pleasant environment in general, Qingdao often attract expatriates who wish to live and work there. Among a diverse and a vibrant expatriate community, Koreans in particular seem to find this city welcoming, friendly and comfortable. At the end of October 2007, there were an estimated 150,000 Koreans living in Shandong with 85,000 in Qingdao alone. Korean schools, hospitals, restaurants, shopping malls make Qingdao a very convenient and comfortable Korean expatriate city. Qingdao boasts the highest level of Korean investment and number of citizen of any Chinese city.

Qingdao, a Booming Economy

Qingdao continues to experience rapid economic growth, and over the past five years GDP growth averaged 17 % reaching \$52.6 billion in 2007. Urban per capita income increased nearly 16.5 % in 2007 over 2006. Farmer per capita incomes also increased 14.2 % with per capital consumption rising 12 %. Major industries in Qingdao include: textiles, railway equipment, rubber goods, fertilizer, chemicals, and food processing (not to mention beer). With authority to administer the local economy and investment, Qingdao has played an important role in the development of not only its own economy, but China's economic well-being. As a result, foreign investment in the city, estimated above \$30 billion, and boasts an impressive portfolio of international firms including Coca-Cola, AT&T, L-G, Lucent Technology, Nestle, Nike, and Mitsubishi. At the end of 2007 some 78 Fortune 500 companies were involved in nearly 150 projects in Qingdao including electronics, communication equipment, chemicals, textiles, and food & beverage valued at \$3.6 billion. In addition to international brands, Qingdao is also home to some of China's most famous brands: Haier, Hisense, Tsingtao Beer and Huadong Wine, etc. A number of these electronic, home appliance, vehicle and food processing brands have become the city's economic life support system and

contribute more than 70% of Qingdao's economy with some local Qingdao brands achieving international brand recognition. Ranked as Number 1 among China's top 10 Global Brands by the Financial Times, Haier's home appliance and consumer electronics are making their way into the homes of consumers in more than 100 countries globally.

Qingdao ranks as one of the fastest growing and wealthiest cities in all of China with rapidly increasing salaries translating into higher disposable income. However, there is still room for income expansion and distribution. One of the largest seafood exporters and most important aquatic product processing base in China, Qingdao has made large improvements in a variety of areas including cold storage facilities and processing technologies to meet international standards. Most processed seafood is destined for overseas markets such as the Republic of Korea and Japan, but Europe as well as the US is a significant market. Despite a FDA ban on 5 species of seafood 2007 in the US, seafood and processed seafood exports are the largest in terms of value among all Qingdao's agricultural product exports. In recent years, Qingdao has also become an important center for poultry product and other meat processing.

Qingdao Port - A Window to the World

Air routes and land transportation are highly efficient in Qingdao, making the city one of the major transportation pivots or hubs in the Yellow River Valley. In addition, Qingdao 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 relations with more than 450 ports globally. Qingdao imports nearly 20 % of China's agricultural products from the US each year. Currently, Qingdao has China's largest crude oil and iron ore terminals, and is the largest single container port. It ranks second in China for container handling capacity, and is a major international-regional sea route. In 2007, the Port of Qingdao handled a total value of about US \$21.6 billion in imports and exports, ranking No.2 and No. 4 respectively in China for these categories. In addition, Qingdao is China's largest refrigerated container port, with a total capacity of 393,000 refrigerated containers as well as the nation's largest cold storage facility open in October 2007. The new warehouse which includes a 60,000 ton cold storage capacity should continue to support increases in container through put significantly. Current plans call for a similar cold facility to open sometime before the end of 2009.

A Prosperous Retail Industry

Over the past few years, Qingdao's food retail sector has gone through substantial development with a rapid rise in the number of supermarkets and hypermarkets. Like many other cities in China, modern supermarkets and hypermarkets have become a destination 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. The realization of the city's significant retail market potential, competition between international as well as domestic retailers is fierce.

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
	Wal-mart	U.S.	1
	Metro	German JV	1
	MaiKaile	Dalian Da-shang	1
Supermarkets	RT Mart	Taiwan JV	1

	Liqun	State-owned	15
	Parkson	Malaysia JV	1
Convenience Stores	Liqun	State-owned	50

Source: ATO Beijing

Among retailers in Qingdao, Carrefour and Jusco are the two major players in terms of sales revenue and number of shoppers. Both retailers carry a good representation of imported products compared to many other Emerging Market or second tier Cities in China even though imports as a percentage of total inventories are still relatively low. Jusco, located in downtown Qingdao has the largest dedicated shelf space for imported food and beverage products in the city. However, local retailer Liqun Group has begun featuring imported items in its stores as well as doubled the number of outlets in Qingdao over the past few years. As the number of middle-class consumers expand, Qingdao retailers tend to target the mid-high-end market segments. It should also be noted Sunshine Department Store, a premier luxury shopping destination in Qingdao, opened its own supermarket in November 2006 featuring imported products of which nearly 80% were of US origin. According to one of the stores major suppliers, breakfast cereal, cheese, canned soup, salad dressing and corn chips from the US are hot selling items. Historically, most food imports have been supplied via coastal cities, such as Guangzhou or 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 content with small volumes supplies via other cities and instead import products directly to supply Qingdao and other Shandong cities. Thus, local importers enjoy the benefits of lower costs, improved product quality and delivery, 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. In the first 10 months of 2007, sales of the top 10 retailers in Qingdao experienced rapid growth of nearly 22% with sales revenue reaching US \$2.64 billion.

A growing economy, rising incomes, overseas investment and trade interest continues to drive the imported food market in Qingdao. In large part, cultural factors influence the way newly affluent *Qingdaoese* spend and consume. The purchase of imported products for consumption as gifts provides "face" or status and is often considered fashionable as well. According to our interviews with several local traders in Qingdao who currently import or distribute imported food products from overseas including the US, the outlook for imported food-beverage product consumption increases in Qingdao appears to be promising over the next few years. However, there is still a large void to fill with regard to increasing consumer awareness of US food and beverage products. Marketing campaigns focusing on product availability and how to use the product is highly recommended by the local trade.

A City with Traditional and Modern Tastes

Like most Chinese in North China, Qingdao residents traditionally consume most meals at home. However, as disposable incomes as well as living standards increase, larger number of *Qingdaoese* are dining out for family gatherings, special occasions or just for fun. In 2007, Qingdao's food service sector revenues reached US \$2.35 Billion or nearly 6 times that in 2000. In particular, Qingdao residents favor fresh seafood. Seafood restaurants such as Yiqinglou, Haimengyuan are others are extremely popular restaurant in Qingdao. While Qingdao Cuisine is a dominate food preference but not the only one, given the large presence of authentic Japanese and Korean restaurants due to a large number of expatriates from Korea and Japan. Korean Restaurants are considered to be in vogue in Qingdao with the city boasting the largest number of authentic Korean restaurants in China. Korean and Japanese populations introduced new foods and tastes to Qingdao's indigenous population as well as support a market for Western cuisine with a number of such restaurants taking off

over the past several years. Restaurants such as French La Luna, and Italian Salvatore and Muranos are often frequented by expatriates and locals with a craving for something new or western.

At present, few imported food ingredients can be found in Chinese Kitchen restaurants with Western Kitchen restaurants the dominant users of food imports. According to several chefs we interviewed at western cuisine restaurants, most wines, produce, seafood, and ingredients are imported. Five star hotels are also primary users of imported food and wine. Qingdao has a number of five-star hotels, including the Shangri-la, Crown Plaza, Hai Tian, Surf Plaza Resort, and Huiquan Dynasty Hotel's as well as the newly opened Copthorne Hotel Qingdao. Internationally managed hotels, such as the Shangri-la, Crown Plaza, and Copthorne are likely some of Qingdao's largest volume users of food imports. The Alaska Seafood Marketing Institute (ASMI) regularly organizes menu promotions at the Shangri-la Qingdao although Qingdao is a major seafood processing center. According to the Deputy General Manager of Huiquan Dynasty Hotel, Qingdao hotels are trying to modernize and improve management as well as develop new food service options to stay competitive. For example, Huiquan plans to use imported foods as part of regular menu offerings to attract more upper-end customers.

Tourism and travel are also significant drivers of domestic and imported food consumption in Qingdao. Ranked as one of the top Chinese tourist destinations and the most popular city by international visitors, Qingdao's tourism industry is booming. An ever increasing flow of international and domestic travelers continues to diversify as well as improve the local mix of food options. Renowned "Yunxiaolu" and "Mingjianglu" food streets in Qingdao are packed daily with tourists as well as locals looking for unique dining experiences. In recent years, there has also been a rapid boom in Western-style pubs, cafes as well as strong growth in hotel and stand-alone restaurant development. The 2008 Olympics, co-hosted in Qingdao, is expected to provide a large boost to China's tourism and Qingdao appears very well positioned to benefit as well as expand its tourism sector onto the international stage.

Seafood's the Rave

A positive future for Qingdao and its seafood industry stems from the role of seafood in modern China. Given China views seafood as an important protein source, eating seafood constitutes an essential part of the traditional Chinese diet. Per capita seafood consumption has increased annually, nationally as well as in Qingdao where residents spend up to 5 % of disposable income on seafood-seafood products. Growing incomes and greater product accessibility drive the seafood market according to a recent market survey with quality more important than price for a majority of consumers. While a majority of seafood consumption takes place in restaurants, the trend of at home seafood consumption is increasing. Norwegian as well as Alaskan salmon are two of Qingdao's favorite fin fish products.

Global Games Help Local Renewal-The Olympic Affect

The 2008 Olympic Games sailing events will be held at the Sailing Centre of Fushan Bay in Qingdao. The City has invested US \$464 million in the development of the Olympic Sailing Centre with plans to turn it into a holiday resort after the 2008 Olympics. In addition, infrastructure development in preparation for the Olympic Games has been an engine of economic development. The municipal government has invested heavily in reconstruction of aging buildings in order to present the City's beautiful coastline in a highly attractive way. Over the past 5 years, the government spent nearly US \$30 million annually improving air quality alone. Preparations for the Olympics has brought great change and many improvements to the city and attracted high levels of overseas and domestic investment.

Summary

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



Contact Information and Additional Resources

For further information about the North China and China market, as well as updates on upcoming events, activities, programs and developments please visit our website www.usdachina.org or contact one of USDA's six Offices in China:

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