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Shandong Snapshot

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Report Highlights: Shandong Province, China's leading agricultural production and export base has continued to enjoy significant and long term growth over the last decade. With a population of more than 93 million, the Province provides enormous trade opportunities for the US food and agricultural product export trade. The focus of this report is an overview of the three major-fastest growing Emerging Cities of Jinan, Yantai and Weihai after Qingdao.

Includes PSD Changes: No
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Shandong: A Promising Market

Shandong (literally East of the mountain) takes the name from its location to the East of the Taihang Mountains on China's East Coast in the lower Yellow River Valley (see map to the right). The industrial base of Shandong includes oil extraction, food processing and manufacturing, machinery, electric power generation, chemicals, textiles, arts and crafts, etc. Industrial output is dominated by heavy industry yet the province is a cradle for many national light industry giants. Shandong is home to a number of famous local brands such as Haier Electronics, Hisense Electronics, Tsingdao Beer, etc. The Province ranks third, only behind Zhejiang and Jiangsu, in the number of "Chinese Famous Brands." With rail a primary driver of the Province's huge transportation network, its highway system is one of the most developed in all of China with modern roads connecting all major areas of Shandong Province with other major highways and arteries reaching every part of China.



Major cities include Jinan, Qingdao, Yantai, Weihai and Rizhao with Qingdao and Yantai the two largest port cities in Shandong. The 2008 Beijing Olympic Games water sports events will be held in Qingdao and the city has been preparing with a makeover for several years running. Shandong, rich in culture and history, as well as gifted with beautiful landscapes and productive agriculture provides some of the best scenery in China and is home to Mount Tai, Laoshan Mountain, Jiaodong Peninsular Coast, Confucius Family Mansion, and Confucius's Woods and Temple in Qufu. Traditional specialties include clocks and watches from Yantai, porcelain of Zibo, Weifang Kites, and Qingdao shell-carvings as well as Qingdao Beer!

Economic growth in Shandong slowed slightly in 2006, but the Province remains one of China's fastest growing regional economies. GDP growth for 2006 was about 14.7%, down from 15.2% reported for 2005. Shandong appears to be maintaining growth momentum, and recent growth rates remain above the reported 13.2% average between 2001 and 2005. Shandong has consistently outperformed the Chinese Economy since the advent of economic reform in the late 1970s, with double-digit rates of annual output growth from its secondary and tertiary industrial sectors leading the way. Foreign Direct Investment (FDI) in Shandong is the third highest in China and post rates Shandong's long term growth as highly positive.

Shandong is one of the largest consumer markets among all of China's provinces. Retail sales increases of 17.6% for the first 10 months of 2007 and a whopping 19.8% increase in revenues was reported in Shandong's HRI sector benefiting from tourism related spending. Strong consumer income gains in Shandong have helped spur higher levels of consumer spending with spending averaging well above the national rate over the past few years. Post believes these spending levels will be maintained through 2008 based on a number of factors related to Foreign Direct Investment as well as the upcoming Olympics preparations.

This report focuses on the three major areas or cities of Shandong Province after Qingdao which include: Jinan (provincial capital), Yantai (Shandong's second largest port), and the

historically rich costal city of Weihai. For additional information on Qingdao, please refer to: Qingdao Emerging City Market Report CH 6414 available online at: www.fas.usda.gov

Jinan

Jinan, capital of Shandong Province on China's East coast, is the provincial political, economic and cultural center. Nearby to the south is Mount Tai, officially recognized by the United Nations as a World Heritage Site. To the North is the Yellow River, which is called the "Cradle of the Chinese Nation". Thanks to its long history, Jinan has been designated by the State Council as a famous historical and cultural city and boasts a number of natural springs amid picturesque scenery and is known as the "City of Springs." (See photo to the right which shows the famous Baotu Spring in Jinan)



Jinan is a major transportation pivot for North China located in the western part of central Shandong Province at the juncture of the Beijing-Shanghai and Qingdao-Jinan railways. The Qingdao-Jinan expressway shortened the distance considerably between the two cities to the current 4 hour drive. Leading industries in Jinan are machinery, textiles, iron and steel, chemical and food processing. Jinan is also an important wholesale distribution center in Shandong with 206 wholesale and 343 agricultural product markets operating there.

Yantai

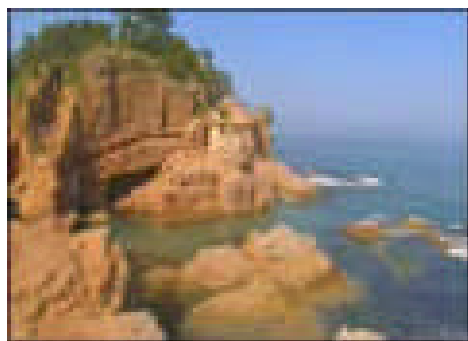
Yantai, with a population of 6.35 million plus, is located on the East tip of Shandong bordering the yellow Sea and Bohai Bay. The city lies directly across the sea from Korea and Japan with Yantai having become China's new gateway to the Northeast. The area integrates both regional and national air, land and sea transportation networks. Ranked as the 12th largest port in China, the government has plans to develop the region more given its strategic position. Based on plans released by the Ministry of Communication and National Development & Reform Commission, development of the Bohai Bay Area into a metropolitan coastal port hub will rival the Yangzi and Pearl River Deltas as early as 2010. The plan is to integrate Yantai's development as a container pivot with expanded operations in Dalian, Tianjin and Qingdao as major ports in the region. One of the more unusual transportation concepts being developed is a transoceanic railway project featuring use of water barges to ferry fully loaded cargo trains across the Bohai Bay between Yantai and Dalian. This would effectively make Dalian an extension of Yantai's network. This route could become a valuable link connecting Yantai not only to Russia and the natural resources and heavy industry of Northeast China but with Jiangsu, Shandong, and Zhejiang Provinces in the south.

Yantai's business environment gets very high marks although the more economically robust Qingdao often eclipses Yantai. None the less, the rich costal city is experiencing an economic boom as it develops a large manufacturing base and emerges as a logistical and distribution hub connecting the Northeast with the Coast. The climate is very temperate with mild winters and summers, and is well-known as a summer resort destination. As with other areas in Shandong, Yantai is famous for its hot spring which attracts over 100,000 inbound tourists from some 30 countries annually. In addition, the city is famous for its "immortal, sea, mountain, island and ancient culture" and considered a national tourist destination.

Weihai

Located at the eastern tip of the Shandong Peninsula, Weihai is a well-known port and tourist destination. It was also one of the first costal open up cities as well as first national model

cities for environmental protection. On the same latitude with San Francisco, Weihai is surrounded by the sea on three sides, facing Liaoning Peninsula to the North and the Korean Peninsula and Islands of Japan to the East. It is the



“doorway” to Beijing and Tianjin, and therefore bearing the label of “Costal Front of China”. With four seasons distinctively different, Weihai enjoys a very agreeable climate. The city has been named for several years running as one of the 500 most livable cities in the world by the United Nations given its cleanliness, nice weather, and beautiful environment. Weihai is ranked as one of the most environmentally friendly cities in China and is famous for its beautiful coastline and pristine beaches. Only an hour from Korea, the city is flooded with South

Korean tourists who bring with them their food culture, and other products. It is estimates that the resident population of Weihai is approximately 20% Korean.

The following table shows primary economic indicators for Jinan, Yantai, and Weihai.

Economic Indicators for Shandong's Major Cities (2006)

Cities	GDP (US Billion)	Per Capita GDP (RMB)	Retail Sales (US Billion)	Export value (US\$ Million)
Jinan	29.1	4,853	12.5	2,439.5
Yantai	32.1	4,943	9.3	8,798.7
Weihai	18.3	7,314	4.4	6,010.8

Source: Shandong Statistical Yearbook 2007

China's Agriculture Hub

Recognized as one of the China's leading agricultural production bases, Shandong is famous for a variety of agricultural products such as wheat, corn, cotton, vegetables, fruits, peanuts, etc. The Province is not only the leading food supplier to the rest of China, but a major agricultural product export base as well. In 2006, total agricultural exports from Shandong Province reached US\$10.6 billion or a 21.6% increase compared to 2005 and continues to rank as the number one agricultural exporting province in China for 7 consecutives years. Both peanuts and poultry account for more than half of China's agricultural exports.

Yantai is the home to many of China's fruits and vegetables with a wide variety of products including apples, pears, grapes and cherries, vegetables, and chestnuts produced there. Among these Red Fuji Apples account for more than 9% of total output and 4% of total Chinese fruit exports with 250,000 tons of vegetables exported annually from Yantai. Geographic location, favorable weather and good soil conditions all combine to make Yantai an ideal place for horticultural production including wine grapes. Yantai boasts more than 10,000 hectares of vineyards and the Yantai Changyu Company is the largest winery in China as well as enjoys the largest domestic market share of wine sales. In addition to Changyu there are more than some 150 wineries that have evolved in the area over the last several years, producing nearly 40% of China's total wine output. Weihai enjoys one of China's largest aquaculture and fishery products base as well accounting for 25% of the City's GDP. It is also an important base for peanut & fruit production in Shandong.

As an agricultural production base, Shandong has developed strong food manufacturing and processing industries. According to the Shandong Statistical Year Book, there were a total of 3,446 food processors and 945 food manufacturers in Shandong Provinces at the end of 2006, ranking it among the nation's largest food processing and manufacturing bases.

A Booming Retail Market

Overall, Shandong Province represents about 8% of China's total retail market. Reported retail sales in Shandong increased 17.6% during the first 10 months of 2007, 1.4% higher over the same period in 2006. Retail sales in urban markets reached USD 70 billion compared to 23.7 billion in rural markets in the major commercial centers located in Jinan, Qingdao, Yantai, and Weihai. Food retail market development in Shandong shows continuing strong growth. Companies from nearby Japan and Korea have also invested heavily in the development of provincial infrastructure, including the 'cold chain' creating highly ideal conditions for continued retail expansion. Carrefour, RT Mart, Wal-mart, Metro and Jusco are all present with Taiwan-based RT Mart having opened more than 10 stores in Jinan, Yantai and Weihai over the past 3 years. As well, RT Mart established its northern China Distribution Center in Jinan in 2007. SPAR, the largest voluntary retail chain in Europe, entered the China market after signing an agreement with Shandong retailer Jiajiayue Supermarkets in 2005, opening its first store in China in Weihai. The Li Qun Group, the largest local Shandong retailer has doubled the number of its stores over the past few years. Food and wine imports in supermarkets are still somewhat limited in these cities compared to Beijing, Shanghai etc, yet consumers show a willingness to try new products and pay a premium for high quality products. In April 2007, ATO Beijing organized a 10 day Great American Food Promo with RT Mart in North China including 7 stores in Jinan, Yantai and Weihai. According to one of the major product suppliers participating in the promotion, breakfast cereals, cheese, canned soup, salad dressings and corn chips all from the United States were all very hot selling items in Jinan, Yantai, and Weihai. Interestingly, the large wave of Korean visitors and expatriates often bring with them a penchant for a variety of American products such as breakfast cereals, etc.

Home of Lu Cuisine

As one of the 8 major cuisines of China, Shandong Cuisine, also known as Lu Cai, boasts a long history and far-reaching implications for modern food preferences. Shandong Cuisine can be traced back to the Spring and Autumn Period (770-221 BC) and quickly developed in the South and North Dynasty (960-1279) and was widely recognized as an important cooking style during the Qing Dynasty (1644-1911). Lu Cai is representative of northern China's cooking and has been widely absorbed into northeast China's food. The Cuisine, known for its wide variety of ingredients and cooking methods is mainly comprises of two styles: Jinan Style from the inland which encompasses dishes from Jinan and the surrounding region famous for its soup; and Jiaodong Style which encompasses dishes from Qingdao, Yantai and other coastal cities characterized by seafood and light flavors. The restaurant industry is highly developed, but lacks knowledge of imported products and cooking methods. For the most part, only 4 and 5 star international hotel and a very few western restaurants currently use imported food, beverage and food ingredient products in these cities. Further education and chef and food service training with regard to western cooking and use of imported food and food ingredients in local terms is highly recommended for industry groups and exporters.

Market with Great Potential

As a market for imported products, Jinan, Yantai and Weihai are still small relative to both their populations and incomes, but are growing very rapidly. The market is underdeveloped

for imported foods products and competition comes almost entirely from local products given Shandong is China's largest agriculture production base with local supplies highly competitive in terms of quality, price and availability. However, based on several ATO Beijing market development activities in Shandong over the past several years, post believes consumers, particularly those in the mid-high income range, view imported food and beverage items as a distinct and separate category of product although it appears some food imports could be easily substituted at much lower prices. Consumers tend to view food and beverage imports as healthy, trendy and important to a modern lifestyle. As well, imported food products are commonly purchased as gifts during holidays, festivals and special occasions.

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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