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## China, Peoples Republic of

### Market Development Reports

### Shanghai Goes Out On the Town

### 2004

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**Report Highlights:**

Shanghai's economy has continued to grow at a blistering pace. One of the beneficiaries of that growth has been Shanghai's restaurant industry, which is one of the most developed in China.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Shanghai ATO [CH2]  
[CH]

## Boomtown

With a population now estimated at over 20 million and a 2003 GDP estimated at over \$650 billion, Shanghai is one of China's top commercial centers, along with Guangzhou and Beijing. Like Guangzhou, Shanghai is surrounded by a web of satellite cities with populations in the millions and incomes far above the national average. Shanghai is the gateway to the Yangtze River, providing access to cities deep within China, and its port is now the third largest container port in the world, behind Singapore and Rotterdam.

## Food Service Overview

The economic boom has echoed throughout Shanghai's catering sector, already one of the most developed in China. Unfortunately, no single clear statistical series for the sector exists, and publicly available statistics are updated irregularly. The figures that are available, however, provide considerable insight. Revenue figures for the 'catering industry' show a large industry that is growing at an astonishing rate, but with extremely narrow profit margins.

Table 1. Shanghai Catering Sector Revenue (US\$million)			
	2000	2001	2002
Revenue	441.4	527.6	655.6
Growth rate		19.5	24.2
Total profits	-1.57	15.11	12.21
Source: Shanghai Statistical Yearbook, 2003 table 14.21.			

Revenue statistics are only available for the most recent three years. GDP statistics for the industry as a whole are available over a longer period of time, and provide a good idea of the long-term growth rates, although some figures are not available past 2001.

Table 2. Shanghai Gross Domestic Product by Sector (US\$million)						
	1990	1995	1999	2000	2001	2002
Catering*	53	217	571	651	754	na
Hotels & Eateries**	na	na	na	na	1425	1674
All statistics are from the Shanghai Statistical Yearbooks, 2001 – 2003. *The statistical series for catering was discontinued after 2001. **The statistical series for Hotels & Eateries began in 2001.						

## Restaurants

High incomes and a food-oriented culture have made Shanghai's restaurant sector a vital part of the city's economy. According to government statistics, the total number of registered corporations in the catering industry stood at 30,361 with 271,501 employees in 2002. Of this, roughly half of the registered companies are classified as 'main meal' restaurants and account for over 70% of catering employment. The other categories include 'fast food' (10% of registered companies and 10% of employment) and 'other' (mostly food stands and informal stalls accounting for 42% of registered companies and 18% of employment). Anecdotal evidence indicates that a significant number of informal eateries do not appear in the official statistics. However, these are generally at the extreme low-end of the spectrum, and therefore unlikely to make use of imported ingredients.

Shanghai's restaurant sector presents many good opportunities for food exporters. There are opportunities for products at almost every conceivable level, as restaurants range from small, informal stalls with

prices in the range of \$1-2 per meal, all the way to exotic seafood restaurants with prices well over \$100 per person. Chinese business culture places a premium on over-the-top shows of generosity, helping to fuel demand at the extreme high end. While western-style restaurants may make the most tempting target for

U.S. exporters, ATO/Shanghai has seen considerable success in introducing U.S. food ingredients as an integral part of Chinese dishes. Exporters interested in this segment can contact ATO/Shanghai directly to learn about upcoming menu promotions with local restaurants (ATOShanghai@USDA.GOV). Another useful approach is to contact the relevant industry cooperator: cooperators such as the U.S. Meat Export Federation conduct menu promotions and chef seminars both in conjunction with and independent of ATO activities.

Western-style restaurants have increased rapidly in both numbers and quality, and Shanghai now boasts the only Michelin-rated restaurant in mainland China. Growth in western food has been so rapid that the city is now facing a shortage of trained western chefs, with the Shanghai Cooking Association and the Shanghai Bureau of Labor now working to train western chefs locally to meet the demand. There are over 1,000 western-style restaurants registered in Shanghai.

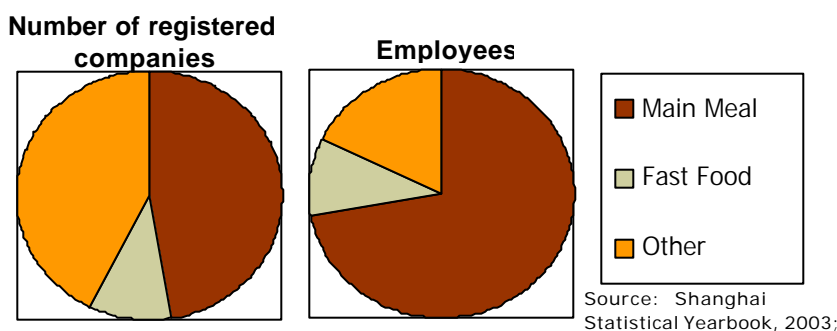
Another important trend in Shanghai's restaurant sector is the emergence of middle and high-end restaurant chains. Because they have the backing of a well-established company, chain restaurants are seen as guarantors of high quality food rather than as venues for value dining. The combination of chain-store buying power, high quality standards and good management makes these emerging chains strong candidates for imported food ingredients and menu promotions. U.S. industry cooperators and ATO/Shanghai routinely work with chain restaurants in Shanghai to develop dishes using U.S. ingredients and develop menu promotions.

## Hotels

Shanghai's hotel sector is extremely advanced, and expanding rapidly: at the end of 2002 there were 319 star-rated hotels in the city, including 20 five-star hotels with many more under construction. While this has led to speculation that the luxury hotel sector is overweight, top-end hotels continue to profit, with the China Tourist Hotels Association reporting that five-star rated hotels were the most efficient and profitable, due to higher occupancy rates. The same report indicated that a rapid recovery in the sector had nearly erased the earlier economic damage caused by the SARS scare. At the height of the panic, hotels across the city reported occupancy rates in the single digits. Hotels were assisted in their recovery by the municipal government, which provided support through a reduction in fees and taxes.

The hotel industry in Shanghai is heavily weighted toward high-end hotels catering to Chinese elites and foreign businessmen and tourists. This makes the hotel industry an ideal entry point for new-to-market foreign food ingredients. Top-end hotels favor western cuisines and often hire western chefs for their elite restaurants. Initial demand from these hotels helps to get new products established on local distributors' supply lists, and thus

**Chart 1. Shanghai Catering Industry, 2002**



available to other buyers. They also serve as models for lesser but aspiring hotels and western restaurants, who frequently copy promotions and dishes seen in the elite hotels. Outside of hotel restaurants, many high-end hotels provide complimentary fruit to their customers, with the high-end hotels showing a strong preference for imported products. Most hotels source product through a local distributor, so efforts to promote new products may require working with both the hotel and the distributor. A list of distributors in the Shanghai area is available from ATO/Shanghai. Another good means of making contact with hotel operators is through HRI-focused trade shows such as Food and Hotel China. ATO/Shanghai provides support for the U.S. pavilion at many of these shows. Contact ATO/Shanghai directly for information on upcoming trade shows and how you can participate.

### **Institutional/Food Service**

Institutional food service in Shanghai is not as well developed as either the hotel or restaurant sectors. Although there is a thriving industry that provides '*hefan*' boxed lunches, the target price for these meals is under \$1 each, making them a poor candidate for imported products. Likewise, school lunches tend to emphasize price, though the government's efforts to improve nutrition in school lunches may open opportunities for nutritious snacks such as almonds, dried plums and dairy products. Another potential bright light is at the high end of the boxed lunch market, boxed lunches re-sold at retail, where at least one company has expressed interest in including imported products. Airline catering rounds out the institutional food sector, but again the focus tends to be on bottom-line cost. Further, domestic airlines reduced or eliminated food service on many domestic flights during the SARS crisis, and do not appear to have restored service to pre-SARS levels. Opportunities should improve as the industry recovers, and U.S. raisins and nuts have made it into the sector. In addition, the Food and Hotel China trade show this September will include an in-flight catering component. Nonetheless, opportunities for the near future are likely to be limited primarily to snack items such as nuts and dried fruit.