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Voluntary - Public

**Date:** 3/18/2010

**GAIN Report Number:** CH 0807

## China - Peoples Republic of

**Post:** Shanghai ATO

### Suzhou Profile Update

**Report Categories:**

Market Development Reports

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**Report Highlights:**

Suzhou's history stretches back 2,500 years, making it a tourist destination and cultural center. In the past decade, it has also become renowned for its fast-developing economy. ATO staff reported on Suzhou in 2004 and 2007. This report is an update on the city, with more emphasis placed on prospects for non-food agricultural products from U.S. in Suzhou. Suzhou GDP ranks No. 1 in second tier cities in China in 2009, following the four big giants of Shanghai, Beijing, Guangzhou and Shenzhen. It ranks even higher in industry revenue, import & export value and foreign investment attracted. Its ties with the U.S. are also getting tighter in several business sectors.

<b>Suzhou At a Glance (2009)</b>	
Population	8.01 million (Permanent residents) 6 million (Non-permanent residents) Estimated the total population is over 14 million.
GDP	\$ 98.1 billion (Suzhou) \$ 498.7 billion (Jiangsu Province)
GDP growth rate	13% (Suzhou) 12.4% (Jiangsu Province)
GDP/Capita	\$ 12,112 (Suzhou) \$ 6,400 (Jiangsu Province)
Major Industries	IT and software, electrical and mechanical engineering, bio-pharmaceutical, textiles, fine chemical, precise-machinery, food manufacturing, new energy, construction materials
Key Agricultural Products	Rice, wheat, mulberry and fruit, silk
Major Food Retailers	Century Lianhua, RT-Mart, Wal-Mart, Auchan, Carrefour, Lotus, Tesco

*Source: Jiangsu Statistics Bureau  
US dollar vs. RMB: 1:6.83*

## **General Information:**

### **City Profile**

Suzhou's history stretches back 2,500 years, making it a tourist destination and cultural center. In the past decade, it has also become renowned for its fast-developing economy. ATO staff reported on Suzhou in 2004 and 2007, and many features of the famous city can be found in GAIN Reports-CH 4804 and CH7816. This report is an update on the city, with more emphasis placed on prospects for non-food agricultural products from U.S. in Suzhou Municipality.

Suzhou ranked No. 5 in terms of GDP in China in 2009, after Shanghai, Beijing, Guangzhou and Shenzhen. Its import & export value amounted to \$ 225 billion, ranking No.3 in China after Shanghai and Shenzhen. Its industries revenue hit \$ 292.8 billion in 2009, ranking No. 2 after Shanghai. Industry contributed over 60% of its GDP, followed by the service sector, which contributed about 38% of the GDP in 2009.

Suzhou encourages the development of high-tech industries including IT, bio-pharmaceuticals manufacturing, and precision machinery manufacturing. The fact that laptop computers manufactured in Suzhou account for 45% of global production makes the citizens of Suzhou very proud.

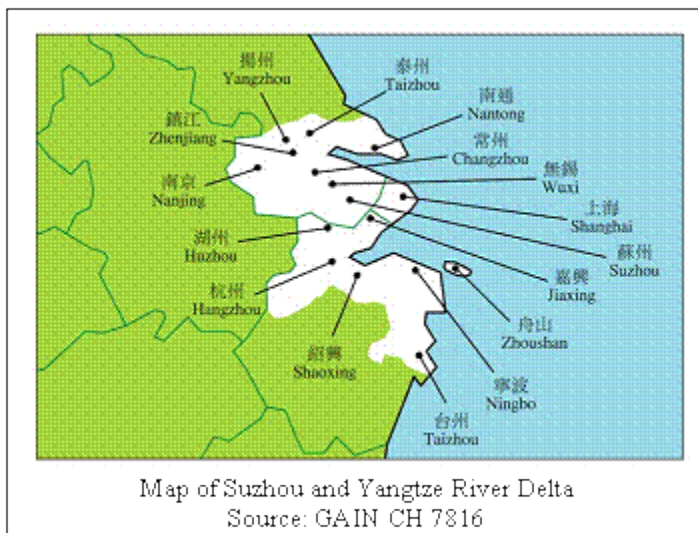
Suzhou's agriculture revenue has been shrinking and now constitutes less than 2% of its GDP. The "New Village Construction" project effectively transformed individual household farming to large scale farming, releasing rural labors and boosting urbanization. Suzhou recently set up a "Three Million Mu (Chinese acre)" plan for its agriculture sector. The plan calls for one million Mu of aquaculture, one million Mu of rice and one million Mu of economic crops such as tea and landscaping nursery products. The plan aims to meet market demand and increase farmers income. To take advantage of its favorable location, the local government is also developing sightseeing agriculture,

known as agro-tourism, where people from adjacent urban area can pick fruits, go fishing and enjoy a farmer's life in a resort which also produces agriculture products.

## Suzhou's Economy

Three key words that describe the economy of Suzhou are foreign investment, high-tech, and transformation.

### Foreign Investment



Today's Suzhou not only includes the five districts of the old urban area of Suzhou city, but also includes five county-level cities -- Zhangjiagang, Changshu, Taicang, Kunshan and Wujiang, roughly arranged in a line from the northwest to the southwest of Suzhou. In its territory of 8,488km<sup>2</sup>, Suzhou has created 5 national level and 10 provincial development zones for foreign investment. By the end of 2009, there were over 20,000 foreign enterprises in Suzhou, with paid-up foreign investment amounting to \$ 8 billion,

ranking Suzhou No.2 after Shanghai in China. 136 Fortune 500 enterprises have established facilities in Suzhou.

Since China opened its door in the early 1980s, Suzhou has initiated a series of policies aimed at attracting foreign investment and supporting the private economy. The foresight and planning has paid off. Suzhou has witnessed tremendous expansion in foreign investment and international economic co-operation. One of the most successful examples is the Suzhou Industrial Park (SIP), which was jointly set up by Chinese and Singapore governments fifteen years ago. It has generated over \$ 14.6 billion in taxes, and absorbed nearly \$16 billion in foreign investment, creating around 500,000 jobs.

When asked why Suzhou was so successful in wooing foreign investment, local government officials pointed to its proximity to Shanghai, a series of preferential business incentives, and the logistical benefits offered by the industry cluster in the Yangtze River Delta. Most importantly, the Suzhou government is very confident of the “software” they provide to investors. They believe it is the “software” that differentiates them from many other development zones, which focus on “hardware” or

the infrastructure of the investment environment.

Due to Suzhou's long history as a prosperous trading center in China, Suzhou's entrepreneurial class understands good business practice and the significance of credit management. Suzhou Municipal Government policies reflect this business acumen, and feature three "pro-business concepts". These are "Qin Shang" - providing one-stop service to investors to reduce their administration cost and protect legitimate interests and rights of investors when there are legal conflicts, "An Shang" – enrich the social and cultural life of investors and expatriates families, and "Fu Shang" – help investors to make profit. The "software" has proved invaluable to the sustainable growth of Suzhou's private sector and its appeal to foreign investors.

### High-tech and Transformation

Suzhou tried to position itself as a cluster of high-tech industries, and to this end the Suzhou New & High-tech Industrial Development Zone (SND) was inaugurated by the central government in 1992. It's one of the first national level high-tech park of its kind, and the first open to APEC economics in China. It is located to the west of the city's old town, and east to Lake Taihu.

SND encourages technology companies to locate within the zone. Thus far it has attracted over 1,500 companies. Ninety per cent of the zone's products are state-of-the-art in their category. The concentration on high-end industries paid off in 2009. Despite the difficult economic conditions, foreign trade with SND increased by 11%, and actual foreign investment increased by \$ 850 million. The zone has encouraged investment in the following industries: automobile production/assembly, biotechnology, pharmaceuticals, building/construction materials, computer software, and medical equipment and supply.

To maintain its status as an area with active independent technology innovation and service, Suzhou's government is encouraging industrial transformation in recent years. Suzhou is seeking to make multiple development of its modern service sector, and advanced manufacturing sector. Suzhou hopes to develop emerging industries in bio-pharmaceuticals, new energy, and environment protection technologies.

### **Suzhou - Logistics Center of the Yangtze River Delta**

One of the thirteen prefecture cities of Jiangsu province, Suzhou borders its great neighbor Shanghai on

the east and three cities of Zhejiang province on the south. As the gateway to Jiangsu and Zhejiang provinces, and only 90 km from Shanghai, Suzhou has long enjoyed the benefits of being on the doorstep of China's economic powerhouse.

Suzhou is the logistics center of Jiangsu Province thanks to its favorable geographical location. It is conveniently linked by several highways including the Huning (Shanghai-Nanjing) Expressway and the Suzhou-Hangzhou Expressway. The Sutong Yangtze River Bridge, opened in June 2008, connects Nantong city and Changshu. This makes Changshu, a part of Suzhou, a new transportation hub between north and south Jiangsu. Suzhou is also an important stop on the Beijing-Shanghai Railway line, and the Jinghu Railway linking Shanghai and Nanjing.

Suzhou's local airport is principally a military base and is only partially used for civil transportation. However, the three nearby airports, including Wuxi Shuofang Airport, Shanghai Hongqiao International Airport and Pudong International Airport, provide convenience to both domestic and overseas passengers.

Suzhou also has abundant water resource, including many canals, rivers and lakes. The city's waterway is one of the most convenient means of transportation for passengers and cargo. Most importantly, Suzhou has three high quality ports at Zhangjiagang, Changshu and Taicang. Zhangjiagang port is a cargo port and has complete infrastructure and accessory facilities. The port has more than 10 terminals of 10,000-50,000 tonnage and has the annual storage capacity of 4.5 million tons. Zhangjiagang Port sees millions of tons of U.S. soybean unloaded and crushed. Taicang Port is also a cargo port that receives both international and domestic cargo ships. It owns a national level log fumigation site, which is the only one in the entire Yangtze River Delta area. Logs and lumbers from Russia, Canada, New Zealand, Australia and U.S. are imported through Taicang port for processing. Changshu port serves the nearby development zones and SIP.

## **The tie between U.S. and Suzhou**

### **Investment and Trade**

Among the 20,000 foreign enterprises located in Suzhou, around 15% are from the U.S., with an estimated investment value of \$ 5-7 billion. Many Fortune 500 American enterprises have established presence in Suzhou, these including GE, Solectron Corporation, Black & Decker, Altria Group (Philip Morris), Nabisco Food, Eli Lilly and Company, Baxter, Honeywell, Emerson Electric Co., Delphi Corporation, 3M, Dupont, and Eaton Corporation.

According to local government statistics, between Jan-October 2009, American funds accounted for 4% of the paid-up foreign investment during this period. The other major investing countries are Japan, South Korea, Germany, France, Denmark, Holland and Singapore.

During Jan-Oct 2009, Suzhou imports from the U.S. totaled \$ 4.1 billion, an increase of 2.6% over the same period of the year before. Imports of U.S. agricultural products amounted to \$ 837 million in 2009, representing an increase of around 300% over 2008. The U.S. is the biggest agricultural products exporter to Suzhou. According to local government statistics, 128 enterprises in Suzhou imported products from U.S. in 2009, and 88 of those imported American agricultural products. The main directly imported agricultural products from the U.S. were soybeans, frozen pork and pork offal, feed additives, licorice juice, and frozen chicken wings.

#### Soybean – the No.1 direct import from U.S. in Suzhou

China is a large processor of edible oils. China's soybean meal and soybean oil consumption have been rising at double digit annual rates since 1999. China is also the largest export market for U.S. soybeans.

Many large oil seed crushing plants were built along the east coast of China to take advantage of the easy transportation combined with port facilities and the extensive network of railways and highways. Among them, the COFCO East Ocean Food & Oil Industries Co. (East Ocean) located at Zhangjiagang in Suzhou, is the world's largest oil crushing plant. It has a daily crushing capacity of 12,000 metric tons, and is the most advanced oils and grains processing base in Asia.

Agricultural imports from the U.S. to Suzhou reached \$ 837 million in 2009. Over 90% of that amount was imports of soybeans, most of which was due to East Ocean.

ATO Director and staff visited the port of East Ocean in Zhangjiagang and met with their senior executives. East Ocean was established in 1993 as a joint venture between state-owned China National Cereals, Oils, and Foodstuffs (COFCO) and Archer Daniels Midland (ADM). It processes and refines soybean, wheat, and rice to produce oils, flour, and a variety of other processed foods. The company sells its oil products under the Fortune, VITOIL, and Four Seas brand names. The Fortune brand targets at 1<sup>st</sup> tier cities such as Shanghai where consumers care more about brands, while VITOIL and Four Seas brands target at 2<sup>nd</sup> tier and 3<sup>rd</sup> tier cities, where consumers are more price sensitive. In addition to serving the domestic market, the company exports select products throughout Asia and is making inroads in European markets.

East Ocean has an annual crushing capacity of 3.9 million metric tons. The company executive admitted that there is excess capacity along the east coast of China, due to the density of oil crushing plants in this area. Some plants are only using 60% of their capacity, while East Ocean is currently

using about 85% of its capacity. Talking about future development plans, the company executives explained that East Ocean would like to increase its storage capacity, expand production of specialty oils and flavored packaged rice. These moves would enhance their competitive edge.

East Ocean also expressed concerns about the decline in the quality of American soybeans. They complained that in recent deals, American soybeans had more impurities but lower protein content than beans from Brazil and Argentina. However, they also stated that the company understands that product quality matches the prices that the customer offers. As the negotiation on price always takes place in Beijing at COFCO headquarter, East Ocean does not have much power of choice on what grade of soybean they want to purchase from the U.S.

### Wood

Taicang Port is the second national level log fumigation site, after Putian Port at Fujian Province. Its annual fumigation capacity is 2 million cubic meters. It is also the only log fumigation site in the whole Yangtze River Delta area. About 80% of the SPF (spur, pine and fur) logs imported through Taicang Port in 2009 were from Russia, which was followed by Canada, New Zealand and Australia.

Starting in early 2009, Taicang Port began importing Alaska logs from United States. It was the first Chinese port that imported Alaska logs. Alaska logs are used for door & window manufacturing, piano manufacturing and construction materials.

Many wood processing companies, and some wood products wholesale markets- including Fu Ren Forest Products Market- have set up branches in Suzhou. This allows them to take advantage of the convenient transportation, preferential policies, and lower land and labor cost available in Suzhou.

Haihua Group is a leading interior decoration company headquartered in Shanghai. The company has completed interior decoration projects for many famous hotels. These include Four Seasons in Shanghai, Le Meridien She Shan Hotel, JW Marriot in Tomorrow Square, Park Hyatt in World Finance Center in Shanghai and many other high-end residential projects. It is also one of the official contractors for interior decoration projects at the 2010 World Expo in Shanghai. We visited their furniture plant in Taicang. It was moved from Shanghai in the early 2000s due to the preferential policies offered by the Taicang government, and its convenient location.

For each major hotel and residential decoration project, they built a sample room in the plant. These were not only used to demonstrate the concept but can also be used as a real hotel room. Haihua imports huge amounts of hardwood veneer (including black walnut, cherry and hickory) from the United States to manufacture high-end furniture in the five-star hotels they decorated. All furniture is manufactured according to orders from those hotels. The furniture is largely designed by the world's top designers, with details finished by Haihua designers. The fine furniture displayed in the luxury

hotels serves as an excellent demonstration of the high quality hardwood veneers from United States, and stimulates further demand for these products in China.

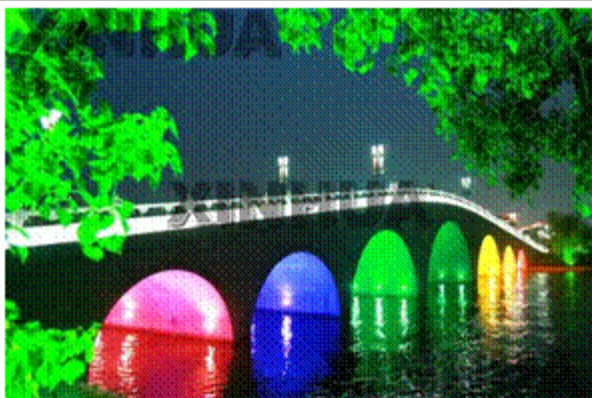
As a city traditionally known for craftsmanship in wood processing, several of Suzhou's own enterprises lead their industries. Suzhou Gold Mantis Construction Decoration Co., Ltd. (Gold Mantis) is an example. It decorates, designs, builds and as works as a contractor. It was founded in Suzhou in 1993. It is the first publicly listed company of its kind in China, and has ranked No.1 in "Top 100 Construction Decoration Enterprises in China" for the past five years. With a 600-designer team, the biggest in China, Gold Mantis has gained many awards and prizes. It has worked on many national level projects, including the Bird's Nest Stadium for the 2008 Olympics and the National Theatre in Beijing. It is also strong in hotel decoration, and many hotels of the Shangri-la Group were decorated by this company.

To meet demand for its numerous interior decoration projects, Gold Mantis has a wood products manufacturing plant in Suzhou. Several materials, including alder, poplar and veneers are from United States.

## **HRI Sector**

Historically known as "Paradise on Earth", and famous for the high volumes of the foreign direct investment in recent years, Suzhou is expanding its hotel sector rapidly. Although not a 1<sup>st</sup> tier city in China, Suzhou is definitely a top city in terms of the number of international hotels. Sheraton, Marriot, Shangri-la, Kempinski, Crown Plaza, Sofitel, Howard Johnson, Inter-Continental, Holiday Inn, and Hyatt all have a presence in the city. According to local government statistics, Suzhou currently has 20 five-star hotels and 28 four-star hotels. It is expected that another 20 five or four star hotels will open in the next five years.

There are 902 star hotels in total in Jiangsu Province, and 156 are located in Suzhou. A total of 23,000 hotel rooms are available in the city.



Night view of the seven-color bridge at Li Gong Di  
Restaurant Street  
Source: Xinhua News Agency

In addition to the international hotels, Suzhou also has certain boutique hotels. Some of these enjoy unique characteristics and favorable locations. For example, the Yuting Boutique Hotel has the most expensive hotel rooms in Suzhou, thanks to its unique location at Li Gong Di along Jin Ji Lake, a famous scenic spot. On the other hand, chain value hotels including Super 8 and Motel 168 have also set up branches in Suzhou to host visitors requiring



inexpensive lodging. Local Suzhou value hotels are developing well under three brands – Su Xiang Men Di, Su Xiang Ren Jia, Su Xiang Shi Jia.

While local restaurants continually refine traditional Suzhou cuisine, a branch of Huaiyang Cuisine, the Suzhou restaurant industry is open to authentic food from other parts of China and foreign countries. In addition to the traditional restaurant clusters at Guanqian Street, the emerging Japanese Restaurant Street and Li Gong Di Restaurant Street are almost “must go” places for visitors who want to experience modern Suzhou lifestyle. During Jan-Oct 2009, restaurant industry revenue in Suzhou reached RMB 17.9 billion (\$ 2.6 billion), 13.5% higher than the same period the year before.

Authentic western food can be found in most four or five star hotels. Some independent western restaurants, TGI Friday’s and Zapata’s for example, are popular. Frozen pork and chicken products, frozen potato products, cheese & butter and seafood (salmon and king-crab) from the U.S. are frequently used in those restaurants. U.S. wines do not have a strong presence. Drinking wines at business occasions is still a face issue in Suzhou like many other cities in China, and French wines are still widely perceived as of the best quality.

Most restaurant sales in five-star hotels is from business or government banquets in private rooms, not from the individual customers in the open area. A chef we interviewed commented, “Businessmen and government officials between 45-55 years old decide the business of the restaurants in star hotels”. As consumers are attaching increasing importance to quality and lifestyle, price is becoming less important when good marketing and good quality are combined in a product.

Executive chefs from five-star hotels in Suzhou are eager for new ingredients and innovative recipes. According to one contact, a successful case is that Lamb Western developed some innovative zero-trans fatty acids products, which proved appealing to star hotels and local restaurants. Star hotels play the role of pioneers in new ingredient utilization, and once they are successful, other restaurants will soon follow. Some five-star hotel chefs we have communicated with expressed strong interests in cooperating with ATO on hosting chef training and menu promotions.

A glance of major hypermarkets in Suzhou

Name of Retailer	No. of outlets
Century Lianhua	9
Walmart	1
Carrefour	6
Metro	4
Tesco	2
RT-Mart	10
Auchan	3
Lotus	1

Source: ATO Shanghai research

## Retail Sector

Total retail sales of consumer goods in Suzhou during Jan-Oct 2009 amounted to RMB148.4 billion (\$ 21.7 billion), an increase of 18% over the same period last year. Sales of food contributed 35% of the total retail sales in Suzhou.

In 2009 chained retail outlets expanded rapidly in

Suzhou. Wal-Mart opened its first store, Carrefour increased its three outlets to six, RT-Mart opened three stores and now has 10 outlets in Suzhou, and the opening of Auchan's phase II store increased its total business area from 9,000 m<sup>2</sup> to 18,000 m<sup>2</sup>. According to the local government, another ten supermarket/hypermarkets have submitted proposals and expect to open in 2010.

This is not a blind fever. The chained retail giants have many reasons to support their plan for expansion in Suzhou. Four of the top 5 outlets of great performance in the RT-Mart stores are located in Suzhou. Auchan Suzhou has been the No.1 store among its 32 outlets in China for several years. Carrefour Suzhou has also ranked high in the Carrefour China outlets for many years.

Most retail giants in Suzhou attribute their success to the rapidly growing buying power of Suzhou people. In most of these international retailers, there are "import food" aisles. Independent food stores in high-end department stores such as Jiuguang and Mei Luo Cheng located in the busy Central Business District (CBD) areas serve as another important outlet for imported food and drinks. Discussions with the staff of the hypermarkets and independent food stores revealed that, although Suzhou has a large population of expatriates and returned overseas Chinese, local young generation people who enjoy good quality food and are pursuing a western lifestyle contributed most to the sales of import food products.

There is a broad line of import products available in these stores, from biscuits and cookies, to condiments & sauces, from cheese and fresh milk to wines and beers, and from fruits to tree nuts. Most retailers admitted that import packaged snack food are their best sellers. However, European and Japanese products dominate this category. U.S. fruits and tree nuts enjoy a sound presence, and U.S. brand infant formula, though many of them are packaged in China, are very popular among Suzhou consumers.



Refrigerated truck of Suzhou Eurofoods

Like in many other cities, imported products sell best during holiday seasons, when people choose to purchase imported food as gifts for their families and friends. Imported foods from developed countries are widely perceived to be of better quality, healthier, and safer than their domestic counterparts in Suzhou. Giving import food products as gifts is regarded as "having face", an important and desirable position in China.

Because Suzhou is close to Shanghai, many

Shanghai importers and distributors- including Nanpu and Kui Chun- have extended their business to Suzhou. Local Suzhou distributors are emerging and developing fast. Euro-Foods (Suzhou) Trade Co., Ltd, a leading distributor in Suzhou, shared their success story with us. While earlier working for a well-known Shanghai-based food importer, the senior executive of Euro-Foods gained a good understanding of foreign food products and food import practice and procedures. Thanks to its good relationship with importers based in Shanghai and the local Suzhou HRI and retail sectors, Euro-Foods now plays a very important role in supplying imported food ingredients to star hotels, restaurants and retailers in this prosperous city. Euro-Foods is dealing with over 1,000 SKUs of import products, and nearly 25% are from United States. As part of their innovative business practices, they set up a huge products showroom, which serves both as a product demonstration and as a retail outlet. Knowledgeable about food safety and food quality concepts, Euro-Foods also owns 6 refrigerated trucks for distribution of frozen and perishable imported food products.

Small independent food stores and convenience stores located in expatriate communities in development zones are emerging as a new platform for imported foods and drinks. Although they operate in a limited area, these outlets are seeing steady growth as customer demand is consistent and preferences are rather stable.

### **Best sales prospects for U.S. products in Suzhou**

Suzhou: Best Product Prospects		
Product	Market Segment	Notes
Frozen pork and chicken products	HRI	Already has good awareness and stable distribution. Sales are influenced by trade barriers but will recover soon after barriers are lifted.
Fruits	Retail	Already present in the market and have built up awareness. Varieties are rich. In-store display looks good.
Wine	HRI and Retail	Imported wine consumption is on the rise in Suzhou. Group purchasing is emerging as an important distribution channel. Wines priced between RMB 100-500 sell best. U.S. wines suffer from low awareness. Competition is mainly from European and Australian wines.
Snack Foods	Retail	Imported by major importers/distributors in Shanghai, Beijing and Shenzhen. Younger generations who are greatly influenced by TV commercials advocating western lifestyles are the main consumption segment. Facing strong competition from European counterparts.

Infant food and milk powders	Retail	The one-child policy has made Chinese parents very generous in baby food purchases. Main competition is from European and Australian brands. Local competing brands are weak due to insufficient consumer confidence.
Potato products	HRI	Already present at most western style restaurants and well received. Will increase volume steadily with the expansion of western restaurants, fast food restaurant and coffee bars.
Cheese	HRI and Retail	Enjoy great market potential with a large expatriate population in the city. Also face strong competition from European and New Zealand cheese.
Beef	HRI	Enjoy high awareness and good reputation among chefs. Will have good opportunities once it regains access to the China market.

### **Planned ATO activities**

ATO Shanghai will continue to facilitate Suzhou's import of agricultural products, including non-food products such as soybean and wood, from the United States. ATO Shanghai will also explore opportunities to work with five-star hotels on chef seminars, cooking demonstrations, and menu promotions. To further strengthen distribution channels in Suzhou, ATO Shanghai will help U.S. food suppliers and importers from Shanghai set up direct trade contacts with local distributors, restaurants, and retailers, and support their efforts to promote the packaged products from U.S.

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