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Hangzhou: A City For All Seasons

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Report Highlights:

Hangzhou is rapidly emerging as one of the most prominent cities in China, both in terms of its business environment and as a tourist destination. Riding on a blistering 15% GDP growth rate, it was rated by Forbes Magazine in 2005 as having the best business environment in China. A beneficiary of Shanghai's logistics and distribution infrastructure, it is an excellent potential market for imported foods, where the primary obstacle is competition.

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Introduction: On Top of The World

Hangzhou is an ancient city that combines a modern business environment and infrastructure with outstanding living conditions and a booming tourism industry. Forbes Magazine's Chinese edition rated Hangzhou as the best city to do business in, in both 2004 and 2005, based on the combination of living standards, infrastructure and business friendly (i.e., transparent) regulation. This city of 6.5 million has an average per capita income of \$4,580 and a total GDP of \$31 billion, making it one of the wealthiest cities in China. The city owes much of its prosperity, both now and in the past, to its strategic location in the heart of the Yangtze River Delta (YRD), just 150 kilometers south of Shanghai. Hangzhou is the capital of Zhejiang province, which has a population of 46 million and is one of the wealthiest provinces in China. Hangzhou's booming tourist industry owes its strength to the city's location on the famous, scenic West Lake. It is now also building a reputation in information technology, software development, telecommunications equipment and other electronics.



Hangzhou combines a rich history with an increasingly sophisticated economy, making it one of the top cities to watch for the future.

Background: Blessed by Geography and History

Hangzhou is famous throughout China for its beautiful scenery and the West Lake. In addition to the lake and several rivers, the city is nested against a range of bamboo-covered hills to the west and south, Hangzhou Bay (which connects to the Yangtze) to the east, and plains to the north. The city has numerous parks and green spaces, giving it a much more relaxed, liveable feel and clean environment that most large urban areas in China. With a subtropical monsoon climate, it experiences temperate weather all year round. The key to the city's economic prosperity is its central location in the Yangtze River Delta (YRD). The YRD has emerged as one of China's two economic powerhouses (the other is the Pearl River Delta centered on Guangzhou), accounting for some 25% of China's total GDP, by even conservative estimates. At the center of the YRD is the city of Shanghai, with a population of over 20 million and one of the best-developed logistics and distribution networks in the country. Hangzhou is linked to Shanghai and the other cities of the YRD by a modern, sophisticated network of expressways and railways. Travel time to Shanghai is roughly 2 hours by either road or rail, and many products imported into Hangzhou are shipped through Shanghai. Hangzhou's Xiaoshan International Airport serves regional hubs throughout East Asia, while nearby Shanghai Pudong International Airport receives flights from across the globe.

At about the time that Marco Polo allegedly visited Hangzhou, calling the city "beyond dispute the finest and the noblest in the world", historians calculate that it had over 1 million people and was the most populous city on the planet. Hangzhou is one of the seven ancient capitals of China and it is also well known for its Long Jing (Dragon's Well) green tea. Silk has been central to the Hangzhou economy for centuries and it is the starting-point of the ancient Silk Road. Hangzhou also became the Southern terminus of the Beijing-



Hangzhou is also a top tourist destination.

Hangzhou Grand Canal, supplying the North of China with its rice and vegetables.

A Modern Marketplace

In 2004, 53 Hangzhou-based companies made it onto the list of China's top 500 companies. Reasons to set up shop in Hangzhou include lower real estate prices and less traffic congestion than Shanghai, and a healthy balance of private capital and foreign investment. Originally famous for silk, textiles are still an important part of Hangzhou's industry. The city is becoming an increasingly popular tourist destination, however, with tourism revenues reaching \$3.6 billion in 2004. This traffic includes a growing number of foreign tourists, who accounted for some \$1 billion of those revenues, making an estimated 1.2 million person-trips in 2004. Higher education is also central to the economy, including one of China's largest universities (Zhejiang University), continually feeding the local economy with a pool of new graduates. Dubbed a "Mecca for IT Firms", Hangzhou is fast becoming an information technology and software development hub. 2004 saw a 42% increase in sales from software production to \$2.44 billion.

Although Hangzhou, along with the rest of the YRD, is heavily urbanized, it has a long history of agricultural production. The most famous products to come from this region are its silk and the famous LongJing green tea, from the village of LongJing in the hills just west of the city. These industries are still present, though the LongJing tea in particular has suffered heavily from competition by low-priced counterfeits. In volume, the key agricultural products of the Hangzhou area include rice (6.9 MMT in 2004), sugar (1.06 MMT), pork (217 TMT) and aquaculture (140 TMT). Note, however, that Zhejiang is not a major center for sugar refining: much of the cane grown in this area is used in cooking the traditionally sweet local cuisine.

Hangzhou cuisine is recognized as one of the eight major Chinese cuisines. Widely known for its use of fresh and clean ingredients, it is often characterized as having light and natural flavors. Although sweet, it is less sweet and oily than the cuisine of nearby Shanghai, and much less so than Suzhou. Chicken, fish, shrimp and green vegetables are the most favored ingredients, but the dishes include a wide range of different flavors, and chefs are always ready to innovate. Famous dishes include Beggar's Chicken, West Lake Carp (in a sweet-and-sour sauce), Longjing Shrimp, Dongpo Pork, and stewed duck.



Sectoral Analysis

Hotel, Restaurant and Institutional:

As the home to one of China's most famous cuisines, Hangzhou is definitely a city of gourmands. There are over 9,700 licensed restaurants and an unknown (but very large) number unlicensed eateries in the city, as well as over 300 cafes serving high quality food and drinks. In addition, there are hundreds of bars and nightclubs throughout the city that feature imported drinks and often imported snacks. The restaurant industry is very well developed, suffering mainly from a lack of familiarity with and proper handling and preparation of imported ingredients. Because of the city's fame as a center for cuisine, most visitors are interested in sampling local dishes. Only a handful of restaurants in the city have truly international menus. As a result, the best strategy for promoting food imports is as ingredients in local dishes, emphasizing both the high quality and new possibilities that such imports make possible. Among local residents, however, American-style fast food is

becoming increasingly popular, and has created a strong market for certain imported products such as frozen potato products and corn on the cob.

The hotel industry represents the cutting edge of cuisine in Hangzhou, and innovations pursued by hoteliers are often imitated by local competitors. In 2004 there were 203 hotels with a star-level rating in the city. This included eighteen 4-star and seven 5-star hotels (the Continental Grand, Radisson Plaza, World Trade Center Grand, Sofitel Westlake, Zhejiang International, Shangri-La, and Hyatt Regency). One 5-star hotel reported that its clientele this past year consisted of approximately 68% mainland Chinese, Hong Kong residents and Taiwanese; 18% Japanese; and 12% Westerners. The hotel industry is growing rapidly, and within just the next 2 years the number of 5-star hotels is expected to double. These hotels are important importers of high-quality foodstuffs, including meats, wine, beer, spirits, cheeses, pastries, baking ingredients, butter, specialty oils, coffee, jams and condiments.

Retail:

Hypermarkets, supermarkets and convenience stores are quickly evolving to look more like Shanghai. Growth has continued, but retailers appear to be relying heavily on new stores to fuel sales growth. One hypermarket manager described sales for old stores as relatively flat. Wal-Mart entered Hangzhou in October 2004 and is now in the process of establishing 3 stores in the city. With Wal-Mart's entrance, the world's largest food retail chains are now all represented in Hangzhou, increasing competition as well as variety for Hangzhou consumers. Wal-Mart's three stores will bring Hangzhou's previously somewhat anemic hypermarket sector closer to the level of Shanghai. Tesco is represented through its acquisition of shares in Taiwan-run Hymall, which has a number of stores throughout the region, mostly targeting mid-market Chinese consumers.

Expected Number of Major Hypermarkets and Supermarkets in the Coming Year	
Carrefour	1
Metro Cash and Carry	1
Lotus	1
Auchon	1
Wal-Mart	3
Hymall	4
Century Lianhua	Several dozen
Trustmart	4
Wumei	2

Domestically-owned supermarkets in Hangzhou underwent considerable consolidation in 2004 and 2005, when Shanghai-based Lianhua acquired several local supermarket chains, including Jia You and Jie Bai. Lianhua is China's largest food retailer, but the chain has acquired a very large number of smaller chains over the past few years, and appears to be having some difficulty integrating them into its management structure. Wenzhou-based Renben merged with local Baoyu. Although Renben-Baoyu acquired 9 supermarkets in 2004 it closed 8 in 2005. Chinese-owned supermarkets are typically smaller than their western counterparts, often functioning more in the role of corner grocery stores.

Prospects

Although Hangzhou is a prosperous and wealthy city, the market for imported foods remains underdeveloped relative to Shanghai. This, combined with the explosive growth in the international hotel industry in Hangzhou, bodes extremely well for future growth. Exporters who have already established themselves in Shanghai will find this a particularly favorable market, as it shares both tastes and distribution networks with Shanghai.

ATO/Shanghai has conducted both retail and HRI-focused activities in Hangzhou in the past year. In HRI, the products with the best growth potential include meat, seafood, wine and condiments, as well as coffee and similar products. Top hotels have expressed a strong interest in broadening their menus to include the best imported ingredients, regarding a top-

notch and innovative menu as being far more important to their customer base than price. Zhejiang province is also home to one of the most active provincial chef associations in China, and ATO/Shanghai has worked closely with the Zhejiang Chef Association to recruit elite chefs for training in the handling and preparation of US food ingredients on several past occasions.

At the retail level, the standard assortment of US dried fruit, nuts and frozen corn that are common to Shanghai is also widely available in Hangzhou. Experience has led ATO to believe that the retail food market for imports in this city may be underserved, however. In an ATO-organized nationwide retail promotion with 24 Carrefour stores, the Hangzhou store ranked 7th in sales, second only to stores in the far larger cities of Shanghai (four stores) and Beijing (two stores), and ahead of Guangzhou. In addition, the Hangzhou store was extremely aggressive in recruiting distributors and products for the event, ultimately carrying far more items than originally agreed. The arrival of Wal-Mart in this city is only likely to sharpen competition even further. Retailers have expressed an interest in imported breakfast cereals, microwave popcorn, canned sauces, and fruit drinks, as well as cheese.

Competition for US high value food products has traditionally come from third-country exporters, but improved quality has made domestic products increasingly competitive. For example, competition for Alaska wild salmon, has traditionally come from lower-cost farmed Norwegian salmon. In recent years, however, the quality of local farmed salmon has improved significantly. As in other parts of China, counterfeiting and inferior products are still a problem, as it is in other major cities, though not to the extent that it is further inland. Two recent cases of inferior imported product affecting most major retailers and hotels operating in Hangzhou involved a coffee brand and a type of bottled water.

Although demand for international dishes is growing quickly and prospects look good for continued growth, international cuisine represents only a very small fraction of the prepared foods market. To achieve commercially significant sales, imported ingredients need to be incorporated into local dishes appealing to local tastes. U.S. beef, for example, achieved its greatest success as an ingredient in Hangzhou-style dishes. Additionally, local distributors see products that are relatively new to the market and with few substitutes as having good prospects. Furthermore, there is significant potential growth in prepared foods. Rising income levels and two-income families are seeking ways to save time, and various ready-to-eat or heat-and-eat meal solutions are already becoming popular. Prepared foods are also likely to become popular as space savers in cramped urban apartments.

Hangzhou: Best Product Prospects		
Product	Market	Notes
Beef	retail and restaurant	Imports of US beef are currently suspended, however retail contacts indicate that it was one of their top-selling products prior to the ban. Due to extraordinary popularity, dishes prepared with US beef made their way onto menus at virtually every high-end restaurant in Hangzhou. Presently, high-quality beef is imported from Australia.
Apples	Retail	Popular as a prestige or gift item, American varieties are increasingly known for their high quality and appearance.
Poultry	retail and restaurant	Poultry is a central element in Hangzhou cuisine, in such dishes as <i>Beggar's Chicken</i> .
Potato products	retail and restaurant	Although already widely used in US-style fast food restaurants and hotels, it is now also increasingly popular in local restaurants. The most successful have been frozen pre-processed varieties such as potato balls with butter inside that simply require frying. Other potentially

		successful varieties are those that are more unique, such as curly fries.
Salmon	restaurant and retail	Holds a strong and still growing popularity. Originally, the demand was met with Alaskan and Norwegian salmon. However, local distributors argue that increasing quantity and improving quality of domestically raised fish is weakening demand for imports.
Codfish	restaurant and retail	Gained popularity in just the past 5 years. Currently 2 major varieties are on the market, Chilean silver codfish and Alaskan black codfish.
Frozen fruit, jams and preserves	restaurant and retail	Local distributors noted blueberries to be particularly appealing. High-end hotels stated a continued demand for jams and preserves. A significant amount of product is currently coming from Australia.
Sweet corn	restaurant	US-style fast food restaurants import a notable amount of corn on the cob.
Dairy (cheese and butter)	retail and restaurant	Local F & B managers see growing demand for these products, though considerable competition exists from sources such as Australia and Italy.
Wine	retail and restaurant	Retailers indicate strong potential.
Baking ingredients and bread bases	retail and restaurant	Demand is set to increase, particularly in niche markets such as 5-star hotels, which are expected to double in number within the next 2 years.
Dried fruit and nuts	retail, restaurant and food processing	U.S. dried fruit and nuts are already common items in Shanghai's retail sector and already appear in Hangzhou.

ATO Is There!

ATO/Shanghai has identified Hangzhou as one of its priority markets, and has conducted a number of activities there over the past year. ATO's cooperation with the Zhejiang Chef Association began in 2004, with a seminar series that attracted a number of chefs from top-end restaurants in Hangzhou, as well as other cities. ATO followed up with a cooperative effort that put the Chef Association together with SUSTA, the U.S. Meat Export Federation, Alaska Seafood Marketing Institute, and the USA Poultry and Egg Export Council. This combination seminar series and menu promotion brought SUSTA guest chef Roy Lyons to the Radisson Plaza Hangzhou, and again attracted chefs from across the region. In July and September, ATO targeted the retail sector with July Fresh Fruit and September Grocery activities at the Hangzhou Carrefour. As noted above, the results for this store far exceeded expectations, placing its performance in US food sales in the same class as stores in Shanghai, Beijing and Guangzhou.



SUSTA's Celebrity chef Roy Lyons gives a demonstration at an ATO sponsored seminar at the Hangzhou Radisson Plaza.

In addition to ATO-organized activities, Hangzhou has a regular schedule of locally organized events. Upcoming events organized by the local government include:

- An annual two-week fall Westlake Expo. The year 2004 saw 10,602 booths (1,237 of which were of overseas participants) and involvement of 13,970 experts. Pertinent events at the expo include a food festival and chef contest, an international tourism and

leisure commodities show, 2 furniture shows, an international silk fair and a building and decoration materials fair.

- Hangzhou will be hosting the 2006 World Leisure Expo, an ambitious 6-month event taking place between April and October 2006. It will consist of numerous events revolving around relaxation and leisure, including a grandiose worldwide city exhibitions hall, which is expected to attract some 10 million people.
- Hangzhou also hosts an international tea trade fair in the Spring on an irregular basis.

Join Us!

ATO is constantly planning and organizing market development activities in Hangzhou and nearby cities. For more information on upcoming activities, please contact us directly.

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