



Market and Trade Data

Shanghai's Logistics Infrastructure Paves Access for U.S. Produce

By Cindy Marks and Ralph Bean

Following China's accession to the WTO (World Trade Organization) in 2001, Shanghai has gained ground on Hong Kong as China's entry port of choice. With \$88 million worth of fruit and vegetable imports in calendar 2004, Shanghai is becoming the primary marketplace in China for many suppliers, including the United States.

The United States sold \$12.8 million worth of frozen vegetables (mostly sweet corn) and a large amount of fresh fruit to Shanghai in 2004, but few fresh vegetables.

China is the world's largest fruit and vegetable producer, accounting for half of the world's vegetables and melons. Despite this, the country's fragmented logistics infrastructure severely limits distribution within the country.

Consequently, the quality and consistency of domestic produce available to many urban areas lags that of imported U.S. products.

Modern Infrastructure, High Incomes

Shanghai—with its 20 million people—is at the heart of the Yangtze River Delta, a massive economic development zone with an urban population in excess of 200 million. Taking in the neighboring provinces of Zhejiang, Jiangsu, and Anhui, this region accounts for over one-third of China's GDP (gross domestic product).

Disposable incomes in Shanghai are high for China, averaging \$2,085 per capita in 2004, as compared to the national urban average of \$1,225.

Shanghai owes its position as a key entry point to China to its superior logistics infrastructure: the whole region is crisscrossed with bridges, rail lines, superhighways, and port facilities. In 2004, the port of Shanghai became the world's second largest, behind only Singapore. With the opening of the Yangshan deepwater facility in late 2005, it is likely to become number one within the next few years. Construction continues at a breakneck pace, with new bridges and tunnels opening on a monthly basis, an important consideration for shipment of fresh produce.

Shanghai's logistics network reaches out to cities well outside the delta region. Most interior cities now claim luxury hotels, as well as international retailers, with appetites for upscale products. Hotel expansion, in particular, is important for increasing demand

for fresh produce imports, as hoteliers place a premium on consistently high quality products. Many source their imports through Shanghai.

WTO Opens the Door

Calendar 2004 brought increased sales of U.S. fresh fruits, helped along by strong marketing campaigns and improved cold chain networks, combined with China's increasingly affluent consumers and international businesses.

But it was China's accession to the WTO and the consequent removal of many technical barriers that pushed open the door to trade. Direct exports of fresh produce from the United States to mainland China jumped from \$5.5 million in 1999 to \$80 million by 2005. Ports closer to consumer markets in East and North China, such as Shanghai, gained the most from increased access.

Before accession, direct exports of most types of fresh producer were illegal, and cargoes had to transit through Hong Kong to Guangzhou to enter country. Middlemen in these transactions charged substantial fees, and products were frequently subjected to adulteration or counterfeiting before entering markets further north.

ATO Shanghai at Work

ATO Shanghai, the FAS Agricultural Trade Office in Shanghai, in cooperation with U.S. private sector cooperators, conducts and sponsors seminars that help Chinese importers, distributors, and consumers learn about purchasing, handling, and preparation of imported food products.

Recognizing that the lack of a cold chain network is a key obstacle to distribution of U.S. produce, the ATO has worked with FAS' Emerging Markets Office to build a China cold chain program that helps Chinese

Hangzhou Voted Best Place To Do Business in China

By Bryan Stewart

Hangzhou, the ancient capital of the Zhejiang province, was rated as having the best business environment in China by Forbes magazine in 2004 and 2005.

Benefiting from Shanghai's logistics and distribution infrastructure, this southernmost city in the prosperous Yangtze River Delta area had a GDP of \$31 billion in 2004, up 15 percent from 2003. Hangzhou's 6.5 million residents averaged a comparatively affluent per capita income of \$1,700.

The city has been a trade center for centuries. Marco Polo's Silk Road originated here and ancient Hangzhou was the southern terminus of the Beijing-Hangzhou Grand Canal, supplying North China with rice and vegetables. Silk and tea are still important products today, along with rice, sugar, pork, and aquaculture.

Hangzhou's consumers are especially fond of crab.

Best prospects for U.S. suppliers to the Hangzhou market include beef (after restrictions tied to concerns about bovine spongiform encephalopathy are lifted), fresh fruit, poultry, potato products, salmon, cod, frozen fruits, jams and preserves, sweet corn, dairy, wine, baking ingredients, dried fruit, and nuts.

logistics providers improve their capability to handle temperature-sensitive imports. The ATO also uses this network of contacts to identify distributors with the capability to handle U.S. produce, and link them with Chinese buyers and U.S. exporters. The ATO has taken these efforts inland--in one instance, working with local distributors in Chengdu to buy direct from importers in Shanghai, rather than through a long chain of sub-distributors.

Food Safety First

For urban consumers, quality and price are traditionally the top concerns in buying imported produce. Food safety, however, has recently become a major concern as well. Wealthy urban consumers are willing to pay more to ensure that their food meets the highest safety standards.

This is good news for U.S. producers. U.S. products enjoy an excellent reputation for quality and safety in China. Suppliers need to keep in mind, however, that as the quality of China's homegrown produce improves, they will need to continue to differentiate their products through high quality and uniqueness. ■

Cindy Marks and Bryan Stewart are market researchers, and Ralph Bean is the deputy director, in the FAS Agricultural Trade Office in Shanghai, China. E-mail: ATOShanghai@usda.gov

Best Prospects

With a taste for fine foods and a willingness to spend more for imported goods, consumers in Shanghai and throughout China are also buying more fresh and frozen vegetables and fruits from the United States.

For exporters looking to expand their overseas markets, these products are in demand:

Grapes dominate U.S. fresh fruit exports to China, having passed oranges for first place. Grape imports jumped 350 percent from 2003 to 2004, then doubled again in 2005, to reach a total of \$46.6 million.

Though China is a major apple producer and exporter, it still imports **U.S. apples**, sales of which nearly doubled in 2004, then doubled again in 2005 to reach \$13.3 million.

U.S. cherry imports are becoming increasingly popular, although the statistics disagree on the quantity (numbers for 2004 range from \$366,000 to \$1.5 million; transshipment through Hong Kong adds to the confusion). Cherries are a favorite for the Chinese New Year holiday, which works against the U.S. harvest season, but enterprising importers have found nice markets for U.S. June and July harvests.

U.S. citrus was one of the first beneficiaries of China's entry into the WTO. One-half of all U.S. grapefruit entered China through Shanghai during 2004, at a sales value of \$195,000.

Shanghai's consumers are becoming aware of the attributes of **organic produce**, making it a good sector for growth. The city's first specialty store for imported organics opened in 2005.

Imports of **U.S. frozen blackberries and raspberries** in Shanghai passed \$450,000 in 2005, and are used mainly as ingredients in food processing. There is also interest by supermarkets in importing frozen and pureed apricots, blueberries, cherries, and raspberries.

Shanghai was China's largest importer of **U.S. frozen vegetables** in 2005 accounting for nearly \$3.9 million worth of product out of a national total of nearly \$14 million.

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