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Nanning: A Strategic Gateway To South China and Beyond

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Nanning is the capital of the Guangxi-Zhuang Autonomous Region, which enjoys more independence and self-governing rights from the central government in Beijing than other Chinese provinces. The region's deep sea ports and location make it ideal for businesses looking for new development opportunities in booming Southwest China.

Guangxi's strategic geographic position offers good access to developing regions, key to the Beijing government's agenda for national development. And with the July 2005 signing of the FTA (free trade agreement) between China and ASEAN (the Association of Southeast Asian nations, consisting of Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam), the strategic and economic prominence of Guangxi and Nanning are on the rise.

With strategic support from the central government in Beijing, an excellent location, transportation development, and

China wants to make it easy to trade with ASEAN.

communication linkages with South China and ASEAN, Nanning is poised to ride the crest of an economic boom that will fuel consumer demand and attract investment. ATO Guangzhou (the FAS Agricultural Trade Office in Guangzhou, China) interviewed scores of government officials, private-sector managers, and trade sources who shared their insights about market opportunities for U.S. agricultural products in Nanning and its environs.

Infrastructure Development, Policies Fostering Growth

Nanning's current and planned transportation facilities are supporting its emergence as a gateway for trade and shipping in South China and Southeast Asia. Guangxi is the only province in Southwest China with direct access to the South China Sea through Fangcheng, Qinzhou, and Beihai, all deep-water ports that can accommodate ocean-going vessels. Nanning is linked to the three ports by highways.

In addition, Nanning Wuxu International Airport has expanded and now handles regular flights between Nanning and Bangkok, Ho Chi Minh City, Manila, Phnom Penh, Kuala Lumpur, Jakarta, Seoul, and Singapore. Direct railway access links Nanning with Chengdu and Chongqing, the fastest-developing cities in Southwest China.

A railway from Nanning and the three seaports is under construction. In addition, the Beijing government has approved



A shipload of imported soybeans arriving at the port of Fangcheng
Photos courtesy of the FAS Agricultural Trade Office, Guangzhou, China

construction of a two-lane, high-speed electric railway between Nanning and Guangzhou. Plans are also underway for rail and road links connecting China and ASEAN nations into an economic corridor running from Nanning to Hanoi, Phnom Penh, Bangkok, Kuala Lumpur, and Singapore.

Guangxi also benefits from several favorable government policies. The province is part of Beijing's development policy, which aims to fast-track economic development of China's lagging rural areas. Guangxi is included in the coastal area and border-opening policies, enabling the province to develop international trade links, which other Chinese coastal cities and special industrial

**Soybeans are big business.
Livestock is in hot demand.**

zones have used to achieve economic growth in the past 15 years.

From an economic perspective, Nanning is relatively undeveloped, ranking 86th on the nation's top 100 cities list. But many investors view this as a tremendous opportunity. Some even speculate Nanning will be the next Shenzhen success story because both cities have transportation links and logistics networks to support economic development.

Since the signing of the FTA, China and ASEAN have been working to create a free trade zone. To that end, the Beibu Gulf Economic Zone has been established to serve as an international logistics, trading, processing, and information exchange base that will be a leading center for the China-ASEAN free trade zone. The Beibu Gulf Economic Zone integrates Nanning; the ports of Beihai, Qinzhou, and Fangcheng; and the transportation and logistics networks of Yulin and Chongzuo. The zone will enhance the flow of commodities, capital, labor, and information among China and ASEAN members.

Opportunities Emerging for U.S. Agricultural Commodities

In calendar year 2007, Guangxi imported soybeans valued at \$850 million, an increase of 26.3 percent over 2006, because the province's processing capacity has increased. Most were crushed by two plants, one in Fangcheng and one in Qinzhou. Both plants source soybeans from the United States, Argentina, Brazil, and Uruguay.

China mainly purchases second-grade U.S. soybeans and processes them into edible oil and soybean meal feed. A trade source said that U.S. soybeans shipped through Fangcheng average the 12-percent level moisture typical of U.S. soybeans. Chinese feed mills traditionally prefer U.S. soybean meal, which has a brighter appearance than South American meal.

Through Nanning, the crushing plants supply South China by rail and truck. The Fangcheng plant supplies soybean meal and edible oil to the local Guangxi market and to Chongqing, Guizhou, Hainnan, Hunan, Sichuan, and Yuannan. It has also started to penetrate Vietnam's feed market.



A Nanning Wal-Mart's import section



U.S. apples and oranges on sale in the store

In 2006, there were 40.4 million fattened hogs slaughtered and 26.1 million raised on local farms. In 2004, a Nanning breeding farm imported 268 U.S. swine. In 2007, it spent \$2 million on 460 U.S. purebred pigs, and plans to import more U.S. breeding swine in 2008. ATO Guangzhou was told that U.S. crossbred offspring are well received because of their appearance, rapid growth, high fertility, disease resistance, and adaptability.

Guangxi's largest dairy company is headquartered in Nanning and has a modern processing plant collecting milk from more than 7,000 Holsteins. Its management is interested in importing U.S. alfalfa hay and frozen bovine semen to improve the herd's milk yield and quality.

Given the country's growing demand for improved livestock production, importers can apply to China's Ministry of Agriculture for tariff exemptions on imported livestock genetic products such



The import section of Beijing Hualian store in Nanning



Washington apples on sale in the store

More development means more hotels and opportunities to promote U.S. products.

as breeding animals, frozen semen, and embryos. However, swine industry importers generally prefer live animals, mainly because they care more about an animal's appearance than its pedigree.

HRI Sector Is Expanding

Nanning's HRI (hotel, restaurant, and institutional) sector is expanding in line with its general development. In 2007, the city received over 20 million visitors, of whom 140,000 were from other countries.

The city has four 5-star hotels, six 4-star hotels, and 66 other rated hotels; more are being built or are in the planning phase. This expansion affords promising opportunities to exporters of high-quality foods, ingredients, condiments, and beverages. But local importer/distributors of such items are still not well established.

U.S. wines have found their way onto many good restaurant menus. But they face stiff competition from French, Australian, Italian, and local wines. One Western-style franchise restaurant in Nanning began to offer U.S. halibut, black cod, and snow crab on its regular menu after a successful U.S. menu promotion held by the Alaska Seafood Marketing Institute and ATO Guangzhou in 2005.

Beef steak is a best seller in Western-style restaurants, which mostly use Australian beef for the high end of the market and Chinese beef as a more affordable option. Nanning's HRI sector has a strong interest in putting U.S. beef back on its menus, once China lifts the ban it has imposed since December 2003 upon discovery of bovine spongiform encephalopathy in the United States. One proprietor noted that beef is his restaurant's most popular item, and was confident that U.S. beef would be one of top sellers on his menu.

U.S. food and wine exporters need to increase HRI promotional efforts by showcasing their products in key hotels and restaurants, investing in developing local distributors to better represent U.S. products in Nanning and surrounding areas, and conducting more market research and analysis.

Retail Sector Is Growing, Too

In 2007, per capita disposable income of Nanning urban residents reached \$1,800, up 15.2 percent from 2006. Their total retail spending reached \$7.4 billion, up 18.4 percent. As Nanning's economy grows, its retail sector is following suit.

Nanning has two Wal-Mart stores, one of which opened in September 2007. Wal-Mart sources all of its imports through its Shenzhen headquarters, and sells a number of U.S. fruits, such as cherries, Washington apples, California grapes, oranges, and plums. Generally speaking, U.S. fruits are popular, but their prices tend to be much higher than those of local equivalents.

Gift baskets containing U.S. fruits, wines, candy, and cookies are most popular during traditional festivals such as Chinese New Year and the mid-autumn festival. Demand for such highly regarded imports increases dramatically leading up to the festivals, when people purchase them as gifts for close relatives, friends, and important business associates.

In 2006, the Nanning Wal-Mart participated in a U.S. food promotional activity held by ATO Guangzhou for U.S. fruits, poultry, seafood, and snack foods. The Wal-Mart later held its own U.S. turkey festival. Both efforts helped to increase sales and attract customers who in general believe that U.S. food represents an elevated living standard and style.

Beijing Hualian Hypermarket Co., Ltd. is a nationwide chain that has three stores in Nanning, where food accounts for 45 - 50 percent of its annual \$80 million in sales. In Nanning, Beijing Hualian carries U.S. fruits such as Washington apples, California grapes, plums, and oranges. Beijing Hualian imports grocery items from Australia, Germany, Belgium, and Southeast Asia. Although there are no U.S. groceries on its shelves, the chain is interested in carrying such U.S. products as candy, nuts, biscuits, potato chips, and meat jerky.

Due to the complexity of import procedures, supermarkets in China rely on agents to import and distribute foreign products.

There's a bright future for U.S. agricultural exports if aggressively promoted.

Beijing Hualian managers told ATO Guangzhou that it was difficult for them to find qualified agents to supply imports. There are no big local importer/distributors that can reliably provide a wide variety of imports. Beijing Hualian has three import agents, but none carries U.S. products.

Nanning is a market full of curious customers who are becoming affluent but are unfamiliar with many U.S. products. Extensive media coverage and in-store promotional activities (including samplings, tastings, and demonstrations) will help to overcome this problem. It is also critical that retailers and U.S. suppliers help consumers distinguish U.S. products from those of other countries, such as California plums from Chinese ones and California pistachios from Iranian ones.

Since they gauge the acceptability and profitability of U.S. products, post-promotion sales data may persuade agents, importers, and distributors in the Nanning market to expand their product portfolios to include more U.S. goods.

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