



Market and Trade Data

Chongqing: An Underdeveloped Market in China's Interior

By Cindy Marks

Resting on the upper reaches of the Yangtze River in Southwest China, Chongqing (formerly known as Chungking) is famous for its hills, spicy food, and hot weather. It is also known today as the starting and ending point for tourist cruises that carry domestic and international passengers down the Yangtze and past the famed Three Gorges, the Three Gorges Dam, and a multitude of riverside towns.

Like Beijing, Tianjin, and Shanghai, Chongqing is an independent municipality that answers directly to China's central government. Its status is somewhere between that of an independent city and a small province. The Chongqing municipality was established in 1997, carved out of eastern Sichuan Province.

Chongqing's population of over 31.4 million and land area of 82,000 square kilometers make it the largest of China's four municipalities, and larger than some provinces. A beneficiary of China's "Go West" policy, Chongqing's economy has grown steadily over the last decade. GDP (gross domestic product) reached \$32.2 billion in 2004, an increase of 12.2 percent over 2003. Purchasing power is centered in the city's 6 million urban

residents, whose disposable income climbed 14 percent in 2004 to \$1,115.

Long a base for heavy industry, Chongqing is emerging as an important trading center in China's Southwest, with imports and exports totaling \$3.86 billion in 2004. To boost this role, Chongqing's government has invested a growing amount of money in training programs to help local traders learn the regulations governing import-export transactions. Although industrial production dwarfs agricultural output, the municipality's large land area also makes it a significant producer of tubers, raw silk, and in more recent years, processed soybean products.

Despite its rapid growth, the city of Chongqing remains isolated relative to its neighbor Chengdu, underexposed to Western food products, bypassed by traders, and underdeveloped as a food import market. It is a viable market mainly for commodity products such as poultry and fruit, and for those committed to building a client base through long-term market development and consumer education.

Infrastructure Expansion

Chongqing's status as the gateway to West China has brought it abundant central government funding through the government's "Go West" program, which have been used to support extensive infrastructure projects. A new domestic terminal at Chongqing Jiangbei International Airport has been completed, along with a vast high-speed traffic network and a monorail system capable of transporting 200 million passengers a year. Most major roads in the city center are being upgraded, and docks are being expanded. With the Three Gorges Dam in place, large cargo barges can now make the journey from Shanghai in 3-4 days.



Chongqing's hilly urban center sits on the banks of the Yangtze and Jialing Rivers.

Photos and map courtesy of USDA/FAS Agricultural Trade Office, Shanghai, China

Going Beyond Heavy Industry

Heavy industry has been the base of Chongqing's economy for decades, although the government is seeking to diversify the economy. In 2004, industrial production climbed 17 percent over 2003 to reach \$11.2 billion, accounting for half of the municipality's economic growth. Also in 2004, Chongqing's industrial exports rose 26 percent to \$1.6 billion, accounting for over 75 percent of the municipality's total exports.

A large contributor to this was the transportation equipment manufacturing industry, which grew 23 percent in 2004 to \$2.2 billion. The local Changan Ford Joint Venture plant produces the Fiesta and Mondeo models. Several major motorcycle companies also are based in Chongqing. Chongqing also is a significant producer of machine tools, steel, cement, and natural gas. The government is trying to build more investment in high technology, however, and, Sony, Ericsson, and Nokia have plants outside the city center.

Current Market Picture

Chongqing's imports of agricultural and food products are difficult to pin down, because most of the trade is cleared in coastal ports such as Shanghai and Guangzhou, then shipped overland by truck or barge to Chongqing, and official statistics only track these items as far as the port of entry.

ATO's past activities in Chongqing have found a market that is receptive to U.S. products, once logistical and price issues are resolved. The demand for imported food in Chongqing currently comes from two market segments: hotels and food retailers. The non-hotel restaurant industry is not yet a significant importer, being focused mainly on local cuisines, and most international fast-food outlets source domestically.

5-Star Oases Offer Taste of Home and High-Quality Western Foods: Chongqing city is home to several 5-star hotels, including Hilton, Marriott, Harbour Plaza, and Holiday Inn. An Intercontinental hotel will open shortly, and both Sheraton and



Chongqing and Chongqing municipality are located at a gateway to Southwest China.

Chongqing's economy is growing and diversifying, and the government has invested in training programs to help local traders learn regulations governing import-export transactions.

Hyatt are planning to build hotels. Chongqing's 5-star hotels are frequented by local and international business people, government officials, expatriates working for international companies, and a small number of students. In inland cities like Chongqing, hotel restaurants serve as the center for the small but loyal expatriate communities, placing a high emphasis on authenticity in their dishes, and making them the premier source of demand for high-quality U.S. food products.

Intensifying competition among international hotel chains is forcing them to cut rates, thereby reducing budgets available to hotel chefs. For example, the rate of a 5-star hotel room in Chongqing can average \$55 per day, about \$4 of which is allocated to the chef's budget, whereas a similar room in Shanghai can cost over \$300. Although many high-end hotels would like to expand their client base, their high prices relative to local alternatives limit their appeal to middle class consumers.

Hotels import products to obtain Western-style foods that meet their own internal standards, satisfy customer demand for foods not readily available elsewhere, and fulfill food safety requirements. Five-star hotels sell meals and prepared food in bars, coffee shops, and restaurants. Some also provide breads, cheeses, and other hard-to-find Western items at retail counters.

While catering mainly to the international business community, hotels hold promotions to lure local customers by offering a unique dining experience and a taste of Western food. Chongqing hotels have found that promotions can also be helpful in developing supply chains for new products. Promotions push product through the supply pipeline, building the links needed to source product later on, as well

But Chongqing remains under developed for imports, a viable market only for familiar commodities or those committed to building a client base through long-term market development.



Opened in November 2004, Chongqing's light rail system provides transportation options to this growing city of more than 6 million.



On June 30, 2005, 27,000 people visited the Chongqing Wal-Mart on its first day of business.

as giving suppliers the chance to meet with the end users. Promotions give suppliers the chance to build a direct relationship with local distributors, thus allowing them to ship direct to Chongqing instead of through a long chain of regional distributors.

Retail Demand Is Building: Chongqing is home to several international hypermarket chains: Carrefour (with three outlets), Metro (one outlet), and Wal-Mart (one), all of which have plans for expansion in the region. Chinese retailing giant Hualian also has a number of supermarkets in the city, as do local chains like Xin Shiji and Chong Bai Hou.

Despite the presence of these stores, U.S. product presence remains relatively limited. Larger, newer stores, particularly international hypermarkets, tend to sell more U.S. products,

but the variety falls far short of more developed interior cities, such as neighboring Chengdu. Products that do best in retail tend to be those that are easily recognizable to consumers, such as poultry, or high-end gift products like wine.

Challenges in Getting the Goods

Hotels, distributors, and exporters all face significant challenges in marketing imported foods in Chongqing.

The level of consumer understanding and appreciation for high quality products tends to be low. Consumers often can't tell the difference between the genuine article and a cheaper substitute. As a result, hotels sometimes use expensive imports for promotions, but later switch to cheaper local substitutes later to help their bottom line. Consumer education programs are therefore needed to develop more understanding and appreciation of fine imported foods.

In order to cover high transportation and transaction costs, distributors often require hotels to order large quantities of a single item to guarantee supply, but hotels' limited space makes storage of large quantities difficult. In other cases, hotels order relatively small amounts, requiring distributors to build a large base of clients to make trading profitable. Direct communication between hotels and traders is rare, as most products are shipped indirectly through a chain of sub distributors. As a result, misunderstandings and missed signals are common. ATO-sponsored chef seminars and menu promotions help address these problems by putting Shanghai-based importers in direct contact with hotel buyers.

Although there appears to be fairly high demand among hotels for imports such as frozen salmon, frozen poultry, dry spices, condiments, pastry products, baking ingredients, purées/frozen berries, wines, corn chips, salsas, tomato-based products, chocolate products, and baking components, few traders have stepped in to supply the goods. As a result, hotels must often improvise. Some fly in fish and fruit from coastal cities. Most 5-star hotels offer at least a few U.S. wines, but U.S. wines face stiff competition from Chilean, New Zealand, and European counterparts. Food safety and freshness are major concerns for international hotels, so some produce perishable goods

Chongqing: Best U.S. Product Prospects		
Product	Market	Notes
Baking Ingredients, Bread Bases	Hotel	Baked goods are an important staple for Western hotels, so demand for baking ingredients should increase as more 5-star hotels open
Dried Fruits and Nuts	Hotel and Retail	Common as snacks and as ingredients in Western pastries and other dishes, dried fruits and nuts have excellent potential. Local substitutes are available, but usually have a significantly different texture and taste
Tomato Products	Hotel	Although Western hotels use tomato bases for multiple dishes (pizza, pasta, basic sauces), few high-quality products are available
Fish and Seafood	Hotel	Several hotels and traders import fish, including Norwegian salmon. U.S. seafood producers must differentiate their products from local and other foreign competitors
Canned Goods	Hotel and Retail	Canned goods have already reached the market (nonperishable items do better in interior cities). Traders are advised to investigate taste preferences to determine which products fit well with local palates
Condiments and Sauces	Hotel	International hotels frequently use imported condiments and sauces to offer international guests a flavor from home, so growth in the hotel sector could benefit U.S. producers
Meats (Pork, Poultry, and Beef)		Logistics remains the primary barrier for these sensitive products. Chicken wingtips and paws are popular throughout China, and likely to do well in Chongqing. U.S. pork has done well in neighboring Chengdu, which bodes well for Chongqing

like ice cream on their premises, and most have on-site bakeries.

Prospects for the Future

Even in this challenging environment, traders have found success selling several U.S. products such as canned goods (sweet corn, beans, beets, fruits, and peas), tomato products, nuts, dairy products, condiments, and sauces.

As in most other large Chinese cities, Chongqing is home to a growing cohort of middle and upper-income consumers. The expatriate community is also expected to grow as international companies expand their operations in Chongqing. More and more business people are traveling through and living in Chongqing. Massive new villas are being built outside the city center, indicating the presence of a small but extremely high-end niche market. These high-income residents could potentially develop into a sizeable market for U.S. goods, much like their counterparts in other major Chinese cities. The growth

of the city as a business center also augurs well for U.S. products, as Chinese business culture places a high value on gift-giving. High-quality imported wines and other products make ideal gifts, having already found good markets in coastal boomtowns. ■

ATO Shanghai (the FAS Agricultural Trade Office in Shanghai) is continually working on market development in Chongqing, the Yangtze River area, and Southwest China. For more information, contact that office: E-mail: ATOShanghai@usda.gov

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