



# FAS WORLDWIDE

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## Market and Trade Data

### Driving China's Markets

*By Ralph Bean*

Once a thinly developed marshland, Shanghai is now covered in skyscrapers, including the Pearl Tower, China's largest tower. Since the 17th century, when a complex system of canals was constructed to drain the area, Shanghai has evolved into its current role as China's commercial capital. And this title is well deserved.

Shanghai means "on the sea." Due to its location between the edge of the Pacific Ocean and the mouth of the Yangtze River, this one-time fishing village has been a center of commerce since the 1920s. In 2004, Shanghai accounted for 21 percent of China's total imports, 32 percent of China's total exports, and 10.7 percent of China's foreign direct investment.

Shanghai's potential for growth is only increasing. The city helps drive a massive regional economy, and continues to, making it an outstanding candidate for imported foods.

#### **Shanghai's Drive**

Shanghai's position as a driver of both the local and the national economy is due to its wealth, its position as a key import and distribution center, and its consumers.

Shanghai has an estimated 20 million people and is a wealthy district. In 2004, the average income per capita in Shanghai increased about 20 percent, compared to 12.2 percent in 2003. Additionally, Shanghai's average urban disposable income increased 12.2 percent in 2004.

Consumption expenditures have also grown. Most homes are privately owned, where as recently as seven years ago, the majority of homes were provided through the workplace or by the government. In addition to the district's wealth, Shanghai serves as a key import and distribution center with some of the best logistics and transportation capabilities in China.

The port of Shanghai is routinely ranked in the top three ports worldwide, and the addition of the Yangshan deepwater facility places it first worldwide in shipping volume. The Pudong air cargo terminal is also the world's busiest.

Additionally, products imported into Shanghai are redistributed up and down the coast as well as inland to cities as distant as Chengdu and Kunming. Shanghai boasts a cohort of distributors whose reach now extends to the furthest corners of the country and are experienced in working with customs clearance, quarantine, and currency exchange procedures.

*Shanghai may have once been a marshland, but today it is a commercial capital of China.*

Shanghai's consumers are also vital to the district's prominence.

In 2004, about one-third of China's population resided in Shanghai. The district is also home to one of China's largest foreign communities — 300,000 to 500,000 — including 15,000 U.S. citizens.

Consumers in Shanghai are very style-conscious and brand-conscious, viewing famous brands as both status symbols and guarantees of quality. High-end shopping districts such as Nanjing Road or Huaihai Road are crowded with top-end fashion boutiques doing excellent business, despite the availability of low-cost counterfeits just a block away.

Shanghai residents also still spend a high proportion of their earnings on food. Shanghai per capita food spending tops the nation. In 2004, wholesale and retail sales of food, beverages, liquor, and tobacco amounted to \$16.24 billion.

Shanghai residents also spend three times more than the national average on aquaculture products and more than double the national average on dairy products.

As a result of its trendsetter status, Shanghai is also now a major center for trade shows and has added new, state-of-the-art facilities in the Pudong district.

Shanghai won its bid for the 2010 World Expo. Additionally, Shanghai is hosting the Food and Hospitality China Show in November 2006 and SIAL in May 2007 — two of China's largest international food

shows. Previously, it hosted the 2001 Asia-Pacific Economic Cooperation summit and the 1999 Global Fortune 500 Forum in addition to a plethora of other trade shows in all areas of agriculture.

Shanghai's rapid growth has also been a boon to cities in neighboring provinces. As costs in Shanghai continue to rise, many industries have moved to nearby cities in the Jiangsu and Zhejiang provinces.

### Shanghai's Development

With its economy growing, Shanghai is attracting new businesses and retail development.

In 2004, Shanghai's foreign direct investment increased 11.8 percent from the previous year, gross domestic product increased 19.1 percent, imports increased 26.7 percent, and exports increased 30.2 percent.

Today, Shanghai is strong in automobile and garment production as well as finance, banking, and insurance.

Additionally, Shanghai is now a hotbed of retail development that continues to attract new businesses. Retail sales revenue amounted to \$29.7 billion in 2004, up 9.5 percent from 2003.

Foreign retailers also continue to express interest in Shanghai. The district has a wide range of foreign hypermarkets, such as Carrefour, Metro, Lotus, Trust-Mart, Aucho, and RT Mart. The U.S. chain, Wal-Mart, as well as South Korea's E-Mart and Japan's Family Mart are all in Shanghai.

Shanghai also has three of China's top five domestic supermarket chains — Lianhua, Hualian, and Nonggongshang. Additionally, the district has about half of the convenience stores in China.

### Shanghai's Import Potential

Shanghai's role as both an economic leader and a key import and distribution center make the district an outstanding candidate for imported foods.

Shanghai's residents often act as trendsetters for the rest of China, and the up-and-coming generation is helping drive the movement toward ready-to-eat and heat-and-eat meals in retail venues.

Shanghai residents also spend a remarkably large amount of their income on dining out due to crowded living spaces, busy schedules, and a gift-giving culture that emphasizes high-profile entertainment for guests. As a result, there are more than 30,000 licensed businesses in Shanghai's catering industry, and there are more than 1,000 Western restaurants. Additionally, catering revenues account for nearly one-third of all operational revenues and an even larger share of profits.

The emergence of high-end restaurant chains has become an important trend, particularly for imported food products, as they demand high quality and large volumes.

In addition to its own market potential, Shanghai's market structure offers increased access to markets down the coast and inland.

Shanghai's free trade zones such as Waigaoqiao offer a wide range of services to importers including inventory tracking, logistics, and cold storage. Suppliers can ship products into the free trade zones and not pay duties until they ship the products out of the zones. The free trade zones also offer special tax and tariff advantages to businesses that add value to imported products prior to shipping them elsewhere in China.

Beyond the free trade zones, Shanghai also has a growing number of specialized distributors that can handle logistics, distribution, and marketing.

Although incomes in major cities deep in China's interior are often lower than in the coastal cities, the sheer size of many of these markets makes them tempting. Many boost a small but fast-growing middle class with a taste for novel products and the money to buy them.

Simply put, the combination of Shanghai's economy, development, and geography make it an outstanding candidate for imported foods. ■

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