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Zhengzhou Market Report

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Report Highlights:

Zhengzhou is the capital of Henan, the most populous province in China. With an economy growing close to 15 percent, Zhengzhou is also the region's driving force for high-value imported food product demand. In the years to come, the city will become an even more important target for U.S. exports because of its food processing industry and its role as a major transport hub.

General Information:

Zhengzhou & Henan Overview



With nearly 100 million people, Henan is the most populous province in China. Located in central China, Henan borders Hebei to the north, Shandong to the northeast, Anhui to the southeast, Hubei to the south, Shaanxi to the west, and Shanxi to the northwest. Named for its location south of the Yellow River, Henan is traditionally regarded as the cradle of Chinese civilization and was home to its earliest dynasties.

Although per capital income is fairly low at \$2,820, the province grew by 12 percent in 2008. Henan is one of China's largest agricultural provinces and accounts for a quarter of Chinese grain production. It is also a major producer of cotton. Outside the capital, per capita incomes are low.

Table 1: Zhengzhou Economy at a Glance

Year	Population (Million)	GDP (\$Billion)	Per Capita Disposable Income (\$)	Per Capita Expenditure on Food (\$)
2005	7.16	24.3	1,558	-
2006	4.24	29.5	1,731	-
2007	7.36	36.4	2,005	441
2008	7.44	43.9	2,303	494

Data source: 2009 Zhengzhou Statistical Yearbook

Zhengzhou, the capital of Henan obtained its current name in 605 AD and was the site of a major imperial granary because of its central location in China and on the Yellow River. Reflecting this history, Zhengzhou became a major trading and distribution center.

It is now home to the Zhengzhou Commodity Exchange (ZCE), a futures marketplace for agricultural products. The exchange trades mainly wheat (including strong gluten wheat, and hard white wheat), cotton, white sugar, pure terephthalic acid, rapeseed oil, early long-grain non-glutinous rice and green bean future contracts. The Zhengzhou Exchange was the first futures market approved by the State Council in October 1990. In 1998, ZCE was confirmed by the State Council as one of the three futures exchanges in China regulated by China Securities Regulatory Commission (CSRC).

At the same time, the city continues to develop aggressively. It is building a new city in the Zhengzhou National Economic and Technological Development Area (ZEDA). Established in 1993, the ZEDA is located in the southeast of Zhengzhou. The development area was planned for 12.5 square kilometers, with the actual jurisdictional area of 53 square kilometers. The ZEDA includes Henan Zhengzhou Export Processing Zone, Henan Pioneering Park for Returned Students, and Zhengzhou High-New Tech Incubation Center. IT Industrial Park, high-tech Industrial Park and the only bonded center in Midwest China.

Transportation



Henan is located in the center of China, transportation has been the bottleneck for most inland cities, but Henan is expanding fast on its transportation system. According to 2004 "China Railway mid-to-long term Development Plan", China will construct four horizontal and four vertical passenger railway lines by 2020. In four years, Zhengzhou to Beijing's travel

time will fall from the current 11 hours to 2.5 hours. Trips to Xi'an will fall from six to three hours, and Wuhan will be less than hours away. In February 2010 during Chinese Spring Festival, the Zhengzhou – Xi'an train will travel at 350km/hour. The tickets will cost less than \$36 (RMB250).

By 2020, China's high-speed train network will total more than 18,000 km, accounting for more than half the high-speed railways in the world. Zhengzhou and its surrounding cities in Henan province will greatly benefit from China's railway development plans. Because of its central location, travelers can reach anywhere within 1,000km circle of Zhengzhou within three hours. The cities include Beijing, Shanghai, Xi'an, Wuhan and Changsha. It is expected to transform local commerce, real estate and consumption.

Retail Sector



Imported Food Store, Zhengzhou

The retail sector is developing rapidly based on its location, access to transport and large population. Customers enjoy shopping in hypermarkets and supermarkets for high quality safe products. Multinational retailers such as Carrefour, Wal-Mart, Metro and Dennis have all established outlets in the city. Carrefour opened two stores in Zhengzhou in 2008 and Dennis (Taiwan) has developed its hypermarkets and convenience stores rapidly. The Dalian Dashang Group expanded into the city with six upper-middle class supermarkets in Zhengzhou.

Young consumers in the city are curious to try new products especially imports – even if their incomes are lower than peers in Beijing and Qingdao. At this point, this curiosity has not yet

resulted in a long-term market for imported food products although this seems to be poised to change very soon. Packaged food, fresh fruit, beverages, beer and wine are the main imported food products with imported dairy, meat and seafood rare in the market. Organic products are scarce in the market because of high prices and a lack of awareness. This means that group purchasing is the primary channel to sell imported food products. In the future, Zhengzhou could be a gateway to nearby markets because it is also a distribution center for imported foods to inland second and third tier cities in surrounding provinces because of its convenient transportation links.

Table 2: Major Retailers in Zhengzhou at a Glance:

Retailer	Ownership	Type	Outlets
Carrefour	France	Hypermarket	2
Da Shang	Dalian	Supermarket	6
Dennis	Taiwan	Hypermarket/Convenience Store	11/23
Wal-Mart	United States	Hypermarket	2
Metro	German	Cash-Carry	1

Hotel Restaurant and Institutional (HRI) Food Service Sector

Food service is one of the driving forces in Henan province. For many years, Henan province's hotel and restaurant service has maintained 20 percent growth, occupying 1/6 percent of consumer expenditures. In 2008, the lodging and food service sector sales reached \$14.15 billion, an increase of 26.4 percent from 2007. In the first three quarters of 2009, Henan Province's food service and lodging sales reached \$11.56 billion. This makes it likely Henan's food service sector sales will reach \$15.4 billion, a 8.9 percent increase from 2008.

Table 3: Current Major International Hotel Establishments in Zhengzhou at a Glance:

Hotel Name	Year Established	Food Service Facilities
Ramada Plaza Zhengzhou	2007	Banquet, Chinese Cuisine, Western cuisine, Coffee Shop, Room Service
Crowne Plaza Zhengzhou	1995	Banquet, Chinese Cuisine, Western cuisine, Coffee Shop, Room Service, Bar/Lounge
Holiday Inn Express	1981	Chinese cuisine, Coffee Shop
Sofitel Zhengzhou International	1999	Banquet, Chinese Cuisine, Western cuisine, Room Service, Bar/Lounge

Holiday Inn Zhengzhou	1995	Chinese and Western cuisine
Dahe International Hotel	2008	Chinese Cuisine, Western cuisine, Room Service



Jianguo Hotel, Zhengzhou

As the capital of Henan Province, Zhengzhou has more than 500 medium sized restaurants, eight five-star hotels and more than 20 four-star hotels. International hotel leaders such as Shangri-la, Hilton and Sheraton are all planning on opening new hotels within two years. The large international buffet-style restaurant Golden Jaguar also opened a new restaurant in December 2009. High-level food service brands such as Xihu Spring, Mingren Mingjia have achieved success in Zhengzhou, with some have multiple outlets.

In general, Zhengzhou's foodservice sector has several features:

1. Chain restaurants are expanding. In recent years, the increasing demand in foodservice sector has increased interest in the chain or franchise format. This requires the restaurants to standardize operations including purchasing, menu and operations.
2. Increasing disposable income drives consumer demand for eating out.
3. Holiday sales continue to increase. Like most first tier cities, Zhengzhou's consumers celebrate holidays as a way to bring family and colleagues together. Large banquets are very common for business and family gatherings.
4. Western cuisine and catering service are entering the market. Western restaurants,

specialty food stores, fusion restaurants and catering services are emerging rapidly in Zhengzhou.

Based on post's research, discussion with local contacts, Zhengzhou's Foodservice Development is showing these trends and opportunities.

Table 4: Trend and Opportunities for Zhengzhou's HRI foodservice sector:

Trend	Opportunities
1. Through development, successful and well-operated chain restaurants will stay in the market.	1. This will provide U.S. food and beverage products a good platform to promote amongst local and international chain operations to maximize consumption.
2. Holiday dining and personal celebration spending will be strong. With increased disposable income and the growing economy, business entertainment, banquets, special events such as wedding, anniversary, birthday, and family gatherings during holidays will continue to be a major business source for foodservice operators.	2. Post could conduct American food festivals or themed promotions in tied with Chinese and international holidays such as Spring Festival, or Thanksgiving to promote healthy U.S. food and wine products.
3. Green, natural and healthy food will be a major focus. With the increasing consumer awareness of consuming safe, nutritious and healthy food, consumers in every age group are interested in food and beverage products that are perceived as beneficial to their health.	3. Post could conduct themed promotion with selected U.S. food and beverage products catering to different age groups. For example: food that helps to release stress, or food and beverage that helps provide antioxidants such as wine.

Food Processing Sector

Henan is China's largest food processing center, especially for quick frozen food such as dumplings and products made of dough. In 2008, meat processing totaled 1.06 million tons, and quick frozen dough products total of 1.56 million tons. The total was a 14.5 percent increase from 2007. Overall, food processing value reached \$2.82 billion, a 24 percent increase. With the rapid development in food processing, Henan is changing from selling the raw materials, grain to higher value added products. It is changing from China's granary to China's kitchen.

According to the Henan Agricultural Bureau, Henan has become the largest supplier of dough products to major northern China cities such as Beijing, Tianjin, and Taiyuan. Half of Beijing's supply and one third of Tianjin's supply of dough products comes from Henan province. Henan also keeps a large number of livestock and supplied more than 80 percent of Shanghai's pork in 2008, nearly 2.5 million head. The six leading ag industries in Henan are flour processing (quick frozen products, instant noodle, etc), meat processing, dairy processing, fruit and vegetable processing, oil processing, and snack food processing.

Table 5: Henan's Food Processing Plants at a Glance:

Name	Products	Potential for U.S. Products
Shineway	Fresh and processed meat products	U.S. meat products
San Quan	Quick Frozen foods includes dumplings	U.S. meat products, U.S. wheat products
Synear	Quick frozen foods includes dumplings	U.S. meat and wheat products
Baixiang Food	Instant Noodles	U.S. wheat products

Recent ATO Activity in Zhengzhou

ATO Beijing visited Zhengzhou in September 8-10 to evaluate market potential for U.S. food and agricultural products. During the visit, the ATO participated in a grand opening of an imported retail store. The store carries more than 600 imported food and beverage products, with about 100 SKU of US origin products. Major media in Henan province including DaHe Newspaper (Dahe Bao) reported the event.



New District Model, Zhengzhou

ATO Beijing also visited the Zhengzhou East Development Zone. This huge greenfields project was created to attract investment from international companies. As this project moves forward, it will present opportunities for inward investment and create a market for higher valued imported food. During second day of the trip, ATO Beijing visited Zhengzhou's premium supermarket, a major hotel and METRO to evaluate the market for imported food products. Post believes Zhengzhou presents excellent opportunities for imported food, especially in the retail sector. In the next few years, the HRI sector should also be a source of strong demand.

Future Development

Zhengzhou is currently completing the first stage of a large wholesale fruit market set to open in 2009. The total area of the first stage will be over 150,000 M2 with estimated sale volumes expected to reach 0.7 billion kg and sales of RMB 5 billion (\$580 million). The market has already identified over 150 wholesalers and reached agreements with the world's largest fruit wholesalers – Dole Company as well as the fruit agents for Thailand and Vietnam. In the future, the market is expected to trade 600 types of fruit from Europe, U.S, Southeast Asia and Oceania. With the inclusion of foreign wholesalers, the cost of imported fruits is expected to drop, increasing demand for high-value imported fruits. Zhengzhou will be a good place for U.S. fruit exporters to promote their products.

POST CONTACT AND FURTHER INFORMATION

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