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## **China - Peoples Republic of**

**Post:** Guangzhou

### **South China's Hidden Treasures Report: Hospitality**

#### **Industry Market Profile:**

#### **“South China's Secondary Cities with potential for U.S. agricultural products”**

#### **Report Categories:**

Food Service - Hotel Restaurant Institutional  
Market Development Reports

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#### **Report Highlights:**

**Summary:** South China has been unanimously regarded as a major export destination for many U.S. agricultural exports, with a continuous 34-percent growth from \$5.1 billion in 2009 to \$7.7 billion in 2011. In GAIN report (CH11809) entitled “2011 U.S. Agricultural Exports to South China Report” we highlight trade figures of mature city-markets such as the first tier cities of Guangzhou and Shenzhen in the Pearl River Delta. Yet, many of the 2<sup>nd</sup> and even 3<sup>rd</sup> tier cities in South China are also flush with buyers of U.S. agricultural products, rising per capita GDPs, and abundant with economic opportunities and strong consumer purchasing power. Many U.S. exporters tend to miss out on these opportunities by only focusing on trade shows in major cities or by relying on Taiwan or Hong Kong brokers who might

not be aware of developments in Mainland China. Perhaps some hesitation to conduct visits to frontier markets comes from misinformation or the attractiveness of visiting a first tier city with tourism and shopping attractions such as Shanghai and Beijing. However, municipal governments of many 2<sup>nd</sup> tier cities have poured massive investment into transportation infrastructure which has also attracted commercial and industrial developers and serious business travelers. This report provides a panorama of several of South China's hidden treasures: secondary cities with high prominence in the hotel and restaurant sector.

## General Information:

### Hotel, Restaurant, Institution Food Service Sector (HRI) - ATO Guangzhou's priority outreach cities:

#### 1- Foshan/Shunde District

Foshan is the third largest city in Guangdong Province. Geographically speaking, it is linked to Guangzhou through its inner city subway, and is also a key connecting point of the intercity light rail between Guangzhou and Zhuhai (Mainland China's bordering city with Macau). In 2011 in Guangdong Province, Foshan is ranked second in highest per capita GDP with \$14,444, just after Shenzhen. Its administrative district, Shunde came in fourth place with a per capita GDP of \$13,851. Over the past five years, Foshan has witnessed a precipitous GDP growth from \$48 billion in 2007 to over \$95 billion in 2012, which was rarely seen elsewhere in China. In 2012, Foshan's per capita disposal income reached \$5,327.

Continued economic development in Foshan and Shunde, and in particular its porcelain, furniture, textile and home appliance industries have been the engines powering the local economy. Foshan and Shunde's consumer purchasing power has attracted domestic and international investment focusing on both cities' service industry. According to the China National Industry and Trade Association 2012 report, Foshan has at least \$1.58 billion market potential for commercial consumption in 2013. Well-known international hotel brands are planning to set foot in Foshan in order to establish relations while the market is developing. The hotel industry's development alone has been influential in creating demand for a higher standard of culinary options (both western and local) for consumers. According to interviews with high-end HRI contacts, Foshan and Shunde consumers respond extremely well to five-star hotel menu promotions and are attracted to new and creative menu options since they tend to frequent hotel restaurants. Currently, there are nine five-star hotels, including four international brands and 30 four-star hotels. By 2020, Foshan will have 19 five-star hotels in operation. According to the Shunde District Development Planning and Census Bureau reports, during the first three quarters of 2012, Shunde catering sector reported \$365 million profits, an 11-percent increase compared with same period in 2011. Shunde has been traditionally recognized as a "birthplace of delicacy" and one of three centers for Cantonese cuisine. ATO Guangzhou has conducted several chef trainings and consultation visits to local restaurant chains with the support of the U.S. Meat Export Federation, and recognizes the products with greatest sales potential to include U.S. condiments and seasoning products, seafood, wine, meat, poultry, frozen potato products, dried nuts and fresh fruits. ATO Guangzhou anticipated many more opportunities for U.S. agricultural ingredients in the future.

#### Transportation:

**Metro:** Guangfo Line connects with Guangzhou Metro since 2010

**Inter-city Rail:** Links Guangzhou, Shenzhen, Zhongshan and extended to Zhuhai and Macau

**Air:** An airport base of China United Airlines providing with domestic flight service

## 2- Dongguan

The hotel and restaurant industry certainly has not ignored Dongguan as it is one of the wealthiest cities in Mainland China with a per capita disposable income of \$6,271 in 2011. Dongguan is located between Guangzhou and Hong Kong 90 kilometers away from Shenzhen to its South. Dongguan is an ideal location to source imported food ingredients. Dongguan is especially progressive in attracting foreign direct investment and emphasizes high technology commercial enterprises, which explains the large expatriate population in the city. The city was formerly known “the factory of the world” during its manufacturing boom years, but has since reshaped its role in higher value manufacturing and service sectors. There are numerous high-end hotels and western style chains located in Dongguan. Dongguan also has the highest density of five-star hotels per square meter in China, of which 95 percent are privately-owned. This phenomenon is rarely seen in other cities in China.

**Transportation:**

**Rail:** Connects Guangzhou and Hong Kong through the Kowloon-Canton Railway

**Highway:** Humen Pearl Bridge connects Guangzhou with Shenzhen

There are around 21 five-star and 25 four-star hotels, just behind Beijing and Shanghai. According to the President of Dongguan’s Tourism and Restaurant Association, the majority of customers visiting to Dongguan are either business or tourism-oriented. The booming trade activities here as well as strong local consumption power accelerated revenue in the catering industry, which plays a key role in shaping Dongguan’s hospitality industry. According to the Dongguan 2011 Statistics Yearbook, in 2011, the HRI sector in Dongguan reached \$184 million sales revenues, a 14-percent increase from the previous year. While there is no detailed figure available for 2011, the 2010 HRI revenue figures showed that catering sales totaled \$683 million, while hotel room revenues reached \$209 million. Instead of facing fierce challenges in the saturated 1<sup>st</sup> tier cities like Beijing, Shanghai, Shenzhen and Guangzhou where only a small portion of five-star hotels truly profitable, international five-star hotel groups are actively aiming to seize market share in the fastest growing 2<sup>nd</sup> tier cities in China such as Dongguan since 2003. Currently, Starwood hotel and resorts, Sofitel as well as Hyatt and Hilton brand hotels have already established roots here. Meanwhile, initial investment and operation costs in 2<sup>nd</sup> tier cities are much less than those in 1<sup>st</sup> tier cities, which also means there would be more room for profitability on a long-term basis both for on-site consumption and catering. A number of expatriates working in Dongguan also reside in five-star hotels. Over the past three years, ATO Guangzhou has partnered with a number of U.S. producer associations including the U.S. Meat Export Federation, U.S. Potato Board and Almond Board of California to conduct various kinds of training programs geared towards hotels and restaurants, as well as food processing sectors. From what we have learned, the best selling products include U.S. condiments and seasoning products frozen meat, poultry and potatoes, wine, and high value seafood (both fresh and frozen).

## 3- Fuzhou/Xiamen

Fuzhou and Xiamen, two of the most developed markets in Fujian Province have witnessed a brisk acceleration in their economies and in their

**Fuzhou Transportation:**

**Airport:** Fuzhou Changle International Airport

**Rail:**

- Wai Fu Railway connects Jiangxi Province
- Wen Fu Railway connects Wenzhou jin Zhejiang Province
- Fu Xia Railway runs towards Xiamen

**Seaport:** Fuzhou Seaport

city

purchases of U.S. agricultural exports in recent years. In 2012, the per capita disposal income in Fuzhou and Xiamen reached at \$4,134 and \$ 5,327 respectively. Since 2009, international five-star hotel construction projects have been partially subsidized by the Fujian provincial government to support tourism, regional trade exhibitions, and high-end government meeting and dining venues. Throughout 2009 and 2010, there were over 70 new hotels being constructed, 30 of which were tailored to high-end guests. High speed trains connecting Fuzhou and Xiamen also accounts for the boom in the hotel industry. By the end of 2012, Xiamen has 20 five-star hotels, while ten of them are international chains such as the Shangri-la and the newly built U.S. Starwood Hotel brand hotels: Sheraton, Westin and Le Meridian. Still, during major trade fairs or large conferences, as well as the peak tourist season, the number of hotel rooms is still not enough to accommodate the crowd of government officials, business travelers and tourists. The goal of the Fujian government on programming of tourism according to their official plan is to build 85 new hotels above the four-star level by the end of 2015. What's more is they expect to have 20 more five-star hotels in the Xiamen area in the coming three to five years, including international brands such as Langham, Hilton, Marriott, Ritz Carlton, and Shangri-la. As for Fuzhou, there are currently ten five-star hotels, including five international brands. However, there will be at least six more five-star brands joining the pack, including Hyatt within the next five years.

In the past, hotels and restaurants in Xiamen mainly relied on traders from Guangzhou and Shanghai to source imported food products. Now, many businesses recognize the abundant opportunities in the market and are willing to invest in the food service sector. Expansion of star level hotels in Fuzhou and Xiamen has fueled demand for high quality U.S. food importation, and one of the major growth categories is for aquatic products. Fuzhou houses one of the largest seafood wholesale markets in China, which trades nearly 60 percent of China's ocean caught marine products. Figures from Fuzhou Port show that imported seafood and other fishery and marine products reached historical highs in September 2012. During the first eight months of 2012, a total of 119,000 tons of aquatic products valued at \$83 million entered Fuzhou Port, 53-percent and 94-percent respective increases compared with same period in 2011. The Cross Strait Aquatic Products Trade Center established in Fuzhou was held in Mawei District where large scale cold storage operations and state-of-the-art logistics contributed to this increase in imports. This distribution base will serve as a major seafood importation hub for traders from all parts of China. Besides, many of the imported frozen meat products are also imported through Mawei port. According to Fuzhou Customs statistics, the total volume of 7,757 tons of imported pork entered Fujian Province from January to August, 2011, a 12-percent increase from the same period in 2010, among which 4,148 tons were of U.S. origin and accounting for 54 percent of the province's total pork meat imports. Mr. Zheng Mouquan, President of the Fuzhou Swine Breeders Association mentioned that around 80 percent of these frozen meat imports, particularly U.S. frozen pork was consumed by local restaurants and processed and cured meat product stores. In the past, ATO Guangzhou partnered with the Alaska Seafood Marketing Institute to launch a food promotional and trade networking events in both Fuzhou and Xiamen, and also worked with the U.S. Meat Export Federation and U.S. Potato Board

**Xiamen Transportation:**

**Road:** Fuzhou-Xiamen and Zhangzhou-Xiamen Express Highways within Fujian Province and neighboring Provinces Guangzhou, Jiangxi and Zhejiang, also container freight services between Xiamen, Shenzhen and Hong Kong

**Railways:**

- Yingtian-Xiamen Railway
- Fuzhou-Xiamen High-Speed Railway
- Passenger Trains from Xiamen to Shanghai, Nanjing, Hefei, Fuzhou
- Longyan-Xiamen Railway/Xiamen-Shenzhen High-Speed Train

**Air:** Xiamen Gaoqi International Airport

to carry out chef trainings activities in Xiamen to enhance recognition of qualified U.S. products.

**Other opportunities:**

There are other cities with greater sales opportunities that beg further USDA Cooperator assistance. **Zhuhai** is another 2<sup>nd</sup> tier city with \$1.04 billion GDP in 2009 and 20-percent increases in sales revenue figures in the HRI sector over the past five years. There are currently no international five-star hotels in Zhuhai although there will be around 10 new five-star hotels coming into service in the coming years including two high-end luxury Starwood Hotels: Sheraton and St. Regis properties.

**Zhongshan** is a traditional area famous for local Cantonese food similar to Shunde. In 2009, the Zhongshan's GDP totaled \$1.27 billion and increased by 26 percent compared to the previous year. A number of Hong Kong residents have invested heavily in retreat homes and villas in Zhongshan. International five-star hotel brands such as Hilton, Starwood and Shangri-la, have flocked to Zhongshan one after another.

Middle class demand for luxury hotels and high quality food services have attracted international chains to develop glitzy five-star properties in China's prime resort location, **Sanya**. Besides, its capital city **Haikou** also welcomes a revival in the hospitality industry. The whole industrial structure will be optimized throughout a government plan which targets the construction of 20 five-star hotels within the next five years.

**Nanning**, the capital of South China's Guangxi Zhuang Autonomous region where China-ASEAN Exposition is hold its annual plenary has voraciously increased its trade, investments and tourism volumes in the last three years. As a result, Nanning has had to accelerate the hotel and restaurant development, although they are lagging in developing new projects with compared to other cities featured in this report.

**Conclusion:**

Urbanization plans in South China's 2<sup>nd</sup> and 3<sup>rd</sup> tier cities are undoubtedly impressive. Those cities described above have entered the limelight due to its favored location for investment and ideal prospect for real estate property development. Economic growth and logistic advancements have also brought about a remarkable series of large events, activities and exhibitions and thrust the hospitality industry into the spotlight. Hotel and restaurant sectors include multiple dimensions such as the tourism industry, commercial food service, and convention and meeting hosting. Large enterprises and organizations with business expansion plans in one of these secondary cities, as well as a new generation of purchasing power and freedom to move around different places are creating demand for activities such as conferences, resorts, banquets and weddings. The hotel and food service pipeline in China is not limited to global corporate groups, but also to moderately priced chains such as Holiday Inn, Howard Johnson, Four Points by Sheraton, Double Tree by Hilton, who have been increasingly expanding for several years. Simultaneously, restaurant chains and the catering business are proliferating in secondary cities where consumers are craving for more diverse foreign products and services. ATO Guangzhou invites USDA Cooperators and exporters of U.S. agricultural products to explore potential in these markets. ATO Guangzhou can illustrate in greater detail where surging demand for a variety of imported food ingredients are fueling a boom of unprecedented scale or proportion.

**Appendix:**

Map of Major 2<sup>nd</sup> Tier Cities in Guangdong Province:



Source from Foshan University International Office

Map of Fuzhou and Xiamen in Fujian Province



Source from Chinatour360.com