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## China - Peoples Republic of

**Post:** Chengdu ATO

### Ag Biz Southwest News Notes

**Report Categories:**

Agricultural Situation

Agriculture in the Economy

Agriculture in the News

Sanitary/Phytosanitary/Food Safety

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**Report Highlights:**

Following is a summary of information collected in Southwest China by ATO Chengdu. This report contains information updates in the following five categories: 1. Agricultural Situation and Development; 2. Food Safety; 3. Hotel, Restaurant and Institutional Sectors; 4. Economic Environment; 5. Foreign Investment.

## **Executive Summary:**

**The following news notes were gleaned from various sources. ATO has not verified the news information but believes the information is accurate.**

**Agricultural situation and development:** Booming growth in food sales; Chengdu retail sales booming in 2008; Sichuan's retail consumption increases continue in 2009; Chongqing accelerate modernization of agriculture; Sichuan dairy producers expand to national market; New scientific research base to help accelerate modernization of agriculture, Global Pig Forum 2009 will be held at Chengdu.

**Food safety:** Avian influenza deaths continue in 2009.

**Hotel, Restaurant and Institutional Sectors:** Hotel report sales and receptions are up; premium restaurants and hotels start 2009 with a bang; hotels and restaurants airfreight from Guangzhou and Shanghai; Top hotels report high occupancy after holidays.

**Economic environment:** Chengdu resuming economy; Trade to Southwest China continues to boom; Economic help for SMEs; Chengdu Airport busy for Lunar New Year; China plans billion aid for the needy; Sichuan benefits as local governments permitted to deficit spend; Tourism market flourished in Chengdu; Sichuan growth absorbs the return of unemployed migrant workers; More opportunities in interior cities during global economic downturn; Yunnan reports slower GDP growth in 2008; World bank to help re-build Sichuan; Billions investment accelerates Chengdu's economic growth.

**Foreign investment:** Foreign contract investment up; Investment in Chongqing reflects status as regional hub; Sichuan's booming economy draws European investors.

## **General Information:**

### **Agricultural situation and development:**

**Booming growth in food sales in Southwest China:** ATO Chengdu met with the general manager of one of the key processed food distributors in Chengdu. The event marked the end of the Chinese lunar year and celebrated growth of over 70 percent for his company in calendar year 2008. ATO Chengdu surveys of other distributors confirmed the industry consensus that there are three key reasons why U.S. food products are losing market share to foreign competitors: technical issues, retail promotion support and the need for small and medium sized U.S. agricultural product producers to be more aggressive in the Western China interior. One specific technical issue was the Ministry of Agriculture registration requirement for any imported product containing products derived from biotechnology. Despite these barriers, industry sources expect import food growth in Southwest China to be over 20 percent in 2009. (2/19/2009)

**Chengdu retail sales booming in 2008:** According to the Chengdu Municipal Commercial Bureau, despite the May 12, 2008 earthquake, Chengdu's total retail sales of consumption goods in 2008 increased 19.5 percent to \$23.8 billion, year-on-year. Total urban retail sales were \$16.8 billion, up 22.3 percent while total rural retail sales were \$6.9 billion, up 13.1 percent. Hospitality and food service was \$4.5 billion, up 21.2 percent. (2/19/2009)

**Sichuan's retail consumption increases continue in 2009:** Recently released statistics show Sichuan's total retail sales during Chinese Spring Festival increased 16 percent to \$ 2.1 billion in 2008. Sales revenue from ItoYokado (the largest premium supermarket/department store in Chengdu) increased 160 percent in January over the same period last year. The three ItoYokado stores in Chengdu ranked the top 3 in sales in its 200 stores worldwide. (2/19/2009)

**Chongqing accelerates modernization of agriculture:** At the request of State Council, Chongqing will accelerate modernization of agriculture by building an integrated urban-rural land market to allow farmers to transfer their land tenure through leasing, swapping, or exchanging land for shares in farm co-operatives. In addition, the program provides for modern rural financial services, a rural credit guarantee system, and a rural insurance system. (2/11/2009)

**Sichuan dairy producers expand to national market:** Sichuan dairy producers will expand into the national market in 2009. Previously, local dairy producers focused on local markets leaving national level marketing to industrial giants, including Mengniu Milk Group and Yili Industry Group. Since the tainted milk scandal, the sales of both Mengniu and Yili dairy products have dropped dramatically, leaving more opportunities for local dairy producers not involved in the scandal. Sichuan dairy producers Sichuan, including New Hope Group and Chengdu Jule Group have developed national marketing strategies for 2009. Sichuan New Hope Group's goal is to increase sales by 50 percent to \$300 million and to be one of the top five dairy producers in China. Other local dairy producers participating in this strategy include Xuebao Dairy Co., Hongyuan Maoniu Dairy Co., Xichang Sanmu Dairy Co., and Tianyou Xita Dairy Co. (2/25/2009)

**New scientific research base to help accelerate modernization of agriculture:** Chengdu Municipal Academy of Agriculture and Forestry Sciences has signed a contract with Sichuan Congzhou Municipal Government to build a new scientific research base of 560 acres in Congzhou city with an investment of \$4.4 million. This new scientific research base will help with local agricultural modernization and accelerate urban-rural integration. It will be the scientific research and modeling base for Chengdu's municipal agricultural product and agricultural products processing. (2/25/2009)

**Global Pig Forum 2009 will be held in Chengdu:** China Animal Agriculture Association (CAAA) will hold *Global Pig Forum 2009* in Chengdu on May 14-16, just ahead of the China Animal Husbandry and Feed Industry Expo (CAHE) on May 17-19. ATO Chengdu will coordinate FAS China and USDA Cooperator participation. The Expo provides U.S. exporters a venue to promote U.S. animal genetics and feed materials. In 2008, the CAHE attracted 1000 exhibitors and 80,000 visitors from more than 20 countries, and covered 50,000 square meters of exhibition area. To date, over 500 exhibitors have registered for the show. (2/5/2009)

## **Food safety:**

**Avian influenza deaths continue in 2009:** A 29-year-old contracted H5N1 avian influenza (AI) last month in Southwest China's Guizhou Province, according to news reports last week. China has reported eight human cases of bird flu H5N1 since January, none of which have involved human to human infection. Five patients have died. The patient was hospitalized on Jan. 15 and confirmed infected with H5N1 on Jan. 24 and currently is in stable condition. (2/5/2009)

## **Hotel, Restaurant and Institutional Sectors:**

**Hotels report sales and receptions are up:** Despite daily news of economic woes worldwide and a general slowdown in China, hotel occupancy rates are up and reception facilities are at capacity in Southwest China. While there is some question about a post-Spring Festival hangover, it is expected to be short lived and business expectations are very optimistic. ATO Chengdu's pre-Spring Festival survey included meeting with hotel staff, including general managers, of five-star hotels in Chengdu. (1/19/2009)

**Premium restaurants and hotels start 2009 with a bang:** During the Chinese New Year holidays, the revenue from Chengdu's leading twenty four restaurants exceeded \$3.18 million, up by 3.2 percent from the same period last year. In addition to traditional family reunions, New Year's Eve banquets and business receptions, wedding ceremonies were particularly important this year to Chengdu's food service industry. Thirteen hundred newlyweds' wedding ceremonies contributed 40,000 tables and nearly \$5 million to food service industry revenue. (2/5/2009)

**Hotels and restaurants airfreight from Guangzhou and Shanghai:** In the run-up to Chinese New Year, "Spring Festival," ATO Chengdu met with key hotel and restaurant chefs and operators. Distribution during Spring Festival is particularly challenging because transportation services are supporting the largest worldwide migration as families return home for the holiday. This requires restaurants, hotels and food manufacturers build up two to four week's supplies two weeks prior to Spring Festival, to insure supplies last through the holiday season. High end products, including Alaska salmon and U.S. beef, are flown up especially by individual restaurants because cold chain systems and local suppliers cannot provide reliable quality. In one instance, handling problems with individually quick frozen products resulted in a solid 10 kg of seafood that had to be completely thawed, despite only needing 1/4 of the product, leaving the rest to waste. (2/5/2009)

**Top hotels reports high occupancy after holidays:** Shangri-La, Kempinski and other 5-star hotels report that occupancy in Chengdu remained between 40 and 50 percent after the holiday season, reflecting the regions strong economy. In contrast, occupancy in coastal first tier cities is lower. Plans continue to build more 5-star hotels in Southwest China, including Sichuan and Chongqing. (2/25/2009)

## **Economic environment:**

**Chengdu: quake roads now open and economy resuming:** The May 12, 2008 earthquake affected about 2,384 roads in Sichuan province. While most of these have reopened, the central government will allocate about \$13.24 billion to the Sichuan province in 2009 to continue rebuilding the infrastructure in the earthquake affected areas, attracting domestic and foreign investments, and providing economic growth and market development opportunities. (1/19/2009)

**Trade to southwest china continues to boom:** While China's imports and exports fell in December for the second straight month, imports to the Sichuan capital of Chengdu are up. Imports from the U.S. increased by 25.4 percent in November 2008, the most recent reporting month, according to Sichuan government official statistics. The total imports and exports for Sichuan, in November 2008, were also up 60 and 52 percent, respectively. According to China's national customs data, China's total imports and exports increased 39 and 12 percent, respectively, in 2008. (1/19/2009)

**Sichuan government provides \$7.35 million for SMEs:** Sichuan has arranged \$7.35 million government financing to back a raising investment fund of small- and medium-sized enterprises (SME). SMEs account for 99 percent of the total

provincial enterprises, accounting for more than 50 percent of the provincial industries value added and foreign exchange. The effort is intended to maintain stable economic growth and to speed development of SMEs. (2/25/2009)

**Economic help for SMEs in Southwest China:** Among the stimulus packages Post expects to impact Southwest China are measures announced January 1, 2009, by the Ministry of Industry and Information Technology (MIIT) to assist small- and medium-sized enterprises overcome the impact of the global financial crisis. Key objectives of the measures are to 1) alleviate financing and guaranty difficulties; 2) help expand their market-share; 3) advance structural adjustment and industrial upgrades; 4) promote management innovation and competitiveness; 5) create a favorable policy environment and improve social services; 6) urge them to maintain normal business operations and make every effort possible to stabilize employment. (2/25/2009)

**Chengdu airport plans 18,000 flights and 2 Million passengers for Lunar New Year:** More than 2 million passengers are expected to use the airport and flights into and out of Chengdu Shuangliu International Airport, the busiest air traffic hub in Western China, up 3 percent from the previous year, during the 40 days of the Spring Festival transport period. This period, which brackets this year's lunar New Year of January 26, 2009, begins January 11 and ends February 19. The airport is expected to handle 18,000 flights during this period. (1/19/2009)

**China plans \$1.3 billion aid for the needy:** China announced on Tuesday an aid package totaling \$1.3 billion for the country's needy, two weeks ahead of its traditional Lunar New Year. About 74 million Chinese earning below the minimum income level will receive a one-time payment of RMB 100-150 (\$14-22). Funding is from the central government budget and distribution will be before the Chinese Lunar New Year. The Southwestern province of Sichuan, jolted by the magnitude-8 earthquake in May 2008, has also allocated \$58 million (RMB 394 million) for clothing and shelter to help quake-affected people get through the harsh winter. In Chengdu, the provincial capital of Sichuan, the local government will also handed out shopping coupons to needy citizens worth RMB 100. (1/19/2009)

**Coupons for low-income families boost demand the Southwest:** Coupons issued by local governments over the Spring Festival holidays stimulated domestic demand through the holiday season. Municipal governments, including the city of Chengdu which issued coupons worth \$5.2 million, provided a tax rebate type stimulus to over 380,000 low-income families. (2/19/2009)

**Sichuan benefits as local governments permitted to deficit spend:** Traditionally, local governments are prohibited from running a deficit or to issue debt, but with revenue from land sales dropping as a result of China's property market bubble burst, local governments will be allowed run deficits for the first time. More than 20 national debt underwriters have completed preparations to issue \$29.8 billion of debt to support \$2.7 trillion. China's national government announced \$ 14.9 billion of spending, increasing the national budget deficit as well. (2/5/2009)

**Tourism market flourished in Chengdu:** Instead of traditional family reunions at home, traveling has emerged as an important option in celebrating the Spring Festival this year. Chengdu ranked 10 for top tourist destinations nationwide. Even after the impact of the May 12, 2008, earthquake, 4.68 Million tourists spent their New Year's holiday in Chengdu, up 25 percent from the same time last year. The total tourism revenue increased to \$212 million, up by 19.7 percent. (2/5/2009)

**Yunnan reports GDP growth slowed to 11 percent in 2008:** Reflecting its status as the underperformer in Southwest China, growth dropped in Yunnan from 12.3 percent in 2007 to 11 percent in 2008. Neighboring provinces, including Chongqing, grew around 15 percent in 2008. (2/5/2009)

**Sichuan growth absorbs the return of unemployed migrant workers:** More than one million migrant workers have returned home to work in the Sichuan province after losing their jobs as migrant workers. Out of the 1.49 million migrant workers who had returned home, 1.03 million have found new jobs through training and job fairs organized by the government, with the rest seeking new jobs in other provinces. (2/5/2009)

**More opportunities in interior cities during global economic downturn:** While the coastal areas in China are deeply affected by the global economic crisis, interior cities in Southwest China are less affected and growth opportunities

continue. As a reflection of these opportunities, Intel will shift some chip assembly and test facilities from Shanghai to Chengdu to cut costs and improve efficiency. This move will create about 2,000 job opportunities in Chengdu. (2/11/2009)

#### **Foreign investment:**

**World Bank to help rebuild Sichuan:** The World Bank has approved \$510 million in loans to Sichuan for earthquake reconstruction projects. The money will be used for infrastructure development and to support China's master plan for the rehabilitation and reconstruction of regions devastated by the May 12, 2008, earthquake. The funds will be primarily used for roads, bridges, water supply, sewerage systems and health facilities. (2/11/2009)

**Foreign contract investment and invested capital up 35 and 76 Percent:** While the number of newly approved foreign direct investment enterprises was down 23 percent, at 357, in 2008, foreign contractual investment amounted to \$6.29 billion, up by 37.3 percent, and invested capital was up 76.2 percent to \$3.12 billion in calendar year 2008. The increased capital of these categories of businesses was \$2.718 billion, up by 88.9 percent from the previous year. There were 8,628 Sichuan government approved foreign-invested enterprises as of December 31, 2008, with foreign capital commitments of \$27.915 billion and actual foreign direct investment of \$12.501 billion. (2/5/2009)

**Investment in Chongqing reflects status as regional hub:** Investments in Chongqing from other parts of China were up over 90 percent in 2008, as manufacturers from coastal regions invested in real estate and manufacturing. Investment from eastern China, making up nearly 80 percent of the total investment, was \$9.8 billion. Half came from Guangdong, Beijing and Shanghai. (1/25/2009)

**Sichuan's booming economy draws European investors:** Sichuan's booming economy has attracted \$100 million in European investment to build Chengdu's first upscale shopping mall. The mall, Galleria, will cover 86,000 square meters and is scheduled for a soft opening in mid-2010. (2/25/2009)