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Made in China. Made in Dongguan.

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Report Highlights:

Amazing Dongguan, as the world's mega manufacturer with thousands of factories, will continually need U.S. wood to make furniture, cotton for apparel, hides for shoes and bags, foods and ingredients to feed its vast professional workforce, business visitors and high income locals. As its growing bakery, retail, hotel and restaurant sectors evolve, they will demand more quality U.S. agricultural products, but price, promotion and education are critical.

General Information:

Made in China? Made in Dongguan!

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Dongguan at a glance

What's so special about Dongguan? From a city said to lack many huge roads or supermarkets 15 years ago, it has

boomed to become the world’s mega manufacturer. Each of us is likely to own or use at least one item made here. In fact, one in five owns a knit top made here, and one in every 10 pair of shoes is manufactured here. Let’s not forget the highly concentrated electronic industry where you can find just about all the parts needed to assemble a computer.

Before 2008, Dongguan imported US\$2 billion worth of American woods for its furniture industry annually. All this is to say, that American agricultural goods are used in many applications such as manufacturing furniture, flooring, veneer, bakery goods and textiles. Since there are a lot of business owners and business travelers, there’s disposable income that makes imported goods and Western style restaurants and hotels affordable.

CY 2007

City Area	952 square miles
Population	6.94 million
GDP	US\$46.35 billion
Per Capita Annual Disposable Income (urban residents) 2007	US\$3,974
Per Capita Annual Food Consumption Expenditure	US\$1,024
Hotel (star rated)	43 four- and five-star

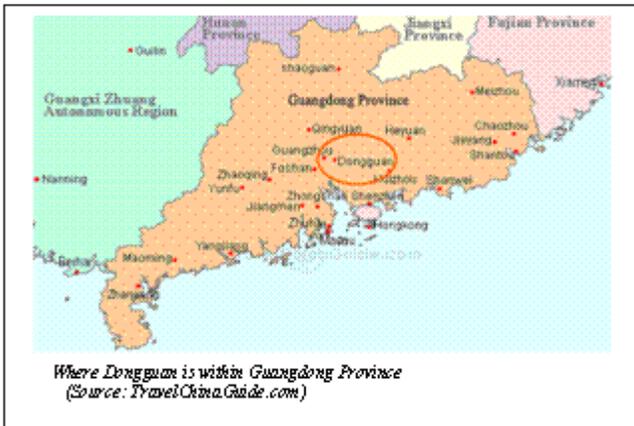
(Source: Dongguan Statistical Yearbook 2008)



Dongguan is 56 miles north of Shenzhen (and Hong Kong), 31 miles south of Guangzhou, 47 nautical miles to Hong Kong and 48 nautical miles to Macau. Its transportation systems connect to five ports, Shenzhen-Guangzhou railways and inter-town freeways. The city occupies 952 square miles with a population of 1.7 million locals and 5.24 million migrant workers from all parts of China. (Note: Government officials stated there were 10 million migrant workers reached in the first half year of 2008). Shenzhen Bao'an International Airport and Guangzhou Baiyun International Airport are a 40 minute drive from the city.

In the past 20 years, Dongguan has held a steady annual growth rate of 20 percent and is known as China’s economic powerhouse with foreign investments that hail from the US, Japan, Europe, Australia, Canada, Singapore, Hong Kong

and Taiwan. Total foreign investment reached US\$2.4 billion in 2008, and its GDP was 370 billion yuan (US\$ 54 billion) in 2008. The city's economy largely depends on manufacturing and original equipment manufacturer (OEM) business. Some 7,000 trucks run daily from Dongguan to Hong Kong and Macau.

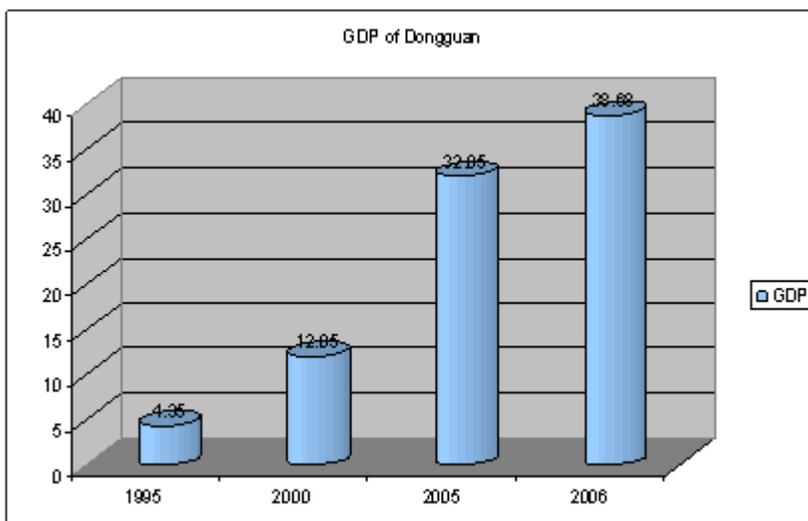


The local government told Post that as of 2006 (their latest data), there were 193 American invested businesses. The States is the biggest export destination of products made in Dongguan. In 2008, total importing and exporting product values of Dongguan reached US\$113.0 billion, among which perhaps 25-30 percent were with America. Some of the U.S. businesses in Dongguan are: *Coca Cola Bottling Co., Duracell, Bunge, DuPont, General Electronics, COOPER Lighting, Mattel Toys, York and Wal-Mart.*

In 2007 (latest full year data) , Dongguan imported cotton valued US\$ 490 million and leathers/ hides at US\$580 million. In 2008, its total export values reached US\$65 billion, ranked fourth in the country, after Shenzhen, Shanghai and Suzhou.

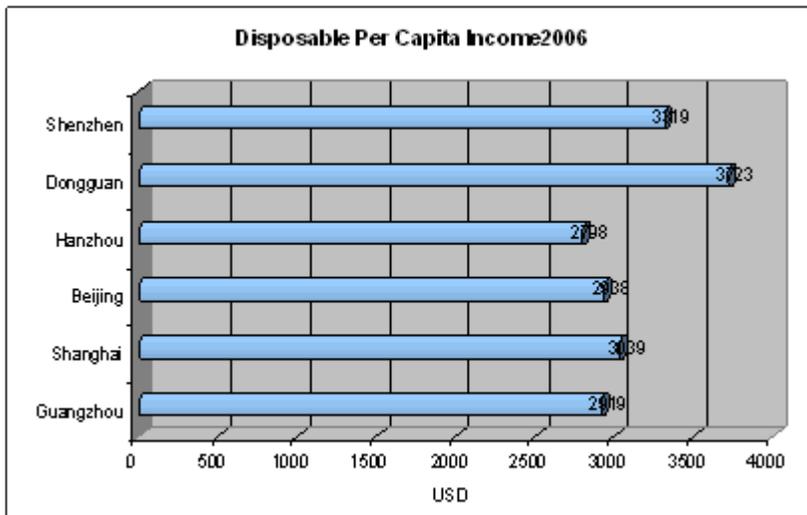
Dongguan Statistics

Chart 1: Dongguan GDPs (US\$ billion)



(Source: Dongguan Yearbook 2007 – latest version available)

Chart 2: Disposable Per Capita Income of Major Cities, 2006



(Source: Guangzhou Statistics Bureau)

World's Factory: OEM Business

Dongguan is best known for its manufacturing industry in electronic parts, apparel, toys, shoes, furniture and machinery. In 2008, 50 out of the *Fortune 500* businesses have offices here. Over 10 percent of the world's shoes are made here. Output of its 3,000 toy manufacturers constitutes 28 percent of the world's production. It is also famous for trade shows: *3C EXPO (International Computer Communication and Consumer Electronic Products Exposition, Humen International Fashion Fair, Famous Furniture Show, Da Jing Jiu Agricultural Products Trade fair, and DaLang Wool-Knitting Products Show*.

Asia makes up 30 percent of the world's furniture production, and China accounts for a quarter of Asian furniture export volume. According to the *China Furniture Association*, in 2007 (its latest data available), China furniture exports value reached US\$23.3 billion. Guangdong furniture exports in 2007 were US\$9.3 billion, 40 percent of the country's export total.

Dongguan is an important furniture export base in the province. There are some 2,300 companies registered as an export-oriented business, and 2,000 furniture plants achieved annual production valued RMB 70 billion yuan (US\$10.3 billion). Up to 2008, Post was told then that the Dongguan furniture industry saw a 20-30 percent increase and over 70

percent of Chinese furniture brands are produced in the region. With one call, raw supplies can be delivered within two days, trade contacts told Post. This fast turnaround time contributed to the strong furniture production in Dongguan. Shadowed by the international economic downturn, the first ten months of 2008 managed to achieve 3.3 percent of increase.

The 29 towns of Dongguan attracted 16,500 foreign invested enterprises with total annual export value of US\$65 billion in 2008. Each of these towns represents unique opportunities for exporters and marketers.

Houjie

Houjie is one of the largest shoe making bases in China with 3,000 factories that make shoes and purses. Each year, 300 million pairs are made here, and over 60 percent are for export. Shoe materials, machinery and leather supplies account for half of the province's total sales. Its GDP in 2008 was 160 billion yuan (US\$2.4 billion), a 12.5 percent increase from the previous year. Export value of the same year reached US\$ 2.5 billion.

In 2008, there were about 400 furniture factories and eight furniture wholesale/retail markets in town with over 100,000 employees. Machinery, materials and parts businesses are scattered around town, i.e., ten professional wholesale markets for furniture parts, shoe materials, construction materials, and woods. Up to 2008, over 40 percent of the furniture produced was shipped overseas, accounting for 20 percent of the country's export volume. The US, Southeast Asia and the Middle East are the most popular destinations, meanwhile, sales to Europe, Korea and Japan increased at the start of 2008. Last year, many large furniture manufacturers reported 10 to 30 percent drops in overseas orders.

In this 48.6 square mile town, there are three five-star hotels: *Sheraton, Jia Hua, and Fu Ying*. Houjie is also home to some 20 chain stores/department stores and over 200 restaurants. It has 10,000 guest rooms in some 130 hotels and guest houses. *Guangdong Modern International Exhibition Center* is here and holds almost 30 kinds of exhibitions and trade shows each year.

Dalingshan

Dalingshan covers 36.7 square miles. Its GDP in 2007 was 8.3 billion yuan (US\$1.2 billion), up from 6.8 billion yuan (US\$1 billion), a 22 percent increase. It has over 600 foreign owned companies, mainly in furniture, printing, and electronics, some in hardware, plastics, leather, and chemicals. *Akasu Nobel, Xerox, Toyota, Phillips* and *Valspar* are some of the multinationals located here.



Dalingshan is the biggest furniture manufacturing center in Southeast Asia, with over 500 factories producing a full range of furniture, among which, over 30 have investments over 10 million yuan (US\$1.47million). Three companies are listed in the Chinese stock market. In 2006, Dalingshan exported furniture valued at US\$2.2 billion, number one among towns in China for the eleventh year in a row. It was named by the *China Furniture Association* as the number one town in furniture exportation.

Shangri-la Hotel in Singapore, *Peninsula Hotel* in Hong Kong, *Portman Ritz Carlton Hotel* in Shanghai and some Las Vegas hotels, sourced furniture from Dalingshan. Over 90 percent of its furniture production is for export. Everyday, there are about 300 containers of furniture being shipped to other parts of the world. It is said that if one wants to learn about the world's latest trends in furniture, one should come to Dalingshan.

There are large numbers of Taiwanese owned factories in the town. One of the most famous is *Lacquer Craft Manufacturing*. Set up by Guo Shanhui of Taiwan back in 1995, *Lacquer* is the biggest wood furniture manufacturer in Asia. Up to 2008, *Lacquer* ships 4,000 containers of furniture to the US via the Shenzhen *Yantian Port*, which is just an hour away from the town. Due to slower demands in the States, local media claim its monthly sales plummeted to 1,000 containers in January of 2009.

Dalingshan has a complete supply chain for the furniture industry, ranging from raw materials to processing, manufacturing, packaging, and exporting. One of the biggest timber wholesale markets in South China, *Jilong Timber Market*, occupies 1.7 million square feet, with 1,200 rental spaces for dealers and a warehouse of 538,195 square feet.

Humen



At the Fumin Fashion Market
(Source: ATO Guangzhou)

Anchor women of *China Central TV* evening news sport outfits produced from Humen. Every November, the largest fashion trade fair of Guangdong are held. Its *Fumin Fashion Market* of is one of the top ten fashion wholesale markets in China.

Humen started its apparel manufacturing in men's fashion in 1993. Now, it is best known for production of jeans and fashion for teenaged girls. Merchants come from all over China and Japan, Korea and Southeast Asia. In 2006, Humen sold 200 million pieces of garments with total sales at US\$2 billion.

In *Fumin Fashion Market*, there are 1,500 vendors and most of them have been there since 1993. The individual booths at the fashion market are in fact the sales office of garment factories in town. According to Dongguan government data, there are 7,000 garment factories in Humen as of May 2008. The wholesale price for a piece of garment in 2008 when Post visited ranged from 10 yuan (US\$1.50) to 40 yuan (US\$5.90). In 2007, 1.5 million pieces of fashion for teenaged girls were sold by the town. To stay on top of competition, each vendor at the wholesale market introduces over 10 new designs per day.

Shijie



Luscious eggplants, ready for Hong Kong
(Source: ATO Guangzhou)

In addition to its leading place in manufacturing electronic products, Shijie is also known as the biggest vegetable export base in Guangdong. Everyday, Shijie ships some 700 tons of vegetables to Hong Kong, accounting for 40 percent of vegetables sold to Hong Kong. To facilitate selling and

sourcing, the *Runfeng International Vegetable Trading Centre* was formed by 17 leading vegetable companies and occupies 1.1 million square feet. This market adopts a coop model and purchases about 40 kinds of vegetables from farmers in Dongguan, Hainan, Guangdong (Zhanjiang and Gaozhou), Guangxi, and Shangdong. Supermarkets and restaurants are also their customers. Some of the traders even developed their own labels for their products, such as “*Quanfa*” and “*Wanfeng*”.

Baking Industry

Guangdong bakery owners believe Dongguan ranks third in South China in terms of the size of baking market after Guangzhou and Shenzhen followed by Zhongshan and Foshan. The start of the baking industry in Dongguan may be traced back to the 1980s, when Taiwanese came to town in clusters, and baked breads became popular. Many apprentices acquired skills and techniques from Taiwanese stores, then quit and opened their own bakeries.

In Dongguan, there are a number of big food manufacturers that require large supplies of baking ingredients, such as *Garden, Nestle, La Rose Noire* and *Xu Fu Ji*. In addition, there are more than six famous local chain bakery stores with over 180 outlets spread around the city and individual towns. Bakery sector leaders and suppliers have strong confidence in the future of the industry. They believe the quality of the products would be improved and expensive imported ingredients used by increasing numbers of stores. Opportunities for US export lies in nuts, and dairy products, such as almonds, cheese and butter. Currently, they do not use whey. Top revenue earners industry-wide are bread, followed by cakes and desserts.

The chain store concept saw a boom in 1998, and then every town formed its leading bakery brand. Most of these chain bakeries have at least 20 outlets in their native towns. For example, *Big Thumb* in Dalang has over 20 stores, *Paradise* opened over 60 in Liaobu, *Shenxin* owns some 50 outlets in Chashan. High end bakery such as *Blue Bird* and *Gordon* each has over a dozen stores in downtown Dongguan. On average, 40 percent of bakery sales are in bread, 30 percent in cake, and the rest are in cookies. It is expected that cookie/cake will become the fastest growing sector. Due to price, many imported baking ingredients have been substituted by local ingredients, except American almonds, raisins, cheese and butter.

One owner stated he used more nuts in his products such as cookies and cakes which adds texture. Some bakery owners see potential because of health benefit, believing that increasing demand for high quality product drives up demand for high quality ingredients such as nuts, dairy ingredients, whipping cream and cheese.



Bakery owners commented that it was very important for them to visit the U.S. market and gain ideas on how to make good use of American baking ingredients. For instance, a noted bakery increased consumption of American nuts after the owner’s trip to the States. Traders believe the Dongguan market has great potential, and American baking ingredients can improve the taste of their pastries and cakes. Consumers consider nuts and raisins as tasty and healthy choices. However, since American raisins cost substantially more than Chinese raisins, they don’t sell well. Trade contacts believe in the long run, quality and prices of baking products will rise in Dongguan. Eventually, there will be more people buying higher priced products. Since U.S. almonds have no close substitute, it maintains strong advantages in the market.

Major bakery chains in Dongguan include:

Dalang	Over 20 are on east side of Dongguan near <i>Hyatt Hotel</i>
Shenxin	50 in DG in central part. Competes against <i>Paradise</i> . Some are in shopping mall.
Paradise	Started downtown, over 50 in DG, no shops in shopping mall
Bluebird	More than 20 in downtown – high end, breakfast is 70-80 (US\$10-12) or 100 RMB (US\$15), once in a while customers get this
Garden	More than 10 downtown, nicely decorated.

Bakery owners don’t think there’s a market for organic flour because of prohibitive price and difficulty in proving organic claims for consumers.

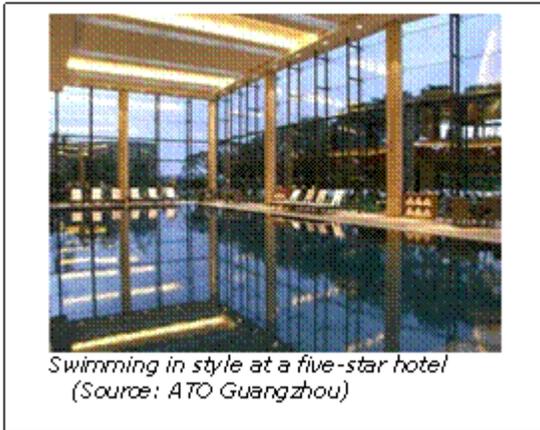
When Post interviewed bakery owners in 2008, bakery owners referred to “medium priced,” as a 30 RMB (\$4.41) purchase on average. A medium priced cake was about 50-60 RMB (\$7.35 – 8.82) while a more expensive one cost about 100 RMB (\$14.71).

As for recommendations on how to promote American ingredients, since the ingredient maker sells to the trader, promotion should be with the trader to show how to use them since he’s the one who sells to the baker. Bakers should

also be taught how to use ingredients and what kind of products can be developed (in all categories such as cookies, cakes, etc)

Insiders gave the following advice:

- Make sure internal standards are up to standard
- Constraint is talent. Good managers are hard to find because there's so many companies who want good managers
- Competition is local and international
- When you're good, there's no problem expanding
- Internal management is the most important
- The center of Dongguan is well established. Next area for expansion is the industrial zone where there's a lot of people
- Get rid of slow moving products and introduce new ones



HRI Sector

It is said that Dongguan has one of the highest concentrations of star-rated hotels as home to 23 five-star hotels. Most guests are on business trips, and the average stay is less than three nights. Seventy percent are frequent individual travelers. Less than 30 percent come for seminars and meetings.

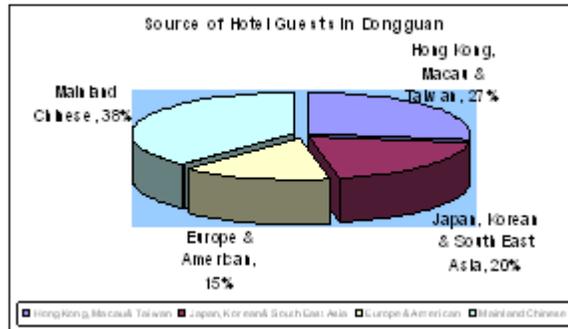
The 16,500 foreign investment companies and 160,000 private businesses made Dongguan an extremely attractive place for hotel and restaurant business operators. Business guests are a steady source of customers for hotels, and they normally stay at high class hotels and dine at fine restaurants. Each year, the city holds some 40 trade shows for fashion, furniture, electronic products and wool knits.

The sector was first led by local private investment. Now, international hotel brands are moving rapidly into the city. *Sofitel, Pullmen, Sheraton and Hyatt* have already done good business there, and some are planning to open even more in the city. On the other hand, *Shangri-la, Four Seasons, Inter-continental, and Langham* are either constructing or planning to build hotels in Dongguan in years to come. By April 2008, there were 99 star hotels, among which, 43 were four and five-star hotels.

International five-star hotels in Dongguan

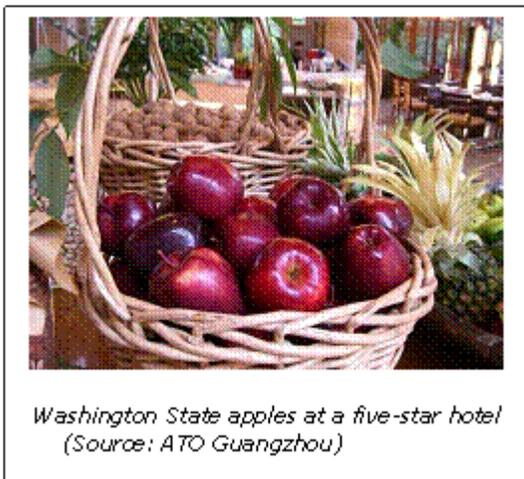
Current Hotels	# of Rooms	Newcomers	# of Rooms
Pullman	200	Westin	350
Sofitel	256	Shangri-la	400
Hyatt	350	Intercontinental	400
Sheraton	500	Hilton	900

(Source: Industry Contacts, August 2008)



(Source: Dongguan government)

An obvious distinction of star rated hotels in Dongguan is its low lodging rates. Unlike other locations, in 2008, *Sheraton*, *Sofitel* or *Hyatt*, all promoted their rooms at around 1,000 yuan (US\$147) per night while local five-star hotels ask for about 600 yuan (US\$88) per night. The director of *Dongguan Tourism Bureau* told Post that it was much cheaper to build a five-star hotel in Dongguan than in Shanghai. It costs about 2 billion yuan (US\$0.29 billion) to build one in Shanghai, and only 300 to 500 million yuan (US\$ 44 to 73.5 million) in Dongguan, mainly due to the cost of land. Thanks to frequent business travelers in the area, most hotels do not have problems filling their rooms. The average hotel occupancy rate is about 75 percent.



When it came to discussions about increased numbers of competitors, some hotel operators worried about threat to future market shares while others were enthusiastic about the surge of international hotels. As the city is 30 minutes midway by train to Guangzhou or Shenzhen, optimists see it as an advantage to create a good business environment for trade shows attendees, golfers, weekenders, vacationers, and executives of international brands. Dongguan can become a popular destination for weekend excursions, as it has quite

a few lakes and is most famous for its twenty 18-hole golf courses.

Many hotels have positioned themselves as vacation destinations. For instance, the *Sofitel Royal Lagoon* is set amid lush green surroundings next to the *Huying Park* and houses a spacious water park to attract locals and tourists. The 36-hole *Hill View Golf Club* is just next door. The *Hyatt Regency* occupies 2 million square feet with a lychee garden for 107,639 square feet, jogging tracks and swimming pool for 19,375 square feet.

Since many of the star-hotels are located in industrial parks, there is no other option for food rather than dining in hotels. Therefore, newly built ones place emphasis on their restaurants. A typical example is the *Sofitel Royal Ragoon*. It has 268 rooms and features eight restaurants. The *Hyatt Regency Dongguan* operates six restaurants for its 350 guest rooms.

Western fast food chains, such as *McDonald's*, *KFC*, *Pizza Hut*, *Papa John's*, and *Starbucks*, are easy to find in the city. However, because of the large number of five-star hotels in town, individual western restaurants are not as well-developed as they would be in other cities. People in Dongguan will go directly to the high end hotels when they crave high quality dining. These consumers also normally have access to cars.

As for promoting American foods, one manager suggested that the *Chef di cuisine* who's in charge of the cafe is the one who should be recruited to trips to the states for training as he is the one who trains others. As for wines, Post was told locals need to be educated about wine brands and tastes as well as about wine pairing. He suggested wine pairing with a five course Cantonese home style dinner and roast suckling pig.

Retail



Dongguan has yet to gain the kind of name recognition realized by Beijing, Shanghai, Guangzhou or Shenzhen, but its large number of expats and rich local residents has drawn many international retailers to the booming retail business. In downtown Dongguan, within 10 miles, there are *Vanguard*, *Trust-Mart*, *ParknShop*, *Carrefour*, *Metro*, *Jusco* and *Wal-Mart*. As *Tesco* put it, “No international retailers will ignore such a huge market in Dongguan.”

According to the Dongguan Foreign Investment Promotion Center, in 2008 total retail sales were valued at 83.8 billion yuan (US\$ 12.3 billion). Sales in downtown Dongguan was 29 billion yuan (US\$4.3 billion), while sales in various towns was 54.8 billion yuan (US\$8.1 billion). Dongguan government claimed to have 618 medium to large sized shopping malls and 4,500 chain stores. It is believed the total size of the retail market exceeds 65 billion yuan (US\$9.6 billion). Both local and international retailers work hard to capture the best commercial sites in every town of the city. Unlike other cities, to engage in retail business in Dongguan, it is a must to have large parking lots for customers.

Dongguan, especially at the town level, has strong potential in retail, and the competition is not as severe as in Guangzhou, the capital city of the province of Guangdong. There are all kinds of supermarkets, franchise stores, shopping malls, hypermarkets and web stores. Credit cards and other forms of electronic transactions are common. To survive competition, the once dominant local chain store, *Mei Yi Jia*, chose to shrink its size and pursue a strategy to develop convenience stores. Other local players, such as *Tian He Holdings*, maintain market share by focusing on department stores. Management of *Tian He Holdings* is very optimistic about the Dongguan retail market. It believes

Dongguan has massive potential due to its large number of high income consumers, strong spending power, and strong desire for high quality products and brand names.

Many of the international retailers chose Dongguan to open their first outlet in South China. *Wal-Mart* has yet to set up its first store in Guangzhou, but its first store in Dongguan could be traced back to 1997, when the Dongguan government offered the retail giant three years of tax holidays and exempted them from rent for three years. Also, the British chain, *Tesco*, just opened its first store in Guangzhou in April 2008. Meanwhile its Dongguan store has been operating since 2006.

These chain stores offer the same selection as other parts of Guangdong. Although Dongguan is considered a second tier city, *Jusco* Dongguan finds its organic products to be quite popular. Imported product lines are full of selections and all of the retail stores in Dongguan downtown have nicely designed wine sections, in which French, Italy, Australia, American and Chinese wines are displayed. High end hotels welcome increasing numbers of international retailers as they can source many imported products from them. All of the retailers in Dongguan are planning to expand their business by opening more stores in various towns of the city.

Profile of Dongguan retail client

Per ticket sales for food	US\$5.10 - 6.60
Customer spending on food	US\$4.60 per weekday or US\$6.90-9.60 on Friday, Saturday and Sunday
Customer Demographics	20-45 years old, female, account for 67 percent
Loyalty	Hard to concentrate, 20 percent are migrants who move around

(Source: ATO Guangzhou industry interviews in 2008)

In *Jusco Dongguan*, Japanese foods enjoyed the largest sales volume at the imported food section, followed by Thai products. U.S. foods took third place. Washington apples and *Sunkist* were the most popular American food items in the store. According to the store manager, Alaska salmon has price advantage over the Norwegian products. Since all commodities were sourced by headquarters, supplies of some imported products were not consistent. However, if a store manager wants to carry certain commodities, they can also make a proposal to the head office.

Promising U.S. products for retail

Categories	Products
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Snacks	popcorn raisins prunes peanuts pistachios
Drinks	wine fruit juice
Fruits	apples oranges avocados grapes
Meat/Seafood	beef steak salmon

In terms of sales volume, *Wal-mart* is the winner, but in terms of profits, *Jusco* may be the leader in the Dongguan market. Retail practitioners stated that the imported food market in Dongguan is growing. Last year, *Jusco* store saw a 20 percent increase over 2007 in imported food sector. The financial turmoil was felt by some stores. Retail operators expected the first half year of 2009 would be difficult, but business will pick up slowly in the second half. All the interviewed stores expressed interest to expand their turf during this economic downturn because of strong confidence in Dongguan's future.

Multinational retailers in Dongguan that carry imported products, August 2008

Name of Retailers	Locations	# of Stores
Carrefour	Downtown	2
Wal-Mart	Downtown & Changan	2
Tesco	Humen, Changpin & Houjie	3
Metro	Downtown	1
JUSCO	Downtown	1

(Source: ATO Guangzhou)



As local residents and expats continue to demand high quality products and foods in a comfortable shopping environment, roomy supermarkets or hypermarkets maintain a thriving business. According to industry sources, Dongguan people to follow what friends, colleagues, or neighbors are buying. Many Dongguaner's used to go to Hong Kong for imported products, but with expanded distribution channels, more can source imported groceries locally. They like Washington apples, *Sunkist* oranges, *Sunkist* lemon and *Popycock* popcorn.

Tradeshows and wholesale markets

To serve the world's manufacturing plants, there are 112 professional wholesale markets scattered in Dongguan. Separate markets for IT, tea, leather, steel, fruit and vegetable wholesale market thrive in every town. Houjie houses the *Guangdong Modern International Exhibition Centre*, which was set up in December 2000, and occupies 3.6 million square feet. Each year, the *International Famous Furniture Fair*, *Dongguan International Machinery and Packaging Show*, and *Famous Shoe Show* are held at this exhibition centre.

Situated in Zhongtang, *Jiangnan Food Wholesale Market* was built at the end of 2004 to serve as the distribution center for the Pearl River Delta. It is one of the most comprehensive food wholesale markets in the region. It carries dried goods, cereals, oils, vegetables, fruits, fresh/frozen meat, fish, rice and condiments. Post was told sale volume in 2007 reached 3 billion yuan (US\$440 million). Currently, it has a cold storage facility that holds 6,000 tons, including low temperature warehouse (-18 degrees C or -0.4 degrees F) and high temperature warehouse for dried products (0-5 degrees C or 32-41 degrees F). The market plans to build another 20,000 ton warehouse for frozen products. At present, this market doesn't carry a lot of imported products. In frozen storage, there were pork feet from Canada, pork kidneys from Denmark and pork ribs from the States. However, they hoped to diversify their product lines by introducing more foreign products to the market.



Jiangnan Food Wholesale Market in Zhongtang. Cabbage brings good luck to the truck driver. Muscle moves product within the market.
(Source: ATO Guangzhou)

Xinye Timber Market in Houjie was opened in 1999, and occupies 3,229 square feet. There are now 429 timber traders in the market, selling woods and plywood from America, Europe, Africa, South East Asia, and China. To expand its sales channel, *Xinye* developed an online timber market and wood information business web site (<http://www.chinatimber.org/>). According to market operator, 90 percent of *Xinye*'s customers are furniture makers and 10 percent are wood flooring manufacturers. American woods are considered not substitutable, and Russian woods are mainly used in domestic furniture. High-end furniture consumers, such as hotels and private owners who have big houses, like rare wood. American products are not as popular as African and European supplies due to limited varieties.

For the wood industry, Dongguan is also known for its *International Famous Furniture Fair*. The show normally covers 2.5 million square feet and is held in March and September. In the past March session, it drew around 80,000 attendees, up from 50,000 in September 2008. The sluggish U.S. economy but growing Chinese market has pushed the Fair more towards the domestic market. Many manufacturers are focusing more on brand building and establishing sales channels to cope with pressure from weaker US dollar and mounting production costs.

Changing Face



*A McDonald's in downtown Dongguan
(Source: ATO Guangzhou)*

In past decades, Dongguan has grown from an unknown mid-sized city to the world's mega manufacturing plant. The local economy attracted millions for jobs. Each year, economic indicators kept reporting outstanding results. However, things started to change in 2008. The year started with all sorts of reports on factory closings and plunging foreign direct investment. A rough number published by Dongguan government was about 900 business closed in 2008, which accounted for 6 percent of the total number of companies. The central government continues to promote inner mainland as new manufacturing sites, and the local government looks for ways to shift from low value-added processing to high-tech business.

In response to shutdowns, the local government is working hard to retain preferred business in Dongguan. Every village was officially urged to pay a visit to the factories and help them stay. Government promised to help small and medium size enterprises (SMEs) to grow by handing out incentives. The goal is to transform SMEs from OEM (know by Chinese as "sticking brand" or sticking a brand to a product) to building their own brands. The Dongguan government stated they would use 5 to 10 years to foster large scale companies to be able to compete directly on the international market. To keep large numbers of Taiwanese companies, the government reduced administration fees in many areas and a bonded warehouse would be built for Taiwanese business so that unused materials may be maintained in mainland China. The policy helps to save 2,000 yuan (US\$294) per container.

2008 recorded a 36.4 percent drop in Dongguan's industrial profit, the first time since 2001. The number further deteriorated to 25.4 percent in September. The world's manufacturing powerhouse faces these challenges:

- Slowdown of world's economy: decreasing orders from the US and other parts of the world;
- Increasing international trade barriers: European environmental policies and American anti-dumping cases
- Mounting cost of raw materials and gasoline
- Climbing value of Chinese currency: some traders said this factor alone reduced profits by 20 percent
- Tightening state control on the macro economy: very difficult for business to take out loans
- Natural disasters: snow storm at the beginning of 2008, then massive quake, and followed by flooding in many provinces
- Changing provincial and municipal policies on production structure: encourage high-tech firms and want low value-added businesses that are energy hogs and high polluters
- Implementing of contract law: hiked up labor cost to 10 percent.

The new legislation and environmental policies represents China's determination to change from low price competition to a new level. Overtime is now facing tight restrictions. It is forbidden to work beyond regular work hours without extra compensation. Even when a business is willing to pay premium for overtime, it has to face lots of restrictions. Before the introduction of the new contract law, it was common for factories not to sign any contracts with their workers. Thus, many small factories didn't buy social insurance for workers, such as pension, unemployment, occupational injury, medical, or child birth insurances. Contacts told Post in 2008 that if they were to pay, the total of the above would add to 300 yuan (US\$ 44) per worker, depending on the city. Also, there are more procedures required before being allowed to fire under the new law. Therefore, costs of firing and hiring are much higher than before.

In the short term, along with the new direction Dongguan government wants to take, the new law would impose a burden to small and medium size enterprises (SMEs). However, in the long-term, a more regulated employment market will help its manufacturing industry to accelerate. Some businesses may take this as an opportunity to address internal problems, like high turnover rate, to keep their skilled and experienced workers. When India and Vietnam catch up, China may find it difficult to stay ahead of the game as these two competitors are also strong at providing low value-added products through cheap labor and slim profit margins.

Opportunities for U.S. Exporters

HRI



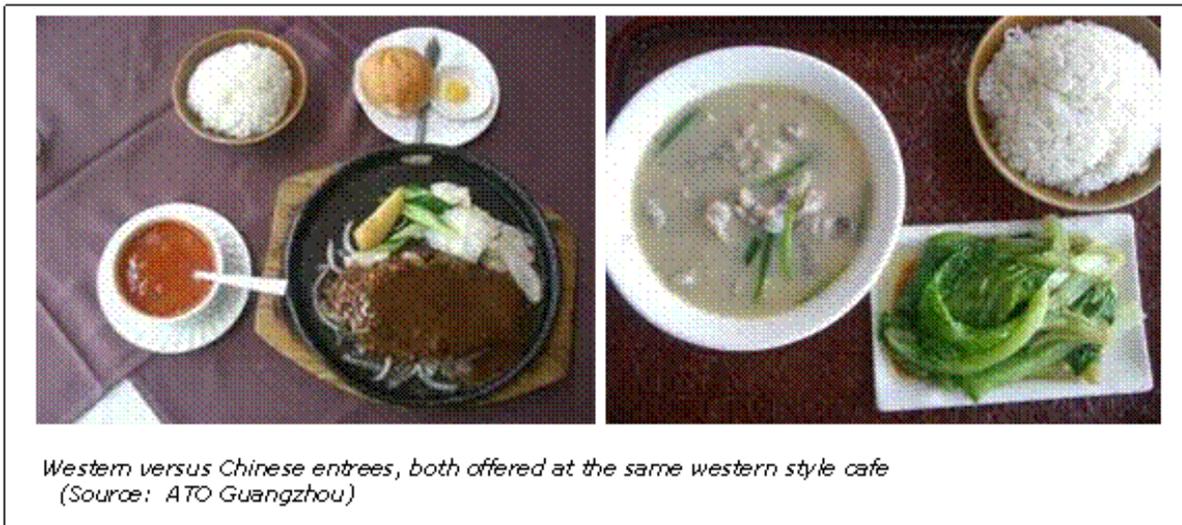
*Western style restaurant versus Kungfu, a Chinese fast food chain which got its start in Dongguan and now has over 100 scattered in Hong Kong, Guangzhou, Shenzhen and Dongguan
(Source: ATO Guangzhou)*

As local Dongguan people become wealthier, many families own at least one car, and they are become used to staying at high class hotels. According to an industry contact, locals even visit fancy hotel restaurants to have breakfast.

Business executives who conduct business with manufacturers of branded goods such as such as *Prada, Burberry, Tommy Hilfiger, Nike, Adidas, Motorola, Nokia, Microsoft, IBM* require high quality food and would enjoy excellent dining experiences. Furthermore, there are large numbers of business owners and senior management from Taiwan, Hong Kong, Japan, Brazil and Italy in Dongguan. They constantly look for high quality food. Anecdotal accounts in 2008 suggest that there are at least 50 French, 1,000 Brazilians, 400,000 Taiwanese and 250,000 Hong Kongers who live and work in the city.

Thanks to high numbers of star-level hotel restaurants in the city, people's palates have been awakened so they seek new dining experiences. Hotels would like to capitalize on the customers' continuing desire for high quality food by introducing fine western cuisines.

However, the city was a manufacturing base, and there were not many food traders around. To meet requirements of their high class guests, hotels had to source food ingredients and imported food items from various cities, such as Guangzhou and Hong Kong. Some would go to the HOFEX show (for the hotel, restaurant and catering sector) in Hong Kong to buy for their restaurants. For the newly established hotels, they don't have many connections with local food traders which give U.S. cooperators/marketers ample opportunities in setting up good relationships and become the first player in the market.



What the international hotels want from American suppliers are various sauces, tomato pastes, tortillas, imported high quality beverages, California wines, corn chips, corn flours, taco seeds, beans, lentils, pastry ingredients, cream, cheese,

U.S. eggs, American oysters (need consistent supplies), high quality trout, salmon and turkey breasts.

Post paid visits to Chinese owned western style cafes, but with Western ambience. The menu included t-bone, American pork steak, American sirloin, U.S. beef steak, Chicago spareribs and pan fried cod fish steak. Other entries besides American were French, Italian, Thai and Chinese. Post was told customers were typically foreign businessmen who like steak. However, locals who come choose less expensive Chinese entrees. Interestingly, at the entrance, there were domestic wines available - *Great Wall* at 90 RMB (\$13.23) per bottle which indicates a growing wine culture. However, this restaurant offered wine by the bottle, not the glass.

At the time of Post visits in 2008, there were six *Pizza Huts* in Dongguan where the menu offered wine and escargot, spaghetti and cheese cake. At another western style cafe, the manager stated there was medium to high consumption equal to Guangzhou. Its customer spent 40-50 RMB (\$5.88–7.35) per plate, and the Chinese entries were the most popular on the western menu. The trend was definitely more towards local, traditional food. It did serve wine. Post was told there was an *Angus Steak House*. In Dongcheng, it was mostly expats said to frequent cafes and bars.

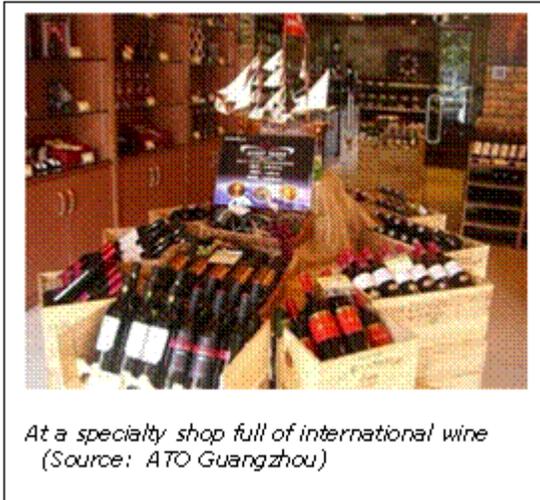
Western Fast food Chains in Dongguan in 2009

Chains	Number of outlets
Papa John's	1
McDonald's	38
KFC	34
Pizza Huts	6

Wine

It has become “high class” for locals to drink wine instead of Chinese liquor. The trend has shifted gradually from large consumption of *Hennessy VSOP*, *Martell* or *Chivas* to good quality French, Italian, Spain, Australia and American wines. It was reported that wine appreciation events or wine pairing dinners are particularly popular in Dongguan market.

Thanks to constant media coverage on benefits of drinking red wine, most believe wine is better for health, and red wine is a better choice over white wine. In most cities, red wine moves much faster than white. In 2008 when Post conducted visits, the best sellers were within 300 yuan to 400 yuan (US\$44 to US\$59). *Merray Starmont Cabernet Sauvignon* and *Merray Merlot* were the most popular choices among U.S. wines.



Many locals consume high priced wine for its “face value” when entertaining important guests. Wine dealers said French wine were consumed more by traditional clients while it was much easier to sell California wine to younger consumers.

Premium wine is of high demand in many of the five-star hotels. It was reported that wine prices ranging from 3,000 to 4,000 yuan (US\$441-US\$588) per bottle were very popular. International hotels in Dongguan have held menu promotions and expressed interest in offering an American food menu along with Napa Valley wine promotion as frequent diners and long staying guests would like to try new offers.

Traders saw market opportunities for wine business in Dongguan. Sales are picking up quickly. One main wine distributor of imported wines recorded 20 percent sales increase in 2006 and 30 percent growth in 2007. The slowdown in the world economy has also lowered the growth rate to 18.6 percent. They expect the market to buoy growth in the coming five years.

A wine manager stated that promotion of wines paired better with a regular Chinese meal than with dim sum. He suggested that wine goes with the stronger taste found in BBQ or strong pan fried or deep fried. He suggested American themes to serve as a backdrop for wine tastings and to invite vintners. As for tastings, crackers and cheese weren’t necessary, because Chinese don’t normally pair with these condiments. He suggested nuts such as cashews, crackers and plain French bread.

As for price structure in 2008 when Post visited, the customer base was as follows:

Customers		Locale
Low (US\$15)	< 100 Yuan	Supermarket
Medium	300-400 Yuan (\$44-59)	Hotel and restaurant
High	> 1,000 Yuan (\$147)	Hotel and restaurant

He stated expensive wines were used as gifts. For example expensive wines are purchased for spring and mid-autumn festivals. Afterwards, there are a lot of banquets where lower priced wines are used at 80-125 yuan (\$12-18). Wines for weddings are lower priced than those used for gifts. He believed that in Dongguan, people bought what friends recommended. He believed Dongguan Chinese were not familiar with white wine, but he personally liked it for the summer because it could be chilled. It would take time to cultivate customer taste for white wine. Wine is mostly targeted towards individuals who own cars and their own residence such as business owners and government officials. It was suggested articles on wines could be provided to magazines that such customers liked to read.

When this manager goes to the Hong Kong wine show called *Vineexpo*, he looks for a good value product, French wines first based on consumer demand, then Australian, Chilean, then American. If categorizing by old versus new world wines, he believed French, Italian and Spanish were most popular old world wines while Chilean, Australia, American were the top this category. Further, when he talks to exhibitors he looks at:

- Price offered
- Promotion effort offered (eg., offer wine tasting at Vinexpo – wine tastings are MORE important than POP materials)
- Now they know about brands, so they concentrate on taste of wine

Wood



*At an umbrella factory showroom - some are made from Forest Stewardship Council (FSC) certified U.S. sycamore,
(Source: ATO Guangzhou)*

Export of Guangdong furniture accounts for 40 percent the country's total. Most were from Dongguan. China's own

timber supply is very low, and it has to rely mostly on imported woods. On average, Dongguan used to import woods worth US\$4 billion a year, among which half was from the US. The subprime loan crisis in US has triggered a slump in importing of U.S. woods to the region. American logs may be processed into veneers which reap higher profit margins. Veneers are used for wall panels (.0047 inch thick or .12 mm), furniture (.0197 inch thick or .5 mm) and doors (also .0197 inch thick). When the American economy picks up, furniture makers in Dongguan will continue to buy lots of woods from the States. Many traders of U.S. woods said these two years will be difficult for them. However, they would use the time to find more reliable high quality wood supplies from the US.

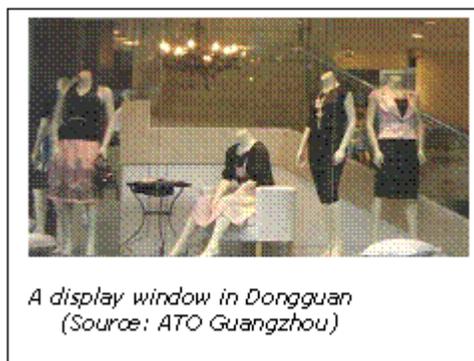
(Note: Please see our furniture report for further details in wood trading opportunities: CH8632 Guangdong furniture industry faces strong head winds, published February 4, 2009).

Hides



Dongguan produces not only wood furniture, but also large quantities of leather sofas. The industry is more familiar with Italian, Indian and Brazilian supplies. However, they are very interested in learning features of American hides. U.S. hides are popular among Dongguan manufacturers for producing shoes and handbags. However, further promotion needs to be conducted among sofa manufacturers as they tend to use Italian, Indian and Brazilian suppliers.

(Note: Please refer to CH7623, China, where American



hide get shine (published December 12, 2007)

Cotton/wools

Dalang alone, has 3,000 wool knitting factories, producing 300 million pieces of products each year. The large consumption of wools and fabrics by the apparel manufacturers in Dongguan presents lots of opportunities for

exporters who want to test the waters in the world's manufacturing center.

Conclusions

Although there are reports of factory shutdowns in Dongguan, this region continues to present ample opportunities for raw materials suppliers. U.S. woods, hides and cotton are consumed in large quantities. Government initiated upgrading plans in manufacturing will spur bigger demands for high quality raw materials. Well developed infrastructure provides a good business environment for trading and transporting imported products into the city. The large number of expats, international travelers and upper class locals are loyal consumers of imported foods, drinks, snacks and wines. The presence and growth of high end hotels, restaurants and supermarkets point towards increased opportunities for exporters of U.S. meat, poultry, seafood, wine, processed products and condiments.

Related GAIN Reports

CH8632 *Guangdong furniture industry faces strong head winds* (published February 4, 2009)

CH7623 *China, where American hides get shine* (published December 12, 2007)

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