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## **China - Peoples Republic of**

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### **South China Hidden Treasures Report: U.S. Wine and Spirits Market Profile: Uncorked Potential in South China's 2nd Tier Cities for U.S. Wine and Spirits**

**Report Categories:**

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**Report Highlights:**

**Summary:** South China is 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 highlighted trade figures of the already 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 overall abundant with economic optimism and strong consumer purchasing power. As market potential in China's coastal and 1<sup>st</sup> tier cities is close to saturation, many 2<sup>nd</sup> and 3<sup>rd</sup> tier cities are becoming key battlegrounds for imported wine and spirits.

Secondary cities have a larger scale of consumers moving up the economic stratum. Though there is higher consumption power, there is also less awareness of wine regions worldwide and brand recognition. People from these areas only have desire for imported alcoholic beverages with original packaging. This report provides a panorama for several of South China's hidden treasures: secondary cities with high market potential for U.S. wine and spirit exports.

## General Information:

### Wine and Spirits - ATO Guangzhou's priority outreach cities:

#### Foshan

Foshan is the third largest city in Guangdong Province. Geographically speaking, it is a prominent link to Guangzhou through its inner city subway, and is also a key connecting point between Guangzhou and Zhuhai on the intercity light railway. In 2011, Foshan ranked second in terms of per capita GDP with \$14,444. Over the past five years, Foshan has witnessed a precipitous GDP growth from \$48 billion in 2007 to over \$95 billion in 2012, which can rarely be found elsewhere in China. Meanwhile, its per capita disposal income reached \$5,327 in 2011. According to official statistics from the Foshan Alcohol Industry

Association, in 2012, sales revenues of alcoholic beverages reached a total of \$841 million. Besides Guangzhou and Shenzhen, Foshan is the fourth largest area for imported wine circulation and consumption within Guangdong Province. Flourishing development of the hospitality industry, especially plans to increase the number of five-star hotels within the next five years, also strengthens prospects for greater on-site consumption venues and promotions of imported wines and spirits.

#### 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

#### Dongguan

Dongguan is one of the most affluent cities in Mainland China with per capita disposable income of \$6,271 in 2011. It is adjacent to Shenzhen and accessible through the Guangzhou-Hong Kong railway, highway or waterway. Dongguan has enjoyed a rapid growth in imported wine consumption since 2007, and ranks the third in terms of wine distribution and consumption in Guangdong Province. Being a significant industrial construction hub of Guangdong, Mainland China, and the world, many entrepreneurs boast strong consumption power and this can be reflected in the strong demand for imported wines, especially high caliber wines. According to the Dongguan Entry-Exit Inspection and Quarantine Bureau demand for high value foreign food products has increased at double digit rates for a number of categories include wine, beer and spirits since 2007. The value of imported food items through Dongguan port nearly doubled from \$11.8 million in 2010 to \$22.4 million in 2011, of which wine, snacks, confectionaries and drinks accounted for the majority of the volume. For wine in particular, importation increased from 60 containers in 2010 to 90 containers in 2011. There is still a large quantity of imported wine consumed in Dongguan imported through other ports within Guangdong province's Pearl River Delta.

#### Transportation:

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

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

## Zhuhai

Zhuhai is a Special Economic Zone bordering Macau and located southwest of Guangzhou. It is linked with Foshan and Guangzhou through the Intercity Mass Rapid Transit and a Hong Kong-Zhuhai-Macau Bridge construction project (which will be completed in 2014). Since 1996, Zhuhai established a Free Trade Zone with engagement of a variety of industrial businesses and agriculture product importation centers. In June 2012, an imported alcoholic beverage exchange center was founded inside of Zhuhai Free Trade Zone with an area of 5,000 square meters. There are currently around 1,500 different wine brands currently being sold through this trade platform. The local municipal government is determined to shape Zhuhai into one of the country's largest distribution centers for imported wine. There was also a large wine tasting event launched June 1-3 in 2012 at the Zhuhai Free Trade Zone not only aimed at assisting foreign wine brands at connecting with importers and wholesalers, but also opened for local retail sales. In the last two year, the speed in which Zhuhai's import wine market is growing far exceeds all expectations. According to the Aussino Wine Shop in Zhuhai, since 2011, an onslaught of new imported wine and spirit retail store opens every month. ATO Guangzhou can verify this development as the total value of U.S. wines imported through Zhuhai's Gongbei Port increased from \$141,340 in 2010 to \$188,082 in 2012.

### Transportation:

**Air:** Zhuhai Sanzao International Airport

### Land:

- Guangzhou-Zhuhai Intercity Mass Rapid Transit
- Lotus Bridge between Zhuhai and Macau
- Hong Kong-Zhuhai-Macau Bridge

**Sea:** Two International Seaports: Jiuzhou and Gaolan Ports

## Changsha

Changsha is the capital city of Hunan province in south central China. It is one of the country's 20 "economically advanced" cities. In 2011, Changsha's per capita GDP reached \$79,530, and per capita disposable income accounted for \$4,198. In recent years, Changsha has attracted a substantial level of foreign direct investment (FDI) that has been guided by national authorities. In 2009 nearly \$1 billion worth in FDI poured into the city's manufacturing, food production and services sectors, with 28 percent of that sum originating from the Americas. Changsha's retail sales figures are equally impressive reaching \$11.7 billion in 2009. Meanwhile, the city also imports a number of agricultural commodities such as cotton, timber and livestock to support industrial operations.

### Transportation:

**Air:** Changsha Huanghua International Airport

### Rail:

- Changsha Railway Station connects most cities in China
- Changsha South Railway Station is passenger-only high speed train
- Wuhan-Guangzhou High-Speed Railway stops here
- Shanghai-Changsha-Kunming high-speed railway under construction

Changsha's imported wine market shows a smooth upward curve in recent years. Along with the change of consumption habits, there was an obvious increase of government officials and businesspeople who have switched from tradition Chinese rice alcohol consumption to import wine drinking for official or business dinners. Few of these consumers will return to their previous consumption patterns as health concerns and the impression of sophistication weighs heavily on the mindsets of this emerging middle class. According to figures from the local alcohol association, the number of licensed import wine wholesalers in Hunan province has grown to over 440 in 2012 from the previous year, among which

60~70 percent were established in Changsha (and not franchised from another 1<sup>st</sup> tier city markets). Relying on a distributor in a 1<sup>st</sup> tier city is not enough to reap the benefits in cities like Changsha. Exporters from key wine producing regions such as Bordeaux, France, Argentina and South Africa have been visiting Changsha through outbound trade servicing missions and tasting road shows. The United States wine industry has not yet made it to Changsha, and ATO Guangzhou believes a visit is long overdue. Overall, Changsha's wine industry is maturing with many local consumers switching from entry level wines to medium wines approximately priced around \$48~127 (retail price). Another market research assessment also showed that only 29 percent of the wine consumption in Changsha is for families or friend gathering, and about 60 percent is for business entertaining and gift giving.

### **Fuzhou/Xiamen/Quanzhou**

It is a fact that Fujian Province, along with Guangdong and Zhejiang, are the three largest imported wine consumption regions in China (not Shanghai or Beijing). Overall, Fujian's per capita import wine consumption volume is higher than the nation's average level (0.9 liter versus 0.7 liter). On October 15-17, 2011, Fuzhou hosted the national Wine and Sugar Exhibition (Tang Jiu Hui) showing the province's prominent role in the wine and spirits trade. In recent years, wine importation, particularly for U.S. wine has witnessed staggering growth especially in Quanzhou, Fuzhou and Xiamen. All three cities ranked as the top 10 in terms of GDP growth in 2011 within South China. According to one national wine association industry official ATO Guangzhou interviewed in 2010, there were only around 100 wine and spirits import companies in Fujian province, however, now the number has jumped to close to 2,000. Ninety percent of the wine entering the market is originally packaged in the producing countries. Most of these traders are located in Xiamen, Fuzhou and Quanzhou where wine promotions are also thriving in a number of venues including newly opened five-star hotels or lush seafood restaurants. Spending money on good food and drink seems to be a popular local diversion in Fujian.

According to Global Trade Atlas statistics, the total value of U.S. wines imported through Fuzhou and Xiamen ports reached \$3.33 billion and \$168,115 respectively in 2012. Additionally, Quanzhou's Entry-Exit Inspection and Quarantine Bureau reported that during the first eight months of 2012, a total of 286,900 liters of imported wine entered Quanzhou worth approximately \$2 million. This was an increase of 147 percent. Many local businesses have diversified their core by entering into the wine importation and distribution business. The companies are importing private wine labels as well as branded wine into the market. As many consumers become wine fans and committed connoisseurs; Fuzhou, Xiamen and Quanzhou are witnessing an increase of top-notch wineries entering the market. A growing number of profitable industries are eager to splurge money on purchasing top

#### **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

#### **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:**

- Yingtan-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

ranking (Robert Parker scores) imported wine for gift-giving purposes or for hosting government officials which is a routine business practice in China. A number of world renowned wineries have already placed their product in these markets. Nowadays, all three cities have become some of China's largest wine distribution centers, where a comprehensive service of custom clearance, warehouse storage and cold chain logistics and even in-country representation can be provided for a modest fee.

ATO Guangzhou has partnered with in-country representatives of the California Wine Institute, and ATO Guangzhou-founded American Wine Import Association ([www.usawine.org](http://www.usawine.org)) to establish a U.S. wine brand image in Fuzhou and Xiamen with the launching of two wine promotions in 2012 (Please refer to GAIN report CH11834 titled "U.S. Wine Promotions in Xiamen, Fujian Province and GAIN report CH11854 titled "South China Quarterly U.S. Wine Promotion Report" for details). Such joint forces and initial successes in opening the market to U.S. wines have lured more wineries from California, Washington and Oregon to further explore opportunities in this province.

### **Other opportunities:**

The imported wine market has been prosperous in **Zhongshan** for five consecutive years. In 2007, there were only four trading companies handling wine, though now the number has grown to several dozen. Currently, wines from the United States, France, Germany, Italy, Australia, Chile, South Africa are scrambling to penetrate the Zhongshan market. One local wine distributor mentioned that local consumers are not too selective on producing regions or brands. Many New World wines with adequate pricing, relatively high alcohol level and smooth texture, are also very well-received and perform well in local high-end restaurants. Zhongshan has a large presence of retired Hong Kongers that have helped reshape the imported wine market.

**Haikou** is the main port in Hainan province handling more than half of the island's total import volume. **Sanya** is the country's prime location for tourism travel and resorts attracting international groups to develop glitzy five-star properties and establish hotel operations. The thriving development projects in the hospitality industry will certainly accelerate awareness for imported wine by local consumers.

**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. According to the World Trade Atlas, the total value of U.S. wine entering Nanning port increased from \$10,260 in 2010 to \$46.824 in 2012. With Guangzhou Qinzhou Bonded Area shaping up as another important import wine distribution center in China, foreign wine and spirits are growing in Nanning.

### **Conclusion:**

China represents the single largest growth prospect for wine producing countries around the world. Besides targeting mature markets in South China especially within the Pearl River Delta's major hubs like Guangzhou and Shenzhen, secondary cities with flourishing economic booms and strong purchasing power are already attracting more wineries. A continued interest in U.S. wines has proven a prosperous business endeavor for many exporters that have heeded ATO Guangzhou's advice. The outlook in South China's emerging 2<sup>nd</sup> tier cities remains positive and it is crucial that American regional wine associations to take the initiative and challenge competitors like France, Australia, Chile, South Africa and Italy, have already visited those cities. South China's 2<sup>nd</sup> and 3<sup>rd</sup> tier cities do not rely on suppliers from Beijing or Shanghai. Wine exporters visiting Shanghai will discover that there are few distributors

there that have access and distribution channels in the Pearl River Delta or in Hunan or Fujian Provinces for that matter. The Napa Valley Vintners has made about eight visits to Mainland China and has yet to visit any cities in South China since the organization was formed. ATO Guangzhou is calling all U.S. producer associations and exporters to keep official trade statistics present when decide where to plan tastings. Including 2<sup>nd</sup> tier cities will open new paths to sales channels that will grow at a faster pace than in any 1<sup>st</sup> tier city market. Let ATO Guangzhou show you the way!

**Appendix:**

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

Map of Fuzhou and Xiamen in Fujian Province:



Source from Foshan University International Office



Source from Chinatour360.com