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Market Development Reports

City Profile: Kunming, An Emerging City Market in Western China

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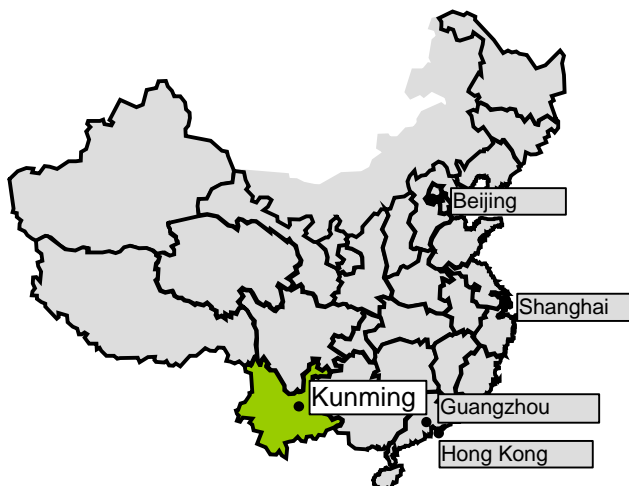
Report Highlights:

Kunming currently is a very price-sensitive market; however, with an urban population of 4.5 million (10th in China in terms of annual per capita disposable income) and an average GDP growth rate of 6.8 percent over the past five years and rising, Kunming will present opportunities for U.S. food products. The market requires considerable effort, e.g., more promotions, and more educational outreach, such as Cooperator seminars.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Shanghai ATO [CH2]
[CH]

Kunming, capital of Yunnan Province, an Emerging City Market City (ECM)

Although price-sensitive Kunming does not make the top-ten cut of emerging city markets (EMC) in ATO Shanghai's region, it shows promise. Robust economic growth and steadily rising incomes will mean opportunities for U.S. food products. Kunming is an ECM in one of the more interior provinces, at the end of the supply chain for imported food products. Yunnan province ranks 10th in China in terms of per capita disposable income (7,240 RMB in 2002), and has an urban population of about 4.5 million. ATO Shanghai, in conjunction with several USDA Cooperators, has begun marketing outreach to service the expanding modern retail sector.



The 2003 Statistical Yearbook also places urban Yunnan 10th in China in terms of annual per capita living expenditure on food at about 2,423 RMB (+/- \$293), or about half of the amount Shanghai's consumers spend. Food's share of disposable income is estimated at 40 percent (top-ranked Shanghai spends 43 percent). A visit to any of Kunming's supercenters and hypermarkets shows that consumers are eager to sample new products. This is admittedly a market that requires considerable effort to develop. Time will tell, but with an average GDP growth rate of 6.8 percent over the past five years and rising, Kunming will no doubt demand a greater variety of imported food products.

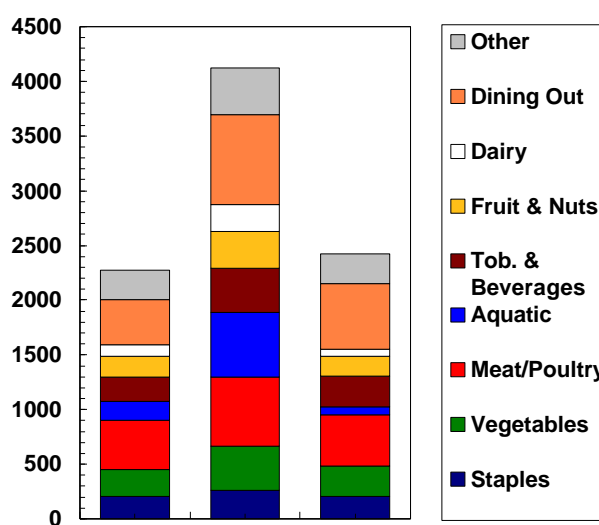
Kunming is rapidly modernizing

Three of Asia's great rivers (Yangtze, Mekong, and Red) pass through culturally diverse Yunnan province, putative home of Shangri-La. Situated at about 6,000 feet elevation, Kunming has a moderate climate with six months of clear skies.

According to local officials, the metropolitan area is developing rapidly. Within a few years, in-migration from rural mountainous areas is expected to swell Kunming's population to 5.0 million. Some of the growth has been spontaneous and poorly planned. Modern skyscrapers and office towers crowd narrow streets. Roadways are strained by traffic increasing at a reported rate of 300 new vehicles each day. City government therefore plans to move offices from center city to Dian Chi Lake, several kilometers south of town. This will free up a large area for commercial redevelopment.

The modern airport is a transit point for both foreign and domestic vacationers en route to Lijiang (Shangri-La) and surrounding tourist areas. A recent civil aviation agreement with Vietnam will mean direct flights from Kunming to Hanoi and Ho Chi Minh City, further expanding tourist arrivals. Yunnan officials report plans to improve regional transportation by modernizing the rail link with Vietnam, and extending a rail line across Laos to Thailand.

Urban household food expenditures RMB/capita, 2001



Average Shanghai Yunnan

Source: China Statistical Yearbook, 2003

TABLE 1. Kunming and Yunnan Province Key Indicators

Indicator	
Capital	Kunming
Kunming Urban Population	4.5 million (2003 est.)
GDP (RMB)	73 billion (2002)
GDP Growth Rate, 1998-2002	6.8 percent, average
Disposable income, per capita	7,240 RMB
Key Agricultural Products	Tobacco, sugarcane, flowers, vegetables, fruit, mushrooms, poultry
Major Industries	Processing of fruits, seeds, tobacco and meat; beer; textiles; chemicals; tourism

Data: CFAS for ATO Shanghai

Horticulture and Tourism are growing Yunnan industries

Kunming has become a hub for both foreign and domestic tourists. Guaranteed annual sunshine of almost six months has attracted foreign investment in golf course development. Three golf resorts have been built, with others under consideration. Several international standard hotels hope to capture a share of the growing tourism market. Perpetually snowcapped Yulongxue near Lijiang, a UNESCO World Heritage Site, and other traditional villages hold great potential for development. Increased air service and new roads will speed this process. Improved visitor services are reportedly attracting increasing numbers of tourists.

Yunnan's agroclimatic endowment supports a wide range of tropical and temperate horticultural products. Among these are specialty fruits, a staggering variety of export fungi, cut flowers for the growing domestic markets of Shanghai, Beijing and Guangzhou, and numerous varieties of high-value epiphytes. Dutch and Asian investment is reportedly strengthening the horticultural economy. Kunming's flower market is a must-see destination for travelers, both domestic and foreign. The recently implemented China-Thailand trade agreement has already resulted in a surge of imports of tropical fruit from Thailand, as well as huge volumes of Yunnan fruit headed south.

Investment has Transformed Retailing

The modern retailing format has taken root in Kunming over the past four years, and is evolving. There are several hypermarkets and supermarket chains (Table 2., below). Convenience stores are proliferating. In general, large-scale retailers are looking to 2005, when wholly owned foreign investment in distribution and retailing may be possible under the terms of China's WTO accession agreement.

Limited imported foods and razor-thin margins

In retail outlets, imported foods as a percentage of total food products is extremely small, i.e., only about two percent. However, retailers are willing to test imported products, in part because margins are better than those for domestic products. In fact, margins are generally razor thin and declining, and retailers rely on high shopper volumes to attract adequate sales to generate profits. As a result, promotions in some stores are an almost daily occurrence. Heavy visitor traffic through these retail outlets results in a huge volume of small-value sales, as well as a gradual increase in consumer awareness of products. Retailers note that each sales receipt represents three or four shoppers. In Kunming, as in other cities in China, the modern superstore and hypermarket has become a destination for the entire family, with a full range of customer services provided.

Imported items, while currently very limited, include snack food items in small consumer packs (e.g., dried fruit and tree nuts); canned foods, frozen and smoked salmon; milk powder; U.S. and Australian beef; Australian cheese; grape wines from the U.S., Australia, and France; U.S. and South African oranges; apples from New Zealand (Royal Gala, NZ Rose, Fuji), South Africa, Chile (Fuji), Washington State (Red Delicious, Granny Smith) and Japan (Fuji); and, California table grapes (Red Globe).

TABLE 2. Kunming Retailing is Evolving Rapidly		
Type of Retailer	Name of Retailer	Number of Outlets
Hypermarket	Carrefour	2
	Wal-Mart	3
	Pricesmart	2
	Trust-Mart	2
	Parkson	1
Supermarket	Honglian	N/A
	Sakura	N/A
Convenience	N/A	N/A

Data: CFAS for ATO Shanghai, 2003