



China's Emerging Markets:

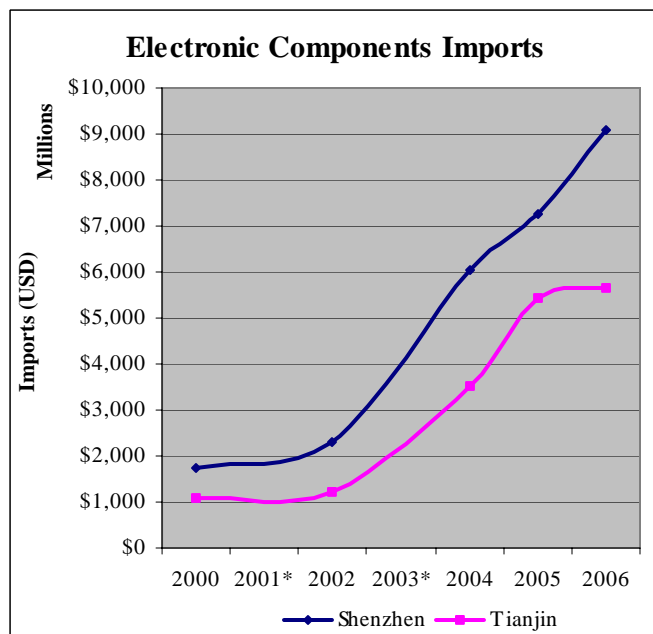
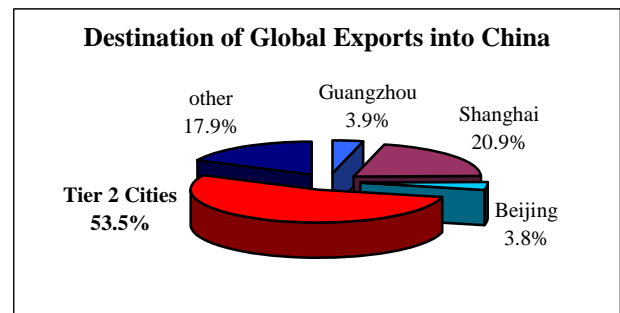
Opportunities in the Electronic Component Industry

Thirteen of China's second-tier cities account for 8% of China's population but 53% of its total imports – which is why the untapped markets of China's emerging cities provide some of the most exciting and lucrative opportunities for U.S. exporters.

China's Real Economic Engine....

China's unprecedented growth and the opportunities it presents are no longer a secret to anyone in the business world. While megacities such as Beijing and Shanghai have long captured much of the spotlight, it is behind the scenes in second-tier cities where one can witness the *real* source of China's economic growth. Unlike what one might expect, the majority of China's imports are *not* ending up in Shanghai, Beijing, or Guangzhou. Rather, a select group of thirteen second-tier cities¹ account for an astonishing 53% of China's total imports, almost double the amount of the three megacities combined.

Local entrepreneurs in these emerging cities are not the only ones reaping the benefits. These cities have become importing havens and present lucrative opportunities, especially for US companies. Perhaps the critical question for American firms is not *whether* there is a second-tier city market, but *which* region is best for a particular industry or product.



Opportunities in Electronic Components

With the rapid development of its Information Communication Technology (ICT) industry, China has become the electronics-manufacturing center for world. At the same time, China has also become one of the world's largest consumers of electronic components. Due to the inability of domestic firms to fully supply the rapidly developing electronic manufacturing industry, China has actually become a large importer of electronic components over the last fifteen years. As a result, since 1999 China's rapid ICT industry development has been accompanied by a widening trade deficit in electronic components. Although more and more foreign suppliers of electronic components are investing in China, and in spite of the fact that local manufacturers are improving their quality of their products, China will continue to rely on imports for the foreseeable future. As such, the continued concentration of electronics manufacturing in China

¹ Harbin, Dalian, Qingdao, Tianjin, Xian, Wuhan, Hangzhou, Ningbo, Nanjing, Chongqing, Kunming, Zhuhai, Shenzhen, and Xiamen

bodes well for U.S. exporters in this sector. In order to meet the rising demand, China imported over USD \$38.8 billion worth of electronic components products last year, an 18% increase over the 2005 volume. Five emerging cities in particular offer excellent prospects for US exporters: Shenzhen, Tianjin, Hangzhou, Zhuhai and Nanjing.

Promising Markets in Emerging Cities

Shenzhen— A true economic miracle

Located in the southern Pearl River delta just across the border from Hong Kong's New Territories, Shenzhen has been one of the fastest growing cities in the world since its opening in the late 1970s. Once a small fishing village, Shenzhen is now the busiest port in China and the largest manufacturing base in the world. Shenzhen is a major center for foreign investment and trade—the bustling city imports more goods than *any* other city in China. Shenzhen was recently ranked by the World Bank as having the second best investment climate for foreign firms and third most effective local government in all of China.

Shenzhen Economic Indicators

City Population: **10 Million**
Provincial GDP: **USD 42 Billion**
Annual Avg. Per Capita GDP: **USD 7,620**
Import Value: **USD 119.5 Billion**
Imports from US: **USD 4.6 Billion**

Electronic Components

Shenzhen imported over USD \$9 billion worth of electronic components in 2006, over two and a half times the volume imported by Shanghai. For the last two years the city's imports of electronic components increased by an average of 23% per annum.

Tianjin— China's next coastal megacity

Located just 75 miles southeast of Beijing, Tianjin is China's third largest city and one of the fastest growing economies in the country. One of only four municipalities that are directly administered by the central government, Tianjin is being groomed by national planners to become one of the key industrial and distribution hubs of North-Central China. Tianjin lies at the crossroads of six national highways as well as seven expressways and is home to the sixth largest port in China.

Tianjin Economic Indicators

City Population: **10.24 Million**
Provincial GDP: **USD 36 Billion**
Annual Avg. Per Capita GDP: **USD 3,812**
Import Value: **USD 44.95 Billion**
Imports from US: **USD 4.37 Billion**

Tianjin is the United States' fifth largest trading partner in China, and ranked by the World Bank as having one of the one of the top-twenty best investment climates for foreign firms in China.² The city's rapid growth has been accompanied by a dramatic increase in its demand for foreign goods—Tianjin's imports from numerous key industries have increased by double-digit figures in recent years.³ The United States is Tianjin's third largest trading partner— 10% the city's imports originate in the U.S.

Electronic Components

Tianjin purchased USD \$14 billion of electronic components from 2004-6. During this period the city's imports of electronic components increased by an average of 28% a year.

² See: World Bank Report— "Governance, Investment Climate and Harmonious Society: Competitiveness Enhancements for 120 Cities in China"; released October 8th 2006.

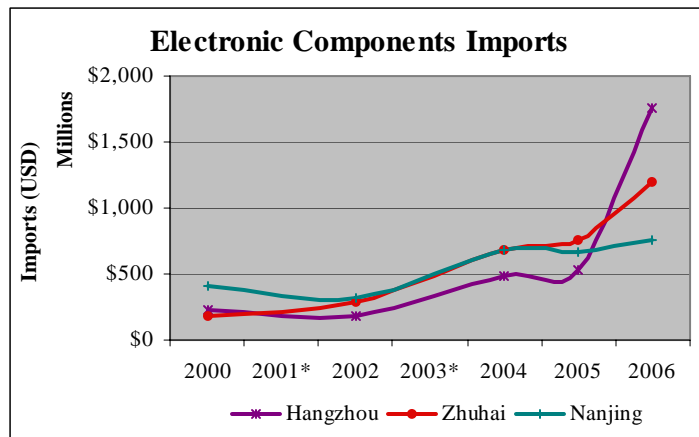
³ This list includes: Construction equipment, electronic components, integrated circuits, machine tools, medical devices, oil & gas, packaging materials, security products and telecom goods.

Hangzhou— “the finest city in the world”

Located 110 miles south of Shanghai, Hangzhou is the capital of Zhejiang province and one of the Yangtze River Delta’s most economically vibrant cities. Regarded by Marco Polo as “beyond dispute the finest and the noblest city in the world,” Hangzhou is now revered for its popular tourist destinations and pro-business atmosphere. For three consecutive years, Hangzhou was ranked as the #1 City in China for business by Forbes magazine.⁴ Moreover, Hangzhou has the 8th highest per capita GDP in China. Hangzhou and Shanghai are currently in negotiations over a USD \$4 billion project that will link the two cities with the world’s first inter-city Maglev train line. The new line is scheduled to be completed by 2010 and should cut travel time between the two cities to under half an hour.

Hangzhou Economic Indicators

City Population: **6.52 Million**
Provincial GDP: **USD 140.54 Billion**
Annual Avg. Per Capita GDP: **USD 4,620**
Import Value: **USD 18.5 Billion**
Imports from US: **USD 840.4 Million**



Electronic Components

Hangzhou’s imports of electronic components have show dramatic growth, increasing *six-fold* since the year 2000. The increasing demand for foreign electronic components has been especially pronounced over the last two years. The city imported over USD \$1.7 billion worth of electronic components in 2006, a 300% increase over the 2005 value.

Zhuhai— Pearl of Southern China

Located adjacent to Macau at the southern end of Guangdong province, Zhuhai was one of the first cities designated by the Chinese central government as a Special Economic Zone (SEZ). Since that time, Zhuhai has become an important manufacturing base and deep-water port.

Logistics is one of Zhuhai’s service industry priorities due to close trading ties with Hong Kong and Macao. The city is the only deep harbor in the west end of the Pearl River Delta, making it a crucial transportation hub. After completion of the Hong Kong-Zhuhai-Macao Bridge, industry experts predict that ground, sea and air transport will increase significantly because the bridge will connect these ports with ground cargo arriving from the Beijing-Zhuhai Highway.

Zhuhai’s major trading partners include the U.S., Hong Kong, Japan, Germany and Macau. The United States has become Zhuhai’s sixth-highest import source.

Zhuhai Economic Indicators

City Population: **1.4 Million**
Provincial GDP: **USD 42 Billion**
Annual Avg. Per Capita GDP: **USD 8,532**
Import Value: **USD 17.97 Billion**
Imports from US: **USD 670.91 Million**

Electronic Components

Zhuhai purchased nearly USD \$1.2 billion worth of electronic components in 2006, over six times the volume imported in 2000. The city’s imports of electronic components nearly doubled over the last two years.

⁴ http://www.forbes.com/business/2004/09/03/cz_rf_0903chinabest.html

Nanjing— Southern Capital and Regional Hub

Located in the Yangtze river basin, Nanjing is the political, economic and cultural center of Jiangsu Province. Considered one of China's four great ancient capitals, modern Nanjing has emerged as eastern China's second largest commercial center. The city ranks seventh in overall competitiveness among Chinese cities and was recently ranked by Forbes magazine as being one of the top ten commercial cities in China. Nanjing's growing industrial sector benefits from the city's abundance of natural resources and close proximity to Shanghai.

Firms from the United States have historically fared well in Nanjing. Over a thousand American companies have operations in the city. In 2005, the U.S. ranked as Nanjing's second largest trading partner.

Nanjing Economic Indicators

City Population: **6 Million**

Provincial GDP: **USD 191 Billion**

Annual Avg. Per Capita GDP: **USD 6,449**

Import Value: **USD 100.4 Billion**

Imports from US: **USD 6.1 Billion**

Electronic Components

While Nanjing's imports of electronic components have fluctuated in recent years, they have nevertheless exhibited relatively steady growth since 2000. The city purchased over USD \$754 million worth of electronic components last year.

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