

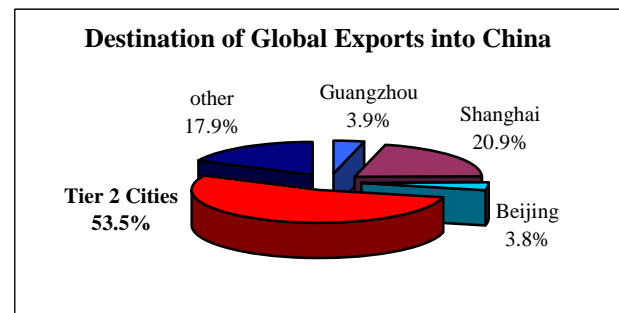
China's Emerging Markets: Opportunities in Integrated Circuits

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.

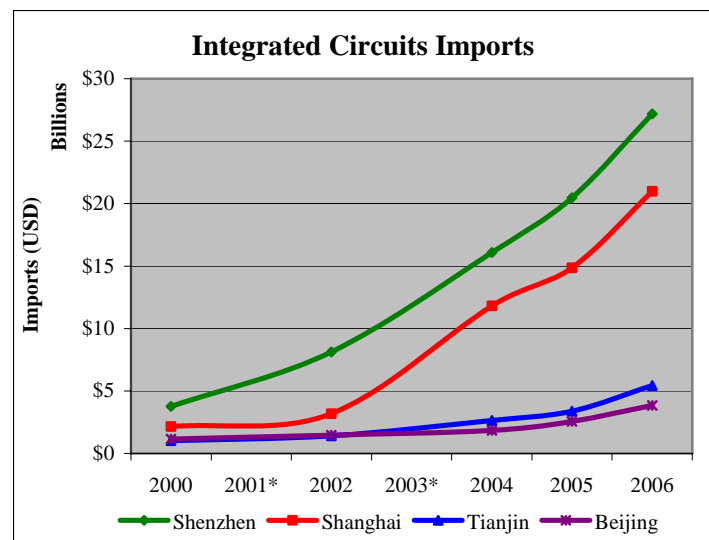
Local entrepreneurs in these emerging cities are not the only ones reaping the benefits. These cities have become importing havens and present lucrative opportunities, especially for US companies. Perhaps the critical question for American firms is not *whether* there is a second-tier city market, but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



Opportunities in Integrated Circuits

As China strives to diversify its manufacturing base and move its way up the value chain, few industries show more potential for growth than Information Technology. Much of this explosive growth is happening in second-tier cities, in some cases even surpassing that of Guangzhou, Beijing and Shanghai. Two emerging cities in particular—Tianjin and Shenzhen— have become leading importers of IT goods.

Despite having vastly expanded its integrated circuit production capacity in recent years, China's IT sector still purchases billions of dollars of foreign-produced integrated circuits every year. In order to meet the rising demand, China imported over USD \$107 billion worth of integrated circuits last year, a 30% increase over the 2005 volume. Two emerging cities account for nearly a third of these imports: Shenzhen and Tianjin. A second set of emerging cities—



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

Xiamen, Hangzhou, Nanjing and Zhuhai— also show tremendous promise for exporters of integrated circuits.

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**

Integrated Circuits

Shenzhen's imports of foreign IT goods have been skyrocketing in recent years, dwarfing those of Beijing, Guangzhou and even Shanghai. The city now imports more integrated circuits than *any* other city in China. Since 2000, Shenzhen's annual imports of foreign integrated circuits have grown by an astonishing 720%. Shenzhen purchased over USD \$27 billion worth of integrated circuits in 2006, and has been increasing imports by an average of 30% per year since 2004.

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 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.

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**

Integrated Circuits

Tianjin's imports of integrated circuits now surpass those of Beijing and Guangzhou combined. Tianjin purchased over USD \$4.5 billion worth of foreign integrated circuits in 2006 and has been increasing imports by an average of 45% per year since 2004.

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, electrical components, integrated circuits, machine tools, medical devices, oil & gas, packaging materials, security products and telecom goods.

Xiamen—Prosperous Port by the Taiwan Strait

Located on an island across the strait from Taiwan, Xiamen was one of the first Special Economic Zones established by the central government. Xiamen boasts one of the most vibrant economies in southeast China and has been honored by the World Bank as one of China's six "Golden cities" (a measure of investment climate, harmoniousness, governance and other measures).⁴ Xiamen is widely regarded as one of the cleanest cities in China and is home to the country's 7th largest port and 4th largest Airport. The United States is Xiamen's second largest trading partner (after Taiwan) and supplies 11% of the city's imports.

Xiamen Economic Indicators

City Population: **2.35 Million**

Provincial GDP: **USD 14.54 Billion**

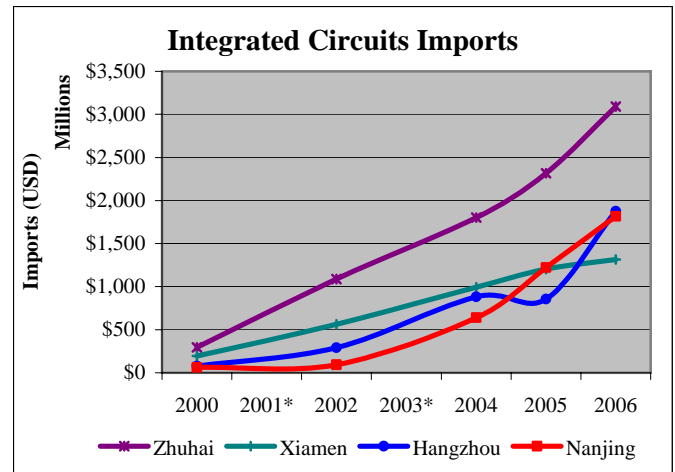
Annual Avg. Per Capita GDP: **USD 6,175**

Import Value: **USD 16.3 Billion**

Imports from US: **USD 1.78 Billion**

Integrated Circuits

Xiamen's imports of integrated circuits have taken off in recent years, increasing six-fold since 2000. The city now imports over USD \$1 billion worth of integrated circuits a year.



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.⁵ 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**

Integrated Circuits

Hangzhou's imports of integrated circuits have shown dramatic growth, increasing by over 240% since the year 2000. The increasing demand has been especially pronounced over the last two years— in 2005-6 the city's imports of integrated circuits more than doubled, increasing by over one billion USD.

⁴ See: World Bank Report— “Governance, Investment Climate and Harmonious Society: Competitiveness Enhancements for 120 Cities in China”; released October 8th 2006.

⁵ 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.

Nanjing *Economic Indicators*

Urban Population: **5.9 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**

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.

Integrated Circuits

Nanjing's imports of integrated circuits have skyrocketed in recent years, increasing ten-fold from 2000-2004 and then doubling in 2004-5. The city now imports over USD \$1.8 billion worth of integrated circuits a year.

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