

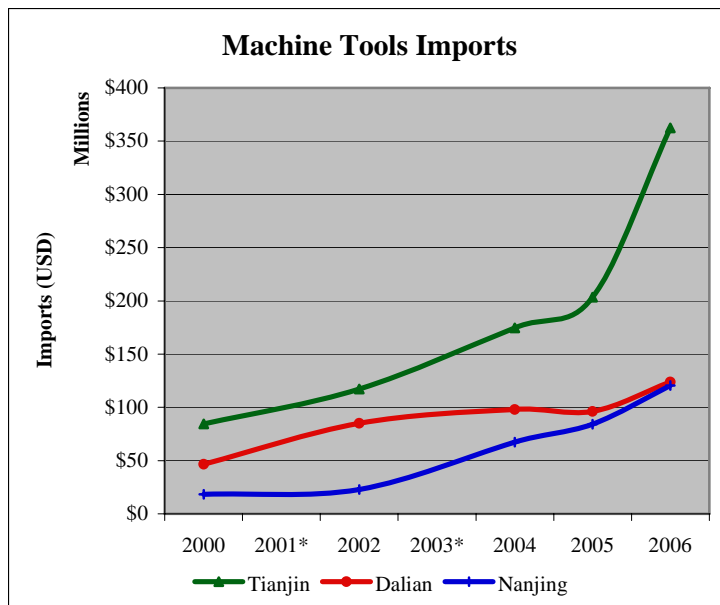
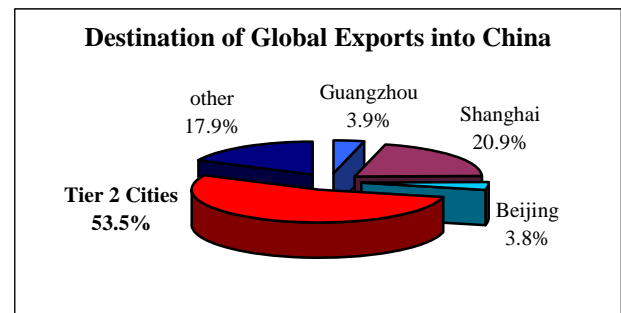
China's Emerging Markets: Opportunities in the Machine Tools Industry

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 Machine Tools

In an effort to deal with the increased market opportunities and competition resulting from entry into the WTO, China is emphasizing the modernization of its conventional industries with more advanced high-tech machinery and equipment. As Chinese companies aspire to become competitive on the global stage, the demand for high quality machine tool and tooling products in China will only continue to increase. As a result, market opportunities exist for machine tool builders, as China is expected to continue to import advanced equipment and technology valued in the tens of billions of U.S. dollars. In order to meet the rising demand, China imported over USD \$5.5 billion worth of foreign machine tools last year, a 5.6% increase over the 2005 volume. Five emerging cities in particular offer excellent prospects for US exporters: Tianjin, Dalian, Nanjing, Qingdao, and Zhuhai.

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

Promising Markets in Emerging Cities

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

Machine Tools

Tianjin's demand for foreign machine tools has considerably increased in recent years. While Tianjin already accounts for almost 5% of China's machine tool imports, the city's demand for foreign machine tools increased by 78% last year.

Dalian— Gateway to Northeast China

Located on the isthmus of the Liaodong Peninsula in the bay of Korea, Dalian is the principle marine gateway of Northeast China. Home to the largest deep water port in Manchuria, Dalian handles roughly 70% of the region's cargo and 90% of the region's container transportation. The city has trade links with over eighty countries and imports nearly USD \$1.5 billion worth of US goods a year.

In addition to being a crucial port city, Dalian is one of China's most heavily developed industrial areas. In recent years, Dalian has made great strides to move itself up the value change in high-tech manufacturing. The city is set to host Intel's most advanced wafer fabrication facility in Asia. With a total investment from Intel of around US\$4 billion, the facility has been earmarked to become the largest foreign high-tech investment in all of China.

Dalian Economic Indicators

City Population: 6 Million

Provincial GDP: USD 85.27 Billion

Annual Avg. Per Capita GDP: USD 5,209

Import Value: USD 24.6 Billion

Imports from US: 1.4 Billion

Machine Tools

Dalian's demand for foreign machine tools has fluctuated in recent years. Nevertheless, the city has more than doubled its 2000 import value and now purchases over USD \$123 million worth of foreign machine tools 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, electrical components, integrated circuits, machine tools, medical devices, oil & gas, packaging materials, security products and telecom goods.

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

Machine Tools

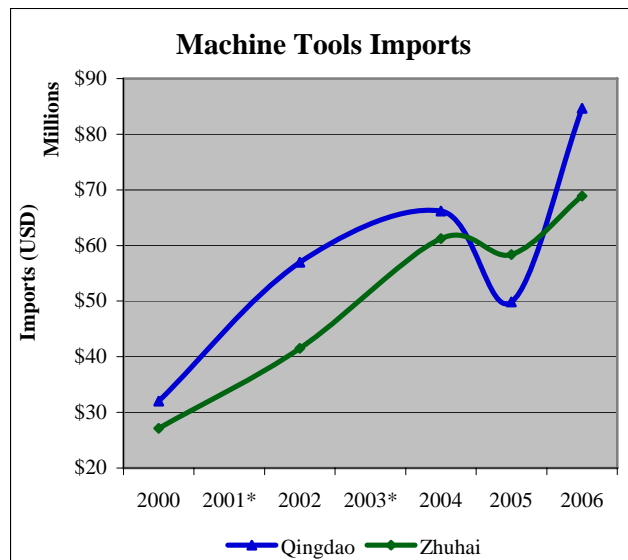
Nanjing's demand for foreign machine tools has increased six-fold since 2000. The city purchased over USD \$120 million worth of machine tools in 2006.

Qingdao— Jewel of Shandong

Located on the southern tip of the Shandong Peninsula, Qingdao is one of eastern China's major economic centers. Nestled between mountains and ocean, Qingdao's unique cityscape is studded with lovely beaches, classic European architecture and ample green landscape. The city is well known for its historic and scenic tourist attractions, as well as being one of the best places in China to live and do business.

Qingdao Economic Indicators

City Population: 7.3 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



Qingdao 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 In recent years, Qingdao has attracted billions in foreign direct investment and engages in trade with virtually every country on the planet. Among the city's 17,854 foreign investment projects, 76 Fortune 500 companies have established projects in Qingdao.

Machine Tools

Qingdao's demand for foreign machine tools has steadily increased over last six years. In 2006, the city purchased over USD \$84 million worth of foreign machine tools from abroad.

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

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.

Machine Tools

Although Zhuhai's imports of machine tools have fluctuated in recent years, the city's demand has nevertheless exhibited strong growth, more than doubling since 2000.

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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**