

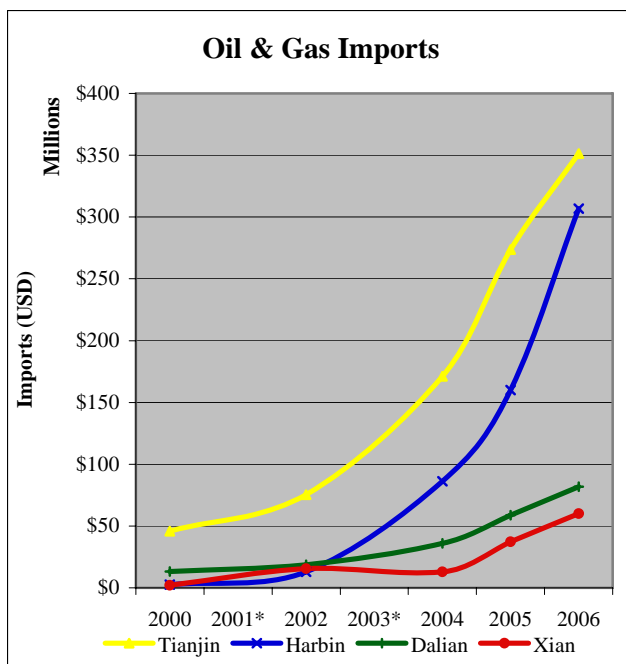
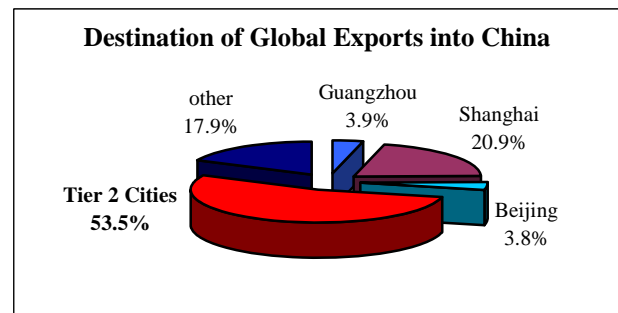
# China's Emerging Markets: Opportunities in the Oil & Gas Industry

*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 cities<sup>1</sup> 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 Oil & Gas

China's overall energy consumption ranks second in the world and is expected to keep pace with the country's incredible economic growth. This growing demand for energy has caused the Chinese government to gradually open up the traditionally off-limits oil & gas sector to increasingly larger scale foreign participation. Experts maintain that the best opportunities for U.S. participation are in natural gas infrastructure development and offshore oil exploration and production. Prospects in the offshore sector are particularly bright as the technical challenges are greater and thus the value of foreign technical services more easily recognized by Chinese operators. In order to meet the rising demand for energy, China purchased over USD \$3.2 billion worth of oil & gas equipment last year, a 28% increase over the 2005 volume. Four emerging cities in particular offer excellent prospects for US exporters: Tianjin, Harbin, Dalian and Xi'an.

<sup>1</sup> 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.<sup>2</sup> 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.<sup>3</sup> 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**

#### Oil & Gas

Accounting for over 10% of China's oil & gas imports, Tianjin has increased its demand for foreign oil & gas equipment by an average of 43% per annum for the last two years.

### Harbin— Manchuria's Industrial Giant

Located on the banks of the Songhua River in central Manchuria, Harbin is the industrial and economic center of Northeastern China. Since launch of the "Northeast Revitalization" initiative, Harbin has been the recipient of hundreds of millions of dollars of Central government aid aimed at enhancing the industrial strength of China's Northeast. As a result of state-owned enterprise reforms and renewed political initiatives, demand for a variety of foreign equipment and techniques has increased as the region endeavors to modernize its manufacturing base. The United States is Harbin's second largest trading partner (after Russia), providing 5.5% of the city's foreign imports. Harbin's leading imports from the U.S. include electromechanical, high-tech and agricultural products.

#### Harbin Economic Indicators

City Population: **4 Million**

Provincial GDP: **USD 68 Billion**

Annual Avg. Per Capita GDP: **USD 3,812**

Import Value: **USD 1.57 Billion**

Imports from US: **USD 86 Million**

#### Oil & Gas

Harbin's imports of oil & gas have been increasing at near exponential rates in the recent years. Since 2000, the city's imports of oil & gas have increased well over one hundred-fold. Harbin now imports over USD \$300 worth of oil & gas equipment a year.

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

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

## 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**

### Oil & Gas

Dalian's imports of oil & gas equipment have grown steadily in recent years. Last year, the city purchased over USD \$81 million worth of oil & gas equipment.

## Xi'an— Ancient Capital and Modern Hub

Located in the Wei River Valley at the foot of the Qinling mountain range, Xi'an is the capital of Shaanxi Province. Once considered one of the four great ancient capitals of China, modern Xi'an is the most industrialized and developed city in northwestern China and is one of the country's most popular tourist destinations. Xi'an is one of the PRC's ten largest cities and has the 39<sup>th</sup> highest per capita GDP in the country.<sup>4</sup> Xi'an imports more goods from the United States than any other country— 29% of the city's imports come from the United States.

In the last five years, Shaanxi Province's transportation infrastructure has been upgraded to improve transport flow and distribution logistics. These upgrades have led Shaanxi to become one of central China's key transportation hubs. As a result of these improvements, Shaanxi has become the largest hub on the new Europe-Asia land route.

### Xi'an Economic Indicators

City Population: **7.14 Million**  
Provincial GDP: **USD 45.9 Billion**  
Annual Avg. Per Capita GDP: **USD 2,025**  
Import Value: **USD 1.5 Billion**  
Imports from US: **USD 422 Million**

### Oil & Gas

Xi'an has dramatically increased its imports of oil & gas equipment in recent years. In 2000, Xi'an purchased just over USD \$2 million worth of foreign oil & gas products— by 2006 the city was importing thirty times the 2000 figure, over USD \$60 million dollars worth a year.

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<sup>4</sup> Source: Wikipedia