



China's Emerging Markets:

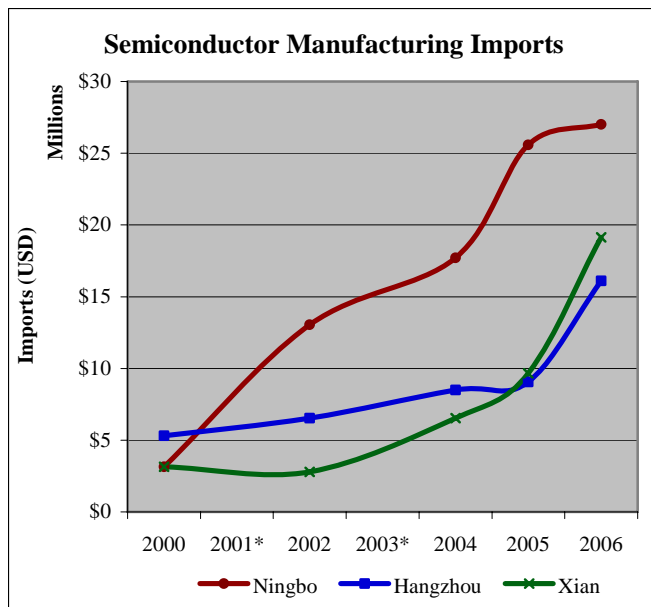
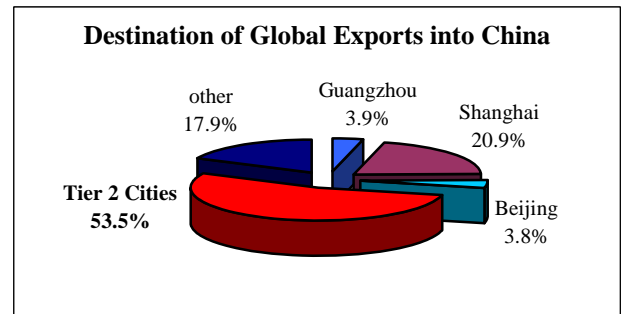
Opportunities in the Semiconductor Manufacturing Industry

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 Semiconductor Manufacturing

As electronic manufacturing continues to shift to China, the country's thirst for semiconductors and manufacturing equipment will remain strong in the foreseeable future. Strong demand combined with the government's encouragement will ensure that investment in semiconductor manufacturing will continue to be robust for the next five years. Due to market demand for low to mid-level technology products, financial restraints, and technology export restrictions, most equipment purchased has been and will remain to be second hand equipment. The shift in world manufacturing of electronic products is accompanied by the relocation of semiconductor production lines to China.

The United States has historically enjoyed a large share China's semiconductor market—26% in 2005

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

and 30% last year. China imported over USD \$3.5 billion worth of semiconductor manufacturing products in 2006, a 68% increase over the previous year's volume. Four emerging cities in particular offer excellent prospects for US exporters: Ningbo, Xi'an, Hangzhou and Shenzhen.

Promising Markets in Emerging Cities

Ningbo— *Economic anchor of the Yangtze river delta*

An ancient harbor on the East China Sea, Ningbo was one of the first cities to benefit from China's economic liberalization. In the two decades since its opening, Ningbo has emerged as China's fourth largest port and one of the key economic and industrial hubs of the Yangtze River delta. Ningbo is ranked by the World Bank as having the 18th best investment climate for foreign firms in China. US companies have already begun to catch on to the opportunities of exporting to Ningbo; almost 5% of the cities imports— over USD \$1.4 billion worth— originate from the United States.

Ningbo Economic Indicators

City Population: **5.4 Million**
Provincial GDP: **USD 27 Billion**
Annual Avg. Per Capita GDP: **USD 7,168**
Import Value: **USD 36.88 Billion**
Imports from US: **USD 1.42 Billion**

Semiconductor Manufacturing

Ningbo's imports of semiconductor manufacturing equipment have been steadily increasing since 2000. The city now purchases over USD \$27 million worth of semiconductor manufacturing equipment 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.² 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**

Semiconductor Manufacturing

Hangzhou's demand for semiconductor manufacturing equipment has been strong in recent years. Last year the city purchased over USD \$16 million worth of semiconductor-related products, a 77% increase over the 2005 volume.

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 39th highest per capita GDP in the country.³ Xi'an imports more goods from the United States than any other country— 29% of the city's imports come from the United States.

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**

² http://www.forbes.com/business/2004/09/03/cz_rf_0903chinabest.html

³ Source: Wikipedia

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.

Semiconductor Manufacturing

Xi'an's imports of semiconductor manufacturing equipment have been robust for the last six years. In 2006, the city purchased over USD \$19 million worth of semiconductor-related goods, a 98% increase over the previous year's import volume.

Shenzhen— A true economic miracle

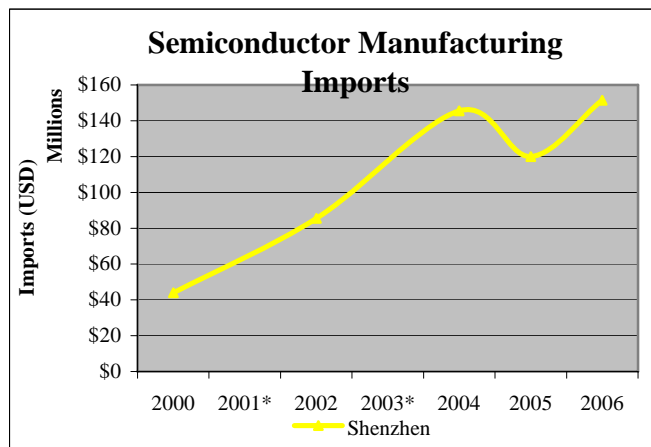
Located in the southern Pearl River delta just across the border from Hong Kong's New Territories, Shenzhen has been one of the fastest growing cities in the world since its opening in the late 1970s. Once a small fishing village, Shenzhen is now the busiest port in China and the largest manufacturing 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.

Semiconductor Manufacturing

Shenzhen accounts for over 4% of China's semiconductor manufacturing equipment imports. While the city's imports have fluctuated in recent years they have nevertheless exhibited strong growth. Last year the city purchased over USD \$151 million worth, a 26% increase over the previous years import volume.

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**



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