

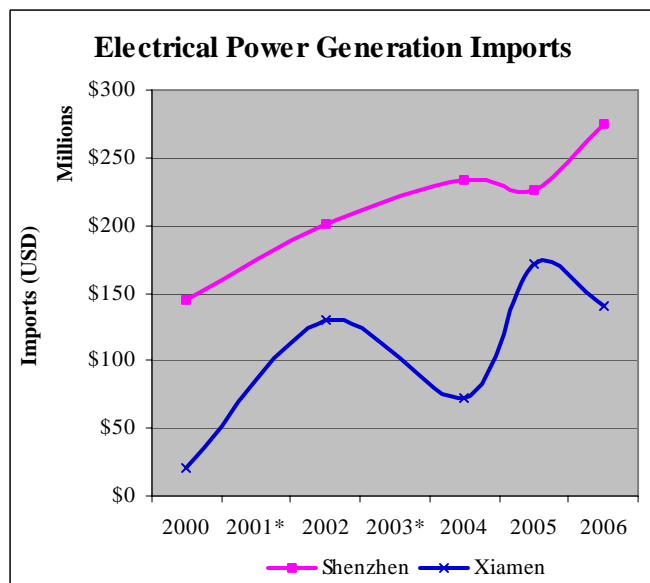
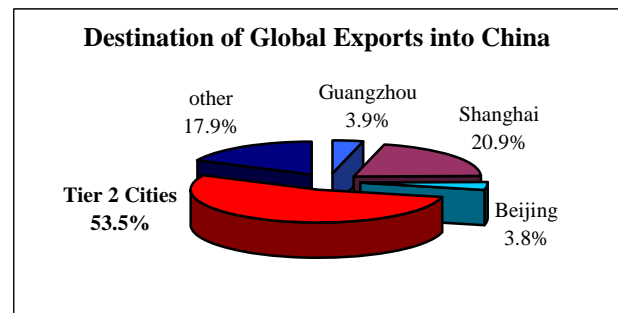
China's Emerging Markets: Opportunities in Electrical Power Generation

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 Power Generation

China's unprecedented growth has challenged the country's power suppliers to keep up with growing demand. While China's energy generation capacity grew by a tremendous 13.5% last year, energy consumption grew even faster at 14%. In short, China's domestic production cannot satisfy its national demand. China's energy policy has historically focused on the development of coal-fired power. However, in an effort to diversify energy sources and reduce carbon emissions, the central government has recently elected to emphasize greener alternatives. Clean energy investments in China will be enormous over the next decade, so now is the time to enter this important market. China imported over USD \$2.6 billion worth of electrical power generation equipment last year, a 6.4% increase over the 2005 volume. The United States

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

has traditionally faired very well in the electrical power market, accounting for over a third of China’s imports. Six emerging cities in particular offer excellent prospects for US exporters: Shenzhen, Xiamen, Zhuhai, Xi’an, Nanjing and Harbin.

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**

Electrical Power Generation

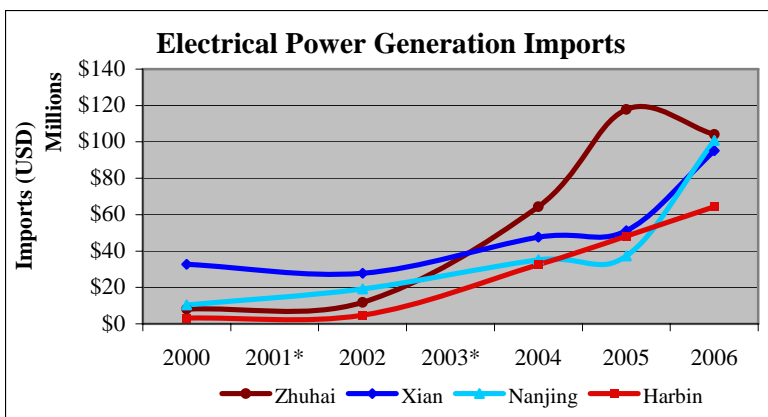
Accounting for over 10% of China’s electrical power generation imports, Shenzhen has increased its demand for foreign power generation equipment by an average of 9% per year for the last two years.

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).² 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**



Electrical Power Generation

While Xiamen’s demand for electrical power generation equipment has fluctuated in recent years, the city’s imports have more than tripled since 2000. Xiamen already accounts for over 5% of China’s electrical power generation imports and the city’s demand is expected to continue to rise in coming years.

² 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.

Electrical Power Generation

While Zhuhai's imports of electrical power generation equipment dropped off in 2005-6, the city has still greatly increased its imports of power generation equipment in recent years. Zhuhai's imported over USD \$104 million worth of power generation equipment in 2006, over ten times the amount the city imported only six years earlier.

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

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.

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.

Electrical Power Generation

Since 2000, Xi'an has almost tripled its imports of electrical power generation equipment. In 2000, Xi'an purchased USD \$32 million worth of foreign produced power generation equipment— last year the city imported over USD \$95 million worth, an 86% increase over the previous year.

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

³ Source: Wikipedia

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

Electrical Power Generation

Electrical power generation imports in Nanjing have increased dramatically over the last six years. In 2005-6, the city nearly tripled its imports of power generation goods to reach over USD \$100 million.

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

Electrical Power Generation

Harbin's demand for foreign electrical power generation equipment has increased considerably in recent years. Since 2000, Harbin's imports of power generation equipment have increased by twenty-fold— the city now imports over USD \$60 worth a year.

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