

# China's Emerging Markets: Opportunities in the Paper & Forest Industry

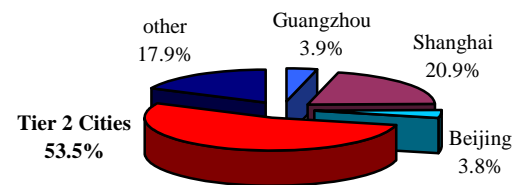
*Thirteen of China's second-tier cities account for 8% of China's population but 53% of its total imports – which is why the untapped markets of China's emerging cities provide some of the most exciting and lucrative opportunities for U.S. exporters.*

## China's Real Economic Engine....

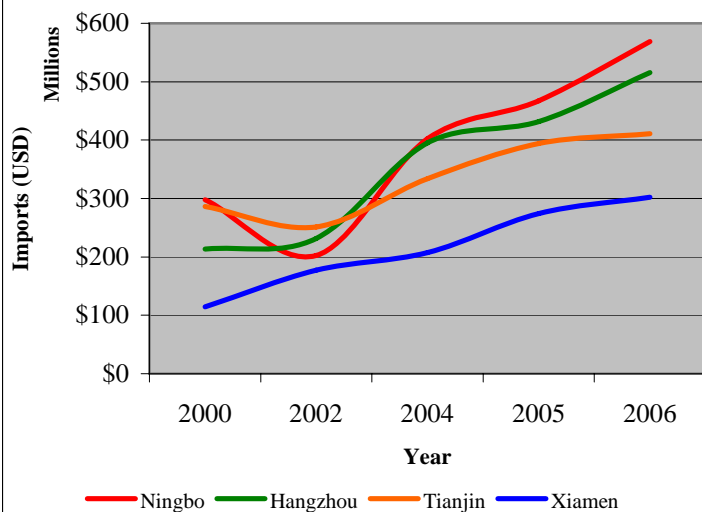
China's unprecedented growth and the opportunities it presents are no longer a secret to anyone in the business world. While megacities such as Beijing and Shanghai have long captured much of the spotlight, it is behind the scenes in second-tier cities where one can witness the *real* source of China's 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.

**Destination of Global Exports into China**



**Paper & Forest Imports**



## Opportunities in Paper & Forest

Despite having vastly expanded its paper production capacity in recent years, China's paper making industry is severely limited by a lack of raw materials. As a result, the industry's growth is increasingly dependent on foreign pulp suppliers. In 2005, China imported nearly 25 million tons of pulp and waste paper for its mills.<sup>2</sup> Moreover, China is expected to dramatically expand its production capacity to meet growing domestic demand. As new mills are constructed and older ones are modernized, the demand for efficient papermaking machinery and equipment is also expected to grow. In order to meet the rising demand, China imported over USD \$18.3 billion worth of paper & forest products last year, a 9.8% increase over the 2005 volume. Five emerging cities account for 16.5% of these imports: Shenzhen, Ningbo, Tianjin, Hangzhou and Xiamen.

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

<sup>2</sup> E.J. Krause & Associates, Inc [http://www.expocomm.cn/paper06/CP\\_CF07%20brochure.pdf](http://www.expocomm.cn/paper06/CP_CF07%20brochure.pdf)

## 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>3</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>4</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

#### Paper & Forest Products

Tianjin's paper & forest imports have increased by an average of 11% a year over the last two years. In 2006, Tianjin imported over USD \$400 million worth of paper & forest products from abroad.

### 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 18<sup>th</sup> 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

#### Paper & Forest Products

Ningbo's paper & forest product imports have increased by 19% a year over the last two years. During 2004-2006, Ningbo imported over USD \$1.4 Billion worth of paper & forest products. Over the last four years, Ningbo has nearly tripled its imports of paper & forest products.

<sup>3</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>4</sup> This list includes: Construction equipment, electrical components, integrated circuits, machine tools, medical devices, oil & gas, packaging materials, security products and telecom goods.

## 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.<sup>5</sup> Moreover, Hangzhou has the 8<sup>th</sup> 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.

### *Paper & Forest Products*

Hangzhou imports over USD \$500 million worth of paper & forest products a year. Since 2004, the city’s imports have been increasing by 14.3% per annum. Over the last 6 years, Hangzhou has more than doubled its imports of paper & forest products.

### 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**

## 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).<sup>6</sup> Xiamen is widely regarded as one of the cleanest cities in China and is home to the country’s 7<sup>th</sup> largest port and 4<sup>th</sup> 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**

### *Paper & Forest Products*

From 2004-2006 Xiamen imported over USD \$780 million worth of paper & forest products. In this three year period paper & forest imports increased by an average of 21% per annum. From 2005-6, imports of American wood pulp, wood and paper increased by 24%, 16% and 70% respectively. Since 2000, Xiamen’s paper imports have nearly tripled.

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<sup>5</sup> [http://www.forbes.com/business/2004/09/03/cz\\_rf\\_0903chinabest.html](http://www.forbes.com/business/2004/09/03/cz_rf_0903chinabest.html)

<sup>6</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.