

Market of the Month – China

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Shanghai

China: Engine of Growth

Why China?

China remains a robust and viable market for U.S. companies. U.S. exports to China totaled more than \$30 billion for the first six months of 2009. Despite the global slowdown which led to a 15% drop in U.S. exports to China during this period, 75% of U.S. companies operating in China remain profitable and positive about the country's economic outlook.

The recent \$585 billion Chinese stimulus plan has created new opportunities for U.S. businesses in China. As the Chinese government and industry attempt to drive long-term sustainable growth through the injection of funds into infrastructure, healthcare, clean energy and other fields, they look to foreign corporations to provide technology and value-added services. With over 95% of the stimulus directed towards regions outside Beijing, Shanghai, and Guangzhou, China's dynamic emerging markets offer strong and growing opportunities.

Economic Outlook

- ✦ **Optimism Abounds in China's Market:** China's ongoing economic transformation has revealed a dynamic and resilient economy which has maintained double-digit GDP growth for most of the past decade. Despite the global slowdown, China grew by 9.8% in 2008 and officials expect it will top 9% again this year. China-U.S. trade has grown to \$409.2 billion, making China our largest overseas market and second-largest trading partner (following Canada).
- ✦ **Growing Middle Class Ready to Consume:** China is no longer just the "factory of the world." With the opening of 150,000 new stores and with tax rebates to stimulate spending on appliances for 200 million rural households, the size and spending power of China's consumer base will continue to grow. China's rising disposable income also means that millions of Chinese are consuming in ways they never have before: traveling, driving cars, or shopping for high-end goods. China's middle class is expanding beyond major cities such as Beijing and Shanghai. Current spending accounts for an estimated 20 percent of GDP, according to at least one source familiar with China's retail markets. Estimates vary, but the middle class could total about 340 million people by the year 2016.
- ✦ **Emerging Market Cities - China's New Business Frontier:** China's emerging markets outside Beijing, Shanghai, and Guangzhou have become hot destinations for U.S. products and services. In 2008, pharmaceuticals exports to Dalian grew by 134%, railway equipment sales to Tianjin increased by 151%, and Hangzhou imports of cosmetics rose by 174%. The demand for goods and services is surging in these cities as companies take advantage of cheaper land, labor, and energy. The population in these cities is also projected to account for three-quarters of China's growth in wealthy households in the next seven to eight years.

Emerging-market cities also offer U.S. companies favorable business environments with less competition than saturated "first-tier" markets. Local governments have also instituted favorable policies such as tax incentives and established economic development zones to drive greater development of these cities.



Map of China

Best Prospects for U.S. Exporters

As U.S. exporters explore the abundance of opportunities within China, three sectors stand out in the current market:

- ✦ **Infrastructure:** Opportunities abound in all aspects of infrastructure development as China expedites investment for the construction of a western rail system and faster rail networks for passenger and coal transportation. The government also hopes to upgrade the national highway system and build more airports in emerging market cities within central and western China.

Official statistics indicate that by the end of 2010, China will have invested nearly \$37 billion in new airport infrastructure throughout the country. One will find the most opportunities in areas such as railroad and subway technology and railway inspection and measuring systems, and refrigeration technology.

- ✦ **Clean Technology and Clean Energy:** China's energy consumption accounts for 15% of world energy consumption, second only to that of the United States. The renewable energy sub-sector presents great opportunities as China has laid out ambitious plans for expanding renewable energy capacity. It has also continued to focus on implementing solutions to a number of environmental problems.

The Chinese government has increased spending on environmental protection; fast-tracked investment in improving tainted water sources; and expanded garbage recycling, water anti-pollution, energy-saving and clean-energy projects. Although Chinese government projects increasingly discriminate against foreign competitors, U.S. companies can still find opportunities in private and local projects. American companies will find the most market opportunities in areas where there is little or no domestic competition.

- ✦ **Healthcare:** Revamping China's healthcare system has become a Chinese-government priority. Nearly \$124.26 billion will be spent in the next three years to provide accessible and affordable healthcare to the country's 1.3 billion people. The Chinese government intends to extend basic coverage to at least 90% of the population by 2012. With this gargantuan task ahead, there will be an increasing and significant need for pharmaceutical and medical products as well as hospital management systems.

China is now the world's third-largest market for medical equipment. According to the China Association for Medical Devices Industry (CAMDI), China's medical equipment market was \$10.2 billion in 2008. Projected to grow 15% annually, the market is expected to reach \$17.5 billion by 2010.

Tips for Success in China

- ✦ **Familiarize Yourself with the Market:** A company should visit China to gain a better perspective and understanding of the potential market. Chinese companies respect "face-to-face" meetings, which demonstrate a U.S. company's commitment to working in China. Prospective exporters should note that China has many regions with unique economic and social characteristics, and thus generalizations should be avoided.

- ✦ **Cultivate Relationships and Trusted Agents:** Continued long-term relationships are crucial to finding a good partner in China. Companies should form a network of relationships with people at various levels across a broad range of organizations. Establishing and maintaining close personal relationships ("guanxi" in Chinese) with Chinese counterparts and relevant government agencies is critical. It is equally important that American exporters encourage strong personal relationships between their Chinese agents or distributors and the buyers and end-users.

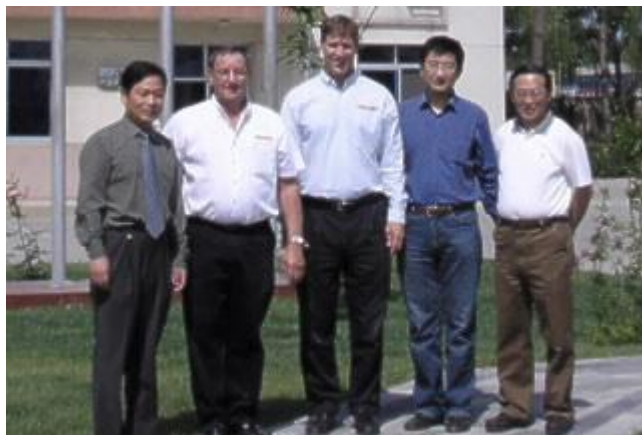
U.S. companies commonly use agents in China to initiate these relationships. They possess the knowledge and contacts to better promote U.S. products and break down institutional, language, and cultural barriers. The U.S. Commercial Service offices in China offer a wide array of services to assist American companies in finding Chinese partners.

- ✦ **Localization:** Although Chinese customers welcome U.S.-made products, especially in high-tech related areas, they still prefer to have localized customer support from a manufacturer such as on-site training, service centers in China, local representatives, as well as catalogues and user manuals in Chinese.
- ✦ **Minimizing Risk:** Finding a partner in China can be a challenge. In order to minimize risk, U.S. companies should conduct respectful due diligence and take steps to protect their Intellectual Property Rights ("IPR"). This should include asking for trade references and requesting a business license. Additionally, the U.S. Commercial Service provides a preliminary background check service and can also refer your company to other service providers in China.

U.S. companies that rely on IPR for their success should register their IPR in China before entering the China market, ensure that their Chinese partners have incentives not to infringe on their IPR, hire competent counsel in China and the United States, and have their counsel help them take a survey of their IPR vulnerabilities. The [China IPR Toolkit](#) is a great way to learn about IPR in China.

Success for a U.S. Company

Spancrete Machinery Corporation (SMC) entered China in the late 1980s. It wanted to incorporate licensing agreements, but the Chinese government forbade such arrangements. SMC opted to sell the machinery outright. How SMC engineered its way into China provides a model that may benefit other U.S. firms.



Spancrete Machinery Corporation

Because SMC's customers were state-owned enterprises (SOE) and the Chinese government encouraged these SOEs to expand into the precast construction business despite their limited knowledge of the sector, SMC decided to assist the Chinese SOEs through a series of seminars. To conduct

the seminars, SMC established the China Spancrete Association, a non-profit support organization, to assist SMC's Chinese customers in technical, production, and marketing procedures.

Recently, SMC used the Commercial Service's matchmaking service and in-market promotional service to expand its program to seven Chinese cities. The U.S. Commercial Service identified target local companies and coordinated meetings with key government officials to expand SMC's reach throughout China. [Read more](#) about Spancrete Machinery Corporation's success.

China at a Glance

- ⌘ 2008 GDP (Purchasing Power Parity): \$ 7.8 trillion
- ⌘ Top U.S. exports to China 2008: electrical machinery and equipment at \$11.4 billion; power generation equipment at \$9.7 billion; oil seeds and fruits at \$7.4 billion; and air and spacecraft at \$5.1 billion.
- ⌘ China's Top Trade Partners: U.S., Japan, Hong Kong, and South Korea
- ⌘ More statistics are available from the [U.S.-China Business Council](#).

Market Research

The U.S. Commercial Service in China (CS China) produces market research to help U.S. companies determine market potential and potential competitors. Free and ongoing China information include:

- ⌘ [Sinoversity](#) - a monthly online program of webinars, podcasts, and videos from our on-the-ground experts.
- ⌘ [China Pulse](#) - a monthly e-publication that provides frequent updates on China news, trade events, and market research.
- ⌘ The [CS China Energy Update](#) - provides monthly updates on China's rapidly changing energy market, information about recent U.S. government activities, and projects and trade promotion events in the Chinese market. To join, email CSChina.Subscribe@mail.doc.gov.

CS China also produces regular reports on a variety of industries, such as these recent market research reports:

- ⌘ [China: Commercial Aircraft Parts and Components](#)
- ⌘ [China: Energy Efficiency Market and Opportunities](#)
- ⌘ [China: Medical Devices and Healthcare Reform](#)
- ⌘ Or, you can [access other market research](#).



The Great Wall of China

Upcoming Events

There are several events in the U.S. for companies to learn more about exporting to China. [Access our calendar](#) for information about events such as:

[Dueling Tigers of China & India at SmartMap Expo](#), September 30 - October 1, 2009, Tri-Cities, Washington

CS China also provides opportunities for U.S. companies at Chinese events, such as:

[U.S. Pavilion at MEDTEC](#), September 8-10, 2009, Shanghai

[U.S. Pavilion at the China Coal & Mining Expo](#), October 27-30, 2009, Beijing

Contact Us

Every year, we help thousands of U.S. companies navigate challenges to export goods and services worth billions of dollars. Located across the United States and in U.S. Embassies and consulates in nearly 80 countries, the U.S. Commercial Service's global network of trade professionals opens doors that no one else can.

Whether you're looking to make your first export sale or expand to additional markets, we offer the expertise you need to connect with lucrative opportunities and increase your bottom line. The U.S. Commercial Service in China offers customized solutions for U.S. companies through our five offices located in [Beijing](#), [Shanghai](#), [Guangzhou](#), [Chengdu](#) and [Shenyang](#).

In addition to our 5 main offices, we have American Trading Centers (ATCs) in 14 key emerging market cities giving you access to China's major population centers and regional markets. [Visit our website](#) to open a world of opportunities.

Not Sure Where to Start? In the U.S. contact the [China Business Information Center](#) or your local [U.S. Export Assistance Center](#).

More Information

[China Business Handbook](#) (free CS China publication on Doing Business in China)

[U.S. Embassy in China](#)