

**U.S. Commercial Service Market Brief
Featuring the Principal Commercial Officer from
The American Consulate in Shanghai**

“Opportunities in China’s Second Tier Cities”

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**Interview with David Gossack, Principal Commercial Officer, American Consulate,
Shanghai**

(Doug Barry): So welcome to another Commercial Service Market Brief. Today we’re talking to our principal commercial officer in Shanghai China, David Gossack. How are you David?

David Gossack: I’m doing just fine today, (Doug).

(Doug Barry): David, the topic of our conversation today is second tier markets in China. But, second tier certainly does not mean second rate. In fact it’s quite the opposite; some of these second tier markets are some of the most booming in the entire country. And while you’re in one of the first tier cities, Shanghai, your territory, as I understand it, covers east China. And I wonder if you would give us a little geography lesson about what little pearls exist in your territory?

David Gossack: Be happy to, (Doug). We actually are based in Shanghai, which is a metropolis of about 20 million people on the East China Sea. And from the Consulate General there we cover Shanghai and the three adjacent provinces of that region.

It's probably the economic powerhouse of China. It has a wealth level of per capital income level that's about 2.5 times that of the average Chinese citizen so it's one of the wealthier areas of China.

The neighboring province that we have is Jiansu to the north and then Zhejiang to the south and then inland a bit a third province called Anhui, all three of which we cover from Shanghai.

But the reason is it's extremely dynamic, it's really the manufacturing center for heavy industry in China and generates almost 20% of China's gross domestic product so it's a very dynamic area. We've got the so-called second tier cities, some of the major ones there, capital of Jiansu Province called (Nanjing), the capital of Zhejiang Province called Huanzhou and then other cities such as (Mingbo) and (Sujo).

And all of these cities are second tier, as you mentioned; it doesn't really do them justice. They're mostly cities of 4 to 6 million people with double-digit growth rates for a decade and rapidly growing income levels.

(Doug Barry): Yes, David, it was no doubt a mistake in - poor translation from the Chinese to the English. But, you know, I've not heard of many of those provinces, a couple of the cities, yes, but they're not household words around where I live. But I've just recently read that Delta Airlines now has a scheduled service into your fair city there, Shanghai, and United has been there for some time.

These airlines are not deciding to fly there because these are yesterday's markets; it sounds like they know that the growth is going to continue for some time. What are the Americans who are flying those new routes doing there? And what can they do in the territory that you cover?

David Gossack: Well I think that's a really good point. You know, we were - in Shanghai we were happy to welcome Governor (Purdue) of Georgia on the very first Delta flight nonstop from Atlanta to Shanghai that arrived there on March 31. And he was accompanied by a large delegation from Georgia including a lot of the Atlanta media.

The reason that they're coming to Shanghai is really because it's, in many ways, the commercial center of China. In terms of manufacturing and, as I mentioned, it's about 20% of all of China's gross domestic product is generated in the East China region. And from an American perspective it's about nearly half - about 45% of all of China's what we call foreign direct investment, that is investment by foreigners - is placed within our district in East China.

And so you find all - many, many, many major American companies with large operations there such as in Shanghai we have General Motors has a joint venture where they're manufacturing Buicks, which are doing quite well in China. We have companies such as Motorola in the region manufacturing cell phones and other telecommunications equipment.

We have Intel, Kodak, Kimberly-Clark, chemical companies; we have a whole range of American companies that are invested in the region as well as exporting into China through Shanghai. I guess I would also mention that besides the growing presence of American Airlines in Shanghai we also have the largest port in China there, which is also a shipping point for a lot of American companies coming into the market.

(Doug Barry): And is it true that with the presence of all of those larger US companies, they, in a way, are setting the table for other smaller firms to come both because they need, you know, essential ingredients for their products but they also

help, don't they, make the local buyer community familiar with American quality, American business practices and can't that only help those who will follow?

David Gossack: Absolutely. We have the largest American Chamber of Commerce in Asia is headquartered in Shanghai with about 3800 members. And many of those members are not from the large Fortune 500 companies but from smaller and medium-sized companies that are in China because of the growing opportunities that are presented in dynamic markets such as East China.

And increasingly we're seeing that these companies are looking beyond Shanghai itself into the interior markets. In East China those second tier markets are fairly close by; it's a compact region so when we're talking about these interior second tier cities, Huangzhou now is about a 90 minute train ride from Shanghai, Nanjing is a little further inland, about a two-hour high speed train ride inland.

But within the region there's, you know, we have about 100 million people in what we call the Yangtze River Delta, which is, you know, within, you know, a few hours drive of Shanghai. So we're seeing increasingly in this compact but dynamic market that a lot of companies, obviously the larger Fortune 500s, but also the smaller and medium-sized companies that sell to those companies and sell to similar Chinese companies are also increasing their expansion in the region.

(Doug Barry): Now are you seeing fewer problems of the sort that were quite common maybe 5-10 years ago where difficult government regulations and red tape and so forth and maybe some scurrilous factors that were causing problems for some American companies, is the situation improving there now or how would you characterize it?

David Gossack: Well I think it's improving and it's always improving, but, you know, I'm not going to tell our listeners that it's a system that is, you know, identical to the US or one that they don't have to be careful with because I think in China you always have to be careful and you always have to do your due diligence and then do it about three or four more times just to get started in a deal.

So you certainly have to be careful but I think the thing to recognize is - and particularly in this area where, you know, income levels are rapidly growing, you know, for the cities in this area, for the more prosperous areas, we're talking per capita incomes from between \$5000 and \$9000 per person, which - and which sounds a little bit low in the United States but actually in China is on the very high end.

And actually in terms of buying power, when you sort of look at what that level of income buys it's actually quite a bit higher than that number sounds. So a lot of these areas have increasing purchasing power both by Chinese companies as well as Chinese consumers. So increasingly we're seeing some of the problems of the old days in terms of government regulations and in terms of business practices move up the ladder towards something that American companies are more comfortable with.

Certainly not a finished product because of the evolution of the Chinese business system but, you know, there's certainly a lot of opportunity for companies and we know companies that are doing well here.

(Doug Barry): Right. And you made a very good point about the purchasing power and the income levels of people there because it's - it's more than just the end final consumer on the street, it's also local government buying power, it's the larger Chinese corporations there, it's piggy-backing with American firms that are

there. So there's really a lot of opportunities for making new sales, aren't there?

David Gossack: There are quite a lot of opportunities. And I think one of the unique aspects of this East China market it tends to be sort of a trendsetter in China, tends - it's a very international area of China that, sort of very outward looking, you know, it's a coastal region, as I mentioned, that a level of affluence is higher than much of China and disposable income levels are higher.

So the quality of life here is moving up very quickly. And I think, you know, I've been here for several years and I know when I have American visitors who are coming here for the first time, you know, they are very surprised at what they see, you know, we're not - they're seeing very, you know, modern cities that are, you know, rapidly developing with large development projects both on the commercial side, industrial but also in residential areas as well.

And so they are very surprised at the level of sophistication that they're seeing in the major cities in this region. And there are just a, I would say a myriad of opportunities in these second tier cities in East China for companies that, you know, take the time to examine the market and do their due diligence and try to develop an understanding of what the market needs and what people want.

(Doug Barry): Well this sounds very encouraging; David and I want to thank you very much for sharing your time with us today.

David Gossack: (Doug), it's my pleasure and I hope, you know, that I can encourage your listeners to this program to look at East China more carefully. We can - through my office can provide much more detailed information about specific market sectors and specific opportunities in the region. As I said, it's the manufacturing powerhouse of China; there are a lot of opportunities for

American exporters of goods and various kinds of technologies to sell into projects in this region as well. We're also seeing that in the services sector that, for areas such as education or franchising or healthcare, that this is a good area for American companies to be examining. So we'd be delighted to work further with any companies that are interested in talking to us.

(Doug Barry): Great. It sounds most promising and I think I can hear in the background some bags being packed.

David Gossack: Okay, well, well hopefully they're flying Delta over. But I hope...

((Crosstalk))

(Doug Barry): ...I hope it's not my wife wondering where I've disappeared to the last hour or so - on her way to her mothers.

David Gossack: Okay, I hope for you...

((Crosstalk))

(Doug Barry): I hope she's going to Shanghai. I hope she's going to Shanghai; I'm going to encourage her. I want to thank you again and to all of our listeners we appreciate you being with us and we'll look forward to seeing you again on another edition of Commercial Service Market Brief. On behalf of all my colleagues in China and here in the United States and around the world I'm (Doug Barry). Thank you very much.

For more information on opportunities for American exports in China's emerging second tier cities go to the China Business Information Center – a resource of the U.S. Commercial Service, U.S. Department of Commerce at www.export.gov/china.