

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

“Opportunities in China’s Second Tier Cities”

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Interview with Eric Wolff, Principal Commercial Officer, American Consulate, Chengdu

(Doug Barry): Hello and welcome to this special edition of Commercial Service Market Brief. Today we’re talking to Eric Wolff, who is our Principal Commercial Officer in Chengdu, China.

Eric, how are you today?

Eric Wolff: Doing great.

(Doug Barry): Wonderful. Well, you know, we’re trying to figure out the strategies for entering the China market and trying to avoid some of the major cities where, of course there are opportunities but everybody and their brother and sister are there. And you are in a place where a lot of Americans have never been and have not studied. And we’d like you to tell us a little bit about why in the world a US company, especially medium size and small, would want to go there.

Eric Wolff: Okay, great. Again, my name is Eric Wolff and it’s just a pleasure to be here today. I am part of the US Commercial Service in Chengdu, China, which happens to be in the southwestern portion. I cover a - what I would say tongue in cheek, a relatively small area of 200 million people that encompasses

Sichuan Province, Hunan, Guizhou, (Chongqing) - excuse me, Municipality and Tibet.

It's a very dynamic area that, as you indicated, (Doug), is - has quite a bit of growth that's been going on.

(Doug Barry): And give us a sense of what it's like there, you know, my sense is some of these places might be, you know, Mao suits in the country side, a lot of agriculture and not a whole lot of economic development but something tells me you're going to tell me that's not true.

Eric Wolff: Yeah, if you were to come to a place like Chengdu or Chongqing and come in you would find very, very modern cities. Chongqing is a city that actually is the world's largest city, 32 million people. The downtown area is quite dramatic. I think that if you were to come to these cities you would be - most people that I take to cities like Chongqing and (Konming) and Chengdu are actually amazed by the development over the past 5-10 years.

(Doug Barry): Well what are we waiting for?

Eric Wolff: Well, I think a lot of this is just waiting for clients to come to look at this. One thing that's very interesting is that starting around the 2000 timeframe or so we see that the government created this great western development initiative, which dramatically increased the amount of investment and attention that's been paid on the Southwest.

(Doug Barry): All right. Well what exactly are they hankering for and how do we give it to them?

Eric Wolff: Okay. Well what they're looking for is development. And what we see is a combination of really a couple of things: first of all we have in the southwest a cost basis that is 40% (unintelligible) so we see regions that are extremely attractive in terms of their cost basis. And the government wants you to go there.

We all the time encourage and bring clients to come to take a look at just what is a very interesting - it's basically what we're looking at is new markets; they're dynamic and untapped.

(Doug Barry): Okay, so we're looking mainly at supplying these new modern cities, which are very large in population terms. What do they need from United States' manufacturers and service providers?

Eric Wolff: Well what's very interesting is that when we take a look at the best prospects that exist across all of China, across all sectors, these exist in the southwest; it doesn't matter whether you're talking about manufacturing, automotive, (unintelligible), the - I would call the development in southwestern China as very robust and very mature.

Increasingly we're seeing US companies, major companies like Intel, Motorola, Toyota, Ford, that have set up major operations in the southwest. And increasingly what I find is that we're seeing very mature sectors such as the service sector that have really been taking off in the southwest.

And so I would encourage clients that really across all sectors they're looking at new untapped markets so look at the southwest. And during my tenure there I have seen definitely an upsurge in not just basic manufacturing but increasingly outsourcing, high technology and other service-related areas.

(Doug Barry): So what are the first things you would recommend for a small US company that is looking to diversify, they've, you know, wanted a China strategy, maybe they have one already but it's focused on the major cities such as Beijing, Guangzhou, Shanghai and so forth. What's the first step in looking at Chengdu?

Eric Wolff: Well we, as you probably know, (Doug), we have a very integrated system; we have a great domestic field that really is the first stop in terms of specific inquiries about doing business in China. After that we have offices all throughout China that are specifically focused on helping clients to penetrate, as you indicate, beyond the major cities like Beijing and Shanghai to get into regions such as mine in the southwest.

And at the Consulate in Chengdu I personally would be very open to talking to any clients that might be interested in specific opportunities there.

(Doug Barry): Great. And it sounds like what you're saying then is that these, you know, sort of diamonds in the rough beyond the major cities, the major places that Americans are all too familiar with by now, are going to be growing and thriving for a long time to come. Does it look like the economic growth beyond these major cities is going to continue in the high single or double-digits for the foreseeable future?

Eric Wolff: Yeah, absolutely. What we've seen is that really, for the past 10 years, the average growth rates within these cities is several percentage points higher than in the coastal cities such as Beijing and Shanghai. And one thing that I'd like to tell a lot of the clients that I talk to is that, you know, just try to come in to a place like Beijing and Shanghai and develop a new market; it's almost impossible.

These are relatively saturated markets in the coastal cities. But yet if you were to come to a city like Chongqing, a city like (Konming), a city - even many parts of Sichuan Province where I live, still there's great opportunity for aggressive companies to come in, to find their market. And to me it's very much a situation of risk versus reward.

If you believe that the growth in China is going to continue, which I do, there's nothing better than the first mover advantage. And that is what these markets provide. This is something for people that might have a little more risk/reward incentive. These are definitely the places to go.

(Doug Barry): And how long from the arrival or when you begin working with an American company have you seen some sales take place?

Eric Wolff: This depends upon the company; it depends upon their strategy; it depends on their approach. China is not a short-term place. It is not a place where you can come, make a couple of sales in a few weeks and then move on. Most of the companies that we see, that I see in my district that have succeeded, have a long-term China strategy. And it is something that they - where they, in my mind, they have to be very flexible in terms of the way that they adjust their strategies.

But if you have a long-term perspective, if you have a strategy, which encompasses the second tier cities and if you are flexible and you have the right market and the right brand I think that China is definitely a place that companies need to look at.

(Doug Barry): And, Eric, it sounds like you can help determine all of those things. The first step, as you mentioned, beginning with the local export assistance center. And

also you have Web sites and other resources before they actually contact you personally. What are those? Can you give them to us?

Eric Wolff: Yeah, we have a variety of Web sites, or course our BuyUSA.gov/China - China Web site is a very, very important portal that people use. Also the China BIC Web site, which is Export.gov/China. And these are an important first step for companies that will be looking at where to go. China is a big place. And as I think you indicated, we have offices at our Embassy in Beijing and in our four Consulates and even beyond that into these other 14 cities.

And through those Web sites, that is really - that is a key portal I think in the next step for people who want more information.

(Doug Barry): Thanks, Eric. And, you know, I read somewhere that there's more than 100 US commercial staff, that means Americans and local Chinese nations who are working across the country - huge country - to help introduce US companies, make sure they don't make mistakes or errors. Even if it's not a good market for them I believe - and tell me if I'm not correct - they will tell you so?

Eric Wolff: Yeah, exactly. We have, as you indicated, I think it's over 120 professionals that we have here. And these are truly professionals; these are individuals that have specialties broken down by industry; it doesn't matter whether it's energy, high-tech, education, aerospace, you name it, medical devices, it really cuts the gamut of sectors where there's opportunity.

And one thing that I have noticed when I counsel clients and I talk to many of them in my office, generally if you are in a sector that the United States is active in there's going to be an opportunity here in China in some way. And so I would encourage people to go to the Web sites, definitely link up with

one of these 120 professionals and through that we can help to guide you to the markets that are best for you.

(Doug Barry): Eric, that's great. And we want to thank you so much for being with us today.

Eric Wolff: Okay, well thank you very much.

(Doug Barry): Ladies and gentlemen, that was Eric Wolff; he is the Principal Commercial Service Officer in Chengdu, China. And this is off the beaten path but soon it may become the beaten path so you want to get there as soon as you can and establish your presence. And remember those Web sites he gave you: Export.gov and the China Business Information Center there.

And so on behalf of all of my colleagues in China, especially Eric Wolff thank you very much for listening and we hope to see you again on another edition of Commercial Service Market Brief. Thanks for listening.

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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.