

TOMORROW'S MARKETS



Russia



India



China



Brazil



About the report

Tomorrow's Markets is a UK Trade & Investment report written in co-operation with the Economist Intelligence Unit, which examines global business attitudes to opportunities and risk within the BRIC countries – Brazil, Russia, India and China – and other, newer emerging markets. The Economist Intelligence Unit carried out a survey of executives in 561 companies from 19 business sectors around the world in August 2008. Just under 200 of those executives surveyed work for companies headquartered in emerging markets; the remainder are from companies headquartered in developed countries.

Almost half (47 per cent) surveyed were small- and medium-sized companies, with annual global revenues below US\$500 million; one-fifth had global annual revenues of over US\$10 billion. The surveyed executives, 58 per cent of whom were C-suite or board members, were employed in a wide range of business functions.

EXECUTIVE SUMMARY

The big four emerging markets – Brazil, Russia, India and China (the BRICs) – have for some time captured investors' imagination. But the picture has become more complex in recent years. Rising costs are forcing investors to look to less-developed regions, for example within China, while rising wealth in the main commercial centres, such as Beijing and Shanghai, has created major sales opportunities. A similar process is under way in India, thanks to a rapidly growing middle class, while improvements in infrastructure are also encouraging companies to invest beyond the main cities of Mumbai and Delhi.

There are also promising opportunities in less prominent countries. Vietnam especially is staking its claim to become a major investment destination. Such "new frontier" markets may not be able to match China or India in terms of population size, but their progress in market reforms, trade liberalisation and governance will weigh more heavily in companies' investment decisions, especially given competitive wage levels.

Thus, in the search for "tomorrow's markets", investors of the future are being pulled in two directions. On the one hand, they are considering a deeper drive into lesser-known regions within the BRIC markets, especially China and India, in search of lower costs and greater availability of labour. On the other hand, investors are increasingly looking to relatively untapped markets beyond the BRICs.

Key findings of the report and survey are as follows:

The downturn in developed markets is fuelling further investment in and trade with emerging markets

Nearly two-thirds of executives (63 per cent) believe that the economic strength of emerging markets will offset the impact of a downturn in Europe and North America. As a result, emerging-market revenues, which currently account for, on average, 29 per cent of the total revenues of those surveyed, are expected to rise to 38 per cent of total revenues in a mere three years' time. Indeed, over one-third of those surveyed (34 per cent) say their company will enter three or more emerging markets over the next five years, far more than the 14 per cent of respondents who expect their companies to enter three or more developed markets. Over half of the companies surveyed are looking for new markets in which to sell their goods and services.

The BRICs will continue to dominate future investment flows into emerging markets...

Nearly half of survey respondents still see strong potential within the BRIC markets: 49 per cent say that China is a priority for future expansion, while 42 per cent choose India, 33 per cent Russia and 29 per cent Brazil. This finding is in line with the Economist Intelligence Unit's forecasts, which see an annual average of around US\$87 billion in foreign direct investment (FDI) over the next five years going to China, and a dramatic annual increase in FDI into India, from US\$23 billion in 2007 to a forecast US\$60 billion in 2012.

...but an increasing amount of this investment will be redirected to the BRICs' outlying regions

Survey results suggest that within the next ten years inward investment in China will have spread beyond the main cities of Beijing and Shanghai, most notably towards the Yangtze river delta, the north-east and the western interior. A similar pattern can be observed in India, with companies looking to expand from Delhi and Mumbai to areas such as Gujarat and Ahmadabad. Certain regions will be more attractive to specific sectors as a result of the local government's investment in relevant infrastructure.



The search for lower costs is a major factor in shifting investment patterns

Companies that depend on a low-cost base may be most susceptible to relocation. While two-thirds of manufacturers in our survey currently operate in Beijing, this number will decline to a mere 14 per cent in ten years' time. Executives from developed markets in particular say that rising labour costs are the main reason for looking beyond BRIC markets.

Vietnam is seen as the most attractive emerging market beyond the BRICs

Vietnam's low-cost base and sizeable population means that it could begin to challenge China as a leader of low-cost manufacturing: the country is attracting investment in industrial, IT and electronics manufacturing, in addition to its traditional strength in textiles. Mexico, the UAE and Ukraine are also seen as attractive new markets, for a variety of different reasons. However, most companies in the survey view these "next wave" emerging markets as an addition, rather than an alternative, to their existing BRIC investments.

Weak legal structures, corruption and poor infrastructure are the biggest deterrents to investment in newer emerging markets

Respondents from developed as well as other emerging markets say that poorly established legal and regulatory institutions, closely followed by corruption, will be the main obstacles to operating in new emerging markets over the next ten years. Corruption and poor infrastructure appear to be greater worries for companies headquartered in emerging markets than they are for firms from developed markets.



The BRIC emerging markets have been central to companies' expansion plans for many years, but with costs rising in the more established centres, investors are increasingly exploring less-developed regions for sales, sourcing and production. At the same time, new emerging markets, from Mexico to Vietnam, are also offering a compelling business story. Thus investors will increasingly be pulled in different directions: do they spread their investments into new emerging economies, or penetrate deeper into existing markets?

INTRODUCTION



More investment will go into more emerging markets and regions within those markets over the next decade, despite – or perhaps partly because of – an economic slowdown in developed markets. While the big four emerging markets – Brazil, Russia, India and China, known collectively as the BRIC economies – have long dominated investors' interest in emerging markets, this picture is becoming more complex. As production costs in the BRICs rise in line with growing prosperity, Western manufacturers are having to recalculate their risk-reward assessment and seek lower-cost bases in these countries' less-developed regions.

The focus of China's economic development, for example, is already shifting to its central and western regions, helped in part by investment in their transport and telecommunications infrastructure. Meanwhile, lesser-known regions in India, such as Gujarat, are also providing increasingly attractive manufacturing locations.

At the same time, rising incomes in the more prosperous regions within the BRICs have become magnets for consumer goods companies. With an economic slowdown in developed markets, the prospect of maintaining global sales growth through sales in emerging markets is particularly enticing.

The picture for investors is made yet more complicated by the emergence of a new wave of developing markets. Countries such as Vietnam, Mexico, the United Arab Emirates (UAE), Ukraine, Indonesia and others, which have made significant progress on market reforms, have joined regional trade regimes, offer low wages or boast strong economic growth, now also offer attractive alternative investment locations.

INVESTMENT CONTINUES TO FLOW

How are businesses reacting to the shifting investment landscape? In August 2008 the Economist Intelligence Unit, commissioned by UK Trade & Investment, the UK Government's international business development organisation, carried out a survey of 561 executives worldwide, to assess their attitudes to opportunities and risk within the BRIC economies and other emerging markets. Just under 200 of those executives surveyed work for companies headquartered in emerging markets, while the remainder are based in developed countries.

In general, emerging markets remain as attractive as ever. Over one-third of those surveyed (34 per cent) say that their company will enter three or more emerging markets over the next five years, far more than the 14 per cent of respondents who expect their company to enter three or more developed markets. Additionally, the proportion of firms' global revenues that are expected to come from emerging markets is expected to grow rapidly. Currently, emerging-market revenues account for, on average, 29 per cent of the global revenues of companies surveyed, and this figure is expected to rise to 38 per cent in only three years' time.

Where is this investment likely to be directed? The BRIC markets continue to dominate. Nearly half of survey respondents still see strong potential within the BRIC markets, and in particular within China and India: 49 per cent say that China is a priority for future expansion, while 42 per cent choose India; these are the two most frequently selected choices. The next most frequently selected region was the rest of Asia-Pacific (41 per cent), followed by Russia (33 per cent), the rest of Central Eastern Europe (32 per cent) and Brazil (29 per cent).

This finding is roughly in line with the Economist Intelligence Unit's forecasts of continuing strong foreign direct investment (FDI), particularly into China and India. China is expected to attract an annual average of around US\$87 billion over the next five years – a small rise on recent years. India is expected to see the most dramatic annual increase, with FDI rising from US\$23 billion in 2007 to a forecast US\$60 billion in 2012. Annual FDI into Brazil is likely to remain at around US\$31 billion during the forecast period, while annual inflows into Russia, which totalled US\$52 billion in 2008, will dip to US\$44 billion next year before

recovering to US\$50 billion in 2012. The latter decline is likely to reflect the base effects of unusually high inflows in previous years – partly the result of repatriated offshore funds – more than any major weakening in the business environment. That said, the recent conflict in Georgia (which occurred after our survey closed) did trigger falls in Russian financial markets (though direct investors stayed firm), and, although the crisis is likely to blow over, a more assertive Russian foreign policy, towards neighbouring Ukraine in particular, may raise political risks for foreign investors in the region in coming years.

A forecast of trade flows tells a similar positive story for the BRICs, all of which will enjoy a rise in their share of world exports: China's share is expected to increase from 8.6 per cent in 2007 to 10.7 per cent in 2012, a massive figure that is driven in part by foreign direct investors; India's share will rise from 1.07 per cent to 1.35 per cent; Russia's share will increase less dramatically, from 2.51 per cent to 2.68 per cent; and Brazil's will grow from 1.13 per cent to 1.25 per cent.

Stagnation in Western economies is also helping to fuel interest in emerging markets: almost two-thirds of respondents (63 per cent) think that the economic strength of emerging markets will offset the impact of the slowdown in Europe and North America, while only 20 per cent disagree or strongly disagree with this assessment. It would appear that many companies give some credence to the notion that emerging markets have "decoupled" from developed economies and will remain relatively immune from a US and EU downturn or recession. However, such a sanguine outlook may prove over-optimistic given the dominance of US and EU demand in the global economy and the persistence of major operating shortcomings in emerging markets themselves. Thus the full impact of a US and EU downturn may yet be felt by investors and traders in emerging markets.

EXPLORING THE REGIONS

The headline numbers fail to capture a more interesting trend, namely that future FDI into the BRICs is likely to become more adventurous as it seeks simultaneously lower costs and richer consumers. And this is expected to take businesses deeper into the relatively untouched regions, especially of India and China.

India's regions

Companies in our survey are for the most part concentrated in two areas of India: Maharashtra, which includes Mumbai (favoured by 62 per cent of survey respondents), and Delhi National Capital Territory (61 per cent). The Delhi figure may be higher if one includes neighbouring Noida and Gurgaon. In addition, 46 per cent of respondents are also active in the state of Karnataka, which includes Bangalore.

However, the trend will be to expand into other cities and regions over the next ten years. Popular regions include the western coastal state of Gujarat (which includes the city of Ahmadabad), where one-third of survey respondents said that they intended to invest within the next ten years, and Andhra Pradesh (which

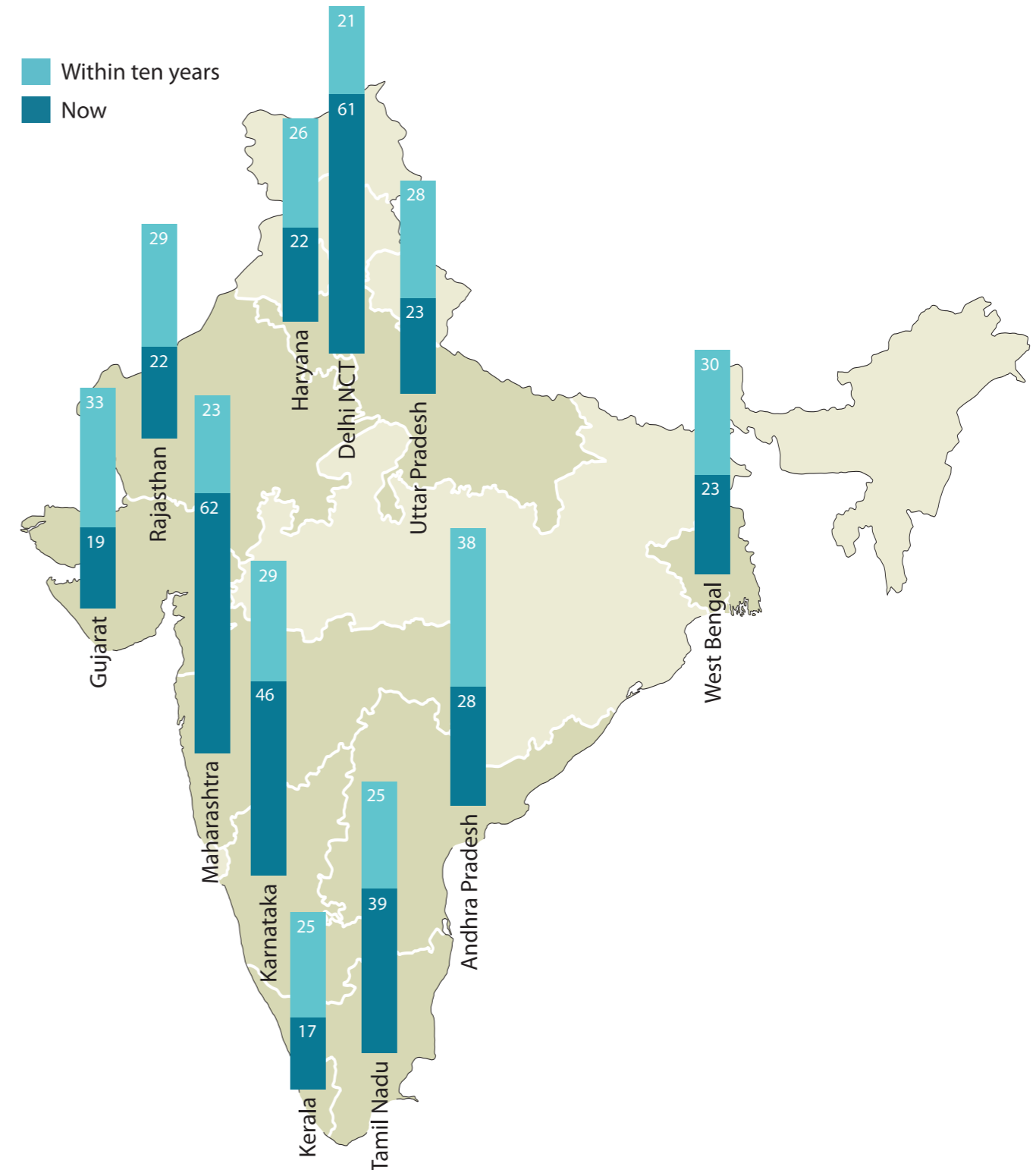
includes Hyderabad), where 38 per cent of respondents planned investments. That may not be too surprising: Gujarat and Andhra Pradesh have seen significant investment in infrastructure, giving them an advantage over other regions.

Gujarat has also attracted significant manufacturing investment in recent years. Among the manufacturing companies surveyed, 38 per cent say they will be operating there within ten years, compared with just 7 per cent now. Andhra Pradesh is also likely to see a surge in investment from IT and technology companies – 17 per cent of survey respondents say they operate there today, but this will increase to 58 per cent in ten years. In addition, while none of the survey respondents said that they had operations in Rajasthan, an astonishing 40 per cent said they planned to be there in the future.

Accor, the French hotel group, which recently opened its first hotels in Mumbai, Delhi and Ahmadabad, predicts annual demand growth for hotel rooms in India of some 20 per cent up to 2012, almost three times faster than demand growth in Western Europe (7 per cent) over the same period.



Where in India is your company operating today, and where do you expect to have operations within the next ten years? (% respondents)



China's regions

Investment patterns in China over the next ten years are similar, with investors expected in the main to stay in the country but to explore lesser-known regions. At present, inward investment is unsurprisingly focused on Beijing, Shanghai and the Greater Pearl River Delta. Of those companies surveyed, 57 per cent are operating in Beijing and 60 per cent in Shanghai. But almost two-fifths (39 per cent) of respondents also say that they will have operations in the Yangtze River Delta area within a decade, compared with 24 per cent of respondents with operations there currently. A similar trend emerges in the Bohai Gulf region, where in August European aircraft manufacturer Airbus began assembling aircraft at a new factory in Tianjin. The plant will cater to China's fast-growing aviation market and is expected to be producing four aircraft per month by 2011.

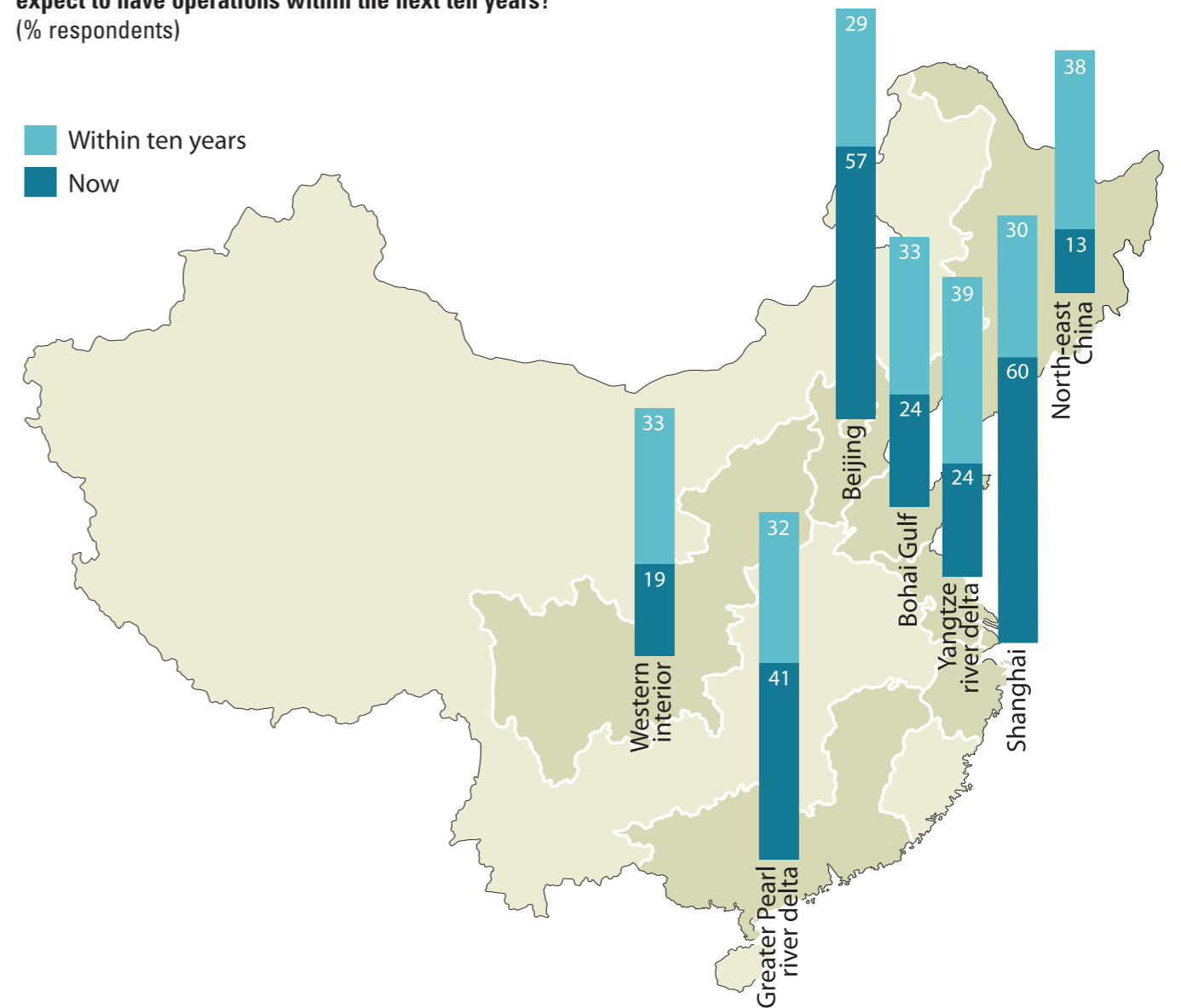
The most marked shift in investment will occur in China's north-east and its western interior. While a mere 13 per cent of survey respondents are currently operating in the north-eastern province of Liaoning, this figure is expected to rise to 38 per cent in ten years' time. Likewise, areas of the western interior such as Sichuan and Chongqing will see a similar change (from 19 per cent today to 33 per cent in ten years' time).

The popularity of parts of the north-east possibly reflects a lingering advantage for coastal cities such as Dalian as bases for exporting locally manufactured goods. In early 2007 Dalian received a major boost when US semiconductor vendor Intel announced plans to open a plant there (see case study). Several factors attracted Intel to the region, including government efforts to regenerate the region, cultural issues and the city's experience in managing outside investment.

Intel's arrival may signify a broader sectoral shift in FDI, with light industries such as electronics and biotechnology starting to eclipse textiles, silk and machinery. Areas such as the Yangtze River Delta, the Bohai Gulf and north-eastern China are likely to experience an explosion of interest, from IT and technology companies in particular, over the next ten years. Of those IT and technology companies surveyed, 10 per cent are in the Yangtze area now, but this will increase to 52 per cent in ten years' time, while in the Bohai Gulf and north-eastern China the operations of those IT companies surveyed will grow from nothing at present to 47 per cent and 44 per cent respectively within the next ten years.



Where in China is your company operating today, and where do you expect to have operations within the next ten years?
(% respondents)



Manufacturers will also soon be on the move. The survey found that while 67 per cent of manufacturers currently operate in Beijing, this number will decline to a mere 14 per cent in ten years' time, and the 75 per cent of respondents with manufacturing operations in Shanghai will drop to 21 per cent. Meanwhile, the number of manufacturers may double, from 22 per cent

to 44 per cent in north-eastern China, according to the survey, and from 17 per cent to 39 per cent in the western interior. These figures also suggest that the sharp shift away from Beijing and Shanghai may not be fully taken up by other regions within China, and that cost-driven manufacturers may be looking to still cheaper locales outside the country altogether.

THE GENTLE PULL OF THE NEXT WAVE

The new wave of emerging markets still come with many of the shortcomings that have long been familiar in the BRICs – political instability, wobbly legal systems, low purchasing power, poor infrastructure and so on – but, as with the BRICs, a series of market reforms, improved trading relations and growing economies have improved their appeal. Although unable to compete with the massive potential consumer bases and labour resources in China or India, significant market reforms have altered the finely tuned “location-cost-risk” calculus that previously ruled out lesser-known markets. Our survey indicates that although investors are indeed looking seriously at these newer emerging markets, in general they are likely to consider them in addition, rather than as an alternative, to their existing BRIC investments.

In fact, just over one-third of respondents (36 per cent) currently see major opportunities within these new-frontier markets overall – far fewer than those with plans for further BRIC investments. Nevertheless, four-fifths of respondents still have at least three non-BRIC markets in mind for expansion some time in the next decade. Asked to name their priority location from a choice of 27 non-BRIC markets globally, Vietnam attracted most interest, followed by Mexico, the UAE, Ukraine and Indonesia (see table). These levels of interest are roughly in line with the Economist Intelligence Unit’s FDI forecasts, which show foreign direct investment rising from US\$7.6 billion in 2008 to US\$10.7 billion in 2012 in Vietnam and from US\$18 billion to US\$26.5 billion in Mexico. Although FDI in the UAE is forecast to peak in 2009 before declining, FDI is expected to increase noticeably in Ukraine and Indonesia during the 2008-12 period.

Perhaps more interesting is the highly varied nature of the top ten “next-wave” markets, which together account for three-fifths of all respondents’ choices of preferred location. These comprise three South-east Asian, two Latin American, two east European, one Middle Eastern and one African market. All have significant pros and cons, and investors will have to calculate the combination of location, demand, risks and cost that best suits their widely varying investment goals. Two – the UAE and Singapore – are relatively wealthy, with Western levels of GDP per head, but their populations, at around 5 million each, are the smallest of the group, and many investors see them as developed trading hubs for their respective regions. By contrast, Indonesia, with a population of around 235 million, and second-ranked Mexico, with 109 million, offer sizeable potential consumer markets, but GDP growth rate in the latter has been sluggish. And fast-growing Vietnam is still significantly poorer (with GDP per head at a mere US\$823) than other countries in the ranking.

These next-wave contenders for investment present a varying mix of pros and cons when compared with investors’ home markets or to the BRICs.



The next wave: priority markets for expansion

Country	Priority market for expansion (no. of companies)*	Population (m)	GDP/head (US\$) # 2007	Real GDP growth 2008-12 (%)†	FDI 2008-12 (% of GDP)†	EIU Business Environment Ranking (2008-12)**
Vietnam	51	85.9	823	7.2	8.5	5.87
Mexico	48	108.7	8,219	2.9	2.0	7.18
UAE	46	5.2	37,895	7.2	3.9	7.62
Ukraine	32	46.2	3,056	6.2	4.5	5.51
Indonesia	30	234.7	1,845	5.8	1.1	6.23
Singapore	30	4.5	35,956	4.8	14.0	8.72
Poland	26	38.1	11,068	4.4	2.8	7.11
South Africa	25	47.6	5,943	4.0	1.5	6.86
Argentina	25	39.4	6,669	4.3	1.6	6.08
Saudi Arabia	23	24.3	15,708	5.9	2.9	6.54

Source: Economist Intelligence Unit

* of a total 557 survey respondents

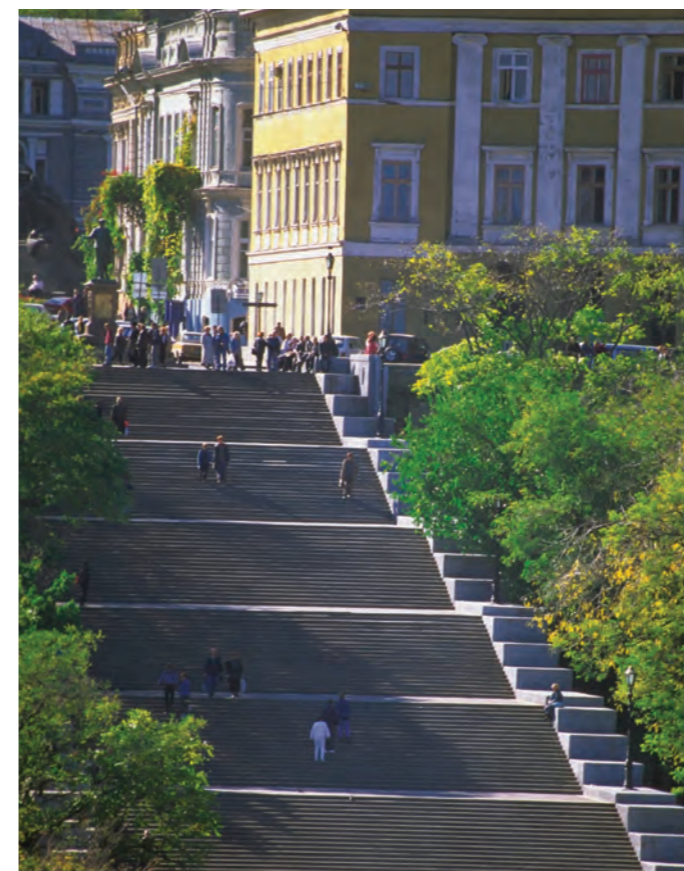
** Score out of maximum of 10

at market exchange rate

† Average annual forecast

Vietnam

Vietnam’s sizeable population and its very low wages may attract investors seeking an export base for the rest of the Asia-Pacific region. IT and electronics manufacturers are already establishing plants. But Vietnam’s appealing story inevitably comes at a price – reflected in the country’s relatively low score in the Economist Intelligence Unit’s Business Environment Rankings (BER), which rank markets on a range of tax, regulatory, macro-economic, labour-related and infrastructure criteria deemed essential for doing business. The economy has struggled with rocketing inflation, which hit 28 per cent year on year in August (although the Government has recently acted firmly to stabilise prices), while progress in trade and financial liberalisation has been slow, corruption remains prevalent, and there are severe long-term problems in terms of poor infrastructure and improving skills and education levels.



Mexico

Mexico boasts a large domestic market, although growth has been lacklustre for much of the past decade. Proximity to the USA and integration into US supply chains, coupled with a virtually unrivalled network of free-trade agreements (encompassing countries that together generate 80 per cent of global GDP), have been a major boon for investors. But its heavy dependence on the US market (which accounts for over 80 per cent of exports) places the country on the front line of a US downturn, although Mexico should be a prime beneficiary of a US recovery. The Government has adopted a responsible fiscal and monetary policy stance, including a flat corporate tax, but progress in liberalising key industries and cutting red tape has been slow.

The UAE

The UAE presents a different matrix of factors. It has demonstrated the benefits of liberalisation in the non-oil economy. Incomes are close to Western levels, but the market is small. The UAE has achieved success as an export base and – despite a 49 per cent cap on foreign ownership of onshore companies – its low taxes, minimal restrictions on trade and foreign exchange, and excellent location have enabled the Government to project a business-friendly image in its quest for high-tech investment, and also to promote the UAE as a hub for traders in the region and worldwide.

Ukraine

By contrast, Ukraine's "Orange revolution", which brought pro-Western parties to power at the end of 2004, changed investor perceptions of the country as the new Government embarked in earnest on privatisation and economic liberalisation, culminating in WTO entry in mid-2008. The country's high level of education and skills, its low wages and its position as the most populous market between Russia and Germany makes it highly attractive as a cheap manufacturing base for export as well as a sales market in its own right. However, persistent political differences between Ukraine's pro-EU parties has hampered reform efforts, while the pull of pro-Russian forces and the growing determination of the Russian Government to prevent further Westernisation occurring next door will heighten the risk environment.

Indonesia

The largest non-BRIC emerging market by population, the political turmoil afflicting Indonesia in recent years has subsided, and the economy has stabilised, with annual GDP growth forecast at 5-6 per cent in coming years. International banks have shored up the finance sector, and foreign investors are starting to take advantage of opportunities in infrastructure and natural resources. However, trade unions fiercely resist liberalisation of labour laws that guarantee a high minimum wage and make firing workers expensive, depriving investors of a vast pool of unskilled labour for low-cost manufacturing. Moreover, decentralisation that gives taxation and licensing powers to local government has merely added an additional tier of bureaucracy and corruption.

DUAL VISION



Perceptions of all emerging markets also vary between companies from emerging markets (ie those headquartered there) and those from developed markets. In many respects that difference is being eroded – both types of company show equal appetite to expand into emerging markets – but differences persist.

According to the survey, executives from companies headquartered in developed markets highlight wage pressures, recruitment and increased competition at home as reasons to shift operations into emerging markets. Executives from developing-market companies, by contrast, appear more concerned with the tax burden and onerous regulations of developed markets as reasons to focus on developing markets. Rising protectionism, including in Western economies, is another major worry for 42 per cent of emerging-market companies.

As regards the BRIC markets, executives from companies headquartered in developed markets worry mainly about rising labour costs; their counterparts from emerging-market firms, while also concerned about this, fret more about poor infrastructure and difficulties in recruitment. Contrary to many expectations, companies from emerging markets are also more distressed than their developed-market counterparts about corruption.

Developed-market companies are also more likely to leave the BRICs for other emerging markets: only 39 per cent say they are content to stay, compared with 56 per cent of companies headquartered in developed markets. Similarly, almost half (49 per cent) of companies headquartered in emerging markets see opportunities in neighbouring markets, while only 38 per cent of developed-market firms see similar possibilities. This may in part be explained by the fact that many BRIC-based companies may find it easier to operate in similar business environments found next door.

CONCLUSION

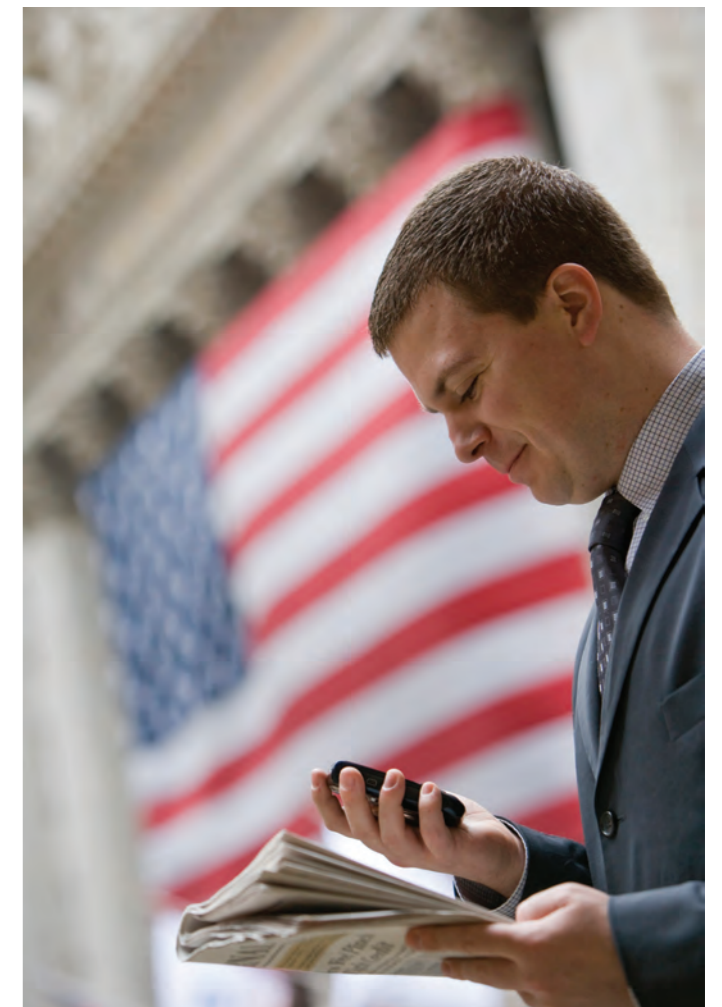
Emerging-market trends

- The current downturn in developed-market economies is fuelling interest in emerging markets.
- The BRICs will dominate future trade and investment in emerging markets, as investors explore lesser-known regions of these countries.
- But investors are increasingly warming to the attractions of Vietnam, Mexico, the UAE, Ukraine and others.
- Next-wave markets present a varied mix of pros and cons, but policy reforms remain a crucial factor in all of them.
- None of these markets, whether BRICs or the next wave, will be immune to the global slowdown.

China and India, and to a lesser extent Russia and Brazil, will dominate investor thinking for the foreseeable future, although the focus will shift to their lesser-known cities and regions. At the same time, increasing numbers of investors – mainly those with some operating experience in the BRIC markets – will consider a new wave of emerging markets such as Vietnam, Mexico, the UAE and Ukraine.

How fast this process plays out will depend on numerous, often conflicting, factors: whether input costs or consumer demand are the main concern of investors; how fast costs rise in the more popular investment centres relative to their skill levels; whether frontier markets are able to continue with market reforms, ensure an open trading regime, protect investors and achieve low-inflation economic growth.

The outlook for emerging markets is generally positive, but there are risks. Many still struggle with inflationary pressures, unsustainable credit expansion, poor infrastructure and inadequate governance. But perhaps the biggest threat comes from contagion from economic difficulties in the USA and the EU, which together account for over half of global consumer demand. Although the downturn there has helped to fuel trade and inward investment in emerging markets, a severe downturn or recession in coming years would inevitably drag down emerging-market growth too. The notion of “decoupling” is not only misplaced but is undesirable for investors, since it suggests that a pick-up in Western markets would also have limited impact elsewhere. That said, emerging markets are more resilient to external crises than they were a decade ago.



CASE STUDY

Intel in China

When Intel decided to build a new semiconductor plant in China to complement its existing operations in Chengdu, Beijing and Shanghai, the company embarked on a painstaking search to find the best location. It needed to get the decision right first time – chip plants cost US\$2.5 billion and take three to four years to build, so there was no room for error.

“We had an exhaustive assessment done, with 28 people involved in the site selection,” recalls Kirby Jefferson, Intel’s General Manager of the new plant project. “We went around various locations, covering everything from infrastructure – including the ability of the power grid to support our business – to local waste transportation, to the local school system.”

The company eventually chose Dalian, a port city of 6.5 million inhabitants in Liaoning province in China’s north-eastern region. Several factors influenced this choice. While the north-east is generally viewed as a rustbelt, it does have a number of cities, including Dalian, that are viewed as centres of growth.

The national Government’s efforts to regenerate the north-east initially brought the region to Intel’s attention, as did the capability and experience of the local political leadership in attracting outside investment.

Also important were cultural factors, such as whether the final location would appeal to Intel’s workforce. “It was important to have a location where Chinese people wanted to live, but as we were also bringing in a substantial number of expats and their families we needed a community where Westerners would feel comfortable,” says Mr Jefferson.

The ability to work with local government, and whether politicians would deliver on what they promised, were other important criteria. China’s north-east, along with the country’s western interior, is predicted to attract substantial amounts of foreign investment over the next decade, but both regions are currently the poor cousins to more developed areas – namely Beijing, Shanghai and cities in the Pearl River Delta.

No dallying in Dalian

Dalian itself has a reputation as a boom town. In common with other regions of China undergoing substantial capital investment, it exhibits its prosperity in the form of luxury-goods retailers and newly built high-rise buildings, including a number of five-star hotels.

While the city does not have a background in high-technology manufacturing, it is a major centre for software development and has attracted Western companies involved in light-industrial manufacturing. Intel will join an array of foreign companies, particularly from Japan and Korea, that are already located in the city, such as Canon, Ericsson, GE, Hyundai, LG, Pfizer, Sanyo, Toshiba and Volkswagen.

Intel’s own plant will start production in the second half of 2010. The company is building a fabrication plant that will manufacture silicon wafers, the first such facility Intel has opened in China. The wafers will be cut up into actual semiconductors at separate assembly and testing plants. The company already has two such facilities in China that have been open for some years – one is based in the Shanghai area, and the other is in Chengdu, in the western province of Sichuan.

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