

# **CHINA STRATEGY**

## 2009-2010



## Introduction and Overview

Greater China<sup>1</sup> is a region of primary focus for New Zealand Trade and Enterprise (NZTE). It offers New Zealand considerable potential for economic growth through two-way trade and closer cooperation on a wide range of subjects.

However, the complexity, scale and rapidly changing nature of the Chinese market makes it a challenging destination for New Zealand businesses. The business practices and culture are, literally, foreign to even experienced exporters; the structure of the supply chains and commercial frameworks are often erratic and convoluted; competition from both local suppliers and international companies is intense; the role of Government and private sector interests can be highly confusing and overlapping; and Chinese consumers can be fickle, immature and nationalistic.

China is a market that rewards persistence, presence and familiarity and punishes opportunism. It is an increasingly open market which has undergone rapid and substantial change in a relatively short period of time. As a result of this there are still many aspects of China's business practices, bureaucracy and infrastructure that impede the growth of foreign business in the country.

New Zealand exporters in merchandise and services are generally poorly prepared to approach the Chinese market. Language is an obvious problem. Although business can be conducted in China without fluency in Putonghua non-Chinese speaking businesspeople can find it difficult to establish the strength of relationship that is required for business success. Unfamiliarity with Chinese business customs and culture is also an impediment to New Zealand companies.

The resource needed to enter the Chinese market is a very significant hurdle for any foreign company let alone a typical New Zealand SME. Depending on the product and sector it can take many years to achieve a measure of profitability and, in the early stages of development, it is not uncommon to make significant losses. In the services sector, where New Zealand companies have enjoyed a measure of success (e.g. education, vocational training, engineering consultancy) the amount of time that needs to be spent in the market to gain the confidence of customers is a significant factor.

At present New Zealand's trade profile with China centres around the principal commodities for which we are best known internationally – dairy, meat, seafood, produce (Kiwifruit) and to a lesser extent wood and wool. Generally speaking these are destined for further processing and are thus not higher value products. The exceptions to this are infant formula milk powder, honey products, Kiwifruit and live lobster (although it should be noted that the latter enters China largely through Hong Kong).

New Zealand also performs poorly when it comes to outbound investment from China although the actual level of investment in New Zealand is disguised somewhat by the tendency for Chinese companies to use their offshore representative organisations to initiate the investments. Thus the statistics are distorted somewhat and the true level of Chinese investment may be higher than is immediately apparent.

Tourism promotion is in its nascent stages in China with the focus being primarily on Shanghai – thus there is very little New Zealand "brand" presence evident throughout the region. Research amongst senior executives in the food and beverage sector in China (the sector where New Zealand has the greatest business presence) shows that their awareness of the country amounts to butter, dairy products, honey, lamb and cheese. Outside the main centres of Beijing, Shanghai and Guangzhou there is effectively no awareness of New Zealand whatsoever (based on the same research being carried out in Qingdao and Chengdu). New Zealanders are generally regarded as being easy to get along with but too relaxed to be good businesspeople.

Notwithstanding the above the commonly held view that "New Zealand simply cannot ignore China" is truer than ever.

In the latter stages of the first decade of the 21st Century China is one of the few countries showing substantive economic growth. For the 12 months to June 2009 New Zealand's exports to China were NZ\$3.378b, an increase of 38% over the same period a year earlier.

Sales from China to New Zealand for the year ended June 2009 were NZ\$6.66b, sufficient to make it our third largest overall trading partner. It could, arguably, become our biggest trading partner during the course of the next decade.

As the Free Trade Agreement between New Zealand and China progressively takes effect that growth should and almost certainly will accelerate. At this stage, however, the challenge is to ensure that New Zealand companies understand the implications of the FTA and the detail that accompanies it.

<sup>1</sup> For the purposes of this document "China" refers to the greater China region including Hong Kong and Taiwan.





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To realise the potential of China there are many aspects of New Zealand's engagement with China that require urgent attention – either to strengthen them, initiate new connections or to eliminate behaviours and attitudes that stand in the way of progress.

NZTE has a very important role to play in helping achieve this together with other Government agencies most notably the Ministry of Foreign Affairs and Trade (MFAT), Tourism New Zealand, Ministry of Agriculture and Forestry (MAF), Customs and Immigration.

The following is a summary of NZTE's resources and focus on China and a review of current strategies and activities.

## **NZTE Presence in China**

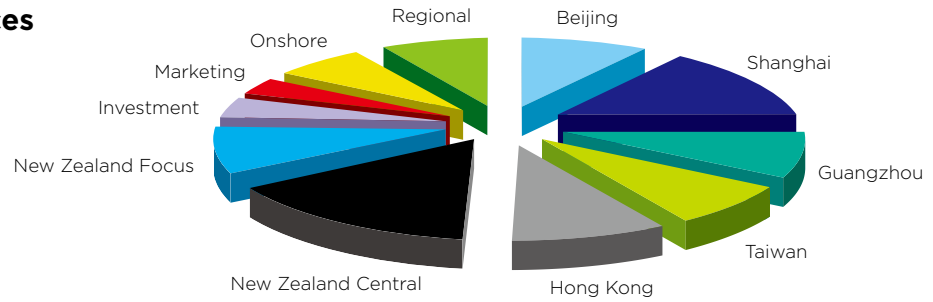
### **At a glance:**

- Total operating budget NZ\$15.8m per annum (approx)
- 61.5 full-time equivalent staff
  - 7 seconded New Zealanders
  - 51 FTE locally employed
  - 3.5 FTE located onshore
- 5 offices – Beijing, Shanghai, Guangzhou (Consulate and Trade office), Hong Kong, Taiwan
- 2 new offices to be opened in 2009/2010 – Shenzhen and Qingdao
- 2 "showcase" properties – New Zealand Focus (Hong Kong) and New Zealand Central (Shanghai)

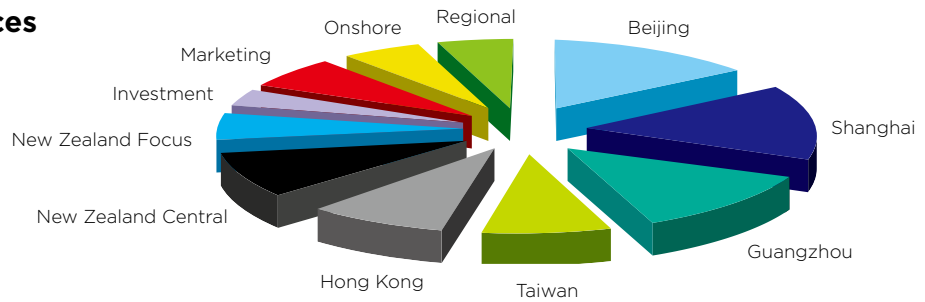


# NZTE Presence in China

**Distribution of Resources (by share of operating cost)**

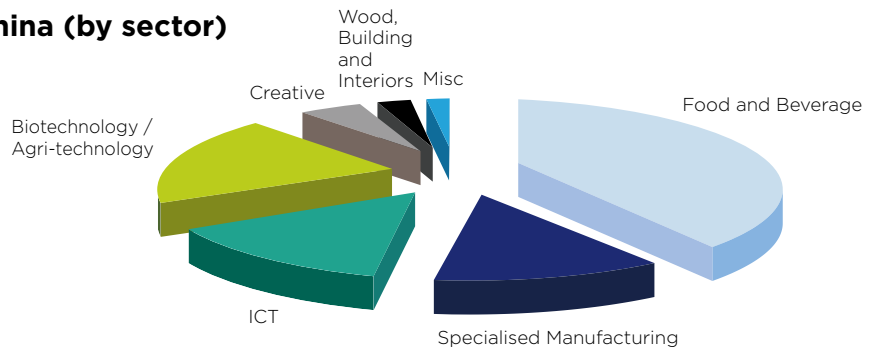


**Distribution of Resources (by staff numbers)**



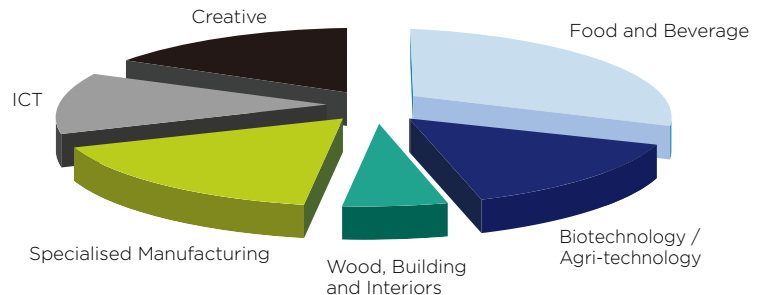
**NZTE Client Presence in China (by sector)**

The chart shows the presence of NZTE clients currently exporting to China by sector. The number of clients reporting is 120 with total sales of NZ\$1.94b per annum.



**Total Companies and Organisations Interested in China (by sector)**

The chart shows the numbers of companies, aggregated by sector, that have formally expressed interest in doing business with China or are currently exporting there. Not all are NZTE clients. The total number of companies and organisations represented is approximately 560.



## NZTE China Strategy: July 2009 – December 2010

A clear focus on specific sectors, New Zealand companies with the capability and commitment to succeed in China and the development of an in-depth understanding of market dynamics and opportunities are at the heart of NZTE's strategic approach to China.

The strategy is delivered through a network of five trade offices in the region, two "showcase" properties, and teams focused on investment and marketing. During the course of the 09/10 year a further two satellite offices will be added to this.

In addition to this core work the NZTE China team will also deliver major New Zealand profile events, most notably the Shanghai Expo from May to October 2010 and various trade shows in the region.

A further focus is the promotion of the Free Trade Agreement signed between New Zealand and China. Aligned to that is an ongoing programme of training and communication for companies interested in engaging with China.

The following is an overview of the primary activities over the 18 month period from 1 July 2009 to 31 December 2010.

### Market Intelligence – Research and Analysis

NZTE in-market staff routinely undertake market research and analysis in areas of primary interest to New Zealand exporters. Reports on sector development and activity are posted on a regular basis on the NZTE website.

In addition, NZTE has an ongoing programme of detailed market research commissioned from third party providers which give a more intensive and detailed examination of specific market issues and opportunities.

During the first half of 2009 several significant studies were completed. These will form the basis of NZTE's ongoing strategies, particularly for the food sector and will also be the subject of seminars and workshops in New Zealand. The studies completed in early 2009 were:

**Purchasing models and key drivers for 5-star hotels in mainland China.** This study sought to establish the decision-making process for hotel purchasers in the main centres (Shanghai and Beijing) and to determine whether New Zealand has any competitive advantage and, if so, in which categories.

**HRI distribution models.** Identifying leading distributors to the HRI sector and providing insight into the supply chain environment in mainland China.



**The impact of country of origin in commercial food purchasing decisions.** This report examines the hierarchy of decision points amongst commercial food purchasers in hotels, retail outlets and food importers; the role of country of origin in this; New Zealand's visibility amongst these audiences; and any connection between food safety and country of origin and/or the importance of food safety in the purchase decision.

**Natural products and skin care – Hong Kong.** This study examines the awareness of New Zealand as a supplier of quality natural products in the Hong Kong market and trends and opportunities as a basis for market entry.

**Taiwan's Medical Device and Technology Industry.**

This study examines the capability of Taiwan's medical technology industry and provides analysis to assist New Zealand companies looking for niche opportunities. This research builds on another study of the Taiwan-China commercial linkages which aims to profile Taiwan as a conduit into the China market.

Research either already commissioned or planned for the latter half of 2009 and through 2010 is:

- A study of the implications of mainland China's new food safety regulations for New Zealand's business with China and recommendations for New Zealand companies on how to manage in the new regulatory environment.
- A report on the packaging/branding/labelling standards for food and beverages across the region.
- Agritechnology capability and opportunities in Taiwan for cooperation with local companies targeting agricultural production on the mainland.
- Modes of entry and registration for communications technology and software in mainland China.
- Opportunities for food processing technologies particularly in the dairy and meat sectors in China.

**Sector Concentration**

Whilst NZTE undertakes customised client work across all of the main industry sectors it has selected four broad sector groups in which to concentrate its market development activities. Each sector has a dedicated team assigned to it within the greater China region. These are:

- **Food and Beverage**  
Specifically the Hotel, Restaurant and Institution (HRI) sub-sector in mainland China and both retail and HRI sub-sectors in Taiwan and Hong Kong.
- **ICT**  
Primarily communications technologies in Hong Kong and mainland China and suppliers to the sector. The scope of ICT focus is somewhat broader in Taiwan and takes in digital content for the interactive media/animation film industry.
- **Specialised Manufacturing**  
Focusing on areas of manufacturing within mainland China, particularly the southern region, where New Zealand has technologies that can improve productivity and efficiency e.g. food processing.
- **Agricultural Biotechnology**  
Identifying opportunities for New Zealand expertise in agricultural production and animal-based therapeutics. Also, opportunities for growth in livestock importation.

**Client Consulting**

In line with NZTE's broader strategy of more intensive engagement with client companies the greater China team will identify and work with entities that have a clear commitment and determination to succeed in China and the capability to implement a sustained market strategy. To this end the following will characterise the consulting activity during 2009/2010:

- The creation and implementation of client engagement plans that encompass any or all of initial market research, opportunity identification and partner selection, business development monitoring and assistance and evaluation for specific companies. Where NZTE does not have the expertise internally third party providers will be commissioned to assist as required.
- The development of collaborative market strategies for groups of companies targeting mutually beneficial opportunities.
- Customised reports on specific issues or topics for companies that have undertaken previous work in China which are designed to accelerate their engagement with the market. The development of alternative models of market entry beyond traditional exporting.

In general, NZTE will not engage in ad hoc or opportunistic market studies in China due to the complexity and risk profile of the market.

**Opening of offices in secondary markets**

During 09/10 NZTE will open two new "representative" offices in China - the first in Shenzhen in November 2009 and the second in Qingdao during the following six months. Both are the result of market studies carried out by NZTE into opportunities for New Zealand companies and compatibility with New Zealand expertise. The presence in Shenzhen will provide greater access to the technology-based industries in Southern China as well as the burgeoning hospitality industry in the region. Qingdao has a growing hospitality sector as well as potential for specialised manufacturing and services.

During the course of the year further work will be carried out to validate the potential of Chengdu as a satellite office.

**Promotion of China in New Zealand**

China has received considerable promotion in New Zealand prior to and since the signing of the FTA. Further promotion is required but at a more detailed level than previously. The work that NZTE will carry out, sometimes in partnership with other organisations will address:

- Detail of the FTA that New Zealand companies need to be familiar with in order to maximise the advantages that the agreement incrementally offers;



- Specific findings from research carried out by NZTE (see pages 5 and 6);
- Services offered by NZTE in China, such as New Zealand Central (see page 8), over and above the normal range of business assistance;
- Events and activities that New Zealand companies can take advantage of to enhance their understanding of and positioning in China (see page 8 for Shanghai Expo as an example of this).

**Client education, training and programmes**

In addition to the range of training programmes operated through third party providers in New Zealand, NZTE will continue to develop China-specific programmes for companies.

During 09/10 these will include programmes developed with tertiary providers which will assist companies with the development of their market strategies and individual executives with their China-knowledge and experience.

Progressively, NZTE's current programmes will include a China-specific variant. For example, the Beachheads programme has been expanded to include an advisory board in Mainland China which has provided direct assistance to six companies in its early stages with a further 30 or so having indicated interest in participating in the programme.

**Investment promotion**

In NZTE's experience New Zealand companies are less knowledgeable and thus less comfortable dealing with Chinese investors than with other, more familiar, sources of foreign investment. At the same time Chinese investors have a very low awareness of New Zealand as an investment destination. The core of NZTE's strategy therefore is centred on raising awareness on both sides and promoting mutual understanding while, at the same time, seeking tangible opportunities for partnerships between China and New Zealand.

Historically, Hong Kong and Taiwanese investments are more prominent than those from mainland China and those involved in initiating those investments are more experienced and sophisticated than those from the mainland. This, in part, is why a lot of mainland Chinese investments in New Zealand are channelled through Hong Kong or other regional representative entities.

The principal focus for NZTE's investment promotion in China therefore is companies that have existing New Zealand connections whether they be family, business or education links. A natural extension of this is aftercare – maintaining a good relationship with and introducing new opportunities to existing investors from the greater China region.

From a sector perspective the principal areas of activity will be the knowledge-based industries, particularly biotechnology and ICT and resources, particularly the use of New Zealand's ironsands. Within the former category animal-based therapeutics has been identified as a sub-sector in which New Zealand

has a particular competitive advantage. This area, and the closely related functional food ingredients sub-sector, provides a high degree of compatibility with China's long history of traditional Chinese medicine and the use of herbs and other natural ingredients as curatives.

Compatibility between China and New Zealand in ICT is somewhat more problematic as there does not appear to be any sub-sector or cluster strength in New Zealand that matches the demand in greater China. NZTE's principal focus will be to identify and work with New Zealand ICT companies that have technologies that appeal to the five telcos in Hong Kong and a similar number in mainland China.

**Marketing and brand development**

The marketing programme in China will focus primarily on media relations, event leveraging and issues management.

Key journalists have been identified throughout the region and relationships have already been developed with many of these. Where appropriate familiarisation trips to New Zealand will be facilitated, briefings provided on New Zealand activity in the region and major events such as Expo, will have media programmes developed around them.

NZTE will also use new forms of media to disseminate messages and bring developments to the attention of bloggers and other opinion formers on the mainland in particular.

**New Zealand Focus - Hong Kong**

New Zealand Focus, located centrally on Hong Kong island, will enter its fifth year of operation during the 09/10 period. The centre is a multi-purpose facility which features a retail outlet operated by an independent retailer and serves as a function and event centre for New Zealand-related activities. During its first three years of trading New Zealand Focus attracted over 300,000 visitors and served as the launching pad for numerous new products and services.

■ *New Zealand Focus, Hong Kong*



**New Zealand Central – Shanghai**

Launched in April 2009 New Zealand Central is a new concept designed to provide a worldclass business centre, entertainment and demonstration kitchen facility in the heart of Shanghai’s up-market Xintiandi district. In its early stages New Zealand Central has played host to many high profile New Zealand events and is essentially the flagship for NZTE’s promotion of the New Zealand brand.

**Expo, trade missions and other events**

The 2010 Shanghai Expo will be a major undertaking for New Zealand and specifically for NZTE. Construction of the pavilion will be completed by early 2010 and a range of programmes and activities will be put in place to encourage New Zealand companies to visit China during the May-October Expo period.

Missions, both ministerial-led and sector focused, will be a key activity during this period and, at present,

we anticipate at least six business missions led by a Government minister and up to 20 additional groups led by regions and/or business organisations.

NZTE will also undertake a programme of VIP events at the Expo Pavilion and New Zealand Central will be used extensively to host seminars, demonstrations, presentations and other events.

Arising from the recommendations of the Food and Beverage Taskforce, NZTE will once again have a major presence at Food and Hotel China in Shanghai in November 2009 and a programme of activity prior to and following the event.

During the course of the year we anticipate other market visits by Government Ministers and representatives which will present opportunities for business missions and delegations.

■ *New Zealand Central, Shanghai*



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**Websites:**

[www.nzte.govt.nz](http://www.nzte.govt.nz) - market intelligence, sector reports and general information on exporting to the region and the world.

[www.chinafta.govt.nz](http://www.chinafta.govt.nz) - specific information about doing business with China, detail of the Free Trade Agreement and tips for doing business from New Zealand companies.