



Exporter Guide

CHINA

Country Profile
December 2011

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KEY INDICATORS

ECONOMIC INDICATOR	CHINA
Population	1.35 billion (2011 est.)
GDP	US\$6,988 billion (2011 est.)
GDP Growth Rate	9.5% (2011 est.)
GDP Per Capita	US\$5,184 (2011 est.)
Inflation	5.5% (2011 est.)
Total Imports	US\$1.39 trillion (2010)
Total Exports	US\$1.58 trillion (2010)
Currency	1 Chinese Yuan (Renminbi) = 100 fen
Exchange Rate	NZ\$1 = RNB 5.12 US\$1 = RNB 6.36

Source: IMF World Economic Outlook Database, Global Trade Atlas, XE currency converter www.xe.com

OVERVIEW

China and New Zealand

China is New Zealand's second-largest trading partner, as well as a major source of migrants, students and tourists. In 2008, New Zealand became the first and only OECD country to conclude a Free Trade Agreement (FTA) with China. Since the signing of the FTA, New Zealand's exports to China have grown by 152 percent, from NZ\$2.3 billion (YE September 2008) to NZ\$5.8 billion (YE September 2011), a figure which substantially exceeds pre-FTA modelling of potential export growth. Dairy products account for over a third of all exports to China, with other key exports being wood, wool, seafood and meat.ⁱ Service sector exports are also growing, with education and tourism the major contributors. China was New Zealand's largest market for foreign students in 2010.ⁱⁱ

Economy

Economic reforms and the opening up of China to the outside world have transformed Chinese society, resulting in the largest reduction of poverty and one of the fastest increases in income levels ever seen. In 2010, China overtook Japan to become the world's second-largest economy in terms of gross domestic product (GDP), behind the United States.ⁱⁱⁱ For foreigners the transformation provides unprecedented business opportunities.



Since China began its reform, it has maintained an average GDP growth rate of close to 10 percent per annum^{iv}. However, due to an expected weakening in external demand stemming from the European debt crisis, the World Bank has lowered its growth forecasts for China, predicting growth of 9.1 and 8.4 percent respectively in 2011 and 2012.

China has the fastest-growing manufacturing sector in the world and has become the preferred destination for the relocation of global manufacturing facilities. The industrial sector accounted for 46.8 percent of GDP in 2010, with the major industries being mining and ore processing, iron, steel, aluminum, coal, machinery, textiles and apparel, chemicals, consumer electronics, automobiles and telecommunications equipment. While agriculture only contributes around 10 percent of GDP, it accounts for more than 40 percent of the labour force and China is among the world's largest producers of rice, corn, wheat, soybeans, vegetables, tea and pork. With the expansion of the manufacturing and service sectors, there is an increasing movement of labour away from agriculture into these sectors.ⁱⁱⁱ

Some major changes are expected to occur in China over the next decade, in particular an increasingly ageing population. By year 2017 people aged 40 years and over will constitute approximately 52 percent of the population. There is also a new generation of consumers emerging from China's years of economic hardship. They can be characterised as young, well educated and familiar with non-Chinese cultures, with a high probability of becoming employees of multinationals or Chinese companies that are operating internationally. This growing middle class is typically located in the major cities on the Eastern seaboard of China and in particular in the following four cities - Beijing, Shanghai, Shenzhen and Guangzhou.

Average household income is forecast to grow at an annual growth rate of 4.2 percent. Nevertheless, significant differences remain between urban and rural household incomes. On average, incomes of rural households are less than a third of those in urban households, and this difference is forecast to remain the same over the next decade.

Investment and Foreign Trade

Entry into the World Trade Organization (WTO) has allowed greater volumes of imported foreign agricultural products into the main centres, predominantly around Shanghai, Beijing and Guangzhou. This continues to be an issue for the Chinese government as it grapples with the need to revitalise its rural sectors and urbanise a large proportion of the rural population. Already some 80 million people have left their place of registration to find work in the cities and more will likely follow unless economic development of the rural regions is achieved.

Since it began its open door policy in 1978, foreign trade has become more important to China. China is now one of the world's largest trading nations and was the seventh country to achieve a US\$1 trillion economy. Its key trading partners are the United States,



Hong Kong, Japan, South Korea and Germany. Low labour rates, an educated workforce and attractive investment policies have encouraged a large number of companies from other markets to move production to China, particularly Hong Kong and Taiwanese companies. The output of these enterprises now constitutes a large portion of China's total exports.

POLITICAL

China's Government has a communist constitution. Following almost thirty years of political unrest, the Chinese Communist Party (CCP) established China's current system of government in 1949. The country remained virtually closed to the world until a few years before the death of Mao Tse Tung in 1976. A new era began when US President Nixon made a historic visit to China in 1972, ending Beijing's isolation from the non-communist world. Diplomatic relations with New Zealand were established shortly after on 22 December 1972; the United States achieved this in 1979.

Since the late 1970s, a series of five-year plans have aimed to modernise agriculture, industry, science, technology and national defence while expanding the production of consumer goods, housing construction, energy and transport. Reform of the finance, taxation, foreign trade and investment sectors was begun in the 1980s and has been ongoing since then.

In March 2008, the 11th National People's Congress (NPC) in Beijing elected China's new government leaders. President Hu Jintao and Premier Wen Jiabao were confirmed for a second term (both have visited New Zealand – Hu in 2003 and Wen in 2006)

BILATERAL TRADE

China's imports tend to be capital plant and equipment, raw materials or semi-processed products for use by domestic industry for processing and re-export, and specialist products that Chinese companies cannot yet produce to the required standard. New Zealand's exports to China are predominantly primary sector products such as wool, dairy, meat, seafood and wood products. This is unlikely to change in the near future.

New Zealand's export trade with China over the last two years has grown faster than with any other major nation over the same period in New Zealand's trading history. In the year to September 2011, exports to China grew by 35 percent and represent 12.4 percent of New Zealand's total exports. China is the second largest source of imports for New Zealand. Imports from China increased by 13.8 percent in the year to September 2011, reaching NZ\$6.9 billion.ⁱ



SECTOR OPPORTUNITIES

China offers significant business opportunities for New Zealand companies. Sectors where New Zealand companies may have a value proposition that is commercially feasible in the China market include the following.

Food and Beverages

Chinese consumers are looking for safe, quality products. As disposable incomes rise consumers can afford better quality products and are more focused on wellbeing. They are increasingly looking for the healthiest and freshest quality foods. New Zealand's reputation as a clean and green environment, with an unblemished food safety record, means our products have a better chance of acceptance. In addition, the Chinese are increasingly looking for convenience products. Wet markets and produce markets are losing their dominance as more consumers are drawn to hypermarkets and restaurants. This opens up significant opportunities for New Zealand's quality foods.

New Zealand already exports significant volumes of dairy products: mainly bulk milk powder but also cream, cheese, butter and yoghurt. In the year to September 2011, New Zealand's dairy exports to China were worth NZ\$2.13 billion. New Zealand also exports large volumes of meat, mainly low value lamb and offal. There are niche opportunities to supply higher value-added meat cuts to the retail and hotel, restaurant and institutional (HRI) sectors in major cities. New Zealand's seafood exports to China have grown by 84 percent in the 12 months to September 2011 and China is now New Zealand's second largest export market for fish and seafood. This is predominantly for manufacturing and re-export to third country markets. There is also a growing component of high value fresh seafood.

The Chinese market for domestic and imported wine has been developing rapidly, though it is still a small part of the alcoholic drinks market. The largest market for imported wine is "on-premise", at top-end hotels, restaurants, bars and nightclubs. Four and five-star hotels, Western restaurants and upscale local chain restaurants generally carry a selection of local and imported wines. The retail market for imported wines is also growing. Foreign supermarket chains normally have a wine corner at outlets located in middle to high income districts. High-end domestic department stores also carry imported wine, as do independent wine shops.

Infrastructure

While China has made huge efforts to upgrade its transport infrastructure in the developed coastal provinces, the central and western regions are still far from being well connected to the industrial hubs along the coast. Accordingly, the Chinese government has developed initiatives to push development westwards. While China's road and rail network has high potential for expansion, the airport sector has the biggest need for upgrading.



Covering 9.6 million sq km (about the same land size as the US), China operated only 146 civil airports in 2006, compared with 550 airports in the US and 280 in the European Union.

China will spend US\$64 billion to build 97 airports throughout the country by 2020. These ambitious plans will nearly double the number of airports available for commercial use to 244, up from 147 in 2006. Over the next 20 years, China predicts that its air transportation passenger volume will grow 8.5 percent annually, becoming the world's second largest aviation market.

Information and Communications Technology

The Information and Communications (ICT) industry in China covers a wide range of products from low to high-end technologies. Demand for telecommunication services is predicted to grow as the government continues its programme for increased services. Demand for IT products will come from major infrastructure projects, government, telecommunications, finance, energy, education and transport projects.

The Chinese government has placed great emphasis on developing the high technology sector. Measures have included providing policy incentives, establishing high-tech zones and providing development funding. It has also focused on developing basic software capability, integrated systems, large scale key application software and next-generation internet projects.

Nutraceuticals / Health Products

The increasingly ageing population will ensure that the demand for healthcare and related products continues to rise. Natural health products, like calcium-based, marine-derived and bee products, have undoubtedly good prospects in China, both in terms of supplying bulk ingredients for re-branding and for launching New Zealand-branded product into the retail sector. Stiff competition from United States, European and Australian suppliers can be expected in this sector. New Zealand companies will need to pay particular attention to the strict regulations and registration procedures that apply to nutraceuticals and related health products in China.

Wood Products

China imported US\$11.2 billion of wood in 2010, of which \$US937 million was imported from New Zealand, increasing by nearly 70 percent compared with 2009 figures. New Zealand's exports to China have historically been dominated by logs and lumber, there are also opportunities for New Zealand companies to add value to their offering to China. The building boom continues across many of China's main cities, opening up opportunities around interior fit outs and landscaping for both residential and commercial purposes.

New Zealand pine logs have traditionally been used in the construction industry, mainly for concrete forming, packaging and for the core of plywood. In recent years however,



better quality New Zealand pine logs have been processed in China and the timber is being used in furniture and other value-added wood products for re-export and domestic market applications.

While China's furniture and finished goods industry will remain a key market for New Zealand pine timber, the rapid rise in China's fit out and construction markets offers opportunities for New Zealand pine timber. There is also a growing demand for treated timber, especially for landscaping.

Agritechnology

China's budding dairy industry has been identified as one of the largest future markets of opportunity. Technologies that underpin New Zealand's dairy farming can be applicable to the Chinese situation, particularly in southern China, with farmers seeking on-farm techniques to help develop their farming models and improve animal health. As a world-leader in agricultural technologies, New Zealand is ideally placed to provide dairy production and processing technologies and to become a long-term business and investment partner in the development of China's dairy industry.

Education

China's international education market is becoming increasingly competitive amongst foreign education providers. It is an attractive country in which to market as the total number of Chinese students going to study overseas has been increasing steadily. Most interest from Chinese students is around undergraduate, postgraduate and vocational study. China is the number one source of international students in New Zealand (21,258 in 2010). Institutions may consider the strategic investment of time and resources into the building education relationships with Chinese counterparts for the long term, with the aim of developing steady business opportunities and cooperation.

Environmental Technology

China has in the past received substantial loans aimed at correcting the degradation of China's environment but despite this, huge problems remain, thus generating significant opportunities. The environment is an important concern for many local governments in China. Initial focus is on treatment of waste water, soil remediation, sewage and solid waste but also on growing noise and air pollution. The key requirement is to identify projects that match New Zealand capability and understand how these projects are financed. Many projects in this sector will require local partners.

Manufacturing

For New Zealand companies, manufacturing in China generally hinges around reducing manufacturing costs, however the sustainability of this advantage is questionable. Other strategies to consider should include enhancing competitiveness and value added opportunities by way of developing the company's international relationships. Some companies have invested in manufacturing in China to supply their China-based clients.



Strategies can also be positioned around reducing component costs in existing or future product lines, while retaining R&D, design and other high end manufacturing in New Zealand. In addition, manufacturing in China and working more closely with logistics suppliers, who may be able to hold inventory locally, could help reduce lead times.

For New Zealand companies, the initial emphasis might best be on strategic engagement in manufacturing with Chinese partners, making the investment into people and structures, and determining involvement based on indirect as well as all direct costs. Companies will gradually need to develop language and cross-cultural skills in-house (or outsource), and to be looking at a staged process over time, not a 'great leap forward'. This is arguably less difficult for larger companies, but it is critical for small to medium enterprises (SME) to determine up front the benefits versus the costs.

USEFUL WEBSITES

The following websites are a useful starting point for further research into the Chinese market:

TRADE REGULATIONS, CUSTOMS AND STANDARDS

China Customs	http://english.customs.gov.cn/publish/portal191/
US Commercial Service: 'Country Commercial Guide: China'	www.export.gov
USDA Foreign Agricultural Service: China Export Guide	www.fas.usda.gov

DOING BUSINESS GUIDES

The World Bank: 'Doing Business Guide – China'	www.doingbusiness.org
Deloitte: 'Investors' Guide China'	www.deloitte.com

TARIFF GUIDE

New Zealand – China Free Trade Agreement website	www.chinafta.govt.nz
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CHINA WEBSITES

Ministry of Commerce	http://english.mofcom.gov.cn/
Ministry of Finance	www.mof.gov.cn/
State Administration of Foreign Exchange	www.safe.gov.cn/model_safe_en/
State Administration of Industry and Commerce	www.saic.gov.cn/english/Home/
Bank of China	www.bank-of-china.com/en/index.html



General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ)	http://english.aqsiq.gov.cn/
Investment Promotion Agency	www.fdi.gov.cn
China Council for the Promotion of International Trade	www.ccpit.org
China Daily (major English-language newspaper)	www.chinadaily.com.cn
Ministry of Environmental Protection	http://english.mep.gov.cn/
TAXATION	
Deloitte International Tax and Business Guide: 'China'	www.deloitte.com
State Tax Bureau	http://english.tax861.gov.cn/
TIME DIFFERENCE	
Time Zone Converter	www.timezoneconverter.com
CULTURAL AWARENESS AND ETIQUETTE GUIDE	
Kwintessential: 'Doing Business China'	www.kwintessential.co.uk
VISA REQUIREMENTS	
Chinese Embassy (Wellington)	www.chinaembassy.org.nz/eng
PUBLIC HOLIDAYS	
World Travels: 'Holidays'	www.worldtravels.com

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ⁱ Global Trade Atlas, www.gtis.com

ⁱⁱ Education New Zealand, www.educationnz.org.nz

ⁱⁱⁱ US Commercial Service (September 2011). *Background note on China*

^{iv} New Zealand Ministry of Foreign Affairs. *People's Republic of China*. www.mfat.govt.nz

