



To know the road ahead,
ask those coming back
Successful business models for
New Zealand companies in China

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Foreword

This report is aimed at the leaders of New Zealand small and medium-sized enterprises (SMEs) considering China as a destination for their products or as an element of the broader supply chain (for example, manufacturing).

This is a report which has been commissioned by NZTE and prepared by Deloitte. The authors (we) would like to take this opportunity to thank the participants in this research. We interviewed key personnel from a number of New Zealand SMEs and other related organisations. These people shared their insights in to what is a complex and exciting business environment in order to make it easier for those considering making this strategic business step.

We struggled to find a standard definition for SMEs. Many definitions worldwide would be defined as large by New Zealand standards. On the other hand, the standard New Zealand definition that defines SMEs as enterprises with 19 or fewer employees would only speak to those very small New Zealand businesses which would be precluded from independent access into China. Therefore, for the purposes of this report, we have used the European Commission's definition, which defines an SME as having:

- Staff of less than 250; and either
- A turnover of less than or equal to 50million euro (approximately NZ\$85 million), or
- A balance sheet total of less than or equal to 43 million euro (approximately NZ\$73 million).

As this report is targeted for use by Senior Management of New Zealand SMEs, throughout the report 'you' refers to you – the leader of a New Zealand SME. For example, "You must develop an accurate view of the market..." equates to "The Senior Management of New Zealand SMEs must develop an accurate view of the market..." New Zealand SMEs as a group are referred to as "New Zealand SMEs". For example, "New Zealand SMEs in the past have tended to access the market without adequate due diligence".

For the purposes of this report, China relates to the People's Republic of China which includes the Special Administrative Regions of Macau and Hong Kong, unless otherwise specified. Taiwan is excluded from the definition of China; however, information is included in relation to Taiwan with regards to relations with China, and as a possible market access point to China.

1. Executive Summary

Markets in China are not for the fainthearted, the poorly capitalised, or the short-term opportunists. To succeed as a New Zealand SME in China, you need focus and commitment and you'll have to change your behaviour.

New Zealand has a unique opportunity presented to it by the New Zealand-China Free Trade Agreement (FTA) that came into force in October 2008. Since the signing of the FTA, China has moved from being New Zealand's fourth largest trading partner to become our second largest. It is also clear, from talking to people with extensive knowledge of the Chinese market, that New Zealand enjoys a disproportionately strong level of recognition and respect within China.

The challenge for New Zealand business is to work out how to optimise the above opportunity, given that:

- **The Chinese market is vast** – almost universally, those interviewed commented on the fact that China is not one market, but a multiplicity of markets. The views on the number of markets ranged from 'China is really 23 Countries, as each Province is effectively a country in its own right' to 'China is a million markets' – with every other part of the spectrum being covered as well.
- **New Zealand businesses are often small or very small by any standards** – and microscopically small in the context of the overall market opportunity presented by China.

Given these issues, one of the overwhelmingly strong themes that emerged from the research was the need for focus. This focus needs to include focus on a specific market, be it geographic, demographic or a combination of both; on specific products that are targeted precisely at the specific market; and on the relationships needed to deliver the above.

In tandem with the need for focus, interviewees made the point that getting the market access strategy right was overwhelmingly important. Interestingly, almost every company interviewed had a different approach. Because of this, rather than trying to identify an optimal market entry, we have sought to condense the key themes that underlay the approaches.

It is worth noting that the issues facing New Zealand SMEs looking to internationalise their business are not unique to China - indeed, the themes that emerged from the interviews are remarkably consistent across many studies of other markets.

The need for a clear understanding of the market, an assessment of local and other competitors, language barriers, cultural differences, regional variations within one apparent 'market' (e.g. the US, which is clearly not a homogeneous market for the vast majority of products) - all of those are issues that many New Zealand SMEs are used to dealing with.

And yet, with one exception, those interviewed believed that China is different - in part, because of the truly vast scale; in part, because of the multi-layered bureaucratic complexity; in part, because of the culture; and in part, because of the time and the cost required to become truly established in the market.

Because FOCUS was such a compelling theme, we grouped the other key lessons to emphasise this. The key lessons were:

- F Friends in the market** – relationships developed should transcend normal business relationships and be treated as real friendships. When you get this piece right, you can build something of long term and potentially transferable value.
- O Opportunity** – New Zealand has a privileged access and standing in one of the most important economies in the world. You need to better understand and quantify this opportunity in the context of what you can feasibly deliver.
- C Cultural understanding** – the chasm between West and East can be – indeed, must be – bridged. To do this, you need to have a much better understanding of the culture of China – or at the very least, the culture of the subset of the overall market that you are targeting.
- U Understanding of the market** – you must develop an accurate view of the market that you are going to pursue. You need a clear view of the competition, the demand, the requirement, the history or background to the requirements, and you need to know that you can win in this market. For all of these things, you should ‘talk to those who have walked the road before’.
- S Scope and limitations awareness** – understand the scope of your business, and the inherent limitations that this imposes. You need to accept that access to the piece of the market that you have chosen is going to take time, effort, and money. Conventional wisdom indicates that figures of five years of effort and NZ\$5million of investment have been the benchmark for a number of businesses to gain a sustainable foothold.

Given the scope limitations of most New Zealand SMEs, it is clear that there will need to be either behavioural change or structural change within the SME market to truly optimise the opportunities presented by China. While structural change (in terms of aggregation to create greater scale) is a distinct possibility, it is likely to occur over a long period of time. In the absence of structural change, we believe that smaller SMEs in particular will have to identify potential collaborators to assist in market entry. This means that behavioural change will be paramount for New Zealand SMEs success in China.

2. Friendships in the market

The right relationships are essential for business success in China. In China, your business relationships and personal relationships are not distinctly different. Trust is the basis of the right business relationships which will enable your success. The right business relationships, like friendships, will take time and effort, but once established will bring great rewards.

The following outlines how you can go about establishing the right business relationships. At a high level, you need to understand *guanxi*, do your due diligence, communicate and learn to do things their way.

2.1. Understand *guanxi*

Guanxi expresses the relationship of one person to another or one party to another and the networks in which they liaise, cooperate, and support one another. Although some New Zealanders we interviewed did not recognise the full importance of *guanxi*, or relationships, those we interviewed that were of Chinese decent regard *guanxi* as an integral part of their business life.

Guanxi is said to be one of the most powerful forces in Chinese culture. Although the direct translation of *guanxi* is 'relationships', *Guanxi* can equate to 'it's not what you know, it's who you know,' or 'the old boys' network.' *Guanxi* expresses loyalty and trust and an obligation from one party to another.

Relationships in China work in circles, rather than straight lines. A central person has 'circles of contacts' around them. *Neiren* means inner circle and *wairen* means outer circle. A very high level of trust, confidence and loyalty is associated with anyone considered *neiren*. In essence, *guanxi* is the framework by which 'friends will look after friends'.

The benefits of understanding and embracing *guanxi* may include introductions to new business partners, help in smoothing the path of an application through a Government office or securing a business opportunity. Stable and sustainable relationships with your Chinese business partners or staff enable you to tap into their network of friends. This can lead you to a new network which in turn will lead you to their networks as you build up a valuable social and business asset.

A key influencing factor when choosing Chinese business partners or staff should be assessing their networks. Interviewees said that they looked for those with an extensive relationship base and wealthy and / or influential friends. You are essentially acquiring access to their relationships.

Interviews undertaken in China suggest that New Zealanders and Westerners are not being as effective as the Chinese in creating and maintaining networks of friends in China. Just like all friendships, a lot of time must be spent on building your business relationships.

New Zealanders have to conform to a different way of thinking while in China, or otherwise face potential failure. Most Chinese business people build personal relationships and if those personal relationships are successful, business transactions will follow. Most Westerners make business transactions and, if they are successful, a personal relationship will follow.

The relationships you need to form in China to be successful need to be based on friendship. You need to get to the point where you consider your partners to be friends before any business will take place. This difference is important to understand when endeavouring to create business relationships in China. Chinese business people will struggle to do business with you unless you have an established friendship based on mutual trust.

This means New Zealanders must make a concerted effort (beyond what is usual practice) to be open-minded and determinedly sociable. Stick by your word, even when it hurts – honesty is everything and will increase your chances of a long term relationship. It is virtually impossible to build the types of relationships required in the Chinese market over the phone. You have to be in the market and be able to have face to face interactions for your relationships to be successful. Always take advantage of the many opportunities which can arise and be continually working on your relationships. This includes taking your friends out for dinner and giving premium gifts.

In general, New Zealanders lack understanding of the concept of *guanxi* – especially your accountants. Tens of thousands of dollars may be required for entertainment. New Zealanders who have been involved in business in China however, agree good *guanxi* enables an easier transition in to the Chinese market, and an increased chance of developing your position. A reciprocal approach to gift giving and entertainment is essential. For example, if you are treated to a driver, dinner and accommodation in China, it is expected that you will treat those guests in the same manner when they visit New Zealand.

Your friendships will become essential when times get tough. There will be problems, which you will need sound relationships and trustworthy advice to resolve. Create strategic partnerships with a committed partner who can help you deal with the tough regulatory environment. Ensure you establish relationships with distributors so that all market knowledge and developments get passed on to you. Your relationships can help you to stay on top of changing regulations - but don't take everything at face value. Rapid change often means that no one knows what is really happening.

New Zealand Trade and Enterprise (NZTE) can provide you with names and support in the market when deciding who you need to make contact with. Most interviewees' initial relationships were established through NZTE. One interviewee said that NZTE should be used to also vet your potential business partners in addition to helping you make contacts.

2.2. Do your due diligence

Extensive due diligence in China is paramount. It is not only important to know who to do business with in China, it is also vitally important to know who not to do business with in China. This holds true for both staff of Chinese operations, and for your partners within China. It is important you have people you can trust.

New Zealand SMEs interviewed expressed that there was a need for research into the market you intend on entering, and also into the relationships you will need to set up in order to be successful. You may need to develop relationships with more than those you will do business with, such as contacts within Government, design companies and operators. Find out who you need to get to know and start to build those friendships. Being strategic in your hires will help you with this. Strategic hires are those which bridge the language and cultural barrier, and provide access to extensive networks. These relationships can therefore be leveraged and developed over a number of years but are then by nature deep relationships that will last a long time. These deep relationships lead to stability over the long term.

2.2.1 Choose the right staff in China

Most New Zealand SMEs interviewed stressed the importance and necessity of hiring local staff. There needs to be some alignment with appropriate local relationships to help you wade through the bureaucracy. Having people with a local presence and a knowledge of your business and products is critical, particularly to provide technical support for your product in the marketplace.

Your staff in China will become essential for translating and interpreting situations, resolving issues as they arise, establishing networks and enabling continual business operations. These local hires will also present risks. It is therefore critical that you choose the right staff, with the right connections, through optimal and extensive selection criteria.

Strategic hires, as described above, become vitally important when setting up business in China. Having local staff gives a better understanding of the consumer markets you are targeting, as well as assisting in navigating any bureaucracy. These strategic hires multiply the effect of relationships - especially if you are able to land an established employee in your market. This can be especially beneficial if your product fits in a highly regulated market where relationships with communities and Governments help stay on top of continually evolving regulations.

It is therefore important to do your homework. Many New Zealand SMEs interviewed had empowered and trusted their Chinese employees to be their businesses' 'face' in the market. Therefore the relationships you build with these people become vital. Interviewees advised cutting out those that don't deliver, sooner rather than later, to save the time and expense of underperforming employees.

It is not just about choosing the right staff. Once you have them, you need to empower them and give them the resources needed to develop and grow. Continuing to visit the market regularly from New Zealand will aid in this development process. Also inviting key staff to New Zealand to learn more about your business, processes, environment or product can improve their relationship with the business.

2.2.2 Choose the right Chinese partners

Extensive due diligence should be completed on any potential Partners in China before engaging with them. More than one interviewee suggested that it is worth taking your reference checking so seriously that you should visit the referees face to face even if it means flying to another country, in order to determine the accuracy and validity of claims and identify any potential issues before spending time (and money) developing the relationship.

Take the time to really research your proposed business partner to ensure you have the same aligned interests, however difficult this may be. For example, finding out a partner has different growth aspirations to you after money and time have already been spent can have a major negative impact on your business growth.

Do not jump at the first person who wants to do business with you. Ensuring you choose the right partners means meeting your partners face to face. One interviewee commented that you actually have to 'eyeball' the key players. Do not always assume the partner will be looking after your best interests.

Merely finding a partner in China doesn't then mean you can spend less time in the market yourself. A partner will only ever be as good as the support you give them, the management you put into the relationship, and the regular/constant oversight you bring (see section 6.1).

Interviewees commented that Chinese partners will almost always overpromise, tell you what you want to hear, and tell you that they can do whatever you need done. This is in order to save and give face. Be wary of this and over time and with experience you will learn how to tell when 'yes', actually means 'no'.

It is a challenge trying to find the right partner, but putting effort into finding a good local partner early on will pay dividends in the long run. Be aware that the first year will always be the 'honeymoon' period but ensure that you sever ties with clearly underperforming partners.

2.3. Communicate

Effective communication with your customers, distributors and partners is vital for success in the Chinese market. These people need to become your friends and you have to make the effort to continuously keep in contact with them.

2.3.1 Take note of Chinese preferred forms of communication

New Zealanders are often comfortable facilitating much of their business over the internet and phone. Interviewees all emphasised, however, that the Chinese preferred form of communication was face to face. Telephone and email are used in addition to regular face to face contact, which enables you to maintain and grow your in-market relationships. Speed of response is essential and is considered polite.

The Chinese are tough negotiators - something which New Zealanders are generally not renowned for. Face to face communication will allow you to read body language and to see through the 'grey talk'. The Chinese do not want to declare everything straight away, so may circle around the topic before sharing their actual decision with you. But be aware that once a decision is made, the Chinese will want to have everything done yesterday!

A nine-to-five environment doesn't strictly work in China. You will often be expected to entertain or be entertained after hours with dinners, drinks and other social activities.

With customers and distributors, regular communication through phone or email seemed to work for many businesses. One business has effectively implemented Skype to talk to their factory every day. Vocal communication is again more effective than email so when there is a language barrier, face to face with an interpreter may still be the preferred way of communication.

2.3.2 Ensure someone knows the language

Most interviewees relied heavily on their local Chinese staff and translators for interpretation and translation services. The ability to communicate in local dialects is essential for building trust with other parties. There is always the question of what is lost in translation due to the language and cultural differences, however minimising this will need to be your priority.

Many interviewees described the Chinese language and culture as obstacles to successful business in China. Some interviewees were able to establish communication through translators; however some also expressed the frustration involved. The cultural and language gap especially creates problems when trying to translate jokes or technical terminology relating to your particular business. You must be careful with your choice of translator. For example, issues with translators lacking the technical knowledge to translate specific tender releases. The technical language used in tenders and proposals adds another level of complexity to your negotiations. If you use translators – be consistent. Only use translators who have relevant experience in your market and understand the critical terminology used to ensure nothing crucial gets lost in translation.

This was ameliorated by other businesses through the use of local Chinese employees. Again this emphasises the importance of hiring and retaining the right staff. A Chinese speaker who understands your business and terminology will be a valuable employee. Also, Chinese natives who have had overseas experience understand both worlds so are likely to build a more advanced understanding of the way you do business.

Overall, language becomes less of an obstacle with the use of the right staff and translators. Language was described by interviewees as not impeding, but frustrating. It added additional cost and time to what are already lengthy negotiations and business discussions.

2.3.3 Be aware of Chinese business etiquette

Due to the cultural differences in the way New Zealanders and the Chinese do business, it is important to do your homework on Chinese business etiquette. See the section on cultural understanding (section 4) for a brief introduction on business etiquette in China.

2.4. Do things their way!

We cannot expect the Chinese market to change or adapt for us. There are many local and international players in the market and businesses that are not working with the system have little chance of success. Businesses therefore need to go into China with an open mind.

Understanding the differences between doing business in China, and doing business in New Zealand is critical to your success. For example, in China, it is considered impolite to talk about business in the initial meetings with your potential business partners. In New Zealand, it would be considered unprofessional to command peoples time for ‘pleasantries’ when business discussions should take priority.

2.4.1 Take the time necessary to build sustainable relationships

Key relationships with Chinese business partners were described by one interviewee as being like a marriage – ‘they take a lot of time and effort’. Interviewees in both China and New Zealand said that it can take a minimum of two to five years to establish sustainable relationships in China. Key relationship building criteria may change depending on the customer, partner or region. For example, sometimes relationship building will involve many nights out drinking but on the other hand sometimes a social relationship may not be required at all.

You must treat your Chinese friends and friendships as important. See your business partners often, get to know them, make sure you are seen to be looking after their interests. Don’t become complacent in your relationships. They must be continually worked on in order to be maintained.

Because your friendships are based on mutual trust, staying ‘in the game’ and supporting each other through the bad times, as well as the good, will be key to long term success. One interviewee commented that:

‘If you support a business partner over a five year period that had at least one downturn for the partner and you were able to help them through, then you had “the beginning of a relationship”. After ten years and several episodes of mutual support - you have a relationship.’

Building relationships in China takes longer than in other markets due to the communication barriers, and the depth necessary to become sustainable. Commonality is harder as you have less shared experiences. But, according to interviewees, ‘you will know you are getting somewhere when they buy you lunch’. Attending big lunches, dinners and drinks signifies that you are gaining their acceptance and friendship.

Due to the focus on building friendships before business, the Chinese are not concerned with deadlines. Negotiations can take a long time due to the hierarchical structures of Chinese businesses. But once they have made a decision, they “want to have everything now!”

You must therefore be patient and ‘go with the flow’ when entering the Chinese market and dealing with Chinese businesses. Establishing relationships comes with experience, time and investment. According to one interviewee, ‘if it takes five years to find the right partner, wait five years - because divorce is hard.’

“You have to be on your toes and ready to do things their way!”

2.4.2 Be patient

To be successful in the Chinese market, above all else you need to be patient. Doing business in China has been described as ‘a voyage of discovery’. How you adapt to the Chinese market will determine your success, but you have to be convinced it is worth the effort. And according to everyone we interviewed, it is.

You need to understand that things will not happen straight away. It takes time to establish relationships and it takes even longer to start to see the rewards. A recurring theme from the interviews was that businesses took on average five years to become successful in China. You need to be aware that things will go wrong and accept this as part of doing business in China.

Adapting to the Chinese way of business takes time and patience. The regulatory environment is also cause for headache, but is also something that can be improved by hiring the right staff and creating the right friendships.

2.4.3 Be agile

New Zealand businesses stressed the need of having a broad but clear strategy with detailed financial targets before entering the Chinese market - coupled with a willingness to accept changes. Agility is very important. You have to go into the Market with an open mind and be prepared for problems.

'You cannot afford to thunder towards a master plan with blinkers on.' There will be things that you will not be able to anticipate. In China, things will go wrong. One interviewee commented that constant frustration is a way of life. You must be able to be fluid as you learn more in the market. One helpful attribute is persistence. Never accept no for an answer – although knowing when to let go is also vital. Several of those we interviewed advised on the importance of 'picking your fights carefully'. Equally this need to adapt and be flexible shouldn't be an excuse for not bothering with a very well thought through plan. The need to understand intimately the specific market you'll be playing in is critical.

Many interviewees expressed the frustration of regulatory changes with no warning. Government regulations rule most products in the Chinese market. According to those we interviewed, regulatory changes can happen at any time. Sometimes doors will just close. For example, you may be approved by one body, but rejected by others. These hurdles are not only frustrating, but make business in China relatively expensive.

Having friends in the right places therefore may never be more important than in China. Your friendships allow you to keep on top of these regulatory changes and are able to help you wade through the bureaucracy. Finding the right distributor – or any partners that wants you to grow and will support you in the Chinese market - can work miracles.

3 Opportunity

In China, businesses can be extremely successful through creating and embracing opportunity. As many of our interviewees expressed, any risk of doing business in China is far outweighed by the opportunity which China presents. The consistent message from all we spoke to was to 'go there'.

The following chapter outlines the opportunity that China presents to New Zealand SMEs. It outlines why businesses choose China as a trade destination, the current trade environment and specific areas of opportunity for New Zealand businesses. The challenge lies in acknowledging, recognising and embracing this extensive, exciting and dynamic opportunity.

3.1 Why New Zealand SMEs choose China

Significant opportunity awaits New Zealand SMEs with the right attributes to succeed. China ranks as the world's second-largest economy and has a population of 1.33 billion (2010 estimation)¹. China is also the world's fastest growing economy, growing at an average of 10% per year between 1981 and 2007². It is expected that by 2020 the world will have experienced a big shift in economic order. China will overtake the US to become the largest world economy – something New Zealanders can take advantage of through the strong ties established between our countries.

The middle class in China is also expanding. Currently there are around 50 to 75 million middle class Chinese people (with an annual income of at least US\$5,000)³. This is expected to increase to 55% of the population by 2020 (taking price changes into account and an annual income of at least US\$2,930-8,780)⁴. As the middle class continues to increase, more people will be able to afford the premium items that New Zealand can provide.

Before entering the Chinese market, it is advantageous to be informed about the history behind New Zealand's relationship with China, and the continuing role the New Zealand Government plays in facilitating this relationship especially through the introduction of the FTA in 2008. This Chinese signing of the first bilateral FTA with an OECD country has given New Zealand a competitive advantage over other OECD countries and has further strengthened diplomatic ties between New Zealand and China. This understanding will help to inform conversations with Chinese partners.

China should be a priority for New Zealand SMEs. According to most of our interviewees, although the cost of breaking in to the market is high, the costs of missing out on the opportunity China presents will be higher in the longer term as New Zealand businesses lose out on the opportunities presented by China. New Zealand SMEs must research the opportunities and embrace these. This encompasses many components as outlined below.

¹ CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>, (last accessed 2 August 2010).

² EIU, China Country Profile 2009, page 25.

³ EIU, China Hand, Chapter 9: Consumer Marketing, September 2009, page 13.

⁴ EIU, China Hand, Chapter 9: Consumer Marketing, September 2009, page 13.

One of the reasons it is important for companies to at least consider carefully what China means for their business is that, beyond being a burgeoning consumer market, it's also becoming an increasingly important 'hub' for different parts of an international company's supply chain. It won't necessarily be the right consumer market for all New Zealand businesses at all stages of their growth, but it is important that businesses at least consider carefully what China means for their business.

All interviewees foresee a sustainable business in China and have high growth expectations. All interviewees believe that China will become a significant part of their export market and business in the future. However, many explained that growing a business in China is hard work. Most of the businesses interviewed had experienced some growth in revenues; on the other hand some were just keeping their 'heads above water'.

3.1.1 China is an emerging market

China is an emerging market. Emerging markets are countries that are restructuring their economies along market-oriented lines. They offer a wealth of opportunities in trade, technology transfers, and foreign direct investment⁵. There are unlimited opportunities in many emerging markets due to their large populations, large markets, economic and political reforms, and strong economic growth.

Deciding which country/countries to expand and enter into becomes an important decision for New Zealand SMEs with often limited resources. As China is not one market, but is made up of many markets, there are further decisions to be made after deciding to enter the Chinese market. Understanding the world's emerging markets is important for businesses seeking global business growth.

In 2008, MasterCard Worldwide released the Worldwide Centres of Commerce: Emerging Markets Index⁶. The Index provides information and insights into 65 leading cities driving long-term economic growth throughout the world. These cities were evaluated in relation to eight dimensions including business climate, political environment, economic growth, commercial connectivity, and quality of life.

Out of the top 30 cities in the Index, half of these were Chinese. Shanghai and Beijing ranked number one and number two respectively. China also featured strongly in the Asia Pacific Middle East and Africa region rankings. China ranked in a total of seven out of the ten area's rankings further solidifying that China is a market New Zealand SMEs need to embrace.

3.1.2 The New Zealand factor

For those in China who know about New Zealand, something we call the 'New Zealand factor' is alive and well. New Zealand and New Zealanders are well regarded. New Zealand (country of origin) branding and other branding associated with New Zealand can therefore be advantageous. New Zealand was seen by those interviewed in market to be clean and green, although detailed research that Fonterra undertook recently demonstrated the opposite – i.e. that Chinese consumers actually consider China to be clean and green, and it isn't an attribute they relate to New Zealand. What they definitely do see New Zealand as being is safe with a good record for food safety.

⁵ The University of Iowa Center for International Finance and Development, http://www.uiowa.edu/ifdebook/faq/faq_docs/emerging_markets.shtml, (last accessed 2 August 2010).

⁶ See <http://www.mastercard.com/us/company/en/insights/studies/2008/emi/index.html?rank=1>, (last accessed 14 September 2010).

Despite those who know of New Zealand having a positive view, based on a study NZTE commissioned (undertaken by the Nielsen Company), awareness of New Zealand in China is relatively low. In fact, New Zealand is often confused with Australia, as products from both countries are usually displayed together. The study, undertaken in China and Japan in June 2007 to test the awareness and perceptions of New Zealand business practices and approach, found that Chinese people (especially outside of the main cities) have limited knowledge of New Zealand.

The study also found that New Zealanders are seen to be pleasant to do business with in comparison to people from other countries. New Zealanders are seen as non corrupt, honest, sincere, trusting people. We are perceived as coming from a clean and stress free country with pure soil. Outcomes from the report were all supported by comments from interviewees.

Despite being viewed positively, New Zealanders are not seen to be strong business partners. The Chinese feel that New Zealanders lack business basics and the perseverance needed to succeed in an Asian market. In the business arena, personnel from New Zealand businesses are perceived as naïve, conservative, risk averse, and lacking the market knowledge and general interest necessary to succeed. To Chinese businesses, New Zealand businesses seem unaware of the importance of partnering and long term relationships. New Zealanders are seen to be more lifestyle focused than focused on international business. Being from New Zealand will not necessarily be a contract winning, relationship building, point of difference - unless you are providing something that is unique and well-known as New Zealand 'famous'.

For our insignificant size and presence in the market, we have a reputation for quality (especially in the food and beverage sector). This is especially so for our fresh produce. If food or beverage is authentically New Zealand, then the assumption of the Chinese is that the product will be good, although there is no question that in the wine market New Zealand was slower off the mark than France and Australia, who can command significant premiums because of their higher market acceptance. The interviewees in China and Hong Kong were strongly of the opinion that there was a genuine niche for attractively packaged and branded premium food and beverage products that were clearly labelled as coming from New Zealand. In their view, no other qualification is necessary. One interviewee suggested a Government accredited New Zealand stamp to give consumers comfort of country of origin could be beneficial. This could also help to establish New Zealand as a brand.

The New Zealand factor may help you to build relationships and gain trust, especially in the food and beverage sector, however no New Zealand SME can rely on this alone. When doing any business in China, New Zealand businesses need to have detailed plans and goals. New Zealand businesses also need to understand that consumer needs and behaviours vary widely between cities. The product will have to speak for itself. New Zealanders need to show that they are serious about business and show long-term commitment to the Chinese market in order to succeed.

To read the full Nielsen Company report see: <http://www.nzte.govt.nz/explore-export-markets/Export-Markets-Resources/Pages/Perceptions-of-New-Zealand-in-China-and-Japan.aspx>.

3.2 The current trade environment is favourable

Understanding the current trade environment in China is advantageous for New Zealand businesses. This includes understanding the relationship between New Zealand and China including the introduction and effects of the FTA, the effects of the Shanghai World Expo 2010, and an understanding of the Chinese economic climate.

3.2.1 The relationship between New Zealand and China is strong

The New Zealand/China link dates back to China's Republican era (1912-1949)⁷. This relationship predominantly consisted of trade, missionaries and immigration. Links were broken during the establishment of the People's Republic, and the outbreak of the Korean War. These links were reformed in 1972 when New Zealand recognised the People's Republic of China and the countries have had a diplomatic relationship ever since⁸.

The Governments of China and New Zealand have continuously strengthened economic and trade cooperation which has, over time, developed a strong China/New Zealand link. The relationship has been entrenched further by the recently signed FTA in 2008.

China is New Zealand's second largest trading partner⁹. For the 12 months ending 31 March 2010, China was New Zealand's second largest merchandise export destination after Australia¹⁰. During this period, New Zealand exported \$3,800 million (FOB¹¹ NZ\$) worth of goods to China - an increase of 28.4% on the 2009 period. China was also New Zealand's second largest merchandise import market with a total of \$6,029 million (NZ\$ CIF¹²) goods imported from China to March 2010. This was a decrease of 8.6% from the same period in 2009.

New Zealand's economy is highly dependent on foreign trade. Trends of values of imported and exported goods are evidence of the impact of the global financial crisis. The value of imported goods fell to NZ\$40.2billion in 2009, compared with NZ\$48.5billion in 2008¹³. The value of exported goods fell to NZ\$39.7billion in 2009, compared with NZ\$42.9billion in 2008¹⁴.

Statistics New Zealand data shows the food and beverage sector represents 45 percent of total exports to China, 62 percent of total exports to Hong Kong, 7 percent of total exports to Macau, and 76 percent of total exports to Taiwan in 2009. Overall, 52 percent of our exports to this region are food and beverage.

Our key exports to China, Hong Kong, Macau, and Taiwan in 2009 are outlined in the following table. It is interesting to note the differences in the types of exports between these four areas.

⁷ New Zealand Ministry of Foreign Affairs and Trade. "China – Country Information Paper." <http://www.mfat.govt.nz/Countries/Asia-North/China.php#foreign>, (last accessed, 7 May 2010).

⁸ New Zealand Ministry of Foreign Affairs and Trade. "China – Country Information Paper." <http://www.mfat.govt.nz/Countries/Asia-North/China.php>, (last accessed, 7 May 2010).

⁹ Statistics New Zealand, Global New Zealand – International Trade, Investment, and Travel Profile: Year ended June 2009.

¹⁰ Statistics New Zealand.

¹¹ 'FOB' means Free On Board.

¹² 'CIF' means Cost, including Insurance and Freight to New Zealand.

¹³ Statistics New Zealand.

¹⁴ Statistics New Zealand.

Top five exports from New Zealand by area in 2009 as a percentage of total exports (FOB \$NZ)

	China	Hong Kong	Macau	Taiwan	Total for Region
1	Dairy products, eggs and honey (27%)	Fish and seafood products (27%)	Animals, live (85%)	Dairy products, eggs and honey (29%)	Dairy produce, eggs and honey (25%)
2	Wood products (19%)	Meat and edible meat offal (14%)	Dairy products, eggs and honey (5%)	Meat and edible meat offal (22%)	Wood products (14%)
3	Baking and pastry cooks' products (8%)	Dairy products, eggs and honey (9%)	Electrical machinery (3%)	Fruit and nuts (14%)	Meat and edible meat offal (8%)
4	Wool, fine or coarse animal hair; horsehair yarn and woven fabric (7%)	Fruit and nuts (7%)	Iron or steel articles (2%)	Baking and pastry cooks' products (9%)	Fish and seafood (7%)
5	Meat and edible meat offal (4%)	Raw hides and skins (other than furskins) and leather (6%)	Miscellaneous edible preparations (1%)	Wood products (5%)	Baking and pastry cooks' products (7%)

Source: Statistics New Zealand.

Note – this does not include re-export data.

The following table represents the top five imports from China in 2009.

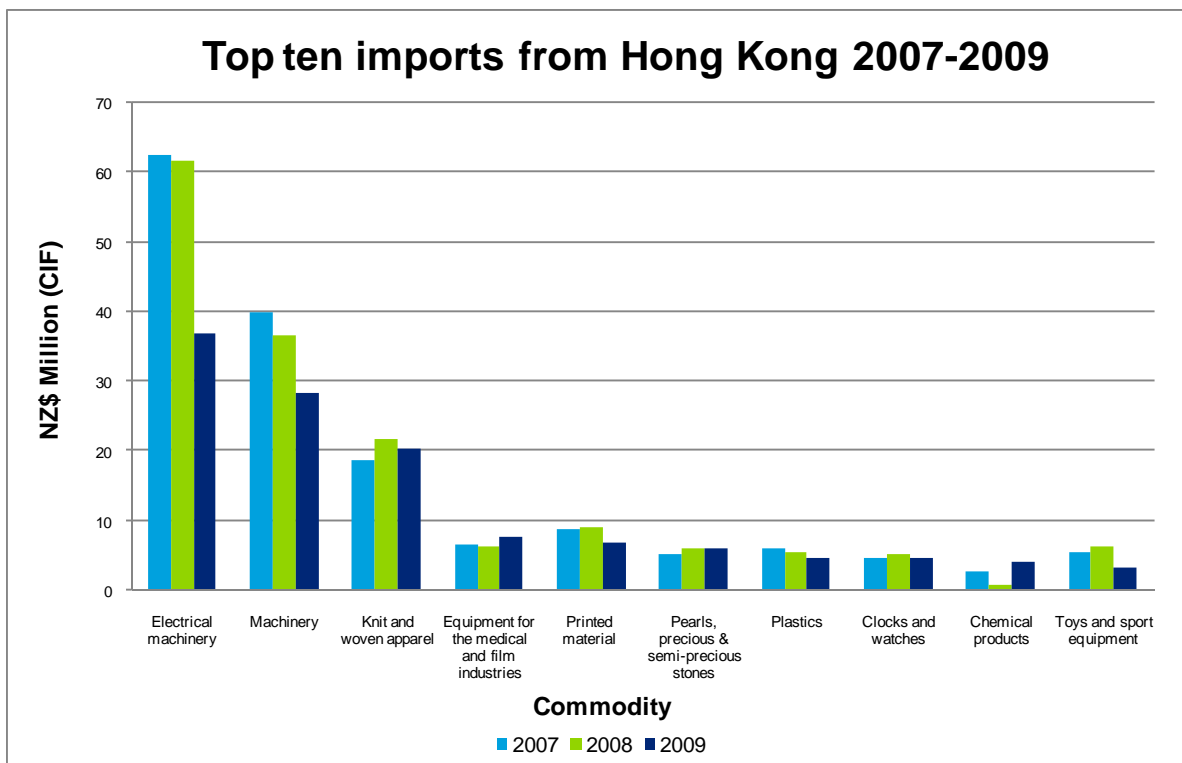
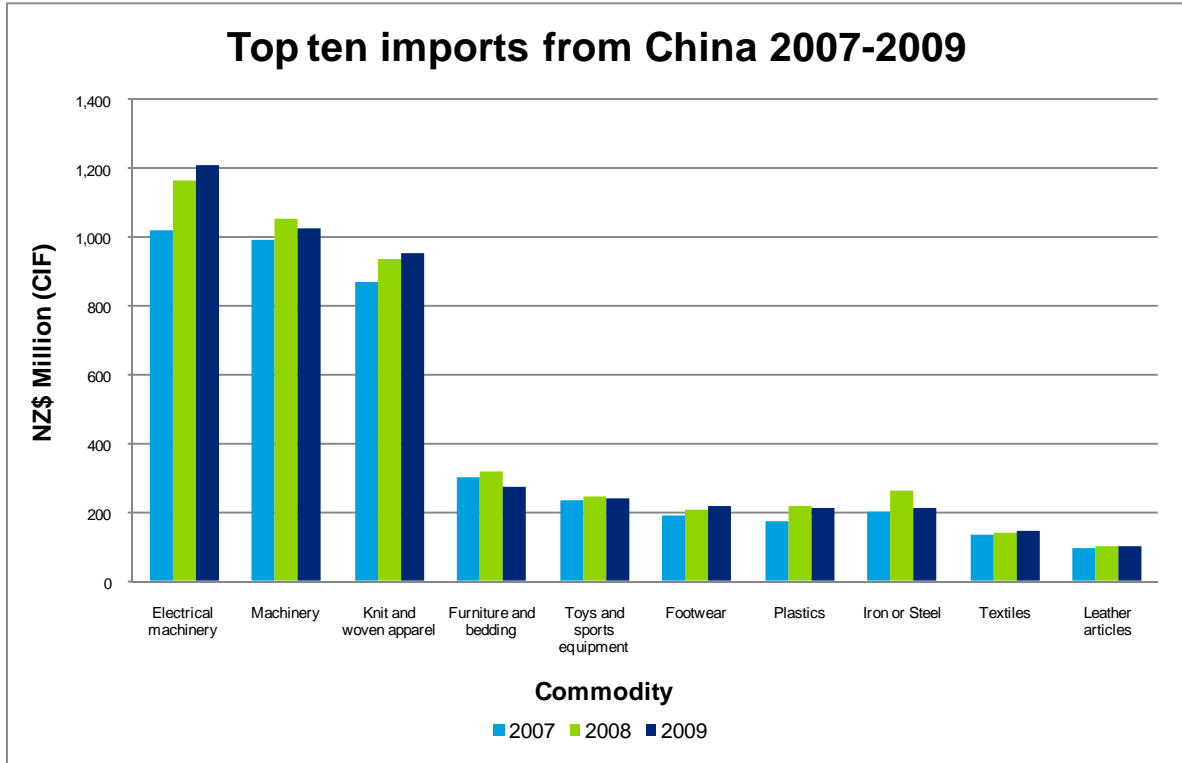
Top five imports to New Zealand by area in 2009 as a percentage of total imports (CIF \$NZ)

	China	Hong Kong	Macau	Taiwan	Total for Region
1	Electrical Machinery (20%)	Electrical Machinery (23%)	Electrical Machinery (71%)	Electrical Machinery (14%)	Electrical Machinery (20%)
2	Machinery (17%)	Machinery (18%)	Knit and woven apparel (12%)	Machinery (13%)	Machinery (17%)
3	Knit and woven apparel (16%)	Knit and woven apparel (13%)	Plastics (7%)	Iron and Steel (11%)	Knit and woven apparel (14%)
4	Furniture and bedding (5%)	Equipment for the medical and film industries (5%)	Metal (3%)	Plastics (10%)	Furniture and bedding (4%)
5	Toys and sports equipment (4%)	Printed material (5%)	Pearls, precious & semi-precious stones and metals and jewellery (2%)	Vehicles (7%)	Plastics (4%)

Source: Statistics New Zealand.

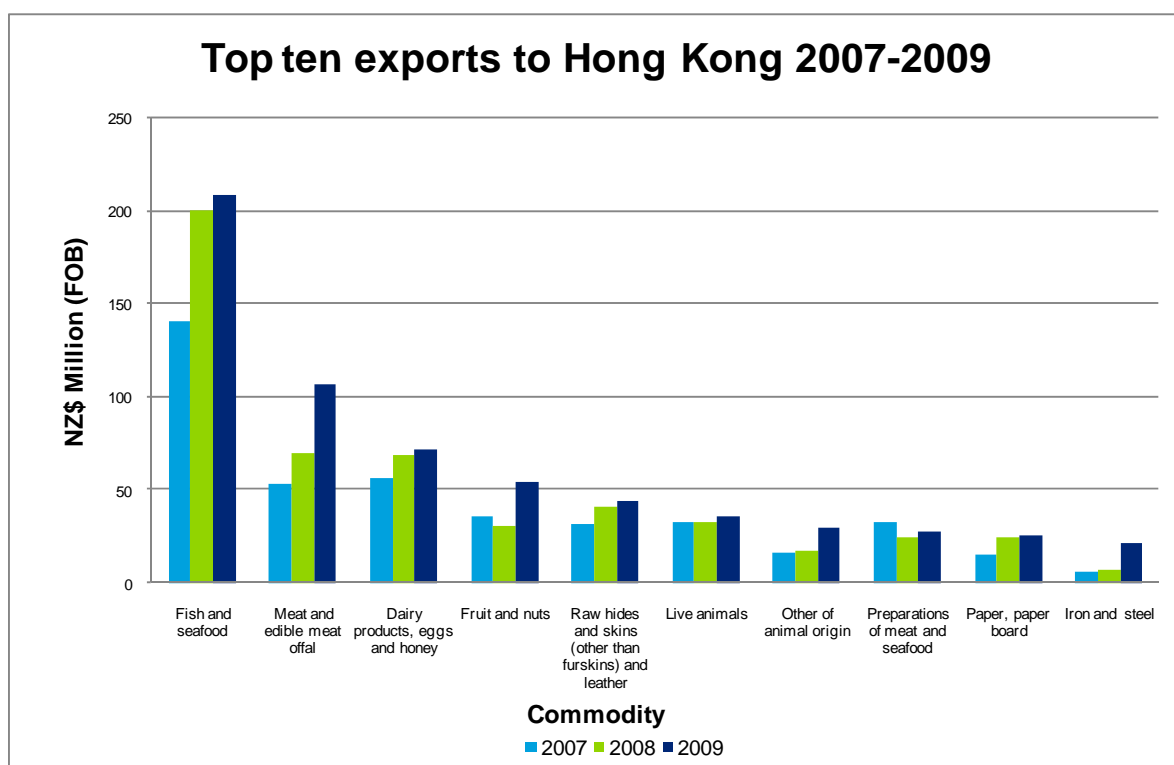
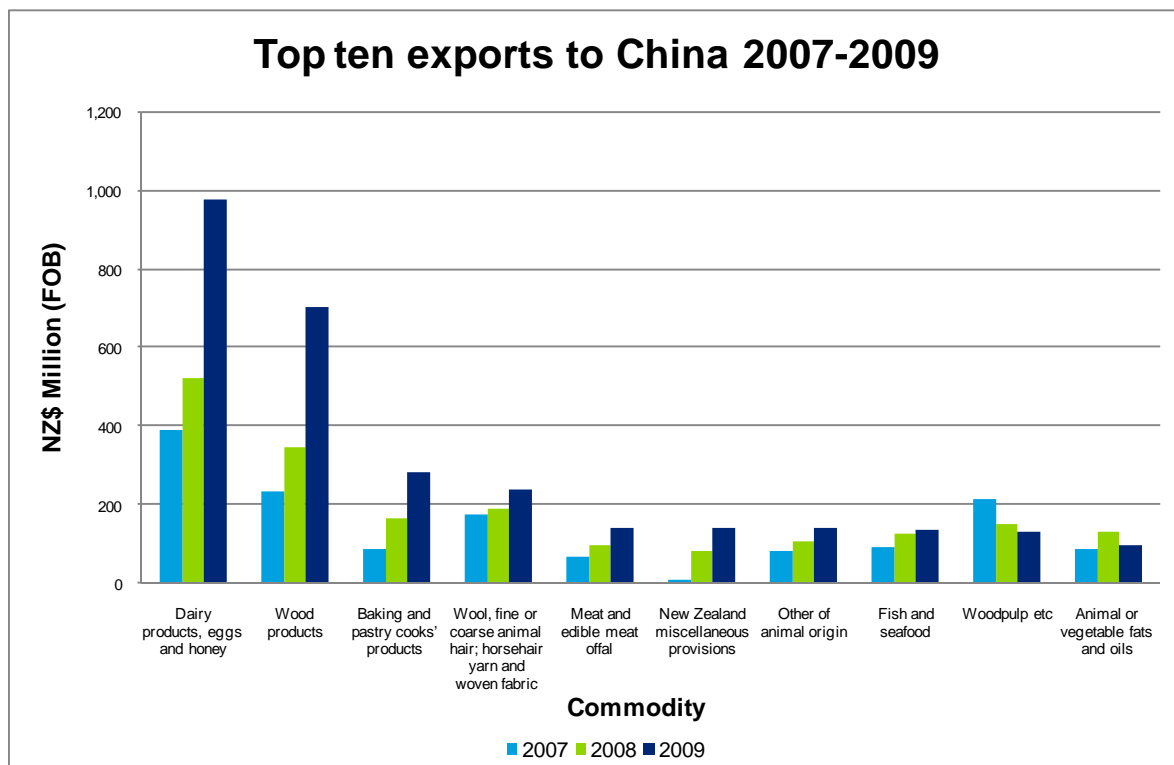
This data shows the trade complementarities between China and New Zealand are high. China has what New Zealand wants to buy, and vice versa. However there still remains a large trade deficit between the countries despite the liberalisations in the Chinese market.

The following graphs outline the trends for the last three years for the top ten imports to New Zealand from China (graph 1) and Hong Kong (graph 2).



Source: Statistics New Zealand.

These following graphs outline the trends over the last three years (2007-2009) for the ten most exported products from New Zealand to China (graph 1) and Hong Kong (graph 2).

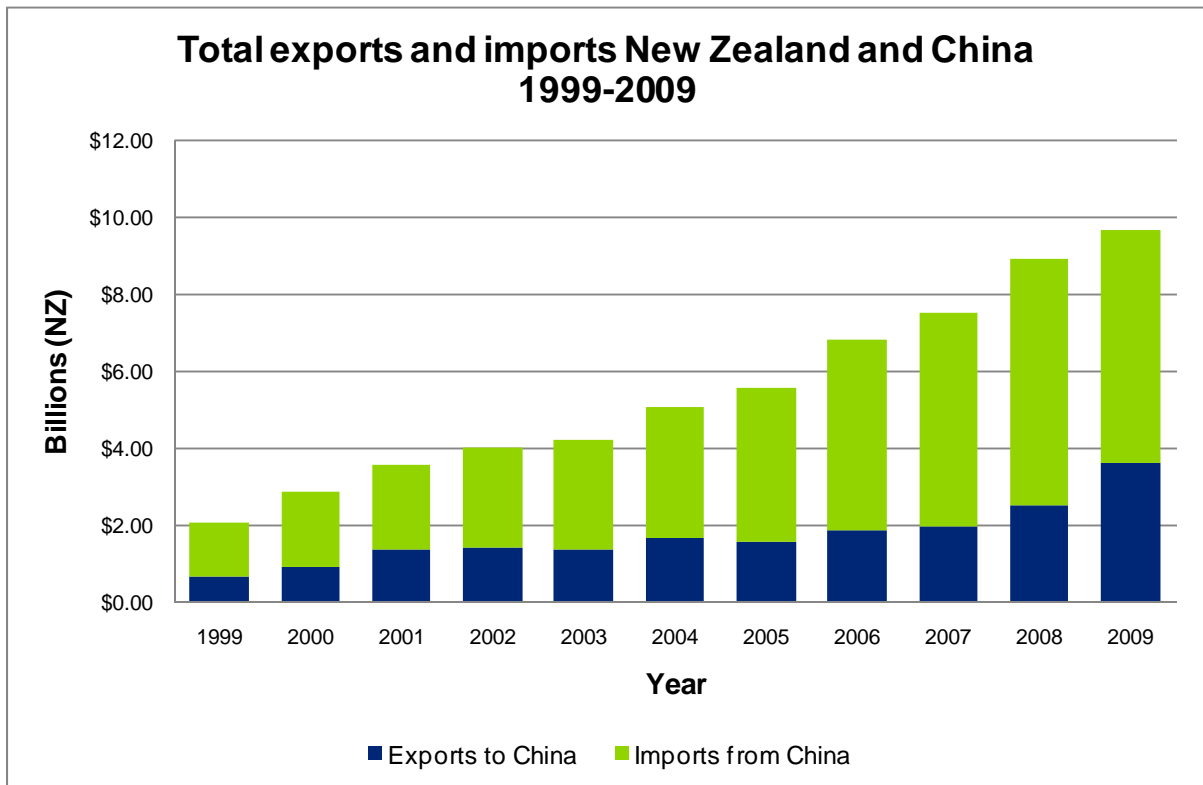


Source: Statistics New Zealand.

The following table sets out the export key trends. The graph below outlines the trade deficit as discussed above.

Key trends in New Zealand exports to Mainland China: 1999-2009				
Commodity	Percentage change from 1999 to 2009	Exports (FOB NZ\$) in year 1999	Exports (FOB NZ\$) in year 2009	Exports (FOB NZ\$) in 2009 as a percentage of total exports
Dairy products, eggs and honey	677% increase	\$125,785,922	\$977,760,678	27.06%
Fish and seafood	535% increase	\$21,470,972	\$136,393,949	3.78%
Vegetables and certain roots and tubers	88% decrease	\$4,862,556	\$580,547	0.02%
Wood products	1323% increase	\$49,398,610	\$703,059,602	19.46%
Baking and pastry cooks' products	66174% increase	\$424,210	\$281,139,279	7.78%
Beverages, spirits and vinegar	21435% increase	\$68,435	\$14,737,537	0.41%
Wool, fine or coarse animal hair; horsehair yarn and woven fabric	148% increase	\$96,693,004	\$239,619,350	6.63%
Iron and steel	10124% increase	\$289,320	\$29,580,521	0.82%
Meat and edible meat offal	761% increase	\$16,315,801	\$140,522,200	3.89%
Copper and articles thereof	6729% increase	\$584,314	\$39,904,580	1.10%

Source: Statistics New Zealand.



Source: Statistics New Zealand.

China remains the largest source of International Students in New Zealand. In 2009, 13,293 Chinese students were newly enrolled in New Zealand Tertiary Education¹⁵. Whilst new enrolments have dropped considerably since 2004, where 30,399 students were enrolled, there was a slight increase in 2009 on 2008 figures. The recovery of the economy, the introduction of more direct flights to China, and the introduction of the FTA, have all led to the expectation that enrolment numbers will continue to increase.

China is an important market for New Zealand's tourism industry. China is New Zealand's fourth largest market source of tourists, with 142,873 visitors arriving in New Zealand from China, Hong Kong, Macau and Taiwan in 2009¹⁶. This number has decreased 16% since 2006. This decrease in tourism numbers has been in line with the decrease in tourism numbers from other large tourist markets for New Zealand. An exception was the tourism numbers from Australia – our largest market source of tourists. Tourists from Australia have increased steadily since 2006 to a total of 1,082,680 in 2009.

¹⁵ Education Counts. "International Students in Tertiary Education."
http://www.educationcounts.govt.nz/statistics/international_education/international_tertiary_students/tertiary_students (last accessed 14 September 2010).

¹⁶ Statistics New Zealand.

51 percent of Chinese tourists experienced Maori culture in 2005/2006¹⁷. China is the third largest source of Maori Culture Tourists representing 10 percent of Maori Culture Tourists in 2005/2006. Studies have found that international tourists who experienced Maori culture stay slightly longer than average (21 days compared to 20 days), spend more on average per trip (\$3,970 compared with \$2,850), predominantly stay at hotels and have a relatively high propensity for package and tour group deals than other international tourists. This further shows how important Chinese tourists are for New Zealand's economy.

Interviewees agreed that relationship between China and New Zealand was very strong and that the FTA will continue to strengthen these many ties.

Our Free Trade Agreement is a competitive advantage

Negotiations since 2004 have led to New Zealand becoming the first OECD country to have completed a bilateral FTA with China which came into effect on 1 October 2008. New Zealand was also the first country to enter into comprehensive bilateral FTA negotiations with China.

The FTA has liberalised and facilitated the trade in goods, services and investment between China and New Zealand. The FTA provides new opportunities to both countries for mutual economic benefit and reduces barriers between New Zealand and China. The FTA also enhances and maintains New Zealand's exporters' and investors' competitiveness in the Chinese market.

The FTA will increase New Zealand exports to China by an estimated US\$180 to 280 million per year¹⁸. Tariffs will be phased out on 96% of New Zealand's exports to China which will be eliminated in stages through to 2019¹⁹. All tariffs on Chinese imports to New Zealand will be removed by 1 January 2016. Tariff reduction is a significant benefit for New Zealand as markets such as China can have tariff levels of over 20 percent.

Products that immediately benefited from this tariff elimination included scrap metal (copper and aluminium) and certain types of fibreboard²⁰. Over the next three years, tariffs on products such as infant milk formula, yoghurt, frozen fish, animal fats and oils, apples and wine will be eliminated which accounted for 31 per cent of current New Zealand exports to China in 2008. Over the next seven years, beef and sheep meat, sheepskin and kiwifruit exports will have tariffs eliminated. Over the next ten years tariffs on whole and skim milk powders will be eliminated and all but \$80 million of our current trade will have tariffs eliminated²¹.

¹⁷ The Ministry of Tourism. "Tourist Activity, Maori Cultural Tourism." Series B6, March 2008.

¹⁸ New Zealand Ministry of Foreign Affairs and Trade. "New Zealand-China Free Trade Agreement." <http://www.chinafta.govt.nz/1-The-agreement/3-Publications/chinafta-booklet.pdf> (last accessed 14 September 2010).

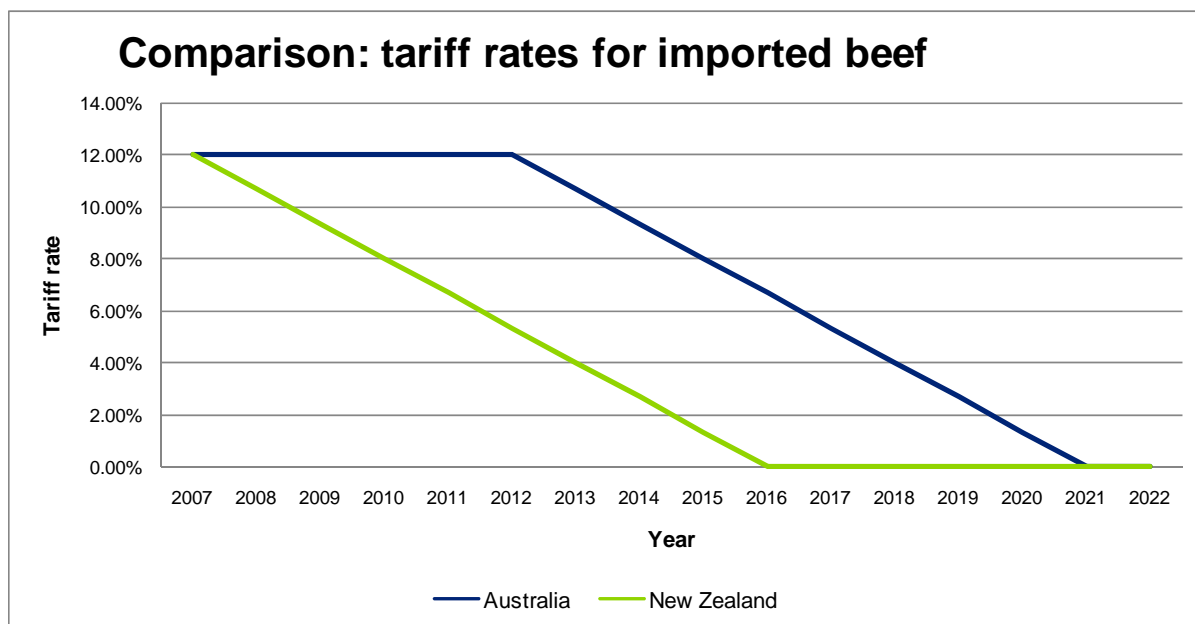
¹⁹ EIU, New Zealand Country Commerce, released June 2009, page 12.

²⁰ New Zealand Ministry of Foreign Affairs and Trade. "New Zealand-China Free Trade Agreement." <http://www.chinafta.govt.nz/1-The-agreement/3-Publications/chinafta-booklet.pdf> (last accessed 14 September 2010).

²¹ New Zealand Ministry of Foreign Affairs and Trade. "New Zealand-China Free Trade Agreement." <http://www.chinafta.govt.nz/1-The-agreement/3-Publications/chinafta-booklet.pdf> (last accessed 14 September 2010).

There are opportunities for New Zealand to capitalise on the growing beef consumption market in China. China's Ministry of Agriculture expects beef meat consumption to grow another 1.5 million tonnes over the next decade²². Over the past 10 years, New Zealand's beef exports (including fresh, chilled or frozen, boned or unboned bovine meat) has increased by 3212%. There was an increase of 535% on 2008 figures in 2009 alone²³. This illustrates the effects of the introduction of the FTA.

The FTA gives us a competitive advantage over Australia (which has been in FTA negotiations with China since 2005). Even if Australia signs a FTA with China in the next two years, New Zealand will continue to have a competitive advantage until at least 2021. This is assuming that Australia's FTA will have the same rate of tariff elimination as China negotiated with New Zealand. The diagram below illustrates this time lag effect and the competitiveness of New Zealand beef as a result of New Zealand's FTA. Our advantage is indicated by the gap between the green and blue lines.



Source: Statistics New Zealand, World Trade Organisation.

In 2008, New Zealand horticulture exports to China had increased by 106% since 2005²⁴. This makes China our tenth largest export market for horticulture exports. China is also our fifth largest export market for kiwifruit, with Taiwan our fourth largest, and also our thirteenth largest export market for apples (Taiwan and Hong Kong are significantly bigger markets – ranking third and fourth respectively in 2008). The FTA is going to continue to increase our competitive advantage in these industries.

The FTA has also liberalised the flow of investment between New Zealand and China. This is important to New Zealand businesses looking to invest money in China. The FTA encourages and promotes two-way investment by enhancing protections for investments established in China. The agreement includes a provision to ensure New Zealand's competitiveness with investors from other countries.

²² Garnaut, John. "Getting Aussie beef into China's hot pots." <http://www.brisbanetimes.com.au/business/getting-aussie-beef-into-chinas-hot-pots-20100614-ya8c.html> (last accessed 3 August 2010).

²³ Statistics New Zealand.

²⁴ New Zealand Horticulture – Barriers to our export trade – December 2008.

Most-favoured-nation (MFN) treatment is to be extended to investors of the other country – New Zealand or China (except if concerning fisheries and maritime matters) along with both New Zealand and China agreeing to treat investors from the other country at least as well as they treat their own investors ('national treatment')²⁵. In addition, the agreement ensures that any services and investment provisions that are extended by China to third countries in future trade agreements will automatically be applied to New Zealand²⁶.

According to Vice President Xi Jinping during his June 2010 visit to New Zealand, the FTA has boosted bilateral trade. The volume traded between New Zealand and China increased by 3.6 percent in 2009, despite the worldwide economic downturn.

Interviewees agreed that the FTA is advantageous. The FTA has raised the profile of the New Zealand brand. It has already, and will in the future, make a substantial difference to their individual operations. One interviewee added that even though the FTA had not made a large financial difference to business, it had made a difference psychologically for their distributor and partners in China.

New Zealand SMEs need to recognise however that the FTA will also have negative ramifications. It has become easier to import into New Zealand from China. We are fortunate that our trade complementarities are relatively high. However, some products will face increasing competition from often cheaper Chinese products in the domestic market. Although this increases the competition in the domestic market, this works well for New Zealand businesses that manufacture in China and bring product back to New Zealand to sell.

The Shanghai World Expo 2010 is strengthening our relationship

The New Zealand Government has invested approximately \$30million in participating in the Shanghai World Expo 2010 (the Expo). New Zealand was invited to participate as one of a large number of other countries and organisations to showcase culture, innovation and scientific advancements.

The Expo is expected to attract 70 million visitors between 1 May 2010 and 31 October 2010 which provides a great opportunity to showcase and educate the market on what New Zealand has to offer, with obvious potential benefits for tourism and trade. New Zealand Prime Minister John Key says "the Shanghai Expo is a prime opportunity to grow markets for New Zealand goods and services in China, and to capitalise on New Zealand's unique position as the first developed country with an FTA with China"²⁷.

Frequent visits are building trust

Since April 2006, an agreement has been in place between New Zealand and China to hold annual leaders' meetings. Visits have continually taken place since, further strengthening the New Zealand/China relationship. The latest meetings include China's Vice President Xi Jinping's visit to New Zealand in June 2010 and New Zealand Prime Minister John Key's visit to China in July 2010.

²⁵ EIU, New Zealand Country Commerce, released June 2009, page 13.

²⁶ For more information, see <http://www.chinafta.govt.nz/1-The-agreement/3-Publications/chinafta-booklet.pdf>.

²⁷ The New Zealand Government. "PM to visit China, Viet Nam, Republic of Korea." <http://www.beehive.govt.nz/release/pm+visit+china+viet+nam+republic+korea> (last accessed 26 July 2010).

Whilst in New Zealand, Xi Jinping said the bilateral relationship between the two countries is at its best time in history, with frequent high-level exchanges and enhanced mutual political trust. He believed his visit to New Zealand would increase this mutual trust, deepen friendship and expand cooperation²⁸. He also said that due to these frequent exchanges of high level visits, the political basis in bilateral relations is sound and solid. He explained that both China and New Zealand are important countries in the Asia-Pacific region and stressed that further strengthening of exchanges and cooperation in various fields and channels would be conducive not only to the well-being of the two peoples, but also to the economic development in Asia-Pacific region and the world as a whole²⁹.

John Key's visit to Beijing and Shanghai continued to strengthen bilateral relations. Whilst he was in Beijing, Mr Key witnessed the signing of 'The New Zealand-China Strategic Research Alliance', a Film Co-Production Agreement, and reported positive cooperation between New Zealand and China Government agencies on food safety. Mr Key also visited the New Zealand Expo Pavilion in Shanghai to mark New Zealand's 'National Day' on 9 July 2010. As a symbol of the strengthening ties between New Zealand and China, Mr Key gifted the people of China a Waharoa – a carved entranceway in the shape of a waka or canoe. 'It will be used to promote tourism and the cultural experiences that Chinese visitors can expect when they come to New Zealand'³⁰. A replica was also presented to Premier Wen Jiabao.

3.2.2 The economic climate is healthy

Whilst most of the world, including New Zealand, felt the strong effects of the global recession (2008 – 2010), China's economy still managed to grow 8.7 percent in 2009³¹. This was greater than the Chinese Government's 2009 aim of real Gross Domestic Product (GDP) growth of 8 percent. This strong growth in the face of the global decline in financial activity shows that China is resilient as a trade destination for New Zealand SMEs. Previous to 2009, China had maintained an average growth rate of close to 10 percent per annum³². In comparison, New Zealand has maintained an average growth rate of around 2 percent per annum.

This recent decrease in growth shows that China was not completely immune to the economic slowdown. The reduction in growth of China's economy was due to imports decreasing 11.2 percent on 2008 figures and exports decreasing 16.1 percent on 2008 figures. However, imports and exports are expected to increase again in 2010, along with real GDP growth.

²⁸ China Daily. "Chinese vice president starts visit to New Zealand." http://www.chinadaily.com.cn/china/2010-06/17/content_9982248.htm (last accessed 14 September 2010).

²⁹ People's Daily Online. "Chinese VP calls for deeper free trade cooperation with New Zealand." <http://english.peopledaily.com.cn/90001/90776/90883/7028134.html> (last accessed 14 September 2010).

³⁰ The New Zealand Government. "PM celebrates NZ National Day at Shanghai Expo." <http://www.beehive.govt.nz/release/pm+celebrates+nz+national+day+shanghai+expo+0> (last accessed 14 September 2010).

³¹ The World Bank. "China Quarterly Update, June 2010." <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/CHINAEXTN/0,,contentMDK:22502137~pagePK:1497618~piPK:217854~theSitePK:318950.00.html> (last accessed 14 September 2010).

³² New Zealand Ministry of Foreign Affairs and Trade. "China – Country Information Paper." <http://www.mfat.govt.nz/Countries/Asia-North/China.php> (last accessed 14 September 2010).

China's performance through the global recession was largely due to a Government stimulus package which focused on infrastructure investment³³. There was also an increase in bank loan financing, with a share of total new lending going to household mortgages³⁴. This led to an upturn in the real estate sector with rapid price rises in many cities. This is expected to cool as the Government's focus will move towards tightening monetary policy.

Despite this decrease in international trade in 2009, China is the second largest exporter in the world behind the European Union (EU) - comprised of 27 countries. China is also the fourth largest importer behind the EU, US, and Germany³⁵. The Economist Intelligence Unit (EIU) estimates exports will grow 12.5 percent in 2010, along with imports increasing by 19.6 per cent.

The Chinese Government is now emphasising domestic consumption growth in order to make China less dependent on foreign exports for GDP growth in the future³⁶. China has traditionally been reliant on export trade, with the US being China's leading market in 2009 with 18.4 percent of total exports destined for the US³⁷.

The EIU forecasts a slowdown in GDP growth in 2011 to 8.1%. This is based on factors such as the decrease in Government infrastructure spending, tightening of monetary policy (increasing interest rates, raising reserve requirements and the use of credit quotas) which will flow through to the real estate market, and the uncertainty of the global economy and that effect on exports, which China currently is dependent on for GDP growth. Private consumption is expected to increase by 9.0 percent in 2010 and 9.2 percent in 2011 in accordance with the EIU³⁸. This is due to high levels of job creation, low levels of inflation (deflation in 2009) and rising wages.

The following table summarises the actual and budgeted economic summary for China as estimated by the EIU.

Economic Forecast Summary – China (% unless otherwise stated)

	2008a	2009a	2010b	2011b
Real GDP growth	9.6	8.7	9.9	8.1
Industrial production growth	12.9	11.0	13.6	11.5
Gross agricultural production growth	5.5	4.2	2.5	3.0
Unemployment rate (av)	9.2c	9.3c	9.4	9.3
Consumer price inflation (av)	5.9	-0.7	3.5	3.2
Consumer price inflation (year-end)	1.2	1.7	3.1	3.3

³³ EIU, China Country Forecast, released May 2010, page 7.

³⁴ The World Bank. "China Quarterly Update, March 2010."

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/CHINAEXTN/0,,contentMDK:22506322~pagePK:141137~piPK:141127~theSitePK:318950,00.html> (last accessed 14 September 2010).

³⁵ CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html> (last accessed 2 August 2010).

³⁶ CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html> (last accessed 2 August 2010).

³⁷ EIU, China Country Forecast, released May 2010, page 3.

³⁸ EIU, China Country Report, released May 2010, page 7.

	2008a	2009a	2010b	2011b
Short-term interbank rate (year-end)d	5.3	5.3	6.2	7.0
Government balance (% of GDP)	-0.4	-2.2c	-3.0	-2.8
Exports of goods fob (US\$ bn)	1,434.6	1,203.2c	1,353.1	1,507.4
Imports of goods fob (US\$ bn)	1,073.9	954.0c	1,141.0	1,296.6
Current-account balance (US\$ bn)	426.1	284.1c	248.0	245.0
Current-account balance (% of GDP)	9.6	5.8c	4.3	3.6
External debt (year-end; US\$ bn)	399.4c	355.1c	409.6	473.6
Exchange rate Rmb:US\$ (av)	6.95	6.83	6.73	6.40
Exchange rate Rmb:¥100 (av)	6.72	7.29	7.41	7.11
Exchange rate Rmb:€ (year-end)	9.50	9.79	8.91	8.94
Exchange rate Rmb:SDR (year-end)	10.28	10.78	10.07	9.93

a Actual. b EIU forecasts. c EIU estimates.

Source: EIU, *China Country Report*, released May 2010, page 11.

The exchange rate can be an issue, but the situation is improving

For many years, the topic of China's exchange rate has been a controversial one. Unlike New Zealand, who has a floating exchange rate, China's exchange rate is controlled to 'protect' its growing economy by making Chinese imports for US consumers in particular more attractive while making US exports to China more costly.

Some progress was made in July 2005 when China re-valued its currency by 2.1 percent against the US dollar after being tightly linked to the US dollar for a number of years³⁹. In 2005, China moved to a floating exchange-rate regime tied to a basket of currencies. However, during and since the global economic crisis in 2008, the yuan has been re-pegged against the US dollar. This has allowed the yuan to remain 'cheap' against the US dollar and has created an export advantage to Chinese export businesses.

China however announced in June that it would gradually make the yuan more flexible, but warned not expect a large scale appreciation of the yuan against the US dollar. New Zealand SMEs doing business in China gain this export advantage. The yuan is also known as the renminbi or RMB.

³⁹ CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html> (last accessed 2 August 2010).

3.3 There are specific areas of opportunity for New Zealand SMEs

Interviewees we spoke to in China suggested that New Zealand, due to its reputation for quality, should position itself as a premium brand. Due to the increasing middle class in China, and the Chinese culture, there is scope for a brand position at the premium end, especially in the lucrative gift market. Chinese interviewees believe that New Zealanders need to provide more support for their product in the market as well as establishing more market presence in order to allow their businesses to continue to be successful in China.

3.3.1 The gift market is large and lucrative

Gift giving is an inherent part of Chinese culture. It is important to New Zealanders because of the sheer amount of gift exchanges in the market with a focus on quality, foreign products. These include traditionally premium products such as wine, but can also include things not commonly associated with gifts such as red apples. The gift market is a large, lucrative, premium market which New Zealand businesses could enter through leveraging their reputation for quality. Given most New Zealand products are not commodities and are priced at the top end of the market, having no access to the gift market is a lost opportunity.

There are also opportunities in the 'hidden market' where Chinese businesses can contact you directly and request to purchase containers of goods. This does not go through a distributor and is often for large companies which need to supply multiple gifts at once, such as to employees or to clients.

Changing the way you market your goods to suit the gift market may be advantageous. The way you package your product indicates quality and safety (physical and societal) to the Chinese consumer. As foreign goods are associated with quality, it may be useful to ensure that you prominently label your product as 'New Zealand' to further enhance your product.

3.3.2 New Zealand primary sector products are especially demanded

Due to New Zealand's reputation for quality and high food safety, our primary sector products such as meat, fish, fruit and vegetables (especially kiwifruit), and dairy are especially demanded. The Chinese associate foreign goods as higher quality than local products. This is because of their mistrust of food production systems and food safety. As New Zealand is seen to be clean and green with pure soil, our food products can be placed easily as premium products in this sector.

As shown previously, we have a competitive advantage over Australia in beef exports due to our FTA with China. The FTA has also given New Zealand the opportunity to be more competitive against the rest of the world. Our meat products have a reputation for being disease free and with the expected increase in meat consumption in China, New Zealand is ideally placed to be able to supply this growing demand. As mentioned before, our beef exports (including fresh, chilled or frozen, boned or unboned bovine meat) have increased by 535% on 2008 figures in 2009 alone.

Fonterra's success in China is also evident. According to a latest press release, Fonterra has announced that they intend to invest in two more dairy farms in China, to continue growing a high quality and secure supply of milk on the ground. The China dairy market is set to become the world's largest dairy market in the next few decades. This increase in demand also has positive effects on demand for our agritech products.

3.3.3 Demand for products and services supporting the aging population is increasing

Life expectancy in China has increased from 41 years in 1950 to 74 years today⁴⁰. According to the United Nations, the population of people over 60 in China in 2009 was approximately 160 million⁴¹. This is expected to increase to around 440 million people in 2050 (these figures do not include Hong Kong or Macau SARs). This is therefore an important market for New Zealand businesses to tap into.

The aging population, like the rest of China, is increasingly becoming more interested in health foods and products. There is a market for New Zealand premium branded health products and food. Again these should be branded as from New Zealand, because of the association, for those that know New Zealand, as a clean green country.

Products and services which make care for the aging population more efficient, such as 'smart' elderly housing, are going to become a necessity. Due to the single child policy, there is increasing pressure on single children to provide care for their two parents, and four grandparents. When considering a typical family of two parents and one child, those parents could have up to 12 people to support excluding themselves and their own child. Aging population products and services will become increasingly popular as the younger generation juggle their time between their career aspirations and their own family, and the support of their parents and grandparents.

⁴⁰ China-Profile. "Life Expectancy at Birth in China, Europe, USA and India: 1950-2050 (Both Sexes)." http://www.china-profile.com/data/fig_WPP2008_L0_1.htm (last updated 17 April 2010).

⁴¹ United Nations. "Population Ageing and Development 2009." <http://www.un.org/esa/population/publications/ageing/ageing2009chart.htm> (last accessed, 2 August 2010).

4 Cultural understanding

The Chinese have a strong sense for business etiquette. Knowledge of what is expected in your business relationships, and a brief understanding of China's history will be an advantage when endeavouring to enter the Chinese market.

Key aspects of the Chinese culture include its underlying base of Confucianism, the idea of *mianzi*, their adherence to a hierarchical system and their collectivist rather than individualist society. Understanding, acknowledging and embracing the Chinese culture is essential to your success in China.

4.1 The underlying base of Confucianism

Chinese cultural and business values are derived from Confucianism. Confucianism is based on the teachings of Confucius, an esteemed Chinese social philosopher who has influenced Chinese thought and life. In essence, Confucianism is based on the concept of harmonious relationships – if you behave properly through duty, respect and loyalty in your relationships, then society will function smoothly as a whole.

When doing business in China, it is important that New Zealand businesses understand Confucian values as these permeate business practices and everyday Chinese life. These values are summarised by NZTE as:

- **Li (ritual):** includes propriety, etiquette, politeness, a system of norms
- **Xiao (filial devotion or piety):** respect and care for parents, elderly
- **Yi (relationship and sacrifice):** comradeship, ties of friendship
- **Xin (credibility):** honesty and trustworthiness
- **Jun (humanity towards others):** scholarship, nobility, loyalty and being helpful
- **Zhong (devotion):** showing loyalty to the state or senior people or businesses/companies you work with.

Although Confucian values have become less important in China today, New Zealand businesses need to understand Confucian values to understand the Chinese people. Social behaviour protocols are defined by Confucianism and have a strong influence in day to day lives. For example, the concept of the 'Middle Way' is also important – finding the 'middle path' as opposed to going to extremes. Due to this, Confucian values are important to know and understand when dealing with Chinese business partners, customers and workers.

4.2 The history of China is still evident

New Zealanders should know and understand China's long history to aid the development of strong relationships. Today's China has been shaped from what the people have encountered and how they have recovered. A brief introduction into China's history is presented below.

Until the 19th and early 20th centuries, China was one of the most powerful states in the world, outpacing other countries in the arts and sciences, and becoming one of the most technologically advanced in the world⁴². In the 19th and early 20th centuries, the country was faced with civil unrest, major famines, military defeats, and expanding foreign occupation⁴³.

China was defeated by the United Kingdom (UK) in the first opium war of 1839-42 which led to China relinquishing Hong Kong Island. This led to a period of China's downfall at the hands of foreign occupation and the Chinese empire collapsed in 1911. The successor Republic of China (ROC) Government failed to unify urban China and in 1931 Japan conquered the north-east and launched a full invasion in 1937.

During the 1930s, the Chinese Communist Party (CCP) was expanding its control. After Japan surrendered in 1945, civil war broke out and the ROC Government was defeated by the more disciplined CCP army. This caused the ROC Government's leader Chiang to flee with his forces in 1949 to the island of Taiwan, which had been under Japanese control from 1895 to 1945.

On October 1st 1949 the CCP leader, Mao Zedong, announced the founding of the People's Republic of China, with Beijing as its capital⁴⁴. Mao Zedong established an autocratic socialist system that imposed strict controls over everyday life and cost the lives of tens of millions of people. During the next 30 years, Mao attempted many social and economic upheavals, one of which was the Great Leap Forward of 1958-61. The Government attempted to turn China into an industrial economy overnight. This resulted in an estimated 30 million people's deaths - the world's worst ever man-made famine⁴⁵.

Following Mao's death in 1976, Deng Xiaoping took control of the Chinese Government, emerging as a paramount leader in 1978 committed to the economic modernisation of China - whilst maintaining the CCP's hold on power⁴⁶. China moved away from a centrally planned economy to a more market-based system and between 1978 and 2005, China's economy more than quadrupled in size. During this time, 300 million of its large population of 1.3 billion was lifted from absolute poverty, an event unparalleled in the world's history⁴⁷.

⁴² CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html> (last accessed 2 August 2010).

⁴³ CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html> (last accessed 2 August 2010).

⁴⁴ EIU, China Country Profile 2009, page 5.

⁴⁵ EIU, China Country Profile 2009, page 5.

⁴⁶ New Zealand Ministry of Foreign Affairs and Trade. "China – Country Information Paper." <http://www.mfat.govt.nz/Countries/Asia-North/China.php> (last accessed 14 September 2010).

⁴⁷ New Zealand Ministry of Foreign Affairs and Trade. "China – Country Information Paper." <http://www.mfat.govt.nz/Countries/Asia-North/China.php> (last accessed 14 September 2010).

Reforms began in the late 1970s with the phasing out of state-controlled collective agriculture. Reforms continued with the gradual liberalisation of prices, fiscal decentralisation, increased independence for state enterprises, the foundation of a diversified banking system, the development of stock markets, the rapid growth of the non-state sector, and the opening to foreign trade and investment. However, during that first decade of economic reform, protests were fuelled by the social stress of rapid change and public anger over high inflation and corruption⁴⁸.

Throughout the last 30 years, China has developed into one of the world's fastest-growing economies, growing to become the second largest economy in the world. This has led to significant improvements in standards of living and economic freedom. China's economy has become liberalised to international trade and has become a more market-orientated economy with rapid private sector growth. However, China remains a developing country with a high proportion of low income earners and rural poverty.

Going forward, China is facing up to the challenges of improving rural living standards, modernising the financial sector, liberalising private enterprise, providing continual implementation and support for intellectual property protection, eliminating corruption, increasing accountability of the judiciary and the Government, and implementing more robust environmental protection.

China has made extensive progress in a short period of time, and looks set to continue this trend. However, gaining an insight into China's past will help New Zealand SME's gain an understanding of the market and its people, which will help them to succeed in the future.

4.3 The concept of saving face – *Mianzi*

Mianzi means one's face and represents a person's image, pride, reputation and social status. It stresses the social order through one's proper behaviour based upon his/her social status and relationship with others. 'Giving' face is an act of honouring such social codes.

Mianzi is a Confucian value. To the Chinese, *mianzi* is more important than physical appearance. It is the preservation of a person's dignity. It is an important aspect of the relationship building process as a person's face is also their organisation's face.

Chinese people can be extremely sensitive about gaining, maintaining, giving or taking away face in all aspects of life. Whenever a person does not conform to Confucian social codes, or does not acknowledge another person's social status, it causes the other to lose face. Integrity is also a core component of keeping face – you have to deliver to your commitments.

Conflict is avoided in order to maintain face. Try to not disagree openly or criticise someone in a group situation as this damages one's face. To this end, your Chinese business partners may tell you what you want to hear in order to not cause you to lose *mianzi* or to damage your *guanxi* or relationships. If you have a question, double check, but don't push the point if there is some uncertainty as this may cause a loss of face. It is common that the CEO may not know details about the business. In this sense, be careful with the types of questions you ask and do not expect an answer straight away.

⁴⁸ New Zealand Ministry of Foreign Affairs and Trade. "China – Country Information Paper." <http://www.mfat.govt.nz/Countries/Asia-North/China.php> (last accessed 14 September 2010).

Your Chinese partner may lie in order to save or give face, but from their perspective it is not seen as a lie as their intent or underlying motivation is not deceit. You have to understand that the Chinese tend to 'soften' the effects of what they say to save face by saying anything negative in a very indirect manner.

You must be aware of overpromising from your Chinese business partners and suppliers. Most Chinese people want to avoid looking bad in public which leads to an unwillingness to openly admit to any wrongdoings. Interviewees therefore expressed the need to be sensitive to face. Tactical apologies need to be considered. For example, in one situation where the Chinese partner had wrongly used a product, and destroyed it in the process, the New Zealand business responded with the message 'I'm sorry for shipping product that was so easily broken'.

4.3.1 There is a strong focus on quality

Chinese consumers are very quality conscious. They will buy foreign goods because they are perceived as being of higher quality than the Chinese equivalent. This is especially so for food and beverage products.

Interviewees described the necessity of having a quality product, at a low price. Chinese consumers want more features for less money. This is an important factor to contemplate when designing your product for the Chinese market, or assessing your products applicability in the Chinese market.

4.3.2 The Chinese are brand conscious

According to most interviewees, having an established and well-known brand in China is a big advantage. The Chinese look to buy branded products as they have quality and prestige associated with them. This is especially so for famous imported brands.

Buying overseas products because of their perceived quality and brand is linked to *mianzi*. Chinese consumers who want to save face will buy branded products such as French wine when entertaining visitors and providing gifts because of their perceived social safety.

4.3.3 The Chinese are very price conscious

China's markets are mostly driven by price. As mentioned above, the Chinese want the best quality at the lowest price. There is an exception however for quality, branded, premium products as these are purchased to save or give face.

Premium pricing could be used to enhance some products as Chinese consumers are prepared to pay the premium for a premium good. This is especially so in the luxury goods market as China recently has replaced the US to become the second largest market in the world for luxury goods after Europe⁴⁹.

⁴⁹ People's Daily Online. "China becomes world's 2nd largest luxury market." <http://english.peopledaily.com.cn/90001/90778/90857/90860/6710402.html> (last accessed 2 August 2010).

4.4 Society is hierarchical and collective

Chinese people consider rankings and following protocols important. Due to this, hierarchy is also very important and influences all aspects of Chinese life. The hierarchical mindset comes from the Confucian principle of the five relationships:

1. Ruler and subject
2. Husband and wife
3. Parents and children
4. Brothers and sisters
5. Friend and friend

As traditional Confucian values become less of an influence in modern China, it is still evident in society that there is a high level of power distance. This measures the extent to which the less powerful member of organisations and institutions accept and expect that power is distributed unequally⁵⁰. Due to the high level of power distance in China, this means that there is a high level of power and wealth inequality in society, but that this is accepted by society, mostly because this is considered to be part of their cultural heritage.

This high power distance in China creates a hierarchical society. Chinese individuals who rank highly in the hierarchy still wield the power and have to ultimately agree to any negotiation. Subordinates will maintain a distance from their superiors and will not opening disagree as this would be taken as a sign of disrespect. This hierarchy also permeates business meetings and interactions in that there should be a structured seating arrangement and gift giving etiquette.

Chinese society is also collective. There is a group or family orientation as opposed to an individual focus. There is a strong group loyalty and a reluctance to stand out from the crowd. Chinese people are concerned with what society thinks of them and will make decisions based on this. This also leads to risk aversion.

4.4.1 Chinese tend to be risk averse

Risk aversion underlies many Chinese behaviours in a way that New Zealand SME's struggle to understand. For example, some will not tell their boss if there is a failure in a manufacturing plant, for fear of being blamed for the problem. Some prefer the 'middle ground' and keep strategic and innovative ideas from their management for fear of failure.

Risk aversion tends to be an inherent part of the Chinese culture. For New Zealand SMEs to avoid common problems associated with Chinese risk aversion, reassuring principles and initiatives may need to be put in place and reinforced for Chinese partners and staff.

⁵⁰ itim International. "Geert Hofstede™ Cultural Dimensions – China." http://www.geert-hofstede.com/hofstede_china.shtml, (last accessed 20 August 2010).

4.5 Adherence to Chinese business etiquette is essential

NZTE has compiled lists of Chinese business customs and etiquette for New Zealand people and businesses – knowledge of which will help New Zealand businesses avoid embarrassment when doing business in China. The following are some important points from these lists and other sources:

- When using an interpreter, focus on your Chinese counterpart and not the interpreter
- Take the time to learn some Chinese language and something about China
- Speak about your Chinese experiences favourably when asked. Keep small talk positive and avoid anything political
- When meeting your Chinese hosts, the most senior person in your delegation should be first in the reception line and others should follow in order of seniority
- A short, not too firm handshake along with a slight head nod is the customary start to a business meeting. It is not uncommon if you have an established relationship with someone to hold the handshake for longer or to use both hands
- In China, family names come first followed by given names
- In business or formal settings, address each other by their family name or title and never by their first name unless specifically asked or if you are long-time friends
- Business cards (called mingpian) are essential. Have your business cards printed in English on one side and Chinese on the other. Seek advice on the choice of characters of your name and business as some characters have better meanings than others. Try to print your Chinese characters using gold ink as this is an auspicious colour
- Give and receive business cards with both hands, holding the card corners between your thumb and forefinger. When presenting your bilingual card present the Chinese side face up
- Read and keep the card out on the table during a meeting, or place it in a business card case. Do not write on the card in front of your counterparts
- Gifts and gift-giving are an important part of creating and building relationships in China and expressing friendship. Traditionally, it is customary to open the gift after you or your guests have left
- Avoid the number 4 as when pronounced in Chinese it sounds like the word for death. The number 8 is considered lucky as when pronounced in Chinese it sounds like the word for prosperity
- Red and gold are colours to promote, while black and white signify funerals. However, never write anything in red ink as this signifies termination of a relationship
- Formal dress is a sign of respect. Dress in a suit or ask ahead if you are not sure what to wear

- Arrive to a meeting or dinner invitation early. Punctuality is vital as arriving late is seen as an insult. It is protocol that guests arrive on time or early, which can be up to half an hour early
- Try to learn how to use chopsticks to eat Chinese food
- Hosts are generally expected to pick up the bill for dinner or other entertainment. It is not customary to split the bill
- You may be invited to be entertained at home. Arrive on time, remove shoes before entering a private house, and take a gift
- Gan bei literally means 'dry glass.' It is an invitation to empty your own glass alongside the person proposing the toast
- Send an agenda before any meeting which will allow you to have some control over the flow of the meeting
- Be willing to show compromise and ensure your Chinese counterparts feel that they have gained major concessions
- Do not underestimate the importance of doing your homework before any meeting
- Be patient. Never show anger or frustration. Perfect your 'poker face' as any weaknesses will be exploited

For further information, see the NZTE website: <http://chinafta.nzte.govt.nz/solutions/culture/business-etiquette.html>.

5 Understanding of the Market

Interviewees we talked to stress the need for significant investment in understanding the market. Although research often proves difficult, there are many sources of information and approaches to consider.

Before endeavouring to enter the Chinese market, it is important to have a reasonable understanding of the market, know what your prospects are, and determine if what you are selling will be demanded by the market. Further questions arise in terms of where to locate, and how to structure your business in China. It is also critical that you have a generic overview of how to do business in China which will help you to determine who you need to be establishing relationships with.

5.1 Know that China is not one market

China is made up of multiple markets, to the extent that it was described by one interviewee to be a 'continent' in itself. There are many demographic and geographic components to understand. Some businesses focus on purely demographics (for example five star hotel restaurants anywhere), some focus on geographic factors (for example, Shanghai only) and some focus on an intricate mixture of both (for example, females between 24 and 40 who shop at a particular chain of supermarkets in certain Shanghai suburbs).

There is huge diversity even within a region, especially between people. It is therefore recommended that you take a province by province approach. What might work in one region may not work elsewhere. This is particularly important for New Zealanders who are trying to replicate their business model throughout China.

Interviewees described this diversity as being a continual learning process. Many were aided by having people in the market at all times and focussing on a small number of projects, rather than attempting to conquer the whole of China in one go.

“There is only one way to learn in China – you have to pay the school fees.”

5.2 Realise the sheer size of the markets

China is the world's fourth largest country covering 9,561,000 sq km⁵¹, and has the world's largest population. The EIU estimates that the population has grown by 0.5 to 0.6% annually over the recent years and is expected to continue to grow to peak at around 1.5 billion people in the mid-2030s.

⁵¹ EIU, China Country Profile 2009, page 2.

This sheer size and population is daunting for those New Zealand business people venturing to Shanghai, Beijing, or Hong Kong for the first time. For this reason, interviewees stressed the necessity of organising a driver and a translator in advance or on arrival in China.

There are 22 provinces (23 if Taiwan is included), four municipalities directly under central Government control, five autonomous regions (including Tibet) and two special administrative regions. These elect local people's congresses, and are administered by people's Governments.

5.2.1 Success requires focus and commitment

Due to the sheer size of China and its many markets, businesses need to have a sound, but flexible strategy and focus. Businesses must not be overambitious to capture China because in reality, even New Zealand's largest exporters cannot, and probably will never, supply the whole market.

New Zealanders need a long term focus and commitment to the market for their product and relationships to be successful. Interviewees commented on the need to focus on the demographic as well as the geographic. There is a need to focus on the target customer as well as the product.

Focus and commitment to the market is also important when establishing relationships. Abandoning the market for a period and then expecting to come back will not work. Businesses need to prioritise when targeting the Chinese market.

New Zealand businesses interviewed expressed the need to have a plan. You need to have undertaken market intelligence – which could be through focus groups at universities, exit interviews and other means. It was advised that New Zealand SMEs should read business publications on doing business in China widely, but to keep in mind accuracy issues especially when reading statistics.

5.3 Discussion helps

A strong theme from throughout the interviews in New Zealand and China is that New Zealand SMEs should never attempt to enter the Chinese market on their own. Talking to those people in China and New Zealand who have done this before, and using locals and NZTE will be critical to your success in China.

5.3.1 Ask those who have done this before

Through asking those that have been successful (or even unsuccessful) in the Chinese market, you can learn the issues that you will face and be prepared for them. This is not to say that you will avoid the issues yourself, but the awareness will help. Don't be put off by other peoples' experiences, learn from them and be prepared for them to happen to you. Attend seminars and listen and learn. One interviewee went to the extent of saying 'if it doesn't frighten you, you're not thinking big enough!'

Having local networks of people outside of the business is also good, not only to learn from their mistakes, but also for general support – people who you can have a drink with after work and share experiences with. Kiwi-to-kiwi relationships are vitally important. Learn from New Zealand businesses with long standing experience in the market. For example, from such a conversation you may learn to expect that the electricity can go off at any time. Other New Zealand businesses are also vital due to their connections with suppliers and customers. Networking with other businesses was important to the success of interviewees, and is strongly advised.

5.3.2 Talk to locals

Do not underestimate the depth of information you can receive from locals, from local business people to taxi drivers and hotel staff. If you are going to be a regular visitor in the market, it is worth cultivating a range of non-business contacts, as they will be able to provide you with some local context about the economy and general business practice.

In addition to this, a number of businesses commented on the value of Tradeshows. Tradeshows can provide a great opportunity to benchmark your product against the competition, to meet like-minded people, and to extend your range of local contacts.

5.3.3 Use NZTE

NZTE is New Zealand's economic development agency. NZTE supports the Government's goals of lifting productivity and growing the New Zealand economy to deliver greater prosperity, security and opportunities for all New Zealanders.

“If you are going to China, use NZTE. They are first rate. They have good people in China.”

NZTE has targeted services which are designed to connect New Zealand businesses with opportunities in overseas markets. The organisation also provides assistance internationally with five offices operating in China (Beijing, Shanghai, Hong Kong, Guangzhou, and Shenzhen).

NZTE has numerous resources and contacts available for New Zealand businesses who are wishing to enter the Chinese market. It offers a range of business support services to individual businesses and business groups including market intelligence, business matching, event management, in-market consulting and industry site visits⁵².

Many interviewees also commented that they wished that they had utilised NZTE's knowledge and expertise sooner in the process. Businesses who had used NZTE's resources have said that they were vital in the Chinese market. One interviewee went so far as to say that they would have 'given up' in China by now without NZTE.

NZTE has a huge amount of collateral developed and is useful in aiding New Zealand businesses to establish relationships. NZTE has also helped interviewees to clarify the best way of getting their product on the market. Most interviewees considered NZTE a good central contact point key in sourcing local knowledge and assistance with networking.

Another important relationship to establish is with the New Zealand Embassy.

⁵² NZTE. "Frequently asked questions." [http://www.nzte.govt.nz/explore-export-markets/North-Asia/Doing-business-in-China/New-Zealand-at-Shanghai-World-Expo-2010/Pages/Frequently-asked-questions-\(FAQs\).aspx](http://www.nzte.govt.nz/explore-export-markets/North-Asia/Doing-business-in-China/New-Zealand-at-Shanghai-World-Expo-2010/Pages/Frequently-asked-questions-(FAQs).aspx) (last accessed 14 September 2010).

5.4 Understand the political framework

The Chinese Communist Party (CCP) has been in rule in China since 1949 when Mao Zedong formed the People's Republic of China. The movement to open up the market through economic reforms since 1978 has raised living standards, yet China still remains tightly regulated.

Unlike in New Zealand, national leaders in China are not elected. Instead, leaders emerge from the CCP's political bureaucratic structure (The Politburo Standing Committee - the central decision-making body of the CCP)⁵³. Hu Jintao is the current President of China and has authority as the leader of the CCP, the Government, and the military. Instead of being elected, he was chosen and elevated to his position from general secretary of the CCP which he has held since 2002. Hu Jintao's position was confirmed for a second five-year term at the CCP party congress in November 2007. He will be replaced from 2012.

The succession of President is largely decided by personal connections within the party hierarchy⁵⁴. Many of the members of the Politburo are princelings (children of former party elders) or are members of the Shanghai-Clique (a group of loyalists of the former President Jiang Zemin). Limited elections are permitted at village levels as some attempts by President Hu have been made to open up the party and Government to greater public scrutiny⁵⁵. However, as you go up the political hierarchy, public involvement becomes limited. President Hu is trying to reverse this tradition.

It is forecast that the CCP will continue to dominate the Chinese political scene into the future. President Hu has positioned his loyalists for promotion in 2012. The CCP permeates all areas of China. Personnel departments of state-run institutions, including schools, enterprises and Government units, are staffed with party members⁵⁶.

New Zealanders entering the Chinese market need to be aware that unlike New Zealand, China's political system is not a democracy. This has an inherent impact on Chinese culture and business practices.

New Zealand is ranked number seven in the EIU Democracy Index 2008 and is described as a full democracy. In comparison to this, China is ranked number 136 out of the total 167 countries ranked and is described as Authoritarian. Taiwan is ranked number 33 (flawed democracy) and Hong Kong is ranked number 84 (hybrid regime). Hong Kong has been downgraded in the latest index from a flawed democracy in 2006 due to the decision of the Chinese Government to rule against introduction of full democracy until 2017 at the earliest.

5.4.1 Be aware that media and internet restrictions may be an issue

International firms doing business in China need to be wary about being reliant on the internet for generating business. Businesses need to be aware of the State's influence on internet availability, especially if internet usage of online banking, retailing and equity trading is blocked⁵⁷.

⁵³ EIU, China Hand, Chapter 1: Politics, economy and basic data, January 2010, page 21.

⁵⁴ EIU, China Hand, Chapter 1: Politics, economy and basic data, January 2010, page 22.

⁵⁵ EIU, China Hand, Chapter 1: Politics, economy and basic data, January 2010, page 22.

⁵⁶ EIU, China Hand, Chapter 1: Politics, economy and basic data, January 2010, page 22.

⁵⁷ Dun & Bradstreet Limited, China Country Report 2010/11.

In recent times however, China has become more exposed to increasing overseas influences and pressures. With the increase of mobile phones and electronic access, and the opening up of the economy, obstacles previously in the way of New Zealanders doing business in China are starting to be overcome. Communication across greater distances is now possible with people speaking and travelling more freely than before.

The Government still maintains a tight rein over the media and the internet (including a complete ban on networking sites such as Facebook and Twitter, and censorship of Google). However, investigative reports still do manage to get published from time to time.

5.4.2 Understand Chinese relations with Hong Kong, Taiwan and the US

It is important to understand China's relations with Hong Kong, Taiwan and the US as these relations have shaped China's history and will continue to influence the markets into the future.

5.4.3 China's relations with Hong Kong

Hong Kong became a Special Administrative Region (SAR) of China on 1 July 1997. Hong Kong's Basic Law (mini-constitution), states that the ultimate goal of the SAR should be full democracy. The Basic Law guarantees the SAR its own legislature, legal and judicial system, and full economic independence. Defence, security and foreign affairs remain the responsibility of the central Government in Beijing.

China ruled in 2007 that full democracy will not be permitted in Hong Kong until 2017 at the earliest. The population of Hong Kong at the moment plays not a great part in electing Hong Kong's chief executive. China's Government remains a big influence in Hong Kong's political system by controlling the selection of the chief executive.

5.4.4 China's relations with Taiwan

China's relationship with Taiwan has always been tense. However, since the recent election of Ma Ying-jeou in 2008, the China-Taiwan relationship has improved significantly. The election of Mr Ma ended the rule of pro-independence Democratic Progressive Party who at times caused the relationship between Taiwan and China to be on the brink of war.

Since being elected, Mr Ma has liberalised restrictions on Taiwan companies investing in China and facilitated China exchanges. This includes allowing more direct flights to and from China which is eased by the fact that China has opened up 16 more airports to Taiwanese entry.

The two Governments have solidified their goals of closer economic partnership with the signing of the Economic Cooperation Framework Agreement on 29 June 2010. The two Governments have agreed to put aside political differences to focus on deepening financial and trade ties.

5.4.5 China's relations with the US.

The US is China's largest single trade partner and accounted for 18.4% of China's exports in 2009⁵⁸. China is also a large holder of US debt. Tensions with the US have arisen recently due to China's controlled exchange rate, China's huge trade surplus, China's limited intellectual property protections, and the US's continual provision of military equipment to Taiwan.

5.4.6 Be aware that there are many forms of corruption

China has a long history of corruption. When doing business or thinking about doing business in China, businesses need to be aware that they may face corruption.

Transparency International is recognised as the leader in providing information about corruption. The organisation produces an annual Corruption Perceptions Index, which measures the perceived level of public-sector corruption in 180 countries and territories around the world. The figures represent the international community's perception of improved public sector ethics and a commitment to implementing anti-corruption measures.

In the 2009 Corruption Perceptions Index⁵⁹, China ranked 79 out of 180 countries. New Zealand again ranked number one (which means we are perceived as being the least corrupt country in the world). This stark contrast means that New Zealand businesses people will be especially unfamiliar with certain practices and may struggle to identify true corruption. For example, much of the culture is entwined in what may be officially defined as corruption (gift giving, and provision of 'tips').

In comparison, Hong Kong is ranked twelfth equal with Luxembourg in the 2009 Corruption Perceptions Index, whilst Taiwan is ranked 37 equal with Botswana. Macau is ranked at 43 equal with Costa Rica.

China has in recent years condemned business corruption. This includes introducing harsher sanctions for recipients of bribes of more than US\$12,000 in both the public and private sector. Proof of the Government's increased focus on corruption and official misconduct is an increase of 2.5% in the number of officials in 2009 being found guilty of corruption: a total of 106,000 convictions⁶⁰.

Specific instances of convictions include the recent sentence of Chinese tycoon Huang Guangyu to 14 years in prison after being found guilty of bribery, insider trading and illegal business practices. Thousands of officials have been demoted or removed from their posts for taking bribes or mishandling civilian cases resulting in street riots and mass unrest⁶¹. Among these were a former rising CCP member and governor of Shanxi, Shenzhen's mayor, the former head of Guangdong's Higher People's Court and the vice-director of Guangdong's public security bureau⁶².

⁵⁸ EIU, China Country Forecast, released May 2010, page 3.

⁵⁹ See http://www.transparency.org/policy_research/surveys_indices/cpi/2009.

⁶⁰ Dun & Bradstreet Limited, China Country Report 2010/11; BBC News. "Corruption up among China government officials." <http://news.bbc.co.uk/2/hi/asia-pacific/8448059.stm> (last accessed 14 September 2010).

⁶¹ EIU, China Hand, Chapter 1: Politics, economy and basic data, January 2010, page 1-2.

⁶² EIU, China Hand, Chapter 1: Politics, economy and basic data, January 2010, page 1-2.

There have also been a number of senior business leaders charged with corruption. The Chairman of China Petroleum and Sinopec was found guilty of taking bribes and given a two-year suspended death sentence in July 2009⁶³. Rio Tinto executives were also convicted for commercial espionage and taking bribes in March 2010⁶⁴.

There may be an increase in corruption investigations in the future as central authorities investigate whether officials misused funds associated with the economic stimulus policies of 2008-2009⁶⁵. The CCP's Central Commission for Discipline Inspection (CCDI) has been particularly active since Mr Hu took power⁶⁶.

Transparency International also produces a Bribe Payer's Index⁶⁷. This ranks the 22 leading international and regional exporting countries by the tendency of their firms to bribe abroad⁶⁸. In 2006, the combined global exports of goods and services and outflows of foreign direct investment of the 22 countries represent 75 percent of the world total. The Bribe Payer's Index is based on responses of 2,742 senior business executives from companies in 26 developed and developing countries. In 2008, China ranked 21 out of 22 countries behind Russia. This shows that Chinese firms are seen as most likely to bribe abroad. Hong Kong placed at number 13 and Taiwan at 14 equal with South Africa and South Korea. Macau was not measured in this index.

The Bribe Payer's Survey indicated companies in public works contracts and construction; real estate and property development; oil and gas; heavy manufacturing; and mining were seen to bribe officials most frequently. Public works contracts and construction; oil and gas; mining; and real estate and property development were seen as the sectors whose companies were most likely to use legal or illegal payments to influence the state. The cleanest sectors, in terms of bribery of public officials, were identified as information technology, fisheries, and banking and finance. The sectors where companies are seen as least likely to exert undue pressure on the public policy process are agriculture, fisheries and light manufacturing. New Zealand businesses interviewed that used distributors or 'Power Agents' were insulated from any corruption or bribery in the market. Most businesses advised against using corruption, as it tends to complicate rather than be advantageous in the Chinese market.

Bureaucracy was found to be an issue; however relationships with local Governments and with your partners can help you wade through this. Be aware that authorities may be looking for the chance to make money personally. Additionally, be aware of the obligations these relationships may bring. Being treated to grand hospitality in China will set up obligations for you to reciprocate back in New Zealand.

Although in more recent times President Hu's Government is placing greater emphasis on combating corruption, it is still widely recognised that it will be extremely difficult to effectively combat corruption due to China's size and lack of separation between the Government, military and judiciary.

⁶³ EIU, China Hand, Chapter 1: Politics, economy and basic data, January 2010, page 1-2.

⁶⁴ Dun & Bradstreet Limited, China Country Report 2010/11.

⁶⁵ EIU, China Country Report, released May 2010, page 5.

⁶⁶ EIU, China Hand, Chapter 1: Politics, economy and basic data, January 2010, page 1-2.

⁶⁷ See http://www.transparency.org/policy_research/surveys_indices/bpi.

⁶⁸ Transparency International. http://www.transparency.org/news_room/latest_news/press_releases/2008/bpi_2008_en (last accessed 14 September 2010).

For further information on this topic see <http://chinafta.nzte.govt.nz/solutions/finance-and-legal/corruption.html>.

5.5 Understand the legal framework

Unlike New Zealand, China's judiciary and legal system still has strong ties to the central Government – lacking the separation of power which exists in most modern democracies. Because of this, the cost, and the logistical challenges involved, avoiding litigation is advised.

There are a number of ways to mitigate the risk of litigation in China. However, there is no complete mitigation. Seeking professional legal advice from experienced legal practitioners is advised.

You need to understand that regulations can and will change at any time. One interviewee needed four licences to supply a product in to Shanghai. This expense, coupled with the risk that the regulations could change at any time, results in difficulties. Having the right relationships can help to stay on top of these changing regulations.

The Chinese legal system is based on a civil law system. The system comprises the legislature, executive and the judiciary; however there is no real separation of powers due to the one-party rule.

The National People's Congress (NPC) is the national legislature. However, as China is a party-state system, the legislature is inferior to the party. Members represent different areas and provinces of China as well as the armed forces. Members are usually limited to members of the CCP and its allied parties. The main purpose of the NPC is to 'elect' the President and members of the State Council and members of the Standing Committee of the NPC.

The NPC also functions to pass CCP policy into law (which remains mostly a rubber-stamping process without much debate)⁶⁹. In recent times however, the NPC has come to play a more significant role in policy debate and drafting legislation than in the past. The NPC is being encouraged to take its duty of holding the Government into account more seriously.

The legal system in China could be a source of risk for New Zealand SMEs operating in China due to this lack of separation of powers. The judiciary is merely a branch of the CCP-controlled Government bureaucracy. Judges are appointed by the NPC in the Supreme People's Court⁷⁰ and are accountable to the local party and Government who could have vested interests which could interfere with the outcome of a case.

The judiciary still adheres rigidly to the Government line although there have been recent attempts to professionalise the judiciary and the application of the law. The Central Government has ordered judicial reviews of verdicts issued by courts that appear to be swayed by the power of a local Government.

⁶⁹ CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html> (last accessed 2 August 2010).

⁷⁰ CIA World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html> (last accessed 2 August 2010).

The Special Administration Regions Hong Kong and Macau have separate Governments, legal systems and quasi-constitutions (known as Basic Laws) to mainland China. However, the central Chinese Government is responsible for the foreign affairs and defence of both⁷¹.

The security of contracts in China remains problematic. Foreign investors often complain of the maze of regulatory difficulties they encounter in pressing their local partners to adhere to previously agreed understandings. A related concern is the weak tradition of consistent implementation of court rulings, especially if they favour foreigners over locals.

5.5.1 Application of the labour law will impact your business

On 1 January 2008, the Labour Contract Law came into effect in China. The new Labour Contract Law is aimed at giving more power to employees at the expense of employers.

Some of the changes included (as outlined by EIU):

- More detailed regulations with regards to fixed term contracts, probationary periods, non-compete agreements and the handling of collective dismissals
- Requirement to provide employees with a written employment contract within one month of starting employment or face double wage payment to the employee
- If no written contract, after one year, the law will assume that the employee is in an open-ended employment contract
- Employees with 10 or more years of continuous service are entitled to an open-ended employment contract
- Fixed-term contracts are still permitted, however termination of the contract before expiration is prohibited except in the event of legal cause or a collective dismissal
- A maximum of only two fixed-term contracts can be offered to an employee, and at the completion of the second contract term, the employee would be entitled to request an open-ended contract
- There are penalties for terminating any employment contract illegally which can include double severance pay

Local labour bureaus play a critical role in China in the implementation of labour-related law and regulations, and hiring practices. Labour bureaus have the authority to approve labour contracts, monitor compliance with the national labour law and implement local labour regulations. The following are contact details for two of China's most popular labour bureaus:

⁷¹ EIU, China Country Profile 2009, page 6.

Shanghai Municipal Labour and Social Security Bureau

1800 Tianshan Road, Shanghai 200051

Tel: (86 21) 6274 8577, hotline: (86 21) 12333

Beijing Municipal Labour and Social Security Bureau

5 Yongdingmen Xi Street, Xuanwu District, Beijing 100050

Tel: (86 10) 6318 2700, Fax: (86 10) 6316 7854

Website: www.bjld.gov.cn

5.5.2 Intellectual Property protection may be a challenge

Intellectual Property (IP) protection is an issue facing businesses around the world. For New Zealand businesses contemplating entry into the Chinese market, IP is one of the most challenging issues faced. Piracy, patent and IP content theft, and counterfeiting are well-known problems in China and pose a considerable risk to New Zealand firms doing business there.

IP includes products, design and processes, trademarks and patents, brand names and promotional material, user manuals, trade secrets and domain names. China has strengthened their IP rights since joining the World Trade Organisation in December 2001 and has numerous laws to protect and enforce IP rights.

Enforcement of IP rights is difficult due to the costs and complexities involved with litigation and the inconsistencies and bias of Chinese court decisions. This is especially applicable to rural areas where you could face courts' local protectionism, ignorance, corruption and other political influences.

International pressure continues to press for more consistencies and strength of China's IP rights protection. The US has placed China on its Special 301 priority watch list of 11 countries regarded as the worst violators of IP rights.

What can you do if your intellectual property rights are violated?

The EIU outlines the two options for enforcing IP rights⁷². You may either pursue legal action through the courts (civil or criminal) or seek administrative relief through one of China's Government appointed IP rights offices. Administrative actions are more cost effective and are aided by experienced local officials. This option remedies some of the uncertainties of going through the Chinese court system.

Administrative action can result in raids in which counterfeit goods are seized and destroyed. The enforcement agencies have the power to fine but not reward damages. These fines are often too small to deter the offenders in the future.

⁷² See EIU, China Hand, Chapter 10: Intellectual property and licensing, October 2009.

Courts however do provide a wider range of relief which can include damages and injunctions but do remain an uncertain and more expensive option. Seeking court action is recommended if there is a large amount of money involved, publicity is needed, or your case involves complex technical matters or matters that are a grey area in terms of the law. Specialist IP rights tribunals and courts have been set up in major cities which has professionalised and given some certainties to IP rights holders.

For smaller infringements, a warning letter of cease and desist is usually enough to stop people from using your IP.

It is advised that you seek professional legal advice before seeking enforcement of your IP rights. In order to protect your IP rights you should:

- Consider which products need to be trademarked, not only now, but in the future
- Protect your Chinese-Language marks in addition to your New Zealand marks
- Defensive registrations may be needed for similar sounding marks as well as in other product categories and classes
- Be aware that a mark registered under the food class will not be able to stop someone from using that mark on a clothing product
- Do not be too trusting with pictures and drawings of your product and do not put detailed descriptions on your website
- Keep all IP documents safe to ensure a complete audit trail if litigation is required
- When entering into collaborations with Chinese partners or agents, ensure you have signed contracts that protect your rights and ensure there is a written agreement as to who owns what
- Ensure confidentiality agreements are in place as well as noncompetition clauses in employment contracts
- Register all of the rights that you can – patents, trademarks, and copyrights
- Remember - the cost of registering is far cheaper than the cost of litigation

You also need to be aware that China's IP laws are different to New Zealand's IP laws in that China's system is based on a 'first to file' principle rather than the 'first to use' or 'first to invent' principle. Your rights are not recognised if they are not registered. New Zealand businesses need to be cautious and aware of this difference as people may have already set up your trademark and then try and sell it to you. It is also important to note that you cannot submit trademark applications directly. You must use a designated agent to file for you.

Do not let the potential threat of IP rights violations deter you from entering the Chinese market. China is continually improving the law and application of the law in this area. To manage these risks, we recommend seeking professional advice on specific circumstances before entering the Chinese market. NZTE also can supply a list of IP specialists in China.

5.6 The workforce may present challenges

Internationally it has been reported that despite China's enormous population, finding and retaining the right employees remains a problem for businesses in China. Although there is a continual increase in rural migrants to the city, these migrants are largely unskilled and are poorly educated.

Businesses are therefore having trouble finding the necessary workers and face high turnover rates of those they do hire. It is apparent that the demand for sufficiently skilled workers, does not match the supply of skilled workers available in China – in the right place, at the right time.

This situation however may be set to change. Easier access to college education in recent years to meet market demand for an educated and skilled workforce should result in a closing of this gap. Since 1999, there has been an increase of nearly six times the number of student enrolments at tertiary institutes – from 1,597,000 in 1999 to 6,077,000 in 2008⁷³. This has allowed foreign companies an easier task than before when looking to recruit the people they need in China.

Despite this increase in Chinese graduates, there are a number of job categories which are still found to be the hardest to fill in China⁷⁴. These varied in Hong Kong and Taiwan and are:

	Mainland China	Hong Kong	Taiwan
1	Production Operators	Sales Representatives	Sales Representatives
2	Technicians	Engineers	Engineers
3	Management/Executives	Management/Executives	Management/Executives
4	Labourers	Technicians	Technicians
5	Sales representatives	Customer Service Representatives & Customer Support Staff	Researchers (R&D)
6	Skilled Trades	Accounting & Finance Staff	Production Operators
7	Restaurant & Hotel Staff	IT Staff	Skilled Trades
8	Engineers	Marketing & Public Relations Staff	Accounting and Finance Staff
9	IT Staff	Secretaries, PAs, Administrative Assistants & Office Support Staff	Quality Controllers
10	Sales managers	Supervisors	Sales Managers

Source: Manpower Inc. 2010 Talent Shortage Survey.

⁷³ EIU, China Hand, Chapter 8: Human Resources, August 2009, page 7.

⁷⁴ Manpower Inc. "Talent Shortage Survey." <http://www.manpower.com/research/research.cfm> (last accessed 14 September 2010).

The Manpower Inc. 2010 Talent Shortage Survey found that 40% of China's employers are having difficulty filling positions due to the lack of suitable talent available in their market. This is an increase of 25% from the 2009 survey. In Taiwan and Hong Kong, the degree of difficulty in finding suitable talent was higher – 41% and 44% respectively. However, it appears that in Taiwan employers are experiencing less difficulty than before in finding suitable talent – in 2009 62% of the regions' employers were having difficulty filling positions.

Despite this talent shortage found by Chinese, Hong Kong and Taiwanese employers, the degree of difficulty in finding the right talent was not unusual in comparison to other countries in the Asia Pacific Region. 45% of Australian employers are having difficulty in finding suitable talent to fill positions, whilst 76% of Japanese employers had the same experience. This can also be compared to the experience felt by 30% of New Zealand employers.

An increasing number of postgraduate and undergraduate students with international work experience are returning to China. This part of the workforce is advantageous to have working for you in your business as along with having gained international exposure, a stronger education and a wider range of skills, they have a strong familiarity with the Chinese language and culture. Interviewees agreed that you need to hire locals with long experience in international business. Hiring expat New Zealanders is also advantageous as they have the understanding of New Zealand business as well as having exposure to Chinese culture and business practices.

Along with finding the right talent, staff turnover is also a problem for businesses in China. One interviewee commented on low staff loyalty and the fact that staff will 'go down the road' for an extra few dollars a week. Low staff loyalty could also work to your advantage however in that staff of competitors will come to you - along with their already built relationships and trade secrets.

Despite the difficulties in hiring the right staff, there has been a theme of serendipity amongst businesses interviewed. Some New Zealand businesses had been approached by employees from competitor firms in China and experienced the advantages of those employees having established relationships. One interviewee expressed that they didn't involve enough local people at the start and that it would have been an advantage when setting up in China.

Guidance when hiring staff can be obtained through NZTE or through talking to experienced businesses already in the market.

5.6.1 Understand how to approach different generations

In 1979, the Chinese Government implemented a one child per family policy. This was in an effort to not only control the population but to allocate urban dwellers scarce resources to less children in hope that they would have a better chance for 'productive lives'. Most families previous to the one child policy had five or six children so this brought a radical change in the children of the generation after the policy was introduced. This generation has come to be known as the 'Post 80s' generation.

This generation has grown up in a different cultural context than what we have in New Zealand. Children of this generation are usually the only offspring and because of this they are doted on by their parents and grandparents which can lead to the 'little emperor' complex.

These ‘little emperors’ often have all of the material comforts that their parents didn’t have. They are more impatient, more assertive in defending their legal rights and less likely to put up with low pay and job discontent.

However, because these children have attended Chinese schools, they still largely conform to the Chinese way of doing things – stressing the group over the individual, more nationalistic and proud of their country than Westerners and more easily offended by criticisms (see *mianzi*). They also have instilled in them a need to get things right, which in turn may lead to risk aversion.

This is because a lot of pressure is placed on this generation to succeed as their parents have invested all of their time and money into their only child. The one child policy also places a heavy burden on the child as they will become the sole caregiver for not only two parents, but also four grandparents as life expectancy in China increases.

While the lengthy history and culture has influenced the Chinese, this younger generation has had the opportunities of international influences and education. This has led the Post 80s generation to have a more modern and Western understanding of the way of doing business. They are becoming more like their counterparts in other countries; however the historical influence must not be forgotten.

5.7 Understand that you will never fully understand the market

A number of interviewees, many with extensive experience in the Chinese market, proclaimed that they will never fully understand the Chinese market. Some went on to explain that the more they learnt about the Chinese market, the more they realised how little understanding they had.

Successful businesses we interviewed did extensive research, visited other businesses to observe methods and approaches, visited China several times and attended trade shows. You must have done your research well before entering the market, and know exactly where in the market you and your product are going to fit.

Entry into the Chinese market is a voyage of discovery. No matter the amount of market and generic research you do, after 20 years you still won’t understand everything. One interviewee said that anyone who proclaims they understand all of China, do not understand China at all. Once you accept that a full knowledge of the market is impossible, you are more likely to focus on a very specific subset of the market where you can gain quite specific knowledge and thus be more likely to succeed.

A general theme from interviewees was that quality reliable robust market research and data is not available. It is important therefore to get multiple views and constantly check and validate new information. Even those companies with a specialised product and key relationships with Government institutions find that relative to other markets reliable information is limited. The result is that you have to try your best – but remember that the information is ‘universally suspect’.

For retail products, there is no better market research than actually visiting the market. Go and have a look at what is really happening in areas that are important to you. Look at supermarket shelves and look for “how much dust has gathered on the products”. Ask retail assistants in stores what sells the best. Go and assess your competition and their pricing structures. According to interviewees, most in-store promoters will be bored and will be more than willing to talk to you!

6 Scope and limitations awareness

In order to succeed in the Chinese market, you must be aware of the scope and limitations of your business. You must have a true understanding of your weaknesses and constraints and only act within the scope that you can manage.

Success in the Chinese market requires not only focus, but long term commitment. The Chinese market requires closeness to the market, significant investment of time and of money, complete buy in from your business and the right market entry strategy. This is further outlined below.

6.1 Be close to the market

A number of the true success stories we came across throughout the interview process were a result of key employees living in, or close to their market. Having the right people, in the right place, at the right time is crucial for success. Just like any other market, in order to be taken seriously and succeed, you must have a local presence. Having an established office in China signals a true long term commitment to the Chinese market. It is difficult to make critical decisions without living in and understanding all of the facts and figures of the market. Actually living in the market provides more insights than what you can learn from market research. Making decisions in New Zealand without having all of the information and knowledge of the market may be a crucial mistake.

It is impossible to manage and create the depth of relationships that are required in the Chinese market from New Zealand. To establish the requisite level of mutual trust you must be able to have ongoing face to face meetings with your networks to solidify your relationships.

6.2 Success takes time

Relationships take a long time to develop to a level which is helpful and sustainable in the Chinese market. A number of interviewees said that a minimum of five years and the reciprocal support through a down turn was necessary to cement the relationship. Some said it took up to ten years with reciprocal support through two or three downturns to fully solidify relationships.

You need to be prepared to wait and invest in relationships without any initial pay off; there is no 'easy way' to create these friendships in China. You need to spend time making sure you are dealing with the right people. Do your due diligence. Also ensure you build a diverse range of relationships – including customers and partners/distributors.

You need to be open minded, willing to make mistakes and willing to learn from those mistakes. Investing time at the beginning to prepare a business plan and establish realistic milestones to manage expectations will make your market entry transition smoother. However, you will learn to expect pitfalls and be prepared to be malleable when you arrive in China.

6.3 Success requires investment

Your business will not only need to invest time into your set up in China, but also money. Many interviewees discussed the need for 'deep pockets' and the need to be prepared for significant losses. There is also a high demand for working capital as payment terms and credit control can be a challenge.

It is therefore important that you have a clear budget and know what losing looks like. Be prepared to pull out of the market if you are not succeeding. Most New Zealand businesses are too small to succeed by themselves so collaboration models may be something that is required.

Relationships can also be expensive. It is important that you establish your relationships before entering the Chinese market. This is especially important for smaller businesses. Relationships also need to be sustained by two to four visits to the market each year for around one to two weeks each. You may also need to provide educational visits to New Zealand for your Chinese partners and employees. This will be an opportunity for you to reciprocate the hospitality received in China. Invest a lot of time and effort to make sure the execution of these visits is professional and memorable.

Culture and language are not the only key issues – payment terms are also a challenge. Many interviewees explained the crucial need for credit control in China. You may have to offer lengthy credit terms which can be from 60 days to 6 months. This means that your credit control has to be very good. It is important to set up someone who is responsible for credit control. Do your homework and test your customers before you agree to them being a customer, otherwise one day the people you deal with may disappear!

Because of this and other factors, it can take a long time (and substantial investment) to become established in the Chinese market. We estimate from interviewees experience that the investment required to succeed can be from \$2 to \$5 million. However, despite the cost, the overwhelming response from those interviewed was that China presents opportunities that New Zealand businesses can not afford to ignore.

6.4 Focus, Focus, Focus

Although focus has already been covered, it is such a dominant theme it requires emphasis. Throughout the interviews the strongest emerging theme was the need for focus. Don't be too ambitious to supply to the whole of China. China is still 23 provinces, each one with different histories, cultures, languages, and scales. No New Zealand business will be able to dominate China nationally, so there is the need to focus on markets, products, opportunities and positioning.

Focus on the markets that you can service. Your product requires a laser sight, not a shot gun. Many businesses did not realise the need for this focus and went in to China looking to supply several provinces and sectors. Once the need for focus was realised, their focus was increasingly tightened to supplying one sector in one city. Realising this need will save you money and time.

Focus on sustainable product differentiation. At the moment, New Zealand supplies China with mostly commodities. However, there is not going to be sustainable growth from supplying this market. There is a need to focus on specialised, niche products, especially for the gift market to create a sustainable business in China.

Focus on the real opportunity *not* “there is 1.3 billion people – I don’t really need market share”. Target the opportunities that will give you long term benefits for growth of your business and then don’t take your eyes off the ball. Understand your priorities and make sure you stick to them. Do not get distracted by obstacles in your path.

Focus on the optimal channel to market. This varied across interviewees and sectors. Choose the right market channel for your business and seek professional advice to determine this channel.

Focus on positioning your product and brand in China. New Zealand SMEs will not be able to compete sustainably in the commodity market so target high end positioning for your product and brand. The middle market is an emerging market in China. Focussing on the supply this market will pay dividends.

Focus on the long term. China is not a market that is likely to be successful for opportunistic short term forays. There must be a long term focus and strategy for not only success, but to be taken seriously by the Chinese. New Zealand businesses need to be committed to China for the long term.

6.5 Focus on those that have walked the road before.

Talk to other New Zealand businesses who have been to China and who are in China. Learn from others who have been successful – do not let their mistakes deter you. Complete buy-in will be required

In order to succeed you must have total commitment from within the company, and a clear owner of your Chinese operations. You must have complete acceptance from the Board before you go to China. A comprehensive but agile China strategy sold internally is also vital. Be committed and follow through on your strategy.

Without this buy-in, your China operations may struggle, and even die, as the resources required for sustainability in the market are not recognised. You need to educate your New Zealand employees on your direction in the Chinese market. Staff in New Zealand may be resistant and see China as a threat to their jobs therefore it is also important to get them on board before entering the Chinese market.

6.6 Find the most suitable market entry method for you

Almost every company interviewed had a different approach to market entry. There is not one clear universal method of market entry which delivers success and therefore clear research (including talking to others who have done this before) will be required to find the method that suits your particular circumstances.

The optimal market entry method is dependent on your business structure, risk profile, amount of investment available, and business sector. Extensive due diligence will be required to decide what is best for any business wishing to enter the Chinese market.

Nevertheless, it is clear that getting the market entry ‘right’ is the most important part of doing business with China successfully. As one interviewee pointed out, if you get your market entry right, you can be wrong with everything else and still survive; however if you get the market entry wrong, no other good decisions will keep you afloat.

The following table outlines the key options for market entry into China:

Agents or distributors	<p>An agent sells goods on your behalf and is paid a commission.</p> <p>A distributor buys goods from you at one price and sells them to others at a higher price, making their income from the margin.</p>	<p>Proved successful for those businesses with a highly demanded product.</p>
Representative Office	<p>Setting up a representative office is the easiest way to establish an ‘on the ground’ presence in China – however, they have limited powers and cannot conduct sales. Representative offices are limited to research and liaison activities and cannot conduct any business transactions.</p>	<p>Proved successful for those businesses who wanted to carry out non-operational business activities (including liaison with clients of its head office, introducing the products of its head office, market research and information collection).</p> <p>It is also beneficial for those who wanted to establish some form of market presence without the need for great investment.</p>
Wholly foreign-owned enterprise	<p>A wholly foreign-owned enterprise is a private, limited liability company that is 100 percent-owned by a foreign entity (or several foreign investors). Invoices are able to be issued and revenues can be received then sent back to New Zealand after taxes have been paid. Minimum capital requirements must be met.</p>	<p>Proved successful for those businesses who wanted to establish manufacturing and direct sales capabilities in China.</p>
Joint Venture	<p>A joint venture (JV) is a business jointly owned by a Chinese and a foreign partner. These should be carefully considered before entering into given the complex process involved.</p>	<p>For certain industry sectors where a Chinese partner is required by regulations or for leveraging the local knowledge, resources and relationships of the Chinese partner.</p>
Collaboration with a larger player	<p>A formal or informal arrangement with a larger party to gain access to their relationships and distribution channels</p>	<p>For small businesses without the means to enter China individually</p>

Source: NZTE, *Navigating China and interviews with New Zealand businesses*

Not all options are available to all types of businesses. When deciding which mode of market entry is the best fit, there are many issues to consider. From those interviewed, these issues include, but are certainly not limited to, the costs of exiting the market (which can sometimes be substantial), and the higher capital requirements of setting up a WFOE.

Collaboration is another option for market entry, which can mitigate some of the high risk factors, and decrease the level of capital required. Finding another larger business (either New Zealand based or otherwise) which has existing market relationships, distribution channels and support is an option smaller New Zealand businesses should seriously consider. Given the difficulties of market entry, support and exit, finding a bigger player with the same or a non competing complementary product may be the only ‘ray of hope’ for smaller New Zealand companies. If you have existing relationships with these bigger players, leveraging these to enter markets in China will be especially advantageous.

Again, extensive due diligence will be required before entering the Chinese market to find the best fit for your New Zealand business. Some New Zealand businesses interviewed had changed their market access point over time to better suit their operations. There is no one size fits all.

6.6.1 Consider a smaller focus

Whilst Shanghai was rated number one in the 2008 MasterCard Worldwide Emerging Market Index, many interviewees discussed the merits of focussing on smaller cities as market entry and supply chain access is much simpler. Shanghai is very large and intensely competitive and according to one interviewee “there are far better points of entry that will cost far less”.

According to the Index, Chengdu, Nanjing and Xiamen are rapidly emerging on the world stage and are well known drivers of commerce in their regions. Xiamen (previously known as Amoy) is placed in a strategic position along the southeast coast – a city to watch as China’s relations with Taiwan strengthen. Harbin and Qingdao also have rising markets with strong growth factors, but this has to be balanced with the political and social risks.

Even though Shanghai has emerged as China’s most important business, financial, and commercial centre, and top emerging market, some Chinese do not consider Shanghai as ‘real China’. If you set up in Shanghai, be aware that you may be restricted to doing business in that province.

6.6.2 Hong Kong

Hong Kong, New Zealand’s ninth-largest trading partner, was used by some interviewees successfully to access mainland China. However, Hong Kong should not just be considered as a means of accessing greater China, but also as a market in its own right. Hong Kong can also be used as an access point for the rest of Asia.

Hong Kong has concluded a Closer Economic Partnership Arrangement (CEPA) with Mainland China which facilitates access to Chinese markets⁷⁵. Under the CEPA, Mainland China is committed to simplifying procedures and strengthening cooperation with Hong Kong on customs clearance, quarantine and inspection, quality assurance and food safety. Investment is also facilitated through the CEPA.

The CEPA allows nearly all goods produced in Hong Kong the ability to enter China at zero import tariffs. Overseas companies can take advantage of the CEPA’s concessions granted to Hong Kong products and Hong Kong service companies by outsourcing to or partnering with a CEPA-qualified manufacturer or service company in Hong Kong.

⁷⁵ Deloitte International Tax and Business Guide – Hong Kong, page 1.

There is also a New Zealand–Hong Kong, China Closer Economic Partnership (CEP) signed in late March 2010, however it had not yet entered into force as at June 2010. The CEP is designed to improve business flows of goods and services. The CEP also complements New Zealand's FTA with China.

The advantages of accessing China through Hong Kong are numerous. Along with having the close proximity to Mainland China, there is support from many entities including NZTE who has a well manned and well connected Hong Kong office. Other entities such as Invest Hong Kong and Dah Chong Hong have a high level of interest in small businesses and offer established resources and distribution channels in Hong Kong and China.

There are also other advantages to the Hong Kong market. English is an official language and is widely spoken by traders. The legal environment is much more like New Zealand than mainland China's and provides reasonable IP protection. The Hong Kong tax system is also simpler. Infrastructure projects are in the process of construction which will make transport between Hong Kong and China more accessible and faster than before.

Hong Kong however has the potential to distract New Zealand SMEs from the main prize. Some interviewees explained that it won't make China any easier and that entering the Hong Kong market as a stepping stone to mainland China may keep New Zealand businesses in their comfort zone.

For this reason, choosing Hong Kong as a market access channel should be carefully weighed up. The decision ultimately depends on the product, aspiration, contacts, experience and scale. Hong Kong may be a good stepping stone to China; however care needs to be taken to avoid it becoming a distraction.

7 Conclusion

Opportunities exist in China, if you are willing to change your behaviour to be successful. This will require focus, commitment and collaboration.

7.1 Opportunity

Despite the challenges and the need for caution identified in this report, it should not be taken to mean that entry in to China is not 'worth it'. All interviewees stated that the rewards (or opportunity for reward) were worth the effort. It is clear that China is a market that New Zealand businesses cannot ignore. As one interviewee pointed out, "the cost of entering the Chinese market is high; however the cost of not entering it is much higher, even non-affordable". Even though your road to success may not be easy, there are always solutions.

We need to identify unique products with sustainable market demand to supply – especially those appropriate for the gift market. We as New Zealanders have to achieve premium placing, and creating a recognisable New Zealand brand may well be a worthwhile investment if there is sufficient interest across the businesses that are targeting China. We have to focus on premium, as competing at the low end is unfeasible. Above all, we must produce what the markets want.

New Zealand is seen by some in the market as a signature of quality and reliability, but we need to show long term commitment to the market. We need to get into branded product and stop fighting amongst ourselves.

7.2 What needs to change

Despite some New Zealand SME's success, two aspects of our trade with China need to change. These are the over reliance on serendipity, and our business etiquette and behaviours.

7.2.1 Serendipity

Serendipity was a strong theme in the interviews held in New Zealand; however, it was nonexistent in those interviews which were held in China. Going forward, we cannot rely on serendipity to help New Zealand businesses establish success in the New Zealand market.

7.2.2 Behaviour

To achieve true success in China, behavioural change is required by New Zealand SMEs. There needs to be a move from the Kiwi 'she'll be right' and 'I am happy with a small slice' attitudes and move towards really listening to the market and teaming with others to share information.

New Zealand businesses wanting to enter the Chinese market should be actively seeking complementary offerings to create some scale. Use the help that is available, and use it wisely. Entities such as NZTE, Invest Hong Kong, KEA and others such as New Zealand Winegrowers Association have a wealth of knowledge, and resources available. We need to ensure that our smaller SMEs can take advantage of the opportunities that exist in China. With the scale of investment and length of time required to become established in the market it seems that most smaller New Zealand SMEs would not be able to succeed. NZTE will be vitally important in advising on what is a complex market as New Zealand focussed market specialists.

Riding on the coat tails of our recent success at the Shanghai World Expo 2010, New Zealand as a country needs to be established as a recognisable brand in China. Even though our products are established as quality, many interviewees expressed the need for a Government push to establish New Zealand as a brand, much like Australia has been successful with. It was noted that Australians have an advantage due to its brand investment and differentiation. Without this branding, New Zealand will continue to lose competitiveness, as quality alone in this brand conscious market may not be enough.

Investment is required in developing more New Zealander's with knowledge of the language, the business environment, the culture and the market. A good example is the people who were contracted to work at the Shanghai expo. We need more of these!

7.2.3 Collaboration

Due to the sheer size and complexities of the market, collaborative models are also required if the market is to be accessed by New Zealand SMEs. The individualism of New Zealand companies was perceived to be a disadvantage by interviewees.

Collaboration could be the key to success for many New Zealand businesses - New Zealanders need to recognise that other New Zealand businesses are not the true competition. Our real competitors exist in competing export countries.

The options available to New Zealand SMEs are but are not limited to:

- Find a bigger player you can work with
- Build a coalition of the willing
- Work with an offshore player with scale and existing distribution

7.2.4 Conclusion

The key to reading this report is to recognise the difficulties a market like China poses, but to focus on the opportunity. New Zealand SMEs with a strong focus within the Chinese market, dedicated commitment to the market, a detailed strategic direction, and the flexibility to adapt to changes have the attributes to succeed.

8 Case Studies

Pacifica Seafoods Group New Zealand

Overview of Pacifica Seafoods

Pacifica Seafoods Group is a division of Skeggs Group Ltd which was established by Sir Clifford Skeggs in 1952. Skeggs Group Limited is a private, family owned company with interests in seafood, maritime and land transport, tourism, wine, and property. The Skeggs Group employs over 500 people and generates turnover in excess of \$125m annually.

Pacifica Seafoods is one of New Zealand's largest privately-owned producers and exporters of New Zealand Greenshell Mussels and other quality seafood. This includes the growing, harvesting and processing of mussels and salmon and Bluff dredge oysters. Pacifica has worked with seafood importers and distributors around the world for the last 15 years and has developed a strong network for the sale and distribution of New Zealand Greenshell Mussels. As a result Pacifica Seafood's Greenshell Mussels can be found around the world from China to the Canary Islands.

In 1995 Pacifica Seafoods Group was awarded the 'New Zealand Trade Development Board Export Commendation' for its expansion of new products, product innovation and contribution to New Zealand's foreign exchange earnings for New Zealand Greenshell Mussels. Pacifica Seafood's aim is to continue this growth while maintaining their ability to supply the world's seafood markets with high quality seafood.

This case study identifies the benefits of creating the 'right relationships' through doing due diligence, explains how a good degree of discussion can assist New Zealand SMEs and emphasises that you will never fully understand the Chinese market.

Why China?

Pacifica Seafoods has been aware of the growth potential in the Chinese market for a long time. Pacifica's Export Manager, Matthew Hewitt believes that China is an important market not only to Pacifica Seafoods, but to all of New Zealand.

The Export Manager explained that the opportunities for New Zealand businesses are increasing rapidly. It is estimated that by 2015, Chinese grocery trade will be the biggest in the world - something Pacifica Seafoods is starting to tap into with the introduction of K-Pack – a specialised packaging for their Kiwi Mussels that is designed especially for supermarkets.

China has an emerging middle class who can now afford quality foreign foods. Although there is a lot of domestic food consumed, there is a definite internationalisation of preference/tastes happening among some segments of the Chinese population. The Export Manager explained that a recognisable brand is important. There is also an eating culture in China which has become a substantial opportunity for those supplying quality produce.

Pacifica Seafoods entered China to supply the growing demand for high quality foreign foods.

How did Pacifica Seafoods enter the Chinese market?

In the first instance, entry in to the Chinese market was through approaches from people wanting to bring Pacifica products to Hong Kong and ultimately China. Pacifica's first foray into the Chinese market was in 1994 through a distributor in Hong Kong where they imported frozen mussels, fish and live lobster (in small quantities).

Pacifica Seafoods experienced a sustainable level of growth from 1994 to 2000. Imports of their frozen products into Hong Kong grew steadily with small amounts going to China. Once the live lobster business was fully established, this portion of the business was sold. Eventually frozen goods grew to container volumes/levels and ultimately China wanted to start buying direct.

In 1999, Pacifica Seafoods established a direct route into China. As wealth in China increased, and brand recognition developed in Hong Kong, the demand from China for Pacifica Seafoods' mussels and fish grew. Pacifica Seafoods original market entry into China was disrupted by many issues including currency controls and high tariffs making it difficult to get product into China, but as explained by the Export Manager, anything in China is possible; "the beauty about China is that there is always a solution".

Unfortunately, counterfeiting was a real problem for Pacifica Seafoods. Because they had built a brand with recognised attributes of quality, they became the target of a counterfeit operation that sold Chinese mussels in packaging virtually identical to Pacifica's. This had an extremely negative effect on the strong brand and following that Pacifica had spent substantial time and money building. Consumer confidence in the brand quickly eroded and Pacifica Seafoods business fell from "top to bottom in one week". The Export Manager explained that from his experience, counterfeiting is an issue in China. He commented that it is difficult if not impossible to stop the counterfeiters, and it is unfortunately a fight you probably will not be able to afford.

Since the counterfeiting incident, Pacifica Seafoods has had to redevelop their brand and start again. They believe that the introduction of their new K-Pack (a new form of packaging and branding that is consumer ready, looks attractive in supermarket chillers, and is expensive to copy) will give Pacifica Seafoods a good advantage in supplying frozen New Zealand Greenshell Mussels to Chinese supermarkets and to re-establish Pacifica Seafoods as a quality seafood brand.

Since 2002, China became more accessible through the use of Pacifica's existing relationships with foreign supermarket chains. Pacifica Seafoods now directly sells their product to these foreign supermarket chains in China – mainly Shanghai. Shanghai was chosen because of its western elements and because Pacifica Seafoods had seen many other foreign entities set up and be successful there.

The retail channel is still very new and infrastructure has proven to be a challenge – especially cool chain management. An advantage of supplying foreign supermarket chains is that they use sophisticated infrastructure. However, the Export Manager explained that it is still difficult to get product into the market. With food products, your optimal channel to market is one which gives you a high degree of control. This enables the maintenance of the integrity of the brand.

The Export Manager's recommendation to New Zealand SMEs wanting to supply mainland China, is to go through Hong Kong, and manage your distribution through a Hong Kong business with Chinese entities and relationships already established. This has been beneficial for Pacifica because the Hong Kong business has managed issues for Pacifica in China, in a way that Pacifica couldn't have with their level of understanding and distance from the market. The Hong Kong businesses have an understanding of the Chinese markets but also have a more international perspective which can be leveraged.

Importance of Relationships in China

The Export Manager said that relationships are highly important in China. Existing established relationships with entities that were already set up in China helped Pacifica Seafoods with market entry. Because relationships are so important, Pacifica Seafoods commissioned NZTE to identify various contacts. However, Pacifica Seafoods explains that you should not jump to work with the first person who approaches you (even if they are recommended through NZTE). Like many lessons in China, this was learnt the hard way by Pacifica, and the Export Manager's tip to New Zealand SMEs is to ensure the distributor shares similar growth aspirations.

The Export Manager explained that relationships with importers require depth. He says it is necessary to have an established trust between you and your distributor, especially if handing over the management of Chinese distribution to a Hong Kong business. "You immediately become at risk of someone doing something you are not aware of."

The Export Manager acknowledged that it takes longer to establish relationships in China than in other markets because there is less commonality and less shared experiences. However, he added that "you know you are getting somewhere when they buy you lunch". To Pacifica, a partner's acceptance and trust is paramount.

Does the fact the product/company is from New Zealand help?

According to the Export Manager, a New Zealand exporter is more favourably viewed when compared to other food sources. He goes on to explain that "the Chinese find us as interesting as we find them" and we are perceived as honest, but naive to the Chinese method of operation. New Zealand products are also viewed well in the Export Manager's opinion. He believes there are further opportunities for New Zealanders in China, especially with the aid of the FTA.

What has Pacifica Seafoods learned?

You will never fully understand the market - Pacifica Seafoods has learned a number of key lessons from their business dealings in China. After being in the Chinese market for one year, the Export Manager thought he understood the market fairly well. Then, after being in the Chinese market for two years, he thought he really understood the market. However, after being involved in the Chinese market for 18 years, he has realised that you will never stop learning. Although New Zealand businesses will never fully understand China as a country, they can – and should – develop an intimate understanding of their specific target market within that country, including who their customer is and how to reach them, and build a solid China business strategy around that understanding.

The right relationships are key to success, but do your due diligence - Pacifica is a great story of how success can come from the right relationships. The Export Manager mentioned that trade shows are an effective way of getting into the Chinese market. China sees trade shows as great opportunities - much like we do. They are a useful place to find partners who are looking for quality product. However, the Export Manager explains that he wishes he could have taken more time to assess Chinese partners, and their business aspirations. He admits that this is very hard to do but recommends doing reference checks – in other countries if necessary.

Discussion helps - The Export Manager advises New Zealand businesses to be prepared for constant frustration. Talking to those that have been and are in China is the key to helping you to understand the market better and there is no substitute for NZTE's resources in the Chinese market. Use NZTE to vet and recommend people to work with. Talk to locals, even hotel people as they can also give you an objective view. The Export Manager also recommended having local networks of people outside of your business.. He says it is important to have someone who you can go and have a beer with at 5pm and ask "what's going on?" Your local networks can be used as a sounding board for ideas – which will be vital in the ever-changing Chinese market.

Summary

Pacifica Seafoods Export Manager explains that no one can fully understand the Chinese market and we as New Zealanders need to understand this. The market is complicated, but finding and establishing the right relationships in your target markets can help. Discussing things through with people who have been there before is important.

Although Pacifica Seafoods has faced its fair share of challenges in China, the Export Manager says that given the chance, he would not change a thing. These challenges are integral to working in China and have made business interesting. Pacifica Seafoods is positive about the future of its business in China. It has taken the time to build the right relationships and with the introduction of K-Pack, the future is looking bright.

Key lessons:

- You will never fully understand the Chinese market, focus on your target
- The right relationships are key to success, but do your due diligence
- Discussion helps

Carrick Wines

Overview of Carrick

Bannockburn, home to Carrick wines, is found in the wine region of Central Otago. Bannockburn enjoys a continental climate with low rainfall and high sunshine hours. The long cool autumns with their warm days and cool nights create ideal conditions for the production of Pinot Noir, Chardonnay and Riesling. Other grape varieties such as Sauvignon Blanc and Pinot Gris also thrive in Central Otago's microclimate.

Carrick vineyard is based on 18 hectares of land overlooking an inlet of Lake Dunstan. In 1993 Carrick's first vineyard was planted with Pinot Noir, Chardonnay, Pinot Gris and Sauvignon Blanc on the north facing Cairnmuir Terraces. On the eastern side of Cairnmuir Road the vineyards produce Pinot Noir and Riesling. Their first wine was sold in 2000. Over many years Carrick worked toward gaining organic status and from 2011 Carrick Wines will obtain a full organic registration under BioGro.

Carrick is a boutique winery by any standard and does not export large quantities of their wines. They sell in 15-18 countries, with Australia being their largest trading partner. Despite their small scale, Carrick has ventured into China and continues to trade there successfully. Carrick's story is a lesson on how a small New Zealand business can benefit from partnership with a larger player to access and succeed in a large and complicated market.

Why China?

Steve Green, Carrick's General Manager (GM), was very open about being nervous and apprehensive about entering China at first, as no-one at Carrick knew how to do business there. The GM could see the huge opportunities the Chinese market had to offer, although at the same time Chinese people were never considered to be traditional wine consumers. The company therefore assessed the risks associated with entering an unknown market.

Despite his apprehension, the GM admitted they could not overlook China, with its growing potential and opportunities, and started looking for the right opening to make a move. The growing economy and growing interest in wine by the Chinese consumers combine to give confidence. Carrick expects China to become a significant part of the export market in the near future.

How did Carrick enter the Chinese market?

Carrick's market entry opportunity has its roots in serendipity. One of the largest and oldest New Zealand wineries, Babich, went into China a few years ago and was developing relationships with a Chinese importer. The Babich importer wanted a small vineyard/label to complete their portfolio and the company contacted Carrick two and a half years ago.

Since then Carrick has increased its exporting volume by approximately 50 percent and 18 months ago also moved into the Hong Kong market. Even though at present the Chinese market accounts for less than ten percent of their total sales, steady growth gives the GM confidence to predict that their Chinese operations will become sustainable within the next two years. Moreover, Carrick is already considering further expansion (for example into Shanghai). The GM sees repeat regular orders as the main signal that they have a truly sustainable business in China.

Through its importer, Carrick sells into both gift and consumption markets. Carrick's Pinot Noir forms the basis for the gift market while white wines target the growing Chinese middle class - mostly females. With wine drinking (even non-traditional white wines) becoming more popular within Westernised parts of Chinese society, the GM sees a lot of potential in the consumption market.

Importance of relationships in China

Relationships are very important in China, however, in the wine industry this is equally true for any other market. The GM emphasised that their importer does not have to buy their wine – there are many others to choose from – therefore maintaining positive relationships are always the key to success.

Carrick's importer has its own developed distribution infrastructure giving it direct access to the market. This is perceived by the GM to be of utmost importance. Being a small winery, Carrick would not have the resources to oversee the secondary distribution channels in such a big market, therefore finding a partner who already has everything in place was the only way to enter the market with some confidence. Carrick's ability to sell into both gift and consumption markets also comes from the distribution channels available to their importer.

The GM warned other companies about dealing with traders with no distribution channels. Overall, secondary distribution is underdeveloped in China and most New Zealand companies are too small to invest into setting up their own distribution links.

Carrick invests in regular visits to China (at least once a year), hosts Chinese partners, and keeps ongoing communication with their importer. During his market visits the GM meets with the importer, attends various dinners, trade shows and tastings, as well as visiting shops that stock Carrick wines. To increase marketing cost efficiency, the GM often combines his visits to China with trips to other smaller Asian markets.

Does the fact the product/company is from New Zealand help?

New Zealand wines are not the most recognised brand in the Chinese market. French suppliers maintain their position at the top end of the market and are able to charge premium prices for their wines, especially in the gift market. Australian wines occupy the bottom end of the market, supplying large quantities of 'bulk' un-bottled wine. At present Carrick positions itself in the middle, and the GM believes charging reasonable premium for their wines works well. Until New Zealand wines are more recognised as a quality brand (such as French wines), gift market and high premiums that come with it are not 'a given'. Educating the market is a slow process and small wineries are disadvantaged by lacking the scale.

What has Carrick learned?

Learn from those who have been there before - The biggest lesson learnt by Carrick, according to the GM, is that working with someone (a bigger player) who has experience in the market helps immensely. Alongside that, maintaining a steady pace of growth is also important – quick growth has its pitfalls.

The only continuous battle Carrick has is with the credit insurers. Due to Chinese partners not providing regular financial information, insuring shipments is problematic. To minimise both cost and risk Carrick maintains shared shipping arrangements with Babich Wines.

Utilise all resources available - Another key message for the wine growers venturing into China is to use the resources available to them – both through NZTE and the New Zealand Winegrowers Association. The GM commended NZTE for providing good support for entering the market; however any further in-market assistance could also be very helpful. Information provided by the New Zealand Winegrowers Association is up-to-date and of good quality.

Be present in the market - The GM advised any potential exporter to visit the market regularly, “wine and dine” with their trading partners, and visit distributions channels (shops, etc). No matter how much you trust your distributor, nothing can substitute for “being there”.

Summary

Carrick’s GM felt the company wouldn’t want to change anything about their way of entering China. Carrick experienced good growth over the last two and a half years and prospects for the future are looking good. Being able to learn from a bigger player and utilise their existing distribution channels were paramount to Carrick’s success and the only feasible (i.e. low cost, low risk) way for a small winery to enter the market.

Key lessons:

- Learn from those who have been there before
- Utilise all resources available
- Be present in the market

BioVittoria

Overview of BioVittoria

BioVittoria is a product development and marketing company focused on commercialising plant-derived functional ingredients for the food and beverage, and dietary supplement industries. Their corporate headquarters are in Hamilton New Zealand, and they have offices in China and the USA.

BioVittoria is the world's largest producer and processor of monk fruit (Chinese *luo han guo*), and has created a vertically integrated value chain which includes seedling cultivation, harvesting, processing and product formulation.

In January 2010 BioVittoria received official notification from the Food and Drug Administration (FDA) that its Fruit-Sweetness (trademark) branded monk fruit concentrate is GRAS (Generally Recognised As Safe). Fruit-Sweetness (trademark) delivers 100% natural, great tasting, calorie-free sweetness from pure fruit, and offers a new and unique alternative to sugar and artificial sweeteners.

Bio-GFS is a Joint Venture established in China by BioVittoria Limited of New Zealand, and its partner in China, Mr Lan Fusheng, a leading monk fruit expert. Its purpose is to oversee the growth and export of its proprietary monk fruit product, Fruit-Sweetness (trademark). Bio-GFS owns the plant varietal rights on the only commercially available monk fruit plants specifically selected for their high fruit yields and mogroside content.

The JV oversees the function of the Fruit-Sweetness Monk Fruit Association which supervises:

- Contract negotiation, pricing, and payment to growers
- Delivery of monk fruit plants to its farmer partners
- Capital supply to farmers for all aspects of planting and growing monk fruit
- Meetings to transfer technical information to growers
- Research data collection for ongoing study of environmental, nutrient, and pest and disease challenges, influencing fruit yields and mogroside concentration
- Advice and material support with fertiliser compositions and pollination
- Fruit maturation monitoring and harvest window prediction
- Prompt picking and transport of JV owned/grower produced fruit
- Mediation of disputes, adjustments and conditions of present and future contracts

Bio-GFS is a licensed import/export company in China and is the sole exporter of Fruit-Sweetness (trademark). The company also serves as a contract import/export provider for entities wishing to move materials into and out of China.

Why China?

BioVittoria's entire business is based in China as monk fruit are indigenous and protected by China and are therefore prohibited to be grown elsewhere. When the company was formed it was clear to its founders that the only way to commercialise the product was to be in China. One of the founders, a New Zealander, has both lived and been involved in Chinese businesses for the past 20 years, providing invaluable knowledge of the local people and language. The main markets for BioVittoria's product are currently the North American and Asian markets.

Having little choice in where to locate their business, BioVittoria chose to control the whole manufacturing process – from seedling production to final packaging. As quality continues to be an issue in China, having overarching control ensured the company could confidently stand behind their product when marketing in other countries.

How did BioVittoria enter the Chinese market?

BioVittoria invested heavily in proper due diligence before launching its Chinese operation. The combination of years of market research conducted by the founders, and advice from their Chinese partners and local consultants ensured the company had the most appropriate structure and was set up in the right location (Guangxi province in Southern China).

BioVittoria spent years getting their product ready for the market, including obtaining their GRAS certification. This meant a significant investment up front that has only started paying off. Up until now the company produced revenue but was not profitable. Reaching sustainability took BioVittoria approximately five years.

Importance of Relationships in China

Relationships are crucial in China, and they take time and hard work to build. You need to be viewed as a credible partner by the Chinese, hence it's important to keep your promises and deliver on your commitments. Understanding local customs and being flexible in your operational plans are necessary for success in China. Underestimating the Chinese is a big mistake that is easy to make; you need to be able to engage them while at the same time "keeping your cards close to your chest." Being open minded and willing to listen to the locals can save you a great deal of struggle.

It is important to realise cultural differences and work with them, not against them. To be successful in China you need to be willing to cooperate with local communities and Government, together finding the best solutions to issues. There is no point fighting the bureaucracy as you will need the Government's help to succeed; you need to be prepared to involve Government officials and build relationships with them – often over a bottle of wine.

The Chinese partners will often tell you what you want to hear, so checking their claims needs to be a routine part of your business practice (unless you have partners you trust 100 percent). However, you should never doubt people's credibility openly – making Chinese 'lose face' can have long-term negative consequences.

Does the fact the product/company is from New Zealand help?

New Zealanders in general are viewed positively in China and are perceived to be humble and not arrogant. This perception can be beneficial to New Zealand businesses entering the market, however, BioVittoria's product is grown and manufactured in China and is not viewed as having New Zealand origin. New Zealand is the first OECD country to ratify a free trade agreement with China.

What has BioVittoria learned?

Be present in the market - Having people on the ground is of utmost importance. They will build the relationships and keep abreast of all changes. You also have to have people on the ground to protect your supply chain. This is equally true when you start your Chinese operation – good market intelligence can only be provided by “being there”. Upfront investment into being present in the market is bound to pay off.

Control the whole process - Quality issues typical to Chinese manufacturing mean the best way to ensure high quality is to control the whole production process, if possible. In addition to the confidence in your product, strict quality control also allows you to guard your IP better. IP protection (e.g. plant varietal rights) remains an issue in China despite the Government making an effort to solve the issue.

China is not one market - Thinking of China as one market is naïve and unwise. A province by province approach is much more viable, especially given limited resources available to NZ companies.

Summary

BioVittoria has reached the stage where its initial investment into its Chinese operation is starting to pay off. It achieved this by tirelessly building relationships with the local community – from farmers to Government officials. The company became an integral part of society and is now viewed by the Chinese as one of their own.

Downfalls of China (e.g. lack of strict quality control, bureaucracy, poor IP protection) were addressed by building the business with full control over the production process and creating strategic partnerships.

Key lessons:

- Be present in the market
- Control the whole process
- China is not one market

Compac Sorting Equipment Ltd

Overview of Compac Sorting Equipment

Compac Sorting Equipment develops and manufactures fruit and vegetable packing technology, machinery, software and electronic solutions around the world. Compac was founded in 1984 by Mr Hamish Kennedy, Managing Director of the company. Compac is based in Auckland with over 130 full time employees.

The company started when Hamish designed and built an electronic sizer and packing line for his family's kiwifruit packing operation. Developed to meet industry and user requirements, the sorter was a great success and he was asked to build more sizers for neighbours and others in the industry seeking accuracy of sizing and innovation in fruit packing. From this original sorting machine at the family orchard, Compac has grown to be a global leader in the development of fruit and vegetable sorting technology.

Through constant research and development, Compac has become a world leader in this specialised market. Word of mouth has been the primary driver behind the company's growth. This has been created by delivering precision electronic sorting technology, combined with quality mechanical systems. Compac equipment is now widely used for most types of produce in over 25 countries. Compac software is widely regarded as being leading edge, as well as easy to use and flexible. Compac sizers are high quality systems that are reliable and easy to maintain.

Manufacturing and servicing is available from a growing number of sales and service staff and agents internationally. Compac sorters are also being manufactured in Europe through a joint venture with Sorma in Italy, Compac Sorma Europe S.P.A, with a full service team available.

Why China?

According to Bob Shaw, the General Manager, Compac always had an interest in China. China's growing economy, vast population, and booming agricultural sector mean the opportunities for Compac are very significant.

At this stage Compac focuses on sales of its equipment to Chinese customers. In the future the company plans to establish its own manufacturing operation to supply the China and possibly other Asian markets.

How did Compac enter the Chinese market?

Compac's story in China started with the trade show in Shenzhen 18 months ago. The General Manager scoped the market prior to attending the show and talked to a number of New Zealand businesses who have been doing business in China. The trade show was a great success for the company – the General Manager established relationships with the Sales Manager of Compac's biggest competitor who was interested in working with Compac.

As a result of this “chance” meeting, Compac employed three of the competitor’s local sales staff, established a representative office (wholly owned subsidiary) in Beijing, and started their operation straight away. The location of the office – Beijing – was determined by the relationship as the Sales Manager was based there. Compac benefited immensely from being able to access its staff’s established networks and 18 months later the company has a sustainable business with minimal investment.

While all sorter and electrical components for Chinese sales continue to come from New Zealand, Compac now has a local partner who supplies the rest of the components and does their installation. In addition, the Chinese partner helps with organising warranties. In general, this arrangement (local staff and local partner) works very well for Compac and gives it credibility with the Chinese.

Compac has an ambition to establish a supply and manufacturing hub in China, however currently it lacks the scale required to justify such investment. The size of its Chinese operation is modest at present and the company has to compete against big European players, as well as local companies who started copying the technology.

Compac realises that to grow its business in China it needs to have a product that meets local demand. Top-end expensive sorters have a very limited market in price conscious China, therefore the company now focuses on developing a product that would suit middle market needs of Chinese customers.

Importance of Relationships in China

The General Manager believes that relationships are very important in China. When working with the Chinese you need to have a “circle of contacts” (a person is part of circle of relationships), as opposed to the “straight lines” or bilateral relationships we have in New Zealand.

Having Chinese staff means maintaining the relationships with customers is done locally and effectively – New Zealand staff will never have the same level of connectivity. For example, Compac’s Chinese Sales Manager always uses the same taxi driver and has built a very good relationship with him over the years. After he started working for Compac, the competitor he used to work for continued using the same driver, who now tells the Sales Manager every customer that has been visited by the competitor. Such information sharing cannot be underestimated and is ‘priceless’.

The General Manager visits China three to four times a year. These visits include travel to the customer sites as he believes that face to face interaction, even through an interpreter, is the best. Compac also encourages its customers to visit New Zealand.

Maintaining ongoing communication with staff and customers is paramount. In China you need to treat people in a way that demonstrates to them that you appreciate their importance. It takes time and effort to negotiate with the Chinese, however if you want to stay in the market the effort is worth it in the end.

Does the fact the product/company is from New Zealand help?

According to the General Manager New Zealand business people are viewed well in China. The FTA gave New Zealand profile and the dairy and horticulture industry (especially kiwifruit) are already well known. Compac found that having a recognisable brand (not necessarily from New Zealand) definitely helps in China.

What has Compac learned?

Be prepared to work hard and make difficult decisions - China is hard work and you need to convince yourself that it is worth the effort. Everything takes time and success only comes to those who wait. At the same time, you need to be prepared to make hard decisions (like pulling out if needed) and stick to your choice.

Hire local staff - Having experienced local staff from the start made all the difference to Compac's experience in China. Chinese people have networks that no Westerner will have and if you find local staff you can trust they will take care of your business.

Beware of local business practices - Often the Chinese do business “differently” – false invoicing, informal information sharing, and wide use of networks are all practices that are unusual for New Zealanders. You need to work with the system when dealing with your Chinese partners, however be prepared to “take a stand” when needed.

Summary

Compac entered Chinese market only 30 months ago and has big plans for expansion through developing a product that would meet local demand. The first year taught the company that having the right people, in the right place, at the right time is crucial. No amount of research can substitute for the networks and market understanding that local people have.

According to Compac, there is no such thing as “having it easy” in China. If you want to stay there and succeed you need to work hard and make tough calls when needed.

Key lessons:

- Be prepared to work hard and make difficult decisions
- Hire local staff
- Beware of local business practices

Rakon

Overview of Rakon

Rakon Limited was founded in 1967 by Warren Robinson and is a New Zealand based manufacturer of frequency timing solutions, primarily quartz crystals and temperature compensated crystal oscillators (TCXO). Between 1990 and 2007 Rakon specialised in supplying frequency control products to the GPS industry. Rakon still considers itself the leading supplier to this market and claims to supply over 50 percent of all the frequency control products used in GPS.

In 2006 Rakon became a publicly listed company in New Zealand. In March 2007 Rakon acquired the frequency control products division of C-MAC Microtechnology which allowed the company to expand into new markets, in particular the telecommunications market. This acquisition also gave Rakon a European based operations, including two factories located in the UK and France respectively. The new business unit specialised in supplying to other forms of wireless communications and allowed Rakon to become less significantly dependent on the GPS market.

Why China?

Justin Maloney, Rakon's Marketing Manager, explained that the company didn't initially have a "conscious" market strategy for entering China. Instead, Rakon followed the industry – when its customers (including the biggest – Garmin) started moving their manufacturing into China it natural to follow them. As a result Rakon has more recently benefited not only from having an existing customer base in China but also from leveraging their experience (e.g. using referrals for finding good business partners).

How did Rakon enter the Chinese market?

Initially Rakon chose Taiwan as a starting point to base its sales and customer support operations for the region. At the time Taiwan was generally viewed as more "Western-friendly" by overseas players. In addition, several of its customers already had its operations there and it was logical to locate near to them.

The plan was always to expand into the mainland from Taiwan. Taiwan was (and still is) successful, but practically speaking it was always a stepping stone. As opportunities with mainland Chinese customers started appearing, Rakon realised the need to be close to these customers. Also when Rakon acquired the C-MAC group, they also acquired three offices in China that the group had been maintaining.

Rakon didn't use NZTE during their market entry process because Rakon were already established – and felt too established to be asking for help. But in hindsight it, the Marketing Manager believes it would have been beneficial to engage NZTE to help "settle things down and set new things up".

As Rakon entered new high volume markets significant pressure came onto sales prices and costs. The bulk of these new opportunities were coming from Chinese customers and Rakon soon realised that there could be significant advantages in establishing a manufacturing base in China.

There are two aspects which make up Rakon's current operations in China: sales and manufacturing. Rakon has been selling into China for at least ten years, however since physically being present in the market (over the past five years) sales increased in volume significantly.

Establishing manufacturing is currently underway and is structured as two interlinked Joint Ventures (JVs). Rakon has minority (40 percent) shareholding in the existing operations of one of its suppliers (Timemaker); the second JV is a new Rakon manufacturing factory that is currently being built, where Rakon has 70 percent shareholding (with the remaining 30 percent belonging to its existing Chinese JV partner).

The decision to invest in a manufacturing facility was strategic. China is becoming increasingly protective of their own industry and one way to mitigate this is to build a Chinese factory. As well as perception advantage, Chinese-based manufacturing means cost savings and less hierarchy. Rakon hopes to see further increase in revenue because of this decision, as well as keeping its market share. Overall, the distributor model for a highly specialised business like Rakon proved to be less successful in China than in other countries.

At the start, Rakon traded almost exclusively with the USA companies manufacturing in China. This changed over the years and now Rakon sees the Chinese domestic market as the market with the highest growth potential.

Rakon initially looked at employing expat kiwis and Chinese immigrants who lived in New Zealand and wanted to go back to China. However it was identified there was much more value in hiring locally in China and Rakon has engaged the services of a specialist HR consultant in the region to assist with this. The Marketing Manager mentions that indications are that it is a highly competitive marketplace for staff and locals may be prone to being poached by competitors; however they understand that this is the reality they have to deal with. On the other hand, there are always two sides to the coin and lack of loyalty can actually benefit Rakon when hiring staff.

While culture and language are common challenges, the Marketing Manager explains that there are problems to be dealt with that are not as obvious, such as payment terms. Negotiating the credit terms in advance is important in China as waiting for payment for many months is not an unusual story. To avoid this you need to be upfront and firm in defining your requirements or expectations.

Importance of Relationships in China

It is easy to underestimate the value of relationships in China. With a lack of reliable research data, knowing the right people is the only way to navigate the Chinese business environment.

Rakon has good relationships with its Chinese JV partner which aids in the understanding of China and the Chinese business environment. However, finding the right partner in China is not easy and often happens "by chance". Rakon learnt that doing due diligence with the Chinese is paramount.

The Marketing Manager warns that in China “every man seems to be a trader” and the local Chinese will always tell you they can deliver on their promises. It is up to you to check everything. Meeting potential partners face to face and “eyeballing” the key players is an invaluable investment.

It is important to be sensitive when dealing with the Chinese and be aware that they need to keep their ‘face’. Being arrogant and proud doesn’t get you far in China. The Marketing Manager pointed out that you should not assume your potential Chinese customer/partner will work solely in your best interests – they will often put themselves first (win/lose approach). The best way to deal with Chinese partners and build trust with them is to make sure you are seen as looking after their interests as much as your own.

Relationships in China are much more hierarchical and this is something you need to be aware of when dealing with the Chinese partners. Bureaucracy is also widespread and is not worth fighting or complaining too much about – you just have to work with it. However, it is important to make sure you don’t end up in an endless loop of paperwork, sometimes you need to go outside of your current advisors and get new advice if you feel you are getting nowhere.

Does the fact the product/company is from New Zealand help?

According to the Marketing Manager’s experience, there are no obvious negative perceptions of New Zealand business people. New Zealanders are perceived to be culturally sensitive, not arrogant, easy to do business with, nice and accommodating. At the same time Chinese view them as not great negotiators which can be disadvantageous when it comes to price.

The FTA raised New Zealand’s profile in China and this is something businesses can benefit from. Moreover, China is an incredibly competitive market and Chinese businesses are always looking for an edge and the FTA gives the perception that there could be a cheaper deal with New Zealand businesses now.

Rakon’s products are currently differentiated from US and Japanese products, however the Marketing Manager sees the future to be in quality Chinese made product supplied to Chinese manufacturers (hence the investment in local manufacturing).

What has Rakon learned?

Relationships are crucial but should not be taken at face value - Involving local people who you can trust can make all the difference, however finding the right partners is difficult. Constant rule changes mean you are never sure whether you are talking to the right people. The Chinese will always tell you they can help, however subtle double checking is important. If you realise the Chinese partner does not deliver it is advisable to cut the relationship straight away.

Patience is the key - Everything in China takes time and you have to be prepared to wait, invest in building relationships, and keep up appearances. It is unrealistic to expect things to work the way they do in New Zealand or other Western countries.

China is not just one market - Chinese local authorities have a reasonable amount of autonomy and require a different approach. Understanding that from the start is very important. Your market strategy and relationship building need to be based around your chosen location. This requires focus,

Summary

To date, Rakon has been successful in China. Its future business aspirations are based on the upcoming opening of the manufacturing factory and further development of the Chinese domestic market. The company's Chinese operations became sustainable reasonably quickly, however having an existing customer base played a significant part to their relatively "smooth sailing".

Key lessons:

- Relationships are crucial but should not be taken at face value
- Patience is the key
- China is not just one market

ADInstruments

Overview of ADInstruments

ADInstruments was established in 1988 to deliver high quality, ease-of-use data acquisition systems for life science research and teaching. Historically headquartered in Sydney, Australia, ADInstruments is New Zealand owned and currently has offices and distributors in more than 50 countries worldwide with its manufacturing plant located in Sydney, Australia. The research and development operations are based in Dunedin, New Zealand.

ADInstruments history begins in 1985 when Michael MacKnight developed the 'MacLab' recording unit to replace the equipment used in physiology experiments. The unit was accompanied by the custom-made software. Following its founding, the company began to promote MacLab to the North American life science community. By the mid-1990s, the company's product range diversified to include PowerChrom and other data acquisition systems designed for use in electrochemistry applications.

ADInstruments released its first data acquisition system for Windows 95 platform named PowerLab in 1997. By 1998, ADInstruments range of data acquisition units was compatible with both Macintosh and Windows platforms. These data acquisition units were named PowerLab. The electrochemistry product range and PowerChrom was removed from ADInstruments product range in 2003 to be marketed by their sister company eDaq founded by Boris Schlensky.

In 2005 ADInstruments developed and released LabTutor software to target the science education market. LabTutor is now used by community college, nursing and health science students, as well as physiology, pharmacology and medical students. Experiments have been translated into six different languages, and are now available in five different subject areas.

Today there is an installed PowerLab user base of more than 30,000 systems, which is supported by a network of ADInstruments offices and distributors in over 50 countries around the world, making it the largest data acquisition company for life science.

Why China?

ADInstruments' route into China, as described by the Technical Director and Chairman Michael MacKnight, was rather unusual. Instead of targeting potential Chinese consumers directly, ADInstruments "followed" its customers – life science students and researchers - from the USA and other markets into China. Chinese researchers who started setting up laboratories in their home country tended to seek the same equipment they used when working at the overseas universities.

Despite a "chance" entry, ADInstruments always understood the high potential of China as a market. The ever increasing population, Government emphasis on research and development, widespread tertiary education were all factors which contributed to the positive prospects for the company.

How did ADInstruments enter the Chinese market?

The Technical Director identified ADInstruments' market entry as evolutionary – the company followed its customers moving back to China from other research centres. The life science research community worldwide is relatively small and identifying their target market was not a difficult exercise. Once in the market, the company started targeting Chinese universities and life science laboratories.

ADInstruments has been in China for over ten years. It has its own office in the market with local General Manager and eight sales staff. Over the years, Chinese operations grew to make up approximately ten per cent of the company's business, through continual and steady growth (as the Technical Director puts it, "this is not a boom-type business").

Shanghai was initially chosen as an entry point due its size – ADInstruments tend to target "bigger places with money" who can afford their relatively expensive equipment. Since then ADInstruments also moved to Beijing.

While using a distributor in mainland China at the beginning, the company soon realised that in their highly specialised field the distributor-led model was not ideal and invested in the establishment of their own office and staff. ADInstruments employs local people, mostly biomedical engineers who have the required knowledge to market their products. ADInstruments continues to work with the distributors in smaller markets such as Taiwan and Hong Kong.

Establishing sustainable business in China did not take ADInstruments long – after a couple of years the Chinese operation was deemed self-sustaining. The Technical Director sees opportunities for further growth, especially in the teaching software market, where they plan to focus their marketing efforts in the future.

Importance of relationships in China

The Technical Director believes the relationships are critical in China as all decisions are made "at the top" and you need to be able to network. Investment in hiring local people to run their Chinese operation paid off as they have the knowledge and skills (not to mention language) required to build and maintain the relationships with various universities and researchers.

ADInstruments CEO visits China once or twice a year to meet staff and visit customer sites.

Does the fact the product/company is from New Zealand help?

While the Technical Director believes that New Zealand as a country is well respected in China, this had little effect on the way ADInstruments went about its business there. The company is world famous in the life science circles for their innovative hardware and software, so the fact that all research and development is done in New Zealand does not seem to have significant impact on the attractiveness of the product.

What has ADInstruments learned?

Understand your product.-. The Technical Director was adamant that anyone attempting to enter the Chinese market needs to understand their product and what it has to offer to a Chinese customer. Knowing your product allows for easy targeting and keeps you focused. It also means you can foresee potential pitfalls and prepare for them (e.g. counterfeiting).

ADInstruments in China faced the problem of other companies copying their equipment and supplying universities at a much lower cost. The Technical Director believes there is “not much” an overseas company can do about this counterfeiting without risking gaining bad reputation for “going after hardworking locals”. ADInstruments has chosen to position itself as a premium brand providing quality product and service, and so far this has proved successful.

Be creative. Maintaining the leading position in their field is a focus for ADInstruments no matter what market they work in. However, different countries require different approaches to marketing and customer service. There are a number of initiatives that are particularly successful in China, for example hands-on training workshops with potential customers. Translated software is also a successful initiative.

Summary

ADInstruments managed to succeed in China with a product that is highly specialised and prone to counterfeit. While making Chinese respect IP rights is at the top of the company’s “wish list”, ADInstruments found a way to maintain its growth and fight counterfeiters through creativity and continuous investment in premium branding.

Key lessons:

- Understand your product
- Be diligent
- Be creative

9 Methodology

Using a case study methodology, the different perspectives provide a 'rounded picture' of what has worked or not worked within a given business. This report draws on the analysis of interviews with 25 businesses and professionals with varying levels of experience in China.

The export industries represented within the study were food and beverage, agritech, ICT and specialised manufacturing. This has provided insights into the success of various business models, based on the business size, product, management structure, region and approaches.

Despite this sectoral variation, clear common themes emerged regarding what to do and what not to do in China.

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- Comvita – Chief Marketing Officer
- Dah Chong Hong Holdings Limited – Deputy Chairman and Executive Director
- Elders Fine Foods – General Manager
- FRAMECAD – Sales Manager
- Glidepath – Chairman/Managing Director and Marketing Executive
- InvestHK – Associate Director – General
- Mak Louis Enterprise - Manager
- NDA – Chief Executive Officer
- NZ China Direct Ltd - Director

- Orca – Marketing Manager
- Pacifica Seafoods Group New Zealand – Export Manager
- Pertronic Industries Ltd – General Manager
- Rakon – Marketing Manager
- Sealord – Market Manager, SE Asia
- Shengli Rural (NZ) – Managing Director
- Sileni Estates Winery – President and CEO, and Business Development Manager
- Villa Maria – Asian Market Manager
- White Stripe Foods – General Manager

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