

China's Market Potential: Opportunities for New Zealand's Exporters

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The purpose of this paper is to suggest that there are excellent opportunities in China for New Zealand exporters, and to comment on appropriate ways of taking advantage of these opportunities. The information on which this paper is based was obtained mainly by desk research, supplemented by face to face interviews with Chinese trade officials, traders, marketing experts, and economists in China and New Zealand. No attempt was made to investigate opportunities for the export of services; the study was limited to consideration of opportunities for the export of goods.

Keywords: China, export opportunities

Introduction

China is known for its large population, vast territory, and rich natural resources. China has a population of more than 1.1 billion, an area of 9.6 million square kilometres, and identified reserves of 150 different minerals.

The Chinese economy has been growing steadily since 1949, and especially in recent decades, the implementation of economic reform and the adoption of an "open door" policy have exercised a great influence on Chinese economic development. China's GNP has grown from about RBM 360 billion in 1978 to nearly RBM 1,800 billion in 1990, a five-fold increase. The growth rate of real GNP in each of these years exceeded about 9%, and the growth in foreign exchange reserves has been even more striking. The annual average growth rate has been about 27% during the same period, about 30% since 1986, and was nearly 40% in 1991. In 1991, the value of foreign reserves reached US\$ 40 billion.

This economic development has resulted in a significant increase in the living standards of the Chinese people, and has also led to further needs for economic construction. These changes in turn have created an expanding consumer market in China, and have generated a growing need for imported goods. New Zealand does, of course, export goods to China, and over the past twenty years New Zealand's exports to China have grown, from NZ\$ 1 million in 1972, to over \$275 million in 1991. However, exports to China in 1991 still represented only about 1.7% of New Zealand's total exports, and the greater part of this trade (63%) was in a single product - wool.

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Analysis of China's Market Opportunities

Consumption

During the past decade, there has been a marked rise in the living standards of the Chinese people. The yearly growth of consumption per capita has been about 15%, and annual average growth in the savings deposit balances of residents have been over 50% since 1978.

The five provinces or cities with the highest per capita consumption are Shanghai, Beijing, Tianjin, Guangdong, and Zhejiang, while the five provinces with the highest total personal consumption are Sichuan, Guangdong, Shandong, Jiangsu, and Liaoning.

Since the Chinese government readjusted the allocation of resources, stimulating more consumption and less capital accumulation, both the funds of the country and the savings of the people have accumulated rapidly and steadily. Thus, not only has the consumption of the Chinese people risen markedly, but the high level of accumulated savings corresponds to, potentially, even higher levels of purchasing power.

As well as a rise in total consumption, there have been changes in the pattern of consumption. First, most consumer expenditure is on food, clothing, and basic commodities. These items account for nearly 80% of all consumer expenditure, with expenditure on food alone responsible for 50% of consumption spending.

Second, expenditure on foodstuffs as a proportion of total expenses has declined, falling from 13% in 1982, to 8% in 1986, and to less than 7% in 1990. Chinese economic statistics distinguish between foodstuffs, such as rice, wheat, corn, and beans, and subsidiary food, such as meat, poultry, fish, dairy products, eggs, vegetables, and fruit. Spending on subsidiary foodstuffs, traditionally regarded as luxuries, has been increasing, rising from about 30% of all spending in 1986 to 33% in 1990.

Third, the demand for medical goods has increased. Consumer expenditure on these goods more than doubled between 1982 and 1986 and by 1990 had reached nearly seven times the 1982 level. Hospital and general practitioner fees are paid by the state in China, so this growth in consumer spending suggests that the people are paying increased attention to their health, and have begun to buy expensive health-related products.

As a result of higher incomes, dramatic changes in the Chinese lifestyle are occurring. Chinese consumers have begun to look for convenience, variety, and natural materials. Many of them, especially urban women, like wearing clothing made of pure wool or silk. They are not willing to spend as much time on cooking and are starting to buy more convenience foods and fast food. They are keen on variety and accept more foreign food and other products.

The rising number of restaurants in China confirms this trend; restaurants have increased from about 117 thousand in 1978 to 1.5 million in 1990, a twelve-fold increase. These changes in lifestyle have created greater demand for wool, fast food, canned food, foreign special food materials, and spices.

Imports

Since 1985 China has tried to provide a more liberal environment for imports. The system of

duties has been modified to conform more closely to the requirements of GATT, some tariff rates have been reduced, and formalities simplified.

Imports have risen rapidly, from US\$ 19 billion in 1982 to US\$ 53 billion in 1990; an average annual rate of over 13%. Nineteen ninety one saw a greater increase over 1990; the rate was nearly 20% and the value was about 64 billion (see Table 1).

Table 1. Composition of China's Imports by Selected Years (% , by SITC Systems)

Items	1983	1986	1989	1990
Primary products				
Non-Food Raw Materials	11.5	7.3	8.2	7.7
Food & Live Animals Chiefly for Food	14.6	3.8	7.1	6.2
Mineral Fuels, Lubricants, etc.	0.5	1.2	2.8	2.4
Animal & Vegetable Oils, Fats and Waxes	0.3	0.5	1.5	1.9
Beverages and Tobacco	27.2	13.2	19.9	18.5
Manufactured Products				
Machinery & Transport Equipment	18.6	39.1	30.8	31.5
Light & Textile Industry Products, etc.	29.4	26.1	20.9	16.7
Chemicals & Allied Products	14.9	8.8	12.8	12.4
Miscellaneous Products	3.7	4.4	3.5	3.9
Products not Classified Elsewhere	6.3	8.5	12.2	16.9
Products not Classified Elsewhere	72.8	86.8	80.1	81.6
Total Value (US\$ Billion)	21.4	42.9	59.1	53.3

Source: State Statistical Bureau of the People's Republic of China (1985, 1989, 1991).

Table 1 shows the extent to which China has emphasized the import of manufactured goods, which have generally accounted for about 80% of imports over the five years to 1990. Machinery and transport equipment represents the biggest import category, accounting for more than 30% of all imports since 1986. The main products imported in the category were machines for special industries, general industrial machinery, and electric machinery. Imports

of the latter two had the highest growth rate. Imported telecom equipment and power generating equipment also increased greatly, the former rising by nearly 13 times.

The next largest category, accounting for close to 20% of imports since 1986, comprises light and textile industry products, including rubber, mineral, and iron products. The main imports in the category are iron, steel, textile yarn, and fabrics. However, imports of other products in the category, such as wool tops, wood, cork manufactures, leather, dressed fur, and aluminium, rose rapidly during 1986 and 1989.

In contrast to manufactured products, primary products have generally accounted for less than 20% of imports, with food and raw materials being the key primary products imported. Food imports have risen considerably both in value and share since 1986, mainly due to increased imports of cereals, sugar, meat, fish, dairy products, vegetables, fruit and spices. The main raw material imports were textile fibres, metalliferous ores, and wood, while textile fibres, rubber crude, and pulp have increased since 1986.

Economic Development

In the current five-year plan (1991-1995), China plans to place greatest efforts on developing infrastructure, particularly thermoelectric and hydropower installations, new railway systems, large deep-sea ports, a national phone network, and food processing and chemical plants.

Local governments also have their own blue prints for local construction besides the central government integrative plan. For example, Guangxi province has 24 new and rebuilt major projects in 1992. The projects are mainly in the energy, transportation, and raw material industries, representing a total investment of RMB 2.7 billion.

These plans will create greater demand for imports of machinery, equipment, raw materials and building materials, and offer attractive opportunities for New Zealand's exporters.

Marketing Infrastructure

Economic Zones

China today has what are called open cities, special economic zones, and open zones. It is estimated that these cities or areas generate three or more times the income of other places, and they also possess better conditions and facilities than elsewhere in China. For example they are well developed industrial bases, better communication and transportation facilities, and various preferential policies.

Four of these special economic zones were established in 1979, in Shenzhen, Zhuhai, Shanton and Xiamen. A further 14 open coastal cities were established in 1984. These include Dahlian, Qingdao, and Qinhuongdao. In 1985 the Chiangjiang and Zhujiang Delta and the Xiamen-Zhangzhou-Quanzhou triangle became open zones.

Transportation

Railways and waterways are the major means of freight transportation in China, accounting for about 90% by volume. However, this proportion is declining with the development of road transport systems. For example, highway freight capacity in 1990 was 12 times the 1978

level. Rail freight capacity reached about 1,000 billion tons-kilometres in 1990, double the capacity of 1978, while waterway freight volume increased three-fold between 1978 and 1990.

Communication

In 1990 there were about seven million telephones in China, compared with approximately 2 million in 1978. More than five billion pieces of mail were sent in 1990, twice the volume in 1978, and newspapers were bought by approximately 40 people per 1,000, per day. In 1990 there were 59 colour TV sets and 52 black and white TV sets per 100 households, providing a coverage rate of over 70%, and there were 220 radios per 1000 people, three times the 1978 level.

Commercial Infrastructure

In 1978, China had only one bank. This acted both as the central bank and the commercial bank, but today there are six commercial banks, a few regional banks, and urban and rural credit co-operations, as well as the central bank. The further reform in China's financial system is still in progress.

Before 1978, there were no advertisements in China, but today advertisements are part of the daily life of China's masses. There are advertising agencies in every province or big city, and television commercials, billboards, newspaper and magazine advertisements can be seen everywhere.

The traditional Chinese distribution channels were from producers to wholesale organizations, then to retail outlets, and finally to end-user. Today some channels have been shortened, so that sometimes the channel is from suppliers directly to end-user. Even so, the number of distributing organizations has increased rapidly, as has the number of wholesale and retail outlets, which have increased respectively by two and eight times between 1978 and 1989.

The traditional type of distribution system has been steadily replaced, and State-owned and collectively-owned retail outlets declined significantly in share between 1978 and 1990, from nearly 90% to 17%, while private outlets increased rapidly from little more than 10% to about 80% during the same period. There were 67 times as many private outlets in 1990 as in 1978.

Today, each provincial or city statistical bureau has an information consultancy office which undertakes market research for both foreign and domestic clients. Some Advertising corporations also provide market survey services.

Market Opportunities for New Zealand Exporters

China's increasing economic strength and living standards have created a market with huge purchasing potential. And what is more, although the government continues to emphasize the value of self-reliance, China has now realized that importing is the way to develop the economy and raise consumption.

The rapid and continuing increase in imports shows clearly that China is not only a big market for exporters now, but is potentially a huge market with many business opportunities for New Zealand's exporters. These opportunities are mainly in the following areas.

Machinery, Equipment, and Technology

All plans of central and local governments focus on the infrastructural construction, such as energy, transportation and communication, and food processing plants. These developments require new technology, new equipment, new machinery, and new materials, but at present these needs cannot be met internally, either in terms of quantity or quality; they must be met by imports.

Specially, China will be looking to rapidly advance its economic development through the import of new technology products, information transmission equipment, and precision scientific instruments, together with machines for special industries, general industrial machinery and electric machinery, including textile and leather machinery, food machinery, plastics working machines, pumps, boilers, refrigerating and freezing equipment.

New Zealand is highly regarded in China for its food processing equipment and technology. For example it leads the world in some of the processes and technology developed in meat industry in recent years, including controlled atmosphere packaging of fresh meat with an extended storage life, abattoir and meat processing automation, and so on. Over the next five to ten years China will provide major opportunities for exporters of these types of products.

Raw Materials and Intermediate Goods

To advance economic reconstruction, China requires imported raw materials and intermediate goods, especially those which the country is short of, and finds hard to develop rapidly in the short run.

New Zealand is well known in China for its rich resources of wool, forests, coal, wood, pulp, aluminium, and hides and skins. Since demands for these products are increasing in China, these markets provide New Zealand's exporters with a very good opportunity.

Consumer Goods

With the rise in people's living standards, Chinese consumers are paying more attention to diet, health, appearance, entertainment, and efficiency. They desire more nutritious food, and colourful, high quality natural clothing. They are tending to travel more, to try different types of food, and are interested in art. Thus there are increasing demands for dairy products, meat, fish, food, clothing, cosmetics, pharmaceutical products and works of arts.

New Zealand is famous for dairy products, meat and green jade and should continue to take full advantage of its reputation to capitalise on expanding consumer markets in China.

Potential Problems for New Zealand-China Trade

Though an expanding Chinese economy and more liberal political policies will create opportunities for New Zealand exporters, there are, nevertheless, potential problems in conducting business in China.

First, New Zealand's small population means a limited domestic market, which in turn reduces potential economies of scale and the ability of New Zealand exporters to compete on price.

Second, China is a developing country, and lacks strong purchasing power for foreign goods. Expanding exports to China depends on the healthy development of Chinese economy and the country's balance of payments situation. China's wool imports, for example, made a record of NZ\$ 522 million in 1988, then fell to a low of NZ\$ 70 million in 1990 because of the economic retrenchment in China, but subsequently recovered in 1991. Demand from China depends very much on the domestic economy.

Third, some of New Zealand products are not fully suitable to the needs of China. For instance, there is a great demand for machines and cereals in China but New Zealand's capability for providing them is limited. New Zealand has a strength in wool exporting, and China has vast population and a great demand for wool, but New Zealand provides mainly wool degreased & uncombed, whereas the needs of China are mostly for wool top for knitting.

Fourth, the culture in the two countries is totally different. Different languages, aesthetics, religions, attitudes and values make it difficult for people to understand each other well, and this can make it difficult to enter China's market successfully.

Finally, New Zealand is a long distance from export markets, creating further difficulties, because of factors such as high transport costs, especially for small exporters.

Suggestions for Exporters

To develop New Zealand's exports to China further, it is recommended that exporters should adopt the following strategies.

1. Search widely for information to understand the special needs of both the Chinese government and the people, and give export priority to items which are urgently needed. For example, most Chinese construction plans focus on infrastructure and thus most foreign currency is spent on machinery, equipment and materials which China cannot produce or is short of. Consequently, China gives very preferential treatment to these products and import tariffs are low.
2. Concentrate efforts on some specific areas of the country. China is a vast country and New Zealand's exporters do not have the capacity to cover all of it. Fortunately, China's open cities, special economic zones, and open zones are located along the coastal line of the West Pacific. Such a layout facilitates international trade. These cities and areas generate more income, create greater consumer demand, and possess a better market environment and infrastructure, such as well-developed commodity economies, convenient transport, modern communication facilities, and access to information.
3. Establish long term relations with related companies and individuals. Exporting to China requires not only marketing technology or competition in product quality and price, but personal and social relations. Good relations are conducive to success in trade.

4. Attach importance to learning Chinese culture, customs and language, so that appropriate market strategies can be implemented with an understanding of China. Employing Chinese graduates in economics and trade as assistants, especially those who have overseas experience, is one way of achieving this objective. Most of these graduates know both China and foreign countries well, they can also speak Chinese and English, which will help any exporters attempting to enter the Chinese market.
5. Let Chinese people know about New Zealand consumer products by advertising, especially on television, since over 70% of households now have a television set. Chinese people do not know very much about New Zealand, let alone about New Zealand consumer products. Television advertising is one way of rectifying this situation.

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