OPENING DOORS TO CHINA

NEW ZEALAND'S 2015 VISION

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FOREWORD FROM PRIME MINISTER KEY

China is a country that has become very important to New Zealand. We want to expand our links further to grow trade and other opportunities between our two countries. So I am delighted to introduce the NZ Inc China Strategy – a vision for New Zealand's developing engagement with China.

It is fitting that the China Strategy is being launched at the beginning of the auspicious Year of the Dragon, and also the year marking the 40th anniversary of New Zealand's diplomatic relations with China.

The NZ Inc China Strategy is the second in the Government's series of centralised plans – developed to strengthen our economic, political and security relationships with countries and regions, and to encourage people-to-people links and two-way investment.

Our strategy for China starts from an explicit recognition that an excellent political relationship is the foundation upon which everything else must be built. We can't engage with China just on the trading front – we need to work across all sectors to build the range of links that will enhance our understanding and familiarity with one another.

The strategy is built around developing the trade and economic links between New Zealand and the People's Republic of China. Both countries understand that a strong export base and comprehensive engagement in the international economy are key elements in achieving economic growth, and boosting the welfare and future prospects of our people.

Trade with China has been one of the great success stories of the New Zealand export sector over the past decade or more. So much so that I had no hesitation in setting an ambitious future goal when I visited China three years ago.

Premier Wen Jiabao and I agreed that we should aim for a doubling of bilateral trade by 2015. We're on track to achieve that goal.

Goods trade is only half the story. Our strategy has a strong focus on services as well. To mention just two: China is already New Zealand's largest source of foreign students, and our fourth biggest tourist market. We plan to develop these further, and we see huge potential in other parts of New Zealand's growing knowledge economy – design, information technology, film and TV, food safety.

Knowledge is in fact set to be a key driver of our rapidly growing relationship. Clearly it is a two-way street – we want to work with China to drive forward science and technology linkages, and we want to exploit the fruits of that collaboration to the commercial advantage of both countries.

The NZ Inc China Strategy will help us build on the successes we have already achieved. It is designed to promote a whole-of-government approach. It is designed also to provide a basis for more effective cooperation between the public and the private sectors.

The New Zealand Inc China strategy articulates the vision of a relationship with China that stimulates New Zealand's innovation, learning and economic growth. It is for us to work together to turn that vision into a reality.

Rt Hon John Key
Prime Minister

Clockwise from the top:
Jin Mao Tower in Shanghai, fortune cookie,
Prime Minister John Key at the New Zealand
Pavillion during Shanghai Expo.

CHINA IN PERSPECTIVE

One in every six people in the world is Chinese, and their homeland has amassed its resources to turn a population advantage into economic might.

The statistics demonstrating China's modern growth over the next decade are staggering:

- The number of Chinese households with an annual disposable income of over US$10,000 (in nominal terms) will almost quadruple – from 57.1 million households to 222 million.

> China's foreign reserves, which exceed US$3 trillion, are now the largest in the world.

- Two hundred of the world's top 700 cities will be in China, requiring 97 new airports and 30,000km of new railways.
- China's per-capita gross domestic product (GDP) is about US$7,500. Due to its historically high level of savings (which has funded the country's phenomenal growth), per capita consumption rates remain relatively low at about US$2,500 a year. In the United States, that consumption figure is about US$30,000 per person. With China moving to a domestic consumption growth model, this figure will rise significantly.
- By some calculations China is on track to become the world's largest economy, yet it is still a developing country. China's economic growth over the past 25 years is probably the largest and most sustained period of wealth creation in the history of the world. In 1800, China generated 25 percent of the world's industrial output. By 1975, it had fallen to 1.5 percent. It is now on its way back to 25 percent.

With numbers like these, there is little argument about China's dominance and influence in the global economy.

China is a vital part of the global supply chain; rather than just being the end-market for imports or manufacturer of exports, it is increasingly part of a more sophisticated trading picture. China is now often a point on the supply chain where one part is assembled with another before being exported to another market for final production, and yet another market for sale. Across Asia intermediate goods make up more than 60 percent of imports, and China is the top importer of intermediate goods in the world.

This is just one way in which China's predominant reputation as a powerhouse of cheap manufacturing labour is changing fast.

China is taking deliberate steps to move further up the value chain. As part of the 12th Five-Year Plan, the government will boost expenditure on research and development to 2.2 percent of GDP. It also has ambitious targets for the registration of patents. This is on top of existing efforts to encourage internationally-based Chinese researchers to return to China and to recruit 2,000 foreign experts to work in national laboratories.

By 2015, China will have the biggest research and development workforce in the world. This concentrated investment in technology has led to China emerging as an innovator in sectors such as aviation, clean energy, finance, telecommunications and science.

Beijing National Stadium (left), wine exports to China have huge potential for growth (right).

China's growing economic weight is also leading to the internationalisation of its currency, the Renminbi (RMB). Now that China is allowing the limited conversion of its currency for investment more central banks are starting to buy RMB to hold as a reserve currency.

Although the RMB remains pegged to a basket of foreign currencies and is still only allowed to trade within a narrow band against this basket, the People's Bank of China is allowing its currency to increase gradually in value.

In terms of trade, Beijing's relaxation on the use of the RMB in international transactions means that 7 percent of China's external trade is now settled in their national currency (up from 1 percent in 2010). The RMB is already welcome in many Southeast Asian countries where it is now regarded as a hard currency.

Between 1978 and 2005, China's economy more than quadrupled in size, and 300 million of its vast population of 1.3 billion people were lifted from absolute poverty. It has maintained an average growth rate of almost 10 percent per annum (falling to 9.1 percent for 2009, according to the International Monetary Fund), attracted sizeable foreign investment, greatly expanded its international trade and built up around US$3 trillion in reserves.

China's increasing economic success has given it greater influence in regional and international politics. Its prosperity has driven prosperity and stability throughout the Asia-Pacific region.

CHINA – INCOME GROWTH FORECAST

	0-55k RMB	55-100k RMB	100-200k RMB	200k + RMB
2010	38%	54%	6%	2%
2015	25%	43%	28%	4%

Source: McKinsey Global Institute

BABICH WINE

The first five years of the Babich wine company's foray into China were slow and characterised by the occasional wrong-turn in terms of distribution partners.

But a year ago, the company signed a rare deal with a national distributor and this year China leapt into the top five of Babich's 35 export markets.

Martin Tutty, director of sales and marketing for the 90-year-old family business, says: "It's been a five or six-year overnight success." Tutty says China has the potential to be Babich's third largest market by 2015.

Late last year, a report commissioned by New Zealand Winegrowers showed the industry could double its exports by concentrating on China and the United States. The Price Waterhouse Coopers report said that by 2021, the New Zealand wine industry's sales potential could grow by 170 million litres a year to reach almost 400 million litres – and China and the United States could account for half of that growth.

Tutty says Babich has learned valuable lessons about working with the right people and using networks to get a feel for how well a candidate might fit with the company. After a couple of false starts with distributors who failed to deliver on their commitments, Babich invested in sending Tutty to an expo in Asia where his small booth cost around $6,500 for three days. He talked to everyone he could and developed valuable market instinct and made the contacts which led to the successful relationship with his current importer.

"It's about creating your own luck," he says.

It has cost significantly more to establish in China than any of Babich's other markets.

Tutty visits China four times a year, for up to three weeks, and has appointed a full-time in-country Chinese sales manager. He says a company which cannot afford to invest significant time and resources should not attempt to take on China.

"China is more complex than any other market we've been involved with. There are entire categories which don't exist in other countries, such as banqueting and bulk-purchase for gifting. But now the pay-off from those years of perseverance is starting to show."

Tutty says success in China has complemented the business's other markets because, where the rest of the world favours white wine, the Chinese favour red. It is expected this favouritism may dilute over time as a new generation discovers white wine, but for now China's preference is providing a welcome market for Babich's pinot noir and Bordeaux-style red.

The volume of New Zealand red wine sold in China between 2003 and 2009 grew by 153 percent annually, while growth in white wine over the same period was 269 percent.

Philip Gregan, chief executive of New Zealand Winegrowers, says dozens of New Zealand labels are in China. The industry clearly recognises China's potential but Gregan warns the spoils will not come without hard work.

"It's going to require money, hard work and a lot of worn-out shoe leather. It's a big country, both geographically and in terms of markets. Time in that market is incredibly important in terms of understanding how it operates."

Annual wine exports to China have grown from $3.06m in September 2008 (the month before the FTA was implemented) to $17.0m in 2011, representing 456 percent growth. New Zealand's share of the imported wine market in China is around 1.6 percent – the eighth largest exporter of wine to China in 2010 in dollar terms, and the 11th largest in volume terms.

Of the top 15 exporters of still, bottled wine to China (which collectively make up 99 percent of the volume), New Zealand's average price per litre is the highest, at US$8.22 per litre against an average of US$4.49 per litre. The next highest is France, at US$5.01 per litre, followed by Australia (US$4.90) and Germany (US$4.43).

Wine Intelligence's China Landscapes 2011 report estimates a target audience of 18.6 million upper-middle class Chinese who are based in urban centres, aged 18-50, and regularly drink imported wine.

www.babichwines.co.nz
www.nzwine.com


Nighttime view of Kowloon Island, Hong Kong.

NEW ZEALAND AND CHINA

New Zealand enjoys a positive profile within China thanks to the 'four firsts'.

New Zealand was:

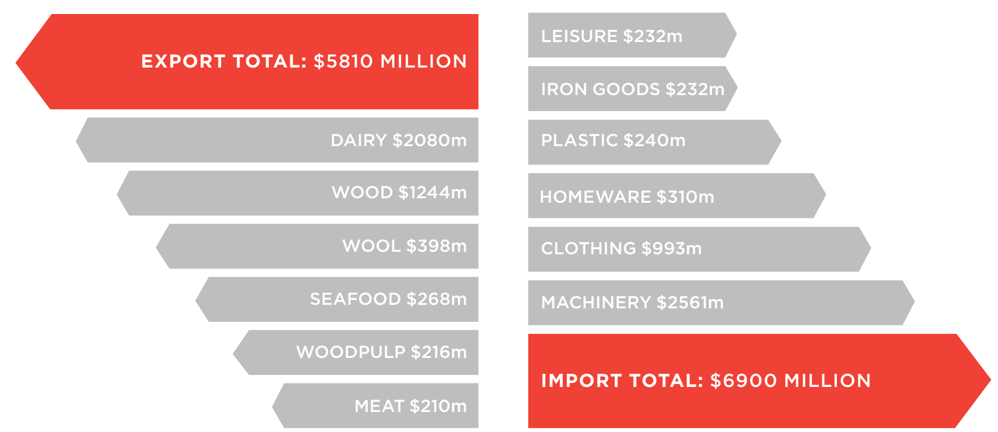
- The first Western country to conclude a bilateral agreement with China on its accession to the World Trade Organisation (August 1997)
- The first developed economy to recognise China's status as a market economy (May 2004)
- The first developed country to enter into Free Trade Agreement (FTA) negotiations with China (announced November 2004)
- The first OECD country to sign a high-quality, comprehensive and balanced FTA with China (April 2008)

The FTA between New Zealand and China (NZ-China FTA) came into force on 1 October 2008 and liberalises and facilitates trade in goods and services, improves the business environment and promotes cooperation in a broad range of economic areas.

This early willingness to recognise and trade with China is repaid with a level of engagement which is of substantial economic and strategic value to New Zealand.

In the year to October 2011, New Zealand's exports to China grew 34 percent, from $4.3 billion to $5.8 billion, imports from China grew 13 percent, from $6.1 billion to $6.9 billion.

NEW ZEALAND AND CHINA TRADE FIGURES



Source: Statistics New Zealand (for the 12 months to October 2011)

Mayors of Chinese cities have significant political power and influence, so New Zealand mayors can play an important role in opening doors in China. A business delegation led by a high-ranking political figure gets more traction.

Total two-way merchandise trade has grown more than 50 percent since the FTA, helping to partially offset the turmoil of the global financial crisis. China is New Zealand's second-largest market, accounting for over 12 percent of exports, and the second-largest source of imports, at 16 percent.

New Zealand's export trade with China over the past two years has grown faster than with any other major nation in New Zealand's trading history.

In 2010, the New Zealand-Hong Kong, China Closer Economic Partnership Agreement (CEP) capitalised on Hong Kong's status as a Special Administrative Region of China with autonomy in trade matters. Hong Kong is New Zealand's ninth largest export market worth $823 million per annum.

NEW ZEALAND CHINA TRADE ASSOCIATION

China's government has made it clear New Zealand is a worthwhile, significantly valuable and preferred business partner for Chinese businesses.

Stuart Ferguson, chair of the New Zealand China Trade Association, says this status should not be squandered. It presents an opportunity for the well-researched entry of proven New Zealand products and services, as long as operators are willing to put in the necessary effort to make their Chinese venture a success.

"Probably a lot of the low-hanging, ripe fruit is gone. Those who wish to enter the market will need to do considerably more work but all export is difficult.

"The biggest mistakes among aspiring entrants to the market are a lack of research and a reluctance to invest time or money. It's not a market you can cut your teeth on. If you haven't got something to trade, don't bother."

Ferguson, who was chief executive of the New Zealand end of the Chinese national shipping lines for 22 years, says companies should not be too proud to ask for help in developing a strategy to approach China. The NZCTA can help pair experienced China operators with new entrants to form a mentoring relationship – be it a one-off catch-up over a cup of coffee or a formalised, in-depth arrangement. Ferguson says the war stories, wisdom and experience of those who have successfully broken into China are invaluable in preparing newer operators for the complexities of the market.

"There is a market there for people willing to put in effort in terms of research and tenacity."

www.nzcta.co.nz

New Zealand Greenshell™ mussels.

One of the most pivotal developments came with the advent of direct flights from Auckland to China's largest cities, initially through Air New Zealand which was joined in the past year by China Southern Airlines.

Supported by direct air links, China has been New Zealand's fastest-growing inbound tourist market for a decade and tourist numbers will nearly double in five years. By 2014, China is projected to become New Zealand's second-largest source of visitors.

China is the largest source of international students – 300,000 have studied in New Zealand over the past decade. This business generates not only money, but great links and networks created while a Chinese person is studying – and potentially settling – in New Zealand.

China's investments in New Zealand were NZ$1.8 billion in early 2010, most of it in the forestry sector, followed by manufacturing and commercial construction.

New Zealand or New Zealand-associated companies such as ANZ, Richina and Fonterra have major holdings in China. Investment in China is important to secure a long-term market for New Zealand products and assists in the penetration of China's enormous developing consumer market.

The trade relationship has a very strong commodity base – primary products, dominated by milk powder and logs, account for 91 percent of New Zealand's earnings from exports to China.

However trade is diversifying. The Government is working with industry to promote the growth of exports in higher-value goods such as wine and seafood, and the outlook is promising. Wine exports to China grew from $3 million in September 2008 to $17 million in 2011 – 456 percent growth.

New Zealand is recognised as a world leader in quality food production and China is a growing market. Our reputation for science and innovation could make a significant contribution to China's food safety and food security.

Some of the earliest Chinese migrants in New Zealand arrived for the 1860s gold rush. Today, Chinese New Zealanders are the fifth largest ethnic group in New Zealand – 3.7 percent of the total population at the last census and the largest Asian ethnic group. There are 29 sister city and sister port relationships between New Zealand and China, from Ashburton and Puyang to Wellington and Beijing.

Chinese New Zealanders enrich New Zealand cultural life with events like the Lantern Festival in Auckland which attracted 240,000 in 2011. While most are yet to visit China, New Zealanders are discovering Asia through food, clothing, electronics and hardware.

PURE NEW ZEALAND GREENSHELL MUSSELS

Over a decade ago, the Greenshell™ mussel industry made its first foray into China – with unpleasant results.

Some Chinese distributors duped consumers with counterfeit products leveraging off New Zealand's strong reputation for quality and food safety. A small and muddy locally-grown green mussel was found packaged and sold in-market under the guise of New Zealand's iconic Greenshell™. Distributors sprayed water over mussels and froze them to add weight so they could sell for more. Perhaps the biggest concern was the sale of cheap Chinese mussels under the New Zealand name and counterfeit branding into highly valued third markets, such as the United States.

It was difficult for Kiwi companies to address these issues so, with the added complication of intense competition between New Zealand exporters driving down the Greenshell™ sale price, exporters walked away from China and refocused on other markets.

It was eight years before sizeable volumes of New Zealand Greenshell™ mussels made a return to the Chinese market in 2010 – and these days, it's much better news. As a market, China has more promise than most. It offers strong economic growth, an emerging 'consumer class' with a desire for quality imported foods, an improved regulatory regime (to limit the counterfeiters) and a history of appreciating Greenshell™ mussels.

The other significant difference is that several of the leading mussel producers are now working collaboratively under one brand – Pure. The shareholder companies in Pure New Zealand Greenshell Mussels are Sanford Limited, Sealord, Kono NZ Limited and NZ Greenshell. This approach combines resources and shares the risk and it is the first marketing initiative of this nature and scale among mussel producers.

Chinese businesswoman Vivian Zhang helped establish the company while on secondment from New Zealand Trade and Enterprise and has since become PNZGM's Shanghai-based general manager. With a long history in business development for international New Zealand companies, Zhang brings crucial Chinese business acumen to the task of re-establishing a significant Greenshell™ mussel market in China.

"This collaboration is a long-term business model looking for long-term profit. We are very confident in the future," Zhang says. Pure is sold into the food service sector, targeting western chefs familiar with the Kiwi delicacy, and Asian chefs looking for interesting new flavours.

PNZGM is already a multi-million dollar export venture and the target for 2012 is to double sales. The price paid for PNZGM product has risen from US$4.50/kg to US$4.85/kg in the past year. This is critical to maintaining export returns when the New Zealand dollar remains strong.

Zhang says members of PNZGM visit customers in China. She believes this is the most important lesson for aspiring exporters: "People like to see Kiwi faces. It shows your commitment to the market."

Gary Hooper has worked closely with PNZGM as marketing director of Aquaculture New Zealand – the industry body that represents Greenshell™ mussels, New Zealand salmon and farmed Pacific oysters.

"Chinese consumers love our product and associate New Zealand with quality and food safety. The economic growth and associated consumption is phenomenal."

Hooper says the collaborative approach used by PNZGM has sparked interest in adapting the approach for channel and market development elsewhere. Other export sectors have also asked for information about the model to understand whether it might be applicable and useful.

www.purenzgreenshell.com

> "It's not really a case of identifying the potential. The potential is huge. The question is how we best convert that potential into real economic growth opportunities for our country."
>
> *Prime Minister John Key*

ATRAX

Kevin Maurice says no exporter should be paralysed by the fear of intellectual property infringement in China. He's had his intellectual property (IP) stolen or threatened in Germany, Singapore and even in New Zealand, but through good management and good luck, he's yet to have problems in China.

Maurice set up design and manufacture company Atrax about 25 years ago. His weighing and measuring products are sold to other businesses which then install them in airports around the world. Atrax products – from the small scales which weigh your check-on baggage to the large scales used to weigh cargo for air freight – are in 101 countries from Iraq to The Philippines. One example is Hong Kong International Airport, where every piece of baggage, freight or mail passing through the airport is routed over an Atrax scale.

The company is well-positioned in China to take advantage of the surging demand for air travel and resultant expansion of airports across Asia. Atrax began manufacturing in China about three years ago, after Maurice sold off the domestic arm of his business to focus on exporting.

There were a number of issues to resolve before Maurice was comfortable with his Chinese operation.

He found it took substantial effort to document his processes so he could rely on them being made to his standards offshore. He has now developed the documentation to ensure a consistently high standard, but he has also employed an engineering manager who spends around half his year in-market.

Maurice also had to find a factory, and for this he relied on his networks. He and another New Zealand business owner have collaborated to establish a factory in southern China which fulfils both their needs. The businesses have complementary technology but are in unrelated industries.

Finally, Maurice had to tackle the issue of IP infringement. While ensuring he has all the necessary registrations in place, Maurice has also taken a much more simplistic approach. He has segmented his business so that there is little contact between the design capability in New Zealand, the manufacturing plant in southern China and the sales centre in Shanghai. He routinely ships bulk goods back to New Zealand where the products are then loaded up with the software. And, whenever he uses a sub-contractor in China, he will ask them to make a piece of steel or electronic part but never divulge what it is for.

"Some of these things are in conflict with Western management styles but I'm the only guy who knows all the parts of the jigsaw."

Maurice encourages other Kiwi business people to reconsider China if they've previously dismissed it as too hard.

"It is a big market. It is close to other parts of the world. Meanwhile, we are a far-flung little dot in the South Pacific. You can only do so much business from New Zealand. You need to get amongst it."

www.atraxgroup.com

"Over half of China's...

1.35 billion...

population now live in urban areas."

China National Bureau of Statistics, 2012

Clockwise from top left:
Air travel expansion across Asia, Chinese student, Chinese cuisine, Chinese spice market, the Forbidden City in Beijing.

THE NZ INC CHINA STRATEGY

This country strategy is part of a broader government strategy to increase the internationalisation of the New Zealand economy which, in turn, is part of the wider Economic Growth Agenda. It supports the Government's main goal to deliver greater prosperity, security and opportunity for all New Zealanders.

The strategy is part of a whole-of-government approach to growing exports and new markets. Developing and capitalising on New Zealand's relationship with China is crucial in delivering the Government's Economic Growth Agenda, including the goal of raising the level of our exports to GDP from 30 to 40 percent by 2025.

The NZ Inc China Strategy reflects China as an important bilateral partner. It has a strong trade and economic focus and sets out ambitious, high-level, five-year goals and actions to achieve them.

The strategy also provides an overview of the strengths and weaknesses in New Zealand's approach in the market. The strategy has been developed by ministers and government agencies with important input from industry groups, businesses and organisations involved in building New Zealand's relationship with China.

A central aim of this strategy is greater efficiency and effectiveness across all government agencies that work in and with China, and more targeted and cohesive services to help successful businesses develop and grow in China. The strategy, however, goes beyond increasing exports. It identifies issues that impact on New Zealand's ambitions.

New Zealand 2015 vision

New Zealand and China have strong and resilient economic, political and people-to-people relationships which have stimulated New Zealand's innovation, learning and economic growth.

New Zealand's 'four firsts' with China create a platform to achieve these goals.

The challenge is to translate an excellent political relationship and trading framework into tangible benefits for New Zealand. Our companies must be helped to harness value as well as volume from the China market.

Not only must we focus on what our businesses need to succeed in this market, we also need to consider what we do in New Zealand to learn about and work with China as a partner. This focus would span investment and migration, and consider tourists, students and business people.

> "China's way of doing business is already having an influence around the world. World businesses will evolve to keep up with it." *McKinsey Global Institute*

GOALS AND PRIORITY ACTIONS

The NZ Inc China Strategy identifies five strategic goals for furthering New Zealand's relationship with China.

1. **Retain and build a strong and resilient political relationship** with China.
2. **Double two-way goods trade** with China to $20 billion by 2015.
3. **Grow services trade** with China (education by 20 percent, tourism by at least 60 percent, and other services trade) by 2015.
4. **Increase bilateral investment** to levels that reflect the growing commercial relationship with China.
5. **Grow high quality science and technology** collaborations with China to generate commercial opportunities.

Underneath each goal is a series of priority actions that will be implemented by relevant agencies, including: the Ministry of Foreign Affairs and Trade, New Zealand Trade and Enterprise, Ministry of Economic Development, Tourism New Zealand and the Ministry of Science and Innovation.

Other agencies working closely on priority actions include the Ministries of Agriculture and Forestry, Defence, Transport, Customs, Immigration New Zealand, Treasury, Ministry of Education, Te Puni Kokiri, Ministry for the Environment, Education New Zealand, Police and the Department of Internal Affairs. Several key steps to implement this strategy are already underway, including:

- A 2012 ministerial work programme is in place for high-level engagement to push forward the political relationship, and to lead trade missions to China.
- China business training courses have been attended by over 400 business representatives building the capability and market readiness of companies at the early stages of entry to the Chinese market.
- Immigration New Zealand's Shanghai-based service has expanded to enable more efficient processing of visas for Chinese business people, tourists and students.
- Two new investment advisors have been based in Beijing and Shanghai, to lead the Government's investment strategy in China.

1 Retain and build a strong and resilient political relationship with China

After the best part of 200 years of marginal global influence, China has reclaimed a position as a leading world power.

Its global rise is characterised by economic and social development. China is on track to become the largest economy in the world within 20 years, while simultaneously lifting its rural citizens out of absolute poverty.

> "An astounding 30 million [Chinese] consumers are expected to shop online for the first time, every year until 2015. That's a population nearly the size of Canada."
> *Boston Consulting Group*

It is critical New Zealanders appreciate the different scope of China's government and build their understanding of successful engagement.

China is of central political and strategic importance in the Asia-Pacific and globally. Its policies directly affect New Zealand's political interests, security and economy. China is increasingly active in international rule-setting and practices in areas as diverse as international trade and finance, climate change, fisheries, aid and the future regional architecture of Asia.

It is important that, in dealings with China, New Zealanders' interests are understood, protected and advanced.

The Chinese government plays a major role in business in China, both as a regulator and through state run companies. In this environment, the New Zealand Government can actively assist New Zealand companies to form alliances with major Chinese enterprises and to access services in China.

The experience of many New Zealanders doing business in China is that they "make friends first; make money later".

Following consistent investment in China since 1972, New Zealand has strong political connections to both central and provincial governments. These relationships require ongoing attention and investment as powerful provincial economies are emerging as the new frontier.

For many of our largest and most progressive companies, 'China is the new China'. Mainfreight, Rakon, Zespri, Weta Workshop and Biovittoria are among major New Zealand companies exploring business in regional China. This strategy identifies the need to support companies to build the political and commercial goodwill required for long-term success.

How will we achieve this goal?

Commit to ministerial engagement, both as hosts and visitors to China, to build the high-level relationships required to achieve the strategy's goals.

The 2012 milestone of 40-year-diplomatic relations will present opportunities to reinforce our warm relations. The rebuild of the New Zealand Embassy in Beijing will also refresh our flagship presence in China.

Strengthen existing domestic knowledge of China, and provide a base for a China/New Zealand Partnership Forum, through establishment of a New Zealand China Council.

A New Zealand China Council will bring together leaders in business, public sector and academia.

It will build understanding of common challenges and opportunities for NZ Inc to balance and lead public discussion and support ministers. The Council will lead a high-level bilateral Partnership Forum with Chinese counterparts.

Establish a bilateral financial and economic dialogue involving the Reserve Bank and the Treasury.

This will aim to build stronger mutual understanding of finance and economic policy positions and systems.

Encourage more New Zealanders to learn Chinese language skills, train teachers to run Chinese language programmes in schools and strengthen Asian studies in universities.

Strengthen and maximise areas of cooperation between security and law enforcement agencies in New Zealand and China.

2 Double two-way goods trade with China to $20 billion by 2015

China is New Zealand's second-largest bilateral trading partner with two-way trade worth $12.7 billion in the year to October 2011. Since the FTA came into force in late 2008, exports from New Zealand have increased by 152 percent, the fastest growth with any major trading partner in recent times. New Zealand's annual trade deficit with China has also reduced by nearly 60 percent.

> Two-thirds of China's population – an estimated 64 percent – will live in cities by 2025.
> *McKinsey Global Institute*

This has been underpinned by growth in commodities, but there are encouraging signs of significant development in higher value, differentiated products and services. The competitive advantages offered through the FTA are increasingly apparent and will grow significantly in the next few years.

In addition to the FTA, there are environmental factors which present a significant economic opportunity for New Zealand. Among these are: China's projected economic growth; continued urbanisation; its role in global supply chains; demand for resources; and a growing middle class of consumers who expect food safety and security. There are many points of common interest between China and New Zealand, most obviously in the agritech and food and beverage sectors, but with growing opportunities in technologies, natural products and specialised manufacturing and services.

New Zealand's challenge will be to realise this potential and maximise the relationship with China in addition to our current global trade profile, maintaining a balanced view of the world. Interest amongst the New Zealand business community is strong, but there remains a great deal to be done to translate that interest into market-ready, commercially-viable businesses capable of engaging in a sustainable and profitable way with China.

Traditional Chinese fishing boat (left), Chinese factory worker (right).

ORION HEALTH

Orion Health has been active in China for nine months and is determined to not repeat its competitors' mistakes.

Orion is an Auckland-based health information technology (IT) vendor, and New Zealand's largest privately-owned software exporter. Its software is used by clinicians in over 50 countries to quickly access patient records across a variety of sources.

Executive vice president hospital solutions, Wayne Oxenham, says Orion started planning to enter China about two years ago. It commissioned research and developed a high-level market entry strategy. A priority was a local Chinese operator who had networks and local business understanding so Orion appointed a Chinese resident in New Zealand as China general manager, and it is now recruiting Chinese people who have studied in New Zealand to grow with the company and eventually return to China to work for Orion.

Oxenham says Orion is moving slowly and purposefully. Products have been reworked to fit the market – from the refocusing of marketing collateral to highlight what is important to Chinese customers, to the formation of quality translation upgrades using Chinese text across Orion's software.

China has commanded a lot of resources and effort but Oxenham says this market – where the military alone has 1,000 medical centres and hospitals – is worth it. "The potential is unbelievable. If we capture two percent of the market, we'll generate $100 million in five years. If we're not there, we're not truly global."

www.orionhealth.com

> "Companies must have both the flexibility to adapt and the skills to innovate to keep in step with the Chinese market's exciting development."
> *McKinsey 2011 Annual Chinese Consumer report*

How will we achieve this goal?

China high-growth companies project

A substantial group of New Zealand Trade and Enterprise's (NZTE) customers have China as a priority market in the short and medium-term. NZTE has assessed the needs of these companies and will implement a project to help them realise their full growth potential in China. Through this project NZTE is targeting 50 or more successful, profitable and fast-growing companies in China by 2015.

The project will help exporters to analyse and understand the market; develop products and services for China; and identify appropriate partners and business models. Expert advisors will also be assigned to assist these companies and, where appropriate, raise capital to support their growth. These services will be tailored to customers and will be additional to the suite of advisory services already offered by NZTE.

Emphasis will also be placed on collaborative initiatives where market entry and development will occur more effectively.

Target priority sectors

There are some evident sectors of opportunity for New Zealand businesses in China and structured programmes have been put in place or are in the process of being developed to realise their potential. Priority sectors are food and beverages (notably seafood and wine); agribusiness (including food safety); high-value manufacturing across a number of sub-sectors such as aviation, marine, commercial fit-out, food processing technologies, etc; information and communication technologies; and natural products and bioactives.

Each sector programme will realise market opportunities for all New Zealand exporters and heighten the awareness of their capabilities and expertise amongst Chinese customers.

During 2012, the 'Chef-in Market' programme will be intensified based out of New Zealand Central in Shanghai; a comprehensive wine promotion will be developed and implemented; further support will be given to collaborative and individual initiatives in the seafood sector; a wide-ranging research programme will be undertaken in niche areas; and a programme of business missions into and out of China will be implemented.

Growing the base of China-ready exporters

Recognising the need to grow the volume of New Zealand companies ready for the China market, NZTE will build on its successful training programme for businesses at the early stages of their preparation for China. The courses have been offered nationwide since early 2011 and their breadth and reach will be expanded. These will assist companies with the basics of doing business in China and will identify training needs for further development for those wishing to intensify their engagement. NZTE will also work with other agencies and trade organisations to stimulate broader interest and awareness of business opportunities with China.

Representing New Zealand business in China

In close collaboration with other government agencies, NZTE will monitor and communicate changes to the business environment in China that may affect New Zealand's commercial activities. A key component will be to assist companies with the complexities of exporting to China and deal with the rapidly changing regulatory environment. Where appropriate, NZTE will work alongside companies to accelerate their market entry and consolidate their position in the market.

A close working relationship with counterpart Chinese entities maintained across the NZ Inc network will also help companies through a potentially complex and unfamiliar regulatory environment.

3 Grow services trade with China (education by 20 percent, tourism by at least 60 percent, and other services trade) by 2015

High value, profitable non-commodity growth will be essential to achieving New Zealand's economic goals. As with our goods trade, we have scope to do better in our traditional service exports to China – education and tourism – and to develop other areas, such as design, architecture, consulting, IT, environment and food safety services.

Education: grow value of education services by 20 percent

The Government has set a goal of doubling the economic value of export education services to $5 billion by 2025. China is the largest source of foreign students in New Zealand with 21,000 enrolments in 2010. Around 90 percent are in the tertiary sector and it is estimated Chinese students add approximately $600 million to the New Zealand economy annually.

With improved targeted promotion by the new Crown entity, Education New Zealand, and greater cooperative promotional spend among institutions, the Government hopes to increase the market share of Chinese students, without compromising the diversity and capacity of learning institutions.

China expects New Zealand to provide state-backed quality assured international education services for Chinese students. This is crucial if the value of the New Zealand education brand in China is to be protected and enhanced.

China is also the main market for offshore delivery of New Zealand education services. Our competitors are establishing campuses in China.

UNIVERSITIES NEW ZEALAND

Derek McCormack, Vice-Chancellor of Auckland University of Technology and outgoing Chair of Universities New Zealand, says the export education crash of almost a decade ago showed that New Zealand could not rely on a mass of students from a single source country. New Zealand needs to think smarter – looking at a much broader profile of source countries together with collaborations which provide a richer experience and greater benefit to the countries we work with.

With that in mind, he says, universities need to focus on the development of high-quality research and educational partnerships, from research collaborations to student and staff exchanges and jointly-offered education programmes.

Chinese students account for about 6000 of the 17,000 international students in New Zealand universities and educating them will continue to be an important source of income. But McCormack says sustainable, high-quality outcomes in business, diplomacy and industry will grow from postgraduate collaborations. In this way, New Zealand will be working alongside and deepening engagement with China in knowledge exchange. "That's what we should be focusing on and growing."

www.universities.ac.nz

NGAI TAHU HOLDINGS

Trevor Burt spent five years living and working in China before taking his position with South Island iwi Ngai Tahu.

As chair of Ngai Tahu Holdings, he helped negotiate the deal to develop a consortium with Singapore-based Agria and Chinese agriculture giant New Hope, which has taken a majority stake in PGG Wrightson.

Burt says there are similarities in the outlook of Māori and Chinese businesses. Both take a long-term view and consider their dealings to be those of a family business. "When you enter into a partnership, you need to align and there is a similarity around the way Chinese and Māori think."

Māori businesses should make the most of this, he says, but not expect that they will result in any advantage beyond some early goodwill. "It's got to be commercially sound and sensible. You can't broker a deal out of good feeling."

Burt's experience is that there is no magic to dealing with China – businesses just need to be forewarned about the role of relationship-building and anticipate the negotiation process may take longer. He says, if you can source them, it's invaluable to have people on your team who are familiar with Chinese business.

All businesses should recognise that their first partnership with a Chinese entity could be beneficial beyond the deal on the table. For example, New Hope has interests in dairying which is an area Ngai Tahu is keen to develop so there is potential for the business partners to work together in other areas.

Burt says a good portion of Ngai Tahu Holdings' earnings flow from China. It is the largest export market for Ngai Tahu's seafood business, and Chinese are the fastest growing client group for the tribe's tourism ventures, which include Shotover Jet and Huka Jet.

The partnership with Agria and New Hope will help Ngai Tahu to better understand the Chinese market so it can make the most of opportunities to increase the flow of tourists through its New Zealand businesses and maintain its lucrative position in the seafood industry.

www.ngaitahu.iwi.nz

"...companies trying to succeed in China need to remember that a number of Chinese cities are larger than many European countries."
McKinsey 2011 Annual Chinese Consumer report

Two thousand Chinese students are enrolled in China-based New Zealand programmes. There is potential to more than double this number and to grow associated earnings from consultancy and training services.

Chinese students have the second highest transition rates to work and residence in New Zealand, and therefore make an important contribution to our labour force, helping to lift productivity rates. New Zealand must invest in thorough assessment and verification of applications to study and live in New Zealand, while avoiding the establishment of unnecessary barriers to bona fide Chinese students and migrants.

How will we achieve these export education goals?

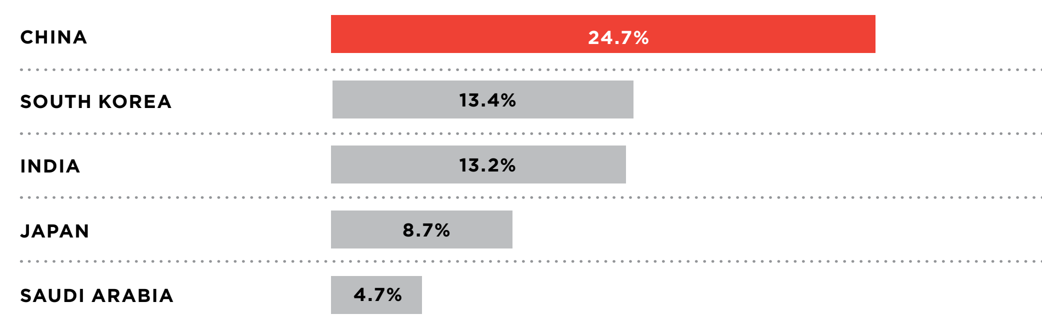
Complete an in-depth education market analysis and develop a targeted, China-specific marketing and promotion campaign for New Zealand education.

Explore and facilitate possibilities for mutual recognition of professional qualifications.

This will enhance the attractiveness of NZ qualifications for Chinese students in a competitive market.

Extend the number of NZ private training enterprises listed on the China Ministry of Education Study Abroad website.

INTERNATIONAL STUDENTS BY COUNTRY



Distribution of international fee-paying students by Country of Citizenship (2011)
Source: Export Education Levy Key Statistics

Tourism: grow tourism services by at least 60 percent

China is our fastest growing and fourth largest international visitor market. Chinese have traditionally holidayed in New Zealand as part of a tour group under China's Approved Destination Status (ADS) system. However, there has been an increase in the number of independent and semi-independent holidaymakers. The focus is on ensuring the quality of tour group travel and motivating independent or small-group Chinese travellers to visit New Zealand.

Air New Zealand has direct flights from Shanghai and Beijing but there are capacity constraints through other Asian hubs, especially during the peak summer period.

Direct flights from Guangzhou by China Southern Airlines started in April 2011 and in November 2011 it moved to daily flights, bringing greater stability to air connections. On current growth projections, a new air services agreement will be needed within the next year to allow further expansion of services. Aviation talks will take place this year.

New Zealand welcomed 141,000 Chinese visitors in the year to November 2011. In the 2010 calendar year, Chinese visitors made an economic contribution of $362 million. The goal is to grow this figure by 60 percent.

> The growth in visitors from China has been significant in recent years. In the year ending November 2011, 141,000 travellers from China visited New Zealand. Average annual growth of 8.4 percent is forecast between 2010 and 2016, increasing visitor arrivals to around 180,000 per year.
> *Tourism New Zealand*

How will we achieve these tourism goals?

Tourism New Zealand and other agencies will develop the brand to tell the New Zealand story for specific key sectors in China, and will invest further in in-market promotion to support airlines investment in new services.

Meanwhile, Immigration New Zealand's Shanghai-based service, one of its four China operations, has expanded and has an outsourcing agreement for the lodgement of applications.

Other services

China is maturing as a market for New Zealand ideas and skills, as well as goods. The following areas all have significant potential to grow: design and architecture; water management; film and television company production; green engineering; entertainment, including advertising; IT and educational resources.

How will we achieve these service goals?

Improved statistics on services trade would capture a more accurate picture of the growth in these areas and help identify possible areas for increased service liberalisation under the FTA.

4 Increase bilateral investment to levels that reflect the growing commercial relationship with China

Bilateral investment flows relative to bilateral trade volumes are low. There are a number of reasons for this: Chinese investors and businesses are unaware of New Zealand opportunities; the New Zealand deal size is relatively small for major Chinese investors; outward Chinese investment is subject to strict controls; and New Zealand investors are inexperienced in Chinese markets.

New Zealand would benefit from increased Foreign Direct Investment (FDI) from China, and Outward Direct Investment (ODI) into China. It would serve our country well if levels of bilateral investment reflected our countries' growing commercial relationship.

Inward investment

It is estimated China invested approximately US$60 billion internationally in 2010/11. Total Chinese investment stock in New Zealand is $1.87 billion; the comparative figure of FDI from Australia is $100 billion. Avenues for increasing investment in New Zealand include Chinese state-owned enterprises, which could provide investment capital for strategic resource development and infrastructure funding. Major outward FDI bids from Chinese firms are subject to Chinese government vetting. Private Chinese investors are showing increased interest in certain sectors of the New Zealand economy. Sectors of demonstrated or possible interest include food and beverage, natural resources, cleantech, high-value manufacturing, IT, and infrastructure. Significant recent investment by Chinese firms includes Bright Foods (in Synlait), Haier (F&P Appliances) and Agria (PGG Wrightson).

Policy settings

Acquisition by foreign investors of New Zealand farming assets is a sensitive issue for some. Over the last five years, sales of land to Chinese investors have been less than 1 percent of total sales to overseas investors. The Government has undertaken a review of the Overseas Investment Act to improve its operation and effectiveness. Officials are working on a detailed policy framework to assist in targeting, attracting

COMMUNICATIONS IN CHINA

MOBILE PHONE USERS	952 MILLION
INTERNET USERS WITH BROADBAND ACCESS	150 MILLION
TELEPHONE CONNECTIONS	288 MILLION

Source: China's Ministry of Industry and Information Technology (2011).

Steel mill (left), Chinese New Year dragon (right).

LANZATECH

Two years ago, LanzaTech co-founder Sean Simpson made his first business trip to China.

Today his cleantech company has partnerships with five global Fortune 500 companies in China, including a joint-venture with Baosteel and a demonstration facility at one of the Chinese state-owned iron and steel company's Shanghai steel mills.

That is the speed with which your business can take off once you climb on board the China phenomenon, Simpson says.

LanzaTech uses a unique microbe to turn gas waste into ethanol. The company's research and development arm is in Auckland and it has offices in Shanghai and Chicago.

LanzaTech's swift entry to the Chinese market has necessitated a swift education in Chinese business. Simpson says the first rule is to focus on building relationships rather than talking money.

"It's not a quick thing. One dinner is not going to do it. It's more about time rather than throwing money at it. Relationships built over time are important."

Many Kiwi businesses are afraid of losing their intellectual property (IP) in China. Simpson says retaining your IP should be the bottom line of any agreement.

"If part of the deal is to own the IP, it's the wrong deal, it's the wrong partner. Get out."

Despite the hefty time investment to build relationships, and the need to mitigate the potential for IP infringement, Simpson says businesses considering entering China should go for it.

"The people who are contemplating going there have got balls. It isn't a scary place if you take precautions. Avoid the negativity: China is the future. We've got to look East."

www.lanzatech.co.nz

From 1949 to 1978, 280,000 Chinese nationals travelled abroad. In 2004, 22 million went abroad, rising to 57 million in 2010. Chinese officials anticipate this will exceed 100 million in the next five years.

Ministry of Foreign Affairs and Trade

and utilising FDI, which will underpin the investment goals of all NZ Inc strategies. This will create greater certainty for Chinese investors and help in shaping future investment.

How will we achieve greater inward investment from China?

More resources have been allocated to encouraging focused investment from China that creates new opportunities and capabilities.

New Zealand officials have been working with China's Investment Promotion Agency (CIPA) on the preparation of high-quality, up-to-date, Chinese-language information on the rules and regulations of investment in New Zealand. Agencies will also prioritise work to finalise New Zealand's FDI/ODI policy platform.

Outward investment

Total New Zealand investment stock in China is $541 million; this compares to $36 billion in Australia. The low rate of New Zealand investments in all key markets, except Australia, correlates with a lack of New Zealand investment up the value chain and a predominant model based on production and export of raw materials or primary manufacturing and export of goods via third parties, e.g. agents and distributors. Lifting the level of New Zealand investment in China is a priority. We need to build on the successes of companies such as Fonterra, Rakon, Nuplex, Sanford and Richina, all of which have invested in their own, or joint venture, operations in China.

5 Grow high quality science and technology collaborations with China to generate commercial opportunities.

New Zealand science has a world-class reputation, and China provides new opportunities for the commercialisation of science and international scientific collaboration. New Zealand's participation in cooperative research teams provides a means to share and protect intellectual property generated from research that is commercialised.

Until recently, the New Zealand science effort in China could be characterised as predominantly individual academic contact with a developing China science sector, with little strategic or commercial impact. Prime Minister John Key's meeting with Premier Wen Jiabao in 2010 identified science and technology as lagging behind other aspects of the relationship and agreed to remedy this. Priority areas of collaboration are food, health and biomedical sciences, environmental science, and high technology platforms.

China is also emerging as a possible test bed for cutting-edge New Zealand technologies, particularly in the area of greentech and industrial technology. Auckland-based biotechnology company LanzaTech has signed a partnership with the second-largest steel company in the world, Baosteel, and is testing its emissions mitigation technology in its mills.

How will we grow science collaborations with China?

We will use the jointly-funded New Zealand China Strategic Research Alliance to facilitate more substantive bilateral research collaboration.

The Alliance will nurture research opportunities, conduct research and commercialise research. The Alliance will identify a small number of large scale bilateral projects, supported by a Joint Funding Mechanism worth around $2 million over three years. The Prime Minister's Chief Science Advisor will continue to engage with China's science leaders on new opportunities.

New Zealand will also provide additional China-based science resourcing to help foster stronger links between New Zealand and Chinese researchers. This would ideally be accompanied by significant investment in bilateral science projects.

Supporting the goals: New Zealand's value proposition

Achieving the strategy's goals requires better New Zealand branding in China. We need China to understand the unique opportunities arising from collaboration with a smart, lean, innovative nation like New Zealand. We also need more Kiwis who are literate in China's languages and culture.

Maori culture offers a point of difference which benefits New Zealand companies offshore. In 2010, Maori Affairs Minister Pita Sharples visited the large and fast-growing province of Guizhou. It's believed this province is a good fit with Maori businesses both on a sector level (both are strong in tourism, fisheries, animal husbandry, horticulture, and education) and culturally (Guizhou is home to large ethnic communities).

Guangzhou also offers potential as a hub for Māori commerce. A small Māori business delegation has recently visited Guizhou and Guangzhou, with Te Puni Kōkiri (TPK), MFAT and NZTE officials. This was successful in further exploring a number of emerging opportunities in agriculture, education and tourism.

How will we develop New Zealand's value proposition?

In China, the New Zealand brand conjures valuable associations, such as safe food and world-beating tourism. This brand will be developed to tell the New Zealand story for other specific key sectors in China. A common set of messages is required for NZ Inc to use in engagement with China so that the value proposition is clear.

Existing New Zealand and Māori brands will be protected.

TPK is working with NZTE and MFAT to focus on south/west China, to tap into opportunities for Māori businesses.

Ways to build knowledge of China in New Zealand will be explored. This is important to help New Zealanders feel more comfortable with engagement with China and are equipped to succeed, and to ensure New Zealand is a welcoming place for Chinese business people, migrants, investors and tourists.

> "The penetration of certain goods may be high in China's more economically developed regions, but plenty of consumer-conversion opportunities remain in less developed ones."
> *McKinsey 2011 Annual Chinese Consumer report*

TE PUNI KŌKIRI

A number of high-level Māori business delegations have helped introduce successful and innovative Māori to the potential of China.

In September 2010, the Minister of Māori Affairs Dr Pita Sharples led a very successful Māori business delegation to Beijing, Guizhou, and Shanghai. It promoted cultural and business connections between Māori and Chinese.

Te Puni Kōkiri Chief Executive Leith Comer says: "There are many similarities in culture and customary practices between Māori and Chinese. Building relationships based on the sharing of cultures has proved to be very effective at opening doors for commercial engagement."

Similarities include a values-based approach to business, the importance of building strong relationships and an intergenerational perspective when considering investment.

In 2011, Comer returned to China with a delegation of senior Māori leaders, visiting Guizhou, the cities of Guangzhou and Shenzhen and Hong Kong. This visit progressed a number of Māori business projects and further strengthened relationships between Māori and China.

www.tpk.govt.nz

Comer says both cultures value meeting "kanohi ki te kanohi" (face to face). "There is a strong cultural empathy and the measured and respectful way in which Māori firms conduct business in China is acknowledged and recognised."

Māori business assets align with New Zealand's export success, namely dairying, tourism, meat, wood and seafood. Comer says Māori have an opportunity to drive New Zealand exports and trade.

Comer says Māori goods and services have a unique point of difference – that is tikanga Māori (such as kaitiakitanga, kotahitanga, whanaungatanga) – which is inherent to Māori goods and services, and Māori ways of doing business.

"This is an under-leveraged global value proposition, not only for the Māori economy but for New Zealand. Overseas markets are increasingly responsive to cultural distinctiveness such as Māori branding. Branding is vital to tell the story of the product/service, to explain its whakapapa – this adds value and creates a niche product/service."

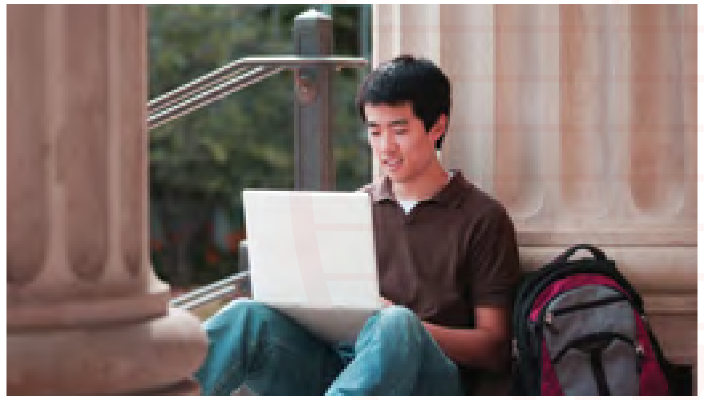
Comer says a number of successful Māori exporters are paving the way for other Māori enterprises.

"China could represent...

35% of the world's total growth...

in GDP over the coming four years. This growth will raise disposable incomes to an extent never before seen in any other market anywhere – pulling tens of millions of households into the middle class and beyond."

Boston Consulting Group



Clockwise from top left:
Bridge at night in Shanghai, Chinese student, Chinese lanterns, fresh fruit and vegetable market.

DOING BUSINESS IN CHINA

Most New Zealand business leaders are well aware of the potential in China, but are less confident of how to enter and conduct business in the market.

Some are paralysed by the scale of a market where a government housing project involves building 36 million homes over four years. China is a far cry from the domestic New Zealand market – it is 36 times the size of New Zealand, has a population over 300 times larger and a growth rate that sees its economy double every seven years.

The reality is China is several large regional markets and many niche and micro-niche markets. Compartmentalising the market makes China more accessible to New Zealand businesses.

> "Many companies have bet high stakes in China only to realise disappointing returns, often because of the complexity of China's markets." *Boston Consulting Group*

While there are difficulties in doing business in China, companies already in China see problems as fewer in number and of lesser importance than those looking at China from New Zealand.

The decision to manufacture in China shouldn't be made to chase cost reductions. As labour rates rise swiftly, along with tax rates and other compliance costs, commentators advise a move into Chinese manufacturing should be based on other factors, such as proximity to the market, scale, lead time and quality.

New Zealand Trade and Enterprise's website – www.nzte.govt.nz – has a vast array of information about preparing for China. However, here are just a few tips:

- Relationships are vital for success and, in spite of what you may be told, genuine relationships can't be bought. Foreigners should create their own Guanxi (networks). Chinese will usually prefer to be introduced to you by a trusted (ie not paid) go-between. Although the issue of relationship-building is sometimes overstated, you must invest in building durable relationships. Actively seek ways to deepen and broaden your network.
- Seek local advice and lots of it. Then, always 'calibrate' that local advice using your own experience, personal instincts and best judgment.
- Ask lots of questions and seek clarification. Never assume there is mutual understanding. Leave nothing to doubt, interpretation or speculation. Clearly summarise understandings and expectations in writing.
- Be realistic. While there are potentially huge gains to be made, there is no longer any low-hanging fruit. China will require hard work with less certainty of significant gains.
- Be patient. Getting started in China will be time-consuming and take significant resources. Don't expect Kiwi efficiency and overnight results. Success is unlikely to come quickly or easily. It is a costly and unfortunately common mistake to assume you will seal a deal or come anywhere close to it on your first visit to China.

TOP FIVE BUSINESS TIPS – JOHN COCHRANE

New Zealand's trade commissioner to China, John Cochrane, spent several years operating in China with successful New Zealand business Commtest. Here, he summarises his five top tips for building a base in China:

TIP NUMBER ONE

Do not enter China for a one-off deal, no matter how appealing such a deal appears.

- You must be in China for the long game.
- Negotiations surrounding lucrative one-off deals and the adjacent resource drain on your company can be enormous. The Chinese are experts at the game of out-lasting the opponent.

TIP NUMBER TWO

Don't assume you will be able to successfully run your China operation from home. You must make a total commitment to local presence – go in boots and all! At the very least, appoint a permanent China relationship person (bridge person) as soon as possible.

- This person must love and embrace the China challenge.
- This person should be comfortable spending lots of time in China.
- They could be Kiwi or Chinese national, but in either case they must be culturally adaptable.
- Their presence is vital as new competitors – foreign and domestic – can appear 'overnight'. Nurture and prune – tend the garden – of personal relationships.
- Recognise that anonymity and absence are the deadly silent assassins of both relationships and deals. In complex corporate deals, the most trusted supplier wins the contract more often than not, even if they are more expensive, and the Chinese are unlikely to trust someone who is barely known or rarely seen.

TIP NUMBER THREE

Protect your intellectual property.

- It is easier, faster and cheaper than you probably think.
- This won't stop all IP problems, but without legal protection you are truly inviting IP problems.

TIP NUMBER FOUR

Be prepared to re-create and re-engineer your original entry strategy.

- The wisdom gained from the market entry experience will strengthen your long-term strategy.

TIP NUMBER FIVE

Recognise that China will not change to suit your preferred method or approach. China has spent 5,000 years as a non-egalitarian society. The Chinese are not like us, and they don't want to be, so get over it!

- Chinese business is strongly hierarchical, with layers of complex loyalties to manage and navigate.
- Family loyalty comes first, then true 'friends', then the 'village', and strangers are on the far outside.
- First-time suppliers are not considered peers of their desired customers. Be prepared to approach potential customers as a subordinate would.
- Pay genuine respect to protocol and tradition. A begrudging or patronising approach will be easily detected by the Chinese.

> "Asian growth is an undeniable, inexorable, megatrend that is fundamentally and permanently changing the face of this world." *Service Success In Asia report, Victoria University and Ministry of Science and Innovation*

- Local decision-making can drag on 'forever', but in the end the action happens very quickly, so expect spurts of frantic activity after long periods of what appears to be 'analysis paralysis'.
- Press hard for periodic metrics of progress. You must measure progress, not just activity.
- Accept contradictions and last-minute changes without frustration. These are an expected and accepted part of doing business in China.
- Be sociable. The real deals are done outside the office and outside normal business hours.

Preparing for China

China's markets are very price sensitive. You need to have done the research to validate the potential and the investment.

As with other markets, breaking into China requires considerable funds. China is full of hidden costs relating to language and cultural issues, the time you need to spend building relationships and intellectual property protection.

Think hard and seek advice about whether China is right for your business. If China wants your product, you'll be there tomorrow.

CHINA BUSINESS TRAINING

Over 400 people have taken part in NZTE's China Business Training aimed at helping businesses crack China and succeed.

Participants came from a variety of companies and gave the course a 100 percent approval rating, with some companies booking customised sessions for staff.

The training offers extensive information on cultural aspects of business conduct, key regulations relevant to New Zealand businesses and examples of how to overcome problems encountered.

While China is an exciting place to do business it requires focus and commitment to succeed. New Zealand businesses are well regarded and respected in China, but a gap in knowledge and understanding can be a stumbling block for some.

It's critical that businesses learn from those who have in-depth knowledge and experience in the market. NZTE is looking at ways of developing the course for firms venturing into or already doing business in China.

www.nzte.govt.nz

"As Chinese consumers become more demanding about food safety, the competitive advantage of international manufacturers, and their ability to charge higher prices can only increase." *Euromonitor*

If China is ambivalent about your product, you'll be hard pressed to make the market profitable.

A business visa is recommended for travel to China and in most cases you will need a letter of invitation from a China-based company to get one.

If you are going to be a regular visitor to China, it will pay to get an APEC Business Travel Card which provides accredited business people with streamlined access to participating APEC countries (including China). Go to www.dol.govt.nz to apply.

Although China spans five time zones, there is only one standard time – Beijing Time. New Zealand is four hours ahead of Beijing time, or five hours ahead during New Zealand daylight saving. There is no daylight saving in China.

Make sure as many of your meetings as possible are prearranged, you have addresses for the meetings and you have information on the people you are meeting with. Reconfirm meetings a day in advance, get a map to the company or office you are visiting and have the address written in Chinese characters for the driver.

While Chinese generally prefer to be formally introduced to someone new, cold calling (self-introduction) is becoming more common. If you decide to make a cold call, it's useful to first contact the company in writing – both in Chinese and English – outlining the reason you would like to meet. Be flexible and don't be surprised if last-minute changes take place or meetings are cancelled.

On the ground

While the use of English in business and trade circles is increasingly common, you should have a Mandarin-speaker or paid Mainland Chinese interpreter on your team. You must understand exactly what is being said, and meant, particularly in negotiations.

A qualified interpreter will cost $100-$200 a day. They are more expensive (and usually better) in the main cities. In Beijing or Shanghai a good simultaneous interpreter (one who interprets at the same time as you or your Chinese counterpart speaks) can cost about $2,000 a day.

Take the time to learn a little Mandarin before you go – it will go a long way towards impressing your hosts.

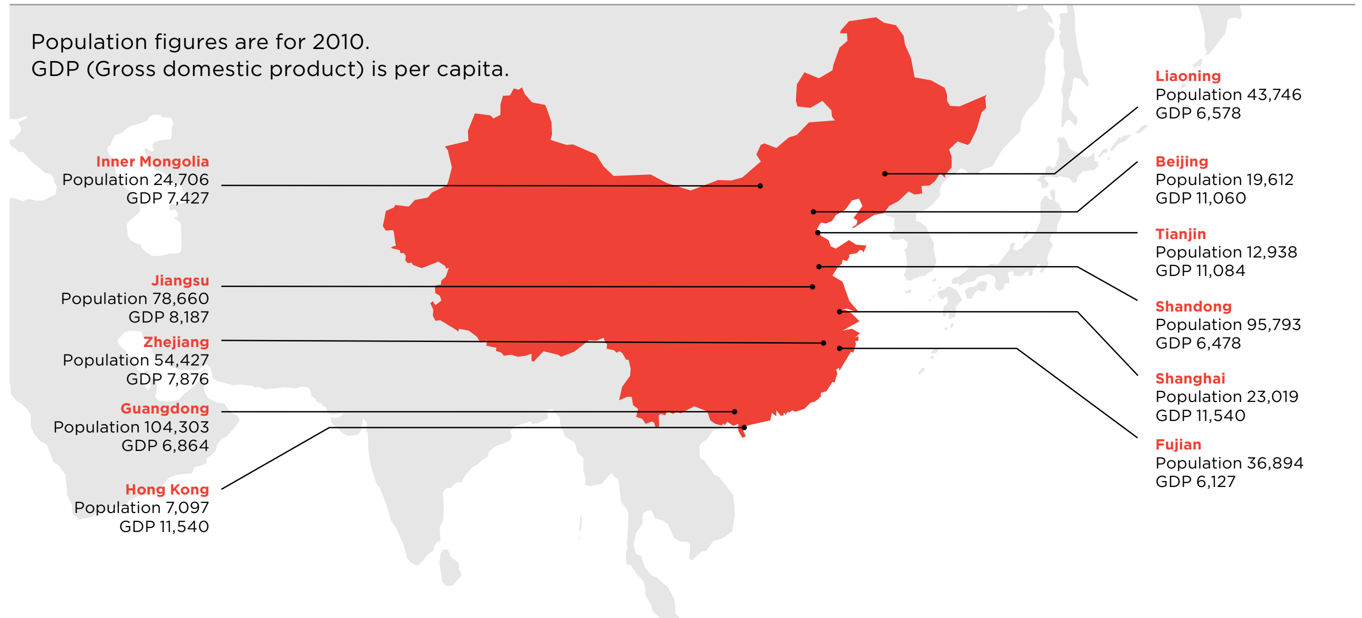
You may be met on arrival at the airport or at the first meeting by the main participant on the Chinese side, with other participants following in descending order of seniority.

Greeting ceremonies may also take place at meeting venues or restaurants. Sometimes people will stand up when being introduced.

When meeting your Chinese hosts, the most senior person in your delegation should be first in the reception line. Others should follow in order of seniority. Sort this out before the meeting.

Your interpreter should stay close to the head of the line to introduce your most senior person. Those greeted should move down the line

POPULATION & GDP



Source: Chinese National Bureau of Statistics 2010, currency in US dollars (map is of China customs territory)

NEW ZEALAND CENTRAL, SHANGHAI

New Zealand Central is a world-class business centre in Shanghai that offers a range of services to New Zealand companies wishing to explore or expand on opportunities in China.

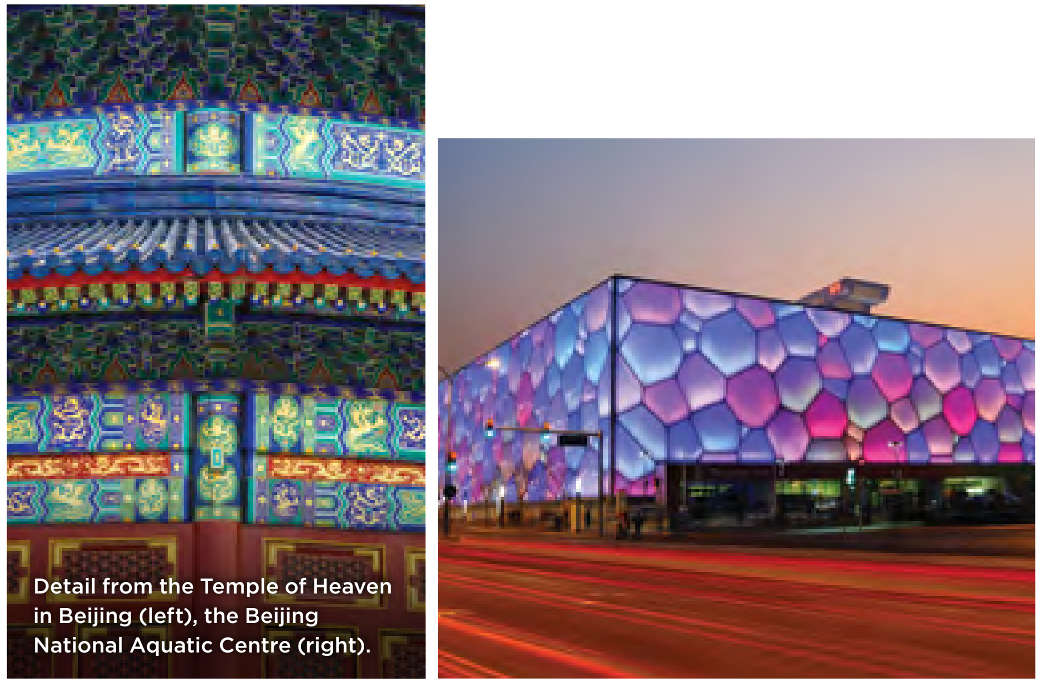
The facility was set up by NZTE as a showcase for New Zealand and as a facility for doing business in the world's fastest growing market.

The venue has a range of rooms to suit different business needs, whether it is a wine tasting, exhibition, seminar, gala dinner or product launch. Attendance at New Zealand Central events and functions is by invitation only to guests of the host organisation.

Businesses can take advantage of informal and formal meeting rooms, seminar, conference and short-term office space, and enjoy silver service dining for up to 60 people.

Client packages are available to suit both frequent and casual visitors. Applicants must be New Zealand registered companies, sponsored by New Zealand registered companies or be allies of NZTE, and agree to terms and conditions of use.

www.nzte.govt.nz



Detail from the Temple of Heaven in Beijing (left), the Beijing National Aquatic Centre (right).

DANNY CHAN

Danny Chan is a businessman and third generation New Zealand Chinese.

As a 13-year-old, he had his first brush with international business as a Chinese interpreter for New Zealand businesses.

Now 62, he has had almost 50 years experience in business between New Zealand and China – from interpreter to company chairman. He has been a director of Airways Corporation and AgResearch and is a director of many companies including Abano, ASPEQ and Academic Colleges Group.

He is chairman of Flowerzone International Limited, one of New Zealand's largest exporters of fresh cut flowers. In the 1980s, he ran the Taiwan office of Fidelity Investments of USA, the largest fund management company in the world. He is fluent in Mandarin, Cantonese and English.

With this background, Chan has had ample opportunity to observe New Zealanders conducting business in China. These are his top tips for new entrants to the market:

- You must go to China.
- Get to know the people you hope to do business with. This may take up to five years, so you will need patience. "The Chinese tend to assess you first and take their time. It's a different mentality. It's not that they are sceptical. They just don't like to go into business with people they don't know."
- Advance your relationship, and potentially fast-track your timeline for that crucial relationship-building, by organising an introduction or recommendation from a mutual associate. "They will check you out by talking to others. That will shorten the timeframe for consideration as a friend."
- Don't start talking business as soon as you sit down. "They like to talk about other things. By talking they can assess your personality and whether you are genuine. Quite often in China the deal is done at the end of the meal, after a few drinks."
- Pay top money for a top translator – one who can not only translate words but can provide context and meaning. "Don't use a mate's daughter. Get an experienced translator."
- Make the translator's job easier by not using slang and acronyms, talking slowly, and keeping your sentences concise and simple. Try to avoid the Kiwi habit of rambling on.

shaking hands, without pausing too long for conversation.

Shaking hands is now the standard form of greeting in China. Always shake hands – a short, not too firm handshake is the norm – with the most senior person first.

Business cards (called ming pian) are essential so have a good supply printed in English on one side and Chinese on the other. Check that you can use your company name in China and translate your name, job title, company name, special qualifications and your professional title.

Gifts and gift-giving are important.

Try to bring a gift that represents New Zealand or your company. Explain its meaning. New Zealand wine and art are popular, as are products made with paua shell or Omega 3.

Generally, formal dress is a sign of respect. It's also the safest option if you're not sure what to wear. For formal business in China, conservative suits are the norm for men and women. Ties are commonly worn.

Most importantly: whatever you do in China, seek quality advice. Locate people who can help you tell the difference between a business strategy and a custom.

GALLAGHER SECURITY

Peter Francis, Asia Pacific and Middle East regional manager for Gallagher Security, says it is vital to build a near-constant presence in-market when following the oft-repeated advice about commitment to relationship-building in China.

His experienced team in Gallagher Security's regional office in Hong Kong works to a structured schedule of meetings in key markets such as Mainland China. Every week, most key clients across China will see one of the Gallagher team.

"People are seeing more and more of us. They keep seeing people from Gallagher. You need to keep going into China continually."

Not only do these visits advance relationships, but they also help ensure the New Zealand office has quality information about local developments and needs, Francis says.

Gallagher Security is enjoying compounding growth of 10 percent per annum in China, selling its software-driven security management systems into large organisations such as banks, airports and universities.

Francis says each trip to the market should take full advantage of the 24/7 nature of Chinese business. Be prepared to meet prospective business associates in social settings on evenings and weekends.

"Put some time and effort into it. Don't just go up there on Monday morning and come back on Friday."

www.gallagher.co.nz

SYNLAIT

Tony McKenna travels to China on average every six weeks, for 10 days. As the head of Synlait Milk's market and product development, he's charged with bedding down the company's move into the giant Chinese infant formula market.

Canterbury-based dairy company Synlait Milk is 51 percent owned by Chinese company Bright Dairies. The minority partner, Synlait Limited, includes the Kiwi founders of the dairy company.

Synlait Milk's 130 dairy farmer suppliers average 1000 cows each – large New Zealand dairy herds producing quality milk for products exported to over 40 countries. Late in 2011, Synlait opened a $100m infant formula factory in Rakaia to capture the growing demand for quality infant formula in China.

McKenna says New Zealand's relative inexperience in marketing sophisticated dairy products compared with many European competitors is offset by New Zealand's formidable reputation in commodities and the valued '100% Pure' branding.

McKenna says smart Kiwi businesses will approach potential Chinese partners with a sharp focus on what they can offer that is special.

"The Chinese are incredibly business savvy. They understand their markets and they know what is required to make their business successful. They are very price focused. You have to bring something to the table that's unique, that they want and which gives them an edge."

www.synlait.com

CTC AVIATION TRAINING (NZ) LTD

Whatever your industry, CTC chief executive Ian Calvert says those contemplating China need to move now. "It is a huge market you can't afford to ignore because your competitors will get in. It's an opportunity which won't come along again."

CTC Aviation Training (NZ) Ltd is a privately-owned pilot training company. Its UK-based parent group has five subsidiaries worldwide, each of which has a speciality area from entry-level pilot training to airline captain qualifications. CTC New Zealand's specialty is initial training. It employs 73 staff, including 45 instructors, and has around 200 predominantly international students each year.

Calvert says two factors are driving interest from China: the exploding middle class and resultant travel and leisure activities, plus the lack of infrastructure for training pilots. Despite its size, China lacks aircraft, instructors and maintenance capability to establish flight instruction capability. "It's inevitable that China will develop in this area. We want to establish such a strong relationship that when they do, we will be part of it."

While China accounts for about 10 percent of CTC's earnings, the market consumes about 40 percent of Calvert's time. This includes frequent trips to establish solid relationships. "There is no way around it. You can't do it by phone. You can't do it by email. It's not somewhere you can go in quickly, get a deal, and walk away and it will look after itself."

Calvert's top tip for business leaders wanting to engage with China is to utilise New Zealand's Chinese-based resources. He says Chinese are impressed when government officials, such as New Zealand ambassadors or trade commissioners, are brought to banquets or meetings to support a New Zealand company's bid. "It has a major impact. If you are respected by your own government, the Chinese feel that you are someone who should be listened to."

Calvert says he has also made good use of aviation trade missions to make contacts and establish foundation relationships with potential partners.

www.ctcaviation.com

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Useful links

- China Customs, *english.customs.gov.cn/publish/portal191/*
- New Zealand – China Free Trade Agreement, *www.chinafta.govt.nz*
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For more information on NZ Inc Strategies visit **www.mfat.govt.nz**

For more information on doing business in China visit **www.nzte.govt.nz**

For travel tips visit **www.safetravel.govt.nz**

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