

CHINA: RECENT TRENDS AND OUTLOOK – PART IV

BUSINESS AND INVESTMENT OPPORTUNITIES

Access to the Chinese market has traditionally been complicated by various obstacles that slow down imports or increase the cost. Since joining the World Trade Organization (WTO) in December 2001, China has eliminated certain barriers, particularly in terms of imports. In accordance with its commitments, it is gradually opening its market.

Since January 2002, China has gradually dropped its average tariff rate from 15.3% to 11.5%. The dismantling of licences and import quotas is also under way. Although the process should be completed in 2005, the import quota and licence distribution procedure is far from transparent.

Inroads to date

Many multinationals have capitalized on this changing environment, making massive investments in China and setting up production units, distribution centres and even moving their R&D centres to large Chinese cities.

Besides the electronics leaders mentioned in an earlier bulletin, other international groups can be found in a wide variety of industries. For example, U.S. and European carmakers and parts manufacturers (General Motors, Ford, PSA, Michelin, etc.) produce and distribute their products locally. Machine manufacturers targeting the construction and agriculture industries have also found their way to China, while multinationals operating in the transportation, energy and construction sectors have established a sizeable presence (Schneider, General Electric, Lafarge, etc.).

Burgeoning household consumption has attracted companies such as L'Oréal and Danone, which has already amassed a customer base of 650 million people. In 2003, consumer goods accounted for 50% of the value of Chinese imports.

Finally, mass-market retailers are carving out a lion's market share in the more developed regions. Sears and WalMart are now in China. However, with 43 superstores and numerous other projects under way, the French retailer Carrefour is currently the leader in this industry. While the product selection is much the same as elsewhere in the world, these stores are adapted to the local culture by offering, for example, a fresh fish counter.

Small exporters and investors are also making their way to China, where they can be successful provided the large retailers already present choose them as suppliers.

New opportunities

Given the country's lagging progress until the '90s and the territory's vastness, some investments are indispensable in the short term, particularly in the energy, transportation, housing and agriculture sectors. For example, although the second largest in the world, China's 30,000-km road network leaves much to be desired in some provinces.

Many consumer staples and types of household equipment also offer growing opportunities, since the local competition is not yet sufficiently developed. Out of a total population of nearly 1.3 billion, 200 million people are currently considered consumers with real purchasing power for imported consumer goods.

The list is extensive and includes, for example, construction and home renovation, which offer interesting opportunities for our SMEs. Since 1997, the Chinese government has allowed and encouraged home purchases. Greater access to ownership and rising incomes have sparked a strong interest in home renovation among Chinese living in booming areas. In fact, Chinese households are devoting a growing part of their budget to improving their comfort (kitchen and bathroom fixtures) and to decor (paint, floor covering, lighting). Since the quality of local goods leaves much to be desired, there is a definite interest in quality imports. A study published in January 2004 by the Market Research Centre of the Department of Foreign Affairs and International Trade reveals good potential in the following areas:

- High-end floor covering and laminate flooring
- Plumbing, faucets and toilets
- Finishing products and interior decor
- Tools
- Millwork products (doors, windows, mouldings)

BUSINESS PRACTICES

The importance of knowing the market

China is often incorrectly viewed as a homogeneous market with consumers who all share the same taste. However, marketing in this country requires a regional approach. For example, the food products and clothing you sell in the South will not be the same as in the Muslim West.

While most foreign companies focus on the regions of Shanghai, Peking and Canton, it is nonetheless possible to start up elsewhere. We mentioned Chengdu in an earlier bulletin and would add Hangzhou, a city of 6 million inhabitants located west of Shanghai.

Knowledge of consumer behaviour and business practices is essential to tackling these markets, especially since statistics are hard to come by and are often misleading. Consumption habits are constantly changing and are quite different from those in North America and the European Union.

Statistics often overlook products that have social value and are considered essential by many consumers. For instance, a young, well-off Chinese family will save up to a whole month's salary to be able to purchase luxury products such as leather or a trendy mobile phone.

Beyond market knowledge, doing business with China requires knowledge of English, the only foreign language required in Chinese high schools. Although a growing number of students are taking French at university, it is not commonly spoken. In this regard, expat Chinese can provide invaluable help with the language and culture.

Business relations with the Chinese

In doing business with the Chinese, a personal relationship based on trust is essential and often takes a long time to cultivate. The Chinese place great importance on listening, modesty and friendliness. They do not like conflict, improvisation and impatience. Exporters must expect to negotiate prices, as this is the custom.

Transactions are typically settled in U.S. dollars. A licence is required for payments in local currency. A letter of credit is a wise precaution, since Chinese companies can become insolvent and sometimes do so at particularly "opportune" times.