



1 INTRODUCTION TO NAVIGATING CHINA

1.1 OPPORTUNITIES AND CHALLENGES

For New Zealand's businesses, China represents both opportunities and fresh challenges.

Geographically, China is 36 times the size of New Zealand, has a population over 300 times the size of ours and has a growth rate that sees the value of its economy double every seven years. By some calculations China is on track to become the world's largest economy by 2020, but 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.

China has also arrived at an important threshold in terms of per capita income. It has passed the US\$1,000 per head milestone considered critical by development economists. As Japan, South Korea, Taiwan, Singapore and Hong Kong have demonstrated, once the US\$1,000 milestone is reached the transition to US\$4,000–\$5,000 per head is comparatively easy.

But experienced business people in China emphasise patience when doing business in China. Brendan O'Toole, Managing Partner of Summergate, says while China is growing rapidly, firms shouldn't lose sight of the long-term:

"It's still very immature, very embryonic. The real prize to China is 30, 40, 50 years and beyond."

The opportunities

The opportunities arise from rapid economic growth in the world's largest market and the availability of a cheap manufacturing base from which to sell to China and the world.

From a manufacturing perspective, China in the long run will be distinguished by its overall business strength and structure, including the huge investments made to ensure China has a modern competitive manufacturing sector.

New Zealand businesses need to be clear about whether they want to sell or manufacture in China. Long-term, China business strategies shouldn't be based on the availability of cheap labour – this is disappearing as China becomes wealthier.

Note: This material has been designed to assist companies in the development of their own capability for the management of business opportunities in China's complex, diverse and fast changing business environment. It should not be used as the sole source of information for making decisions on selling to or investing in China. That can only be done by undertaking research on China tailored for your own company's situation and spending a lot of time in the market.

In 2007 China had 106 US dollar billionaires – more than any country other than the USA. There were just 15 in 2006 and none in 2002.

A new generation of consumers is emerging in China – they are young, well educated and familiar with non-Chinese cultures. This ‘Y generation’ of 240 million, born between 1980 and 1990, is now the highest earning age group in the country and is looking for a new way of life.

They typically live in the major cities on the Eastern seaboard of China and in particular in Beijing, Shanghai, Shenzhen and Guangzhou where GDP per person is now over US\$5,000 but corresponds in Purchasing Power Parity terms to four times that amount.

Grant Walsh, a Kiwi businessman with 10 years’ experience in China, says if his food business wasn’t located in China he wouldn’t be able to give the levels of service or meet the volumes demanded by customers. “I think it’s really that simple.”

KIWI EXPERIENCES – “BOUNDLESS OPPORTUNITIES”

“The opportunities are just boundless. When you get into the office in the morning you can start planning the future every day. And things are possible to do... you can also think five years out and say ‘Right I want to grow the business or to achieve X in the next five years’. You can really genuinely set very, very aggressive goals and they are achievable.” – Glen Murphy, Managing Director, Japan and Pacific, market information company Nielsen (Glen is the former China Managing Director for Nielsen)

“The size of this market astounds you. We ran a business in New Zealand and if we received orders of the magnitude of 20 to 50,000 square feet we were over the moon. Today, our average order placement with most of our customers is somewhere between half a million and a million square feet. So this excites us, just the size and the magnitude of the market.” – Keith Stevens, General Manager, Richina Pacific Ltd’s Ovine Garment Leather Division

“The way the economy is growing in China is really unprecedented, so it’s been a real challenge for them to keep up with legal, tax, intellectual property etcetera issues. They’re doing a much better job than people give them credit for. The fact that they can even remotely keep pace with the rate of change is incredible.” – Scott Brown of RedFern Consulting

“What we have is a huge market that is extending and developing so quickly it is jumping certain technology groups. For instance, I often talk of the fact that I don’t think the Chinese population knows what a land-line is because they simply jumped from no phone to the high quality electronics that we have available to us today.” – Doug Ducker, Managing Director of Pan Pac Forest Products

The challenges

Starting to do business in China is likely to be more costly and time consuming than in other markets.

Challenges arise because of China’s size, its ‘gold rush’ style growth and the fact China has a very different business culture and environment from what we are used to in New Zealand and in other export markets.

New Zealand and China are also markedly different in size, culture, politics, geography, history and economic structure.

These issues can present challenges for companies looking to sell or invest in China which can only be overcome by thorough research, spending a lot of time in-market and following a focused business plan.

Much of the information available on China may appear contradictory. You need to see for yourself which advice is right for you.

KIWI LESSONS – GET AN UNDERSTANDING OF CHINA

“I could tell you something about China; my friend could tell you something about China and both of those would be completely opposite. But both would be completely right. You have to come here to actually see it for yourself and decipher and filter the information for your own business. Listening to what other people tell you will only give you part of the story.” – Glen Murphy

“Take time to sit back and learn and understand the business culture, the people culture. Basically it’s about not rushing in trying to do things without understanding. That’s where people make mistakes – it’s about learning and understanding China prior to getting here and once you are here.” John Shearer, New Zealand businessman in China

From a distance China appears huge. The reality is that it is several large regional markets and many more numerous niche and micro-niche markets which helps to make China more accessible to New Zealand businesses.

Differences between the size and focus of the two economies, rather than being an obstacle to doing business in China, often present opportunities for New Zealand businesses.

The Chinese dairy market is typical of the mix of the opportunities and challenges facing New Zealand businesses. Chinese consumption of dairy products is just one fifth of the international average, but is predicted to move more into line with the norm as incomes rise. It is estimated that if each Chinese person drinks half a kilogram of milk a day, the country’s dairy consumption would equal more than a third of the world’s total dairy production.

There’s a twofold challenge for New Zealand companies wanting to take advantage of this opportunity. Firstly every other major dairy producer in the world is similarly focused and secondly the domestic Chinese dairy industry itself is growing rapidly.



You should also not underestimate the size and quality of your competition in China. The government's pro-growth policies have produced a host of businesses pursuing each and every opportunity.

Other challenges include the uneven application of regulations, local protectionism, indirect subsidies to local industry such as low interest bank loans, intellectual property violations and the need to build up closer relationships with business partners than would be usual in New Zealand.

While there are unique difficulties in doing business in China, they are not as great as they sometimes seem from a distance. Companies already in China see problems as fewer in number and of lesser importance than those looking at China from back in New Zealand.

KIWI EXPERIENCE – NO INSTANT RICHES

“Don't think you are going to get rich overnight.” – Keith Stevens, General Manager, Richina Pacific Ltd's Ovine Garment Leather Division

“The costs and trouble of entering China should not be underestimated. It is no good attempting to enter a market if the resources are not there to pay for a proper attempt and potentially to have to pull out early with the loss of money already spent.” – David Mahon, Managing Director, Mahon China Investment Management

1.2 AM I READY FOR CHINA?

Time and commitment

China is a tough market for an initial foray into exporting or establishing a physical presence in market.

It fails a number of tests regarding the advice of selecting easy markets first – it's not close, it has language barriers and the business environment is often radically different from New Zealand's.

New Zealand companies with successful businesses in the Chinese market say getting started was time consuming and took a large commitment of their resources.

Don't expect success to come quickly or easily.

KIWI LESSONS – TAKE A LONG VIEW

“We spent three years on an entry strategy and thought very carefully about the where, when and how of entry.” – David Percy, CEO, Pertronic Industries

“Take the long view. Don't expect success to come quickly or easily – it is not that sort of market.” – Mark Templeton, CEO, Actronic Technologies

Are you ready to export to China?

There are a number of steps you need to take to make sure you are ready for exporting to China.

New Zealand Trade and Enterprise (NZTE) has outlined generic steps which companies interested in exporting should consider to help them assess whether they are ready for exporting to any market.

The steps include:

Commitment

Developing the Chinese market can be costly in terms of time, money and resources. For example, if your company wants to be successful in China, senior managers will not get away with a single visit to the market. Success may only come after numerous visits.

Product

China is one of the toughest markets in the world. The opportunities are huge, but the rest of the world knows this as well.

It is important to know your product and its marketing advantages in the Chinese market.

Production

You need to be confident that your product or service is sufficiently proven and developed to take to the Chinese market. Also if you are manufacturing in New Zealand you need to make sure you have the production capacity to meet market demands.

If you are looking to manufacture in China you need to factor in the many hidden costs such as greater management overheads, inflexible manufacturing schedules and quality management and cost issues.

Marketing

Marketing in China is not easy thanks to the varied culture and geography of the country, the sheer size of the population and country and differing levels of economic development. A one size fits all marketing strategy will not work.

It is vital to have a strong marketing understanding.

Selecting markets and setting pricing

China is in fact several large regional markets and many more numerous niche and micro-niche markets. All are very price sensitive.

You need to have done the research to validate both the potential and the investment.

NZTE has produced a Guide to Export Pricing which includes sample costing sheets and other helpful advice.

KIWI LESSONS – TARGET SPECIFIC SECTORS

“China has huge growth potential but New Zealand companies need to target specific sectors and find the right partner.” – Mark Templeton, CEO, Actronic Technologies

“Your China price may need to be higher than it is elsewhere as there are many ticket clippers after the importer.” – Mark Radburnd, Director, Comtest Instruments

Management and international sales management

Exporting to China requires considerable commitment of management time and to be successful you will need to at least consider hiring managers familiar with the Chinese market.

Does your company have the available management capacity which will be required to develop the Chinese market?

KIWI LESSONS – LOCAL EXECUTION IS VITAL

“You will need to visit China at least five to eight times before you are accepted and taken seriously. I spent 18 months establishing relationships.” – Trevor Lock, Managing Director, Functional Nutraceuticals

“Local execution is vital. Sending expats to China, unless very experienced and bi-cultural, is not always effective.”
– Richard Yan, Chairman, Richina Pacific

Finance

Does your company have the financial strength to commit a minimum of six figure sums for the year or two it may take to develop the Chinese market with no guarantee of a return on this investment?

As with other markets, breaking into China requires considerable funds (research, airfares, accommodation, advertising, trade fairs, sales promotion, new brochures, training of overseas sales agents etc).

China is also full of hidden costs relating to language and cultural issues, and the time you need to spend building relationships and intellectual property protection.

Are you ready to set up in China?

If you want to grow your business and have a long-term future in the Chinese market you need to have a local presence.

This requires both deep pockets and reserves of patience as setting up in China involves a unique set of issues.

It will also require a strong commitment to the China project from your head office back in New Zealand. As well as investing large sums of money (by some estimates companies need a NZ\$1 million budget over two years to set up in China), senior managers have to be prepared to spend a lot of time flying between New Zealand and China.

Glen Murphy, Managing Director Japan and Pacific for market information company Nielsen, says you cannot run a rapidly expanding China business from an office in New Zealand. “At the very least, you have to commit to being here frequently.”

KIWI LESSON – THINGS HAPPEN FAST

“The lead time, the speed of development, the speed of construction, planning and execution is incredibly quick compared with New Zealand. It’s forcing us to re-think our whole supply chain, how we respond to that and how we can actually capture some of this market. It’s very different from anything

that I’ve experienced before.” – Doug Ducker, Managing Director of Pan Pac Forest Products

1.3 NEW ZEALAND-CHINA TRADE AND THE FREE TRADE AGREEMENT

New Zealand and New Zealanders are highly regarded in China.

Chinese business people trust and respect Kiwis because of the value we put on building personal relationships and our straight forward attitude towards business. The Chinese and New Zealand governments also have a good working relationship.

The most significant example of this is the fact that China has pushed New Zealand to the forefront of its international trade relationships by scheduling New Zealand to become the first developed country to have a Free Trade Agreement (FTA) with China.

New Zealand was also the:

- first country to start and finish World Trade Organisation negotiations with China
- first country to recognise China as a market economy
- first OECD country to start bilateral comprehensive FTA negotiations with China.

New Zealand’s business ties with China date back to the early 19th century, starting with the seal skin trade to Guangzhou and later the arrival of Chinese migrants coming for the gold rush.

Today China is New Zealand’s third largest bilateral trading partner, with total merchandise trade worth about NZ\$7.5 billion in 2007. China is also a leading source of migrants, students and tourists for New Zealand.

New Zealand only ranks as China’s 56th largest market, down from 44 in 2002 (based on World Trade Atlas figures).

Getting preferential access to the world’s fastest growing major economy through the FTA has the potential to deliver significant gains to our exporters.

Over the next 20 years the FTA is expected to lift New Zealand exports to China by between 20 and 39 percent, over and above what would be the case without an agreement. In cash, that represents between \$260 million and \$400 million a year.

The estimates from a joint study report by China’s Ministry of Commerce and New Zealand’s Ministry of Foreign Affairs and Trade indicate China’s gains over the same period are expected to be between US\$40 million and \$70 million.

Productivity gains flowing from the FTA are expected to make the agreement even more lucrative for New Zealand in percentage terms.



1.4 CHINA – AN OVERVIEW FROM CLIMATE TO TRAVEL

Climate

Due to its vast size, China has a huge range of climatic conditions.

In the south, for example Guangzhou and the surrounding Guangdong province, April to September is hot and wet. December and January can be surprisingly cold, down to zero for short periods. Spring and autumn are mild, though they are often wet.

Around Shanghai and the central region it is hot and humid from April to October. Winters can be cold and wet and again spring and autumn have conditions between the two extremes.

In the north, for instance Beijing, average temperatures range from 19 to 40 degrees centigrade between April and September. It is also wet and humid. In winter it's generally dry and sunny – from December through to February the average temperature rarely rises above freezing. In the northern provinces it can drop as low as 20 to 40 degrees below zero.

Culture

For New Zealanders, aspects of the Chinese culture are familiar thanks to a large Chinese population in New Zealand and the vibrancy of the culture itself.

At a basic level at least, we know about Chinese customs, language, music, arts and notably cuisine.

But for many New Zealanders, the experience of China firsthand results in culture shock.

The endless crowds, the lack of personal space, the often indifferent service and the apparently rude behaviour (pushing into queues and staring are common) come as a surprise.

And once you are off the street there is a whole set of other cultural surprises. The ground rules of Chinese business culture are very different to those of the West – business relationships are much more personal than in New Zealand, the principle of reciprocity is important and Chinese look for signs of respect for rank and seniority.

The Chinese people take great pride in their culture and history. They have shared a common culture longer than any other group on Earth. The Chinese writing system, for example, dates back almost 4000 years.

The concept of being Chinese is a cultural concept, not one based on race. To speak and behave like the Chinese and accept their cultural values is to be Chinese.

There are 56 known ethnic groups in China. The Han ethnic group is the largest, made up of about 1.3 billion people. The other ethnic groups account for about 100 million people. The largest minority groups are the Tibetans (Tibet Autonomous Region), Mongolians (Inner Mongolia Autonomous Region),

Uighurs (Xinjiang Uighur Autonomous Region) and Zhuang (Guangxi Zhuang Autonomous Region).

Throughout Chinese history, the dominant and influential rulers and philosophers such as Confucius and Lao Zi (founder of Taoism) were of Han ethnicity, although the Yuan and Qing dynasties were begun by the Mongol and Man minorities.

The Han culture, ethics and belief system have considerable influence on other ethnic groups in China, including business culture and etiquette.

As a result, many minority groups have learned and adopted Han values and language. For example, the emperors of the Qing Dynasty (belonging to the Man ethnic minority group from the north east of China) ordered all their officials to learn not only Midland (or Central Country) culture but also Beijing dialect. The combination of the Man and Beijing dialects became what's known today as Chinese Mandarin language.

Confucius was an esteemed Chinese thinker and social philosopher whose teachings and philosophy have deeply influenced Chinese thought and life.

These values are broken down into:

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

Confucianism focuses on individuals governing themselves first. It promotes the idea that once everyone has a high level of moral values, then an orderly society will follow.

Currency

The Chinese currency is known as the Renminbi (RMB), literally 'the people's currency'.

RMB units are split into yuan (roughly equivalent to the use of the term dollar), jiao (10 of which make up a yuan) and fen (10 of which make up a jiao). The yuan comes in notes of 100, 50, 20, 10, 5 and 1 (there is also a 1 yuan coin). Jiao come in both notes of 5, 2 and 1 and coins of the same amount. Fen are generally seen as aluminium alloy coins of 5, 2 and 1 fen.

In July 2005, the RMB was de-pegged from the US dollar and now floats within a narrow 0.3 percent band against a basket of currencies from China's major trading partners. The New Zealand dollar is not convertible to the RMB.

The 'float' is controversial with some believing it undervalues the currency, providing a subsidy for Chinese exporters.

Economy

China's economic growth has averaged nearly 10 percent – three times the world rate – over the past 25 years, turning a once stagnant economy into one of the most powerful economic forces of the 21st century.

This growth, when combined with the world's biggest population, means China is already the world's second largest economy. Also the OECD has predicted that China's average near double-digit growth will continue for "some time", lifting Chinese incomes and potentially creating the world's largest market.

China's growth is also having an impact on world markets. In 1979 China had less than 1 percent of the international goods trade which by 2005 had risen to 6.4 percent. In 2007 the country was the world's second largest trading nation after the USA and Germany.

China has followed a development path different from other Asian economies like Japan and Korea. It has hung onto its low-skilled labour-intensive manufacturing sectors while at the same time developing intermediate technologies and high-tech knowledge intensive areas.

By 2004 China had become the world's leading exporter of information and communications technology products.

Demand among Chinese for consumer products and food and beverages has grown along with the economy and the emergence of an urban middle class. The US Foreign Agricultural Service has estimated that 45 million people in China can afford imported foodstuffs.

But it needs to be remembered that at a national level China is still a developing country – its average per capita income is around US\$1,700. Income distribution is very uneven with urban centres such as Beijing having a per capita income more than double the average.

This is expected to change dramatically over the next decade as more Chinese begin to enjoy the fruits of the country's economic boom.

The Chinese Government still plays a direct hand in the economy through its five-year programmes that set economic goals, strategies and targets. But private businesses produce more than half of GDP and most of China's exports. They also create most new jobs.

Environment

China's rapid economic growth and urbanisation have driven high levels of pollution.

China is now the world's second-largest source of carbon dioxide emissions behind the USA.

In 2004 more than half of 500 Chinese cities surveyed by China's State Environmental Protection Administration failed to meet

China's national air quality standards. Nearly one-third of non-industrial sewage in the cities went untreated and in 193 other cities no treatment was carried out at all.

It is estimated that China has lost 20 percent of its agricultural land since 1949 due to a combination of soil erosion, urbanisation, economic development and desertification.

China's 11th five-year plan, which charts the direction of economic and social development for 2006–2010, says national economic development should go along with building a resource-efficient and environmentally-friendly society, including promoting energy conservation, careful management of water, land, mineral and oceanic resources.

Environmental law enforcement will be toughened at all levels of government.

Geography

China is the world's fourth largest country – after Russia, Canada and the USA – with an area of about 9.6 million square kilometres.

East to west it measures over 5200 kilometres and from north to south over 5500 kilometres. Its geography is highly diverse, with hills, plains, and river deltas in the east and deserts, high plateaus and mountains in the west.

Two-thirds of the country is covered by mountains, hills and plateaus and of the world's 12 highest peaks, China has seven.

China's two major rivers, the Yellow and the Yangtze, both in the southeast, are the focus of much of China's population growth and agriculture.

Government

The Chinese Communist Party (CCP) has governed China since 1949 and its power extends to all levels of Chinese society.

Businesses looking to set up in China will need to at least understand local political structures and perhaps have to work with party officials.

While the "realisation of Communism" is the party's ultimate goal, it was the CCP that launched the economic and social reforms that set the country on its path of market-led economic revival.

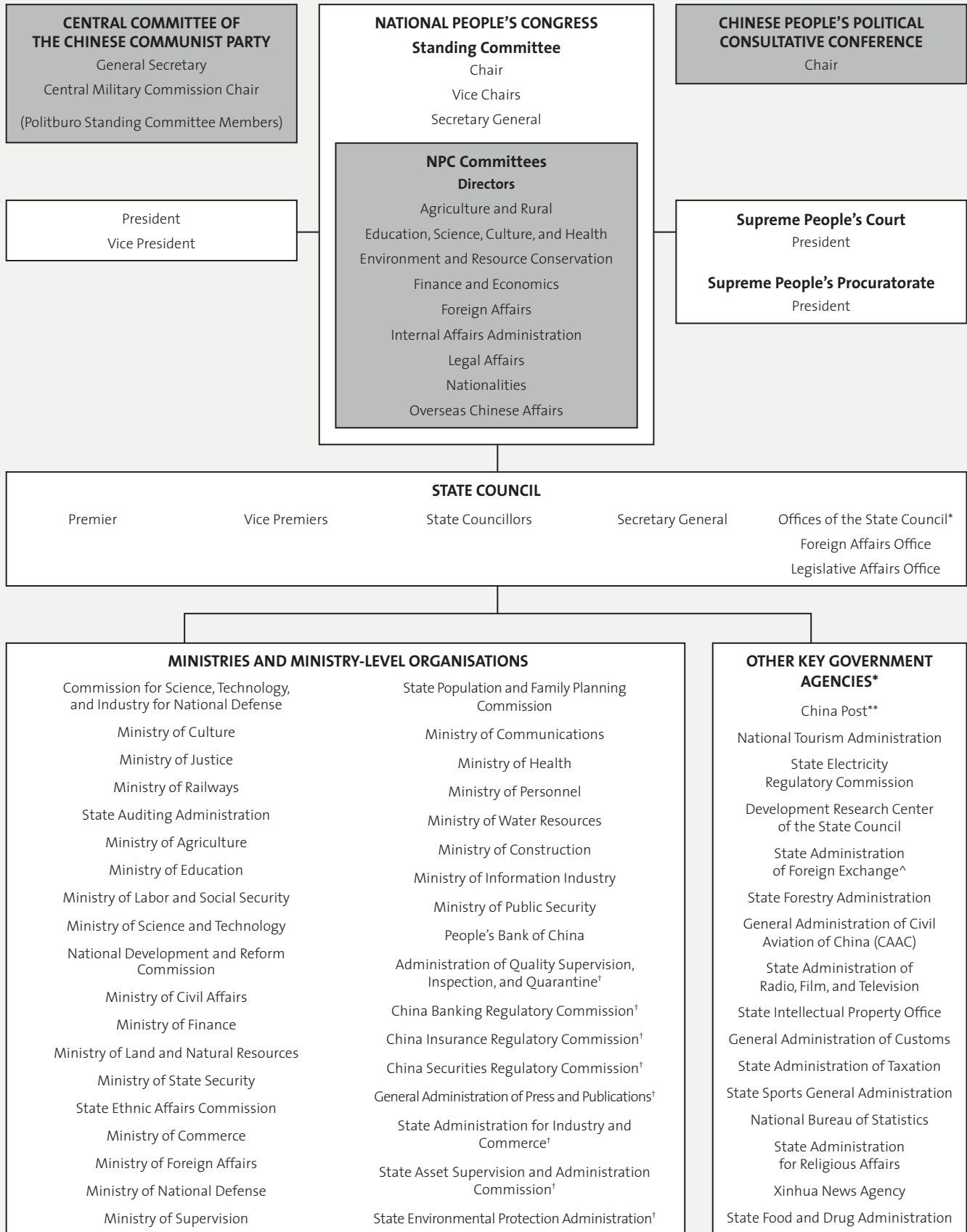
At the central government level, CCP and state structures are fused, with the leader of a ministry or commission also being the leader of the party body associated with that ministry.

At the provincial or lower levels, the party and state heads are invariably separate, although the party head has a high state position and the state head has a high party position.

The President is the Head of State and is elected by the National People's Congress (NPC) for a five-year term. The Head of Government, the Premier, and the Cabinet are nominated by the President, subject to confirmation by the NPC.



PRC GOVERNMENT STRUCTURE



Sources: US-China Business Council files, China Directory 2004

* These listings are not meant to be comprehensive

** Under the authority of MII

[†] Not included in the list of 28 ministry-level bodies released at the 2003 National People's Congress

[^] Reports to PBOC

Members of the NPC are elected by municipal, regional, and provincial People's Congresses to serve five-year terms. There are 22 provinces and four municipalities directly under central government control and five autonomous regions.

The day-to-day government is carried out by the State Council (elected by the NPC) and the Politburo (also known as the Standing Committee). The members of the State Council are elected by the NPC.

Below the State Council and the Politburo are the ministries which often have very exact areas of responsibility.

There are approximately 3000 members or deputies representing every region of China.

History

China has a long and illustrious history, and as with their culture, the Chinese take great pride in their country's achievements.

Until its decline in the mid 19th century, China was a world power.

The Chinese invented the compass, gunpowder, moveable type printing and papermaking. They were also the first to document astronomical phenomena such as comets, sunspots and new stars and they kept the world's most detailed and earliest astronomical records.

Before Europe's industrial revolution, China's agriculture was more advanced and productive than the West's and its craftsmen were at least the equal of Europe's.

China is one of the cradles of the human race with the earliest known human in China believed to have lived in the region around 60,000 BC.

Recorded Chinese history began about 3600 years ago and the imperial dynastic system of government was established as early as 221 BC. Although dynasties were overturned, the system survived until 1911.

By the mid 19th century China had fallen into serious decline thanks to a combination of military defeats (by countries looking to open China up) and corrupt and incompetent feudal rule.

What followed was a period of chaos which resulted in the collapse of the dynastic system, the establishment of a republic and subsequent civil war.

At the end of the civil war in 1949, the Communist People's Republic of China was created.

For China, and the rest of the world, one of the most significant events in the country's recent history was the 11th National Congress held in 1977 which set China on the path to its current economic boom.

The importance of this event goes beyond its economic impact. The reforms started in 1977 reflect a sea change in China's attitude to the world with China declaring it wanted to prosper and return to its leading role in international affairs.

Language

About one-fifth of the world speaks some form of Chinese, but there are huge regional variations in spoken Chinese, similar to the differences in the Romance languages that originated from Latin. There are also hundreds of local dialects.

The Chinese Government is committed to standardising communication in China around the official spoken language, Mandarin, and the already accepted standard written language.

A 2007 survey indicated that a little more than half the Chinese population can effectively speak Mandarin, but it is more widely used in urban areas and among the young. Mandarin, based on the Beijing dialect, is taught in all schools.

Other common Chinese languages include Wu (spoken in Shanghai), Cantonese (spoken in the south-eastern part of China, especially in the Guangdong province) and Hakka (spoken in the southern provinces, including Guangdong).

Most Chinese are bilingual, speaking Mandarin and their local language or dialect.

English is also becoming increasingly common. China is set to have more speakers of English as a second language than there are people speaking English as their first.

The simplified Chinese character system is predominately used in mainland China and increasingly outside of the mainland. The traditional written form – sometimes called complicated – is still used in Singapore, Taiwan and Hong Kong.

Legal system

Laws and regulations in China tend to be broader than New Zealand's, giving China's courts and officials – who often have no legal education – more discretion and flexibility in applying laws than we are used to.

This gives rise to difficulties in determining what exactly is legal and often results in what can be seen as inconsistent judgments and rulings.

While having to deal with the Chinese legal system can be frustrating, the situation is improving.

China is committed to developing a society ruled by law and this is freeing up the legal system from CCP control. It has staged a number of anti-corruption drives. Giving and taking bribes can lead to life in prison and in the most serious cases the death sentence.

Population

Keeping China's population growth down is a fundamental aim of the Chinese Government.

The sheer number of people, and their demographics (China too has a baby boom population), is putting unsustainable pressure on the environment and the country's resources.



In 1949 when the People's Republic of China was founded, China had a population of 540 million – 30 years later thanks to increased fertility and life expectancy, it had grown to more than 800 million. In 2006 the population was an estimated 1.31 billion, 20 percent of the earth's population, mostly concentrated in the eastern parts of the country, especially near to the coast.

Within the next three decades, China's population is expected to increase by another 260 million.

To put the size of China's population into a New Zealand context, in the first three months of 2007 there were 4 million births in China.

Future population growth will not be the result of high fertility – the government's one child policy has seen the average number of births fall below the population replacement rate – but the upshot of the crowd of young adults of reproductive age. Their number will continue to increase until 2015.

Like Western countries, the number of elderly people in China will also leap over the next three decades, but the problem is starker in China.

Declining fertility and improved longevity means China's population is aging at one of the "fastest rates ever recorded", according to the Population Reference Bureau.

Government figures show 119 boys are born for every 100 girls, which indicates that about 40 million Chinese men are destined for bachelorhood by 2020.

Religion

Religious life in China is complicated by Western standards.

Though Chinese Government figures suggest that less than 10 percent of the population practice a religion, a large percentage follows, to at least some degree, a religion or belief. Many people also adhere to more than one teaching.

Chinese religion consists of four main traditions: Chinese folk religion, Confucianism, Taoism and Buddhism.

While most Chinese are not strongly religious, these often interconnected traditions still have a grip on the way they view the world.

The practice of these traditions is much more common in rural areas and among the old, but even young Chinese with a Western outlook will acknowledge, for example, the Taoist doctrine of yin and yang and Confucianism's need to revere the elderly.

This can come through in business negotiations. For example, Chinese understanding of the paradoxical balance of opposites that underpins yin and yang often will push them to look to compromise rather than take a clear cut option.

While religious tolerance is embedded in the Chinese constitution, the government restricts religious practices outside officially recognised organisations.

Telecommunications

China's telecommunications services are an excellent example of the size, complexity and potential of the country.

In 2002 China became the world's single largest telecom market, yet there's still a huge gulf in phone and internet usage between China and Western nations.

In 2005 only 56 percent of Chinese had a telephone subscription compared with 130 subscriptions per 100 New Zealanders; there were 30 mobile phones per 100 Chinese compared to 88 per 100 in New Zealand; and 8.4 internet users per 100 people in China against 68 per 100 in New Zealand.

But China is catching up fast. For example, between 2000 and 2007 internet usage increased 510 percent, nearly double New Zealand's growth rate.

In broadband, China experienced a 79 percent increase in subscribers between 2003 and 2006 according to one telecommunications consultancy, which also predicts China's broadband market will grow another 75 percent through to 2010 and total 139 million subscribers (93 million using DSL [digital subscriber line] connections).

China is expected to pass the US in terms of numbers of broadband subscribers with 179 million predicted by the end of 2007.

However, telecommunications services again reflect the urban-rural divide with service levels in cities such as Beijing, Shanghai, Guangzhou and Shenzhen similar to those in Western Europe or North America, while in rural areas they can be poor to non-existent.

Taiwan

The status of Taiwan is a sensitive issue among Chinese officials and people.

The People's Republic of China (PRC) considers Taiwan to be an inalienable part of China and is sensitive about any comments or actions that undermine its 'One China' principle and the eventual peaceful reunification of mainland China and the offshore islands that make up Taiwan.

For example, the PRC Government will not have any dealings with another government unless it agrees and adheres to the 'One China' principle.

Note on flags: when producing material on doing business in China, do not include a Taiwan flag in any of the material. Maps and the naming of maps can also be a problem.

Because of Cold War politics, New Zealand did not recognise the PRC until 1972. As part of a joint recognition communiqué, New Zealand made a commitment to China to have no official dealings with Taiwan.

However, in New Zealand's view this does not stop it from maintaining economic and cultural ties with Taiwan. The PRC does the same.

The origins of the standoff (and the depth of feeling) date back to the civil war that ended in 1949 with the Kuomintang Nationalist Government defeated by the communists and forced to retreat to Taiwan.

Time zones

Despite China's geographical width – it spans five time zones – the whole of China operates to a single standard time (Greenwich Mean Time plus eight hours) all year round.

The standard time is Beijing time which is also observed in Hong Kong. People in the far west of China have had to adapt to this, often following later work schedules so they don't have to commute to work two hours before dawn.

During New Zealand daylight saving time China is five hours behind New Zealand; for the rest of the year it is four hours behind.

There is no daylight saving in China.

Travel

A huge investment in transportation infrastructure is rapidly bringing large parts of China's road, rail and air networks up to standards we are used to in New Zealand.

A massive road building programme is underway. Between 2001 and 2005 the length of motorways grew by 24,000 kilometres, more than doubling the total length to 40,000 kilometres.

However, these roads are rapidly being filled. Early in 2007 China leap-frogged Japan to become the world's second largest car market. About 1100 new cars and other vehicles are estimated to hit the streets of Beijing every day.

The inequality of modern China is also apparent in roading. In many rural remote areas roads are little more than mud tracks.

The explosion in car ownership (and in pollution) has driven the Chinese Government to heavily invest in bus and rail networks.

Chinese roads are among the most dangerous in the world. In 2006 more than 100,000 people died on China's roads.

The regular and cheap train services are the standard way for Chinese to get around, though they are often slow. Comfort and speed is better on services between main cities.

There are now numerous domestic airlines in China. Most have invested heavily in new aircraft and improving services and prices are coming down from resulting competition.

