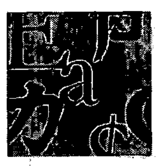
society and the market required some time to marshal the resources to completely meet consumers' demands as well as their ability to pay. The program will be implemented in stages over the next three to five years. There is strong reason to believe that this will be successful, as Chinese people are responding well to the idea of owning their own homes.

Market Opportunities

To meet new demand, China's cities have seen an explosion in housing construction, mainly for multiple dwellings. The goal of the Chinese government is to increase the average bedroom space for urban residents to a "comfortable living standard" of nine square metres per person by the year 2000, addressing the current housing shortage, which still finds several generations sharing a small, cramped apartment. This ambitious goal will require an additional 200 million square metres of new housing and 120 million square metres of public works and production each year. In addition, 30 million square metres of old, inadequate housing urgently needs to be renovated or rebuilt, and a further 2 billion square metres of old, residential buildings need repairs or remodelling.



One of the major reforms announced by Premier Zhu Rongji in March 1998 was the reform of the subsidized housing system. The reforms are expected to be implemented by 2003. Major changes include the introduction of mortgage insurance system, the reintroduction of individual property rights and the emergence of bank-financed mortgages.

The opportunities for Canadian firms in the construction products and services sector are numerous. Canada has a wide variety of low-cost, high-quality building systems that can be promoted in China. Since local building technology, materials and products are limited in number and of relatively poor quality, foreign technology and investment are eagerly encouraged by the Chinese. Although some of the needed new building materials are imported, direct export sales from Canada are limited by current high customs duties. Within this market, there is a preference for joint ventures where products are manufactured in China using foreign technologies and components.

The housing market has been defined by two categories:

- low-end projects for the domestic market, and
- since the early 1990s, high-end projects for expatriates living in China and newly wealthy Chinese.

The expatriates and the affluent Chinese favour better interior decoration and foreign products, and are prepared to pay the price. The major market remains that of housing for the ordinary citizen, but more expensive Canadian products are usually not price competitive. Medium and high-end housing is also being developed, which offers greater potential for Canadian building products.

Due to a booming home renovation market, the interior decoration materials sector holds potential. The appearance of more and more home decorator and building materials retail stores and large wholesale outlets is improving the distribution system. This sector seems to have more potential for imported products, given what appears to be less price sensitivity and a willingness among some customers to spend more. The increase in disposable income, mass production of low-cost housing and mortgage financing will prompt home owners to spend more money on home decoration.

Increased energy consumption (mainly due to improvements in home heating and the increased use of air conditioning) is a growing concern. In response, the Ministry of Construction is encouraging the construction of energy-conserving buildings and the introduction of new technologies and products to ease the problem. This approach offers great market opportunities to Canadian firms with related expertise whose building products are designed for greater energy efficiency.

The Chinese will continue to have projects in the following areas: commercial office space, retail stores, large mixed residential (essentially integrated small cities), luxury resorts and factories. Real opportunities exist for Canadian companies to provide efficient turn-key project solutions, particularly if those companies:

- use state-of-the-art technologies in design;

- use advanced building materials that save money and are more efficient; and
- can integrate with other local suppliers and match different building materials.

Canadian companies should seek partners that offer complementary strengths, and should be in a position to offer an integrated solution, if required.

The Chinese market may offer significant potential for the use of higher-quality structural timber. Opportunities may exist for joint ventures to produce timber roof components such as trusses, I-beams, glulam beams, rigid frames, etc. There may be similar opportunities related to commercial buildings for agricultural and industrial uses, as well as for products like concrete shuttering, interior joinery, windows and doors (including non-residential). In order to focus on such opportunities, it will be essential to gather pertinent market information and intelligence specific to the above product niches.

It should be noted that significant investments have been made in the manufacturing of some building products. China's inefficient distribution system, as opposed to consumer demand, has created a temporary oversupply in these products. However, improvements stemming from the eventual completion of the National Highways Program by 2003, will result in significant investment flows and consumer demand in China's less-developed provinces. This will then result in a second-generation construction boom in building materials manufacturing all over China.

The Ministry of Construction estimated that China would invest over $36 billion in housing in 1998 alone.
Source: Reuters News

The Chinese central government is starting to realize that the massive expansion in construction projects has also resulted in some shoddy building practices, irresponsible construction, and the flooding of the building materials markets with cheap, poor-quality products. This has resulted in many projects becoming virtually unusable after a short period of time — requiring massive overhauls due to mistakes in construction, planning and design. The government, from the highest levels, has issued numerous regulation circulars that increase the monitoring of building practices in China. Regulations are being devised to implement a system of testing and certification of building products to ensure that consumers can have greater confidence that the products will last and perform. In certain model major cities in China, construction companies are now responsible for the projects that they build for as long as 30 years, and are legally required to fix any deficiencies due to shoddy construction or materials during the period of warranty. In these policy experiments, every construction company that wins a project is ultimately responsible for it — and cannot make infinite subcontracts that dilute away its responsibility. The central government will be aggressively initiating such changes in other parts of China as well.

These continuing changes will result in quality improvements in Chinese construction projects, and a corresponding demand by Chinese construction companies to purchase high-quality imported materials, if only to meet emerging tough government building standards. The central government's new strategic construction policies are to phase out low-end, poor-quality products and irresponsible, corrupted and incompetent construction companies. China wants fewer, but better, companies involved in construction projects. Thus, this represents a very significant strategic opportunity for committed Canadian companies that seriously focus their export initiatives in China.

In China's services sector, there are business opportunities for Canadian firms in the architectural, property management, construction, engineering and interior design subsectors.

Opportunities for architectural services continue to be good, especially in metropolitan economic centres such as Beijing, Shanghai and Guangzhou. Canadian architectural firms have designed a number of very well-known projects in China, including the Shanghai Stock Exchange building in Pudong. As the supply of office space in large centres is now just beginning to meet the demand, opportunities remain for upgrade and renovation projects, since cities with limited space will have to tear down older areas that generate lower tax and commercial revenues, and rebuild them for new commercial and residential high-revenue applications, using modern designs. "Satellite" cities and