

better-quality housing, using better-quality building materials, is on the rise. To meet this new demand, improved housing and new housing construction are a top priority of the Chinese government.

A number of new developments demonstrate the emergence of an important new housing market. As part of the government's general economic reform, this is in part attributed to/supported by the National Housing Program. Recent changes include the institution of a mortgage insurance system, the reintroduction of individual property rights, and the treatment of housing as a market commodity rather than as part of infrastructure. New channels, such as bank-financed mortgages, are emerging for housing financing, which will be eventually be restructured on the basis of private savings.

Hong Kong, world renowned for its booming real estate, plays an active role in the Chinese construction industry. A major market itself for many construction products and services, Hong Kong is also an important gateway to the Chinese market.

### Market Opportunities

To meet new demand, the response in China's cities has been 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 the addition of 200 million m<sup>2</sup> of new housing and 120 million m<sup>2</sup> of public works and production building each year. Thirty million m<sup>2</sup> of old, inadequate housing need urgent renovation or rebuilding, and a further two

billion m<sup>2</sup> of old, residential buildings need repairs or remodelling.

The opportunities for Canadian firms in the building products sector and services are numerous. Canada has a wide variety of low-cost, high-quality housing 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 with 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, more recently, for the 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 medium-high end housing is also being developed, which offers greater potential for Canadian building products.

Increased energy consumption is a growing concern resulting from newer building projects, mainly due to improvements in home heating and increased use of air conditioning. In response, the Ministry of Construction is encouraging the erection of energy conserving housing and the introduction of new technologies and products to ease the problem. This approach offers great market opportunities to Canadian firms whose building products

are designed for greater energy efficiency, and that have the related expertise.

Due to a booming home renovation market, the interior decoration materials sector holds great potential. This sector seems to have more potential for imported products, given what appears to be less price sensitivity and a willingness to spend more among some customers. 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.

The appearance of more and more home decorators and building materials retail stores and large wholesale outlets is improving the distribution system, and represents new opportunities for Canadian companies.

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, especially in metropolitan economic centres such as Beijing, Shanghai and Guangzhou, continue to be good. Canadian architectural firms have designed a number of very well-known projects in China, including the new Shanghai Stock Exchange building in Pudong. As the supply of office space in large centres is now just beginning to meet the demand, there remain opportunities for upgrade and renovation projects, as cities with limited space 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 communities near or adjacent to Beijing, Shanghai and Guangzhou are coming into their own, and have implemented infrastructure and

commercial construction plans so as not to be left behind. Canadian architectural firms are faced with opportunities in these cities to capitalize on the positive reputation that Canadian architectural services companies have already gained in China.

In Hong Kong, the construction of the Chek Lap Airport, combined with its nine interlinked projects, will continue to demand a variety of imported construction products and services. The total budget for the project is US\$20 billion, as well as an estimated 36 000 residential flats to be released in 1998. There are no locally manufactured construction products in Hong Kong. At the same time, projects or products used in Hong Kong are often seen as a model or standard to follow in China. Most property developers, architectural firms and construction materials suppliers in Hong Kong have a strong presence in China, and thus are a good way to reach the Chinese market.

### Constraints

Canadian exporters face various constraints including:

- The Chinese construction sector is not one market but several markets, with many different characteristics.
- The marketplace is complex and not transparent. Market data often does not exist or is unreliable.
- Tariffs on building products are still high, and preference is given to joint ventures for manufacturing within China.
- Lack of financing is a constant constraint.
- Laws governing the industry are unclear and the regulatory environment is rapidly changing. The complexity of the building code is a further challenge.