

## I. SUMMARY OF REPORT

Canada's trading relationship with the PRC has been a healthy one, having witnessed, with few exceptions, steady annual growth since the establishment of diplomatic relations in October 1970. In fact, China in 1983 was Canada's fifth-largest export market. The foundation of Canada's export trade to China has been wheat, fertilizers, metals and forest products. More recently Canadian industrial products, including aircraft, telecommunications equipment, computers, geophysical and mining equipment, oil and gas field equipment, agricultural equipment and technology have been making inroads into the Chinese market for high technology products. The PRC is an enormous market where the exporter must be selective of product and location. It is necessary to make a long-term commitment. Hong Kong, as an entrepot to the PRC is a logical point to begin market development.

The basic challenge in China is to broaden the range of our exports. It would appear to be in Canada's interest to concentrate on sectors where China has indicated significant import requirements and where Canada has a demonstrated supply and technological capability. We must strive to maintain and expand Canada's traditional commodity markets in China and develop the market for manufactured goods.

China's current five-year plan projects economic growth over the period of 4 to 5 per cent. The plan emphasizes China's agriculture and infrastructure including energy and transportation sectors, as well as the substantial upgrading of existing industrial enterprises. These enterprises, as well as China's agricultural producers, are being encouraged to assume more individual responsibility for production planning and use of profits. The National People's Congress (NPC) gave its endorsement to a continuation of China's "open door policy." The five-year plan calls for an increase in foreign trade averaging 8.7 per cent a year. Of interest to Canadian exporters is the fact that China plans imports to grow faster than exports. Most of China's imports during the period of the current plan are expected to take the form of capital equipment (29 per cent) and semi-finished goods (36 per cent) with raw materials (19 per cent) and food products (16 per cent) playing a lesser role in the total composition.

The PRC has a centrally planned economy, and traditionally her trade has been conducted by several sector-oriented national foreign trade corporations (FTCs). Formerly, the FTCs negotiated export and import contracts on behalf of end users on a virtually exclusive basis. Since 1978, however, policies aimed at creating a more flexible and efficient trade system have resulted in a more decentralized system in which new organizations at the ministerial, provincial and municipal levels have emerged. Some of these have authority to conclude commercial agreements independently of the traditional foreign trade apparatus. These agreements not only include

contracts for goods and services but also allow for compensation trade and joint ventures. Marketing is often aimed directly at the end user with the FTC playing a role limited to contract negotiation and management.

In order to develop more fully Canada's trading relationship with the PRC, the Canadian Department of External Affairs maintains trade commissioners at the Canadian Embassy in Peking and has a trade commissioner for South China attached to the embassy but working out of the commission for Canada in Hong Kong. The staff at the embassy and commission are available to assist Canadian exporters with their export initiatives in China. Canada's trade commissioners provide knowledge of Chinese business practices and language, economic trends, and contacts with the foreign trade apparatus in the PRC.

In order to promote China's exports to Canada, the PRC also maintains commercial sections at its embassy in Ottawa and consulate general in Vancouver and is in the process of establishing another consulate general in Toronto.

On the whole, China's more pragmatic approach to economic development, including entrepreneurship and foreign economic relations combined with the country's rich natural and human resources, points toward promising potential for furthering Canada's economic relationship with the PRC. However, since the competition for the burgeoning Chinese market is intense, Canadians will have to become price and quality competitive.