

Southern Coastal China

China's southern provinces of Guangdong, Hainan, Fujian and Guangxi form a regional market that is notable for its overseas connections, light industrial base and economic vitality. The economic reforms that were inaugurated in late 1978 were first implemented in five "Special Economic Zones" in these southern provinces. These zones were quickly supplemented by a series of investment and export processing zones, which offer preferential taxes and market access to foreign investors.

The de-collectivization of agriculture, the encouragement of entrepreneurship and the welcome given to foreign investors have transformed the formerly rural economy of southern China into China's richest light industrial economy, with a strong trading base. The role played by foreign capital in this transformation has been crucial, most notably from Hong Kong and Taiwanese investors, and to a lesser degree from multinational corporations. Beginning in the early 1980s, Hong Kong manufacturers shifted an overwhelming percentage of their production facilities to Guangdong province, and, later in the decade, Taiwanese manufacturers relocated many of their factories to Fujian and Guangdong. These developments were in alignment with kinship and linguistic affinities, and, as most Chinese Canadians have their family roots in Guangdong province, this familial connection has had positive repercussions for Canadian businesses in the region.

Of the four provinces in this region, Guangdong is the wealthiest and the most heavily populated at 72 million. The region has a long coastline, with deep-water harbours, a thriving fishing industry and a fertile, semi-tropical agricultural base. A trading history dating back to the

Tang dynasty and a pragmatic business culture have been major advantages in its transformation to a market economy. The region's continuing economic integration with Hong Kong has resulted in significant infrastructure investment by Hong Kong corporations, and the modernization or growth of several key industrial sectors. In turn, Chinese companies have invested heavily in Hong Kong, and increasing numbers of "red chip" Chinese companies have listed on the Hong Kong stock exchange. This growth is projected to continue well beyond the July 1, 1997 transfer of Hong Kong to China, and will likely result in even closer mutual dependence.

Links with Taiwan were advanced in April 1997 with the inauguration of direct shipping between Fujian and Taiwan. Further cross-straits economic growth is expected to presage political developments. The region's links with ASEAN economies are also very strong, particularly with Thailand, Malaysia and Singapore, all of which have significant populations of ethnic Chinese originally from the southern provinces.

Canada's major investments in Southern China have been in telecommunications, financial services, agri-business and construction. Significant opportunities exist in the provision of materials, services and technology for natural resource development, agriculture and infrastructure.

Hong Kong

Hong Kong enjoys a strategic location in the Pacific Rim and features an excellent natural harbour. Its industrious population, free market policies, role as a gateway to China and history of Western cultural and business influences, have ensured its importance as a key international

commercial and financial centre. This importance will continue beyond the July 1, 1997 transition to Chinese sovereignty when Hong Kong became a Special Administrative Region of the People's Republic of China (PRC).

Canadian companies wishing to gain access to the Hong Kong market must consider the long-term advantages of developing a presence here. Because of its proximity to China and its more Westernized environment, Hong Kong can be a good location from which to launch an initial penetration of both regional and national markets in China.

Companies must consider two key areas when establishing themselves in Hong Kong:

- the extent to which they understand the uniqueness of the Hong Kong market, most notably in the areas of standards, regulations, pricing, distribution and name-brand recognition; and
- the extent to which they are willing to provide support to distributors and/or users.

Both considerations reflect a vendor's long-term commitment to selling into the local market, or their perceived commitment to the market. As with any other international market, a company should only attempt to export products or services that are truly internationally competitive in both technology and price. These products or services should either specifically target the international market, or should be leaders in Canada.

Since China's adoption of an "open-door" program of economic reforms in late 1978, Hong Kong's economic relations with China have undergone rapid growth characterized by increasing interdependence. Hong Kong plays a vital role in the development of the Chinese economy, and acts

as a key gateway to China, particularly the southern provinces of Guangdong, Fujian, Hainan and Guangxi. China, meanwhile, has become a major investor in Hong Kong and uses the territory as the main portal through which it does business with the world.

About one third of China's annual foreign exchange earnings come from or through Hong Kong. Among the 207 000 foreign-funded enterprises in China, 138 000 enterprises (or 67 percent) were tied to Hong Kong investors.

More than 80 percent of Guangdong's exports and imports are conducted with Hong Kong, most of which are re-exports passing through the territory. Guangdong's exports totalled C\$36 billion (up 46 percent) in 1993, of which about half were exports of foreign-invested enterprises and processing fees (mainly with Hong Kong interests).

With 200 overseas and local banks, Hong Kong serves as an important financing centre for numerous projects in China, especially those located in the south. The majority of the joint ventures set up in China are financed through banks located in Hong Kong.

More than 500 companies are listed on the Hong Kong Stock Exchange, including at least 15 mainland China enterprises. The market capitalization of these Chinese enterprises amounted to C\$162.3 billion at year end 1994. The listing in Hong Kong of Chinese enterprises and "red-chip" companies, whose activities and interests are primarily in China, has further provided China with access to much-needed international capital.

China has substantial investments in Hong Kong's banking, property, manufacturing, transportation, construction and tourism sectors. About 2000 major Chinese companies in all fields