

equipment and service providers. However, the ability of companies to interconnect at reasonable cost to publicly switched networks will be critical for effective market liberalization. Canada will continue to monitor developments in this sector, and to promote new opportunities for Canadian telecommunications equipment and services providers.

INVESTMENT

Investment in several of Japan's domestic economic sectors is subject to prior notification under the Foreign Exchange and Foreign Trade Control Law. Reserved sectors under the OECD Capital Liberalization Code include agriculture, forestry and fisheries, oil, leather and leather products, air transport and maritime transport. In addition, many other areas are reserved on national security grounds, including the aircraft and aerospace industries, armaments, passenger transport, nuclear power, electricity, gas, heat supply and waterworks. Given the importance of direct investment to trade, Canada will continue to support regulatory changes in Japan that improve the investment climate and facilitate market entry.

CHINA AND HONG KONG

CHINA

Overview

The People's Republic of China is Canada's fifth-largest export market, and Canada's third-largest, if the Hong Kong Special Administrative Region (HKSAR) is included. Market access issues for China are quite distinct from those for the HKSAR. In 1997, Canada's total exports of goods to China and Hong Kong reached \$3.78 billion, and the total value of imports of goods was \$7.55 billion.

With nearly one quarter of the world's population, China shows great promise of becoming the world's largest consumer market. It is estimated that, by 2010, there will be in excess of 500 million middle-class consumers in China. An increasingly Western lifestyle among the urban middle class, along with a moderating of the Chinese government's isolationist policies,

make this enormous market seem all the more attractive from a Canadian perspective. Moreover, it is important to keep in mind that China consists of a number of distinct regional markets, each operating and evolving in a distinct and often autonomous fashion.

As outlined in the 1998 *China and Hong Kong Trade Action Plan*, Canada's policy approach takes full account of the reality of China's rapidly growing importance in world affairs. Canada considers an economic partnership with China to be a key element supporting long-term relations and encouraging further integration in global and regional political and economic institutions.

Despite the opportunities that China presents, there are a number of significant systemic problems and practices that impede Canadian access to the Chinese market. These issues are currently being addressed in the multilateral and bilateral negotiations on China's accession to the WTO, and Chinese officials have indicated that China is serious about resolving these issues as part of the accession package. These include high import tariffs, inappropriate standards, investment barriers, the ability to appeal rulings by Chinese officials through a judicial review process; equivalent treatment of foreign and domestic firms (national treatment); equivalent treatment of imports from different countries (MFN status); access to foreign exchange; the transparency of the Chinese regime; the uniform application of laws and regulations throughout China; non-tariff barriers (e.g. import licences and quotas); and the subsidization of Chinese manufacturers. As part of its accession to the WTO, China is negotiating bilaterally with its key trading partners, including Canada, and the results will be applied on an MFN basis.

High tariffs on imports are one of the principle impediments to Canadian exports, particularly those that compete against domestically produced goods and those that, as commodities, have a fixed world price. Particular attention is also being given to knowledge-based products that are disproportionate generators of jobs and growth. In addition, high tariffs in a number of agricultural products, combined with gaps in the effective administration of customs, have led to widespread smuggling, which undermines the ability of Canadian producers to compete on an equal footing. This has had a particularly heavy impact on Canadian ginseng sales to China.