

These include a high overall cost structure, exclusive buyer-supplier networks and alliances and regulations that serve to inhibit the establishment and acquisition of businesses. Foreign participation in mergers and acquisitions continues to lag in Japan. However, in the first nine months of 1999, the number of mergers and acquisitions by foreign firms in Japan increased by 30 percent over the previous year. Among them is Canada's largest investment to date in Japan — Manulife Financial's joint venture investment with Daihyaku Insurance, valued at almost \$1 billion.

## CHINA AND HONG KONG

### CHINA

#### Overview

The People's Republic of China (not including the Hong Kong Special Administrative Region) is Canada's fourth-largest export market. In 1999, Canada's total exports of goods to China reached \$2.48 billion, an increase of 0.2 percent over 1998. The total value of imports of goods was \$8.91 billion, an increase of 16.5 percent over 1998.

With nearly one quarter of the world's population and a growing middle class, China shows great promise as a consumer market. An increasingly Western lifestyle among the urban middle class, along with a softening of the Chinese government's isolationist policies, make this market all the more attractive from a Canadian perspective.

As outlined in the China and Hong Kong Trade Action Plan 2000, Canada's policy approach takes full account of the reality of China's rapidly growing importance in world affairs. An economic partnership between China and Canada is a key element in supporting long-term relations and encouraging China's further integration in global and regional political and economic institutions.

Despite the opportunities that China presents, a number of significant problems and practices impede full Canadian access to the Chinese market. Canadian companies must bear in mind that China consists of a number of distinct regional markets, similar to the United States or the European Union,

each operating and evolving in a distinct and often autonomous fashion. Some elements of the former planned economy remain, however, so in certain types of economic activity, or in projects exceeding a threshold size, the central government continues to play a key and sometimes decisive role.

#### WTO Accession

On November 26, 1999, Canada and China reached agreement on a wide range of market access issues related to China's accession to the WTO. A separate understanding was reached on key sanitary and phytosanitary issues affecting trade in agricultural goods. The Canada-China agreement covers agricultural products, industrial products and all services sectors, and comes into effect after China officially joins the WTO. The agreement was signed in Toronto by Minister Pettigrew and his Chinese counterpart. Minister Pettigrew had earlier addressed the members of the Canada-China Business Council on the importance of Canada-China trade relations.

Before becoming a WTO member, China must complete negotiations in Geneva on an overall framework to finalize its entry. It must also negotiate a number of bilateral market access agreements with other WTO members. Since these negotiations are done on a MFN basis, once China is in the WTO, the best results of all the bilateral negotiations will apply to all Members.

Although import tariff levels have been reduced significantly by China over the past five years, high tariffs on some imports remain a major impediment to Canadian exports. The Canada-China agreement on WTO accession provides for tariff reductions on a wide range of Canadian priority industrial and agricultural goods, which had an export value of \$1.5 billion in 1998. China's tariffs on Canadian priority goods will fall from an average of 12.5 percent to an average of 5.2 percent over a period of two and a half years. For those high-tech products covered by the ITA (such as telecommunications equipment), China will eliminate all tariffs within five years.

The Chinese trade regime is not fully transparent and presents real challenges to Canadian companies. Access to fair judicial review of rulings by Chinese officials regulating trade or investment matters is inconsistent. Laws and regulations are also often inconsistently applied because of the increasingly