lower than the 17% VAT applied to smaller aircraft, such as regional jets produced in Canada. Canada argues that current practice is hindering the efforts of China's airlines to develop extensive regional networks and to increase their ability to respond to changes in demand. Moreover, it is limiting the ability of all producers of smaller aircraft to sell their products in China.

Investment

In 2002, China was the largest recipient of foreign direct investment in the world. Canadian direct investment in China has shown a consistent increase in recent years, rising from $419 million in 1997 to $667 million in 2002 (while Canada received $224 million in direct Chinese investment during 2002). The average size of new investments is steadily increasing, and the profile of the average investment is shifting from small family enterprises to the more sophisticated operations of multinational companies. China is also starting to become a source of FDI, and we are increasing efforts to attract such investment.

Hong Kong

Overview

The Hong Kong Special Administrative Region maintains considerable autonomy in economic, trade, cultural and political affairs and will continue to do so until 2047. Hong Kong has its own fiscal system and does not remit revenue to the central government, nor does the central government levy any taxes. The Hong Kong dollar, pegged to the U.S. dollar, continues to circulate as legal tender, and Hong Kong remains a free port and a separate customs territory. This distinct economy is a member of APEC and the WTO under the name "Hong Kong, People's Republic of China."

Hong Kong remains an aggressively free market economy, with virtually no barriers to entry or doing business. With the exception of excise taxes on autos, fuel, liquor and cigarettes, there are no duties, taxes or quotas on imported goods.

Canadian firms continue to enjoy excellent access to the Hong Kong market, and there are no outstanding bilateral market access issues. Canada exported $1.1 billion to Hong Kong in 2003 and also imported goods worth $858 million. Trade in services is extensive. The Hong Kong government continues to develop its own economic, fiscal and budgetary policies based on its own interests and its dependence on trade. The policy of minimal government interference in the economy continues to apply equally with respect to trade in goods and services and to investment. In addition to being an attractive market in its own right, Hong Kong remains China's largest port and the entrepot for most of China's value-added imports and exports, particularly goods exported by small and medium-sized enterprises.

Canada's Market Access Priorities for 2004

- Continue representations aimed at the removal of Hong Kong's BSE measures on imports from Canada.

Bovine Spongiform Encephalopathy

Following Canada's May 20, 2003, announcement of a BSE case, Hong Kong issued a ban on the import of Canadian beef and beef products. Canada has kept all its trading partners, including Hong Kong, fully informed of the results of its investigation and regulatory response, and it is requesting a resumption of trade on scientific grounds. (For further information, see the BSE overview in Chapter 2.)

Investment

In 2002, Hong Kong was the eighth largest investor in Canada with $5 billion (stocks) in investments. Canada has invested $2.8 billion in Hong Kong. There was a significant concentration of Canadian investments in the financial services sector. In general, Canadian investors face few difficulties in the Hong Kong market, which features excellent infrastructure, low taxes and high-value-added direct investment.