

China is now Canada's fifth-largest export market with bilateral trade totalling a record \$6.1 billion in 1994. Canadian exports accounted for more than \$2.1 billion (customs basis) of this total, a significant 40-percent improvement over 1993 exports of \$1.5 billion. Although grain sales at over \$600 million remain Canada's leading export to China, manufactured goods exports have grown consistently over the past 20 years.

Hong Kong continues to be a dynamic market with very strong trade ties to China. As a major facilitator of trade with China, Hong Kong is responsible for an estimated 37 percent of China's world trade flows, and about 60 percent of China's investment is funnelled through Hong Kong. Canadian exports to Hong Kong were over \$898 million in 1994, up from \$601 million in 1993. Hong Kong is now Canada's fourteenth-largest trading partner.

### **Business Environment**

The Chinese government's strategic economic and social goal is the smooth transformation to a "socialist market economy." The benefits of this transformation include job creation, industrial modernization, infrastructure expansion, increased industrial output and efficiency, greater availability of installed power capacity and reform of traditional central aspects of governing.

Although China did not join the World Trade Organization (WTO) in 1994, Canada supports China's efforts to unify its trading regime with other nations under international auspices. Recent accommodation made with the United States regarding the protection of intellectual property rights has had spin-off benefits for exporters in China.

It is important to see China as a collection of distinctly different, large regional markets sharing similar geographic boundaries, industrial bases and cultural factors. The most promising include the Northeast (Heilongjiang, Jilin and Liaoning), Greater Beijing (Hebei, Beijing, Tianjin and Shandong), Central (Shaanxi, Henan, Hubei, Hunan and Jiangxi), Sichuan, East China (Shanghai, Jiangsu and Zhejiang) and South China (Guangdong, Fujian and Hainan).

Although many opportunities exist for Canadian companies in China's large regional markets, companies are advised to do their research and plan their export strategies conscientiously. Numerous reforms in taxation, foreign exchange,

imports and exports, and commercial law have been implemented to protect the Chinese government's interests, and many export products are subject to quotas, import licensing and other restrictions. The ability to raise the necessary financing and to package financing terms in attractive proposals for certain projects can be key factors to success. Linguistic and cultural differences should also not be discounted. A good knowledge of these elements can be crucial in networking, gathering market intelligence, initiating negotiations and concluding contracts successfully.

Nevertheless, companies that pass these hurdles will find their rewards. The trend for Canadian companies in China is very positive. The Chinese recognize the quality of Canadian goods and services, and they are comfortable with the way Canadians do business in China.

The broadening of Canada's trade relations with China is primarily due to the perseverance of Canadian companies that are seeking access to China's markets. Furthermore, the successful management of Canada's long-standing relations with China is an important factor. Canada and China witnessed the twenty-fifth year of diplomatic relations in October 1995. Numerous bilateral trade-oriented exchanges, notably the Team Canada Mission in November 1994 led by Prime Minister Chrétien with provincial premiers and a significant business delegation, have created an atmosphere conducive to the continued expansion of commercial relations. The Team Canada Mission yielded significant commercial agreements, with project values potentially totalling over \$8.6 billion.

The business environment in Hong Kong remains excellent. With a free trade regime, the territory is an important source of investment for Canada and a fertile market for Canadian technology, goods and services. Hong Kong is totally dependent on trade in goods and services and maintains its position as the banking, financial, transportation and regional sales centre in Asia. Although Hong Kong will return to China's sovereign rule on July 1, 1997, it is not unrealistic to expect that Hong Kong will remain as robust an economy under China's aegis.

### **Market Opportunities**

The following sectors represent the greatest potential for doing business with China and Hong Kong.