

location and "due diligence" of partners, attention to staffing issues, and cultivation of political support for the project are among the issues that are key to success. Above all, Canadian firms need to implement a strategic, long-term China business plan, to ensure that business goals are realistic, and that they keep pace with China's changing economy.

Investment projects require approval at levels that vary according to size, industrial sector and location. Canadian firms with investment interests should study all aspects of a prospective investment carefully and obtain specialized legal advice, and commit resources with caution and a clear understanding of the details of Chinese investment policy and applicable laws. Any investment requires a lengthy and detailed negotiation, and usually includes substantial requirements for technology transfer.

Investment in certain sectors is restricted or even prohibited by China's central government, to limit exposure in certain inflation-prone or high-risk activities, and to promote channelling of funds toward key infrastructure and technology development projects. Projects in the less-developed central and western provinces are also encouraged, although strategies in these regions must address the greater challenges of a less-skilled workforce, lower living standards, and less well-developed infrastructure.

### **Hong Kong Special Administrative Region (SAR) — a dynamic market, springboard to the mainland**

Hong Kong is one of Canada's most important trading partners. In a time of regional economic turmoil, the fundamentals of the Hong Kong economy remain strong. The business environment remains well-regulated, efficient, and transparent. Hong Kong's efficient transportation and communications infrastructure, strong financial and banking sector, and free trade regime complement the economy of the mainland. Hong Kong should continue to provide a significant source of investment capital for Canada and a fertile market for Canadian technology, goods and services.

Two years after the July 1997 transfer of sovereignty, governing institutions remain strong, effective and impartial. Under the principle of "one country, two systems", Hong Kong will retain its sophisticated, free market governing and commercial institutions, including the British common law system, until 2047, i.e. 50 years after the transfer of sovereignty. Moreover, the Hong Kong dollar remains firmly pegged to the United States dollar. The successful defence of "the peg" in late 1998 has played a substantial role in maintaining both business and broader public confidence in the future. Additionally, Hong Kong will remain a free port and separate customs territory under the WTO. Additionally, as the world's fifth-largest financial centre, it will continue to issue its own fully convertible currency. English remains the language of business and higher education, and the official language of government.

Hong Kong's economy is dependent on trade in goods and services. It is the banking, financial, transportation and regional sales centre of East Asia, and China's most important source of foreign investment. Virtually all major commercial ventures in China have at least a part of their financing constituted in Hong Kong. Hong Kong is also an important investor in Canada, and can therefore be a viable and credible window for Canadian firms entering the mainland.

Hong Kong had a difficult year in 1998, however. Unemployment reached an unprecedented high of 6 percent, and retail sales fell 20 percent from their 1997 high. GDP declined 5 percent. However, 1998 was not a bad year for Canadian exports. Despite contractions in the economy, Canada achieved record exports in agri-food (\$499 million) and information and communications technology (IT) products (\$241 million).

As we enter the second half of 1999, Hong Kong business confidence has improved significantly. This is reflected in rising property and stock markets, improving tourism industry, and the prosperous import and re-export trade when acting as China's *entrepôt*.

In its 1999-2000 budget, the Hong Kong government forecast a return to growth. The Hong Kong business community, including the leadership of

the highly influential Hong Kong General Chamber of Commerce, publicly endorsed this optimistic forecast.

To reinvigorate the economy, the government announced several initiatives in its February 1999 budget of potential benefit to Canadian business, including a broadly based consumer taxation rebate, further deregulation of the telecommunications sector, and a concurrent expansion and further privatization of the public infrastructure.

Of potential greatest interest to Canadian business was the announcement in the budget of a US\$1.7 billion "Cyberport" initiative to stimulate the development of an indigenous IT industry and to ensure Hong Kong's continued prominence as a leading international communications and business centre. The Cyberport, situated in the most



**Hong Kong's "Cyberport"**  
For more information about  
"Cyberport", please see  
<http://www.info.gov.hk/itbb>  
or contact one of the Canadian Trade  
Commissioners based in Hong Kong.

liberal telecommunications environment in Asia, will provide the infrastructure for companies specializing in e-commerce and multimedia content development for business and industry. The initiative has been publicly endorsed by Bill Gates, CEO of Microsoft. Formally committed "anchor tenants" also include Hewlett-Packard, Intel, IBM and Yahoo.