

China and Hong Kong

Introduction

The Chinese economic area, which includes Hong Kong, is the most dynamic in the world today. Although the recent high annual growth rates of 12 percent to 13 percent are likely to slow in the year ahead, the prospects for sustained growth for the latter half of the decade appear good. The World Bank, using the standard of relative purchasing power, assessed China to be the world's third-largest economy. In more quantifiable terms, China conducted a record US\$196 billion of trade with foreign partners in 1993, recording a US\$6-billion deficit.

The expansion of our economic relations with China is a priority, as witnessed by Prime Minister Chrétien's November 1994 "Team Canada" visit. The Department of Foreign Affairs and International Trade also reorganized its China trade program in 1993-94, integrating more closely the business development activities of our missions in Beijing, Shanghai and Hong Kong, and opening a new trade office in Guangzhou.

Although China is currently our fifth-largest trading partner, exports in 1993 were only \$1.5 billion, down from 1992's record high of \$2.1 billion. The prospects for an early increase in exports appear good, however, as China's appetite for high valued-added Canadian manufactured goods and agricultural commodities continues to increase. In view of ongoing uncertainty on the political scene, however, it is important to be cautious (i.e. to consider both commercial risks and country risks when making investment decisions).

The importance of Hong Kong as a player in Canada-China economic relations, and as an important market in its own right, is difficult to overstate. It remains the primary financier of China's economic development and the gateway to the lucrative South China market, the most dynamic regional economy in Asia. Hong Kong is also the home of the largest Canadian commercial presence in Asia.

Business Environment

China has been uniquely successful in overcoming the legacy of 30 years of central planning. In 1993, over 50 percent of China's total economic output was generated by non-state-controlled economic entities. Additionally, state-run enterprises are increasingly obliged to operate on a corporate, profit-oriented basis. Individual entrepreneurship has reasserted itself strongly, and is even evident in the government bureaucracy.

Doing business in China on an individual scale is much like doing business elsewhere; good price, product quality and supplier reliability are all essential to commercial success. The market is extremely competitive, especially in all matters related to price and financing. Moreover, Chinese partners greatly value personal contact in business dealings. Success invariably requires persistence, patience, a sustained presence on the ground, and a price-competitive product.

China's regulatory regime, especially in sensitive sectors such as telecommunications, remains strongly influenced by its socialist past. The approval process for any medium- to large-scale project (i.e. less than \$10 million) is cumbersome, slow and prone to abuse. The move toward economic decentralization, however, is making doing business on a larger scale generally easier than in the past.

To help overcome the bureaucratic obstacles and uncertainties connected to doing business in China's still opaque market, Canada has made the negotiation of China's entry into the new WTO a priority. Our negotiating priorities cover important sectors of Canadian strength, in both the goods and services sectors, for which Canada requires improved and more predictable access. It is China's stated desire to enter the WTO as a founding member in 1995. The negotiation process necessary to bring this about, however, remains difficult.