

China formally acceded to the WTO on December 11, 2001. The extensive commitments China has made to substantially lowering barriers to foreign trade and investment, as well as to increasing the predictability and transparency of its trade regime, will engender profound changes in its economy and governance. As a result, significant new business opportunities are opening up for Canadian exporters and investors in sectors where Canadian firms have a competitive advantage. China will continue to face considerable challenges in fully implementing its WTO commitments and in pursuing further economic reform. In the long run, however, economic growth and prosperity will be strengthened.

As a member of the WTO with a significant portion of world trade, China is an important participant in the Doha round of multilateral trade negotiations. Canada will continue to cooperate with China in supporting an early conclusion to these negotiations.

HONG KONG

The Hong Kong Special Administrative Region maintains considerable autonomy in economic, trade, cultural and political affairs. Hong Kong continues to develop its own economic, fiscal and budgetary policies, reflecting its own interests and dependence on trade. Hong Kong is a member in its own right of both APEC and the WTO, and was host economy for the December 2005 WTO Ministerial Conference. Hong Kong remains an aggressively free market economy, with virtually no barriers to entry or doing business. It is also an important gateway to China for many Canadian products and services. Canadian firms continue to enjoy excellent access to the Hong Kong market, and there are no outstanding bilateral market access issues. Canada exported \$1.4 billion in merchandise to Hong Kong in 2005 and imported merchandise worth \$560 million. Trade in services is extensive: in 2003 (the last year for which statistics are available), Canada exported \$523 million worth in services to Hong Kong and imported \$1.22 billion.

JAPAN

Japan remains the world's second largest economy, Canada's second largest export destination, and the fifth largest source of FDI in Canada. In 2005, two-way

merchandise trade between Canada and Japan stood at approximately \$23.6 billion, with exports increasing to \$9.1 billion and imports to \$14.5 billion. In services, Canada exported \$1.8 billion and imported \$3.4 billion in 2005. Bilateral investment has reached an all-time high. The stock of Canadian direct investment in Japan in 2004 amounted to some \$9.6 billion, while Japanese direct investment in Canada that year totalled \$10.6 billion.

Japan, Asia's largest economy, continues to chart a course of positive and sustainable economic growth, with preliminary figures suggesting the economy grew 2.7% in 2005, after posting 2.3% growth in 2004. Japan remains a key partner in the realization of the Department's goals.

In November 2005, Canada and Japan signed an Economic Framework aimed at reinforcing existing bilateral economic ties and addressing new and emerging commercial challenges and opportunities. The Framework reinvigorates the existing government-to-government dialogue, lays the groundwork for future cooperation in priority areas, and emphasizes the role of the private sector in guiding future initiatives. A key element of the Framework is a joint study of the implications of further promoting and liberalizing bilateral trade and investment. Scheduled for completion by the end of 2006, the study will be crucial in helping the two governments develop plans to ensure that the Canada-Japan economic relationship reaches its full potential.

Following a number of high-level reform initiatives by the Koizumi government, Japan's regulatory landscape has transformed and is still evolving rapidly. Despite uneven progress, Japan appears to be heading toward a more efficient approach to regulation. While the number of purely bilateral issues has declined, various industry-wide regulatory issues affecting both domestic and foreign companies (including Canadian companies) remain to be addressed. In these cases, cooperation within industries, supported by punctual government intervention, offers the best chance of success.

Japan remains a premium market, and its consumers value quality, custom-made products and services. In order to tap the full potential of this market, Canadian companies will need to focus on being both innovative and flexible.