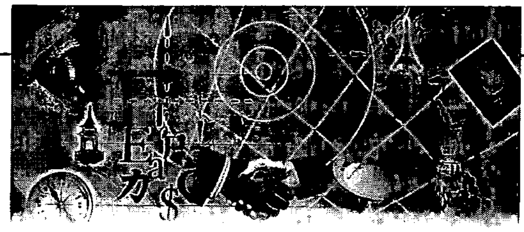


2. Business Environment

Mainland China

China continues to undergo profound changes, as the transition from a planned to a market-oriented economy now embraces fundamental — and in some cases painful — modifications to the structure of government, to levels of government staffing and resources, and to the legal-business regulatory environment.

Since becoming Premier in early 1998, Zhu Rongji has accelerated and deepened the pace of government and state-sector reforms, as part of process designed to entrench commercial principles and sustain continued economic growth. Central government ministries have been downsized and reorganized to focus on regulatory and administrative functions. Firm timetables are also being enforced for spinning off, commercializing or closing enterprises in what had previously been a heavily subsidized state sector, and for separating the activities of government from that of business. Finally, lawmakers are pursuing a program of fiscal and regulatory reforms to ensure a more stable and transparent business environment.

The macro-economic priorities of the Ninth Five-Year Plan, which are expected to be maintained through the development of the Tenth Five Year Plan (2001-2005), include increasing food production and strengthening the agricultural sector; developing infrastructure in order to improve efficiency and effectiveness of the existing economic base; acquiring the science and technology necessary to support economic development; and narrowing the gap between advanced coastal and poorer interior regions. Canada's priority export sectors are well-matched to China's requirements for imported goods, services and technology. This particularly evident in the areas of agriculture and agri-food, infrastructure (energy, transportation, information industries and telecommunications), environmental protection, and construction.

Local Decision Making, Regional Markets

While the central government in Beijing continues to exercise a paramount role in national economic leadership and in setting priorities, local levels of government now wield significant influence and decision-making power in the execution of major projects. Using a range of economic development initiatives, provincial, county and municipal governments compete domestically and internationally to attract investment, create employment, and increase economic wealth.

Furthermore, China is a land of greatly diverse geography and culture, and the characteristics of its economy vary greatly from region to region, in economic structure, level of development and growth prospects. In general, it is possible to identify the following key regional markets within China, each with a population of more than 100 million and a GDP exceeding $30 billion.

These regional Chinese markets include:

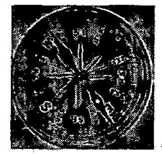
- Northeast China (made up of Heilongjiang, Jilin and Liaoning provinces);
- Northwest China (Xizang, Xinjiang, Ningxia, Nei Mongol, Qinghai and Gansu);
- Central Plain (Beijing, Shaanxi, Shanxi, Henan, Tianjin, Hebei and Shandong);
- Upper Yangtze and Southwest China (Yunnan, Sichuan, Guizhou, Hunan and Hubei);
- Shanghai and the Yangtze Delta (Shanghai, Jiangsu, Jiangxi, Zhejiang and Anhui);
- South China (Guangdong, Fujian, Guangxi and Hainan); and
- Hong Kong (SAR).

Market Access and Regulatory Environment

Over the 20 years since the process of opening and reform began, significant progress has been achieved in the reduction of market access barriers, both tariff and non-tariff. As China continues negotiations to accede to the World Trade Organization (WTO) and to further integrate its economy into the multilateral trading system, Canada offers its strong support on terms that benefit both countries. Even prior to WTO accession, China's efforts to strengthen its trading regime to a "rules-based" system has begun to show signs of a relatively more transparent trade and investment environment. Progress toward a rules-based business environment is expected to continue.

Still, market access issues remain a significant barrier to Canadian firms engaged in trade and investment with China, and although the process of WTO accession is helping to identify and address many of these issues, removing the obstacles and amending associated business practices in the marketplace will take time.

China's tax, tariff and investment policies are also evolving. On many fronts, China has taken practical steps to develop a more transparent and predictable business environment, a development that Canada is actively encouraging. Nevertheless, it will take time before these measures translate into reliable protection for foreign firms. For example, although China has made significant advances in recent years to implement legal measures to protect intellectual property, enforcement remains problematic, and varies widely from city to city and province to province.



Export Controls

Export controls exist in order to fulfill Canada's international obligations concerning the movement of strategic goods. To determine whether such controls apply to your product, contact DFAIT's Export Controls Division at (613) 996-2387 or visit its website at http://www.dfait-maeci.gc.ca/~eicb/

Some Canadian exports from certain sectors, including defence, aerospace, power, transportation, chemical, biomedical and electronics, may require Canadian export permits from DFAIT's Export Controls Division.

Trade and Investment Climate

Many Canadian firms have pursued the transition to establishing a local representative office, or even to investing in joint ventures or wholly owned subsidiaries in China, to position themselves for long-term business activity. Careful selection of

Trade by Province (US$ millions, 1998)

	Exports		Imports	
	Value	% of Total	Value	% of Total
Guangdong	76,302	41.5	55,178	39.4
of which Shenzhen	25,748	14.0	18,773	13.4
Shanghai	15,641	8.5	15,530	11.1
Jiangsu	15,930	8.7	12,148	8.7
Shandong	11,210	6.1	7,904	5.6
Zhejiang	11,606	6.3	5,144	3.7
Fujian	10,718	5.8	7,401	5.3
Liaoning	7,625	4.1	6,137	4.4
Beijing	6,494	3.5	9,283	6.6
Tianjin	5,465	3.0	5,612	4.0
All other provinces	22,764	12.4	15,828	11.3

Source: General Administration of Customs and EIU