

uncertainty in the colony: over the last 15 months, according to Canadian government figures, Hong Kong residents have pumped C\$2.3 billion into Canada, mostly into property. Hong Kong businessmen have traditionally put their money into property assets there, which are relatively easy to manage from a distance.

While Canadian exporters have just recently realised Hong Kong's merits as a market and as an ideal site for regional trading and marketing headquarters, Canada has been one of Hong Kong's six or seven principal export markets for 25 years. Indeed, in 1983 Canada suffered a C\$599.5 million trade deficit with Hong Kong — the biggest gap with any trading partner in Asia — as Hong Kong's exports surged 22.7% to C\$820.7 million while Canadian shipments dipped 8.9% to C\$221.2 million (including re-exports).

Canada's exports, which are dominated by semi-processed goods such as aluminium, plastics, pulp and newsprint, were apparently hurt by the relative strength of the Canadian dollar, which has appreciated 10% against the Hong Kong currency over the last 15 months.

Part of the drop can be explained by distortions in aluminium trade. Exports of the metal declined last year after quadrupling in 1982 to C\$64.8 million. The bulge two years ago was due to Alcan's opening a regional distribution warehouse for ingots in the British territory and heavy Chinese buying that year (world prices for the metal were low).

Alcan, Canada's biggest investor in Asia, has been manufacturing in India since 1937 and ran a rolling mill in Shanghai before the Liberation. Today the aluminium giant maintains two plants in India and factories in Malaysia, Thailand and Indonesia. Birkett puts average annual sales to China at C\$60 million and to Hong Kong at C\$20 million. The leading aluminium seller in Asia, including a 50% market share in extrusions, Alcan ships ingots (used chiefly for making pots and pans) and extrusions for curtain frames to Hong Kong and ingots, curtain walls, foil and cans to China.

Alcan is keen on the Asian market, which is low on the "maturity curve" in per-capita aluminium consumption in contrast to the developed nations, which have already reached the saturation point.

Although there are some significant Canadian investors in Asia besides Alcan, such as Inco, Bata Shoes and Northern Telecom, industry has traditionally looked south to the US, the Caribbean and South America. According to one academic study, an estimated C\$2 billion, or only 8% of overseas investment, has been put in the Pacific Rim countries, with much of that in sales offices rather than in production facilities. Some observers say Canadian businessmen are more conservative than their American counterparts in investing abroad.

Compared to its manufacturers, Canada's banks are aggressive and pioneering. The "big five" have been major players in international financial centres for 20 years, with some of them generating more than 50% of earnings from foreign operations.

Unlike Japanese banks, which tend to follow clients to new markets, Canadian banks set up shop before exporters. But the banks, which opened offices in Latin America and the Caribbean 100 years ago, were also relatively late in Asia.

Royal Bank of Canada broke the ice when it set up a representative office in Hong Kong in 1958. The big five opened branch offices in the financial centre within months of each other in 1978-79 after the Hong Kong government lifted a moratorium on new licences.

While sovereign-risk and syndicated loans were the mainstay of the banks' business in Asia in the 1970s, trade finance has taken on increasing importance. Trade-related lending accounts for 33% of Canadian Imperial Bank of Commerce's Asian business, for instance. The bank has also made a major pitch in China, financing five hotel projects and ship-building and textiles ventures. Royal Bank, also active in the China market, looks like playing a major role in the country's energy sector.

Consortium

Canada is also pushing its consulting engineering expertise in Hong Kong. A contract to map out a vessel traffic management system for the harbour was given to a Canadian group. Canadian architects, in a consortium with West Germans, did the initial design for the Hong Kong Exhibition Centre. The North American country also exports building materials to the territory.

One promising sector is telecommunications. Mitel, the communications firm, became Canada's first major investor in manufacturing in Hong Kong in 1981 when it entered production of telephone switching systems. Northern Telecom, famous for its digital telecommunications and integrated voice and data communications systems has sold more than 70 private automated branch exchange (PABX) systems in Hong Kong since opening a sales office five years ago. It lists Bank of America and Hong Kong Telephone among its customers.

Canada is also keen to sell high-technology products to China. Spar Aerospace, which developed Canadarm, the remote manipulator system used on the US space shuttle Columbia, clinched a deal to supply 26 ground satellite stations worth C\$20 million during Chinese Premier Zhao Ziyang's January swing through Canada.

Northern Telecom has sold PABX equipment to the Peking Hotel and the Garden Hotel in Canton. De Havilland

has shipped Twin Otter aircraft, and another aircraft deal is in the works. Canada must work hard to market its technology. As Lipman points out, the Chinese remember who supplied technology before the Liberation in 1949 — the Americans, the Japanese and the Germans.

Still, Canadian companies have supplied the technology for a copper mine in Jiangxi province, a model farm in Heilongjiang, an oil-valve factory, a pre-stressed concrete plant in Guangdong and an animal feed-milling plant in southern China. Consulting engineering firms have captured contracts for a gold mine in Shandong province, a report on the Occidental Petroleum coal-mine project in Shanxi and a study of the Chinese railway system. But, as Lipman notes, the Chinese resist paying for consulting services, preferring to build the work into a contract granted to the operating company.

Major role

Although Canada's offshore oil and gas-development experience is richest in places with Arctic conditions, the industry hopes to play a major role in China's offshore oil programme. Ranger Oil and Petro Canada, both of Calgary, are members of the BP consortium operating in five offshore blocks. Okanagan Helicopters earned a contract to supply helicopter services in the South China Sea. Canadian firms have sold drill bits and geophysical equipment.

But for years to come, commodities such as wheat, copper, aluminium, pulp, lumber, potash and sulphur will dominate exports. Wheat alone contributed C\$917 million of Canada's C\$1.61 billion of shipments in 1983, though the commodity's share of exports has dropped from 80% just a few years ago. The two countries signed a three-year wheat agreement expiring in 1985 which calls for Canada to ship 3.5 to 4.2 million tonnes a year.

Lipman expects wheat sales to stagnate or decline as China lifts domestic output, but exports of raw materials for light industry and agriculture, including metals, plastics and fertilisers should more than offset any drop. Since 1978 bilateral trade has rocketed 25% a year, and Lipman thinks Canadian exports will expand 20% a year in real terms in the near future.

Canada has the materials China needs for the two sectors it is developing most rapidly — light industry and agriculture. No wonder Canada, unlike some industrialised nations, is bullish about the China market. ■

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