3. BUSINESS ENVIRONMENT

China's Ninth Five-Year Plan (1996-2000), announced in the spring of 1996, stresses economic and social stability over radical reform, a strengthening of central government macro-economic control and the efficient use of existing capacities before developing new ones. Key priorities are increasing food production and strengthening the agricultural sector; gradual reform of state-owned enterprises, which still account for much of China's industrial structure; developing science and technology in support of 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, particularly in the areas of agriculture and agri-food, infrastructure (energy, transportation and telecommunications) and environmental protection.

While the central government in Beijing continues to exercise a paramount role in economic leadership and in setting priorities, China should also be viewed as a collection of distinct regional markets differentiated by geography, culture and dialects, economic structure, level of development and growth prospects.

In addition to the highly developed territory of Hong Kong, recent market studies have identified several significant regional markets in China, each with a population of more than 100 million and a gross domestic product exceeding $27 billion. These regions are: 1) Northeast China (made up of Heilongjiang, Jilin and Liaoning provinces); 2) Greater Beijing (Hebei, Beijing, Tianjin and Shandong); 3) Central Provinces (Shaanxi, Henan, Hubei, Anhui, Hunan and Jiangxi); 4) Sichuan Basin; 5) Shanghai and East China (Shanghai, Jiangsu and Zhejiang); and 6) South China (Guangdong, Fujian and Hainan).

In every region, the key consideration is finding the appropriate client, agent/distributor, representative or joint-venture partner. The general rule is that a long-term commitment is necessary to reap significant returns on any business transaction in China.

The most important issue to be considered by any Canadian firm contemplating business in China is that the market is still highly protected. Non-tariff barriers, including recently introduced tariff rate quotas for certain agricultural commodities, are highly developed and administrative barriers are formidable.

Changes to China's tariff policy have eliminated import duty exemptions for foreign-financed projects although a number of preferential policies, such as advantageous tax regimes for investors, remain in place. While China has made significant advances in legal measures to protect intellectual property, enforcement remains problematic. The lack of transparency and the arbitrariness of change in regulations, taxes and tariffs are also considerable market access problems.