Canadian exports in 1998 were $437.68 million, with much of it being re-exported to China. It will be difficult to maintain this rate of expansion in the future, however. The increasing sophistication of mainland buyers, and China's potential early accession to the WTO are expected to diminish Hong Kong's importance as a trading *entrepôt* for agri-food commodities to China. For the time being, Hong Kong will continue to be a vibrant and attractive market, and will remain a valuable shopping window and trading centre for China and Southeast Asia. Given its proximity to China, Hong Kong remains the best reference account for processed food products in China and Southeast Asia.

With a prominent expatriate population and an open society receptive to western culture and tastes, Hong Kong welcomes new products. It is estimated that over 150 000 Canadians reside in Hong Kong. In addition, large numbers of middle- and higher-income residents have studied or lived in Canada. Taken together, they are a critical mass of consumers who understand and have extensive experience of Canadian products.

Recent developments in the retail market that may result in significant market opportunities for Canadian food exporters include:

- the emergence of discount grocery chains that sell non-branded processed food products, e.g., Prize Mart, Yu Kee and Yan Wo;
- the inauguration in July 1999 of a direct distribution network by Next Media Management Ltd., the publisher of *Apple Daily* and *Next Magazine*;
- the initiatives by the major supermarket chains to expand their product offerings by incorporating "wet market" concept meat and fresh produce sections, and to introduce more house brands and private label products; and
- the establishment by wholesalers of their own retail outlets, e.g., the Okashi Land snack chains established by Four Seas Mercantile Holdings Ltd.

This restructured retail food environment could significantly reduce market entry costs for new Canadian players.

Market Opportunities

There are opportunities for high-value products in Hong Kong, i.e. good quality and competitively priced, semi-processed, processed food and retail packaged food products.

Demand for inexpensive meat cuts and edible meat offal, including chicken, continues to grow. Canada's increasing chicken production should improve our competitive edge in the market. With properly organized promotion and the demonstration of Canada's ability to adapt to local requirements, we expect Canada to capture greater market share of the Hong Kong meat market. As consumers become increasingly concerned about hygiene standards of locally raised and processed pork, opportunities also exist in the higher-priced chilled pork market.

Dairy products are in demand, and highly priced. Hong Kong buyers are looking for competitive suppliers of portion-packed butter, condensed milk and industrial cheese to displace expensive European products.

Concern about pesticide usage and sanitation standards has generated consumer demand for imported fresh fruit and vegetables, nutraceuticals and healthy lifestyle products like vegetarian products and soyadrinks. The deteriorating water quality of Hong Kong has also boosted the demand for large retail-type bottled drinking water (i.e. four litres), but the displacement of local brands by imported spring water will require a major marketing investment.

Seafood products are still in high demand in Hong Kong. To weather the financial turmoil, however, consumers are shifting to lower-priced products. Food scares about the safety of large sea fish have also created a potential opportunity in the high-end restaurant market for Canadian-farmed live fin fish.

Constraints

As a free market, Hong Kong is one of the most competitive economies in Asia. Goods from all over the world enter Hong Kong duty free, and are readily available. Consumers are often provided with a wide range of choice of food items. Products, therefore, require strong, ongoing and consistent support in order to win market share. The United States, Australia, New Zealand and the European Union are very active and well-entrenched in the meat, dairy, produce and grocery sectors. Canadian suppliers must be ready to exhibit their quality and price advantages over these competitors.

Shops in Hong Kong are compact with limited shelf space, and it is costly to have products listed in stores. In addition to high logistics costs, i.e. warehousing, delivery and sales services, Hong Kong distributors normally require higher margins. Canadian exporters must be ready to accept these high entry costs if they want to establish their products in Hong Kong.

Action Plan

Focussing on Hong Kong, the strategic objectives are to increase Canadian high value-added, processed and semi-processed exports by 5 percent per year by the following means:

- providing Canadian agri-food exporters with the latest market information and intelligence;
- advocating Canada as a safe, healthy and reliable source of agri-food products; and
- providing marketing support to Canadian food exporters and local suppliers of Canadian food products through an active promotion program to raise awareness of Canadian food products at trade and consumer levels.

The Consulate General in Hong Kong will accomplish the following in 1999-2001:

- publish and disseminate directly to Canadian agri-food exporters a bimonthly agri-food market scan on the latest developments in the Hong Kong market;
- complete market studies on agri-food products in which Canada has a competitive advantage, including bakery products, retail packaged food products, fruit and vegetables, health food, dairy products and pet food. These reports will be posted on the mission Web site when completed;
- assist Canadian trade associations (e.g., ginseng, poultry and seafood) in advocating their products in Hong Kong;
- publish and disseminate to Hong Kong and Macau agri-food importers a bimonthly scan on Canadian food products and market trends; and
- continue to work on the health certification of Canadian seal meat exports to Hong Kong.

In addition, as part of its awareness building and promotion plan, the Consulate General in Hong Kong will accomplish the following:

- conduct retail food promotions at Oliver's Delicatessen, DCH Foodmarts and Seibu food halls; and
- organize a Canadian national pavilion at HOFEX 2001, the 9th Asian International Exhibition of Hotel, Restaurant, Retail and Catering Equipment, Supplies and Services, Food and Drink, in May 2001.

Construction Products and Services

Mainland China

Business Environment

Current indicators suggest that the Chinese population could reach 1.6 billion people by the year 2030. As the population increases, it is also becoming more affluent, enjoying an ever-rising standard of living. In recent years, per-capita incomes have tripled and sales of consumer goods have quadrupled. Moreover, retail sales have expanded at more than 20 percent annually. Consequently, demand for more and better-quality housing, using better-quality building materials, is on the rise. To meet this new demand, improved housing and new housing construction are a top priority of the Chinese government. Efforts to provide better-quality housing to the Chinese population over the next 30 years will represent one of the greatest construction feats ever attempted.

A number of developments demonstrate the emergence of this new housing market — of which the National Housing Program is of primary importance. Recent changes include the institution of a mortgage insurance system, the reintroduction of individual property rights, and the treatment of housing as a market commodity rather than as part of infrastructure. New channels, such as bank-financed mortgages, are emerging as a means of housing financing. Although the government had originally intended to fully implement its National Housing Program by July 1, 1998, it realized that