such as power, telecommunications, transportation, agriculture and resource-based industries, water supply and urban services. Liaison with the Asian Development Bank (ADB) is facilitated by a unit within the Canadian Embassy in Manila that monitors projects financed by the ADB.

CIDA's support for sustainable development in the Philippines also contributes to trade and investment objectives, by demonstrating Canadian expertise, technology and services through technical assistance programs.

In spite of the current setback, economic growth in the Philippines over the next ten years is forecast to be strong. Democracy has established solid roots, and there is growing support for modernizing and opening the economy, although the pace of further reform beyond President Ramos' term (post 1998) will depend on his successor. The country will continue to face development challenges in the form of environmental degradation, inadequate social services, and a burgeoning population. A Team Canada mission, led by Prime Minister Chrétien, visited the Philippines in January, 1997, when 52 new business deals worth $500 million were signed.

China

China per se has not been included directly in this strategy since the spotlight for investment promotion will remain on Hong Kong in the short term. China is expected to continue to use Hong Kong as its main bridge to the outside world, for example for financing red chip companies (companies that are incorporated in Hong Kong and companies listed on the Hong Kong Stock Exchange that are controlled by mainland companies).

Major Chinese players in resource sectors (pulp, paper, oil and gas) and processed resources (steel, metal, foods) are attracted to the Canadian market and China is in the process of opening a number of offices in Canada. The long-term potential for two-way investment is significant.

ANNEX I

Links Between Trade and Investment

In the past thirty years or so, and particularly since the mid-1980s, international production has become very much an integral part of the world economy. Improvements in technology, particularly information and communication technologies, have made it possible for firms to process and send an incredible amount of information at very low cost. This has enabled them to manage, on a day-to-day basis, far-flung and widely dispersed production and service networks. When these revolutionary improvements are combined with the recent rapid liberalization of policies governing flows of trade, investment and finance capital, the result has been the rise of international production and the emergence of numerous new trans-national companies (TNCs), which have established foreign affiliates. A UN study of 15 major developed countries showed that the number of TNCs headquartered in them nearly quadrupled between 1969 and 1993, from 7,000 to 27,000. Worldwide there are some 40,000 TNCs with about 270,000 foreign affiliates.

These trends have given firms improved access to foreign markets and to foreign factors of production so that they can obtain more easily and widely what they need for production whether it be unskilled cheap labour or skilled people for R&D. The traditional sequence of internationalization, which is reviewed below, now tends to be modified and shortcircuited.

The traditional way for a manufacturing firm to invest abroad is to build up a strong domestic market, start exporting, find suitable foreign producers to manufacture under licence, start assembly or partial production, usually with a foreign partner, and then progress to full production through majority or wholly-owned foreign affiliates. If successful, manufacturing affiliates may be set up in other countries or markets and eventually foreign affiliates may begin to export. The process often leads to **associated trade,** as goods and services are