agriculture, forestry and fisheries, oil, leather and leather products, air transport and maritime transport. In addition, many other areas are reserved on national security grounds, including the aircraft and aerospace industries, armaments, passenger transport, nuclear power, electricity, gas, heat supply, waterworks, telecommunications and broadcasting, vaccines and security guard services.

CHINA AND HONG KONG

CHINA

Overview

The People's Republic of China (not including the Hong Kong Special Administrative Region) is Canada's fifth-largest export market. In 1998, Canada's total exports of goods to China reached $2.12 billion, and the total value of imports of goods was $7.65 billion.

With nearly one quarter of the world's population, China shows great promise of becoming the world's largest consumer market. It is estimated that, by 2010, there will be in excess of 500 million middle-class consumers in China. An increasingly Western lifestyle among the urban middle class, along with a softening of the Chinese government's isolationist policies, make this enormous market all the more attractive from a Canadian perspective.

As outlined in the 1998 *China and Hong Kong Trade Action Plan,* Canada's policy approach takes full account of the reality of China's rapidly growing importance in world affairs. An economic partnership between China and Canada is a key element in supporting long-term relations and encouraging China's further integration in global and regional political and economic institutions.

Despite the opportunities that China presents, a number of significant systemic problems and practices impede Canadian access to the Chinese market. Traders must also keep in mind that China consists of a number of distinct regional markets, each operating and evolving in a distinct and often autonomous fashion. Some of the more prevalent problems include high import tariffs, inappropriate standards, investment barriers, the inability to appeal rulings by Chinese officials through a judicial review process; equivalent treatment of foreign and domestic firms (national treatment); equivalent treatment of imports from different countries (MFN status); access to foreign exchange; the transparency of the Chinese regime; the uniform application of laws and regulations throughout China; non-tariff barriers (e.g., import licences and quotas); and the subsidization of Chinese manufacturers. These issues are currently being addressed in multilateral and bilateral negotiations on China's accession to the WTO. Chinese officials have indicated that China is serious about resolving these issues as part of the accession package. Consequently, the results of the negotiations will be applied on an MFN basis.

High tariffs on imports are one of the principal impediments to Canadian exports. Canadian producers are particularly vulnerable if their products compete against domestically produced goods or have a fixed world price. Canada is trying to reduce the tariffs applied to knowledge-based products in particular as they are significant generators of Canadian jobs and growth.

A common problem faced by many Canadian firms which have entered the Chinese market is a lack of transparency and the inconsistent application of laws, regulations and import practices. This reflects, in part, the decentralized nature of administration in China, and the strength of local centres of power, whose administrative units can often act independently of central commands and of written laws endorsed by the central authorities. In customs procedures, for example, it is not uncommon for the same product to be subject to different levies in different ports, as they each add to the basic import tariff their own administrative and miscellaneous fees. This makes for uncertainty in the calculation of export costs and impedes the establishment of consistent, long-term commercial ties. In the case of capital projects, the approval process is often unclear, as is the ultimate decision-making authority on any particular project.

Canada is also concerned that Chinese standards and, in particular, requirements for statutory inspection are being used as impediments to market access, and are not being imposed, as is required by the WTO, in the least trade-restrictive manner possible. Canada, in the context of discussions with China through the WTO accession process, is attempting to obtain a transparent list of the standards being applied, and is working to identify and eliminate those that are merely