general rule, a long-term commitment is necessary to reap significant returns on any business transaction in China.

The most important issue facing any Canadian firm contemplating business in China is that these markets are 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 remain in place, such as advantageous tax regimes for investors. 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.

Some Canadian exports from certain sectors, including defence, aerospace, power, transportation, chemical, bio-medical and electronics, may require Canadian export permits from DFAIT's Export Controls Division.

Trade and Investment Climate

A number of companies have invested in joint ventures or wholly owned subsidiaries in China to position themselves for long-term business activity. However, any investment requires lengthy and detailed negotiation, and usually includes substantial requirements for technology transfer.

Investment projects require multiple levels of approval that vary according to size, industrial sector and location. Canadian firms with investment interests should study all aspects of a prospective investment carefully, and commit resources with caution and a clear understanding of the details of Chinese investment policy and law.

Concerns about inflation and the debt level of state-owned companies have led China's State Planning Commission to restrict or even prohibit investment in certain sectors, and to indicate that priority should be given to projects in certain other sectors or projects that seek to renovate existing industries. Projects in the less-developed central and western provinces are preferred over those in the more-advanced coastal regions. China has also begun to experiment with risk-financing structures, including BOT (build-operate-transfer) projects, and central government guidelines on this form of investment are anticipated.

As China continues negotiations to accede to the World Trade Organization (WTO) and to integrate its economy into the multilateral trading system, Canada offers its strong support on terms that benefit both Canada and China. China's commitment to a rules-based trading regime and a transparent trade and investment environment would directly benefit Canadian companies. Further details about Canada's trade policy objectives related to China's WTO accession are available in *Canada's International Market Access Priorities*, which was published by DFAIT in March 1997 and is also available on DFAIT's Web site (http://www.dfait-maeci.gc.ca).

On a parallel track, China and Canada are both active participants in the trade liberalization process that is under way in the Asia-Pacific Economic Cooperation (APEC) forum. China has begun to identify those measures that it will implement over the next 25 years to achieve APEC's target of trade liberalization for developing countries by the year 2020 (by the year 2010 for developed economies). For example, China announced tariff reductions in April 1996 that brought the average tariff down to 23 percent, compared to an average tariff rate of 66 percent in 1992.

Hong Kong's business environment remains excellent. The territory is totally dependent on trade in goods and services, and has carved a role for itself as the banking, financial, transportation and regional sales centre of East Asia.

Hong Kong retains its own sophisticated economic and financial regime and British common law system for 50 years under the "one country, two systems" principle, which guided the return of the territory to full Chinese sovereignty on July 1, 1997. Hong Kong should continue to provide a significant source of investment capital for Canada and a fertile market for Canadian technology, goods and services.