

ensuring consistent food supply and quality. The lack of reliable refrigeration capacity and the congestion and state of repair of roads, railways, waterways and ports, create constant challenges.

Fortunately, Hong Kong is free of many of the formal barriers to doing business on the mainland, but it suffers much of the congestion experienced elsewhere. The Hong Kong market is also characterized by high entry costs related to local wholesaling and distribution overheads. Foreign and domestic competition is fierce: the focus is high-volume, low-margin business with heavy demands for costly promotional support.

China attempts to be self-sufficient in agri-foods. Markets are characterized by high market entry costs and low trading margins. In order to succeed, proper export readiness, consistent follow-up, relationship building and a great deal of patience are necessary.

Canada faces stiff competition from third-country suppliers such as the United States, Australia, New Zealand and the European Union. The Americans and Australians are well-established in some areas, after years of investment by national companies and industry associations. Canadian suppliers must be aggressive and innovative to give customers reason to displace existing foreign products.

### Opportunities

There are opportunities for agri-food commodities, value-added agricultural products, services and technology and, to some extent, in fully processed foods.

Wheat continues to be Canada's largest agricultural export to China, but other commodities are playing an increasing role. Products such as

malting barley and canola are significant exports. Special crops are starting to make inroads. Value must be added to these products through marketing technology in order to upgrade and maximize their end use and value.

A key challenge facing commodity exporters is to encourage China to modify its goal of food self-sufficiency and to diversify some of its sources. Diversification can be achieved by investing in Canadian production and processing, either by direct investment or through long-term "take-or-pay" contracts.

Value-added agriculture may be one area where Canadian companies can have the best competitive advantage in China, if properly organized and strategically positioned. From greenhouses to grain-handling equipment, animal genetics to feed and feeding techniques, health, husbandry, slaughtering and processing, Canadian companies can provide the better-quality and higher-quantity production that China requires. Canada is also well-positioned to respond to the need for diversified vegetable protein sources and increased animal protein, as a result of improvements in Chinese diets.

In processed foods, opportunities exist despite barriers and stiff competition. For example, Canadian pork and beef may soon have direct entry capability. Canadian finfish and shellfish are increasingly popular in the China market.

Export strategies must recognize that China is more than one large, homogeneous market; rather, it is composed of several regional markets. Companies need to have the right product, competitively priced and supported with good distribution, to reach the targeted clientele. One approach, particularly for South China, is to use

Hong Kong as an *entrepôt*. The Yangtze region is, on the other hand, becoming increasingly accessible via Shanghai.

Hong Kong buyers are most interested in meat and seafood products (mainly high end), confectionery, beverages, frozen convenience food, health food and new products in the dairy and ingredients subsectors. Initial opportunities are more promising in food service rather than in the retail market, where entry constraints, such as shelf listing fees, are more pronounced.

Exports of Canadian fish and seafood (particularly live or frozen) to Hong Kong remain buoyant at both the food service and retail levels. Demand for product mix is diversifying, beyond stronger sales of lobster and salmon to include oysters, crab, clams, mussels, freshwater fish and other premium products. Local tastes and environmental concerns mean that import growth rates for seafood exceed those for meat generally.

### Action Plan

Canada's missions in China differentiate themselves through the services they provide, reflecting the different clientele they serve. Canada's Embassy in Beijing addresses the widest range of interests, specializing in agriculture, items of national interest, government interaction and policy negotiation. The Canadian International Development Agency (CIDA) bilateral aid program for China is delivered from Beijing as well. Offices in Shanghai address the diverse needs of companies doing business in East China. Hong Kong and Guangzhou missions work closely in the Pearl River Delta market, with an emphasis on manufactured foods, beverages, meat and seafood. Collectively, these missions will accomplish the following in 1997-98:

- complete the negotiation of quarantine protocols for seed potatoes and meats;
- train Chinese specialists through seminars on technical issues such as tariff rate quotas (TRQs);
- advocate greater transparency (e.g. on quotas) and lower tariffs on malt, canola and other agri-food and seafood products;
- continue the retail food promotion program by co-ordinating "Blessed by Nature" marketing campaigns in Hong Kong, Shanghai and Guangzhou;
- assist Canadian trade associations (e.g. beef, pork, salmon, lobster) in undertaking generic promotions in China and Hong Kong;
- provide timely market intelligence to companies capable of acting on this information;
- preserve and expand Canada's markets in China and Hong Kong for existing products, while building markets for Canadian products, services and technologies new to the market; and
- counsel the targeted participation by Canadian firms in trade shows, including the Asia Seafood Show, and Food and Hotel China.

## CONSTRUCTION PRODUCTS AND SERVICES

### 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. Per-capita incomes have tripled. Sales of consumer goods have quadrupled, and retail sales are expanding at more than 20 percent annually. Consequently, demand for more and