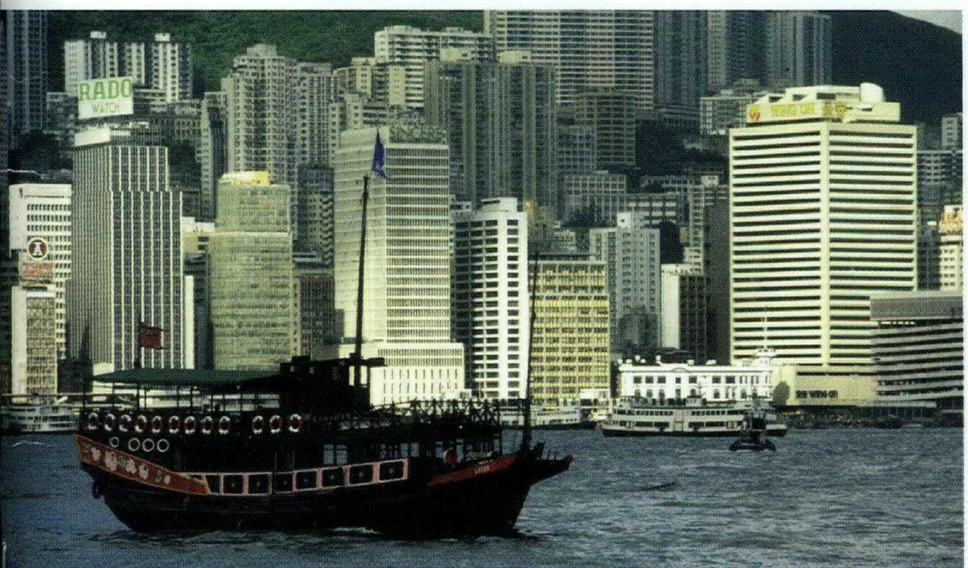
International Trade



China and Hong Kong Trade Action Plan 1998

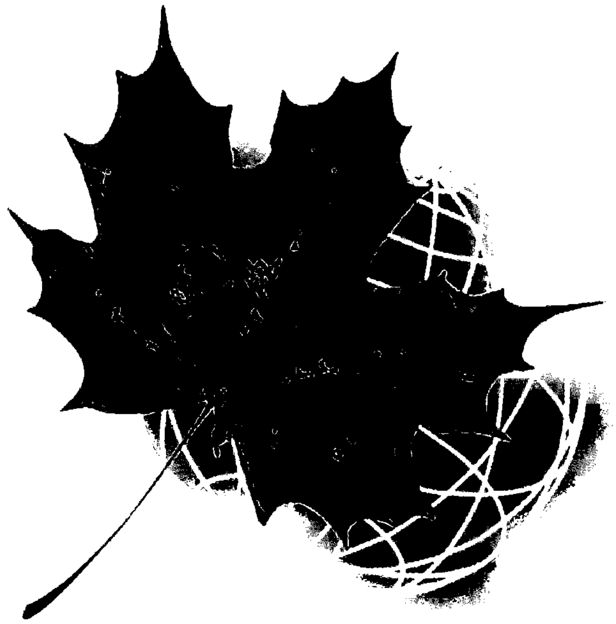
Canada

Team Canada • Équipe Canada

For further information, contact:

China Division
Department of Foreign Affairs
and International Trade
Lester B. Pearson Building
125 Sussex Drive
Ottawa, Ontario K1A 0G2
Tel: (613) 996-0905
Fax: (613) 943-1068
Internet: http://www.dfait-maeci.gc.ca/english/geo/asia/menu.htm

Additional export information is available on-line at:
http://www.infoexport.gc.ca



China and Hong Kong Trade Action Plan 1998

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1 Executive Summary

China's economy has more than quadrupled in size since economic reforms and market liberalization began in 1978. Already the world's seventh-largest economy in terms of gross domestic product (GDP), China is emerging as the economic engine of the Asia-Pacific region, and plays a major part in world affairs.

China and Hong Kong hold significant market potential for Canadian firms, but the challenges are also great. The *China and Hong Kong Trade Action Plan* provides a strategic framework through which governments and the private sector can work together to reach the goal of $20 billion in bilateral trade, which was set by Prime Minister Jean Chrétien and Chinese Premier Li Peng in November of 1994.

China's approach to economic development is to promote entrepreneurship and strengthen foreign and economic relations, making it an attractive trading partner for many countries.

Canadian exporters are most likely to succeed in the Chinese market if they are price and quality competitive; prepared for lengthy negotiations; committed for the long term; and if they have a range of international business development experience.

For Canadian businesses seeking improved access to the China and Hong Kong market, the Plan is a valuable business tool. It identifies eight key sectors that offer the most promising opportunities for Canadian exporters, outlining market information, prospects and challenges. It also describes how Canada's Trade Commissioner Service will be enhanced in these key sectors, in order to encourage business to take full advantage of the knowledge and skills of trade commissioners in Canada, China and Hong Kong. Exporters targeting niche opportunities in other sectors will continue to receive support on a responsive basis, as resources permit. The Plan also describes a number of important regional markets in China.

The *China and Hong Kong Trade Action Plan* will continue to be revised and reissued periodically, in consultation with all stakeholders. It reflects the federal government's commitment to support Canada's business community in pursuing enhanced trade, and to provide the very latest information on economic developments within this evolving and dynamic market.

2 The China and Hong Kong Trade Action Plan

China's economy has more than quadrupled since economic modernization became the hallmark of Chinese government policy in 1978. Annual growth has averaged a remarkable 9 percent and is projected to continue at a similarly impressive rate into the next century. Already the seventh-largest economy in the world in GDP terms, this impressive ranking does not take into account the July 1, 1997 transition of Hong Kong to Chinese sovereignty. Today, China has emerged as the economic engine of the Asia-Pacific region, with corresponding political influence.

Canada's policy approach takes full account of the reality of China's rapidly growing importance in world affairs. Canada's overarching objective is to encourage China to maintain its open-door policy and to become fully integrated in global and regional political and economic institutions. Designed to support long-term relations, the Canadian policy is one of multiple linkages and interaction built on the following elements: economic partnership; peace and security; sustainable development; and human rights, good governance and the rule of law. This policy is being implemented through a shared agenda with the Canadian International Development Agency (CIDA), in close co-operation with other departments and effective interaction with the business community and other interested stakeholders.

Bilateral trade has grown rapidly over the last quarter century. From a mere $161 million in 1970 when diplomatic relations were established, two-way trade has grown to $7.8 billion in 1996. China and Hong Kong combined now represent Canada's third-largest trading partner, after the United States and Japan.

China and Hong Kong hold significant market potential for Canadian firms, but the challenges are also great. China's commitment to pursue further economic reform should help sustain high growth and continue to generate promising opportunities for exporters in sectors where Canadian firms have a comparative advantage. Uncertainties about the pace and direction of economic reform, however, complicate efforts to plan market development strategies.

A Strategic Approach to Developing China and Hong Kong Trade

This second edition of the *China and Hong Kong Trade Action Plan* represents another step forward in the Team Canada approach to developing an economic partnership with China. The plan is a direct response to a consensus among business and government that the China and Hong Kong markets require a more strategic deployment of limited trade development resources. It identifies eight key sectors that offer the most promising opportunities for Canadian exporters, and focusses enhanced levels of service in these sectors. Exporters targeting niche opportunities in other sectors will continue to receive assistance from Department of Foreign Affairs and International Trade (DFAIT) personnel in Canada and China on a responsive basis, as resources permit.

Prime Minister Jean Chrétien introduced the Team Canada concept – federal, provincial and territorial governments working together with Canadian business to promote trade – in recognition of the historic transformation taking place in China and the unique challenges and opportunities that this affords Canada. He personally led the largest Canadian trade mission ever mounted to China, in November, 1994.

Since that time, the Team Canada approach pioneered for China has been applied to other promising markets with an impressive record of success. This partnership approach, involving federal, provincial and territorial governments with the business community, has been formalized through the *Canada's International Business Strategy* (CIBS) process, and the network of National Sector Teams that integrate public- and private-sector views in trade development strategies. In China and Hong Kong, the Canadian government works in close association with the Canada China Business Council, the Canadian Chamber of Commerce in Hong Kong, and the Hong Kong Canada Business Association.

The Action Plan Ressources section highlights the assistance available from DFAIT and the Canadian Embassy and Consulates in China and Hong Kong. For information on services provided by other Team Canada participants, such as export financing, industrial co-operation support and export training, see the ***Contacts*** section of this document.

Action Plan Objectives

The Trade Action Plan is designed to help Canadian business to compete successfully and to take maximum advantage of export opportunities in China and Hong Kong. In particular, the Plan targets export-ready small and medium-sized enterprises (SMEs) that are new to these markets, and therefore in need of greater support. The Plan provides a strategic framework through which government and business can work together to attain the goal of $20 billion in two-way trade by the year 2000. Within the overall context of the Canada-China bilateral relationship, the main objectives of the Trade Action Plan are as follows:

- to raise Canada's profile as a valuable trading partner and increase support for closer economic and commercial co-operation with China and Hong Kong;
- to press for improved market and investment access in areas of importance to Canadian business, and negotiate foreign investment protection agreements with China and Hong Kong;
- to help Canadian business to expand and deepen market presence through investments in China and Hong Kong, especially joint ventures and wholly owned Canadian operations;
- to maintain the momentum of high-level visits of Chinese and Canadian leaders and senior officials, in keeping with the Team Canada approach, and incorporate business representation to the greatest extent possible in delegations and visit programs;
- to sustain and strengthen Canada's established role as a reliable agricultural and resource supplier to China;
- to increase sales of value-added and manufactured products, especially in promising sectors where Canadian technological excellence is well-established internationally;
- to help service exporters to enter the market and take advantage of emerging opportunities opened up by ongoing economic reforms in China;
- to maximize the economic benefits of activities and initiatives in other areas of Canada's bilateral relationship, such as development assistance projects or provincial and municipal twinnings;
- to work with the private sector to ensure a more co-ordinated approach to trade policy and business development initiatives, by reinforcing co-operation with industry associations and other consultative mechanisms;
- to track China projects that have strong potential to be financed by the World Bank and Asian Development Bank and help potential Canadian suppliers to position themselves early to pursue procurement opportunities;
- to organize a federal ministerial trade mission to China's emerging regional markets and the new business opportunities they present, as a follow-up to two previous missions led by the Secretary of State for Asia-Pacific;
- to take full advantage of Hong Kong's role as a regional business centre and trade *entrepôt*, and help Canadian firms to use Hong Kong investment and financial services, as well as mainland Chinese-controlled companies based in Hong Kong, to reinforce market penetration in China and other countries in the region; and
- to develop an efficient system to rapidly disseminate reliable information and intelligence to the Canadian business community via the broadest possible range of communications channels.

In addition to the above generic objectives, sector-specific actions are noted under each of the sector strategies in the Trade Action Plan.

Action Plan Resources

Trade Commissioner Service

DFAIT's trade commissioners are the delivery arm for co-ordinating the trade promotion and international business development efforts of various government departments and the business community. Trade commissioners in Ottawa and at Canadian embassies abroad play a leading role in trade policy development and implementation. They are responsible for international trade promotion activity, and provide market intelligence and expertise for specific markets.

Trade commissioners and locally engaged commercial officers and assistants are located at the Canadian Embassy in Beijing, the Consulate General in Shanghai, the Consulate in Guangzhou, the soon to be opened Consulate in Chongqing, and the Consulate General in Hong Kong's Special Administrative Region (SAR).

Their role is to help Canadian business gather market intelligence and establish contacts. Their mandate complements that of their colleagues in International Trade Centres (ITCs) across Canada, and in other federal departments and provincial or territorial governments, who help prepare Canadian firms to become export-ready prior to leaving Canada.

Market Information and Analysis

Timely and accurate market information and analysis are an indispensable business tool. New exporters planning their entry into the China/Hong Kong market, as well as more-experienced companies who may need to adjust their business strategies to take advantage of emerging opportunities, rely on dependable information.

An important feature of the Trade Commissioner Service is its continuing role of providing forward-looking regional, sectoral or subsectoral market studies and newsletters. These studies permit speedy responses to requests for basic market information, and allow trade commissioners to dedicate the bulk of their time to offering higher value-added, company-specific market intelligence and counselling services.

The large repertory of current market publications prepared or commissioned by Canadian trade commissioners in China and Hong Kong is an easily accessible first source of information and analysis for Canadian companies. Details on how to obtain copies through DFAIT's InfoCentre, FaxLink Service or Internet Web site are provided at the end of this document on page 51.

Market Intelligence

Customized market intelligence, advice and counselling are the most valuable services that trade commissioners can offer to Canadian businesses in the China and Hong Kong market. This typically involves commercially sensitive information needed to implement a market entry strategy or to overcome an obstacle, and as such is treated with the strictest confidence. Trade commissioners can also facilitate contacts with potential customers, agents and partners, and offer suggestions for accounting, consulting, hospitality, legal, financial and other services.

Market Access Advocacy

Trade commissioners are mandated to advise, counsel and assist companies in resolving specific market access problems in consultation with host government officials. Although the gradual integration of China into the multilateral trading system should help to eliminate or reduce many barriers to trade, many products and services continue to face impediments and require constant vigilance and advocacy by the Trade Commissioner Service. Interaction between Canadian business and Canadian officials in China and Hong Kong is essential to ensure that these efforts focus on real problems experienced in the marketplace.

Outreach and Awareness

DFAIT personnel on duty in Canada and overseas work closely with other Team Canada partners to increase the awareness of Chinese trade opportunities and improve knowledge of Chinese business practices and culture.

Trade Promotion Events

DFAIT will continue to co-operate with other government departments, the provinces and territories, and business through the annual CIBS process in the trade promotion area. This effort encompasses incoming and outgoing business missions, trade show participation, market or technology seminars and other trade promotion activities. The government's commitment to focussing its limited resources will favour those events in priority sectors that most effectively promote matchmaking and the acquisition of market intelligence, and that involve cost-sharing or cost-recovery.

3 Business Environment

China's Ninth Five-Year Plan (1996-2000), announced in the spring of 1996, emphasizes the following central themes:

- economic and social stability over radical reform;
- a strengthening of central government macro-economic control; and
- the efficient use of existing capacities before developing new ones.

Key priorities are increasing food production and strengthening the agricultural sector; gradual reform of state-owned enterprises, which still account for much of China's industrial structure; developing science and technology in support of economic development; and narrowing the gap between advanced coastal and poorer interior regions. Canada's priority export sectors are well-matched to China's requirements for imported goods, services and technology. This is particularly evident in the areas of agriculture and agri-food, infrastructure (energy, transportation and telecommunications) and environmental protection.

While the central government in Beijing continues to exercise a paramount role in economic leadership and in setting priorities, China should also be viewed as a collection of distinct regional markets. Each of these regional markets is differentiated by geography, culture and dialects, economic structure, level of development and growth prospects.

Regional Markets — Prospects and Challenges

Hong Kong is already well-established as one of Canada's most important trading partners. Recent market studies have identified several significant regional markets within China, each with a population of more than 100 million and a gross domestic product exceeding $27 billion.

These regional markets include:

- Northeast China (made up of Heilongjiang, Jilin and Liaoning provinces;
- Greater Beijing (Hebei, Beijing, Tianjin and Shandong);
- Central Provinces (Shaanxi, Henan, Hubei, Anhui, Hunan and Jiangxi);
- Sichuan Basin;
- Shanghai and East China (Shanghai, Jiangsu and Zhejiang); and
- South China (Guangdong, Fujian and Hainan).

In every region, the key consideration is finding the appropriate client, agent/distributor, representative or joint-venture partner. As a 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.

4 Regional Market Descriptions

Northeast China

China's three northeast provinces, Liaoning, Jilin and Heilongjiang, occupy 800 000 square kilometres and are home to 100 million people (nine percent of China's population), with a per capita GDP of C$1000.

Climatically, northeastern China is similar to much of Canada: a cold continental climate covering most of the area, moderated at the edge by a long coastline, permitting year-round access to most of the province of Liaoning on the Bohai Sea. The region borders Russia with a 3000-kilometre common boundary, and North Korea, in addition to China's Inner Mongolia and Hebei.

Known as Manchuria to the Japanese occupiers, northeastern China became the first area of China to industrialize in the 1930s and through World War II, supplying material for Japan's war effort. Following the creation of the PRC, the neighbouring U.S.S.R. encouraged continued industrialization of the region using the Stalinist model. By 1979, when China began to open its economy, the northeast was a driving force, with this heavily industrialized region holding a large percentage of total capital goods and chemical industrial capacity.

The economic advantage created in the northeast by the centrally planned economy of the 1930s through to the 1970s has become a burden in the 1990s. Northeastern China is now the "rust belt" of China, with a disproportionate share of obsolete physical plant equipment and unprofitable state-owned enterprises. Central government policy is to reform these enterprises cautiously, so that they can maintain at least some of the social support system they have provided for so long. The rejuvenation of these industries must occur before the economy of the northeast will catch up to the remainder of eastern China.

Nevertheless, natural resources are abundant and the region is China's largest producer of many valuable commodities. Key resource-driven industries are agriculture (especially grain, dairy and livestock), forestry, fisheries and petroleum (Daqing, in Heilongjiang, has China's largest oilfield, producing 40 percent of China's output). Proximity to the excellent seaport at Dalian suggests opportunities to import materials and export manufactured goods. The highway and railway networks are improving rapidly. The transportation infrastructure to the large population centres of Beijing and Tianjin is good, as is ocean shipment to Korea and Japan. Politically, the province of Liaoning, especially the city of Dalian, is among the most progressive in China.

Canada's major advantages are in investment in or the supply of materials, services and technology for natural resource development (petroleum, minerals and forestry), infrastructure (highways and telecommunications) and agriculture (grains, forages, livestock, food and fishery processing).

The large scale of the region and the relatively small population lend themselves to the extensive scale development common in Canada and to the experience of Canadians.

Northwest China

China's northwest is made up of four autonomous regions (Tibet, Xinjiang, Ningxia and Inner Mongolia) and two provinces, Qinghai and Gansu. They comprise about half of China's land area, but only 6.5 percent of its population. They are mainly inhabited by minorities (Mongol, Tibetan, Uygur in Xinjiang and Hui in Ningxia), with significant percentages of majority Han in certain regions, particularly urban centres. Regional GDP is 3300 RMB, or about C$550, making it one of the poorest regions in China.

Climatic conditions are generally harsh, ranging from high plateau (Tibet) and desert (Xinjiang) to northern steppe (Inner Mongolia), with relatively little good agricultural land.

Historically, the region is peripheral to the Chinese core, but perceived as being of strategic importance. Gansu and Xinjiang for example, are on the fabled Silk Road; control of the latter was contested for centuries, most recently at the turn of the century by Britain, Russia and China. Only following the establishment of the PRC in 1949 did China assert its authority in what was then known as the Chinese Turkestan. The central government is an important player in the political, social and economic planning for this mainly Islamic territory, and considerable Han immigration tends to dilute the minorities' importance.

A similar situation prevails in Tibet, and in Inner Mongolia, home to significant numbers of ethnic minorities and nomadic peoples. China has to balance its objective of developing these regions (hence the need to open up), against the need to manage the political and social issues linked to the religious, ethnic and cultural contrasts with the rest of China.

The remote location, a challenging geography and a small population have contributed to the region having the most underdeveloped infrastructure base in the country. Air and rail connections are few, telecommunications capabilities are generally poor outside of urban areas, and the power supply is unequal to growing needs. Transportation, for example, typically accounts for 15 to 20 percent of export costs.

The situation is improving, however, with an explicit central government policy of encouraging foreign investment in western and minority regions, and an accelerated infrastructure program. Central and local governments offer several preferential tax treatment incentives, particularly in several Special Economic Zones or investment areas. These preferential policies seem to be having some positive effect. For example, by November 1996, Xinjiang had signed 861 foreign-invested contracts, which used US$1.4 billion of FDI. As well, 14 new joint ventures were established in Tibet during the first eight months of 1996, compared to only 61 joint ventures during the previous eight years. Canadian investors are prominent in Gansu and Ningxia.

Northwest China's economy is less developed than that of eastern China. It generally depends on primary industries (agriculture in Xinjiang, Gansu and Ningxia, livestock and timber in Inner Mongolia and natural resources in Xinjiang, Qinghai and Ningxia).

It does not suffer from a high state-owned enterprise debt burden, as is typical of regions heavily industrialized under central planning. The region is also relatively well endowed in natural resources, particularly oil and gas (Xinjiang, Qinghai, Ningxia), coal (Ningxia) and non-ferrous metals (Xinjiang, Gansu, Tibet). Several foreign companies are exploring for oil in the basins in Xinjiang and gold in the northwest. A growing petrochemical industry is taking shape in Xinjiang and Qinghai, which will gain in importance as China's oil and gas production shifts progressively west. Much of the hope for the region is centred on the development of these natural resources.

Business opportunities for Canada lie in the industries related to natural resources (oil and gas, minerals and forestry) and infrastructure (telecommunications, engineering, power projects) development, where Canadian expertise in harsh climates and large-scale developments are most advantageous.

Central Plain

China's central plain is a hybrid region composed of three fairly homogeneous economic sub-regions: a) the Beijing-Tianjin axis and Hebei province; b) Shandong province; and c) the provinces of Henan, Shanxi and Shaanxi. Together, they comprise 325 million people (more than 27 percent of China's population) of which 120 million live in cities. The region covers 900 000 square kilometres and accounts for more than 25 percent of national gross domestic product (GDP), with a per-capita income ranging from C$1000 to C$1600.

Located in the eastern part of central China, the region's coastline extends more than 600 kilometres along the Bohai and Yellow seas. The climate ranges from warm-temperate/semi-humid in the coastal and southern area, to continental and semi-arid in the west.

The region is steeped in history. Shaanxi and Shandong are both considered cradles of Chinese civilization. Shaanxi, and Xi'an its capital, were the political, economic and cultural centres of China for 1100 years, ending around the 10th century.

Beijing, the national capital, and the Beijing-Tianjin axis, are the economic heart of the region. Both Beijing and Tianjin have the status and authority of a province. Their economies are characterized by a strong industrial sector, including the automotive, information technology, electronics, pharmaceutical, chemical and petrochemical, and textiles sectors.

The Beijing-Tianjin axis constitutes China's most important consumer and service market, with a well-educated population enjoying a relatively high revenue. The province of Hebei is the breadbasket and source of energy for both Beijing and Tianjin. Hebei also enjoys a strong light industry sector.

Shandong, Beijing and Tianjin are characterized by a high concentration of special economic and investment zones. This area attracts almost 90 percent of the region's foreign investment and 15 percent of total national foreign investment. Shandong's large foreign investment is characterized by a sizable proportion of Japanese and Korean interests. Tianjin and Qingdao (in Shandong) have excellent seaports, which are key access points for imports of material and exports of manufactured goods.

Shandong's strong agricultural sector is complemented by its excellent transportation infrastructure and by a number of leading industries. These include food processing, car manufacturing, iron and steel, petrochemical, textile and cargo handling. Shandong is one of the provinces with the highest development potential. Taken together, the provinces of Henan, Hebei, Shandong, Shanxi and Shaanxi constitute one of the major agricultural bases in China.

Because it is China's main political centre and has a fairly well-developed infrastructure, the Beijing-Tianjin axis is often chosen by foreign companies for the establishment of their presence in China. Given the economic strength and diversity of industries in Beijing, Tianjin and Shandong in particular, Canadian companies involved in most of Canada's priority sectors, with perhaps the exception of mining, should consider this region as a suitable place to do business.

Shanghai and the Yangtze Delta

Centred on the coastal city of Shanghai, the Yangtze Delta region is the economic powerhouse of China. It leads the country in terms of the size of the market, economic output, regional GDP per capita, foreign investment, trade and consumer spending.

With 200 million people on a land base half the size of Alberta, the Yangtze Delta is one of the most concentrated markets in the world. Developmentally five to 15 years ahead of most of the other regions in China, the Yangtze Delta is an excellent location for Canadian firms to make their first foray into the Chinese market. Success, if achieved here, can be repeated in the other regions of China.

The Yangtze Delta contains 35 urban centres with more than 1 million people within 500 kilometres of Shanghai (the distance from Toronto to Montreal). By comparison, there are only 32 cities of more than a million people in North America and only eleven in Japan.

Recent economic growth in the Yangtze Delta has been faster than in most of the Asian Tiger economies at any time during the past twenty years. Consumer demand and the ability to pay for it is rapidly increasing; purchasing power in Shanghai has already passed that of many urban areas in the more prosperous economies in Southeast Asia. The ongoing growth is transforming the Yangtze Delta from the economic powerhouse of China to a leading economic power globally. This growth will continue to create major commercial opportunities.

There is already significant business in the Yangtze Delta in areas not normally associated with developing economies: Jiangsu province is mainland China's largest investor overseas; luxury consumer goods sell briskly from deluxe department stores in Shanghai and Nanjing; North American rock bands play concerts on commercial terms to packed concert venues and live Canadian Atlantic lobster are sold in Chinese restaurants in several Yangtze Delta cities.

Notwithstanding the sheer population density and the number of major urban centres in the Yangtze Delta, as China's largest city, Shanghai is the undisputed focal point of the region. Known in China as the Head of the Dragon, Shanghai's economic watershed of 200 million people is the largest of any city in the world. As these people continue to grow richer at double digit levels, the city of Shanghai will regain its status as one of the world's leading commercial and economic centres, a position Shanghai held prior to the turmoil of the 1940s.

As China's wealthiest region — a full 65 percent richer than second place Beijing — Shanghai leads the country in almost every economic measure, boasting the highest GDP per capita, the highest retail sales per capita and the highest gross value of industrial output per capita. A special relationship with the central government and a strong commitment to economic prosperity and modernization has allowed the Shanghai government to lead China in economic reforms and market-oriented experiments.

All these factors make Shanghai a logical starting point for firms looking to crack the mainland China market.

Upper Yangtze and Southwest China

China's southwest region is made up of five provinces (Yunnan, Sichuan, Guizhou, Hunan and Hubei) and one newly established municipality, Chongqing. The region occupies an area of 153 900 square kilometres and has a total combined population of 310 million.

The topography of southwest China is diverse and contains vast altitudinal differences. It ranges from flat plains to mountainous areas and possesses many basins and river valleys. Consequently, the region has a variety of climate types, ranging from tropical forest in Yunnan, to temperate change in Hubei, to high-elevation mountain weather in Sichuan. In the south, the province of Yunnan borders Burma, Laos and Vietnam, a region that is home to many of China's ethnic minority groups.

Development of southwestern China has traditionally lagged behind the more prosperous coastal provinces, even though the region possesses abundant natural resources. In part, foreign investment to this area has been deterred by a lack of infrastructure. However, recent assistance by the World Bank and the Asian Development Bank has contributed to the strengthening of transportation and communications networks in the region. The construction of the Three Gorges Project has also contributed to its accessibility.

China is now urging foreign governments and private enterprises to channel loans and investments toward the inland region. Under its Ninth Five-Year Plan, China has indicated that approximately 60 percent of foreign capital soft loans will go to the central and western regions requiring financing for infrastructure development. Foreign investment incentives have also increased to a level more comparable to those of the coastal areas. These steps will accelerate efforts to explore and develop natural resources in this area.

The southwest region has some of the strongest economic power of the inland areas. A large concentration of both heavy and light industry can be found in the northeast section of this region in the provinces of Sichuan, Hubei and Hunan. These industries include steel, automobiles, aerospace, high technology, mechanical engineering, construction materials, chemical and textiles. Yunnan and Guizhou are rich in natural resources, and have been drawing an increasing level of foreign investment into the region.

Opportunities for investment or for exporting products and services exist in the development of the transportation and telecommunications infrastructure; the energy industry sector (including hydroelectric power stations and comprehensive use of brown coal); the mining and refinery industry (based on non-ferrous metals); and agriculture (including fisheries and animal husbandry).

Southern Coastal China

China's southern provinces of Guangdong, Hainan, Fujian and Guangxi form a regional market that is notable for its overseas connections, light industrial base and economic vitality. The economic reforms that were inaugurated in late 1978 were first implemented in five "Special Economic Zones" in these southern provinces. These zones were quickly supplemented by a series of investment and export processing zones, which offer preferential taxes and market access to foreign investors.

The de-collectivization of agriculture, the encouragement of entrepreneurship and the welcome given to foreign investors have transformed the formerly rural economy of southern China into China's richest light industrial economy, with a strong trading base. The role played by foreign capital in this transformation has been crucial, most notably from Hong Kong and Taiwanese investors, and to a lesser degree from multinational corporations. Beginning in the early 1980s, Hong Kong manufacturers shifted an overwhelming percentage of their production facilities to Guangdong province, and, later in the decade, Taiwanese manufacturers relocated many of their factories to Fujian and Guangdong. These developments were in alignment with kinship and linguistic affinities, and, as most Chinese Canadians have their family roots in Guangdong province, this familial connection has had positive repercussions for Canadian businesses in the region.

Of the four provinces in this region, Guangdong is the wealthiest and the most heavily populated at 72 million. The region has a long coastline, with deep-water harbours, a thriving fishing industry and a fertile, semi-tropical agricultural base. A trading history dating back to the Tang dynasty and a pragmatic business culture have been major advantages in its transformation to a market economy. The region's continuing economic integration with Hong Kong has resulted in significant infrastructure investment by Hong Kong corporations, and the modernization or growth of several key industrial sectors. In turn, Chinese companies have invested heavily in Hong Kong, and increasing numbers of "red chip" Chinese companies have listed on the Hong Kong stock exchange. This growth is projected to continue well beyond the July 1, 1997 transfer of Hong Kong to China, and will likely result in even closer mutual dependence.

Links with Taiwan were advanced in April 1997 with the inauguration of direct shipping between Fujian and Taiwan. Further cross-straits economic growth is expected to presage political developments. The region's links with ASEAN economies are also very strong, particularly with Thailand, Malaysia and Singapore, all of which have significant populations of ethnic Chinese originally from the southern provinces.

Canada's major investments in Southern China have been in telecommunications, financial services, agri-business and construction. Significant opportunities exist in the provision of materials, services and technology for natural resource development, agriculture and infrastructure.

Hong Kong

Hong Kong enjoys a strategic location in the Pacific Rim and features an excellent natural harbour. Its industrious population, free market policies, role as a gateway to China and history of Western cultural and business influences, have ensured its importance as a key international commercial and financial centre. This importance will continue beyond the July 1, 1997 transition to Chinese sovereignty when Hong Kong became a Special Administrative Region of the People's Republic of China (PRC).

Canadian companies wishing to gain access to the Hong Kong market must consider the long-term advantages of developing a presence here. Because of its proximity to China and its more Westernized environment, Hong Kong can be a good location from which to launch an initial penetration of both regional and national markets in China.

Companies must consider two key areas when establishing themselves in Hong Kong:

- the extent to which they understand the uniqueness of the Hong Kong market, most notably in the areas of standards, regulations, pricing, distribution and name-brand recognition; and
- the extent to which they are willing to provide support to distributors and/or users.

Both considerations reflect a vendor's long-term commitment to selling into the local market, or their perceived commitment to the market. As with any other international market, a company should only attempt to export products or services that are truly internationally competitive in both technology and price. These products or services should either specifically target the international market, or should be leaders in Canada.

Since China's adoption of an "open-door" program of economic reforms in late 1978, Hong Kong's economic relations with China have undergone rapid growth characterized by increasing interdependence. Hong Kong plays a vital role in the development of the Chinese economy, and acts as a key gateway to China, particularly the southern provinces of Guangdong, Fujian, Hainan and Guangxi. China, meanwhile, has become a major investor in Hong Kong and uses the territory as the main portal through which it does business with the world.

About one third of China's annual foreign exchange earnings come from or through Hong Kong. Among the 207 000 foreign-funded enterprises in China, 138 000 enterprises (or 67 percent) were tied to Hong Kong investors.

More than 80 percent of Guangdong's exports and imports are conducted with Hong Kong, most of which are re-exports passing through the territory. Guangdong's exports totalled C$36 billion (up 46 percent) in 1993, of which about half were exports of foreign-invested enterprises and processing fees (mainly with Hong Kong interests).

With 200 overseas and local banks, Hong Kong serves as an important financing centre for numerous projects in China, especially those located in the south. The majority of the joint ventures set up in China are financed through banks located in Hong Kong.

More than 500 companies are listed on the Hong Kong Stock Exchange, including at least 15 mainland China enterprises. The market capitalization of these Chinese enterprises amounted to C$162.3 billion at year end 1994. The listing in Hong Kong of Chinese enterprises and "red-chip" companies, whose activities and interests are primarily in China, has further provided China with access to much-needed international capital.

China has substantial investments in Hong Kong's banking, property, manufacturing, transportation, construction and tourism sectors. About 2000 major Chinese companies in all fields of activity are operating in Hong Kong. As much as C$2.6 billion, or 30 percent of the total amount of Hong Kong dollars issued in the territory, is circulated in China.

A common language and culture coupled with wide first-hand experience also enables business people from Hong Kong to act as an important link in helping Canadian companies establish themselves in China. Hong Kong's financial and legal services professionals also provide an important bridge for Canadians wishing to gain access to the Chinese market.

Hong Kong accounted for 69 percent (about C$128.7 billion) of the C$186.7 billion foreign direct investment (FDI) contracted in China, and 61 percent (C$36 billion) of the utilized capital of C$59 billion, in the period from 1979 to September 1994. By 1997, enterprises from China had invested an estimated US$60 billion in Hong Kong.

Hong Kong has been the largest source of direct foreign investment in China since the country opened its doors in the late 1970s. The southern region, notably Guangdong and Fujian, have attracted the largest amounts of Hong Kong investment. The rapid expansion of China and Hong Kong's vital position as an international business, financial and communications centre and gateway is providing Canadian business with a wealth of opportunities in Hong Kong and the region.

Technology, products and expertise developed by Canadian companies are finding customers in Hong Kong, China and the region.

Areas of opportunity in Hong Kong include:

- food and beverage products;
- construction materials and related services;
- computer products and services, electrical and electronic products;
- telecommunication equipment and services;
- medical and dental equipment;
- transportation equipment;
- energy and power project equipment and services;
- furniture and furnishings; and
- consumer products.

Canada has always been strong in mineral exports to Hong Kong, particularly in aluminium, potash, gold and zinc. Pulp and paper, and petrochemicals are other important exports. Traditional sales have also included soya beans, tobacco, Canola oil and seafood. Canadian exports have shown marked diversification over the years, and Canada is now well-positioned in a number of manufactured goods sectors.

Canada is now a major supplier of telecommunications equipment to Hong Kong, including switching, PBXs, data communications, and systems engineering. Canada has won, or is a major contender in, many large telecommunications projects and is actively pursuing business in the area of cable television, satellite communications, and cellular voice and data products. Canadians have also registered impressive gains in electronic components, computer peripherals and interconnect devices, especially in computer software, where sales are estimated to be up more than 1000 percent in the last few years. Navigational and scientific instrumentation are other successful areas.

Major food promotions staged in Hong Kong have resulted in an impressive 70 percent increase in sales in this sector, and involve almost every type of product from beef and pork to seafood and frozen vegetables. Brand-name spices, wine, confectionery products, dried pasta and medicinal herbs are a few others.

Canadian firms have shown considerable success recently in the supply of building materials as well, including plywood and wallboard, heating and ventilation equipment, carpets and hardwood flooring, wall coverings, and plumbing supplies. Canadian-made office furniture has been well-received in Hong Kong.

Fur and leather is another newly developed area. Sales of Canadian mink fur skins have been particularly strong, reflecting a high degree of complementarity between Canadian materials production and Hong Kong manufacturing expertise, which is typical of so many sectors.

China is a significant and rapidly expanding market for a wide variety of Canadian goods and services. Many companies are finding Hong Kong to be an ideal springboard to the enormous China market. Hong Kong business people often provide the experience, expertise and business connections needed for success in China. Hong Kong itself is an excellent testing ground for goods and products prior to their introduction into China.

Hong Kong is well-integrated with the economies of southern China, Taiwan and Macau. Expanding cross-border trade and investment has created a de facto economic region often referred to as "Greater China." The Joint Declaration signed by China and Britain provides that for 50 years after 1997, Hong Kong will maintain its current business environment and a high degree of autonomy.

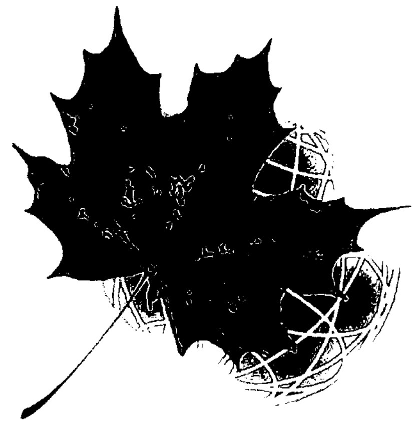
The Hong Kong economy is in transition. By the early 1990s, Hong Kong had the world's most advanced structure of employment, with three quarters of the work force employed in services — the highest share in the world. Hong Kong is also becoming more international. Foreign business people from around the world are relocating to the territory along with the companies that employ them.

Much of the service employment has been in the retail, food and service trades, which has contributed to one quarter of Hong Kong's economic growth. The balance in services is now shifting: financial and business services, which employ 11 percent of the work force, are expected to account for as much as 30 percent in the year 2000. By then, more people in Hong Kong may be working in financial and business services than in manufacturing.

Hong Kong is likely to continue to offer commercial opportunities for the foreseeable future because of available skills and experience in manufacturing, international commerce and banking, and its access to regional products for processing, as well as its convenient location as a base for conducting business in or with China. The territory's well-developed infrastructure and efficient government are other factors that should ensure its continued competitiveness as a business and economic centre.

Hong Kong is an important source of investment for Canada. There is a growing recognition that industrial investment is extremely difficult to generate from first-time, immigration-driven investors. Canada's investment development program continues to focus on corporate liaison and sectoral seminars. Increasing emphasis will be given to strategic alliances involving Hong Kong businesses in South China.

5 Sectors



Agriculture, Food Products, Fisheries and Related Sectors

Business Environment

China faces an enormous challenge to feed its growing population. Within its borders, China is home to 22 percent of the world's population, but only 7 percent of the world's arable land. High-intensity, low-productivity agriculture is widely practised, with 70 percent of the population still engaged in agriculture and food production. Rapid growth in personal incomes is generating quantitative and qualitative shifts in demand for foods.

China's desire for food self-sufficiency requires a 6-percent increase in production of total grains to 500 million tonnes by the year 2000. Despite record harvests in 1995 and 1996, that goal is ambitious. The Ninth Five Year Plan acknowledges that improved diets containing greater variety and higher protein content require newer technology and higher productivity. Even so, little in the way of investment or incentives has been committed toward meeting these goals. Hong Kong's tourism and hospitality industries import relatively large amounts of containerized processed foods. The re-export and retail trade are also important sales channels.

The solutions to China's food challenges encompass a wide range of sustainable development issues, such as:

- the growing disparity between urban and rural incomes;
- the need to maintain social stability;
- the need to improve job opportunities in rural areas while making significant improvements in productivity; and
- the desire of vocal urban residents for continued low food prices.

Constraints

Doing business in China's agricultural sector is difficult for all Canadian companies, but achievable for some. Institutional challenges are created by a number of factors, including a lack of transparency in business matters; poorly developed credit and payments mechanisms requiring extensive supplier credits; and high tariffs and non-tariff barriers. The legal system is only beginning to take shape, particularly in the areas of contracts and land tenure.

Despite well-publicized reductions in 1996, China is still a high-tariff market that discourages imports while stimulating local manufacturing. Recent implementation of tariff rate quotas (TRQs) for many products of interest to Canadian exporters, such as wheat, barley and oilseeds, has added to the confusion.

Deficiencies in physical infrastructure are a serious impediment to exporting to China and to 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 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.

A number of new developments demonstrate the emergence of an important new housing market. As part of the government's general economic reform, this is in part attributed to/supported by the National Housing Program. 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 for housing financing, which will be eventually be restructured on the basis of private savings.

Hong Kong, world renowned for its booming real estate, plays an active role in the Chinese construction industry. A major market itself for many construction products and services, Hong Kong is also an important gateway to the Chinese market.

Market Opportunities

To meet new demand, the response in China's cities has been an explosion in housing construction, mainly for multiple dwellings. The goal of the Chinese government is to increase the average bedroom space for urban residents to a "comfortable living standard" of nine square metres per person by the year 2000, addressing the current housing shortage, which still finds several generations sharing a small cramped apartment. This ambitious goal will require the addition of 200 million m^2 of new housing and 120 million m^2 of public works and production building each year. Thirty million m^2 of old, inadequate housing need urgent renovation or rebuilding, and a further two billion m^2 of old, residential buildings need repairs or remodelling.

The opportunities for Canadian firms in the building products sector and services are numerous. Canada has a wide variety of low-cost, high-quality housing systems that can be promoted in China. Since local building technology, materials and products are limited in number and of relatively poor quality, foreign technology and investment are eagerly encouraged by the Chinese. Although some of the needed new building materials are imported, direct export sales from Canada are limited by current high customs duties. Within this market, there is a preference for joint ventures where products are manufactured in China with foreign technologies and components.

The housing market has been defined by two categories: low-end projects for the domestic market, and since the early 1990s, high-end projects for expatriates living in China and, more recently, for the newly wealthy Chinese. The expatriates and the affluent Chinese favour better interior decoration and foreign products, and are prepared to pay the price. The major market remains that of housing for the ordinary citizen, but more expensive Canadian products are usually not price competitive. Medium and medium-high end housing is also being developed, which offers greater potential for Canadian building products.

Increased energy consumption is a growing concern resulting from newer building projects, mainly due to improvements in home heating and increased use of air conditioning. In response, the Ministry of Construction is encouraging the erection of energy conserving housing and the introduction of new technologies and products to ease the problem. This approach offers great market opportunities to Canadian firms whose building products are designed for greater energy efficiency, and that have the related expertise.

Due to a booming home renovation market, the interior decoration materials sector holds great potential. This sector seems to have more potential for imported products, given what appears to be less price sensitivity and a willingness to spend more among some customers. The increase in disposable income, mass production of low-cost housing and mortgage financing will prompt home owners to spend more money on home decoration.

The appearance of more and more home decorators and building materials retail stores and large wholesale outlets is improving the distribution system, and represents new opportunities for Canadian companies.

In China's services sector, there are business opportunities for Canadian firms in the architectural, property management, construction, engineering and interior design subsectors.

Opportunities for architectural services, especially in metropolitan economic centres such as Beijing, Shanghai and Guangzhou, continue to be good. Canadian architectural firms have designed a number of very well-known projects in China, including the new Shanghai Stock Exchange building in Pudong. As the supply of office space in large centres is now just beginning to meet the demand, there remain opportunities for upgrade and renovation projects, as cities with limited space have to tear down older areas that generate lower tax and commercial revenues, and rebuild them for new commercial and residential high-revenue applications, using modern designs. "Satellite" cities and communities near or adjacent to Beijing, Shanghai and Guangzhou are coming into their own, and have implemented infrastructure and commercial construction plans so as not to be left behind. Canadian architectural firms are faced with opportunities in these cities to capitalize on the positive reputation that Canadian architectural services companies have already gained in China.

In Hong Kong, the construction of the Chek Lap Airport, combined with its nine interlinked projects, will continue to demand a variety of imported construction products and services. The total budget for the project is US$20 billion, as well as an estimated 36 000 residential flats to be released in 1998. There are no locally manufactured construction products in Hong Kong. At the same time, projects or products used in Hong Kong are often seen as a model or standard to follow in China. Most property developers, architectural firms and construction materials suppliers in Hong Kong have a strong presence in China, and thus are a good way to reach the Chinese market.

Constraints

Canadian exporters face various constraints including:

- The Chinese construction sector is not one market but several markets, with many different characteristics.
- The marketplace is complex and not transparent. Market data often does not exist or is unreliable.
- Tariffs on building products are still high, and preference is given to joint ventures for manufacturing within China.
- Lack of financing is a constant constraint.
- Laws governing the industry are unclear and the regulatory environment is rapidly changing. The complexity of the building code is a further challenge.

- There is strong competition from foreign countries and from domestic manufacturers.
- In Hong Kong, the construction industry is well-established and sophisticated. Competition is intense. A local presence is important and price is a major consideration.

Action Plan

The objectives of the Action Plan in this sector are as follows:

- to increase Chinese awareness and knowledge of Canadian products and technologies through missions, trade shows and technical seminars;
- to provide more detailed information and advice on opportunities for products and services, the state of the market development and regulatory environment, as well as the availability of export financing;
- to use projects such as the energy efficiency in buildings project initiated by the Canadian International Development Agency (CIDA), and the Canada Mortgage and Housing Corporation (CMHC) housing demonstration project in Shanghai, to introduce Canadian products and services in China;
- to introduce projects leading to the export of building products and services, in the course of preparing an action plan for the Memorandum of Understanding (MOU) between the Chinese Ministry of Construction and Public Works and Government Services Canada (PWGSC) and CMHC; and
- to assist Canadian companies in finding local representatives, agents, and joint venture and other business partners in China.

Electric Power

Business Environment

China's Ninth Five-Year Plan (1996-2000) identified the power sector as a clear priority. Although China is currently the second-largest power-producing country in the world, after the United States, it must add more than the equivalent of a James Bay project per year just to meet existing demand.

Profile:

- Installed capacity has almost tripled since 1987, to more than 235 000 megawatts
- National objective: 300 000 megawatts by the year 2000; 500,000 megawatts by the year 2020

Thermal power is China's main source of power at 76 percent. Hydro accounts for 23 percent, followed by nuclear and other sources at less than 1 percent. It is expected that by the year 2000, the share of thermal power will rise to over 80 percent, hydro will drop to 16 percent, while nuclear and other sources will remain in the range of 1 percent.

As part of the Chinese government's ongoing efforts to establish a more rational commercial footing for ongoing power development, the operating assets of the Ministry of Electric Power have been transferred to the newly established State Power Corporation. The Ministry of Electric Power will continue to be responsible for policy and regulatory functions until these are transferred to a yet-to-be-determined central government organization, likely in 1998.

Regulatory developments have been slower. Although the Electricity Law came into effect in April 1996, a number of the ancillary implementing regulations, including those on power pricing, are still pending. Similarly, additional regulations in areas specific to foreign involvement in the sector have only recently been released. Based on experience with several pilot projects, the government is also drawing up guidelines for build-operate-transfer (BOT) projects, which will focus on thermal power plants and on hydro power plants under 250 megawatts.

Market Opportunities

It is estimated that up to 30 percent of the projected capacity increase in energy supply by the year 2000 will be provided by international firms, with the balance supplied domestically.

Following recent reorganization, local governments and organizations are being called on to take a more proactive role in the development and financing of hydro, thermal and co-generation power projects, although approvals from central levels will still be required for larger projects (i.e. over US$30 million). Financing for these projects continues to pose a major challenge. Although international financial institutions (IFIs) have been a major source of funding for the sector, their involvement is decreasing.

While there are increasing opportunities for independent power projects (IPPs), these need to be considered carefully, with due diligence accorded to the regulatory environment, which continues to develop. It is reported that a number of foreign investors are switching their attention from large power projects to smaller ones because of problems with financing and bureaucracy. A number of private developers, many based in Hong Kong, are exploring IPP opportunities in China, offering another way for Canadian suppliers of goods and services to enter the market.

Further nuclear power development is planned, particularly in wealthier coastal areas that lack energy resources. Refurbishment of existing power plants and the long-neglected transmission network are also priorities, as is rural electrification.

Constraints

Overall, financing remains the key constraint. In order to reach its goal for the year 2000, it has been estimated that China will need to invest about US$100 billion in the power sector alone. Authorities hope that as much as 20 percent of that financing will come from foreign sources, including some 35 000 megawatts of IPPs. Ongoing work on restructuring the sector and on developing an improved regulatory environment is designed to address long-standing shortcomings that have led to stagnation of the sector over recent years. Success hinges on the government's commitment to addressing the expressed concerns of the international business community, including the lack of clarity in the regulatory environment concerning foreign investment guarantees, electricity pricing, rates of return, etc.

Notwithstanding fierce competition in the sector, Canadian suppliers have been successful in exporting power sector equipment and expertise to China, much of it to projects funded by IFIs, and Canadian expertise is widely acknowledged. Engineering firms are now finding, however, that an ongoing presence in the market requires a more complex involvement and the ability to package a range of products and services, in addition to financing. Equipment suppliers face demands for technology transfer and localization of manufacturing, as well as onerous inspection standards for equipment imported to China.

Action Plan

The objectives of the Action Plan in this sector are as follows:

- to strongly support individual Canadian companies or groups of companies in their pursuit of specific project opportunities;
- to use the National Electricity Roundtable to disseminate regular updates on regulatory and other developments in the sector;
- to identify specific opportunities for Canadian companies, and inform Chinese counterparts of Canadian expertise in the electric power sector;
- to introduce Canadian firms to Hong Kong investors and developers who are considering financing power projects in China; and
- to address market access issues through bilateral and multilateral means.

ENVIRONMENT

Business Environment

Environmental degradation is a difficult and costly problem in China. China suffers at least US$12 billion in direct economic losses from pollution every year, with air and water pollution posing the most serious challenge. Recognizing the need to address these challenges, the Chinese government has adopted sustainable development as part of its economic growth strategy under its Ninth Five-Year Plan. At the same time, the Chinese government has established the goal of increasing investment in environmental pollution control to 1.5 percent of gross national product (GNP) by the year 2000, from the current rate of 0.85 percent.

Environmental Clean-up: a Financial Challenge

Over US$7.83 billion for each of the next three years will be required to address China's pollution problem. That figure represents 62 percent more than the total amount spent between 1991 and 1995 on pollution control. The majority of these funds will have to be raised abroad, due to limited capital available from Chinese government sources.

International financial institutions (IFIs) such as the World Bank (WB), Asian Development Bank (ADB), various United Nations agencies and Japan's Overseas Economic Co-operation Fund (OECF), are committing significant funding to help China maintain sustainable growth. However, even with loans from these international lending organizations, China will still be required to turn increasingly to the private sector to meet capital costs.

A recent water build-operate-transfer (BOT) project approved by the State Planning Commission is seen as an experiment by the Chinese government in seeking alternate funding mechanisms. In Hong Kong, the availability of financing for environmental projects makes it attractive to firms able to offer products and services that complement local capability.

Market Opportunities

Water: Treatment of water pollution is one of China's highest economic infrastructure priorities. Water supply issues remain unresolved in nearly all of China's towns and villages. More than half of China's 600 cities lack 30 million cubic metres of water. Pollution of existing water sources by untreated industrial effluence and sewage is rapidly increasing. Given the severity of the problem, numerous business opportunities for Canadian companies exist in municipal and industrial waste water treatment equipment, environmental monitoring and analytical instruments, and advanced technology for prevention and control of water pollution.

Emission Control and Treatment: Particles and smoke from burning coal remain the primary cause of air pollution. However, the rapid increase of the number of automobiles has created a serious problem with vehicle exhausts. This is particularly evident in large metropolitan areas. With the introduction of emission tariffs, Chinese buyers, including municipal governments, state-owned enterprises and foreign investors, are looking for products and services in air pollution control. Desulphurization technologies, vehicle emission control and flue gas dust removal services are in particular demand.

Constraints

A lack of funding continues to be the biggest obstacle to China's environmental clean-up efforts. IFIs and bilateral aid cannot satisfy China's environmental control needs. The Chinese authority is exploring greater participation from the private sector, including BOT schemes. Despite this effort, the current BOT structure still provides an insufficient rate of return to attract significant foreign investment.

China has extensive environmental protection legislation but lacks the necessary enforcement mechanisms. Several new regulations were introduced in 1996, including a White Paper on Environmental Protection, a revised Air Pollution Law and the amendment of Criminal Law to include environmental pollution offences. Despite these legislative advances, China's environmental agencies still lack the resources to enforce these regulations.

There is little financial incentive for China's private sector to adhere to environmental guidelines. Since the costs for retrofitting factories are much higher than the fines imposed on polluters, most Chinese businesses still prefer to pay a fine rather than installing pollution-control facilities.

Canadian companies wishing to enter China's market for environmental goods and services will face fierce competition from the United States, Germany, Japan, as well as domestic producers. To be successful, Canadian companies must have a well-focussed strategy and a long-term commitment, and must maintain a continuous local presence.

Action Plan

The objectives of the Action Plan in this sector are as follows:

- to participate in ETC '97 (Environment Technology China) to be held in Shanghai in November 1997;
- to encourage and support Chinese delegations to participate in the Globe '98 Conference, to be held in Vancouver, B.C. in March 1998;
- to help Canadian companies to identify local agents, distributors, licensees, and joint venture partners in China;
- to pursue co-operation and business opportunities under the Memorandum of Understanding on Environmental Co-operation signed between China and Canada;
- to organize technical workshops to introduce Canadian capability in water and emission control to Chinese end-users; and

- to continue to work with the Chinese Research Institute of Machinery Science and Technology (RIMST) on database development and their efforts to better define and quantify the demand for environmental technology in China.

FORESTRY

Business Environment

Pulp and paper production and consumption have risen significantly with China's rapid economic growth over the past 15 years. Production is increasingly unable to meet the demand for greater volume and higher-quality paper products. This growing demand is challenging China's domestic industry, which is increasingly constrained by limited raw material, lack of financing and outdated mill technology. A boom in construction has also led to an increased demand for wood and other wood-based building products.

In Hong Kong, the import of pulp is on the decline because more pulp is being imported directly into China rather than through Hong Kong. Hong Kong has an increasing demand, however, for paper and paperboard products.

Market Opportunities

In the Pacific Rim area, China is one of the fastest-growing markets for pulp and paper products. There are business opportunities through export sales, the transfer of technology, and investment for equipment, pulp and paper and wood products.

Equipment: China is investing heavily in its pulp and paper industry. Annual investments equivalent to $1.6 billion for technical improvements and imports of machinery are anticipated under China's Ninth Five-Year Plan. In 1994, China imported over $1.25 billion worth of equipment related to wood products. In 1995, Canada exported some $21.5 million of pulp, paper and paperboard equipment and parts to China.

Pulp: The following are 1996 figures for China's pulp market (wood pulp and non-wood fibres):

Total Chinese market:	13 478 850 tonnes
Domestic Production:	12 008 850 tonnes
Balance (Imports):	1 470 000 tonnes

Of the balance, Canada supplied 40 percent or 595 000 tonnes, valued at $328 million.

Domestic production will continue to be supplemented by imports to meet the growing demand. By the year 2000, China's market for wood pulp and non-wood fibres should be more than 25 million tonnes, of which between two and three million tonnes will be imported, depending on the price of pulp and the availability of foreign currency.

In Hong Kong, the demand for chemical wood pulp, which is favoured by local users and importers to produce higher-quality paper products, will continue.

Paper: Production in the paper and paperboard sector has been growing rapidly for the last 10 years and reached 21 million tonnes in 1996 (24 million tonnes in 1995), falling short of the apparent demand of 25 million tonnes (28.5 million tonnes in 1995). About four million tonnes were imported in 1996. Current projections forecast that domestic production will be 30 million tonnes by the year 2000 and 40 million tonnes by the year 2010. Demand is expected to continue to exceed production, necessitating additional paper imports.

Canadian exports of paper and paperboard were $18 million in 1995 and $123 million in 1996, with the increase a result of low prices and the excellent quality of Canadian newsprint. More specifically, Canada exported $84 million of newsprint, $5 million of paper and paperboard and $35 million of value-added paper products (wallpaper, household and sanitary paper, stationery paper, bags, etc.)

In Hong Kong, Canadian newsprint is the market leader, although the presence of other Canadian paper products is not strong. In dollar value terms, newsprint constituted just 7.3 percent of the total value of Hong Kong's pulp and paper imports in 1996. Canada exported little paper and paperboard, which are in greatest demand and were the highest value paper product import into Hong Kong in 1996. Kraft paper and liners as well as white sheet (SBS) should stay in high demand.

Wood: Growing consumer affluence is fuelling greater interest in new housing and home renovation. This trend is creating a potential new market for Canadian value-added wood products, particularly in interior finishing. In 1996, Canadian exports were $11 million of lumber, $306 000 of wood-based panels and $7.6 million of wood-based building products. In 1996, China imported 3.2 million cubic metres of wood and one million cubic metres of plywood, veneered panels and similar laminates.

Rising demand in Hong Kong for certain value-added wood products will continue. For instance, the increased use of beech, maple and oak hardwood flooring is a major market trend. As well, veneers, wood panels, including engineered wood panels such as MDF, and particle board are widely used in furniture manufacturing.

Constraints

Canadian exporters face various constraints, including:

- a preponderance of small-capacity, state-owned mills with antiquated equipment, which lack effective pollution controls and have difficulty finding the right partner with adequate management and financial resources;
- strong competition from Pacific Rim and other surrounding countries;
- difficulties in financing purchases of imported machinery;
- a general lack of current and reliable information about domestic production, local companies and planned projects;
- difficulties in finding reliable agents and business partners; and
- a low import tariff on pulp (2 percent), but higher tariffs on value-added products such as paper and paperboard (approximately 15 percent plus a 17-percent value-added tax [VAT]), newsprint (15 percent plus a 17-percent VAT), and doors and windows (30 percent plus a 17-percent VAT).

Action Plan

The objectives of the Action Plan is this sector are as follows:

- to increase the Chinese awareness and knowledge of Canadian products and technologies through missions, shows and technical seminars;

- to collect and disseminate market intelligence and information on business and investment opportunities;
- to promote exports of high-quality paper and actively pursue market opportunities for value-added, wood-based construction materials;
- to co-operate with the Canadian Pulp and Paper Association (CPPA), which is developing an action plan for China, the Pulp and Paper Research Institute of Canada (PAPRICAN), FORINTEK, FERIC and counterpart Chinese associations and research institutes;
- to use the renewal of the forestry Memorandum of Understanding (MOU) between Canada and China to put forward projects leading to the export of forest products and services;
- to target projects supported by international financial institutions (IFIs) and assist in finding other financing sources;
- to use the proposed Canada Mortgage and Housing Corporation (CMHC) demonstration project in Shanghai, to promote Canadian value-added construction materials, housing technology and related services;
- to encourage a Team Canada approach to the China market by facilitating contact among Canadian equipment manufacturers, service providers and pulp, paper and value-added product suppliers;
- to assist Canadian companies in finding local representatives, agents, and joint venture and other business partners in China; and
- to work more closely with the private sector to market pulp and paper products in China and Hong Kong.

Information Technologies and Telecommunications

Significant developments in China's information technologies and telecommunications (IT&T) sectors are reinventing Chinese society. Government policy and planning can hardly keep pace with changes in the market. This pace is particulary evident in markets that have a direct impact on consumers, such as telecommunications services (e.g. mobile telephone, cable television, Internet) and personal computers.

Chinese government and private-sector organizations are taking advantage of fierce international competition to accelerate technology transfer and acquire technology and equipment. Intellectual property protection, project financing and a complex product-approval process constitute major challenges to doing business in the Chinese market.

As a regional communications hub and crucial source of venture capital, Hong Kong plays an active, complementary role in China's information technology sector. Hong Kong is also a major market in its own right for a spectrum of information technology goods and services. Several international firms use Hong Kong as a base for marketing ventures in Greater China and Asia.

Direct local representation or a qualified and reputable agent/distributor are critical to a successful business strategy. Frequent visits and an investment of time are also required to establish business relationships in China, making the cost of doing business very high. Only companies that are committed to a long-term presence in this market should contemplate exporting to China.

Opportunities in advanced technology fall under three broad categories:

- Telecommunications
- Computers and Software
- Space

Telecommunications

Business Environment

The Ministry of Posts and Telecommunications (MPT) and the increasingly independent Provincial Telecommunications Administrations (PTAs) are the key players in this market. Other ministries and large state-owned enterprises are also active, and contribute significantly to the development of this competitive sector. The MPT is clearly maintaining its dominant position over China Unicom, a carrier that was created in 1994 to introduce competition in the telecom operation business.

All areas of the national public telecommunications network developed significantly in 1996. Spectrum availability has been improved as a result of joint agreement between the MPT and the People's Liberation Army, which also maintains spectrum ownership.

Data Profile

- The total switching capacity has increased by 15 million lines to exceed 100 million lines.
- By 1996, subscribers had surged from 44 million to 53 million, for a national penetration rate of 6.2 percent, 22 percent for cities.
- The government's objective for the year 2000: 170 million lines with a national penetration rate of 10 percent, and reaching between 30 to 40 percent in the cities.

Mobile Telephones

- Currently, 70 percent of mobile phone technology is based on GSM (Global System for Mobile Communications). China has deployed, at least on a trial basis, a number of mobile technologies (D-AMPS and CDMA), both based on North American standards.
- By the year 2000, mobile phone users, currently estimated at 6.84 million, should reach 18 million.

Data Communications and the Internet

- China's packet switched data network (ChinaPAC) has a capacity of 120 000 terminals and currently has 50 000 users. The public digital data network (ChinaDDN) has 40 000 users and a total capacity of 100 000.
- China's Internet sector counts four national points of entry, with more than 100 Internet service providers offering a wide range of on-line services. There are now only 150 000 Internet users in China.
- As many as one million Internet users could be based in Beijing alone by the year 2000, according to MPT predictions.

Market Opportunities

China

It is estimated that China will spend more than $50 billion over the next five years on telecommunications and network infrastructure. The traditional telephone infrastructure sector will remain a pillar of Canadian exports to China, particularly in the context of the rapid development of the GSM network, trunk lines and rural telecommunications.

For the period covered by this plan, the data communications sector deserves increased attention, given its lower level of maturity. For the moment, the data communications infrastructure is being developed largely for use by government ministries or large state enterprises. The data infrastructure appears to be driven more by government plan than by market forces. While working at developing its basic data transmission infrastructure, China is also proceeding with plans to establish a nation-wide frame relay network. Despite the lack of immediate market demand for applications requiring high-capacity data transmission, such as tele-medicine and distance learning, the MPT is also contemplating the option of developing an ATM (Asynchronous Transfer Mode) network.

Hong Kong

The Hong Kong telecommunications market is among the most advanced in the world. Its role as an international commercial centre and high-cost work environment, has created potential opportunities in the mobile communications and advanced data sectors, including video-conferencing. In addition, Hong Kong continues to play an influential role in the development of specialized telecommunications applications as they pertain to banking, Electronic Data Interchange (EDI) and credit card applications, which are experiencing the fastest growth. Market analysts also predict a surge in demand for customized applications such as video-on-demand.

Constraints

The MPT has identified financing as the main challenge for the development of China's telecommunications network. More recently, some observers have suggested that the ban imposed on foreign investment or involvement in the operation of domestic telecommunications businesses has been informally relaxed, to a degree. Build and transfer (BT) arrangements involving foreign companies have been implemented. The State Council has recently authorized, on a trial basis, direct investment by foreign firms in telecommunications joint ventures with China Unicom, under the condition that their stakes remains at less that 50 percent.

There have also been indications that foreign investment in the value-added telecommunications services sector may be tested on a pilot basis before the year 2000.

The rapid increase in the quantity and quality of local and joint venture production of telecommunications components has had a negative impact on imports of certain equipment.

In addition, the evolving and uncertain regulatory framework and the complexity of the approval process constitute a major challenge for companies interested in Internet services.

Computers and Software

Business Environment

China's computer market is hardware-driven and personal computer (PC) centric. It will take time and a change in behaviour for the software market to flourish, or for customers to buy services. In 1996, close to 2 million computers were sold in China, of which more than 40 percent were imported. A large majority of these computers are purchased by government organizations. Forecasts indicate that the market could reach 3 million units in 1997.

Market Opportunities

Opportunities for Canadian companies mainly lie within the software sector. Implementation of the "Golden Projects" is generating the need for advanced software tools in sectors such as education and finance. Educating all those who may be affected by or benefit from its implementation is key to the introduction of a new software in China.

Similarly, in Hong Kong the market for advanced software-based applications for business and government services remains strong. The escalating cost of doing business in Hong Kong has also created a potential opportunity for offshore processing of financial and other business services in Canada.

The 14 Golden Projects are the key components of the Chinese national information infrastructure initiative. The most important of these projects are the Golden Bridge (a nation-wide economic information and data communications network linking ministries, commissions and provinces); the Golden Customs (a foreign tax network based on an EDI platform and an import-export database, to monitor foreign currency settlements, domestic returns and quota-management systems); and the Golden Card (an electronic financial transaction system and information service).

Constraints

Pressure on foreign companies to establish joint ventures and allow technology transfer is high in the computer and software sector. An under-developed software industry makes it difficult to identify the right distribution channel. Further, intellectual property problems are still of special concern in China. In most cases, Canadian software must be tailored to meet the needs of this market.

Space

Business Environment

China's space program is largely focussed on satellite communications (satcoms). Roughly half of the 20 satellite programs included in China's Ninth Five-Year Plan will be telecommunication satellites, while the other half will consist of earth observation satellites. China's satellite launching program successfully resumed in May 1996, following the failure of two communications satellites (ApstarII and Intelsat) during launches in 1995 and early 1996. The recent successful launch of Dongfanghong-3 in May 1997 and the construction of Sinosat, a data communication satellite co-produced by China, Germany and France, could result in a decrease in future satcoms purchasing plans.

In addition to satcoms, China is also developing earth observation satellites, in an effort to help predict and mitigate natural disasters and optimize resources and land management.

The major players in the China satellite market are the China Aerospace Corporation (CASC), the Commission on Science and Technology in National Defence (COSTIND), satellite owners such as China Oriental Telecom Satellite Company Ltd., Very Small Aperture (VSAT) licence holders, and other service users.

Market Opportunities

Both earth observation and satcoms offer significant prospects for Canadian sales in China. A Canadian company is currently involved in the upgrade of the Chinese ground stations to receive Radarsat data. The construction of a second station is also being planned for this project.

Canada's expertise in the interpretation of Radarsat data is of special interest to China. Chinese and Canadian companies are currently discussing opportunities for co-operation in this area. The construction of the Chinese Synthetic Aperture Radar (SAR) satellite would present significant opportunities for Canadian suppliers.

Constraints

Contact must be maintained on two levels: with the user/purchaser, which may be one of the multitude of research institutes, and with the Chinese government. In the end, the government will likely be required to approve all funding.

Action Plan

The objectives of the Action Plan in this sector are as follows:

- to organize a comprehensive seminar on Canadian capabilities in data communications,in co-operation with Industry Canada and the Canadian telecommunications industry. Based on a Team Canada approach, this initiative would cover network construction and management, as well as advanced applications.
- to host a seminar on financing in the telecommunications sector for Chinese organizations, including the MPT, China Unicom, the State Planning Commission, among others, with the co-operation of EDC (Export Development Corporation), Canadian private banks, international financial institutions (IFIs) and Canadian investors.
- to provide more comprehensive, regular communications material using the following vehicles:

a) market profiles with updates on the telecommunications/data communications, computer and software sectors in China; and

b) a newsletter on the Chinese information technology sector, published on a regular basis.

- in Hong Kong, to promote Canada as a venue for round-the-clock processing of information and financial services.

Natural Resources

Business Environment

Mining

China is one of the few countries in the world that has relatively abundant mineral resources of all types. It has proven reserves of 151 minerals, including 54 metals and 90 non-metals. Verified deposits of 20 minerals are the largest in the world, including titanium, tungsten, antimony and tantalum. China ranks second in deposits of alumina, coal, tin, molybdenum, niobium, silver and lithium. It is the world's largest producer and consumer of coal, and a net exporter of a large number of minerals, such as molybdenum, tungsten and rare earths. China has recently become an important producer and exporter of vanadium, titanium, germanium, gallium and polycrystalline silicon. Despite its abundant resources, its per-capita endowment and consumption are below world average.

For decades, China has striven to increase its mineral production. In 1996, non-ferrous metal output reached 4.45 million tonnes, up 6.5 percent over 1995. China now ranks second to the United States as a producer of non-ferrous metals. Far-reaching economic reforms have generated a boom in China's mining and metals industries at a time when world markets are still suffering from oversupply and falling prices. Soaring demand has caused domestic prices to rise well above international levels, creating shortages and disruptions. For the foreseeable future, demand will outpace production for non-ferrous metals. China is now looking overseas, particularly toward South America, as a possible investment opportunity to secure safe, long-term supply of minerals, particularly copper.

Companies operating from Hong Kong influence import decisions in this sector. Facilities in Hong Kong along the South China coast and up the Pearl River in Guangzhou are import channels for the delivery of commodities and equipment.

A top priority has been to modernize and rationalize existing coal mines by introducing advanced technology and wide-scale mechanization. Production will be expanded through the construction of 100 high-yield mines, which will require imports of high-technology equipment.

In October 1996, China enacted a new set of more strict regulations for its 1992 Mining Safety Law, in response to an increasing number of mining accidents.

China now permits mining exploration through joint ventures. Most attention to date has focussed on gold and non-ferrous metals rather than on coal.

A new Mineral Law came into force January 1, 1997, which formally recognizes the right to transfer mining rights and to lease or offer them as security. This development was welcome news for gold companies, although they await a promised series of four regulations, which have not been published yet.

Oil & Gas

China's central government has given high priority to the development of its oil and gas industry. Oil and natural gas supply about one fifth of China's energy needs. Breakneck economic expansion in the 1980s and double-digit growth in the 1990s have pushed domestic demand far ahead of production growth. Although still the world's fifth-largest oil producer, China is using up its reserves at mature eastern fields, and new discoveries — mainly in Xinjiang Province, northwestern China and offshore areas — are only at the initial stages of production.

Since 1993, China has become a net oil importer. Domestic output, while improving little between 1995 and 2000, will grow from 3 to 4.5 million barrels per day (mbd) by the year 2010. With oil demand forecast to climb to 210-260 million tonnes by the year 2000, the International Energy Agency predicts China's petroleum import requirements will grow from 1.1 mbd to 2.3-3.0 mbd by 2010. Foreign investment in oil exploration and development is expected to play an increasingly significant role in resolving China's energy bottleneck.

After decades of striving for self-sufficiency, China has been re-evaluating its policies: recent supply agreements with Iraq and Iran for oil and Russia for natural gas reveal China's desire to secure long-term supplies of raw materials. The same applies to mineral resources, particularly copper and copper concentrates.

As is so often the case in China, personal relationships are of fundamental importance in the petroleum industry. A foreign supplier must be reasonably well-known to the end-user before it will be invited to offer a quote for its equipment. Companies serious about China's oil market must develop a local presence through an effective agent or a local office. Some companies may also want to consider joint-venture operations to better position themselves in relation to their competitors.

The Chinese oil industry regularly sends study missions abroad. These delegations gather information on potential suppliers, and also update the Chinese industry on recent technological developments or industry practices. These missions also expose foreign companies to useful Chinese contacts for follow-up missions to China.

Market Opportunities

As demand continues to exceed production, China will need foreign technology and investment in its natural resources industries to meet production targets. Particular opportunities for Canadian companies exist in the following areas:

- metals, as China is a major importer of metals; ore concentrates and scrap, including iron, copper, alumina, aluminium, nickel, gold and cobalt; and minerals, such as potash, sulphur and asbestos;
- oil and gas and mining equipment and services, as China imports considerable amounts of new and used, advanced, high-quality equipment and vehicles for underground and open-pit mines and oilfield sites;
- the design, development and construction of clean and efficient coal-combustion plants by engineering and construction companies;
- equipment, procedures and management training for mine and oilfield safety;
- mining prospecting joint ventures, as exploration is intensifying in the more remote and under-explored areas of northeastern, western and southern China for iron ore, copper, gold, silver, antimony, uranium and phosphorus;
- mining investment, to take advantage of greater opening and more favourable policies announced by Chinese authorities; and
- oil exploration and enhanced oil-recovery projects.

In addition to onshore and offshore oil and gas exploration and production opportunities, demand is growing for technology and equipment for heavy oil and/or oilsands development, enhanced oil recovery, natural gas processing, sulphur recovery, horizontal drilling, thermal recovery, pipeline construction and operation and deep drilling. Potential exists for sales of computer systems and software, pumps, separators, steam generators, drilling rigs, modular gas plants, desulphurization and laboratory equipment, all-terrain vehicles, and engineering/consulting services from Canada. Downstream investment opportunities exist for oil refining and petrochemical joint ventures to produce synthetic ammonia, methanol, ethylene and fertilizer.

Greater involvement of international oil companies in Chinese onshore and offshore exploration is also expanding the range of potential clients for Canadian suppliers of goods, services and technology. More than 20 foreign oil companies have offices in Beijing or other parts of the country, and several companies are involved in or are in the process of negotiating joint production contracts.

In Hong Kong, gold is Canada's highest-valued export, followed by significant potash exports. Manufacturing activity has increasingly shifted from Hong Kong to Guangdong and other Chinese provinces, and is being replaced by a growing services industry. Hong Kong-based managerial and financial decision makers, in particular, continue to value Canadian minerals and metals commodities and mining-related goods and services. Canada has always been strong in mineral exports to Hong Kong, particularly aluminium, gold and zinc exports.

Constraints

The market is extremely competitive and numerous procedural obstacles exist, particularly in the mining sector. Major European, U.S., Australian and other Asian competitors have all established a presence and reputation in the market.

Procurement is generally by invitation rather than through an open and competitive bidding process, forcing companies to promote their products directly to potential clients. Bidding rules are unclear and are almost impossible to enforce. Chinese purchasers pay careful attention to pricing, technology transfer, product quality, spare parts and after-sales service when negotiating contracts.

The rules for establishing gold mining joint ventures and the legal status of foreign companies in the precious metals sector are concerns.

Many mines prefer lower-quality domestic equipment because of tight budgets and limited foreign exchange. In addition to price, quality, a willingness to transfer advanced technology and after-sales service, customers pay special attention to personal relationships. Some suppliers of equipment and services have established joint ventures with Chinese partners to expand their local market share and benefit from low production costs to enhance competitiveness in other markets.

U.S. firms remain among the strongest foreign competitors in the China oil and gas market. European companies, including firms from Germany, France, Italy and other countries, have also become more aggressive in this market. There is a perception in China that European suppliers can be more flexible than others in commercial negotiation and they can often obtain generous financial support from their banks and governments. By contrast, Canadian suppliers are often regarded as having good technology, but as being somewhat inflexible in price negotiation.

Action Plan

The objectives of the Action Plan in this sector are as follows:

- to update sectoral studies on coal, mining and oil and gas;
- to create a concise sectoral study on gold mining in China;
- to make full use of the World Petroleum Congress in Beijing, in collaboration with industry and the Government of Alberta, to promote Canadian expertise and to promote the next World Petroleum Congress in 2000, in Calgary;
- to promote the use of Canadian technology and managerial expertise in the mining sector, pursuant to the memorandums of understanding signed between Natural Resources Canada and the Ministry of Geology and Mineral Resources and the China National Non-ferrous Metals Industry Corporation;

- to expand collaboration with the China Alberta Petroleum Centre in Beijing, providing Canadian companies with a forum for technical seminars, training and other industry exchanges;
- to assist Canadian firms in their joint ventures, particularly in clearing the numerous procedural obstacles in, for example, the opening stages of mine exploitation;
- to track and analyse new regulations and other developments governing oil and gas and mining activities;
- to increase Chinese familiarity with Canadian products and technology through incoming missions, trade shows and seminars; and
- to follow-up and assist the Canada China Business Council with its Mining Sector Working Group.

TRANSPORTATION

Business Environment

China is emerging as the fastest-growing infrastructure market in the world, presenting considerable opportunities for Canadian engineers, suppliers and investors. Between 1996 and the year 2000, China is expected to invest or receive investment from abroad totalling over US$100 billion on transport infrastructure, making it one of the most important infrastructure markets in the world. Despite these forecasts, experts are concerned that China's overburdened transportation system and inadequate infrastructure threaten to limit the country's rapid rate of economic growth.

Overcoming Transportation Barriers

The central government is committed to a strategic effort to expand economic development inland from the coastal regions. The success of this policy will depend to a great degree on the speed with which transportation systems can grow to serve the people and the industries in these regional markets.

Currently, China's vehicle diffusion rate is among the lowest in Asia, with roughly one vehicle for every 207 people, and one passenger car per 2000 persons. Continued economic growth and the emergence of a sizable middle class is expected to fuel demand for both commercial and passenger vehicles. At the same time, the Chinese government has announced a strategy to make the automotive industry a pillar of industrial development into the next century.

Automotive, rail, aviation and related design and manufacturing sectors are vying to attract foreign capital, technology, and management inputs. Regulations governing the investment ratio between the assembly and the parts industry have been modified to ensure that the parts industry now receives a significant portion of foreign investment. This development marks an important change from the previous emphasis placed on assembly.

The Chinese aerospace market remains a major focus, as annual passenger and cargo volumes continue to grow at 15 percent plus annually. China's domestic aviation industry has steadily improved in the last few years, and a strong aeronautic subcomponents manufacturing capability is emerging to supply many Western manufacturers. Aircraft and major parts procurement, ground-based safety and monitoring equipment, and air-traffic control systems will be upgraded or developed to keep pace with China's rapidly expanding aviation sector.

To support this expansion, China has ambitious plans to build or upgrade many airports over the next 10 years. In addition to several key provincial capital airport projects, Beijing Capital Airport is currently undergoing a major expansion, and large new airport projects are planned or are under way for Guangzhou and Shanghai Pudong.

Hong Kong and Macau are key demonstration centres for corporate and regional jets and helicopters, as markets emerge in mainland China. They are also important markets in their own right for these products.

Defence, aerospace and some transportation exports, among others, may require export permits from the Department of Foreign Affairs and International Trade (DFAIT); early inquiries are encouraged.

Market Opportunities

Automotive

As North American automotive manufacturers continue to expand their involvement in China, business opportunities for Canadian parts manufacturers are also growing. Canadian automotive parts manufacturers offer process technology and engineering capabilities sought after by an underdeveloped Chinese domestic industry. By focussing on traditional supplier-assembler relationships already in place, Canadian automotive parts manufacturers are well-positioned to develop their own China business strategies.

Canadian suppliers of automotive aftermarket parts and equipment have a comparative advantage in garage service and repair equipment, tools and products. Canadian companies already have a share of the market for maintenance equipment required repair shops in different parts of China. This need is expected to grow as the North American auto industry expands its involvement in the Chinese market.

Transit Systems

As Chinese cities grow – some emerging among the world's largest metropolitan centres – urban transit systems are straining to cope with increased demand. Several key centres are preparing plans for subway or light rail urban transit systems: Beijing, Tianjin, Shanghai, Guangzhou, Chongqing and other larger cities, depending on the availability of investment financing. Light rail and subway system expansion projects are also planned in Hong Kong.

Highways

Spending on highway development to the year 2000 is expected to total more than US$50 billion. As local governments hold more direct control over highway development than over any other subsector of transportation, there is greater scope for smaller- scale projects incorporating design, financing, engineering, technology and, in some cases, management.

Automotive, rail, aviation and related design and manufacturing sectors are vying to attract foreign capital, technology, and management inputs.

Significant infrastructure development in Hong Kong is part of a strategic expansion plan for the next century. The new airport at Chek Lap Kok is scheduled to open in 1998. Plans are in place to build a new Western Corridor heavy-rail connection, to improve links between existing and new container terminals, and with the rest of China. These projects present opportunities for packaged transport systems supply, as well as for rolling stock, railway signalling and aviation communication equipment, and associated subcontracts.

The Infrastructure Development Market

Serious transportation bottlenecks have made infrastructure a policy issue for governments and for multilateral institutions such as the World Bank (WB) and the Asian Development Bank. Loans to China for rail, urban transit, highway and port development projects are substantial.

The potential for further involvement in transport infrastructure projects is significant. Firms will have to be flexible, adaptable and innovative in applying their experience and techniques to the Chinese market. Proposals must be focussed in order to minimize financial risk and ensure optimal assessment.

Airport development has been opened to limited foreign equity participation. Some projects may be approached and developed on a systems package basis. Demand is strong for airport and navigational aid equipment, both air-side and ground-side. Requirements include: equipment for terminal buildings, air-traffic control systems, radar, lighting, baggage handling, security and/or safety equipment, specialized vehicles, and flight management and display systems.

Aviation maintenance for the growing fleet of Western aircraft operating out of China is an important subsector. Canadian companies may offer specialized repair and testing equipment to existing facilities, or investigate a partnership for local development of equipment or services in this area.

Chinese authorities have placed a high priority on human resource development. Training is emerging as a potential market. Of particular interest will be expertise in support of the development of safe, efficient and profitable airlines and airports, financially viable highways, and efficient rail and urban transit systems. Opportunities for co-operation exist in the areas of management and technical training, and in training related to safety and regulatory issues.

Large Canadian companies are already active in China. Smaller companies with specific expertise in niche areas can improve their profiles in China by subcontracting to larger companies, by participating in consortia, and/or by forming strategic alliances.

An important point of access into the Chinese infrastructure development market is through Hong Kong-based developers and merchant banks. As the area's foremost financial and information hub, Hong Kong can provide early signals of emerging opportunities and significant financial and networking resources.

Constraints

Financing the sale of products and services is often a significant hurdle, and exporters are frequently required to provide financing or investment as part of the transaction.

With the exception of the aviation and aerospace sector, Canada's capability in transportation industries and services is relatively unknown. Competition from European, Japanese and American suppliers can be fierce, particularly for large-scale, high-profile projects.

The Chinese market for manufactured goods remains protected by high import tariffs and trade-related investment measures designed to encourage domestic production of vehicles and parts. Whether in automotive, aviation, urban transit or other sectors, a successful strategy for China often includes technology transfer, training and possibly joint-venture manufacturing.

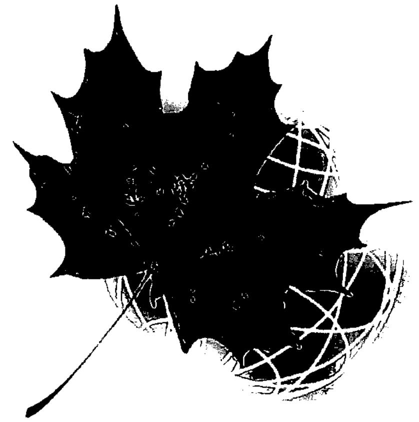
Whereas in other parts of the world it is possible to enter markets as a specialist contractor, a virtual prerequisite in China is to be part of a total project-delivery package. For example, engineering services, which are traditionally undervalued in China, need to be packaged into a larger transaction. The ability of a company, joint venture or consortium to deliver a complete package, including design, construction, financing, operation and maintenance, is particularly attractive in China.

Action Plan

The objectives of the Action Plan in this sector are as follows:

- to develop and support industry-government teams targeted to specific market opportunities following the successes of Airport Team Canada (1996) and Rail Team Canada (1995);
- to identify key Canadian parts and technology suppliers for strategic Chinese automotive and urban transit development projects, and assist them in developing their China business plans;
- to expand Canada's market for key aerospace and aviation products, including regional aircraft, simulators, air traffic control and aero-navigation equipment;
- to develop and facilitate access to investors, developers and merchant banks, conveying the benefits of Canadian technology and services;
- to target projects planned or funded by the WB and Asean Development Bank, encourage Canadian companies to follow the project-planning pipeline though bank headquarters, and follow up in the marketplace with project managers;
- to increase Chinese knowledge of Canadian capability in the transportation sector through selective, focussed support for missions, seminars and trade fairs;
- to build on the valuable contacts established through the bilateral transportation training programs of the Canadian International Development Agency (CIDA), by identifying channels for appropriate follow-up; and
- to establish and develop contacts with local government officials and project managers, and ensure that early notification of emerging opportunities is communicated to Canadian suppliers.

6 Focus on . . .



Business and Professional Services

Business Environment

Canada has large business interests in Hong Kong. Over 100 Canadian businesses of all sizes from a wide range of sectors use Hong Kong as their regional headquarters for East Asia. The Canadian Chamber of Commerce in Hong Kong is Canada's largest offshore chamber, with 900 members. Hong Kong's evolution toward a regional information, financial and corporate services centre has the full support of the new Hong Kong government, and has created many potential opportunities for Canadian firms in the international business services sector.

If current trends continue, Hong Kong's services sector share of gross domestic product (GDP) could surpass 85 percent in the near future. The Hong Kong Monetary Authority estimates that Hong Kong is the third-largest concentration of financial sector employees in the world, with nearly 350 000 persons in the industry. This formidable role further emphasizes Hong Kong's financial importance to Canada in Asia.

Twenty Canadian financial institutions are located in the territory, together with three Canadian law firms, sixteen law firms providing Canadian legal services and nine accounting firms offering Canadian financial and management consultancy services. Other Canadian firms are active in the brokerage, telecommunications, information technology, and immigration services sectors.

With the establishment of the Canadian Education Centre (CEC) in 1996, Canada has attracted increasing numbers of university and post-graduate students from Hong Kong. Business education, both within a structured educational syllabus, such as an MBA program, and based on more practical business skills training, also offers great promise for Canadian educational and training institutions.

The Chinese market for both management training and skills-based training is growing rapidly, and many Canadian educational institutions and companies have begun to develop partnerships with Chinese organizations to tap this market. A new mini-CEC in Beijing concentrates on developing opportunities for contract training with institutions and companies – and in contrast to other CECs in the region, student recruitment will not be a focus, at least in the short term.

Tourism is also a great sector of opportunity as, with increased affluence, Hong Kong tourist preferences have shifted to more adventurous activities, including sports (golf, scuba, trekking), cruises and railway tour holidays.

Although less developed than in Hong Kong, the services sector in China is expanding rapidly. Centred in Beijing, Shanghai and Guangzhou, growing numbers of Canadian professionals are actively delivering banking, legal, consulting, accounting, and trade facilitation services, primarily to expatriate customers.

Cultural Industries

Business Environment

Purchasing power and the awareness of foreign cultural products are on the rise in China. These trends have resulted in a growing sense of consumerism and a strong domestic demand for foreign cultural goods. This is particularly evident in highly visible media such as television, film and in the performing arts and musical fields. However, this growing interest and increasing financial means are tempered by continuing government jurisdiction over cultural industries. Market restrictions exist in the form of monopoly rights of imports and purchasing, and mandatory approvals from relevant ministries for events.

Market Opportunities

Immediate opportunities exist in film, radio, and, in particular, television, given China's reliance on imported programming. The proliferation of specialized terrestrial, cable and satellite television channels, and Canada's brand image of safe, non-controversial multicultural programming, has resulted in sales of children's and science/nature documentaries in niche market segments.

Chinese television stations are traditionally reluctant to pay fair market value for foreign programs. As a result, advertising time is often bartered for programming in lieu of cash payment.

Live performances in China, although usually requiring sponsorship from a foreign government and/or commercial enterprise, are becoming more diverse and commercially viable. The most successful genres in terms of sales tend to cater to populist, family-oriented entertainment.

Shanghai

Shanghai is rapidly re-emerging as China's cultural centre, with the most sophisticated and demanding audiences in the country. Shanghai hosts China's two major broadcast events, the Shanghai TV Festival (November, 1998), and the Shanghai International Film Festival (October 24 to November 2, 1997). A delegation from Shanghai travels to the Banff TV Festival annually, visiting Vancouver, Montreal, Ottawa and Toronto, to cultivate bilateral interests.

Hong Kong

Due to Hong Kong's affinity with Canada, significant opportunities exist for the promotion of English-language Canadian cultural goods, such as the sale of television programs to the four English-language broadcasters. Hong Kong radio and television broadcasts are received in South China, and are seen as trend-setters throughout Asia. Hong Kong is host to many regional trade fairs, including MIDEM (May, 1998 for video and music publishing) and MIP (December, 1997 for television and video programming).

Financial Services

Business Environment

China and Hong Kong represent widely divergent markets for financial services. Hong Kong's favourable regulatory environment, low taxes and excellent telecommunications have made it an international financial services centre, a role it continues to retain after the territory's transition to Chinese sovereignty on July 1, 1997. China, on the other hand, has only recently embarked on a modest opening and reform of its financial services sector. Shanghai is being developed as the country's domestic financial centre, and nine foreign bank branches have recently been granted licences in Pudong to engage in a limited range of local currency business operations.

China

China is developing its own domestic financial services sector at the same time that it is opening its financial services market to foreign firms. This new direction is being cautiously undertaken, often on an experimental basis, effectively limiting the number of operations a foreign financial institution is permitted. Chinese authorities are in the process of developing regulations in many key areas, which may lead to additional uncertainties and challenges for financial services companies seeking to establish a presence in the market.

According to Chinese statistics, over 130 foreign bank branches and a small number of Sino-foreign bank joint ventures are operating in China, each licensed for one of 24 designated cities. Only a handful of foreign insurance companies are operating in China; however, over 80 other firms are actively seeking licences in one of two cities: Shanghai and Guangzhou. Faced with fierce competition, foreign financial services firms are being challenged to show what contribution they will make to the market, from added liquidity to new products and training.

Hong Kong

By contrast, Hong Kong is an open, international financial centre with no restrictions on capital flows into and out of the territory. It is also an important partner for China, with many banks from Hong Kong expanding their businesses into China. Hong Kong equity and debt markets serve as major fund-raising centres for the Chinese government and Chinese enterprises.

Health Industries

Business Environment

Hong Kong

Hong Kong is a vibrant health-care market. As a prosperous society, the region enjoys a well-developed medical infrastructure and has established trading routes into China for medical and pharmaceutical products. The Hong Kong government is the largest single health-care buyer within Hong Kong, purchaser for both wholly and partially subsidized institutions. Many private health-care facilities offer advanced care to both locals and regional expatriates requiring specialized medical care.

High value and quality are essential in the competitive Hong Kong medical sales market. A local presence and good after-sales service are vital to success. Lower-value products can gain access to markets through agency and distributorship agreements.

Canadian companies have done well in competitive tenders, selling generic pharmaceuticals and a wide range of low-end medical products, such as bandages, swabs, and medicinal alcohol. This success has not been matched in sales of higher-end products and equipment. Stronger marketing efforts are required to raise market awareness of Canadian equipment and supplies, in particular to local end-users and government hospital and procurement personnel.

China

With its large population and the increase in living standards, China also offers good market opportunities for Canadian medical services and equipment and for pharmaceutical products. Financing is frequently the greatest barrier, however, and foreign suppliers must contend with the fluctuations of an increasingly regulated market.

7 Contacts

Canadian Government Offices and Services in China

The Commercial and Economic Section of the Canadian Embassy in Beijing and the Consulates in Shanghai, Guangzhou and Hong Kong can provide vital assistance to export-ready Canadian companies venturing into the China or Hong Kong markets. Trade Commissioners are well-informed about the market and can provide invaluable support for a Canadian firm's presence in China.

Interested potential exporters are encouraged to provide Trade Commissioners with appropriate information on their product, pricing and company. Details of any travel plans to China should be provided well in advance.

Trade Commissioners supply a range of services, including:

- introducing Canadian firms to potential customers in China;
- providing advice on marketing channels;
- supplying information on trade fairs;
- identifying suitable Chinese firms to act as agents; and
- compiling strategic business intelligence on potential foreign customers.

Beijing

Canadian Embassy
19 Dongzhimenwai Street
Chaoyang District
Beijing 100600, People's Republic of China
Tel: (86-10) 6532-3536
Fax: (86-10) 6532-4072

Territory: Municipalities of Beijing and Tianjin; Provinces/Regions of Gansu, Guizhou, Hebei, Heilongjiang, Henan, Hubei, Hunan, Jilin, Liaoning, Nei Monggol (Inner Mongolia), Ningxia, Qinghai, Shaanxi, Shandong, Shanxi, Sichuan, Xinjiang, Xizang (Tibet) and Yunnan.

Shanghai

Canadian Consulate General
West Tower, Suite 604
American International Centre at
Shanghai Centre
1376 Nanjing Xi Lu
Shanghai 200040, People's Republic of China
Tel: (86-21) 6279-8400
Fax: (86-21) 6279-8401

Territory: Municipality of Shanghai and Provinces of Jiangsu, Zhejiang, Anhui and Jiangxi.

Guangzhou

Consulate of Canada
Room 801
China Hotel Office Tower
Liu Hua Road
Guangzhou, 510015 People's Republic of China
Tel: (86-20) 8666-0569
Fax: (86-20) 8667-2401

Territory: Provinces of Guangdong, Guangxi, Hainan and Fujian.

Hong Kong

Consulate General of Canada
1 Exchange Square, 13th Floor
8 Connaught Place
Central, Hong Kong
Mailing: G.P.O. 11142
Tel: (852) 2847-7414
Fax: (852) 2847-7441
E-mail: td.hkong@hkong02.x400.gc.ca
Internet: http://www.canada.org.hk

Territory: Hong Kong, Macau and Southern Chinese provinces of Fujian, Guangdong, Hainan and Guangxi.

Canadian Government Offices and Services in Canada

International Trade Centres (ITCs) located across the country help Canadian exporters to take advantage of opportunities in foreign markets. ITC officers provide current information on international markets; joint ventures and technology transfer opportunities; trade fairs and missions; and trade-related conferences and seminars. ITCs can be particularly useful in assisting export-ready companies with the preparation of their marketing plans. In fact, a marketing plan is a key element, and should be developed before considering entering any export market and before contacting a trade commissioner abroad.

Canada's ITCs can connect you with international business opportunities through a network of trade commissioners in 128 cities around the world. Working "on-site" in foreign markets, these trade officers can help you identify sales leads, provide advice on foreign trade practices, and promote your company to local customers.

The ITCs can also provide you with a copy of the *Guide to Export Services*, an overview of export services that are available to Canadian businesses.

Contact:

	Telephone	Fax
St. John's	(709) 772-5511	(709) 772-2373
Charlottetown	(902) 566-7443	(902) 566-7450
Halifax	(902) 426-7540	(902) 426-5218
Moncton	(506) 851-6452	(506) 851-6429
Montreal	(514) 283-6328	(514) 283-8794
Toronto	(416) 973-5053	(416) 973-8161
Winnipeg	(204) 983-4540	(204) 983-3182
Regina	(306) 780-6325/6124	(306) 780-8797
Saskatoon	(306) 975-5315	(306) 975-5334
Calgary	(403) 292-4575	(403) 292-4578
Edmonton	(403) 495-2944	(403) 495-4507
Vancouver	(604) 666-0434	(604) 666-0954

The **InfoCentre offers** a range of information and counselling services to assist you — whether you're already exporting or just entering the export market. You can access over 1500 market studies and get information on export opportunities, programs, and services — all in a format that best suits your needs. You'll also find a wide selection of publications on trade, investment and foreign policy.

Contact:

Tel:	1-800-267-8376
	(613) 944-4000 (Ottawa-Hull region)
	(613) 996-9136 (hearing impaired)
Fax:	(613) 996-9709
FaxLink:	(613) 944-4500 (from a fax machine)
Internet:	http://www.infocentre.gc.ca

DFAIT's **China Division** is responsible for the overall co-ordination of relations with China. As part of this mandate, the Division, in concert with the missions in China and other stakeholders, is responsible for co-ordinating the development and implementation of a trade strategy for China and for ensuring that Canada's policy towards China takes full account of commercial interests.

China Division (PRC)
Department of Foreign Affairs and International Trade
Lester B. Pearson Building
125 Sussex Drive
Ottawa, ON K1A 0G2
Tel: (613) 996-0905
Fax: (613) 943-1068

WIN Exports is a database of Canadian exporters and their capabilities. The system is used by Trade Commissioners in Canada and overseas to share information, keep track of services provided and match companies like yours to foreign purchase requirements. A WIN-registered company automatically receives CanadExport, DFAIT's business newsletter.

To register, contact:

Tel:	1-800-551-4WIN (4946)
	(613) 944-4946 (Ottawa-Hull region)
Fax:	1-800-667-3802
	(613) 944-1078 (Ottawa-Hull region)

Canada's International Business Strategy (CIBS) is a consultative process that brings together government and the private sector in the identification of emerging trends, opportunities and challenges in major markets and in the development of strategies for successful pursuit of international business by Canadian industry. **The CIBS Compendium** is an on-line updated list of government-sponsored trade events and promotions, in Canada and abroad, that have been identified as a result of the CIBS process.

Internet: http://www.dfait-maeci.gc.ca/english/trade/cibs/english

Strategis, Canada's largest business Web site, offers a wealth of export information that can help you decide about growth opportunities, explore new markets and assess the risk of new ventures, all on-line. Trade Data Online, an information database accessible through Strategis, provides Canadian and U.S. information on trade trends, import market shares and other key data to help you forecast new markets, assess the competition and plan production.

Contact:

Tel:	1-800-328-6189 or (613) 954-5431
Fax:	(613) 954-5031
E-mail:	TDO@ic.gc.ca
Internet:	http://strategis.ic.gc.ca

The **Agri-Food Trade Network (ATN)**, one initiative under the ATS (Agri-Food Trade Service), provides on-line access to agri-food trade information, including country/market profiles, Canadian supply capability, and trade shows and missions. The ATN also contains a directory of federal government trade contacts around the world. It may be found under "Trade Contacts" at http://atn-riae.agr.ca/

You may also contact an information co-ordinator in your region:

	Telephone
Newfoundland	(709) 772-4063
Prince Edward Island	(902) 566-7310
Nova Scotia	(902) 893-0068
New Brunswick	(506) 452-3706
Quebec	(418) 648-4775
Montreal	(514) 283-8888
Ontario	(519) 837-9400
Manitoba	(204) 984-4409
Saskatchewan	(306) 780-5452
Alberta	(403) 495-6775
British Columbia	(604) 666-3054

Export Financing

With both financial and management services under one roof, the **Business Development Bank of Canada (BDC)** offers "one-stop shopping" for all your business needs. In particular, BDC aims to meet the needs of small and medium-sized exporters – whether your company is preparing a first-time foray into foreign markets or is already active in the export field.

Contact:

Tel: 1-888-INFO-BDC (463-6232)
Internet: http://www.bdc.ca/site/right/index.html

The **Canadian Commercial Corporation (CCC)** can help your company do business in foreign markets, assist in contract negotiations and complete sales on better terms with fewer risks. By participating as the prime contractor in an export sale, CCC provides a foreign buyer with a commitment, backed by the Canadian government, that you will meet the conditions of the contract, as signed.

Contact:

Tel: (613) 996-0034
Fax: (613) 995-2121 or (613) 947-3903
E-mail: info@ccc.ca
Internet: http://www.ccc.ca/index-e.html

EDC (Export Development Corporation) can help you to compete safely in world markets by providing a range of risk-management services. Almost 85 percent of EDC customers are small and medium-sized enterprises. EDC also has a dedicated team of specialists to serve exporters with annual export sales of up to $1 million. Exporters can reach the team by calling 1-800-850-9626.

Contact:

Tel: (613) 598-2500
Fax: (613) 237-2690
E-mail: export@edc4.edc.ca
Internet: http://www.edc.ca

The **Canadian International Development Agency (CIDA)** administers most of Canada's international development assistance programs in more than 100 developing countries. Many of these programs rely on support from Canadian businesses, through consultants, contractors and suppliers. You can contact CIDA directly or access the government's Open Bidding Service (OBS) for contracts valued at more than $100 000.

Contact:

OBS
Tel: 1-800-361-4637(613)737-3374 (Ottawa-Hull region)
Internet: http://www.obs.ism.ca

CIDA Contracting Management Division
Tel: (819) 997-7778
Fax: (819) 994-5395
Internet: http://www.acdi-cida.gc.ca

The **Industrial Co-operation Program (INC)** helps Canadian firms to establish long-term business relations with partners in developing countries. By encouraging and supporting socio-economic development abroad, INC promotes job creation in Canada and helps Canadian firms to enter some of the world's fastest-growing markets.

Contact:

CIDA Inquiries and Services to the Public

Tel: (819) 997-5006
Fax: (819) 953-6088
E-mail: info@acdi-cida.gc.ca
Internet: http://www.acdi-cida.gc.ca

If you are a small or medium-sized exporter, the **Program for Export Market Development (PEMD)** can provide conditionally repayable funding to help you expand into export markets. PEMD is designed to increase the sales of Canadian goods and services abroad by enabling new exporters to visit potential markets or participate in international trade fairs, and by assisting companies in preparing bids against international competitors for major capital projects outside the country.

Contact:

DFAIT's InfoCentre or The International Trade Centre nearest you

Business Associations

Canada-China Business Council (CCBC)

The CCBC is a private-sector, non-profit membership organization incorporated in 1978 to facilitate and promote trade and investment between Canada and the People's Republic of China. It offers its members a package of business services, including introductory market studies, setting up meetings, and the use of offices, work stations or "virtual offices" in Beijing. The CCBC also maintains, with DFAIT support, a Web site that offers up-to-date China business information, and links to other China-related sites.

The CCBC's mandate is as follows:

- to stimulate and support trade in goods and services, investment and technology transfer;
- to achieve greater economic growth and closer relationships between Canada and China;
- to provide practical and focussed assistance to business; and
- to be the voice of the Canadian business community on matters of Canada-China relations, both to governments and to the public at large.

Internet: http://www.ccbc.com

Head Office
110 Yonge Street
Suite 802
Toronto, ON M5C 1T4
Tel: (416) 954-3800
Fax: (416) 954-3806
E-mail: ccbc@istar.ca

Western Canada Office
Suite 2600
515 West Hastings Street
SFU at Harbour Centre
Vancouver, BC V6B 5K3
Tel: (604) 291-5190
Fax: (604) 291-5039

Beijing Office
CITIC Building
Suite 18-2
19 Jianguomenwai Street
Beijing 100004
Tel: (86-10) 6512-6120 or
(86-10) 6500-2255, Ext. 1820, 1821, 1822
E-mail: ccbc@chinaonline.com.cn.net

Shanghai Office
New Century Plaza
Flat 1801A, Building C
48 Xing Yi Road
Shanghai 200335
Tel: (86-21) 6270-2948
Fax: (86-21) 6219-3118
E-mail: ccbcsh@chinaonline.com.cn.net

Canadian Chamber of Commerce in Hong Kong (CCCHK)

The CCCHK is a networking organization for those interested in business ties in and with Hong Kong, China and Asia. It celebrates its 20th anniversary in 1997, and is the largest Canadian Chamber of Commerce outside of Canada, with some 900 members and four full-time staff. The CCCHK organizes frequent business-related events in Hong Kong and publishes *Canada Hong Kong Business*, a bimonthly magazine.

Executive Director
The Canadian Chamber of Commerce in Hong Kong
Room 1602, Sin Hua Bank Building
2-8 Wellington Street
Central, Hong Kong
Tel: (852) 2845-1654
Fax: (852) 2526-3207
Internet: http://www.cancham.com.hk

The Hong Kong-Canada Business Association (HKCBA)

The Hong Kong-Canada Business Association was formed in 1984 to encourage and promote trade and investment between Canada and Hong Kong across a broad range of industries and events. The central objective of the Association is to bring together interested parties to promote and facilitate trade between Canada, the Hong Kong region and China. Distinguished as the largest bilateral trade association in Canada, the HKCBA has over 3000 members, with 10 HKCBA sections across the country.

The HKCBA maintains close ties with the Hong Kong Economic and Trade Office, the Hong Kong Trade Development Council, the Hong Kong Tourist Association, the Canadian Chamber of Commerce in Hong Kong, the Consulate General of Canada in Hong Kong, and DFAIT.

Hong Kong-Canada Business Association
9 Temperance Street, 2nd Floor
Toronto, ON M5H 1Y6
Tel: (416) 368-8277
Fax: (416) 368-4321
