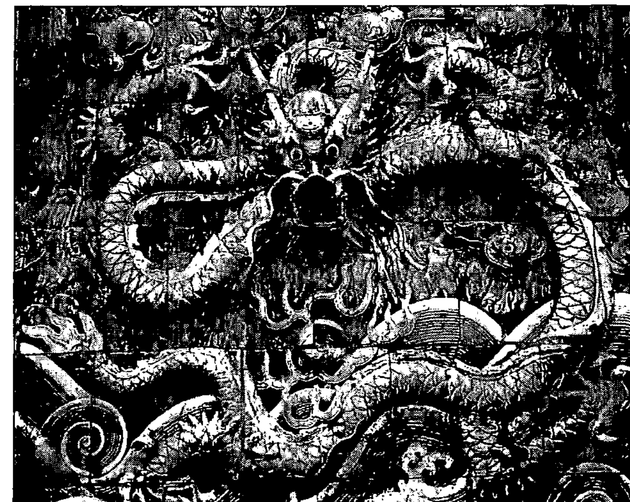
Canada

China and Hong Kong Trade Action Plan 2000

Department of Foreign Affairs and International Trade
Ministère des Affaires étrangères et du Commerce international



China and Hong Kong Trade Action Plan 2000

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This Trade Action Plan is also available on-line at:
http://www.dfait-maeci.gc.ca/china and **http://www.canada.org.hk**
Additional export information is available on-line at: **http://www.infoexport.gc.ca**

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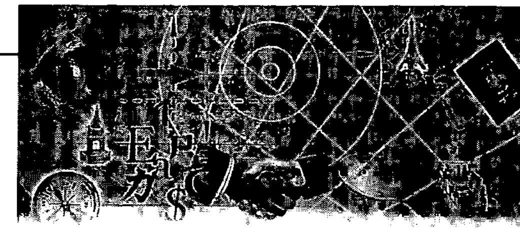

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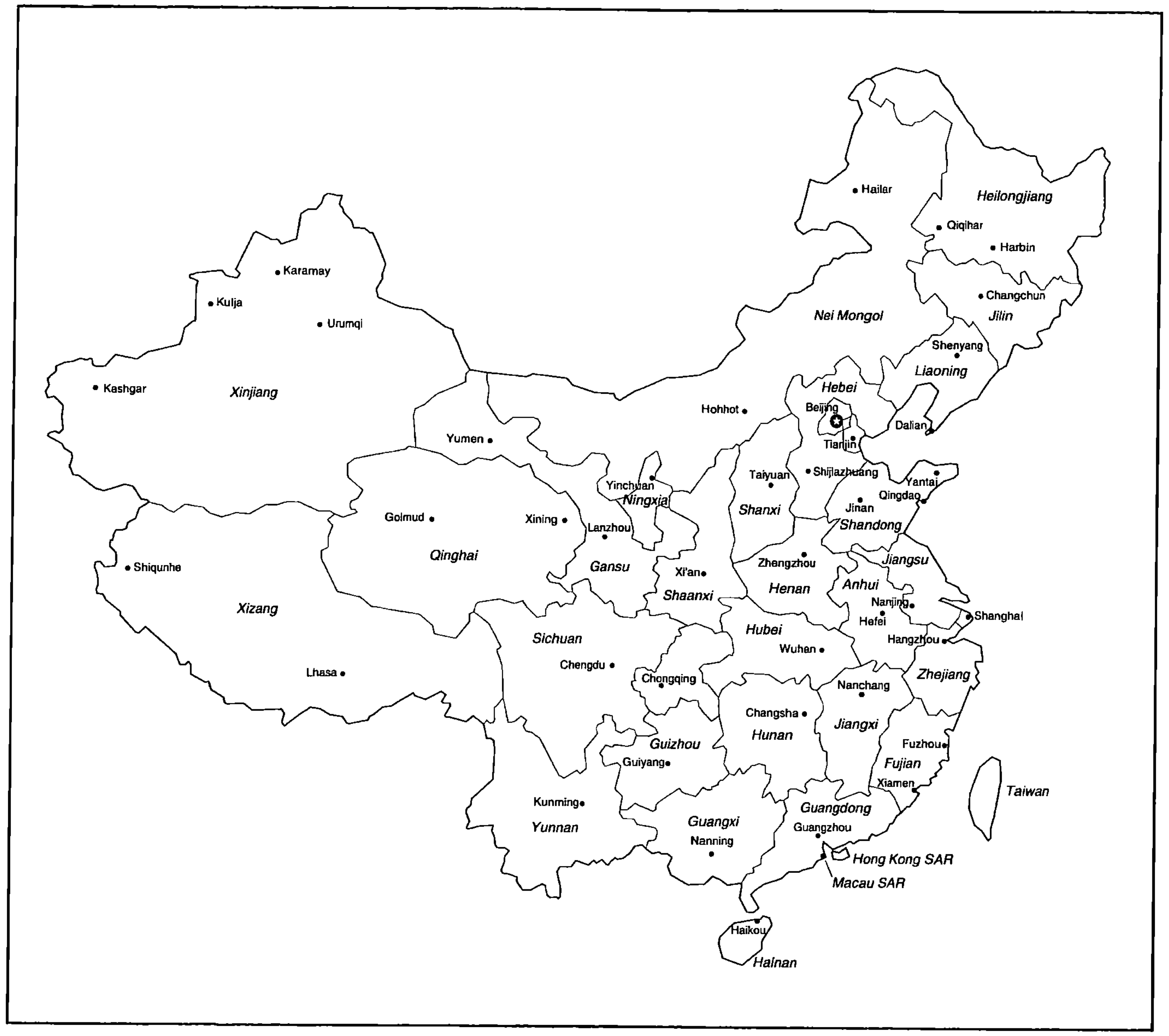


Executive Summary

China's economy has more than quadrupled in size since economic reforms and market liberalization began in 1978. It is the world's seventh-largest economy in terms of gross domestic product (GDP) and, with 1.3 billion people, it shows great promise of becoming the world's largest consumer market. China and Hong Kong, now united under the one country, two systems policy, have emerged as the economic engine of the Asia-Pacific region, with corresponding political influence. It is, therefore, not surprising that more and more Canadian companies, including small and medium-sized enterprises (SMEs), are looking to China and Hong Kong as possible markets.

China and Hong Kong hold significant market potential for Canadian firms, but the challenges are also significant. China's highly complex business environment, along with its culture and ways of doing business, can be daunting to new export-ready companies — and even to the most seasoned export-ready firms. Canadian exporters are most likely to succeed in the China 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.

The rapid increase in the number of Canadian companies that currently export to China and Hong Kong — or that are considering so — has placed considerable strain on the government's ability to support exporters. This latest edition of the *China and Hong Kong Trade Action Plan* was developed, in consultation with the private sector, to make more effective use of scarce resources by focussing Canadian companies where they will have a maximum impact for business success.

For Canadian businesses seeking improved access to the China and Hong Kong market, this Action Plan is a valuable business tool. It identifies nine key sectors that offer the most promising opportunities for Canadian exporters: Agriculture, Food Products, Fisheries and Related Sectors; Construction Products and Services; Education and Training Services; Electric Power; Environment; Forestry, and Pulp and Paper; Information Technologies and Telecommunications; Natural Resources; and Transportation.

Each sector description outlines 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. Three emerging sectors presenting high-growth export opportunities are also featured in the Action Plan: Cultural Industries; Financial Services; and Health Industries. Exporters targeting niche opportunities in other sectors will continue to receive support on a responsive basis, as resources permit. The Trade Action 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 every two years, 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.

I. The China and Hong Kong Trade Action Plan

Since economic modernization became the hallmark of Chinese government policy in 1978, China's economy has more than quadrupled. Annual growth has averaged a remarkable 9 percent, and is projected to continue at a similarly impressive rate into the next century. Even during the Asian financial crisis, while some of China's neighbours experienced negative growth, China posted 8.8 percent and 7.8 percent growth in 1997 and 1998 respectively. China has the seventh-largest economy in the world in terms of GDP (gross domestic product), and with more than 1.3 billion people, it also has the world's largest consumer market. China and Hong Kong, now united under the "one country, two systems" policy, have 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 Canadian 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 grew to $10.1 billion in 1998. China and Hong Kong combined now represent Canada's third-largest trading partner, after the United States and Japan, with bilateral trade reaching $12.8 billion in 1998.

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 to sustain high growth, and should 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, continue to complicate efforts to plan market development strategies.

A Strategic Approach to Developing China and Hong Kong Trade

This third 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 and Hong Kong. It is a direct response to a consensus among business and government that the China and Hong Kong markets require a more strategic deployment of our limited trade development resources. It identifies nine key priority sectors that offer the most promising opportunities for Canadian exporters, and focusses enhanced levels of service in these sectors.

* All dollar figures are in Canadian dollars unless otherwise noted.

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.

Team Canada Inc • Équipe Canada inc

To find out more about Team Canada Inc and its services, call 1-888-811-1119 or visit the web site at http://www.exportsource.gc.ca

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 has been formalized through the Canada's International Business Strategy (CIBS) process, and the network of Trade Team Canada sectors 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.

Canada China Business Council

The CCBC is a private-sector, non-profit membership organization facilitating and promoting trade and investment between Canada and the People's Republic of China. Visit the website at http://www.ccbc.com

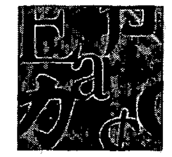
The following section highlights the assistance available from DFAIT and the Canadian embassy, consulates general and consulate in China and Hong Kong. For information on services provided by other Team Canada partners in Canada, such as skills development, market information, counselling and advice, market entry services and trade financing, see the Contacts section of this document.

Action Plan Objectives

This Trade Action Plan is designed to help Canadian companies to compete successfully and to take maximum advantage of trade and investment opportunities in China and Hong Kong. Specific efforts and initiatives are directed at preparing and facilitating the entry of export-ready small and medium-sized enterprises (SMEs) that are new to these markets, to help them plan and execute a sustainable business strategy. At the same time, the Trade Action Plan recognizes the need to protect and build upon the accomplishments of Canadian firms already active in these markets, in the face of increasing competition and an evolving business environment. The overall objectives of the Trade Action Plan are as follows:

- to substantially raise Canada's profile as a valuable trade and investment partner, and to foster strong support for closer economic and commercial co-operation with China and Hong Kong:
  - by maintaining the momentum of high-level visits of Chinese and Canadian leaders and senior officials, in keeping with the Team Canada approach, and by incorporating business representation to the greatest extent possible in delegations and visit programs; and
  - by monitoring economic developments in China and Hong Kong, and disseminating information and market intelligence to the Canadian business community using a full range of communications channels.
- to improve market and investment access in China for Canadian products and services:
  - by strengthening the ongoing trade policy dialogue and by negotiating Foreign Investment Protection Agreements (FIPAs) with China and Hong Kong; and
  - by maintaining a close co-operation and information-sharing with key Canadian trade organizations, such as the Canada-China Business Council, and with all levels of government, and by ensuring that efforts are consistent and reflect private-sector interests.
- to increase sales of Canadian products and services in the China and Hong Kong markets:
  - by aggressively promoting exports of high value-added and manufactured products, especially in promising sectors where Canadian technological excellence is well-established internationally;
  - by sustaining and strengthening Canada's established role as a reliable supplier of agricultural and resource products to China;
  - by supporting Canadian business efforts to expand and deepen market presence through investments in China and Hong Kong, especially joint ventures and wholly owned Canadian operations;
  - by developing and delivering tailored mechanisms to address the needs of Canadian SMEs, thus encouraging greater penetration of China and Hong Kong by those smaller and more specialized firms that are ready for these markets; and
  - by maximizing the economic benefits of activities and initiatives in other areas, including multilateral development bank, Canadian bilateral development assistance projects, or provincial and municipal government linkages.
- to increase foreign direct investment into Canada by Mainland China and Hong Kong:
  - by promoting Canada as an outstanding investment destination to the Chinese business community.

These global Trade Action Plan objectives are complemented by sectoral strategies, which follow in Chapter 4, designed to maximize Canadian capabilities in a number of China and Hong Kong economy priority sectors.



The Trade Action Plan and additional commercial information on China and Hong Kong are also available on-line at the Department of Foreign Affairs and International Trade's China and Mongolia Division Web site at http://www.dfait-maeci.gc.ca/china

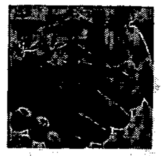
Action Plan Resources

The Trade Commissioner Service in China and Hong Kong

DFAIT's trade commissioners are the delivery arm for co-ordinating the trade promotion and international business development efforts overseas of various government departments and the business community. Trade commissioners in Ottawa and at Canadian missions in China and Hong Kong 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.

Canadian trade commissioners and locally engaged commercial officers and assistants in the People's Republic of China (PRC) are actively promoting Canadian goods and services exports, international business opportunities, and investment in Canada. Working from the Canadian Embassy in Beijing, Canadian Consulates General in Shanghai, Guangzhou and Hong Kong, the Canadian Consulate in Chongqing and the China and Mongolia Division in Ottawa, the team promotes value-added activities, and brings benefit to Canadian manufacturers and service providers by promoting business with China.

Their role is to help new and experienced Canadian companies that have researched and selected their target markets. 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.



To reach Canadian Trade Commissioners operating from the five Canadian missions in China, visit the Canada's Window on China website at http://www.canada.org.hk

Core Services

Market Prospects

Trade commissioners can help you assess your potential in your target market, and provide:

- advice on doing business in the market;
- an indication of major barriers, regulations and certifications;
- notification of upcoming events (trade fairs, conferences, seminars, trade missions); and
- suggested next steps.

Market reports may be available for some sectors. If you require additional market research, you will be referred to locally based firms.

Key Contacts Search

They can provide you a list of qualified contacts in your target market. These contacts have local knowledge to help you refine and implement your market entry strategy. Depending on your request, the list may include:

- potential buyers, partners agents, manufacturers' representatives;
- distributors, importers;
- consultants, accountants;
- government officials;
- associations, chambers of commerce;
- freight forwarders;
- lawyers and patent attorneys;
- technology sources; and
- financial institutions.

You will be notified if there are charges for access to specialized databases.

Visit Information

They can provide advice on timing and organizing your visit to the market. The information available includes lists of:

- local hotels;
- business support services;
- interpreters and translators; and
- local transport providers.

Please ask your travel agent to make hotel and travel arrangements.

Face-to-Face Briefings

One of the officers in China will meet you to discuss recent market developments and your future needs.

Please notify the Canadian mission of your visit at least two weeks before your arrival.

Local Company Information

Officers can give you information on key local market contacts or competitors you have identified.

You'll always be informed of any access charges for specialized databases. Credit checks are usually referred to specialized agencies; but accurate information is generally limited in China.

Troubleshooting/Advocacy

Trade officers offer advice or support to help you address urgent business or market access issues.

Officers cannot enter into private disputes, or act as customs brokers, sales agents, collection agents or lawyers.

Supplementary Services

To assist you in achieving your commercial objectives, supplementary services may be provided by the Canadian missions on a cost-shared basis. You might also be referred to a qualified in-market third party, who will generally charge a fee.

Such services may include:

- arranging meetings with key local contacts;
- co-ordinating logistical support and hospitality functions;
- co-ordinating business support services, including translation, interpretation, legal counsel, accountancy, and detailed market evaluation or studies;
- arranging participation in missions and events, including trade shows and technical seminars;
- obtaining tender documents, providing bidding assistance, and attending tender openings; and
- providing support to local clients, such as the sourcing of Canadian goods and services through the DFAIT WIN Exports database.

These support services will be undertaken on the basis of a signed agreement with payment made in advance by the client for any direct costs incurred.

What is needed from Canadian clients

You must meet certain basic criteria to benefit from the Trade Commissioner Service in China and Hong Kong. Your firm or representatives must:

- contact the Canadian missions in writing with comprehensive information about your company, products and / or services, experience in the market, potential clients and partners, and current market activities and plans;
- be prepared to obtain business cards and summary marketing materials in Chinese, as well as in-country interpretation and translation services; and
- register in WIN Exports, a computer database of Canadian exporters and their capabilities, by calling 1-800-551-4946.

It is strongly recommended that you:

- undertake basic market research and visit preparations using freely available public sources of market information, including Internet sites; and
- demonstrate market commitment by visiting China as necessary and maintaining follow-up contact as required.

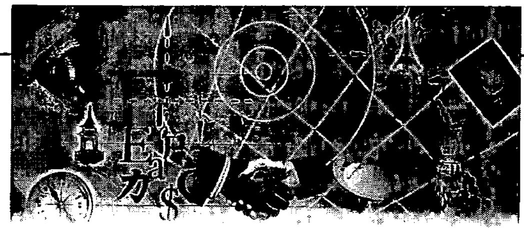
Services are only available to respond to inquiries or to support projects that involve a measurable value-added economic benefit to Canada.

Service Standards

You can expect the following service standards from the Canadian embassy, consulates general and consulate:

- Written communications will be responded to within five days of receipt.
- All company-specific commercially sensitive information will be treated in strict confidence.

The Contacts section of this document provides details on how to reach DFAIT's China and Mongolia Division in Ottawa or the Canadian missions in China and Hong Kong.



2. Business Environment

Mainland China

China continues to undergo profound changes, as the transition from a planned to a market-oriented economy now embraces fundamental — and in some cases painful — modifications to the structure of government, to levels of government staffing and resources, and to the legal-business regulatory environment.

Since becoming Premier in early 1998, Zhu Rongji has accelerated and deepened the pace of government and state-sector reforms, as part of process designed to entrench commercial principles and sustain continued economic growth. Central government ministries have been downsized and reorganized to focus on regulatory and administrative functions. Firm timetables are also being enforced for spinning off, commercializing or closing enterprises in what had previously been a heavily subsidized state sector, and for separating the activities of government from that of business. Finally, lawmakers are pursuing a program of fiscal and regulatory reforms to ensure a more stable and transparent business environment.

The macro-economic priorities of the Ninth Five-Year Plan, which are expected to be maintained through the development of the Tenth Five Year Plan (2001-2005), include increasing food production and strengthening the agricultural sector; developing infrastructure in order to improve efficiency and effectiveness of the existing economic base; acquiring the science and technology necessary to support 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 particularly evident in the areas of agriculture and agri-food, infrastructure (energy, transportation, information industries and telecommunications), environmental protection, and construction.

Local Decision Making, Regional Markets

While the central government in Beijing continues to exercise a paramount role in national economic leadership and in setting priorities, local levels of government now wield significant influence and decision-making power in the execution of major projects. Using a range of economic development initiatives, provincial, county and municipal governments compete domestically and internationally to attract investment, create employment, and increase economic wealth.

Furthermore, China is a land of greatly diverse geography and culture, and the characteristics of its economy vary greatly from region to region, in economic structure, level of development and growth prospects. In general, it is possible to identify the following key regional markets within China, each with a population of more than 100 million and a GDP exceeding $30 billion.

These regional Chinese markets include:

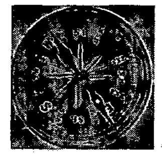
- Northeast China (made up of Heilongjiang, Jilin and Liaoning provinces);
- Northwest China (Xizang, Xinjiang, Ningxia, Nei Mongol, Qinghai and Gansu);
- Central Plain (Beijing, Shaanxi, Shanxi, Henan, Tianjin, Hebei and Shandong);
- Upper Yangtze and Southwest China (Yunnan, Sichuan, Guizhou, Hunan and Hubei);
- Shanghai and the Yangtze Delta (Shanghai, Jiangsu, Jiangxi, Zhejiang and Anhui);
- South China (Guangdong, Fujian, Guangxi and Hainan); and
- Hong Kong (SAR).

Market Access and Regulatory Environment

Over the 20 years since the process of opening and reform began, significant progress has been achieved in the reduction of market access barriers, both tariff and non-tariff. As China continues negotiations to accede to the World Trade Organization (WTO) and to further integrate its economy into the multilateral trading system, Canada offers its strong support on terms that benefit both countries. Even prior to WTO accession, China's efforts to strengthen its trading regime to a "rules-based" system has begun to show signs of a relatively more transparent trade and investment environment. Progress toward a rules-based business environment is expected to continue.

Still, market access issues remain a significant barrier to Canadian firms engaged in trade and investment with China, and although the process of WTO accession is helping to identify and address many of these issues, removing the obstacles and amending associated business practices in the marketplace will take time.

China's tax, tariff and investment policies are also evolving. On many fronts, China has taken practical steps to develop a more transparent and predictable business environment, a development that Canada is actively encouraging. Nevertheless, it will take time before these measures translate into reliable protection for foreign firms. For example, although China has made significant advances in recent years to implement legal measures to protect intellectual property, enforcement remains problematic, and varies widely from city to city and province to province.



Export Controls

Export controls exist in order to fulfill Canada's international obligations concerning the movement of strategic goods. To determine whether such controls apply to your product, contact DFAIT's Export Controls Division at (613) 996-2387 or visit its website at http://www.dfait-maeci.gc.ca/~eicb/

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

Trade and Investment Climate

Many Canadian firms have pursued the transition to establishing a local representative office, or even to investing in joint ventures or wholly owned subsidiaries in China, to position themselves for long-term business activity. Careful selection of

Trade by Province (US$ millions, 1998)

	Exports		Imports	
	Value	% of Total	Value	% of Total
Guangdong	76,302	41.5	55,178	39.4
of which Shenzhen	25,748	14.0	18,773	13.4
Shanghai	15,641	8.5	15,530	11.1
Jiangsu	15,930	8.7	12,148	8.7
Shandong	11,210	6.1	7,904	5.6
Zhejiang	11,606	6.3	5,144	3.7
Fujian	10,718	5.8	7,401	5.3
Liaoning	7,625	4.1	6,137	4.4
Beijing	6,494	3.5	9,283	6.6
Tianjin	5,465	3.0	5,612	4.0
All other provinces	22,764	12.4	15,828	11.3

Source: General Administration of Customs and EIU location and "due diligence" of partners, attention to staffing issues, and cultivation of political support for the project are among the issues that are key to success. Above all, Canadian firms need to implement a strategic, long-term China business plan, to ensure that business goals are realistic, and that they keep pace with China's changing economy.

Investment projects require approval at levels that vary according to size, industrial sector and location. Canadian firms with investment interests should study all aspects of a prospective investment carefully and obtain specialized legal advice, and commit resources with caution and a clear understanding of the details of Chinese investment policy and applicable laws. Any investment requires a lengthy and detailed negotiation, and usually includes substantial requirements for technology transfer.

Investment in certain sectors is restricted or even prohibited by China's central government, to limit exposure in certain inflation-prone or high-risk activities, and to promote channelling of funds toward key infrastructure and technology development projects. Projects in the less-developed central and western provinces are also encouraged, although strategies in these regions must address the greater challenges of a less-skilled workforce, lower living standards, and less well-developed infrastructure.

Hong Kong Special Administrative Region (SAR) — a dynamic market, springboard to the mainland

Hong Kong is one of Canada's most important trading partners. In a time of regional economic turmoil, the fundamentals of the Hong Kong economy remain strong. The business environment remains well-regulated, efficient, and transparent. Hong Kong's efficient transportation and communications infrastructure, strong financial and banking sector, and free trade regime complement the economy of the mainland. Hong Kong should continue to provide a significant source of investment capital for Canada and a fertile market for Canadian technology, goods and services.

Two years after the July 1997 transfer of sovereignty, governing institutions remain strong, effective and impartial. Under the principle of "one country, two systems", Hong Kong will retain its sophisticated, free market governing and commercial institutions, including the British common law system, until 2047, i.e. 50 years after the transfer of sovereignty. Moreover, the Hong Kong dollar remains firmly pegged to the United States dollar. The successful defence of "the peg" in late 1998 has played a substantial role in maintaining both business and broader public confidence in the future. Additionally, Hong Kong will remain a free port and separate customs territory under the WTO. Additionally, as the world's fifth-largest financial centre, it will continue to issue its own fully convertible currency. English remains the language of business and higher education, and the official language of government.

Hong Kong's economy is dependent on trade in goods and services. It is the banking, financial, transportation and regional sales centre of East Asia, and China's most important source of foreign investment. Virtually all major commercial ventures in China have at least a part of their financing constituted in Hong Kong. Hong Kong is also an important investor in Canada, and can therefore be a viable and credible window for Canadian firms entering the mainland.

Hong Kong had a difficult year in 1998, however. Unemployment reached an unprecedented high of 6 percent, and retail sales fell 20 percent from their 1997 high. GDP declined 5 percent. However, 1998 was not a bad year for Canadian exports. Despite contractions in the economy, Canada achieved record exports in agri-food ($499 million) and information and communications technology (IT) products ($241 million).

As we enter the second half of 1999, Hong Kong business confidence has improved significantly. This is reflected in rising property and stock markets, improving tourism industry, and the prosperous import and re-export trade when acting as China's *entrepôt*.

In its 1999-2000 budget, the Hong Kong government forecast a return to growth. The Hong Kong business community, including the leadership of

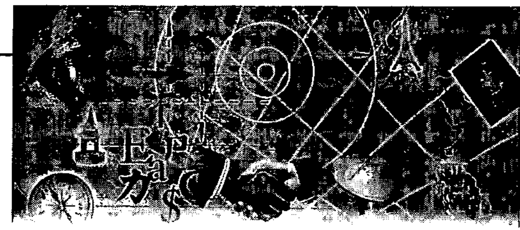
the highly influential Hong Kong General Chamber of Commerce, publicly endorsed this optimistic forecast.

To reinvigorate the economy, the government announced several initiatives in its February 1999 budget of potential benefit to Canadian business, including a broadly based consumer taxation rebate, further deregulation of the telecommunications sector, and a concurrent expansion and further privatization of the public infrastructure.

Of potential greatest interest to Canadian business was the announcement in the budget of a US$1.7 billion "Cyberport" initiative to stimulate the development of an indigenous IT industry and to ensure Hong Kong's continued prominence as a leading international communications and business centre. The Cyberport, situated in the most liberal telecommunications environment in Asia, will provide the infrastructure for companies specializing in e-commerce and multimedia content development for business and industry. The initiative has been publicly endorsed by Bill Gates, CEO of Microsoft. Formally committed "anchor tenants" also include Hewlett-Packard, Intel, IBM and Yahoo.

Hong Kong's "Cyberport"

For more information about "Cyberport", please see http://www.info.gov.hk/itbb or contact one of the Canadian Trade Commissioners based in Hong Kong.



3. Regional Market Descriptions

Canada's commercial offices in China are strategically located to reflect the growing importance of our relationship with this country, and in recognition of the different regional characteristics and economic dynamics in the different parts of China. Although the regional profiles below outline some of these characteristics, the business environment can vary widely within each region. Canadian companies are encouraged to contact the relevant Commercial Office for information and advice.

The Canadian Embassy in Beijing facilitates Canada's bilateral relationship with the Government of the People's Republic of China and maintains close contacts with central government ministries and administrations in order to support commercial relations and economic interests. In addition, the Embassy monitors developments and promotes bilateral trade and development in its commercial territory, which includes the municipalities of Beijing and Tianjin, and the provinces/regions of Gansu, Guizhou, Hebei, Heilongjiang, Henan, Hubei, Hunan, Jiangxi, Jilin, Liaoning, Nei Mongol (Inner Mongolia), Ningxia, Qinghai, Shaanxi, Shandong, Shanxi, Xinjiang, Xizang (Tibet) and Yunnan.

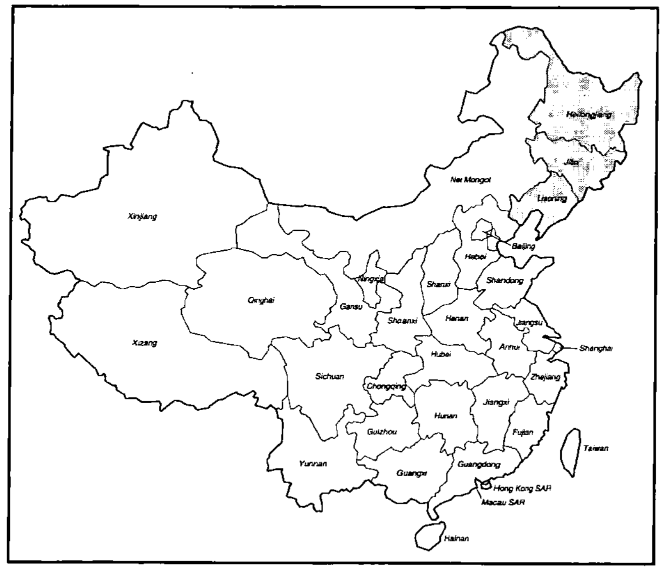
The Canadian Consulate General in Hong Kong maintains close contact across the broad spectrum of Canada's important relations, including trade and investment relations and economic development issues, within their territory of the Special Administrative Regions of Hong Kong and Macau.

The Canadian Consulate General in Shanghai manages Canada's commercial and economic relations with the municipality of Shanghai and the provinces of Anhui, Jiangsu, and Zhejiang.

The Canadian Consulate General in Guangzhou manages Canada's commercial and economic relations with the provinces of Guangdong, Fujian, Guangxi and Hainan.

The Canadian Consulate in Chongqing manages Canada's commercial and economic relations with the municipality of Chongqing and the province of Sichuan.

Northeast China



China's three northeastern provinces — Liaoning, Jilin and Heilongjiang — occupy 800 000 square kilometres and are home to 105 million people (9 percent of China's population), with a per capita GDP of $1000.

The climate of Northeast China is similar to much of Canada: a cold temperate zone covering most of the area, moderated 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.

Occupied in the 1930s by the Japanese, Manchuria became the first area of China to industrialize, supplying material for Japan's war effort through much of World War II. Following the establishment of the PRC, neighbouring USSR contributed funds and technology to a renewed industrialization of the region, so that by 1979, when China began to open its economy, the northeast held a major share of total capital goods production and chemical industrial capacity. Since that time, however, the region has become one of the "rust belts" of China, and is burdened with a disproportionate share of obsolete physical plant equipment and overstaffed, technologically out-dated state-owned enterprises. To address these serious problems, local governments are working aggressively and creatively, to attract domestic and foreign technology and capital infusion, and to improve management skills.

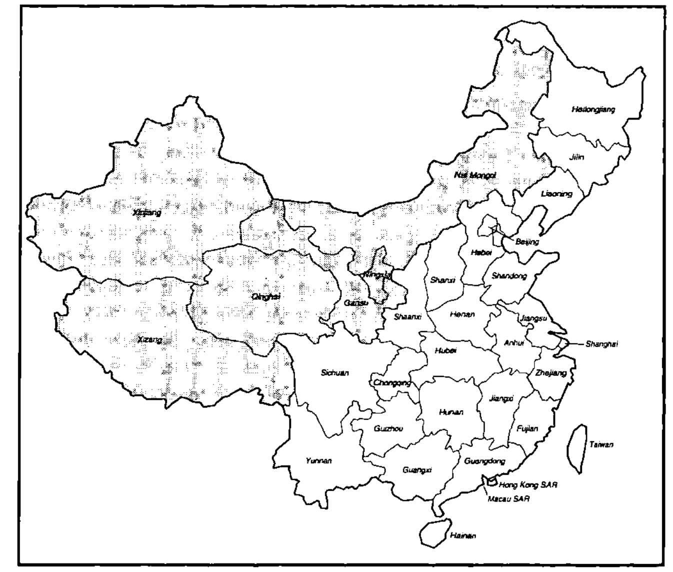
Blessed with abundant natural resources and a strong agricultural sector, this region is China's largest producer of many valuable commodities. Key resource-driven industries are agriculture (especially grain, dairy and livestock), forestry, fisheries and petroleum. Daqing, in Heilongjiang, has China's largest oilfield, producing 40 percent of China's declining output.

Transportation infrastructure is well developed, with road and rail networks providing links between all major centres, as well as to Hebei and Beijing. Ocean port facilities in Dalian handle nearly 70 percent of the region's exports. In addition, airport development in a number of cities is helping to enhance domestic and international trade links.

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

Recent years have seen increased efforts on the part of governments in Canada and China to deepen and further develop economic partnerships in the northeast. Canada is particularly well positioned in Heilongjiang (twinned with the Province of Alberta) and Liaoning (which has an economic cooperation agreement with the Province of Quebec) who have both demonstrated sincere efforts to expand Canadian contacts and trade.

Northwest China



China's northwest is made up of four autonomous regions (Xizang, 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. The region is mainly inhabited by minorities (Mongol, Tibetan, Uygur in Xinjiang and Hui in Ningxia), with significant percentages of majority Han in certain areas, particularly urban centres. Per capita GDP averages about 3500 RMB, or about $700, making it one of the poorest regions in China. Climatic conditions can be harsh, ranging from high plateau (Xizang) and desert (Xinjiang) to northern steppe (Inner Mongolia), with limited agricultural land.

The central government is an important player in the social and economic planning for the mainly Islamic territories of Xinjiang and Gansu. Over the years, there has been considerable Han immigration, diminishing the minorities' importance. Tibet and Inner Mongolia are home to significant numbers of ethnic minorities and nomadic peoples. China is pressing hard to further economic development in these regions (hence the need to open up).

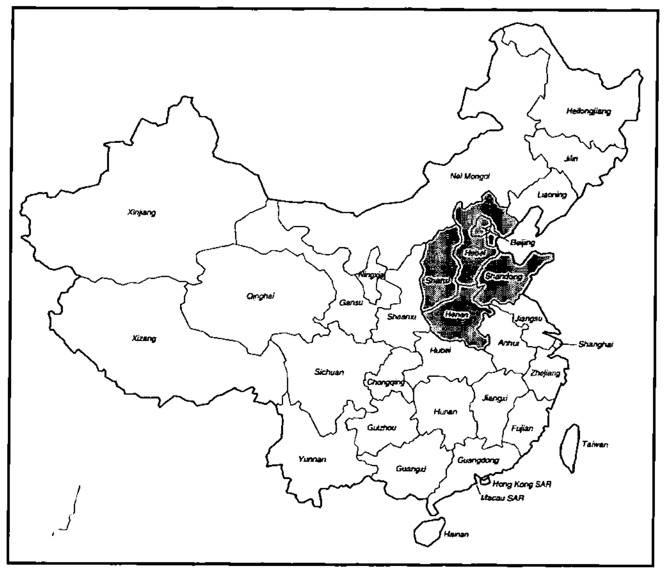
The remote location, a challenging geography and a small population have contributed to the region having the most underdeveloped infrastructure base in the country. Air and rail connections are few, telecommunications facilities are generally poor outside of urban areas, and the power supply does not match growing requirements. Transportation, for example, typically accounts for 15 to 20 percent of export costs.

Northwest China's economy is less developed than that of the rest of 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). 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).

Not previously targeted for industrialization, the region does not suffer from a heavy state-owned enterprise debt burden. The central government's recent policies of encouraging foreign investment in this region, and an accelerated infrastructure program, have helped somewhat to spur the economy forward. Foreign investment has increased significantly since 1996, with resource extraction and industrial development leading growth trends.

This challenging market is appropriate for Canadian firms with extensive experience abroad. Business opportunities for Canada lie in the industries related to natural resources (oil and gas, and minerals) and infrastructure (telecommunications, transportation 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 more than 330 million people (more than a quarter of China's population), 120 million of whom live in cities. The region accounts for more than 25 percent of the national GDP.

Located in east-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. Xi'an, capital of Shaanxi province, was the political, economic and cultural hub of China for 1100 years, until the 10th century.

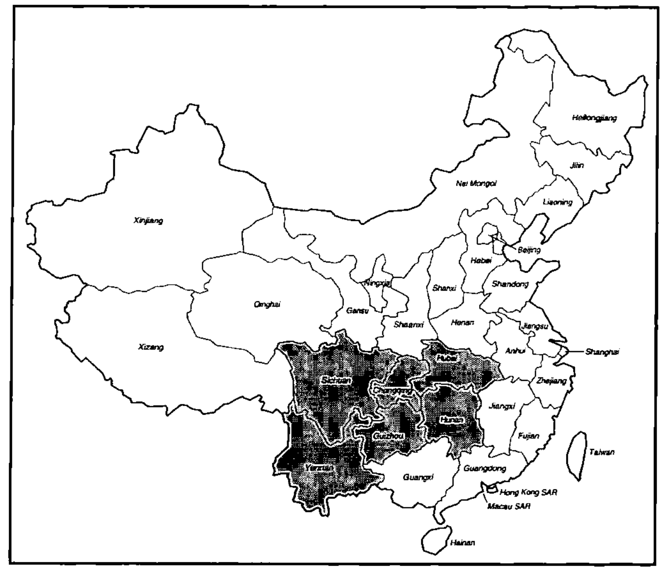
Beijing, the national capital, and the Beijing-Tianjin axis, are the economic heart of the region. Both municipalities have a provincial-level decision-making authority, and their economies are characterized by a strong and diverse industrial sector, including the automotive, information technology, electronics, pharmaceutical, chemical and petrochemical, and textiles sectors. The Beijing-Tianjin corridor constitutes a key consumer and service market, with a well-educated population enjoying a relatively high standard of living. The province of Hebei, which cradles the two metropolitan regions, serves as breadbasket and power source, and also boasts a well developed light industry sector.

Shandong, Beijing and Tianjin have their share of unprofitable state-owned enterprises, but can claim a high concentration of solid and well-established special economic and investment zones, attracting a great majority of the region's foreign direct investment. Shandong's large foreign investment is primarily Japanese and Korean. Tianjin and Qingdao (in Shandong) have excellent seaports, which are key access points for imports of raw 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, oil fields, petrochemical, textile and cargo handling. Henan, Shaanxi and Shanxi have important manufacturing (automotive, aerospace and machinery) sectors, and generate significant agricultural production.

Because of its role as China's political centre its well-developed infrastructure, the Beijing-Tianjin axis is often the first choice of foreign companies locating in China. Given the economic strength and diversity of the industrial and service sectors in Beijing, Tianjin and Shandong in particular, Canadian companies should consider this region as one of the most suitable places to do business in this country.

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 provincial-level municipality, Chongqing. The region occupies an area of 153 900 square kilometres and has a total combined population of 310 million.

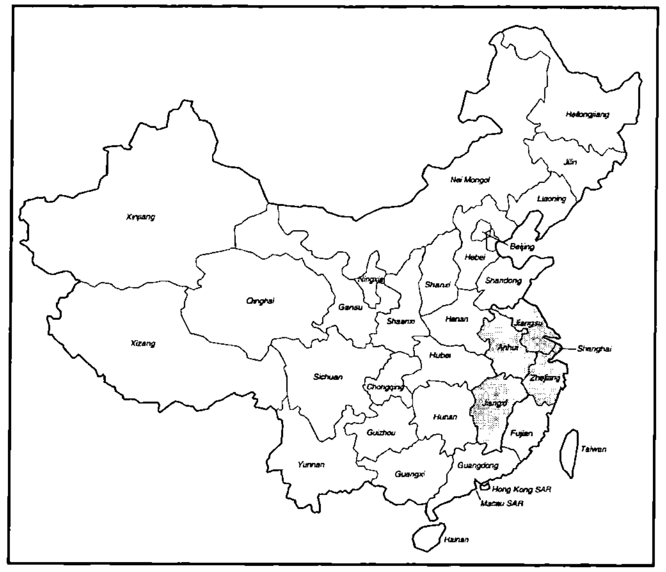
The topography of Southwest China is diverse, ranging from flat plains to mountainous areas and with many basins and river valleys. Consequently, the region has a variety of climate types, ranging from tropical forest in Yunnan, to temperate in Hubei, to high-elevation mountain weather in Sichuan. In the south, the province of Yunnan borders Burma, Laos and Vietnam, a region with the greatest concentration of China's ethnic minority groups.

Although the development of Southwestern China has historically lagged behind that of the more prosperous coastal provinces, efforts by the Chinese government to foster the economic development of the interior have resulted in increased infrastructure spending. A large concentration of both heavy and light industry can be found in the provinces of Sichuan, Hubei and Hunan, including 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.

Sichuan and Chongqing are located in Southwestern China, approximately 2000 kilometres inland from Shanghai. Both are resource rich, with a strong agricultural base, mineral and natural gas deposits, and a combined population of 115 million. Although there is a mix of light and heavy industry, automotive, chemical and metallurgical plants predominate. Due to its geographic position far from the coast, there is very little export processing in this region, and most goods that are produced here are destined for China's domestic market.

Because of this region's relatively underdeveloped infrastructure and lower growth rates, the central government has a number of preferential policies to encourage foreign investors. In addition, many international financial institutions (IFIs) are now funding transportation, agricultural, energy and training projects in this region. Opportunities exist, particularly through these IFI-funded contracts, for Canadian consultants and providers of goods and services in 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). For Canadian companies that are already familiar with China's coastal regions, this area provides additional opportunities for market development, although the consumer base is still relatively small.

Shanghai and the Yangtze Delta



With 200 million people and one quarter of China's economy on a land base half the size of Alberta, the Yangtze Delta is one of the most concentrated markets in the world. Centred on the cosmopolitan port city of Shanghai, the Yangtze Delta leads the country in terms of size of market, economic output and regional GDP per capita.

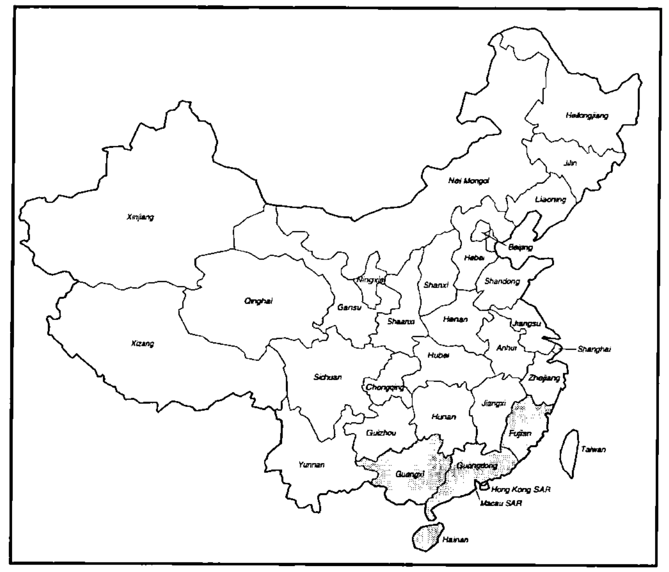
With economic liberalization in China, economic growth in the Yangtze Delta has been faster in the last decade than in most of the Asian tigers at any time during the last 20 years. Purchasing power in Shanghai has already surpassed that of many other Southeast Asian cities, and Shanghai consumers are not the wealthiest consumers in China's prosperous coastal region.

A major economy it its own right, Yangtze Delta economic output is in excess of Indonesia, Thailand, Malaysia or the Philippines and, despite the Asian financial crisis, the region continues its double digit growth rates. Given its size, economic success and the business-minded approach of both government and the private sector, the region is often used as a laboratory and testing ground for further economic reforms and liberalization in China. In the same way that Hong Kong and Taiwan serve as an indicator for how business may develop in the region, coastal regions like the Yangtze Delta offer a good rough predictor of how business will develop in China's vast interior.

Opportunities exist across the business spectrum; indeed, there is already significant business in the Yangtze Delta in areas not normally associated with developing economies. Jiangsu province is China's largest investor overseas, luxury consumer goods sell briskly from deluxe department stores, and live Canadian lobster is sold to consumers in several Yangtze Delta cities.

All these factors make the Yangtze Delta an excellent beachhead for companies interested in the China market.

South China



South China, including the provinces of Guangdong, Fujian and Hainan, as well as the Guangxi Autonomous Region, is one of the most economically dynamic regions in China. With a population of over 160 million, South China has been the recipient of over 50 percent of the foreign investment into China over the past 20 years. The region boasts almost half of the nation's imports, and the highest income levels in the country, making it an enticing market for many Canadian exporters and investors.

All of the five national Special Economic Zones (SEZs) are located in South China. SEZs were set up by the central government not only to attract investment, but also to provide experience with experimental policies. Examples include modified tax regimes, visas-on-arrival, and relaxed requirements regarding foreign investment in traditionally controlled sectors. Shenzhen, one of the most successful zones, borders Hong Kong and has grown from a small fishing village less than 20 years ago to a modern cosmopolitan city of over four million. Shantou attracts interest from Southeast Asian investors and business people, while Xiamen rides a successful wave of investment from Taiwanese investors, among others. Zhuhai, the "Green City" is located opposite Macau, and the entire province of Hainan island operates with SEZ privileges.

A significant number of Chinese Canadian immigrants have their origins in South China, resulting in strong ties between South China and Canadian Chinese communities. Much of the early Canadian investment in China involved projects backed by Canadian Chinese. This has significantly strengthened educational linkages in South China. As well, trade flows in this region have been affected, with family ties helping Canadian exporters to build strong and lasting business links to the entrepreneurs of South China.

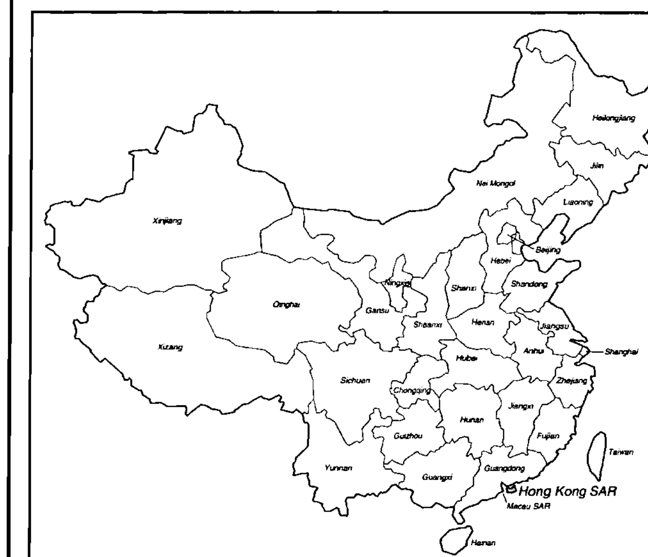
Guangdong province has one of the most advanced distribution systems in the country, with a thriving retail sector. As well as the traditional fast food restaurants, convenience outlets such as 7-11, "ok" and "am-pm" stores are now ubiquitous in urban areas. Foreign gasoline stations such as Esso, BP and Shell are readily accepted by local consumers. Guangdong is the wealthiest consumer market in China, and is the province with the highest income levels, the most cellular phones, the most privately owned automobiles, the greatest volume of imported products, and the greatest amount of foreign investment.

South China is the destination of 47 percent of the nation's total imports. Opportunities exist in several sectors, but the focus is particularly placed upon building and construction materials, agri-food, the environment, education and information technology.

South China will be advancing several large infrastructure projects over the next few years. The new Baiyun International airport in Guangzhou will be the nation's third largest. The Ninth National Games, to be held in 2002, will require a substantial investment in recreational and sports infrastructure. Several cities in the region are undertaking major urban transit projects.

The Pearl River Delta region, centred around the provincial capital, Guangzhou (formerly known as "Canton"), and anchored by Macau and Hong Kong, includes over 10 highly industrious cities, each with populations equal to or greater than that of Toronto. Guangzhou's 1998 GDP per capita measured $4500. Disposable income in Guangzhou is similar to that of Shanghai, while incomes in cities such as Shenzhen and Zhuhai are substantially higher.

Hong Kong SAR



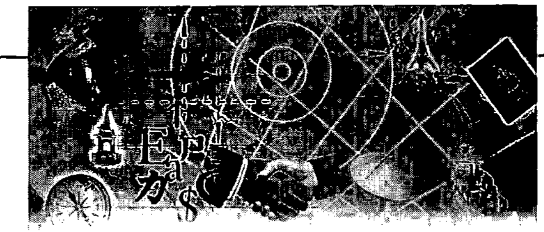
With a population of 6.7 million, Hong Kong is the world's eighth-largest trading economy, fifth-largest financial centre, and, on average, Canada's tenth-largest global trading partner. It has a per capita GDP of $37 075. In addition to being an attractive market in its own right, Hong Kong remains China's largest port, and the *entrepôt* for most of China's value-added imports and exports, particularly goods exported by SMEs.

Hong Kong's very competitive environment dictates that direct local representation or a qualified and reputable agent/distributor is critical to success. Substantial resources, including a major investment of time and frequent visits, are also required to establish business relationships in Hong Kong, further increasing the cost of doing business. Aggressive pricing and product innovation are also highly valued.

In the past, Canada has traditionally been a strong exporter of resources to Hong Kong, including metals and minerals, pulp and paper, and petrochemicals. Today, the great majority of Canadian exports to Hong Kong are manufactured, processed and semi-processed goods.

The sectors of greatest promise to Canadian business include:

- high-value food products, including fruits and vegetables, seafood, and processed animal products (including meat and dairy products);
- IT and telecommunications goods and services;
- education goods and services, particularly innovative IT-based learning systems and content;
- construction materials; and
- public transportation equipment and services.



4. Sectors

Agriculture, Food Products, Fisheries and Related Sectors

Mainland China

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. With excellent grain harvests from 1995 to 1998, that goal is becoming more and more realistic. 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.

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 and regions;
- the need to maintain social stability, and;
- the need to improve job opportunities in rural areas while making significant improvements in productivity.

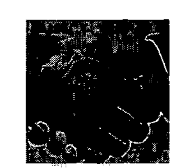
Market Opportunities

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

Canola seed for crushing replaced wheat as Canada's largest agricultural export item to China in 1998. Products such as malting barley and potash are significant exports. Special crops are starting to make inroads. Value must be added to these products through better marketing and packaging in order to maximize their end use and value.

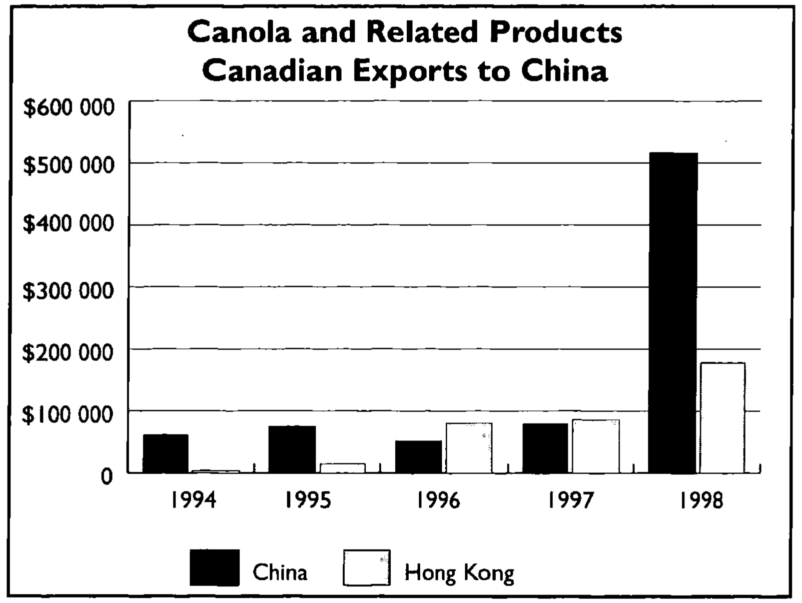
A key challenge facing commodity exporters is to encourage China to modify its goal of food self-sufficiency and to diversify some of its sources. Diversification can be achieved by investing in Canadian production and processing, either by direct investment or through long-term "take-or-pay" contracts.

Value-added agriculture may be one area in which 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



Growing by leaps and bounds

Combined exports of canola and related products to China and Hong Kong in 1998 exceeded $690 million, up from $164 million in 1997, replacing wheat as Canada's number one export to the region.



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.

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. The Yangtze Delta region is becoming increasingly accessible via Shanghai.

Canadian finfish and shellfish are popular in the China market, especially in South China. Exports of Canadian fish and seafood (particularly live or frozen) to China 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.

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 payment mechanisms requiring extensive supplier credits; and a lack of consistency and transparency around tariffs, sanitary and phytosanitary (SPS) conditions, related technical procedures (labelling, packaging, regulations specific to quality, etc.) and other rules of entry. Theft of intellectual property is a key issue for branded foods and beverages. The legal system is only beginning to take shape, particularly in the areas of contracts and land tenure.

Despite well-publicized tariff reductions in 1996, China is still generally a high-tariff market that discourages imports, while stimulating local manufacturing. Specific Canadian products may be disadvantaged against competing products from other countries (soy vs. canola, feed peas or barley vs. feed corn, etc.) In addition, there is the perennial issue of tariff escalation between raw and processed products. The announcement of tariff rate quotas (TRQs) for products such as wheat, barley and oilseeds has not clarified the situation, since China has never revealed what volumes are attached to the TRQs or how they will be administered.

Deficiencies in physical infrastructure are a serious impediment both to exporting beyond China's coastal regions, 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.

China attempts to be self-sufficient in food products. 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.

Since mid-1998, China has put in place measures to stop "unofficial" trade. For many years, much of the trade by other countries in agri-food and seafood products to China avoided tariffs and licensing restrictions through the use of unofficial trading channels through Hong Kong.

To prevent unexpected changes in distribution, Canadian suppliers must closely monitor the flow of their products, regardless of how they reach the end user. In particular, product currently moving into the Yangtze Delta region or China's industrial northeast via Hong Kong or Hong Kong traders, is likely to see significant shifts in its distribution, as regional buyers develop the capability to deal directly with foreign suppliers.

Action Plan

Canada's missions in China differentiate themselves through the services they provide, reflecting the different clientele they serve. The Canadian Embassy in Beijing addresses the widest range of interests, specializing in agriculture, items of national interest, government interaction and policy negotiation. CIDA's 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. The Consulate General in Guangzhou covers China's southern coastal market, with an emphasis on processed foods, beverages, meats and seafood. Agriculture and Agri-Food Canada and the Canadian Food Inspection Agency are also key players, and are heavily involved in trade, market access and market development issues. Collectively, these offices will accomplish the following in 1999-2000:

- negotiate improved access related to SPS conditions, including the removal of the ban on seed potatoes, improvement of the import protocol for pork, and registration and inspection of interested Canadian meat-exporting plants;
- focus efforts on China's WTO accession, resolving bilateral irritants and obtaining lower tariffs for priority products;
- provide technical assistance in developing WTO-consistent regimes for trade and policy;
- increase value-added exports into targeted regional markets, while maximizing sales opportunities for primary and semi-processed agricultural commodities;
- increase awareness and build on the existing positive image of Canada as a reliable agri-food supplier;
- assist Canadian trade associations (e.g., beef, pork, salmon, lobster) in undertaking generic promotions in China;
- provide timely market intelligence to companies capable of acting on this information;
- preserve and expand Canada's markets in China for our traditional export products, while building markets for Canadian products, services and technologies new to the market; and
- encourage the participation by Canadian firms in targeted trade shows, including the China Fisheries and Seafood Expo, Food and Hotel South China, Food China and Agrifood-Tech.

CFIA CANADIAN FOOD INSPECTION AGENCY
ACIA AGENCE CANADIENNE D'INSPECTION DES ALIMENTS

The Canadian Food Inspection Agency's website can be found at http://www.cfia-acia.agr.ca/

Visit Agriculture and Agri-Food Canada's online trade services at http://atn-riae.agr.ca

Hong Kong

Business Environment

Hong Kong imports almost all of its food. In 1998, total food imports were $12.92 billion. Local agricultural production of $265 million accounted for less than 2 percent of food requirements. As a business *entrepôt*, Hong Kong re-exported $5.78 billion of agriculture and agri-food products in 1998, of which $4.25 billion went to China.

Despite the Asian economic turmoil, 1998 was a record year for Canadian agriculture exports to Hong Kong. Canadian agri-food exports to Hong Kong have grown consistently for the past 15 years. Including inedible products like hides and skins, Canadian exports in 1998 were $437.68 million, with much of it being re-exported to China. It will be difficult to maintain this rate of expansion in the future, however. The increasing sophistication of mainland buyers, and China's potential early accession to the WTO are expected to diminish Hong Kong's importance as a trading *entrepôt* for agri-food commodities to China. For the time being, Hong Kong will continue to be a vibrant and attractive market, and will remain a valuable shopping window and trading centre for China and Southeast Asia. Given its proximity to China, Hong Kong remains the best reference account for processed food products in China and Southeast Asia.

With a prominent expatriate population and an open society receptive to western culture and tastes, Hong Kong welcomes new products. It is estimated that over 150 000 Canadians reside in Hong Kong. In addition, large numbers of middle- and higher-income residents have studied or lived in Canada. Taken together, they are a critical mass of consumers who understand and have extensive experience of Canadian products.

Recent developments in the retail market that may result in significant market opportunities for Canadian food exporters include:

- the emergence of discount grocery chains that sell non-branded processed food products, e.g., Prize Mart, Yu Kee and Yan Wo;
- the inauguration in July 1999 of a direct distribution network by Next Media Management Ltd., the publisher of *Apple Daily* and *Next Magazine;*
- the initiatives by the major supermarket chains to expand their product offerings by incorporating "wet market" concept meat and fresh produce sections, and to introduce more house brands and private label products; and
- the establishment by wholesalers of their own retail outlets, e.g., the Okashi Land snack chains established by Four Seas Mercantile Holdings Ltd.

This restructured retail food environment could significantly reduce market entry costs for new Canadian players.

Market Opportunities

There are opportunities for high-value products in Hong Kong, i.e. good quality and competitively priced, semi-processed, processed food and retail packaged food products.

Demand for inexpensive meat cuts and edible meat offal, including chicken, continues to grow. Canada's increasing chicken production should improve our competitive edge in the market. With properly organized promotion and the demonstration of Canada's ability to adapt to local requirements, we expect Canada to capture greater market share of the Hong Kong meat market. As consumers become increasingly concerned about hygiene standards of locally raised and processed pork, opportunities also exist in the higher-priced chilled pork market.

Dairy products are in demand, and highly priced. Hong Kong buyers are looking for competitive suppliers of portion-packed butter, condensed milk and industrial cheese to displace expensive European products.

Concern about pesticide usage and sanitation standards has generated consumer demand for imported fresh fruit and vegetables, nutraceuticals and healthy lifestyle products like vegetarian products and soyadrinks. The deteriorating water quality of Hong Kong has also boosted the demand for large retail-type bottled drinking water (i.e. four litres), but the displacement of local brands by imported spring water will require a major marketing investment.

Seafood products are still in high demand in Hong Kong. To weather the financial turmoil, however, consumers are shifting to lower-priced products. Food scares about the safety of large sea fish have also created a potential opportunity in the high-end restaurant market for Canadian-farmed live fin fish.

Constraints

As a free market, Hong Kong is one of the most competitive economies in Asia. Goods from all over the world enter Hong Kong duty free, and are readily available. Consumers are often provided with a wide range of choice of food items. Products, therefore, require strong, ongoing and consistent support in order to win market share. The United States, Australia, New Zealand and the European Union are very active and well-entrenched in the meat, dairy, produce and grocery sectors. Canadian suppliers must be ready to exhibit their quality and price advantages over these competitors.

Shops in Hong Kong are compact with limited shelf space, and it is costly to have products listed in stores. In addition to high logistics costs, i.e. warehousing, delivery and sales services, Hong Kong distributors normally require higher margins. Canadian exporters must be ready to accept these high entry costs if they want to establish their products in Hong Kong.

Action Plan

Focussing on Hong Kong, the strategic objectives are to increase Canadian high value-added, processed and semi-processed exports by 5 percent per year by the following means:

- providing Canadian agri-food exporters with the latest market information and intelligence;
- advocating Canada as a safe, healthy and reliable source of agri-food products; and
- providing marketing support to Canadian food exporters and local suppliers of Canadian food products through an active promotion program to raise awareness of Canadian food products at trade and consumer levels.

The Consulate General in Hong Kong will accomplish the following in 1999-2001:

- publish and disseminate directly to Canadian agri-food exporters a bimonthly agri-food market scan on the latest developments in the Hong Kong market;
- complete market studies on agri-food products in which Canada has a competitive advantage, including bakery products, retail packaged food products, fruit and vegetables, health food, dairy products and pet food. These reports will be posted on the mission Web site when completed;
- assist Canadian trade associations (e.g., ginseng, poultry and seafood) in advocating their products in Hong Kong;
- publish and disseminate to Hong Kong and Macau agri-food importers a bimonthly scan on Canadian food products and market trends; and
- continue to work on the health certification of Canadian seal meat exports to Hong Kong.

In addition, as part of its awareness building and promotion plan, the Consulate General in Hong Kong will accomplish the following:

- conduct retail food promotions at Oliver's Delicatessen, DCH Foodmarts and Seibu food halls; and
- organize a Canadian national pavilion at HOFEX 2001, the 9th Asian International Exhibition of Hotel, Restaurant, Retail and Catering Equipment, Supplies and Services, Food and Drink, in May 2001.

Construction Products and Services

Mainland China

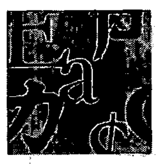
Business Environment

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. In recent years, per-capita incomes have tripled and sales of consumer goods have quadrupled. Moreover, retail sales have expanded 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. Efforts to provide better-quality housing to the Chinese population over the next 30 years will represent one of the greatest construction feats ever attempted.

A number of developments demonstrate the emergence of this new housing market — of which the National Housing Program is of primary importance. 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 as a means of housing financing. Although the government had originally intended to fully implement its National Housing Program by July 1, 1998, it realized that society and the market required some time to marshal the resources to completely meet consumers' demands as well as their ability to pay. The program will be implemented in stages over the next three to five years. There is strong reason to believe that this will be successful, as Chinese people are responding well to the idea of owning their own homes.

Market Opportunities

To meet new demand, China's cities have seen 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 an additional 200 million square metres of new housing and 120 million square metres of public works and production each year. In addition, 30 million square metres of old, inadequate housing urgently needs to be renovated or rebuilt, and a further 2 billion square metres of old, residential buildings need repairs or remodelling.



One of the major reforms announced by Premier Zhu Rongji in March 1998 was the reform of the subsidized housing system. The reforms are expected to be implemented by 2003. Major changes include the introduction of mortgage insurance system, the reintroduction of individual property rights and the emergence of bank-financed mortgages.

The opportunities for Canadian firms in the construction products and services sector are numerous. Canada has a wide variety of low-cost, high-quality building 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 using 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 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 high-end housing is also being developed, which offers greater potential for Canadian building products.

Due to a booming home renovation market, the interior decoration materials sector holds potential. The appearance of more and more home decorator and building materials retail stores and large wholesale outlets is improving the distribution system. This sector seems to have more potential for imported products, given what appears to be less price sensitivity and a willingness among some customers to spend more. 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.

Increased energy consumption (mainly due to improvements in home heating and the increased use of air conditioning) is a growing concern. In response, the Ministry of Construction is encouraging the construction of energy-conserving buildings and the introduction of new technologies and products to ease the problem. This approach offers great market opportunities to Canadian firms with related expertise whose building products are designed for greater energy efficiency.

The Chinese will continue to have projects in the following areas: commercial office space, retail stores, large mixed residential (essentially integrated small cities), luxury resorts and factories. Real opportunities exist for Canadian companies to provide efficient turn-key project solutions, particularly if those companies:

- use state-of-the-art technologies in design;
- use advanced building materials that save money and are more efficient; and
- can integrate with other local suppliers and match different building materials.

Canadian companies should seek partners that offer complementary strengths, and should be in a position to offer an integrated solution, if required.

The Chinese market may offer significant potential for the use of higher-quality structural timber. Opportunities may exist for joint ventures to produce timber roof components such as trusses, I-beams, glulam beams, rigid frames, etc. There may be similar opportunities related to commercial buildings for agricultural and industrial uses, as well as for products like concrete shuttering, interior joinery, windows and doors (including non-residential). In order to focus on such opportunities, it will be essential to gather pertinent market information and intelligence specific to the above product niches.

It should be noted that significant investments have been made in the manufacturing of some building products. China's inefficient distribution system, as opposed to consumer demand, has created a temporary oversupply in these products. However, improvements stemming from the eventual completion of the National Highways Program by 2003, will result in significant investment flows and consumer demand in China's less-developed provinces. This will then result in a second-generation construction boom in building materials manufacturing all over China.

The Ministry of Construction estimated that China would invest over $36 billion in housing in 1998 alone.
Source: Reuters News

The Chinese central government is starting to realize that the massive expansion in construction projects has also resulted in some shoddy building practices, irresponsible construction, and the flooding of the building materials markets with cheap, poor-quality products. This has resulted in many projects becoming virtually unusable after a short period of time — requiring massive overhauls due to mistakes in construction, planning and design. The government, from the highest levels, has issued numerous regulation circulars that increase the monitoring of building practices in China. Regulations are being devised to implement a system of testing and certification of building products to ensure that consumers can have greater confidence that the products will last and perform. In certain model major cities in China, construction companies are now responsible for the projects that they build for as long as 30 years, and are legally required to fix any deficiencies due to shoddy construction or materials during the period of warranty. In these policy experiments, every construction company that wins a project is ultimately responsible for it — and cannot make infinite subcontracts that dilute away its responsibility. The central government will be aggressively initiating such changes in other parts of China as well.

These continuing changes will result in quality improvements in Chinese construction projects, and a corresponding demand by Chinese construction companies to purchase high-quality imported materials, if only to meet emerging tough government building standards. The central government's new strategic construction policies are to phase out low-end, poor-quality products and irresponsible, corrupted and incompetent construction companies. China wants fewer, but better, companies involved in construction projects. Thus, this represents a very significant strategic opportunity for committed Canadian companies that seriously focus their export initiatives in China.

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 continue to be good, especially in metropolitan economic centres such as Beijing, Shanghai and Guangzhou. Canadian architectural firms have designed a number of very well-known projects in China, including the Shanghai Stock Exchange building in Pudong. As the supply of office space in large centres is now just beginning to meet the demand, opportunities remain for upgrade and renovation projects, since cities with limited space will 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 close to these three major centres are coming into their own, and have implemented infrastructure and commercial construction plans to enable them to keep up. Canadian firms have the opportunity to capitalize on the positive reputation that Canadian architectural services companies have already gained in China.

There are also emerging opportunities for Canadian architectural firms specializing in low-rise wooden frame building design services. Mixed-use retail, commercial-residential and non-residential projects located in fairly densely developed urban and suburban zones show the most potential for wooden frame building designs.

Constraints

Canadian exporters face various constraints:

- The Chinese construction sector is not one market but several markets, with many different characteristics.
- The marketplace is complex and not transparent. Market data is often unreliable or nonexistent. Accessing powerful and useful prospects requires deep business/social channels that take time and the right people to develop.
- Tariffs on building products are still high, and preference is given to joint ventures for manufacturing within China.
- The 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. Nevertheless, a local presence is important, and price is always a major consideration.

Action Plan

The objectives of the action plan for 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 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 develop projects such as the "Energy Efficiency in Buildings Project" initiated by the Canadian International Development Agency (CIDA), and initiatives led by the Canada Mortgage and Housing Corporation (CMHC) 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) signed by the Chinese Ministry of Construction, Public Works and Government Services Canada (PWGSC) and CMHC;
- to advise and co-operate with various Chinese government and private organizations in achieving quality standards in building products specifications, developing better building codes that can potentially cover more Canadian products, and making use of effective project implementation and management policies; and
- to assist Canadian companies in finding local representatives, agents, and joint venture and other business partners in China.

Hong Kong

Business Environment

Hong Kong's economy is heavily dependent on the construction and property sector. In 1998, residential building construction amounted to $9.4 billion and commercial building to $3.6 billion. During the first two quarters of 1998, property prices have fallen by some 50 to 60 percent, compelling developers to reduce project costs by using less-expensive finishing materials. Due to genuine housing demand, residential building projects will continue to dominate the market. To meet this demand, the Hong Kong government has placed priority on housing projects, while postponing commercial building and hotel projects.

The trend toward using imported building materials will continue. The building materials distribution network in Hong Kong is well-established, though complex. Construction projects and building materials used in Hong Kong are viewed as a model for Mainland China to follow.

Market Opportunities

Hong Kong's population is forecast to grow from the current 6.7 million to 8.2 million by 2016. Over $45 billion will be spent on major rail, road, land, port and housing projects. Expenditures on public housing construction are expected to reach $9.4 billion in 1998–99 fiscal year. Although the government no longer adheres to the annual production of 85 000 flats announced in 1997, it still aims to provide about 50 000 public housing units per year and 35 000 private housing units through private developers.

Other special-purpose projects initiated by the Hong Kong government include:

- a $2.5-billion "Cyberport," an integrated infrastructure project and high-tech multimedia hub to house about 30 large to medium-sized companies and 100 smaller companies, which will specialize in the development of services and multimedia content to support businesses and industries such as financial services, trading, advertising, entertainment and communications;
- a letter of intent signed by the Hong Kong government with the Walt Disney Company to build a Disney theme park; and
- a 22-hectare science park to facilitate the development of new technologies and new industries in Hong Kong.

Materials, systems, concepts and designs that enhance energy management and that complement the concept of "intelligent buildings" will be the focus in the coming years. The following subsectors represent new opportunities for Canadian companies:

- external and internal wall cladding and glazing systems;
- lighting systems;
- air conditioning and indoor temperature monitoring systems;
- fire and security systems;
- ceiling and raised floor systems; and
- other building automation and control systems.

Constraints

- The construction industry is characterized by the common practice of multilevel subcontracting. A reliable agent or distributor who can lobby developers, architects and contractors, before, during and after tenders is key to success.
- The Hong Kong market, although small, has particular tastes and requirements. For example, Canadian-style assembled kitchen cabinets will not fit in the small kitchens of Hong Kong. Flexibility to customize according to specified sizes may be required.
- The Hong Kong market is price-sensitive. Canadian building products are recognized as being of superior quality but relatively more expensive. Foreign companies are increasingly using manufacturing facilities across the border in south China.
- Given short lead times, frequent changes of specifications mid-way through projects, and the great distance, Canadian companies may find it difficult to deliver on time.

Action Plan

The objectives of the action plan are to promote the capabilities of the Canadian construction industry, and to increase Canadian companies' awareness of business opportunities available in Hong Kong. The Consulate General in Hong Kong will provide Canadian exporters with information on at least five major construction projects, and will introduce at least 10 serious Hong Kong buyers to Canadian exporters. It will also introduce at least five new Canadian products or exporters to Hong Kong.

To achieve these objectives, the Consulate General in Hong Kong will undertake the following actions:

- identify a list of major projects among the numerous projects in the pipeline for a more targeted approach;

- research requirements for local intelligent buildings, and identify Canadian capabilities in this market segment;
- promote applications of softwood with emphasis on construction and furniture manufacturing;
- identify and introduce to the local marketplace Canadian suppliers of products that are environmentally friendly and from sustainable resources;
- organize group participation at Asian Elenex/Luminex/Securitex/Airvex/IBS, Hong Kong, in June 2000, which specialize in electrical; lighting; security; heating, ventilation and air conditioning (HVAC) and building automation; and
- disseminate a quarterly newsletter on upcoming projects and trade opportunities.

Education and Training Services

Hong Kong

Business Environment

The Chief Executive of Hong Kong, Tung Chee Hwa, pledged to make Hong Kong "a leader in the information world of tomorrow." Education is the key. According to the 1999-2000 budget, $10.6 billion will be spent on education, i.e. 19 percent of the total public expenditure. Money will be spent in nine key areas, including the promotion of school-based management and information technology.

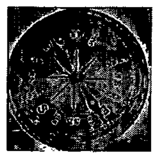
IT will be used as a cost-effective tool to transform a largely textbook-based, teacher-centred approach to a more interactive and learner-centred approach. The Hong Kong government has reserved an initial sum of $615 million and a recurrent sum of $106 million per annum to implement the use of IT in schools. In addition, the Education and Manpower Bureau (EMB) set up a $962 million Quality Education Fund in 1998 to provide an effective channel to finance school-based projects for the promotion of quality and innovation.

Market Opportunities

Hong Kong's new IT education strategy offers opportunities for Canada, particularly in the development and delivery of learning and training materials. Potential lies in the following areas:

- distribution of Canadian I-based learning and training materials to schools, educational institutions and the home market;
- establishment of joint-venture partnerships between Canadian and Hong Kong companies in the education sector on the co-development or co-production of learning and teaching software;
- partnership with Hong Kong firms to develop multimedia software jointly for export to China and North America; and
- development of adult learning through on-line or Web-based materials and training programs from Canada.

Canada is among the four most popular countries (with the United States, Australia and the United Kingdom) that Hong Kong students choose as a destination for foreign study. In 1998, 2100 students from Hong Kong began studying in Canada, bringing the total to over 10 000. High school and university education are the primary opportunities for Canadian institutions. Other potential areas include summer school English programs, distance learning, teacher training and short-term professional programs. Generally, Hong Kong SAR passport holders have no trouble obtaining student visas.



Promoting Education and Training
The Asia Pacific Foundation of Canada entered into a partnership with the DFAIT, CIDA, and Citizenship and Immigration Canada to create a network of Canadian Education Centres (CECs) in major cities throughout Asia. The Canadian Education Office in Beijing and the Canadian Education Centre in Hong Kong form apart of this network.
To find out more, consult the Education/Academic Relations section of the Canadian missions' website at **http://www.canada.org.hk**

In Hong Kong, education services are handled through the Canadian Education Centre (CEC), which actively markets and promotes Canadian educational institutions. A Canadian Educational Fair is held each October. Last year's fair had 65 Canadian education institutions participating, and attracted 5000 local visitors.

Constraints

The Education Department has delegated the authority to the schools to make their own decisions regarding the purchase of software, creating a very market-driven sector. Canadian companies must develop and maintain a strong local presence to market their IT products to individual schools and other potential users. Partnerships with local companies will facilitate market entry in specific regions in China.

Action Plan

The objectives of the action plan are to form eight to ten partnerships/distributorships between Canada and Hong Kong by the end of 2000 by:

- keeping Canadian exporters abreast of the latest market information and intelligence;
- raising awareness of Canada's capabilities by providing local players with Canadian product information;
- developing and maintaining a close business networking relationship within the education authorities, the communities and the major market players; and
- promoting joint-venture partnerships between Hong Kong and Canadian companies to create multimedia, Web-based learning materials for the K-12 and adult education market.

To achieve these objectives, we will do the following:

- encourage multimedia learningware firms/government officials/educators to visit the World Education Market Conference in Vancouver in June 2000;
- help Canadian firms to find Hong Kong partners/agents for product localization and marketing activities in both Hong Kong and China;
- prepare a market profile on IT in education in Hong Kong; and
- develop a link between Canada's SchoolNet and Hong Kong's SchoolNet that will facilitate the sharing of information and activities around the issue of Information and Communications Technologies (ICT).

Mainland China

While there are emerging opportunities for training and education services on a selective basis in Mainland China, Canadian educational institutions should expect major obstacles when looking to market their schools, curriculums and training services to Chinese corporations and individual clients.

Canadian educational institutions can explore several different avenues to enter the China market. Primary opportunities are through corporate and group training (may include English as a second language, computer, or international business training), institutional linkage/twinning, joint training programs for contract students, and short-term professional training. In this regard, the Canadian Education Office (CEO) in Beijing, which is primarily involved with contract group training, also provides market information on China. In addition, the CEO provides school information to Chinese students wanting to study in Canada, and to Canadians wanting to study in China.

The rapid development of new telecommunications technology in China also offers growing opportunities for distance education, via the Internet or through educational software.

To support educational institutions and educational software companies looking to market their services and products in China, the Canadian missions will:

- monitor the progress of education reform in China, analyse the potential impact on Canadian educational institutions and companies, and use this information to revise and develop market strategies;
- encourage and facilitate cross-sectoral partnerships between Canadian organizations and local Chinese organizations;

- identify sectors in which Canadian trade efforts can be linked with Chinese education and training needs (e.g., health, environment, agriculture, energy, telecommunications); and
- identify opportunities for distance learning and sales of educational software.

Electric Power

Business Environment

Mainland China

China's power sector has developed at a breathtaking pace during the 1980s and 1990s, making it the second-largest power-producing country in the world, after the United States. China has largely achieved a demand-supply balance, fostered by slowing economic growth and a decline in traditional industrial activity. Emphasis will be placed on improving efficiencies and expanding and improving the country's transmission and distribution systems. Environmental considerations are also becoming more apparent, resulting in the shut down of small and old generating facilities, an indefinite ban on new small (below 300 MW) thermal plants (co-generation excepted), a temporary ban (estimated to 2001) on "conventional" thermal power plants, and new demands for upgrading of technologies. Some analysts caution that power demand is still growing at 10 percent or more in several parts of the country, raising the prospect once again of regional shortages if new generation capacity is not selectively developed.

Installed capacity, at 270 GW at the end of 1998, has more than doubled over 1990-1998 alone, expanding by 400 percent since 1980. However, an estimated 70 million people are still without access to power, and per capita consumption is 1/28th of Canada's rate, ranking China 80th in global consumption terms. A relatively high percentage of power consumption, at 58 percent, is still borne by heavy industry, with residential demand only 12 percent.

Thermal power is China's main source at 81.6 percent of total power generation. Hydro accounts for 17.2 percent, followed by nuclear and other sources at about 1.3 percent. Efforts are under way to significantly expand reliance on hydroelectricity over the long run, supported by the eventual output of the Three Gorges Dam (18 200 MW by 2009), the world's largest hydroelectric project.

China's nuclear energy program currently consists of three operating reactors with an installed capacity of 2100 MW. With an additional 6600 MW under construction, including two CANDU units (1450 MW), the contribution of nuclear energy to China's power supply will increase threefold by the middle of the next century. However, as a result of a slowdown in the growth of the electricity market, China's ambitious plans for nuclear power development are currently being re-evaluated. Unless there is a dramatic turnaround in the electricity supply situation, it is not likely that there will be any further nuclear projects approved within the next few years.

China Power Generation, 1995-97 (billion kwh & %)

Source	1995 kwh	1995 %	1996 kwh	1996 %	1997 kwh	1997 %
Thermal	756.06	79.3%	805.30	80.5%	925.22	81.6%
Hydroelectric	184.93	19.4%	181.27	18.1%	194.57	17.2%
Nuclear	12.38	1.3%	13.62	1.4%	14.42	1.3%
Total	953.37	100.0%	1000.2	100.0%	1134.2	100.0%

Source: The Economist Intelligence Unit Limited and the State Power Corporation

As part of the Chinese government's ongoing efforts to establish a more rational commercial footing for power development as well as management, the operating assets of the Ministry of Electric Power have been transferred to the newly established State Power Corporation. In addition, the former China Power Grid has recently been integrated into the new State Power Corporation to give greater impetus to power grid integration and expansion.

Regulatory developments have been slower. China is now placing significant emphasis on the development of new regulations governing power pricing and rules for accessing the power market. Long awaited new guidelines for build-own-operate (BOO) projects appear to have been de-emphasized in line with weaker government support of new generation capacity.

Hong Kong

Hong Kong has surplus generating capacity until the year 2006. Nevertheless, the Hong Kong Electric Ltd. (HEC) is still planning to install new gas-fired generators in its Lamma power plant. China Light and Power Ltd. (CLP) and HEC spent more than $38.5 million to renew their equipment or to procure parts and components in 1998. Canadian companies will find opportunities to supply auxiliary equipment, for example, for the management and control of the distribution system.

HEC and CLP are trying to diversify their business by pursuing overseas opportunities through their engineering and investment branches. Canadian firms can form strategic partnerships with their subsidiaries to pursue projects in other countries.

Market Opportunities

Canada has long made a contribution to the development of China's power sector, particularly in niche areas. China's local production capacity for conventional power sector equipment is strong, with fierce competition among domestic Chinese and joint venture (JV) enterprises. Consequently, the Chinese government has placed a high priority on local sourcing and new advanced technology transfer linkages.

China is placing a growing priority on flood-prevention projects. In several instances, multipurpose hydro projects are still actively being planned on the upper reaches of the Yellow and Yangtze rivers, as well as on other major waterways. Timing for new developments has been delayed as a result of lower power demand, but some of these plans may be re-evaluated early in the new millennium.

Following recent reorganization, local governments and organizations are being called on to take a more proactive role in the development and financing of 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 challenge. Although international financial institutions (IFIs) have been a major source of funding for the sector in the past, their involvement is decreasing.

While there are still opportunities for independent power projects (IPPs), these should be considered carefully, with due diligence accorded to the unpredictable regulatory environment. IPP developers are increasingly focussing on co-generation and small hydro projects, as well as opportunities for rehabilitation of existing infrastructure.

Due to unreliable supply, the fastest-growing segment of the Chinese power-generating market is that of back-up and reserve systems for large buildings, factories and industrial parks. These systems make up nearly one third of new power-generating capacity in some parts of China.

Potential for Canadian equipment and services suppliers, particularly those that provide financing, enter into JVs, establish local production facilities, and transfer advanced technology or expertise, continues to exist in the following subsectors:

- transmission and distribution consulting and specialty equipment;
- large project-management services and training; and
- equipment that will still be imported:
    - power systems/controls/instrumentation/simulation equipment (large units over 600 MW);
    - gas turbines over 100 MW, including combined cycle;

- desulphuring equipment;
- switching equipment;
- large capacity transformers; and
- nuclear reactors

Constraints

The overriding constraints currently facing many Canadian equipment exporters involve the recent balancing of China's demand and supply for electric power, coupled with strong and growing local capabilities for most conventional equipment.

Action Plan

The objectives of the action plan for this sector are as follows:

- to identify specific opportunities for Canadian companies, and convince Chinese counterparts of Canadian capabilities;
- to strongly support individual Canadian companies or groups of companies in their pursuit of specific niche project opportunities;
- to support Canadian efforts to remain active in the Chinese market through strategic development of JVs and technology transfer initiatives;
- to provide frequent reports to the National Electricity Roundtable for dissemination, with an emphasis on regulatory developments and market intelligence;
- to address market access issues through bilateral and multilateral means;
- to actively promote the environmental advantages of Canadian technology, including pollution abatement for fossil fuels and nuclear energy; and
- to maintain regular contact with senior management of CLP and HEC to identify upcoming business opportunities.

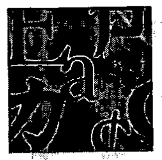
Environment

Business Environment

Mainland China

Environment degradation is a difficult and costly problem in China. It is estimated that the cost of energy degradation and resource scarcity amounts to approximately 8 to 12 percent of China's GDP, or about US$77 billion; while 1998 spending on environmental protection accounted for only 1.02 percent of its GDP (or US$9.6 billion). In recent years, there has been a real shift in public attitudes to environmental protection. That, combined with the high economic cost of environmental degradation, has prompted Chinese leaders to address the problem on a case-by-case approach. Commonly known as the 3-3-2-1 policy, this forms part of China's economic development policy under the Ninth Five-Year Plan (1996 to 2000), and centres around China's efforts to clean up three lakes (Tai, Chao and Dianchi), three rivers (Huai, Hai and Liao), two acid rain control zones and one city (Beijing). Increasingly, the government is also encouraging further development of the interior regions, which contain many of China's worst polluted areas.

The regulatory framework for environmental protection is fairly complete, with legislation covering water, air, solid waste, noise and marine pollution, along with a wide range of other regulations enacted in the 1980s and 1990s. However, enforcement of these regulations remains problematic, as laws established by the central agency are enforced by local governments, which often are reluctant to shut down, or by fine industries from which they earn a profit.



The World Bank estimates that China will need $100 billion infrastructure investment in water conservation, treatment and sanitation between 1995 and 2005.

IFIs such as the World Bank (WB), the Asian Development Bank (AsDB) and various United Nations (UN) agencies commit significant funding each year to help China maintain sustainable growth. Bilateral development assistance, such as Japan's Overseas Economic Co-operation Fund (OECF), also contributes to helping China clean up its environment. China estimates that it will receive approximately US$2.86 billion from WB, AsDB and OECF in 1999 and 2000. However, even the magnitude of these multilateral and bilateral loans is not sufficient to address China's need. Consequently, it will have to turn increasingly to the private sector to meet capital costs.

Hong Kong

The rapid increase in the population, intense economic activity and massive infrastructure development have resulted in serious environmental degradation in Hong Kong. Every day, Hong Kong generates about 40 000 tonnes of general municipal and construction waste, 2 million tonnes of sewage and industrial wastewater, a high level of air pollution generated mainly from diesel vehicle emissions, and other waste generated by industrial, commercial and domestic activities.

In his 1997 policy address, the Chief Executive of Hong Kong reiterated that "improving the quality of the environment is as vital as economic growth." The government has moved rapidly and invested large sums of money to make Hong Kong a cleaner city. A pilot scheme has been undertaken to convert the taxi fleet from diesel to liquefied petroleum gas (LPG). A $211 million 10-year plan is in place for waste reduction, reuse and recycling. Over $2.3 billion will be spent on sewage programs over the next five years.

While Hong Kong represents a potential market for providers of environmental expertise and equipment in its own right, it is also an important entry point to the enormous mainland market for environmental infrastructure projects. Canadian companies, however, face strong competition from the United Kingdom, the United States, Europe and Australia. To be successful in this market, Canadian companies must maintain a continuous local presence by working closely with local companies, either in the role of subcontractors or overseas partners (in the case of consultants), or by using local distributors or dealers (in the case of equipment suppliers). Increasingly, the ability to negotiate and offer a financing package for a large project is essential.

Market Opportunities

Public authorities continue to be the main end users of environmental protection equipment and services in China, followed by state-owned enterprises, JV companies and foreign aid recipients from such sources as the WB, the AsDB, the UN and other bilateral institutions.

Water: Eighty percent of wastewater discharged in China is not treated, and consequently, 82 percent of China's rivers are polluted. Of the 668 cities in China, 300 lack sufficient water supply, while 120 are classified as having a serious water shortage. Sixty million people cannot get enough clean water for daily use. Since only 153 cities have any type of wastewater treatment plants, the treatment rate was only 11 percent in 1996, of which over 70 percent was industrial effluence. Opportunities exist for Canadian companies with appropriate technology to address municipal and industrial wastewater treatment equipment, with the latter focussing on pollutant-specific technology in such areas as paper mills, and chemical, dye and paint factories. Demands for environmental monitoring and analytical instruments are also expected to increase. In addition, opportunities for SMEs exist in new housing and hotel construction projects that purchase their own water-treatment facilities.

Air: China relies on high-sulphur coal for its energy, with coal-fired power plants accounting for about 80 percent of the nation's electricity generation. The power sector and industrial coal-fired boilers are the first- and second-largest polluters respectively. Consequently, China is the biggest producer of sulphur dioxide in the world. At the same time, industrial particulate discharge has also increased dramatically, and vehicle emissions are becoming a major source of air pollution in more developed cities such as Beijing, Shanghai, Guangzhou and Tianjin. China recognizes the need to improve its air quality, and has adopted various measures including widespread use of flue gas desulphurization equipment in power generation plants; electrostatic precipitators; cleaner coal technology; and environmental monitoring equipment.

Reduction of vehicle emissions is another focus of China's plan to control air pollution. All new vehicles must use unleaded gasoline by 2000 and all existing vehicles must install emission control devices. In particular, automotive technologies dealing with alternative fuel vehicles are greatly sought after by cities such as Beijing, Shanghai, Chongqing, and the provinces of Guangdong, Sichuan and Fujian.

China is the second-largest emitter of CO_2, and presents significant opportunities for the application of technologies aimed at the reduction of greenhouse gases.

Carbon Dioxide Emissions 1996 (million tonnes)

U.S.A.	5 301.0
China	**3 363.5**
Russian Fed.	1 579.5
Japan	1 167.7
India	997.4
Germany	861.2
United Kingdom	557.0
Canada	**409.4**

Source: World Bank 1999 Development Indicators

Constraints

The biggest constraint to accessing China's environmental protection market continues to be the lack of hard currency financing. While foreign technologies, including those of Canada, are acknowledged to be of superior quality, Chinese buyers are often more concerned about financing and price. Soft loans and grants from foreign governments strongly affect Chinese end users' purchasing decisions. It is crucial for Canadian companies to be creative and flexible in financing projects, and to adapt their products to different end users. Building relationships with local research institutes, agencies or government bodies represents an effective way to promote products and services.

Competition from domestic companies is increasing. In 1998, there were over 9000 environmental protection enterprises registered in China, with an output value of 52 billion RMB and accounting for 0.7 percent of GDP. To date, approximately two thirds of wastewater treatment equipment is supplied by local firms, as they have the advantage of local distribution networks and links to local governments. However, the bulk of the domestic industry still produces low-end technologies, and cannot compete with high-end equipment imported from developed countries. While the Chinese government is eager to foster the development of its domestic environmental companies, it recognizes the need for foreign high-tech equipment. Thus, it strongly encourages companies to enter into joint ventures — a trend that will likely extend to other subsectors.

Canadian companies interested in gaining access to the China environmental protection market will face strong competition from Japan, Germany, the United States and the European Union, as well as domestic producers. Next to having an appropriate technology or product, adaptability is very important. Not only do market characteristics differ from one region to the next, but JV arrangements are no longer the only option by which to gain access. Companies should thoroughly explore all possible approaches when building a marketing strategy to find the right niche in the China market.

Action Plan

The objectives of the action plan for this sector are as follows:

- to pursue co-operation and business opportunities in the environmental protection sector into the 21st Century, under various bilateral agreements, including but not limited to the Memorandum of Understanding on Environmental Co-operation and the Framework Statement for Co-operation on the Environment;
- to organize technical workshops and seminars to raise the awareness of Canadian capabilities among Chinese project managers and end users, and to provide opportunities for Canadian companies to meet potential partners and explore sources of financing;
- to pursue business opportunities with a view to reducing air pollution and facilitating the transfer of technologies aimed at the reduction of greenhouse gas emissions; and
- to facilitate Canadian companies' participation in relevant exhibitions, along with meetings with major contractors and key players in China, and to encourage the participation of Chinese delegations in Canadian trade shows.

Forestry — Pulp and Paper

Mainland China

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, a lack of financing and outdated mill technology. Following the disastrous flooding in the summer of 1998, the government issued a ban on logging in certain areas of China, which will, in time, result in increased imports of raw material. Prior to the implementation of the ban, most major production facilities harvested and stockpiled approximately two years supply of logs.

Major international pulp and papers firms are investing in China. A boom in construction has also led to an increased demand for wood and other wood-based building 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 of pulp and paper and wood products, the transfer of technology, and investment. Canada exported to China approximately $390 million of such products in 1998.

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 1998, Canada exported some $8.7 million in machinery and equipment related to pulp and paper making and sawmill wood working.

Pulp: The total Chinese market for pulp (wood pulp and non-wood fibres) for 1998 was 18.3 million tonnes. Canada supplied 23 percent of China's pulp imports in 1998, valued at $322 million, representing one of Canada's largest exports to China.

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.

Paper: Production in the paper and paperboard sector has been growing rapidly for the last 10 years, and reached 27 million tonnes in 1997 (26 million tonnes in 1996), falling short of the apparent demand of 32 million tonnes (28.5 million tonnes in 1995). Approximately 5.5 million tonnes were imported in 1997. 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 $85 million in 1997 and only $50 million in 1998, with the decrease due in large part to the Chinese government's 1998 decision to impose anti-dumping duties on Canadian newsprint suppliers, and to the stockpiling by major importers in 1997. China imported 236 400 tonnes of newsprint in 1998 — a drastic decrease from the previous year, when China imported 453 400 tonnes. The decrease is as a result of low world market prices in 1997, which allowed Chinese importers to stockpile considerable amounts of newsprint.

Wood: Housing reform, coupled with 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 1998, Canadian exports were $6.3 million of lumber and $3.3 million of wood-based panels and wood-based building products. In 1998, China imported 4.4 million cubic metres of wood and 1.3 million cubic metres of plywood, veneered panels and similar laminates. Rising demand for certain value-added wood products will continue. For instance, the increased use of beech, maple and oak hardwood flooring is an emerging market trend. As well, veneers, wood panels, including engineered wood panels such as oriented strand board (OSB), 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;
- higher tariffs on value-added products such as paper and paperboard (approximately 15 percent) and doors and windows (18 percent), despite the fact that the import tariff on pulp has been reduced to zero; and
- the anti-dumping duties imposed on Canada, which have resulted in blocking Canadian newsprint from entering this market for the time being.

Despite the weakness in the domestic sector, growing international investment in the pulp and paper sector is creating opportunities to do business in China with proven clients from other markets.

Action Plan

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

- to increase Chinese awareness and knowledge of Canadian products and technologies through missions, trade fairs 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 wood-based construction materials and value-added wood products;
- to co-operate with the Canadian Pulp and Paper Association (CPPA), the Pulp and Paper Research Institute of Canada (PAPRICAN), the Forest Engineering Research Institute of Canada (FERIC), Forintek Canada Corp., and counterpart Chinese associations and research institutes;
- to use the Memorandum of Understanding between Natural Resources Canada and the State Forestry Administration of China (signed in November 1998) to initiate projects leading to the transfer of technology and to the export of forest products and forest sector goods and services;
- to target projects supported by IFIs and assist in finding other sources of financing;
- 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, JV partners and other business partners in China; and
- to work closely with the private sector to market pulp and paper products in China.

Hong Kong

Business Environment

Wood, Value-added Wood, Wood-based Panels

Hong Kong imports all of its wood products. The major uses are in construction, furniture manufacturing and interior decoration sectors.

In 1998, during the Asian financial crisis, Hong Kong's construction industry went through a major shake-up. Due to lack of confidence from investors and virtual disappearance of home buyers, property prices have fallen by 50 to 60 percent, compelling developers to reduce project costs by introducing less-expensive materials, including wood products. It is anticipated, however, that the market will begin to regain vigour in 1999 and grow substantially in 2000.

According to Hong Kong Census and Statistics, Hong Kong remained the main conduit for wood exports entering the markets of Mainland China. In 1998, total imports of wood, value-added wood and wood-based panels to Hong Kong were $1.68 billion; re-exports to Mainland China were $1.3 billion. A significant portion of these imports were transhipped to wood-processing plants in Mainland China, for processing into flooring, doors, kitchen cabinets and furniture for re-export to Hong Kong.

Over the years, Hong Kong wood importers and traders have established rapport with key users in the construction and furniture-manufacturing industries in both Hong Kong and Mainland China markets. Most Hong Kong construction firms are active in Mainland China, and a large number of previously Hong Kong-based furniture factories have relocated to the mainland to reduce costs.

Pulp and Paper

While many manufacturers have established production lines on the mainland, Hong Kong imported 3.8 million tonnes of pulp and paper from abroad in 1998. Additionally, procurement decisions regarding paper are still made in Hong Kong for many mainland plants in Southern China. Demand for pulp and paper products is picking up as the region begins to recover from the current economic turmoil.

Market Opportunities

Hong Kong is an open market and does not impose any import tariffs on forestry products. Canadian products can compete with other supplies in a more advantageous position than those in Mainland China.

Wood, Value-added Wood and Wood-based Panels

Canada's exports to Hong Kong in 1998 were as follows:

- $6.9 million worth of rough wood, a decrease of 31 percent from 1997;
- $19.4 million worth of lumber, a decrease of 17 percent from 1997;
- $6.8 million worth of tongue-and-groove wood, a decrease of 63 percent from 1997; and
- $1.8 million worth of wood-based panels, a decrease of 53 percent from 1997.

Demand for hardwood lumber remains strong. Maple, beech and oak, either in the raw or semi-processed form, are highly sought after for processing into finished products. There may also be market potential for other native Canadian species, such as birch.

Increasing concerns about environmental issues in the construction industry have led to an increase in the use of softwood lumber. The Hong Kong government and some property developers have specified the use of materials from sustainable resources, such as softwood for formwork. The traditional use of tropical hardwood as boards is discouraged. It has been replaced by either steel or non-wood materials. OSB, which is less known in Hong Kong, may represent new opportunities for Canadian companies.

Particleboard and fibreboard, including medium-density fibreboard (MDF) are used extensively in furniture manufacturing. Although some Canadian MDF has entered the Hong Kong market, the volume has been small. The market is dominated by cheaper Southeast Asian products.

Pulp and Paper

Canada's exports to Hong Kong in 1998 were as follows:

- $3.43 million worth of pulp, a decrease of 3.4 percent from 1997;
- $64.42 million worth of newsprint, a decrease of 31.8 percent from 1997;
- $38.40 million worth of paper and paperboard, a decrease of 23.2 percent from 1997; and
- $0.12 million worth of waste paper, a decrease of 38.6 percent from 1997.

In 1998, Canada exported 81 451 tonnes of newsprint to Hong Kong. This represents 20.6 percent of Hong Kong's newsprint imports. By comparison, Canada's share of the Hong Kong market for pulp, paper/paperboard and waste paper was 0.5, 2.12 and 0.65 percent respectively.

Pulp: Canada's major competitors in the pulp market are the United States and Sweden. Canada's exports drop slightly in 1998 despite an increase of 124 percent in imports by Hong Kong in 1998 over 1997.

Newsprint: Canada maintained a 20.6 percent share of the import market. South Korea is the top supplier, followed by Canada, Indonesia and the United States.

Paper and Paperboard: The United States, South Korea, Japan, Indonesia and Taiwan are the major suppliers in this market while Canada's share is 2 percent.

Waste Paper: The Netherlands, PRC, Germany, Japan and the United States are the major suppliers. Canada has less than 1 percent import share. As a result of increased awareness of environmental problems, many Hong Kong manufacturers and their Chinese partners have begun to investigate recycling waste paper to make newsprint, kraft paper products or even lunch boxes and containers of various designs. Since the cost of local collection remains too high, these firms will continue to rely on waste paper imported from overseas.

Hong Kong companies remain keen on importing pulp, newsprint, kraft paper and paperboard, as well as value-added paper such as solid bleached boxboard, cigarette paper, tissue paper and fine paper. They are concerned about the consistency of supply and price fluctuation. Further, the Hong Kong SAR government is a major user of paper products such as wood-free printing paper, and is increasingly interested in sourcing recycled paper for printing its own documents.

Constraints

The pulp and paper market in Hong Kong is highly competitive, with keen competition coming from several regions: Southeast Asia for its supply of tropical hardwood, plywood and MDF at competitive prices; New Zealand for its prompt delivery and consistent quality of softwood lumber and plywood; and European countries for their abundant supply of beech hardwood.

With the expansion of production lines in Indonesia, Malaysia and the PRC, there will be an increasing intra-regional supply of cheaper newsprint, pulp, and other paper products. New anti-dumping duties on Canadian newsprint imposed by the Chinese government will also affect re-exports from Hong Kong to Mainland China.

Action Plan

With the paramount objective of maintaining our market share for Canadian forestry products in Hong Kong in 1999-2000, we will:

- promote various applications of softwood with special emphasis on construction and furniture manufacturing;
- identify and introduce to the Hong Kong market Canadian suppliers of environmentally friendly forest products, including panel-based products for use in construction and manufacturing; and
- collect market intelligence and information on business activities and opportunities, and disseminate it to Canadian companies.

Information Technologies and Telecommunications

Mainland China

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 particularly evident in markets that have a direct impact on consumers, such as telecommunications services (e.g., mobile telephones, 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. Project financing, inconsistencies in regulations and policies, unresolved intellectual property rights issues, business risks such as currency devaluation and economic downturn, and an increase in strong domestic competition constitute major challenges to doing business in the Chinese market.

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 two broad categories:

1. Telecommunications
2. Computers and Software

1. Telecommunications

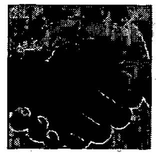
Business Environment

China is the world's third-largest telecom market , and enjoys the fastest growth. Every year, China's network increases more than the equivalent of the entire Canadian network. By the end of 1998, subscribers surged from 85 to 110 million, including 25 million mobile phone users, for a national penetration rate of 10.64 percent, with 27.7 percent in urban areas. In 1999, total switching is estimated to increase by 23 million lines to exceed 150 million. The government's objective for the year 2000 is to have 170 million lines, with a national penetration rate of 13 percent, and reaching between 35 to 40 percent in urban areas. By 2020, teledensity is expected to top 40 percent.

The Chinese telecommunications services market is dominated by China Telecom (95 percent market share), the former monopoly, and China Unicom, formed in 1994 in an effort to introduce competition. The government has recently announced that competition will be further enhanced by dividing China Telecom into four sectoral independent entities — fixed line, mobile, paging and satellite. The government has also approved in principle the creation of another national carrier based on the cable TV and railway telecommunications infrastructure.

Although there is a clear intention to favour the development of the local industry, demand for telecommunications equipment is beyond China's production capabilities. This has resulted in significant opportunities for foreign players. However, the fact that all of the world's major telecom equipment companies are present in China, combined with the emergence of increasingly capable domestic companies, has made the telecommunications market in China extremely competitive. The rapid pace of development has led to the creation of the Ministry of Information Industry (MII) as the regulatory body in the telecommunications market. There has been an increased effort to separate government functions from operations and manufacturing. The government still completely controls the public network, with China Telecom, the former monopoly, servicing over 95 percent of the market.

Data Communications and the Internet: In China, there are now over 200 Internet service providers servicing 2.1 million Internet users. By 2000, China is expected to have 6 to 9 million Internet users, increasing at an annual rate of 300 percent. China's packet switched data network (ChinaPAC) has a capacity of over 230 000 ports and currently has 90 000 users. The public digital data network (ChinaDDN) has an estimated 160 000 users and a total capacity of 310 000 ports. Data communications investment will average annual growth of 16 percent from 1999 to 2003.



China's telecommunications market has been and will continue to be one of the most dynamic in the world. In 1998, investment in the telecommunications sector increased by 39 percent and China will continue to invest about US$20 billion in 1999. Last year, China's telecom sector generated revenue of over US$27 billion, a 25 percent increase over 1997.

Market Opportunities

Opportunities for exports in the switching market remain in the development of mobile switching systems (GSM cellular networks). Domestic suppliers have most of the market share in switching. China's transmission infrastructure combines fibre-optics, microwave and satellite technologies. All areas offer opportunities for companies with competitive and state-of-the-art technology. In data communications, opportunities exist in ATM (Asynchronous Transfer Mode) and frame relay. Major expansion projects for national infrastructure networks began in 1998, and will continue into the 21st century with an emphasis on broadband technology. Given the relative weakness of domestic suppliers, government infrastructure expansion projects depend heavily on foreign equipment purchases, especially fibre-optic networking. Opportunities for foreign companies also exist in satellite communications and VSAT (very small aperture terminal) technology.

New opportunities for Canadian companies should also emerge from the recent decision by China to implement Code Division Multiple Access (CDMA) cellular phone technology as a competing technology to the existing dominant GSM network. To date, Unicom appears to have inherited the mandate to develop the CDMA network, and has announced ambitious plans to establish a network with a capacity of 10 million subscribers by the end of 2000.

Constraints

The telecommunications equipment market in China is extremely competitive. While actively supporting domestic manufacturers who enjoy an increasing market share for high-volume equipment such as switching, the government is also placing increasing pressure on foreign suppliers to localize their production in China. China lacks a telecommunications law, and its policy and regulatory frameworks are nebulous and in constant evolution. The confusion is temporarily accentuated by the fact that China is currently pursuing the process of separating the regulator (the recently created MII) from operation and manufacturing functions. The complexity of China's business environment is exacerbated by the government restructuring currently taking place in all sectors.

One of the impacts of the recent changes is the increased transition to a more decentralized decision-making structure, in which provincial entities and end users play an increasing role. Although telecommunications has received much attention from the government, it is no longer the top priority on the agenda and, therefore, financing issues have become unavoidable. Due to ineffectively protected intellectual property rights, fraudulent manufacturers are also in a position to seriously threaten foreign suppliers. Finally, although indirect investment by foreign companies in mobile communications projects put forward by China Unicom (the second carrier) have been authorized in the past, the Chinese government has recently shifted policy and decided to enforce its ban more stringently on foreign involvement in ownership or operation of a telecom network. China will eventually open this sector up for foreign competition. With increased overtures to enter the WTO, and other signs in the market, this opening is expected to occur in the short to medium term.

2. Computers and Software

Business Environment

Computers: The computer market in China is driven by a 30 percent annual increase in demand for personal computers (PCs). Any opportunities arising from the rapid growth in this industry are quickly extinguished by intense competition and falling margins. Only the biggest players, including several extremely competitive domestic suppliers, that benefit from economies of scale and the ability to diversify into higher-margin areas will survive in the PC market.

In 1998, close to 4 million computers were sold in China, making its PC industry the sixth-largest in the world. Sales of computers are driven by increasing demand in government and large organizations, especially banks, with over 70 percent of commercial PC sales going to government-related customers. Individual sales are mainly driven by urban families interested in the Internet and the education of their children. Forecasts indicate that PC sales are expected to reach 10.5 million units by 2002. China claims that local companies are now developing top-level, high-capacity computers, and domestic market share in this sector is growing.

Software: Software sales in 1998 increased by over 30 percent, and the estimated annual market growth for 1999 is 20 percent. China is the largest emerging software market in the world. By 2000, demand is expected to be over 30 billion RMB ($5.4 billion). The domestic market share for software and information services is only about 20 percent. Chinese software enterprises are relatively small and lack product variety, increasing the demand for software produced by foreign companies.

Market Opportunities

Opportunities for Canadian companies mainly lie within the software sector and computer networking. The national information infrastructure development plan "Golden Projects" has caused growth in demand for application software by government organizations. Niche market opportunities for Canadian software companies lie in specialized application software targeting specific end-users such as GIS, including Radarsat data applications.

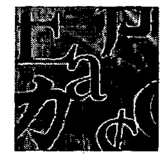
Constraints

Pressures on foreign companies to establish joint ventures and allow technology transfer are high in the computer and software sector. The underdeveloped software industry in China makes it difficult to identify the right distribution channels. Also, a 96 percent piracy rate in the software market leads to an annual loss of 10 billion RMB ($1.8 billion). Regulatory constraints and obscure government procedures and policies make it difficult for foreign companies to obtain certification for certain products or to receive licences for domestic distribution services. In most cases, Canadian software must be localized and tailored to meet the needs of the Chinese market.

Action Plan

Specific objectives of the action plan for this sector include:

- promoting Canadian capabilities and enhancing Canadian companies' presence in China in the software sector, and encouraging Chinese participation in Softworld, held each November in Canada;
- pursuing trade policy issues within and outside the framework of the discussions on China's accession to the WTO, to resolve current difficulties facing Canadian investment in the telecom services sector;
- working in partnership with Industry Canada to enhance Canada's position as a key source of Internet Protocol (IP) infrastructure and applications, including e-commerce solutions. This will be achieved through joint policy research with the MII, as well as through trade promotion activities;
- producing and updating market profiles on information technology subsectors, building on the existing list of recent reports on telecommunications, software, internet and e-commerce/network security; and
- providing regular market information on the information technology sector via the IT newsletter.



High-Tech Events

Softworld, held in November every year in Canada, promotes financial and other IT products to Hong Kong software companies. City location varies from year to year. Check http://www.softworld.org for details.

Techworld, held in March every year in Hong Kong, promotes venture capital investment in hi-tech projects in Hong Kong and Mainland China. Check http://www.hkitc.org.hk for details.

For a complete schedule of events, refer to the missions' Commercial Calendar at http://www.canada.org.hk

Hong Kong

Business Environment

In 1998 Canada exported approximately $250 million of Information and Communications Technologies (ICT) products to Hong Kong. A further $75 million was re-exported through Hong Kong to China. Most of Canada's major ICT firms have either regional headquarters or substantial marketing operations in Hong Kong.

In 1998, Canada signed an MOU on ICT co-operation with Hong Kong. The primary objective of the MOU is to promote and facilitate the formation of business and technology partnerships. Under the MOU, reciprocal ICT trade missions were organized in September 1998 and February-March 1999.

Telecommunications: Hong Kong has one of the most advanced telecommunications infrastructures in Asia. It is a regional communications hub and a gateway to Mainland China, the world's largest telecommunications market.

Hong Kong is served by 3.7 million exchange lines, and 4.7 million telephones. The market is one of the most liberal in Asia, with four fixed-line domestic service providers. Additionally, the Office of the Telecommunications Authority has set no limit on the number of service providers who may, from January 1999, use the networks operated by the four facility providers. In addition, customers can freely switch to different service providers and retain their same telephone numbers. In 2003, the fixed-line market will be opened further.

External telecommunications services are completely liberalized. In addition to international direct dialing services (IDD), international simple resale (ISR) and new technologies, including Internet telephony, are permitted under external services licences. International traffic, incoming and outgoing, for the year to December 1998, was 3.7 billion minutes. Over 80 percent of the traffic was voice.

Hong Kong has the highest penetration rate of mobile phones in the world. There were 2.8 million subscribers in 1998, served by six mobile phone operators.

Information Technologies: The Hong Kong Chief Executive's vision is to make Hong Kong a leader in the information world of tomorrow. To realize this vision, the government introduced the "Digital 21: Information Technology Strategy" in 1998, to ensure Hong Kong's continued international competitiveness by enhancing its IT infrastructure, including the development of an indigenous IT industry.

Under the strategy, the Information Technology and Broadcasting Bureau (ITBB) was established to co-ordinate policy and the use of IT. Other initiatives under the strategy included the establishment of an Industrial Support Fund for IT R&D, business incubation programs, a science park to be opened by 2001, and a $1 billion Innovation and Technology Fund for individual projects in the manufacturing and service industries. Other similar initiatives to stimulate Hong Kong's IT development include the Chief Executive's Commission on Innovation and Technology, and the private sector-government co-operative "Cyberport" project.

A common theme of the initiatives above is the promotion of e-commerce. Under the Digital 21 strategy, the government will spend $34 million on the Electronic Services Delivery project, which will enable consumers to access public services and information 24 hours a day via the Internet and other electronic means.

Market Opportunities

Some of the leading opportunities from a Canadian competitive standpoint include:

- Internet and Intranet for enterprise networking;
- E-commerce technologies;
- Computer Telephony Integration (CTI);
- Outsourcing network support and consulting services; and
- Multimedia content development, including television content.

Constraints

In most cases, Canadian software must be tailored to meet the needs of this market. While the Hong Kong government has stepped up its efforts in the war against software piracy, intellectual property problems are still of special concern in Hong Kong.

Action Plan

The objectives of the action plan for this sector are to increase Canadian ICT exports to Hong Kong by 10 percent per year by:

- providing Canadian exporters with the latest market information and intelligence;
- advocating Canada as a preferred partner for innovative, leading-edge competitive ICT technologies focussing on major Hong Kong ICT partners, such as the telephone network operators, Hong Kong IT Federation, major IT service providers and distributors, and government departments; and
- raising awareness of Canada as a high technology economy and preferred business and investment partner in various sectors, such as e-commerce, multimedia content and development software;

To achieve the above objectives, the Canadian Consulate General in Hong Kong will:

- organize a mission to Hong Kong to coincide with the Hong Kong Information Infrastructure Expo in March 2000, with the assistance of Industry Canada, the Information Technology Association of Canada (ITAC), ITBB and the Hong Kong Trade Development Council;
- help Canadian firms to find Hong Kong partners for product localization and customization as well as for marketing and distribution activities in Mainland China;
- provide comprehensive, regular market in formation and intelligence via the following vehicles:
  - market profiles with updates on the telecommunications/data communications, computer and software sectors in Hong Kong; and
  - a bimonthly newsletter for Canadian exporters on the Hong Kong ICT sector.

To promote closer commercial co-operation, including trade, investment and technological partnerships, as it has every year since 1996, the Consulate General, with the assistance of Industry Canada, ITAC, ITBB and the Hong Kong Trade Development Council, tentatively plans to organize a mission to Canada drawn from local telephone network operators, the Hong Kong IT Federation, and major IT service providers and distributors, to coincide with Softworld 2000 in the autumn of 2000.

Natural Resources — Mining, Minerals and Related Equipment and Services

Business Environment

Mainland China

China is one of the few countries in the world with relatively abundant mineral resources of all types. It has proven reserves of 154 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 steel, and one of the largest for gold, and a net exporter of a large number of minerals, such as molybdenum, tungsten, zinc and rare earths. Despite its abundant resources, its per-capita endowment and consumption are below the world average. China is also the second-largest producer of non-ferrous metals in the world, with a production of 5.94 million tonnes in 1998 of 10 major non-ferrous metals, an increase of 10.94 percent from 1997.

In the last few years, mineral and metal production in China has increased substantially. Long-standing supply shortages have been translated into overproduction of most commodities. With low world prices, many Chinese companies, characterized by high production costs and outdated technology, are operating at a loss. In an effort to exploit the minerals in a more rational manner, and to better preserve the environment, the government is applying concrete measures, including the closure of number of small-sized and inefficient enterprises, limiting the output of coal, of most non-ferrous metals, of rare earths metals, of steel, and of other minerals in 1999 and 2000.

A reorganization of China's mining-related departments occurred in 1998, and a major movement to "corporatize" Chinese producing enterprises by delinking them from direct government control is under way. Moreover, local levels of government have been given greater autonomy in terms of project approvals. This new approach is improving the operating conditions that foreign companies face, but the market is still characterized by a relative lack of transparency, red tape and market access barriers compared with many other emerging markets.

According to some experts, 70 percent of all the mining equipment imported in China is purchased for the coal industry. As in many sectors, locally manufactured equipment is increasing in terms of variety and sophistication. Quality control continues to be a problem, however, but prices are generally considerably lower than foreign equipment. Concerns have also been expressed by foreign companies, including those producing in China, that domestic Chinese enterprises still enjoy various forms of subsidies and "buy-local" preferences. Increasingly, however, market reforms are driving Chinese mining and processing companies to seek productivity-enhancing capital investments, resulting in a fresh look at foreign capabilities and leading-edge technologies. Demand for such equipment is expected to remain strong until at least early in the new millennium, and could be bolstered further if mining policy reforms stay on track.

Hong Kong

Although Hong Kong does not have any natural resources, it is an important centre for metals and minerals trade activities. Easy access to information, good communications facilities, no foreign exchange controls, efficient shipping and good banking services contribute to Hong Kong's success as a trading hub. International trading houses and Chinese "window companies" in Hong Kong are potential buyers for Canadian products, such as potash, sulphur, methyl alcohol, aluminum, nickel and zinc — products that may eventually be re-exported to Mainland China.

Market Opportunities

China is slowly shedding its status as a very high-risk mining investment destination. Increasing reforms in the mining sector and gradual improvements to foreign investment liberalization are beginning to make China more attractive to Canadian mining exploration and operating companies. At the time of writing, Canadian mining companies, particularly in the gold and non-ferrous metals sectors, have been stepping up their investment activity. Foreign investment in exploration is an increasing priority for China's governments nation-wide, but especially in under-developed provinces in northeastern, western and southwestern China. Emphasis is placed on identifying and developing new sites for iron ore, copper, gold, silver, zinc, uranium and phosphorus.

Enhanced rationalization and competition in the Chinese mining sector, coupled with tougher environmental requirements, are also creating new opportunities for Canadian equipment and services firms in several niche areas. These include:

- tailing management;
- site rehabilitation;
- smelter technology and products;
- safe production and disposal of minerals and metals;
- high technology computer applications;
- global positioning systems (GPS);
- advanced drilling technology;
- energy-efficiency applications;
- greenhouse gas emission controls; and, in general,
- productivity enhancement and applications to extend to the service life of materials and products.

Canadian firms that are prepared to enhance localization, transfer technology or skills, and provide financing will increase their prospects for success in China.

China remains a signifcant importer of the following metals and minerals: ore concentrates and scrap, copper concentrates, alumina, potash, sulphur, phosphorus and asbestos.

Constraints

As a large, regionalized and rapidly changing market, China requires significant market development time and resources. For equipment and services, these challenges are compounded by strong local capabilities for conventional equipment. For more sophisticated products, foreign competition is well-established and aggressive. Many mines have tended to purchase lower-quality domestic equipment because of restricted budgets and limiting foreign exchange regulations. Availability and reliability of market information tends to be weak. Procurement decisions are increasingly being made at local levels. For exploration and mining development, Canadian firms still face an uncertain regulatory environment and extensive red tape at different levels of government.

Action Plan

The objectives of the action plan for this sector are as follows:

- to produce sectoral overview studies on gold, non-ferrous metals and mining equipment;

- to assist Canadian firms in their exports and related joint investment, particularly in navigating administrative and regulatory requirements;
- to track, analyse and influence new policies and regulations affecting the mining investment environment;
- to increase Chinese familiarity with Canadian capabilities through incoming missions, trade shows and seminars; and
- to promote Canadian company interests through Canada-China working groups pertaining to minerals and metals.

Natural Resources — Oil and Gas

Business Environment

In an effort to make the industry more competitive, China's petroleum industry underwent a major reorganization and bureaucratic restructuring following the March 1998 session of the National People's Congress. China's oilfields, refineries, petrochemical firms, chemical fibre makers and gas stations, which were previously controlled by the China Petroleum and Natural Gas Group Corporation (CNPC), the China National Petrochemical Group Corporation (SINOPEC), and the former Ministry of Chemical Industry are now under the control of two vertically integrated holding companies — CNPC and SINOPEC — which are divided along geographic lines at the Yellow River. A much smaller company, China New Star National Petroleum Corporation, remains in operation and is authorized to enter into relationships with foreign companies. Offshore operations are under the mandate of the China National Offshore Oil Corporation (CNOOC).

Regulatory power now rests with the newly formed State Administration of Petroleum and Chemical Industry (SAPCI), with the State Development Planning Commission (SDPC) setting macroeconomic targets, adjusting prices, and implementing various reforms in the sector.

Market Opportunities

As output from China's aging oilfields stagnates, and the development of new areas intensifies, many opportunities exist for Canadian oil and gas equipment and service companies to provide advanced technologies to enhance oil recovery and exploit new sources. To maintain production at the eastern oilfields, China will need increasingly sophisticated technology and better management. This has led to opportunities for foreign oil companies to enter into incremental recovery and production-sharing agreements with China's oilfields, and for the sales of advanced technology and equipment into China.

As China continues to invest in petroleum projects in other countries, more occasions will arise where Canadian companies could participate in a Chinese-led project overseas. Since Canadian expertise in this area is recognized internationally, and given our friendly bilateral relations, third-country co-operation is a viable approach for Canadian companies interested in export market.

Although China has a large natural gas resource, its use is limited by the remote location of the gasfields and the lack of transportation and infrastructure facilities. As part of its strategy to alleviate energy shortages and diversify supply sources, China is set on establishing a network of transnational and national pipelines. Progress has been slow due to low gas prices, difficulty in financing, and a lack of co-operation from neighbouring countries. However, the pipeline network is a reality in China's overall energy strategy, and offers potential opportunities. For instance, China is encouraging the use of natural gas as an alternative to coal and gasoline.

CNPC – Alberta Petroleum Centre promotes the development and transfer of advanced petroleum science and technology between Canada and China. For more information on business opportunities in the petroleum sector consult its website at http://www.altabjo.cn.net

Constraints

Barriers preventing foreign firms from engaging in oil and gas exploration and development in China include the lack of access to prime exploration areas, unclear regulations, and evolving policies controlling price reform.

Action Plan

The objectives of the action plan for this sector are as follows:

- to foster further knowledge of Canadian capabilities among Chinese decision makers through exchanges, exhibitions and training missions;
- to monitor the evolving oil and gas development policy in China in order to provide timely information to Canadian businesses on potential opportunities in the sector; and
- to promote Canadian companies as reliable and capable partners in China's overseas ventures.

Transportation

Mainland China

Business Environment

Despite considerable and ongoing improvement and a recognition of the enormity of the task ahead, China's transportation infrastructure continues to be a business development bottleneck. Nonetheless, China remains the largest potential infrastructure market in the world, presenting remarkable opportunities for Canadian engineers, suppliers and investors.

Aviation: In the period from 1986 to 1996, China's air passenger volume grew 16 percent annually before the Asian financial crisis dropped growth to only 1.5 percent in 1998. Since then, growth rates have recovered somewhat, and both Airbus and Boeing — China's key large aircraft suppliers — still target China as their major growth market. Regional aircraft opportunities are now beginning to emerge, keeping pace with China's expanding aviation infrastructure and a more demanding passenger market.

Air passenger and cargo growth is fueling a necessary and ambitious nation-wide airport construction, expansion and modernization program. Beijing and Shanghai have opened major new international airports in 1999, and Guangzhou, Hangzhou, Nanjing and Fuyang have major projects of their own under way. Thus far in 1999, there are 27 airport-related projects in progress. To better attract foreign expertise and capital, foreign investment and management regulations have been somewhat relaxed.

With a proposed budget of approximately $1.8 billion, China is moving ahead with plans for some 10 major regional air traffic control centres.

Rail and Sea: China's railway sector, one of the last bastions of China's planned economy, has been an enormous, insensitive and sprawling monopoly for decades. The ongoing emergence of a highway system in China is providing strong competition to the railway monopoly, which is expected to force a dramatic reform and modernization within China's railway sector. Plans are under way to build a railway network by 2005 to connect China's three major economic regions, including the Northeast, Bohai Bay and Yangtze Delta. A high-speed train service between Beijing and Shanghai is under discussion, and a project could be initiated as early as 2000. A 200-kph electric train service has been established on the highly profitable Guangzhou-Shenzhen-Hong Kong route in South China, using European technology.

Expanding Airports — Projections for 2005

	Passengers (millions)	Freight (tonnes)
Hong Kong	35	3 000 000
Beijing Capital International	35	780 000
Shanghai Pudong International	20	500 000
Guangzhou Hua Du	27	800 000
Chongqing	5	110 000

Source: China Trade Report and Canadian Missions

Reflecting transportation system inefficiencies, over 80 percent of containers received or shipped at Chinese ports do not travel more than 50 kilometres beyond the port terminal. Chinese government and international development bank specialists are aware of the problem, and work is under way to dramatically improve China's intermodal transportation efficiencies.

With 18 000 kilometres of coastline along with major river and canal systems, China's marine transportation industry and ports infrastructure is also very large. Annually, 1.3 billion tonnes of cargo are handled through the over 2000 ports that have a capacity of 10 000 tonnes or more. Shipbuilding is also a key economic activity, although China's industry is facing renewed competition from Korea and Japan in the wake of the Asian financial crisis.

Road/Automotive: Despite becoming the worlds tenth-largest auto producer in 1998 (1.6 million vehicles), the large majority of China's automotive industry is not competitive internationally. However, with major investments by multinational car makers like General Motors, Volkswagen and Honda, China's automotive sector is undergoing a significant expansion and transformation. The consolidation of smaller and less-efficient auto and truck manufacturers will continue through the next few years.

Road infrastructure is growing in conjunction with the rapid rise in vehicle use. In 1996, China launched a 35 000 km National Trunk Highway System (NTHS). The first four core highways (12 000 km) will be completed and open to traffic by 2002. In addition to NTHS, provincial governments have also set their own road construction plans, and currently build expressways to ease transportation within their provincial boundaries. Urban road systems in most major cities are being expanded and upgraded on an ongoing basis, to keep pace with the increased usage.

Market Opportunities

Airport expansion and air traffic control systems present a good chance for Canadian industry to showcase advanced technology and capabilities, which can range from designing, supplying equipment, and even consulting services. Foreign participation in the operation and management of airports in China is an increasingly viable option, which could benefit from Canadian expertise in commercial planning and development.

Many Chinese pilots have been trained in Canada, and such training opportunities will continue as fleets expand.

Fifteen cities in China have applied for central government permission to build $25 billion in subway and urban passenger rail systems. Despite double-digit growth in urban roads, construction still fails to keep pace with the increase in vehicles. Canadian companies that can offer solutions to urban and highway congestion will find opportunities in China.

Canada's positive reputation in the intelligent transportation systems sector represents a strong lever for the application of Canadian technology-based solutions to address critical transportation problems. The challenge will be to convert this awareness into commercial business.

With more and more North American automotive manufacturers expanding their operations in China, Canadian auto parts manufacturers may benefit from the traditional supplier-assembler relationship to sell to China's auto market. Such a plan will almost certainly require a commitment to localize assembly or manufacture, but could result in a foothold in one of the world's most promising markets.

Constraints

As in other developing countries, China lacks the necessary funds to purchase foreign products. In many cases, particularly with large-scale infrastructure projects, China requires equipment suppliers to provide export financing, to arrange project financing or to provide direct investment, in order to conclude the transaction.

Customs tariffs are generally high. The process of WTO accession will address this over time, but tariffs will remain a barrier to trade for many years. As a result, there is a strong incentive to localize manufacturing or assembly operations in China, as a means of reducing product costs.

Services are still undervalued in comparison to actual products. Therefore, engineering services will be more effectively marketed if they are incorporated into a larger transaction.

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.

Action Plan

The objectives of the action plan for this sector are as follows:

- to increase Chinese awareness of and interest in Canadian transport sector products, services and technologies, through missions, trade shows, technical seminars and targeted outreach;
- to provide timely information and advice to Canadian business on emerging project opportunities in China's transportation infrastructure development, with particular emphasis on local government and private-sector initiatives;
- to leverage the expertise of government transport-sector agencies and organizations in Canada, and build on the foundation of linkages and co-operation programs for the benefit of Canadian commercial interests; and
- to work closely with Canadian companies and industry associations in pursuit of key emerging technology opportunities, including intelligent transportation systems and alternative fuel technologies.

Hong Kong

Business Environment

The Hong Kong Special Administrative Region government has ambitious plans to further expand its world-class transportation infrastructure. The third comprehensive transport study, completed in 1997, formulated a strategy for the local transport system to 2016. Total expenditures on road projects from 1999 to 2002 will be $4.8 billion. Another $9.6 billion has been reserved for road projects after 2002. Hong Kong is an important showcase to other provinces in Mainland China. In 1998, Canadian firms provided more than $90 million of transportation equipment and consultancy services to Hong Kong.

Public Transportation: The government is further liberalizing the public transportation market and privatizing its direct participation. Bus operators have been encouraged to introduce vehicle/fleet management, automatic fare collection and passenger information systems to provide more reliable and comfortable services to passengers. The railway and subways will be vastly expanded as follows:

- Construction of the Kowloon Canton Railway Corporation's $12.3 billion west rail will be completed in 2004.
- The east rail extension, which consists of three new branches in Lok Ma Chau, Ma On Shan and Tsimshatsui, will start in 2000.
- The Mass Transit Railway Corporation's Tseung Kwan O extension, which began in late 1998, will be completed in 2002.
- The government's third Strategic Railway Development Study, which lays the blueprint for Hong Kong's rail development over the next two decades, will be released in late 1999.

Information technology in traffic management: Eight area traffic control centres (ATCC) have been established in different regions in Hong Kong to monitor the traffic flow through closed-circuit TVs, remote sensors, synchronized traffic lights and variable road signs. More ATCCs will be established in the "new towns" in future. An electronic road pricing system and transport information database are the Transport Department's major upcoming projects.

Market Opportunities

Canadian firms have strong competitive advantages in the transport-related sectors and should pursue the following opportunities:

- consultant services for the design of highways, tunnels and bridges;
- rail equipment such as electromotive units, rail signalling control systems, depot and track maintenance equipment;
- computer systems for fleet management, vehicle tracking, traffic management and passenger information; and
- building materials for depots and train stations.

Constraints

Canadian exporters face various constraints, including:

- Competition in the local market is extremely keen. Competitors from all over the world is present in the market.
- WTO tender practices have been adopted by Hong Kong public transportation companies and organizations. The tender process is rigorous and fair. Bidders must ensure that their proposals are well-prepared and complete. Small companies, or those without a local representative, will find it very difficult to pursue and win tenders.
- Canadian firms without a local partner will find it difficult to handle tender packages, which include terms for installation and commissioning.

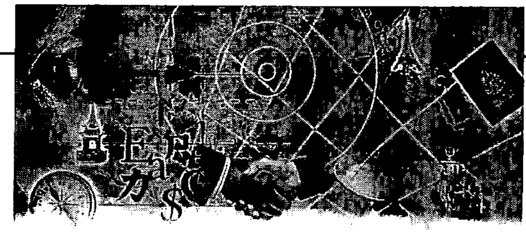
Action Plan

The objectives of the action plan for this sector are as follows:

- to enhance exposure of Canadian transportation products and services to Hong Kong transportation companies and government departments, and increase sales by 10 percent;
- to encourage Canadian firms to participate in upcoming projects in Hong Kong; and
- to expand Canada's market share for key transportation products/services, including electronic passenger information systems, GPS systems and air traffic control systems.

To achieve these objectives, the Consulate General in Hong Kong will:

- establish and maintain contact with government officials and senior management of local transportation companies, and ensure that early notification of emerging opportunities is communicated to Canadian companies;
- identify and maintain contacts with local companies that are interested in forming strategic alliances or acting as agents of Canadian firms;
- introduce to local key players Canadian capabilities and strengths in the transportation sector through selective, focussed support for incoming/outgoing missions, seminars and trade fairs;
- contact Hong Kong government officials and local companies through the Intelligent Transportation Systems (ITS) Promotion Group under the Hong Kong Institute of Engineers; and
- provide regular reports and updated information to Canadian firms regarding current developments in the local market.



5. Focus On . . .

Cultural Industries

Business Environment

Purchasing power and 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 over imports and purchasing, and mandatory approvals from relevant ministries for events.

Market Opportunities

Given China's reliance on imported programming, immediate opportunities exist in film, radio and, in particular, television. 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 a 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.

There is a market for books in China, although the Chinese government maintains tight controls over the import of foreign books. If you are interested in selling the rights to a book, the 8th biennial Beijing International Book Fair will be held August 30 to September 4, 2000. This event is intended to encourage book trading, copyright trading and scientific and cultural exchange.

Shanghai

Shanghai is rapidly re-emerging as China's cultural centre, with the most sophisticated and demanding audiences in the country. Shanghai will host one of China's major broadcast events, the Shanghai Film and TV Festival, which will be held annually starting in November 2000. It will combine the activities of the former Shanghai Film Festival and Shanghai TV Festival. In addition, a delegation from Shanghai travels to the Banff TV Festival annually, visiting Vancouver, Montreal, Ottawa and Toronto, in order to cultivate bilateral interests.

South China

Both Guangzhou (formerly known as Canton), the capital of wealthy Guangdong province, and the city of Shenzhen, are excellent markets for performing visual arts due to their quality facilities and demanding audiences. South China television consumers are very international, and since many watch channels from Hong Kong (34 million viewers in Guangdong province) and Taiwan (2 million viewers in Xiamen, Fujian province), local channels must provide similar programming to compete for market share.

Hong Kong

Due to Hong Kong's affinity with Canada, significant opportunities exist for the promotion of English-language Canadian cultural goods, as well as for the sale of television programs to the four English language broadcasters. There is also a market for performing and visual arts, although

ample time is needed to ensure that a suitable venue is found. 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 Asia (2000) for video and music publishing.

Constraints

Some Canadian companies doing business in China have indicated to the Canadian government that they have experienced problems with respect to their intellectual property, particularly in the areas of copyright and trademarks. The Canadian government would like to continue to be informed of all incidents of infringement of intellectual property rights, including piracy and counterfeiting.

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 infrastructure have made it an international financial services centre, a role it has held (as a Special Administrative Region) since the territory's transition to Chinese sovereignty in 1997. China, on the other hand, has only recently embarked on a modest opening and reform of its financial services sector, but the changes are already perceptible. A fair number of banks now hold licences allowing them to engage in a limited range of local currency business operations. Six Canadian banks are now present in China and Honk Kong, although they are not yet allowed to operate in RMB.

Mainland China

China is developing its own domestic financial services sector in conjunction with the opening of its financial services market to foreign firms. This new direction is being cautiously undertaken, often on an experimental basis, effectively limiting entry as well as the number of operations that 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.

There are over 150 foreign banks in China and only a few Sino-foreign bank joint ventures, all of which are located within the 24 designated cities allowed by the People's Bank of China. They currently manage only a very small quantity of financial assets. By mid-1999, there were only 16 foreign insurance companies, including two Canadian ones, allowed to operate in China. Another 80 are still waiting for Chinese permission to enter the market.

There continues to be fierce competition for licences, which has challenged foreign financial services firms to clearly demonstrate what they can bring to the market, from added liquidity to new products and training. China's banking institutions are striving to attain international standards in their drive to improve their competitiveness. There are opportunities for professional training services that would help them achieve their goals.

Hong Kong

Hong Kong is a major international financial centre, including wholesale and retail banking, securities broking, fund management, venture capital and insurance. For example:

- The Hong Kong Stock Exchange is the second-largest stock market in Asia, with a market capitalization of $500 billion as of March 1999.
- Hong Kong is the regional centre for portfolio management, with 130 fund management companies managing total assets of $272 billion.
- Hong Kong is the largest venture capital centre in Asia, managing $14.5 billion — 30 percent of the total capital pool in the region.
- Many of the world's top insurance companies have set up their operations in Hong Kong. Individual life business premiums rose 17 percent to $4.4 billion in 1997.

Hong Kong's mutual fund, venture capital, capital market and insurance industries will benefit from two local developments:

- Mandatory Provident Fund (MPF): Implementation of the MPF scheme, which will begin collecting contributions in December 2000, will provide ample supply of funds to the industry. The MPF scheme is expected to inject an extra $5.8 billion to $7.7 billion a year of retirement funds for the next 30 to 40 years until the system matures.

- Growth Enterprises Market (GEM): Venture capital and fund management should get a boost from the forthcoming second board, which offers easier exits for venture investments.

Market Opportunities

Although competition is intense, there are excellent market opportunities.

- Internet services open new opportunities for service providers in stock trading on the Internet, real-time stock quotes and on-line financial news.
- In view of the volatility of financial markets causing major risk to banks and security companies, effective risk management techniques will become increasingly important.
- To further develop Hong Kong into a state-of-the-art international financial centre, technological innovations are needed. New systems will be required for the merger of the Hong Kong Stock Exchange with the Hong Kong Futures Exchange, as well as for such developments as bank and securities transactions via the Internet, etc.
- Hong Kong is the most important centre for raising capital for the Chinese mainland. As the Chinese mainland continues to liberalize its financial sector, opportunities open up for Hong Kong financial institutions in the local currency (RMB) business, fund management, venture capital and the Asian bond market. Joint ventures with major Hong Kong financial institutions offering unique financial services would enjoy market access advantages.

Money World Asia, held in May every year in Hong Kong, promotes financial services to retail investors in Hong Kong. Check http://www.tdc.hk.org for details.

Health Industries

Business Environment

Mainland China

As both China's economy and its middle class grow, demand for improved health care will continue to increase dramatically. Coupled with the impact of the "one child" policy, which will mean two parents and four grandparents for each child, demand will also increase in all aspects of the health-care sector. This includes advanced medical equipment, pharmaceuticals, private hospitals, homes for the elderly and funeral services.

China has an established pharmaceutical industry to produce Chinese medicines for domestic use, as well as to generate foreign exchange revenue through exporting. Local manufacturers in China have a total market share of 75 percent. The remaining 25 percent is shared by a large number of suppliers from various countries. No specific country dominates the market, but Japan, the United States and European countries take the lead.

Due to Chinese restrictions in the sector, many foreign health-care investments are possible only in the form of a joint venture. Regulations also require that certain types of technology transfer, and certain activities be undertaken in China (such as clinical trials).

Financing is frequently the greatest barrier, however, and foreign suppliers must contend with the fluctuations of an increasingly regulated market.

Hong Kong

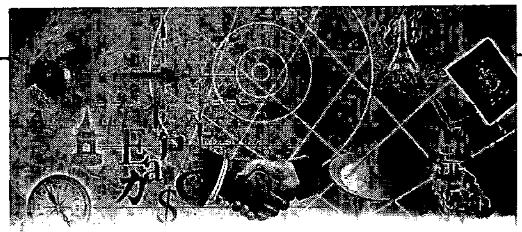
Health-care equipment and services present high growth opportunities in Hong Kong. The demand for health-care products will keep expanding in line with population growth, rising expectations for quality hospital services, an aging population, and advancing medical sciences and health-care services. By mid-1999, Hong Kong's population stands at 6.8 million, and this figure is expected to reach 8.2 million by 2016.

To a very great extent, the market is government-driven. Over 90 percent of medical services are provided by the Hospital Authority (HA), a statutory body responsible for the management of the 44 public hospitals and institutions. According to the HA's 1999-2000 annual plan, more new facilities will be opened, and a total of 973 beds will be added to meet the escalating needs of the community. The budget allotted by the government to the HA ($5.4 billion) will comprise the following:

- $84 million for the commissioning of completed capital projects;
- $19.4 million for IT development in support of clinical service delivery;
- $54.6 million for the purchase of additional or replacement equipment and vehicles; and
- about $384.6 million for the purchase of medical instrument and drugs.

The market is well developed, open and highly competitive, and is dominated by imported products. There is great demand for advanced medical equipment (electro-medical, radiological, surgical, clinical laboratory and instruments); diagnostics; IT systems; generic pharmaceuticals (human drugs, biological, veterinary); health supplements; over-the-counter drugs; rehabilitation and home care products. Local production of medical equipment and pharmaceuticals occurs on a very small scale, chiefly limited to low-end surgical products such as syringes and needles, non-prescription drugs and traditional Chinese medicine. Telemedicine is new to Hong Kong, and is developing slowly. Hong Kong's compact geography and very high quality medical infrastructure mitigate the rapid expansion of this promising Canadian area of expertise.

In addition, traditional Chinese medicine has been identified by the Hong Kong government as one of the top priorities for the turn of the century. This emerging market will lead to potential alliances with Canada on technology transfers, joint ventures and collaborative R&D. A local presence and good after-sales services are vital to success. Using the well-established routes into China taken by Hong Kong companies, Canadian medical equipment and pharmaceutical firms can gain access to both markets through agency and distributorship agreements.



6. Contacts

Assistance in Canada

China and Mongolia Division, Department of Foreign Affairs and International Trade

Working in conjunction with the Canadian Embassy in Beijing, the Consulates General in Shanghai, Guangzhou, Hong Kong and the Consulate in Chongqing, DFAIT's China and Mongolia Division in Ottawa has overall responsibility for Canada's trade and economic relations with China. While many officers in the Department are involved in china-realted issues, the China nad Mongolia division is the best first point of contact.

Through an array of contact and market intelligence sources, the China and Mongolia Division can help you assess your potential target market, and can provide advice on doing business, especially with matters relating to market access. To allow DFAIT and the Canadian missions in China to provide the most assistance possible, please supply detailed information regarding your business and your specific market interests. (Of course, this information will be treated as commercially confidential.) These details will allow you to tap into DFAIT's trade development network. Officers in the China and Mongolia Division are in daily contact with Canadian trade commissioners posted in China.

China and Mongolia 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
E-mail: pcm@dfait-maeci.gc.ca
Web site: http://www.dfait-maeci.gc.ca/china/

Canada Business Service Centres

The Canada Business Service Centres (CBSCs) will help new exporters gain access to a wide range of information on government services, programs and regulations. The Centres are a collaborative effort among federal, provincial and private sector organizations. A CBSC has been established in a major urban centre in each province.

Each CBSC offers a variety of products and services to help clients obtain quick, accurate and comprehensive business information. They minimize telephone run-around, inadequate or incorrect information, and duplication of government services, enabling clients to make well-informed business decisions. To learn more about the CBSCs, contact:

Canada Business Service Centres
Tel: 1-888-811-1119
Web site: http://www.cbsc.org

International Trade Centres

International Trade Centres (ITCs) have been set up to help companies — both experienced exporters and those who are ready to export — to take advantage of export opportunities. The 12 ITCs, located in major cities across Canada, are part of a network of trade officers working in more than 125 countries around the world. They work to ensure that your company receives the most pertinent information for your export requirements, providing information on international markets, joint ventures and technology transfer opportunities; trade fairs and missions; and trade-related conferences and seminars. ITCs can also provide advice to companies that are developing their marketing plans, before they contact a trade commissioner at one of Canada's missions in China.

Use the following list to locate the ITC closest to you.

	Telephone	Fax
St. John's	(709) 772-5511	(709) 772-5093
Charlottetown	(902) 566-7382	(902) 566-7450
Halifax	(902) 426-7450	(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) 983-5851	(204) 983-3182
Regina	(306) 780-6124	(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

World Information Network for Exports — WIN Exports

WIN Exports is DFAIT's computerized database of Canadian exporters and their capabilities. It is used by trade commissioners in Canada and overseas, by the ITCs, and by Team Canada partners — the federal and provincial government departments involved in international business development — to share information, to keep track of services provided, and to match companies like yours to foreign purchase requirements.

Canadian trade commissioners use the WIN Exports database to find out more about your company and to identify Canadian exporters in response to the tens of thousands of requests they receive each year from potential foreign buyers.

WIN Exports Registration

You can call the WIN Exports hot line at 1-800-551-4946 to register. You can also obtain a WIN registration form on-line at: http://www.infoexport.gc.ca/section2/winexp2-e.asp

Company information supplied to WIN Exports can be quickly printed and provided to prospective foreign buyers, importers, distributors and partners. Trade commissioners also use the fax function of WIN Exports to keep registered companies informed of events of interest, such as trade fairs and missions, seminars and opportunities. Registered companies automatically receive *CanadExport*, DFAIT's international business newsletter. Please note that only exporters or export-ready firms that expect to be actively exporting soon can register.

Export Opportunities in China Financed by International Financial Institutions

Both the World Bank (WB) and the Asian Development Bank (AsDB) operate significant programs in China, which offer opportunities to Canadian suppliers of goods and services. Over the last five years, China has been the largest recipient of WB and AsDB loans in Asia. In 1998, the WB disbursed approximately US$2.5 billion to projects in China, and each year, the AsDB lends the country approximately $1.2 billion. A large majority of these IFI projects are in the infrastructure sector (transport, industry and urban development), and are related, in part, to the Government of China's initiatives to address infrastructure needs and growth in the near term.

Working in conjunction with DFAIT's Export Financing Division, the Canadian Embassy in Beijing, our Consulates General in Shanghai, Guangzhou and Hong Kong, and our Consulate in Chongqing are currently exploring ways to facilitate increased bidding by Canadian companies on IFI projects. Posts will not only provide information on how procurement decisions are made, but will also give Canadian firms advice on how to market successfully to contractors (i.e. proposals), and will link them up with potential Chinese partners. Trade commissioners have access to an IFI Net tracking system, and can provide current information on projects in the pipeline for bidding.

For more information on the government's IFI strategy, check out the Web site (**http://www.dfait-maeci.gc.ca/ifinet**).

Export Financing

Export Development Corporation

Export Development Corporation (EDC) is a unique financial institution that has been helping Canadian businesses grow and prosper through exports and international investment since 1944. EDC's sophisticated trade finance solutions can help exporters to compete in more than 200 countries, even in higher-risk and emerging markets.

EDC has considerable experience in supporting Canadian exporters and investors in the China market. Since 1979, more than 250 Canadian contracts have been supported involving over $5 billion of Canadian goods and services. An array of EDC insurance, financing, guarantee and bonding programs is available to support Canadian firms in penetrating or expanding their businesses in China.

Export Insurance Services

EDC's insurance services include:

- insurance for sales on short- and medium-term credit;
- bid/performance-related insurance and guarantees;
- surety bond support;
- equipment (political risk) insurance; and
- foreign investment insurance.

EDC insurance policies protect exporters against various losses due to commercial and political risks, such as:

- buyer insolvency;
- default on payments;
- repudiation of goods;
- contract termination;
- foreign exchange conversion and transfer payment difficulties;
- war, revolution or insurrection preventing payment;
- cancellation of government import or export permits;
- unjustified calls on bid/performance letters of guarantee; and
- inability to repatriate capital or equipment due to political problems.

Export Financing Services

EDC's financing services include:

- lines of credit with foreign banks or agencies worldwide;
- note purchasing arrangements;
- direct buyer loans; and
- project risk financing packages.

EDC's financing services enable Canadian exporters to provide their customers with flexible medium- or long-term financing. Support is provided for the sale of capital equipment and services, with repayment terms generally extending up to 10 years, depending on the nature of the product or service. Under EDC financing arrangements, EDC disburses funds directly to the Canadian exporter. All transactions financed must meet EDC's normal criteria relating to Canadian benefits, the exporter's technical and financial capability, and the creditworthiness of the borrower/country.

Opening Doors for SMEs

Thousands of SMEs rely on EDC's support. Some of the ways in which EDC is helping SMEs increase their export business in China include:

- Emerging Exporters Team, which focusses exclusively on helping smaller exporters manage the risks associated with exporting. Exporters can reach a team member by calling 1-800-850-9626. These small-business specialists can put insurance coverage in place on the spot, and can approve sales to foreign buyers.
- SME Financial Services Team, which co-ordinates all EDC initiatives aimed at SME capital goods and services exporters.
- NORTHSTAR Trade Finance Inc., which, through a partnership with EDC, helps Canada's SMEs to boost their competitive edge. It provides medium-term loans (i.e. one- to five-year terms) ranging from $100 000 to $5 million to buyers of Canadian exports. These loans do not require repayment guarantees from the exporter, since EDC insurance protects NORTHSTAR against buyer non-payment. China has been a primary focus of NORTHSTAR's operations in recent years. Exporters can contact NORTHSTAR at 1-800-663-9288 or visit its Web site (**http://www.northstar.ca**).

As the Chinese market continues to evolve, EDC is familiarizing itself with issues related to transactions involving new risk (non-sovereign) structures, as well as the dynamic new Chinese entities involved. All creditors, including EDC, are struggling with some of the issues behind new risk transactions in China. However, EDC is well-positioned to consider providing support for creditworthy joint venture projects, as well as for projects involving corporate risk, commercial bank risk and project financing/limited recourse structures.

As part of its approach to addressing new risks, EDC now has an ongoing presence in China, and thus will gain enhanced market intelligence on issues relating to new risk transactions. Furthermore, EDC's business teams and financing and insurance specialists closely follow developments in the China market, helping EDC to underwrite new risks in support of Canadian exporters and investors.

EDC
SEE

For more information about EDC support for doing business in China, contact an EDC office near you: telephone: 1-800-850-9626, fax: (613) 598-6697, or e-mail: export@edc-see.ca. EDC's website is http://www.edc.ca

Canadian Commercial Corporation

The Canadian Commercial Corporation (CCC) is a Crown corporation established in 1946 to assist Canadians in selling their products and services to other countries. CCC acts as an international trade facilitator and prime contractor, and offers a wide range of contracting services. CCC can help your company do business by assisting in contract negotiations to complete sales on better terms with fewer risks. By participating as a 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.

CCC, through the Progress Payment Program (PPP), can also help SME exporters who are experiencing working capital difficulties stemming from their inability to get advance payments from foreign buyers. PPP matches CCC's expertise in evaluating contracting risks and the commercial lending capabilities of Canadian financial institutions. When CCC backs a SME's export transaction through PPP, the participating financial institution provides pre-shipment financing for the sale beyond the company's normal line of credit. Once the PPP line of credit is in place, CCC verifies the work performed under the terms of the contract, and the exporter can access the progress payments accordingly.

For more information about CCC, contact:

Canadian Commercial Corporation
Tel: (613) 996-0034 or 1-800-748-8191
Fax: (613) 995-2121 or 947-3903
E-mail: info@ccc.ca
Web site: http://www.ccc.ca

Industrial Co-operation Program — Canadian International Development Agency (CIDA-INC)

CIDA's Industrial Co-operation Program (CIDA-INC) has been active in China since 1982, encouraging the Canadian private sector to establish long-term business relationships with developing country partners. If you are considering investing in China through a joint venture arrangement or as sole owner of a new firm, CIDA-INC can share in the costs at the feasibility study stage, and can contribute to the costs of the project's developmental components of the at the implementation stage, in such areas as training and environmental/social impact enhancement.

CIDA-INC reduces the risks to Canadian firms by sharing the costs of their projects. Sectors that have had the largest interest from Canadian firms are energy, water and sanitation, agriculture, transport and communications.

For more information on CIDA- INC, contact:

CIDA-INC
200 Promenade du Portage
Hull, Quebec K1A 0G4
Tel: (819) 953-5444
Fax: (819) 953-5024
E-mail: info@acdi-cida.gc.ca
Web site: http://www.acdi-cida.gc.ca

Assistance Abroad

Canadian Trade Commissioner Service in China

Canadian trade commissioners and locally engaged commercial officers and assistants in China are actively promoting Canadian goods and services exports, international business opportunities, and investment in Canada. Working from the Canadian Embassy in Beijing, Canadian Consulates General in Shanghai, Guangzhou and Hong Kong and the Canadian Consulate in Chongqing and the China and Mongolia Division in Ottawa, the team promotes value-added activities, and brings benefit to Canadian manufacturers and service providers through promoting business with China. The Embassy in Beijing also maintains close contacts with Chinese central government ministries and administrations in support of commercial relations and economic interests.

For further information, visit the Canadian missions' Web site (**http://www.canada.org.hk**).

Canadian Embassy – Beijing
19 Dongzhimenwai Street
Chaoyang District
Beijing 100600, China
Tel: (011-86-10) 6532-3536
Fax: (011-86-10) 6532-4072
E-mail: bjing-td@dfait-maeci.gc.ca

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

Canadian Consulate General – Shanghai
Tower 4, Suite 604
Shanghai Centre
1376 Nanjing Xi Lu
Shanghai 200040, China
Tel: (011-86-21) 6279-8400
Fax: (011-86-21) 6279-8401
E-mail: shngi@dfait-maeci.gc.ca

Territory: Municipality of Shanghai; provinces of Anhui, Jiangsu and Zhejiang.

Canadian Consulate General – Guangzhou
Suite 801, China Hotel Office Tower
Liu Hua Lu
Guangzhou, 510015 China
Tel: (011-86-20) 8666-0569
Fax: (011-86-20) 8667-2401
E-mail: gzconcan@public.guangzhou.gd.cn

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

Canadian Consulate – Chongqing
Room 1705, Metropolitan Tower
68 Zou Rong Lu
Yu Zhong District, Chongqing 400010
Tel: (011-86-23) 6373-8007
Fax: (011-86-23) 6373-8026
E-mail: cdncon@public.cta.cq.cn

Territory: Municipality of Chongqing; Province of Sichuan.

Canadian Consulate General – Hong Kong
13th Floor, Tower 1
Exchange Square
Central, Hong Kong
Tel: (011-852) 2847-7414
Fax: (011-852) 2847-7441
E-mail: canadatrade.hkong@dfait-maeci.gc.ca

Territory: Special Administrative Regions of Hong Kong and Macau.

Business Associations

Canada China Business Council

The Canada China Business Council (CCBC) is a private-sector, non-profit membership organization incorporated in 1978 to facilitate and promote trade and investment between Canada and the PRC.

The CCBC's mandate is 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 the government and to the public at large.

The CCBC provides a number of services that can help Canadian companies expand their businesses into the China market effectively, including:

- networking opportunities, events and outreach programs;
- policy;
- market research;
- interpretation and translation;
- business programs;
- office alternatives; and
- publications:
  - a bimonthly magazine: *Canada China Business Forum*
  - a monthly newsletter: *Memberlink*

The CCBC also has a comprehensive directory of Canadian companies and professionals in China. The directory includes contact and business services information, a useful guide to doing business in China, as well as information on CCBC, Canadian embassy and consulate services.

The CCBC's head office is in Toronto, with other offices in Vancouver, Beijing and Shanghai. For more information about CCBC membership, services and events, contact:

Canada China Business Council
Head Office
180 Dundas Street West, Suite 1502
Toronto, Ontario M5G 1Z8
Tel: (416) 954-3800
Fax: (416) 954-3806
E-mail: ccbc@istar.ca
Web site: http://www.ccbc.com

Western Canada Office
515 West Hastings Street, Suite 2600
SFU at Harbour Centre
Vancouver, British Columbia V6B 5K3
Tel: (604) 291-5190
Fax: (604) 291-5039
E-mail: alison_winters@sfu.ca

Beijing Office
CITIC Building
19 Jianguomenwai Street, Suite 18-2
Beijing 100004
Tel: (011-86-10) 6512-6120 or 6500-2255, ext. 1820/1821/1822
Fax: (011-86-10) 6512-6125
E-mail: ccbc@chinaonline.com.cn.net

Shanghai Office
South Tower, Hong Kong Plaza
283 Huai Hai Zhong Road, Room 1901
Shanghai 200021
Tel: (011-86-21) 6390-6791
Fax: (011-86-21) 6390-7310
E-mail: ccbcsh@online.sh.com

Canadian Chamber of Commerce in Hong Kong

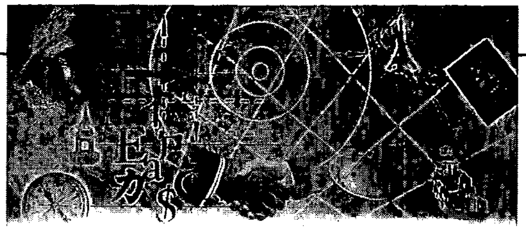
The Canadian Chamber of Commerce in Hong Kong (CCCHK) is a networking organization for those interested in business ties in and with Hong Kong, China and Asia. Established in 1977, it is the largest Canadian Chamber of Commerce outside of Canada, with some 900 members. The CCCHK organizes frequent business-related events in Hong Kong, and publishes Canada Hong Kong Business, a bimonthly magazine. For more information, contact:

The Canadian Chamber of Commerce in Hong Kong
Executive Director
Kinwick Centre, Suite 1003
32 Hollywood Road
GPO Box 101016
Central, Hong Kong
Tel: (011-852) 2110-8700
Fax: (011-852) 2110-8701
E-mail: lale_kesebi@cancham.org
Web site: http://www.cancham.org

The Hong Kong-Canada Business Association

The Hong Kong-Canada Business Association (HKCBA) was formed in 1984 to encourage and promote trade and investment between Canada and Hong Kong across a broad range of industries and events. 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 Canadian Consulate General in Hong Kong and the Department of Foreign Affairs and International Trade in Canada.

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



Annex

Visa Procedures for Chinese Business Visitors to Canada

In 1998, the Canadian Embassy, Beijing received over 37 000 visitor visa applications, for an overall acceptance rate of 81.5 percent. Acceptance rates are slightly higher for business travellers.

Common reasons for refusal are failure to submit adequate supporting documentation, and concerns regarding bona fides. China is the top country in terms of improperly documented arrivals at our ports of entry (refugee claimants). In addition, more than 150 persons who entered Canada as business visitors in 1998 have subsequently claimed refugee status.

In order to ensure that visa applications are processed in an efficient manner, we would like to make the following recommendations.

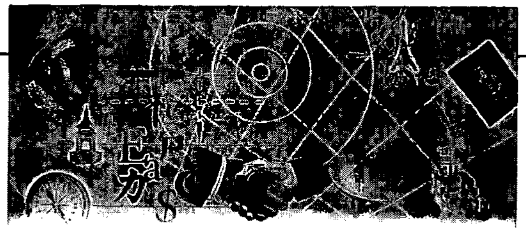
1. If you intend to invite a business person, you should provide that person with the following documents, which they should then submit with their application:
   - a formal letter of invitation that includes your full name and title, business address, contact telephone and fax numbers, the name and title of the person you are inviting, the intended duration of the visit, a brief summary of the reason for extending the invitation, and a statement concerning who will pay for the trip expenses; and
   - a copy of any additional documents that outline the business to be conducted during the visit, or business previously conducted with the person you are inviting, which may include, but would not be limited to:
     - an explanation of how you met the applicants;
     - contracts, purchase orders, bills of lading or service agreements;
     - contact names, titles, addresses, and phone and fax numbers for third parties with whom you have arranged meetings on behalf of the person you are inviting; and
     - a notarized copy of your immigration status document (if you are a temporary resident of Canada, to prove that you are legally in Canada).
2. In addition, if you have not previously invited any Chinese business visitors or have not invited within the past two years, please provide a copy of your Canadian business registration documents, and a copy of the summary of your most recent Corporate Notice of Assessment form from Revenue Canada. Unfortunately, the visa section is receiving an increasing number of fraudulent or fabricated letters of invitation purportedly from Canadian companies.

Please ensure that all required documentation is submitted by the Chinese applicant to the Canadian Embassy with the visa application.

Please allow a minimum of five working days for visas to be processed. Additional delays may occur if further checks and/or a personal interview are necessary.

Please remember that the Chinese procedures for obtaining a Chinese passport and permission to travel are complicated and time-consuming. You also should keep in mind that because many businesses are still largely state-run, representatives may be considered officials by the Chinese government, which can slow the visa application process. All applications for visas for delegations travelling on Public Affairs passports are submitted to foreign embassies by the Foreign Affairs Office (FAO) of the appropriate Chinese enterprise. This is a requirement of the Government of the People's Republic of China. Sometimes it takes several weeks for the FAO to submit completed applications, collect the passports, and finally return them to the holders once the visa office reaches a decision.

Prepared by Citizenship and Immigration Canada, in co-operation with the Department of Foreign Affairs and International Trade, China and Mongolia Division, and the Canadian Embassy, Beijing.



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