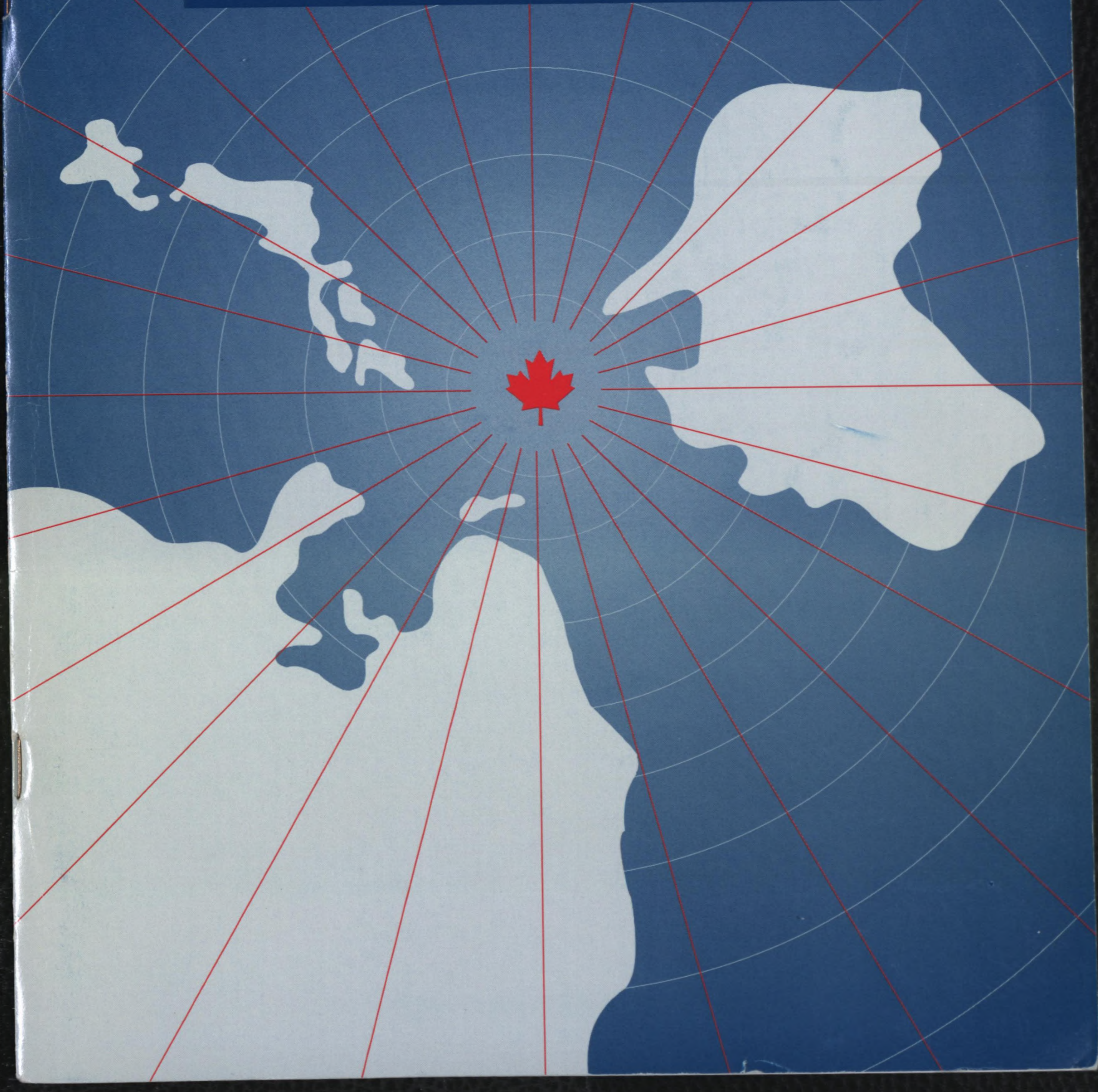
INVESTMENT PROSPECTING ABROAD

A GUIDE TO OPPORTUNITIES IN THE ASIA-PACIFIC REGION



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A GUIDE TO OPPORTUNITIES IN THE ASIA-PACIFIC REGION

Sponsored by:

The Hongkong Bank of Canada
&
Canada's Going Global Investment Program:
External Affairs and International Trade Canada
Investment Canada
Industry, Science and Technology Canada

Hongkong Bank of Canada

Canadä

Hongkong Bank of Canada

Hongkong Bank of Canada is a wholly owned subsidiary of The Hongkong and Shanghai Banking Corporation Limited, one of the largest and most strongly capitalized banking groups in the world – and an industry leader when it comes to international trade and commerce.

After all, HongkongBank was established 125 years ago primarily to meet the financing needs of companies trading with China. While it still retains its close ties with that market, it has also become the principal commercial bank in Hong Kong and is now a key provider of financing for regional and international trade throughout the Far East, South East Asia and around the world.

Member institutions of the HongkongBank group include Marine Midland Bank, Hang Seng Bank, The British Bank of the Middle East, Hongkong Bank of Australia, Wardley, James Capel Group, C M & M Group, Equator Holdings and, of course, Hongkong Bank of Canada. HongkongBank group is represented by more than 1,300 offices in 50 countries and has assets in excess of $150 billion. There is also a cooperative arrangement with Midland Bank plc in the United Kingdom.

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In addition, we offer something more. We are absolutely dedicated to providing exceptional service to our customers, consistent with the high standards achieved throughout the HongkongBank group. After all, when you compete on a worldwide basis as we do, you must provide world class service.

Canada's Going Global Investment Program

Investment in Canada from abroad is critical to the country's economic future. Encouraging investment from international and domestic sources is a basic component of the federal government's economic strategy. It relates directly to Canada's ability to compete successfully in the international marketplace.

International competition for investment has made investors more demanding in their requirements and expectations. A number of countries are expending resources to attract foreign investment. Canada also faces competition from the many US states which are actively courting investment from Europe and Asia-Pacific.

All of this has a clear implication for Canada's ability to attract foreign investment. Canada must intensify its investment development initiatives. In particular, Canada needs to capitalize on its greatest advantage: access to the North American market as a result of the Canada-US Free Trade Agreement. Canada must clearly demonstrate to European and Asia-Pacific business people the benefits of locating in Canada as a site from which to serve North American and global markets.

The Going Global Investment Program is a joint program of External Affairs and International Trade Canada, Investment Canada and Industry, Science and Technology Canada. It is directed at assisting Canadian industry to capitalize on new investment opportunities arising from the economic integration of Western Europe and the dynamic growth of Asia-Pacific. The Program is designed specifically to support focused investment promotion initiatives aimed at attracting technology-bearing investment from those regions to Canada.

Under The Going Global Investment Program, priority will be given to projects which address the investment needs of Canadian industries; target particular and specific foreign markets and foreign firms with respect to meeting those needs; and bring Canadian companies together with those able to meet their requirements.

The Going Global Investment Program will lever contributions and participation from the private sector, universities, research institutions, other levels of government and other federal departments to maximize efforts in investment development related activities.

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Asia-Pacific and Investment

The Asia-Pacific region offers promising opportunities for small- and medium-sized Canadian companies seeking investment. Japan is one of the world's most powerful economies, while several other countries in the region are quickly becoming influential forces in the global marketplace. This brochure will introduce you to the investment that can be found in the region's six most dynamic economies: Japan, Australia, Hong Kong, The Republic of Korea, Singapore and Taiwan. In recent years, business people from these countries have shown an increasing interest in overseas investment as a way of enhancing international competitiveness. Established Asia-Pacific exporters and manufacturers as well as many newer and smaller companies in the region are looking for North American companies in which to invest.

International investment can play a vital role in helping your company cope with the demands of technological change and global competition. Driven by the emergence of new technologies, firms are under pressure to develop new products and to improve industrial processes. At the same time, the risks and costs associated with R&D have sky-rocketed while product life cycles have contracted. Even the largest corporations are reluctant to go it alone and firms of every size are turning to new forms of investment such as strategic alliances and joint ventures, to spread the risk and reduce costs by providing additional capital, technology, or know-how. Even smaller companies are seeking investment-based linkages in other countries. Because of this trend, the total stock of the world's foreign direct investment (FDI) is growing rapidly: in 1988, it surpassed $ 1.23 trillion.*

***Note:** All currencies in this publication are stated in Canadian dollars unless otherwise noted.

The world-wide search for international investment opportunities has touched Canada. Over the 1980s, the book value of FDI in this country doubled, growing from $ 61.7 billion in 1980 to $119.2 billion in the third quarter of 1989. Foreign direct investment accounted for more than 8% of Canada's total capital stock.

While the United Kingdom and the United States remain Canada's largest sources for external investment, six out of the seven fastest growing sources come from the Asia-Pacific region. From 1983-87, direct investment in Canada from Hong Kong grew at an average compound rate of almost 44% a year, investment from Australia grew at more than 40% a year, and investment from Singapore at 31.6% annually. By contrast, investment in Canada from the United Kingdom grew at an average compound rate of only 12% a year and investment from the U.S rose by only 5%.

Fastest Growing Sources of Foreign Direct Investment in Canada (1983-87)
(Average annual compound growth rates, in percentage)

Hong Kong	43.9
Australia	40.5
Singapore	31.6
Taiwan	18.9
Japan	12.1
United Kingdom	11.9
Republic of Korea	9.0
West Germany	7.7
United States	5.4

Source: Statistics Canada.

The rapid growth of Asia-Pacific investment in Canada is a by-product of strong overall economic performance by the countries of the region. Over the past ten years, real growth in their Gross Domestic Product (GDP) has tended to be significantly higher than North America's. Most economic forecasts predict that growth in the region will continue to be strong throughout the 1990s.

For small- and medium-sized Canadian companies in search of additional financial resources, innovative technologies, new skills, or access to new markets, the Asia-Pacific region is rich in possibilities. For example, the region enjoys a considerable stock of surplus capital acquired as a result of an emphasis on export-oriented growth. It is, however, increasingly difficult for the countries of the region to pursue an export-led strategy. Part of that difficulty stems from the very success of their earlier export effort: countries in other parts of the world are now deeply concerned about imbalances in their trade with the region.

It is also true that trade has taken a back seat to investment as the driving force behind today's global economy. For many companies, investment has emerged as the preferred vehicle for penetrating international markets. Asia-Pacific companies like companies around the world are turning to investment-based activities, joint ventures, and strategic alliances to support continued expansion into world markets. Because Asia-Pacific companies have an impressive store of wealth accumulated from previous export drives, the pursuit of international investment opportunities is a strategy they can now well afford.

There are other reasons for the successful exporting countries of Asia-Pacific to pursue overseas investment. Some are concerned that a rapid repatriation of profits earned from exports would fuel domestic inflation. It might also provoke an abrupt and unwanted restructuring of their economies. Thus, overseas investments are not only a way of maintaining economic growth, but they are a means of cushioning the effects of rapid growth on their domestic economies, giving these economies time to adapt.

Growth in Real Gross Domestic Product

(year-over-year, in percent)

	Canada	Australia	Hong Kong	Japan	Republic of Korea	Singapore	Taiwan	United States
1980	1.1	2.4	10.9	4.3	3.0	10.3	7.3	-0.2
1981	3.4	3.4	9.4	3.7	7.4	10.7	6.2	1.9
1982	-3.2	1.6	3.0	3.1	5.7	6.3	-3.6	-2.5
1983	3.2	-1.4	6.5	3.2	10.9	7.9	8.4	3.6
1984	6.3	5.6	9.5	5.1	9.4	8.2	10.6	6.8
1985	4.7	5.4	-0.1	4.9	6.9	-1.8	4.9	3.4
1986	3.3	3.9	11.9	2.5	12.4	1.8	11.7	2.7
1987	4.0	2.5	13.9	4.6	12.0	9.4	12.3	3.4
1988	4.4	4.8	7.9	5.7	11.5	11.2	7.3	4.5
1989	3.0	4.1	2.3	4.9	6.1	9.2	7.6	2.5
1990	1.1	3.4	1.8	6.1	8.5	6.9	4.8	1.0

Source: The Economist Intelligence Unit, London (1991); OECD Statistics, Paris (1991); The Australian Bureau of Statistics.

Another excellent reason for pursuing an investment strategy abroad is to gain access to new technologies. The companies of Asia-Pacific know that the best way of getting technology is to offer technology in return, and this is something they are well equipped to do. All of the countries featured in this book have recognized the importance of technology and have invested in it. In this, they have followed the lead of Japan which was the first country in the region to climb the technology ladder, moving from low-cost production into knowledge-intensive industries. Today, Japan is characterized by the innovative application of existing technologies coupled with an ambitious focus on basic research. In just two years, between 1986 and 1988, Japan's total public and private sector investment in R&D increased by almost a third, from approximately $97.3 billion to $115.6 billion.

Following Japan's example, Korea, Taiwan, Singapore and Hong Kong have also made their way up the technology ladder. They have mastered light manufacturing and are beginning to move into more advanced industrial technologies. They also want to free themselves from undue dependence on Japanese technology. For example, between 1986 and 1988, Korea's investment in R&D increased by 23%.

Because they recognize how important technology is, Asia-Pacific companies are looking to overseas investments to supplement their domestic technologies. They are seeking access to new ideas, new technologies, and new products to enhance their own capabilities. Many Pacific Rim corporations invest in North America precisely for this reason. Even the traditionally resource-based Australian economy is on the lookout for new technology. Like Canadians, Australians are attempting to refocus their economic activities on more value-added and knowledge-intensive sectors and there is much that can be done together to move both economies in that direction.

The countries of Asia-Pacific all have several similar reasons for pursuing overseas investment – a wariness of undue dependence on export markets, the domination of investment over trade, a need to cushion the impact of rapid export-led growth and, the search for technology. But they also have highly specific motives that vary from country to country. For example, investors from Hong Kong want a secure haven for their capital. Those from Korea, Taiwan, and Japan are keenly interested in accessing raw materials. Australia is especially interested in complementary technologies. These diverse motives must be understood by any company looking for a potential investment partner.

This booklet is designed to give you a sense of the context and the motivations underlying international investment from the six most dynamic economies in Asia-Pacific. It is intended to point you in the right direction as you begin the search for an investor with compatible objectives. It will also help you position your own offering in such a way as to maximize your chances of success with that investor. It is, however, only a beginning. There is a lot more hard work that you will have to do yourself if you want companies from Asia-Pacific to invest in your business.

Australia

I. Economic Structure

A Resource-Based Economy

Australia is the world's smallest continent and the last to be discovered and settled by Europeans. Historically, the Australian economy was based on wool gathered from a huge sheep population and raw materials extracted through mining. Even today, Australia accounts for half the world's production of fine wool, while metals and minerals account for more than a quarter of the country's exports.

Australia's most important domestic industrial activities include wool production, the processing of iron, steel, or refined metals, and food production. Despite this strong resource-based orientation, the country is highly urbanized with more than 80% of the population living in towns and cities and half of it concentrated in Sydney and Melbourne.

Growth in the 1980s

The Australian economy started growing rapidly from the mid 1980s. Driven by a combination of low interest rates and strong consumer demand, real GDP grew by about 4% a year between 1985 and 1989. Strong growth, however, was accompanied by high levels of inflation which exceeded 7% per annum by the end of the decade. To manage the inflationary pressures that arose, the government has cut back spending and adopted policies designed to push interest rates higher.

The Foreign Debt Trap

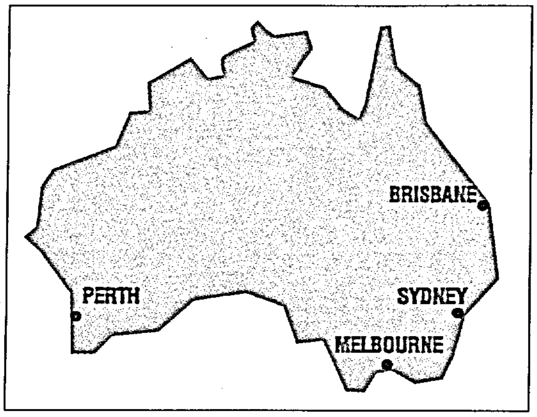
Australia's rapid growth was supported by an explosion of imports. Both companies and private consumers looked to foreign suppliers to supplement whatever was missing from the domestic economy. As a result, by mid 1989, net foreign debt exceeded $93.6 billion while the current account deficit for 1988-89 stood at $16.1 billion. As foreign debt mounted, so too did servicing costs. In 1988-89 interest payments on the foreign debt reached $9.5 billion.

As it moves into the 1990s, Australia faces significant economic challenges. The national debt has grown, labour costs are high, recessionary trends throughout the OECD have weakened the demand for Australian products, and high interest rates have undermined the position of several major Australian firms forcing dramatic restructuring.

A Technological Gap

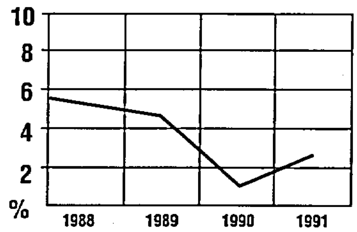
The most basic economic challenge facing Australia is to improve the country's technological infrastructure, move to higher value-added activities, and expand technology-based exports. Medium and low technology goods account for the bulk of Australia's exports and they continue to increase. By contrast, high technology-based exports remained flat through the mid 1980s. Another sign of the technology gap is the fact that Australian companies pay more to acquire foreign technology than they receive from the sale of their own know-how. At least here, however, a positive sign is that receipts are growing faster than payments.

Country Profile: Australia



Population (1989): 16.8 million
Population Growth (1989): 1.8%
GDP Per Capita (1989): $ 19,970

Real GDP Growth Rate (%)



GDP by Sector (1988/89)
(% of total)

Agriculture, Forestry & Fishing	3.6
Mining	7.4
Manufacturing	17.6
Public Utilities	3.6
Construction	7.4
Wholesale & Retail Trade	15.4
Transport, Storage and Comm.	7.8
Finance & Business Services	11.1
Public Administration	3.9
Community & Personal Services	12.0
Other Services	10.2

Structure of Manufacturing Industries (1987/88)
(% of total Value Added)

Food, Drink, Tobacco	24.4
Basic Metal Products	14.5
Other Machinery & Equipment	11.6
Transport Equipment	11.2
Chemicals etc.	11.1
Paper, Printing etc.	10.2
Fabricated Metal	9.1
Textiles, Clothing, Footwear	7.5

Stock of FDI in Canada: Australia
($ millions; % of total)

	Value	(%)
1983	89	0.1
1984	94	0.1
1985	107	0.1
1986	214	0.2
1987	347	0.3

Stock of FDI in Canada by Industry: Australia
($ millions; % of total)

	1979	(%)	1986	(%)
Petroleum*	12	17.1	103	48.1
Merchandising**	42	60.0	85	39.7
Financial	1	1.4	15	7.0
Manufacturing	15	21.4	11	5.1
Total	**70**		**214**	

*includes natural gas, mining and smelting
**includes utilities and other enterprises

Major Trading Partners: Top Export Markets (1989)
(% of total exports)

Japan	27.1
United States	10.3
South Korea	5.3
New Zealand	4.4
Canada	1.3

Total Exports (1989): $ 33.7 billion
Total Exports to Canada (1989): $618 million

Major Trading Partners: Top Import Suppliers (1989)
(% of total imports)

United States	20.1
Japan	18.1
United Kingdom	6.0
West Germany	5.6
Canada	2.1

Total Imports (1989): $ 36.8 billion
Total Imports from Canada (1989): $1,101 million

Australian Business Payments and Receipts for Technical Know-how

	1984/5	1986/7
Payments	172.9	257.5
Receipts	37.5	98.7

Source: Year Book Australia.

Areas of Technical Strength

Despite the technology gap, Australia has developed world-class status in several areas of advanced technology. The following are some of the country's leading technology sectors:

- Medical Research: Several Australians have won Nobel prizes for medicine and the country's scientists have done pioneering work in areas such as transplant surgery, fertility research, deafness, and genetic engineering.

- Communications: Australia leads the world in the development of low-density, long-distance communications that offer smaller nations affordable access to satellite communications. These systems have been exported to the Pacific, Africa, and Asia.

- Space Technology: Australia has long operated its own satellites to support domestic telecommunications and it is developing launch facilities that are located close to the equator and thus require less power to lift rockets into geostationary orbit. The Australian radio telescope in New South Wales is one of the world's most advanced.

- Computing: Australia is the manufacturing base for IBM computers that are exported to the Pacific and Asia. It is a leader in data management technology based on CD-ROMs. Australian software is used in robot tool control.

- Energy: Australia is a leader in solar power for water heating systems and has developed a system to produce household electricity from solar power.

- Automotive Industry: Five large companies produce 400,000 vehicles a year, some of which are exported to Japan and the United States. Automotive components are sent to Japan, Europe (especially Germany), and the U.S.

- Metal and Mineral Processing: Australia is a leader in the production of zirconia powders, rare earths, gallium, silicon, and advanced industrial materials, as well as the development of new smelting techniques and speciality steels.

- Transportation Equipment: Australia is known for the production of aircraft, passenger and vehicle ferries, trawlers, sailboats, and small naval craft.

Australia's Technology Policy

Since 1983, Australian government policy has aimed to accelerate the shift to higher value-added manufacturing. The government has made agreements with trade unions to remove the restrictive practices that impede structural adjustment, it has offered financial assistance to businesses to invest in upgrading their operations, and it has removed tariff protection to force Australian companies to become more internationally competitive.

To build the technology base, the Australian government is promoting expanded R&D activities. In 1985, a 150% tax concession on R&D expenditures was introduced and will be available until 1993. There are numerous other national and state R&D incentive programs. At the same time, government-sponsored research centres throughout the country bring together academic and industrial researchers to widen the country's scientific and industrial base. As a result of these efforts, gross expenditure on R&D has increased from $2.5 billion in 1984-85 to $3.3 billion in 1987-88.

Even so, Australian R&D remains a small percentage of its GNP. In 1987-88, the country spent only about 1.2% of its GDP on R&D, while Japan spent 2.9%. The country is attempting to get a better return on its investment in R&D by encouraging collaborative research with partners abroad. Given the structural similarities in the Canadian and Australian economies, and their common interests in extractive and advanced technologies, there are significant opportunities for technological cooperation between the two countries.

Technological Focus

In its efforts to enhance the technological base, Australia is building on its existing technological achievements and is paying special attention to the following sectors:

- steel production, specialty steels
- motor vehicles and transport equipment
- fabricated metal products
- heavy engineering
- chemicals
- paper, printing and publishing
- textiles, clothing, and footwear
- biotechnology
- information systems
- waste management
- medical equipment
- advanced manufacturing
- aerospace

II. Investment Behavior

Players

The economic boom of the mid 1980s was accompanied by a surge in Australian direct investment abroad. With interest rates low, banks liberalized their rules and companies looked for opportunities abroad. Much of this investment was driven by Australia's larger corporations and tended to be focused on bigger projects. As Australia's economic situation worsened, some of these companies found themselves in difficulties at home and less able to pursue overseas opportunities.

It is likely, however, that Australian interest in foreign investment will continue. In the light of the country's concerns about foreign debt, income from overseas investment may be seen as one way of reducing current account deficits. In addition, Australia needs both foreign technology and market access if it is to improve its export performance. Because of this, the future may also see a larger proportion of smaller Australian firms actively seeking partners abroad.

Motives

Many Australian companies decided to invest abroad because of limited business opportunities at home. The large companies that did much of the foreign investing in the mid 1980s already dominated the domestic marketplace. For them, growth could only come by accessing new markets overseas and many did so by acquiring corporate footholds in other countries. The largest companies saw themselves as emergent multinational enterprises committed to a strategy of globalization.

For other Australian companies, the primary motive behind overseas investment is the acquisition of technology. Some of these investors seek technology that will enable them to restructure Australia's mature industries such as mining and agriculture. Others need technology to develop new industries such as aerospace, biotechnology, and environmental protection. Encouraged by the Australian government's efforts to promote R&D cooperation and strategic alliances, technology-seeking companies are less interested in foreign acquisitions and more on the lookout for foreign partners.

Partners

Traditionally, Australia's strongest ties – both in trade and investment – were with the United Kingdom and other countries of the Commonwealth. Today, however, Japan and the United States dominate Australia's trading relationship. In investment, the U.K., the U.S. and Japan are the most important sources and the most important targets of Australian foreign direct investment. Together, they account for more than half the total of both incoming and outgoing investment. However, Australia's investment relations with the other countries in the Asia-Pacific region are growing. By the end of the 1980s, about one quarter of foreign direct investment in Australia originated from this region, and a similar proportion of outbound investment from Australia remained in the region.

Major Sources of Foreign Investment in Australia (1988)
(in percent)

United Kingdom	23.1
United States	20.6
Japan	13.9
Switzerland	3.9
Singapore	3.6
Germany	3.4
New Zealand	2.8
Hong Kong	2.3
Netherlands	2.2
Canada	1.3
Other	22.9
Total	100.0

Source: Australian Federal Investment Review Board.

Canadian-Australian Trade Relations

Canadian-Australian economic relations have historically been based on trade in mining and agricultural commodities. Today, Canada is one of Australia's fastest-growing export markets. Between 1984 and 1990, Australian exports to Canada rose from $381 million to $767 million, an increase of 101%. Over the same period, Canada's exports to Australia grew from $617 to $847 million, an increase of 37%.

Destinations of Australian Foreign Direct Investment (1987)
(in percent)

United States	40.8
United Kingdom	14.1
Japan	6.5
New Zealand	5.9
Hong Kong	4.2
Papua New Guinea	2.6
Germany	2.2
Netherlands	2.1
Taiwan	1.5
Singapore	1.4
Canada	1.1
Other	17.6
Total	100.0

Source: Australian Trade Commission in Canada.

Australian Investment in Canada

Until recently, Australia has been a relatively minor investor in Canada. In 1986, Australian investments in this country represented only about 0.2% of the total stock value of foreign investment in Canada. This percentage, however, represented a doubling of the share Australia held in 1980. Since the mid 1980s, Australian investment in Canada has grown significantly. The Canadian government estimates current Australian investment in Canada at $1.4 billion. Most of this investment is located in Ontario with smaller shares going to British Columbia and Quebec.

What Do Australians Invest In?

Much of the Australian investment in Canada has come from large companies looking to expand into new markets. As a result, investments have been made in the same sectors that dominate the Australian economy: mining and resource extraction, manufacturing, and transportation. Australians have also invested in real estate, construction, business services, and financial institutions. In addition, a number of smaller investments have been made in technology-driven sectors such as software, computing, and medical devices.

Examples of Recent Australian Investments in Canada

The following list offers examples of the more significant recent Australian investments in Canada. The list does not include all investments from Australia and it is intended only to convey an impression of the range and diversity of the investment activity.

- financial
- heavy industry
- mining
- construction materials
- transportation
- food and beverage
- manufacturing
- consumer goods and services
- miscellaneous services
- real estate

Source: Investment Canada.

The Australian View of Canada

Canada and Australia share a common cultural, linguistic and institutional background. At the same time, the two economies display both strong similarities and complementarities. Canadian companies operate in ways that are easily understood by Australians.

As a result, Canada is becoming an attractive investment location for Australians looking for an easy and inexpensive way of accessing the entire North American market. Companies setting up in Canada can avoid the legal complexities that are characteristic of setting up businesses in the U.S. Australians also find Canadians closer to them in terms of wanting to enter into longer-term relationships: by contrast they consider Americans more focused on the short-term. And Australians find that there is a favorable business climate in Canada with government policy strongly oriented toward facilitating business ventures. For Australians, Canada could be the perfect springboard into North America.

III. Sectors of Opportunity

The similarities in the Australian and Canadian economies offer companies opportunities to use investment partnerships as the basis for reciprocal access into the Asia-Pacific and North American markets. The mining, automotive, and transportation sectors in the two countries could benefit from cooperative ventures designed to share technology and provide each other with market access.

There are also opportunities to engage in joint R&D and technology transfers in aerospace, biotechnology, computer software, forestry, industrial machinery, waste management, chemical production, medical research and environmental protection. Canada and Australia also share a strong interest in telecommunications and satellite technology.

Main Sectors of Opportunity for Canadian Business

- agriculture, food products and services
- fisheries, sea products
- defence products
- communications and informatics
- electronic equipment
- transportation systems
- mining, metals, and mineral products
- oil and gas equipment
- education
- medical and health care products
- industrial machinery

Source: Asia Pacific Foundation of Canada.

Negotiating With Australians

Canadians will find it easier to negotiate with Australians than with most other nationalities in the Asia-Pacific region. Canada and Australia have similarly structured economies, relatively small but highly concentrated populations, and rugged terrain that has demanded a focus on transportation and telecommunications. Both countries have similar colonial experiences, Commonwealth ties, British legal and political institutions, high standards of living, and a multicultural society that includes aboriginal peoples and individuals who originated from virtually every part of the globe.

Contacts

Canadian companies interested in developing investment partnerships with Australia can start by contacting the following:

External Affairs and International
Trade Canada
Australia Desk, Asia Pacific South
Trade Development Division (PST)
125 Sussex Drive
Ottawa, Ontario K1A 0G2
Tel. (613) 995-7652
Fax. (613) 996-4309

Canadian Embassy
Consul and Senior Trade Commissioner
8th floor, A.M.P. Centre
50 Bridge Street
Sydney, N.S.W.
Australia 2000
Tel. (011-61-2) 231-6522
Fax. (011-61-2) 223-4230

Hong Kong

I. Economic Structure

An International Trade Centre

Hong Kong's only significant natural resource is its harbour. The city has been spectacularly successful in using that advantage to prosper. As a result, Hong Kong is one of the world's major trading powers. In 1989, its total trade amounted to $172 billion. On a per capita basis, Hong Kong exports five times as much as the United Kingdom, six times as much as Japan, and ten times as much as the United States. This dynamic and highly profitable commercial activity has created a demand for sophisticated financial services. In response to this demand, Hong Kong has also emerged as a major financial centre.

Major Sectors

Taken together, Hong Kong's trade-related activities, and its hospitality industry (hotels and restaurants) constitute the single largest element in the city's GDP. Manufacturing contributes about a fifth of the total, though this share has been declining steadily since 1970 when it accounted for about 30% of GDP.

Clothing and textiles are the single largest domestic manufacturing industry. In 1988, wearing apparel and textiles together accounted for 58% of all manufacturing, about 40% of employment, and 40% of domestic exports. The international textile and clothing business is highly competitive and subject to protectionism. To survive in this market, Hong Kong's apparel industry has systematically moved up-market toward higher quality, designer clothing.

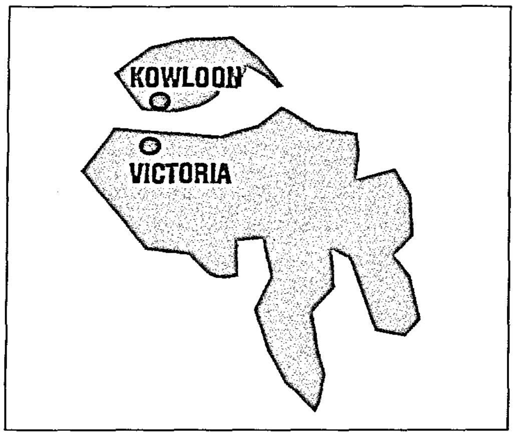
Electrical machinery is Hong Kong's second largest export earner, accounting for almost a fifth of domestic exports. Hong Kong has moved from assembling radios into more sophisticated products such as integrated circuits, printed circuit boards, computer systems, audio and video equipment, and telecommunications equipment. The reputation of Hong Kong's consumer electronics sector is considerable but its manufacturing activities in this industry are largely confined to assembly of imported components. Only about 20% of the components used in Hong Kong's electronic products are produced domestically.

Hong Kong is also an important manufacturer of plastic products which constitute about 10% of domestic exports. About 80% of these products were toys, of which Hong Kong is the world's largest supplier.

Industrial Structure

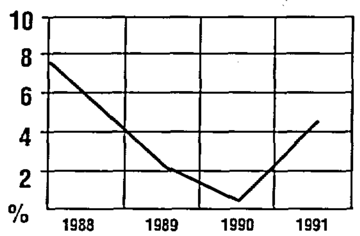
Hong Kong's manufacturing and commercial activity depends on a vast number of small manufacturing firms: most of the 50,000 manufacturing companies in Hong Kong employ fewer than 10 people. Because of the vulnerability of these companies to changes in economic conditions or in consumer tastes, the government of Hong Kong has deliberately adopted a policy of non-regulation and non-intervention. It confines its activities to providing basic support services such as housing, education and health. Since the government of Hong Kong spends money on little else, taxes in general remain relatively low. This has allowed local manufacturers and exporters the maximum flexibility to keep up with the business cycle and the evolving marketplace. For example, as labour costs rose, clothing and textile manufacturers were able to capitalize on this flexibility to move into upscale apparel.

Country Profile: Hong Kong



Population (1989): 5.8 million
Population Growth (1989): 1.4%
GDP Per Capita (1989): $ 12,844

Real GDP Growth Rate (%)



GDP by Sector (1988)
(% of total)

Agriculture & Fishing	0.3
Manufacturing	20.4
Utilities	2.5
Constuction	4.9
Trade & Catering	24.6
Transport and Communications	9.1
Financial & Business Services	18.6
Social Services	14.5

Major Manufacturing Industries
(% of gross manufacturing output)

Wearing Apparel	29.5
Electrical & Electronic Products	21.7
Textiles (including knitting)	28.4
Plastic Products	25.6
Fabricated Metal Products	30.0
All Manufacturing	26.8

Stock of FDI in Canada: Hong Kong
($ millions; % of total)

	Value	(%)
1983	137	0.2
1984	168	0.2
1985	170	0.2
1986	425	0.5
1987	587	0.6

Stock of FDI in Canada by Industry: Hong Kong
($ millions; % of total)

	1979	(%)	1986	(%)
Financial	47.0	95.9	410.0	96.5
Merchandising*	2.0	10.0	2.4	5.0
Total	**49**		**425**	

*includes utilities and other enterprises

Major Trading Partners: Top Export Markets (1989)
(% of total exports)

China	25.7
United States	25.3
Japan	6.2
West Germany	5.1
Canada	2.1

Total Exports (1989): $ 86.6 billion
Total Exports to Canada (1989) : $ 1,161 million

Major Trading Partners: Top Import Suppliers (1989)
(% of total imports)

China	35.0
Japan	16.4
Other Asia NES	9.2
United States	8.3
Canada	0.5

Total Imports (1989): $ 85.4 billion
Total Imports from Canada (1989): $ 1,049 million

Technology Dependency

Most of Hong Kong's manufacturing companies are small, and they lack the resources to invest in research and development. At the same time, the city lacks the extensive aerospace or defence industries that have nurtured R&D in other countries. Hong Kong does not have government sponsored R&D, or science parks. Lacking a technology base of their own, Hong Kong's companies are always on the lookout for the technologies of others to adapt and commercialize.

One technological area where the government may have to take a more active role is in pollution control. Because of its densely crowded population, the city has serious pollution problems. Its Environment Protection Agency plans to spend $11.8 billion over 10 years for a clean up. As a result, there is considerable potential for partnering with foreign experts in environmental technology.

Hong Kong's trade is undergoing a significant shift as the city increasingly imports, finishes or repackages, and re-exports goods of Chinese origin.

Hong Kong's Labour Force

	Labour force (in millions)	Annual % change
1980	2.3	5.9
1981	2.4	7.3
1982	2.5	0.4
1983	2.5	1.6
1984	2.6	2.8
1985	2.6	0.8
1986	2.7	2.7
1987	2.7	1.1
1988	2.7	-1.1
1989	2.7	-1.9
1990	2.5	-6.0

Source: The Economist Intelligence Unit, London (1991).

Present and Future

Throughout the 1980s, Hong Kong has experienced an economic boom. Between 1984 and 1989, GDP grew at an average annual rate of 7 percent. Yet growth was accompanied by inflation which reached 10 percent by the end of 1990, and by a tighter labour market. Constrained by the limitations of physical space and population, economic growth has slowed and exports have fallen.

Hong Kong's political and economic landscape is dominated by the issue of what will happen after 1997. For a century and a half, the city has been a British Crown Colony. In 1997, Hong Kong will come under the direct control of the People's Republic of China. In anticipation of this event, Hong Kong's manufacturing and trade have been reorienting themselves toward China. Labour shortages and high labour costs have led many Hong Kong firms to move their manufacturing activities across the border to Guangdong province where labour costs are lower.

Business confidence in Hong Kong is somewhat fragile, especially in the wake of the Tienanmien Square massacre in Beijing. Hong Kong was due for slower growth after the boom of the 1980s but this has been compounded by uncertainty about what policies China will adopt in Hong Kong after 1997. As a result, there has been a significant outflow of professional manpower and capital. It has been argued that profitable foreign direct investment will bolster the city's position with Chinese authorities and persuade them not to change the city's economic climate too radically after 1997.

Finally, despite lower growth rates and reduced exports at present, it should be remembered that Hong Kong is used to drastic swings in the economic climate. The city has displayed remarkable resilience in the past and it is likely to do so again in the future.

II. Investment Behavior

Hong Kong's foreign direct investment has been increasing at unprecedented rates since 1986. It has been estimated that outward bound foreign direct investment from Hong Kong amounted to $12 billion in 1989 and $20 billion in 1990. As the Hong Kong government's non-interventionist attitude to the economy also extends to outbound investment, there is no tracking mechanism for outbound foreign direct investment.

Motives

Hong Kong's investors have capital and extensive business know-how, but they rarely bring technology with them. Many of them, however, are interested in acquiring technology, or investing in enterprises that are driven by advanced technology.

There are many different motives behind foreign direct investment made by Hong Kong businesses in the past five years:

- some investors are looking for low-cost suppliers of raw materials or semi-processed goods that can then be brought into Hong Kong for finishing, repackaging, and re-export;

- constrained by high wages, property prices, and inflation at home, some Hong Kong business people are looking for investment opportunities abroad as a strategy for growth;

- cautious investors specialize in areas where they already have acquired experience. Having accumulated their wealth in Hong Kong's garment or electronics industries, or its real estate markets, many of them start investment activity abroad by looking for opportunities in the same sectors;

- others are using foreign direct investment as an opportunity to diversify their assets. There is significant overseas investment activity in resource exploitation and manufacturing;

- many Hong Kong investors are interested in establishing business linkages abroad for the period after 1997; they are looking for security and political stability.

Partners

From the beginning of the 1980s to the end of 1988, Hong Kong's businesses invested over $33 billion in neighbouring Asian countries. The most popular destinations were Thailand, Malaysia, and China. About $25.4 billion went to China, while the remaining $7.6 billion accounted for 10% of all foreign direct investment in the other Asian countries. Much of this investment has been driven by a search for low-cost manufacturing facilities. Goods are produced in low-cost labour centres, imported into Hong Kong, packaged, sold and re-exported. The result has been a surge in Hong Kong's re-exports. From 1984-89, re-exports increased from $13.9 billion to $52.4 billion. After the 1989 crackdown in China, both business and investment activity in southern China has abated somewhat while overall outward bound investment to other countries has increased.

Hong Kong Investment in Canada

Hong Kong investors are increasingly interested in Canada. Since 1986, Hong Kong investment in Canada has roughly doubled every year, even though it still accounts for only about .7% of the total stock value of all foreign direct investment in Canada. In the past two years, Canada was the destination for about one fifth of all outward bound investment from Hong Kong. Canada received about $2.4 billion in 1989, and $4 billion in 1990. Half of this inflow came in the form of foreign direct investment, the other half took the form of portfolio investment.

Foreign Direct Investment in Canada from Hong Kong

	Amount ($ millions)	Growth Over Previous Year (%)
1981	87	71
1982	117	34
1983	98	-16
1984	166	69
1985	168	1
1986	227	35
1987	500	120
1988	950	90
1989	2,150 (est.)	126
1990	4,150 (est.)	93

Source: Investment Canada.

Where Does the Investment Go?

Initially, investors from Hong Kong have been cautious, focusing on areas such as electronics, garments and real estate where they had domestic expertise. The availability of real estate is especially important to Hong Kong business people who initially look for security. Once that is gained, they diversify into other ventures. Recently, for example, Hong Kong investment in Canada has flowed into other types of manufacturing and financial services. As the labour shortage worsens in Hong Kong, some manufacturers are investing in Canada to take advantage of the relative availability of skilled labour. Today, Hong Kong investors can be found across a wide spectrum of the Canadian economy including chemicals, resource extraction, information technologies, and business services.

Structure of Investment in Canada

Hong Kong investors are wary of partnership agreements. Most of the partnerships that they enter into are based on a long prior history of trade or supply arrangements. Since Canada is a relatively new area of economic activity for Hong Kong's business people, most of their direct investment here has taken the form of acquisitions or new business establishments. The single most popular Canadian destination for Hong Kong investment is British Columbia, with Ontario a close second.

Recent Hong Kong Investments in Canada

The following list offers examples of the more significant recent Hong Kong investments in Canada. The list does not include all investments from Hong Kong and it is intended only to convey an impression of the range and diversity of this investment activity.

- chemicals and related products
- resource-based
- financial
- consumer goods
- manufacturing
- information technologies
- real estate and property
- automotive
- food and beverages
- services

Source: Investment Canada.

The Hong Kong View of Canada

Hong Kong investors who are uncertain about the direction of Chinese policy after 1997 are interested in establishing business linkages in other parts of the world. They see Canada as an attractive location because of its political stability, quality of life, openness to foreign investment, and commitment to multiculturalism.

Hong Kong investors are also interested in Canada as an access point into the North American market. Although Hong Kong has one of the most open marketplaces in the world, its clothing and textile industry is heavily restricted under the Multi-Fibre Agreement (MFA). The Canada-U.S. Free Trade Agreement supersedes the MFA, eliminating all quotas on textiles and wearing apparel by 1998. Locating in Canada offers Hong Kong investors a skilled work force familiar with textiles and ready access to the U.S. market.

Business people in Hong Kong like to invest where they can do business comfortably. Canada is becoming increasingly familiar to many Hong Kong residents. As the Chinese community in Canada grows, family and personal ties are created that can serve as important bridges for economic cooperation between Canada and Hong Kong.

Perhaps more importantly, Canada is a prime destination for Hong Kong students wishing to study abroad. In 1989, there were approximately 12,000 students from Hong Kong in Canada, studying in Ontario, British Columbia, Alberta, and Manitoba. Many of these students are specializing in commerce and business, with smaller groups in engineering, computer sciences, and hotel management. When they return to Hong Kong after their studies, they too will serve as an important key to new types of business cooperation. Even now, Hong Kong contains an estimated 50,000 graduates of Canadian universities.

III. Sectors of Opportunity

Hong Kong has little technology of its own, but it does possess the capital to invest in the development of new technologies. Firms in Hong Kong are particularly interested in telecommunications, electronic components, computer software, and automated systems. Canadian firms active in these areas will find not only capital, but also business linkages that will be invaluable in penetrating Asian markets.

Canada can also offer attractions to Hong Kong manufacturers of textiles, especially high fashion garments and accessories. Oriental designers such as Simon Chan and Alfred Sung are popular in Canada. Canadian workers are experienced in the industry, and Canada shares a relatively European sense of style with Hong Kong. For example, attracted by the Free Trade Agreement, the Hong Kong designer Alan Chu has begun manufacturing operations in Canada and he has opened a direct sales show room here under the company name Basic International Network Ltd.

As has already been mentioned, Canadian access to the U.S. market is also attractive to Hong Kong clothing and textile producers who are constrained under the MFA. Manufacturing in Canada gets around many of these duties without incurring the higher cost of doing business in the U.S. Canadian workers are experienced in the industry and Canada is a good place to manufacture heavier items from woven fabrics. As a result, there are many inquiries about Canada from Hong Kong business people specializing in clothing and textiles.

Opportunities also exist for environmental companies. As noted, Hong Kong has a serious pollution problem. Given Canada's expertise in pollution control and waste management, there are several opportunities for partnerships and strategic alliances in this area.

Main Sectors of Opportunity for Canadian Business

- agricultural and food products and services
- communications and information equipment and services
- mine, metal, mineral products and services
- forest products, equipment, services
- construction industry
- fisheries, sea products and services
- defence programs, products, and services
- industrial machinery, plants and services
- consumer products

Source: Asia Pacific Foundation of Canada.

Negotiating in Hong Kong

All important business in Hong Kong should be done face to face. Courtesy calls and personal meetings increase the chances for success. Meetings with Hong Kong business people take place on time, but subordinate staff may wait up to half an hour for senior staff to arrive. Tea is served during business meetings, but do not touch it until your host does.

In negotiating with business people from Hong Kong, never talk about failure, poverty, or death, especially around Chinese New Year. Such subjects are held to be offensive. Listen for nuances. Sometimes to avoid actually saying no and thereby sounding discourteous, Hong Kong business people will hesitate, or display extreme cautiousness. Understand that this is a polite way of refusing a request.

To criticize, point out errors, or challenge a Hong Kong business person during negotiations is considered extremely discourteous, and will cause him to lose face. The Chinese may criticize each other, but you should not join in any criticism of a third party. Agreeing with such criticism will only place you in general disfavour.

As in other parts of Asia, business people in Hong Kong often take more time to make decisions. And do not be surprised if your Hong Kong partners look for propitious locations for their business facilities.

A Hong Kong businessperson's word was considered binding and traditionally oral contracts were honoured as a matter of personal integrity. Today, however, agreements tend to be put in writing, especially contracts with Western businessmen.

A note of warning, be careful. "Tea money" used to be offered as tips to people (repairmen, delivery people, etc.) to facilitate business transactions. This practice has declined, however, as official steps are taken to eliminate such payments. Hong Kong has passed ordinances that specifically prohibit the acceptance of commissions, rebates, or other favors without special permission from the employer or principal of the firm concerned.

Contacts

For more information about getting investment from Hong Kong, interested Canadian companies should contact the following:

External Affairs and International Trade Canada
Hong Kong Desk
East Asia Trade Development Division (PNC)
125 Sussex Drive
Ottawa, Ontario K1A 0G2
Tel. (613) 995-6962
Fax. (613) 996-4309

Commission for Canada
Investment Officer
13th floor, Tower 1
Exchange Square
Connaught Place
Hong Kong
Tel. (011-852) 847-7414
Fax. (011- 852-5) 847-7441
Telex (802) 73391 (73391 DOMCAHX)

Japan

I. Economic Overview

A Major Trading Nation

Japan is the second largest economy among developed nations. The two most striking characteristics of the Japanese economy are first, the speed with which Japan has achieved its position, and second, the extent to which its phenomenal growth has been based on trade. In 1960, Japan's total trade (exports plus imports) amounted to $8.3 billion and accounted for 3.5% of world trade. By 1989, Japan's total trade had grown to $570.6 billion and its share of world trade had climbed to 8.2%. Exports led this expansion. In 1960, Japan's imports and exports were roughly in balance. By 1989, Japan's exports totalled $323.2 billion and its imports were only $247.4 billion, a trade surplus of $75.8 billion.

An Emphasis on Consensus

This striking economic success has been based on a uniquely Japanese approach to domestic economic activity that seeks harmony and consensus. That approach has included:

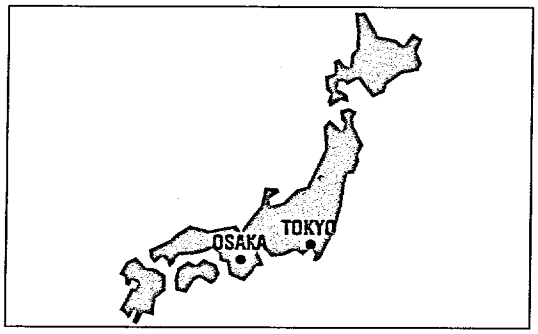
- a general acceptance of close coordination between the activities of business and government;
- restrictions on destructive internal competition between Japanese companies and avoidance of hostile corporate takeovers;
- cooperation and information-sharing among firms coupled with a reluctance to damage each other's commercial interests;
- strong ties of loyalty between companies in a supplier-client relationship;
- guarantees of lifetime employment in companies as a means of securing the loyalty of employees;
- formal and informal measures inhibiting foreign import penetration;
- a low interest-rate policy and controls on the direction of bank lending.

Key elements of this traditional approach, however, are changing. For example, the Japanese government has recently encouraged a more market-oriented approach to many economic practices by adopting policies promoting financial and trade liberalization. It is also government policy to reduce Japan's dependence on exports as the engine of growth and to encourage domestic demand to attract imports and balance Japan's trade surplus.

The Shift to Higher Value-Added

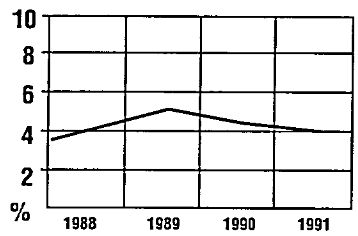
The Japanese economy is also undergoing profound restructuring. Japan's original export drive was fueled by low-end manufactured goods that competed on price. The proceeds from that early success went into creating a heavy industrial base in sectors such as steel and shipbuilding. The oil shocks of the 1970s and 1980s hit such heavy industries hard. As a resource-poor country dependent on foreign raw materials, Japan was conscious of its dependence on foreign supplies of energy and raw materials. Japanese industry tried to reduce that dependency by rationalizing existing industries and emphasizing energy efficiency. At the same time, it refocused its economic emphasis away from heavy industry and toward higher value-added activities and advanced technologies.

Country Profile: Japan



Population (1989): 123.3 million
Population Growth (1989): 0.4%
GDP Per Capita (1989): $ 27,283

Real GDP Growth Rate (%)



GDP by Sector (1987)
(% of total)

Agriculture	2.8
Mining	0.3
Manufacturing	29.0
Constuction	7.9
Utilities	3.5
Wholesale & Retail	13.3
Finance & Insurance	5.7
Transport and Communications	10.4
Other Services	6.2
Public Administration	4.5

Structure of Manufacturing Industries
(% of Value Added)

Electric Machinery	16.5
General Machinery	10.6
Transport Equipment	9.7
Chemicals	9.6
Foodstuffs	7.7
Metal Products	6.2
Publishing & Printing	5.4
Iron & Steel	4.8
Ceramics & Stone Goods	4.5
Textiles	3.2
Paper & Pulp	2.7
Precision Instruments	2.0
Non-ferrous Metals	1.7
Lumber & Wood Products	1.6

Stock of FDI in Canada: Japan
($ millions; % of total)

	Value	(%)
1983	1,611	2.1
1984	1,790	2.1
1985	1,925	2.2
1986	2,292	2.5
1987	2,547	2.5

Stock of FDI in Canada by Industry: Japan
($ millions; % of total)

	1979	(%)	1986	(%)
Merchandising*	220	45.4	821	35.8
Petroleum**	144	29.7	785	34.2
Financial	15	3.1	344	15.0
Manufacturing	106	21.9	342	14.9
Total	**485**		**2,292**	

*includes utilities and other enterprises
** includes natural gas, mining and smelting

Major Trading Partners: Top Export Markets (1989)
(% of total exports)

United States	34.2
South Korea	6.0
West Germany	5.8
Hong Kong	4.2
Canada	2.5

Total Exports (1989): $ 325.3 billion
Total Exports to Canada (1989): $ 9,552 million

Major Trading Partners: Top Import Suppliers (1989)
(% of total imports)

United States	23.0
South Korea	6.2
Australia	5.5
China	5.3
Canada	4.1

Total Imports (1989): $ 249.4 billion
Total Imports from Canada (1989): $ 8,797 million

This shift can be seen in the evolution of Japanese exports. In the 1960s and early 1970s, the heavy and chemical industries dominated exports, climbing to an 82% share of Japan's total. Today, the list is topped by non-electrical and electrical machinery and equipment ($232.5 billion in 1989) and motor vehicles ($57.6 billion). Since 1983, the fastest growing industrial sectors have been consumer electronics, semiconductor integrated circuits, and passenger cars.

Japan Focuses on Technology

In the past, most of Japan's manufacturing know-how was imported from other countries through licensing agreements. For example, in 1969, payments made by Japan for foreign technology were eight times its technology receipts. However what was once a heavy dependence on foreign technology is being transformed. By 1988, Japan's technology payments were three times the amount of its technology receipts.

There are still those who argue that Japan's strong suit is to copy and adapt the technology invented by others. To prove them wrong, Japan is now focusing on doing its own basic research to reinforce its product and process technology and reduce its dependence on foreign solutions. Basic research now accounts for 13.3% of all the R&D performed in Japan and these efforts are being concentrated in fields such as biotechnology, medicine, satellites, telecommunications, computer software, and the environment. More than 80% of this R&D is done by private research establishments, though the government sets an overall direction through incentives and national programs in strategic areas.

The Japanese recognize, however, that they cannot do everything themselves. Japan's White Paper on Science and Technology 1989 stresses the need for technological cooperation and scientific exchanges with other countries. Japan is in a strong position. Today, it holds 50% of the world's patents, putting it in a powerful bargaining position as it seeks technology partners abroad. The White Paper also recommends developing offshore R&D facilities that can enhance the access of Japanese firms to technology around the globe. A desire to acquire technology has become an important factor driving Japanese investment overseas.

II. Japan's Overseas Investment Boom

Performance

Japanese investment abroad skyrocketed in the late 1980s. Total investments made between 1986 and 1988 surpassed the cumulative value of all Japanese foreign direct investments between 1951 and 1985. And investments made in 1989 were 450% higher than those made just four years earlier in 1985. By the end of 1989, the cumulative value of all Japanese FDI exceeded $295 billion.

The Boom in Japanese Foreign Direct Investment

	Amount ($ billions)	Growth Over Previous Year (%)
1985	16.7	—
1986	30.9	85.0
1987	44.3	43.4
1988	57.8	30.5
1989	79.6	37.7

Source: Japanese Ministry of Finance. (notification basis)

Players

Japan's economy is dominated by large conglomerates that carry on a diverse range of activities. These organizations have ready made networks to locate and support investment opportunities; in fact, their own trading or distribution relationships often revealed investment opportunities. As a result, the trading house operations of powerful industrial players such as Mitsubishi, Mitsui and Sumitomo tended to dominate Japanese overseas investment.

In the last five years, however, Japanese small and medium-sized enterprises (SMEs) have become active in outbound investment. SMEs play a crucial role in the Japanese economy with 900,000 of them supporting and interacting with some 46,000 larger companies. By 1989, it was estimated that smaller companies employing fewer than 300 people accounted for more than 60% of Japanese overseas investment. Manufacturing accounts for 70% of the accumulated total of SME investment, but their fastest growing overseas investments are in the financial and insurance sectors.

Motives

Japan's huge trade surpluses have given its exporting companies both the means and a variety of motivations to invest in overseas markets:

- because Japan is poor in natural resources, some overseas investments are focused on securing access to raw materials;
- as a result of its own industrial restructuring, Japan is actively seeking foreign technologies or technological partnerships especially in priority areas such as biotechnology, medicines, satellites, telecommunications, computer software, and advanced industrial materials;
- there is considerable foreign unease over Japan's huge trade surpluses: FDI is a way of circumventing emerging trade barriers;
- an increasing number of Japanese firms are becoming sensitive to the desire of their foreign partners to develop their own production and value-added activities;
- Japan is experiencing a shortage of skilled labour at home and seeks to access foreign pools of labour;
- many large Japanese firms see opportunities for reducing costs by investing in plants located in low-cost countries;
- appreciation of the yen has made overseas investments seem relatively inexpensive for Japanese investors;
- an increasing number of Japanese firms are aware of the need to globalize their economic activities in order to take advantage of global procurement networks and international divisions of labour.

Despite developed international linkages, many Japanese companies have been slow to manufacture abroad. In 1988, the overseas production ratio of Japanese manufacturers was only 4.8%, compared to a U.S. ratio of 21% and a West German ratio of 17%. Overseas production is, however, expected to rise to about 8% of total manufacturing by 1995. The current boom in Japanese FDI is focused on plants that supply both local and Japanese markets.

Some Japanese companies are moving into more comprehensive agreements that transfer design and development abroad, in addition to production. The Japanese seem increasingly willing to share some of their know-how with local managers and some of their R&D with foreign partners. This will free Japanese designers back home to concentrate their efforts on more advanced technologies. Coupled to this, some Japanese companies are beginning to decentralize head office functions, internationalize their management, and increase overseas procurement of components (sometimes by offering to transfer technology).

Japanese SMEs share some of the above motivations with their larger colleagues. They are concerned about market access in the event of increasingly hostile trade blocs and they want to use foreign investment to penetrate foreign markets. In addition, however, they have their own specific reasons for investing abroad:

- in many cases, SME investments abroad explicitly follow a larger client company into a market to avoid losing their customers to foreign firms;
- taking advantage of traditional Japanese corporate solidarity, the SMEs use foreign investments to supply parts and equipment to non-affiliated, locally established Japanese companies;

In considering overseas investments, SMEs are looking for secure sales channels prior to the establishment of a local investment. They want to be sure to maintain their technological superiority. And they want detailed and reliable local information, which they hope to get from a good local partner.

Partners

About half of Japanese FDI goes to the United States. In 1989, the United States received $38.4 billion in Japanese investment, 48.2% of the total for that year. In the same year, Japanese firms placed $16.5 billion (20.7% of the total) in the European Community.

As regards Japanese SMEs, about two thirds of their FDI is focused on Asia, and only about a quarter goes to North America. SME investments in Asia are intended to serve both local and Japanese domestic markets, while investments in North America tend to be focused on enhancing local sales.

Japanese Investment Abroad, Cumulative Totals (1951-1989)
($ billions)

United States	163.7
United Kingdom	17.2
Panama	16.2
Australia	13.5
Indonesia	11.3
Netherlands	11.0
Hong Kong	8.8
Cayman Islands	7.3
Brazil	6.4
Singapore	6.7
Luxembourg	5.9
Canada	5.0

Source: Japan External Trade Organization.

Japanese Investment in Canada

By the end of 1989, Japanese FDI in Canada had reached a cumulative total of $5.0 billion. With only 2.3% of the country's FDI, Canada ranks twelfth among Japan's foreign investment partners.

In Canada, as elsewhere, Japanese investment activity has been accelerating. In 1989 alone, the Japanese invested $1.6 billion in this country, more than double the $770 million invested the previous year and 400% more than they invested in 1986. The cumulative total reached at the end of 1989 was more than double the total of only three years previously.

Japanese investment in Canada is growing faster than FDI in Canada in general. As a result, Japan increased its share of Canada's total stock of FDI from 1 percent to 3.7 percent, and moved from eighth largest to third largest foreign investor in Canada after the United States and the United Kingdom.

According to a recent study conducted by the Japanese External Trade Organization (JETRO), there are now more than 350 Japanese-affiliated companies in Canada, located primarily in Ontario, British Columbia, Alberta, and Quebec.

What Do the Japanese Invest In?

Initially, Japanese investment in Canada concentrated on securing a steady supply of raw materials for domestic consumption. By the 1960s, however, investment in the manufacturing sector predominated. The oil crises of the 1970s brought another wave of resource-based investment. Then in the 1980s, the relative position of investment in manufacturing improved, as did investment in services, especially finance and insurance.

Examples of Recent Japanese Investment in Canada

The following list offers examples of the more significant recent Japanese investments in Canada. The list does not include all investments from Japan and it is intended only to convey an impression of the range and diversity of the investment activity.

- automotive
- chemicals and related products
- construction and construction materials
- consumer goods
- electronic equipment and support
- energy
- food industry
- forest products
- industrial equipment and processes
- instrumentation
- real estate
- services

Source: Investment Canada.

Today, Japanese investment in Canada tends to be spread relatively evenly across several sectors. At the end of 1989, 28% of it was in manufacturing, 24% in merchandising, and 19% in the financial sector. There has also been an increase in Japanese investment in the general category of "other enterprises," suggesting that the Japanese are diversifying their position in Canada.

Japanese investor interest in Canada remains strong. A recent survey of press clippings dating from July 1989 to May 1990 identified 74 Japanese investment transactions in this country. This represented 7% of all such transactions, the third largest source after the United States with 48% and the United Kingdom with 16%..

Why Canada?

Japanese investors come to Canada for many of the same reasons that they invest in other countries. The appreciation of the yen makes Canadian investments attractive. There is also a desire to globalize economic activity. There are also more specific reasons for investing in Canada:

- to overcome trade barriers such as the rules of origin contained in the Canada-U.S. Free Trade Agreement;
- to take advantage of Canada's proximity and easy access to the U.S;
- to benefit from the size and quality of the Canadian domestic market;
- to access Canada's abundantly available raw materials;
- to access Canadian sources of technology.

The issues of trade barriers and proximity to the United States have come together most powerfully in the automotive sector. Canadian voluntary export restrictions (VERs) on Japanese automobiles coupled with Canada's own easy access to the U.S. market under the Canada-U.S. Auto Pact have combined to increase Japanese investment in the automotive sector.

For Japanese SMEs, other motives include following their bigger manufacturing clients into the Canadian market. Thus, in the automotive sector, a number of Japanese automotive parts suppliers followed Honda, Suzuki, and Toyota to Ontario. Nishikawa Kasei Co. started a instrument panel manufacturing plant near Toronto; Toyoda Gosei Co. took a 65% interest in Waterville TG Inc., a Quebec-based rubber parts firm; and Komatsu Ltd. acquired a 26% stake in Husky Injection Moulding Systems.

Japan is poor in natural resources and so the availability of raw materials in Canada remains a powerful incentive to come here. Daishowa Paper Manufacturing Co. bought Reed Inc. of Toronto in 1988 and built a $500 million pulp mill in Peace River to gain access to cheaper raw materials.

Japanese companies have also invested in Canada to gain access to new technologies and new markets. For example, Lumonics of Ottawa was recently purchased by Sumitomo in order to gain access to laser technology and its associated markets in North America and Europe. Archer Communications Inc. of Calgary has signed a licensing agreement with Nintendo to supply it with Q sound. Newbridge Networks Corp. and Sumitomo have entered into an agreement to sell Canadian communications equipment. The movement of technology is not all one way, however. For example, Fujitsu Canada recently established a software research centre in this country.

As Japanese investment in Canada increases and diversifies, more of it is becoming available to smaller Canadian enterprises. Many of the investments summarized went into smaller companies such as auto parts suppliers, light manufacturers, pharmaceutical producers, food processors, and livestock breeders.

Cumulative Totals of Japanese Direct Investment in Canada, by Industry
($ millions)

	1980	1984	1985	1986	1987*	1988*	1989#
Manufacturing	158	209	200	278	371	926	1,156
Petroleum & Natural Gas	48	468	477	520	550	553	565
Mining & Smelting	70	210	237	322	352	370	446
Merchandising	257	608	711	841	890	945	995
Financial	27	222	268	353	496	634	810
Other Enterprises	45	14	31	26	41	172	228
Total, All Industries	**605**	**1,731**	**1,924**	**2,340**	**2,700**	**3,600**	**4,200**

* estimates
# estimated book value as of the end of the third quarter

Source: D. Oikawa & S. Loizides, Japanese Direct Investment in Canada, (Conference Board, July 1990).

Japanese Concerns About Canada

Canadian companies looking for investment partners in Japan should be aware of Japanese opinions about this country. According to a JETRO survey of Japanese companies already in Canada, their primary concerns are the Canadian exchange rate, ensuring an adequate supply of skilled labour, and competing with companies from the U.S., Europe and the newly industrialized countries.

Japanese business people frequently express the view that Canadian business is not aggressive enough and that it is slow to respond to their proposals. Interested in building long-term relationships, the Japanese see Canadians as excessively focused on the American market and too caught up in producing results for the short-term. Knowing this, Canadian business people looking for Japanese investment should strive to modify some of these Japanese impressions.

Preferred Forms of Investment

Initially, much of Japan's involvement in Canada took the form of greenfield investment in completely new operations. More recently the Japanese have taken a greater interest in existing companies. Japan's hunger for technology inclines its business people to buy a foreign technology or company outright if they like it. This has resulted in a preference for direct investment or acquisition, especially in technology-intense sectors. When the Japanese invest in a company in order to gain new technology, however, they usually strengthen the R&D component of the company. When Sumitomo acquired Lumonics, for example, it increased Lumonics' R&D budgets.

Conversely, the Japanese tend to be very protective of their own technologies and in the past, have been reluctant to license their own know-how. If they grant a license, it tends to be for older technologies, or it is accompanied by restrictions on its use, for example limiting its application only to the Canadian market. However, Japanese firms commonly use technology transfers when entering into original equipment manufacturing (OEM) agreements with local suppliers. These agreements are becoming more comprehensive, and often include the delegation of design, development and production.

The desire to access new technologies has also led many Japanese firms into strategic alliances. This is especially true among car manufacturers, parts makers, and semiconductor manufacturers. Strategic alliances are popular among SMEs, which value their partners' knowledge of local conditions.

III. Sectors of Opportunity for Canadians

Today, investors offer more than financing, they also offer expertise. This is certainly true of the Japanese who tend to invest in industries they already know well. They bring with them proven international competitive abilities, management skills, excellent engineering and technological capabilities, as well as the financial resources to make things happen.

Japan's diverse economy means that there are potential investors to be found in almost all sectors. To date, investment in Canada has been concentrated in the automotive industry, electronics, pulp and paper, high technology and real estate. These industries will remain attractive to Japanese, but a recent Japanese report on investing in Canada also noted the potential for investment in Canadian advanced industrial materials, biotechnology, information, and communications.

Japan's White Paper on Science and Technology emphasized the need for research into the environment, an area in which Canada is particularly strong. Japan's recent expansion into financial services also has possibilities. There are currently eleven subsidiaries of Japanese banks in Canada, and there is a good deal of Japanese interest in the upcoming changes in the regulations governing Canada's financial sector.

In 1990, JETRO conducted a survey of Japanese companies interested in investing abroad. Those that mentioned Canada as a possible country of interest were primarily interested in import and export, distribution, auto parts, general manufacturing, machinery, and construction. There was also a significant interest among companies active in food and beverage production, computers, metal products, precision machinery, services, fishery and forestry, measuring instruments, chemicals, electronic parts, and robotics.

Main Sectors of Opportunity for Canadian Business

- agriculture and food products and services
- fisheries, sea products and services
- advanced technology products
- forest products, equipment and services
- consumer products

Source: Asia Pacific Foundation of Canada.

Relevant Regulations

The Japanese have an open policy towards outbound investment, because it is an effective way to reduce their trade surplus. The foreign exchange and foreign trade control law of 1980 freed outbound and inbound investment, while the Plaza Agreement of 1985 encourages globalization by allowing the yen to appreciate. Moreover, Japan's domestic infrastructure, unlike Korea's and Taiwan's, supports companies interested in venturing overseas. Japanese financial institutions, for example, have become effective go-betweens in corporate transactions.

Negotiating with the Japanese

In entering into business dealings with the Japanese, pay attention to cultural issues and differences in negotiating style. The Japanese do not expect foreigners to understand the details of their own etiquette, but you should make an effort to conform to the most important Japanese customs.

Japanese names appear with the family name last. Always use the family name preceded by Mr., Mrs., or Miss. If you establish good rapport, you may use the suffix "san" after the family name, which is equivalent to "Mister."

The Japanese are very punctual. Make your appointments as far in advance as possible and then be on time, or even a few minutes early. If you have an appointment with a senior executive, a junior staff member will probably entertain you in a lounge with tea or coffee prior to the meeting.

When your key contact arrives, rise to be introduced and exchange business cards. Business cards are very important in Japan and they are examined carefully. Yours should have your name, the name of your company, and your title or position within the company. Your card should carry a Japanese translation on one side and this can be prepared fairly quickly by a local printer. The card should be well-printed, using the same quality on both sides and it should not carry advertising slogans.

Do not expect much from your first meeting: its basic purpose is to establish an atmosphere of friendliness and harmony. Compliments are exchanged, but never jokes, and sincerity is crucial. Impersonal gifts are frequently given, and these should be elegant and of the very best quality. Subsequent meetings will focus on building a good relationship since the Japanese are interested in stable long-term associations with compatible partners.

The Japanese often conduct formal negotiations through several teams. Each team may go over the same issues to ensure that they understand every aspect of your proposal. Be patient, sincere and forthcoming. Be prepared for long negotiations before the Japanese come to a decision, but once a decision is made, be ready for instantaneous implementation.

The spokesman for the Japanese side may be the person that speaks English the best rather than the leader of the negotiations. To ensure that you understand all the details and that you are properly understood, you should employ your own qualified translators.

Japanese culture places a high premium on consensus and harmony. Conversely, the Japanese strive to avoid unpleasantness and confrontation. As a result, businesses rarely take each other to court. They will be offended if you take a lawyer to your meetings or present them with a draft contract prematurely. The Japanese also do not like complicated legal documents. Contracts cover the essential points but leave both parties leeway to make adjustments as the need arises. The Japanese expect both parties to be able to alter implementation as circumstances change. Remember that the Japanese do not feel bound by any verbal discussion or by any document until they have affixed their personal seal to it.

On rare occasions you may be invited to a private home in Japan. If that occurs, you should reciprocate with an invitation to dinner in a private room of a restaurant. Remember that shoes are removed before entering Japanese-style houses and restaurants. When sitting on the floor, men can cross their legs and take jackets off after the initial toast. At large formal dinners, it is common to sing songs and you should have one ready, just in case.

Key Contacts:

For further information about securing investment from Japan, interested Canadian companies should contact t he following:

External Affairs and International Trade Canada
Japan Desk,
Japan Trade Development Division (PNJ)
125 Sussex Drive
Ottawa, Ontario K1A 0G2
Tel. (613) 995-1281
Fax. (613) 943-8286

Canadian Embassy
Special Advisor (Investment)
Canadian Embassy
7-3-38 Akasaka
Minato-ku, Tokyo 107
Japan
Tel. (011-81-3) 408-2102
Fax. (011-81-3) 479-5320
470-7280

The Republic of Korea

I. Economic Structure

A Record of Growth

The Republic of Korea has one of the most consistent and remarkable growth records of any economy in the world. Since 1970, the country's economy has grown at an average of more than 8% a year. Between 1986 and 1988 annual growth rates averaged more than 12%. Manufacturing has been and continues to be the base of the Korean economy, accounting for 31.6% of GDP in 1989. Key industries include steel, electronics, automobiles, shipbuilding, and heavy machinery.

Electronics is the fastest growing of the industrial sectors. In 1988, Korea exported $4,743 million worth of electronic components, nearly three times the $1,792 million exported in 1984. Korea has been especially successful with semiconductors. In 1989, it produced $5,682 million worth of computer chips and has come to rival the United States and Japan as a producers of integrated circuits.

An Ongoing Transformation

Today's Korean economy is the product of a systematic and ongoing transformation that reaches back four decades to the end of the Korean war. In the late 1950s and through the 1960s, the Koreans focused on import substitution. They then expanded their export-oriented light manufacturing industries such as clothing and textiles, and encouraged the development of producer goods industries. By the 1970s, the South Korean economy was expanding into heavy and chemical industries, and shifting its emphasis from the importing of foreign capital to the acquisition of foreign technology. At the same time, the competitiveness of the country's export-oriented industries was strengthened.

In the 1980s, the Koreans began to focus on technology-intensive sectors, encouraging the development of highly skilled manpower and improving productivity. During this period, their earlier reliance on clothing and textiles ended while steel and electronics emerged to new prominence. This process of technological upgrading will continue through the 1990s as the Koreans adjust their industrial structure to meet changing world conditions, seek to improve productivity, and promote balanced regional development within the country.

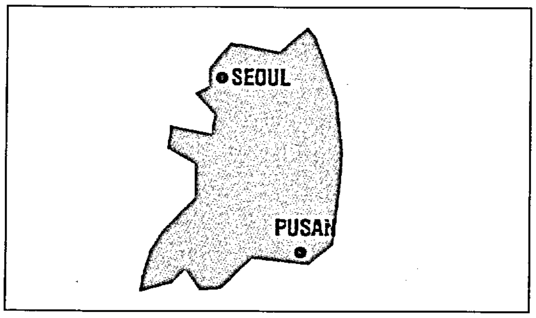
Industrial Structure

Large companies known as *chaebols* have been the backbone of Korean development. Even so, the government has played a major role in the country's economic policy, writing detailed plans for each industrial sector. Recently, the government has begun to focus on encouraging small- and medium-sized enterprises. It is seeking to assist SMEs by providing venture capital, low-cost loans and R&D incentives.

Warning Signs

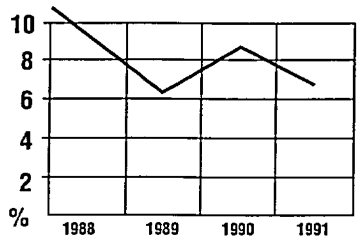
Recently, there have been signs that Korea's export-oriented formula for success may have to undergo some revision. Exports, grew by only 10% in 1989. As a result, Korea's current account surplus has narrowed and there is less liquidity in the economy. This, in turn, means that overall economic growth slowed in 1989, though it was a still impressive 7%. There were other warning signs, however.

Country Profile: The Republic of Korea



Population (1989) 42.2 million
Population Growth (1989): 0.7%
GDP Per Capita (1989): $ 5,948

Real GDP Growth Rate (%)



GDP by Sector (1988)
(% of total)

Agriculture Forestry & Fishing	10.8
Mining & Quarrying	0.7
Manufacturing	31.6
Constuction	8.1
Electricity, Gas & Water	2.8
Wholesale & Retail Trade	12.3
Transport, Storage & Comm.	7.3
Finance, Business & Real Estate	13.2
Community, Bus. & Personal Serv.	4.0
Public Administration	7.0
Other Services (Pvt. non-profit)	2.2

Major Industries

Textiles (Cotton, Synthetic & Pure Silk Fabrics)
Iron & Steel
Refined Petroleum Products
Ships
Passenger Cars

Stock of FDI in Canada: South Korea
($ millions; % of total)

	Value	(%)
1983	87	0.1
1984	89	0.1
1985	92	0.1
1986	106	0.1
1987	123	0.1

Stock of FDI in Canada by Industry: Korea (1986)
($ millions; % of total)

	Value	(%)
Petroleum*	74	69.8
Financial	18	17.0
Merchandising**	15	14.2
Total	**106**	

* includes natural gas, mining and smelting
**includes utilities and other enterprises

Major Trading Partners: Top Export Markets (1989)
(% of total exports)

United States	33.4
Japan	21.8
Hong Kong	5.5
West Germany	3.4
Canada	3.1

Total Exports (1989): $ 73.9 billion
Total Exports to Canada (1989): $ 2,462 million

Major Trading Partners: Top Import Suppliers (1989)
(% of total imports)

Japan	28.5
United States	25.7
West Germany	4.2
Australia	3.7
Canada	2.7

Total Imports (1989): $ 72.8 billion
Total Imports from Canada (1989): $ 1,603 million

Korea's rapid expansion has absorbed most of the available work force. As a result, unemployment remains low. In 1988, for example, it was only 2.5% of the workforce and demand for labour remains strong. Korean workers, however, are beginning to demand a greater share of the benefits that economic success brings. Strikes and labour unrest are pushing up wages. As a result, the country is losing its original advantage as a low wage producer. At the same time, export success has led to inflationary pressures at home. Inflation ran at 7.1% in 1988 and 6% in 1989, fueled in part by real estate speculation which drove up land costs in a country that is among the most densely populated in Asia.

These changes mean that Korean products are losing some of their cost advantages in the international marketplace. In response, some Korean companies are focusing on domestic markets where economic and social transformation has led to strong and growing demand. The other response is to emphasize technological skills and move into higher value-added exports.

Technology Dependency

Any attempt by Korea to move into high value-added export activities is complicated by the fact that the country is dependent on foreign technology. For example, in 1989, Korea exported $12.4 million of its own technology. In the same year, it imported $1,098 million in foreign technology. Korea's technological dependency stems from a tendency of its companies to import technology rather than do their own R&D. They license other people's technology and then improve the manufacturing processes associated with that technology.

A Focus on R&D

The Korean government is determined to reduce the country's technological dependence by supporting the acquisition of core technologies that will allow the country to perform more of its own R&D activity. Through the recently announced Seven Year Plan for High-Technology and Industry Development, it hopes to make Korea one of the world's leading technological powers within a decade.

Korea has already been seeing an increase in R&D expenditures. They grew from $692 million (0.9% of GDP) in 1981 to $6.25 billion (2.6% of GDP) in 1989. Under the government's technology plan, R&D expenditures will expand by 15% for the next six years. The objective is for R&D activities to reach 3% of GDP by the year 2001. The overall objective for the 1990s is to expand the resources available for scientific and technical activity, and to promote industrial efficiency.

Korea's R&D efforts will be broadly based. The country intends to develop advanced technologies for industrial and commercial application, basic scientific research, and technologies associated with social welfare. The private sector has been assigned applied research projects for commercialization. The universities will do basic research, and the government will pursue R&D in key industrial technologies that are of public interest, especially in energy and resources, health, and the environment.

The Republic of South Korea's Ministry of Trade and Industry has identified seven strategic industrial sectors that it will be emphasizing in encouraging the development of applied and commercial technologies: microelectronics, factory automation, new materials, fine chemicals, biotechnology, optics, and aerospace. In these areas, the government intends to set overall goals and facilitate the development of appropriate infrastructure as well as promoting increased R&D activity.

Complementing this industrial focus will be an emphasis on basic research performed largely by the universities. This activity will focus on information industries and semiconductors, automation, new materials, biotechnology, fine chemicals, new energy technology, aerospace, transportation, medicine, the environment, lasers, superconductivity, hydrogen power, sensors, and catalysts.

The private sector is being offered a number of incentives to play its assigned part in Korea's technology drive. For example, the government is encouraging SMEs to enter into R&D consortia at a suggested ratio of 50 companies for every R&D centre. At the same time, Korea is also looking to increase its participation in multinational joint technology development projects.

II. Investment Behavior

Between 1968 and the end of 1989, the cumulative total of Korean foreign direct investment was $1.7 million. The pace of investment is accelerating, however. Of the total, $262 million was invested in 1988, and $582 million was invested in 1989. Korean FDI has continued to increase rapidly. It was reported that in the first half of 1990 alone, the Koreans invested $1,017 million abroad.

A New Investment Policy

After a long period in which foreign direct investment was discouraged, Korean investments overseas have increased rapidly in recent years. During the early phases of Korea's industrial evolution, the government imposed tight controls on outward direct investment in order to keep capital at home for domestic development. The small amount of FDI permitted was channelled into resource-based ventures designed to supply Korean industry with raw materials.

With strong export growth, Korea began to accumulate significant reserves of capital that exceeded the absorptive capacity of the domestic economy. To minimize the inflationary impact of these reserves, Korea allowed companies to invest them abroad. By the late 1980s, Korea encouraged outward investment through regulatory liberalization as well as by offering financial assistance, insurance, and tax incentives. In 1988, the Korean government opened an office within the Export-Import Bank of Korea to provide companies with information on foreign investment. It also raised the limit on official approval for investments from $246,000 to $615,000. In 1989, this threshold was raised to $ 2.4 million. In addition, the government lifted earlier restrictions limiting investment to natural resource companies.

This liberal atmosphere changed somewhat after outward foreign direct investment rose sharply at the same time that the current account surplus shrank. As a result, the Ministry of Finance introduced tighter investment screening procedures in July of 1990. It now requires a certificate of validity for investments greater than $35 million, for joint ventures valued at more than $56 million in which the Korean side owns more than 50% of the venture, or for investments larger than $6 million that exceed the net capital of the Korean business making them. The limit on loans by the Export-Import Bank of Korea has also been lowered from 80-90% of the investment to 60-80%.

Motives

Korean investors are interested in avoiding trade barriers, expanding market access, acquiring new technologies and securing natural resources. The Korean desire to establish their own brand names has been inhibited by trade restrictions imposed by other countries but offshore production plants can circumvent such barriers.

Koreans believe they must establish themselves in key markets around the world if they are to be effective competitors in the future. They particularly want to expand in the North American market and find the Canada-U.S. Free Trade Agreement attractive since it allows them to combine access to Canadian resources with access to the U.S. market.

Because the Koreans are experts at exploiting and transforming other people's technology, they tend to look for joint ventures where they can access technology in return for their manufacturing expertise. They are increasingly interested in joint ventures into new markets such as Eastern Europe.

Players

In the late 1970s and early 1980s, most of Korea's FDI focused on the resource sector and was intended to ensure a stable supply of raw materials such as coal, iron, pulp and paper for Korean industry. This type of investment tended to be driven by large firms that could afford to invest in such capital-intensive projects.

Most of the recent FDI from Korea, however, has been in the manufacturing sector. Textiles, clothing and footwear accounted for the majority of these investments during the first quarter of 1990. This emphasis on manufacturing may change, however, if Korean SMEs become more active investors. While the *chaebols.* such as Daewoo, Goldstar and Samsung are interested in traditional manufacturing, the SMEs have more diverse interests and there is evidence that they are beginning to invest abroad. Foreign direct investment by smaller firms rose by 50% to $70 million in first quarter of 1990.

Partners

Rising labour costs and labour unrest in Korea led many of its labour-intensive industries to relocate to other countries in Southeast Asia. Nevertheless, approximately 40% of Korea's total stock of foreign direct investment is in North America where it is concentrated in manufacturing (37%), mining (28%) and trading activities (13%).

At present, Southeast Asia and North America seem tied in attracting the interests of Korean investors. In the first quarter of 1990, it was reported that Koreans invested $190 million in Southeast Asia, and $192 million in North America.

Korean Investment in Canada

Canada has emerged as an important destination for Korean investment, taking approximately 11.6% of all the FDI made between 1968 and 1989. Approximately one quarter of Korean investment in North America flows into Canada, and it seems to be increasing steadily.

The Bank of Korea estimates that cumulative direct Korean investment in Canada between 1968 and the end of 1989 exceeds $198.9 million, with another $97 million approved but not yet invested. What is more, the pace of investment is accelerating. The cumulative total at the end of 1989 was double the total at the end of 1986 and up 80% over the total at the end of 1988. Recent investments have made Canada the third single largest destination for Korean investment after the U.S. and Indonesia. Unofficial estimates for 1990 indicate that Korean FDI into Canada reached $122 million with cumulative investment at $371 million.

Korean investments made in Canada in 1989 represented 15.2% of all Korean FDI for that year.These investments in Canada tend to focus on Ontario, British Columbia, and Quebec.

Korean FDI in Canada (1968-1989)
($ millions)

1968-1985	68.3
1986	25.9
1987	12.6
1988	3.6
1989	88.5
Cumulative Total	**198.9**

Source: Bank of Korea.

The earliest Korean investments in Canada tended to be in coal and uranium mining. Resource-based investment gradually was supplemented by investments in the manufacturing sector. For example, Hyundai established an automobile manufacturing plant in Bromont, Quebec. Hyundai Canada also recently signed a deal with Chrysler Corporation to sell Sonatas through Chrysler's Jeep Eagle network. And 1,000 Sonatas were recently exported to Taiwan from Canada. Sammi Group of Korea purchased four Rio Algom steel plants in order to gain access to both the Canadian and U.S. markets. Samsung bought 20% of Norpak, a high-tech company in Kanata that is a world leader in communications technology for videotext and teletext. POSCO and Westar have a long-standing joint venture in coal, and Korea Electric Power Company has a partial investment in a uranium mine in Saskatchewan. Shinho Group of Korea is investing up to $120 million in a new pulp and paper mill in the Thunder Bay area; half of the 120,000 tonnes to be produced annually will be exported to Korea.

Some Examples of Recent Korean Investment in Canada

The following list offers examples of the more significant recent Korean investments in Canada. The list does not include all investments from Korea and it is intended only to convey an impression of the range and diversity of the investment activity.

- alloy and stainless steel production
- aluminium wheels for automobiles
- automotive and auto parts manufacturing
- automotive import and distribution
- bakery
- banking
- construction of cable-stayed bridge
- consumer electronics distribution
- convenience store operation
- cosmetic product distribution
- film and tape import, distribution and export
- financial services
- fish processing
- forest products
- fur processing and export
- general contracting
- mining (coal, uranium)
- pulp mill
- real estate
- restaurants
- tire manufacturing and distribution
- transportation services
- window manufacturing

Source: Investment Canada and Korean Embassy.

Motives for Investing in Canada

Familiarity is one of the reasons that Koreans are investing in Canada. Korea and Canada already enjoy a long-standing trade relationship: they are each other's sixth largest trading partner. As a result, Canadian products are more familiar to Koreans than to other Asians.

Koreans are attracted to Canada's rich resource base, but they also see a strong complementarity in the two economies. The Canada-U.S. Free Trade Agreement is also an important factor and many recent Koreans investments in Canada were made with an eye to penetration of the U.S. market. In fact, a Canadian location can be useful in penetrating other markets beyond the U.S. The Koreans want to establish their brand names world-wide, but in many cases, they are subject to various discriminatory practices. In the case of Taiwan, for example, it is easier for them to sell Korean cars made in Canada than to sell cars made in Korea.

Because the Koreans have developed an expertise in commercializing and exploiting foreign technology, they tend to look for investments that give them enhanced access to technology while allowing them to contribute their own manufacturing expertise. At the same time, the Koreans are investing heavily in developing their own technology and the Canadians who invest with them stand to reap rich rewards.

III. Sectors of Opportunity

To date, Korean technology exports have been in pulp and paper manufacturing, lumber, and heavy industries (electricity, electronics and machinery). With the notable exception of production line know-how Korea does not have much technology to offer Canadians. However, Korea's heavy investment in R&D opens opportunities for cooperative arrangements. And some of the key areas identified by the Korean government are areas of Canadian strength — telecommunications, environment, health, energy, and resources.

Korea is also interested in acquiring technology through licenses or investments. Opportunities in high tech areas exist for Canadians, particularly for those in communications, transportation, natural resources, bioengineering, mechatronics (numerically controlled machine tools), industrial robots, CAD/CAM, programmable logic controllers, sensors, and servo motors.

In the aerospace industry, Korea is looking for design techniques and new lightweight, hard materials. There is also a strong demand for aircraft components, maintenance equipment, avionics and engines.

The market in Korea for environmental goods in 1990 will reach $585 million. There are 500 Korean companies that manufacture environmental control equipment but most are SMEs unable to engineer highly sophisticated instruments and control equipment. Firms in this sector that are registered with the Korean government can negotiate technology transfers and joint ventures with foreign companies.

The Korean Telecommunications Authority is completing a five-year program to invest $9.4 billion in capital expenditures designed to increase communications technology in Korea. One goal has been to increase the number of phones from 18 to 22 per 100 persons.

Samsung, Daewoo and Goldstar have joint ventures with AT&T, Ericsson and Siemens. In addition, the National Priority Plan has targeted telecommunications switching products and private branch exchanges (PBX) for large-scale manufacturing and distribution world-wide. Canadians can try to link up with the marketing arm of the *chaebols* and exchange technology in these areas for access to world markets.

Main Sectors of Opportunity for Canadian Business

- agricultural commodities
- resource products
- automotive parts
- aerospace
- defence

Source: Asia Pacific Foundation of Canada.

Negotiating With Koreans

Koreans are sensitive to the intangible factors that influence personal conduct and relationships among people. They call this *kibun* and they say that if it is good, one functions smoothly. In their negotiations, Koreans try to enhance the *kibun* of both sides because they feel that to damage it will effectively terminate a relationship or even create an enemy.

Protocol and a proper acknowledgement for each other's position is extremely important to Koreans. It is therefore advisable to have a formal introduction to your Korean counterpart and the use of an intermediary may be advisable. If your prospect respects the intermediary, he will probably also respect you. Indeed Koreans tend to treat the representative of a person or group with more care than the group itself because the substitute may be more sensitive to slights.

Korean society is quite hierarchical and no business person is comfortable with another until his or her company and position are known. Business cards are very important in establishing one's place in the social order but cards are also essential because Koreans tend not to use personal names. They believe that one's name is personal property and therefore that personal names should be honoured and respected. Actually pronouncing a name can be seen as presumptuous and impolite and therefore Koreans prefer to greet each other by a title (Director) or some honorific designation.

In business, flattery is a way of life. It is considered indelicate to start immediately or abruptly on the main points of a transaction. Discussions start with peripheral matters and only gradually move to the centre. It will enhance personal rapport if you display some knowledge of the remarkable changes Korean society has undergone and express admiration for Korea's successes and achievements. The Koreans are careful not to give offense and seek to establish harmonious personal relations. That is why it is important to personalize your dealings with your Korean prospects. Find out as much as possible about their status, hobbies, philosophy, and even their birthdays.

During negotiations, be patient, gentle, firm and dignified. Formal behaviour is required at all times and this even extends to the posture adopted during discussions. Do not push too hard and, if possible, leave sensitive issues and details for go-betweens so as not to impair your own relationship with the prospect.

Do not assume that your Korean counterpart understands everything you say, even if they are extending you the courtesy of speaking English. Their English may not be as good as you think but there are also cultural differences that may impair understanding. Western logic does not always have an impact on Koreans who may be more persuaded by personal factors. And remember that when the Koreans say "yes" they may only mean "I heard you" and not agreement with what you have said.

- For Koreans, human relationships and informal understandings with trusted partners are more important than formal contracts. Contracts are seen to be significant because of who signed them and the fact of their existence, but they should also be flexible enough to fit changing circumstances. And give Koreans time to come to a decision.

When dealing with Koreans, the giving of small gifts is accepted and recommended. They also like to entertain and you should participate and reciprocate if invited to do so. Going out for drinks with your hosts or attending parties are two common forms of entertainment. Recently, taking part in a golf game has become increasingly popular within the business community.

Contacts:

The long-standing Canadian-Korean trade relationship can serve as a basis for developing investment relationships. In addition to Canada's diplomatic post in Korea, other points of contact include the Canada-Korea Business Council, a private-sector body dedicated to expanding commercial linkages between the two countries.

External Affairs and International Trade Canada
Korea Desk,
East Asia Trade Development Division
125 Sussex Drive
Ottawa, Ontario K1A 0G2
Tel. (613) 995-8705
Fax. (613) 996-4309

Canadian Embassy
Senior Trade Commissioner
P.O. Box 6299
Seoul 100-662
Republic of Korea
Tel. (82-2) 753-2605
Fax. (82-2) 755-0686

Canada-Korea Business Council
c/o Canadian Chamber of Commerce
Suite 1160
55 Metcalfe Street
Ottawa, Ontario K1P 6N4
Tel. (613) 238-4000
Fax. (613) 238-7643

Singapore

I. Economic Structure

A Regional Economic Leader

Singapore is an independent city state covering about 626 square kilometres of territory and consisting of the island of Singapore and 54 adjacent islands. Approximately 76% of its population is of Chinese descent with the remainder largely made up of Malays and East Indians. With no natural resources, Singapore has based its prosperity on an industrious, educated, and productive labour force and a strategic geographic location.

Economic success, coupled with concerted efforts by the government, has given Singapore an excellent infrastructure. Its port is the busiest in world, handling 34,000 ships in 1988. A pioneer in the use of paperless customs procedures, Singapore attracts businesses interested in quick turnaround of their shipping. Singapore airport is one of world's best and certainly the best in Southeast Asia. Recently expanded and upgraded, it now has an annual capacity of 20 million passengers. Singapore also enjoys sophisticated telecommunications facilities and a developed financial infrastructure and it is recognized as an international business centre for commercial services, engineering support, and medical care.

Economic Achievements

After achieving independence in 1965, Singapore embarked on a policy of rapid industrialization. The strategy of import substitution had limited application, however, because of the city's small domestic market. Instead, it concentrated on manufacturing for export. The government also focused on developing the entrepot activities of trading, processing, storing, banking, insurance, repackaging, marketing, transportation, and communications.

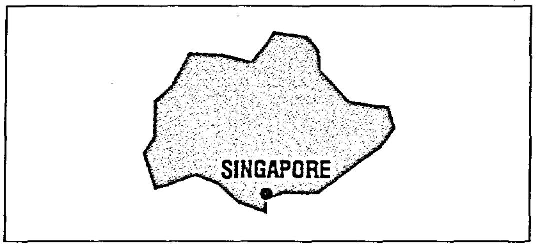
As a result, Singapore has one of the fastest growing economies in the world. Growth has been especially strong after 1985, ranging between 7 and 10% a year. This expansion has been accompanied by relative price stability and one of the highest savings rates in the world. The only significant economic problem is a labour shortage which is the inevitable result of rapid growth.

Manufacturing constitutes about 26% of Singapore's GDP and employs about 45% of its workforce. The major focus is on electrical and electronics products, petroleum products, chemicals, food and beverages, fabricated metal products, transport equipment, textiles and garments. Interestingly, the average wage in Singapore's manufacturing sector is higher than in any other developing country, but it is the lowest of all occupational groups in Singapore, even lower than in agriculture and fishing.

The Most Open Trading Nation in the World

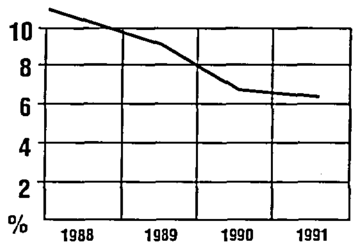
Singapore's economic success has been based on importing components or materials, assembling or processing them, and then exporting them to foreign markets. Approximately 35% of the goods exported from Singapore are re-exports, and most of the goods imported into the city are similarly destined for re-export. In 1988, Singapore's total trade (exports plus imports) amounted to $103.3 billion, more than three times its GDP of $28.3 billion.

Country Profile: Singapore



Population (1989): 2.7 million
Population Growth (1989): 1.1%
GDP Per Capita, (1989): $ 14,555

Real GDP Growth Rate (%)



GDP by Sector (1989)
(% of total)

Agriculture & Fishing	0.3
Mining & Quarrying	0.1
Utilities	29.7
Manufacturing	2.0
Constuction	5.2
Wholesale & Retail Trade	17.6
Transport and Communications	13.5
Finance & Business	29.7
Other Services	1.8

Major Manufacturing Industries
(% of total Value Added)

Electronic Products	35.6
Transport Equipment	7.0
Industrial Chemicals & Gases	6.9
Petroleum Products	6.1
Fabricated Metal Products	6.1
Machinery	5.7
Paints, Pharmaceuticals & Other Chemical Products	5.3
Electrical Machinery & Appliances	4.6
Printing & Publishing	4.0
Clothes	2.9

Stock of FDI in Canada: Singapore
($ millions; % of total)

	Value	(%)
1983	23	0.03
1984	51	0.06
1985	52	0.06
1986	52	0.06
1987	69	0.07

Stock of FDI in Canada by Industry: Singapore (1986)
($ millions; % of total)

	Value	(%)
Merchandising*	46	88.5
Financial	6	11.5
Total	52	

*includes utilities and other enterprises

Major Trading Partners: Top Export Markets (1989)
(% of total exports)

United States	23.3
Malaysia	13.7
Japan	8.5
Hong Kong	6.3
Canada	0.9

Total Exports (1989): $ 53.2 billion
Total Exports to Canada (1989): $ 502 million

Major Trading Partners: Top Import Suppliers (1989)
(% of total imports)

Japan	21.3
United States	17.1
Malaysia	13.2
Other Asia NES	4.9
Canada	0.5

Total Imports (1989): $ 58.9 billion
Total Imports from Canada (1989) $ 244 million

Because Singapore is one of the world's most trade-oriented countries, it is also highly sensitive to changes in the international economic environment. With the softening of the U.S. economy, Singapore's exports the U.S. have decreased. To compensate, however, exports to Asian markets have grown. Singapore's corporations are now attempting to diversify their export markets and they are paying a lot of attention to Japan and Western Europe. Meanwhile, Singapore's exports to Canada have moved from resource-based goods to electronics and manufacturing.

Industrial Structure

Singapore's economy is marked by complete economic freedom of ownership, capital movements, and trade. In order to promote growth, the government actively sought investment from the world's developed economies. Foreign investors were encouraged to establish in Singapore, using the country as a platform from which to do business within the entire region. Today, there are about 5,000 foreign companies active in Singapore, and they account for approximately 70% of its domestic exports.

Initially, the government of Singapore was also active in every sector of the economy. It still owns about 450 companies in key industries such as shipbuilding and petrochemicals. These state-owned firms employ about 58,000 out of a labour force of just over a million, though the government has recently begun to move toward greater privatization.

The remainder of the economy consists of 70,000 mostly small-and medium-sized businesses. As yet, Singapore has no indigenous multinationals or general trading companies, though the government is encouraging Singaporean firms to expand abroad.

A Shift to Advanced Technology

Initially, Singapore concentrated on labour-intensive manufacturing in sectors such as textiles. Recently, however, computer components and other electronics have become the most important focus for manufacturing. Singapore's ability to develop technology-intensive industries is being promoted by the government which has assumed a significant role in R&D activities. At the same time, many international technology-based firms are locating in Singapore to assemble electronic products and to perform R&D.

The Economic Development Board

Singapore's Economic Development Board is a semi- autonomous body that plans and implements industrial policy. Acting as the main instrument of the government's industrial policy, it provides incentives to investors, and assists them in obtaining land, factory space, financing, and skilled manpower. It has been used to promote and develop the manufacturing sectors and recently the Economic Development Board has focused its attention on a wide variety of skill- and knowledge-intensive areas such as:

- biotechnology
- automation in manufacturing
- avionics and aero-engine components
- medical services, health care and pharmaceutical industries
- leisure and exhibition services
- agrotechnology
- information technologies and integrated circuit design
- electronic systems in automobiles
- advanced plastics fabrication
- petrochemical products and specialty chemicals
- training of R&D personnel
- training in tool and die making.

There is also a significant emphasis on high value-added services such as finance, banking, transportation, and telecommunications.

II. Investment Behavior

Players

Singaporeans have just started to engage in significant foreign direct investments abroad. The Economic Development Board has formed a strategic business unit to promote overseas investment. In August 1988, the Board launched its International Direct Investment program. Its purpose is to encourage local companies to expand abroad through direct investments and eventually to develop into multinational corporations. The Board expects that such investments will create spin-off benefits in the form of acquiring technology and securing access to new markets.

To be eligible for its assistance, a company must be 50% Singaporean and must take active part in management of an overseas company. Incentives offered include grants for feasibility studies, technical training, tax breaks for capital losses incurred overseas, and tax exemptions on repatriated profits.

The International Direct Investment Program complements a $120 million venture capital fund established in 1985. The fund is used for co-investing with local business people in new technology-intensive companies in Singapore and overseas; for investing in professional venture capital funds to gain windows on foreign technology; and for stimulating the emergence of a venture capital industry in Singapore.

Motives

In the past, most foreign direct investment from Singapore was in response to labour shortages and high labour costs at home. Most of that investment was directed to Singapore's neighbours in Southeast Asia.

Today, foreign investment is increasingly seen as a way to access or acquire technology, to expand and diversify markets and to create Singaporean multinationals. Investments abroad, however, should have some link to Singapore and its needs.

Singaporean Investment in Canada

Although the volume of trade between Singapore and Canada is small, it has doubled since 1985. Singaporean investment in Canada is also small, but it too is growing. In 1986, the total stock of Singaporean foreign direct investment in Canada reached $52 million, up from nothing in 1979. Most of that investment was in merchandising and financial services.

Promising opportunities are opening up for future cooperation. Singapore has established bilateral agreements with Canada on investment, double taxation, and export financing. Five major Canadian banks have located offices in Singapore. Representatives of Singapore's Economic Development Board have visited Canada to assess potential business linkages and establish a dialogue with Canadian officials.

Examples of Recent Singaporean Investments in Canada

The following list offers examples of the more significant recent Singaporean investments in Canada. The list does not include all investments from Singapore and it is intended only to convey an impression of the range and diversity of the investment activity.

- construction and operation of newsprint mill
- fruit processing
- hotel operation
- mineral exploration and development
- manufacture of machine parts and tools
- manufacture of oriental food products
- real estate
- trade financing

Source: Investment Canada.

The view of Canada

As yet, Canada remains largely unfamiliar to Singaporean business people but the 2000 Singaporean students currently studying in this country may eventually serve as a bridge between the two countries. The Canada-U.S Free Trade Agreement makes Canada an appealing springboard for Singaporean firms seeking to enter the U.S. market.

Motives for Investing in Canada

The key to attracting investment from Singapore is to build a two-way relationship! Offering something of value to Singaporean companies in return for investment in Canada can involve technology, distribution and marketing rights, procurement, or manufacturing opportunities. Once the link is made and trust established, more Singaporean investments may flow into Canada. If a Canadian company is not prepared to offer technology or if it is uninterested in establishing operations in Singapore, it is unlikely that the Singaporeans will be interested in expanding cooperation.

III. Sectors of Opportunity

The most promising sectors for expanding Canadian-Singaporean investment cooperation are those industries favored by Singapore's Economic Development Board. Singaporean companies in the following sectors are potential partners for investment in Canada:

Biotechnology

Biotechnology is a key area of opportunity for Canadian-Singaporean cooperation. Dr. Chris Tan, a Canadian of Singaporean origin and formerly a professor at Calgary University, has now returned to Singapore to chair the EDB's biotechnology committee and can serve as an important link in expanding cooperation in this area.

Aerospace

Singapore's airport is the busiest in the region. It is used by all of the world's major airlines and is a recognized regional aircraft service centre. As a result, there is a strong interest in aerospace industries, aircraft engine components, avionics, simulators, aircraft maintenance, and overhaul services. There are opportunities to cooperate with air carriers to provide equipment and services in Singapore as well as to develop new technologies and Singapore Aerospace is said to be interested in acquiring new technology.

Food Processing
There are opportunities for Canadian companies in food processing. Canada has the manufacturing facilities to test new products that Singaporean companies are interested in and the city's multicultural environment, westernized middle class, and expanding tourism sector encourage a diverse food market. For example, a number of food processing companies from Singapore test their products at facilities such as the dairy plant at St. Hyacinth, Quebec.

Advanced Technology
There are numerous opportunities in advanced technology products and services to complement Singapore's own growth objectives in this area. Information systems, advanced manufacturing, and electronics are areas of particular interest.

Defence Industry
Singapore has one of the region's best equipped armies. It is continuously on the lookout for advanced military technology and products.

Medical Services and Health Care
Singapore is emphasizing development of its health care industry to serve its affluent and aging population. The objective is to evolve into a regional centre of medical excellence. Canadian techniques of health care delivery would be of interest.

Energy
Singapore operates oil refineries and petrochemical plants. Canadian expertise and equipment in the oil and gas industry complements Singapore's activities in this sector.

Negotiating in Singapore
It is relatively easy to do business with large Singaporean firms since many of them are subsidiaries of western firms and as such, use western systems of management. The smaller firms, however, are managed with loose organizational structures coupled to highly centralized decision-making. Because Singapore is characterized by a fast pace of life, business can be conducted quickly.

Despite its Chinese majority, Singapore is characterized by cultural diversity. Many Asian cultural practices persist, but the western handshake has become a common form of greeting with the oriental bow reserved for Asians. Courtesy demands that a person be addressed by Mr, Mrs. or Miss and the family name: first names should not be used unless one is invited to do so.

Singaporeans are very punctual and expect punctuality from others. Unlike other Asians, they get down to business right away and do not spend time on pleasantries. They do not indulge in unnecessary or superficial smiling or familiarity. Singaporean business people restrict expressions of courtesy to people whom they know and treat people whom they do not know with a formal neutrality.

Touching another person, especially on the head, is considered impolite. When crossing legs, place one knee directly over other and do not point your foot or the sole of your foot at anyone. Avoid tapping or shaking your foot under the table while discussing business.

During the conduct of business, dinner invitations are frequent, and it is not uncommon to take guests out to restaurants virtually every night of week.

Contacts:

In seeking business contacts in Singapore, Canadians should remember that 70% of Singaporean industry is foreign owned. It is unlikely that Singaporean subsidiaries of international companies would be interested in investing in Canada. The best investment prospects are smaller local firms, which can be identified through the Economic Development Board, an Asian bank such as the Hongkong and Shanghai Banking Corporation, or one of the five Canadian banks located in Singapore. Apart from the Canadian High Commission in Singapore, the provinces of British Columbia, Ontario, and Quebec also maintain offices in the city. The Canadian Manufacturers' Association has entered into a cooperation agreement with the Singapore Manufacturers Association under which the latter is committed to helping Canadian businesses establish contacts in Singapore. There is also a Canadian Business Association of Singapore with 240 members, of which one third are Canadian companies.

External Affairs and International Trade Canada
Singapore Desk
Asia Pacific South Trade
Development Division (PST)
125 Sussex Drive
Ottawa, Ontario K1A 0G2
Tel. (613) 996-5824
Fax. (613) 996-4309

Canadian High Commission
Commercial Counsellor
IBM Towers
80 Ansen Road
Singapore 0207
Tel. (011-65) 225-6363
Fax. (011-65) 225-2450

ASEAN-Canada Business Council
c/o Canadian Chamber of Commerce
Suite 1160 - 55 Metcalfe Street
Ottawa, Ontario K1P 6N4
Tel. (613) 238-4000
Fax. (613) 238-7643

Canada-Singapore Business Association
c/o The Economic Development Office
City of Vancouver
Suite 721, 601 W. Broadway
Vancouver, B.C. V5Z 4C2
Tel. (604) 873-7212
Fax. (604) 873-7918

Taiwan

I. Economic Structure

The Anomaly

Taiwan is a large island off the coast of mainland China. When the mainland was taken over by the Communists in 1949, the nationalist government of Chiang Kai-shek retreated to Taiwan where it has survived under the leadership of the Kuomintang Party. The People's Republic of China and the authorities on Taiwan each claim to be the sole legitimate governmentof China. This has forced the world to choose between recognizing the Republic of China on Taiwan or the People's Republic of China in Beijing. Most nations now recognize the government in Beijing. As a result, Taiwan has become something of an anomaly, a major economic powerhouse with virtually no diplomatic recognition by the world community. Despite the fact that Canada does not diplomatically recognize Taiwan, the federal government does maintain a trade presence through the Canadian Trade Office, Taipei, an office of the Canadian Chamber of Commerce.

A Trade-Oriented Economy

The island of Taiwan is heavily populated and poor in natural resources. As a result, the government looked to foreign trade to serve as the engine of growth and it adopted a strategy of importing raw materials, processing them domestically, and exporting the finished products. In the 1950s, Taiwan developed labor-intensive, import substituting industries. When these succeeded in the 1960s, it improved the domestic investment climate and established low-cost and low value-added export-oriented industries. By the 1970s, Taiwan was moving to industries based on intermediate goods and developing basic and heavy industries. With this infrastructure in place, Taiwan adopted a more strategic orientation in the 1980s, emphasizing and promoting certain key industrial sectors, especially technology-based activities. As a result of this strategy, between 1953 and the end of 1989, Taiwan's economy grew at an average annual rate of 8.8%.

Economic Slowdown

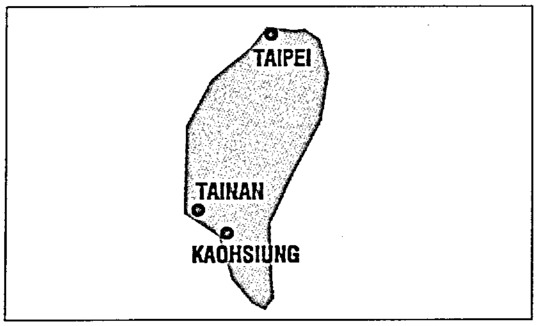
Taiwan's expansion culminated in 1987 when exports grew by 19% and GDP increased by 12.5%. Since then, the economy has been cooling off. In 1988, exports grew by only 5.8% and GDP rose by 7.8%. In 1989, exports grew 4.9% and GDP grew 7.2%.

To some extent, the slowdown was the inevitable result of earlier success. Strong export performance led to a domestic cash glut and an appreciation of the New Taiwan dollar, which made Taiwanese exports less competitive. At the same time, the export-led boom was being constrained by labour shortages, rising wages, increases in the costs of land, and new concerns about environmental degradation.

As a result, Taiwan has been experiencing significant inflationary pressures. In 1989, it was estimated that inflation was running at an annual rate of about 4.4%, but this was understated since the official basket of goods and services used to measure it was out of date and no longer reflected the real spending patterns of the Taiwanese.

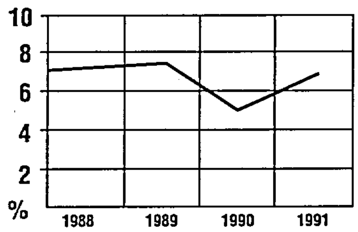
Rising domestic costs made Taiwanese exports less attractive at a time when Taiwan's trade partners were heading into recessions. As overseas demand fell, Taiwan's trade surplus shrank, as did its current account balance, and domestic investment in new plants weakened. By 1990, Taiwan's GDP grew by only 5%, still an impressive rate by western standards, but low in terms of Taiwan's previous performance.

Country Profile: Taiwan



Population (1989): 20.1 million
Population Growth (1989): 1.0%
GDP Per Capita (1989): $ 8,721

Real GDP Growth Rate (%)



GDP by Sector (1989)
(% of total)

Agriculture Forestry & Fishing	4.4
Mining	0.4
Manufacturing	37.3
Constuction	4.0
Utilities	3.6
Transport and Communications	6.1
Wholesale & Retail Trade	14.8
Finance & Business	16.5
Public Administration	9.1
Other Services	3.8

Major Industries in Manufacturing

Refined Sugar
Cotton Fabrics
Synthetic Fabrics
Man-made fibres
PVC
Cement
Steel Bars, Sections, Plates & Wire Rod
Television Monitors
Television Receivers
Video Tape Recorders
Electronic Calculators
Shipbuilding
Automobiles

Stock of FDI in Canada: Taiwan
($ millions; % of total)

	Value	(%)
1983	11	0.01
1984	12	0.01
1985	22	0.03
1986	22	0.02
1987	22	0.02

Stock of FDI in Canada by Industry: Taiwan, 1986
($ millions; % of total)

	Value	(%)
Petroleum*	11	50.0
Financial	11	50.0
Total	22	

* includes natural gas, mining and smelting

Major Trading Partners: Top Export Markets (1989)
(% of total exports)

United States	36.2
Japan	13.7
Hong Kong	10.6
West Germany	3.9
Canada	2.7

Total Exports (1989): $ 78.4 billion
Total Exports to Canada (1989): $ 2,352 million

Major Trading Partners: Top Import Suppliers (1989)
(% of total imports)

Japan	30.7
United States	23.0
West Germany	5.0
Hong Kong	4.3
Australia	3.1
Canada	1.5

Total Imports (1989): $ 61.9 billion
Total Imports from Canada (1989): $ 905 million

Shifting to a Domestic Focus

To some extent, Taiwan's weaker export performance was compensated by a shift toward satisfying domestic demand. Between 1987 and 1989, private consumption grew by more than 12% each year as Taiwan's 20 million inhabitants began to take advantage of their new-found affluence. Taiwan's economy remains heavily export-oriented with the value of its exports equal to half of its GDP. Even so, rising domestic consumption will, at least in part, replace external demand-orientation with domestic demand-orientation.

The Role of Government

Traditionally the government of Taiwan has been very involved in the economy, particularly in the energy, heavy industry and financial sectors. Planning usually took the form of suggestions from the government, backed up with sympathetic fiscal, monetary and trade policies and the provision of infrastructure.

Taiwan is liberalizing its domestic regulatory regime and opening up its economy to foreign investors. As a result, there have been dramatic increases in foreign direct investment in Taiwan. FDI doubled in 1987, and doubled again in 1989 to $2.6 billion, totalling about $11.8 billion at the end of that year.

The Taiwanese government is now becoming less involved in the economy and public corporations are being privatized. The government realizes that financial restructuring is necessary to channel resources away from the stock market and into more productive areas. However the government continues to encourage businesses into industries it sees as strategic. In the export market, the government is emphasizing consumer electronics, information systems, telecommunications, and automated production systems. In the domestic market, it is encouraging food processing, pharmaceuticals, biotechnology, and diagnostic imaging.

Industrial Structure

Small- and medium-sized enterprises are the backbone of the Taiwanese economy. They account for more than 80% of industrial production. Yet these companies tend to be undercapitalized; more than 90% have paid up capital of less than $436,000. Few of them have a long-term international strategy to up-grade their operations and move into high value-added activities. Taiwan's initial strength was in labour-intensive manufacturing, particularly food processing and clothing and textiles as well as in "copy-cat" manufacturing using other people's technology. Although such industries have responded to rising wage costs better than those in many other countries, their first instinct is often to move existing operations to countries with low labour costs rather than to develop higher value-added activities at home. As a result, it is estimated that in 1988 and 1989 Taiwanese companies invested about $5.3 billion to establish new production facilities in lower-cost regions of Southeast Asia.

A New Technology Focus

The Taiwanese government is promoting restructuring of the economy in order to move more forcefully into technology-intensive and service industries. Some Taiwanese manufacturers are beginning to focus on more sophisticated technologies, particularly computer components and parts, television sets, and calculators. Yet many are finding it difficult to move to more modern management systems or to find qualified personnel to enhance their R&D activities. The smaller enterprises that dominate Taiwan's economy seldom have the resources needed to undertake major R&D projects. On average, Taiwan's companies spend .5% of sales on R&D – less than half of the average expenditure in Korea.

The Taiwanese government plans to invest $17 billion in the development of advanced technologies over the next six years. It is emphasizing the development of applied technologies and computer-driven R&D by funding specific high-tech projects as well as the creation of new laboratories. In addition, the Hsinchu Science Park was established in 1980 to promote technology-intensive R&D by domestic and international companies. More than 100 companies are located there already and the government intends to encourage its expansion.

As a result of this program, the Taiwanese government hopes that the country will have 50,000 people engaged in R&D by 1996. Through tax incentives and direct financial assistance, it intends to bring R&D spending up to 2.2% of GNP. To focus activity, the government has identified five "star" industries that are to be the mainstays of the technology drive: information, consumer electronics, telecommunications, automation systems, and advanced materials. As part of this process, the government will also support the acquisition of foreign technology, marketing skills, raw materials, and environmental equipment.

II. Investment Behaviour

Relevant regulations

Taiwan's export-oriented development strategy and tight controls on the financial sector have resulted in the accumulation of huge foreign exchange reserves. In 1989, Taiwan's reserves totalled $86.4 billion. This glut of cash contributed to domestic inflationary pressures. At the same time, it provoked U.S. complaints about trade imbalances caused by unfair trading practices.

The Taiwanese government's program of economic and financial liberalization has been motivated, in part, by an effort to reduce these reserves by channelling them into productive investment abroad.

Outbound investment had been strictly limited, but exchange controls were loosened in 1986 and a new policy on outbound investment was inaugurated. The government began providing investment information as well as financial and technical assistance for investors. It established an international economic cooperation and development fund and organized Chinese investment clubs.

Because outbound investment was discouraged for so long, Taiwan's government and financial institutions lack experience in the area. The government is now trying to catch up. In 1989, the China External Trade Development Council opened an office dealing with foreign acquisitions in order to help Taiwanese businesses secure high technology, raw materials, and sales channels abroad. Since April 1990, the Central Bank has been lending American dollars to Taiwanese enterprises through the Bank of Communications, the Export-Import Bank, the International Commercial Bank of China, and the China Development Corporation to cover up to 80% of the cost of investment projects abroad. The Bank of Communications has recently opened a subsidiary in Amsterdam to help Taiwanese get a foothold in Europe.

Estimates of Taiwanese FDI

While everyone agrees that outbound foreign direct investment from Taiwan has increased dramatically in the past three years, there are no accurate figures on how much investment is involved. Comparisons of official Taiwanese statistics on FDI with statistics kept by other countries show wide discrepancies. It is difficult to track Taiwanese FDI since many Taiwanese business people operate through overseas subsidiaries or they split up investments among family members to keep individual transactions below the $6 million ceiling, above which they have to secure government approval for foreign exchange transactions.

It has been estimated that real outward bound FDI from Taiwan is five times the figures reported by the government. If so, then the Taiwanese may have invested approximately $5.3 billion abroad in 1989. The pace of FDI seems to have quickened in 1990, and according to one estimate, it may have reached $14 billion in 1990.

Destinations of Taiwanese FDI

Though official statistics of Taiwanese FDI do not cover all investments made abroad, they are a useful indicator of the main directions of investment activity. According to official figures for the period between January and July of 1990, the most popular region for overseas investment was Southeast Asia, which accounted for about 39% of the total. Within this region, low-wage countries, the Philippines, Malaysia, Indonesia and Thailand, were the most significant destinations. In terms of individual countries, the United States absorbed the largest share of Taiwanese FDI about 30% much of it placed in California, which has a large Chinese community. And various countries in Europe took about 22% of the total. It should be added that significant Taiwanese investments have also been made unofficially in mainland China.

Motives

Taiwanese FDI is flowing into a wide variety of sectors including food, textiles, leisure products, electronics, transportation, cement and construction, chemicals, hotels, banks, and brand name consumer products. Taiwanese companies are using overseas investments to enhance their competitiveness and to:

- acquire new technologies;
- penetrate markets;
- set up international marketing networks;
- secure access to natural resources;
- establish business in politically stable regions;
- take advantage of the appreciation of Taiwanese currency;
- take advantage of low labour costs to reduce production costs.

Taiwan's labour-intensive industries, textiles, shoes, toys, and consumer electronics, are particularly interested in moving into Southeast Asia in order to reduce labour costs. For similar reasons, Taiwan is hoping to benefit from the relaxation of restrictions on trade with mainland China.

Players

Initially the largest Taiwanese corporations dominated outward investment. Increasingly, however, as Taiwan's economic difficulties increase, small- and medium-sized enterprises in labour-intensive industries are becoming the major source of outbound investment. Joint ventures are particularly attractive for these smaller companies, since local partners can orient them and provide them with market intelligence and expertise.

Taiwanese Investment in Canada

Canada has not yet emerged as a significant destination for Taiwanese foreign direct investment. Canada and Canadian companies remain little known to Taiwanese business people and consumers. By contrast, both U.S. products and U.S. companies are well regarded and this visibility is compounded by a concerted Taiwanese effort to "Buy American" in order to reduce Taiwan's trade surpluses with the United States. Taiwanese are very loyal to a product once they accept it and U.S. products have developed an advantage in the marketplace.

There are no formal diplomatic relations between Canada and Taiwan. Even so, Canada has developed substantial ongoing trade relations with Taiwan that can eventually lead to more investment-oriented transactions. The Canadian Chamber of Commerce operates a Canadian Trade

Office in Taipei, and there is a Canada-Taiwan Business Association that seeks to strengthen commercial ties between the two countries. Canadian companies have made investments in Taiwan in banking, real estate, and manufacturing. At least one Canadian law firm has recently opened offices in Taiwan to facilitate Canadian-Taiwanese investment relationships. Steps are being taken to encourage Taiwanese students at Canadian educational institutions to serve as bridges between the two countries.

Taiwanese investors have developed extensive relationships in the United States but Canada remains something new for them. Having invested heavily in southeast Asia, however, they are looking more closely at the whole North American market and Canada is in a good position to take advantage of that interest. It can offer the Taiwanese raw materials, technological expertise, and access to the North American market under the Free Trade Agreement. There are signs that the Taiwanese are beginning to look at opportunities in Canada. Tourism from Taiwan to Canada is on the rise: in 1987 there were 3,674 visits to Canada from Taiwan. In 1988 that number had grown to 5,132 visits. It is characteristic of their cautious approach to investment that many Taiwanese business people take advantage of a holiday to scout out business opportunities.

Examples of Recent Taiwanese Investments in Canada

The following list offers examples of the more significant recent Taiwanese investments in Canada. The list does not include all investments from Taiwan and it is intended only to convey an impression of the range and diversity of the investment activity.

- clothing, wholesale and retail
- engineering advisory services
- import and distribution of plastic products
- import and export of consumer products
- import of housewares, hardware, sporting goods and giftware
- manufacture and sale of beauty products
- terminals/electronic cash registers, import and distribution

Source: Investment Canada.

III. Sectors of Opportunity

Taiwanese investors are interested in technology-intensive areas, particularly computer hardware and software, high-precision electronic components and systems, medical instruments, environmental equipment, telecommunications, transportation technology, machinery, aerospace components, integrated financial services, biotechnology, and pharmaceuticals. Canadians with technology in these areas are likely to find that Taiwan is a good source of capital, and is also able to provide manufacturing facilities and effective market access to the Pacific Rim region.

Environmental equipment is another large area of opportunity. Taiwan will invest $38 billion in pollution control and waste disposal by the year 2000, and the country is actively looking for partners in this area. Companies dealing in air pollution, water pollution, and solid waste management equipment are all needed.

Proposed Areas for Future Canada-Taiwan Investment Cooperation

- electronic components and systems
- automotive parts
- civilian aircraft components
- environmental protection equipment
- computer and communications equipment and software
- biotechnology and pharmaceuticals
- material sciences
- integrated financial services

Source: Ministry of Economic Affairs, Taiwan.

Negotiating in Taiwan

With Hong Kong and Singapore, Taiwan shares many traditional Chinese cultural attributes. In contrast to the two city-states, however, it lacks a British connection and outside of the business community relatively few Taiwanese speak English.

As elsewhere in Asia, business cards are absolutely essential. They are even exchanged in social settings. Your business cards should be translated into Mandarin to show the Chinese characters representing your name.

Authority in Taiwan is based on status and age. Unlike Japan, *consensus decision-making* is not part of the Taiwanese system of management. The directives of superiors are seldom questioned and many family-controlled businesses are headed by a patriarch who is the unquestioned decision-maker.

When meeting Taiwanese business people, a slight bow of head and handshake are appropriate. Elderly persons are always recognized and greeted first.

Contacts

Business people intending to seek investment partners in Taiwan should remember that there are no diplomatic relations between Canada and Taiwan. The Canadian Chamber of Commerce runs a Trade Office there and the Canada-Taiwan Business Association is mandated to expand commercial linkages between the two countries. The Association holds an annual meeting, usually in April, alternately between Taipei and locations in Canada which brings together representatives from some 150 companies on either side.

Canada-Taiwan Business Association
c/o Canadian Chamber of Commerce
1160-55 Metcalfe Street
Ottawa, Ontario K1P 6N4
Tel. (613) 238-4000
Fax. (613) 238-7643

Canadian Trade Office in Taipei
13th Floor
365 Fu Hsing North Road
Taipei, Taiwan
Tel. (011-886) 2-713-7268
Fax. (011-886) 2-712-7244

Forms of Investment

Investment strategies are competitive tools

Operating within an increasingly dynamic global economy, companies recognize that everything they do must contribute to their competitiveness. Investment today is closely tied to strategic objectives which are designed to enhance competitiveness. Successful companies carefully determine their situation, their objectives, and what they need before they make or solicit investments.

Investors can contribute more than just financing to a company, they are also potential sources of business expertise, human resources, and new technologies. Moreover, investors can provide access to new markets. In return, investors want more than a good financial return, they are looking to enhance their own strategic positioning and competitiveness. That could mean investing in a company that can provide them with skills they do not have, economies of scale, access to new markets, or innovative technologies.

Ideally, you want to find an investor with strategic concerns that parallel your own, and strengths that complement your strengths. This will provide you with the skills and resources that you need but have not developed in-house.

Approaching potential investors without a clear sense of your own strategic concerns risks several types of failure. First, experienced investors look for evidence of clear and careful planning. Second, you may tie your company to someone who may have different expectations, and who may therefore obstruct or sidetrack the development of your business. If they have careful plans and you do not, you may find that the deal ends up serving their interests but not your own. Successful investment is based on mutually advantageous partnerships. This can only be the case when all partners have a clear idea of what is expected, what each is to contribute, and what the ultimate objectives are.

> After successfully exporting its products to Canada, Hyundai decided to start manufacturing Sonatas here. It built a $300 million plant in Quebec. As a bonus, a $19 million components plant was also built.

Traditional Ways of Expanding Overseas

There are several traditional approaches to overseas investment that served corporations long before the globalization of the economy encouraged the development of new strategic tools.

A Step-By-Step Approach

Traditionally, companies invested abroad to access new markets and increase product sales. The process by which they did this tended to follow a predictable pattern. First, companies found a distributor. If the business grew, they set up a representative office to market the product. If demand continued to expand, the companies would establish a local manufacturing facility.

Take, for example, a Japanese manufacturer who develops a low-cost technology for making high-quality tapes that allows the company to sell the product at 25% less than the competition. Sales are going well in Japan and other markets. The decision is taken to expand into Canada and a Canadian company is selected as country-wide distributor. In this arrangement, the Canadian firm takes care of warehousing, promotion, distribution, and sales.

The distributor does a good job and the tapes sell well. This may encourage the Japanese company to a little more. The next move is to set up a representative office in Canada with a manager, possibly a Canadian. The office gradually takes over the marketing and promotional role leaving distribution to the original partner.
If all goes well, the Japanese tape maker may decide to manufacture the tapes in Canada. At that point, the company may look for a partner with an appropriate facility; it may buy one outright, or if no suitable plant is available, it may build a completely new factory. At that point, the firm may also create its own distribution network in Canada.

> Bazz Inc, Canada's largest producer of portable halogen and incandescent lamps entered into a joint venture with Jea Shen Indsutries Co. Ltd. of Taiwan.
>
> The new firm, to be called Bazz Taiwan, will produce portable and fixture halogen lamps for export to the United States and Europe. In Canada, Bazz sells 80% of its product domestically, and 20% to U.S. Jea Shen exported 90% to Western Europe, North America, and Japan. Before the joint venture, Jea Shen supplied lighting products to Bazz for one year, during which time they established a good working relationship that encouraged them to develop closer forms of cooperation. Bazz will contribute its design concepts while Jea Shen will execute them taking advantage of Taiwan's lower labour costs.

This cautious, step-by-step approach still makes a lot of sense and it remains characteristic of much foreign direct investment. Canadian companies looking for overseas partners may offer to distribute their products as a first step in developing a partnership.

Acquiring a Company

Acquisitions are often viewed as a quick way of expanding into foreign markets. They are most often successful, however, only after firms have established a significant presence in the market and after they have developed a good working relationship with the company they intend to acquire. Acquisitions can make good sense for both firms involved, but it takes time and money to get them right.

Not all acquisitions involve securing outright control over a company. Some investors prefer to rely on highly motivated and experienced partners to manage the company while they take a minority position. If, however, the investor wants to change the strategic direction of a company in a fundamental way, then he will be looking for at least 51% of the shares.

Asian business people are not casual investors. They do far more homework than most North American companies and they are sensitive to the kind of cultural differences that may undermine an acquisition. That is why Asians do not hesitate to use local resources such as market research firms, lawyers, and accountants to give them a sense of the market and advise them in managing their acquisitions.

Licensing Rights

From the investor's point view, licensing is the easiest way of gaining access to a new market. Licensing can involve rights to manufacture, distribute, or market a product. The details are covered in a contract which specifies the fees (normally a percentage of sales), time period, and other conditions. These rights may or may not be limited geographically. Japanese companies in the pharmaceutical business have made excellent use of product licensing to achieve sales overseas without a significant investment in either money or management time.

Among the many variations on the basic licensing format is cross-licensing, which is often used by companies in research- and technology-intensive sectors. For example, one of Korea's largest electronics companies, Samsung, has an agreement with IBM in Korea to share patents involving technology used in the design and manufacture of semiconductors.

New Investment Strategies

The new strategic investment tools developed by businesses in the last ten years depend more on partnering and coordination. Less concerned with outright acquisitions, these strategies seek to coordinate the activities and the strategic interests of separate corporate entities that have agreed to contribute to a cooperative project.

> Strategic alliances have played an important role in the success of the high growth company, Pelorus Navigation Systems of Calgary, Alberta. Pelorus produces landing systems for regional airports, with markets in North America, the Asia-Pacific region, and Europe. Its comprehensive plan of attack has included a number of strategic alliances with large, well-established aerospace corporations around the world that have gained it new technology and new markets. With only 30 people on staff, Pelorus has been able to use its partners to give it the credibility needed to bid on large multi-year, multi-unit contracts.
>
> In Australia, Pelorus teamed up with GEC Marconi Defense, a Sydney-based company, to use Pelorus technology to bid on a large defense contract. While the relationship is attractive in its own right, GEC has gone on to generate opportunities for Pelorus in Papua New Guinea and New Zealand. In addition, GEC helped Pelorus sell 300 of its navigational systems to the Government of Australia.

Co-marketing agreements

This kind of an agreement involves more than simply finding a local distributor for your products. A co-marketing agreement is a type of strategic alliance in which firms cooperate with each other in order to achieve marketing goals central to the welfare of both partners. They involve important commitments by all the players involved. Co-marketing arrangements enable a company to expand quickly into new overseas markets by sharing the marketing of its products with another firm.

For example, companies involved in highly volatile industries may wish to achieve rapid market penetration of their product before it is overtaken by the offerings of competitors. If a company has only a small sales force in an important target market, they can make an arrangement with a local firm that is firmly established in the same business. For a share of the profits, the local firm can use its own marketing network to get the product to customers while the original investor gets rapid visibility and market penetration for the product. In some cases, reciprocal co-marketing arrangements can be made with companies established in different markets, taking advantage of each other's networks to move products in two directions.

Co-production agreements

In this kind of alliance, firms cooperate in order to manufacture products. The simplest form of co-production is contract or toll manufacturing. An example would be an Asian firm that arranges for manufacture of its product in Canada by providing a compatible Canadian company with all the necessary technology. Co-production agreements can get quite complex. Some manufacturing facilities can make the same product with different trade names for different marketing organizations. In addition, reciprocal manufacturing arrangements are also possible with companies in different countries cooperating to produce each other's products in their respective territories.

Taiwan's biggest company, Formosa Plastics, produces industrial plastics, acrylic fibres, rayon, nylon and textiles. The controlling Wang family wanted to ensure that their operations had an uninterrupted flow of processed raw materials from a stable part of the world. Formos Plastics and Nan Ya Plastics have jointly set up Rexworth Trust Co. in Canada.

R&D Agreements

Few, if any, companies have the expertise or resources to pursue all the research leads that they would like. One way to stretch resources is through cooperative R&D agreements. Such agreements are not limited to large corporations. Much valuable R&D is performed by small companies that have the flexibility and innovative capacity required to stay at the leading edge of their fields. Many such companies form partnerships with larger corporations which provide financing, technological support, global marketing, and distribution networks. The large corporation can also serve as the "anchor" customer for the smaller company's products, reducing the risk the latter faces in performing innovative R&D. In return, the larger partner is relieved of many of the complexities associated with innovative R&D. It can reap significant financial rewards from its investment in the smaller firm if the innovation proves successful in the marketplace.

Joint ventures

This investment technique first became fashionable during the 1960s when American companies encountered problems penetrating the Japanese market. The use of joint ventures became widespread in the increasingly competitive markets of the early 1980s. Joint ventures demand a massive commitment, since the partners cooperate in order to form and finance an entirely new company. In the classic joint venture, each side owns half of the new venture, but there are as many ownership variations as there are purposes behind joint venturing.

For a joint venture to make sense, each partner needs to bring to the table something that the other does not have. In the case of the joint ventures developed between Japanese and North American companies in the 1960s, the North American partners normally contributed products while the Japanese partners ensured entry into the complex Japanese distribution system.

Far Eastern Textile Ltd., Union Chemical Corporation of Taiwan, and Mitsui & Co. of Japan will jointly share half of a new Union Carbide plant to be built at Prentiss, Alberta. The plant is being built in anticipation of increasing demand for polyester in the Asia-Pacific region. By entering into a joint venture with Union Carbide, the three Asian partners will ensure themselves of adequate suppliers.

Overcoming Barriers to Understanding

There are many obvious and not-so-obvious differences between Canadian and Asian cultures. Recognizing these differences and overcoming barriers to understanding is vital to negotiating and managing successful investment partnerships in Asia-Pacific.

Language

Communicating with business people from the Asia-Pacific region requires overcoming different cultural viewpoints as well as the language barrier. The Australians do speak English after all, but they use it in subtly different ways. Unless you pay attention to the cultural nuances embedded in their usage, you may miss something important.

The problem is much greater when dealing with business people whose first language is not English, or who do not speak English at all. Even when the words you and your opposite numbers are exchanging have been smoothly and correctly translated, the intended meaning may not have been communicated. When a Japanese business person hesitates and responds to your request with "that may be difficult," what he is really telling you is "no."

Of course, the services of a good translator are vital. Translating your proposition into the language of your hosts is both an important courtesy and a practical aid. Avoid using Canadian business jargon such as "the bottom line" or cliches such as "lean and mean," and remember, when your opposite number nods and smiles, that does not necessarily mean he or she understands you.

In your discussions you will need sensitivity, patience, and politeness. As you talk, pause frequently, and offer to answer questions. Encourage your opposite numbers to confer among themselves. Create the impression, however difficult it may be, that time means nothing to you and that your only mission is to communicate fully and honestly.

Relative Values

The goals of Asian business people tend to be somewhat more complex that those of North American business people. Obviously, both are interested in profits, but the Asians are also keenly interested in long-term benefits. They are looking for stable business relationships with trustworthy and compatible people.

Most Canadian business people think in terms of quarter-to-quarter results and two years is considered a distant horizon for a business. Business people in Asia, however, think in terms of five-, ten-, or even twenty-year spans. That is why they prefer to proceed slowly in negotiations: once a commitment is made, it will be with them for a long time. Asian business people will therefore use the first few meetings simply to get to know you and determine if you are the kind of person that they want to do business with.

Many North American business people get frustrated by the slow pace and seeming complexity of negotiations in Asia. There may be a lot of people involved in making the decisions on the other side and you may not even have a clear idea of who the key players are. In North American companies, decisions tend to be made by a small group of people who must then seek internal agreement before their strategy can be implemented. In many of the Asian countries, especially Japan, the people who will implement the policy have already been included in the decision-making process.

Lawyers and Legal Documents

Business people in Asia rely on personal understanding and trust rather than on formal contracts. For this reason, most Asians would be offended if you brought a lawyer along to a meeting: it would be as if you had brought a policeman. It is not done and would create an atmosphere of distrust that could kill a negotiation before it begins.

To satisfy your people at home, you will eventually need some sort of written agreement, but keep it as simple as possible, and do not bring it to the table until the negotiations are complete. If your Asian partner has doubts about the negotiations, no legal document will salvage the deal.

Exchanging Business Cards

The exchange of business cards is a major ritual in Asia. Everyone you meet will offer one to you and expect one in return. When you hand an Asian your card, it will be studied carefully. Your card should have English on one side and the language of the potential investor on the other. Both sides should be of the same high quality and the card should not appear to have been made for this meeting alone. Advertising slogans are not appropriate for your business card.

Forms of Address

When addressing people within their own cultures, Japanese, Koreans and ethnic Chinese place their family name first. But when they are speaking English or dealing with Western business people, they follow the Western usage with the family name last, after the given names. This usage will be observed on the English side of their business cards, too. Always use the person's family name, preceded by an appropriate title such as Mr, Mrs, Miss, or Doctor. Often a business title such as *Director* is also appropriate. Do not use first names unless invited to do so.

Your Presentation

Your presentation is the key to explaining what you propose and what you are looking for. When preparing it include as many visuals as you can since they are the best way of overcoming communications barriers. The visual presentation should tell the whole story and should be comprehensible even to those who do not speak English. However, use English for your labels and headings, otherwise you will convey the false impression that you speak the language.

Transparencies for overhead projectors are the best medium for presentation. They are easy to carry and require less equipment than slides. Almost every office has an overhead projector or can readily get one (but make sure before your meeting). Have the transparencies prepared professionally and avoid a hard sell that might smack of Western advertising.

Briefing Books

When it comes to knowing your subject, you cannot prepare too carefully. Asian business people have an insatiable appetite for detail. Next to a strong visual presentation, a comprehensive briefing book is your most valuable tool. It should take the form of a loose-leaf binder with subject areas segregated by tabs. If you and your staff prepare it properly, no question will stump you. Also, as you make your presentations, you can add to the book based on the questions that your audiences pose to you.

Handout Folders

Prepare folders of materials that you can leave with your negotiating partners. If you are seeking an investment for a project which involves a product, include product specification sheets, and your business card with a summary of your proposal. Product material in English is adequate, but the proposal summary should be translated into the local language. Make sure that everyone present at your meetings gets a folder since it is very hard to tell who the key players will be.

Keys to Success

Successful negotiating in the Asia-Pacific region demands sensitivity, patience, and hard work. Take the time to prepare yourself well, and make a sincere effort to understand the mindset and concerns of your partners. Your deal may still not succeed, but at least you will have done everything to ensure that it does not fail because of barriers to understanding which could have been overcome.

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Target potential types of investors
What kind of investors are you looking for? For example, banks, large companies, SMEs, private companies?

Line up your resources
Who is going to do the work of investment prospecting and how much money can your company spend on finding an investor? Be sure to include not only the missionary or selling effort, but also the costs of research. You may also want to budget for a consultant.

Prepare an action plan
Prepare a detailed listing of the steps you are going to take beginning with desk research and ending with negotiations. Add some details about timing to keep it on track, though remain flexible if things take a slightly different turn.

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HONGKONG BANK OF CANADA
SUITE 400
885 WEST GEORGIA STREET
VANCOUVER, B.C.
V6C 3E9

ATTN: MARKETING DEPARTMENT

Getting Started

Bringing investment into a company can be a long and complex process. There is no single formula for doing it successfully. There are, however, a number of steps you can take that will ensure you move in the right direction.

Your Investment Plan

Perhaps the most fundamental step is to prepare an investment plan for your company. Finding a new investment is like launching a new product: it is a marketing exercise that must be carefully planned and coordinated. There are several important characteristics of an investment plan:

- it should flow from and be integrated with your business plan showing how investment is necessary for achieving your overall corporate objective;
- it should explain why you are looking for investors from the Asia-Pacific region as opposed to other regions of the world;
- it should define the characteristics of investor sought in terms of size of company, what you hope to receive (capital, technology, management skills), and complementary strategic interests;
- it should contain a detailed action plan identifying specific milestones in the process;
- the action plan should be time-phased to specify how much time can be allotted to various phases;
- there should be a detailed budget identifying how much you can afford to risk to find an investor. Remember that you may not be successful and that the money you spend on the process may yield no result.

Essential ingredients of an investment prospecting plan

Strategic objectives
What are you looking for from a potential investor now and for the next five years? The answer should be an integral part of your corporate strategy.

Competitive position
What is your company's position within its business sector? What are its strengths and weaknesses relative to your competitors?

Target potential types of investors
What kind of investors are you looking for? For example, banks, large companies, SMEs, private companies?

Line up your resources
Who is going to do the work of investment prospecting and how much money can your company spend on finding an investor? Be sure to include not only the missionary or selling effort, but also the costs of research. You may also want to budget for a consultant.

Prepare an action plan
Prepare a detailed listing of the steps you are going to take beginning with desk research and ending with negotiations. Add some details about timing to keep it on track, though remain flexible if things take a slightly different turn.

In drawing up your investment plan, be prepared to do some serious and time-consuming research. A plan is only as good as the information and assumptions fed into it. Find out all you can about the Asia-Pacific region, the strategic interests of its companies, the characteristics of its investors, and where you can look for help in contacting those investors.

Networking

Effective networking is an important component of both the research you need to draw up your plan and the investment promotion effort itself. Networking means starting with the people that you know bankers, lawyers, government officials, suppliers, customers, business associations and the people who they know. Find out what they know about Asia-Pacific investors. Do they have any contacts that are familiar with the region? Do they have any suggestions about how to approach it? Do not forget to include banks or other companies from the Asia-Pacific region as part of your network.

Business Associations

There are several business associations that have been set up specifically to promote improved commercial links between Canada and the countries of the Asia-Pacific region. These contact points have been listed in this publication at the end of each section dealing with a specific country. In addition, there are some more general organizations focusing on the whole region. Perhaps the most important regional body is the Asia-Pacific Foundation.

Trade Shows and Conferences

Beyond networks and business associations, trade shows and conferences, both here and abroad, are excellent sources of contact with business people from the Asian-Pacific region. Trade journals in your particular business sector are a good source of information about upcoming trade shows, as well as information about investment in your sector. Business associations, most of which publish newsletters, may also be good sources of information about upcoming trade shows and conferences. Remember too that most business associations hold regular meetings and annual conferences. Some of these events are open to non-members.

Diplomatic Posts

Most of the countries in the Asia-Pacific region have diplomatic representation in Canada. Many of these embassies have trade offices or trade commissioners. Some of the countries in the Asia-Pacific region have established specific trade and investment organizations such as the Japanese External Trade Organization (JETRO) with branches in Canada.

Canada also has diplomatic representation in most of the countries of the Asia-Pacific region. Posts abroad will include trade commissioners, and in some cases investment counsellors. A good first step in finding out about our missions abroad is to contact the relevant desk officers at External Affairs and International Trade Canada.

Government Assistance

Both the Canadian federal and various provincial governments can provide important information and assistance for investment prospecting in the Asia-Pacific region. You may contact the Industry, Science and Technology Canada regional office closest to you or one of these three federal government offices in Ottawa.

External Affairs and International
Trade Canada
Export and Investment Programs
Division (TPE)
125 Sussex Drive
Ottawa, Ontario K1A 0G2
Tel. (613) 996-1328
Fax. (613) 995-5773

Industry, Science and Technology Canada (ISTC)
Planning and Operations
International Affairs Branch
235 Queen Street
1st Floor, East
Ottawa, Ontario K1A 0H5
Tel. (613) 954-4182
Fax. (613) 954-2682
Telex. 053-4123

Investment Canada
Investment Promotion
240 Sparks Street
5th Floor, West
Ottawa, Ontario K1A 6A5
Tel. (613) 992-4916
Fax. (613) 996-2515

The larger provinces maintain offices in some of the countries of the region. Some provincial ministries with responsibility for industrial development also have a mandate to assist in investment prospecting efforts abroad.

Corporate Targeting

Once you have identified the type of investment you want, you can narrow the field down to a few specific companies. Find out everything you can about them: their corporate structure, ownership, sales, reserves, corporate philosophy, management style and research productivity. This information is generally available in databases and newspaper articles that are all in the public domain. In the process of assembling it, one or two preferred candidates will emerge. You cannot find out too much about them. The information you gather will be important in tailoring your investment proposal to the needs of the prospect, and in shaping the conduct of your negotiations.

When you put the proposal together keep in mind exactly what you want from the investment prospect. "Let's get together and see what we can work out," is too vague an approach. You do not have to tell the investor all the details of your plan but certainly enough to get him interested in meeting with you. And for the sake of your own effectiveness in the discussions, you should have a clear sense of what you are looking for. Finally, your plan should be flexible enough to accommodate a counter-proposal from your prospective partner.

Commitment

As with most things in business, it is better not to begin at all than to begin halfheartedly. Investment prospecting can be a an expensive, time-consuming, and even frustrating process. There is always the very real risk that your efforts will not bear fruit. There are no guarantees of success but you can minimize the possibility of failure through careful planning and a commitment to seeing the process through to the end.

Hongkong Bank of Canada

Locations in Canada

BRITISH COLUMBIA

ABBOTSFORD
32412 S. FRASER WAY
ABBOTSFORD, B.C.
V2T 1X3
TEL. (604)853-1411

BURNABY
HASTINGS & GILMORE
4106 E. HASTINGS
BURNABY, B.C.
V5C 2J4
TEL. (604)294-9431

KINGSWAY & ROYAL OAK
5210 KINGSWAY
BURNABY, B.C.
V5H 2E9
TEL. (604)438-6411

LOUGHEED & NORTH ROAD
9952 LOUGHEED HWY.
BURNABY, B.C.
V3J 1N3
TEL. (604)421-5611

CAMPPBELL RIVER
1000 SHOPPERS ROW
PO BOX 160
CAMPBELL RIVER, B.C.
V9W 5A7
TEL. (604)286-0011

CHILLIWACK
9345 MAIN STREET
CHILLIWACK, B.C.
V2P 4M3
TEL. (604)795-9181

CRANBROOK
928 BAKER STREET
CRANBROOK, B.C.
V1C 1A5
TEL. (604)426-7221

DELTA
8701-120TH STREET
DELTA, B.C.
V4C 6R4
TEL. (604)590-3141

HANEY
11955 - 224TH STREET
PO BOX 220
MAPLE RIDGE, B.C.
V2X 7G1
TEL. (604)467-1131

KAMLOOPS
275 LANSDOWNE STREET
PO BOX 697
KAMLOOPS, B.C.
V2C 5L7
TEL. (604)374-6633

KELOWNA
384 BERNARD AVENUE
PO BOX 634
KELOWNA, B.C.
V1P 7P2
TEL. (604)763-3939

LANGELY
20437 FRASER HWY.
LANGELY, B.C.
V3A 4R5
TEL. (604)530-5331

NANAIMO
70 COMMERCIAL STREET
NANAIMO, B.C.
V9R 5G4
TEL. (604)753-2401

NEW WESTMINISTER
COLUMBIA STREET
600 COLUMBIA STREET
NEW WESTMINISTER, B.C.
V3M 1A5
TEL. (604)524-1141

SIXTH & FIFTH STRRET
504 SIXTH STREET
NEW WESTMINISTER, B.C.
V3L 3B4

NORTH VANCOUVER
1457 LONSDALE AVENUE
NORTH VANCOUVER, B.C.
V7M 2H9
TEL. (604)980-2451

PENTICTON
294 MAIN STREET
PENTICTON, B.C.
V2A 5B2
TEL. (604)492-2704

PORT COQUITLAM
41 POCO PLACE
2755 LOUGHEED HWY.
PORT COQUITLAM, B.C.
V3B 5Y9
TEL. (604)464-6444

PRINCE GEORGE
201 VICTORIA STREET
PRINCE GEORGE, B.C.
V2L 2J5
TEL. (604)564-9800

RICHMOND
JOHNSON CENTRE
120-8191 WESTMINISTER HWY.
RICHMOND, B.C.
TEL. (604)276-8700

NO. 3 AND PARK
6800 NO. 3 ROAD
RICHMOND, B.C.
V6Y 2C4
TEL. (604)273-1961

4800 NO. 3 ROAD
RICHMOND, B.C.
V6X 3A6
TEL. (604)270-8711

SURREY
10501 KING GEORGE HWY.
SURREY, B.C.
V3T 2X1
TEL. (604)584-1371

VANCOUVER
BROADWAY & ASH
601 WEST BROADWAY
VANCOUVER, B.C.
V5Z 4C2
TEL. (604)668-4735

CAMBIE & 42ND
5812 CAMBIE STREET
VANCOUVER, B.C.
V5Z 3A8
TEL. (604)325-1868

DENMAN STREET
1010 DENMAN STREET
VANCOUVER, B.C.
V6G 2M5
TEL. (604)683-8189

FRASER & 48TH
6373 FRASER STREET
VANCOUVER, B.C.
V5W 3A3
TEL. (604)324-2481

1090 W. GEORGIA STREET
VANCOUVER, B.C.
V6E 3V7
TEL. (604)687-7441

GRANVILLE & 12TH
2735 GRANVILLE STREET
VANCOUVER, B.C.
V6H 3J1
TEL. (604)668-4715

HASTINGS & BURRARD
999 W. HASTINGS STREET
VANCOUVER, B.C.
V6C 1M3
TEL. (604)668-4641

HASTINGS & PENTICTON
2590 E. HASTINGS
VANCOUVER, B.C.
V5X 1Z3
TEL. (604)253-1531

KERRISDALE
2164 WEST 41ST AVENUE
VANCOUVER, B.C.
V6M 1Z1
TEL. (604)261-4251

KINGSWAY & SENLAC
3398 KINGSWAY
VANCOUVER, B.C.
V5R 5L2
TEL. (604)430-3261

335 W. GEORGIA STREET
VANCOUVER, B.C.
V6C 3G1
TEL. (604)685-1000

MAIN & KEEFER
601 MAIN STREET
VANCOUVER, B.C.
V6A 2V4
TEL. (604)668-4682

MAIN & PENDER
530 MAIN STREET
VANCOUVER, B.C.
V6A 2T9
TEL. (604)683-9611

TENTH & SASAMAT
4480 WEST 10TH AVENUE
VANCOUVER, B.C.
V6R 2H9
TEL. (604)228-1421

VERNON
3321-30TH AVENUE
BARNARD AVENUE
VERNON, B.C.
V1T 2C9
TEL. (604)542-3345

VICTORIA
DOUGLAS & HILLSIDE
2640 DOUGLAS STREET
VICTORIA, B.C.
V8T 4M1
TEL. (604)388-6465

DOUGLAS & JOHNSON
1327 DOUGLAS STREET
PO BOX 1201
VICTORIA, B.C.
V8W 2T6
TEL. (604)388-7341

FORT STREET
731 FORT STREET
VICTORIA, B.C.
V8W 1G9
TEL. (604)388-6223

752 FORT STREET
VICTORIA, B.C.
V8W 1H2
TEL. (604)388-5511

WEST VANCOUVER
1578 MARINE DRIVE
WEST VANCOUVER, B.C.
V7V 1H8
TEL. (604)922-3311

WHITE ROCK
1493 JOHNSTON ROAD
WHITE ROCK, B.C.
TEL. (604)531-8366

ALBERTA

CALGARY
333-5TH AVENUE S.W.
CALGARY, AB
T2P 3B6
TEL. (403)266-7371

777-8TH AVENUE S.W.
CALGARY, AB
T2P 3R5
TEL. (403)261-8910

CALGARY SOUTH
347-58TH AVENUE S.E.
CALGARY, AB
T2H 0P3
TEL. (403)253-4003

GOOD FORTUNE PLAZA
212, 111-3RD AVENUE S.E.
CALGARY, AB
T2G 0B7
TEL. (403)233-8303

EDMONTON
10250-101ST STREET
EDMONTON, AB
T5J 3P4
TEL. (403)428-1144

JASPER AVE & 106TH STREET
10561 JASPER AVENUE
EDMONTON, AB
T5J 1Z4
TEL. (403)423-3563

PACIFIC RIM MALL
SUITE 113
9700-105TH AVE
EDMONTON, AB
T5H 4J1
TEL. (403)424-3591

EDMONTON SOUTH
5555 CALGARY TRAIL SOUTHBOUND
EDMONTON, AB
T6H 4J9
TEL. (403)435-3411

LETHBRIDGE
817-4TH AVENUE SOUTH
PO BOX 1087
LETHBRIDGE, AB
T1J 4A2
TEL. (403)327-8521

MEDICINE HAT
602-3RD STREET S.E.
MEDICINE HAT, AB
T1A 0H5
TEL. (403)527-1151

RED DEER
4610-49TH AVENUE
RED DEER, AB
T4N 6M5
TEL. (403)343-2344

SASKATCHEWAN

REGINA
1874 SCARTH STREET
REGINA, SK
S4P 4B3
TEL. (306)359-7200

SASKATOON
224-4TH AVENUE S.
PO BOX 437
SASKATOON, SK
S7K 3L6
TEL. (306)244-2331

MANITOBA

WINNIPEG
240 GRAHAM AVENUE
WINNIPEG, MB
R3C 0J7
TEL. (204)956-1632

ONTARIO

BARRIE
33 BAYFIELD STREET
PO BOX 368
BARRIE, ON
TEL. (705)726-6403

BRAMPTON
312 QUEEN STREET E.
BRAMPTON, ON
L6V 1C2
TEL. (416)451-5363

HAMILTON
40 KING STREET E.
PO BOX 769
HAMILTON, ON
L8N 3N3
TEL. (416)525-8730

KINGSTON
914 PRINCESS STREET
KINGSTON, ON
K7L 1H1
TEL. (613)549-5800

KITCHENER
235 KING STREET E.
KITCHENER, ON
N2G 4N5
TEL. (519)745-9403

LONDON
285 KING STREET
LONDON, ON
N6B 3A6
TEL. (519)439-1631

MARKHAM
MARKHAM GATEWAY CENRE
3000 STEELES AVENUE E.
MARKHAM, ON
L3R 4T9
TEL. (416)475-3777

MISSISSAUGA
CHINESE CENTRE
B7-4, 330 DUNDAS STREET
MISSISSAUGA, ON
L4Y 4G6
TEL. (416)277-5300

130 DUNDAS STREET E.
SUITE 101
MISSISSAUGA, ON
L5A 3V3
TEL. (416)270-2726

GOLDEN PLAZA
4120 DIXIE ROAD
MISSISSAUGA, ON
L4W 1V8
TEL. (416)238-6267

25 WATLINE AVENUE
MISSISSAUGA, ON
L4Z 2Z1
TEL. (416)568-3666

OAKVILLE
OAKVILLE CORPORATE CENTRE
710 DORVAL DRIVE
OAKVILLE, ON
L6K 3V7
TEL. (416)845-7164

OTTAWA
161 BANK STREET
OTTAWA, ON
K1P 5N7
TEL. (613)238-3331

ST. CATHARINES
43 CHURCH STREET
PO BOX 183
ST. CATHARINES, ON
TEL. (416)688-0903

SAULT STE. MARIE
601 QUEEN STREET E.
SAULT STE. MARIE, ON
P6A 2A6
TEL. (705)574-7511

SCARBOROUGH
DRAGON CENTRE
UNIT #1
23 GLENWATFORD DRIVE
SCARBOROUGH, ON
M1S 2B7
TEL. (416)291-5717

1940 ELGINTON AVENUE E.
SUITE 1
SCARBOROUGH, ON
M1L 4R2
TEL. (416)752-8910

MILLIKEN SQUARE
19 MILLIKEN BLVD.
SCARBOROUGH, ON
M1V 4A2
TEL. (416)321-8017

THUNDER BAY
28 CUMBERLAND STREET N.
PO BOX 2147
THUNDER BAY, ON
P7B 5E7

TIMMINS
190-3RD AVENUE
PO BOX 911
TIMMINS, ON
P4N 7H1
TEL. (705)267-6405

TORONTO
YORK STREET
70 YORK STREET
TORONTO, ON
M5J 1S9
TEL. (416)868-8000

DUNDAS STREET
421 DUNDAS STREET W.
TORONTO, ON
M5T 2W4
TEL. (416)598-3982

SPADINA AVENUE
222 SPADINA AVENUE
TORONTO, ON
M5T 3A2
TEL. (416)348-8888

SKYWAY PARK
SKYWAY BUSINESS PARK
170 ATTWELL DRIVE
ETOBICOKE, ON
M9W 5Z5
TEL. (416)675-7102

WHITBY
1200 DUNDAS STREET
PO BOX 185
WHITBY, ON
L1N 5S1
TEL. (416)666-2300

WILLOWDALE
3640 VICTORIA PARK AVENUE
WILLOWDALE, ON
M2H 3B2
TEL. (416)756-2333

WINDSOR
880 OUELLETTE AVENUE
WINDSOR, ON
N9A 1C7
TEL. (519)256-5591

QUEBEC

CHICOUTIMI
136, RUE RACINE EST
CP 430
CHICOUTIMI, PQ
G7H 5C7
TEL. (418)543-0245

GRANBY
398-3, RUE PRINCIPALE
GRANBY, PQ
J2G 2W6
TEL. (514)378-8421

LASALLE
8600, BOUL. NEWMAN
LASALLE, PQ
H8N 2S1
TEL. (514)364-3134

LAVAL
1707, BOUL. ST-MARTIN OUEST
LAVAL, PQ
H7S 1N2
TEL. (514)687-6920

LONGUEUIL
430, RUE ST-CHARLES OUEST
LONGUEUIL, PQ
J4H 1G2
TEL. (514)674-4991

MONTREAL
PLACE AIR CANADA
500, BOUL. RENE-LEVESQUE OUEST
MONTREAL, PQ
H2Z 1W7
TEL. (514)866-2841

PLACE VICTORIA
300, SQUARE VICTORIA
CP 305
MONTREAL, PQ
H4Z 1G3
TEL. (514)375-8790

RENE-LEVESQUE OUEST
88 RENE-LEVESQUE OUEST
MONTREAL, PQ
H2Z 1A2
TEL. (514)393-1626

QUEBEC
IMMEUBLE LES PREVOYANTS
2795, BOUL. LAURIER
STE-FOY, PQ
G1V 4M7
TEL. (418)656-6941

SAINT LEONARD
8810, BOUL. LANGELIER
SAINT LEONARD, PQ
H1P 3H2
TEL. (514)327-9370

SHERBROOKE
2785, RUE KING OUEST
SHERBROOKE, PQ
J1L 1X6
TEL. (819)566-8393

TROIS-RIVIERES
1182, RUE ROYALE
CP 725
TROIS RIVIERES, PQ
G9A 5J3
TEL. (819)375-7341

NEW BRUNSWICK

FREDERICTON
520 KING STREET
FREDERICTON, NB
E3B 6G3
TEL. (506)452-0011

SAINT JOHN
70 CROWN STREET
SAINT JOHN, NB
E2L 2X6
TEL. (506)632-8110

NOVA SCOTIA

DARTMOUTH
(SUB-BRANCH TO HALIFAX-00123)
BURNSIDE INDUSTRIAL PARK
800 WINDMILL ROAD
DARTMOUTH, NS
B3B 1L1
TEL. (902)465-2005

HALIFAX
1684 BARRINGTON STREET
PO BOX 1596
HALIFAX, NS
B3J 2Y3
TEL. (902)423-8352

NEWFOUNDLAND

ST. JOHN'S
205 WATER STREET
PO BOX 318
ST. JOHN'S, NF
A1C 5L7
TEL. (709)722-8000

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