Canada's Export Market Report on the People's Republic of China

External Affairs Canada
Affaires extérieures Canada

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PREFACE

THIS EXPORT MARKET REPORT FOR THE PEOPLE'S REPUBLIC OF CHINA (PRC) has as its principal objective the provision of relevant, timely and accurate information to Canadian businessmen in order that they can formulate whatever export marketing strategy or plan of action for the PRC market is appropriate for their corporate objectives.

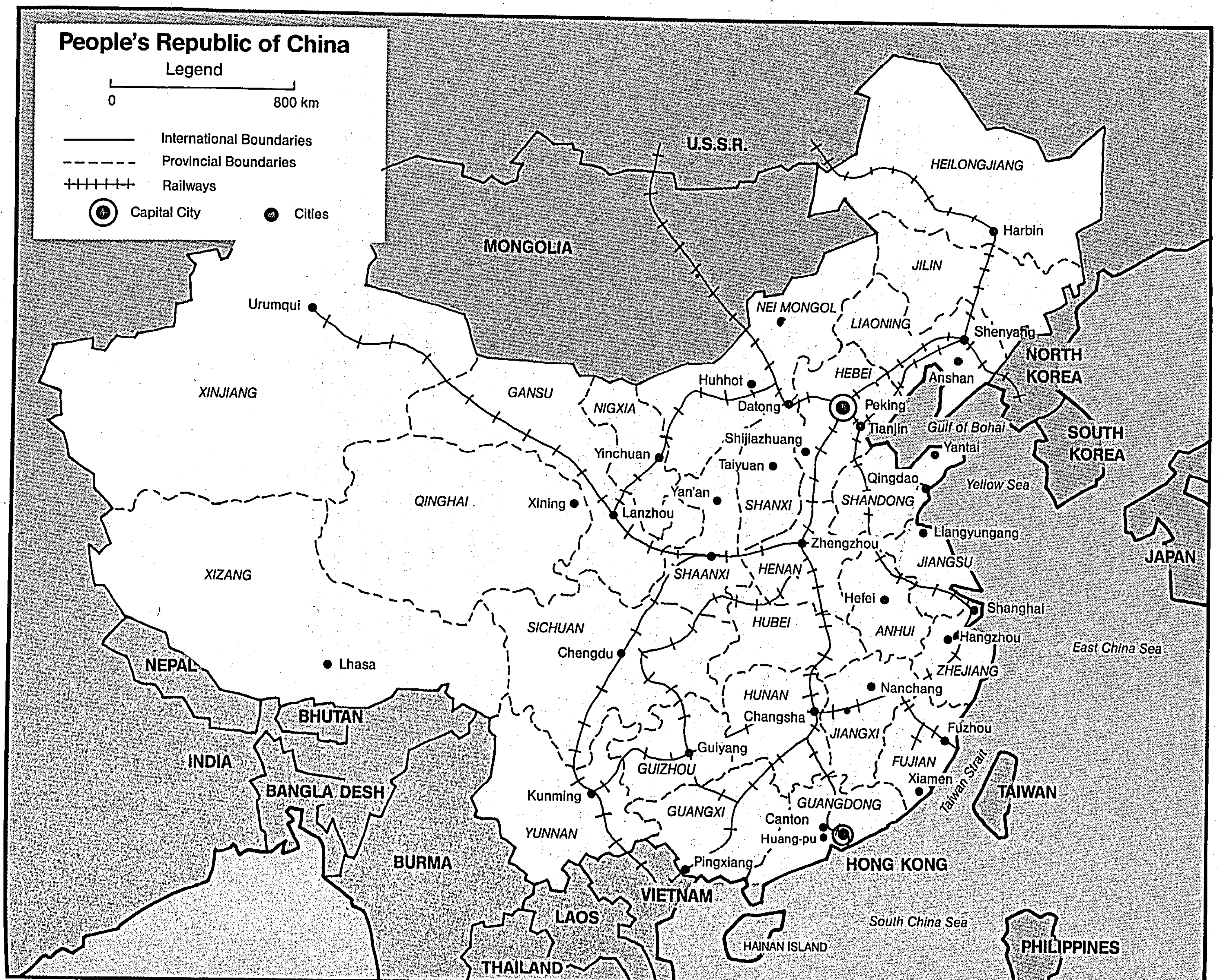
This report provides information on market opportunities in the People's Republic of China by sector, as well as advice to companies on areas to consider in the development of their own PRC export marketing program. An overview of the PRC market provides background information on Canada's commercial and economic relations with the PRC, current patterns of trade, and information on trade promotion and services.

Readers will be aware of the variety of services and assistance available to them from the embassy or commission, through the various departments of the federal government, as well as through provincial ministries of industry and trade, trade associations and the international centres of Canada's major commercial banks. A Canada China Trade Council has been established to foster two-way trade and to provide a convenient forum for the private sector to discuss trade issues.

Should the market opportunities section provide encouragement to your company, whether you are a new exporter to the PRC or one considering expansion there, you are urged to take advantage of these services. Readers may wish to refer to *EXPORT ROADMAP*, a publication of the Canadian Export Association (available from the DRIE regional offices) which clarifies for exporters the points of contact in the various federal government departments and agencies responsible for export promotion.

Similar market reports have been prepared for other countries offering significant export opportunities including the United Kingdom, the Association of South East Asian Nations (ASEAN), and Australia.

The Department of External Affairs is anxious to ensure the continuing relevance of market reports to the needs of the Canadian corporate community. Readership surveys are undertaken to measure the utility of these reports, and if you are contacted in this regard, your co-operation in providing information is appreciated. Companies wishing to make comments directly to this department should contact the Trade Development Policy and Planning Division, Department of External Affairs, L.B. Pearson Building, 125 Sussex Drive, Ottawa, Ontario, K1A 0G2.



People's Republic of China
Legend
0
800 km
International Boundaries
Provincial Boundaries
Railways
Capital City
Cities
U.S.S.R.
MONGOLIA
HEILONGJIANG
Harbin
JILIN
NEI MONGOL
LIAONING
Shenyang
Anshan
NORTH KOREA
SOUTH KOREA
Urumqui
XINJIANG
GANSU
NIGXIA
Huhhot
Datong
HEBEI
Peking
Tianjin
Gulf of Bohai
Yantai
Shijiazhuang
Yinchuan
Taiyuan
Qingdao
Yellow Sea
QINGHAI
Xining
Yan'an
SHANXI
SHANDONG
Lanzhou
Liangyungang
Zhengzhou
JAPAN
XIZANG
SHAANXI
HENAN
JIANGSU
Hefei
Shanghai
SICHUAN
HUBEI
ANHUI
Hangzhou
East China Sea
Chengdu
NEPAL
Lhasa
ZHEJIANG
Nanchang
HUNAN
Changsha
BHUTAN
JIANGXI
Fuzhou
INDIA
Guiyang
GUIZHOU
FUJIAN
Xiamen
Taiwan Strait
TAIWAN
BANGLA DESH
Kunming
GUANGXI
GUANGDONG
Canton
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I. SUMMARY OF REPORT

Canada's trading relationship with the PRC has been a healthy one, having witnessed, with few exceptions, steady annual growth since the establishment of diplomatic relations in October 1970. In fact, China in 1983 was Canada's fifth-largest export market. The foundation of Canada's export trade to China has been wheat, fertilizers, metals and forest products. More recently Canadian industrial products, including aircraft, telecommunications equipment, computers, geophysical and mining equipment, oil and gas field equipment, agricultural equipment and technology have been making inroads into the Chinese market for high technology products. The PRC is an enormous market where the exporter must be selective of product and location. It is necessary to make a long-term commitment. Hong Kong, as an entrepot to the PRC is a logical point to begin market development.

The basic challenge in China is to broaden the range of our exports. It would appear to be in Canada's interest to concentrate on sectors where China has indicated significant import requirements and where Canada has a demonstrated supply and technological capability. We must strive to maintain and expand Canada's traditional commodity markets in China and develop the market for manufactured goods.

China's current five-year plan projects economic growth over the period of 4 to 5 per cent. The plan emphasizes China's agriculture and infrastructure including energy and transportation sectors, as well as the substantial upgrading of existing industrial enterprises. These enterprises, as well as China's agricultural producers, are being encouraged to assume more individual responsibility for production planning and use of profits. The National People's Congress (NPC) gave its endorsement to a continuation of China's "open door policy." The five-year plan calls for an increase in foreign trade averaging 8.7 per cent a year. Of interest to Canadian exporters is the fact that China plans imports to grow faster than exports. Most of China's imports during the period of the current plan are expected to take the form of capital equipment (29 per cent) and semi-finished goods (36 per cent) with raw materials (19 per cent) and food products (16 per cent) playing a lesser role in the total composition.

The PRC has a centrally planned economy, and traditionally her trade has been conducted by several sector-oriented national foreign trade corporations (FTCs). Formerly, the FTCs negotiated export and import contracts on behalf of end users on a virtually exclusive basis. Since 1978, however, policies aimed at creating a more flexible and efficient trade system have resulted in a more decentralized system in which new organizations at the ministerial, provincial and municipal levels have emerged. Some of these have authority to conclude commercial agreements independently of the traditional foreign trade apparatus. These agreements not only include contracts for goods and services but also allow for compensation trade and joint ventures. Marketing is often aimed directly at the end user with the FTC playing a role limited to contract negotiation and management.

In order to develop more fully Canada's trading relationship with the PRC, the Canadian Department of External Affairs maintains trade commissioners at the Canadian Embassy in Peking and has a trade commissioner for South China attached to the embassy but working out of the commission for Canada in Hong Kong. The staff at the embassy and commission are available to assist Canadian exporters with their export initiatives in China. Canada's trade commissioners provide knowledge of Chinese business practices and language, economic trends, and contacts with the foreign trade apparatus in the PRC.

In order to promote China's exports to Canada, the PRC also maintains commercial sections at its embassy in Ottawa and consulate general in Vancouver and is in the process of establishing another consulate general in Toronto.

On the whole, China's more pragmatic approach to economic development, including entrepreneurship and foreign economic relations combined with the country's rich natural and human resources, points toward promising potential for furthering Canada's economic relationship with the PRC. However, since the competition for the burgeoning Chinese market is intense, Canadians will have to become price and quality competitive.

II. MARKET OPPORTUNITIES BY SECTOR

1. NATURAL RESOURCE PRODUCTS

Forest Products

Introduction

The PRC represents a major market for Canadian forest product exports, amounting to more than $200 million in 1983. A major Canadian objective is to shift wood product exports from the current high volume of logs towards increased quantities of lumber and other items such as plywood. The wood products surveyed in this section include softwood lumber, softwood logs, poplar, aspen and cottonwood logs, pulp and paper, and converted wood and paper products. China suffers from a marked shortage of timber and pulp, which has necessitated substitution by less suitable products. Recent indicators suggest an emerging construction industry and the need for China to consider reforestation and the use of modern technology. These are areas where Canada possesses considerable expertise.

China's forest cover includes coniferous, mixed, and deciduous forests. About 60 per cent of the country's commercial forests are located in the northeast region. The principal species are larch, pine and spruce. Extraction costs are considerable because of infrastructure limitations and the climate is often not conducive to forestry operations. Winter temperatures can reach as low as –50°C and much of the land is permafrost. It is generally accepted that it will be difficult for the northeast region to fully supply China's domestic needs, and that imports will continue.

Wood Products

With economic expansion, substantially increased demand for wood products is anticipated.

Recent Canadian wood products exports to China are summarized in the following table:

		Volume (cubic metres)	Value ($000)
Softwood lumber	1983	314,272	39,420
	1982	80,266	9,116
Softwood logs	1983	350,699	26,223
	1982	191,497	17,793
Poplar, aspen, cottonwood logs	1983	199,565	6,305
	1982	40,489	1,716

Source: Statistics Canada

The United States exported 3.3 million cubic metres of softwood logs worth U.S. $228 million to China in 1983, of which 69 per cent was Douglas fir which is less available in Canada. Only 63,000 cubic metres of softwood lumber worth U.S. $4 million were exported from the United States to China. Other suppliers include the Soviet Union and Chile. Over the long term, softwood logs are expected to become increasingly difficult to obtain on world markets and this should lead to increased opportunities for Canadian lumber.

Converted Wood and Paper Products

With the Chinese priority on industrial development and the provision of jobs for its large labour force, there is limited opportunity for the import of finished wood products. An exception is in the area of wood frame manufactured buildings, particularly camps for industrial and military purposes, where there may be selected opportunities and where the Canadian industry has technological expertise and export experience.

There are also opportunities for Canadian companies in the packaging sector where the Chinese have identified problems in their exports, especially of consumer goods.

Pulp and Paper

The Chinese pulp and paper industry will be one of the first manufacturing industries to be modernized. A sharp increase in demand for paper is anticipated from the government's renewed emphasis on education, science and technology and the need for textbooks and greater newspaper circulation. This policy has already resulted in a domestic shortage of paper. Also, China's planned increase in light industrial exports is expected to put demand pressure on the pulp and paper industry. As export shipments expand, large quantities of paperboard and laminated papers will be required for packaging.

China's purchases of Canadian pulp continued to increase through 1983 at 296,531 tonnes versus 188,279 tonnes in 1982. Prices in these years ranged from $397.00/tonne to $459.00/tonne. Officials of the Chinese Bureau of the Paper Industry (BPI) expect this trend to continue but at the same time have requested an "on site" evaluation of Canadian pulp use in the paper-making process.

Pulp sales prospects to China are expected to remain good and, given a successful outcome to the BPI technical evaluation mission, can be expected to increase in the future.

Purchases of Canadian newsprint, on the other hand, reflect a marked downward trend in the 1981-83 period. BPI comment implied an increasing China self-sufficiency in production of this grade based on imported pulp; capacity increases are known to be well along the planning stage (e.g., Jilin Mill #1 has developed its plans for a 60,000 t.p.y. expansion of newsprint capacity scheduled tentatively for 1986-87 start-up). Based on China's annual imports of approximately 115,000 tonnes of newsprint, Canada's share is significant and supplemented by substantial quantities imported annually from Sweden, Finland and Chile.

Boxboards have not so far been an import item. However, the Chinese export drive for foodstuffs (including fish) suggests that Chinese production of boxboard would have difficulty in meeting future demand requirements.

Bureau of Paper Industry (BPI) officials have designated four paper mills as users of Canadian pulps. These mills are at Shanghai, Tianjin, Jilin and Shenyang. BPI now wish to have an evaluation of their usage of these pulps in the paper-making process. A technical mission from the Canadian supplier mills has been invited to visit these mills for this purpose.

Fertilizers

Introduction

With China's shortage of arable land, agriculture production cannot be substantially increased by employing marginal lands. Chemical fertilizers are expected to expand greatly the nation's crop yield.

Potash

With mines in Saskatchewan, and more recently two smaller mines in New Brunswick, Canada has about 40 per cent of the world's potash reserves and is a major world supplier. China has become a leading Asian customer as outlined below:

Canadian Potash Exports to PRC

Year	Amount (000 tonnes)	Value ($ million)
1981	552	61.6
1982	67	8.7
1983	536	59.4

Source: Statistics Canada 65-004.

The PRC agricultural system has the potential to more than double its current potash consumption.

In February 1984, a $23.1 million export sale agreement was negotiated by Canpotex with Sinochem for the first six months of 1984.

Officials of PRC have made trips to the Saskatchewan, Manitoba and New Brunswick potash mines. Security of future supply was a major point of interest. Canadian consultants have recently visited China to discuss potential potash projects for Manitoba. The PRC is now assessing the possibility of taking an equity position in a potash mine, either existing or new, in Canada.

Sulphur

More than 90 per cent of Canada's sulphur production is recovered from sour gas in Alberta. Canada is a major world sulphur exporter with sales to PRC as shown below:

Canadian Sulphur Exports to PRC

Year	Amount (000 tonnes)	Value ($ million)
1981	221	28.1
1982	310	41.4
1983	217	24.1

Source: Statistics Canada 65-004.

Cansulex, an offshore marketing consortium of 16 sulphur producers has continued to supply most of the sulphur exports.

The PRC is expected to continue to be a large and valued customer.

Non-Ferrous Metals

Lead and Zinc

Lead and zinc resources are not as extensive as the country's deposits of copper and bauxite. However, new lead-zinc deposits have recently been discovered and there is additional exploration still to be carried out. The largest lead-zinc mine is in Shuikoushan, Hubei Province, Central China. In 1972, its reserves were estimated at 20 million tonnes. Since then, new ore bodies have been discovered beneath the present mining areas. In Hunan, Gansu and Sichuan provinces, rich non-ferrous resources have been located. These new discoveries are now scheduled for development.

In 1983, Canada exported more than $45 million of zinc to China. British Columbia is in a favourable position to contribute both to China's future lead and zinc imports, and to the development of China's lead-zinc mine, smelter and refining capacity.

Copper

China's copper requirement is estimated to be about 500,000 tonnes annually. The country is heavily dependent on imports, which vary between 110,000 and 300,000 tonnes per year, most in the form of refined copper although small amounts of concentrates are purchased. Domestic production supports only 30 to 50 per cent of total requirements. Chinese imports represent up to 5 per cent of total world copper purchases and account for three-fifths of the country's non-ferrous metal imports. Major foreign suppliers within the last 10 years are the Philippines, Zambia, Chile and Peru.

China has not presented itself as a consistent market for Canadian copper, although in 1983 the PRC purchased refined copper worth $135 million. Traditionally, the Chinese have purchased copper on a spot basis on the London Metal Exchange (L.M.E.) using the services of metal traders, although they do have some contacts with producers in developing countries.

Synthetic Resins

Canadian exports of synthetic resins to China amounted to $34 million in 1981, $50 million in 1982 and $16 million in 1983. Most of this material was low-density polyethylene (LDPE) resin.

Five new polyethylene plants have been proposed by the Chinese for five locations within China. Since Canada has one of the most advanced manufacturing technologies available, Canadian companies have a good chance of providing the required technology, some of the equipment, and engineering design services for several plants.

Cereal Grains and Other Agricultural Products

Introduction

China's population is now more than one billion. Enormous efforts must be made to see that grain production and other sectors of agriculture grow proportionately to meet the needs of population growth and satisfy the needs of industry.

Fully 80 per cent of the population is employed in agriculture, which generates one-quarter of China's gross national product. Thus, the performance of this sector is a major determinant of the success of China's modernization plan, and a major determinant of the nation's standard of living. In 1983 the agricultural sector of the Chinese economy showed an impressive 9.5 per cent real growth rate.

Wheat and Other Cereal Grains

Although the People's Republic of China is a large producer of wheat and other cereal grains, it has consistently imported large quantities of cereals, primarily wheat, for many years. The principal suppliers of wheat to China are the United States, Canada, Australia and Argentina.

While China's wheat imports account for only about 4 per cent of their total grain requirements, they make up about 15 per cent of world trade in wheat. Grain imports rose sharply in 1980-81 and have stabilized at about 13 million tonnes.

China is expected to continue importing substantial quantities of grain annually. The country's population (more than 40 per cent of which is under the age of 15) is growing at an annual rate of about 2 per cent. Further, domestic demand for meat is expected to increase gradually in response to rising income levels and urbanization. This will create increased demand for imported feed grains for livestock. The current livestock economy is based on pigs which are fed a variety of feeds and raised on small units and in households.

The PRC is a price-conscious market, traditionally buying the lower grades of Canadian Western Red Spring (CWRS) wheat to the extent they are available.

The PRC could emerge as a market for Canadian malting barley. The first sale of malting barley was made in 1982 by the Canadian Wheat Board. This 50,000-tonne contract was followed by a 26,500-tonne sale by private Canadian grain trading sources to bring total 1981-82 sales to 76,500 tonnes. Sales in the 1982-83 crop year totalled 82,800 tonnes, all direct sales by the Canadian Wheat Board. There is potential for continuing sales now that the Chinese industry is familiar with Canadian barley and additional expansion of malting capacity is foreseen.

China is a potential market for Canadian malt. Consumption of beer in China is steadily increasing, in turn augmenting the demand for malt. China now imports 6,000 to 9,000 tonnes of malt annually. It is anticipated that additions to brewing capacity between the present time and 1985 could lead to imports in the short term of more than 200,000 tonnes annually. Brewing capacity is expected to increase from a 1980 level of 6.0 million hectolitres to 30.0 million hectolitres by 1985.

Canadian Grain Marketing Efforts

The longstanding status of the PRC as one of Canada's largest grain export markets is as important to the Canadian Wheat Board's long-term marketing strategy as the stability of supply that Canada represents to customers such as the PRC. This long-term trade relationship is being enhanced increasingly by the technological co-operation and exchange

Wheat Imports — China

Crop Year	Argentina	Australia	Canada	U.S.	EEC	All Sources
(July-June)			(thousands of tonnes)			
1977-78	373	4,603	3,321	225	—	8,522
1978-79	885	1,382	3,181	2,610	—	8,058
1979-80	465	3,575	2,621	1,929	90	8,680
1980-81	200	1,397	2,892	8,663	607	13,759
1981-82	199	1,413	2,827	8,494	116	13,050
1982-83	1,956	1,170	4,242	4,186	1,410	12,936
*1983-84	1,000	1,700	3,600	3,000	100	9,400

Source: IWC World Wheat Statistics
*Preliminary, IWC Market Report, July 26/84

that has taken place in recent years. The Canadian Wheat Board, Canadian International Grains Institute and the Government of Canada look forward to further development of this mutual understanding of one another's needs and capabilities.

Canadian marketing efforts in China have included frequent exchanges of visits between Canadian Wheat Board representatives and China National Cereals, Oils and Foodstuffs Import and Export Corporation (CEROILS) officials. Canadian Grain Commission officials have been extensively involved with their Chinese counterparts on questions of grain inspection and quality control. In addition, the Canadian International Grains Institute (CIGI) has hosted participants from China at a number of its international grains industry and special courses. Our grain trade concerns have also been an important component of incoming and outgoing ministerial visits.

Other Agricultural Products

In addition to wheat and other cereal grains, other areas of opportunity in the agricultural sector include livestock, genetic material and agricultural consulting. China's two main import priorities in the agricultural field involve dairy cattle and China's ability to process, store and market agriculture and food products. Improvements in their swine and pork product also have a high priority.

A number of areas have been identified where the PRC could benefit from Canadian technology. These areas include sustained agricultural use of grasslands; food processing industries; farm machinery; forestry technology; pollution and environmental care technology; livestock and crop disease control; increased requirements for fertilizers, including potash. In addition, improved prospects for livestock and dairy cattle exports exist, subsequent to the signing of a bilateral veterinary agreement.

2. CAPITAL PROJECTS AND EQUIPMENT

Introduction

China wants to buy high-technology goods and Canadian companies could be in line for significant new business opportunities. The Vice-Chairman of the State Economic Commission has indicated, for example, that China expects to conclude a large number of contracts worth more than U.S. $1 billion in the near future.

Imports of capital equipment are expected to grow by about 20 per cent in 1984 and 1985, slowing a bit in 1986. Emphasis will be shifted from turnkey plants to technology transfers, licenses and purchases of specific capital equipment.

The recoverable oil reserves in the South China Sea are estimated at between 40 and 100 billion barrels. The Chinese Premier has assured foreign oil companies that they would not be forced out of any big petroleum discoveries they make off China's coast. He is quoted as saying that China's co-operation with foreigners to develop its resources was a long-term policy that would not change.

The PRC seeks to double coal output, with help from foreign investment, and quadruple electric power production by the year 2000 to fuel its economic modernization drive. The *Peking Review* reported that 20 per cent of industrial production capacity is idle because of insufficient electricity. In addition, rural areas need at least 20 per cent more electricity than is now available.

China plans to import advanced technology to step up the construction of coal mines, railway lines, harbours and other infrastructure projects. A 10 per cent tax on capital construction projects not included in the state plan has been levied by the Chinese Ministry in an attempt to slow a massive expansion in uncontrolled investment. Energy and transportation development projects and the construction of educational and medical installations, however, are exempt.

Areas of Concentration

Nine areas have been identified for concentration, where Canadian capabilities would be appropriate to Chinese development plans, as follows:

— aerospace and aviation;

— data communications and transmission products;

— electronic and electrical products;

— hydro generation and transmission equipment and services;

— mining and metallurgy technology (particularly coal);

— oil and gas exploration, development and processing;

— packaging technologies;

— satellite communications and earth station antennas, particularly for resource applications; and

— transportation equipment and technologies for railways and ports.

Telecommunications

Telecommunications is a promising sector for Canadian companies, particularly in the areas of satellite communications and digital switching equipment. Canada and China share the problems of communicating over vast distances and greatly varied terrain. The expertise gained in establishing telecommunications networks in Canada should serve us well in our efforts to develop markets in China. Other hi-tech products, for example, aircraft, and urban transportation equipment and services, appear to offer opportunities for Canadian sales.

Energy

Energy is another sector which holds promise for Canadian firms. The recent example of involvement by Petro-Canada International and Ranger Oil in a BP-led consortium drilling offshore in the South

China Sea is one significant example of Canadian participation. China's energy resources are enormous — onshore oil centered in the northeast, offshore oil in the South China Sea and elsewhere, natural gas in Sichuan, massive coal deposits in various regions, and massive hydro potential in the south. The PRC is the fourth-largest producer of commercial energy after the United States, the Soviet Union and Saudi Arabia. *(See map at the end of this book.)*

Coal

Coal is a central element in China's energy needs. Seventy per cent of China's total energy production is coal-based and the magnitude of China's proven coal reserves, 700 billion tonnes, third-largest in the world, ensures its continuing importance. Production of coal has increased from a little over 60 million tons in 1952 to 666 million tons in 1982.

In 1983, the Chinese Coal Ministry imported coal mining equipment worth U.S. $600 million from West Germany and U.S. $250 million from Britain. Estimates are that the PRC could spend $3 billion in modernizing the coal industry.

The Government of the People's Republic of China has applied for a loan from the World Bank in various currencies equivalent to about U.S. $120 million for the construction and development of an underground coal mine with a capacity of 4 million tonnes per annum. Goods to be procured under this loan which would be of interest to Canadian companies are:

— shaft hoisting equipment;

— shaft sinking and miscellaneous surface construction equipment;

— mine development equipment, such as drill jumboes, side dump loaders and selective heading machines for driving roadways;

— mine haulage equipment, including belt conveyors and material transport systems;

— longwall face equipment;

— coal preparation plant equipment;

— coal transportation; and

— control, measuring and laboratory devices.

Procurement will be handled by the China National Technical Import Corporation (CNTIC) following international competitive bidding procedures in accordance with World Bank guidelines.

Petroleum and Petrochemicals

In the context of the petrochemical and petroleum sectors, there have been discussions between Canadian companies and Sinopec (the Chinese petrochemical organization) about the establishment of an ethylene plant in the city of Canton. The plant would produce three major products: polyethylene, styrene, and polystyrene. The proposal is to establish the plant as a joint venture.

China is believed to be the world's third-richest oil region, behind the Middle East and North America. Oil-fired thermal-electric power stations account for 25 per cent of China's fossil-fueled thermal energy production, utilizing onshore resources from Daqing, Dagang, or Shengli crude.

Unofficial World Bank estimates place the recoverable reserves of oil at 1.8 to 2.5 billion tons, and of natural gas, both associated and non-associated, at about 130 billion cubic metres. Major oil producing regions include the Renqui Oilfields in North China, the Karamai, Yumen, and Lenghu Oilfields in the northwest, Daqing in the northeast, and Shengli and Dagang in the North China Basin. The numerous oilfields in northeastern China (Heilongjiang), collectively called Daqing, account for approximately 50 per cent of all reserves, and 50 per cent of current production. Production of oil was about 102 million tons in 1982.

Until southern offshore reserves and more remote onshore fields can be tapped extensively, China is expected to rely heavily on greater output in the North China Basin (which produces some 20 per cent of total yearly output), and offshore reserves in the Gulf of Bo Hai. Total offshore oil reserves are estimated at 30 billion barrels. They are located mainly in the Gulf of Bo Hai and on the continental shelf of the East China Sea.

Opportunities have been identified in the area of enhanced recovery technology for onshore resource development. The Ministry of Petroleum Industry (MOPI) has successfully concluded technology transfers in the area of drill bit manufacturing and digital computer equipment, and is utilizing a leasing approach in obtaining services for seismic surveying as well as renting various types of equipment. MOPI stresses that its assessment of bids is based on favourable quality, price, delivery and service considerations.

Power Generation and Transmission

The potential for the sale of energy equipment to China is estimated to be very large. In the hydroelectric generation sector, for example, the PRC has an estimated potential of 1,900 billion KWH, against the present hydro generation of 74 million KWH. In addition to purchasing specialized equipment, the Chinese are very interested in purchasing technology.

The 13,000 MW Three Gorges Hydro Project on the Yangtze River is now in the evaluation stage. It will be a few years before the detailed equipment requirements are established. When completed the project will be the largest hydroelectric generation installation in the world. Canadian equipment suppliers will be interested in participating in the supply of turbines, generators and associated equipment.

In the high-voltage transmission sector, China does not yet have an interconnected grid system. It is working toward this goal and has advanced rather rapidly through the 330 KV level of operating and maintenance technology to 500 KV which is now being implemented. Canadian electrical utilities have more operating experience at the 500 KV and 735 KV voltage levels than any other country.

Arrangements could undoubtedly be made for the Chinese to have access to this technology. China is developing the manufacturing capability at higher voltage levels but is not expected to have the capacity needed to meet its market demand.

Projects under Consideration by the World Bank in China

The PRC joined the World Bank in 1980, replacing Taiwan as the Chinese representative at the bank. Over the last three years, the World Bank has developed a lending program and its commitment in China is almost U.S. $2 billion at the moment.

Because of its ambitious modernization plans, China is anxious to maximize its access to the International Development Association (IDA) funds of the World Bank. The following are representative of the types of projects currently financed by the World Bank for China. Information on the progress of these projects is available in the *United Nations Development Forum* magazine.

- Ministry of Agriculture, Animal Husbandry and Fishery. U.S. $35.3 million (Bank); U.S. $45.0 million (IDA). Heilongjiang Agriculture — Development of 200,000 ha. of uncultivated land to grow wheat, soybeans and corn.
- Ministry of Water Resources and Electric Power. $150.0 million (Bank). Lubuge Hydropower — Construction of a rockfill dam, tunnels, and a 600 MW underground powerhouse in Yunnan Province.
- Ministry of Coal. U.S. $220.0 million (Bank). Luan/Jincheng Coal — Development of two fully mechanized longwall underground mines of up to 4 mtpa each in Shanxi Province.
- Ministry of Education. U.S. $64.9 million (IDA). Politechnic-TV University Project — Strengthening of post-secondary education by support of politechnic and the Television University.
- Ministry of Railways (Bank). Railways 1 — Track construction and upgrading in Henan, Shandong and Shanxi Provinces, primarily to transport coal for export.
- Ministry of Agriculture, Animal Husbandry and Fishery. Rubber Development — Replanting and new planting of 35-40,000 ha. in Guangdong Province.
- Agricultural Bank of China (ABC). Rural Credit — Provisions of credit through ABC for agricultural and other rural activities in selected provinces and institutional development of ABC.
- Ministry of Health. Medical Education and Rural Health — Strengthening of teaching in medical colleges and of rural health services in selected provinces.
- Ministry of Education. U.S. $100.0 million (IDA). Specialized Universities Project — Strengthening selected technical universities to expand the quantity and improve the quality of science and technical graduates.
- Ministry of Communications. Second Ports Project — Modernizing and improving cargo handling facilities in selected ports.
- Technical Assistance Credit — To provide technical assistance for the preparation and execution of bank-supported projects and for other related activities.
- Ministry of Petroleum. Karamai Oilfield — Heavy oil development (U.S. $130 million); Daqing Oilfield.

3. TRADE DEVELOPMENT ASSISTANCE AND INDUSTRIAL CO-OPERATION

The Canada-PRC Environment

The increasing involvement of the People's Republic of China, following the Cultural Revolution, in contemporary international affairs is one of the most significant factors influencing international politics today. The precedence of Canada's establishment of diplomatic relations with the PRC in 1970, China's seat in the United Nations, and the vigorous program of exchanges carried out over the past several years have been contributing factors in the emergence of Canada-China bilateral relations.

During the period since the establishment of diplomatic relations with China and the exchange of ambassadors, a number of ministerial visits have taken place, starting in the summer of 1971 with a delegation of Canadian officials and businessmen led by the Minister of Industry, Trade and Commerce. During that visit, a framework for Sino-Canadian economic co-operation was established providing for the exchange of missions, trade exhibitions and regular consultation on trade matters and securing agreements from the Chinese to "consider Canada first" as a source of wheat to meet their domestic needs.

In October 1973, the Prime Minister visited China. During this visit bilateral agreements and understandings were reached in such areas as trade, consular affairs (family reunification) and scientific and cultural exchanges. Ministerial visits are part of an ongoing program of developing co-operation with China and will continue in a number of fields.

Trade Promotion

The Canadian Embassy in Peking maintains a commercial section which provides front-line information on the China market. Canada's trade relations with China are supervised nationally by the Department of External Affairs (DEA). The governments of Ontario, Quebec and Alberta maintain trade offices in Hong Kong with responsibility for China.

Hong Kong's location as a key deep water port and traditional role as an entrepot for China make it an ideal venue for many companies from which to approach the China market. The existence of experienced agents who are familiar with both North American and Chinese ways of doing business, the presence of dozens of PRC-controlled trading companies and banks, as well as the fact that most foreign investment in the Special Economic Zones has so far been derived from Hong Kong are good reasons for Canadian companies to consider Hong Kong as a possible gateway to the China market. Many Canadian companies as well as financial institutions have offices in Hong Kong with an eye on China, in addition to the thriving Hong Kong market for goods and services.

Various forms of financial support are available from both federal and provincial sources. In particular, the federal Program for Export Market Development (PEMD) is a facility for Canadian exporters to explore markets with some financial assistance.

More information about PEMD, or of complementary provincial programs, can be obtained by contacting the regional or provincial offices listed in the Appendix of this market guide.

The DEA provides support to Canadian companies (under the Promotional Projects Program and also under PEMD) to participate in international trade fairs. The objective of this assistance is to help Canadian companies make direct sales at the fair sites, to establish agents or representatives, and to initiate contacts with potential clients throughout the world. The Industrial Co-operation Program of the Canadian International Development Agency (CIDA) has been active in China.

In order to succeed in the PRC market the traditional approach to international marketing, in some instances, will need to be modified to include joint ventures, transfer of technology, countertrade, after-sale service, and creative pricing and financing.

Program for Export Market Development

PEMD helps incorporated Canadian businesses to develop, increase and sustain their activities by sharing with them the costs of specific export marketing efforts. It is geared to:

— encourage businesses that have not exported previously to begin exporting; and

— encourage established exporters to expand their activities into new markets.

PEMD provides up to 50 per cent of the costs incurred by a company in its penetration of new markets. These contributions are repayable if sales are made to that market.

The program has various sections, each designed to meet a specific circumstance which may result while developing or expanding new or existing export markets.

Section A:	Specific Project Bidding
Section B:	Market Identification Trips
Section C:	Participation in Trade Fairs Abroad
Section D:	Incoming Foreign Buyers
Section E:	Export Consortia
Section F:	Sustained Export Market Development
PEMD FOOD:	Export Markets for Agriculture, Fisheries and Food Products
PEMD FISH:	Export Markets for Atlantic Groundfish and Herring, and West Coast Fisheries

Contact the nearest office of the Department of Regional Industrial Expansion (DRIE) for more details on PEMD (see "Useful Contacts" Section for addresses).

The Promotional Projects Program

The Promotional Projects Program (PPP) is a vehicle through which the federal government plans and implements exhibits and trade fairs abroad, outgoing and incoming trade missions, and incoming trade visits by foreign buyers and government delegations.

The program underwrites some of the cost to industry of participating in promotional events that are organized by DEA. These events are designed to increase the knowledge of foreign buyers about Canadian products and capability and to undertake export market intelligence gathering.

For more information on the PPP for the PRC contact DEA's East Asia Trade Development Division (see "Useful Contacts").

Provincial Relations and "Twinning"

Canadian provinces have become increasingly involved in Canada-China relations over the past few years, often in conjunction with PRC provinces sharing similar economic and cultural interests. Alberta and China's northeasternmost province of Heilongjiang, for example, have signed a "twinning" agreement and Premier Lougheed in the fall of 1983 returned an earlier visit by his counterpart, Governor Chen Lei. Saskatchewan Premier Devine also travelled to China during that period, visiting in particular Jilin Province with which a twinning agreement was signed in June 1984. Ontario has announced that it will be twinned with Jiangsu Province, while Quebec and British Columbia (among other provinces) have also had extensive contacts with China in the fields of trade, sports, education, etc. The phenomenon of "twinning," or establishing close co-operative relations with an equivalent organization or government unit, also exists below the provincial level, for example the linking of the two garden cities of Victoria, B.C. and Suzhou, Jiangsu Province, and the understanding between Guelph and Peking Agricultural Universities. Canadian business can benefit from these open, co-operative relationships.

Export Financing

In the People's Republic of China, EDC's activities are guided by a $2 billion General Financing Protocol signed with the Bank of China (BOC) on October 1, 1984. The protocol, which is available for a four-year period, sets out the framework for the relationship between the BOC and EDC. Under the protocol, EDC financing is available both in the form of buyer's credit and supplier credit. In terms of buyer's credit, the BOC may borrow funds from EDC either on behalf of the buyer or with the intention of on-lending the funds to the buyer. EDC financing is available for up to 85 per cent of the contract price of the Canadian capital equipment and services, at fixed and floating rates of interest, in Canadian or U.S. dollars and in other currencies requested by the BOC and available to EDC. Repayment of loans will be in semi-annual instalments over a period to be determined by the BOC and EDC but in any case not to exceed 10 years. In its supplier credit program, EDC can make it possible for Canadian exporters to offer deferred payment terms to Chinese buyers by purchasing from the supplier promissory notes or other debt instruments issued by the Chinese buyer to the Canadian supplier where such notes are guaranteed for payment by the BOC. In addition to the General Financing Protocol with the BOC, EDC has established a number of multi-country regional lines of credit with Canadian banks' overseas subsidiaries and other financial institutions for on-lending to buyers in various countries in Asia, including the People's Republic of China.

EDC's foreign investment insurance program is also available for the China market following the conclusion of a bilateral Foreign Investment Insurance Agreement between EDC and China in early 1984.

The five major Canadian chartered banks have offices in Peking which concern themselves with trade facilitation and a certain degree of project financing; the Royal Bank has recently also entered a joint venture with the China International Trust and Investment Corporation (CITIC) to arrange or finance other joint ventures in China. Wood Gundy also has an office in Shanghai.

The PRC pays cash for needed bulk products such as wheat, fertilizers and base metals, but when it comes to manufactured goods, Chinese interest centres on approaches like joint ventures and countertrade. Pressures for concessional financing for manufactured goods are considerable. Competitive financing for China is one of the greatest challenges in tapping the Chinese market.

Government-to-Government Transactions

China, with its state-owned import-export organizations, is a natural market for government-to-government transactions using Canadian Commercial Corporation (CCC) services for multi-item equipment procurements and for other goods and services. Examples of the type of products and services provided include the supply of photovoltaic solar power systems and the refurbishing of mining trucks. The CCC's ability to package Canadian bids for World Bank projects is a desirable feature for future commercial transactions with the PRC.

Private Sector

The Canada-China Trade Council, with headquarters in Toronto and an office in Peking, was founded in June 1978 to assist Canadian businessmen, both exporters and importers, in doing business with China. Private sector initiatives in conjunction with ministerial level missions and other government-supported activities are part of a continuing effort to expand the commercial relationship between Canada and China.

Canadian International Development Agency

The Canadian International Development Agency (CIDA) has put in place a series of assistance measures to help Canadian companies investigate opportunities in developing countries including the PRC. These constitute the agency's Industrial Co-operation Program. The goal of the program is to assist the Canadian private sector in its efforts to become involved in the industrial development of the less developed countries (LDCs).

The principal avenue of support for Canadian technology transfer to a developing country is via the involvement of Canadian companies in commercially viable joint ventures. In many countries, Canadian companies must become involved in some sort of joint venture to maintain a long-term foothold in the market. Joint ventures are defined as co-production arrangements, assembly, licensing, capital or technology investment, and equity participation. While providing transfer of technology and skills, import substitution, jobs, profits, etc., to the developing country, "joint ventures" are a viable marketing device for the Canadian company to gain access to markets which may otherwise be closed because of foreign local regulations, distance, or uncompetitiveness with other countries. They can also act as a base for penetrating third-country markets. The Chinese are actively seeking participation in technology transfers on a joint-venture basis, particularly if opportunities for export to other Asian countries are likely.

CIDA's Industrial Co-operation Program has been active in China for approximately two years but is already supporting many firms in a wide variety of sectors, from food processing to electronic components. Chinese experts advise that concluding a joint venture agreement is a long-term task, averaging three years. However, several Canadian firms have made much quicker progress in discussions with the Chinese. This can be expected particularly in areas where good export and import substitution opportunities exist.

Investment is only one of the ways in which Canadian technology and know-how can be transferred to China. In addition to the programs in support of joint ventures, the Industrial Co-operation Division of CIDA under its Canadian Project Preparation Facility (CPPF) provides support to Canadian consultants and engineers to undertake prefeasibility or project definition studies of capital projects, where there is some likelihood of downstream project implementation, project financing (other than CIDA), a good developmental impact, and a possibility of Canadian supply of goods and services to the subsequent stages of the project. The CPPF has been used in China primarily for the initial study of upgrading of industrial facilities as this is a more economical way to improve industrial facilities than starting from scratch. Projects have ranged from chemical and pulp and paper facilities to the oil and transportation sectors.

The Industrial Co-operation Program of CIDA can be of interest to other Canadian private sector initiatives including seminars and a visits program. Bringing together Canadian and developing country experts to increase opportunities for an exchange of knowledge and information on industrial development opportunities may be supported by CIDA through the provision of travel and living expenses where there is a good likelihood of follow-up business collaborations. An example of this was the support for experts from several Asian countries to attend the Pacific Rim Opportunities Conference III. This mechanism is particularly useful in China initially for Canadians to establish their credentials with the Chinese. Several companies have received support from CIDA to carry out training seminars in fields ranging from forestry to cement production. These training seminars should go beyond the presentations of a firm's products and services in that they should be designed as leads into prospective transfer of technology activities.

Many private educational institutions, co-operatives, professional associations and other non-governmental organizations in Canada are developing linkages with their Chinese counterparts to share their joint expertise and experience in development activities from which both Chinese and Canadian partners can benefit. The organizations concerned are responsible solely for planning and implementing these activities. CIDA's Special Programs Branch has various ways of assisting this work through matching contributions, each method is designed to ensure that support is provided in the most appropriate and flexible way.

III. OVERVIEW OF THE PRC MARKET

1. CHARACTERISTICS OF THE PRC MARKET

China is the world's third-largest country in area (3.7 million square miles) and by far its most populous with more than one billion people. Its national language is Mandarin (or Putonghua) but other Chinese dialects are spoken widely in the south and southeast. There are more than 50 minority nationalities (e.g., Zhuangs, Tibetans, Mongols, Uighur Turks) who in varying degrees retain their own languages and customs. About 80 per cent of the population is rural and engaged in agriculture. Provincial governments are effectively departments of the central government. China has immense natural resources (especially minerals and energy) and an underutilized labour force.

Domestic Political Situation

Political power in China is tightly controlled by the Communist Party. The party's effective leadership is the six-man Political Bureau, and the 12-man Secretariat of the Standing Committee. Currently the most important of China's leaders is Deng Xiaoping, toward whom power has shifted since 1977. A protégé of Deng's, Hu Yaobang, as General Secretary of the Central Committee, is now head of the Chinese Communist Party.

Executive governmental authority is vested in a State Council headed by Premier Zhao Ziyang, another of Deng's key protégés. The legislature, the National People's Congress (NPC), is elected every five years and meets in full session once a year, although its Standing Committee of some 175 members meets more frequently. The Sixth NPC held its first session in June 1983 and elected the PRC's first State President since the 1960s, Li Xiannian. Although its power is limited by Western standards, the NPC has recently become a forum for broader discussions.

The Chinese Economy

China's primary problem is to feed itself and provide a reasonable standard of living to its massive peasantry which is organized in a hierarchy of collective and state units. Available land is already very intensively cultivated and large-scale mechanization to increase yields would only aggravate rural underemployment. Economic expansion in the industrial sector since 1949 has thus led to a significant income gap between urban and rural China. Even in industry, however, with the exception of a few high-priority sectors such as nuclear weapons, the technological level is low and the labour force inadequately trained. These are tough conditions under which to promote economic prosperity.

Against this background, China re-launched a 10-year "Four Modernizations" program in 1978 with high-growth targets for GNP and foreign trade. Within a year, imbalances in the economy and increasing foreign debt led to introduction of a retrenchment policy known as "readjustment." This policy cut down on large capital projects and imports of equipment and put renewed emphasis on agriculture, light industry and infrastructure (i.e. energy, transportation and communications). It is still in force, although heavy industrial production and capital construction have been harder to restrain than hoped.

On the commune, the peasants' private plots have been roughly doubled in size and the produce of these plots may be sold at market prices in urban fairs. The "responsibility system," which promotes individual initiative through the mechanism of contracts between the production teams (units of the communes) and peasants organized on a household basis, has been successful in increasing agricultural production and rural wealth. Reform of science and education and the sending of Chinese scientists and students to the West on a large scale, which began in 1979, have continued. Other reforms, such as the decentralization of decision-making to local industrial enterprises at first encountered difficulties and were temporarily curtailed in early 1981, with production quotas and investment under tighter control by state planning authorities. Most of these restrictions were lifted, however, by a key Central Committee decision in October 1984 to accelerate the reform process; national policy, for example, allows Chinese enterprises to keep and reinvest profits after taxes, and the scope of central planning is to be reduced somewhat. This economic liberalization is also spreading to commercial, scientific and even cultural fields.

Under both the 1981-85 five-year plan and a 10-year plan for the 1980s, prospects are for steady but gradual growth without major surges for the rest of this decade. Concentration on solving infrastructural problems, on readjustment and on responsibility systems will be combined with technical renovation. There will be a progressive increase in the import of industrial equipment and semi-manufactured products. Development plans call for more rapid growth in the 1990s, but this will depend in part on the solution of long-standing problems such as pricing, labour immobility, weak management, lack of systematic planning, and poor central-provincial co-ordination.

Over the next three to five years, energy shortages will continue to pinch Chinese industry, especially since the PRC counts on petroleum products to supply a significant portion of its export earnings. Planners are depending on substantial offshore oil production in the late 1980s to underpin economic growth.

In 1984, industrial output value increased by 13 per cent; agriculture grew by at least 5 per cent; oil by 9 per cent; coal by 10 per cent; and hydroelectricity grew by 16 per cent.

China's foreign exchange reserves are predicted to remain high and will embolden planners to spend abroad. Foreign exchange reserves had risen to U.S. $16 billion at the end of 1984 (not including 12 to 13 million ounces of gold) while foreign debt stood at less than U.S. $4 billion. Imports are projected to grow by about 20 per cent annually in 1984 and 1985, slowing in 1986. Emphasis will shift from turnkey plants to technology transfer, licenses and purchases of agricultural machinery, fertilizer, pesticides, steel, timber, chemicals, test instruments, and high-precision machinery.

Investment

In 1979, to speed up regional development of specific areas and to experiment on a small scale with foreign investment, the Chinese government created four special economic zones (SEZs): Shenzhen, Zhuhai, Shantou and Xiamen. In these areas, the PRC offered potential investors (mainly from Hong Kong and Macao, or Chinese abroad) special preferential treatment including taxation, duties, land rental and labour. The aim was to attract, over the short term, capital, technology and expertise. Products from enterprises in the zones are sold on the international market, or replace foreign imports. China has also added 14 coastal cities as well as Hainan island to the four existing special economic zones where foreigners can establish foreign-owned enterprises or joint ventures with access to the Chinese domestic market.

The PRC's push to attract foreign investment capital will continue. Chinese authorities say that 105 new equity ventures were concluded in 1983 — against 10 in 1982 — bringing the total number of equity deals over the last five years to 166. Although figures have not yet been released for last year, preliminary estimates suggest an even higher figure for 1984 than for 1983.

So far much of the action has been from Hong Kong, but there are an increasing number of joint ventures (both in the zones and elsewhere in China) by well-known Japanese, American and European firms. Last year's regulations — containing 188 articles — to implement the 1979 Joint Venture Law were among the many attempts to clarify the investment climate. Chinese authorities, in wishing to encourage joint ventures, are offering incentives such as domestic funds and wider access to the domestic market. For example, Chinese policy allows for 100 per cent foreign ownership in places other than coastal areas and the special economic zones: U.S.-based 3M's electrical tape and insulating resins plant in Shanghai will be the first venture approved under the new regulations. Because of the constantly changing Chinese legal system it would be prudent to consult with a China-knowledgable lawyer or accountant.

Natural resources, especially offshore oil and coal, will continue to attract major foreign investment. The Chinese will probably succeed in wooing foreign oil firms onshore in the next three to five years, despite the remoteness of their richest reserves.

Facilities for the production of machinery, services and consumer goods will attract foreign capital, although the Chinese will be most eager for ventures that include transfer of high technology. The patent law, which will take effect in April 1985, should make it easier to conclude such deals.

Bilateral agreements and treaties will give further evidence of Peking's desire to improve the investment environment. In early 1984 Canada signed a Foreign Investment Insurance agreement with China.

Foreign Trade

Total PRC trade for 1983 was U.S.$ 43.4 billion, made up of $U.S. 22.1 billion in exports and U.S.$ 21.3 billion in imports, for an export balance of almost U.S.$ 0.8 billion.

Over the last few years, PRC trade (imports and exports) as a percentage of GDP (IMF calculation), has risen from 10 per cent (1978) to 16 per cent (1983). Imports have risen from about U.S.$16 billion to $21 billion over the last five years while exports rose from $14 to $22 billion over the same period. China is steadily becoming a more significant world trader; in 1981, for example, PRC exports topped 1 per cent of global totals for the first time, and China was the world leader in sales of several commodities, from pig bristles to tungsten, fireworks to tea.

Despite a low volume of trade *per capita* ($40), the external sector is also becoming important to China. Its modernization drive is fueling demand for foreign technology and its export industries are providing foreign exchange for these essential imports while also propelling domestic growth.

Recent studies on the composition and direction of Chinese trade and investment flows have suggested the following conclusions:

a) Over the next few years, China is likely to continue its imports of grain, industrial raw materials and components, agricultural chemicals and certain building materials while significantly increasing imports of machinery, vehicles and technical equipment in priority sectors such as energy, transportation, light industrial production and education. Defence items do not seem likely to constitute large-scale imports in the near future.

b) The PRC balance of trade is likely to return to a deficit. Attempts will be made to limit the deficit by promoting exports of foodstuffs, light industrial goods (especially textiles), machinery, chemicals, metals and perhaps light arms. Energy (oil and coal) will continue to form a significant part of Chinese exports, but rapid growth of oil exports is unlikely because of falling world prices and rising domestic demand, at least until offshore oil production comes on tap at the end of the decade.

c) The developed nations (especially Japan, the United States, the Federal Republic of Germany, and Canada) will continue to dominate PRC trade, especially as import sources. In 1983, these nations represented more than 50 per cent of combined imports and exports. China will attempt to balance this by aggressive export marketing in the Third World, with some parallel import (raw material) diversification from these regions. The Middle East, in particular, will probably continue to be a significant growth area for Peking. Trade with Communist states, especially the Soviet Union, has been growing strongly, although from a fairly small current base. Hong Kong will remain a major entrepot for China trade.

PRC: Principal Trading Partners, 1983

(U.S.$ millions)

Imports	Value	% of Total PRC Imports
Japan	5,495	25.8
U.S.	2,753	12.9
Hong Kong	1,710	8.0
CANADA	**1,587**	**7.4**
F.R.G.	1,209	5.7
Argentina	649	2.9
Exports	**Value**	**% of Total PRC Exports**
Hong Kong	5,797	26.2
Japan	4,517	20.4
United States	1,713	7.7
Jordan	1,520	6.9
F.R.G.	862	3.9
United Kingdom	602	2.7
CANADA	**208**	**0.9**

Source: Directory of Trade Statistics Yearbook (IMF), 1984

Foreign Policy

Since 1970, China has developed a co-operative relationship with Japan and the West, initially based on strategic considerations but in recent years increasingly reflecting economic needs as well. Following cutbacks under the policy of economic re-adjustment, there has been an improvement in China's financial position and there are plans for modest growth in international purchasing particularly in the priority areas of agriculture, light industry and infrastructure. Steadily increasing volumes of trade and China's continued need for Western technology to effect modernization suggest that economic relations with Japan and the West are likely to grow still further.

Peking has recently mounted a major export drive to the developing nations. China has also become increasingly open to foreign, including Canadian, aid and has expanded its role in multilateral financial institutions by joining the IMF and IBRD in 1980 and applying to join the Asian Development Bank in 1983.

2. CHARACTERISTICS OF CANADA-CHINA TRADE

Trade Agreement

Under a trade agreement signed in 1973 and extended for three-year terms in 1976, 1979 and 1982, Canada and China grant each other Most Favoured Nation trading status. In addition, an Economic Co-operation Protocol governing increased bilateral activity in a number of sectors was signed in 1979 as an addendum to the trade agreement.

Towards recognizing the importance China attaches to developing sales of its products to Canada, Canada granted the People's Republic General Preferential Tariff Treatment effective January 1, 1980. This decision reduces the rate of duty on eligible Chinese imports by one-third or more. However, sensitive items such as textiles and clothing are excluded from the General Preferential System. The present composition of Chinese exports to Canada is such that more than 20 per cent of China's total sales are eligible for General Preferential Tariff Treatment. Moreover, this percentage could increase significantly if China is successful in diversifying its exports to Canada.

Commercial relations with China are facilitated through the Canada-China Joint Trade Committee which meets alternately in Ottawa and Peking. A large number of commercial delegations are also exchanged.

Line of Credit

Recently, efforts have focused on China's drive to modernize, drawing in part on foreign technology and credits. To this end, the Export Development Corporation has established U.S.$ 2 billion line of credit to China to support the purchase of Canadian services and equipment. Private Canadian banks have also extended facilities to the Bank of China for import financing.

Canada-China Trade

Near-term opportunities for Canada in the Chinese market appear more promising than they have in recent years when readjustment policies greatly affected China's capital goods imports. With recent improvements to PRC's fiscal situation and the recognition that there exist significant infrastructure difficulties which hamper modernization, the Chinese are expected in the coming years to devote significant resources to energy, transport and communications, natural resource exploitation, and selective industrial modernization.

Canada has traditionally enjoyed a surplus in trade with China. Canadian exports to China totalled $1.5 billion in 1983, $1.1 billion in 1984, while imports from China totalled $246 million in 1983,

$334 million in 1984. The 1984 trade surplus in Canada's favour was $945 million; in 1983, Canada's trade surplus with China was $1.4 billion and in 1982 it was $1.0 billion. During the period between 1970 to 1982, Canada had a cumulative merchandise trade surplus with China of about U.S. $5.6 billion. Trade figures for 1984 dropped in Canadian exports due to a decline in sales of wheat and spot metals, while Chinese exports to Canada have increased by more than 40 per cent.

China has become a very important market for Canadian goods. In 1983, China was our fifth-largest market. Only the United States, Japan, the United Kingdom and the Soviet Union were higher. Canada is also regarded by the PRC as one of its top five trading partners.

In 1984, Canada's exports to China included wheat, aluminum, copper, wood pulp, fertilizer, zinc and softwood lumber. In 1984, except for aluminum and zinc, manufactured exports, although still low in value, increased significantly. Summary trade tables are provided below.

Export and Import Permits Act

Under the *Export and Import Permits Act*, the export of defence and defence-related (i.e., dual-use) equipment and technology listed on the Export Control List is controlled and export permits are required. Applications for permits to export defence and defence-related equipment and technology to China are reviewed on a case-by-case basis by the Department of External Affairs (and, where appropriate, the Department of National Defence).

Transportation

Bulk cargo such as grain, potash, sulphur and pulp is carried by Chinese vessels or vessels chartered by the China National Chartering Corporation (Sinochart). Sinochart is represented in Montreal and Toronto by March Shipping Ltd. for bulk shipments and non-containerized cargo; and in Vancouver by North Pacific Co. Ltd. for forest products and general cargo; Sino-Cana Shipping and Enterprises Ltd. for sulphur and potash; and Montreal Shipping Co. Ltd. for grain.

Three-Year Summary of Principal Canadian Exports to China

	($000s)		
	1982	1983	1984
Wheat	736,562	916,937	602,245
Fertilizers and fertilizer material	7,818	59,441	93,055
Aluminum, including alloys	190,224	139,109	70,519
Copper and alloys	0	135,242	67,642
Wood pulp and similar pulp	89,137	118,784	65,648
Other crude wood products	19,528	31,974	57,136
Zinc, including alloys	20,289	45,255	47,738
Copper in ores, concentrates and scraps	0	4,064	37,341
Lumber, softwood	9,116	39,420	32,501
Hard spring wheat flour	0	6,332	31,551
TOTAL, PRINCIPAL EXPORTS	1,072,673	1,496,558	1,105,375
TOTAL, ALL EXPORTS	1,232,070	1,608,479	1,278,542

Source: Statistics Canada, External Trade Division

Three-Year Summary of Principal Canadian Imports from China

	($000s)		
	1982	1983	1984
Outerwear, except knitted	38,489	55,939	80,948
Outerwear, knitted	12,913	21,999	40,253
Other apparel and apparel access.	16,009	21,097	29,215
House furnishings	24,944	29,810	28,423
Cotton broad woven fabrics	13,461	13,719	19,545
Broad woven fabrics, mixed fibres	11,268	12,386	18,580
Other vegetables and vegetable preparations	14,818	15,956	17,362
Nuts, except oil nuts	10,609	12,696	10,698
Other basic hardware	2,379	2,377	7,443
Other oil seeds, oil nuts, oil kernels	3,156	2,838	7,350
TOTAL, PRINCIPAL IMPORTS	148,047	188,817	259,816
TOTAL, ALL IMPORTS	203,654	245,772	333,502

Source: Statistics Canada, External Trade Division

There is no regular direct general cargo service between Canada and China. Consequently, general cargo and containerized shipments are either transshipped through New York on China's national carrier, the China Ocean Shipping Company (COSCO), which is represented by Redburn Inc. in Montreal, or transported from Canada by third-country carriers for furtherance through Hong Kong or Kobe on Chinese and Japanese conventional shuttle services. The principal Chinese ports for handling Canadian general and containerized cargo are Shanghai and Huang-pu.

IV. APPENDICES

APPENDIX A

PEOPLE'S REPUBLIC OF CHINA FACT SHEET

Area	— 9.6 million km^2
Population	— (1983): 1.025 billion — Annual population growth (1983): 1.15% — Workforce: 406 million — Students: 208 million
Economy	— GNP (1983) at market prices: U.S.$260 billion — Per capita GNP U.S.$259.40 — Average GNP growth 1978-83: 3.0% — Agriculture as % of GNP: 41.8% (1982) — Industry as % of GNP: 30.1% (1982) — Capital formation as % of GNP: 9.7% (1982)
Budget	— Total expenditures (1983): U.S.$63 billion — Total revenues (1983): U.S.$62 billion — Defence as % of expenditures: 15.3% (1983) — Culture, health and education as % of expenditure: 16.2% (1983)
Foreign Trade and Finance	— Exports (1983): U.S.$22.1 billion — Imports (1983): U.S.$21.3 billion
Canadian Trade	— Imports from China (1984): C$ .334 billion — Exports to China (1984): $ 1.279 billion — Surplus (1984) $ .945 billion
Language	Mandarin Chinese (Putonghua) is the official language and is taught in all schools. English is sometimes spoken by those having frequent contact with foreign businessmen. There are also many other dialects of Chinese and minority languages.
Government	The Chinese government is headed by a President, Li Xiannian, by a National People's Congress under its Chairman Peng Zhen, and by a State Council (Cabinet) under Premier Zhao Ziyang. Although elections are held, the Communist Party effectively controls them and also all policy decisions. China is a unitary centralized state but is divided for administrative purposes into 21 provinces, five minority autonomous regions and three directly-administered cities.
Currency	The local currency is the yuan or Renminbi (RMB). In November 1984, 1 Renminbi was worth C$0.50. Although the currency is non-convertible, some contracts are negotiated in Chinese currency (RMB). All major Canadian chartered banks have made arrangements with the Bank of China to handle RMB accounts.
Canadian Representation	The Embassy is located at 10 San Li Tun Road, Beijing (Peking, telephone: 521-475). Cable: DOMCAN PEKING. Canadian Commission, Commercial Division, 14-15 Floors, Asian House, 1 Hennessy Road, Hong Kong (Hong Kong, telephone: 5-282222). Cable: DOMCAN HONG KONG.

APPENDIX B

GUIDE TO RELEVANT LITERATURE

External Affairs Canada: *People's Republic of China, A Guide for Canadian Exporters.*

External Affairs Canada: *So You Want to Export. . . .* Information and tips to help Canadian firms enter new markets abroad.

External Affairs Canada: *Trade Promotion Support.* Outline of support under the Promotional Projects Program and the Program for Export Market Development.

Canadian Export Association: *Export Roadmap.* A reference book outlining for exporters points of contact with the federal government and agencies in Ottawa and across Canada.

Province of Ontario, Ministry of Industry and Trade: *How to do Business in China.* Written from a provincial perspective.

Province of British Columbia, Ministry of Industry and Small Business Development: *China Economic Overview — A British Columbia Perspective.*

The Royal Bank of Canada, World Trade and Merchant Banking Division, Royal Bank Plaza, 200 Bay Street, Toronto, Ontario, M5J 2J5: *Market Guide, People's Republic of China.*

The Hong Kong and Shanghai Banking Corporation, 1 Queen's Road Central, Hong Kong, excellent factual summaries:
- *The People's Republic of China*
- *Shenzhen, Special Economic Zone*
- *Hong Kong.*

Canadian Far East Media Services, 128 Evans Avenue, Toronto, Ontario, M6S 3Y8: *How To Do Business in Asia*, Jan. 1984. Practical guide with operational advice for all Asia.

China Publications Centre, P.O. Box 399, Peking, China, official publications of the PRC government:
- *Economic Readjustment & Reform*
- *China's Search for Economic Growth*
- *China's Foreign Trade Corporations and Organization 1982*
- *China's Economy and Development Principles*
- *Experiment in Sichuan — A Report on Economic Reform*
- *China's Socialist Economy*
- *China's Foreign Economic Legislation*
- *China Foreign Trade* (bimonthly).

China Daily, North American Edition (published in New York City). The only PRC newspaper printed in English; parent edition issued in Peking.

Kaplan and Sabin, (Eurasia Press, NY): *Encyclopedia of China Today.* A good one-volume reference work on the Chinese economic situation.

U.S./China Trade Council: *China Business Review.* An excellent monthly source of information on current market conditions in China.

Far Eastern Economic Review (Hong Kong). A widely respected weekly journal of economic and political developments in East Asia.

APPENDIX C

USEFUL CONTACTS

In Canada

East Asia Trade Development Division (PET)
Department of External Affairs
125 Sussex Drive
Ottawa, Ontario
K1A 0G2
Tel.: (613) 996-7582

Info Export
(toll free): 1-800-267-8376
(in B.C.: 112-800-267-8376)

Export Development Corporation
151 O'Connor Street, P.O. Box 655
Ottawa, Ontario
K1P 5T9
Tel.: (613) 598-2500
Telex: 053-4136

Canadian Commercial Corporation
Export Supply Branch
Ottawa, Ontario
K1A 0S6
Tel.: (819) 997-5714
Telex: 053-3703

Embassy of People's Republic of China
511-515 St. Patrick Street
Ottawa, Ontario
K1N 5H3
Tel.: (613) 234-2718
Telex: 053-3770

Consulate General of People's Republic of China
3380 Granville Street
Vancouver, B.C.
V6H 3K3
Tel.: (604) 736-4021
Telex: 045-4659

Industrial Co-operation Division
Canadian International Development Agency
200, promenade du Portage
Hull, Quebec
K1A 0G4
Tel.: (819) 997-7901
Telex: 053-4140

China Bilateral Program
Canadian International Development Agency
200, promenade du Portage
Hull, Quebec
K1A 0G4
Tel.: (819) 994-3420

Canada-China Trade Council
Suite 805, 199 Bay Street
Toronto, Ontario
M5J 1L4
Tel.: (416) 364-8321

Canadian Export Association
Suite 250, 99 Bank Street
Ottawa, Ontario
K1P 6B9
Tel.: (613) 238-8888

Canadian Manufacturers' Association
One Yonge Street, 14th Floor
Toronto, Ontario
M5E 1J9
Tel.: (416) 363-7261

In China

Canadian Embassy
10 San Li Tun
Chao Yang District
Peking
Cable: DOMCAN PEKING
Telex: 22717 (CANAD CN)

China Council for the Promotion of International Trade (CCPIT)
4 Taipingjiao Dajie
Peking

All-China Federation of Industry and Commerce
93 Dong Anmen
Peking

China International Trust and Investment Corporation
2 Qianmen Dong Dajie
Beijing (Peking)
People's Republic of China
Cable: 0207 Beijing
Tel.: 558841; 550905

For China

China International Trust and Investment Corporation
Bank of China Building
Hong Kong

Canadian Commission
Commercial Division
14-15th Floors, Asian House
1 Hennessy Road
Hong Kong
Cable: DOMCAN HONG KONG
Telex: (802) 73391 (73391 DOMCA HX)

DRIE REGIONAL OFFICES

If you have not previously marketed abroad, or if you wish to apply for assistance under PEMD, contact any regional trade officer of the Department of Regional Industrial Expansion at the addresses listed below:

Alberta
Cornerpoint Building
Suite 505
10179 – 105th Street
Edmonton, Alberta
T5J 3S3
Tel.: (403) 420-2944

British Columbia
Bentall Centre, Tower IV, Suite 1101
1055 Dunsmuir Street
P.O. Box 49178
Vancouver, British Columbia
V7X 1K8
Tel.: (604) 666-0434

Manitoba
185 Carlton Street
P.O. Box 981
Winnipeg, Manitoba
R3C 2V2
Tel.: (204) 949-4090

New Brunswick
Assumption Place
770 Main Street
P.O. Box 1210
Moncton, New Brunswick
E1C 8P9
Tel.: (506) 388-6400

Newfoundland
Parsons Building
90 O'Leary Avenue
P.O. Box 8950
St. John's, Newfoundland
A1B 3R9
Tel.: (709) 772-4884

Northwest Territories
Precambrian Building
P.O. Bag 6100
Yellowknife, Northwest Territories
X1A 1C0
Tel.: (403) 920-8568 or 8571

Nova Scotia
1496 Lower Water Street
P.O. Box 940, Postal Station "M"
Halifax, Nova Scotia
B3J 2V9
Tel.: (902) 426-2018

Ontario
1 First Canadian Place
Suite 4840
P.O. Box 98
Toronto, Ontario
M5X 1B1
Tel.: (416) 365-3737

Prince Edward Island
Confederation Court Mall
134 Kent Street, Suite 400
P.O. Box 1115
Charlottetown, Prince Edward Island
C1A 7M8
Tel.: (902) 566-7400

Quebec
Stock Exchange Tower
800 Victoria Square, Suite 4328
P.O. Box 247
Montreal, Quebec
H4Z 1E8
Tel.: (514) 283-8185

Saskatchewan
6th Floor
105-21st Street East
Saskatoon, Saskatchewan
S7K 0B3
Tel.: (306) 975-5314

Yukon
Suite 301
108 Lambert Street
Whitehorse, Yukon
Y1A 1Z2
Tel.: (403) 668-4655

PROVINCIAL GOVERNMENT CONTACTS

For information on provincial programs and services:

Alberta

Trade Development Branch
Department of Economic Development
11th Floor, Sterling Place
9940-106th Street
Edmonton, Alberta
T5K 2P6
Telex: 037-2197

Market Development Branch
Alberta Department of Agriculture
3rd Floor, J.G. Donoghue Building
Edmonton, Alberta
T6H 5T6
Telex: 037-2029

British Columbia

Ministry of Industry and Small Business Development
Suite 315, Robson Square
800 Hornby Street
Vancouver, British Columbia
V6Z 2C5
Telex: 04-55459

Manitoba

Trade Branch
Department of Industry, Trade and Technology
5th Floor, 155 Carlton Street
Winnipeg, Manitoba
R3C 3H8
Telex: 07-587833

Newfoundland

Department of Development
Atlantic Place, Water Street
P.O. Box 4750
St. John's, Newfoundland
A1C 5T7
Telex: 016-4949

New Brunswick

Marketing and Trade Services Division
Department of Commerce and Development
P.O. Box 6000
Fredericton, New Brunswick
E3B 5H1
Telex: 014-46100

Nova Scotia

Market Development Centre
Department of Development
5151 George Street
P.O. Box 519
Halifax, Nova Scotia
B3J 2R7
Telex: 019-22548

Ontario

International Marketing Branch
Ministry of Industry and Trade
Hearst Block, Queen's Park
Toronto, Ontario
M7A 2E1
Telex: 06-219786

Prince Edward Island

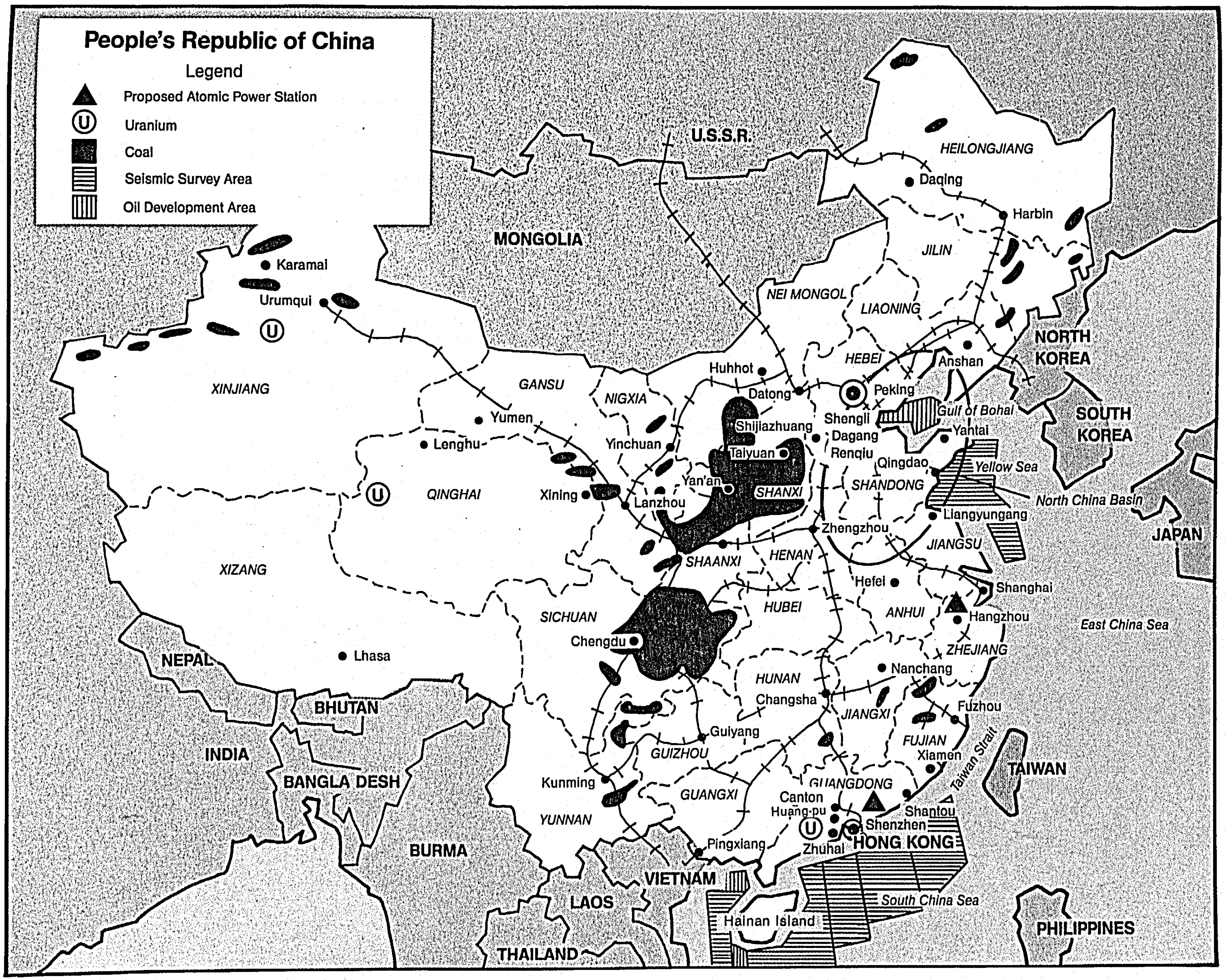
P.E.I. Development Agency
First Street, West Royalty Industrial Park
P.O. Box 1510
Charlottetown, Prince Edward Island
C1A 7N3
Telex: 014-44109

Quebec

Direction Générale de l'expansion des marchés
Ministère du Commerce extérieur
770 Sherbrooke Street West, 6th Floor
Montreal, Quebec
H3A 1G1
Telex: 055-61760

Saskatchewan

Department of Economic Development and Trade
2103-11th Avenue
4th Floor
Regina, Saskatchewan
S4P 3V7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