



ASIA PACIFIC  
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THE ASIA FACTOR  
LE FACTEUR ASIE

# ATLANTIC CANADA BUSINESS IN ASIA CONSULTATION



## THE ASIA FACTOR

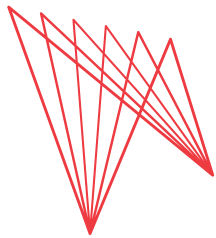
## ABOUT THE ASIA PACIFIC FOUNDATION OF CANADA

The Asia Pacific Foundation of Canada (APF Canada) is a not-for-profit organization focused on Canada's relations with Asia. Our mission is to be Canada's catalyst for engagement with Asia and Asia's bridge to Canada.

A leader in research and analysis on Canada-Asia relations for over 30 years, APF Canada partners with government, business leaders, academics, and opinion makers in Canada and across the Asia Pacific region to offer clear, specific, and actionable policy advice.

Established by an Act of Parliament in 1984, APF Canada's thematic priorities include: promoting trade, investment, and innovation; mobilizing energy assets; building skills and competencies; and understanding Asia now.

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## THE ASIA FACTOR IN ATLANTIC CANADA

The Asia Factor in Atlantic Canada's objective is to assist the region in better responding to Asia's rising global economic importance by providing critical information on the opportunities and challenges for Atlantic Canadian business and trade with Asia.

The project represents the Atlantic side of The Asia Factor, a nationwide multi-year project launched by the Asia Pacific Foundation of Canada that examines the interaction of each province and territory with Asia. The Asia Factor provides comprehensive resources, information and analysis on provincial-level Canada–Asia relations.

For additional statistics and information on Atlantic Canada–Asia relations, visit [www.TheAsiaFactor.ca](http://www.TheAsiaFactor.ca)



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## ABOUT THE BUSINESS CONSULTATION

Atlantic Canada's traditional export markets have been the United States and Europe. Spurred by the economic effects of the 2008 financial crisis, and motivated by Asia's growth, this has started to change.

In order to gain a better understanding of Atlantic Canadian small and medium enterprises' (SMEs) experiences in the Asia Pacific region, the Asia Pacific Foundation of Canada undertook a consultation with businesses active in Asia.

The goal of the consultation was to learn from the experiences of companies and trade specialists. We sought to identify best practices and how both the provincial and federal governments could support businesses' expansion in Asia.

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### METHODS AND RESPONDENTS

Invitations to participate in this study were sent to Atlantic Canadian businesses currently conducting business in Asia. Data on the location of firms' exports was collected from the Industry Canada Canadian Company Capabilities database and the Atlantic Canada Exports website. Firms were contacted first by email. Phone calls requesting participation were made to those firms where further web searches confirmed engagement in Asia.

Between September 29, 2014, and June 16, 2015, APF Canada researchers conducted 30 phone interviews. The average interview lasted approximately 32 minutes. The consultations used a semi-structured interview format. Since the list of questions asked for sensitive information about respondents' experience with government services and future business plans, all respondents were promised anonymity in their responses. To ensure privacy, respondents are referred to primarily by sector throughout the report.

APF Canada researchers conducted 26 interviews with firms selling goods and services in Asia, two with logistics services directly involved with Asian markets, and two additional interviews with consulting firms with expertise working with clients focused on Atlantic Canada–Asia trade. Of the firms directly engaged in exporting to Asia, 12 were agrifood exporters, and, of these, seven were involved in the export of fisheries products. There was a close split between companies that had entered Asia within the last 10 years and those with more than 10 years' experience. All of the firms were small to medium-sized enterprises (SMEs) (according to Industry Canada, an SME is a business establishment with fewer than 500 paid employees). Respondents' business activities were concentrated in Northeast Asia, with the top three countries in terms of firm activity being China (16), South Korea (14), and Japan (11).

Respondents held high positions within their respective firms; 22 were owners or executives (e.g., president, vice-president) and the rest were high-ranking managers or sales directors with responsibility for Asian markets. Most respondents (26) were men, and four were women. The majority (19) of respondents were based in Nova Scotia, with six in New Brunswick, three in Newfoundland and Labrador, and two in Prince Edward Island.

The sample of respondents is not representative of Atlantic Canadian businesses as a whole, nor is it representative of businesses in the region that have pursued Asian markets. Those who took the time to participate are from firms that have either prioritized expansion to Asia or have had success in Asian markets, and were available during the data collection phase. Nonetheless, the challenges these respondents face and the lessons they have learned while growing their businesses can still provide insight to others interested in opportunities in Asian markets.

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## EXECUTIVE SUMMARY

The Asia Pacific Foundation of Canada consulted businesses from Atlantic Canada that are exporting to Asia in order to learn more about their experiences in doing business in this part of the world and to better understand the specific challenges they face in exporting to this region.

Thirty interviews were conducted with businesses from Canada's four Atlantic Provinces between September 2014 and June 2015. The interviews focused on four central themes:

- What were the main drivers of expansion into Asia?
- How did companies establish their relationships with clients and partners in Asia?
- Once in market, how did companies manage their operations in Asia?
- What are the main challenges that Atlantic companies face in Asia?

## PROJECT FINDINGS

### *Leveraging Opportunity*

APF Canada found that there were two major factors influencing respondents' decisions to expand into Asian markets. Some were drawn to Asia because they had pre-existing knowledge about the opportunities within their industry. Other companies were "nudged" into the Asian market by a client or distributor located in the region with an interest in their goods or services.

This indicates that opportunities for Atlantic Canadian companies to expand into Asian markets are well known in some established sectors, such as seafood and aerospace and defence, but in other sectors companies could be more proactive in exploring opportunities for their products and services in Asia.

### *Building Relationships*

In order to establish relationships with new clients in Asia, Atlantic Canadian companies highlighted the following:

- The importance of being present in the region
- The utility of leveraging Canada-Asia networks and the usefulness of government export-related services
- The importance of due diligence and taking time to establish a good working relationship with an Asian partner before negotiating a business deal

### *Managing the Market*

Once Atlantic Canadian businesses began exporting to Asia, they managed their operations in the region differently. The methods by which companies managed their business in Asia vary not only within sectors but also across countries of destination.

Some companies chose to build relations with a distributor while others hired agents to represent them. A smaller number entered into partnerships with local firms to develop products to specifically target the Asian market. Some opened either an office or a store in Asia and moved full-time employees into the region. This allowed these companies to continue to build relationships, increase local market intelligence, and show their commitment to the market and their customers.

There is no “right way” to enter and do business in Asia. The most successful companies accounted for market variations and developed a different model for each country.

### *Rising to the Challenge*

Cultural and marketing challenges and language barriers while operating in Asia were highlighted as challenges by the majority of respondents. Companies identified four main ways to address these challenges: gaining experience through travel, undertaking specific education, leveraging Canada-Asia networks, and hiring employees with Asian-Canadian backgrounds.

Other logistical challenges Atlantic Canadian companies face in doing business in Asia relate to passenger travel, air cargo and maritime shipping. Atlantic Canadian firms face an array of customs regulations, labelling requirements, duties, and other potential barriers to trade in Asia. Companies interviewed by APF Canada suggested these challenges could be mitigated through policies to lower tariff barriers and through federal or provincial efforts to provide publicly accessible information about Asian regulatory environments.

### *Further Study*

This report is one component of the Asia Factor in Atlantic Canada project that aims to assist the region in better responding to Asia’s global economic importance. The report findings represent the responses of a small sample of Atlantic Canadian companies selling goods or services to Asia. Rather than a comprehensive overview of the region’s many companies doing business in Asia, this report provides a snapshot of individual companies engaging distant markets. These insights will complement other forthcoming Asia Factor in Atlantic Canada publications, including Atlantic Canadian company success stories and four sector specific reports.

## SEEING OPPORTUNITIES IN ASIA

There are two major factors that influenced respondents' decisions to expand into Asian markets. Some were drawn to Asia because they had pre-existing knowledge of the opportunities within their industry. Other companies were "nudged" into the Asian market by a client or distributor in the region with an interest in their goods or services.

### KNOWLEDGE OF OPPORTUNITIES IN ASIA

Companies in some sectors, particularly seafood and aerospace and defence, have a long history of selling to Asia, suggesting that there is widespread knowledge of sector-specific opportunities in Asia. Some companies began exporting to Asian markets early in their business venture—in a few cases, going back decades. For the companies in these two sectors, Asia was a natural product/market fit.

For the seafood companies, the high demand for their product in Asia is well known, as consumption of seafood there is typically double the global per-capita average. Atlantic Canadian seafood products and the Canadian brand for cold-water seafood products are highly regarded in Asia, and there was a natural fit between Atlantic Canadian seafood companies and many Asian countries – notably China, Japan, and South Korea. For most of the respondents exporting seafood products, Asia represents at least 50 per cent of their export market. As one respondent stated, "We are meat eaters and they are fish eaters, and we could get very good value for our industry by marketing it properly in these countries."

Companies in the defence sector have also been exporting products and technologies to Asia for many years. Although the main market for Atlantic Canada's defence industry remains the United States, maritime technologies are in high demand in Asia. Respondents indicated that the demand for

their products and technologies has picked up with increased regional spending on maritime defence, particularly in Southeast Asia.

For other companies, the global financial crisis, changes in consumer tastes, and increased barriers to access in traditional markets prompted them to focus on Asia. This was particularly the case for agrifood companies outside of seafood, as well as companies selling manufactured consumer products. One respondent indicated his company was now being shut out of the U.S. and Europe due to the nature of his products. "We've never gone to China before because we never had to. The reason that we're in China now ... is because the rest of the world is shutting down on us."

For two respondents, perceptions of opportunity had their origins in previous exposure and experience in Asia. In one case, for example, the owner of a food and beverage company opened a business in Nova Scotia after spending years in Asia. For these companies, the executives had acquired specific experiences in Asia either through working or living in the region.

### OPPORTUNITY KNOCKS

About half of our respondents entered Asian markets because they were first contacted by a distributor or by an agent from the region. It was by following up on these first requests that companies (outside of the seafood and defence sectors) came to see the opportunities that existed. The contacts came mostly from companies from Northeast Asia (Japan, South Korea, China, and Taiwan).

For most companies, the initial contact happened at a non-Asian trade show. Two companies were contacted after a distributor found them on the Internet, one because of an advertisement in a Canadian magazine, and another was approached by a distributor involved with another Canadian company from the same sector.



In some cases, government agencies have been active in contacting companies to inform them about opportunities in Asia. One respondent reported being contacted by a federal government agency with an explicit opportunity for the respondent's company in Asia. In other cases, federal government agencies contacted companies already doing business in Asia about other opportunities in the region. For example, one company was offered financial support to attend a trade show in Hong Kong, which led to meetings with clients in, and subsequent sales to, mainland China.

A natural health products company was struggling in the Canadian market. After receiving a call from a person asking if the company was interested in entering the Japanese market, the company began pursuing such possibilities. The company ended up making a splash in Japan and now sells 35 to 40 per cent of its products in that market.

## ESTABLISHING RELATIONSHIPS

Initial contact can spark interest in Asian markets, but building a client base and nurturing relationships requires effort. How companies met their first clients and grew in Asian markets varied. Key themes included the importance of being present in the region, leveraging Canada–Asia networks, utilizing government services, following up on initial investments, and the importance of doing due diligence and taking time to establish a good working relationship with an Asian partner.

For one seafood company, now selling 50 per cent of its catch in Asia, the decision to invest in Asian markets was an easy one. The company began investigating Asian markets after it decided to sell directly to clients around the world instead of selling to export companies. To build its client list, the company went to trade shows, leveraged trade commissioners, looked for potential buyers online, and advertised on key dedicated websites. It also did its due diligence by requesting details from trade commissioners on companies thought to be importing seafood products as well as information on potential partners.

## PRESENCE AND TRAVEL

The advice offered by respondents working across Asian countries was for businesses to take the time to show up in person. As one food and beverage exporter noted, “The guanxi—the relationship—is important, but you have to be seen. It takes a long, long time; it doesn’t happen overnight.” A respondent from an engineering firm echoed the sentiment: “You’ve got to be seen. You’re not going to go one time and make a sale. They’ve got to see that you’re going to be a consistent presence, and that you’re available for meetings and discussions.”

Once firms established a reputation within the region, meeting clients and making sales became easier. An engineering firm emphasized the importance of building a reputation in Asian markets and then earning business through referrals, noting, “[it] can be quite easy to make your sixth [sale in China] after you’ve made five previous ones and you get five happy customers.”

Travelling to markets to meet customers is extremely important for doing business in Asia. The owner of an engineering firm with significant business in Thailand reported having travelled to Bangkok close to 40 times in the last 10 years. For this company, it is extremely important to show that it is committed to the market, and that it will be available for meetings and discussions even after having secured a sale. Its customers needed to be comfortable and reassured that they would have technical support from a company located so far away, and that the company was not there to make only one sale.

## LEVERAGING CANADA–ASIA LINKAGES

Existing Canada–Asia networks have played an important role in connecting Atlantic Canada to Asian markets. Both during initial contact and as companies entered an Asian market, there was a tendency for them to work with Canadian expatriates living in Asia, Asian-Canadians, or Asian distributors who previously lived in Canada. These initial meetings led to sales that opened new markets.

In some cases, distributors or partners were chosen because they had a connection to Asia and Canada. One agrifood exporter was able to form a relationship with a customer in Hong Kong in part because that customer had studied in Canada, felt a connection to the country, and was relatively open to exploring business opportunities with Canadian exporters. Another agrifood company chose its distributor for South Korea because the distributor had experience working with Canadian companies in the same sector and the ability to work in both cultures.

These existing Canada–Asia linkages allow Canadian firms to plug into business networks in Asia. As one respondent from a technology firm noted, “sometimes you can look out your back door and find somebody who has the contacts you need in China.”

## LEVERAGING GOVERNMENT SUPPORT

There are a variety of government services that help firms find clients and expand their businesses. Two of the most commonly mentioned by our respondents were government-sponsored trade missions and the trade commissioner service.

### *Trade Missions*

Government agencies organizing trade missions handle logistics and make the process of attending events, like trade shows, less of an administrative burden for companies. Eight

respondents mentioned having attended at least one trade mission, and some offered comments on the effectiveness of these missions. When the destination was an agrifood-specific trade show, missions were often thought to have been successful.

Several Nova Scotian food exporters mentioned the effectiveness of Taste of Nova Scotia missions. Companies participating in these missions often received funding to participate, thus decreasing their travel costs. One respondent expressed surprise that more companies didn’t take advantage of the opportunity: “Taste of Nova Scotia last year had done a fantastic job lining up booths in Hong Kong and in Shanghai. And you know where the problem was? There were not enough companies interested to go.” Even the larger, more established agrifood businesses that no longer participated in missions noted that they were particularly useful for firms starting out.

For those Atlantic Canadian firms interested in conducting business with either Asian government authorities or government-linked clients, trade missions were also viewed as important ways to build relationships.

In some cases, respondents noted that trade missions with prominent politicians opened doors and provided credibility to firms. Those respondents whose business involved interacting with government clients were very positive about trade missions and having the high-level backing of the provincial government.

One respondent explained, “I think it’s helpful when your government is there opening doors ... I think that goes a long way with some of our clients to know that our provincial government is behind us, and that their business in [respondent’s province] is important not only to our company but to the province as well. It gives them some security that they’re not just dealing with a private company. And it’s a bit more familiar because there are so many state-owned enterprises over there with government connections.”

A company selling software and services in China joined a provincial trade mission in the fall of 2014. The premier and the Canadian ambassador to China both attended an important meeting between the company and one key government agency with whom the company was seeking to do business. The Canadian government officials' presence at the meeting gave enormous weight to the company. Following the meeting, the company agreed to host a delegation from the Chinese agency in Atlantic Canada so that representatives from the Chinese agency could see the company's facilities for themselves, which helped the company to secure a notable deal.

Another firm with government clients praised the role the provincial premier and the Canadian Embassy in China had played in establishing relationships, noting, "If somebody is not taking advantage of that, they should be."

### Trade Commissioners

Sixty per cent of respondents mentioned that the trade commissioner service (TCS) was another key government service. The TCS has played a crucial role in finding clients for a number of the respondents. A small agrifood exporter explained their process: "We solicited trade commissioners in each geography. [We] requested details on companies they thought specifically imported lobsters or who could be a good possible company to import live lobster. And they supplied us with the contacts, and we generated introductory emails." Similar stories about generating clients and making introductions were told by other exporters who placed particular value on the connections of the long-term foreign national TCS employees.

Beyond making introductions and generating contacts, firms also found the TCS useful for conducting background research on potential partners or clients in Asian markets. Respondents indicated that the TCS is particularly suited for smaller companies that have not yet acquired experience in exporting to Asia or the in-house capacity to conduct research.

The praise for the trade missions and trade commissioners was broad, but not unanimous. One software company and one engineering firm remarked that they haven't used the TCS to find clients because the TCS viewed their products as too niche or too complex for the TCS staff—a critique echoed by respondents when discussing trade missions. Despite the occasional critiques, these two government services were viewed as a helpful resource. One respondent recommended that companies be proactive and reach out, even if they're not sure TCS staff can help, noting, "They won't be able to help you if you don't ask the question."

### FOLLOW-UP

There are numerous ways to meet potential clients, but turning these contacts into sales requires additional effort in relationship building. Several of the respondents with the most experience in the region, particularly China, emphasized the importance of follow-up communication. Follow-up communication works to signal a firm's commitment to the client and helps strengthen the relationship. As one respondent explained, "A lot of companies spend money on presentation materials and all this stuff, and they spend \$10,000 for a business-class ticket to get over there for two or three people ... and then they would do no follow-up and wonder why China doesn't work for out for them. You've got to keep following up."

## MANAGING BUSINESS IN ASIA

Once Atlantic Canadian businesses seized opportunities and began exporting to Asia, they managed their operations differently. Some companies chose to build relations with their distributors; others hired agents to represent them; a smaller number entered into partnerships with local firms; and some opened an office or store in Asia and moved full-time employees into the region. The methods by which companies managed their business in Asia vary not only within sectors but also across countries within a company. As one respondent commented, “What we found was right was having a different model for each country based on how business and technology [were] delivered in the different countries.”

Not all companies can afford to have staff on the ground in different markets, and there is not one specific model for a company to follow. One company selling manufactured products in various Asian markets continually updated its model as the company grew over the years. It began by sending its own staff to these markets, but as the company grew bigger and the need for specific languages skills and cultural understanding increased, it began hiring recent business graduates in Atlantic Canada who were originally from these countries. The company finally moved towards a model where it hires foreign nationals to represent it in the locations where it has operations.

### AGENTS AND DISTRIBUTORS

For smaller companies, hiring agents or entering into agreements with exclusive distributors in Asia has been a common way to enter key markets like Japan or China. Many respondents stressed how important it is to have somebody on the ground in the Asian market to represent them—someone who has knowledge of the market and can significantly facilitate market entry.

Not all relationships between a company and an agent or distributor have been successful; three Atlantic Canadian firms reported having problems. The distance between Atlantic Canada and Asia, and the cultural barriers between the two regions, can make finding quality agents and monitoring their activities difficult. In one case, the respondent ran into a problem when the agent changed the prices without consultation and failed to repatriate some sale proceeds. Because many of the relationships between companies and agents or distributors are informal, and legal jurisdiction is difficult to navigate, there are few plausible, simple remedies to address agent or distributor problems.

What seems to have worked best in terms of finding an agent or distributor was for companies to select one that had previously worked with companies in the same industry, that had experience in Canada, or that had a good reputation with trade commissioners. Respondents who had a successful relationship with their distributor also indicated having taken the time to build a relationship and travelled to the market to meet face to face.

### PARTNERSHIPS

Twelve companies mentioned using Asian agents or distributors, or entering into a partnership with an Asian company to collaborate in the development, marketing, and/or distribution of a new or modified product. A food company and a small software firm both found local partners to adjust their products for the local market. A health-care firm forged

partnerships in China to gain networks and improve market access. An energy firm started a joint venture in Hong Kong with a mainland China firm in order to allow information to be shared in a politically sensitive sector.

None of these firms relied exclusively on partnerships to operate in Asia; rather, partnerships were forged to tackle specific issues of product development and/or distribution. All these partnerships proved effective for the interviewed companies.

### SENDING EMPLOYEES ABROAD

While there is a clear tendency for the larger and more established companies to open their own offices in the region, small enterprises have also found creative ways to maintain a presence at minimal costs using in-house staff. For two firms, responsibility for expanding in Asia was given to a trusted family member—in one case, based in Hong Kong, and in the other, Vancouver. In another small firm, one partner is based in Asia for three-quarters of the year. Yet another company relocated a Chinese-Canadian staffer to China to manage operations there.

### OPENING OFFICES

Several of the larger firms consulted had set up offices in the Asia Pacific region. These offices, with dedicated Atlantic Canadian staff or foreign nationals, have allowed these firms to achieve more extensive market penetration. Two respondents maintain offices in Australia that service the Australian market and handle some of their Asian business. Several larger fisheries companies have set up offices in China and Japan. They, however, expressed caution about rushing into setting up an office, explaining that it is an expensive process and that companies need to be adequately prepared.

The first three to four years in China were challenging for one technology and service company that began operations in the country in 2010. The company began by working on a joint-venture project with a Chinese company, hiring a Chinese national to aid in relationship building and translation. While adjusting to changes in Chinese law and differences between Chinese and Canadian law and in light of the growing opportunities it saw in that country, the Atlantic Canada-based company decided to create a subsidiary in China. Today, while the company still faces challenges in understanding Chinese business culture, it attributes over 90 per cent of its revenue to its business in China.

## CULTURAL AND MARKETING CHALLENGES

Dealing with cultural challenges and language barriers while operating in Asia was mentioned by 14 and 12 respondents, respectively. Companies identified three main ways to address cultural and marketing challenges: gaining experience through travel, undertaking specific education, and leveraging Canada–Asia networks.

### BUSINESS CULTURE

Respondents often discussed the importance of understanding the specific business culture of the country in which they are operating. Speaking specifically about Japan, one respondent noted, “No matter how westernized some people feel Japan might be, there are still a lot of cultural things that have a very big impact on business, and it can be difficult to capture business there unless you have people there who are from there or really know the culture and the business side of things as well.” However, those who made the investment and built a strong reputation were rewarded with years of consistent business.

In China, the most commonly voiced cultural challenge was a difficulty in understanding informal relationships. One respondent commented on the difficulty of understanding an individual person’s authority within a company, and a company’s decision-making processes. Another mentioned that “things are very much done between networks of friends and family,” so companies need to understand and work through these challenges. Several respondents noted that cultures vary significantly across Chinese provinces, further complicating the process.

### CONSUMER CULTURE

Respondents reported challenges in adjusting and branding their products for Asian consumer cultures.

Even companies with suitable products or services should expect to make alterations to match each specific market’s culture, norms, regulations, and/or environment. A number of companies reported the need to adjust the content, packaging, size, and/or look of a product.

A high-tech service company reported having to work closely with South Korean developers to add culturally appropriate content and address software security issues. One respondent in the construction industry noted the challenge of educating Japanese clients about the company’s products. Before launching a successful product in Japan, one company performed research on how Japanese consumers evaluate a product’s looks, taste, and quality; the same company came up with a Chinese name for itself before moving into China.

In addition to adjusting products or services for the region, companies also talked about the importance of branding. Most mentioned that they only addressed branding (outside of using the company name) after they entered an Asian market. Almost half of the respondents saw value in branding their products or services as Canadian rather than under a regional or provincial title. According to one seafood company, “It’s branded as a Canadian company ... we certainly push Canada. Canada is very well regarded in Asia. It is seen as [having] very safe food, clean, cold water—that type of image. Canada is well respected, so we certainly promote that.” A few companies also reported using the well-known *Anne of Green Gables* story to promote their products.

Before attempting to make a sale in the Japanese market, one company researched how Japanese people consume certain food products and evaluate their looks, taste, and quality. In doing so, the company created a unique product that has been selling well since the late 1980s. Taking time to appreciate a particular national consumer culture laid a strong foundation for the company's success in eight Asian markets.

### ADDRESSING CULTURAL AND MARKETING CHALLENGES

Companies reported improving their knowledge of Asian business and consumer cultures through experience, education and networks.

#### *Learning by Experience*

Four respondents had previous experience living in Asia that provided them with Asian business networks and an understanding of regional markets. Most companies, however, learned about Asian markets and business cultures through travel and business transactions; they expanded their knowledge through direct engagement with clients and colleagues in the region. As one respondent recounted, "In the early days, I thought that in Japan 'yes' meant that they agreed, and then I thought that [it meant] they understood, and I basically realized that it means, 'yes, continue to talk.'"

A number of respondents mentioned that it would be valuable to have more opportunities to learn from other businesses, and highlighted the lack of such meetings in the region. One respondent mentioned appreciating TCS events in the region because they afford a rare opportunity to meet colleagues and learn from each other's experience.

#### *Education*

A small number of respondents either studied Asian business cultures before entering Asia or upgraded their skills once they became involved in the region. Two respondents reported formally studying Asian culture in post-secondary institutions; one did so more than a decade before starting a business, while the other enrolled in language courses after the respondent's company's exports to Japan increased.

Several companies reported upgrading their knowledge using government resources. Two mentioned that seminars put on by the TCS were helpful. A seafood exporter recalled: "We had a ... Canadian trade commissioner from Asia who came and gave us some advice on how you negotiate, how you discuss, how you answer emails, and things like that. ... That seminar was quite helpful because I realized that I did a lot of mistakes from the beginning in building this relationship."

In addition to the TCS, there are several private-sector consulting firms in Atlantic Canada that specialize in preparing regional firms to enter Asian markets, particularly China. A few companies reported using such services.

In general, companies were interested in seeing more locally available programs. An ocean-tech company explained that such programs would "give us more education about the market and the way business is done. That's another obvious hurdle I think some of us struggle with. ... Business communications and etiquette and ways of doing business are a little different, and I don't think everybody at this end is necessarily comfortable with it."

#### *Leveraging Canada-Asia Networks*

Another common method of expanding the skills and competencies needed to succeed in Asian markets involved hiring employees with Asian-Canadian backgrounds or Asian nationals who recently studied in Canada. Numerous respondents mentioned the value of having Asian-Canadians on staff or hiring



domestic nationals with a familiarity with Canada who were capable of interacting with clients.

Said one respondent, “Over the last several years, we have looked for a bigger mix—let’s say, cultural and language mix—of employees. So we’re more diversified in terms of staff complement here than we used to be. We have people that speak quite a few different languages here, which is helpful.”

Atlantic Canadian universities attract talented people from around the world; this talent pool has been valuable for companies looking to expand in Asia. Three companies reported working with Atlantic Canadian educational institutions to find potential employees who balance technical skills and familiarity with Asia. These respondents mentioned hiring Asian nationals who were recent university graduates.

One respondent recommended that small firms leverage international skills and talents in Atlantic Canadian universities to develop international marketing plans. The respondent suggested that this would benefit companies lacking resources dedicated to international business development while providing students with work experience.

Not all companies are able to hire Asian nationals living in Canada, but those that have done so have identified these employees as assets when expanding into Asia. One high-tech company benefited by hiring doctoral graduates from Atlantic Canadian universities who had research experience in both Canada and Asia. These employees’ ability to understand complicated nuances in their specific fields in multiple languages allowed the company to effectively communicate its services, accurately understand its Asian clientele’s needs, and provide timely translations of technical documents. This respondent felt that this increased the company’s confidence and made its Asian partners more comfortable.

## GEOGRAPHICAL AND LOGISTICAL CHALLENGES

Atlantic Canadian companies face various logistical challenges in growing their business in Asia related to passenger travel, air cargo and maritime shipping.

### PASSENGER TRAVEL AND REGIONAL ACCESSIBILITY

Companies reported grappling with Atlantic Canada's inherent geographic distance from Asia. Most respondents reported travelling frequently to Asia. Although flying to Asia remains time-consuming, some commented that getting there has become easier over the years, especially since the number of direct flights out of Toronto Pearson International Airport has increased. However, the costs of travelling are significant, especially for smaller companies.

The geographic location of Atlantic Canada has proven difficult for companies to attract business delegations from Asia. A couple respondents reported feeling left out of the Canada–Asia business networks. As one respondent complained, "As far as the trade officers [focusing on Asia] are concerned ... the border stops in Quebec. Anything east of there doesn't exist. ... So when there are any incoming buyers missions or promotions stuff, I bet you Atlantic Canada would be pretty well forgotten."

### AIR AND MARITIME CARGO SHIPPING

Some Atlantic Canadian companies noted challenges shipping products to Asia. Although one company mentioned the lack of options for less-than-container load (LCL) shipping out of the Port of Halifax, the interviews did not reveal systemic complaints about containerized shipping out of the Atlantic Canada region.

A widespread challenge highlighted by respondents from the seafood industry is the lack of frequent and reliable air cargo capacity between Halifax and Asian destinations. There are direct air cargo connections during the summer and holiday seasons,

but companies have expressed a desire for a greater number of stable flights. This is particularly true for periods of high demand such as the Chinese holidays. As one exporter of live lobster noted, "I lose sales consistently because there is simply not enough cargo space to get it there."

According to two respondents from the seafood industry, prevailing air cargo costs from Canada's major air carrier have stunted the development of new air freight capacity by dissuading new competitors from entering the market. These respondents felt that the freight rates charged by the major carrier to Asian destinations are artificially low. Consequently, when these exporters use alternate carriers to ship their products, the cost difference dissuades buyers accustomed to low freight rates, particularly those in China. As one respondent indicated, "Believe it or not, I'm complaining that [the major Canadian airline company] prices are too cheap, because it's creating a barrier to trade."

According to another exporter, "Other carriers who would have interest in operations to China—and, increasingly, that market just will grow, so it's a natural that other carriers and other couriers would be interested—but when the benchmark [major Canadian airline] rate is low, they can't compete with it, so they can't offer us solutions."

### ADDRESSING GEOGRAPHICAL AND LOGISTICAL CHALLENGES

Several solutions were suggested to address the identified transportation challenges. To maintain a constant presence in the region, companies stressed the importance of consistent access to travel funds. Absorbing travel costs is easier for large, well-established companies and much more difficult for small and medium-sized companies. Government support of travel costs would assist SMEs in making the repeated trips to Asia that are necessary for growth.

Strengthening interactions with Atlantic Canada–Asia business networks requires increased attention from trade officers and government officials involved in trade-related activities.

Increasing freight capacity and cargo options was viewed as vital for the region, and especially for exporters of live products. Regardless of whether or not the respondents correctly identified the cause of their air cargo problem, their counterintuitive complaints about low air cargo rates underline the importance the industry places on increasing air cargo capacity. One expert in logistics suggested that provincial and federal policy-makers be more open to innovative programs dedicated to establishing new cargo connections between Atlantic Canada and Asia. This could come in the form of preliminary revenue insurance programs to help reduce the risks for new air carriers looking into servicing the region.

As several respondents noted, the region needs broader policy initiatives—similar to the Pacific Gateway—that could strengthen the connections between Atlantic Canada and Asia. All of the respondents' recommendations to address geographical and logistical challenges could fall under some form of an Atlantic Canada gateway to Asia.

One live seafood company reported tackling logistics and shipping challenges head-on by specializing in logistics for its products. The company familiarized itself with all the possible routes, carriers and rates for moving its product from the Atlantic to key markets throughout Asia. The company says it now has the ability to quickly respond with an appropriate shipping solution to meet order deadlines, maintain the quality of the product en route, and minimize loss of sales.

## TARIFFS AND REGULATORY CHALLENGES

Atlantic Canadian firms can face an array of customs regulations, labelling requirements, duties, and other potential barriers to trade. Competitors from other countries sometimes enjoy favourable market access. These challenges can be mitigated through policies to lower tariff barriers and through efforts to provide publicly accessible information about Asian regulatory environments.

### TARIFF BARRIERS

Tariffs are a clear barrier to trade. The increased cost they impose on products can make those products close to unmarketable in Asian countries. In particular, agrifood firms were likely to mention the problem of tariffs. As one large exporter of seafood products noted, tariffs made all the other challenges the firm had in exporting to Asia seem “relatively minor in comparison.”

The tariff issue is particularly acute when competitors from other countries enjoy privileged access to Asian markets not enjoyed by Canadian companies. One respondent spoke about competition within China: “We face issues like now, in the seafood business, Iceland has done a [free-trade agreement] with China, and they have a competitive advantage against us on a lot of similar species. So that will make it more difficult for some Canadian companies. And China is an important and growing market for products generally, and that’s an issue.”

Another seafood industry respondent told a similar story about exporting to South Korea. A few years ago, the company was shipping substantial product to South Korea, but the free-trade agreement between the United States and South Korea (signed in 2007 and brought into force in 2012) provided the U.S. seafood industry with a competitive advantage. This led to a decline in sales to South Korea for the respondent’s company. But with the new Canada–Korea Free Trade Agreement (which entered into force on January 2015), the company is hopeful that it will regain lost sales.

### REGULATORY BARRIERS

Regulatory barriers are a common challenge noted by many small and medium-sized exporters to Asia. Concerns over regulations were voiced by companies in many sectors, but were particularly pronounced among agrifood exporters. Some of the complaints relate to labelling requirements and costs. Another mentioned registration challenges for shipping seafood products: “In China, we need a registration for our products. The registration lasts about one year, but we can’t apply for the registration for about three months before [and] it takes about six months to get the registration renewed. For a period of one year we are shut out of that area, until we get the registration redone.” One company was blocked completely for periods of time because its seafood product was considered endangered by the destination country. More than one exporter complained about health papers going missing when shipping to China, which the respondent thought to be a common problem.

Further complicating exports to China is that regulations vary across the country and over time. The required document bundle can be different from entrance point to entrance point. One respondent noted, “The interesting thing about China is, what a successful set of documents is today, for the same customer, next week they may change what they require.”

None of the respondents said the regulatory burdens are getting easier; three mentioned they are getting more difficult. One fisheries industry respondent noted regulations are “getting worse and worse all the time.”

The regulatory burden is complicated further by the inconsistent exercise of authority by customs officials. The challenge is acute for those shipping live products, particularly those shipping lobster to locations beyond the usual major Chinese cities of Beijing, Shanghai or Hong Kong. One company indicated that its clients were “basically blackmailed

at [Chinese] customs to pay such high, high, under-the-table penalties or fees to allow that lobster to clear customs.” Since it was a live product there was little choice but to pay, but this reduced profitability and the customer did not order again.

In comparison to China, shipping to Japan and South Korea was perceived as less burdensome, though similar challenges exist. One agrifood business looking to export to South Korea, for example, experienced a two-year delay registering a health food product. Another agrifood business exporting to Japan has shipments stopped on an annual basis for safety checks. Yet the more predictable and straightforward application of national regulations in South Korea and Japan helped both of these exporters to effectively deal with these challenges.

Regulatory barriers were particularly burdensome for smaller firms. Whereas larger firms had staff to address such issues, small firms reported not having the resources to easily research solutions. They often relied on their distributors, agents, or logistics companies to tackle these issues, often complicating their export process.

## ADDRESSING TARIFF BARRIERS

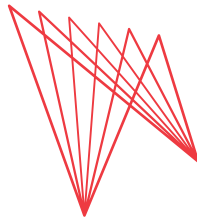
The respondents who noted tariffs as a challenge also tended to express support for present and future trade agreements. These reciprocal deals decrease tariff barriers and the price of their product in foreign markets. This factor was noted by both small and medium-sized agrifood firms. Several expressed approval of the Canada–Korea Free Trade Agreement that entered into force January 1, 2015; one respondent anticipated a firm drop in prices and another looked forward to the government “reducing tariffs like they [did] in Korea.” A large exporter of seafood looked forward to the completion of the Trans-Pacific Partnership, which could reduce tariffs in multiple countries.

## ADDRESSING REGULATORY BARRIERS

Though there is no easy fix for dealing with customs and regulations, respondents suggested steps to mitigate the challenges. One respondent in the seafood industry highlighted the potential benefits of reciprocal arrangements for food inspection agencies. Such agreements could streamline the exporting process by reducing the number of approvals required.

Part of the problem, though, is obtaining access to information about regulations. The primary way of learning to navigate these issues, as one respondent explained, is through trial and error. The significant investment of time it takes to learn about the regulations has led some exporters to view their knowledge as a form of “intellectual property” that provides them with an advantage over other Atlantic Canadian firms.

Respondents suggested several potential ways to overcome the information problem. One underlined the value of government agencies bringing experts to the Atlantic Canada region to organize workshops that provide updates on regulations, particularly Chinese regulations. A regional expert in logistics proposed a centralized database to make information about regulations and logistics options accessible to Atlantic Canadian exporters. Not only would such a system ease burdens on firms currently doing business in Asia, but it could make Asia appear more familiar and less risky for companies not yet in the market.



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