



Asia Pacific
Foundation
of Canada

Fondation
Asie Pacifique
du Canada



CANADIAN BUSINESSES in China 2010

Survey of Constraints and Opportunities





Foreword

As the world flocks to China for business opportunities, there is growing interest in the operations of foreign enterprises in China and the obstacles that they face in that marketplace. Economic reforms in China over the last three decades have made it much easier for foreign companies to operate in China. Furthermore, Beijing's accession to the World Trade Organization in 2001 has put Chinese trade and commercial policy within a framework of multilateral rules. As a result, the international business community is paying closer attention to Chinese laws and practices that affect the operations of foreign enterprises. A number of national chambers of commerce and industry federations produce regular reports on the challenges of doing business in China, usually based on survey data.

This report by the Asia Pacific Foundation of Canada marks the first study to look at the perceptions of constraints to doing in business in China, focusing on Canadian companies. By comparing the findings of our research with similar studies by American and German counterparts, we are able to identify areas of special concern to Canadian firms. We hope that these findings serve both as a guide for bilateral policy discussions as well as an example for Canadian companies looking to enter the Chinese market.

While there are clearly a number of business constraints in China that Canadian firms would like to see addressed, it should be noted that a strong majority of respondents (76 percent) reported that their operations in China were profitable. This finding runs counter to a common perception that while it may be necessary for foreign companies to pursue business opportunities in China, it is rare for these firms to make money in that market. We would note also that many of our respondents represent small and medium-size enterprises, which are often deemed as lacking the scale to be successful in China.

Nevertheless, the obstacles to doing business in China should not be underestimated. The results of this survey provide a roadmap for Canadian and Chinese interests, together with the international business community, to work on business constraints such as the inconsistent interpretation of regulations and lack of transparency in China. There is no question that two-way commercial ties between Canada and China will grow in the years ahead – the challenge is to remove the barriers that hold back the potential for even stronger and deeper economic relations between the two countries.

Yuen Pau Woo

President and CEO

Asia Pacific Foundation of Canada

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Prepared by the
Asia Pacific Foundation of Canada

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Executive Summary

This report summarizes key findings of the 2010 Survey of Canadian Businesses in China, undertaken by the Asia Pacific Foundation of Canada between August and October 2010. The survey was distributed to more than 600 Canadian companies that have done business in China and received 95 valid responses, representing a response rate of approximately 16%. The survey was supported by the Canada China Business Council, the Government of Quebec, the Canadian Chamber of Commerce in Shanghai, Export Development Canada and the Canadian trade offices in China.

The survey is the first of its kind focusing exclusively on the experience of Canadian firms doing business in China. The major findings include:

- 76% of surveyed Canadian companies are profitable in China. This level of profitability is comparable to 80% of German and 65% of American companies, according to surveys completed by these countries.
- The top three priorities for Canadian business in China are: selling into the Chinese market, building partnerships with Chinese firms and attracting investment to Canada.
- The vast majority of Canadian operations in China are focused on market opportunities and potential in China. Two thirds of respondents indicate that China's impressive growth, its huge market and following key customers were the top three factors in their companies' decision to enter the Chinese market.
- Canadian firms are strongest in the services industry. Over 67% of Canadian businesses operating in China are in the service sector.
- Canadian businesses identify the rule of law and environmental problems as the two greatest obstacles to doing business in China. Nearly 68% of respondents noted that the inconsistent interpretation of regulations made business highly difficult. These results are in contrast to similar surveys done among German and US companies. For them, lack of qualified personnel, lack of Intellectual Property Rights protection, and limited market access are the key obstacles to doing business in China.
- There is great potential for Canadian businesses to be engaged in the Chinese market on a long-term base. What is required is that both the Canadian and Chinese governments work together constructively on issues that are of greatest relevance to Canadian businesses in China.

SOMMAIRE EXÉCUTIF

Ce rapport récapitule les principaux résultats du sondage 2010 sur les entreprises canadiennes en Chine qui a été mené par la Fondation Asie Pacifique du Canada entre août et octobre 2010. Il y a eu 95 réponses valides au sondage qui a été distribué à plus de 600 entreprises canadiennes actives en affaires en Chine, ce qui représente un taux de réponse d'environ 16 %. Le sondage a reçu l'appui du Conseil commercial Canada Chine, du gouvernement du Québec, de la Chambre canadienne de commerce à Shanghai, d'Exportation et développement Canada et des bureaux commerciaux du Canada en Chine.

Le sondage est le premier du genre qui porte exclusivement sur l'expérience d'entreprises canadiennes actives en Chine. Voici les principaux résultats.

C'est le premier sondage en son genre, à se pencher exclusivement sur l'expérience de sociétés canadiennes faisant affaire avec la Chine, y compris des entreprises du Québec. Les principaux résultats sont les suivants :

- Dans une proportion de 76 %, les entreprises canadiennes interrogées font des profits en Chine. Ce niveau de rentabilité est comparable à 80 % des entreprises allemandes et à 65 % des entreprises américaines, selon les sondages menés par ces pays.
- Les trois principales priorités pour les entreprises canadiennes en Chine sont : vendre sur le marché chinois, créer des partenariats avec les entreprises chinoises et attirer de l'investissement au Canada.
- En majorité, les activités canadiennes en Chine se concentrent sur les opportunités du marché et sur le potentiel de la Chine. Deux tiers des personnes interrogées affirment que la croissance impressionnante



- de la Chine, son marché énorme et les clients importants à suivre sont les trois principaux facteurs dans la décision des entreprises de pénétrer le marché chinois.
- Les entreprises canadiennes sont les plus fortes dans l'industrie des services. Plus de 67 % des entreprises canadiennes actives en Chine sont dans le secteur des services.
 - Les entreprises canadiennes identifient l'application de la loi et les problèmes environnementaux comme étant les deux principaux obstacles aux affaires en Chine. Presque 68 % des personnes interrogées ont souligné que l'interprétation inconsistante des règlements nuit aux affaires. Ces résultats contrastent avec des sondages semblables effectués auprès d'entreprises allemandes et américaines. Pour celles-ci, le manque de personnel qualifié, de protection des droits de propriété intellectuelle et l'accès limité aux marchés sont les principaux obstacles aux affaires en Chine.
 - Il y a un potentiel énorme pour que les entreprises canadiennes s'impliquent à long terme sur le marché chinois. Il est nécessaire que le gouvernement canadien et que le gouvernement chinois travaillent ensemble de manière constructive sur les enjeux les plus pertinents pour les entreprises canadiennes en Chine.
 - 在华加拿大公司的三项首要工作是：打入中国市场、与中国公司建立伙伴关系，以及为加拿大引资。
 - 绝大部分在华加拿大公司均把重点放在市场机遇和中国潜力上。接受调查的公司中有三分之二表示，影响他们决定进入中国市场的三大因素是：中国的快速经济增长、其庞大的市场，以及跟随关键客户。
 - 加拿大公司的强项来自服务业。超过67%的在华加拿大公司均属于这一领域。
 - 加拿大公司指出，法制与环境问题是其在华业务最大的两个障碍。近68%的接受调查者指出，对有关规章制度前后不一致的解释使商界无所适从。这与德国和美国的同类调查结果形成了对照，他们在华业务的主要障碍是：缺乏合格人才、对知识产权保护不力，以及市场准入限制。
 - 长远而言，加拿大商界参与中国市场尚有巨大潜力。加拿大与中国双方政府所必须做的，就是携手合作，以具有建设性的方式解决与在华加拿大公司息息相关的问题。

内容提要

本报告总结了由加拿大亚太基金会于2010年8月至10月所做的2010年在华加拿大企业调查主要结果。该问卷调查共派发予600多家在中国有业务的加拿大公司，并收回95份有效问卷，回应率约为16%。这项调查得到加中贸易理事会、魁北克政府、上海加拿大商会、加拿大出口发展局，以及加拿大驻华贸易办事处的支持。

本调查为同类研究之首创，专注于加拿大公司在华开展业务的经验。主要发现如下：

- 接受调查的在华加拿大公司中有76%盈利，这与其他国家的调查结果相若：德国公司80%、美国公司65%。

Introduction

Canada is a country whose prosperity depends heavily upon international business. Given the radical changes to the global economic landscape, Canada needs to think beyond its traditional orientation towards North America and Europe, and pursue new opportunities, in particular those tied to a rapidly rising China.

The business relationship between Canada and China has become increasingly important since diplomatic relations were established 40 years ago. China is currently Canada's second largest trading partner after the US and Canada's largest export market in Asia. In 2009, Canada's exports to China increased 8% to \$11 billion while Canada's exports to all other markets declined by 27% as a result of the global economic downturn. In the same year, Canada imported \$40 billion of goods from China. Canadian firms have invested \$3.3 billion in China, while Chinese investment in Canada has reached \$8.9 billion¹.

For many Canadian companies, especially smaller ones, getting started in China and defining an appropriate business strategy can be daunting. Success in China requires that Canadian businesses understand the challenges associated with the Chinese market such as China's business practices and complex and unfamiliar legal system.

Many companies that have rushed in without this understanding have failed. Canadian businesses competing with their international peers for opportunities in China must also be aware of resources available at home and overseas to facilitate their success.

The Asia Pacific Foundation of Canada (APF Canada), with the support of the Canada China Business Council (CCBC), the Government of Quebec, the Canadian Chamber of Commerce in Shanghai, and Canadian trade offices in China, decided to conduct this survey among Canadian companies which have on the ground experiences in China. The results presented in this report shed lights on elements that are critical for Canadian businesses that are in or planning to be in the Chinese market.

2.1. OBJECTIVE

The objective of this survey is to help Canadian business and policy communities understand how Canadian firms are doing businesses in Mainland China and to identify major constraints and opportunities in that market. More specifically, the survey attempts to:

- evaluate the level of success of Canadian businesses in China
- address major constraints that Canadian companies are facing in China
- determine how Canadian governments, both federal and provincial, can work better with the business community to overcome those constraints

2.2. TARGET COMPANIES

The survey exclusively targeted Canadian companies that had been doing business in Mainland China by the time of the survey. It utilized five sources to identify Canadian companies doing business in China:

- Asia Pacific Foundation of Canada – Canadian companies that have a physical presence in China
- Canada China Business Council – Member companies or organizations that have operations in China
- Quebec Government – Quebec based companies that have operations in China
- Canadian Chamber of Commerce in Shanghai – Member companies that have operations in China
- Export Development Canada – Client companies that have operations in China
- Canadian trade offices in China – Canadian companies that are located in their service jurisdiction in China

The online survey system automatically blocks duplicate entries from the same IP address. The identification code in the questionnaire also prevents multiple entries.



2.3. METHODOLOGY

The survey was conducted online² from August 18 to October 8, 2010. An invitation letter with the survey link and a reminder of the survey were sent to over 600 targeted companies through the offices of the APF Canada, CCBC, the Quebec Government, the Canadian Chamber of Commerce in Shanghai, Export Development Canada and Canadian trade offices in China. An announcement of the survey was placed on the CCBC's website³ (in English) and the Quebec Ministère du Développement économique, de l'Innovation et de l'Exportation's website⁴ (in French).

2.4. RESPONDENTS

The online survey received 95 valid responses from Canadian companies that have operations in China, representing a response rate of approximately 16%. The companies' headquarters were located across Canada, with 43% based in Ontario, 25% in British Columbia, 21% in Quebec and 11% in the rest of Canada.

The survey respondents were mainly senior executives of their respective companies. More than 31% were chairperson or CEO, and 44% were board or executive members. The remainder were other staff members of the companies. More than 56% had been working with the company for more than five years.

2.5. ACKNOWLEDGMENTS

The survey, conducted by the APF Canada, is the first to exclusively focus on Canadian companies. There have been similar studies conducted by other countries⁵, which served as reference points for this survey. Information on German and American companies is taken from studies by German Chamber of Commerce in China and The American Chamber of Commerce in the People's Republic of China unless otherwise specified.

The APF Canada gratefully acknowledges that the CCBC, Quebec Government, the Canadian Chamber of Commerce in Shanghai, Export Development Canada, and Canadian trade offices in China have been very supportive of this study.

The APF Canada would also like to thank Air China (Canada) which generously offered a business class return ticket from Vancouver to Beijing as an incentive for participants of the survey.

Special thanks also go to Borden Ladner Gervais which hosted a TE Ladner Business Law Symposium in Vancouver on October 26, 2010. The survey results were released at this Symposium.

For more information about this survey, please contact Kenny Zhang, Senior Project Manager, Asia Pacific Foundation of Canada at: Kenny.zhang@asiapacific.ca.

¹ ASIA PACIFIC FOUNDATION OF CANADA, <http://www.asiapacific.ca/statistics>, accessed on October 7, 2010.

² THE SURVEY SITE WAS CREATED AT:
<http://www.surveymonkey.com/s/CanadianBusinessInChina2010>

³ <http://www.ccbc.com/AboutCCBC%E5%85%B3%E4%BA%8ECCBC/NewsCentre%E6%96%B0%E9%97%BB%E4%B8%AD%E5%BF%83/tabid/71/language/en-CA/Default.aspx>

⁴ <http://www.mdeie.gouv.qc.ca/index.php?id=8879>

⁵ SEE ALSO:

GERMAN CHAMBER OF COMMERCE IN CHINA (2007), GERMAN BUSINESS EXPANSION IN CHINA: 2008-2010 (<http://www2.china.ahk.de/download/pub/GermanBusinessStudy2007.pdf>);

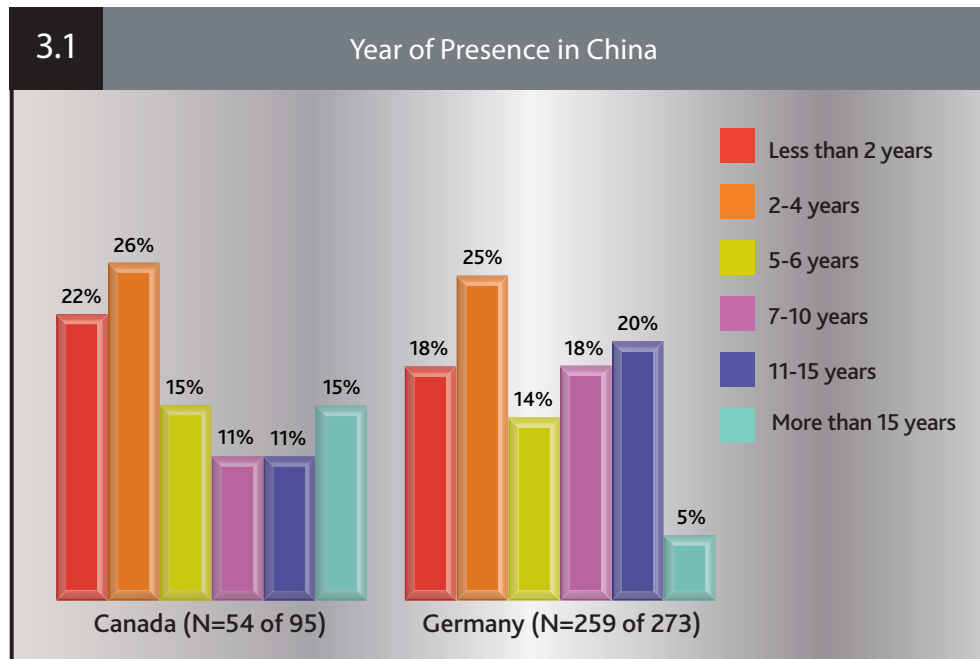
THE AMERICAN CHAMBER OF COMMERCE IN THE PEOPLE'S REPUBLIC OF CHINA (2010), 2010 WHITE PAPER ON THE STATE OF AMERICAN BUSINESS IN CHINA (<http://amchamchina.org/article/6309>).

Overview of Canadian Businesses in China

3.1 DURATION OF CANADIAN BUSINESS PRESENCE IN CHINA

The history of Canadian businesses in China is uneven. Canadian companies arrived in the Chinese market relatively early on, with some 15% of respondents having had more than 15 years experience. The process slowed down between 1995 and 2005, and then gained momentum, with 48% of respondents entering the market in the last 5 years.

By comparison, German companies started later but the rate of entry was more even. Only 5% of German companies had a presence in China 15 years ago, a level that has remained relatively constant to this day.



3.2 LOCATION OF CANADIAN BUSINESS ESTABLISHMENT IN CHINA

Canadian businesses are heavily concentrated in Shanghai and Beijing, the two economic and political centres of the country. Sixty-nine per cent and 68% report that their major business activities are based in Shanghai and Beijing, respectively.

Canadian companies are widely distributed in China. Almost all provinces have some representation, with strong

presence in Guangdong (26%), Jiangsu (26%), Tianjin (23%), Sichuan (19%) and Chongqing (18%). Each of these places is either an industry base or a municipality with mature business environments.

The location of Canadian businesses in China is displayed in Map 3.2.

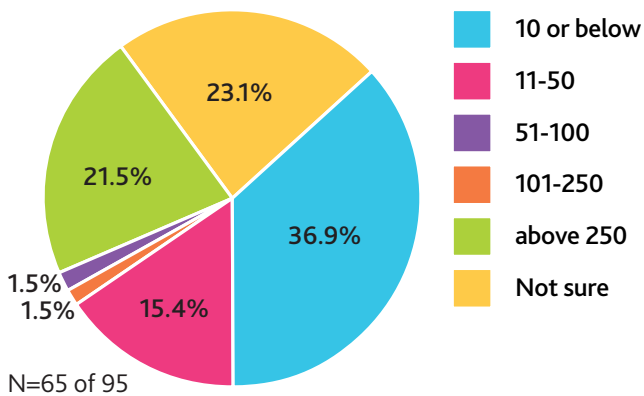


3.2 Location of Canadian Business Establishment in China

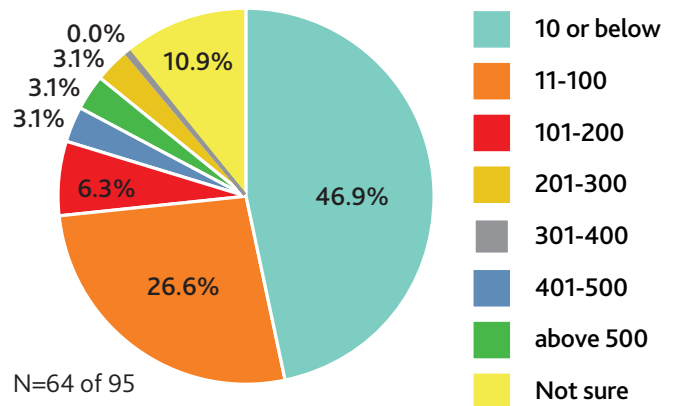


3.3 Size of Canadian Business Operations in China

What is the range of your company's global gross revenue in 2009 (CDN\$ millions)?



How many people are employed by your company in China?



3.3 SIZE OF CANADIAN BUSINESS OPERATIONS IN CHINA

The annual global gross revenue shows that most Canadian businesses in China are either small businesses or large corporations. Nearly 37% of respondents reported that their global gross revenues were under \$10 million in 2009, while another 23% had global revenues of more than \$100 million. Some 15% report annual gross revenues between

\$11-50 million while only 2% report amounts between \$51-100 million.

Nearly half of respondents have less than 10 employees in China. Only 16% of respondents employ more than 100 people for their China operations.

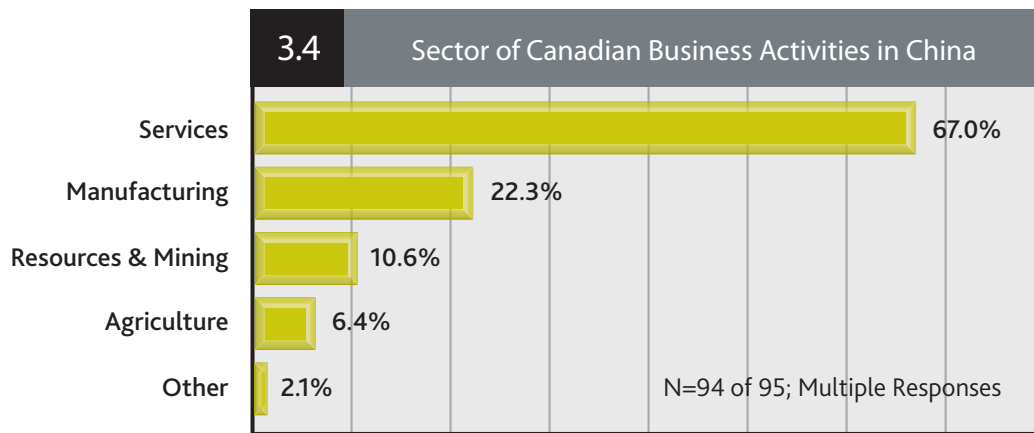
3.4 SECTOR OF CANADIAN BUSINESS ACTIVITIES IN CHINA

Nearly 67% of all respondents reported that their businesses are in the service sector, including insurance, bank, finance, investment consulting, architectural and construction consulting, legal service, trading, and other sales related activities.

and 6% in agriculture. Only 2% belong to some new type of business, such as IT, video gaming, or software development.

Another 22% of Canadian businesses in China are in the manufacturing sector, 11% in the resources and mining industry

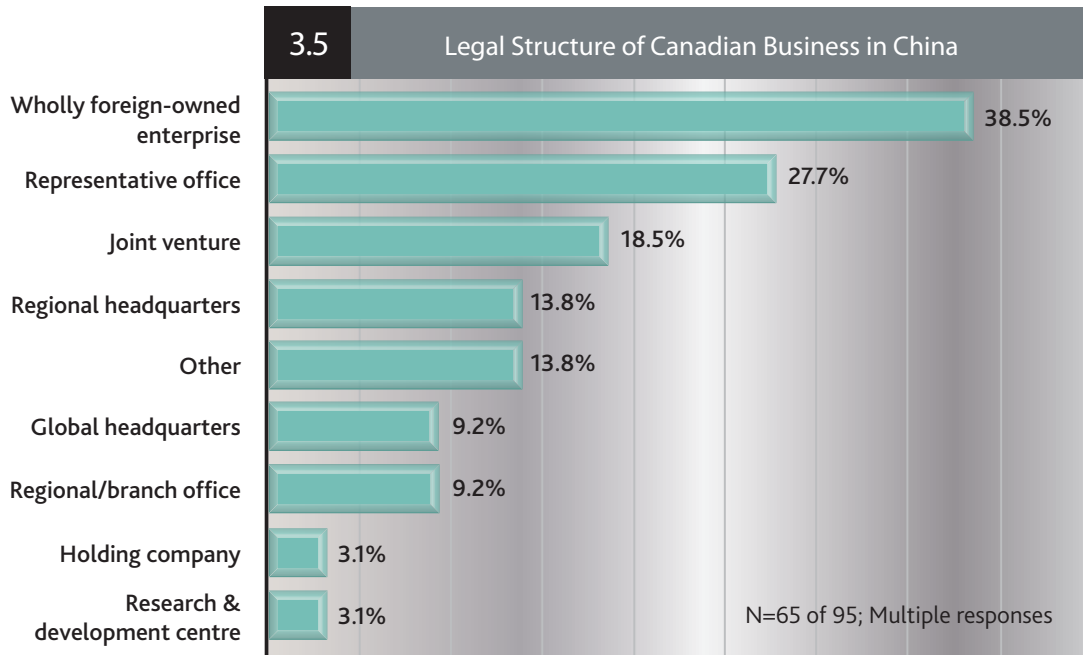
Canadian service-focused businesses in China differ dramatically from production-dominant (68%) German businesses and high-tech- and IT-strong (17%) American companies in China.



3.5 STRUCTURE OF CANADIAN BUSINESS LEGAL FRAMEWORK IN CHINA

Wholly foreign-owned enterprise (WFOE) is the most common practice among Canadian operations in China. Thirty-five per cent reported using WFOE as their legal

framework in China, followed by Representative Office (28%), and Joint Venture (19%). Chart 3.6 illustrates the legal structure of Canadian business in China.



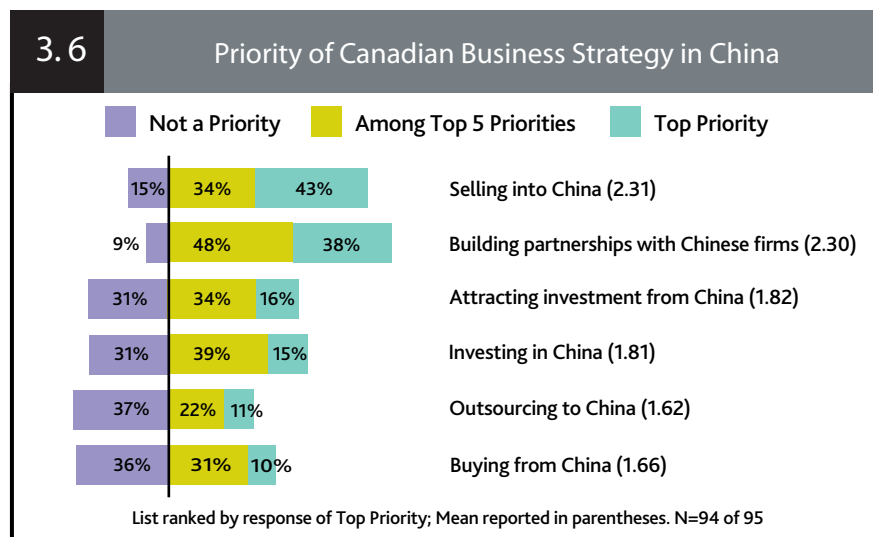
3.6 PRIORITY OF CANADIAN BUSINESS STRATEGY IN CHINA

The top three priorities for Canadian business in China are: selling into the Chinese market, building partnerships with Chinese firms and attracting investment to Canada.

The top priority of Canadian business is selling into the Chinese market. Some 43% of respondents reported that selling into China is their top priority, and another 34% indicated it is among their top 5 priorities. Its average rating (between 1 and 3) ranks the highest at 2.31.

The second priority for Canadian companies in China is to build partnerships with Chinese firms (2.30). Nearly 38% of respondents said that it is the top priority, and 48% indicated it is among their top 5 priorities.

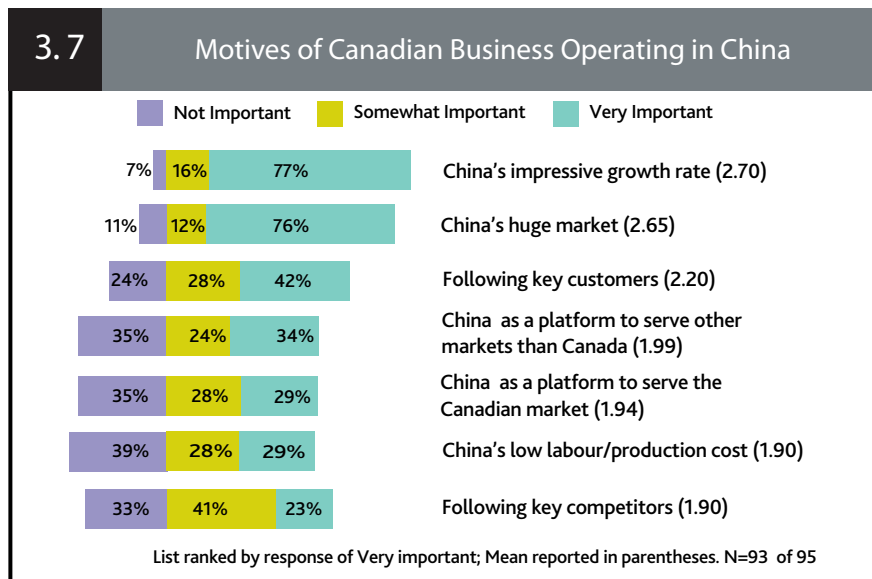
The third priority for Canadian business in China is to attract investment from China to Canada (1.82). Close to 50% of respondents reported attracting investment from China is either their top priority or among the top five priorities.



3.7 MOTIVES OF CANADIAN BUSINESS OPERATING IN CHINA

The major motive for Canadian business operating in China is sales. According to the survey, the most important factor that motivates Canadian business to enter the Chinese market is impressive economic growth. Some 77% of respondents indicate that it is very important for their companies' decision to enter China market. The average rating is 2.7.

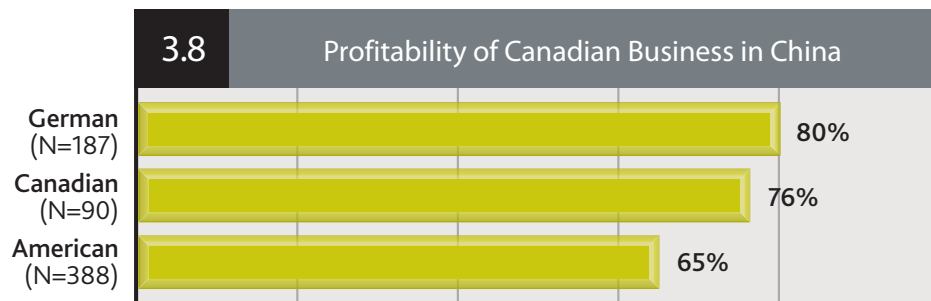
Canadian companies are also motivated by China's huge market (2.65), with 76% of respondents claiming it is very important to their decision to start a business in China. The third most important motivation is following key customers (2.20) who are emerging from or moving into the Chinese market, particularly in the service sector. Nearly 42% respond that this is a very important consideration.



3.8 PROFITABILITY OF CANADIAN BUSINESS IN CHINA

Nearly 76% of surveyed Canadian companies report their operations are profitable in China. The Canadian report card of their performance in China does not differ significantly

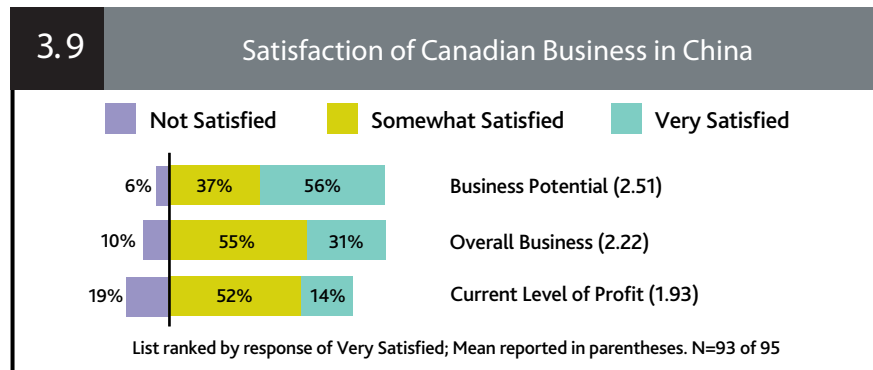
from that of German or American companies operating in China. The comparison is illustrated in Chart 3.8.



3.9 SATISFACTION OF CANADIAN BUSINESS ACHIEVEMENT IN CHINA

In line with the fact that most Canadian businesses are profitable in China, two-thirds of respondents are very or somewhat satisfied with their current level of profit. Nearly 86% of respondents are very or somewhat satisfied with

their overall business in China. With respect to the business potential in China, 56% of respondents indicated they are very satisfied and 37% are somewhat satisfied, compared to only 6% who say they are not satisfied.

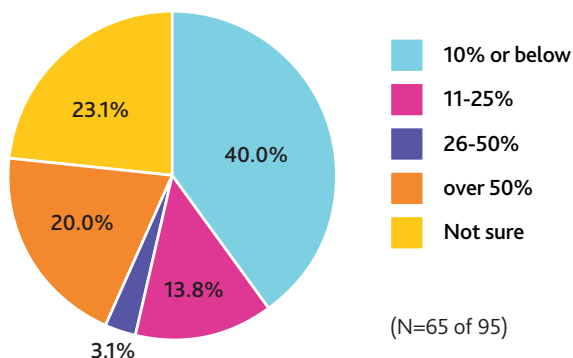


3.10 CHARACTERISTICS OF PARENT COMPANIES OF CANADIAN BUSINESSES

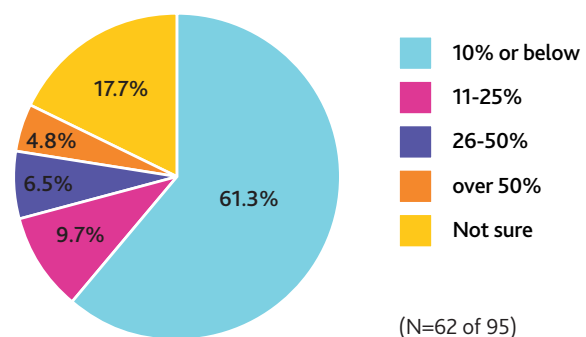
In addition, the survey reveals that parent companies of Canadian businesses in China have the following characteristics:

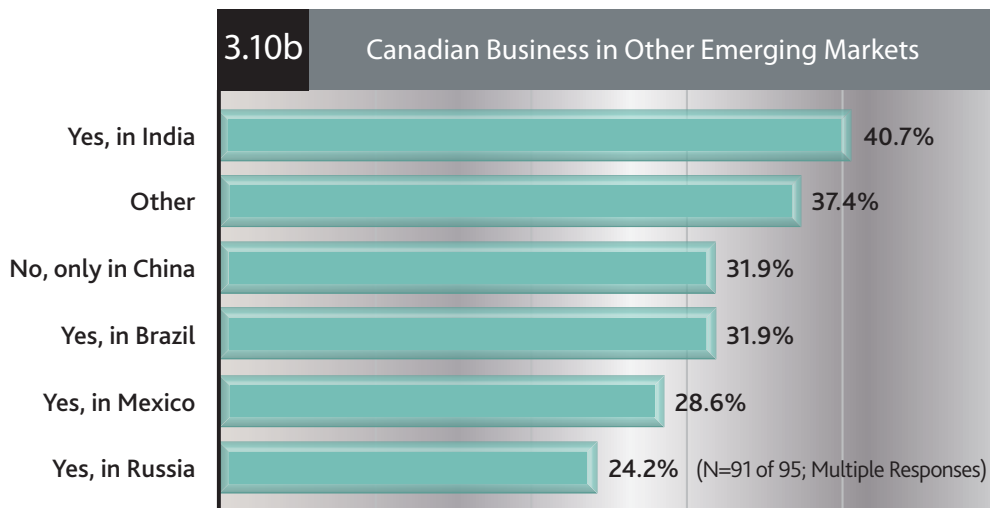
- Although the majority of Canadian companies are making money in China, the revenue from China businesses contributes only a small fraction to the balance sheets of many Canadian companies. Most (40%) respondents indicate that less than 10% of their company's gross revenue in 2009 is attributed to their businesses in China. Only 20% report that more than half of their revenue comes from their Chinese operations (see Chart 3.10a).
- Canadian companies also pay attention to other emerging markets. As shown in Chart 3.10b, respondents who do businesses in China report that they also do business in India (41%), Brazil (32%), Mexico (29%), and Russia (24%).
- Even though hiring local staff is common, Canadian businesses also use some Canadian staff (citizens and permanent residents of Canada) to support their China operations. Some 61% of responses indicate less than 10% of employees are Canadian staff. Nearly 5% report that more than half of employees are Canadian staff, and 16% say their Canadian staff is between 10 and 50 percent (see Chart 3.10c).

3.10a Percentage of your company's global gross revenue in 2009 is attributable to your business in China?



3.10c What percentage of your company's employees in China are Canadian citizens or permanent residents of Canada?





Major Constraints Facing Canadian Businesses in China

4.1 GENERAL BUSINESS CONSTRAINTS IN CHINA

The data show that Canadian companies perceive shortcomings in the rule of law and environmental problems as the greatest constraints to doing business in China. Inconsistent regulatory interpretation is the single-greatest constraint (2.23) with 68% of companies describing it as a problem or major problem. The high constraint ratings for pollution or air quality (2.22) and bureaucracy (2.17) reflect Canadian companies' significant concerns in these areas.

The three-lowest ranked constraints attest to the few problems Canadian companies encounter with living environment (aside from pollution) and infrastructure issues in China. The lowest-ranked constraint in the survey is crime and personal safety (1.21) which nearly 70% of respondents described as posing no problem. The second- and third-lowest constraint ratings are housing conditions for expats (1.22) and water supply (1.24).

4.1	Top Five Business Challenges:		
Canadian Company (2010) <ol style="list-style-type: none"> 1. Inconsistent regulatory interpretation 2. Pollution/air quality 3. Bureaucracy 4. Enforcing contracts 5. Transparency 	US Company (2010) <ol style="list-style-type: none"> 1. Inconsistent regulatory interpretation 2. Management-level human resources constrains 3. Obtaining required licenses 4. National protectionism 5. Bureaucracy 	German Company (2007) <ol style="list-style-type: none"> 1. Protection of intellectual property rights 2. Availability of qualified human resources 3. Legal security & compliance with business terms 4. Bureaucracy & authorities 5. Corruption 	



4.2. CONSTRAINTS RELATED TO STARTING A BUSINESS IN CHINA

Responses to questions about starting a business in China reveal a mixed picture. On the whole, the results suggest that companies' dealings with governments can be complex and time-consuming, while other aspects of establishing a business are relatively straightforward.

The data suggest that red tape is a significant obstacle for many Canadian companies wanting to establish a commercial presence in China. Fully 51.3% of respondents describe obtaining a business permit or license as either a problem or a major problem (1.93). The responses suggest that this constraint bears most upon companies in the resources/mining and service sectors. Construction permits are a less significant problem for Canadian companies (1.87).

While companies may find the licensing process frustrating, the responses show that Canadian companies are relatively satisfied with the supply of affordable business facilities. 50.6% of respondents reported that the availability of affordable business facilities is no problem (1.40).

4.3. CONSTRAINTS RELATED TO THE RULE OF LAW IN CHINA

The survey reveals that Canadian companies find shortcomings in the rule of law to be among the greatest constraints on doing business in China.

The responses show that companies struggle with a lack of clarity in regulations and government processes. The single greatest constraint found in the survey is inconsistent regulatory interpretation. Fully 67.6% of respondents characterized this as either a problem or a major problem (2.23). The constraint with the second-highest overall ranking is bureaucracy (2.17). More than three quarters of companies described bureaucracy as either a problem (47.5%) or a major problem (28.8%). The data also show that a lack of transparency hampers Canadian companies' business in China (2.14)

Respondents also reported challenges in the enforcement of laws and regulations. The data show that Canadian companies see corruption as a considerable constraint (2.06) along with enforcing contracts (2.04) and favouritism towards domestic firms (2.04).

4.4. CONSTRAINTS RELATED TO PRODUCTS AND SERVICES PROVIDED IN CHINA

Respondents were divided on the salience of problems related to intellectual property and brand protection. While 48.5% of firms characterized problems in intellectual property protection as a problem or major problem, more than a quarter of respondents (27.5%) described it as no problem. The data suggest that IP protection issues are most important for manufacturing and agricultural firms. A similar pattern is evident in responses to the brand protection question. While almost half of respondents characterized brand protection as either a problem or a major problem, a few described it as no problem.

The data on constraints related to the certification and adaptation of products and services paint a slightly different picture. While one third of respondents reported no problem with product/service certification, the relatively high rating average of 1.82 reflects that problems were experienced by nearly half of the sample. By comparison, the adaptation of products and services is seen as much less of a problem: almost half of companies surveyed described this as no problem and only 6.5% of respondents described this as a major problem.

Some respondents indicate their belief that Canada has great products but the brands are weak in the Chinese market compared to other industrial countries. Canadian firms have to be more active and involved in marketing and exporting in China. Others indicate that Canadian businesses in China are fragmented. Canada has an enormous amount of innovations and products, yet fails to present them professionally, reliably and under one flag.



4.5. CONSTRAINTS RELATED TO THE LABOUR FORCE IN CHINA

The responses show a mixed picture regarding constraints related to the labour force. Almost one-third of respondents described the rising cost of labour (1.71) as no problem, while nearly half of the sample said this was a problem or major problem. Responses to questions about the availability and retention of senior management staff were broadly similar (1.75). The data show that Canadian companies struggle most with the availability and retention of qualified staff (1.92). 62% of respondents characterized this as a problem or major problem. Some firms expressed a preference for hiring Canadians but noted that Canadian hires tend to lack China insight.

4.6. CONSTRAINTS RELATED TO FINANCE IN CHINA

The results suggest that Canadian companies in China generally do not perceive major constraints in the area of finance. The survey shows that the greatest problem in this category is investor protection, which 40.3% of respondents characterized as a problem or major problem. Approximately one-third of respondents encountered problems with the value of the Chinese currency (1.42) and access to international banking services (1.49), yet these relatively low ratings reflect the high proportion of respondents who saw these issues as posing no problem. The data suggest that currency valuation problems were most relevant to service sector companies, with more than one third of respondents in this sector describing it as a problem or major problem. Finally, the results show that less than a quarter of companies encountered problems getting credit (1.53) and the independence of auditing (1.34). Some respondents characterized exchanging currency and taking money out of China as a business constraint.

4.7. CONSTRAINTS RELATED TO INTERNATIONAL TRADE IN CHINA

Attitudes were divided among companies affected by constraints on international trade. Responses to the constraints of tariffs on imports and exports were split with roughly equal numbers reporting problems or major problems and no problems. A slightly larger percentage of companies (28.6%) reported problems or major problems with non-tariff barriers, though almost a quarter of respondents saw no problem in this area.

4.8. CONSTRAINTS IN COMPETITION AND MARKET CONDITIONS IN CHINA

Responses to questions in this category show that while competition and market conditions in China can be challenging, firms generally do not see major constraints in these areas.

Respondents were split over the strength of their brands in the Chinese market. Almost a quarter of companies in the sample characterized "weak Canadian brand" as a major problem and another quarter described this as a problem. Yet, almost a third of respondents (29.1%) described this as no problem.

The data show that while competition in Chinese markets is intense, firms still see opportunities for growth. Respondents indicated that competition with local firms was strongest with 60.8% of companies describing this as a problem or major problem. Slightly fewer companies (57.7%) found competition with other international firms to be a problem or major problem. Yet despite strong competitive pressures, only 20.3% of companies described saturated markets in China as a problem or major problem and more than half of respondents (53.2%) saw this as no problem.

The results suggest that the majority of Canadian companies would like more information about the Chinese market. 57.2% of respondents described a lack of market data as a problem or major problem, though a quarter of companies reported no problems.

Finally, China's government procurement was seen as a problem or major problem by 39.2% of respondents though 22.8% of companies saw no problem in this area.

Some respondents also indicated other constraints related to competition in China. For example, Canadian businesses are constrained because of a weak Canadian community in China.

4.9. CONSTRAINTS IN INFRASTRUCTURE IN CHINA

The data suggest that most companies in the sample encounter few problems related to China's infrastructure. More than half of respondents described telecommunications (1.38), transportation (1.38) and water supply (1.24) as posing no problem to their business activities. While the constraint rating



for power supply is still comparatively low (1.44), a slightly larger percentage of respondents (25%) described this as a problem or major problem.

4.10. CONSTRAINTS IN COMMUNICATIONS IN CHINA

The survey shows that Canadian companies in China are divided with respect to their perceptions of the salience of local language and cultural barriers. While more than half of respondents described the local language (1.52) as no problem, fully 46.1% of firms see this as a problem or major problem. Interestingly, the constraint rating for cultural barriers is slightly higher (1.57) with 51.3% of respondents describing this as a problem or major problem. One respondent identified government internet controls as a constraint on business.

4.11. CONSTRAINTS RELATED TO THE LIVING ENVIRONMENT FOR CANADIAN EXPATS IN CHINA

With the glaring exception of concerns about pollution and air quality, the results suggest that respondents perceive few problems in the living environment for Canadian expats in China.

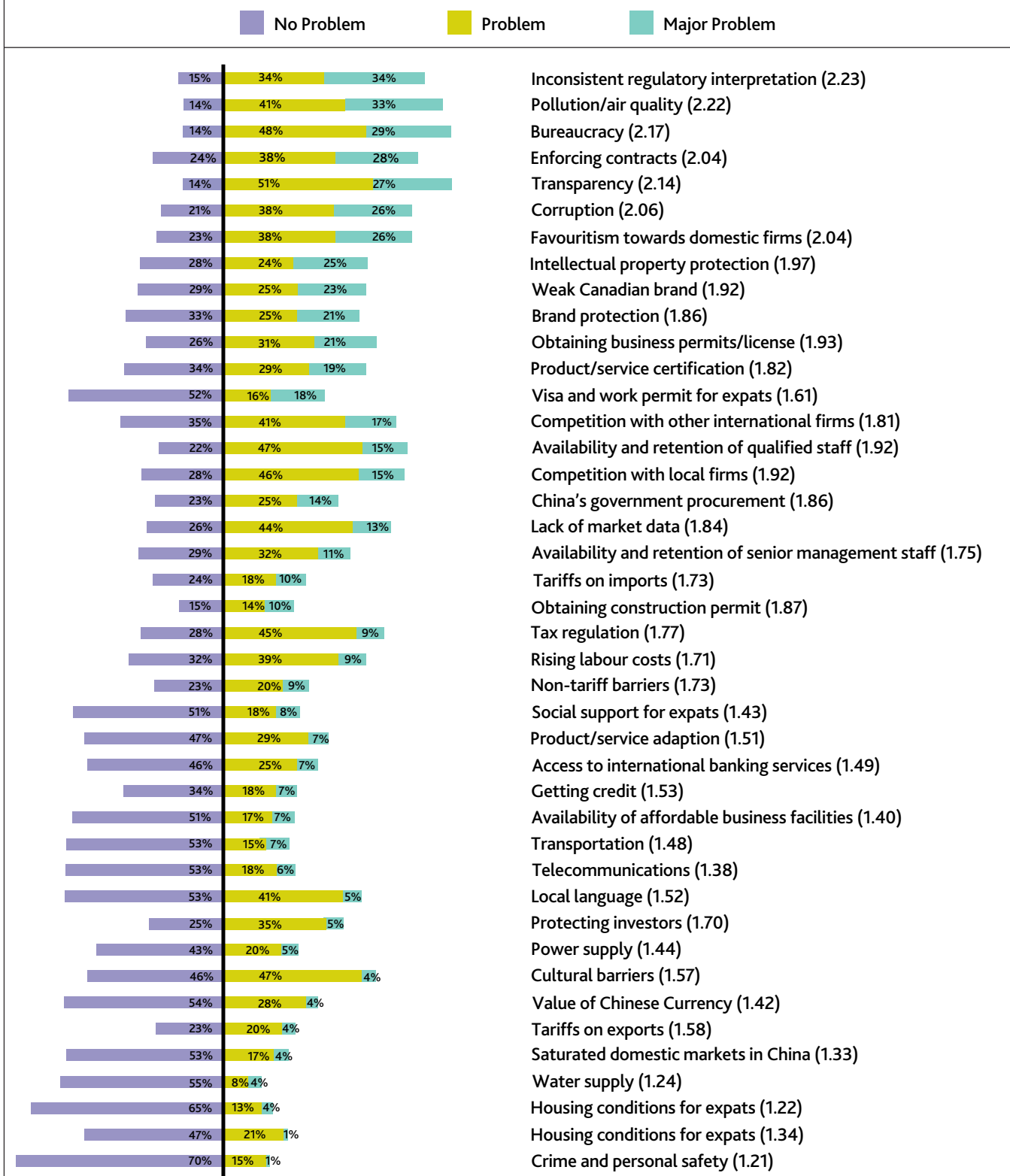
The constraint rating for pollution/air quality ranked second-highest in the survey with 73.4% of respondents describing this as a problem or major problem.

In marked contrast, responses to the other four items in this category suggest that Canadians working in China see few problems with their living circumstances. Nearly 70% of respondents described crime and personal safety as no problem. Similarly, more than two-thirds of respondents reported no problems with their housing conditions (1.22). The constraint rating for social support for expats (1.43) is also comparatively low as just one quarter of respondents described this as a problem or major problem. The responses indicate that obtaining visa and work permits for expats is a relatively common challenge, with one-third of companies describing this as a problem or major problem.



4.2

Constraints Faced by Canadian Businesses in China



List ranked by response of major problem: Mean reported in parentheses



Conclusion and Discussion

"Business in China; nothing is easy and anything is possible!" The assesment, provided by one respondant, describes the sense of business in China. The results of the survey presented in this report address the complexity of doing business in the Chinese market. The findings are especially significant for Canadian businesses, namely,

- The survey is the first of its kind focusing exclusively on the experience of Canadian firms in China. It covers performance, motives and the strategic priorities of Canadian businesses in China. It also addresses the challenges that are unique to by Canadian businesses.
- The survey addresses the gap between the perception and reality of the performance of Canadian businesses in China. Some observers have questioned how Canadian firms could survive and make profits in a market that is unfamiliar to most Canadian companies. The survey found that 76% of surveyed Canadian companies are profitable in China. This level of profitability is comparable with German and American companies in China.
- The survey results reveal the top three priorities for Canadian business strategy in China are: selling into the Chinese market, building partnerships with Chinese firms and attracting investment to Canada. Clearly, the vast majority of Canadian operations in China are focused on market opportunities and the vast potential of the Chinese market. Two thirds of respondents indicate that China's impressive growth and huge market are very important for their companies' decision to enter the Chinese market.
- Canadian firms follow key customers and play to their strength in the service industry. Over 67% of Canadian businesses operating in China are in the service sector. Therefore, the perception that Canadian companies moving to China would cause job losses at home is likely untrue. In contrast, a constant and even stronger presence of Canadian businesses in China will benefit Canada's economy in a long run.
- Canadian businesses in China face unique challenges that differ from Germany or American companies, despite common problems faced by most foreign businesses. Canadian businesses identify the rule of law and environmental problems as the two greatest obstacles to doing business in China. Nearly 68% noted that inconsistent regulatory interpretation made business transparency and contract enforcement very difficult. These results contrast with similar surveys done among German or US companies that identified lack of qualified personnel, lack of Intellectual Property Rights protection, and limited market access as the key obstacles to doing business in China.
- The survey results suggest there is great potential for Canadian businesses to be engaged in the Chinese market on a long-term base. They also suggest that both governments need to work together constructively to resolve issues that are faced by Canadian businesses in China.

ASIA PACIFIC FOUNDATION OF CANADA

220-890 West Pender Street
Vancouver, BC
Canada V6C 1J9
Telephone: 604-684-5986
Fax: 604-681-1370

www.asiapacific.ca

Asia Pacific
Foundation
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