

● Foreign Investment

China's development success this decade will be heavily influenced by the willingness of foreigners to invest in its economy. But it will be bidding for investors in an increasingly competitive environment, which includes the countries of Eastern Europe, as well as other Asian and Latin American nations. With lots of options available, investors looking for an export platform will be less tolerant of political risk. This will increase pressures on China's leaders to govern pragmatically. China's leadership realizes that, to maintain power, they must generate economic growth and increase incomes. They seem to appreciate that growth requires stability, and stability requires growth.

China will likely maintain its efforts to attract FDI in the future, particularly investment which brings in technology or which will increase its export competitiveness. It will continue to welcome technology used in labour-intensive sectors, but increasingly will seek more advanced technology from developed countries to increase the efficiency with which inputs are utilized, to increase the value added in domestic manufacturing and to narrow the technology gap. As China moves to the production of higher value-added goods for export, it will require much more sophisticated technology, at least for the manufacture of certain key components. In many cases, the import of even a few-years-old technology would be a big step forward for China and perhaps appropriate in its present stage of development.

During the balance of the 1990s, we would expect to see China increase the scope for foreign direct investment in the following four spheres. First, the role for foreign investment in the service sector in areas such as banking, insurance and consulting will be increased. An efficient service sector is important for China's overall economic development. Second, China will continue to open up onshore exploration for oil and gas to foreign investors, to increase production both extensively and intensively. Third, the Chinese government will increasingly permit FDI in upstream activities related to large industrial projects to promote the development of feeder industries, to improve the efficiency and quality of products of such industries and to promote their exports. Fourth, the leadership will continue to de-emphasize special economic zones (SEZs) as the destination for FDI flowing into China. While the focus on SEZs was justified in the initial years following China's opening to the outside world, it is now time to try to shift the benefits nationwide.

For the balance of this decade, China should continue to be an attractive destination for investments in relatively labour-intensive industries, especially by Hong Kong, Taiwanese, South Korean and Japanese firms. Despite the plethora of