CANADEXPORT

Focus on China

The Re-engineering of China

With more than one-fifth of the world's population and an economy that has been doubling in size every eight years, China is emerging as the economic motor of the Asia Pacific, with growing political significance. What happens in China will be relevant to the economic health of all major trading countries and to virtually every issue of the global community.

China's economy has quadrupled in size since economic modernization became the hallmark of Chinese government policy in 1978. With current GDP standing at about $750 billion, the country is already the eighth-largest economy in the world, even before resuming full sovereignty over Hong Kong this year. Annual growth is averaging 9 per cent, the world's fastest growth rate in the last decade. This growth is projected to continue at a similar rate, and by early in the next century China is predicted to become the world's largest economy.

Internal restructuring gathers momentum

The economic reforms that began in the late 1970s were the catalyst for redefining the role of the state in China — a redefinition that has gathered momentum since the early 1990s. The central tenet of China's economic reforms was that of increasing economic growth, productivity, diversity and efficiency through the application of market mechanisms.

In commerce, industry and service, the non-state sector has demonstrated tremendous growth, while the state sector has continued to stagnate. The financial sector is also now undergoing a transformation as the state gradually backs out of direct involvement.

Foreign investment continues to grow

China has become a major destination for foreign direct investment, with annual flows increasing from US$4 billion in 1990 to more than $38 billion in utilized foreign investment by the end of 1995. Hong Kong and Macao remain the major source of foreign investment into China, with nearly 60 per cent of the total, while the U.S., Japan and Taiwan each represent about 8 per cent of the total. Industry has captured more than 50 per cent of the investment, followed by real estate and utilities at 30 per cent. Most investment to date has been focused in the coastal regions, and the government is now strongly encouraging investment into the interior.

Canadian direct investment in China reached $340 million in 1995. However, any investment requires lengthy and detailed negotiation and usually includes substantial requirements for technology transfer. Canadian firms should study all aspects of a prospective investment carefully and commit resources with caution and a clear understanding of Chinese investment policy and law.

Canada-China trade relations

China's foreign trade has outperformed the world average by a factor of more than two. China's imports have grown from under US$12 billion in 1978 to more than US$132 billion by the end of 1995, while its exports have increased from under US$10 billion to US$149 billion.

Trade between Canada and China has grown rapidly over the last quarter century. From only $161 million when diplomatic relations were established in 1970, two-way trade stood at almost $8 billion in 1996. Over the last five years, Canadian exporters have increased their sales by 35 per cent, to $2.85 billion. China and Hong Kong combined now represent Canada's third-largest trading partner after the United States and Japan.

Continued on page II
The Re-engineering

IN THIS ISSUE