

foreign investment, the Chinese government created four special economic zones (SEZs): Shenzhen, Zhuhai, Shantou and Xiamen. In these areas, potential investors are offered special preferential treatment including tax holidays, access to imported parts and foreign exchange, freedom to hire expatriate staff and relative freedom to hire and fire labour. In 1984, China added fourteen coastal cities, as well as Hainan Island, to the four existing special economic zones with similar preferential treatment.

In 1988, Hainan Island became a province and a "super-special zone," with free-port conditions extended to foreign entrepreneurs along with the right to buy land. Although Hainan offers many opportunities to foreign investors, there is presently very little infrastructure or industrial base. Firms from Hong Kong and Japan have shown keen interest in developing Hainan's infrastructure.

China's push to attract foreign investment capital will continue to be a top priority. In 1992 alone, the SEZs attracted U.S. \$2 billion, while the 14 coastal cities attracted over U.S. \$5 billion in foreign direct investment largely from Hong Kong, Taiwan, the U.S.A., and Southeast Asia. The priorities for foreign direct investment are the development of import substitutions and export-oriented industries. Wholly foreign-owned firms are allowed in SEZs and have been relatively more successful than joint ventures in turning out high-quality exportable goods. Canadian presence in the SEZs has, to date, been limited.

Foreign Investment in China

In 1978, China embarked on an economic modernization program that saw it become one of the first socialist countries to welcome foreign investment. Between 1979 and 1992, over U.S. \$116 billion (U.S. \$34 billion actually invested and paid for) of foreign investment contracts were signed with China, in the form of some 90,000 foreign-invested enterprises. In 1992, the export volume of foreign-funded enterprises was believed to total U.S. \$17.4 billion, or roughly 20 percent of China's total.