

the world. Thirty per cent of Hong Kong's trade involves China, while 40 per cent of China's trade passes through Hong Kong. Total two-way trade between Hong Kong and China amounted to an estimated US\$60 to US\$80 billion in 1992.²⁰ Commercial links have surged since China embarked on its economic reform program in the late 1970s and introduced trade liberalization and the special economic zones in the early 1980s. Furthermore, indirect trade between Taiwan and China has been increasing rapidly in recent years.

Foreign direct investment has played a critical role in Hong Kong's development. Hong Kong welcomes foreign investment, and no official distinction is made between investments by foreign companies and those controlled by local interests. Estimates on cumulative foreign direct investment in Hong Kong suggest that Japan and the U.S. are the leading investors in Hong Kong, with each having supplied approximately one-third of the stock of inward foreign direct investment as of 1990.²¹ China's role as an investor in Hong Kong has been expanding rapidly, rising to about 10 per cent of the total stock in 1990 from nothing in 1980. Foreign corporations are attracted by Hong Kong's role as a future capitalist enclave within China.

2.5 China

China has experienced considerable turbulence in its efforts to develop its economy in the postwar period. While China's efforts to modernize since 1949 have brought the country from abject poverty to the ranks of the middle-income developing economies, it is during the post 1979 economic reform period that it has experienced truly dramatic economic growth and development. Political and foreign policy considerations have always played a crucial role in shaping China's approach to economic development and will continue to do so. Nonetheless, even before the reform period, Chinese decision-makers recognized the importance of trade for economic growth and development.

For most of the post-war period, there was little opportunity for private enterprise. State industries operating under China's central planning system dominated all facets of economic activity. Although this strategy helped to organize China's productive resources to meet many basic needs, the lack of incentives

²⁰ Hong Kong figures suggest the total value of two-way trade was US\$81 billion in 1992, with China enjoying a surplus of almost US\$10 billion. Figures for China indicate that the total was US\$58 billion, with China recording a surplus of US \$17 billion. Source: IMF, Direction of Trade Statistics Yearbook, Washington, 1993.

²¹ U.N./C.T.C., World Investment Directory 1992, Volume I: Asia and the Pacific, 1992.