and secondary industries.

4.4 Subregional Integration

Greater China, or the South China Economic Zone, comprises south China, Hong Kong and Taiwan. Firms from Hong Kong and Taiwan have invested considerable sums in the southern provinces of China, and mainland Chinese firms have in turn invested significant amounts in Hong Kong. Moreover, Hong Kong firms appear to be leading the charge of foreign investors further into the mainland. This wave of foreign investment has seen the emphasis shift from investing in production for export to production for China's domestic markets. The proximity of China and its supplies of land and labour, as well as a common language and culture, have proven attractive to off-shore Chinese investors in Hong Kong and, more recently, Taiwan, who have seen the international competitiveness of their low-end manufactured goods decline as land and labour costs at home escalated. With investments of US \$22 billion by approximately 17,000 enterprises, Hong Kong firms employ as many as two million people on the mainland and account for approximately 60 per cent of total foreign investment there.[40] Actual Taiwanese investment in China has reached an annual level exceeding US \$1 billion, but this figure may considerably understate actual levels because of unreported indirect investment.

Most investment from Hong Kong and Taiwan has been conducted by small and medium-sized firms and has focused on low value-added manufacturing and assembly operations, such as textiles, toys and footwear. In many situations, inputs and/or semifinished goods are shipped in from Hong Kong, and the finished products are shipped back to Hong Kong for export to third countries. That said, investors are now expanding their investments into areas such as distribution systems and production for China's domestic market. Many Taiwanese firms still consider the risks associated with large-scale investment in China to be too great. This situation is not likely to change dramatically until an effective legal framework for business is established and more stringent legal protection for foreign firms in China is developed.

[40] A recent OECD report indicates that total actual FDI in China in the post 1979 period was US\$60 billion, including US\$26 billion in 1993. Hong Kong continues to account for roughly two-thirds of China's FDI inflow, while Taiwan continues to play an increasing role. The ratio of actual to contracted FDI has declined significantly since 1990 to about 20 per cent. See "China's Progress Towards an Open Economy", OECD, March 1995, or "Foreign Direct Investment in China", OECD, March 1995.