

the EU states. Inward FDI flows have been heavily concentrated in the manufacturing sector, particularly the electronics industry. Taiwan's outward investment has been concentrated in the industrial sector, although the figure has declined from 85 per cent to 66 per cent. This has been offset by an increase in the share of Taiwan's outward investment that has been going to the tertiary sector.<sup>19</sup>

## 2.4 Hong Kong

Hong Kong is strategically located along international trade routes and possesses superb port facilities and an industrious labour force. Trade, and increasingly trade with China, is the lifeblood of the territory. Hong Kong is devoid of natural resources and almost entirely dependent on imports to meet the raw material needs of its industries. Exports generate the foreign exchange to pay for these imports. Hong Kong's success has relied principally on encouraging foreign direct investment and free trade. Recent economic performance continues to be impressive, with real GDP growth averaging 6.3 per cent per annum between 1980-93.

The current government maintains no manufacturing operations, imposes few business regulations and maintains virtually no controls on international trade. The government has largely limited its role to maintaining physical infrastructure, such as transportation, ports and housing, and to providing social services, such as education and health care. While Beijing has promised not to alter the economic system in place in Hong Kong after it repossesses the colony in 1997, the prospect exists that China will not intentionally kill the laissez-faire system that currently exists, but that it may, through bureaucratic meddling, cause the system's arteries to harden.

The principal challenge facing Hong Kong has been to shift from the production and export of labour-intensive products, such as textiles and apparel, to more capital- and skill-intensive goods, such as electronics. While the share of total exports occupied by textiles and apparel remained relatively steady during the 1980s--around 39 per cent--there has reportedly been a continual upgrading of goods within this sector to a higher value-added level. Most of Hong Kong's manufacturing activities, however, are still concentrated in light industries, such as electrical and consumer electronic products, toys, and clocks and watches.

China is currently Hong Kong's most important trading partner, reflecting the key role played by Hong Kong as a conduit for trade between China and the rest of

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<sup>19</sup> U.N./C.T.C., *World Investment Directory 1992, Volume I: Asia and the Pacific*, 1992. For further investment details, see section 4 below.