economy, investment, both domestic and foreign, and consumption spending should remain strong over the medium term. Non-state sector firms and those with foreign investment will continue to record the largest increases in output.

Much has been made of China's shortages of skilled labour, infrastructure, energy and housing, and the restrictive impact they will have on China's growth. By using price reform to trim energy and transport coefficients, by utilizing more fully the capacity created in the prereform era, and by successfully expanding investment in these factors in line with Seventh Plan targets, China has been able to sustain a rate of growth far above what had been anticipated for most of the 1980s and 1990s. While China's overall growth performance to date has belied sustainability concerns, these deficiencies will have important implications for growth and development over the medium term. China's transport and energy systems will soon prove to be bottlenecks that will restrain growth.

China is more likely to have difficulty maintaining exceptional growth rates after the coastal provinces approach the current level of development of the Asian NIEs. The lack of infrastructure in the inland provinces may dampen the interior's ability to sustain rapid growth. Firms looking to supply the domestic Chinese market will be more tempted to transfer production inland in search of cheaper labour, putting considerable strain on existing infrastructure. Firms looking to produce for export may be tempted to look to alternative export platforms, such as Vietnam.

China will continue to run trade and current account deficits for the balance of the 1990s. But this is not unusual for a country at China's stage of economic development. While exports will continue to grow, as will China's share of world exports, imports will probably increase at a somewhat faster pace as China expands its imports of capital equipment. In the absence of a major political upheaval, inflows under China's capital account should largely offset, if not exceed, the current account deficit.

China will re-enter the GATT/WTO before the end of the decade. This will require that Chinese policy makers increase the clarity of economic rules and reduce barriers to foreign investment and imports of goods and services. China could be one of the biggest gainers from the 1994 Uruguay Round agreement because manufactured goods, rather than primary products, make up a large component of its exports. A World Bank estimate[50] suggests that the Uruguay Round agreement, assuming China's re-entry, will boost China's exports by 38 per cent during the next

[50] Both studies were cited in Business China, The Economist Intelligence Unit, Hong Kong, 7 March 1994, pp.4-5.