

become a member of the APEC forum, together with China and Hong Kong, under the name Chinese Taipei.

Taiwanese officials are not without some fear of economic domination by Japan. Recent concern over bilateral trade imbalances with Japan has prompted officials to emphasize the importance of trade relations with the U.S. and the EU.

5.4 Hong Kong

Hong Kong is a major regional trade and financial centre and plays a key role in Asian banking, investment, shipping and communications. The rapidly increasing trade and investment flows between the two economies following the introduction of economic reform in China have caused the economic boundary between Hong Kong and China largely to disappear. Hong Kong and China are now locked so tightly in a web of bilateral investments that progress toward reuniting the two economies is well underway. An investment consortium, which includes members from Hong Kong, Singapore, Taiwan and representatives from various Chinese ministries, has been formed in Hong Kong. Nevertheless, uncertainty about Hong Kong's economic future after 1997 persists, making the question of closer integration with Taiwan, Korea and Japan difficult to assess.

5.5 China

A variety of political and economic factors could have an effect on China's prospects for closer integration with other Asian economies. China must overcome its tendency toward isolationism when confronted with political or economic pressures. Further, tension between China and Japan, including a number of unresolved issues related to World War II, continues to constrain the development of bilateral relations.

The Chinese economy is at a crossroads, and while the prospects for continued rapid economic growth for the balance of this decade remain good, there are a number of potential danger areas. The trend towards marketization of the economy will continue. Nevertheless, China still carries many of the burdens of being both a non-market and a developing economy. These include an ailing state sector, a rapidly growing budget deficit, inadequate infrastructure, increasing regional disparity and the prospects of having to deal with a large contingent of unemployed people--located both in urban and rural areas. Superimposed, is a significant amount of uncertainty with regards to China's medium-term political future.