abroad. Foreign exchange reserves had risen to U.S. $16 billion at the end of 1984 (not including 12 to 13 million ounces of gold) while foreign debt stood at less than U.S. $4 billion. Imports are projected to grow by about 20 per cent annually in 1984 and 1985, slowing in 1986. Emphasis will shift from turnkey plants to technology transfer, licenses and purchases of agricultural machinery, fertilizer, pesticides, steel, timber, chemicals, test instruments, and high-precision machinery.

Investment

In 1979, to speed up regional development of specific areas and to experiment on a small scale with foreign investment, the Chinese government created four special economic zones (SEZs): Shenzhen, Zhuhai, Shantou and Xiamen. In these areas, the PRC offered potential investors (mainly from Hong Kong and Macao, or Chinese abroad) special preferential treatment including taxation, duties, land rental and labour. The aim was to attract, over the short term, capital, technology and expertise. Products from enterprises in the zones are sold on the international market, or replace foreign imports. China has also added 14 coastal cities as well as Hainan island to the four existing special economic zones where foreigners can establish foreign-owned enterprises or joint ventures with access to the Chinese domestic market.

The PRC's push to attract foreign investment capital will continue. Chinese authorities say that 105 new equity ventures were concluded in 1983 — against 10 in 1982 — bringing the total number of equity deals over the last five years to 166. Although figures have not yet been released for last year, preliminary estimates suggest an even higher figure for 1984 than for 1983.

So far much of the action has been from Hong Kong, but there are an increasing number of joint ventures (both in the zones and elsewhere in China) by well-known Japanese, American and European firms. Last year's regulations — containing 188 articles — to implement the 1979 Joint Venture Law were among the many attempts to clarify the investment climate. Chinese authorities, in wishing to encourage joint ventures, are offering incentives such as domestic funds and wider access to the domestic market. For example, Chinese policy allows for 100 per cent foreign ownership in places other than coastal areas and the special economic zones: U.S.-based 3M's electrical tape and insulating resins plant in Shanghai will be the first venture approved under the new regulations. Because of the constantly changing Chinese legal system it would be prudent to consult with a China-knowledgable lawyer or accountant.

Natural resources, especially offshore oil and coal, will continue to attract major foreign investment. The Chinese will probably succeed in wooing foreign oil firms onshore in the next three to five years, despite the remoteness of their richest reserves.

Facilities for the production of machinery, services and consumer goods will attract foreign capital, although the Chinese will be most eager for ventures that include transfer of high technology. The patent law, which will take effect in April 1985, should make it easier to conclude such deals.

Bilateral agreements and treaties will give further evidence of Peking's desire to improve the investment environment. In early 1984 Canada signed a Foreign Investment Insurance agreement with China.

Foreign Trade

Total PRC trade for 1983 was U.S.$ 43.4 billion, made up of $U.S. 22.1 billion in exports and U.S.$ 21.3 billion in imports, for an export balance of almost U.S.$ 0.8 billion.

Over the last few years, PRC trade (imports and exports) as a percentage of GDP (IMF calculation), has risen from 10 per cent (1978) to 16 per cent (1983). Imports have risen from about U.S.$16 billion to $21 billion over the last five years while exports rose from $14 to $22 billion over the same period. China is steadily becoming a more significant world trader; in 1981, for example, PRC exports topped 1 per cent of global totals for the first time, and China was the world leader in sales of several commodities, from pig bristles to tungsten, fireworks to tea.

Despite a low volume of trade *per capita* ($40), the external sector is also becoming important to China. Its modernization drive is fueling demand for foreign technology and its export industries are providing foreign exchange for these essential imports while also propelling domestic growth.

Recent studies on the composition and direction of Chinese trade and investment flows have suggested the following conclusions:

a) Over the next few years, China is likely to continue its imports of grain, industrial raw materials and components, agricultural chemicals and certain building materials while significantly increasing imports of machinery, vehicles and technical equipment in priority sectors such as energy, transportation, light industrial production and education. Defence items do not seem likely to constitute large-scale imports in the near future.

b) The PRC balance of trade is likely to return to a deficit. Attempts will be made to limit the deficit by promoting exports of foodstuffs, light industrial goods (especially textiles), machinery, chemicals, metals and perhaps light arms. Energy (oil and coal) will continue to form a significant part of Chinese exports, but rapid growth of oil exports is unlikely because of falling world prices and rising domestic demand, at least until offshore oil production comes on tap at the end of the decade.

c) The developed nations (especially Japan, the United States, the Federal Republic of Germany, and Canada) will continue to dominate PRC trade,