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CHINA AS A LEADING PACIFIC ECONOMY

by

Kiichiro Fukasaku and Mingyuan Wu

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RÉSUMÉ

Au cours des années 90, la Chine va devenir l'une des économies majeures de la zone Pacifique. Son entrée sur le marché mondial et les conséquences de cette percée pour les pays de l'OCDE, comme pour les économies situées dans les régions de l'Asie et du Pacifique, sont analysées dans ce document. Selon cette analyse, les parts de marché des pays asiatiques dans les pays de l'OCDE ne peuvent augmenter indéfiniment car la Chine et les économies en développement limitrophes se caractérisent par des exportations identiques et sont en concurrence afin d'obtenir des parts de marché pour des produits similaires.

La stratégie dite côtière de la Chine a donné naissance à une "Grande Chine" qui englobe la Chine elle-même, Hong Kong et Taiwan. Au milieu des années 80 les échanges et les flux d'investissement accrus entre la Chine et Taiwan, *via* Hong Kong, ont commencé à être interprétés comme les éléments du processus "de rattrapage" décrit par certains spécialistes comme le schéma de développement en "vol d'oies sauvages".

En bref, l'entrée de la Chine sur les marchés mondiaux est un jeu à "somme positive" car il fournit de nouvelles opportunités de marché, tant pour les pays de l'OCDE que pour les NEI asiatiques. Pour que ce processus de développement soit durable, il est impératif que les marchés restent ouverts dans les pays de l'OCDE. En Chine, la modification des politiques d'incitation qui tient compte de l'investissement étranger, témoigne des réformes économiques en cours ; c'est aussi une démarche indispensable pour réduire la recherche d'activités de rente et pour améliorer l'allocation des ressources.

SUMMARY

China is emerging as a leading Pacific economy in the 1990s. This paper examines the implications of China's entry into the world market for the OECD countries as well as for the regional economies of Asia and the Pacific. It argues that the shares of Asian countries in the OECD countries' market cannot increase without bound, as China and its neighbouring developing economies have basically similar export profiles, competing with each other for market shares for similar products.

China's coastal strategy has led to the emergence of a "greater China", encompassing China, Hong Kong and Taiwan. Growing trade and investment flows between China and Taiwan via Hong Kong since the mid-1980s can be understood as components of "catching-up" processes, described by some trade economists as the "flying-geese" pattern of trade development.

In short, China's entry into the world market is a "positive sum" game, as it provides new market opportunities for both OECD countries and Asian NIEs. In order to make this development process sustainable, it is crucial for the OECD countries to keep their markets open. China's reforms of incentive policies with respect to foreign investment are an aspect of its ongoing economic reforms — a necessary step to reduce rent-seeking activities and improve resource allocation.

PREFACE

This study was carried out in the context of the Development Centre's research on Globalisation and Regionalisation, one of the major themes in its 1990-1992 Research Programme. The aim was to provide a better understanding of the economic and political forces that are working for, and against, the formation of regional economic groupings in Europe, the Western Hemisphere and Pacific Asia, and how those forces interact with the forces promoting globalisation.

China's opening up to the outside world in December 1978 and its gradual transformation into an outward-oriented market economy in the subsequent years are considered a major development for the world economy. It has continuing importance for the trade and investment policies of the OECD Member countries as well as the developing economies in Asia and the Pacific.

China's rapid economic growth and export expansion during the past fourteen years of reform should be viewed in the context of regional development in Asia and the Pacific. Growing trade and investment flows between Hong Kong and China, and between Taiwan and China, are in many respects similar to the "catching-up" processes that have been observed in several East and Southeast Asian economies. The authors of this paper argue that the dislocations resulting from China's inroads in the OECD countries' market have been grossly overestimated. China and neighbouring developing economies in the region have essentially similar export profiles and compete with each other for market shares of a similar range of products.

Jean Bonvin
President
OECD Development Centre
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I. INTRODUCTION^{*}

Since late 1978, the Chinese government has been introducing reforms which have changed the orientation of its industrialisation drive, usually referred to as China's opening to the outside world. This has allowed China to exploit opportunities provided by its access to foreign capital, technology and markets. Macroeconomic figures indicate that China is one of the most dynamic economies in the world. Its gross domestic product (GDP) increased by 10 per cent per annum in real terms over the 1981-90 period. In 1992, the growth rate of China's real GDP was estimated at 12.8 per cent, following growth of 7.7 per cent in 1991. During the first six months of 1993 the economy was growing at an annual rate of close to 14 per cent. Consequently, concern over an overheated economy has recently led the Chinese authorities to cool down the economy by raising interest rates, controlling credit expansion, and restricting development zones and property dealings.

The strong sustained growth of merchandise exports is a key aspect of China's economic success during the past decade or so. In terms of value, China's merchandise exports quadrupled between 1980 and 1991, surpassing \$70 billion and matching the export level of the Republic of Korea (hereafter, Korea). According to the World Bank (1992), China's merchandise exports grew at an annual average rate of 14 per cent in real terms over the period. This exceeded the annual growth rate of Korea's merchandise exports (11 per cent). Indeed, China is emerging as a leading Pacific economy, entering the ranks of the world's leading exporters together with four Asian NIEs (Hong Kong, Korea, Singapore and Taiwan)¹. Much of this success is due to the rapid expansion of manufactured exports². Nearly 90 per cent of the increase in total merchandise exports between 1981 and 1991 was accounted for by manufactured goods³.

The purpose of this paper is to examine the implications of China's entry into the world market for the OECD countries and for China's neighbouring economies in the Asia-Pacific region. What would happen to the "outside world" if China's exports were to continue to grow at their current pace? In some OECD countries, especially in Europe where rising unemployment is an acute political and economic issue, there are serious concerns over competitive pressures from the Asia-Pacific region in general and from China in particular. This situation has given rise to misconceived, protectionist views which assume that trade with low-wage countries such as China destroys more jobs than it creates⁴. Likewise, other developing economies of the Asia-Pacific region have also indicated some concern over China's export competitiveness.

The rest of the paper is organised as follows. In Section II, we begin with a brief review of China's export performance in the OECD countries' market over the past decade. This is followed by a constant-market-share (CMS) analysis of export performance, based on the OECD import data over the 1979-90 period, in order to assess China's export competitiveness relative to other Asian economies. We emphasize the importance of linkages between trade and foreign direct investment as a factor driving the growth of several Pacific Asian economies, including China. In Section III, we examine the role of foreign direct investment(FDI) in China's coastal development strategy, focusing in particular on trade and FDI linkages across the Taiwan Strait. Finally, some concluding remarks are presented in Section IV.

II. CHINA'S ENTRY INTO THE WORLD MARKET

A. Overview

The growth of merchandise exports from China for the past 14 years of reform has been nothing short of spectacular (Chart 1). The rate of export growth has been increasing since the mid-1980s. There have been large fluctuations in the level of imports, primarily due to "stop-go" macroeconomic policies, but the steady rise in merchandise exports in recent years resulted in a sizable trade surplus in 1990 and it reached nearly \$10 billion in 1991. Owing to a domestic consumption boom, however, China's trade surplus dropped to \$4.4 billion in 1992. During the first six months of 1993 China's trade balance swung to a *deficit* of \$3.5 billion.

Official Chinese trade statistics on the country's bilateral trade differ significantly from those published by some of its major trading partners, particularly the United States⁵. According to China's Customs Statistics, the main source of China's trade surplus in 1991 was the \$14.7 billion surplus in trade with Hong Kong, while trade with the United States and the European Community recorded deficits of \$1.8 billion and \$1.6 billion, respectively. On the other hand, the partners' trade statistics show that in the same year China had trade surpluses of \$12.7 billion with the United States and \$10 billion with the European Community.

Finger (1992) attempted to reconcile the two sets of trade statistics by redistributing the value of China's indirect exports via Hong Kong according to the partners' import statistics. He showed that in 1990 the estimated share of the Asia-Pacific region in China's total exports was less than 50 per cent, instead of more than 70 per cent reported by China's Customs Statistics. Similarly, Finger estimated the share of China's exports going to North America at 25 per cent and to Western Europe at 19 per cent, compared with the 9 and 10 per cent, respectively, reported by China's statistics. Taking into account other possibilities of indirect trade (e.g., through Singapore), it would be safe to say that at least two-thirds of China's exports in 1990 would have been shipped eventually to the OECD countries. This roughly corresponds to the OECD countries' share of total merchandise exports of the Asian NIEs and ASEAN countries.

Over the past decade there have been major changes in China's role in the world economy and in its relationships with regional economies. From a global point of view, China's entry into the world market can be seen as the emergence of a major supplier of labour-intensive products, directly competing with several East and Southeast Asian economies. This development has also added to the pressure for adjustment in the OECD countries. One form of positive adjustment by these established exporters is increased foreign investment in China, directly or via Hong Kong. As will be seen, foreign-funded enterprises have come to play a key role as a vehicle for promoting China's exports; they accounted for 20 per cent of its total exports in 1992⁶.

From a regional point of view, China's "coastal development strategy" has brought about the burgeoning of a "greater Chinese economy", comprised of China, Hong Kong and Taiwan⁷. Hong Kong serves as the region's commercial, financial and information centre, through which China's southern provinces have become increasingly integrated with fast-growing East Asian economies. Taiwan is also emerging as a major source of foreign investment, linking the Chinese mainland to the outside world. The rapid development of coastal areas such as Guangdong and Fujian has been made possible through the establishment of formal and informal commercial networks with overseas and Hong Kong Chinese as well as those in Taiwan and Southeast Asia⁸.

B. China's Comparative Advantage and Export Performance

Table 1 presents changes in the shares of China and its major Asian competitors in the OECD countries' import market during the 1979-91 period. Table 2 also provides the same set of data on import shares with respect to manufactured goods, defined as SITC codes 5 to 8⁹. Remarkably, China has managed to increase significantly its relative share of the OECD countries' market during this period. Among the non-OECD countries, China had become the largest exporter to the OECD region by 1991. Moreover, this occurred despite the fact that the market share of the non-OECD country exporters had contracted during the same decade because of weak commodity prices. The increase in China's share is explained by the fact that its export structure has rapidly shifted from primary products to manufactured goods. In 1979, at the onset of China's opening, primary products accounted for nearly 60 per cent of total imports from China by the OECD countries. By 1991, more than 80 per cent of total imports from China by the OECD countries were manufactured goods. As seen in Table 2, China has become the second largest supplier of manufactured goods from non-OECD countries to the OECD countries, next to Taiwan.

In order to assess the relative export performance of China in the OECD countries' market, a constant-market-share (CMS) analysis was used to decompose a country's export growth into: 1) the standard growth effect (i.e., the growth of total imports of OECD countries), 2) the product growth effect (i.e., a country's favourable or unfavourable export concentration on particular product groups), 3) the market growth effect (i.e., a country's favourable or unfavourable export concentration on particular regions of the OECD countries), and (4) the competitive effect. The last effect is a residual which reflects the difference between the actual export growth and the hypothetical growth rate that would have been attained if the country in question had maintained its share in each regional market of the OECD countries with respect to each product group.

It is well known that the magnitude of these four effects calculated by the CMS analysis may be influenced by various factors, including a) the selection of a base year, b) different levels of product and market aggregation, c) the order in which the product and market growth effects are calculated and d) the difficulty of interpreting the residual term (Leamer and Stern, 1970; and Richardson, 1971). Despite these drawbacks, a CMS analysis is a useful tool for identifying the relative export performance of a country with respect to its potential competitors under well-specified conditions.

In this section a CMS analysis was made, using the import data set of the 24 OECD Member countries with respect to 11 Asian exporters, 35 manufactured goods (SITC codes 5 to 8 at the 2-digit level) and 4 regional markets (Japan, Australasia, North America and OECD Europe) for 1979-90 (subdivided into the two periods, 1979-85 and 1985-90). The eleven Asian exporters are China, four ASEAN countries (Indonesia, Malaysia, the Philippines and Thailand), four NIEs (Hong Kong, Korea, Singapore and Taiwan) and two South Asian countries (India and Pakistan). The results of the CMS decomposition are presented in Table 3.

The table shows that, China's manufactured exports to the OECD countries increased by 164.8 per cent between 1979 and 1985, as calculated from the import statistics of the OECD Member countries. This growth rate is decomposed into 1) a standard growth effect of 32.8 per cent, that is, the growth rate of total manufactured goods imported by OECD countries from all sources, 2) product growth effect of -11.9 per cent, 3) market growth effect of 7.2 per cent, and 4) "competitive effect" of 136.7 per cent, which is calculated as a residual. These results indicate that more than four-fifths of the growth of China's manufactured exports to the OECD countries in 1979-85 can be attributed to the competitive effect. Similarly, the competitive effect accounted for 70 per cent, by far the greatest part, of China's increase in exports to the OECD countries during the 1985-90 period.

Table 3 also demonstrates that the competitive effect was the dominant factor contributing to the growth of manufactured exports from Indonesia throughout the period concerned and from Thailand during the 1985-90 period. Furthermore, a significant improvement in the export performance of India, Malaysia and Singapore during the second half of the 1980s was linked to a relative improvement in the competitive effect, whereas the better export performance of the Philippines, Korea and Pakistan was largely due to higher growth of the OECD import market.

By contrast, Hong Kong and Taiwan had relatively poor export performances during the second half of 1980s, with their actual export growth lagging far behind the overall increase in the OECD countries' imports of manufactured products, partly because of a negative market effect and partly because of declining export competitiveness. The latter is represented by a significant decline in the competitive effect (Column 4).

In spite of the limitations of the CMS analysis, our results are consistent with the recent studies conducted by Yeats (1991) and Jones, King and Klein (1993) on China's revealed comparative advantage (RCA) and by Ariff and Chye (1992) on a CMS analysis of export performance of ASEAN countries. Yeats (1991) argues that

except for several natural resource-based products (particularly chemicals) where China has high RCA index, China and Asian NIEs such as Hong Kong and Taiwan — and India as well — have largely competitive export profiles, with China tending to broaden the export base of labour-intensive products. Our results imply that during the decade of reforms China has managed to increase international competitiveness in the OECD countries' market with respect to East Asian economies such as Hong Kong and Taiwan¹⁰. Likewise, it appears that the ASEAN countries, except for the Philippines, have generally improved their export competitiveness in the Asia-Pacific region (Ariff and Chye, 1992).

C. *Links between FDI and Trade: Pacific Asian Perspectives*

It is not easy to explain how transitional economies, like China's, become competitive in the world market. Since the inception of its reform process, China, which had a very rigid command economy, has been undergoing a transformation into a market economy with increasingly decentralised economic management. This has given local authorities and firms increasing opportunities for making economic decisions on their own initiative. Yet China's economic growth over a relatively long period is not satisfactorily explained by a steady improvement in the efficiency of allocation, since the reform process has been gradual and uneven. In a recent paper, however, Panagariya (1993) argues that China's economic success owes much to "productivity gains from dynamic forces unleashed by the creation of an investment-friendly environment and the subsequent inflow of foreign capital, entrepreneurship, technology and market links" (p. 66).

As shown above, the rapid expansion of manufactured exports during the past decade, and particularly since the mid-1980s, is not unique to China. For this reason, the Chinese experience must be examined in the context of the Asian-Pacific region as a whole. An important aspect of industrial adjustment by the economies of this region over the past decade or so is a growth of foreign direct investment (FDI) which, in turn, is related to the export of manufactured products¹¹.

China and four ASEAN countries have been carrying out structural reforms, albeit to varying degrees, dealing with foreign trade and investment, with particular emphasis on market-oriented, outward-looking development strategies¹². It is crucial that these unilateral liberalisation measures be accompanied by appropriate macroeconomic and exchange rate policies for stimulating growth and attracting FDI¹³. In this respect, the exchange rate realignment during the second half of the 1980s, of the Japanese yen, and subsequently of the currencies of Taiwan and Korea, certainly played a central role in stimulating the economies of China and the ASEAN countries (except for the Philippines). Like the earlier practice of the United States and Japan, Asian NIEs have been relocating unskilled labour-intensive industries, in which they are losing their comparative advantage, to neighbouring countries having a greater comparative advantage.

Chart 2 depicts yearly movements of official dollar exchange rates of the yuan and its real effective exchange rates (REER), i.e. trade-weighted and inflation adjusted exchange rates, from 1978 to 1991. Both exchange rates are expressed as indices whose base year is 1978. The REER index was calculated by using official bilateral exchange rates with 1991 trade (exports plus imports) weights of China's fourteen largest trading partners (excluding the former USSR)¹⁴. Inflation differentials between China and these 14 partners were adjusted by using the consumer price index¹⁵. From 1978 until 1983, the real effective exchange rate of the yuan appreciated by some 30 per cent, before depreciating dramatically in the subsequent years. This reflects a successive devaluation of the yuan against the US dollar in 1984-86 and again in 1989-91.

To show changes in price competitiveness between China and its main competitors in East and Southeast Asia, China's real bilateral exchange rates were also calculated (Table 4). Since the mid-1980s, the Chinese yuan has depreciated substantially and rapidly compared to the currencies of Singapore, Taiwan, Malaysia, Thailand, and to a lesser extent with respect to the currencies of Hong Kong and Korea. On the other hand, the Chinese yuan has tended to appreciate against the Indonesian rupiah and the Philippine peso. The large real depreciation of the Chinese yuan may reflect a decisive shift in China's development strategy in the mid-1980s in favour of the production of traded goods at the expense of non-traded goods. For example, the Chinese authorities implemented major trade reforms in 1984-85 by starting to liberalise import and foreign exchange allocation systems, reducing the extent of the mandatory trade plan, opening up fourteen coastal cities, and so on.

It has been argued that increasing economic links among the economies of Asia and the Pacific through FDI can be seen as an example of the "flying-geese" pattern of trade development (Chen, 1990; Ozawa, 1990; Yamazawa, 1990; and Yamazawa, Hirata and Yokota, 1991). The basic idea of this concept is that the development of Pacific Asian trade involves "catching-up" processes among a cluster of economies at different stages of industrialisation and development: the more advanced economies in Pacific Asia (for example, Japan) respond to the advance of the economies immediately following (such as Korea and Taiwan) by moving up the ladder of comparative advantage to exports of more technologically advanced products, or of products that are more human capital-intensive, thereby leaving the room for imports of more unskilled labour-intensive, standardised products. Led by the United States and Japan, and followed by Asian NIEs, ASEAN and China, the economies of Asia and the Pacific are advancing together through trade expansion based on shifting comparative advantage over time¹⁶. The globalisation of US and Japanese corporate activity through FDI, and, more recently, by corporations in Asian NIEs has served as a force that is binding the economies together of this region.

The emergence of a "greater China", comprised of China, Hong Kong and Taiwan, may be seen as intrinsic to such "catching-up" processes through the relocation of labour-intensive production activities from Hong Kong and Taiwan to the mainland. The economic linkages between Hong Kong and China, particularly with Guangdong Province, that developed during the 1980s have been well documented by Sung (1991) and others¹⁷. Taiwan has now also become a key player in the evolution of a "greater China". In the next section, we focus on recent trends and

patterns of foreign direct investment in China, with special reference to the economic relationship between China and Taiwan.

III. CHINA'S COASTAL STRATEGY AND FOREIGN DIRECT INVESTMENT

A. *Trends and Patterns of FDI Inflows*

Attracting foreign direct investment (FDI) has been one of the main objectives of China's economic reforms in the post-1978 period. Over the past 14 years, China has gradually established a legal framework for foreign investors and provided tax and other incentives for them¹⁸. As seen in Table 5, the amount of FDI inflow in China was very small from 1979 to 1982. Since 1983, however, China has managed to attract an increasing amount of FDI. Although the ratio of utilised FDI to contracted FDI has tended to decline since 1987, when it peaked at 66 per cent, the actual FDI inflow to China averaged over \$3 billion a year between 1988 and 1990. This was followed by a surge in FDI to \$4.3 billion in 1991 and \$11 billion in 1992. According to the IMF Balance of Payments Statistics, over the past decade China has emerged as the second largest recipient of FDI among Asian developing economies, next to Singapore (on the basis of the cumulative amount of FDI from 1979 to 1991)¹⁹.

In the process of China's gradual integration into the world economy, overseas Chinese business communities in East and Southeast Asia, including Taiwan, have played a leading role. Hong Kong is the main source of FDI in China. Table 6 shows that 70 per cent of China's FDI inflows in 1992 came from Hong Kong and Macao. It should be noted, however, that China's FDI statistics on investment flows from Hong Kong and Macao include investments by subsidiaries of foreign firms located there. With the easing of the political tension between China and Taiwan, the latter has become the second largest actual source of FDI on the mainland, accounting for 9.5 per cent of the total in 1992. Among other East and Southeast Asian economies, Singapore is also increasing its presence as a foreign investor in China. Now that diplomatic relations between Beijing and Seoul have been established (in 1992), Korea is expected to increase FDI in China in the coming years. In 1992, actual FDI from Korea amounted to \$119 million. On the other hand, FDI from OECD countries represents a declining proportion of total FDI inflows, from 38 per cent in 1986 to 15 per cent in 1992, although in absolute terms their FDI in China doubled during this period.

There have been major changes in the sectoral distribution of FDI inflows in China since the mid-1980s. In 1986, contracted FDI in the tertiary sector accounted for as much as 70 per cent of the total FDI, of which the real estate sector alone attracted 57 per cent. In October 1986, China promulgated the "Twenty-two Articles" whose aim was to promote FDI in export-oriented and high-technology manufacturing industries. In April 1987, the State Planning Commission announced the Regulation on Orientation of Foreign Investment, which identified transportation, communication, energy, metallurgy, construction materials, machinery, chemicals, pharmaceuticals, medical equipment and electronics as "high priority" areas for foreign investment. By 1991, the share of contracted FDI in manufacturing industries, such as textiles, electronics, machinery and chemicals, had increased to 80 per cent of total FDI.

FDI inflows in China are heavily concentrated in the coastal regions (Table 7). In 1992, nearly 90 per cent of actual FDI was made in eleven provinces and municipalities along the coastal regions, of which Guangdong province alone accounted for a third of total FDI in China, followed by Jiangsu and Fujian provinces. Certainly, the five Special Economic Zones (three in Guangdong, one in Fujian and the whole province of Hainan) and fourteen open coastal cities have played a significant role in attracting FDI. As of 1991, these Special Economic Zones and coastal cities together accounted for 62 per cent of total FDI flows (actual) in China.

At present, there are four main economic areas competing for FDI. One is the Pearl River delta, including Guangdong and Hainan, where about 37 per cent of the total FDI is located (as of 1992). In this area, Hong Kong investors are playing a leading role, together with those from Taiwan, Japan, United States and Europe. Another area is southern Fujian (Minnan) delta, along the Taiwan Strait, where about 13 per cent of the total FDI is located. Taiwanese investors are the leading players in this area. A third area is the Yangtze River delta, which includes Shanghai, Jiangsu, and Zhejiang provinces, which taken together accounted for about 20 per cent of the total FDI. In this area, investors from Hong Kong, the United States, Europe, and Japan are playing a leading role. Finally, a fourth area is located along the Bohai Sea in northern China, including Beijing, Tianjin, Shandong, and Liaoning provinces. This area has attracted about 18 per cent of the total FDI. In both Liaoning and Shandong, Japanese and Korean investors are dominant figures because of their geographical proximity, while in Beijing and Tianjin investors from Hong Kong, Japan, Taiwan, the United States, and Europe play a major role. This uneven distribution of FDI is explained in part by the areas concerned among the coastal regions being comparatively well-developed, and in part by the geographical proximity and cultural links between these regions and foreign investors. In what follows, our discussion is focused on the economic relationship between China and Taiwan.

B. *China-Taiwan Economic Relations*

In July 1992, Taiwan enacted a bill to lift a longstanding ban on a wide range of contacts with China, including visits by Chinese Communist Party members and direct air and shipping links²⁰. Since 1949, Taiwan had followed a policy of "Three Noes" ("no contact", "no negotiation", "no compromise"), which was modified in 1985 to "no direct trade", "no official contact" and "no interference with indirect trade". Thus Taiwan's move in July 1992 marked an important turning point in relations between Taiwan and China. The change in Taiwan's official stance is bound to have important repercussions on the economic climate of the region. As will be seen below, there has been a dramatic rise in trade and investment flows across the Straits through Hong Kong in recent years.

Chart 3 shows "two-way" trade between China and Taiwan via Hong Kong from 1979 through 1991. The value of these exchanges increased from less than \$80 million in 1979 to over \$1 billion in 1985, and then quadrupled between 1987 and 1990 to reach more than \$4 billion. In 1991, there was a further 43 per cent increase to \$5.8 billion. The real figure for indirect trade between China and Taiwan would be much higher than that, if the amount of indirect trade through other areas such as Singapore were counted. Except for the initial years, the balance of this bilateral trade has been in Taiwan's favour.

During the same 1979-91 period, there have also been major changes in the structure of the indirect trade between China and Taiwan. Table 8 presents a breakdown by products of manufactured exports from China to Taiwan via Hong Kong at the SITC 2-digit level, while Table 9 presents a similar breakdown of manufactured exports by Taiwan to China via Hong Kong. Both tables were compiled from data provided by Census and Statistics Department of Hong Kong.

While Taiwan's indirect exports to China have been predominantly manufactured goods throughout the period, China's indirect exports to Taiwan have displayed a significant shift from primary products (mainly ores, minerals and food products) to manufactured goods such as textiles (SITC 65) and clothing (84), electrical machinery and equipment (77) and chemical products (5). At the same time, Taiwan's indirect exports to China have become much more diversified. In 1979, textiles alone accounted for more than four-fifths of total indirect exports from Taiwan to China. By 1991, the share of textiles had dropped to less than 40 per cent. On the other hand, chemical fibres (58), industrial machinery (72) and electrical machinery and equipment (77) have emerged as top export items from Taiwan to China through Hong Kong. These changes in the indirect trade between China and Taiwan during the past decade reflect growing economic links across the Strait through FDI.

It is quite difficult to determine the precise evolution of Taiwanese FDI in China due to a paucity of data and shortcomings in the data which is available. Nonetheless, it is reasonably estimated that FDI from Taiwan grew rapidly in recent years — from \$100 million in 1987 to \$1 billion in 1992 (Table 6). Taiwan has become one of the four largest investors in China, together with Hong Kong, Japan and the United States²¹. The surge in Taiwanese FDI in China via Hong Kong has been fuelled by several distinct factors involving both Taiwan and the world economy. Taiwan's firms have been facing growing competition from other newly industrialising economies in Asia and the Pacific, due to rising domestic labour costs and the real appreciation of its currency. The export competitiveness of Taiwan's firms has been further eroded by rising operational costs of firms renting plants and factories because of a real estate boom that developed after the relaxation of foreign exchange controls in July 1987. In addition, it has become increasingly difficult for Taiwan's firms to enlarge their market share in OECD countries, in part because of import quotas imposed under voluntary export restraints (VERs) and other market-sharing arrangements.

Small- and medium-sized enterprises (SMEs) are the first among those affected by these developments. According to Hsiao and So (1992), SMEs viewed the government's policies encouraging industrial restructuring, diversification of trade and relocation of labour-intensive industries to Southeast Asia as, at best, long-term

solutions to Taiwan's development, and as an ineffective remedy for their own survival. They were thus the first to engage in "unofficial" trade with the mainland, in order to take advantage of the availability of abundant low-wage workers. The change in government policy in 1985 enabled them to begin visiting the mainland, initially to assess the economic environment and later to strengthen their family and social ties with mainland Chinese. This has helped Taiwan's SMEs bypass bureaucratic red tape and unnecessary fees. In addition, they have formed many "self-reliant mutual aid associations" along territorial or industrial lines, to protect themselves and their properties (*Ibid.*).

Taiwanese FDI received another boost in July 1988, when China promulgated Regulations on Encouraging the Investment of Taiwanese²². In October 1989, Taiwan introduced further regulations concerning indirect trade, investment and technical cooperation with the mainland, which led to a skyrocketing of contracted direct investment with Taiwanese firms. More recently, the Taiwanese authorities have been trying to guide FDI flows to the mainland rather than to curb them. In September 1990, the Ministry of Economic Affairs requested spontaneous registration and reporting of previous investment in China by April 1991, and authorised over 3 000 products for indirect investment; in general, labour-intensive industries that are no longer competitive in Taiwan are allowed to invest indirectly on the mainland (Chiu and Chung 1992).

Data on Taiwanese FDI in China shows the following general characteristics²³. First of all, Taiwanese FDI is similar to Hong Kong's. It is characterised by OEM arrangements and a heavy concentration in labour-intensive industries such as footwear, electric and electronic components, plastic products and clothing. Investment projects are typically small-scale, reflecting the underlying structure of the Taiwanese economy, in which SMEs account for more than 70 per cent of Taiwan's manufactured exports, and also a greater entrepreneurial spirit of SMEs compared to the larger firms²⁴. According to one observer, Taiwanese FDI projects are relatively small and brief-lived, geared to reaping quick profits: "Taiwan businessmen's investment at the early stages consisted mainly of small entities of several hundred thousands of US dollars. . . . Owing to their small sizes, and to the incentive measures of the mainland, a large number of the entities made profits in the same year when the agreement of the investment was executed" (Li, 1992, p.5).

A large proportion of Taiwanese investment is in export processing and export industries. Chiu and Chang (1992) note that "[i]t is reported that 70-80 per cent of Taiwan invested factories export 100 per cent of their products and they rely heavily on the supply of materials and parts from Taiwan. . . . One can easily match the 20 fastest rising export commodities with the top 20 invested industries" (p.12). These export items are mainly intermediate inputs used in such industries as textiles and clothing, consumer electronics and footwear. However, they also note that exports and FDI rankings are not necessarily in the same order. Two industries in particular, electric and electronic components and vehicles, have accumulated the highest FDI flows but have shown less reliance on material supplies from Taiwan.

Another interesting characteristic is the relationship between FDI and indirect exports of machinery from Taiwan. This has been attributed to the fact that many of

Taiwan's investors send depreciated or spare machinery and equipment to their subsidiaries on the mainland. For example, 67 per cent of the electronics industry is reported to have utilised their used machinery, though some of firms combine new and old machinery (Chiu and Chung 1992, p.14).

In terms of regional distribution, Taiwanese FDI is heavily concentrated in Fujian and Guangdong provinces, due mainly to their geographical proximity and cultural affinities. However, FDI in Jiangsu province is also substantial²⁵, and there is information that some Taiwanese investors are gradually expanding to other coastal cities and even to the interior provinces. These investors are probably attracted by natural resources and even lower labour costs than in the mainland's southern provinces.

IV. CONCLUSIONS

In the 1990s, China has been emerging as a leading Pacific economy and has come to play an important role as a major supplier of manufactured goods in the world market. China has become the largest non-OECD exporter to the OECD region, and is the second largest supplier of manufactured goods, next to Taiwan (as of 1991). Thus the implications of China's entry into the world market are of interest to the OECD countries as well as the developing economies in the Asia-Pacific region.

In order to assess the relative export performance of China, we used a constant-market-share (CMS) technique with the import data set of the OECD countries with respect to eleven major Asian exporters, which had been compiled from the OECD Commodity Trade Database. The results of the CMS analysis indicate that the rapid increase in manufactured exports from China and Indonesia in 1979-90, and from Thailand in 1985-90, was largely due to a strong competitive effect. This was in sharp contrast with the weaker export performance of Hong Kong and Taiwan that was due to a negative or declining competitive effect. These results suggest the importance of viewing China's export performance in the context of Asian-Pacific regional development.

It is inconceivable that the Asian shares of the OECD market could increase without limit, as China and its neighbouring developing economies have basically similar export profiles, competing with each other for market shares for similar products. China's opening to the outside world can be seen as a "positive sum" game, because it provides market opportunities for established exporters in both OECD countries and the NIEs.

China's coastal development strategy has led to the emergence of a "greater China", comprised of China, Hong Kong and Taiwan. This has been facilitated by industrial restructuring by Hong Kong and Taiwan, which have responded to strong pressures for adjustment arising from both internal and external factors. As shown in this paper, growing economic relations between China and Taiwan via Hong Kong since the mid-1980s can be understood as components of "catching-up" processes, described by some trade economists as the "flying-geese" pattern of trade development. The recent development of Taiwanese FDI in China and "two-way" indirect trade across the Taiwan Strait supports this view.

It is reasonable to raise the question of where these "Asian geese" are heading and whether the "flying-geese" pattern of trade development will be sustainable in the 1990s. While various scenarios of the future prospect of the Asian-Pacific region are possible, it appears that this specific pattern of trade development among the region's developing economies will not be sustainable without large open markets both outside and within the Asian-Pacific region. Given the strong protectionist sentiment prevailing in some of the OECD countries, particularly in Europe, it is important for the OECD countries to take a balanced view of China's growth, and of its importance both to the economic development of the Asian-Pacific region and the world economy as a whole. It appears that fear of China's rapid growth arises from its sheer size, promoting an assumption that "China's exports might soon gobble up the OECD countries' market".

However, this supposition tends to overestimate the dislocations in the OECD countries' economies that would be caused by China's exports, while at the same time it underestimates the impact of increased Chinese demand on the regional and world economies. Thus, if this development process of China and its neighbouring economies is to be sustainable, it is crucial that the OECD countries keep their markets open.

Another question concerns the extent to which industry can be transferred from the more advanced Asian economies to China and other developing countries of the region. The value-added component of manufactured exports from foreign affiliates in China tends to be very low, due to a heavy dependence on imported inputs for export production. The net effect on the balance of payments of FDI could turn out to be negative, if the outflow of investment income and royalty payments are taken into account. Furthermore, transfer of technology in human-capital-intensive or technology-intensive industries may be very limited, as these sectors in China are generally not subject to international competition, which provides little incentive for them to adopt the international best practice in production technology.

To be sure, China has made a great effort to attract FDI by setting up a legal framework for it, creating numerous development zones, lifting restrictions on foreign equity participation, providing tax and other incentives, reforming foreign exchange and trade regimes, improving industrial infrastructure, liberalising land leasing, and reducing administrative obstacles. While China's FDI policies may have affected the sectoral and regional distribution of FDI inflows, the trend and pattern of FDI in China have also been significantly influenced by macroeconomic factors (e.g. exchange rates) as well. However, decisions by foreign investors to invest in China do not necessarily depend on whether they are granted special incentives - many developing countries in the Asian-Pacific region provide similar incentives to attract FDI. A side effect of this situation is that the complex system of incentive measures favouring foreign, over domestic, firms promotes rent-seeking activities and leads to misallocation of resources.

NOTES AND REFERENCES

1. See GATT (1993), *International Trade 91-92*, Volume II, Table I-4.
2. The relative importance of agriculture as a source of export earnings has declined steadily since the beginning of the 1970s. Agricultural products accounted for more than half of China's export earnings prior to 1970, but by 1987 that share was down to 20 per cent (Anderson, 1990).
3. Based on *China Statistical Yearbook*, 1981 and 1992.
4. See, for example, the following press articles: "The Sleeping Giant Awakes" (*Financial Times*, 28 June 1993) and "Fortress Mentality" (*Time*, 5 July 1993).
5. Large discrepancies in bilateral trade figures originate from differences in the reporting system with respect to rules of origin and destination. Harding (1992) states that "U.S. statistics consider Chinese goods shipped through Hong Kong to be Chinese exports, but count American goods trans-shipped through Hong Kong as exports to Hong Kong, rather than as exports to China. Chinese statistics, in contrast, include most imports from the United States but consider Chinese goods trans-shipped through Hong Kong as exports to Hong Kong, rather than as sales to the United States" (p. 20).
6. The figure is based on the State Statistical Bureau, quoted by *People's Daily* (overseas edition), 20 February 1993.
7. The official announcement of the "coastal development strategy" was made in January 1988 by Zhao Ziyang, former General Secretary of the Chinese Communist Party. In practice, however, China had decided to "open up" fourteen cities in the coastal regions in early 1984.
8. See, for example, Vogel (1989).
9. This definition of "manufactures" understates the relative importance of manufactures in China's total exports, because it excludes processed food products which are important export items for China — about 12 per cent in 1990. For the same reason, the relative importance of manufactures is also understated in Table 3 with respect to the ASEAN countries.
10. The results of a CMS analysis by Chai (1989) reported a negative "competitive effect" during the period of 1982-87, which led him to conclude: "[D]espite a decade of reforms, China has yet to establish a trade system which would enable it to compete successfully with its East Asian counterparts in the world market for finished manufactures (p.160)". However, the results of his CMS analysis were misleading, because in his study manufactured exports from China (SITC 7 and 8 only) were taken from China's Customs Statistics — not from its partners' import statistics. This procedure not only excluded the bulk of

manufactured goods, semi-finished and finished (SITC 5 and 6) from his sample, but also distorted the distribution of China's manufactured exports by destination, as we discussed above.

11. See, for example, Riedel (1991) for the recent trend in intra-regional FDI among Pacific-Asian economies.
12. See, for example, Lardy (1992), Wall (1992), and World Bank (1992) for China and Fukasaku, Lee and O'Connor (1993) for six dynamic Asian economies — Hong Kong, Korea, Malaysia, Singapore, Taiwan and Thailand.
13. It is worth noting that uninterrupted inflows of commercial funds in these Asian economies are in sharp contrast with the liquidity shortage facing many developing countries in other areas.
14. These 14 trading partners are Hong Kong, Japan, United States, Germany, Korea, Singapore, Italy, France, Canada, Australia, Indonesia, United Kingdom, the Netherlands and Malaysia. China's trade with these 14 partners accounted for 82 per cent of its total merchandise trade in 1991.
15. The REER index was also calculated by using GDP deflators but the basic trend of the two series is quite similar.
16. For empirical evidence of the so-called flying geese pattern of trade development, see Fukasaku (1992a) and Rana (1990).
17. See, for example, Baldinger (1992). Two-way investment between Hong Kong and China has been increasing rapidly: Hong Kong's investment in China now is greater than \$20 billion, while China's investment in Hong Kong has surpassed \$12 billion. About four-fifths of Hong Kong's investment in China is in Guangdong Province.
18. See, for example, Pomfret (1991) and Wall (1992).
19. China classifies FDI inflows under four categories: joint ventures, co-operative ventures, fully foreign-owned enterprises (FOE) and joint exploration. Joint exploration and co-operative ventures were two of the main types of FDI at the very beginning, but both subsequently declined. In the early 1980s, over 40 per cent of FDI went each to joint exploration and co-operative ventures. However, in 1992 FDI in joint exploration and co-operative ventures accounted for only 2 per cent and 19 per cent, respectively, of China's total FDI inflows. By contrast, joint venture and FOE have become increasingly important as a mode of FDI during the period. In 1982, joint ventures and FOE accounted for 8 per cent and 9 per cent, respectively, of total FDI inflows. In 1992, however, joint venture and FOE shares were 55 per cent and 23 per cent, respectively, of total FDI inflows.
20. "Taiwan Passes Bill Easing China Curbs", *International Herald Tribune*, 17 July 1992.

21. The Taiwanese authorities have recently made registration of Taiwanese investment in the mainland compulsory. This shows that the total amount reached \$3 billion *News of Europe* (in Chinese), 16 June 1993.
22. In July 1988, Beijing announced that Taiwanese investors could put money into any project on the mainland, in contrast to foreigners who were limited to industries targeted for development. It also promised to speed their investment application process, guaranteed that there would be no nationalisation of Taiwanese-owned assets and that secrecy would be maintained. *Financial Times*, 7 July 1988, as cited in Hartland-Thunberg (1990), p.121.
23. See Chung (1992), Chiu and Chung (1992), and Li (1992).
24. Chiu and Chung note in a comparison of Taiwanese FDI in ASEAN countries and China that the average investment on the mainland (\$ 930,000) is far below that in the ASEAN countries (\$4.54 million).
25. See, for example, Pomfret (1992) in the case of Taiwanese investment in Jiangsu Province.

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Table 1. Share of China and Other Asian Economies in OECD Total Import Market, 1979-91
(Million US dollars and percentages)

	1979	Share	1985	Share	1989	Share	1990	Share	1991	Share
CHINA	6,160	0.5	14,673	1.1	369,394	1.6	44,563	1.7	56,746	2.2
ASEAN (4)	31,241	2.7	35,908	2.6	54,599	2.4	61,964	2.4	69,952	2.7
Indonesia	14,723	1.3	16,916	1.2	18,405	0.8	20,816	0.8	21,867	0.8
Malaysia	8,497	0.7	9,608	0.7	15,504	0.7	17,237	0.7	20,211	0.8
Philippines	4,542	0.4	4,770	0.3	7,272	0.3	7,777	0.3	8,352	0.3
Thailand	3,478	0.3	4,615	0.3	13,418	0.6	16,134	0.6	19,522	0.8
NIEs (4)	38,824	3.4	70,706	5.2	140,320	6.3	141,339	5.5	146,714	5.7
Hong Kong	10,600	0.9	15,752	1.1	24,599	1.1	25,114	1.0	25,555	1.0
South Korea	11,037	1.0	19,640	1.4	46,177	2.1	44,286	1.7	44,760	1.7
Singapore	5,208	0.5	8,880	0.6	19,193	0.9	22,523	0.9	22,213	0.9
Taiwan	11,979	1.0	26,435	1.9	50,350	2.3	49,415	1.9	53,186	2.1
SOUTH ASIA (2)	6,128	0.5	7,933	0.6	13,818	0.6	15,807	0.6	16,364	0.6
India	5,123	0.4	6,407	0.5	10,981	0.5	12,299	0.5	12,578	0.5
Pakistan	1,006	0.1	1,527	0.1	2,838	0.1	3,507	0.1	3,786	0.1
TOTAL NON-OECD	371,840	32.3	402,487	29.3	565,557	25.3	639,117	24.9	653,360	25.2
TOTAL WORLD	1,150,404	100	1,372,265	100	2,231,536	100	2,568,007	100	2,589,189	100

Source: OECD, Foreign Trade by Commodities (Series C)

Table 2. **Share of China and Other Asian Economies in OECD Import Market in Manufactured Goods, 1979-91**
(Million US dollars and percentages)

	1979	Share	1985	Share	1989	Share	1990	Share	1991	Share
CHINA	2,561	0.4	6,781	0.8	26,898	1.6	34,179	1.8	46,270	2.4
ASEAN (4)	5,719	0.9	9,532	1.1	25,253	1.5	31,186	1.7	38,352	2.0
Indonesia	585	0.1	1,492	0.2	5,032	0.3	6,081	0.3	7,525	0.4
Malaysia	2,382	0.4	3,453	0.4	7,751	0.5	9,576	0.5	12,555	0.7
Philippines	1,428	0.2	2,511	0.3	4,334	0.3	5,097	0.3	5,582	0.3
Thailand	1,323	0.2	2,076	0.2	8,136	0.5	10,431	0.6	12,690	0.7
NIEs (4)	32,860	5.0	62,542	7.3	128,957	7.9	129,281	6.9	134,837	7.1
Hong Kong	10,058	1.5	15,039	1.7	23,416	1.4	23,997	1.3	24,426	1.3
South Korea	9,635	1.5	17,594	2.0	42,662	2.6	40,981	2.2	41,260	2.2
Singapore	2,801	0.4	5,930	0.7	15,943	1.0	18,697	1.0	20,238	1.1
Taiwan	10,365	1.6	23,979	2.8	46,937	2.9	45,605	2.4	48,913	2.6
SOUTH ASIA (2)	3,801	0.6	4,617	0.5	10,412	0.6	12,139	0.6	12,746	0.7
India	3,103	0.5	3,542	0.4	8,061	0.5	9,156	0.5	9,424	0.5
Pakistan	698	0.1	1,075	0.1	2,351	0.1	2,983	0.2	3,322	0.2
TOTAL NON-OECD	88,738	13.6	111,051	12.9	303,939	18.6	330,181	17.6	357,211	18.7
TOTAL WORLD	654,593	100	859,914	100	1,633,899	100	1,872,837	100	1,906,502	100

Source: See Table 1.

T **Table 3. CMS Analysis of Manufactured Exports from China and Other Asian Economies to the OECD Market, 1979-1990**
(Percentages)

Country/ Period	Actual Export Growth	CMS Decomposition			
		(1) ^a Standard Growth Effect	(2) Product Growth Effect	(3) Market Growth Effect	(4) Competitive Effect
China					
1979-85	164.8	32.8	-11.9	7.2	136.7
1985-90	403.9	116.1	5.6	-0.6	282.7
Indonesia					
1979-85	155.0	32.8	-24.9	11.9	135.2
1985-90	307.9	116.1	6.3	2.9	182.6
Malaysia					
1979-85	44.9	32.8	-5.6	32.3	-14.5
1985-90	178.4	116.1	10.1	-10.3	62.4
Philippines					
1979-85	75.8	32.8	-0.3	41.7	1.6
1985-90	103.0	116.1	15.3	-18.9	-9.5
Thailand					
1979-85	56.9	32.8	-19.7	11.9	31.9
1985-90	403.9	116.1	9.5	-10.2	288.5
Hong Kong					
1979-85	49.5	32.8	5.8	25.0	-14.0
1985-90	59.6	116.1	16.7	-23.8	-49.4
Korea					
1979-85	82.6	32.8	-0.2	27.6	22.5
1985-90	132.9	116.1	4.8	-16.2	28.0
Singapore					
1979-85	111.7	32.8	17.9	27.3	33.8
1985-90	215.2	116.1	11.6	-20.1	107.6
Taiwan					
1979-85	131.3	32.8	4.3	44.3	50.1
1985-90	90.3	116.1	11.0	-33.2	-3.6
India					
1979-85	14.2	32.8	-17.2	10.7	-12.2
1985-90	158.6	116.1	0.2	-7.4	49.6
Pakistan					
1979-85	53.9	32.8	-23.3	2.8	41.8
1985-90	177.4	116.1	-6.6	-0.4	68.3

a. The growth rates reported in this column are slightly different from what one can calculate from Table 2 (31.4 and 117.8). This is because Table 2 includes manufactured goods not specified elsewhere at the SITC 2-digit level.

Note: See the text for the methodology of the CMS analysis.

Source: The authors' own calculation based on OECD, Commodity Trade Database.

Table 4. China's Real Bilateral Exchange Rates Based on Consumer Price Index (1978=100)

	78	79	80	81	82	83	84	85	86	87	88	89	90	91
Hong Kong	100.0	78.8	71.5	65.3	61.6	49.8	51.5	70.8	86.1	96.0	107.8	115.7	135.8	141.2
Indonesia	100.0	57.4	50.1	51.6	51.0	35.4	34.2	42.8	44.0	36.9	40.2	42.3	48.6	48.4
Korea	100.0	79.5	51.0	43.7	43.1	41.8	47.4	60.7	73.4	89.5	113.4	137.4	154.5	156.6
Malaysia	100.0	96.0	93.8	94.2	99.5	102.8	118.2	157.5	189.1	226.6	256.6	283.8	356.4	386.8
Philippines	100.0	79.9	68.8	67.5	64.1	47.7	25.5	26.3	30.0	33.6	36.3	37.0	37.3	32.0
Singapore	100.0	94.6	91.7	100.2	107.8	114.9	133.8	182.9	235.7	284.5	353.9	419.6	561.7	656.1
Thailand	100.0	85.3	73.6	71.5	73.0	74.9	87.2	104.9	133.9	156.7	185.1	203.4	248.2	271.1
Taiwan	100.0	85.6	74.6	71.2	74.0	77.3	95.1	133.7	187.5	272.1	328.5	398.6	475.3	556.1

Notes:

1. An increase in the RBER index indicates a depreciation of the Chinese yuan against the national currencies of the above economies.

2. The RBER index was calculated by using official exchange rates.

Source:

The authors' own calculation based on IFS and National Statistics.

Table 5. **Foreign Direct Investment in China**
 1979-1992
 (Billion US dollars and percentages)

Year	Actual FDI	Contracted FDI	Utilisation Rate %
1979-92 (cumulative)	34.355	110.460	31.1
1979-82 (cumulative)	1.166	6.010	19.4
1983	0.636	1.732	36.7
1984	1.258	2.651	47.5
1985	1.661	5.931	28.0
1986	1.874	2.834	66.1
1987	2.314	3.709	62.4
1988	3.193	5.297	60.3
1989	3.393	5.600	60.6
1990	3.487	6.596	52.9
1991	4.366	11.977	36.5
1992	11.007	58.123	18.9

Source: China Statistical Yearbook 1992 and Intertrade Monthly (MOFTEC) No.4, 1993.

Table 6. Distribution of Actual FDI by Source

(Million US dollars and percentages)

	1986		1989		1992	
	Value	Share	Value	Share	Value	Share
Total	1874.89	100.0	3392.57	100.0	11007.51	100.0
OECD Subtotal	709.93	37.9	916.99	27.0	1594.14	14.5
Japan	201.33	10.7	356.34	10.5	709.83	6.4
United States	314.90	16.8	284.27	8.4	511.05	4.6
Germany	19.28	1.0	81.39	2.4	88.57	0.8
Canada	0.00	0.0	16.95	0.5	58.24	0.5
France	42.30	2.3	4.60	0.1	44.93	0.4
United Kingdom	26.83	1.4	28.48	0.8	38.33	0.3
Australia	60.16	3.2	44.42	1.3	35.03	0.3
Italy	23.17	1.2	30.28	0.9	20.69	0.2
Subtotal of Greater China	n.a.	n.a.	n.a.	n.a.	8759.57	79.6
Hong Kong & Macao	1132.37	60.4	2077.59	61.2	7709.07	70.0
Taiwan	n.a.	n.a.	n.a.	n.a.	1050.50	9.5
Singapore	13.00	0.7	84.14	2.5	122.31	1.1
Thailand	9.10	0.5	12.68	0.4	83.03	0.8
Philippines	1.08	0.1	1.52	0.0	16.28	0.1
Malaysia	0.41	0.0	0.40	0.0	24.67	0.2
Indonesia	0.49	0.0	1.37	0.0	20.17	0.2
South Korea	n.a.	n.a.	n.a.	n.a.	119.48	1.1

Source: China Statistical Yearbook various issues and Intertrade Monthly (MOFTEC), No.4, 1993.

Table 7. Distribution of Actual FDI by Region in China

(Million US dollars and percentages)

Region	1986		1989		1992	
	Value	Share	Value	Share	Value	Share
National Total	1874.89		3392.57		11007.51	
Regional Total	1373.17	100.0	3056.45	100.0	10723.08	100.0
Guangdong	722.68	41.5	1156.44	37.8	3551.50	33.1
Fujian	61.49	3.5	328.80	10.8	1416.34	13.2
Jiangsu	18.11	1.0	93.58	3.1	1460.04	13.6
Beijing	139.94	8.0	318.46	10.4		3.3
Shanghai	147.65	8.5	422.12	13.8	481.08	4.5
Shandong	19.39	1.1	131.32	4.3	973.35	9.1
Liaoning	41.28	2.4	118.57	3.9	489.56	4.6
Hainan	**	**	94.97	3.1	452.55	4.2
Zhejiang	18.53	1.1	51.81	1.7	232.38	2.2
Tianjin	29.31	1.7	28.01	0.9	107.24	1.0
Shaanxi	37.16	2.1	97.19	3.2	45.53	0.4
Guangxi	36.95	2.1	45.94	1.5	178.33	1.7
Hubei	12.41	0.7	22.95	0.8	203.08	1.9
Hebei	6.85	0.4	26.86	0.9	110.19	1.0
Henan	6.05	0.3	42.66	1.4	52.15	0.5
Sichuan	15.23	0.9	8.01	0.3	101.85	0.9
Helongjiang	17.42	1.0	22.41	0.7	70.50	0.7
Hunan	9.48	0.5	6.43	0.2	128.53	1.2
Jiangxi	4.58	0.3	5.87	0.2	96.53	0.9
Jilin	0.57	0.0	3.35	0.1	65.97	0.6
Anhui	7.94	0.5	4.78	0.2	50.02	0.5
Shanxi	0.15	0.0	8.82	0.3	53.84	0.5
Yunnan	3.54	0.2	7.40	0.2	23.13	0.2
Guizhou	2.20	0.1	7.47	0.2	19.79	0.2
Xinjiang	12.81	0.7	0.88	0.0	0.00	0.0
Inner Mongolia	0.98	0.1	0.24	0.0	5.20	0.0
Gansu	0.42	0.0	1.11	0.0	0.35	0.0
Ningxia	0.05	0.0	0.00	0.0	3.52	0.0
Qinghai	0.00	0.0	0.00	0.0	0.68	0.0
Subtotal of coastal regions	1102.24	63.3	2498.42	81.74	9452.56	88.15

Note: * are coastal provinces and municipalities.

** included in figure in Guangdong province.

Source: China Statistical Yearbook, various issues and Intertrade Monthly (MOFTEC), No. 4, 1993.

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