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Open-Door Policy

Yun-Wing Sung

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TRADE AND DEVELOPMENT

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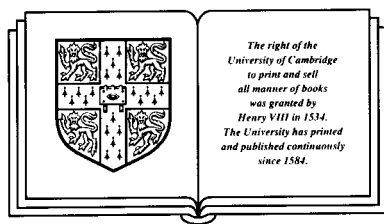
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# THE CHINA–HONG KONG CONNECTION

The Key to China's Open-Door Policy

YUN-WING SUNG

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of Hong Kong*



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To my wife, Pauline  
and my son, Samuel

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## Preface

The open-door policy that has evolved in China since 1979 has far-reaching implications for the Asian-Pacific region and the world. It has long been recognized that Hong Kong is the key to China's door to the outside world, and the focus of this book is on the multi-faceted roles of Hong Kong in China's open-door policy. The Chinese giant reaches out to the world on the back of the Hong Kong midget, and the Chinese leadership value Hong Kong so much that they have promised, in a formal agreement with Britain, that they will preserve the capitalist system in Hong Kong for fifty years after 1997.

Since 1979, China has built numerous direct links with the outside world. Paradoxically, the shares of China's merchandise trade, tourist trade, shipping, foreign loans and foreign investments handled by Hong Kong have been rising. In this book, in order to explain this paradox, a theory of intermediation is constructed and the theory is applied to analyse the roles of Hong Kong in China's merchandise trade, tourist trade, shipping, foreign loans and foreign investments. Besides the China-Hong Kong connections in trade and investment, the reform of China's trade regime is also described and analysed in detail.

The discussion takes account of developments up to June 1990. The open-door policy suffered a severe setback as a result of the violent suppressions of the pro-democracy movement in June 1989. The isolation of China after the Tiananmen incident implies that China will become even more dependent on Hong Kong in its economic relations with the outside world.

The idea for this book first grew out of a research project entitled 'China's entry to world markets' sponsored by the National Centre for Development Studies (NCDS) of the Australian National University in August 1985. I was then on sabbatical at the NCDS. Professor Helen Hughes, Director of the NCDS, has taken a deep interest in this book and has given me invaluable advice and encouragement. I have also benefited greatly from the assistance provided by the Centre.

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David Wall read the first draft of the manuscript and offered many constructive suggestions. A significant part of the information in this book was obtained through interviews with experts in China and businessmen in Hong Kong, and I would like to thank them for their patience and support. Needless to say the views and any errors in this book are solely my responsibility.

Last, but not least, I would like to thank my wife for her affectionate encouragement and support.

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## Abbreviations

- cif cost, insurance and freight  
CITIC China International Trust and Investment Corporation  
COEFE cost of earning foreign exchange  
EC European Community  
EER effective exchange rate  
ETDD Economic and Technology Development Districts  
FIAC Foreign Investment Administrative Commission  
fob free on board  
FTC Foreign Trade Corporation  
GDP gross domestic product  
GSP General Scheme of Preferences  
IEAC Import–Export Administration Commission  
LFTC Local Foreign Trade Corporation  
MFA Multi-Fibre Arrangement  
MFTC Municipal Foreign Trade Corporation  
MOFERT Ministry of Foreign Economic Relations and Trade  
NFTC National Foreign Trade Corporation  
OECD Organization for Economic Cooperation and Development  
SAFEC State Administration of Foreign Exchange Control  
SEZ Special Economic Zone  
SITC Standard International Trade Classification

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# Symbols

HK\$ Hong Kong dollar

US\$ United States dollar

Y renminbi = yuan (Chinese currency)

– not available

.. not applicable

m million

n.e.s. not elsewhere stated