



# **Perspectives on Economic Integration and Business Strategy in the Asia-Pacific Region**

Edited by

**Sam Dzever and  
Jacques Jaussaud**



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# Preface

The current rate of economic growth in the Asia-Pacific region represents an important challenge to political leaders, managers of business enterprises, and researchers. It calls on management scientists to become quickly and fully aware of the implications of this macroeconomic evolution for business strategy in the region. A thorough understanding of these developments, from a research point of view, should provide the necessary basis for designing appropriate curricula for training future managers of business enterprises in the region, as well as for solving practical problems connected with managing in this area.

It was the recognition of this challenge that led the two institutions, IAE-Université de Poitiers, and Groupe ESC Nantes Atlantique, to join forces in 1994 to organize an annual Euro-Asia research conference. The papers presented in this volume, under the editorship of Sam Dzever and Jacques Jaussaud, represent a selection of research communications presented at the 1994 and 1995 conferences.

I hope that readers will find these contributions useful in enhancing their understanding of current developments in the Asia-Pacific region.

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France

# List of Contributors

**Indru T. Advani**, a French national, was born and raised in that part of undivided British India which is now called Pakistan. After graduating from Imperial College, London, Advani spent several years in Asia (the last fifteen in the People's Republic of China) as the senior executive of a European conglomerate. He has retired from active service and now occupies the post of Honorary *Délégué Général of Comité France – Chine* in Paris, where he lives.

**Jean-Pascal Bassino** is Associate Professor of Economics at Paul Valéry University (Vauban Campus), Nîmes, France. He is also a Research Fellow at *CEFI (Centre d'Economie et de Finances Internationales)*, a CNRS – associated research unit at Château Lafarge, France. Dr Bassino has published widely in the area of economic and financial analysis of Asian countries.

**Shaun Breslin** is Lecturer in Chinese Politics at the University of Newcastle upon Tyne and Deputy Director of the Newcastle East Asia Centre. His research focuses on Chinese and comparative politics, in which he has a number of publications.

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**Sam Dzever** is Professor of Marketing and International Business at IAE, The University of Poitiers, France. His research focuses on industrial marketing and business strategy in the Asia-Pacific region. His publications include *Le Comportement D'Achat Industriel* (Industrial Buying Behaviour) (Economica, Paris, 1996).

**Catherine Figuière** is Lecturer in Economics at *Université Pierre Mendès – France* in Grenoble. She is also a Researcher at the *Institut d'Asie Orientale de Lyon*. Her research focuses on Japanese economic and business life. Her publications include 'A French Analysis of the Japanese Economy: a History of Ideas', *Journal of Contemporary Asia* (Forthcoming, 1997).

**Jacques Jaussaud** is Associate Professor of Management at IAE, The University of Poitiers. His research interests are in the areas of business strategy and human resource management (with a particular focus on Japan and Asian countries). He has published widely in these areas and is the editor of the French management journal, *Japon In Extenso*.

**Christian Milelli** is a CNRS Research Fellow at the *Centre de Recherche sur l'Entreprise Multinationale (FORUM)*, located at the University of Paris X, Nanterre. His research focuses on the strategy of multinational enterprises and the globalization of manufacturing operations. He has several publications in these fields, including *Les Firmes Multinationales* (with M. Delapierre) (Vuibert, Paris, 1995).

**Matthias Niyonzima** (Attorney at Law, Claes & Partners, Brussels) received his Ph.D. in Law at the University of Leuven, Belgium. He has taught commercial law, financial law, and international trade law at a number of universities in Europe and has several publications in these fields, including *La Clause de Monnaie Etrangère dans les Contrats Internationaux* (Bruylant, Brussels/Maklu, Antwerp, 1991).

**Sandra Palmero** is a Lecturer at the *Université de la Méditerranée Aix - Marseille II* (France). She is also a Researcher at CEFI URA CNRS, where she has worked on projects concerning Asian economic integration. She is particularly interested in institutional forms of integration and in the diffusion of technological innovation in these countries.

**Yunnan Shi** obtained his Ph.D. in Economics at the University of Rennes I (France), where he is now a faculty member in the Department of Economics. His research focuses on the economics of development (with particular reference to China), to which field he has contributed a number of publications.

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**Robert Taylor** is Director of Chinese Studies at the University of Sheffield. He has taught at universities in Britain and overseas, and is the author of a number of studies of East Asia, including *Greater China in Japan* (Routledge, 1996).

**Maria Weber** is Professor of International Relations and Comparative Politics at Bocconi University, Italy. She is also Senior Research Leader at ISESIO (Institute of Economic and Social Studies for East Asia), Bocconi University. She has produced a number of publications on East Asia, including 'Regional Integration and Political Issues: The Case of ASEAN' (with A. Colombo) (*Quaderni ISESIO*, 1/1995).

# Editors' Introduction

The current rates of economic growth in the Asia-Pacific region have been described as phenomenal. The World Bank estimates that by the year 2000 half the growth in the global economy will come from East and Southeast Asian countries. 'This growth will ensure that by the year 2000 one billion Asians will have significant consumer spending power and of these, 400 million will have average disposable incomes as high, if not higher, than their European or US contemporaries'<sup>1</sup>. Apart from Japan, almost all of the countries in the region (and in particular East Asian countries) have experienced average growth rates of above six per cent during the past few years, the most spectacular of these being the People's Republic of China (PRC) with annual growth of over 11% recorded during the last three or four years. These developments mark the growing impact of the region on the world economy. It has been estimated that average GNP growth per capita in East Asia between 1965 and 1990 was 5.5%<sup>2</sup>, and (according to IMF) Asian GNP will have grown by 44% between 1990 and 1995.

But the rate of growth in the region is by no means evenly spread, and in order to obtain a more complete picture of these developments one needs to examine events in the individual countries closely. As research into the Asia-Pacific economies intensifies, scholars are faced with the need to re-examine past findings in the light of current developments. Japan, for example, is presently experiencing its worst post-war economic crisis – and past research findings that pointed to the Japanese model as an example to be emulated by other countries in the region with ambitions to attain rapid economic advancement might need to be carefully reassessed. China, long asleep, has finally awoken and is fast emerging as one of Asia's new economic giants. The Indian market, once shielded from foreign investment by a plethora of government regulations, is now being gradually opened up and the response of foreign firms to this policy change appears to be positive. With the liberalization of the economy, the Indian market is bound to emerge as one of the region's most important markets. (It must be added, however, that with the general elections of May 1996, which saw the Congress Party lose its majority in Parliament to the nationalist parties, it is difficult to predict just how this development might impact on foreign business in that country.)

The impact of Asian growth on the global economy is already clear. Japanese companies are rapidly expanding their market position in the region, and American companies, although relatively latecomers to the game,

appear to have gained considerable ground in recent years and are poised to increase their market position throughout the region in the next few years. It is important to note, too, that US economic policy toward the Pacific Rim appears to have witnessed a significant change in direction in favour of certain of the countries in the region. Within the framework of Asia Pacific Economic Cooperation (APEC), the USA will continue to play an important role in the economic transformation now taking place in Asia. With the normalization of diplomatic relations between the USA and Vietnam, for example, American firms are expected to play an increasingly important role in the emerging market there. The Clinton administration, despite some hesitation, has recently renewed China's most favoured nation trading status with the United States, and American firms are establishing markets in the PRC as never before. A Chinese government survey of foreign countries with the highest investment in the PRC market in 1993 placed the USA in third position (with US\$2068 million invested) after Hong Kong and Taiwan in first and second places respectively<sup>3</sup>. The same ranking placed Japan in fourth position (with a total of US\$1361 million invested). European Union (EU) countries that figured highly on the list were the United Kingdom (US\$221 million) and France (US\$141 million). The two EU countries occupied 9th and 10th positions respectively.

The position of Europe with respect to the developments in the region appears to be much more clearly defined. The main thrust of EU policy towards Asia is said to relate to economic matters. This is clearly outlined in the document 'Towards A New Asia Strategy', referred to earlier. Traditionally, much of Western Europe's relations with East Asia tended to focus on economic matters: a wide variety of bilateral trade agreements were signed between EU Member States and countries of the Asia-Pacific region, although Régnier *et al.*<sup>4</sup> argue that in the three decades after the Second World War Europe lost most of its ties (including economic ties) with East Asia, very easily letting the Americans, and then the Japanese, take charge of the markets there. A change emerged in late 1970 'with the increasing penetration of East Asian products in the European market, and from the mid-1980s the EC nations started to give East Asia higher priority'<sup>5</sup>. Europe's renewed economic interest in East Asia was generally within the framework of Trade and Cooperation Agreements. This policy has not changed significantly over the years, except that in more recent times greater emphasis has come to be placed on economic engagement rather than, for example, development cooperation. On the basis of the dramatic rise in the position of Asia in the global economy, the European Commission believes that the EU ought to accord the region a much higher priority than has hitherto been

the case. In the executive summary of the document cited above, the Commission argues that:

'The Union needs as a matter of urgency to strengthen its economic presence in Asia in order to maintain its leading role in the world economy. The establishment of a strong, co-ordinated presence in the different regions of Asia will allow Europe at the beginning of the 21st century to ensure that its interests are taken fully into account there.' Furthermore, 'The success of Europe in taking advantage of the business opportunities in Asia largely depends upon decisions taken or not taken by the private sector. The Union's role is to pursue market-opening for both goods and services and to overcome obstacles to European trade and investment by encouraging a favourable regulatory environment for business in Asia. Active participation by European companies on Asian market ... can contribute to providing qualified jobs to European workers'<sup>6</sup>. And in order to achieve these objectives, 'the Union needs to adopt more proactive strategies: emphasising fuller, and increasingly targeted use of economic co-operation to promote European trade and investment'<sup>7</sup>.

The preceding statements constitute the basic framework under which the EU-Asian economic relations will be developed. With regard to China, for example, Sino-European economic relations will take place at two levels: the institutional (i.e. governmental) level, and the private sector level.

At the institutional level, the reform process in the PRC's economy will impact on Sino-European economic relations in a number of ways, the most important of which will include a reappraisal of traditional European commercial policy towards that country. The EU document notes that emphasis will continue to be placed on trade liberalizations with China, as well as the continued opening-up of the market for European businesses. Furthermore, it will become increasingly important that the EU 'reinforces a nonconfrontational dialogue of equals' with the PRC in order to address questions of bilateral concern. In developing these relations, consideration will also be given to issues of a more global concern, such as the protection of the environment and human rights matters.

Other, more specific effects on Sino-European economic relations at the governmental level will include:

- (1) the promotion of business cooperation between European companies and their Chinese counterparts;

- (2) providing expertise and policy advice to the PRC government in order to help it 'set up the institutions, policies and laws to make a smooth transition...' to a market-based economic system;
- (3) the enhancement of co-operation in the field of science and technology, as well as research and development;
- (4) supporting European direct investment in the PRC with specific actions such as (for example) providing financial incentives for joint venture investments between European and Chinese enterprises;
- (5) supporting trade promotion between the EU and the PRC.

At the private sector level, it is expected that there will be a significant increase in the total number of European firms successfully established in the PRC market. The present position of European firms in this market appears to be much weaker relative to, say, Japanese and American firms. It appears that so far the most successful European firms in the Chinese market have been large industrial concerns. There is thus a need to encourage small and medium-sized European firms to also look towards the PRC market. The increased opening-up of the market, coupled with specific policy initiatives on the part of the EU, will aid in helping smaller European firms gain access to this market. With the exception of certain industrial sectors, much of the PRC market is now open to international competition. And (as is generally the case with any competitive market), European firms that are unable to demonstrate innovativeness in product design and engineering as well as customer orientation will find it increasingly difficult to survive in this market. Succeeding in the PRC market generally requires a vigorous and sustained commitment on the part of foreign firms: in attempting to maintain a viable competitive position in this market, European firms will soon find that they are by no means an exception to this rule.

With this opening-up of the market, foreign firms are rushing to invest in China. The PRC government has clearly stated that developing the country's economy with the active participation of foreign enterprises is one of its priorities. To this end it has actively encouraged foreign investment by providing foreign firms with all sorts of favourable investment conditions, particularly in relation to setting up joint venture (JV) enterprises with local firms – the fundamental principle underlying the Chinese view of JV being that there should be *equity and mutual benefit* in the joint ventureship. The PRC government generally sees JVs as a way of earning foreign exchange by exporting goods produced under the agreement, in addition to acquiring foreign technical expertise and managerial know-how. A KPMG newsletter notes with regard to JVs that the law provides for the establishment of a limited liability company with foreign ownership of not less than 25 per cent,

although there is no upper limit set. The foreign partner is expected to contribute capital, technology, and managerial expertise and the PRC partner contributes the land, building, and labour force:

'The foreign partner's investment will usually be a mixture of cash and equipment, whereas the PRC will usually contribute land and building. In addition, whilst the PRC partner provides the labour, the foreign partner will typically be expected to provide expert management and technical know-how'<sup>8</sup>.

Five Special Economic Zones have been created with favourable investment conditions for foreign firms, which, together with the sixteen Open Coastal Cities, offer proof that the government wishes to attract as much foreign capital as possible into the economy. With the necessary conditions in place, three upsurges in foreign investment are said to have occurred in PRC's economy since the 1980s. The first was in 1984, the second in 1988 and the third in 1993. A government publication notes that in 1993 alone 83,000 new joint venture projects were approved comprising 'US\$111,43 million subscribed in the agreement' and that 'real input' from foreign capital (i.e. the actual foreign capital committed in the agreements) amounted to US\$26,023<sup>9</sup> million. And Warner (1994) estimates that there were approximately 20,000 JVs established in the PRC market in 1991. By 1993 the number had increased considerably to some 100,000<sup>10</sup>. This increase underlines the growing importance of China in the global economy.

Parallel with these developments has been the increased economic integration of the region. Intra-regional trade between East and Southeast Asia has seen a considerable increase in recent years. The proportion of trade between the two regions in 1991 was comparable to that of NAFTA at 42 per cent. What is particularly striking about this increase is that it occurred quite 'naturally' rather than through formal trade arrangements. The significant increase in intra-regional trade has also meant a decline in dependence on markets of the developed world (particularly North America and Europe).

What impact would the increasing importance of the Asia-Pacific region in the global economy – the effects of economic integration, resulting in a significant increase in intra-regional trade and business, the emergence of formally protected markets such as China and India among the world's most important markets, developments in former Indochina, etc. – have on Euro-Asian trade and business? This question constituted the subject matter of the first and second Euro-Asia research conferences organized jointly by IAE, Université de Poitiers, France, and Groupe ESC Nantes Atlantique. The first conference was held in Nantes in November 1994 and the second in the

following year in Poitiers. The conference has now become an annual event, with venues alternating between Nantes and Poitiers. The principal objective has remained that of providing an international forum for scholars who are actively engaged in research concerned with Euro-Asian business and economic relations to present the results of their most recent work and share a common experience with colleagues.

The present volume is a selection of papers presented at the 1994 and 1995 conferences. The papers are among the most recent empirical findings concerned with the analysis of the current economic transformation and business strategy in the Asia-Pacific region. Various themes have been addressed, ranging from an assessment of the environment to more specific issues related to the business and marketing strategies of firms operating in the region. The principal objective of the volume is to introduce to the reader the rapid economic transformation now taking place in the various countries of the region and the impact this might have on future Euro-Asian and international business. The volume is aimed at both the undergraduate (advanced level) and postgraduate student, as well as the general reader, and is intended as an important supplement to existing texts on international business and economics. Because of the geographical focus of the book, it is expected that students using it will already have completed introductory courses in international business and management and have familiarized themselves with the basic concepts.

The volume is divided into three parts:

Part I: Analysis of the Economic Integration Process in the Asia-Pacific Region (four papers)

Part II: The Position of China (six papers)

Part III: Business Strategy in Selected Countries (three papers).

## THE PAPERS

Sandra Palmero traces the phenomenon of economic integration in Asia during the period 1984-1993, using appropriate statistical indicators. She analyses the growth in intraregional trade of each country within the region and then calculates comparative advantage indicators in selected industrial sectors of each country studied. The comparative advantage of Japan in relation to certain industrial sectors is accompanied by gains by the 'four dragons'. The author explains that this is the result of the increasing economic integration in the region.

Catherine Figuière analyses the different dimensions of the processes of regional economic integration in Asia. Using the work of François Perroux as

the frame of reference, Figuière underlines the importance of the role played by Japan in Asia as the 'producer of norms'. Japan has increased its foreign direct investment activities in the region in recent years, while at the same time intensifying its bilateral trade relations with these countries.

Using appropriate statistical indicators, Jean-Pascal Bassino analyses the phenomenon of Asian economic integration during the period 1870–1994. His analysis emphasizes the importance of the role played by Japan in the process. He shows the relationship between Japan's macroeconomic business cycle and the dynamics of trade it maintains with its principal trading partners in the region.

Matthias Niyonzima's contribution is concerned with an examination of the European Union's (EU) antidumping regulations with particular reference to Asia. He notes that the EU has placed economic sanctions on several Asian countries in recent years for dumping a variety of products on the European market. The most recent cases (1994) involve textile products from China, Indonesia, India, etc., and computer disks from Hong Kong and South Korea. The main conclusion is that the EU's antidumping rules are an expression of a general protective policy rather than aimed specifically at Asian countries. The EU regulations are in conformity with WTO criteria rather than discriminatory as to the national origin of the products.

Indru T. Advani draws a parallel between developments in China and in India. Both countries sought to consolidate their independence by adopting planned economic systems, but on the political front India chose parliamentary democracy while China opted for a socialist system. Both countries are presently in the process of liberalizing their economies. Advani argues that China has an advance of twelve years over India, since it has at its disposal the means to implement political decisions more rapidly. In this regard, the author notes, democracy might not always be the most efficient instrument for the rapid implementation of decisions requiring urgency.

Shaun Breslin distinguishes three groups of investors in China, each of which has different objectives. These are Japanese firms, firms from other Asian countries, and Western firms. He argues that Japan's importance as a trading partner for China should not be underestimated. Bilateral trade between the two countries increased by 30% in 1993 over 1992, and by a further 22% in 1994. But there have also been significant increases in foreign direct investment in China from other Asian countries in the last few years. Consequently, the country has been steadily pulled into a regional pattern of interlocking investment, trade, and production networks, reflecting the pattern of increased economic integration in the region.

Yunnan Shi analyses the development of foreign direct investment (FDI) in China since 1979, the year the Chinese government decided to launch its

economic reform policy. The author distinguishes three types of FDI in the Chinese economy: joint ventures, contractual joint ventures, and wholly-owned foreign firms. Shi attempts to bring to light the link between the strategy of direct investment in China by multinational enterprises and economic integration in the region. The author concludes that FDI has conditioned the structure of foreign trade in China. It has favoured the integration of the Chinese economy in East Asia, and contributed to accelerating the pace of economic integration in the region.

An analysis of political risk in China constitutes the subject matter of Maria Weber's contribution. She traces the different phases of Chinese political development from 1949 through the present and proposes three possible medium-term political scenarios: consolidation of power, return to economic control, and the secession of the southern part from the rest of the country. The author argues that should the management of inflation require the Chinese government to adopt a more moderate reform policy (even detrimental to the southern region), the political risk would still be low. On the other hand, a higher political risk might emerge should the southern region require greater autonomy, as this would arouse strong reactions from the central government.

Robert Taylor observes in his contribution that the Chinese authorities have been greatly influenced by the Japanese in their effort to modernize and decentralize their economy. The government's recent creation of the Office of Trade and Economics and its reorganization of the State Planning Commission reflects correctly the Japanese model. (The respective Japanese equivalents of these organizations are the Ministry of International Trade and Industry (MITI) and the Economic Planning Agency). Recent fiscal reforms and price control policies have both been introduced after a careful study of the Japanese model, as is the case with reforms related to human resource management. Taylor concludes that the increasing interest of Japanese firms in establishing bases in the PRC market could be explained, in part, by the presence of the Japanese model already firmly established there.

The near-brutal intensity of global competition is the force driving an increasing number of firms to seek strategic alliances in foreign countries. Jacques Jaussaud's contribution focuses on a study of strategic alliances between Western and Japanese firms. In the 1990s (the years that have seen companies in difficulty owing to escalating wage costs, the appreciation of the yen, growth in interest rates and an end to the dynamism of Western technological duplication) Japanese firms have been studying carefully all kinds of proposal for alliances that might be useful in easing their current difficulty or reinforcing their competitive positions. As a result, the alliances they form tend to be rather diverse in nature. Jaussaud examines the

precautions that are necessary for the definition of strategic alliances with Japanese enterprises.

Christine di Domenico and Sami Slim analyse the evolution of the glue industry on the international market. The authors maintain that the industry can benefit from the commercial and technological influence of Japan in its efforts to establish a viable presence in the Asia-Pacific markets. After analysing the dynamics of the industry on a global basis, the authors proceed to show how the Japanese archipelago can provide an excellent platform for the industry's expansion in the region, recommending that French glue manufacturers considering the Asian markets should try to form strategic alliances with Japanese firms.

Organizational procurement practices of Taiwanese firms in the PRC market constitute the subject matter of Sam Dzever's analysis. The paper is based on empirical data collected among 95 Taiwanese firms currently doing business in China. The procurement practices of these firms were studied in relation to factors such as the role of purchasing managers in the decision process relating to the purchasing of industrial products from foreign suppliers, the importance of different functional departments in the decision process, the importance of technical, commercial, and social factors in the decision process, and the effects of environmental factors such as market structure, economic, technology, and culture on the decision process. The overall implications of the findings for the industrial marketing strategies of foreign firms in the PRC market are discussed.

Christian Milelli provides an analysis of Asian economic integration and the role of Japanese corporate networks in the process, with particular reference to the electronics industry. The author argues that Japanese corporate networks are much older than, say, European and American ones and appear to have a better understanding of the economic integration process now taking place in Asia. The author provides evidence related to different phases of the establishment of Japanese firms in this industry in the Asian markets and points out that these firms have, however, come under increased competition in recent years from their American counterparts.

Sam Dzever  
Jacques Jaussaud

## Notes

1. See the document 'Towards A new Asia Strategy', Com. (94) 312 published by EU Commission, Brussels, 1994.

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9. PRC Government Publication 'Top Ten Joint Ventures', New Star Publishing, Beijing 1993.
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