

# The Political Economy of Sino-American Relations

## A Greater China Perspective

Edited by Y.Y. Kueh  
with the assistance of Brian Bridges



Hong Kong University Press  
香港大學出版社

**Hong Kong University Press**  
The University of Hong Kong  
Pokfulam Road, Hong Kong

© Hong Kong University Press 1997

ISBN 962 209 440 6

All rights reserved. No portion of this publication may  
be reproduced or transmitted in any form or by any recording,  
or any information storage or retrieval system, without permission  
in writing from the publisher.

Printed in Hong Kong by Condor Production Co., Ltd.

# Contents

Preface	vii
List of Contributors	ix
Introduction	1
1 US-China Relations, 1995–97: From Crisis to Hope to Uncertainty <i>Harry Harding</i>	9
2 China's Economic Reforms and Their Impact on US-China Trade Relations <i>Robert F. Dernberger</i>	29
3 Taiwan's Perspective on Sino-American Economic Relations <i>Tzong-shian Yu</i>	49
4 The Role of Hong Kong in Sino-American Economic Relations <i>Y.Y. Kueh and Thomas Voon</i>	61
5 The United States Versus Japan in Market Shares in Hong Kong and Taiwan <i>Kai-cheong Lei</i>	93
6 United States Direct Investment in China: Basic Facts and Some Policy Issues <i>Leonard K. Cheng</i>	105
7 Double-Edged Trade Effects of Foreign Direct Investment and Firm-Specific Assets: Evidence From the Chinese Trio <i>Chin Chung</i>	135
8 The Impact of Renminbi Devaluation on Hong Kong and China Trade <i>Kui-yin Cheung</i>	163
9 The Implications of China's Admission to the WTO for Greater China <i>Yun-wing Sung</i>	181

10	Sino-Japanese Economic Relations and Their Implications for Sino-American Relations <i>Hiromi Yamamoto</i>	205
11	US-China Trade Conflict and Its Implications for Australia's Agricultural Trade <i>Joseph C.H. Chai</i>	223
12	Sino-American Relations: An Asian Perspective <i>Radha Sinha</i>	243
13	China in the World Economy <i>Marcus Noland</i>	277
	Index	291

---

## Contributors

- Bridges, Brian Associate Professor, Department of Politics and Sociology, Lingnan College; formerly Head of East Asian Studies Department, Royal Institute of International Affairs, London
- Chai, Joseph C.H. Senior Lecturer, Department of Economics, The University of Queensland
- Cheng, Leonard K. Professor of Economics, Hong Kong University of Science and Technology
- Cheung, Kui-yin University Lecturer, Department of Economics, Lingnan College, Hong Kong
- Chung, Chin Associate Research Fellow, Chung Hua Institution for Economic Research, Taipei
- Dernberger, Robert F. Professor of Economics Emeritus and Director, Center for Chinese Studies, University of Michigan
- Harding, Harry Dean, Elliott School of International Affairs, The George Washington University; formerly Senior Fellow, Brookings Institution, USA
- Kueh, Yak-yeow Chair Professor of Economics, and Dean, Faculty of Social Sciences, Lingnan College, Hong Kong; formerly Foundation Director, Centre for Chinese Political Economy, Macquarie University, Sydney
- Lei, Kai-cheong University Lecturer, Department of Economics, Lingnan College, Hong Kong
- Noland, Marcus Senior Fellow, Institute of International Economics, Washington DC
- Sinha, Radha Professor of International Economics, Sophia University, Tokyo; formerly Professor of Political Economy, University of Glasgow, UK
- Sung, Yun-wing Professor and Chairman of Department of Economics, The Chinese University of Hong Kong
- Voon, Thomas Associate Professor, Department of Economics, Lingnan College, Hong Kong
- Yamamoto, Hiromi Professor of East Asian Economics, Faculty of Economics, Kyoto University
- Yu, Tzong-shian Professor and former President, Chung Hua Institution for Economic Research, Taipei

---

## Introduction

In the 1980s the Asia-Pacific region was the world's fastest growing region economically and its record to date in the 1990s, despite occasional hiccups in some countries, suggests that that status will be maintained in this decade as well. The impressive growth rates of recent years are founded both on heightened flows of trade and investment within the region and on an ever-broadening range of commercial contacts with external trading partners. Both have taken place within an increasingly congenial regional political context, especially after the collapse of the Soviet Union which has brought about a basically favourable power realignment on a global scale.

Within this overall pattern of Asia-Pacific economic dynamism, one aspect which has attracted particular attention in recent years has been the intensification of trade and investment linkages between mainland China, Hong Kong and Taiwan; so much so that observers have come to talk of 'Greater China' as a way of characterizing this new phenomenon.\* Although it was the decision of the Chinese government in the late 1970s to adopt 'open-door' policies for economic modernization which acted as the trigger, the private sector in Hong Kong and Taiwan have been quick to see the commercial potential of ventures in and with China. While it is true that political sensitivities (most notably between China and Taiwan) have not been completely eliminated, economic logic has remained a powerful driving force behind this integration between the three economies.

Individually, the three Chinese economies are in any case important players in global trade and investment relations. China, Hong Kong and Taiwan have been occupying in recent years the eleventh to thirteenth positions amongst the world's trading nations; and China has now become one of the world's largest recipient countries of foreign direct investment (FDI), second only to the United States, while Hong Kong has assumed the status of the fourth largest FDI supplier in the world. With the emergence of 'Greater China', however, external trading partners are increasingly being faced with the need

---

\* Throughout this study, the term, mainland China, the Chinese Mainland, China and the People's Republic of China are used interchangeably; and 'Greater China' is used as an economic concept to capture the precipitous increase in economic interaction and integration between the three Chinese economies since 1979.

to carry out business activities and construct trade policies which take account of the complex set of economic linkages between the three economies. This means that they are no longer able to deal with one economy in isolation from the others. Clearly for all three economies, the United States figures as one of their most important external partners. This volume therefore endeavours to examine in detail, both from the perspective of the 'Greater China' economies as well as from the side of the Americans, many of the complexities of the Sino-American relationship.

The end of the Cold War profoundly affected the pattern of international relations and led to assessments that the preoccupation of the previous half century with geopolitics and security would be replaced by enhanced concern about economic, social and environmental issues. However, in reality as the 1990s have progressed, it has also become clear that economic issues are still closely linked with political questions. This means that any discussion of the economic dimensions of the Sino-American relationship needs to be set against the broader background of Sino-American political relations.

As one of America's leading China watchers, Harry Harding, demonstrates in the opening chapter, there has been a range of troublesome political issues which have plagued Sino-American relations in the 1990s — some of these date back a long way, others are new on the agenda. The conference from which this edited volume derives was itself held at a time when relations between the United States and China were particularly tense in the aftermath of the visit to the United States by President Lee Teng-hui of Taiwan. Tensions actually heightened even further in the spring of 1996 at the time of Taiwan's presidential elections with Chinese military activity near Taiwan being counterbalanced by US naval deployments. However, as Harding argues, despite these problems, there are a number of internal and international factors which still provide durability and resilience to the relationship. Indeed, there are signs, in the second half of 1996, that some measure of stability is being restored to the Sino-American relationship. Thus, although there inevitably will exist a blend of divergent and convergent interests in the relationship, the prospects for cooperation are once again becoming more favourable.

While Harding's analysis primarily covers post-Cold War policies and perceptions on both sides, the chapter by Radha Sinha, an Indian scholar now based in Japan, sets the current Sino-American relationship against a much longer historical and intellectual background. He notes various stages in the development of Sino-American relations over the past century and a half, from US imperialism (albeit a moralistic one), through benign neglect to the *rapprochement* of the 1970s. He characterizes the present period as one of constructive dialogue and argues for patience, caution and reduced reliance on rhetoric in developing the Sino-American relationship.

While not losing sight of the important political context, the other chapters of the volume concentrate on key aspects of the economic interactions between the various economies. The starting point has to be the profound changes which have taken place in the Chinese economy since the late 1970s. Based on his long-time observation of the Chinese economy, Robert Dernberger offers a thoughtful assessment of the pattern of economic reforms in China over nearly two decades. He sees a considerable — and relatively successful — transformation of the Chinese economy, but notes that some key issues, particularly in the banking and legal systems, will be difficult challenges for the new post-Deng Xiaoping leadership. Turning to how these changes have had and are having an impact on relations with the United States, Dernberger anticipates a slowdown in Chinese trade and investment growth, but argues that China will inevitably play an ever larger role in the Asian economy; as such, US businessmen will not want to miss out on the commercial opportunities on offer.

Two other overview chapters approach the Sino-American relationship from the perspective of the other components of 'Greater China': Taiwan and Hong Kong. The senior Taiwanese economist Tzong-shian Yu compares the state of economic relations between Taiwan and the United States with that of mainland China with the United States. He argues that for both Taiwan and China the United States will remain an important export market, but that by contrast with the 1980s it is now China rather than Taiwan which will be running large — and controversial — trade surpluses. But he also notes that with the burgeoning of economic ties between Taiwan and mainland China, any US trade policy measures taken against China will have an impact not just on Taiwanese investment in China but also on industrial growth in Taiwan itself.

Hong Kong, even more closely linked with China, is bound to be most profoundly affected by any major US-China trade disputes. The chapter by Y.Y. Kueh and Thomas Voon clearly brings to light, in quantitative terms, the pivotal role Hong Kong plays in facilitating two-way US-China trade, and hence the enormous economic importance to Hong Kong of a favourable Sino-American political relationship. Of particular interest is the rigorous analysis made to reconcile the long-standing conflicting US versus China claims over trade deficits against each other. Kueh and Voon show that by an absolutely overwhelming proportion, the discrepancy can be explained away by Hong Kong's imputed earnings from export processing commissioned to the Chinese hinterland which by American reckoning are, however, treated grossly as Chinese exports to the United States. Kueh and Voon also conclude that the exaggerated US trade deficit claims against China appear to assume a political overtone, given that, by contrast, similar, persistent and massive US trade deficits *vis-à-vis* Japan, and South Korea and Taiwan as well, have never really



inspired the American government to any serious trade disputes with these established political allies.

The chapter by Kui-yin Cheung takes a closer look at the Hong Kong-China trade links by focusing specifically on the role that fluctuating exchange rates have played in affecting two-way trade flows including, in particular, the all-important 'outward processing' trade initiated from Hong Kong. Against the background of his findings, Cheung argues that, as part of China's bid to join the new World Trade Organization (successor to the General Agreement on Tariffs and Trade), reform of its foreign exchange system, in particular the movement towards full convertibility of the renminbi, are essential. He also remains optimistic that Hong Kong's rediscovered role as an entrepôt and gateway to China for foreign, including American, companies will continue for the foreseeable future.

Of course, investment activities are closely intertwined with trading relationships and two chapters address these linkages. Leonard Cheng, a Hong Kong specialist on China's investment issues, takes a detailed look at the record of US companies investing in China and highlights some of the areas where there have been disagreements between China and the United States. Some of the disputes, he argues, are really about the speed of Chinese economic reform, but he does note some aspects, such as industrial policy, where standpoints differ more widely. Nonetheless, like Dernberger, he feels that US companies will want to continue to invest and be active in the China market.

Taiwanese scholar Chin Chung examines in detail the nature and function of FDI from both Taiwan and Hong Kong in the Chinese mainland in light of available international experience. She compares how the associated relocating of export-oriented manufacturing activities has been brought to bear on both the relative shares of the Chinese Trio in the US and Japanese markets (in favour of the Chinese Mainland), and the industrial structure of Taiwan, as well as that of Hong Kong. She argues that, for reasons of a lack of 'firm-specific assets' on the part of the investing firms, increased FDI outflows to the Mainland tend to result in a 'hollowing-out' of the manufacturing sector. While, however, the vacuum left in Hong Kong can be rapidly filled by the burgeoning service economy taking advantage of the booming China re-export trade, Taiwan, because of both political and geographical constraints, however, should look for ways of replenishing lost capital and entrepreneurship, if it wants to make up foregone chances for industrial upgrading and restructuring.

A crucial issue which still hangs over China's economic and trading relationship with the United States and the world at large obviously concerns China's resumption of membership of the GATT/WTO. Given that the potential impact is expected to be enormous, Hong Kong trade specialist Yun-wing

Sung discusses, in his chapter, specifically how it may bring about drastic changes in China's own economic system and economic stability, and hence in its commodity and services trade relationship with the outside world on the one hand, and, on the other, how it may further help to enhance economic integration between the 'Socialist' (China) and 'Capitalist' (Hong Kong and Taiwan) parts of China. Sung argues that an economically integrated 'Greater China' will inevitably continue to be outward-oriented, relying on the United States as the largest export market and Japan as the largest supplier of capital goods and technology — a conviction shared indeed by Kueh and Voon as well. Of particular analytical interest in Sung's chapter is the attempt made to disentangle the intriguing trade relationship between the Chinese Mainland and Taiwan. He contends that despite the official ban by the Taiwanese government, 'direct trade' has already been flourishing, by way of 'nominal' transshipment via Hong Kong, by Taiwan exporters in a frenzy to cash in on both emerging Chinese consumerism and the heightened export-oriented FDI demand for input equipment and materials. Thus, as Sung argues, the advent of a WTO status may not make too much difference in this respect.

Needless to say, the Sino-American economic relationship is also affected by, and in turn has an impact on, economic relationships between other economic powers in the Asia-Pacific region. Clearly, Japan, by the very size of its economy and its own intense trading and investment relationships with both China and the United States, cannot be ignored. One of Japan's leading scholars on the Chinese economy, Hiromi Yamamoto, carefully charts the growing trade, aid and investment links between Japan and China and sets them in the context of Japan's gradual shift away from reliance on the United States as its major trading partner to the booming Asia-Pacific economies. He also detects a tendency in the 1990s for Japan to slowly move away from following the US lead in relations with China, suggesting that in future the dynamics of the Sino-Japanese economic — and political — relationship will be less influenced by the state of US-Japan and US-China relations.

Of course, Japan and the United States are competitors not just in the China market but also in the smaller markets of Hong Kong and Taiwan. Kai-cheong Lei uses an econometric analysis to examine the exact state of this competition in these two latter markets. He demonstrates that, although the Japanese and US combined shares of these two markets has been slowly declining over the past two decades in the face of new competitors, Japan's share of both markets remains larger than the US share and indeed in the more sophisticated Hong Kong market, its lead over the United States is growing.

An Australia-based specialist in Chinese economic studies, Joseph Chai, adopts a different perspective, taking as his starting point the debate within Australia about the likely trade-diverting and trade-creating effects for Australia of Sino-American contention. He concludes that even if the United States feels

it necessary to balance its trade with China by increasing exports to China this would not necessarily mean greater competition with Australian commodities, such as agricultural products, in the China market.

While scholars and government officials do still argue about the differing methods of computation and consequently differing projections of the size of the Chinese economy and its future role in world trade, even under conservative calculations it is clear that China has become one of the world's major economies. How can the international economic system adjust to the emergence of this new economic power and the associated 'Greater China'? The final chapter in the volume, by the American international trade specialist Marcus Noland, tries to speculate on the changing role of China in the international economy. He argues that the sheer size of China, its sustained rapid growth and the still incomplete nature of reform there means that integrating it into the international economic order will be at times both problematic and painful for other states, including the United States. As such he feels that China should be encouraged to join actively in bodies such as the WTO and APEC (Asia Pacific Economic Cooperation), to make it prepared to assume obligations while receiving benefits from these groupings.

There is no doubt that with China being increasingly assimilated into the world system of market economies and free trade, by way of economic reform, trade decentralization and enhanced trade and investment relations, any major economic and trading decision-making by the Chinese government is bound to be increasingly subject to the dictates of universally established rules and procedures, and customs governing multilateral or bilateral relations. The continuous concessions made by the Chinese government in recent years in response to US requirements for compliance with intellectual property rights and for opening up the market (in terms of the market access agreement) are a good case in point.

At the same time, the Chinese domestic system of production, investment and trading can be expected to be closely woven into the global system of labour division, industrial specialization and trade exchange. Any readjustments made in trading and investment policies on the part of the Chinese government, will then likely become increasingly constrained and hence marginal in extent, within the global context of private enterprises, decentralized trading autonomy, banking, financial and investment liberalization, and competition. Thus, if global economic interdependence continues to increase, it will be more difficult for China, or any other major country, to disturb the world economic order.

Of course, in the case of Sino-American economic relations, as in the case of other important relationships, international trade and investment cannot be entirely free of political influence. Issues such as Taiwan, Tibet, arms sales, nuclear non-proliferation and human rights, coupled with a growing perception

by the US government of China as a 'threat' to South-east Asia and the world at large, do cast a shadow over normal economic exchanges. Geopolitics and regional security considerations apart, clearly differences of value imperatives, over human rights for example, which set the Chinese belief in the rights of existence and development against the American belief in individual freedom and democracy, do threaten to spill over into the economic arena, despite the delinking by the Clinton administration of annual most-favoured-nation (MFN) renewal from the human rights issue.

Taking a longer-term perspective, political change can perhaps be seen as a function of economic development, and just as Taiwan has changed politically in recent years with its economic growth, so too change may even come to China in the twenty-first century. However, the situation with mainland China is clearly dissimilar by virtue of its sheer size and its highly diversified and complex economic and social structure. The stark contrasts between the coastal and interior provinces, in terms of economic disparity, as well as the long-standing industry-agriculture dichotomy, have ever since the communist takeover in 1949, compelled the Chinese leadership to regard a certain degree of political centralism as necessary to hold together the fabric of the state. In fiscal terms this clearly implies forced transfer from the relatively richer eastern to the poorer western regions — a basic policy which has gained greater currency in recent deliberations over the current five-year plan. Equally, if not even more forcefully, there has been a consistent draining of resources, ironically conversely from the poor agricultural sector to the relatively rich urban industrial sector, as part of the forced-draft industrialization for catching up with the Western industrial powers. Both types of forced transfers clearly presuppose centralized political control one way or the other, necessarily implying forced savings and pervasive suppression of consumption and consumer choice, and, by extension, deprivation of individual freedom and consumer voting American-style.

Our short introduction does not intend to digress into domestic Chinese politics and economics, but these few points about the fundamentals should be sufficient to highlight the very sources and rationale underlying the enormous gap between the Chinese and the Americans in their respective value perceptions and moral standards.

Is the gap between the Chinese and the Americans really unbridgeable? In terms of value imperatives, it is quite unlikely to be bridged in the foreseeable future. Nonetheless, with China emerging as a major geopolitical factor and, even more rapidly, becoming a global economic power, *realpolitik* would certainly lend substance to Harding's argument that in the coming years China and the United States would be neither friend nor foe.

On a positive note, trade and investment relations between the United States and China, or more importantly indeed between the United States and

'Greater China' at large, have accumulated to a scale these days that was unthinkable fifteen years ago. Although in a way China may be economically more dependent on the United States than vice versa, it is safe to assume that neither country would really be prepared to risk the potentially wide-ranging negative consequences of rocking the 'economic' boat. There is therefore a real element of truth in Harding's contention that the enhanced economic interdependence between the two countries, especially since the early 1990s, must be seen as an important factor in providing some durability and resilience to Sino-American relations. Therefore, as President Clinton begins his second term of office, there are signs that the tensions of the 1995-96 period can be put behind us and that a new more productive phase in Sino-American relations can begin.

Y.Y. Kueh and Brian Bridges  
March 1997

# Index

## A

- Adams, John Quincy 248
- agricultural
  - exports 225
  - goods 99, 100, 233
  - imports 225
  - output 226
  - policy 31
  - products 167, 227, 240
  - reforms 33
  - sector 39
- Akamatsu, Kaname 136
- Amau Doctrine 252
- Ambrose, Stephen E. 256
- American textile import quotas 10
- Anglo-Saxon *mission civilisatrice* 266
- anti-dumping 125
  - duties 194, 195, 283
- APEC (Asia Pacific Economic Cooperation) 6, 201, 202, 221, 261, 287, 288
  - forum 225
- Armington, P.S. 97
- Arndt, H.W. 157
- Asia-Pacific region 1, 5, 216
- Asia-Pacific rim countries 93
- Australia's
  - exports to China 227
  - FDI in China 231
  - trade balance with China 228
  - trade deficit 228
  - trade surplus 228
  - indirect trade 238

## B

- balance of trade adjustment 165
- Barnett, A. Doak 258
- Basic Law 199
- big bangs 30
- bilateral trade 24, 51, 54, 56, 225
  - balance 118
  - deficits 10, 73
  - imbalances 125, 223
  - surplus 281
- Bogor summit 201
- Boxer Rebellion 250
- British East India Company 247
- 'bubble' economy 51
- Bush administration 12, 16

## C

- capital- and knowledge-intensive industries 136
- central budget 36
- Chai, Joseph 5
- Chen, Tain-jy 137
- Cheng, Leonard 4
- Cheung, Kui-yin 4
- Chiang Kai-shek 256
- China
  - Circle 181, 182
  - democratization 119
  - factor 96
  - proper 62
  - trade 261, 279
- China-Hong Kong production zone 79

## China's

- adjusted trade balance 82
  - economic reforms 29, 30, 31, 32, 33, 34, 50, 163, 170, 176, 192, 225, 226, 259, 277, 286
  - exchange rate 163
  - exports 259, 260, 261
  - foreign exchange earnings 61
  - foreign trade 32
  - guidance planning 35
  - imports 261
  - inflation 38, 99, 103, 120, 193, 215
  - outward investment 184
  - trade decentralization 185, 197
- Chinese Trio 157
- Chou, En-lai see Zhou, En-lai
- Chung, Chin 4, 138, 144
- Chung and Chung et al. 143
- CIF and FOB prices 187
- city-economy 154
- Clinton administration 7, 11, 12, 17, 18, 19, 20, 21, 259, 266
- Co-Prosperty Sphere 245
- Cold War 14
- collectivized agriculture 31
- commodity futures markets 279
- comparative advantage 58, 59, 135, 136, 138, 165, 196
- consumer price index 101
- contractual joint ventures 106, 118
- Convention Establishing the  
Multilateral Investment 121
- Convention on the Settlement of  
Investment Disputes 121
- convertibility of the renminbi (RMB)  
177, 202
- cooperative joint ventures 106, 118
- cross price elasticity of demand 97, 99
- cross-Strait ties 21
- cultural affinity 189, 200
- Cultural Revolution 32
- currency convertibility 194

## D

- Datsu A Nyu O* 215
- Defense White Paper, 1995 246
- deficit 228
- Deng, Xiaoping 22, 31, 32, 56, 109, 119, 202, 259
- Dernberger, Robert F. 3, 4
- Diaoyutai islands 22
- Dole, Robert 20
- domestic price effect 101
- dual exchange rate system 125
- Dulles, John Foster 257, 258

## E

- East Asia 216, 219, 220
- East Asian Co-Prosperty Sphere 245
- East Asian Industrial Belt 224
- economic
- complementarity 58
  - interdependence 6, 8, 24, 32
  - integration 170, 172, 188, 192, 193, 198, 200
  - nationalism 221
  - zone of influence 245
- Eisenhower administration 257
- elaborately transformed manufactured  
goods (ETM) 227
- elasticity estimates 85
- Empress Dowager Tsu Hsi 250
- entrepôt 4, 79, 86, 140, 177, 228
- and brokerage fees 79
  - role 153
  - trade 142, 164, 185
- Environmental Protection Agency (EPA)  
268
- equity joint ventures (EJV) 106, 118
- European Free Trade Association  
(EFTA) 195
- Evans, Peter C. 264, 265
- evasion of textile and apparel  
restrictions 283

- export  
 licences 167  
 manufacturing bases 150  
 market shares 150  
 processing centre 72  
 shift 139, 153  
 substitution 147, 150
- export-oriented  
 FDI 5, 105, 146  
 industries 181, 182, 193  
 SMEs 138
- export-reprocessing 72
- external debt 280
- F**  
 Fairbank, John King 247, 248, 254, 255  
 Federal Reserve Board 286  
 financial centre 64  
 finished manufactures 70, 71  
 firm-specific assets 152, 153, 156, 157  
 fiscal reforms 36  
 Fletcher, Joseph 248  
 flying geese 153, 219, 223  
 pattern 136  
 pattern of development 83
- FDI  
 augmentation effect 136  
 contracted 105, 106, 107  
 geographical distribution 111  
 inward 183  
 realized 105  
 substitution effect 136
- FOB price 79, 80  
 FOB/CIF difference 75
- food and agricultural  
 exports 234, 238, 239  
 products 236
- food self-sufficiency programme 240
- forced savings 37
- forced-draft industrialization 7
- foreign  
 aid 265  
 direct investment (FDI) 1, 4, 33, 50, 55, 103, 105, 106, 107, 109, 111, 118, 121, 122, 127, 135, 136, 137, 139, 140, 142, 143, 144, 146, 150, 156, 157, 170, 181, 208, 230, 231, 253, 262, 264, 265, 280  
 exchange earnings 73  
 exchange retention schemes 70  
 exchange system 126  
 reserves 126
- foreign-funded enterprises 124, 125, 126
- free market economy 30
- free trade 243, 244  
 area 198  
 zone 199
- French President, General de Gaulle 258
- Fukuda doctrine 216
- G**  
 Gao, S., 144  
 General Agreement on Tariffs and Trade (GATT) 4, 119, 122, 125, 126, 128, 131, 268  
 Article VIII 124  
 Article XI 124  
 Agreement on Trade-related Aspects of Intellectual Property Rights 123  
 Agreement on Trade in Services (GATS) 128, 129, 196  
 Agreement on Trade-Related Investment Measures (TRIMS) 125  
 rules 124  
 Uruguay Round agreements 127, 230, 239
- General MacArthur 256
- Geneva Accord of 1954 258
- Geneva Conference 258
- Gingrich, Newt 16
- GNP generation 150



gravity model of bilateral trade 282  
Greater China 1, 2, 3, 5, 6, 8, 41, 93, 94,  
104, 181, 182, 188, 191, 193, 195, 196,  
197, 228, 229, 240  
gross domestic product 86, 154, 259,  
277, 288  
Group of Seven 42  
growth-promotion policies 101

## H

H-shares 184, 196  
hard budget constraint 38  
hard currency 70  
Harding, Harry 2, 7, 8  
heavy-industry manufactured goods 99  
Hickman, B. 97  
Hills, Carla 12  
Hong Kong  
    direct trade surplus 169  
    domestic exports 169  
    outward-processing 4, 62, 63, 65,  
    69, 71, 72, 75, 79, 84, 140, 144, 164,  
    171, 172, 173, 181  
    relocation of labour-intensive  
    industries 194  
    relocation of manufacturing  
    activities 153  
    retained imports 167, 185  
Hong Kong Trade Development  
    Council 78  
Hong Kong-China economic synergy  
    86  
Hong Kong-Guangdong economic  
    synergy 71  
Hosokawa and the Hata coalition  
    administrations 221  
Houston G-7 Economic Summit in 1990  
    220  
human rights 11, 12, 15, 23, 24, 26, 87,  
    119, 266, 268, 269  
Hurley, Patrick 252

## I

import cover ratio 261  
import quotas 279  
industrial  
    hollowing-out 4, 138, 153, 186  
    policy 127, 128  
    restructuring 153  
    structure of Hong Kong 173  
industrialization programme 61  
infant industries 127, 128  
institutional discriminatory preferences  
    201  
intangible assets 137, 138  
integration  
    of financial markets 192  
    of service industries 192  
intellectual property rights 6, 10, 13, 54,  
    55, 123, 232, 239, 268  
    protection 118, 120, 122, 224  
    agreement 1992 268  
    memorandum of understanding  
    223  
    IPR-based products 239  
inter-industry 145, 146  
interbank  
    foreign exchange market 177  
    market 126  
International Development Agency 281  
internationalization of China's domestic  
    market 240  
intra-Asian trade 40, 41  
intra-firm trade 145, 146  
intra-industry trade 145, 146, 187  
investment-induced 143  
    exports 157  
    indirect imports 144  
    trade 146, 153

## J

Japan's  
    direct investment in China 213, 220

- economic zone of influence 245  
 exports to China 208, 261  
 indirect trade 207  
 trade with China 205
- Jiang, Zemin 19, 22
- Johnson, Harry G. 244, 245, 269
- joint development (JD) 106
- June Fourth Incident in 1989 109  
 (also see Tiananmen Crisis)
- K**
- Kennan, George 245
- Kissinger, Henry 16
- Kojima, Kiyoshi 135, 138
- Kojima-cum-Lee argument 136
- Korean War 255, 256
- Kueh, Y.Y. 3, 5
- L**
- labour-intensive 137, 142, 145, 182, 186  
   industries 136, 181  
   manufactures 281  
   manufacturing export base 223  
   processing 194  
   small-scale manufacturers 157
- labour-oriented 136  
   FDI 135, 139, 147
- laissez-faire 103
- Lake, Anthony 20
- Lansing-Ishii Agreement 251
- Lansing, Robert 251
- Lardy, Nicholas 220
- Lau, L.J. 97
- Law of the Sea Convention 267
- Lee, Chung H. 136, 137, 138, 152
- Lee, Joseph S. 144
- Lee Teng-hui  
   see President Lee Teng-hui
- Leeson, Nick 279
- legal  
   framework 121  
   system 118, 120, 121, 122, 124
- Lei, Kai-cheong 5  
*liangtou zaiwai* 212
- Liao-Takasaki agreement 220
- liberalization 192, 193, 223  
   of China's services market 230
- Lin, Chu-chia Steve 144
- liquid savings 37
- Liu, Huaqiu 20
- local budgets 36
- Long, Yongtu 127
- low-cost labour 15, 16
- M**
- macroeconomic instability 120, 193
- macrostabilization 194
- Manhattan-type economy 87
- Manhattanization 86
- manufactured goods 205, 207, 227  
   products 76, 147, 186, 261, 262
- manufacturing 4, 184, 188, 231, 253  
   exports 149  
   industry 171  
   operations 185  
   products 167  
   sector 172
- Maoist  
   development strategy 32  
   era 38
- Mao, Zedong 255
- market  
   access 6, 10, 11, 13, 54, 120, 126, 128,  
   129, 232, 239, 240, 286, 287  
   shares 95, 101, 102, 103, 188, 236,  
   239
- market-oriented FDI 135, 136
- marketization 30, 34
- Mason, R. Hal 137
- Matsumoto, Shigeharu 221
- McBride, Troy 124
- McCulloch, J.R. 244
- Memorandum of Regulatory  
   Cooperation 196

- Memorandum of Understanding (MOU) 177
- mercantilism 245
- Mexican foreign exchange crisis 126
- most-favoured-nation (MFN) 7, 16, 26, 84, 85, 87, 120, 232, 259
- non-renewal 86
- status 17, 20, 54, 62, 194, 195
- treatment 11, 129
- Missile Technology Control Regime 23, 24
- Miyazawa administration 221
- modified constant market share analysis (CMS) 235
- Monroe Doctrine 248, 251
- N**
- NAFTA 41
- national treatment 122, 125, 126, 127, 129, 130, 202
- Naughton, Barry 35
- neo-mercantilist strategies 16
- Neutrality Act 252
- new post-Deng Xiaoping leadership 3
- newly-industrializing economies 94, 157
- Ng, Linda F.F. 140
- NIEs 41
- Nixon administration 257
- Nixon presidency 266
- Nixon, Richard M. 51
- Noland, Marcus 6
- non-price competition 103
- non-tariff barriers 244
- Nyu O Nyu A* 215
- O**
- OECD
- Declaration and Decisions on International Investment and Multinational Enterprises 129
- markets 195
- Official Development Assistance (ODA) 212, 213, 220
- official lending 281
- one country, two systems 61
- one-China policy 9, 19
- open-door
- policy 1, 49, 50, 51, 125, 140, 163, 170, 176, 190, 225
- reforms 32, 33
- Osaka summit 201, 202
- Ozawa, Terutomo 138
- P**
- Peng, James 124
- Peng, Ming-min 17
- People's Bank of China 37
- Perkin, Ian 264, 265
- Perry, William 19
- poisonous weeds 32
- policy loans 38, 127
- political instability 119
- post-Deng era 10, 39, 279
- post-Mao leadership 31
- preferential tax treatment 129
- President
- Bush 19
- Clinton 8, 9, 19, 23, 266, 268
- Eisenhower 257
- F.D. Roosevelt 257
- Hoover 252
- Johnson 258, 269
- Kennedy 257, 258, 269
- Lee Teng-hui 2, 9, 12, 13, 17, 18, 21, 285
- McKinley 249
- Nixon 257, 258, 259
- Syngman Rhee 256
- Taft 249
- Theodore Roosevelt 249
- Truman 256
- Wilson 251

- price  
 competition 93, 94, 97, 98, 100  
 elasticity of substitution 94, 98, 101, 102, 234
- Prime Minister  
 Attlee 256  
 Yamagata Aritomo 254
- privatization 30, 34
- product cycle model 138
- production inputs 80
- productive capacity 172
- property rights 34
- protectionism 195
- purchasing power parity 259
- Q**  
*quid pro quo* 23  
 quota on the import 55
- R**  
 re-export(s) 62, 65, 69, 70, 71, 72, 75, 84, 105, 169, 170, 172, 175, 181, 185, 186, 207, 228  
 trade 4
- real  
 exchange rate 165  
 GDP 287  
 RMB exchange rate changes 167
- realized  
 FDI 105  
 investment 106, 109, 111, 118
- realpolitik* 7
- Red Chips 184
- reforms of the banking system 37, 38
- relative  
 market shares 97, 98, 235, 238  
 prices 235, 236, 238
- Remer, C.F. 253
- retirement payments 39
- RMB  
 devaluation 163, 164, 165, 169, 172, 173, 174, 175  
 exchange rates 84, 176
- Roberts, J.M. 248
- round-tripping 184, 191, 280
- S**  
*sanzi qiye* 63, 164  
*sanlai yibu* 62, 63, 64, 65, 69, 70, 71, 72, 73, 75, 78, 85  
 exports 65, 79, 80
- Sato, Eisuke 220
- scale  
 (income) elasticity of demand 100  
 effects 101, 103
- Schaller, Michael 245
- Section 301 54
- Securities and Exchange Commission 286
- security integration 246
- Seikan Ron* 254
- semi-manufactures 71, 191
- Senator Frank Church 266
- service sector 172
- services  
 exports 229  
 trade balance 229
- Shanghai Foreign Exchange Trading Center 177
- Shenzhen Special Economic Zone 190
- Sinha, Radha 2, 244
- Sino-British agreement 189, 199
- small and medium enterprises (SMEs) 137, 145, 152, 157
- Smith, Adam 244
- socialist market economy 40
- soft containment 22
- South China Seas 11, 22
- Special 301 provisions 54, 55, 58, 59
- Special Economic Zones 33, 190
- specialized banks 38
- state  
 monopolies 130, 131  
 enterprises 35, 36, 120

Stimson, Henry B. 252  
 subregional economic zones 188  
 substitution  
   effect 136  
   elasticity 103, 235  
 sugar 239  
 Sulzberger, C.L. 257  
 Summers, Lawrence H. 285  
 Sung, Yun-wing 4  
 swap markets 125, 126

**T**

Taiwan  
   direct exports 187  
   direct trade 5, 186, 187, 197, 198  
   indirect trade 142, 198  
 Taiwan Relations Act 17  
 Taiwan Strait 17, 50  
 Taiwan Strait crisis of 1995–96 25  
 tariff and investment preferences 199,  
   200  
 tariff barriers and non-tariff barriers  
   (NTBs) 239  
 tariffs 202, 244  
 taxes 36  
 technology transfer 64, 126  
 technology-intensive 186  
 textile and apparel exports 284  
 textiles, clothing and footwear (TCF)  
   227, 240  
 Third Plenum of the Eleventh Central  
   Committee 31, 32  
 three foreign-funded enterprises 63  
 three-pronged strategy 14  
 Tiananmen Crisis of 1989 9, 14, 15, 16,  
   19, 220, 259  
 Tonelson, Alan 52  
 Torres, Robert 244  
 total processing fee 78  
 township and village enterprises (TVE)  
   34  
 Trade Act, 1988 282

trade  
   balance 62, 73, 80, 84, 207, 247  
   balance statistics 79  
   balancing requirement 125  
   barriers in China 267  
   bloc 199, 245  
   creation effect 5, 232, 238, 240  
   deficit 3, 50, 51, 52, 53, 55, 75, 205,  
     208  
   disputes 55  
   diversion effect 5, 86, 232, 233  
   facilitator or mediator 64  
   imbalance 10  
   liberalization 194, 244  
   links 139  
   policy 49, 163  
   reduction effect 135  
   regime 177, 201, 202  
   surplus 3, 49, 50, 51, 52, 53, 54, 55,  
     58, 73, 83, 150, 193, 228, 229  
 Trade versus Aid 265  
 trade-enhancing 135  
 trade-reducing 135  
 trade-related investment measures 131  
 trading rights 124, 125  
 transaction costs 200, 201  
 transfer pricing 145  
 transshipment 5, 283, 284  
 transparency  
   of trade and investment policies  
     120, 121, 122  
   of the trade regime 286  
 triangular debts 37  
 Truman Administration 257  
 Tuan, Chyau 140, 144  
 Tuchman, Barbara W. 247, 250, 255  
 Twain, Mark 249  
 Twenty-One Demands 251  
 two track price system 35

**U**

UN General Assembly 255

- unadjusted  
     China trade balance 84  
     US deficits 80
- unemployment 38, 120  
     insurance 39
- unified exchange rate 125
- United Nations 255, 256, 257, 269
- United States  
     direct investment in China 49, 58,  
     105  
     modal distribution of FDI 118
- United States Central Intelligence  
     Agency 277
- United States Trade Representative  
     (USTR) 268
- urban unemployment 34, 39
- US trade deficits with China 82
- US-China Business Council 111, 114, 115
- US-China Joint Economic Committee  
     286
- US-China trade accord 232, 233, 238,  
     241
- US-China trade disputes 3
- US-Japan Mutual Security Treaty 18
- utilized FDI 184
- V**
- vertical integration 145
- Vice President  
     Gore 19, 22  
     Nixon 257
- Vietnam War 258
- Voluntary Export Restraints 145
- voluntary savings 37
- Voon, Thomas 3, 5
- W**
- Wakefield, Edward Gibbon 244
- Wakefield-Torrens 245
- Wang, Wen-thuen 137
- wholesale price index 101
- wholly foreign owned enterprises  
     (WFOE)/ventures (WFV) 63, 106
- World Trade Organization (WTO) 4, 5,  
     6, 10, 11, 13, 14, 20, 24, 25, 42, 63,  
     119, 120, 122, 126, 127, 128, 130, 131,  
     182, 189, 193, 194, 195, 196, 197, 202,  
     239, 259, 268, 286, 287, 288
- World War II 49
- WTO membership 177, 199, 201
- Y**
- Yamamoto, Hiromi 5
- Yu, Tzong-shian 3
- Yuan, Shih-K'ai 251
- Z**
- Zhou, Enlai 32, 258