Pax Sinica

Geopolitics and Economics of China’s Ascendance

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Contents

Preface vii
Acknowledgements xi
Acronyms and Glossaries xiii

1. Introduction: Economic Imperatives versus Geopolitics 1
2. The Emergence of the Greater China Economic Circle 15
3. Hong Kong Surviving the Open-Door, Reforming Chinese Economy 47
4. Guangdong Province Ascending as the “Fifth Dragon” 77
5. The US Connection of Hong Kong in China’s “One Country, Two Economies” System 109
6. Hong Kong Weathering the Asian Financial Storm 147
7. The Greater China Growth Triangle in the Asian Financial Crisis 177
9. The “China Factor” vs. the “US Dollar Peg” in the Success Story of Hong Kong 227
10. China and the Prospects for Economic Integration within APEC 255
11. China’s New Industries and Regional Economic Realignment in the Asia Pacific 277
<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.</td>
<td>China’s WTO Accession, ASEAN 10+1, and ECFA: “Open Regionalism” at Work</td>
<td>351</td>
</tr>
<tr>
<td>13.</td>
<td>Conclusion: Pax Sinica Looming on the Asia-Pacific Horizon</td>
<td>367</td>
</tr>
</tbody>
</table>

**Notes** 377

**Name Index** 417

**Subject Index** 423
1
Introduction

Economic Imperatives versus Geopolitics

Geopolitical preamble to China’s opening up

In a way, China’s opening-up strategy started already as early as the launch of the “ping-pong diplomacy” in April 1971 and the following “whirlwind” visit to Beijing by Richard Nixon, President of the United States, in February 1972. Both events took place well ahead of the promulgation of the gaige kaifang (reform and opening up) strategy following the celebrated Third Plenum held in Beijing in December 1978 for the 11th National Party Congress. The “incidents”, which then caught the world in great surprise, were undoubtedly initiated on the part of China as a response to the bloody military conflicts in 1969 with the former Soviet Union on the Zhenbao Island in Heilongjiang (or Amur River). Subsequent to the clashes, the former socialist superpower deployed massive ground forces to the Mongolian regions bordering China. For the Chinese leadership, the threat from the North was clearly much more immediate than from its arch-rival, the United States, which had subjected the entire coastal belt of China to long-term containment ever since the founding of the People’s Republic in 1949, or at least, from the end of the Korean war in 1953. For the United States, however, wary of the unpredictable Moscow regime with its massive buildup of nuclear arsenals—especially since the Cuban Missile Crisis of 1962, the Chinese initiative for a rapprochement was clearly to be embraced as a windfall to help check the new and aggressive global power.

Upon returning from his secret visit to Beijing in July 1971 in preparation for Nixon’s trip, Henry Kissinger, then Secretary of State, likened Premier Zhou Enlai—his counterpart negotiator while in Beijing—to the nineteenth century Austrian Chancellor, Clemens von Metternich, whose name is still often cited in standard political science textbooks for his master grip on power politics and regional balance of powers. Rightly, as Kissinger sees it, Premier
Zhou was fully confident about how to fit China—the weakest link—into the triangular global power constellation involving the two superpowers and the ancient oriental culture.

What almost immediately followed the 1972 Mao-Nixon encounter in Beijing is familiar: the emerging Sino-American political detente prompted China to quickly import, in a first ever attempt since 1949, a remarkable array of chemical fertilizer plants from the United States as early as 1973/1974. The about-face, ostensibly out of specific agricultural policy requirements, resembles in a way but falls far short of—in terms of quantitative scale of imports involved—the drastic trade reorientation towards Western Europe and Japan in 1962 following the abrupt withdrawal in 1960 of Soviet economic and technical aid to China. However, while the 1962 new policy plank of China was triggered by immediate economic imperatives rather than anything else, the modest venture of 1973/1974 signalled palpably a definitive and significant political gesture, which eventually led to the restoration of formal diplomatic relations between the two countries in 1978. This was to strongly help pave the way for accelerated bilateral trade growth and open up diverse and significant venues for China to rigorously expand trade with Europe, Japan and other countries, large and small, which were traditionally allied with the United States.

The rest is history. A brief revisit:

• China admitted as a member of both IMF (International Monetary Fund) and the World Bank in 1980, hardly a year into the *gaige kaifang* strategy;
• accelerated foray of FDI (foreign direct investment) accompanied increasingly by technology transfer into China from non-socialist countries since the early 1980s;
• fourteen major coastal cities declared open in April 1984 for foreign investment following the establishment earlier in 1979/1980 of the four Special Economic Zones (SEZs) in Guangdong and Fujian provinces, especially for export-oriented FDI from Hong Kong;
• first major reform blueprint announced by the Third Plenum (of the 12th National Party Congress) held in October 1984 for bifurcating Soviet-style central planning into a two-track (planned and market-oriented) resources allocation system, following the granting of expanded decision autonomy to state-owned enterprises (SOEs) in May;
• China applying for accession to WTO (World Trade Organization) in 1986, reflecting willingness of the country to be gradually subjected to the market-based rules of the Western system of free trade and investment flows;
market-oriented reform experiments being further consolidated into the landmark resolution of the 13th NPC of October 1987 for “the state to regulate the market, and the market to guide the enterprises”;

• in a single government decree given in early 1988, China’s entire coastal belt covering eleven provinces from Liaoning in the north to Guangxi and Hainan in the south (comprising a total of 288 counties) designated for foreign investment and trade, in addition to the SEZs and the fourteen cities opened earlier;

• APEC coming into being in 1989, with China, Hong Kong and Taiwan all joining as member entities since 1991, bypassing the critical sovereignty issues;

• historic resolution by the 14th NPC held in October 1992 to formally establish a “socialist” market economic system, despite severe setback for the market-oriented reform following the June 4, 1989 incident;

• mandatory input and output targets for SOEs all abolished, immediately following the October 1992 resolution;

• concurrently, under Deng Xiaoping’s 1992 strategic policy dictum of “[opening up domestic] market for technology exchange [from advanced Western countries]”, remarkable intrusion of multinationals for import-substitution investment in China;

• China in the 1994 APEC meeting agreeing to the Bogor agenda to commit industrialized countries and developing economies to free and open trade and investment by 2010 and 2020 respectively;

• wide-ranging banking, fiscal, and foreign exchange reform conducted in 1994 to further realign China’s institutions and policy measures with the global system, including the massive devaluation of the Chinese currency and the convergence of the two-track (officially fixed and market-regulated) exchange rates;

• consecutive price reforms rendered redundant both “import-regulatory taxes” and “export subsidies” (important culprits for US denial of China’s accession to WTO), and helped to realign domestic prices with international price relatives towards the end of the 1990s;

• China finally resumed its WTO membership in December 2001, which has also helped to facilitate FTA (Free Trade Area) agreements with an increased number of countries, notably the ASEAN 10+1 agreement signed in 2002 and the China-New Zealand FTA of 2008;

• CEPA (Closer Economic Partnership Arrangement) Agreement signed with the HKSAR (Hong Kong Special Administrative Region) in 2003 and ECFA (Economic Cooperation Framework Agreement) with Taiwan in June 2010, bringing the Greater China triangle closer as an integrated economic entity; and

• ASEAN 10+1 FTA formally launched in 2010.
Imperatives for economic integration with the Triad

The grand strategic turnaround initiated by Chairman Mao and Zhou Enlai for a Sino-American political rapprochement and reconciliation from the 1970s belies indeed the compelling urgency for China to resort to the advanced industrialized economies of the West for import supplies in pursuit of her massive industrialization-cum-modernization programme. And it is clearly none other than this Mao-Zhou legacy that has given rise to the strategic, and much celebrated, motto of “taoguang yanghui” (韬光养晦) inked by Deng Xiaoping himself—the paramount post-Mao Chinese leader and architect of the opening-up strategy. Briefly, the motto advocates for the country to “keep a low profile (or literally, “hide the light under the bushel”, i.e., taoguang), and conserve its strength and develop its potentialities (to bide for the time, i.e., yanghui”).

No doubt, Deng’s motto has consistently and most coherently helped to shape the country’s foreign policy in both spirit and practical approach, and in political as well as economic spheres, throughout the entire post-Mao era. Unfortunately, however, the classical Chinese overtones subtly inherent in the sagacious epigram of humbleness, self-restraint, and self-strengthening have more than often been simplistically construed as “buying time for a revenge”. This has notably been the case with some influential Cold-War-minded US officials with half-baked knowledge of Chinese history and culture, who paid no regard to the aspirations of the Chinese leadership to a strengthening of national defence capabilities to hedge against another possible round of “imperialist plunder and humiliation”, as occurring from the Opium War through to the Japanese invasion during the Second World War.²

Added to the American mindset of conventional “containment politics” is what has often been cited as the “insular mentality” of the Japanese. As Lee Kuan Yew, the founding father of the Singapore Republic once put it, Japan has been constantly fearful of Chinese vengeance; hence the fortified defence alliance with the United States with increased salvo over and across the East China Sea, which has lately, in 2010/2011, also strongly evoked resonance in the South China Sea from Vietnam and the Philippines.

Nonetheless, beyond the façade of at times shattering diplomacy, economic forces have remarkably and powerfully converged over the past two or three decades, in favour of an ever enhancing integration within APEC at large. For China, any practical schemes of national self-strengthening obviously cannot
be enforced in defiance of Western technological supremacy, as during the Mao era. And evidently, it is also much more palatable for the country to shop for the necessary advanced technologies and capital goods from within the broader Western context of competitive market supplies than through dealing with the state trading monopolies of the former Soviet Union,³ (the nightmarish experience of the early 1960s notwithstanding); or, after its collapse in 1991, with the disillusioned and disjointed Russian suppliers. China’s import supplies from the United States, as well as from Japan and West Europe—the Triad taken together—have thus thrived profusely following the normalization of diplomatic relations with the US in 1978. At the same time, the United States and European Union, and latterly Japan since the early 2000s, have also become the overwhelming sources of foreign exchange earnings needed by the country for imports financing.

Thus, over the past three decades or so, China has become firmly knitted into the US economic fabric—especially by virtue of export linkages—more than anywhere else; save perhaps Hong Kong, which constitutes an integral part of the Greater China growth triangle. The backdrop to the metamorphosis is of course drastic decontrol of export-decision makings in China ever since the early 1980s, which helped to convert the provincial/local authorities and the producer enterprises themselves, instead of the state or the central authority, into the agents for maximizing foreign exchange earnings by resorting to the country’s comparative advantages in labour-intensive manufacturing.

Since China’s accession to WTO, however, there has also been a forceful trend for the country to increasingly relax import control to allow for imports other than those strictly destined for supporting the industrialization drive. In the aftermath of the 2008/2009 global financial crisis, the United States also seems prepared to relax, albeit marginally, control of “high-tech” exports to China. Perhaps this is an attempt on the part of the US government to redress the bilateral and international imbalances, in light of China’s massive accumulation of trade surplus from bilateral trade with the United States; we do not know for sure. At any rate, it seems that one can anticipate the asymmetric export versus import relation between China and the United States (and indeed, the European Union as well), are poised to be increasingly mitigated as a result. It is hoped that this would allow for a silver lining to emerge from the horizon for a full economic integration between the two giant trading partners across the Pacific.
The strong Sino-American economic synergy has indeed not only helped to lend glamour to the rising China, but it has also been brought to bear on the relative fortune of many other economies of APEC proper. This particular aspect of dynamism in APEC economic integration represents an integral thread of the study, and resurfaces across virtually all the chapters of this volume.

Equally notably, however, the far-flung regional geo-economic power realignment within APEC has also caused, ipso facto, conflicting territorial claims among a number of APEC member countries in a competitive scramble for the increasingly scarce natural resources. The disputes over the Diaoyutai, as well as the Xisha (Paracel) and Dongsha (Spratly) Qundao (Islands) should obviously be viewed in this context as attempts made to edge out some compensatory grants from each other. Nonetheless, given that the highly enhanced economic synergistic relations among the various APEC stakeholders have now been firmly welded to be the hardest core of realpolitik, regional geopolitical controversies and frictions, alarming as they may sound at times, have usually turned out to be “storm in a tea cup”, as is highlighted in the concluding chapter. A good case in point is the explosive wrangle initiated in July 2011 by Vietnam and the Philippines against China over the South China Sea issues. No sooner had the ASEAN 10+1 Foreign Ministers’ Conference been convened in the Bali island of Indonesia than the dust from the wrangle had already basically settled.

Politics of the Greater China growth triangle

The Greater China circle as an economic phenomenon is also bound up with geopolitics. For Hong Kong, the handover to China in 1997 was clearly obliged by the rising sovereign power. But notably, the decision to grant the HKSAR the status quo of what the British were to largely leave behind under the rubric of “one country, two systems” had actually already been hammered out in the early 1980s, i.e., closely following the launch of the national opening-up strategy. That is to say, the Chinese approach to reclaiming the former British colony—by granting the HKSAR virtually full autonomy, save the sovereign’s prerogative on the city’s diplomatic and consular affairs—should essentially be seen as a matter of economic expediency. This is by any standard of world history and politics a truly unique episode. But before highlighting the underpinning economic rationale (for details see Chapter 5), the story of a “non-comparable” Taiwan should be briefly referred to.
It goes without saying that it is not in China’s interest at all to pursue any military confrontation over the breakaway island—dubbed the “unsinkable aircraft carrier”—against the United States, or Japan in alliance, which the United Kingdom as an “Empire of the (Declining) Sun” is evidently no peer to, relative to Hong Kong—her formal tiny colonial enclave. Nonetheless, in defiance of the uneasy geopolitical equilibrium, but in compliance with the taoguang yanghui strategy, China’s trade and investment flows have continued to flourish not only with the two mighty industrial-cum-military powers, the US and Japan, but most remarkably, also across the Taiwan Straits for more than two decades now.

The economics of the Greater China growth triangle is familiar: at the initial stage of China’s opening up, the bulk of the country’s export and import trade—with the US, in particular—was obligingly routed through Hong Kong to take advantage of the well-established harbour facilities and the highly experienced global marketing and sourcing expertise offered by the then still British-held enclave. At the same time, Hong Kong’s export manufacturers scrambled to relocate their factories across the border to cash in the offer of cheap labour and land rentals, triggering an endless chain of foreign direct investment (FDI) in the Chinese mainland. Similar export-oriented Taiwanese investors quickly joined the spree commencing in 1987, perhaps not so much as a result of relaxed political control on the island vis-à-vis the Chinese mainland; but rather, being prompted by the increasingly lucrative opportunities available over there. By 1997 when Hong Kong was handed over to Chinese sovereignty, the Greater China growth triangle was already exhibiting all the hallmarks of a fully integrated economic entity, especially with respect to Hong Kong, through which Taiwan’s trade with and investment in the Mainland were normally routed, as is elaborated in great detail in Chapters 2 to 4; and in Chapter 5 as well, which more specifically dwells on the crucial importance of the US connection in this regard.

As a matter of fact, upon the onset in July 1997 of the Asian financial crisis, which exactly coincided with the founding of the HKSAR, the growth triangle had already firmly turned out to be an “alliance in defence”, with mainland China serving as a strong bulwark, by virtue of the sustainable stability and inconvertibility of renminbi, to help shield off and mitigate vulnerability from outside. Chapters 6 through 8 discuss how this bore upon both the HKSAR and Taiwan to varying degrees. Chapter 9 offers an analysis of how the “China factor” stood in relation to Hong Kong’s well-established US dollar-linked
exchange rate system (adopted since 1983) to bail out the SAR amidst the prolonged crisis. And with CEPA signed in 2003—which was closely followed for the next six years by consecutive supplementary agreements with virtually unilateral offers from the motherland of free access of goods and services to the hinterland—Hong Kong is now no doubt fully woven into the national economic fabric. And with ECFA now in place, Taiwan is clearly also poised to follow suit.

As I previously put in a Chinese treatise published in 2000, there should be a day when with high economic prosperity reigning on the Mainland and the income and living standards across the Taiwan Straits basically equalizing, let alone the island, even the neighbouring Mongolia might be motivated to vie for “statehood” in the People’s Republic, like the remote Kingdom of Hawaii to the United States of America just some fifty years ago. The long-awaited ECFA, which was essentially initiated by the Taiwan authority and signed in June 2010 with the Mainland for fear of the island being marginalized in the wake of the launching of the ASEAN 10+1 FTA in 2010, implies just such a move towards that direction, similar to Hong Kong’s irreversible economic integration with the Chinese hinterland consequent upon the signing of CEPA nearly ten years ago.

**Accelerated industrial agglomeration within North APEC proper**

Given the peculiar political relationship between China and North Korea, the establishment of diplomatic relations between China and South Korea in 1992 was at the time certainly not less sensational compared to the signing of ECFA in 2010 between the two arch-rivals across the Taiwan Straits. In hindsight, however, the geopolitical breakthrough seems to have also been equally strongly grounded in economic diktat. Thus, South Korea’s investment in, and bilateral trade with China started to abruptly accelerate from practically a zero base since 1992, in an attempt to emulate the frontrunner, Japan, for cashing in the huge market potentials offered across the Yellow Sea. Chapter 10 provides the necessary historical backdrop for appreciating the forceful trends of development from the broader APEC perspective.

As alluded to, Japan as a North APEC neighbour has long been a crucial trading partner, supplying China with the bulk of producer goods and necessary technologies ever since 1962. Especially since China’s WTO accession
in 2001, Japan has also been a major FDI provider through manufacturing in China, predominantly but not limited to electronic and information technology products for import substitution, and as well for exporting overseas, with a remarkable proportion to the Japanese domestic market itself.

Japan and South Korea, are each by virtue of their absolute GDP size, or relative to China’s global trade volume, much more closely tied in with the Chinese economy than with South APEC proper comprising the ASEAN nations plus Australia and New Zealand. Interestingly, a substantial amount of Japan’s exports to China—notably machinery and transport equipment, and such industrial raw materials as PVC (polyvinyl chloride)—has also been channeled through Hong Kong in conjunction with the SAR’s relocation of export manufacturing plants to the Chinese hinterland since the early 1980s. This has indeed strongly helped to enhance the modus operandi of the Greater China growth triangle.

While through the 1990s, Japan had normally enjoyed surplus in trading with China, after WTO accession, however, China overtook the United States to become Japan’s largest importer by 2002, as well as its largest export destination by 2009. The bilateral trade balance has consistently reversed to be in China’s favour since around the advent of the new century. Presently, China still takes up one-fifth of Japan’s total exports of iron and steel, and a quarter of its semiconductors destined to the global market, in exchange for clothing and apparel from China which makes up more than 80 percent of total Japanese imports for the category. And perhaps more remarkably, more than 10 percent of Japan’s semiconductor imports are now from China, quickly closing in on the comparable figures for such electronics giants as South Korea (15%) and the United States (17%), although still falling well behind Taiwan’s share (nearly 30%). This all seems to signal intensifying intra-industrial trade typical among industrialized/industrializing countries, as opposed to the conventional north-south (i.e., industrialized versus less-developed countries) type of exchanges.

Moreover, since China’s WTO accession, Japan’s FDI foray into the country by the giant car manufacturers has also started to gain momentum. This is discussed at length in Chapter 11, and it should inevitably result in a wide-ranging reshuffle of the APEC proper production network for the automobile industry, likely at the expense of a couple of ASEAN countries, Thailand in particular. The latter has hitherto enjoyed the single largest regional concentra-
tion of foreign carmakers, including virtually all Japanese giants and a number of familiar American and European brand names.

Viewed together with the Greater China growth triangle, North APEC proper as a whole has thus become rather a closely agglomerated economic entity, standing in sharp contrast to South APEC proper. And it has indeed also proved to be quite a resilient structure, defying time and again serious geopolitical clashes over the years—the persistent nuclear crisis with the prodigal North Korea notwithstanding, as is revealed in the concluding chapter of the study.

**Can ASEAN 10+1 FTA really help to redress the asymmetry?**

As a result of the heightened South China Sea disputes, ASEAN, which may trace its origin to SEATO (South East Asian Treaty Organization) (1954–1977)—the Asian version of NATO (North Atlantic Treaty Organization)—appears to be increasingly inclined to resurrecting the founding aspiration of its predecessor to be a regional defence mechanism vis-à-vis the rising giant neighbour to the north. But apart from Vietnam and the Philippines, the other major stakeholders, notably Indonesia and Thailand, seem reluctant to confront China directly; noting also that the combined population of the two latter member states is nearly double that of the two former ones, which taken together, constitute less than one-third of the ASEAN total, and only 16 percent in terms of GDP share. More importantly, unlike SEATO in the 1950s and 1960s, ASEAN as a collective does not nowadays perceive China as a common enemy, as the US-inspired SEATO did in its staunch opposition to East Asian Communism, then encompassing both China and Vietnam. Thus, realpolitik eventually prevailed over what initially appeared to be an unavoidable military conflict in the latest (July 2011) row between China, Vietnam and the Philippines, as mentioned earlier.

In this context, more should be said to bring to light what is referred to as the economic core of the realpolitik within APEC proper.

First of all, ASEAN, as established in 1967, purports to help accelerate regional economic growth in peaceful cooperation. It failed remarkably, however, in its initial policy thrust of promoting “agreed specialization”. As one prominent Swedish economist put it, “[the] attempts at ‘agreed specialization’ have [like all inward-looking integration] created centrifugal forces due
to an unwillingness to assume the cost of trade diversion”. In other words, similar to factor endowments, ASEAN countries used to be commonly engaged in competitive exports to the industrialized West of such primary commodities as timber, rubber, palm oil and the likes at the pre-industrializing stage; and it had indeed proved to be difficult for the different sovereign member states to agree on any meaningful intraregional industrial specialization, without compromising each other’s priorities of industrialization. Nonetheless, no sooner had they turned to emulate the four little dragons in promoting labour-intensive export manufacturing commencing in the early and mid-1970s than the attempts were closely followed by similar but massive competitive efforts made by China in conjunction with the opening-up strategy.

The upshot is, by the mid-1990s, and especially since accession to WTO in December 2001, China is clearly in a position to “crowd out” the global market shares of ASEAN exporters, as is shown in Chapters 10 through 12. Chapter 11, in particular, illustrates at length in what way enhanced accessibility for China to the US market has triggered a drastic realignment of the APEC proper production network. Thus, from 1995 to 2004, virtually for every single item of electronics and IT exports to the US (notably computers, display units, electric and video apparatuses, TV cameras, and increasingly, coloured TV sets), China had strongly outperformed both North and South APEC proper counterparts in terms of market share as well as “revealed comparative advantage” (RCA) index. The only notable exception relates to the integrated circuit—dubbed the “foodgrain” of the electronics industry—for which Korea, Taiwan, Malaysia and, to a lesser extent, Singapore, could still manage to keep a foothold in the vast US import market. But the question is for how long can this possibly be sustained, given that China’s semiconductor manufacturing technology is seen by American authority itself as rapidly closing in on that of the United States.

Similar developments may be observed with respect to the car manufacturing industry, also discussed in Chapter 11. Consecutive import tariff reductions following China’s admission to WTO not only has prompted remarkable influx of foreign-made sedans, but with enhanced intellectual property rights protection under the WTO framework, virtually all major global brands, notably Volkswagen, General Motors, Audi, and Renault, have since rigorously continued to invest in capacity expansion in China to take advantage of the huge domestic markets. The investment spree has in turn been strongly enhanced by similar Japanese ventures, and is bound to cause displacement or restructuring
(e.g., towards components production or assembling) among the established American, European, and Japanese stakeholders in such major ASEAN countries as Thailand and Indonesia.

In hindsight, the ASEAN 10+1 FTA agreement (signed in November 2002, hardly a year after China’s accession to WTO in December 2001), should perhaps be seen as a tacit Chinese initiative of a geopolitical nature, purporting to help the South APEC proper neighbours hedge against a “relative marginalization” of their economic standing within the broader APEC context. More specifically, it compensates ASEAN member countries for prospective losses in both FDI intake and export earnings, absolute or relative, incurred or to be expected, as a result of the ever strengthening position of China emerging as a global FDI destination and a highly competitive exporting country.

As a matter of fact, China, being wary for decades of US containment to the East China coast, should have the least interest to see South APEC proper play herself as the “troublesome” South American “backyard” to the United States. It was probably under the same strategic aspiration that when ASEAN countries were seriously drawn into the 1997/1998 Asian financial crisis, China had, amidst the mounting pressures, made the critical decision not to devalue the renminbi, thus forestalling a potentially disastrous round of competitive devaluation of the falling ASEAN currencies. The incident, then globally hailed, may have been buried in oblivion in Vietnam, which was admitted as a new member state just shortly prior to the eruption of the crisis; but it should nonetheless still remain fresh in the memory of the leaders of major ASEAN countries.

In Chapter 12, I discuss how, subsequent to the signing of the ASEAN 10+1 FTA agreement in 2002 for formal launch in 2010, the ASEAN 10 as a trading bloc still largely managed to maintain its share in China’s global trade over the past decade or so, thanks to the Early Harvest Programme which took effect from 2004. Hopefully the relative share may be sustained, or expanded, now that the ASEAN 10+1 FTA is firmly in place. Whatever the prospect may be in this respect, the South APEC proper regional conglomeration seems bound just to be ever more tightly embedded into the Chinese economy. There really is no reason why ASEAN should not be highly motivated to aspire for such an economic integration: starting as early as the late 1980s, Australia, as well as the “ANZAC clique”—i.e., the strongest US allies in Asia—had already unequivocally advocated for the country to “look East” and to “identify with
Asia”, much to the chagrin of a dwindling number of residents traditionally heeding the British Crown.

No doubt, the high-profile industrial agglomeration within North APEC proper tends to make its southern counterpart pale in comparison. Nevertheless, since the signatory economies to both CEPA and ECFA were in a way prompted by ASEAN 10+1, as discussed in Chapter 12, to board the bandwagon of trade and investment liberalization, there seems to be no reason why ASEAN 10 would not now in turn seek to further take advantage of the enormous agglomeration economies spilling over from the north, in terms of investment flows from China and Japan being the “engines of growth” as well as the huge potentials of China, as destinations for exports. This is especially so in the view that, in the wake of the global financial crisis, the US and European Union markets have become increasingly vulnerable for all concerned.

This particular hard economic core of North-South APEC proper synergy will in all likelihood strongly help to shape the realpolitik in the Asia Pacific in many years to come, despite the vehement American rhetoric—lately per Secretary of State, Hillary Clinton in summer 2010—for resurrecting/reasserting US geopolitical interests in the region, for “fear” of China emerging as a global economic-political giant. This will be discussed in the concluding Chapter 13.

**Concluding remarks: Economic imperatives prevailing over geopolitics**

The various chapters of this volume were conceived and written basically in tandem with the development of the affairs involved. They were therefore all “current” at the time of writing. However, the focus was then all essentially on the economic aspects of regional cooperation and integration within the APEC system. The geopolitics of the economic dynamism was hardly made explicit, although it may have not entirely escaped the subtle mind. In retrospect, it seems desirable to bring to light the complexities involved in this respect. This introductory chapter attempts therefore to unravel with broad sweep the delicate interplay between economics and geopolitics during the process of regional economic integration or synergy, or the lack thereof. And as such, it helps to provide a coherent geopolitical perspective for reading through the different chapters of the volume.
With the benefit of hindsight, however, it seems also clear that, generally speaking, economic imperatives often, if not always, prevail over geopolitics in shaping the pattern and intensity of regional integration among APEC economies. Ignoring CEPA which the HKSAR readily embraces as a beneficiary option taker, ECFA for Taiwan, e.g., is a clear case in point. Fearful of being pushed to the very periphery of the APEC system, the breakaway island was finally compelled to initiate and sign the venture agreement in 2010, despite deep-rooted favouritism towards the United States, which has provided the government with a highly secure protective umbrella in all respects, political and economic, and foremost military, over the past six decades or so.

The abrupt rapprochement between South Korea and China in 1992 appears extremely bizarre, given the familiar oddity of the triangular relationship between China and the two Koreas. However, the highly accelerated growth in trade and investment flows between the two once rival countries, following the establishment of diplomatic relations, has just strongly helped to vindicate the equally compulsive economic rationale underpinning the rapprochement. In fact, circumstantial evidences emerging recently seem to suggest that North Korea would also be motivated to interact with APEC before long. Most importantly, never really have the ever growing Sino-Japanese economic and trade relations been disrupted to any noticeable extent by the highly sensitive Diaoyutai issue, which has at times threatened to bring the two countries to the brink of war.

With the pace of industrialization accelerating in China, the country is set to follow Japan in its footsteps as an engine of growth for South APEC proper. In this context, ASEAN 10+1 FTA represents indeed a porous media for bilateral investment and trade flows, which would only be enhanced by China’s parallel geopolitical interest in the South Pacific. More than likely, the joint military rehearsals frequently conducted by the mighty US naval with some interested parties in the East and Southeast Asian littoral in 2010/2011, will, as usual, prove to be another round of mere fanfare for the APEC proper countries, north and south.
13

Conclusion

*Pax Sinica Looming on the Asia-Pacific Horizon*

Looking back, the far-flung regional realignment of the production network and the ensuing forceful trends of economic integration within APEC—whether APEC proper or encompassing the American-Pacific member states across the Pacific—have obviously all been triggered by China’s economic reform and opening up to the West over the past three decades. Specifically, the gradual and successful conversion of China’s centrally planned and controlled system into a decentralized market-oriented and open economy as it is today has allowed the Ricardian “principle of comparative advantage” and the Heckscher-Ohlin theorem, or the so-called “Leontief paradox”, to unfold powerfully, though in practicum in gradual steps over the years. As a result, the Chinese economy is nowadays inextricably linked up with other APEC economies, large or small, to various extents.

In addition to WTO serving as a common foundation for enhancing trade and investment flows between China and the member economies, CEPA, ASEAN 10+1 FTA, ECFA, and the China-New Zealand FTA have all helped to intensify economic cooperation and integration. It seems likely that South Korea, and notably Japan, will sooner or later also be brought into the nexus as well. And with “open regionalism” prevailing, ASEAN 10+3 may be just a stone’s throw away. Should all these network FTA cornerstones consolidate into the envisaged APEC-wide FTAAP, i.e., the “Free Trade Agreement of the Asia Pacific”, then by virtue of her economic size, China—surpassing Japan since 2010 as the second largest economy in term of GDP, next only to the United States—would clearly become the gravity of the “geo-economic” power in the region. This will be achieved with strong underpinning from Japan and the US—both being pivotal partner cornerstones of China within APEC. And if the pace and pattern of developments as highlighted in the foregoing chapters are of any indication, the continuous regional economic agglomeration
towards and around the Chinese system will likely remain as coherent and powerful to defy any possible geopolitical interference.

Cases of geopolitical clashes indeed abound, but all were eventually over-ridden by imperatives for regional economic synergy. Such clashes include, among others: the Diaoyutai (Senkaku islands in Japanese terms) incident on 7 September 2010, which set off the most serious China-Japan conflict in decades; earlier on, the “mid-air collision” on 1 April 2001 near Hainan Island between the US and China, which threatened to derail the hard-won improvements in diplomatic and political relations; the large-scale “missile test” by China off the Taiwan coasts in March 1996, which prompted the US to send two aircraft carriers to the vicinity; and the conflicting territorial claims between ASEAN countries, notably that of Vietnam and the Philippines against China over the Paracel and Spratly Islands in South China Sea, which have resurfaced time and again, and latterly in July 2011, arousing global concern. It seems unlikely, if at all, that such and other similar geopolitical hiccups—serious as they may at times appear to be—would erupt into large-scale political confrontation or even warfare to entirely forestall the compelling forces for regional economic integration.

Viewed this way, the highly provocative tirade by Secretary Hillary Clinton, delivered consecutively on her Asian tours from Honolulu to Canberra and then Hanoi in 2010 to resurrect US interest in Southeast Asia is indeed tantamount to wudifangshi (shooting aimlessly) in Chinese parlance—nothing short of an anti-China rallying.¹ For one thing, being oblivious of the built-in regional dynamism for economic convergence, Clinton seemed little aware of just how the four little dragons, once serving as the frontier of the American-led “free world” against communism, have been drawn into the Chinese economic axis over the past two decades; and how even within Japan, the US’s most trusted ally, political factions have already been wrangling to reconcile the country’s enhanced stakes in the emerging economic giant across the Yellow Sea with the protective American umbrella.²

It would be misguided for Secretary Clinton to mistake the oriental courtesy of a couple of ASEAN leaders as political ambivalence to be exploited. This is especially so in view of the remarkable rapprochement and accelerated pace of economic cooperation between the two former rival communist giants, USSR and China, over the past two decades, which may possibly help to redress the gross deficiency arising from the unipolar dominance by the US. Indeed, as a high-ranking official in an ASEAN country is quoted by a
Stanford University academic as saying, “for us in Asia, the US is geopolitical, but China is geographical”. “In other words”, as the author further interprets, “faraway friends are welcome and helpful, but the local landscape is a permanent fact. One has to adapt to it—and to the seascape—to survive". And here, “to survive” clearly means to yield to the economic imperatives for regional economic cooperation for mutually sustainable growth, while avoiding the risk of negative-sum military confrontations or clashes.

American politics seems also to be “haunted” increasingly by such strikingly new concepts as “G2” (the USA and China) and “Pax Sinica in the offing” in world politics, in the aftermath of the 2008/2009 global financial crisis, from which China has emerged largely unscathed while the US hegemony appears to be in tatters. Perhaps Clinton’s tirade on her Asian tour should rather be regarded as a rallying cry to her fellow countrymen to reassert American confidence, or as a Freudian slip of a lack of confidence. Whatever the case, it is by any standard wildly premature to talk of a “Pax Sinica” arising to overshadow, let alone replace, Pax Americana. At best, one might speak of a Pax Sinica looming on the Asia-Pacific horizon by referring to some newly emerging “China factors” from the global crisis.

First of all, we should look at what constitutes Pax Americana as a baseline for gauging “Pax Sinica” as a rising potential. According to the influential global economist, Professor Nouriel Roubini, under its military and political clout, Pax Americana not only provided “security to most of Western Europe, Asia, the Middle East, and Latin America . . ., [but] also dominated the Bretton Woods institutions—the IMF and the World Bank, and, later, WTO—to determine the global and trade and financial rules, with the dollar as the main reserve currency”. However, following the global financial crisis, “the US ‘empire’ is in relative decline and fiscally over-stretched”, and the expansion of G7 into a broader, less coherent G20 has virtually left behind a “power vacuum” (hence the buzzword G0, or G-Zero). This referred to the absence of a global leadership to tackle international current-account imbalances, currency and trade wars, trade and financial protectionism; and to regulate and supervise financial institutions, let alone “reform an international monetary system based on flexible exchange rates and the dollar’s central role as the leading reserve currency”.4

Viewed this way, how could in the first place, say, the few Chinese naval warships patrolling off Somali waters possibly wrangle with the mighty aircraft carriers of the US 5th Fleet in the Arabia Gulf and Indian Ocean? Or,
for that matter, that of the 7th Fleet off the East China coast, the 6th Fleet in the Mediterranean, or the 2nd Fleet in the Atlantic? We note, incidentally, that China’s first ever aircraft carrier, which made her debut on 27 July 2011, represented nothing more than a defunct Varyag model bought from Ukraine in 1998 to be fitted for purposes of training and scientific research, as against the original objective of the firsthand buyer (a Hong Kong businessman) of having it converted into a floating casino in Macau.

Setting aside America’s global and overwhelming military clout, it remains hard to envisage how China could any sooner overrule America to be a leader in the world economic arena. In this regard, a flexible exchange rate regime may not necessarily be a prerequisite, given that prior to its collapse in the early 1970s, the original Britton Woods agreement was actually built upon a fixed rate system. The greater question is how the renminbi could possibly challenge the greenback as the “leading reserve currency” or the “global medium of exchange”—certainly not courtesy of a few currency swap agreements signed amidst the global financial crisis between China and a couple of relatively minor trading partners to allow the parties concerned to bypass the vulnerable US dollar as a medium of exchange.\(^5\)

Similarly, in calling for IMF’s Special Drawing Rights to replace the US dollar as the world’s de facto reserve currency, Zhou Xiaochuan (China’s central bank governor) was clearly helplessly wary of the US government’s resorting anew to note-printing to make ends meet, as the ensuing inflation would grossly curtail the value of China’s enormous holdings of US treasury bills.\(^6\) Indeed, what stands behind China’s colossal foreign exchange reserves (amounting to US$2.850 trillion in the last quarter of 2010 and rapidly growing to a startling total of US$3.197 trillion by the end of June 2011, of which more than one-third, or US$1.1655 trillion, are held in US treasury bills)\(^7\) is clearly, à la Professor Paul Krugman—Nobel Laureate in Economics—the “perspiration” of hundreds of millions of Chinese factory workers who deserve to be respected and honoured for what they have created with blood, sweat, and tears.\(^8\)

Moreover, China’s growing visibility in space technology and intercontinental ballistic missiles have very often conjured up a rising Pax Sinica to overshadow the globe. However, the country’s number of nuclear warheads in stock or production potentials, or delivery capacity taken together, is likely still a far cry from the US and the Russian Federation, as is also widely known. Rather, one might hope that its relatively modest capability may hold the
regional and global powers in balance to prevent any negative-sum military confrontation from taking place in the Asia Pacific.

To conclude, an attempt should be made to gauge how the interplay of geopolitics and geoeconomics within the broader global and regional context may help to shape the possible parameters for the scenario of a rising Pax Sinica. Several points emerge.

First, it seems simply surreal, in the first place, to envisage a China superpower emerging in the foreseeable future to replace Pax Americana in its totality—encompassing military, political, economic, and even cultural and moral clout; or even in the narrower sense, as Professor Roubini has delineated with reference to the US military might and economic power.

Second, a Pax Sinica may at best emerge in the Asia-Pacific context, but essentially as an economic phenomenon—meaning, the rise of China as an economic giant with far-reaching forward and backward industrial linkages to other APEC economies. Such a China-based APEC proper economic agglomeration will, as it expands over time, likely spill over to Russia, and the South Asia subcontinent as well.

Third, Pax Sinica, or rather, Pax Pacifica—or perhaps more aptly, the Pacific century (as the term was coined in the late 1980s and early 1990s)—will inevitably continue to interface with a moderated Pax Americana and its European allies. But this will in future take place on the basis of more equitable global economic and financial rules, as may be fixed for the IMF and the World Bank within, e.g., the G20 framework. Currently, the few agreements signed by China for “currency swap” represent really nothing more than a passive hedge against the US dollar dominance.

Fourth, within Pax Sinica itself, China’s economic-industrial structure is poised to be consistently upgraded with progress in science and technology, behind the façade of the “world factory” (as China is often so dubbed). And apart from civilian industries, aerospace technology and military capability seem to have already entered a self-augmenting stage to emulate and eventually help counter US advances.9

Fifth, and a most poignant point, as a Taiwan-based press commentary put it, “If this (China at the head of Pax Sinica) materializes, China will be the only global power in history to have become a veritable superpower by relying on its own vast territory, huge manpower, science and technology and market system, without having to overstretch itself by maintaining military bases overseas. This will also be unprecedented in the history of mankind.”10
The perception clearly stands in sharp contrast to the Greater East Asia Co-Prosperity Sphere envisaged by prewar Japan to be imposed upon China and other Pacific-rim countries with blood and iron.

Finally, given the resurrection of Confucianism in China over the past two decades or so, one may also anticipate a Pax Sinica to emerge with cultural and moral clout to help sustain peace and prosperity in the Asia Pacific. Japan, Korea, Vietnam, and to a certain extent Thailand, Malaysia, Singapore, and Indonesia—i.e., the majority of ASEAN member countries—all used to be under the influence of “Confucianism-cum-Buddhism” historically. The ethical and philosophical system is itself an incarnation of “soft power” (not necessarily entirely in accord with the definition of Joseph Nye Jr., who invented the term), as opposed to an exercise of “hard power” (i.e., by military, economic or financial coercion on the contemporary global political stage).11

**Postscript on US TPP initiatives**12

While the highly provocative tirade launched into by Secretary Hillary Clinton in 2010 for the US to “return to and stay back in Asia” appeared to have essentially translated into her government’s pushing for the South China Sea disputes to be subjected to multilateral negotiations involving the US as a stakeholder,13 the rigorous initiative taken by current US President Barack Obama to promote the Trans-Pacific Partnership (TPP) at the 2011 APEC summit seems indeed to represent quite a tactical approach to counterweigh China’s rise within the Asia Pacific as a global power. It has, without doubt, helped to refresh and reinforce the emerging global image of a G2 scenario, but probably more in the sense of a bipolar rivalry rather than a possible strategic partnership in reigning in the tumultuous global affairs.

Briefly recast, TPP, which initially embraced only a very few minor South Pacific countries (specifically Singapore, New Zealand, Chile, and latterly Brunei as well) was hardly visible prior to late 2009. Around that time, it started to attract US interest, which prompted in turn Australia, Peru, Vietnam, and Malaysia to be included in a formal nine-party negotiation in 2010. On the eve of the 2011 APEC summit in Honolulu, Obama had rushed to conclude long-expected FTA agreements with South Korea, Panama, and Colombia. He also announced with high-flown rhetoric at the margins of the summit to have already hammered out an overarching TPP framework agreement with the other eight interested APEC members referred to above. Both Japan and
South Korea were reported to be interested as well. But China was not invited, presumably because the country’s tariff and non-tariff barriers still remained relatively high, while TPP required tariff reduction to zero or near-zero, in addition to enhanced intellectual property rights protection, high-standard access to goods and services markets, as well as increased liberalization of the financial sectors.\textsuperscript{14}

The selective exclusion of China inevitably conveys the impression that the US’s TPP approach assumes strong geopolitical overtones, rather than a mere orientation towards a fully-fledged trade and investment liberalization across the Pacific. In fact, as Secretary Clinton put it, shortly ahead of Obama’s announcement at the APEC summit, the US and its European allies had successfully established the postwar transatlantic system, and now a trans-Pacific system is needed.\textsuperscript{15} Clearly, from the US perspective, the TPP initiative should play an embryo to NATO in Asia—and China, with or without the Shanghai Five,\textsuperscript{16} the Warsaw Pact to NATO.

Whether the analogy holds should not detain us. But briefly, any affirmative academic comments made in this respect would do injustice to the post-Mao history of a China being steadily integrated with the outside world over the past three decades, and now, as it stands, being fully knitted into the global economic fabric. This is all the more remarkable considering that the former Soviet Union and its allies were then all virtually fully insulated from the West, and absolutely so in economic terms, for more than four decades from the mid-1940s through to the early 1990s.\textsuperscript{17}

This seems to suggest that geopolitics prevails, irrespective of any fundamental differentiation in economic regimes, or in other non-economic values among nations. And the visit by Secretary Clinton to Myanmar in early December 2011, the first ever since that of her early predecessor, Secretary of State John Foster Dulles in 1955, seems to unequivocally endorse this point, especially given that by any human right standards, Myanmar under the prolonged military dictatorship should certainly be much less conducive than China to a genuine rapprochement with the United States.

Admittedly, Clinton’s visit was prompted by the encouraging signs from the new Myanmar leadership of an increased relaxation in domestic control, given the sanguine US aspirations for spreading the values of liberty, democracy, and human rights across the globe. One can only hope that the offer she rushed to make for Myanmar—the Upper-Mekong country bordering China—to be incorporated into her celebrated Lower-Mekong Initiative\textsuperscript{18} would not
be a finishing ply to extending the Truman/Dulles containment of China from along the East China coastal belt to the Southwest land mass of the country.\textsuperscript{19}

Now let me revert to the US TPP initiative, as it may bear on the APEC vision in relation to the geopolitical dynamics in the region. Our comments can only be made with relative brevity, given that the TPP framework agreement is yet to take effect from 2012, and pending supplementary proclamations on the details of implementation.

First of all, the US-led TPP initiative purports to pre-empt the given APEC agenda in favour of a “leapfrog” to the long-term vision of a FTAAP. The question is of course whether it would really help towards achieving the goal, geopolitical implications aside. Compared against the 1994 Bogor agenda of APEC, which prescribed for the removable of tariff and non-tariff barriers to the free flow of goods, services and capital among APEC economies by 2010 for industrialized economies and 2020 for developing economies, TPP would commit the less-advanced APEC economies to a full liberalization of trade and investment flows well ahead of the Bogor schedule. This should not pose too much of a problem for such minor APEC economies as Singapore, Brunei and New Zealand which are tightly tied in with the US economy. But for the other major APEC members—Malaysia, Vietnam, and especially Indonesia (the latter as yet not included in the TPP initiative)—which all exhibit a much more complex economic structure characteristic of an industry-agriculture dichotomy, accelerated liberalization may indeed run the risk of comprising their independent industrialization pursuit. Nor is it a straightforward issue for the much more industrialized South Korea and Japan (both of which have expressed an interest in TPP), especially with regard to the nations’ highly disadvantaged agricultural sectors.\textsuperscript{20}

Secondly, it is obvious that for Vietnam and the Philippines, TPP is bound up with an added security umbrella in light of the South China Sea disputes. The agreement may help to enhance the position of the US as a stakeholder in the region, and thus offer the necessary pretext for involvement in regional affairs. Besides, for the Philippines, the possible opportunity costs associated with the anticipated TPP bonanza should be minimal, if any at all. The country seems prepared to take advantage of enhanced access to the US market, and to be fully exposed to the influx of any amount and type of goods and capital from the US as in its colonial past, as this would clearly help to boost economic development and much needed employment opportunities.
Thirdly, from the US perspective, geopolitics apart, TPP as construed should clearly bring considerable trade and investment benefits, and thus much needed domestic employment gains. Perhaps it is not mere coincidence that the new initiative was launched exactly at a time when the US economy was and still is bearing the brunt of the 2008/2009 global financial tsunami.21

Fourthly, this is obviously not the place for making any simulative assessment about the potential total gains for the TPP initiative, in terms of extra volume of trade and investment flows generated within the TPP bloc. However, the more crucial question to be asked is whether TPP without China would help to expedite the Bogor agenda, and with that, progress towards FTAAP. The agreement would seem to be shirking its purported goals should the second largest economic entity of the world not be embraced into this new economic architecture. And an even more crucial question is whether TPP would lead to China-bound trade and investment flows being diverted to the US or elsewhere. This would certainly help to allay the apprehension felt by many for the rise of China to be a regional or global power.

This last hypothetical question is worth pondering, even if just briefly, for the conclusion of our discussion. But this should be preceded by a few words about the geopolitical undertones prevailing in Japan, bearing in mind that alongside China, Japan represents the single most important linchpin of APEC proper. As widespread press comments put it, Mr Yoshihiko Noda, the new Premier (the sixth in five years, mirroring frequent cabinet reshuffles amidst highly diverse and conflicting political-factional interests), is indeed facing insurmountable dilemma associated with Obama’s TPP initiative.

For one thing, “popular fear of the rise of China” has tended to coerce the political leadership into a new military alliance with the United States via the TPP initiative, and therewith also gaining support from most of ASEAN’s member countries. Political realists also abound, however, who, being wary of the track record of American political ambiguities (e.g., the “unexpected” normalization of Sino-American relations which had then caught Japan in great surprise), strongly caution against the possibility of a “TPP trap”—should the US come to an about-face to involve China in the new initiative, Japan would be sidelined as number three. The scepticism has prompted a number of scholars, though in the minority, to advocate for adherence to the conventional trading regime in the new era, by promoting closer trade and economic relations with China, rather than “trimming one’s head to fit into the grotesque TPP structure”. 22
The point made by these scholars and political realists clearly brings home once again the notion enunciated earlier that the Japanese economy is these days inextricably linked up with the Chinese economy. The same goes for South APEC proper, Vietnam and the Philippines included, for similar reasons of geoeconomic factors. And the manifest economic nexus will likely continue to defy geopolitical manipulations in the years to come. As the Stanford University scholar puts it, China to ASEAN economies must be dealt with as a permanent geographical verity, while the United States remains largely geopolitical.23
Notes

Chapter 1 Introduction

1. See Christopher B. Howe, Y. Y. Kueh, and Robert Ash, *China’s Economic Reform: A Study with Documents*, London and New York: RoutledgeCurzon Press, 2003, especially my own contributions (Chapters 3, 4, and 7) therein about “Creating a market-oriented industrial and economic system” and the chronology (Chapter 3), “Industrial change and technological upgrading” (Chapter 4), and “China’s foreign economic relations” (Chapter 7) for a concise interpretative study of China’s economic reforms and opening up.

2. For a Chinese interpretation of *taoguang yanghui* see Xiong Guangkai (former Deputy Chief of Staff of the Chinese People’s Liberation Army), “China’s diplomatic strategy: Implication and translation of *Tao Guang Yang Hui*”, in *Foreign Affairs Journal* (published quarterly by The Chinese People’s Institute of Foreign Affairs), No. 98 (Winter 2010).

3. Vis-à-vis the state-owned Soviet export monopolies, Chinese import buyers are clearly the weaker trading partners, despite their acting more or less as monopsonists. Cf. for example, John F. Nash, Jr., “The bargaining problem”, *Econometrica*, Vol. 18, No. 2. (April 1950), pp. 155–62 for a theoretical exposition of the market form of “monopoly versus monopsony”.

4. See Guo Yi Yao (Y. Y. Kueh), “Political and economic trends on the Chinese mainland and the prospects for (political) reunification across the Taiwan Straits”, in *TKP*, 1–4 February 2000. I then also explicitly noted that the “equalizing” trends were already highly visible especially with respect to such major metropolitans on the mainland as Beijing, Tianjin, Shanghai and Guangzhou, in relation to Taipei; and one need not indeed expect a full equalization for the purpose of reunification in terms of average nominal GDP per capita, given that the combined absolute number of, say, the “middle class” in the mainland cities should be largely comparable, if not more than its counterpart on the island.

5. These are all official statistics from Japan given in http://www.stat.go.jp/english/data/handbook/c11cont.htm for 2009.


7. This happened in fact already nearly a decade ago; see United States General Accounting Office, *Rapid Advances in China’s Semiconductor Industry*
Underscore Need for Fundamental US Policy Review, Washington DC, April 2002. The US report, defining the technological gap in terms of “feature size” (measured in microns) argues that “since 1986, China’s efforts to improve its semiconductor manufacturing capability have narrowed the gap between US and Chinese semiconductor manufacturing technology from between seven to ten years to two years or less.”

8. And also clearly alluded to in my paper presented at the Asian Development Research Forum (ADRF) conference held in Bangkok, 2–3 December 2002, shortly after the official signing of the ASEAN 10+1 FTA agreement (see asterisk note in Chapter 12 for details).

9. Immediately following my oral presentation at the ADRF conference (ibid.), I was rigorously challenged by a senior ASEAN official by the question, “Why then ASEAN 10+1 after all?” The question was obviously directed against the somewhat “unpleasant” point I had made that ASEAN 10+1 FTA would not help to substantially alter the long-term scenario of ASEAN as a trading bloc remaining “peripheral to the Chinese trading system” (see Chapter 12). My immediate response was: “Without ASEAN 10+1 FTA, you would be even worse off!”

Chapter 2 The Emergence of the Greater China Economic Circle

1. For most purposes of this article, we define “Greater China” in terms of the two southern provinces of Guangdong and Fujian, Hong Kong and Taiwan. Occasionally, however, our analysis extends to mainland China as a whole.


3. IMF data for China reveal a reversal of the pattern of trade expansion in the first and second halves of the 1980s. In the earlier period, import growth sharply exceeded that of exports; latterly, the opposite was the case. In Hong Kong and Taiwan, the second half of the decade witnessed an acceleration of growth of both exports and imports.


5. This role is a major complicating factor in compiling and interpreting trade statistics between China and the region. Goods flowing from (to) Hong Kong to (from) China comprise some which are part of a purely bilateral trade flow and others which have their origin or destination in a third country. It is important to distinguish between the two categories and to allow for a “re-export margin” added to goods which have passed through Hong Kong. In this article, re-exported Chinese imports into Hong Kong are discounted on the basis of an assumed re-export margin of 25%; for commodities coming from other countries, a rate of 14% is thought more appropriate.
6. These estimates are derived from data in the 1930s, cited in Yun-wing Sung, *The China-Hong Kong Connection*, p. 19.

7. Including re-exports.

8. Calculations suggest that it would have declined by about three percentage points.

9. HKGCSD—HKMDS, January 1981, pp. 19–21, January 1987, pp. 19–22, and December 1991, pp. 19–22. By the beginning of 1993, re-exports accounted for 78% of Hong Kong’s total exports as reported in *SCMP*, 14 May 1993, which also noted that “. . . the market in China for goods re-exported through Hong Kong is now almost double the size of the United States market . . .”.


11. Re-exported imports to countries other than China showed a similar surge during the first half of the decade, but thereafter stabilized. *Ibid.*

12. To state it differently, in 1980, re-exports of Chinese imports accounted for 26% of all Hong Kong’s re-exports; by 1990, the figure had risen to 56%.

13. The extent of the decline depends critically on assumptions made about the value of the re-export margin.

14. The very fact of such integration does, however, make interpretation of re-export data hazardous. Conventional practice regards any movement of goods across a border as trade. But cross-border shipments for processing purposes will lend an inflationary bias to measures of the volume of trade. Take the case of imported components from Taiwan, re-exported from Hong Kong to Guangdong, and subsequently shipped back in processed form (as Chinese exports) for re-export elsewhere (perhaps even to China itself!). Such a process will earn several separate entries in customs statistics, threatening to disguise the true value-added element embodied in each stage. The extent of the underlying interpretative problem is suggested by the finding that by 1991, the share of outward processing trade in Hong Kong’s gross imports from China had reached 67.6%.

15. These and other estimates cited in this paragraph are derived from statistics in HKGCSD—HKMDS.


17. In the early eighteenth century, some 3,000 small-scale boats plied across the Taiwan Straits, carrying large quantities of sugar and rice to the mainland in exchange for cotton cloth, silk, paper and timber. See Zhou Shulian et al. (eds.), *Haixia Liangan ji Xianggang Jingji Hezuo Qianjing* (Prospects for Economic Co-operation across the Taiwan Straits and with Hong Kong), Beijing: Economic Management Publishing House, 1991, p. 156.

19. The estimates are “suggestive” in the sense that they are derived from data which only show indirect trade between Taiwan and the Chinese mainland, conducted through Hong Kong. Such trade dominates transactions across the Taiwan Straits, but also underestimates their true extent by excluding indirect trade through other countries (for example, Japan and Singapore), as well as genuinely direct—but minor—trade with coastal mainland ports. See Kao Charng, Yen Chong-ta et al. (eds.), Liangan Jingji Jiaoliu Xiankuang ji Fazhan Qushi Yanjiu (A Study of Economic Exchanges across the Taiwan Straits: The Current Situation and Trends of Development), Taipei: Zhonghua Institute for Economic Research, 1992, pp. 14–6.

20. Notice that in 1991 alone, the PRC’s share of all Taiwan’s exports rose from 4.89% to 6.13%.


22. Sources as in Table 2.4.

23. Since the late 1980s, Taiwan’s trade balance has also improved with ASEAN countries, but deteriorated against the United States. The changing pattern is not coincidental. On the one hand, growing American protectionism has forced Taiwan to diversify its export markets; on the other, increased FDI by Taiwanese entrepreneurs in both the Chinese mainland and ASEAN countries has given added impetus to trade expansion with these countries.

24. TIR is given by the following formula:

\[ TIR = \left( \frac{X_{ij}}{X_i} \right) \div \left( \frac{M_j}{M_w} \right) \]

where \( X_{ij} \) are the exports of country i to country j; \( X_i \) are the total exports of country i; \( M_j \) are the total imports of country j; and \( M_w \) are global imports.

25. That is, \( TIR \geq 1 \). See above.


27. By the end of the 1980s, such shipments included a large proportion of goods destined for outward processing.

28. Also relevant are data cited in TKP, 31 May 1993.

29. Between 1980 and 1991, the share of primary products in China’s total exports fell from 50.2% to 22.5%, whilst that of manufactured goods (mainly produced by labour-intensive methods) rose from 49.8% to 77.5% (ZGSYWJTJZL 1952–1988, p. 430) and ZGTJNJ 1992, p. 630). Since 1970, the share of labour-intensive manufactures in Hong Kong’s exports has fallen steadily (e.g. from 75% to 55% during 1970–87) in favour of an expansion of capital-intensive goods (up from 21% to 41%) (data cited in Ross Garnaut, Australia and the Northeast Asian Ascendancy, Canberra: Australian Government Publishing Service, 1989, p. 54). The same period saw the simultaneous expansion of the export shares of labour and capital-intensive products in Taiwan, although it is only in recent years that the latter category has come to predominate (ibid.).

30. During the 1980s, the proportion of total Chinese food exports retained in Hong Kong fell by more than half.

31. Ironically, more and more goods labelled “Made in China” have in fact been produced by subsidiaries of Hong Kong parent companies, sited in Guangdong.

33. A kind of technological complementarity is also evident. That Hong Kong’s textile machinery does not embody the most up-to-date technology makes it appropriate for use in labour-intensive operations, such as China’s resource-endowment favours.

34. Although their relative importance did decline, in 1990 such products still accounted for 76.69% of Taiwan’s exports to China.

35. The share of chemicals and related exports rose from 2.24% to 12.65% between 1985 and 1990.


37. As a proportion of total PRC exports to Taiwan, goods under SITC 0 and 2 fell from 74.93% to 31.85% (1985–90), whilst those under SITC 6, 7 and 8 increased from 13.39% to 54.26%.

38. Notice too that as Taiwan has become increasingly involved in southern China, its investment in Hong Kong has risen dramatically (in 1991, Hong Kong was the destination of 43% of all Taiwanese FDI in Asia). This sharp rise no doubt reflects the need to make appropriate servicing arrangements in Hong Kong for the operations of subsidiary companies in China.


40. *QGGSZZLSTJZLHB 1948–1989*, pp. 434 and 618. These figures imply an average addition of some 400,000 (Fujian) and 800,000 (Guangdong) labour recruits each year. Notice too that secondary-and tertiary-sector employment growth in both provinces has easily outstripped that of the primary sector (*ibid.*).

41. Guangdong recorded an average annual rate of growth of 20.27% during 1978–1991 (*GDTJNJ 1992*, p. 342); the corresponding figure for Fujian was even higher (*FITJNJ 1992*). Fujian’s faster trade growth needs to be set against a much smaller base level than in Guangdong. Compare these figures with the estimates for Hong Kong and Taiwan presented earlier (see supra note 2).

42. In 1970, Guangdong accounted for 19.2% of all China’s exports; in 1991, the corresponding figure was 19.0% (*GDTJNJ 1992*, p. 342 and *ZGSYWJTJZL*, p. 502). Note that preliminary estimates indicate that Guangdong exports grew by a further 32% in 1992 (*TKP*, 1 January 1993).

43. To cite just one example: available evidence suggests that without Guangdong and Fujian, China’s trade surplus in 1990 would have been reduced by 70%!

44. During the same period, Shanghai’s share of imports rose from 1.2% to 3.6%. By way of comparison, Guangdong’s share of China’s trade increased from
1.78% to 13.34% (imports), and from 12.11% to 19.03% (exports). The corresponding increases in Fujian were from 0.71% to 2.21% (imports), and from 2.01% to 4.07% (exports). National data from ZGSYWJTJZL, pp. 432–3 and 438–9; Shanghai data from SHTJNJ 1992, pp. 349 and 352. The sources for Guangdong and Fujian estimates are shown in Table 2.4. However, these figures conceal the fact that the shares of both Guangdong and Fujian in total exports declined between 1980 and 1985, thereafter rising in a spectacular fashion.

Given the more consistent downward trend in Shanghai, it is clear that during the early 1980s, the export performance of other parts of China outstripped that of all three regions. In this respect, it is noteworthy that in 1985 Liaoning’s export share was the highest in the country (19.34%), even though just three years later its contribution had almost halved. Shandong was another province which experienced a significant relative decline (ZGSYWJTJZL, p. 510).

The average growth rate during 1985–91 was 27.94% per annum. The estimates show imports to have grown by 17.44% per annum during 1985–91.

Guangdong’s export surplus vis-à-vis Hong Kong almost doubled in two years, rising from US$2,960 million to US$5,290 million between 1989 and 1991.

For 1985–90, the corresponding figure is over 33% per annum.

Average annual growth of imports from Hong Kong was only 14.23% during 1985–91, compared with 42.90% during 1980–85.

This phrase (literally, “three foreign-funded”) refers to the activities of equity and contractual joint ventures and firms wholly under foreign ownership.

That is, processing operations based on the provision of raw materials, assembly operations based on the supply of components, manufacturing based on supplied designs (sanlai), and exchange through the practice of compensation trade (yibu).

The difference between total exports and those associated with commissioned processing, compensation trade and FDI ventures provides a measure of merchandise exports.

No doubt the figure would be even higher if provincial exports to Hong Kong alone were considered.

The available evidence also suggests that Taiwan’s relationship with southern China has mirrored that of Hong Kong. Since shipments between Guangdong, Fujian and Taiwan must formally pass through Hong Kong, the extent of Taiwan’s linkages with the two Chinese provinces is partly concealed within the British colony’s own statistical records.

TKP, 1 January 1993, stated that China’s trade balance with the USA had declined by 5% in 1992. However, another Hong Kong source subsequently revealed that the American deficit had further widened during the early months of 1993 (SCMP, 20 May 1993).

In the context of the accelerated relocation of manufacturing activity on the Chinese mainland, specific mention should be made of the Plaza Accord (1985), which forced Japan and Asian NICs (newly industrializing economies) to
appreciate their currencies against the US dollar and thereby encouraged large-scale transfers of manufacturing operations within the Asia-Pacific region.

56. For a detailed analysis of quantitative trends in foreign investment and its distribution amongst “economically opened coastal areas” in China, as well as consideration of its impact on output and income growth, see Y. Y. Kueh, “Foreign investment and economic change in China”, The China Quarterly (CQ), No. 131 (September 1992).

57. But in terms of AFI stock growth, Fujian and Shenzhen are almost identical.

58. The figures for investment in all China are 53.2% per annum (FDI stock) and 55.2% per annum (AFI stock).

59. For an elaboration of this point, see Kueh, “Foreign investment and economic change in China”, pp. 652–5. See also TKP, 10 February 1993, which argues that although the Pearl River Delta remains the principal destination of Hong Kong investment, signs of a northward extension of capital flows (to Shanghai, Jiangsu, Zhejiang, etc.) are also in evidence.

60. The momentum of Taiwanese investment in mainland China accelerated after an official government declaration (Taipei, November 1987) that Chinese from Taiwan would be allowed to visit relatives across the Taiwan Straits. The continued and active interest shown by Taiwanese entrepreneurs in seeking investment opportunities in the PRC eventually brought official approval (in 1991) of investment conducted “through a third country”. For further details, see Tzong-biao Lin, “Economic nexus between the two sides of the Taiwan Straits”, paper presented at Conference on the Economic Development of ROC and the Pacific Rim in the 1990s and Beyond: Taipei, 25–29 May 1992; and Charng Kao, “Economic interaction between the two sides of the Taiwan Straits”, paper presented at Conference on the Evolution of Taiwan within a New World Economic Order: Taipei, May 1993.

61. TKP, 2 June 1993.

62. See Charles H. C. Kao, Joseph S. Lee and Chu-chia Steve Lin, Taiwan Tupuo: Liangan Jingmao Zhuizhong (An Empirical Study of Taiwanese Investment in Mainland China; hereafter, Taiwan Tupuo), Taipei: Taipei Commonwealth Publishing Company Ltd., p. 12. The actual number of Taiwanese firms then operating in mainland China was thought to be between 3,000 and 3,500. Different estimates again are available in other Taiwanese sources. For example, the prestigious Chung-Hua Institution for Economic Research suggested that as of April 1983, some 2,700 Taiwanese firms were operating on the mainland with a total investment of US$3.7 billion (see King Pei and Hsu Chia-xian, “Trends and prospects of economic interaction between the two sides of the Taiwan Straits”, paper presented at a Symposium on the Current State of Economic Management in the Mainland, Taiwan and Hong Kong: Hong Kong, December 1991). King and Hsu also gave a cumulative total of US$100 million in Taiwanese investment in mainland China for 1979–87. This figure increased by US$300 million (1988) and 600 million (1989) (see
Lin, “Economic nexus between the two sides of the Taiwan Straits”) to raise the cumulative total to US$1 billion. None of these figures is compatible with the official PRC statistics. The discrepancy is likely to reflect differences in the definition of FDI of Taiwanese origin (which may or may not include investment originating in Taiwanese firms based outside Taiwan, e.g., in Hong Kong or Southeast Asia, and which have become detached from their parent companies). The cumulative total given in the Ministry of Economic Affairs 1991 survey (US$750 million) seems most reconcilable with the incomplete official PRC estimates shown in Table 2.7.

63. For example, any attempt to estimate FDI’s contribution to China’s domestic capital formation and GNP growth should take account of possible distortions arising out of erratic exchange rate adjustments in converting foreign capital into renminbi (RMB) equivalent. See Kueh, “Foreign investment and economic change”, p. 657.

64. These estimates were obtained by applying Hong Kong’s shares (HKS) in the total intake of foreign investment of all kinds (FDI and capital borrowing) received by Guangdong, Shenzhen and Fujian to the respective percentage contributions of all foreign investments to total investment in fixed assets (CFA) in the corresponding areas. HKS are calculated from the absolute dollar figures shown in Table 2.7 and in Kueh, “Foreign investment and economic change in China”, Appendix A, p. 683. CFA are given in ibid., p. 656.

65. For an elaboration of this point, see Kueh, “Foreign investment and economic change”, p. 658.


67. Kao, Lee and Lin, Taiwan Tupuo, pp. 90–1.


69. Shenzhen seems to be the only exception, its tertiary share in GDP having fallen from 45% (1980 and 1985) to 35% (1991). This decline was offset by a rapid increase in industry’s GDP share (from 26% to 60%, 1980–91).

70. We are grateful to Joseph C. H. Chai for raising the points outlined in this paragraph.

71. These are the Hong Kong government’s own estimates, made in March 1992 in the wake of the annual US review. The same report predicted that China’s loss of MFN status would reduce Hong Kong’s GDP growth in 1992 (forecast at 5%) by half. See SCMP, 14 March 1992; also The China Business Review, May–June 1992, p. 14. For consideration of the impact on the US of the decision to revoke China’s MFN status, see SCMP, 23 May 1993.

72. But see also below.

73. The capital/labour ratio provides one measure of the extent of industrialization.

75. Yuh-jiun Lin and Chin-shu Huang, “Development of trade and investment between the two sides of the Taiwan Straits”, paper presented at Conference on Global Interdependence and Asia-Pacific Cooperation, Hong Kong, 8–10 June 1992, pp. 8 and 10.

76. See Kao, Lee and Lin, \textit{Taiwan Tupuo}, p. 42.


\textbf{Chapter 3 Hong Kong Surviving the Open-Door, Reforming Chinese Economy}

1. The movement of capital in and out of Hong Kong is unrestricted, and it can take place at any time by simply keying in the figures on a computer for outward remittance via fax machine. Import levies are virtually non-existent, except for the “domestic consumption taxes”, referred to as “duties” in Hong Kong, which are currently imposed on three groups of commodities—tobacco, alcohol and fuel—irrespective of whether they are imported or manufactured locally.

2. As an island economy, Hong Kong’s terrain is rocky and hilly. Of this tiny land area, however, only rather more than 14% is built up and less than 9% is suitable for crop and fish farming.

3. See Robert Ash and Y. Y. Kueh, “Economic integration within Greater China”, \textit{The China Quarterly (CQ)}, No. 136 (December 1993) for the comparative Chinese GNP figures (the article is reprinted as Chapter 2 in this volume).


5. The “gradualism” and the “big bang” models have now been almost unanimously identified as the two main models of transition from a Soviet-type dirigisme to a market-oriented system. Roughly speaking, China has taken gradualism, while all the East European countries and the former Soviet Union have followed the big bang. Such a dichotomy is, of course, not quite correct. Hungary and Poland had practised gradualism before the big bang. Even the former Soviet Union had engaged in gradualism before the collapse of its communist regime.

6. In terms of land surface area, China’s is the world’s third largest country encompassing an area of about 9.6 million square kilometres. Its 1.18 billion population represents some 22% of the world’s population.

7. Lawrence H. Summers, “The Rise of China”, \textit{International Economic Insights} (May–June 1992). The departure growth rates for Summers’ extrapolation are: during the 1980s, China’s annual GDP growth averaged about 8.7%, while the United States equivalent was 2.3%. By Summers’ reckoning, even if that growth differential were cut in half, China’s total GDP would surpass that of the United States by 2014.


10. See Zhou Zhenxing (senior deputy general manager of Bank of China’s Hong Kong Branch), “Hong Kong the hub of massive growth”, SCMP, 4 May 1992.


12. A succinct account of these four pivotal roles of Hong Kong can be found in Yun-Wing Sung, The China-Hong Kong Connection: The Key to China’s Open-Door Policy, Cambridge: Cambridge University Press, 1991.


19. Originally, the Jackson-Vanik Amendment was enacted in 1974 to address concerns about the Soviet Union’s restrictions on emigration by its Jewish citizens.
20. HKTDC—SHKDERXTT (November 1991), supra. In his “Non-institutional economic integration via cultural affinity: The case of mainland China, Taiwan and Hong Kong”, Hong Kong Institute of Asia-Pacific Studies, Occasional Paper No. 13 (July 1992), pp. 10 et seq., Yun-Wing Sung argues that re-export markups are, in fact, higher for trade flows with China, with 25% being a more realistic estimate for such margins, otherwise Hong Kong official trade statistics would imply that retained imports, when conventionally defined as imports net of re-exports, from China were actually negative in both 1990 and 1991.


Chapter 4 Guangdong Province Ascending as the “Fifth Dragon”

1. During his tour of southern China [nanxun] between January and February 1992, Deng Xiaoping described Guangdong as the “leading force for economic development” and explicitly urged the region to catch up with the “four little dragons” during the next twenty years. The four dragons are South Korea, Taiwan, Hong Kong, and Singapore.

2. Lardy points out that by the mid-1980s, Guangdong “was able to spend most of its fiscal revenues”; its quota for tax remission to the centre having been reduced from US$1.0 billion to US$0.772 billion between 1980–82 and 1986–90. See Nicholas R. Lardy, Foreign Trade and Economic Reform in China, 1978–1990, Cambridge: Cambridge University Press, 1992, pp. 55 and 135.
3. Shenzhen, Zhuhai, and Shantou SEZs were set up in Guangdong in 1980. The fourth SEZ was Xiamen in Fujian Province.

4. Only South Korea, with a population of 43 million and a land mass of 0.099 million square kilometres, approaches it. Taiwan falls far behind, with a population one-third, and a surface area one-fifth of that of Guangdong. The city-states of Hong Kong and Singapore are of course minuscule by comparison.

5. See also Robert F. Ash and Y. Y. Kueh, “Economic integration within Greater China: Trade and investment flows between China, Hong Kong and Taiwan”, The China Quarterly (CQ), No. 136 (December 1993), Table 11 and p. 743 (the article is reprinted as Chapter 2 in this volume).

6. GDP growth averaged 9.0% and 13.3% per annum in China and Guangdong, respectively, between 1979 and 1992.

7. The figures are derived from the estimates of absolute GDP in Table 4.2 and of sectoral contributions to GDP in Table 4.5. They are consistent with Guangdong’s shares in national GVIO and GVAO, shown in Table 4.2.

8. The disappointing performance of the grain sector in southern China (of which Guangdong is a part) is touched on in Robert F. Ash, “The agricultural sector in China: Performance and policy dilemmas during the 1990s”, CQ, No. 131 (September 1992). By 1993–94, the urgency of the situation, associated in particular with a sharp decline in the grain sown area, was reflected in calls of the provincial government to prevent further loss of land and to increase investment in order to restore levels of grain production.

9. GVAO embraces not only crop farming, but also fishing, animal husbandry, forestry, and subsidiaries. RSVO (rural social value output) extends the coverage by including the value of production of rural industries.

10. In fairness, it should be said that with the exception of South Korea between 1986 and 1992, China also achieved faster growth than the four dragons during 1979 and 1992, and 1986 and 1992. But in the case of Guangdong, the gap was much narrower and the growth record of all five regions was in fact quite similar.

11. From 12% to 15% in aggregate terms; and from 10% to 12% in per capita terms.

12. In 1994 foreign capital still accounted for a significant proportion of total fixed capital formation in Guangdong.

13. Notice, however, that the process has been more pronounced in Guangdong than in the rest of the country—this, in turn, reflecting improved capital productivity rather than the use of more physical capital.

14. Guangdong’s per capita growth performance also easily outpaced that of every one of the four dragons. See Table 4.3.

15. Between 1980 and 1992, the share of agriculture in total employment fell from 71% to 47% in Guangdong, and from 69% to 59% in China. During the same period, the employment share of industry increased from 17% to 30%
(Guangdong), but from 18% to 22% (China); and in services from 12% to 22% (Guangdong), but from 13% to 20% (China).


17. A major part of the background to Guangdong’s recent economic expansion has undoubtedly been increased inter-regional mobility within the province, as well as large-scale migration from outside in order to take advantage of employment opportunities. The associated pressures have contributed to the breakdown of administrative barriers (notably, the “household registration” [hukou] system), which since the early 1950s had prevented large-scale rural-urban movements of population. They have also given rise to an enormous “floating population” and many millions of “illegal” or “temporary” residents in major cities. To what extent these urban dwellers should be accorded proper urban entitlements and benefits is a major problem now facing the government. See TKP, 16 January 1994, p. 2.

18. In numerical terms, the sources of improvements in productivity are a residual, left over after the relative contributions of physical increases in labour and capital to income growth have been isolated. Their verification at an aggregate level is not readily susceptible to econometric testing (especially if reference is made to X-efficiency considerations).

19. Foreign domestic investment (FDI) into Guangdong rose by 95% in 1992 (but by 152% in China); the corresponding figures for all foreign capital were 88% and 66% (see Table 4.9). In 1993, Guangdong’s realized FDI and total foreign capital inflows increased, respectively, by a further 113% and 75%, to reach US$6.2 billion and US$8.5 billion. See TKP, 3 January 1994 and Table 4.9.


21. On the basis of inflows of all foreign capital, the figure is significantly higher—around 30% during 1991 and 1992.

22. Kueh, “Foreign investment and economic change in China”, p. 658. The combination of a stable US dollar and accelerated price inflation in China in recent years suggests that the 3:1 ratio needs to be revised upwards.


24. For detailed consideration of Guangdong’s foreign trade since 1978, see Ash and Kueh, “Economic integration within Greater China”.


26. The conversion of US dollar-into renminbi-based trade figures in order to facilitate comparison with yuan-based GDP estimates is likely to exaggerate
imports and exports under the impact of erratic yuan depreciations during the second half of the 1980s.

27. That is, both Guangdong and China experienced a relative rise in the contribution of export demand, but a relative decline in that of domestic demand.

28. For more detailed consideration of this aspect, see Ash and Kueh, “Economic integration within Greater China”.

29. A useful account of Guangdong’s SEZs and their early experience is given in “Special Economic Zones: Experiment in new systems”, in Vogel, One Step Ahead in China, op. cit.

30. The three SEZs (Shenzhen, Zhuhai, and Shantou) were set up in 1980. In 1984, Guangzhou (the provincial capital) was included amongst the 14 coastal cities designated by the central government to be opened to foreign investment. In 1988, several other major provincial municipalities were added to the list.


32. Prior to 1985, the corresponding figure was even higher—a reflection of the even greater importance of Guangdong as a recipient of foreign capital.

33. Exorbitant increases in land rents and persistent labour shortages have prompted this transfer of manufacturing activity. In so doing, they have contributed to a complex process of de-industrialization, which has fundamentally changed the economic structure of Hong Kong. See Ash and Kueh, “Economic integration within Greater China”, and Y. P. Ho and Y. Y. Kueh, “Whither Hong Kong in an open-door, reforming Chinese economy?” The Pacific Review (London), Vol. 6, No. 4 (December 1993). The latter article is reprinted as Chapter 3 in this volume.

34. Ibid., p. 339.

35. This is demonstrated by estimates of the relationship between the ratio of total state budget (revenue and expenditure) to GNP in 1992 and 1978. The calculated figures are 0.54 for Guangdong and 0.55 for China.

36. In 1978, Guangdong’s ratio of revenue (expenditure) to GNP was 21% (15%). The corresponding figures for China were 34% (31%).

37. In general, both the revenue/GNP and expenditure/GNP ratios for Guangdong were between 50% and 60% of the national figures after 1980.

38. Perhaps this also explains some of the less positive factors associated with recent reforms, such as severe urban traffic congestion, environmental pollution, and deteriorating medical services and health care.


40. These figures are taken from Draft Programme for Economic and Social Development in Guangdong (1990–2010), as cited in TKP, 22 February 1994.

41. Compare the following provincial annual growth rates: 1991, 14.3%; 1992, 19.9%; and 1993, 21% (Table 5.3 and TKP, 22 February 1994).
42. Zhu Senlin himself has referred to internal irrationalities within Guangdong’s agricultural and manufacturing sectors, as well as to the lagging performance of the tertiary sector. By 2010, the ratio of value-output of primary to secondary to tertiary sectors is planned to change from 26:40:34 (1990) to 5:31:64 (TKP, 22 February 1994).

43. The benefits of rapid provincial growth have accrued disproportionately to the three SEZs and the Pearl River Delta region.

44. This point was developed by Simon Kuznets in his assessment of Taiwan’s modern economic transformation. See his “Economic growth and structural change” in W. Galenson (ed.), Economic Development and Structural Change in Taiwan: The Postwar Experience of the Republic of China, Ithaca: Cornell University Press, 1979.

Chapter 5 The US Connection of Hong Kong in China’s “One Country, Two Economies” System

1. The Chinese acronym sanlai yibu refers literally to the “three (san) comings (lai)” (or supplies from outside), plus “one (yi) compensation (yibu)”; see notes to Table 2.5 (in Chapter 2) for details of definition. Hereafter we will use the term “outward processing” and sanlai yibu interchangeably depending on whether it is looked at from the mainland Chinese or Hong Kong perspective. In short, in outward processing, all or part of the raw materials or semi-manufactures are exported from or through Hong Kong to China for processing/reprocessing with a contractual arrangement for subsequent re-importation of the processed goods into Hong Kong. Export proper is common to the world’s export trade, but sanlai yibu is particular to the China-Hong Kong common production region.

2. USIS—Hong Kong, Economic Backgrounder (11 April 1994), p. 2. This appears to be a grossly inaccurate generalization. Apart perhaps from the sanlai yibu type of exports, in the early 1980s, regular Chinese exports are normally priced with gross output value rather than value-added. And from 1985, sanlai yibu exports have been assumed into official Chinese customs statistics at full value, instead of just the “processing” fee (gongjiao fei).

3. Since sanlai yibu involves essentially small-scale, labour-intensive manufacturing activities and their outputs are virtually all destined for export, the phenomenon stands in sharp contrast to investments by multinational corporations (MNCs) in third countries that are primarily for import substitution and deal with large-scale, capital-intensive technology. Another difference is that, where possible, MNCs normally make use of locally available materials rather than semi-manufactured products brought in from home countries, and where their outputs are destined for third countries, they are often exported directly from the countries in which funds were invested rather than being shipped back to home countries for re-export, as is the case with sanlai yibu within the Hong Kong-Guangdong context.

5. A good example is curtain supplies in Hong Kong. In the past, tens of thousands of small curtain shops normally did their own cutting and sewing at the back of the shops. But these days, the processing is all done on specifications across the border in Shenzhen by regular weekly or daily consignments on behalf of Hong Kong clients, rather than overseas customers.

6. The Hong Kong Census and Statistics Department only began to compile statistics on domestic exports and re-exports to China for outward processing purposes in the third quarter of 1988, and the statistics on imports from China related to outward processing in the first quarter of 1989.


8. *Ibid.*, p. 341, the spectacular increase in 1985 to 43% of China’s share in Hong Kong’s total re-exports was probably caused by two factors. The first is the so-called Hainan “car scandal” when the island’s government made use of its special privileges in foreign trade autonomy to import, “illicitly” through Hong Kong, a large consignment of Japanese cars (with foreign currencies obtained from the black market in exchange for a special renminbi development grant from the central government) for resale in the inland market for profiteering. The second factor is that the central government had to spend a large amount of its precious foreign exchange reserves (totalling some US$2 million) to import relatively luxurious commodities in order to soak up excessive renminbi supply which was brought about in late 1984 as a result of misconceived wage and banking policies. A large proportion of the imports were probably hastily channelled through Hong Kong as an efficient trade mediator. See Y. Y. Kueh, “Economic reforms in China: Approach, vision, and constraints”, in Dieter Cassel (ed.), *Wirtschaftssysteme im Umbruch: Sowjetunion, China und industrialisierte Marktwirtschaften zwischen internationalen Anpassungszwang und nationalen Reformbedarf*, Munich: Franz Vahlen Press, 1990.

9. See Table 5.1 (panel C) and Y. P. Ho and Y. Y. Kueh, “Whither Hong Kong in an open-door, reforming Chinese economy”, p. 342.

11. See TKP, 5 April 1995. However, the implied national total of US$18.2 billion (= US$15.1 billion/0.83) for sanlai yibu exports in 1994 is substantially lower than the Hong Kong dollar equivalent of US$46 billion (= HK$355 billion) given by the Hong Kong Government Census and Statistics Department (HKGCSD), as cited in Table 4.1, panel A, column (2). Comparable statistics for 1992 also reveal a similar discrepancy, with a HKGCSD survey showing that Guangdong Province alone accounted for 93% of total Chinese sanlai yibu exports to Hong Kong in 1992. It is difficult to reconcile the discrepancy. One possible explanation is that the HKGCSD figure (US$46 billion), which is 60% higher than the Chinese one (US$18.2 billion), may, FOB/CIF gap apart, represent exactly the margin earned by Hong Kong manufacturers. If correct, then the margin may indeed loom larger, to the extent that the Chinese figure refers to their sanlai yibu exports at large, including those exported directly from China. Another possible explanation for the discrepancy is that the lower Chinese figure represents some kind of estimate made by the Chinese authorities of their own share in total sanlai yibu exports, in a way perhaps similar to the attempt to be made in the following section of this chapter. We are unable to determine for sure how the Chinese figure is calculated.

12. A fraction of sanlai yibu exports by Hong Kong- and Taiwan-based investors in provinces other than Guangdong is directly exported to the United States; see Q. Luo and C. Howe, “Direct investment and economic integration in the Asia Pacific: The case of Taiwanese investment in Xiamen”, CQ, No. 137 (December 1993), p. 746. However, detailed statistics are not available. We therefore will only estimate the re-export margin earned by Hong Kong.

13. If capital is borrowed, we estimate the capital cost in terms of interest repayment plus the costs of maintaining and replacing buildings, machinery and fixtures.

14. The average profit margin for the five surveyed companies is 10% (see the Appendix to this chapter), which is lower than that (15%) estimated by HKTDC in 1991, indicating that profit could have fallen in recent years. We attribute the 10% profit margin to the Hong Kong share to make it a total of 71.5% as a basis for apportioning the total sanlai yibu exports to the total China versus Hong Kong shares (for explanation, see the Appendix to this chapter). Note, however, that the validity of our surveyed results may be weakened by the small sample size used and by the limited range of company types chosen, which could, collectively, give rise to the limiting nature of our estimates. Nevertheless, pending a more comprehensive and rigorous survey, we propose to estimate the OP-related export margin earned by Hong Kong for both the direct and indirect export enterprises using the preliminary survey results.

15. In the case of US exports to China, we do not net out the re-export margin for two main reasons. Firstly, little production in the United States has an outward processing origin. Secondly, the redistribution margin earned by Hong Kong in the case of US indirect exports to China via Hong Kong has been netted out since US FOB prices were used in compiling the US statistics.


19. Note that in our estimates, we have also ignored the parallel curtailment in the Chinese share of OP-type exports through Hong Kong, and the possible impact of a Chinese retaliation on US re-exports via Hong Kong to China.


**Chapter 6  Hong Kong Weathering the Asian Financial Storm**

1. See appendix to this chapter for a chronological illustration of the development of the Asian financial crisis, as it bears on Hong Kong.

2. Following relocation of tens of thousands of manufacturing plants from Hong Kong to the Chinese hinterland, starting especially from the mid-1980s, Hong Kong’s gross domestic product had continued to grow at the rate of 5–6% per year through the advent of the Asian crisis. Domestic labour supply could increase, however, by only around 1% per year during the same period. These occurred, most remarkably, against the background of a declining workforce in the manufacturing sector from some 930,000 in 1986 to not more than 250,000 by 1997, as a result of the accelerated exodus of Hong Kong manufacturers. By 1998, the manufacturing sector’s contribution to GDP had fallen to a mere 8% from 29.6% in 1985 and 24.9% in 1991, while the share of the services sector meanwhile rapidly expanded to over 90% from 69.7% and 74.8%, respectively. The entire Hong Kong economy has, therefore, been radically transformed into a Manhattan-type services industry. This is, by any historical measure, a massive and radical transformation.

3. In the first of its annual reports on Hong Kong released in January 1999, the European Commission also found “basic rights, freedoms and autonomy have been broadly upheld” (*SCMP*, 10 January 1999).

4. For a detailed analysis of the relative contributions of Hong Kong to China’s total foreign exchange earnings and the role the SAR plays in the broader context of facilitating China’s trade with the United States and the outside world in general, see Y. Y. Kueh and Thomas Voon, “The role of Hong Kong in Sino-American economic relations”, in Y. Y. Kueh (ed.), *The Political Economy of*
Sino-American Relations: A Greater China Perspective, Hong Kong: Hong Kong University Press, 1997, especially pp. 61–83 (the article is reprinted as Chapter 5 in this volume).

5. See attached chronology for this and subsequent reassurances given by Chinese leaders that China would uphold the value of the renminbi in support of the Hong Kong government’s defence of the US dollar peg.


7. This and the following one or two paragraphs, as well as Figure 6.1, derive from HSEM, September/October 1998, p. 3.

8. In a recent personal communication (March 1999), a major Hong Kong investor was resolute that he would only invest more in the mainland, if the renminbi were to depreciate in the present context.


10. These are all official statistics released at the 9th National People’s Congress held in early March 1999; see TKP, 7 and 12 March 1999.

11. The realized GDP growth rate for 1998 was confirmed, in March 1999, to be 7.8%.

12. The reasons for this are familiar: Chinese domestic prices are normally not comparable to the free market prices in Hong Kong or elsewhere in the world. A straightforward conversion from renminbi prices for the export goods concerned on the basis of the given exchange rate, may not therefore yield an export quotation that is comparable to those offered for similar products from other sources in the Hong Kong market. Moreover, the officially fixed exchange rates used for the conversion are normally not in accord with the purchasing power parity to complicate the matter. Hence, China, as well as all other former Soviet-type economies, being deprived of reliable scarcity price signals (due to distortions in official price setting) are said to have been “trading in the dark”, by relying on the changing world market prices.

13. This point is also strongly shared by Jeffrey Sachs, the Harvard economist, at the Asian Investment Conference sponsored by Credit Suisse First Boston in Hong Kong (SCMP, 25 March 1999).

14. This is the familiar acronym for various incarnations of what is known as “international trust and investment corporation”. The most well-known ones include CITIC (China International Trust and Investment Corporation), a national-level agency based in Beijing, and the notorious GITIC—a Guangdong provincial agency that collapsed in late 1998 prompting several major
banks in Hong Kong to provide, for the first time, under such circumstances, full debt provisions in the balance statements.

15. Personal communication from a major Taiwan investor in the food processing industry.

16. Readers interested in the process should consult the chronology given in the appendix.


**Chapter 7 The Greater China Growth Triangle in the Asian Financial Crisis**

1. Viewed this way, FDI flowing from Hong Kong (and Taiwan) into mainland China represents a complete migration of manufacturing plants.

2. Because the complete transfer of manufacturing operations from Hong Kong to mainland China is generally to take advantage of abundant cheap labour across the border, it is normally not associated with investment in new technology. That is not to say, however, that FDI’s impact on Chinese economic growth is minimal. The fact is that, in addition to employment and income creation in China, the highly export-oriented FDI from Hong Kong and Taiwan also helps to ease China’s foreign exchange constraints, enabling the country to import more advanced technology from the West, as embodied in new machines and equipment, for accelerating industrial modernization. Note that more than 40% of China’s total exports for 1997 were exports from various types of foreign-invested enterprises (*ZGTINJ* 1999, pp. 592–3).

3. These used to be the single most important source of China’s foreign exchange earnings in the past, accounting for one-quarter to one-third of the country’s total. From the Hong Kong perspective, the imports were inputs needed for its own export manufacturing. With the relocation of Hong Kong factories to the hinterland, however, Chinese exports previously retained in Hong Kong for local consumption have now become China’s liability in exchange for its claims on part of Hong Kong’s foreign earnings in the form of what is commonly referred to by the Chinese as *gongjiaofei* (processing fees). For an elaboration and interpretation of this changing regional context of specialization within Greater China; see Kueh and Voon, “The role of Hong Kong in Sino-American economic relations”, in Y. Y. Kueh (ed.), *The Political Economy of Sino-American Relations: A Greater China Perspective*. Hong Kong, China: Hong Kong University Press, 1997, pp. 61–3 (reprinted as Chapter 5 in this volume).

5. According to the head of the Industry Bureau in Taipei, the large-scale transfer of sunset industries to mainland China has more than anything else accounted for the rapid increase of heavy industry’s share in total manufacturing output in recent years from 47% in 1986 to 56% in 1991; see Charles H. C. Kao, Joseph S. Lee, and Chu-Chia Steve Lin, *Taiwan tupuo: liangan jingmao zhuizhong* (An Empirical Study of Taiwanese Investment in Mainland China; hereafter, *Taiwan Tupuo*), Taipei: Taipei Commonwealth Publishing Company Ltd., 1992, pp. 90–1.


8. See Table 5.1. Nonetheless, the decline has proved to be short-lived. Latest official statistics show that for the first three quarters of 2000, FDI approval already amounted to US$378.58 million, a hefty increase of 27.86% over the comparable 1998 period. Actual FDI intake did decline by 8.7% in the same period in 2000, due to the reduction in 1999 of FDI approval (*TKP*, 15 October 2000), but given the remarkable rebound just cited, it is almost certain that 2001 will see a strong recovery of actual FDI intake in China.

9. FDI in infrastructure (and in services) is still quite limited in China. For example, FDI pledged in electric power plant and gas and water supply declined from US$5.2 billion in 1996 to US$3.7 billion in 1997, while FDI approved for the combined category of transportation, storage, and postal and telecommunications services increased from US$1.2 billion in 1996 to only US$2.6 billion in 1997. Taken together, FDI in infrastructure and services amounted to only 12% of total FDI approval in 1997, compared with 53% for manufacturing (*ZGTJNJ* 1998, p. 645). Similarly, while an increased number of foreign firms have been able to gain a foothold in China’s wholesale and retail trade and catering services in recent years (e.g., McDonalds, KFC, and notably the well-known garment brand, Goldlion, from Hong Kong), foreign capital registered by the end of 1997 for this sector was no more than 4% of the total, compared with 58% for manufacturing (*ibid.*, p. 643).

10. As a rough estimate, the export markup rate is simply taken as the percentage difference between the value of columns (9) and (7) in Table 7.2. To the extent that part of the imports of outward processing goods from China may be retained in Hong Kong for local consumption, the estimated markup rate is clearly biased on the low side.

11. See Kueh and Voon, “The role of Hong Kong in Sino-American economic relations”, p. 66.


and Economic Perspective in East Asia, sponsored jointly by The United Nations University Institute of Advanced Studies and Asian Development Bank Institute, Tokyo, 12 May 1999 (published by UNUIAS, 2000, and reprinted as Chapter 8 in this volume).


16. For the first eight months of 1998, China’s trade surplus and net FDI inflows amounted to US$58.7 billion, but total foreign exchange reserves increased by only US$1.2 billion (TKP, 28 November 1998). The leakage is attributed to defaults in bank clearing of foreign exchange earnings, illicit remittances overseas by way of fake import documentation, and other illegal practices.

17. JJXXXB, 1 May 1998.


19. Since 1995, the US-based Heritage Foundation and the Wall Street Journal have compiled the Index of Economic Freedom for comparing more than 160 economies. Hong Kong was rated first for the first five consecutive years.


24. This was also later confirmed by the financial secretary when he explained that “our exports to the United States and Europe grew, but this growth was unable to compensate for the marked shrinkage in our exports to East Asia. The growing volume of mainland products being shipped out directly from mainland ports instead of through Hong Kong also trimmed our export performance”, ibid.


Journal in 1995), No. 24 (July 1990), pp. 93–119; and Y. Y. Kueh, “China and the prospects for economic integration within APEC”, in Chai, Kueh, and Tisdell, (eds.), China and the Asia Pacific Economy, pp. 29–47 (the latter article is reprinted as Chapter 10 in this volume).

27. A high-powered Commission on Innovation and Technology was established under the chief executive’s office in late 1997. Headed by the prominent Chinese-American scholar Tien Chang-Lin, former president of the University of California at Berkeley, the commission’s objective is to draw up a blueprint for long-term technological development in Hong Kong. A special mandate is to explore feasible ways to capitalize on the mainland’s expertise in high technology and basic research for commercial applications and international marketing.

Chapter 8 Financial Restructuring for Economic Recovery in China and the Hong Kong SAR

1. The “complete migration” as referred to also raises the question as to whether investment made by Hong Kong manufacturers in mainland China should be regarded as FDI in the usual sense, quite apart from the implications of political reunification of Hong Kong with China in 1997.

2. As a matter of fact, a renminbi devaluation would appear only to help reduce Hong Kong manufacturers’ investment costs in the mainland. Neither does there seem to be a reason to suggest that the non-devaluation, or rather, the de facto appreciation of the Chinese renminbi relative to the devalued Southeast Asian currencies, would fundamentally break the established “flying geese pattern” of regional industrial specialization at the expense of the labour-intensive Hong Kong/China joint venture exports from the mainland. This is of course not to say that Chinese exports to third-country markets are absolutely unaffected by the currency devaluations in Southeast Asia, bearing in mind that Chinese exports to the US overlap to a certain extent with those from Southeast Asia (by around 15% as estimated by Dai Xianglong, Governor of the People’s Bank of China; or by between 20% and 30% according to the estimates of the director of the Institute of Finance and Trade in the Chinese Academy of Social Science). For an elaboration of the possible implications of a devaluation or non-devaluation of the renminbi and the Hong Kong dollar for both Hong Kong and China in the broader context of the economic synergy between the Chinese duo as illustrated above, see Chapters 6 and 7.

3. These are all year-end 1997 figures. Note that the SAR’s foreign reserves stood by only 33% behind that of mainland China; and surprisingly, dollar by dollar (i.e., without adjusting for the purchasing power parities between the Hong Kong dollar and the renminbi), its GDP and total budget expenditure were, also in 1997, already separately equal to a most impressive 20% of mainland China’s (cf. Chapter 7). This underscores the economic significance of Hong Kong to the mainland as a source of FDI intake and exports.
4. These measures are all given in the government’s “five-point” and “seven-point” policy packages for rescuing the economy, released respectively on 29 May and 22 June 1998. Especially noteworthy is the ambitious housing strategy of building 85,000 units per year to mitigate the enormous housing pressures and increase home ownership to 70% in Hong Kong. The plan was initially given in the policy address by the chief executive of the HKSAR government in October 1997. It is seen by a Hong Kong-based academic as having essentially contributed to the drastic downturn of the property market, quite independent of the impact of the Asian crisis; see Lok-Sang Ho, “Hong Kong in the midst of a currency crisis”, in James C. Hsiung (ed.), *Hong Kong the Super Paradox: Life After Return to China*, New York: St. Martin Press, 1999.


7. This is part of a spectacular region-wide rally which lifted both the Bangkok SET and the Jakarta Composite Index to a thirteen-month high, and both the Singapore Straits Times Index and Manila Composite Index to a twenty-month high; see *SCMP*, 5 May 1999.

8. Interview on local TV, 4 May 1999.

9. According to the World Bank, by 1995 FDI inflows accounted for 25% of domestic investment, 13% of industrial output, 11% of tax revenues, 31% of total exports, and 16 million jobs. The export share was increased to nearly 50% in 1998. Since FDI from Hong Kong contributed around 50% of China’s total FDI intake in 1998, or two-third of total cumulative FDI stock since 1979, the SAR’s share in domestic capital formation may be roughly estimated to be 12.5% in 1998 and much more for the 1979–98 average. Exports by foreign-funded enterprises are of course almost all dominated by Hong Kong (and Taiwan) investors, and they all represent labour-intensive manufacturing. See World Bank, *China 2020: Integration with the Global Economy*, Washington, DC, 1997, p. 21 for details.

10. The author was told by a former Japanese consul general based in Hong Kong in 1995 that over half of Hong Kong’s FDI in China was so financed.

11. This view was strongly promulgated by the Harvard economist, Jeffrey Sachs, in a public lecture entitled “The East Asian financial crisis: The way forward”, delivered on 10 November 1998 immediately following the conferment of a Ph.D. degree honoris causa by Lingnan University, in Hong Kong.

12. According to a State Council analyst, the effect of a 1% increase in rebate of the VAT (set at 17%) is comparable to a 1% reduction in the export costs for general merchandise (*TKP*, 24 June 1998).


15. The “write-off” funds are generally tied in with enterprise restructuring, in the form of a merger of two or more state-owned firms. The allocation began in 1996 with RMB20 billion. It was increased to RMB30 billion in 1997, and RMB40 billion in 1998, with further increases to follow in 1999 and 2000; see Nicholas R. Lardy, China’s Unfinished Economic Revolution, Washington, D.C.: Brookings Institution Press, 1998, p. 207.


17. See Fang Hangting, “Storm in the Chinese reforms of the financial system”, in TKP, 21 March 1999, p. c7; note that the figure is even larger than China’s total exports of US$183.76 billion in 1998. The disasters have presumably been brought about by massive losses from property and stock markets speculation in Hong Kong and elsewhere amidst the Asian crisis.

18. See Lardy, China’s Unfinished Economic Revolution, p. 203.

19. See Fang, “Storm in the Chinese reforms of the financial system”.

20. For an interesting discussion on this point, see Lardy, China’s Unfinished Economic Revolution, pp. 161–5.

21. The “J-curve” suggests that at the initial stage of a currency devaluation, exports of the country concerned lag behind increases in imports, but the cumulative effect of the devaluation will, after a certain time lag, help to accelerate the increases in exports. This is also revealed by the recent experience of most Southeast Asian countries in conjunction with the Asian financial crisis; see Peng Weihong, “The J-curve in the Asian currency devaluations amidst the financial crisis”, in TKP, 29 March 1999, for a more detailed discussion.

22. Year-on-year, Chinese exports for the period January to May 1999 recorded a negative growth of 5.3%. Following consecutive monthly decline for the first four months, total exports for May 1999 reversed to a positive gain of 4.2%; but it is not at all certain whether the reversal will be sustainable (TKP, 15 June 1999).

23. Professor Lawrence Klein made the points in response to queries I raised during the discussion session at the international forum sponsored by United Nations University Institute of Advanced Studies (UNUIIAS), in collaboration with the Asian Development Bank Institute, and held in Tokyo, 12 May 1999 (the forum gave rise to the volume Financial Restructuring and Economic Perspectives in East Asia edited by Fu-chen Lo and T. Palanival and published by UNUIIAS in 2000, which includes the present chapter). Shortly after the Tokyo forum, Professor Liu Wei, vice president of the School of Economic
Management at Beijing University, told me at a seminar in Hong Kong that according to a similar Chinese estimate made by the State Statistical Bureau, the total export losses incurred with ASEAN countries in the wake of the 1994 RMB devaluation should amount to only 7%, compared with the 20% estimate made by Professor Klein.


**Chapter 9  The “China Factor” vs. the “US Dollar Peg” in the Success Story of Hong Kong**

1. The move was preceded by the establishment in 1979/1980 of the four Special Economic Zones (SEZs) in Guangdong and Fujian provinces. However, while SEZs were little different from the small export processing zones established in many other countries, the April 1984 opening of fourteen major coastal cities represented the most significant initial step in the opening of the entire country for foreign investment and trade. It was followed, only four years later in early 1988, by the even more spectacular opening of eleven coastal provinces, comprising a total of 288 “opened” municipalities and counties (xiàn); and subsequently by the even more strategic decision, made by Deng Xiaoping himself after his celebrated “South China tour” in early 1992, to open up China further not only in geographic terms but institutionally as well. For a detailed study of this opening process, see Y. Y. Kueh, “Foreign investment and economic change in China”, in *The China Quarterly (CQ)*, No. 131 (September 1992), pp. 637–90.

2. On 23 and 24 September 1983, the value of the Hong Kong dollar plummeted by some 15% to as low as HK$9.5 per US dollar amidst massive selling. It had been around HK$5.6 to the US dollar.

3. “Cash arbitrage” occurs when a financial institution takes advantage of the widening differential between the free market exchange rate and the official parity. For example, when the market rate against the US dollar is under devaluation pressure, commercial banks will obtain US dollars from the Hong Kong Monetary Authority (through the note-issuing banks) and sell them on the foreign exchange market. This process will continue until the differential narrows to cover the cost of arbitrage only. It helps to contain the market exchange rate within a narrow range around the linked level. “Interest rate arbitrage” takes place when interest rate differentials cause capital to move to a country where there is a higher interest rate. If Hong Kong dollars come under devaluation pressure caused, for example, by capital outflows or a current account deficit, the interbank market strains and interest rates rise relative to the US dollar interest rate. This will in turn attract capital inflows, and offset the initial devaluation pressure.

4. A decree made by the Hong Kong Monetary Authority specified that all mortgage loans were to be capped at 70% of the assessed value of the property.
Other measures adopted by the government to cool down the market included increasing the supply of land and housing, tightening the control over the resale of uncompleted flats, and prohibiting the resale of uncompleted flats before assignment.


6. This figure was frequently quoted in the Hong Kong press. By 1995, total employment by foreign-invested enterprises (FIEs) in China was reported by the World Bank to be around 16 million; see World Bank, China 2020: Integration with the World Economy (Washington DC, 1997), p. 21. As Hong Kong investors account for about two-thirds of the cumulative FDI stock in China, and the overwhelming proportion (roughly 80%) of this is based in Guangdong (see Kueh and Ash, “The fifth dragon”, p. 178), the figure of five million seems actually to have grossly understated the SAR’s contribution to employment in the province. Moreover, most FIEs of Hong Kong origin are generally more labour-intensive than those from elsewhere.


8. See Hiroyuki Imai, “Structural transformation and economic growth in Hong Kong: another look at Young’s Hong Kong thesis”, Journal of Comparative Economics, Vol. 29, No. 2 (June 2001), pp. 366–82, for the figures and for a discussion of the productivity implications arising from the structural changes in Hong Kong since the early 1980s.


10. A first attempt in this direction was made in Y. Y. Kueh and Thomas J. Voon, “The role of Hong Kong in Sino-American economic relations”, in Y. Y. Kueh (ed.), The Political Economy of Sino-American Relations: A Greater China Perspective, Hong Kong: University of Hong Kong Press, 1997, pp. 61–92 (reprinted as Chapter 5 in this volume). Based on a small sample of joint ventures in Guangdong Province, the export share between the Hong Kong and Chinese partners was estimated to be 71.8% to 27.2% relative to their input contributions (comprising capital, rent, labour, raw materials, fuel charges and distribution costs); pp. 82 and 91. For an update, see Thomas Voon and Y. Y. Kueh, “Country of origin, China’s value-added exports and Sino-US trade balance reconciliation”, Journal of World Trade (Geneva), Vol. 34, No. 5 (October 2000), pp. 123–36.

11. The major branches included in the OP import and export statistics are: textile material, yarn, fabrics and articles other than textile garments; articles of apparel and clothing accessories (textile garments); plastics and articles; machinery and mechanical appliances; electrical equipment; sound recorders and reproducers, television image; clocks and watches; toys, games and sports requisites, and parts and accessories; base metals and metal products; and other (excluding commodities and transactions not classified according to kind).
Taken together, the processing margin as defined falls within the range of 50–60% in recent years. The OP re-export margin ranges in turn between 18% and 24%. If anything, these figures probably all underestimate the true margin of value added. For a discussion on this point, see Y. Y. Kueh, “The Greater China growth triangle in the Asian financial crisis”, in Shahid Jusuf, Simon Evenett and Weiping Wu (eds.), Facets of Globalization: International and Local Dimensions of Development, Washington DC: The World Bank, 2001, pp. 57–77 (reprinted as Chapter 7 in this volume).

12. If anything, the estimated expansion in export capacity should err on the low side, simply because due to physical constraints in Hong Kong (land scarcity, in particular), domestic exports should not be able to grow as fast as the trend line in Figure 9.4 projects.


14. By year-end 1997, the reserves stood at US$92.8 billion, equal to two-thirds of China’s US$139.9 billion and 40% of Japan’s US$220.8 billion. Note that until then, Hong Kong had neither a budget deficit nor any significant amount of external debt.

15. The case of Taiwan may not be exactly comparable. The island lags far behind Hong Kong in financial liberalization, although it is not as restrictive as the Chinese mainland in terms of capital account control. This made it less vulnerable to speculative currency attacks by international hedge funds. Nevertheless, after an abortive defence in late 1997, the NT dollar was floated and eventually settled at NT$34.5 to the US dollar in January 1988, down by only 19%, compared with the precipitous fall of the Thai baht by 55%, the Indonesian rupiah by 70%, the Malaysian ringgit by 42% and the South Korean won by 50%. For elaboration on this point, see Kueh, “The Greater China growth triangle”. In the more comparable case of Singapore which has a currency board system similar to that in Hong Kong, the Singapore dollar was devalued by only around 17% at the peak of the speculative assaults in January 1998.


17. As Joseph Yam, the chief executive of the Hong Kong Monetary Authority put it at a meeting of the Manila Framework Group of APEC held in Hong Kong on 20 March 2000, in the wake of a “renewed flood of capital into Asia’s economies there was a danger the pain of the crisis that began in mid-1997 had been forgotten”. According to Yam, net private capital flow into Asia’s
emerging markets increased nearly six-fold from 1998 to US$39 billion in 1999, and the inflow was forecast to increase by more than 50% to US$59 billion in 2000. He called for “more progress to be made in coping with the potentially destabilizing impact on markets of what were formerly known as hedge funds”; see SCMP (Business Post Section), 21 March 2000, p. 1.


19. The reduced FDI flow to China was partly a matter of increased removal by Hong Kong investors, and Taiwanese as well, of their registered company sites to the British Virgin Islands in the Caribbean Sea and Samoa in the remote South Pacific. The “re-registering” accelerated in the wake of Hong Kong’s reversion to Chinese sovereignty in 1997. For more details see Kueh, “The Greater China growth triangle in the Asian financial crisis”.

20. This is not unrelated to the peculiar circumstances prevalent in China since 1996 of declining interest rates, negative deflation, and inadequate consumption and investment expenditure. Note especially that the Chinese government already had to resort to prime-jumping deficit spending to prop up aggregate demand before the impact of the Asian financial crisis (by way of reduced export demand) was felt. See ibid.


23. This is a very general statement. In fact, the two categories of exports involve different product ranges, different market destinations and different end-users.

24. These figures cover only the first ten months of 1998 (see TKP, 6 December 1998). The 47% share includes, of course, exports to Hong Kong as well. The same source also quotes the president of the Hong Kong Exporters Association as saying that at least for Hong Kong toys manufacturers based in the mainland who export directly through the Chinese ports (rather than Hong Kong), total exports for the first three quarters of 1998 recorded a 6% growth. Direct export to a third country implies less employment and income generation in Hong Kong, though the losses may nevertheless also be compensated for by increased factor income through profit repatriation to Hong Kong.

25. The “flying geese model”, as coined by the Japanese economist, Kaname Akamatsu in the 1930s, refers to the continuous process of transferring relatively developed and internationally competitive manufacturing industries from industrialized countries (such as Japan) to the newly industrializing economies (such as Hong Kong, Singapore, Taiwan and South Korea), which will in turn delegate theirs to the less developed countries (China, Indonesia, etc.), as each economic entity is attempting to scale the ladder of industrialization in an ascending order similar to the flying geese line-up. The process is largely driven by the attempt to improve competitive edge, and to offset currency appreciation, labour shortages and rising wage costs.
26. The single most important source of the remarkable decline in Hong Kong’s exports in 1998 was when Japan, South Korea and Southeast Asian countries all saw their import capabilities seriously curtailed as a result of massive currency devaluations in 1997/1998. By contrast, Hong Kong’s most significant export markets, the US and Western Europe, were only marginally affected, perhaps as a result of enhanced export competitiveness from the devalued Southeast Asian economies. For a more detailed study on this, see Kueh, “Weathering the Asian financial storm in Hong Kong”.


28. See note 12 of Chapter 6 for a detailed explanation.

29. According to the World Bank, by 1995, FDI inflows accounted for 25% of domestic investment, 13% of industrial output, 11% of tax revenues, 31% of total exports and 16 million jobs (n. 6). The export share was increased to nearly 50% in 1998. Since FDI from Hong Kong contributed around 50% of China’s total FDI intake in 1998, the SAR’s share in domestic capital formation may be roughly estimated to be 12.5% in 1998. Exports by foreign-funded enterprises are of course almost all dominated by Hong Kong and Taiwanese investors, and they all represent labour-intensive manufacturing.

30. Personal communication from a major Taiwanese investor in the food processing industry on the mainland.

31. This was aired by Liberal Party Chairman and Legislator James Tien Pei-chun. He insisted that “the policy adopted in 1983 was the major obstacle to economic recovery” and said “the Hong Kong dollar would depreciate by no more than 20% if the peg was scrapped”; see SCMP, 5 September 2001.

32. See Joseph Yam, “Building stability in unstable times” (talk given at the Hong Kong Institute of Bankers), 24 October 2001 (http://www.info.gov.hk/hkma/eng/speeches/speeches/josephl20011024e_index.htm). Defending the peg, Yam also argues that “Hong Kong’s currency was delivering competitive gains, . . . [in that] the REER [real effective exchange rate] for the Hong Kong dollar has depreciated by around 13% since the crisis period in 1998, . . . while the Reers for Asian currencies have appreciated by various degrees” (ibid.). This is of course a matter of judgment as to what extent the competitive gap between the currencies of Hong Kong and other Asian countries has narrowed, given that at the peak of the Asian crisis, most Southeast Asian currencies depreciated by 40–60%.

Chapter 10  China and the Prospects for Economic Integration within APEC

1. As reported in ZGTJNJ 1995, p. 21, China’s GNP/GDP grew at an annual average rate of 9.8% and population 1.4% from 1980 to 1994.


Notes to pages 248–258
in Brian Hook (ed.), *Guangdong: China’s Promised Land*, Hong Kong: Oxford University Press, 1996, p. 151 (reprinted as Chapter 4 in this volume).


4. An alternative estimate was made by Nicholas Lardy, *Foreign Trade and Economic Reform in China, 1978–1990*, Cambridge: Cambridge University Press, 1992, pp. 150–5, for the trade ratio for 1988. Lardy made use of the comparative indices of growth of GNP and trade (in real terms) for 1978 to 1988 (which are made available in official sources), and related the growing discrepancy to two different Western PPP-based estimates of China’s GNP for 1980, respectively by Herbert Block, and Robert Summers and Alan Heston. The first estimate gives a trade/GNP ratio of 5.8% (in 1978) and 9.4% by (1988), while the second generated corresponding figures of 2.1% (1978) and 3.4% (1988). Lardy regards the higher estimate as more acceptable. However, it seems quite curious, in our view, that China’s trade ratio could already stand at as high as 5.4% in 1978, after decades of self-imposed trade autarky.

5. China and Indonesia re-established normal diplomatic relations in 1990 after a long break and the normalization was then expected to give a great boost to bilateral trade.


7. As shown in Table 10.2, IMF statistics give a separate entry for Taiwan’s trade with mainland China, as part of the catch-all category of “Asia not specified” in the original IMF compilation. It is not known, however, how the statistics are exactly obtained. Perhaps they are derived from the given statistics on Taiwan’s trade with Hong Kong as shown in Figure 10.1. This would imply the possibility of double counting in Table 10.2. However, it seems nonetheless inappropriate to assume that IMF should engage in such double counting.

8. For a detailed study and interpretation of the significance of the role played by Hong Kong in Sino-American economic relations, see Kueh and Voon, “The role of Hong Kong in Sino-American economic relations”. Consult also Y. P. Ho and Y. Y. Kueh, “Whither Hong Kong in an open-door, reforming Chinese economy”, in *The Pacific Review*, Vol. 6, No. 4 (December 1993) for the increasing magnitude of Hong Kong’s re-export business in general (the article is reprinted as Chapter 3 in this volume).

9. For a more comprehensive study of FDI in China and the importance of Hong Kong and Taiwan as FDI supplier in Guangdong Province and in China as a whole, see Y. Y. Kueh, “Foreign investment and economic change in China”, in *The China Quarterly (CQ)*, No. 131 (September 1992), pp. 637–90; and Kueh and Ash, “The fifth dragon: Economic development”.
10. See Ash and Kueh, “Economic integration within Greater China: Trade and investment flows between Hong Kong, Mainland China and Taiwan”, in CQ, No. 136 (December 1993) (reprinted as Chapter 2 in this volume); and especially K. C. Lei, “China-Taiwan trade and investment relations and their impact on Taiwan’s income distribution”, in Kueh, The Political Economy of Sino-American Relations: A Greater China Perspective, for a more systematic input-output analysis of the impact on the Taiwanese economy of increased FDI outflows to the Chinese mainland.

11. For an elaboration on this point, see Y. Y. Kueh “Growth imperatives, economic recentralization, and China’s open-door policy”, in Australian Journal of Chinese Affairs (renamed China Journal), No. 24 (July 1990), pp. 93–119.

12. See Kueh and Voon, “The role of Hong Kong in Sino-American economic relations” for details.


14. Elspeth Thomson, “Japanese FDI, exports and technology transfer to China”, in Chai, Kueh and Tisdell, China and the Asia Pacific Economy, reveals that Japanese exports to China are barely related to their FDI in China.

15. For an illustration of the comparative tariff and non-tariff trade barriers existing among APEC countries, see the recent comprehensive survey made by Pacific Economic Cooperation Council (PECC), Milestones in APEC Liberalization: A Map of Market Opening Measures by APEC Economies (a report by PECC and APEC), Singapore, 1995.


Chapter 11 China’s New Industries and Regional Economic Realignment in the Asia Pacific


2. A reclassification of the enterprises seems to have taken place in 1998, with a great number of enterprises being excluded from the new definition for some reason. However, as the reclassification applies to both high-tech and non-high-tech enterprises, albeit perhaps somewhat differently, this should not affect our comparative analysis to any great extent.


4. By 2002, every urban household in China had 1.26 coloured TV on average. In the rural areas, the rate was 0.45 per 100 households; see CSYB 2003, p. 342.
8. Mr Tree also informed the author that Bird (or Bodao in Chinese, which is tied up with Siemens of Germany and Seagam of France), TCL, and Amoi taken together, now account for about 50% of total sales of mobile phones in China. According to *Shanghai Daily*, 8–9, and 10 May 2004, Bird clamshell phones are well received in both Europe and the United States. The Ningbo-based Bird Mobile Communications Co. Ltd. has lately signed a cooperation agreement with AT&T, the largest telecom operator in the US. In 2004, Bird Mobile expects to export two million mobile phones, over four times more than the previous year, and most will be clamshell.
10. This is a joint venture with the globally known Taiwan-based Worldwide Semiconductor Manufacturing Corporation (WSMC). SMIC, now the largest semiconductor manufacturer in China was floated in both the Hong Kong Stock Exchange and New York Stock Exchange in March 2004. It is billed as China’s answer to Taiwan’s WSMC and United Microelectronics Corporation.
11. The coverage of the two statistical series in Tables 11.9 and 11.10 differs to a certain extent. The two series are therefore not exactly comparable.
17. For an earlier estimation of the possible size of overcapacity in the Chinese automobile industry, in relation to estimated income and purchasing power in China, see P. Ryan, “China car market goes into overdrive: Over-capacity

Chapter 12 China’s WTO Accession, ASEAN 10+1, and ECFA
1. This refers to the earlier parts of the ADRF monograph cited above.
2. CCTV-4 reported on 12 November 2002 that for the first three quarters of 2002, FDI pledged in China amounted to US$68.38 billion, up by 34% year-on-year, and FDI realized surpassed the benchmark of US$50 billion for the first time.
3. In 1999, Toyota signed an agreement with the Tianjin Automotive Industry Group to produce 100 to 150 thousand small sedans annually, starting in 2001 (see *CAIYB 2000*, p. 176). On 29 August 2002, Toyota further agreed with the top Chinese car manufacturer, First Automotive Work (FAW), to build 300,000 to 400,000 cars by 2010 (*SCMP*, 30 August 2002). Prior to this, Toyota’s involvement in China was just to provide licence to Tianjin Automotive Corporation for producing the Daihatsu-designed Charade, a compact car marketed in China under the name Xiali, which has become the most popular model next to Volkswagen’s Santana. The Toyota-FAW move was immediately followed, on 19 September 2002, by Nissan’s agreement with Dongfeng, the second largest carmaker in China to invest US$1.28 billion to produce 900,000 vehicles within ten years (*SCMP*, 20 September 2002).


7. Thomas Voon and Xiangdong Wei, “Export competition among China and ASEAN in the US market: Application of market share models”, in Joseph C. H. Chai, Y. Y. Kueh and Clement A. Tisdell, China and Asia Pacific Economy, Commack, New York: Nova Science Publishers, Inc., 1997. Epilogue: as a more recent report “China links up with ASEAN to boost trade” published in the Bangkok Post–Business (8 March 2010) put it, electrical machinery represents the top export product category (comprising nuclear reactors, boilers, machinery and mechanical appliances) for both ASEAN and China, making up respectively 23.4% and 23.9% (in 2008) of their total exports. “Therefore, the trade relationship between China and ASEAN is mostly competitive, not complementary.” And in fact, “one month before the launching of CAFTA (ASEAN 10+1), Indonesia’s fourteen industrial associations expressed concern over the zero tariff, which may damage Indonesia’s own industries, in the hopes of delaying the agreement” (ibid.).

8. TKP, 16 November 2002.


11. The drastic decline in the Triad’s share in 2009 in China’s global trade total reflects clearly the impact of the 2008/2009 global financial crisis originating from the United States and affecting much more strongly its advanced Western counterparts rather than Asian countries, ASEAN included. Both China’s exports to and imports from the Triad were markedly curtailed: exports were curtailed due to drastically reduced import demand from the Triad, and imports also, in favour of the Chinese government’s massive “pump-priming” for forestalling accelerating unemployment resulting from reduced exports. Of course, the decline in the Triad’s share in 2009 may also be a matter of long-term market diversification of Chinese exports and imports away from the Triad since WTO accession. The diversification seems indeed to have spread across the continents, hence the very marginal increases in ASEAN’s share as shown in Table 12.2 and explained in the text.

12. This is obviously an attempt to woo the mainly agriculture-based Southern Taiwanese who traditionally advocate strongly for “political independence” of the island from the Beijing authority.

13. See Xinbao, 3 July 2010.

15. This is an estimate verbally given by Professor Lin Chien-fu of National Taiwan University at a public conference held at the Hong Kong Convention and Exhibition Centre, 1 September 2010. The figure is from the notes I took, subject to further verification.

16. SCMP, 7 July 2010.

17. In terms of PPP (purchasing power parity) estimates, respectively US$34,743 and US$5,401 (IMF figures), the gap is even wider—Taiwan by a multiple of 6.43 higher compared with 5.44 for the nominal difference. Singapore is the only ASEAN country which has a per capita GDP higher than Taiwan, but it has a small population of 4.6 million only.


19. Ibid.

Chapter 13 Conclusion

1. As Secretary Hillary Clinton put it categorically, on 13 January 2010, on the eve of her trip to Australia, “I don’t think there is any doubt, if there was when this administration began, that the United States is back in Asia, but I want to underscore we are back to stay”. Mrs Clinton also made it clear that the US wanted to be “full and leading participants” in “the defining regional institutions” (which should include, in addition to APEC, the ASEAN Regional Forum on East Asian security cooperation and humanitarian actions, and at a leadership level, possibly at the East Asia Summit (see The Australian (Daily), 14 January 2010). While in Hanoi attending the ASEAN Regional Forum on 23 July 2010, Clinton strongly advocated for “the South China Sea question” to be posed as “pivotal to regional stability”, and called for “multilateral talks” (meaning to involve the US), where hitherto the Paracel and Spratly Islands have always been a bilateral question between China and the countries concerned.

2. The relatively pro-Asia and pro-China Democratic Party of Japan (DPJ) was the first ever party elected to replace the long-governing, highly pro-America Liberal Democratic Party in 2009. Under DPJ, relations with China warmed, and Mr Yukio Hatayama, the party’s first ever member to be elected Prime Minister, professed his desire “to deepen economic integration with the East Asia region, pushing for a free trade zone in Asia by 2020”, as highlighted in Wikipedia. Further, while the Australian Prime Minister, Mr Kevin Rudd, advocated “an overarching East Asia community that has to include the US” on his meeting with Secretary Clinton in January 2010, Hatayama proposed “an economic community excluding the Americans” (The Australian, ibid.).
3. See Donald Emmerson, “China’s ‘frown diplomacy’ in Southeast Asia”, in *East Asia Forum* (Australian National University), 8 October 2010. Emmerson is director of the Southeast Asia Forum at Stanford University.


5. Thus far, currency swap agreements have been signed with Indonesia, Argentina, Malaysia, Hong Kong, South Korea, Belarus, Brazil, Singapore, and lately (in October 2010) with Thailand as well. As of the first quarter of 2011, only 7% of China’s external trade was settled in renminbi, mostly through banks based in Hong Kong, and according to the Hong Kong Monetary Authority, overwhelmingly involving mainland Chinese buyers paying for imports in yuan (*SCMP*, 9 July 2011).

6. Some Washington officials categorically rejected Zhou’s idea (put forth in March 2009) as “impractical”. Perhaps as a token of US courtesy (the largest stakeholder in the IMF), in November 2010, the IMF agreed to realign its quota shares (voting rights) in favour of a marginal increase for China (from 2.77% to 4.42%), elevating the country’s status to the third largest member country (next to the US and Japan) effective 2012. However, together with other BRIC countries, the D&TC (developing and transition countries) will only be given a combined total of 47% of the votes. The US alone retains 17% of the votes.

7. *SCMP*, 17 August 2011, p. B3. As of 30 June 2011, China, being the largest creditor of the US, had parked in total two-thirds of the country’s stockpile of foreign currencies in US-dollar denominated assets (see also *China Daily*, 4 August 2011).

8. China’s concern over the security of her foreign exchange reserves has lately increased greatly with the historical downgrading on 5 August 2011 of the long-term sovereign credit rating of the US by Standard and Poor’s. The downgrading followed the approval by the US Congress on 2 August 2011 of the bipartisan bill to raise the government’s debt ceiling by US$2.4 trillion to US$16.7 trillion and to cut the fiscal budget deficit by US$2.1 trillion (*China Daily*, 4 and 7 August 2011; see also *New York Times*, 6 August 2011, for what it regards as the “harshest” comments from official Chinese media made just hours after the S&P’s downgrading).

9. It is widely reported, e.g., that China’s “aircraft carrier killer” DF-21D anti-ship ballistic missiles already have “initial operational capability”.


11. The term “soft power” is coined by Harvard professor Joseph Nye Jr. in his 2004 book, *Soft Power: The Means to Success in World Politics*. It is reminiscent of the Chinese political philosophy of *wuweierzhi* (literally, “ruling by doing nothing”) by Laozi (the ancient Chinese philosopher). However, the practical approach for achieving political goals by “co-option and attraction” as advocated by Professor Nye seems still not rid of the conventional American
or Western traces of realist-materialism. How should “attraction” (by material incentives, e.g.) exactly be distinguished from “financial coercion”? Would the latter approach be enforced, should the former fail? What would happen should the US fail to “attract” by virtue of her propagated values of “democracy” and “freedom”? By contrast, Laozi’s “not doing anything” implies not anarchism, but positive “role-modelling in peaceful pursuit of enduring convergence, integration and harmony”. This clearly stands in sharp contrast to the American aspiration for hegemonic dominance, check and balance (often targeted at an imaginary enemy), and reprisal and retaliation to end up in spiralling armament competition. Secretary Clinton’s provocative speech in Hanoi on 23 July 2010 (supra note 1), followed by the US-Vietnamese naval rehearsal in the South China Sea in August 2010, and again in summer 2011, is a clear case in point.

12. After the manuscript was completed in September 2011, geopolitics that was remarkably aggressive on the part of the United States vis-à-vis China erupted once again in conjunction with the 2011 APEC summit and East Asia Summit held in November, respectively in Honolulu and Bali, Indonesia just a week apart; hence this postscript to capture the latest development, as it may bear on the regional and global affairs.

13. The official US argument for involvement is based essentially on the reason of “navigational security” as it may bear on US interests. The established Chinese stance towards the matter, however, is that any controversial territorial claims on the disputed South China Sea islets should be resolved exclusively between the parties concerned. Curiously, while progress has recently been made on the bilateral negotiations between China and Vietnam in this respect, the Philippines as a non-involved party feverishly raised objection to the settlement, backing up the consistent US position for multilateral negotiation.

14. Various media reports including SCMP, China Daily, and Xinbao, November 2011, various days from the countdown to the APEC summit on 13–14 November through to the East Asia Summit a week later and in early December.

15. See China Daily (Hong Kong edition), 14 November 2011. Clinton said even more explicitly, “Just as the US played a central role in shaping that architecture across the Atlantic, we are now doing the same across the Pacific”, ibid.


17. One may also note that China has now been with WTO for more than a decade, but the Russian Federation, perhaps due to its being loaded with Soviet remnants, still remains outside of the orbit pending WTO approval of her membership application, which was submitted nearly two decades ago.

18. See list of acronyms and glossary for explanation. According to the US Department of State website (as of 3 December 2011), Myanmar at the Upper Mekong “accounts for no more than 2% of the total water volume in the Mekong; . . . (while) the Lower Mekong region is defined as those countries who share a common dependence on the Mekong River”. 
19. It seems premature to examine media comments on the possible regional implications of the latest US approach to Myanmar, but some have already noted that just a few days ahead of Clinton’s visit to Myanmar, China’s Vice President Xi Jinping hosted in Beijing an official visit by Myanmar’s National Defence Minister for enhancing military exchange and cooperation between the two countries. In a press commentary, Professor Li Xiguang from the prominent Tsinghua University in Beijing referred to “increased uncertainty involved in the prospect for China to develop the ‘new silk road’ through Myanmar to the Indian Ocean, as a result of increased influence of the United States in the region”; see Xinbao, 2 December 2011. In fact, the US-led LMK Initiative of 2009 is seen by many as a tacit challenge to the Greater Mekong Subregion (GMS) cooperation programme established in 1992 by China and the five Mekong countries (Cambodia, Laos, Myanmar, Thailand and Vietnam) under the auspices of the Asian Development Bank. Interestingly, hardly three weeks after Clinton’s visit to Myanmar, the fourth GMS summit was held in Naypyidaw, capital of Myanmar, on 20 December 2011, and ended with a declaration for launching the new (second) 10-year Strategic Framework for economic cooperation and development in the areas; See China Daily, 21 and 22 December 2011.

20. Massive protests by farmers erupted in Seoul when the Korean National Assembly convened on 22 November 2011 to ratify the latest round of FTA agreement signed with the US (on 10 February). Japan is still hesitating, as among other things, TPP for many, especially for representatives from the agriculture sector, would spell a “total collapse” of the country. The removal of the highly protective import tariff of 778% would result in overwhelming import influx from the US. See Xinbao, 15 November 2011 for a concise and good commentary by Ma Ting, a lecturer in political economy at Waseda University, Tokyo.

21. Consult the USTR Office website (accessed 4 December 2011) for a highlight of the economic importance of TPP to the US: “As a group, TPP countries are the fourth largest goods and services export market of the United States. US goods exports to the broader Asia Pacific totaled $775 billion in 2010, a 25.5% increase over 2009 and equal to 61% of total US goods exports to the world. US exports of agricultural products to the region totaled $83 billion in 2010 and accounted for 72% of total US agricultural exports to the world. US private services exports totaled $177 billion in 2009 (latest data available), 37% of total US private services exports to the world. America’s small-and medium-sized enterprises alone exported $171 billion to the Asia Pacific in 2009 (latest data available).”

22. Note supra 20, for Ma Ting’s summary of major Japanese political stances on TPP.

23. Note supra 3.
For names of Mainland Chinese origin (romanized according to the pinyin system) entries comprise surname followed by the first and middle name(s), without a comma after the surname (for example, Deng Xiaoping and Jiang Zemin). In entries for other Chinese names (Hong Kong, Taiwan and overseas Chinese, spelled according to the Wade-Giles or another system) the surname is followed by a comma (for example, Chai, Joseph C. H. and Lo, Fu-chen). Exceptions to the latter rule are certain non-Mainland Chinese celebrities, such as Lee Kuan Yew and Tung Chee Hwa.

Names mentioned in endnotes are not indexed separately if they appear in that part of the main text, to which the note number refers. Index entries to names that occur in endnotes comprise the page number followed by the letter ‘n’ and the note number, viz: 401n16.

Although not a normal practice, in the absence of a bibliography, the names of sources cited in footnotes and endnotes have also been indexed. To avoid long strings of page references, only the page and, where relevant, the note number, relating to the first citation of the source are included in the index entry.

Akamatsu, Kaname, “flying geese model” phrase coined by, 405n25
Albright, Madeleine (Secretary of State, United States), 170
Ash, Robert F.
article by, 388n8
articles co-authored by, 15, 77
book co-edited by, 377n1

Bai Hejin, 175
Balassa, Professor Bela, 48
Bergsten, C. Fred
acronym attributed to, xiv
working paper by, 411n14
Blair, Tony (Prime Minister, United Kingdom), 150–1
Block, Herbert, 407n4
Borromeo, Miguel Roberto, book co-edited by, 277
Brosseau, Maurice, book co-edited by, 386n9
Brzezinski, Zbigniew, acronym attributed to, xiv
Camdessus, Michel (Managing Director, IMF), 171
Cassel, Dieter
book co-edited by, 387n26
book edited by, 392n8
Chai, Joseph C. H., 384n70
  article by, 394n17
  book co-authored by, 409n15
  book co-edited by, 396n4
Chan, Anson (Chief Secretary of Administration, HKSAR), 150
Chen, Edward K. Y., conference paper co-authored by, 400n5
Chen, Yi-chi, article by, 201
Cheng, Yu-shek, Joseph, book co-edited by, 386n9
Choi, Kwang, conference paper co-authored by, 390n39
Chowdhury, Anis, book co-authored by, 389n16
Clinton, Hillary (Secretary of State, United States), 373
  Lower Mekong Initiative initiated by, xv
  remarks by, on Asian tour, 368–9, 372
Conable Jr., Barber B., policy paper co-authored by, 387n22
Dai Xianglong (Governor, People’s Bank of China), 151, 399n2, 401n16
  defends renminbi, 156, 171–2, 174–5, 191
  establishment of regional branches of People’s Bank of China, 220
  on falling yen, 173
  on non-performing loans, 219
Day, Alan J., book edited by, 381n39
Deng Xiaoping
  dictum on technology exchange, 3, 337
  motto inked by, xvi, 4
  “southern tour” of China, 93, 235, 387n1
Druckenmiller, Stanley, 174
Dulles, John Foster (Secretary of State, United States), 373
Emmerson, Donald, article by, 413n3
Evenett, Simon, book co-edited by, 177
Fan Gang, book co-authored by, 409n15
  Fang Hangting, article by, 401n17
Galenson, Walter, book edited by, 391n44
Gao Shangquan, conference paper presented by, 386n8
Garcia, Marissa, book co-edited by, 277
Garnaut, Ross
  book by, 380n29
  conference paper presented by, 411n14
Gill, Bates, article by, 414n16
Greenspan, Alan (Chairman, Federal Reserve Bank, United States), 163
Guo, Yi Yao, see Kueh, Y. Y.
Hatayama, Yukio (Prime Minister, Japan), 412n2
Hermann-Pillath, Carsten, book co-edited by, 387n26
Heston, Alan, 407n4
Hirano, Masahiro, article by, 386n15
Ho, Lok-sang, article by, 400n4
Ho, Yin-ping
  article by, 386n9
  article co-authored by, 47
  book by, 385n74
Hook, Brian, book edited by, 77
Howe, Christopher B.
  article co-authored by, 393n12
  book co-edited by, 377n1
Hsiung, James C., book edited by, 147
Hsu, Chia-xian, conference paper co-authored by, 383n62
Huang, Chin-shu, conference paper co-authored by, 385n75
Huang Fanzhang, article by, 409n9
Huang Yonghe, article co-authored by, 335
Hurd, Douglas (Secretary of State for Foreign and Commonwealth Affairs, United Kingdom), White Paper by, 387n24
<table>
<thead>
<tr>
<th>Name</th>
<th>Role/Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imai, Hiroyuki</td>
<td>article by, 403n8</td>
</tr>
<tr>
<td>Intal Jr., Ponciano</td>
<td>book co-edited by, 277</td>
</tr>
<tr>
<td>Islam, Iyanatul</td>
<td>book co-authored by, 389n16</td>
</tr>
<tr>
<td>Jao, Y. C.</td>
<td>articles by, 395n6, 396n4</td>
</tr>
<tr>
<td>Jiang Zemin (President, People’s Republic of China)</td>
<td>offers to reduce tariffs, 273 supports renminbi, 171–3, 175</td>
</tr>
<tr>
<td>Jin Pei</td>
<td>article by, 409n12</td>
</tr>
<tr>
<td>Jusuf, Shahid</td>
<td>book co-edited by, 177</td>
</tr>
<tr>
<td>Kamm, John</td>
<td>article by, 389n23</td>
</tr>
<tr>
<td>Kao, Charles H. C.</td>
<td>book co-authored by, 36</td>
</tr>
<tr>
<td>Kao, Charng</td>
<td>conference paper presented by, 380n19, 383n60</td>
</tr>
<tr>
<td>Kim, Kihwan</td>
<td>conference paper co-authored by, 390n39</td>
</tr>
<tr>
<td>King, Pei</td>
<td>conference paper co-authored by, 383n62</td>
</tr>
<tr>
<td>Kissinger, Henry</td>
<td>(Secretary of State, United States), 1</td>
</tr>
<tr>
<td>Klein, Professor Lawrence (Nobel Laureate)</td>
<td>224, 401n23</td>
</tr>
<tr>
<td>Krugman, Professor Paul (Nobel Laureate)</td>
<td>370</td>
</tr>
<tr>
<td>Kueh, Hsiaohu</td>
<td>xi</td>
</tr>
<tr>
<td>Kueh, Y. Y. (Kueh, Yak-yeow)</td>
<td>articles by, 147, 177, 209, 377n4, 383n56, 384n68, 392n8, 398n26, 408n1, 409n13, 410n21 articles co-authored by, 15, 47, 77, 403n10 book co-authored by, 409n15 book edited by, 109 books co-edited by, 377n1, 396n4 conference papers presented by, 387n26, 397n14 interview with, 394n18</td>
</tr>
<tr>
<td>Kuznets, Simon (Nobel Laureate)</td>
<td>article by, 391n44</td>
</tr>
<tr>
<td>Kwan, Chi-hung</td>
<td>paper by, 405n18</td>
</tr>
<tr>
<td>Lampton, David M.</td>
<td>policy paper co-authored by, 387n22</td>
</tr>
<tr>
<td>Lardy, Nicholas R.</td>
<td>article by, 95</td>
</tr>
<tr>
<td></td>
<td>books by, 386n9, 401n15</td>
</tr>
<tr>
<td></td>
<td>monograph by, 394n16</td>
</tr>
<tr>
<td>Lee, Dr Steven S. L.</td>
<td>292, 331, 348–9 interview with, 293–4</td>
</tr>
<tr>
<td>Lee, Joseph S.</td>
<td>book co-authored by, 36</td>
</tr>
<tr>
<td>Lee Kuan Yew (Prime Minister, Singapore)</td>
<td>4</td>
</tr>
<tr>
<td>Lee, Martin (Chairman, Democratic Party, HKSAR)</td>
<td>150</td>
</tr>
<tr>
<td>Leissner, Bernd</td>
<td>345 interviewed, 410n25</td>
</tr>
<tr>
<td>Leung, Hiu-kwong</td>
<td>thesis by, 411n5</td>
</tr>
<tr>
<td>Leung, Edward H. K.</td>
<td>349</td>
</tr>
<tr>
<td>Levin, Burton</td>
<td>article by, 386n17</td>
</tr>
<tr>
<td>Lim, Hua-sing</td>
<td>book co-edited by, 409n13</td>
</tr>
<tr>
<td>Lin, Chien-fu</td>
<td>Professor, 412n15</td>
</tr>
<tr>
<td>Lin, Chu-chia Steve</td>
<td>book co-authored by, 36</td>
</tr>
<tr>
<td>Linder, Staffan Burenstam</td>
<td>book by, 377n6</td>
</tr>
<tr>
<td>Lin, Tzong-biao</td>
<td>conference paper presented by, 383n60</td>
</tr>
<tr>
<td>Lin, Yuh-jiun</td>
<td>conference paper co-authored by, 385n75</td>
</tr>
<tr>
<td>Liu Wei, Professor</td>
<td>401n23</td>
</tr>
<tr>
<td>Li Xiguang, Professor</td>
<td>415n19</td>
</tr>
<tr>
<td>Lo, Fu-chen</td>
<td>book co-edited by, 209</td>
</tr>
<tr>
<td>Luo Qi</td>
<td>article co-authored by, 393n12</td>
</tr>
<tr>
<td>Macleod, Hamish</td>
<td>speech by, 387n21</td>
</tr>
<tr>
<td>Mahathir, Mohamad</td>
<td>(Prime Minister, Malaysia), 170, 174, 256</td>
</tr>
<tr>
<td>Ma, Ting</td>
<td>415n20</td>
</tr>
<tr>
<td>Ma, Ting</td>
<td>415n20</td>
</tr>
</tbody>
</table>
Mao Zedong, 4
Metternich, Clemens von (Chancellor, Austrian Empire), 1
Mori, Minako, article by, 410n26
Nash Jr., John F. (Nobel Laureate), article by, 377n3
Ng, Raymond C. W. article co-authored by, 227
cconference paper co-authored by, 400n5
Nixon, Richard (President, United States), 1
Nobuo, Maruyama, book edited by, 381n36
Noda, Yoshihiko (Prime Minister, Japan), 375
Nyaw, Mee-kau, book co-edited by, 409n13
Nye Jr., Joseph, 372
Obama, Barack (President, United States), 372, 375
Palanivel, Thangavel, book co-edited by, 209
Palmerston, Lord (Foreign Secretary, Great Britain), 49
Patten, Chris (Governor, Hong Kong), 151
Peng Weihong, article by, 401n21
Perkin, Ian K., article by, 29
Perkins, Dwight H., article by, 86
Pillath, Carsten Hermann-, see Hermann-Pillath, Carsten
Radelet, Steven, unpublished manuscript co-authored by, 398n25
Rodrik, Dani, 203
Roubini, Professor Nouriel, 369, 371
cronym coined by, xiv
cconference paper presented by, 413n4
Rudd, Kevin (Prime Minister, Australia), 412n2
Ryan, P., article by, 409n17
Sachs, Jeffrey, 225, 395n13, 398n25, 400n11
unpublished manuscript co-authored by, 398n25
Saxena, Sweta C., article by, 398n25
Shen, Isabel Xiaoyi, xi
Shi Guangsheng (Minister of Foreign Trade & Economic Cooperation), 173, 356
Soros, George, 170, 174, 200, 213
book by, 398n22
Summers, Lawrence H article by, 385n7
on growth differential of China and US, 51
Summers, Robert, 407n4
Sung, Yun-wing article by, 392n10
book by, 378n4
occasional paper by, 387n20
Tang, Kwong-yiu (K. Y. Tang), conference paper presented by, 384n66
Thomson, Elspeth, article by, 408n14
Tien, Chang-lin, 399n27
Tien, Pei-chun, James (Chairman, Liberal Party, HKSAR), 406n31
Tisdell, Clement, book co-edited by, 396n4
Tree, Yenho, 288, 290, 349
Tsang, Donald (Financial Secretary, HKSAR), 150, 169, 172, 223 intervenes in Hong Kong stock market, 162–3, 213
Tung Chee Hwa (C. H. Tung) (Chief Executive, HKSAR), 150–1, 173 supports Hong Kong dollar peg, 170, 174
Victoria, Queen, 49
Vogel, Ezra F., book by, 389n23
Voon, Thomas J.
   articles co-authored by, 109, 403n10, 408n13
   surveys by, 144

Wang Rongjun, 334, 345–6, 348
   on “foreign exchange balance requirement”, 280, 339–40
   on impact of China’s accession to the WTO, 337

Wang Zude, article by, 344

Wattanapruttipaisan, Thitapha, conference paper presented by, 412n18

Wei Xiangdong, article co-authored by, 408n13

Whitehead, John C., policy paper co-authored by, 387n22

Wilhelm Jr., Alfred D., policy paper co-authored by, 387n22

Wong, Benson, 349

Wong, Kar-yiu, book edited by, 201

Wong, Shek-wah, Dr, xi

Wu Peng, 339

Wu Songquan, article co-authored by, 335

Wu Weiping, book co-edited by, 177

Xian Huaicheng (Finance Minister, PRC), 172

Xi Jinping (Vice President, PRC), 415n19

Xiong Guangkai, article by, 377n2

Yam, Joseph C. K. (Chief Executive, HKMA), 150, 174, 215
   on Hong Kong dollar peg, 253
   reaction to cross-border speculation by hedge funds, 164–5, 223, 404–5n17
   talk by, 406n32

Yao Dan, Professor, xi

Yen, Chong-ta, book co-edited by, 380n19

Zhu Rongji (Prime Minister, PRC), 222, 225
   on maintaining stability of the renminbi, 175
   opposition to devaluation of the renminbi, 151, 159, 172

Zhu Senlin, 391n42
Subject Index

Subjects mentioned in endnotes are not indexed separately if they appear in that part of the main text, to which the note number refers. Index entries to subjects that occur in endnotes comprise the page number followed by the letter ‘n’ and the note number, viz: 409n8.

AFI (All Foreign Investment), 31, 36
agriculture, contribution of, to GDP, 88
aircraft carriers, 368–70
APEC (Asia Pacific Economic Cooperation Forum) (“full APEC”), vii, 3, 351
economies, 256
Hong Kong, a separate member of, 149
territorial claims among members, 6
APEC proper, vii, 256, 351, 353
economic integration within, 256–7, 261, 268–76, 367
economies, China’s trade with, 261–8
economies, relative strengths of, 256, 257–61
ASEAN (Association of Southeast Asian Nations) (see also Southeast Asian currencies), 41
Asian financial crisis, economic recovery from, 202–3
automobile industry, 345
China’s world trade, share of, 353
(Table 12.1), 354, 357, 358 (Table 12.2)
competition from China, 11, 270, 364
electronic industries, 355, 364
export competitiveness, 224
market niches for, in Chinese economy, 207, 275, 356
policy on “agreed specialization”, 10–11
regional defence and, 10
trade with China, 355, 357–9
ASEAN-4, 345
external and internal balances of, 201
(Table 7.3)
ASEAN-5, 308, 311, 353, 359
ASEAN-10, 353
ASEAN 10+1 (China) Free Trade Area (FTA), 3, 14, 354, 367
as geopolitical initiative, 12
as redress for North-South APEC economic dichotomy, x
role of China in, 355–7
signing of, viii, 281, 353
United States’ response to, x
ASEAN 10+3, 363, 365, 367
ASEAN Regional Forum, 412n1
Asian Development Bank, 149, 415n19
Asian Financial Crisis (1997), viii
chronology, 170–5
hypothetical British response to, 150–2
impact of, on capital and trade flows, 180–93, 200
impact of, on Southeast Asia, 147, 167
response of Hong Kong and mainland China to, 147–75, 194–203, 241, 245–9
“Asia-Pacific era”, emergence of, 255
audiovisual equipment, 285, 287
Australia, 12, 256, 262, 270
“openness”, 258
TPP membership, 372
automobile industry, 9–10
Chinese, 277–80, 332–47
exports, 343, 344 (Table 11.18)
foreign carmakers, 336–7, 339–42
investment in China’s, 11–2
balance of payments (see also balance of trade), Hong Kong, 229, 230–1
(Table 9.1)
balance of trade
ASEAN and China, 357
China and major trading partners, 271–2 (Table 10.3)
China and United States, 71, 111–2, 124, 139 (Table 5.9), 270
Hong Kong, 19, 57, 138
Sino-American, conflict over deficit claims, 125, 128–9 (Table 5.3), 130, 133–5
Sino-American, statistical process for adjusting, 134–5
Taiwan, 20, 138
Bank of China, 72, 180, 222
Bank of Thailand, 170
banking and financial activities, expansion of foreign, into China, 352
banking and financial systems in China, 218–23, 225
in Hong Kong, 211
Bermuda, 184
Bird (Bodao) Mobile Communications Ltd., 290, 409n8
brand names, 288
Bretton Woods Agreement, 370
alluded to, 205, 369
BRICS (economic grouping), 365
Britain, see United Kingdom
Brunei, 372, 374
Burma, see Myanmar
Canada, 63
capital account control, 199
capital flows (see also foreign direct investment)
into Hong Kong, 214–5
within Greater China during Asian financial crisis, 180–8
car manufacturers, see automobile industry
cash arbitrage, 228, 402n3
Cayman Islands, 184
Central Bank (People’s Republic of China), 221
Central Bank of China (Taipei), 170–1, 199
Centurion Wireless Technologies, Inc., 290, 349
CEPA (Closer Economic Partnership Arrangement), viii, 3, 362, 367
Changchun (industrial centre), 334, 341
Changhong (electronics corporation), 285, 288, 296
Cheung Kong Group, 185
Chile, 372
China (see also China, economic and trade relations; China, trade; exports; Greater China; imports; most favoured nation status)
as “engine of growth”, ix, 13
as “geoeconomic” power, 367–72
automobile industry, 277–80, 332–47
banking and financial system, 218–23, 225
budget/GNP ratio of, 107 (Table 4.16)
coastal belt for foreign investment and trade, 3, 204, 269
containment of, 1
defence of HK dollar by, 211, 252
diplomatic relations with South Korea, 8, 14
diplomatic relations with United States, 2, 5, 375
economic development, 50
economic indicators of, compared with APEC economies, 249–60 (Table 10.1)
economic indicators of, compared with Guangdong, 80–1 (Table 4.2)
economic integration with Hong Kong, 69–75, 204, 209
economic recovery in, 217–23
economic, relative strengths of, 257–61
electronics and IT industry, 277–331
employment, structural changes in, 89 (Table 4.6)
foreign direct investment, policy on, 268–9
foreign investment in, 7, 31–6, 43, 51, 95 (Table 4.9), 103 (Table 4.14), 204, 217
free trade agreement with Taiwan, ix, 14, 359–62
growth differential between United States and, 51
high-tech industries, 281–4
“household registration” system, 389n17
import controls, 5
investment in Hong Kong, 30–1, 72–3, 179–80
market share in global exports, 11
modernization strategy, 4
“one country, two economies” framework, 204, 269, 274
open-door strategy, implications of, 21–2, 47
policy reorientation towards Taiwan, 207
policy response to Asian financial crisis, 194–203
production inputs for surveyed industries in Guangdong, contribution to, 144 (Table 5.11), 145 (Table 5.12)
reform and opening up (gaige kaifang), vii, 1, 3, 227, 367
role in ASEAN 10+1 FTA, 355–7
“socialist market economy” in, 3
sources of foreign exchange, 5, 109, 148–9, 204, 269, 396n3
TPP, exclusion from, 373
trade deficits, financing of, 269
trade/GNP ratio, 258, 261
“China chip”, see VIA chip
China, economic and trade relations
APEC proper, 261–8
Japan, x, 1, 8–9, 14, 125, 270, 273
South APEC, viii
Taiwan, 19–20, 43, 61
United States, x, 1, 5, 143
United States, role of Hong Kong in, 111–25
China Everbright (Hong Kong-based, China-affiliated corporation), 180
“China factor”, in economic growth, 72–4, 142, 224, 241, 255, 345, 347
US dollar peg and, 227–8, 246
China International Trust and Investment Corporation (CITIC), 179–80, 395n14
China National Automotive Industry Consultative Committee, 348
China-New Zealand Free Trade Area (FTA), 3, 367
China Resources (Hong Kong-based, China-affiliated corporation), 180
China, trade
  APEC proper, 261–8
  ASEAN, 355, 357–9
deficit claims, conflict over, 125, 128–9 (Table 5.3), 130, 133–5
disputes with United States, 70, 112–3 Europe, 264–5 (Table 10.2)
Hong Kong, 17–19, 22, 104 (Table 4.15), 115–7 (Table 5.1), 263
South Korea, 266
surplus with United States, 5, 28, 29 (Figure 2.1), 71
Taiwan, 19–20, 22, 23, 60–1, 263, 267 (Figure 10.1), 363–4
United States, 136–7 (Table 5.6), 264–5 (Table 10.2)
chips, electronic, see integrated circuits
Chung-Hua Institution for Economic Research, 383n62
CINDA (financial assets management corporation), 222
Colombia, 372
“commissioned processing”, 27
corporate sites, re-registering of, 405n19
Compaq (computer manufacturer), 296, 311
comparative advantage (see also RCA index), 319, 367
“competitive trade”, see export processing
computer and office equipment, 284, 287–8, 302, 326–7
Confucianism-cum-Buddhism, as cultural and moral clout of Pax Sinica, 372
Construction Bank of China, 222
credit crunch
  in Hong Kong, 157, 186, 197, 246
  in Southeast Asian countries, 191
Credit Suisse First Boston, Asian Investment Conference, 225
Currency Board, Hong Kong, reform of, 163–4, 168, 198–9, 213
currency board system, 228–9
currency speculators, 210
attacks on Southeast Asian currencies, 154, 162
“cyber-port”, establishment of, 168, 223
Daimler-Chrysler, 343
Democratic Party of Japan (DPJ), 412n2
Diaoyutai islands, 368
“discount window”, 214
Disney Company, 167–8, 223
“diversion effect”, in exports, 328–30
domestic consumption taxes”, Hong Kong, 385n1
domestic demand, contribution to GDP growth, 98 (Table 4.10)
domestic exports, Hong Kong, 238, 240 (Figure 9.4)
markets for, 61–3
  United States share in, 122–4
Dongfeng Motors (Dongfeng), 334–5, 343, 355
Dongguan municipality, 295–6, 312, 331
Dongnan (Fujian) Auto Industry, 343
EAEC (East Asian Economic Caucus), 256
Early Harvest Programme, 12, 360, 363
ECFA (Economic Cooperation Framework Agreement), 360–5
signed, ix, 3, 8, 359
economic integration
  China and Hong Kong, issues relating to, 69–75
  within APEC proper, 256–7, 261, 268–76
  within Greater China, 15–45, 178–80
electronics and information technology industry
ASEAN, 355, 364
development of, 277–8, 284–91, 346–7
exports, 295–312, 318–20, 326, 348
markets in United States and Japan, 312–26
regional production network, 326–31
employment, structural change in China and Guangdong, 89 (Table 4.6)
Greater China, 38–41
entrepôt trade, see re-exports
EU-5 grouping, 304, 308
Europe, China trade with, 264–5 (Table 10.2)
European Commission, 41, 394n3
European Union, exports market, 166–7, 169, 186, 188, 192, 210, 217, 304
Exchange Fund, Hong Kong, 162–3, 175, 198, 213
exchange rates (see also US dollar peg)
HK/US dollar, 239, 241, 242 (Figure 9.5)
maintenance of, 194
policy in Hong Kong and Taiwan, 205
real effective exchange rate, 406n32
RMB/USD, manipulation of, 139
stability, achievement of, 228
two-tier system in China, 79
export processing (see also outward processing), 27n, 297–9, 300 (Table 11.8)
exports (see also outward processing)
by domestic enterprises and FIEs, 192–3
China, 96–7 (Table 4.10), 158, 217, 218 (Figure 8.2)
commodity composition of, 100
contribution to GDP growth, 98 (Table 4.11)
electronic and IT products, 295–312
foreign direct investment related, 26–7 (Table 2.5), 28, 99 (Table 4.12)
Guangdong, 96–7 (Table 4.10)
Hong Kong, 200–1, 243 (Figure 9.6), 266
sustainability of markets, 200
Taiwan, 202
United States, major market for, 166–7, 169, 186, 188, 192, 210, 217, 304
vehicles and vehicle parts, 344 (Table 11.18)
Federal Reserve Bank, United States, 168, 214, 252
Finland, 308, 331
First Automotive Works (FAW), 334–5, 410n3
fixed capital formation, 95 (Table 4.9)
“flying geese pattern”, of regional industrial specialization, 156, 191, 248, 301, 330, 356, 364, 399n2
foreign direct investment (FDI) concentrated in special economic zones, 41
during Asian financial crisis, 181–8, 197, 217
impact of HK dollar devaluation on, 215–6
impact of renminbi devaluation on, 157
in China, 7, 31, 35–6, 43, 51, 95 (Table 4.9), 103 (Table 4.14), 178, 209–10, 235–7
in Guangdong, 84, 91–5
in high-tech industries, 287–8, 289 (Table 11.4), 291 (Table 11.5)
related imports and exports, 26–7 (Table 2.5), 28, 99 (Table 4.12)
role of, in automobile industry, 332, 333 (Table 11.5), 347
use of, by China, 15–6
foreign exchange “balance requirement” by China, 279–80, 339–40, 342, 362
outlay, 249
sources of, for China, 5, 109, 148–9, 204, 269, 396n3
foreign exchange market, attack on, 162
foreign exchange reserves
  China, 217, 252, 370, 398n16
  Greater China, 204
  Hong Kong, 164, 198, 211
  Taiwan, 199
foreign invested enterprises (FIEs), 186–7, 204
  imports and exports by, 192–3
“Four little dragons”, viii, 77–8, 79
  (Table 4.1), 105–6
  GDP growth rates, 83 (Table 4.3)
Foxconn, 362
France, 63, 304
free trade area agreements (FTA) (see also ASEAN 10+1 (China) Free Trade Area; CEPA; ECFA), 3
FTAAP (Free Trade Agreement of the Asia Pacific), 362–3, 367, 374
Fujian
  growth performance of, 36, 37 (Table 2.9)
  imports and exports, 26–7 (Table 2.5)
  investment in, 31, 32–4 (Table 2.7), 35
  role of, in trade integration in Greater China, 23–8
“full APEC”, see APEC
futures market, Hong Kong, 162
“G2” grouping, x, 369
G7 grouping, x, 369
G20 grouping, x, 369, 371
gai ke kaifang, see China, reform and opening up
General Agreement on Tariffs and Trade (GATT), 42, 74
General Motors, 341, 352
geopolitics, 13–4
  as background to China’s opening up, 1–3
  diplomatic relations in, 8, 14
  economic imperatives prevail over, x, 13–4
Japanese concerns regarding, 375
  perception of China, 10
  persistence of, x, 373
  regional controversies, 6, 368
  United States’ attitude towards China, 372–3
  United States’ interests in region, 13, 368–9
geopolitical expediency, “one country, two systems” as, x
Germany, 59, 63, 65, 304, 308
globalization, 203, 279
gold market, Hong Kong, 53
Greater China
capital flows within, 180–8
  economic circle, emergence of, viii
  economic cooperation within, prospects for, 203–7
  economic disparities, 44 (Table 2.11)
  economic integration, 15–45, 177–80
  growth triangle, 6–8, 72, 263
  impact of Asian financial crisis, factors in coping with, 200–3
  nexus, as geopolitical expediency, x
  trade flows, impact of Asian financial crisis on, 188–93
Greater East Asia Co-prosperity Sphere, 372
Greater Mekong Subregion (GMS) cooperation programme, 415n19
Great Wall IT International, Inc. (multi-national corporation), 296
gross domestic product (GDP)
  contributions to, 54 (Table 3.1), 98 (Table 4.11)
  fall in Hong Kong, 147, 165
  growth of, 39, 47, 82, 83 (Table 4.3), 199–200, 237
  growth rate in China, 195–7, 218
  growth rates, comparison of, 82–3 per capita, 177, 258, 363
  structure in China and Guangdong, 83 (Table 4.3), 87 (Table 4.5)
growth differential, China and United States, 51
Guangdong
as “Fifth Dragon”, viii, 77–108
budget/GNP ratio of, 107 (Table 4.16)
contributions to GDP growth, 98
(Table 4.11)
economic growth, 106, 108
economic importance of, 78–82
economic structural change in, 85–90
employment, structural changes in,
88–9
foreign direct investment in, 84, 91–5
foreign trade, growth in, 94–100
foreign trade, role of Hong Kong in,
101–2, 104 (Table 4.15)
GDP, comparison with China, 83
(Table 4.3), 87 (Table 4.5)
GDP per capita, 258
growth performance of, 36, 37 (Table 2.9)
imports and exports, 26 (Table 2.5),
28, 99 (Table 4.12)
industries surveyed in, 138 (Table 5.8), 144 (Table 5.11), 145 (Table 5.12)
investment in, 31–3, 35
productivity, 84–5, 88, 90 (Table 4.7),
91
relationship with Hong Kong, 237
role of, in trade integration in Greater China, 23–8
role of state budget in Guangdong economy, 102, 105–6
state-owned sector involved in, 91
Guangdong International Trust and Investment Corporation, 175, 222
Guangdong Investment, 180
Guangzhou, car manufacturing in, 335, 341
Guangzhou Automobile Group, 343, 355
GVAO (gross value of agricultural output), 81–2
GVIO (gross value of industrial output),
281, 285, 290, 332
G-Zero, 369
Haier (Qingdao-based multinational corporation, consumer electronics),
288, 296
Hainan “car scandal”, 392n8
Hainan Island, mid-air collision over, 368
Haixin (electronics corporation), 288
Harmonized Commodity Description and Coding System, see HS commodity
code
Hang Seng China-Affiliated Corporation Index, 181
Hang Seng Index, 165, 171–2, 174
Hawaii, Kingdom of, 8
Heckscher-Ohlin theorem, mention of,
367
hedge funds, see international hedge funds
Heritage Foundation (United States),
163, 198
highly-leveraged institutions (HLIs), see international hedge funds
high-tech industries (see also electronic and information technology industry),
281–4, 287
Hitachi (electronics corporation), 311
Honda, 335, 343, 355
Hong Kong (see also China, trade;
domestic exports; exports; gross domestic product; imports), 6
annual reports on, 394n3
as financial centre, 53, 142
Asian financial crisis, impact of and response to, 147–75, 194–203, 212–4, 241, 244 (Figure 9.7),
245–9
as role model for Taiwan, 149
bi-lateral trade between China and Taiwan, role in, 20, 60, 148, 178
changes in structure of output, 38–41
“China factor” in economic growth, 72–4, 142, 224, 227–8, 241, 246
China investment in, 30–1, 72–3, 179–80
contributions to production inputs in industries in Guangdong, 138 (Table 5.8), 144 (Table 5.11), 145 (Table 5.12)
credit crunch, 157, 197
“deindustrialization” of, 43, 47, 52
economic expansion, constraints on, 23
economic indicators, 212 (Figure 8.1), 232 (Figure 9.1)
economic instability in, 228–33
economic integration with China, 69–75, 204, 209
economic recovery, 211–6
economic synergy with China, 48–9, 109–11, 141–2
economy, changing international environment of, 49–52
economy, changing structure of, 52–6
export capacity, 239, 240 (Figure 9.4)
financial system, 211
foreign direct investment in China, 7, 32–3 (Table 2.7), 35, 103 (Table 4.14), 148, 182–3, 187, 235–7
free trade area agreement with China, viii, 3, 362, 367
growth performance of, 37 (Table 2.9)
Guangdong, relationship with, 237
high value added industries, development of, 206
inflation, 230–1 (Table 9.1), 233, 234 (Figure 9.2), 236 (Figure 9.3)
investment in China, 31, 204
loss of China’s MFN status, impact of, 69–71, 140–1
relocation of manufacturing to China, 7, 9, 28–9, 30 (Table 2.6), 37–9, 47, 51, 58, 63, 66, 110, 178, 235, 237, 268, 394n2
role in foreign trade of Guangdong, 101–2, 104 (Table 4.15)
role in Sino-American economic relations, 111–25
role in special economic zones, 100–1
services industry, 55, 179, 394n2
trade, changes in structure of, 56–8
trade relationship with Fujian, 24, 25 (Table 2.4)
trade relationship with Guangdong, 24, 25 (Table 2.4)
trade surplus with United States, 28, 29 (Figure 2.1), 71
trade with Taiwan, 263, 266, 267 (Figure 10.1)
trade with United States, 115–9 (Table 5.1)
under Chinese sovereignty, concerns for, 147–8
United States perception of, 110
workforce, structural reorientation of, 52–3, 54 (Table 3.2), 58
Hong Kong Association of Banks, 198
Hong Kong dollar (see also US dollar peg) as medium of exchange in South China, 68
convertibility, 149–50, 209
“convertibility undertaking”, 164, 198, 214
defence of, by China, 252
devaluation of, issues relating to, 205, 215–6
fluctuations in exchange rate, 153 (Figure 6.1)
impact of a renminbi devaluation on, 161
overvalued, 224
perceived link to renminbi, 155–6, 210, 249
speculative attacks on, 153–4, 161, 168, 170–1, 173, 197, 201, 213
Hong Kong Exporters Association, 201
Hong Kong Monetary Authority (HKMA), 153, 164, 211, 214, 245
defence of HK dollar, 170, 174, 197–8, 216
reform of Currency Board, 163
Hong Kong Special Administrative Region (HKSAR), see Hong Kong
Hong Kong Stock Exchange, 180–1
Hong Kong Trade Development Council (HKTDC), 349
“household registration” (hukou) system, 389n17
HS commodity code, 313
Huahong Microelectronics, 296
Hungary, 385n5
Hyundai, 335–7
IBM (multinational electronics corporation), 296, 311
imports
by domestic enterprises and FIEs, 192–3
China, 96–7 (Table 4.10)
contribution of, to GDP growth, 98 (Table 4.11)
foreign direct investment related, 26–7 (Table 2.5), 99 (Table 4.12)
Guangdong, 96–7 (Table 4.10)
Hong Kong, 63–5
outward processing, 114, 115–6 (Table 5.1)
relaxation of controls on, 5
United States, 314–7 (Table 11.12)
vehicles and vehicle parts, 344 (Table 11.18)
import substitution, 210, 235, 332, 347
Index of Economic Freedom, 398n19
Indonesia, 10, 63, 191, 202, 374
Asian financial crisis, impact of, 147, 171–3
corruption, 221
GDP per capita, 258
inequality
among sectors in Greater China, 40 (Table 2.10)
decline in, between sectors, 88, 90 (Table 4.7)
inflation, 230–1 (Table 9.1), 233, 234 (Figure 9.2), 236 (Figure 9.3)
information technology (IT), see electronics and information technology industry
Information Technology Agreement (ITA), 280
integrated circuits (IC), 11, 285, 292, 299
design and manufacture, 292–4
intercontinental ballistic missiles, 370
interest rate arbitrage, 153, 198, 228, 402n3
interest rate differentials, 153–4
interest rates, 214, 229, 245
international currency speculators, see currency speculators
international hedge funds, 162–3, 203, 213, 404n15
attack on HK dollar, 161, 168, 173, 197, 210
potential renewal of attack on HK dollar, 165, 223, 246
withdrawal of, 164, 198, 214
International Monetary Fund, 191, 203
China joins, 2
Hong Kong, separate member of, 149
investment, foreign (see also foreign direct investment), 16
impact on economic growth, 35–7
patterns in Greater China, 30–5
invisible trade, 167  
Iraq, 343  
Italy, 304  
Jackson-Vanik Amendment, 69  
Jakarta Composite Index, 400n7  
Japan (see also China, economic and trade relations), 9, 59, 63, 304, 367, 374  
as “engine of growth”, 13, 354  
electronics and IT imports, 320, 325 (Table 11.14), 326  
electronics manufacturing and export, 312, 318–20, 326–31  
fear of China, 4, 375  
geopolitical concerns of, 375  
“openness”, 258  
prospect of free trade agreement with, ix  
recession in, 173  
source of supply, 64, 186, 354  
technology transfer to China, ix, 339, 342  
trading partner, 195  
Japanese Research Institute (Asia Monthly publisher), 345–6  
Japanese yen, 195  
Jardine Matheson, 184  
Joint Mekong Basin Development, 357  
Konka (Shenzhen-based corporation, electronics), 285, 288, 296  
labour shortage, in Hong Kong, 147  
Lam Research, Inc., 349  
Land Fund, Hong Kong, 175  
Legend (electronics corporation), 288  
“Leontief paradox”, mention of, 367  
LG (multinational electronics corporation), 311  
Liberal Democratic Party (Japan), 412n2  
Liberia, 343  
loans  
non-performing, 218–9, 221–2  
syndicated, 181  
Lower Mekong Initiative, 373  
“Made in China”, 380n31  
Malaysia, 63, 202, 285, 294, 374  
Asian financial crisis, impact of, 147, 174, 191  
electronics manufacturing and exports, 312, 318–20, 326–31, 365  
GDP per capita, 258  
reservations over Bogor agenda, 274  
TPP membership, 372  
Manila Composite Index, 400n7  
Matsushita (electronics corporation), 311  
Ministry of Economic Affairs (MOEA) (Taiwan), survey, 35  
mobile phones, 290, 294, 308  
monetary integration, 205  
money supply, 228–9, 230–1 (Table 9.1)  
Mongolia, 8  
Moody’s Investors Service, 172  
most favoured nation (MFN) status, 60, 108  
importance of, 41–2, 70  
potential economic impact of loss of, 69–71, 140–1  
Motorola (electronics corporation), 311  
multinational corporations (MNCs), 210, 391n3  
Myanmar, 373  
National Financial Work Conference, 220  
National Securities Supervisory Authority, 221  
natural resources, competition for, 6  
Netherlands, 63, 304, 308  
net material product (NMP), 86 (Table 4.4), 90  
New Zealand, 256, 262, 270, 374
FTA agreement, 5
TPP membership, 372
Nissan, 339, 342, 352
Nokia (mobile phone manufacturer), 308
North America, see United States
North APEC, vii, 351, 353
industrial agglomeration within, 8–10
North Korea, 14
notes arbitrage, 152
NT dollar
appreciation of, 37
defence of, 199
devaluation of, 161, 194, 251
“open regionalism”, ix, 362, 365, 367
spillover effects of, ix
original equipment manufacturing
(OEM), 301, 362
“reversed”, 290
outward processing (sanlai yibu)
exports, 111, 113, 116–9 (Table 5.1), 135, 138 (Table 5.7), 239, 240 (Figure 9.4)
exports to United States, 133, 138 (Table 5.7)
foreign exchange outlay in, 249
re-exports, 188–90
related products, 130–2
trade, 28–9, 65–8, 110–1, 178, 210, 263
Panama, 372
Paracel Islands, 368, 412n1
Pax Americana, vii, x, 371
as baseline for assessing potential rise of Pax Sinica, 369
Pax Britanica, overshadowed by, vii
Pax Sinica, 369–72

cultural and moral clout of, 372
emergence as economic phenomenon, 371
growing visibility in space technology and ICBMs, 370
infused with Confucius cultural traits, x
interplay of geopolitics and economics in shaping, 371
popular conjecture of, vii, x
seen as replacing Pax Americana, x
Pearl River Delta, 66, 68, 110, 113, 123, 235, 295
People’s Bank of China, 175, 196, 220–1
Peru, 372
Philippines, 202, 258, 343, 374, 376
readiness to confront China, 10, 368
Philips (multinational electronics corporation), 308, 311
Plaza Accord (1985), 382n55
Poland, 385n5
PPP (purchasing power parity), estimates, 261
prices (see also property prices), impact of, 229
property prices, 233, 234 (Figure 9.2)
Pudong New Zone, 296, 334
Quantum Fund, 174
railways, 357
REER (real effective exchange rate), 406n32
re-exports
markets for Hong Kong, 58–9, 60 (Table 3.5)
outward processing, 188–90
through Hong Kong, 18, 22, 120–2, 188, 266
trade in Hong Kong, 58–61, 123, 178, 238
regional economic identities, 15
regional economic specialization, 156, 206–7
relative product per worker (RPW)
among sectors in China and Guangdong, 90 (Table 4.7)
comparison of, in Greater China, 40 (Table 2.10)
renminbi (RMB)
challenge to the greenback, 370
concessionary credits, 186, 219, 246, 252
convertibility, pledged, 251
devaluation of, 224
impact of devaluation of, 156–7, 159–61, 194–5, 224–5, 249–50
non-devaluation of, 151, 155, 159, 168, 175, 248
non-convertibility on capital account, 209, 217
overvalued, 224
perceived link with HK dollar, 155–6, 210, 249
potentials as global medium of exchange and leading reserve currency, 370
revealed comparative advantage (RCA) index, 312–3, 319–28
RSVO (rural social value output), 82, 388n9
Samsung (multinational electronics corporation), 294, 311
sanlai yibu, see “outward processing”
Sanyo (electronics corporation), 311
Seagam, 409n8
SEATO (South East Asia Treaty Organisation), 10
semiconductors (see also integrated circuits), 9, 11, 292, 295
location of major manufacturers in China, 296
Senkaku islands (see also Diaoyutai islands), 368
SET (Stock Exchange of Thailand), 400n7
Shanghai, 24, 179, 258
car manufacture in, 341
foreign investment in, 36
official export statistics of, 201, 247
Shanghai Automotive Industry Corporation (Shangqi), 334–5
Shanghai Grace Semiconductor Manufacturing, 296
Shanghai Volkswagen Automotive Company Ltd., 348
Sharp (electronics corporation), 311
Shenzhen Special Economic Zone (SEZ), 42, 48, 65
investment in, 31
Siemens, 308, 409n8
Singapore, 59, 63, 175, 202, 285, 294, 374
devaluation, 246
electronics manufacturing and exports, 312, 318–20, 326–31
entrepôt role, 311
“openness”, 258
TPP membership, 372
Singapore Straits Times Index, 400n7
Sino-American détente, see China, diplomatic relations with United States
Sino-British Joint Declaration (1984), 74–5
negotiations, 227
SMIC (Semiconductor Manufacturing International Corporation), 296
“soft power”, 372
Sony Corporation, 311, 355
South APEC (see also China, economic and trade relations), vii, 351, 376
China as “engine of growth” for, ix
economic integration in North APEC compared with, 10
economies “marginalized”, x
South China Sea, disputes in, 6, 368, 372, 374, 412n1
“South China tour”, by Deng Xiaoping, 402n1
Southeast Asia, United States’ interest in, 368–9
Southeast Asian currencies, devaluation of, 154, 156, 167, 170, 191, 224
South Korea (see also gross domestic product; China, trade), 9, 147, 285, 372, 374
corruption, 221
currency devalued, 154, 156
diplomatic relations with China, 8, 14
electronics manufacturing and exports, 312, 318–20, 326–31
external and internal balances, 201 (Table 7.3)
GNP, growth of, 106
IC design in, 294
population, 388n4
prospective free trade agreement with, ix
protests by farmers, 415n20
source of supply, 65
Soviet hegemony, China engaged in by US, against, x
Soviet Union, 386n19
former, 1, 373, 385n5
Special Economic Zones (SEZs) (see also Shenzhen Special Economic Zone), 78, 100–1, 402n1
foreign direct investment concentrated in, 41
Spratly Islands, 368, 412n1
state budget, role in Guangdong economy, 102, 105–6
state industrial enterprises, 102
state owned enterprises (SOEs), 222
statistics
in trade deficit claims, 125, 130, 134
trade, 67, 71, 114, 201, 238–9
stock markets, 53
fall in regional, 172
government intervention in Hong Kong, 162–3, 168, 213
“substitution effect”, in exports, 329–30
Sudan, 343
Suzhou, 296, 331
Sweden, 331
syndicated loans, 181
Taiwan (see also China, trade; China, economic and trade relations; gross domestic product; NT dollar), 6, 7
Asian financial crisis, response to, 199–200
ban on investment in, by China, 180
bi-lateral trade with China, Hong Kong’s role in, 20, 60, 148, 178
changes in structure of output, 38–41
constraints on economic expansion, 23
currency attacks, less vulnerable to, 404n15
electronics manufacturing and exports, 312, 318–20, 326–31
external and internal balances of, 201 (Table 7.3)
foreign direct investment in China, 182–3
free trade agreement with China, ix, 14, 359–62
GDP, composition of, 364
growth performance, 37 (Table 2.9)
Hong Kong as role model for, 149
IC design in, 292–3
investment in mainland China, 31, 33–4 (Table 2.7), 35, 43, 179, 204, 296
policy reorientation towards, by China, 207
population, 388n4
regional specialization, 206
relocation of manufacturing to mainland China, 37–9, 178, 180, 202, 268
source of Hong Kong imports, 65
trade relationship with Fujian and
Guangdong, 24, 25 (Table 2.4)
trade surplus with United States, 28, 29 (Figure 2.1), 71
trade with Hong Kong, 263, 266, 267 (Figure 10.1)
taoguang yanghui, motto inked by Deng Xiaoping, 4, 7
tariffs, 273–4, 280, 360–1
TCL (multinational electronics corporation), 285, 288
technology transfer, ix, 337, 339, 342
telecommunications equipment, 285, 302
Thailand, 10, 63, 191, 201, 285
automobile industry, 278, 343, 345
GDP per capita, 258
Tianjin Automotive Industry Group, 410n3
Toshiba (electronics corporation), 311
Toyota, 339, 342, 352
trade (see also China, trade; China, economic and trade relations; exports; imports; invisible trade; visible trade)
as catalyst for growth, 93–4
changing structure of, 22
impact of expansion of, 16
trade intensity ratio (TIR), 21–2
trade ratios, 96–7 (Table 4.10)
trade surplus, with United States, 5, 28, 29 (Figure 2.1), 71, 139
Trans-Pacific Partnership (TPP), 372–6
treasury bonds, issue of, 196, 219–20
TRIAD, the, ix, 352–3
economic integration with, 4–6
trade and investment between China
and, x, 354
TRIMs (Trade-Related Investment Measures), 295
TRIPs (Trade-Related Aspects of Intellectual Property Rights), 295
United Kingdom, 63, 65, 304
hypothetical response to Asian financial crisis by, 150–2
investor in Hong Kong, 180
United Microelectronics Corporation, 349, 409n10
United States (see also China, trade; China, economic and trade relations; exports; imports), 367
containment of China policy, 1
diplomatic relations with China, 2, 5, 375
economic relations with China, role of Hong Kong in, 111–25, 270
export dependency on, 41
geopolitical interests, 13, 368–9
growth differential with China, 51
market for Hong Kong exports, 62
perception of Hong Kong, 110
role of, in re-exports to China, 121–2
source of Hong Kong imports, 65
TPP promoted by, 372–3
trade deficit claims, conflict with China over, 125, 128–9 (Table 5.3), 130, 133–5
trade disputes with, 70, 112–3
trade surplus with, 5, 28, 29 (Figure 2.1), 71, 139
trade with Hong Kong, 115–9 (Table 5.1)
United States Navy, fleets, 369–70
United States Omnibus Trade and Competitiveness Act (1988), 69–70
United States Trade Act (1974), 69
US dollar, 370
as factor in Hong Kong economy, 239, 241, 245–6, 251–2
US dollar peg
defence of, by China, 211
defence of, by Hong Kong, 151, 155, 157, 162, 170, 174, 197, 213–4, 216
economic instability under, 228–33, 252–3
exchange rate system, 7–8, 152, 227
reconsideration of, 252
removal of, lack of economic rationale for, 250
system, features of, 228–9

VAT export rebates, 186, 224, 247, 252
VIA chips, 292–3
VIA Technologies, Inc., 348
Vietnam, 358, 374, 376
joins ASEAN, 12
readiness to confront China, 10, 368
TPP membership, 372
Virgin Islands, 184
visible trade, 167
Volkswagen, 341, 345, 352

wages
in Hong Kong, 245
inflation, 234 (Figure 9.2), 235
nominal all-industry rates, 236 (Figure 9.3)

Wall Street Journal, 398n19
Western Europe, see European Union
workforce
outward processing, 66
structural reorientation of, in Hong Kong, 52–3, 54 (Table 3.2), 58
World Bank, 243
China joins, 2
World Trade Organisation (WTO)
China’s accession to, ix, 2–3, 225, 251, 253
Hong Kong, separate member of, 149
implications of China’s accession to, 207, 275, 278–9, 340, 351–2
trading countries ranked by, 204
Worldwide Semiconductor Manufacturing Corporation (WSMC), 349, 409n10
Xiahua (electronics corporation), 285

Yangtze River, floods, 219
Yangtze River Delta, 295–6
yuan, the, see renminbi