

Notes

1 Greater China: An Emerging Economic Reality

1. According to Mainland statistics, Taiwan's utilized FDI in the Mainland was surpassed by the USA and Japan in 1996. However, Taiwan's investment in the Mainland is biased downwards significantly because Taiwan companies have to invest in the Mainland through subsidiaries established elsewhere owing to Taiwan's ban on direct investment in the Mainland. Taiwan is most likely still the second investor in the Mainland.
2. This excludes Luxembourg, which is ostensibly the world's foremost host of FDI because of its status as an offshore financial centre.
3. Only exports of the CEA to elsewhere are included, and intra-CEA exports are deducted. For the method of estimation, see Chapter 7.

2 China's Opening and the Economic Integration of the China circle

1. Readers interested in a more detailed account can consult Sung 1991, chs. 1, 3 and 4.
2. This excludes Luxembourg, which is an offshore financial centre and ostensibly has the largest inflows of FDI in 2002 and 2003.
3. This is according to official figures in the *World Investment Report* of the United Nations. China's outward investments are greatly understated owing to evasion of its foreign exchange controls. For details, see Chapter 5.
4. See note 2 above.

3 Policy Changes and Economic Integration

1. The exceptions are those under 18.

4 Trade Between Hong Kong and the Mainland

1. The rate of re-export margin before 1989 is assumed to be the same as that of 1989.
2. A survey of the Hong Kong Government (Census and Statistics Department, Hong Kong 1997) found that the f.o.b./c.i.f. for Hong Kong was 0.982 in 1996. As expected, the ratio for transport by land (0.991) was higher than that by sea (0.973), and the ratio for Asia (0.986) was higher than that for more distant partners such as those in North America (0.959). As Hong Kong is close to the Mainland, and a substantial portion of Hong Kong–Mainland transport is by land, the c.i.f.–f.o.b. differential of Hong Kong–Mainland trade is taken to be 1 per cent. The differential for Hong Kong–USA trade is, however, 4.3 per cent. Subsequent surveys from 1997 to 1999 revealed that the f.o.b./c.i.f. ratios are quite stable over time.
3. The proxy is biased upwards by the amount of processed exports produced by non-Hong Kong investors (for example, Taiwanese investors) that are

re-exported via Hong Kong. It is biased downwards by the amount of processed exports produced by Hong Kong investors that are exported directly out of Guangdong. The biases are in opposite directions and tend to offset each other. The net bias should be small, as Hong Kong investors account for the bulk of export processing in Guangdong (Hong Kong investors accounted for 69 per cent of the cumulative FDI in Guangdong up to 2002). Moreover, of the goods from the Mainland handled by Hong Kong, the bulk (64 per cent in 2000) was imported by Hong Kong for re-export and the rest (36 per cent in 2000) exported directly as offshore trade (Table 4.3).

4. Such adjustments were first made in the *Economic Report of the Hong Kong Bank*, January 1991.
5. This is Guangdong's share of Hong Kong's imports involving outward processing from Mainland.

5 Hong Kong–Mainland Investments

1. The number-three destination, the USA, accounted for only 1.9 per cent of the stock at the end of 2002.
2. See the section 'Subregional economic integration' in Chapter 2 for a more detailed account of the growth triangles.
3. Hong Kong Monetary Authority, *Annual Report 2002*, p. 142.
4. Information obtained from interview.

6 Trade and Investment Involving Taiwan

1. Strictly speaking, the tax haven of the British Virgin Islands was in second place. However, most of Taiwan's investment there would eventually be channelled elsewhere.
2. This fraction of 80 per cent is used by Taiwan's Board of Foreign Trade to estimate Taiwan's exports to the Mainland.
3. See the homepage of the Board of Foreign Trade, Taiwan (www.trade.gov.tw).
4. Except for 1996, when a surge of tourists from Japan outnumbered those from Taiwan and also the Mainland.
5. The British Virgin Islands, which is in third place in official statistics, is excluded because it is a tax haven for channelling capital from elsewhere.
6. Obtained from the website of the Investment Commission: www.idic.gov.tw
7. British Central America is excluded as it is a tax haven for channelling capital elsewhere.
8. *Ibid.*
9. Combined share of 'Real estate' and 'Other industries' in Table 2.6.

7 An Overall View of Trade and Investment in the China Circle

1. Editorial Board of the Almanac of China's Foreign Relations and Trade, 2003: 973.
2. The ratio of Hong Kong's stock of inward FDI from the Mainland (obtained from Hong Kong data) to the Mainland's stock of outward FDI (obtained from the *World Investment Report* of the UN) has always been over 80 per cent since 1994, when Hong Kong data were first available. The ratio reached a minimum of 81 per cent in 1996, probably because evasion of foreign exchange controls was then less rampant.

3. As mentioned in Chapter 4, according to survey data, the f.o.b./c.i.f. ratio for Hong Kong was 0.982 (Census and Statistics Department, Hong Kong 1997) and the ratio was applied to Hong Kong imports in the table. As Taiwan depends exclusively on sea transport for its trade, its ratio was taken to be 0.97, close to that for ocean transport in the survey (0.973). The Mainland's ratio should be close to Hong Kong's because Hong Kong is the Mainland's foremost trading partner. The Mainland's ratio is taken to be 0.98.

8 Policy Issues

1. Part of the Mainland's trade not related to Taiwan at present transhipped via Hong Kong may be transhipped via Taiwan instead. However, such transshipment is very small. In 2000, other than cross-Straits related shipments, only 4.7 per cent of Hong Kong transshipments involved the Mainland ports outside Guangdong. Other than cross-Straits trade, there is very little trade to be diverted away from Hong Kong.
2. The figure of 1.1 million excludes around 1 million transit passengers who do not enter Hong Kong. The per capita expenditure of Taiwanese visitors tends to be low because the majority are 'same-day in-town visitors'; that is, they do not stay overnight. The rate of total value added of tourist expenditure is around 0.8 for Hong Kong (Sung 2004).
3. This includes the 1 million transit passengers through Hong Kong. The rate of total value-added for air transport is 0.77 (Sung 2004).
4. Net capital outflows in 2002 and the first three-quarters of 2003 were 15.4 per cent and 12.4 per cent of the GDP respectively.
5. Individual tours reportedly accounted for close to 30 per cent of the transaction in Red Chips in Hong Kong in mid-August 2003. A prominent security company reported that the majority of its new clients in August 2003 were Mainlanders (*Wen Hui Pao*, 19 August 2003:A3).
6. The classification is in accordance with that of Hong Kong's exports of services.
7. Until the outbreak in Heping Hospital in mid-April 2003, there were no limitations placed on the number of visitors to hospitals in Taiwan.

9 Problems and Prospects of the China Circle

1. Owing to a late rally in H-shares in 2003, an initial investment in H-shares in 1993 would yield a 24.2 per cent return at the end of 2003. By comparison, an investment in the Hong Kong Hang Seng Index in 1993 would yield a return of 84.7 per cent, while the Dow Jones Industrial Index would yield a return of 188.7 per cent.

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