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The Emergence of Greater China

The Economic Integration of Mainland
China, Taiwan and Hong Kong

Yun-Wing Sung

palgrave
macmillan



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Softcover reprint of the hardcover 1st edition 2005 978-0-333-62599-6

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First published 2005 by
PALGRAVE MACMILLAN

Houndmills, Basingstoke, Hampshire RG21 6XS and
175 Fifth Avenue, New York, N.Y. 10010

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ISBN 978-1-349-39331-2

ISBN 978-0-230-53680-7 (eBook)

DOI 10.1057/9780230536807

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources.

A catalogue record for this book is available from the British Library.

Library of Congress Cataloging-in-Publication Data

Sun, Yun-Wing, 1948–

The emergence of greater China: the economic integration of
Mainland China, Taiwan and Hong Kong / Yun-Wing Sung.

p. cm. – (Studies on the Chinese economy)

Includes bibliographical references and index.

1. China – Economic policy. 2. China – Commerce. 3. Hong Kong
(China) – Commerce. 4. Taiwan – Commerce. I. Title. II. Series.

HC427.95.S86 2005

330.951 – dc22

2004052098

10 9 8 7 6 5 4 3 2 1
15 13 12 11 10 09 08 07 06 05

*To my wife, **Pauline***
*To my son, **Samuel***

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List of Abbreviations

AFC	Asian Financial Crisis
APEC	Asian Pacific Economic Community
ARATS	Association for Relations Across the Taiwan Strait
ASEAN	Association of South East Asian Nations
ATC	Agreement on Textiles and Clothing
BOC	Bank of China
CEA	Chinese Economic Area
CEPA	Closer Economic Partnership Arrangement
c.i.f.	cost, insurance, and freight
CITIC	China International Trust and Investment Company
DPP	Democratic Progressive Party
EC	European Community
EU	European Union
FDI	foreign direct investment
f.o.b.	free on board
FTA	free trade area
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GITIC	Guangdong International Trust and Investment Company
GNP	gross national product
GSC	Greater Southeast China
HKSAR	Hong Kong Special Administrative Region
KMT	Kuomintang (Nationalist Party)
MFA	Multi-fibre Arrangement
MFN	most favoured nation
MOFERT	Ministry of Foreign Economic Relations and Trade
MOFTEC	Ministry of Foreign Trade and Economic Cooperation
NAFTA	North American Free Trade Area
NCNA	New China News Agency
NIE	newly industrializing economy
NPL	non-performing loans
NTR	normal trade relations
PPP	purchasing power parity
PRC	People's Republic of China
PRD	Pearl River Delta
RTA	regional trading agreement

SARS	severe acute respiratory syndrome
SEF	Straits Exchange Foundation
SEZ	special economic zone
SMEs	small and medium-sized enterprises
SOE	state-owned enterprise
WTO	World Trade Organization

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Preface

The fusion of know-how and capital from Hong Kong and Taiwan with the abundant labour resources of the Chinese Mainland has led to the emergence of a dynamic economy of 'Greater China' rivalling the USA, the European Union and Japan. This book analyses the emergence of the economy of Greater China from the opening of Mainland China in 1979 to 2004, when the Mainland and Hong Kong concluded a free trade agreement that symbolized the deep integration of the two parties.

The book discusses the economic interactions and the nature and trend of trade and investment within Greater China. It examines the impacts of the emergence of Greater China on East Asia and the global economy, including the effects on the world market of China's WTO entry and the liberalization of its imports of goods and services. The book concludes with a discussion of the problems and prospects of Greater China.

The analysis of economic interactions within Greater China has been bedevilled by the many inconsistencies in the statistics on trade and investment flows within Greater China. Such inconsistencies arise partly because Taiwan requires its trade and investment with the Mainland be conducted indirectly via third parties (mostly via Hong Kong), and partly because Hong Kong is a major intermediary of the Mainland's trade and investment. As a result, the bulk of the Mainland's trade with Hong Kong is actually trade with third parties via Hong Kong. This book compares the data of the Mainland, Hong Kong and Taiwan on their bilateral flows of trade and investment, and reconciles the many inconsistencies to construct the best picture of trade and investment flows within Greater China.

The idea of the book grew out of a course on the economy of Greater China that the author has taught at the Chinese University of Hong Kong since the mid-1990s. I wish to thank many students who have provided stimulation by their probing questions on the subject. Professor Peter Nolan of Cambridge University has taken a deep interest in this book and has given me invaluable advice and encouragement. I have also benefited greatly from the comments of an anonymous referee, assistance provided by the editors of Palgrave Macmillan and research support from the Hong Kong Institute of Asia-Pacific Studies.

Needless to say, the views and any errors in this book are solely my responsibility.

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

YUN-WING SUNG