The Emergence of The Chinese Economic Area and The Implication for Regional Economic Integration

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This paper analyzes the newly emerging geopolitical concept of the "Chinese Economic Area" (CEA) on the assumption that there are industrial advantages to economic integration,[1] and demonstrates that the process of economic integration has been driven by private enterprises' profit motives rather than governments' political motives. Defining the process of industrial integration therefore is the main focus here. Although the precise factors contributing to this part of regional economic integration are yet to be confirmed, industrial activities have undoubtedly been one of the major influences. The CEA's increasing intra-regional trade and investment flows are due to its diverse levels of development, notably based on mutual industrial complementarities between China, Taiwan, and Hong Kong. This complementarity was made up of China's comprehensive, yet elementary, industrial ability, and affluence in land and work forces; Taiwan's technology, financial power, and manufacturing ability; and Hong Kong's international marketing skills. While businessmen, investors, and economists are looking closely at all intra-regional transaction flows and their implications for the economies as a whole, there has been an increasing focus on the industrial level of integration (Jones, et al., 1993; Kao, 1992; Stewart, 1993).

For many people who live in the region, any programme for integration beyond the economic level is part of a more distant dream of Chinese national reunification. In the process of forming the CEA, any moves beyond mere business considerations may reflect political intentions, since Beijing is particularly eager, though not openly so, to project its own unification perspective onto economic activities, a view to which Taipei is especially sensitive. On many occasions scholars, particularly from Taiwan and Hong Kong, have been very much concerned that this hidden political intention could hurt fledgling economic cooperation. One author boldly points out that Beijing tends to politicize all economic activities as if trade were an instrument of unification. The increasing flow of Taiwan investment to China has been seen as "a prelude to economic and political unification"

(Alperowicz, 1993: 28). The CEA's actual development has been inspired for decades largely by business or market forces rather than by political intentions, because of this political conflict.

Since the economies of Hong Kong, Taiwan and China complement each other well, intra-economy links and close economic relationships are already flourishing (Li, 1992:11). The network for economic cooperation, therefore, has already arisen and is quickly intensifying as a result of an "unstoppable tide" of trade crossing the Taiwan Strait (Baum, 1993). Although in most of this research "economic integration" and "economic cooperation" are sometimes interchangeable in terms of trade bloc formation of, the former is likely to be determined by "the intensity of relations between participating states and the manner in which those relations are organized and managed" (Laffan, 1992: 3). According to a recent study on the CEA's development, Hong Kong, Taiwan and China have already collectively formed an interdependent economy through trade, foreign direct investment, and financial flows (Jones, et al, 1993). By and large, there has been regional industrial division of labor which is traditionally regarded as tantamount to the first stage of economic integration (Marer, and Montias, 1988: 156). Since this formation has so far been led by private sector profit seeking, in the years ahead a trans-party organisation will likely appear through business association links rather than political negotiation. Nevertheless, this should merely be treated as building the foundation for starting the economic integration process.

According to Karl Deutsch, a "community" requires a certain transaction volume to reach a "threshold" level before a group of countries can be considered to be at the inception stage of integration (Deutsch, 1954: 39). Although he was mainly concerned about political community formation, for which transaction volume is meaningful only in accordance with the establishment of transnational institutions, it is not implied that the application of economic integration should be removed from the threshold requirements. What he did not clarify was the relationship between transaction volume and the threshold.

However, the development of the CEA gives evidence of a different profile. To begin with, a certain threshold level for confirming integration is clearly necessary everywhere. It is yet to be proven that political involvement is a necessary condition for transaction volume to lead to transnational institutions. There have been a large amount of transactions taking place within the CEA, but it seems unlikely that transnational institutions with governments' involvement will be determined by present transaction flows. This is not to suggest that, without clear schedules for creating transnational institutions, economic integration in the CEA will be blocked forever.

With its different characteristics from the EC, in terms of the shape and integration process, the CEA is advancing towards its own particular form of integration. Economic development is driving similar economies to create an integrated regional economy. Nevertheless, there are some questions left to be answered. Why is pursuing economic integration in the CEA possible and necessary for its three economies? How are economic transactions and "low" political activities building up confidence in the CEA despite an atmosphere of continued political hostility and tension? What will industrial integration imply? Is the CEA heading towards a process of economic integration in accordance with Bela Balassa's "conventional progress" framework?[2] (Balassa, 1962)

The Origins of The "Chinese Economic Area"

Fomented by ever greater international competition in trade and the appearance of regional trading blocs, economic integration in this region is forcing Asian Newly Industrialised Countries (hereafter referred to as the ANICs and including Hong Kong, Singapore, Taiwan, and South Korea) to realize that future business development is not going to be as easy as it once was, since their export-led economies are heavily dependent upon international markets and free trade. Through industrial cooperation with their neighbors on the basis of developmental complementarity, they seek to face up to the competitive challenge posed by international rivals. The evolving concept of the CEA, which originated in this context of economic development, was initiated by academics from Hong Kong, Taiwan and China. They have attempted to develop a framework in accordance with conventional integration theory to regulate the rapid increase of business transactions between the economies.

The listed concepts in Table 1, which were to a large extent derived from Hong Kong and Taiwan's wishful thinking about Chinese industrialization, are coincidentally presented in the context of fierce international competition and industrial complementarity. As business transactions contributing to industrial complementarity have intensified in recent years, these ambiguous concepts seem to have become more useful and accessible. The incentives for regional integration have tended to be external, with international competition, industrial restructuring, and changes in international politics jointly providing a catalyst for regional economic integration.

International Competition and The Context for Integration in East Asia

Economically, unlike the EC, the development of the West Pacific countries has been quite heterogeneous. While Japan has been a member of the OECD for decades, the ANICs, ASEAN countries (Indonesia, Malaysia, Philippines, and Thailand),[3] China, and the Indo-China countries (Vietnam, Laos, and Cambodia) are still among the list of developing countries (refer to GDP per head in Table 2). However, their economies enjoy, to some extent, a mutual complementarity in terms of their industrial development

Table 1. The Evolution of The Chinese Economic Area

1980	C. L. Huang (HK)	The Chinese International Community The Chinese Economic Community
1987	K. Y. Chen (Asian Research Centre, HK U.)	Chinese Sphere
1988	C. Y. Cheng (Asian Studies Committee, Ball U., Indiana, USA)	Greater China Common Market
1988	I. T. Chen (Taiwan Research Institute, China Academy of Social Science, Beijing)	China Economic Sphere
1988	H. C. Kao (Global Views Magazine, Taiwan)	Asian Chinese Common Market
1989	H. S. Zhin (Asia-Pacific Economic Research Institute, Fujian Academy of Social Science, China)	Economic Sphere for Both Sides of the Taiwan Strait
1989	F. G. Chou (Southeast Information Centre, HK)	Southeast China Free Tree Area
1990	C. S. Wong	Southern China Economic Sphere
	S. P. Hsu (Taiwan Research Institute, Xiamen U., Fujian)	South China Economic Collaboration Area
1991	C. C. Lee	China Economic Sphere
	C. H. Chiu	Chinese and Hong Kong Economic Sphere
1992	H. C. Kao	Economic China

Source: 1.*Economic Daily News* (June 21, 1992).
2.*Kuo Gi Ging Gih Ching Shih Chou Boa* (International Economic Trend Weekly) 977, pp. 9-10.
3.*Ging Gih Chien Zhan* (Economic Outlook) 7: 4 (September 1992), pp. 10-19.

Table 2. East Asian Countries' 1995 Per-capita GDP in Four Groups (in US$)

Japan	21,350	Singapore	21,493	Malaysia	8,763	China	2,660
		Hong Kong	23,080	Thailand	6,870	North Korea	2,000*
		Taiwan	13,235	Philippines	2,800	Cambodia	1,266
		South Korea	10,534	Indonesia	3,690	Vietnam	1,263

Note: *North Korea's was in 1990.
Source: Based on UNDP information, see "Survey: Asia," *The Economist*, (October 30, 1993), p. 6; *Asiaweek* (May 31, 1996), p. 67.

structures, which make different sorts of division of labor possible. In fact, Japan, the most highly developed economy, possesses the most advanced technologies which its neighbouring countries are especially thirsty for. What Japan needs, and is desperately short of, is raw materials, overseas markets and basic labour forces which these other regional countries possess in abundance.

One has to understand that the practical advantages of cooperation are the main incentive for regional integration. At the middle level of economic development, there are the ANICs, whose industrial structures have already been enriched by capital and technology-intensive industries and even some high-technology industries, during the 1980s[4] (Chowdhury, and Islam, 1993: 75-79). At the bottom, ASEAN countries and China are catching up industrially through the same process of moving from resource-based exports to labour-intensive and low-technology manufacturing industries, as the ANICs did in the 1960s and 1970s.[5]

An international division of labor has therefore been established throughout East Asia in the past few decades. A new model for the horizontal division of labor is emerging among Japan, the ANICs, and ASEAN, as well as China. For example, Japanese automakers Toyota and Mitsubishi and consumer electronics manufacturer, Matsushita have set up systems in which parts are produced through an international division of labor right across the ANICs and ASEAN countries. The traditional vertical division of labor between Japan's manufacturing products and other regional economies' raw materials is becoming less prominent (Unlike the horizontal division of labour, the vertical division of labour refers industrial cooperation to production process which combines upstream, obtaining raw materials with downstream, manufacturing, industrial operation.). This model is characterised not only by different levels of economic development, but also by the variety of industrial structures amongst the regional economies. Furthermore, the different levels of technological development offer a good reason for further industrial cooperation. There have been three types of horizontal division of labor in East Asia so far. Firstly, there is a division of trade between manufactured products. Unlike the previous vertical division of labour, even Japan has increased its imports of manufactured goods largely electrical machinery by intra-firm trade between Japanese Transnational Corporations (TNCs), parent firms, and their affiliates in other regional economies (Drobnick, 1992: 22). Secondly, there is a division of trade between different products within the same industry, an inter-industry horizontal division of labor, e.g. trade between yarn and fabric in the textile industry, electronic parts in the electronics industry, and spare parts in the auto industry. Thirdly, there is the horizontal division of labor between the same kind of manufactured products with different factor combinations, e.g. the ANICs and Japan in producing video equipment, the former with simple designs and the latter with more advanced ones (Shi Chun Li, 1990: 22).

Overall economic development and industrial structures in East Asia have been widely seen as a "flying geese" pattern (where industrial laggards follow in the footsteps of the industrial leaders)[6] (Okita, 1991: 25-37; Joseph Romm, 1992; Steve Chan, 1990: 41). While Japan leads the international division of labor in East Asia, the ANICs and the rest of the regional economies are more or less tied into the regional industrial structure. Consequently, it seems that the emergence of regional economic integration is the preferable outcome of the rapid developing industrial division of labor in East Asia.

The Johnsonian approach, one of the traditional approaches to regional economic integration, believes that the motive for integration between smaller economies and developing countries is derived from integrating members' collective objectives.[7] The most obvious of these is "a collective desire for industrialization" (Joseph C. Brada, and Jos, A. M. ndez, 1993: 187). Basically, regional economic integration is a vehicle by which members of a region may collectively tackle obstacles to economic development and thereby increase their collective well-being. But why should they work together? The answer lies with the similarity of developmental experience and with the international division of labour which ties up the industrial bases of member states into a more effective and stronger economy.

In terms of the TNCs, Japanese companies have maintained the headquarters of their businesses in Japan itself, manufactured components in Taiwan, and assembled products in Malaysia or Thailand. As part of their global strategy, Japanese Hitachi and Sanyo have established on international network for their division of labour by improving the technology level of their operation in Taiwan and moving assembly operations from Taiwan to Malaysia (Higashi and Lanter, 1990: 344). In other cases, Japanese companies have gone to Taiwan for components which are produced by Taiwanese manufacturers in China or Southeast Asia. For example, the procurement of Cyclepress, the Japanese bicycle industry giant, from Taiwan for bicycles and components valued at ¥ 20 billion (Japanese Yen) in 1993 is in the context of Taiwan's industrial division of labor, i.e. "Taiwan taking orders, China producing and exporting to Japan"[8] (*Central Daily News*, 26 August, 1993). Originally equipped with Japanese capital goods, the Taiwanese also possess a rich and experienced OEM (Original Equipment Manufacturer)-oriented infrastructure[9] that "is remarkably adaptable to changes in worldwide demands" (*Importing from Taiwan*, 1989: 43, 52-57).

For the same reasons, the Japanese through Hong Kong, either via subsidiaries or agents, have invested in China, improving industrialisation in the region and also establishing an international division of labour. For example, C. Itoh & Co. Ltd., an investment bank co-funded by Japanese, and Morgan Stanley Groups, an American securities firm, decided in May 1993 to invest 1 billion Japanese Yen in Chinese Strategic Investment Co., an Indonesian overseas Chinese enterprise in Hong Kong, in order to access the Chinese market. According to C.Itoh & Co. Ltd., the strategy to access China through overseas Chinese was to supply some 180 Chinese national companies with machines and raw materials in order to tie them into their industrial division of labour (*Mou Yi Kuai Shuen*,1993). In these ways, the Japanese have been able to cut their costs of production and increase their competitiveness against Western competitors. Through this Japan-Taiwan-China pattern, Mitchell Bernard notes, "Other parts of Asia are increasingly being drawn into a hierarchical network of production and exchange" (Bernard, 1991: 365).

Upgrading technology, expanding market shares and managing access to raw materials are always the basis of restructuring industry within a country or an industry itself. But, a new wave of severe competition in some technology-intensive industries, such as electronics, electrical, and computer industries, has been pushing economies towards industrial integration.[10] Recently, internationally recognized computer and information companies including Philips, Microsoft, Hewlett-Packard, and International Business Machines (IBM), have been trying to integrate related industries in Hong Kong, Taiwan, and China into their "Greater China" operation (*Central Daily News*, November 13, 1992). On the supply side, the competition has aroused the need for industries either to cut production costs or to upgrade their existing production technology. On the demand side, the need for scale economies in marketing networks has forced industries undertake various strategic alliances.

Against this background, East Asia is entering a new era of economic integration by tying up capital, resources, and manpower, and to an increasing extent setting up an outward macroeconomic policy. In addition to Japanese involvement in the region, Singapore, Taiwan, Hong Kong, and South Korea have decisively contributed since the mid-1980s to the booming regional economy with their massive inflows of inward investment, mature technology, and experienced management. Taiwan, for example, used to be the manufacturing base for Japanese companies through OEM exporting to the United States. Now, with most of its OEM manufacturers moving to Southeast Asia and China, Taiwan has become not only one of the biggest investors in the region but also a capital- and technology- intensive economy, just as Japan was in the 1970s.

All the ANICs — Hong Kong, Taiwan, Korea, and Singapore — are commonly handicapped by high wages and a shortage of labour which have resulted in their current economic problems, notably in labour-intensive industries, while China and the countries of Indo-China possess a superabundance of labour derived mostly from liberalizing their agricultural sectors. With the existing complementary labour markets, China has served as the main labour supplier for neighbouring ANICs manufacturers in looking to gain competitiveness in related labour-intensive industries. This has resulted in the relocation of ANICs manufacturers to China. Even so, over the past few years, China has exported some of its excess labour abroad, some even through Korean enterprises (*Beijing Review*, September 13-19, 1993: 28). According to information collected in April 1992, there were 4,000 migrant workers from Mainland China working in Japan and another 25,000 working in Hong Kong (*Far Eastern Economic Review*, April 2, 1992: 21). In late June 1993, the number of Chinese working abroad hit 148,000 (*Beijing Review*, August 16-22, 1993: 29). It is said that a great number of illegal emigrants from China have been working in neighbouring countries, i.e. South Korea (*The Economist*, November 20, 1993: 86, 89) and Taiwan. As economic transactions are intensified in the CEA, the trend of exchanging personnel, workers, technicians, scientists, scholars, between China, Taiwan and Hong Kong, is set to rise rapidly. Over the last few decades, Taiwan has accumulated huge capital reserves from export earnings and fast-expanding trade with all major economies. Taiwan's Japanese manufacturing base, which led to a Japanese dominated "Japan-Taiwan-USA" trade relationship during the 1960s and 1970s, has been diluted and foreign investment and industrial production exports to other regional developing economies have shaped Taiwan's leading role in a new "Taiwan-China-USA" trade pattern.

The story of Taiwan's manufacturing base moving to China is similar to Hong Kong's. On the one hand, it has sought to cut production costs in order to increase competitiveness. On the other hand, it has sought to share China's trade preferences - Most Favoured Nation (MFN), General System Preferences (GSP), and quotas - in developed markets, so as to circumvent possible protectionist obstacles. However, evidence has emerged of an American investigation into its trade deficit with China. Over the period 1987 - 1991, the US trade deficit with China increased sharply, while its trade deficit with Taiwan and Hong Kong had decreased (Table 5). This clearly implies a large scale transfer of manufacturing from Hong Kong and Taiwan to South China (Harding, 1992: 22). In other words, in the Hong

Table 3. The "Japan-Taiwan-USA" pattern of trade

Japan	=	capital, technology, management, marketing
Taiwan	=	OEM, labour-intensive manufacturing, GSP
USA	=	export market

Table 4. The "Taiwan-China-USA" pattern of trade

Taiwan	=	capital, technology, management
China	=	OEM, labour-intensive manufacturing, GSP
USA	=	export market

Table 5. The US trade deficit with China, Taiwan, and Hong Kong ($ billion)

	1987	1988	1989	1990	1991	1992	1993	1994
US with China	3.4	3.5	6.2	10.4	12.7			
US with Taiwan	18.9	12.6	13.0	11.1	9.9			
US with H K	6.5	4.6	3.5	2.7	1.1			

Source: Department of Commerce, USA, 1992.

Kong government's own estimation, if the United States were to revoke China's MFN status, "the territory would lose up to $15.7 billion in overall trade, up to $2 billion in income, and as many as 60,000 jobs" (Balinger, 1992: 14).

Above all, China's huge market potential is encouraging Taiwan's producers to take up Chinese brand names in international markets. The size of China's market is large enough to support Taiwan's industrial production as it attempts to establish its own reputation. For instance, the owner of Shin-Shing Shoes Co., Y. K. Chen, has stated that with China's market favouring shoes made in Taiwan, he is sufficiently confident in establishing his own brand name away from an OEM position (*Central Daily News*, September 10, 1993:8). The Chairman of the Fu-Ta Umbrella Co., T. F. Chen, also shares this view: "You cannot allow your turnover to be decreased at the time of bringing a new brand name to the market. So, the only way forward here is to expand production and market shares through manufacturing in China" (*Commonwealth*, March 1, 1992:40). These developments suggest that with as yet untapped economic potential, further moves toward integration within the CEA seem likely.

Restructuring industries and strengthening competitiveness through market opportunities. In spite of the political hostility between Beijing and Taipei, the booming trade flow between China and Taiwan is prompting moreeconomic cooperation. While Taiwan and China are carrying out "indirect trade" mostly via Hong Kong, the British colony, which will be returned to China in July 1997, has been tied into the network of Chinese "economic unification," whether intentionally or not. Hong Kong, with its geographic proximity to China, has long been an outlet for capital, know-how and technology for China's closed economy (Hong Kong has been generally recognised as a financier, trading partner, middleman, facilitator, and investment centre for China. Burns, 1993: 29), even during the turbulent Cultural Revolution era. Moreover, Hong Kong, an entrepot with outstanding financial expertise, a well-developed communications infrastructure and, most importantly, proximity to China, serves as a launch pad for foreign investors to China and Southeast Asia. Accordingly, the Hong Kong Government Trade Department has summarized seven important facts in its relation to

China: "Hong Kong and China are each other's No. 1 trading partner; China is a market for Hong Kong goods; China is a base for outward processing activities; Hong Kong is an important market for Chinese goods, an important entrepot for China, an important location for Chinese interests, and the largest investor in China" (Hong Kong Government Trade Department, 1993).

The Japanese have been eyeing Hong Kong's economic links with China, as more than a quarter of Japan's exports to China have been channelled through Hong Kong (*Far Eastern Economic Review*, June 28, 1990: 70). Hong Kong's ties to China's economic power house, Guangdong Province, are even more impressive: an investment of US$17 billion in the province, control of 30,000 enterprises, and employment of three million workers (Walsh, 1994: 35). Many foreign investors are using Hong Kong's stock market as a way into China, because "it has more listed companies than any other stock market in the world involved in China, the region's fastest growing economy" (Holberton and Harverson, 1993: 19). Above all, many Hong Kong companies with exposure to the Chinese economy have been targets for investors, such as China Light & Power, Hong Kong Telecom, Hong Kong Electric, and HSBC Holdings. Even its business characteristics express its willingness and availability in being a bridge between China and the rest of the world. For instance, the Chairman of Wharf (Holdings) Ltd., Peter K. C. Woo, said:

> "With the continued integration of the economies of China and Hong Kong, Wharf intends to act as a bridge to develop business between its mainland Chinese partners and business associates from other parts of the world" (1992 Report, The Wharf Ltd).

Since Beijing's 'open door' policy was announced in 1979, the first wave of Hong Kong investment, mainly led by small and medium enterprises, has poured into nearby Guangdong, and Fujian Provinces. Not only have Hong Kong businessmen swarmed to find manufacturing bases in China, but other investors, including Japan, America, and Taiwan (at a later date), have been flocking there in search of low cost production. They have brought their management expertise and marketing experience in lower level technology as well as labour-intensive industries which could hardly survive at home (where they were once called "sunset industries"). Examples are toys, textiles, umbrellas, consumer electronic components, dyes, and foot wear.

Hong Kong's advantages for China. As far as Hong Kong businessmen are concerned, booming Chinese investment means high profits, the survival of their sunset industries, and circumvention of American trade protection. According to analysts on the Hong Kong stock market, many companies have more than one manufacturing base in China and can normally expect payback from investment in only two to three years (*Hong Kong Economic*

Daily, September 28, 1991). One successful businessman, Patrick Wang, the managing director of Johnson Electric, one of the world's leading manufacturers of micro-motors, said that his investment in China has been paid back "many times over" and revealed that Johnson's post-tax return on investment had been 20 percent over the last few years (Holberton, 1993: 3). Many investors believe that these high profits have been earned largely from the effects of scale economies derived from China's huge market. In China, foreign investors are normally able to expand their businesses to a larger scale with a smaller amount of capital than in Hong Kong. Low cost production factors and the larger market tend to encourage producers to go for a larger volume of production in order to ensure a stable market share. For Hong Kong, China's prospect as a highly industrialized environment supports Hong Kong's continuing prosperity, and more importantly, future stability. For China, Hong Kong's business efforts are accelerating its progress towards industrialization in accordance with the emerging massive and booming economic groups.

While China's "Open Door" policy accelerated its economic development, most of Hong Kong's industries were suffering the "NICs disease," namely soaring wage and rent costs, and, more seriously, a severe shortage of labour (Aoki, and Ohashi, 1992: 27). In terms of economic development, China's less developed economy has plenty of land and almost limitless, cheap labour, but lacks the capital, management and applied technology expertise for which Hong Kong is renowned. Both economies, therefore, have begun an unprecedented process of economic cooperation through an industrial division of labour and complementary economies in which:

> "(Hong Kong entrepreneurs) brought their capital, their know-how, and their Western customers. Their motives were straightforward: the tiny British territory simply ran out of enough workers to make all the toys, cameras, clothing, and other labour-intensive products the West wanted to buy. When a low-cost labour pool became available across the border, they tapped it, slowly at first, then with growing enthusiasm." (Worthy, 1992: 34)

Gradually, Hong Kong industrialists have moved production to China. Some listed companies which produce stereos, televisions and accessories, computer hard disks, and toys, have completely relocated their operations in China (*Hong Kong Economic Daily*, 28 September, 1991). As a result, the large amounts of capital that China has been longing for have flowed in. According to the Chinese Ministry of Foreign Trade and Economic Cooperation, foreign investment in China totaled US$37 billion (utilized value) in the period 1979-1992, about $21.2 billion of which was contributed by the biggest investment sources from Hong Kong and Macao (Holberton, 1993). In 1992 alone, Hong Kong's investment in China accounted for 68.3 per cent of China's total US$11.3 billion utilized foreign direct investment[11] (*Financial*

Times, July 7, 1993: 3; *Financial Times*, August 5, 1993: 15; *The Economist*, April 16, 1994: 103). Up to early 1994, Hong Kong had accounted for 64 per cent of the US$135 billion committed to China ventures since 1979 (Walsh:1994; Hong Kong and Macao account for US$147.27 billion out of $216.91 billion all contracted investment in China. See *Financial Times*, May 20, 1994: 7). Hong Kong investment in industrial manufacturing in China alone accounted for about a quarter of HK$100 billion by 1993 (Simon Davies, 1993: 4). It was this investment and accelerated industrialization that made Southern China and Hong Kong into a borderless economic area. One economic survey stated: "The most striking element of the Dengist reforms is their extraordinary dependence on foreign trade and foreign investment as engines of development" (*The Economist Year Book* 1993: 155).

The part China plays in this economic interdependence is as a manufacturing base, while Hong Kong supplies management, marketing, technology, and, above all else, capital and finance. In addition, although China's preferential trading status is subject to political quarrels with the US over human rights performance (Awanohara, 1994a: 56-57; Goldstein, 1994: 51-52; Awanohara, 1994b: 18-20; and *Business Week*, April 18, 1994: 14-15), its enjoyment of GSP and MFN has persuaded manufacturers from Hong Kong and Taiwan to "shelter" in China, e.g. using China's export quotas in the case of textiles and garments (Economic and Social Commission for Asia and Pacific, United Nations, 1993: 64). Erstwhile sunset industries from Taiwan and Hong Kong, most notably dyes, umbrellas, foot wear, and electronics, have been revived in this way and are becoming stronger and more competitive. Subsequently, bigger firms have followed suit, bringing about a further wave of investment. More recently, with a more promising policy announced for preferential access to markets and profits, the Chinese authorities have favoured foreign direct investment in infrastructure. This sort of investment symbolizes business confidence in China's economic future, e.g. Hopewell's superhighway project, Wharf's power station and road (Haragreaves, and Holberton, 1993: 19; *Shin Pao*, December 16, 1992), and Hutchison Whampoa's US$1.1 billion container terminal project for Shanghai (Goldstein, 1992b: 60).

Hong Kong accounts for over 80 per cent of foreign investment and trade in Pearl River Delta, the most prosperous part of Guangdong (Worthy, 1992: 35), and is the biggest investor in China as a whole, though some uncalculated investment flows have been redirected from China itself via Hong Kong agents back to China[12] (Serrill, 1993: 38). In return, Chinese firms mostly from Guangdong, which are at the moment the leading investors in Hong Kong, have invested in various sectors — mainly tertiary industries, real estate and financial services. Mainland Chinese investment in Hong Kong was up from US$12 billion in 1991 and $15 billion in 1992 to $18 billion in 1993 (figures show only the first six months of 1993). Moreover, Chinese "hot money" deposited in Hong Kong banks was also up from US$4 billion in 1990 to near $10 billion in the first quarter of 1993 (Both investment and deposit figures were based on Time graphic). In the first half of 1992, Chinese firms bought property worth about US$ 6.6 billion. Brokers have estimated that they will own 20 per cent of all property in Hong Kong by 1997 (*Far Eastern Economic Review*, July 23, 1992: 49). For many people in Hong Kong and Taiwan, this is a sign the Chinese are determined to take over Hong Kong and dominate the capitalist society after it reassumes control. Indeed, China's pouring more than US$ 10 billion into Hong Kong in the last few years is seen as its intent to take over the British colony smoothly, but also a political statement to the Hong Kong business community of its persistence in capitalism (Kraar, 1992: 41).

One of the "spillover" effects with which theoretical integration is concerned is the rise of industrial integration. Not only has industrial integration here created frequent interaction networks, but also it has brought about exchanges of employment in the labour markets. In other words, simple economic cooperation has encroached into society. About a decade ago, manufacturers in Hong Kong employed about 900,000 workers in the colony and none in Guangdong. Now, "their Hong Kong payroll is down to about 700,000. But they have employed three million workers at some 30,000 factories in Guangdong" (Walsh, 35). One can see in this close relationship, without dressing progressive integration, is its economic potential and the deepening and widening trend in the division of labour. As China and Hong Kong today have become each other's largest investment destination, they are already "inextricably linked" in economics (Kraar).

Taiwanese Industrial Investment In China Via Hong Kong. In 1987, the Nationalist government in Taiwan liberalized the policy limiting contact with China; since then, a full range of economic transactions has resulted. Because of the ongoing political stalemate between Taiwan and China, businessmen on both sides of the Taiwan Strait have had to trade with each other via a third party. As the "two way" trade and investment flows have increased, Hong Kong has become the third party for this indirect trade. Since most of Taiwan's trade with and investment in China are directed through Hong Kong, recently there have been more Taiwanese investments flowing into Hong Kong itself (1993 Annual Report of Majestic Trading Company Ltd). There are two reasons for this: firstly, under the existing political impasse Taipei only allows business flows through Hong Kong to ensure policy flexibility, provide bargaining chips with China, and prevent its economy from becoming too dependent on China (*Business week*, May 3, 1993: 20). Secondly, as the actual need in the Taiwanese business community for trade with China has grown, Taiwanese small and medium-enterprises, have set up branches or connections with local agents in Hong Kong to conduct business in China. Most recently, even big firms have followed suit. For example, Walsin Lihwa Co., one of Taiwan's leading cable & wire manufacturers, has acquired a 64.2 per cent interest in the publicly listed

Success Holdings in Hong Kong. The purpose of such acquisition was to use Hong Kong as a base for further overseas investment in China and the rest of the Asian region (Walsin Lihwa Corporation 1992 Annual Report).

Local businessmen believe that without any Taiwanese banking presence in Hong Kong to support investment in China, there must be an individual financial management office in Hong Kong to manage the capital flow in and out of China.[13] It is also necessary for this office to be located in Hong Kong to comply with Taipei's policy of no direct links with China. Growing trade between China and Taiwan has lured Taiwanese businessmen to set up about three thousand intermediary companies in Hong Kong in the past five years (*Commercial Times*, May 21, 1993). Amongst them, there are over two thousand companies which focus on trade (*The Independent Weekly Post*, March 25, 1994).

Since Taiwan officially bans direct Taiwanese investment in China, there has been a great deal of "illegal" investment conducted through various channels without official permission. In spite of offical restrictions, there has been little sign that investment flows have been slowing (Table 6). Due to recognition of the important role of Taiwanese investment in China, three of Taiwan's state-owned commercial banks, Chang-Hua, the First, and Hua-Nan, set up representatives in Hong Kong in 1992. Since September 1993, Hua-Nan Commercial Bank has been operating its first Hong Kong branch which is starting to assist Taiwan's investors with financial management services (*Central Daily News*, September 24, 1993). Up to May 1994, a total of seven Taiwanese banks established operations in Hong Kong, mainly providing financial services for Taiwanese businessmen and investors.[14]

Table 6. Taiwanese Investment in China

Year	Agreed Projects	Agreed Capital (US$ million)
1983-87	80	190
1988	435	520
1989	552	437
1990	1,011	892
1991	1,737	1,391
1992	6,430	5,540
1993	10,948	9,970
1994	6,247	5,397
1995*	3,052	2,783
Total	30,492	27,140

Note: *The figure shown is only up to September. Source: derived from the data of the PRC's Ministry of Foreign Trade and Economic Cooperation. See Liang An Gin Gih Tong Gih Yueh Bo (Economic Statistical Monthly Report of Taiwan and China), Council of Mainland Affairs, February 1996.

Further financial integration programmes should be brought into being soon. As many of its customers had already invested in China, particularly in labour-intensive industries, the Taipei-based private China Trust Commercial Bank — one of Taiwan's top ten banks — opened its representative office in Hong Kong in November 1993 such as to better serve its customers and establish links with its mainland counterparts. Its new chief representative, Vance Chin, states that "Closer relations with banks from both sides (China and Taiwan) is ultimately unavoidable" (Sender, 1993: 81-82).

Since 1987, Taiwan's booming trade relationship with China through Hong Kong is reflected in economic indicators. Around 40 percent of Taiwan's exports to Hong Kong have been routed to China (See Table 7). While Taiwan's trade surplus with the US has recently been reduced following pressure to diversify export markets, Taiwan has increased its trade surplus with Hong

Table 7. Trade between Taiwan and Hong Kong, and Taiwan's Share of Hong Kong Re-exports to and from China (unit: $ million)

year	exports to HK			imports from HK		
	amount	% re-export to China		amount	% import from China	
		amount	% export to HK		amount	% import from HK
1987	4,274	1,226.5	28.7	1,242	288.9	23.3
1988	5,687	2,242.2	39.4	1,812	478.7	26.4
1989	6,614	2,869.5	43.4	2,113	586.9	27.8
1990	7,447	3,278.3	44.0	2,724	765.4	28.1
1991	9,563	4,667.2	48.8	3,175	1,126.0	35.5
1992	11,301	6,287.9	55.6	3,397	1,119.0	32.9
1993	12,204	7,585.4	62.2	3,659	1,103.6	30.2
1994	13,936	8,517.2	61.1	3,700	1,292.3	34.9
1995	16,573	9,882.8	59.6	4,581	1,574.2	34.4

Source: International Trade Bureau, Ministry of Economic Affairs, R. O. C., based on HK Custom Statistics, 1993. Liang An Gin Gih Tong Gih Yueh Bo (Economic Statistical Monthly Report of Taiwan and China), Council of Mainland Affairs, February 1996.

Table 8. Hong Kong Re-Exports to its Major Asian Trading Partners (share of the total in %)

Destination/years	1989	1990	1991	1992
China	29.9	26.8	28.7	30.7
Japan	6.4	5.9	5.5	5.4
Taiwan	4.8	5.1	4.6	3.8

Source: Hong Kong 1992 and Hong Kong 1993, HK Government.

Kong and China. In 1990, Taiwan's trade surplus with China accounted for 20.11 per cent of its global trade surplus, and its surplus with Hong Kong 56.90 per cent. In 1992, the trade surplus with China reached 54.53 per cent, and with Hong Kong 143.8 per cent of its global surplus (Mainland Affairs Council, The Executive Yuan, 1993).

Moreover, Hong Kong's re-exports to China and Taiwan have accounted for over one-third of its total re-exports; its "middleman" position for the "two Chinas" is thus crucial (Burns, 1993: 29). From the perspective of trade development, China, Taiwan and Hong Kong have already become very important partners, a trend likely to be intensified in the future. Although trade relationships do form transaction networks between partners, this alone is not a sufficient condition for economic integration. Above all, Taiwan, Hong Kong, and China (to a lesser extent) have established outward-looking economies which have directly resulted in their successful economic development. Their continuation of trade with the rest of the world remains as crucial as their intra-regional trade.

When the world was twice hit by rising oil prices and economic recession in the early 1980s, the rise of protectionism in developed economies threatened international trade. These changes in the global economic situation intensified international competition, driving trade partners to seek industrial strength through closer cooperation. The formation of the CEA was accelerated by increasing intra-regional trade flows, foreign investment, and, above all, the industrial division of labour which has created mutual complementary economies (Hartland-Thunberg, 1990: 97-98). The ratio of intra-industry trade between China and Taiwan to Taiwan's total commodity trade in manufacturing sectors rose from 5.53 per cent in 1985 to 28.78 per cent in 1991, and non-manufacturing sectors rose from 28.18 per cent to 56.54 per cent in the same period. In 1991, the horizontal division of labour accounted for 75.42 per cent of total Taiwanese investment in China and Hong Kong, and vertical division of labour for about 18.49 per cent.

According to some empirical surveys, Taiwanese businessmen investing in China procured 80 percent of the materials, components and equipment they needed for operation from Taiwan; and only about 15 percent came from Chinese local industries (*Economic Yearbook for The Two Sides of the Taiwan Strait*, 1992, 1993: 84-89). Among other industries, footwear, umbrellas, and toy manufacturers, procured for 90 percent of their materials from Taiwan; those industries for plastic, electronics, and vehicles were amongst the highest procuring from China for their local operations (about 20 percent). Like Hong Kong, Taiwan since the early 1980s has also suffered the "NIC's diseases," which in manufacturing sectors has turned out to be serious. Because the history of Taiwan's economic development has been based more on the growth of labour-intensive manufacturing industries, growing wages, soaring land prices, and a shortage of labour have hit related industries very hard, resulting in the exodus of many indigenous industries to South East Asia and China.

Taiwan general manufacturers' export orientations are largely shaped by the changing trends of international markets. Therefore, in order to maintain competitiveness, production factors are always cost sensitive. Cutting production costs has been the ANICs' competitive strategy for some time. Unfortunately, since the mid-1980s, due to Taiwan's huge trade surplus against the US, the New Taiwan Dollar has been under American pressure, dramatically appreciating against the US Dollar from NT$ 40.32 in 1983 to NT$ 25.40 in 1992 and NT$27.27 in 1995. This has brought about a crisis for Taiwanese exporters, although appreciation has occurred over a relatively long period. In terms of price, Taiwanese competitiveness has faded away. Furthermore, Taipei's government in the mid-1980s introduced a "Labour Standards Law" to legitimise labour's fundamental rights, frustrating most employers.[15] In a public letter to the government, Wang Yeung-Ching, Taiwan's leading industrialist and chairman of Formosa Plastics Co., warned that the law had not only increased business costs, but also changed the diligent habit of labour on which Taiwan's economic development had relied (*Central Daily News*, February 22, 1993: 3). Wage rates rose and the trade unions movement became active as a result.

The cost of labour in Taiwan's manufacturing sectors rose more than 60 percent in US dollars between 1986 and 1988 (Schive, 1993: 33). Employers were desperate, because they were facing diminished profit margins or even bankruptcy. Moreover, as the environmental protection movement became active during the 1980s, more restrictive environment protection standards were introduced (Yu, 1992: 6). For example, due to serious industrial pollution, Wus Printed Circuit Co. Ltd., ranked as the 48th biggest electronic company in the country (*Commonwealth*, June 5, 1993), was coerced into stopping production for one month by the Taiwanese Environmental Protection Administration in 1992, which the company's chairman L. K. Wu confirmed was the biggest push for the company to relocate in Kuenshang, near Shanghai (Tian, 1993: 36).

As Taiwanese currency appreciated in value (refer to Table 9), "hot money" released from sunset industries circulating around the country was immediately directed towards an illegal gambling lottery, and later into the stock market and real estate (Yu, 1992). Consequently, owing to property speculators, there was less available land for industrial expansion, and soaring property prices halted private investors' programs. Taiwan's industrial tycoon, Wang Yeung-Ching, for example, was even bidding for a US$7 billion comprehensive industrial zone first in Fujian Province's Xiamen special economic zone for his 6th naphtha cracker, and later in the Yangtze River in 1992, the latter subsequently banned by the Taipei government for fear of moving about one third of Taiwan's industrial base to China (*Global Views*, December 15, 1992: 46-47; Baum, 1992: 75). Part of the reason for Wang's China bid derived from his failure to find a suitable site to expand his

Table 9. A Comparison of the Average Foreign Exchange Rates of China, Taiwan, and Hong Kong (National Currency Per U. S. Dollar)

YEAR	RMB	NTD	HKD
1983	1.98	40.32	7.27
1986	3.72	35.55	7.79
1988	3.72	28.17	7.78
1989	3.76	26.17	7.82
1990	4.72	27.10	7.79
1991	5.32	25.74	7.76
1993	5.77	26.63	7.73
1994	8.45	26.24	7.74
1995	8.32	27.27	7.73

Source: derived from The Central Bank of China, R.O.C., & Da Kun Po, H. K. See Liang An Gin Gih Tong Gih Yueh Bo (Economic Statistical Monthly Report of Taiwan and China), Council of Mainland Affairs, February 1996.

business in Taiwan. Another ambitious investment plan in China by the Cathay Insurance and Construction Group, the largest in these businesses in Taiwan, was blocked (Goldstein, 1992a: 23).

All in all, these changing economic factors have boosted production costs higher than ever. Mr. G. C. Liao, Chairman of Chen-Chou Enterprise Ltd., has argued that due to the fast speed of urbanization, fewer and fewer employees wish to work in a traditional factory. Similarly, Mr. L. L. Liao, Chairman of Merry Electronic Co. Ltd., has told the same story that the reason he located in China was not because of lower social costs, but the serious shortage of labour (*Commonwealth*, March 1, 1992: 32). Even the world's leading bicycle maker, Giant Machinery Co., has suffered a labour shortage in its most significant manufacturing site in Taiwan (*Global Views*, December 15, 1992: 42). In Taiwan, too-frequent hiring and firing of workers in manufacturing industries has resulted in instability in production procedures and quality. Even foreign buyers have urged their Taiwanese sub-contractors to move to China in order to maintain the quantity and quality of their production.[16] For most profitable labour-intensive industries in Taiwan, their Achilles heel is the shortage of labour. These disadvantageous factors over time appear to be incentives, if not positive advantages, for the formation of the CEA. To begin with, Taiwan's currency appreciation has raised its buying power overseas, and therefore brought about a stimulus for foreign investment. The climate for domestic investment has also deteriorated, which has led to complaints by industrialists and demands for remedial action.

In 1992, a survey of the 1000 largest Taiwanese companies showed industrialists' concerns about future industrial development.[17] Most respondents were frustrated by their operating costs in Taiwan, and when asked to choose a foreign location for their industrial expansion, most placed China at the top of the list. Another survey in 1993, on the trends of foreign direct investment of companies listed on the stock market, confirmed that 58.8 percent of all Taiwanese companies thought that China was the most favourable destination for investment.[18] While labour-intensive manufacturers have been driven out of the country, some of them have immediately found a more favourable climate for manufacturing in China. Some have even closed all their businesses in Taiwan, but most have maintained their headquarters in Taiwan from where they manage capital flows, overseas orders, marketing, R & D, assembly and transportation.

Only manufacturing operations are conducted from Chinese bases. Entrepreneurs have suggested that, by early 1992, at least 80 percent of the companies in the footwear, briefcase, toy, and umbrella industries were seeking relocation in mainland China (*Commonwealth*, March 1, 1992: 16). Taipei's Ministry of Finance' calculated that Taiwan's footwear manufacturers had nearly all relocated to China, and about 80 per cent of the textile industry has also re-oriented themselves in China (L. C. Wang, 1992: 101). Although Taipei feared that these capital investments in China could hollow out Taiwan's industrial base and result in economic dependence on China (Mudie, 1992: 3),[19] Chao Yao Tung, former minister of Economic Affairs, pointed out that almost all Taiwanese companies relocating to China had been importing materials and machinery from Taiwan and depending upon Taiwan's headquarters for commercial R & D (Wang). In other words, these developments, from a positive point of view, were creating an industrial division of labour within the CEA. Perhaps the relocation of Taiwan's clock & watch industry serves as a typical example of the division of labour across the CEA: production in China, design and marketing in Taiwan, and finance and exportation in Hong Kong (*The Independent Weekly Post*, March 25, 1994).

The result of an earlier survey suggested that by 1992 most Taiwanese investment in China would derive from labour-intensive industries delivering lower level technology and used equipment, and taking advantage of low cost production factors in China. Nevertheless, more recent investment flows have tended to target China's domestic market instead of export markets. This recent survey clearly demonstrates a changing investment trend for upgrading the industrial division of labour in terms of target markets and technology involved, e.g. recent investments by President Foods and Giant Manufacturing (Goldstein, 1992a: 24). President Foods, Taiwan's number one food industry has been mainly concerned with investing in China's scale economies, and has been building a business network equipped with its advanced food processing technology to access the market. According to its Chairman C. Y. Kao, the huge Chinese domestic market is supporting its long term strategy of internationalization. Through its market share expansion in China, in 25 years President Foods could become the world's leading food industry (*Global Views*, December 15, 1992: 40).

Giant Manufacturing, which is already the world's leading manufacturer of bicycles, is also seeking to maintain its superiority through market segments between Taiwan's higher value-added products and China's middle and lower value-added products (*Global Views*, December 15, 1992: 42). In the short term, China provides a base for industrial revival for labour intensive industries and an important market from which Taiwan earns its trade surplus. An anonymous electrical company owner pointed out: "We were lucky enough to have China's market absorbing Taiwanese manufactures and products, otherwise it is very likely that many Taiwanese companies would be out of business by now"(*Commonwealth*, March 1, 1992: 32) Officials confessed that even if there was not an open Chinese market, the Taiwan economy, in the face of the worldwide recession in the early 1990s, would inevitably have departed from its previous high growth track (Kong-Lian Kao, 1993).[20]

Overseas Chinese "Nostalgic Investment" In China

For decades, overseas Chinese have played an important part in Chinese modernization by inputting capital, management skills, and technology. Many overseas Chinese have been concerned about invest in the places where their ancestors originated.[21] The reasons for this are based not only on the business consideration of profits, but also on ties of kinship on which most overseas Chinese entrepreneurs rely for developing their businesses internationally. Overseas Chinese investment from Southeast Asia has been mostly in accordance with their previous emigrant routes from Southern China. These investments therefore carry a message both of a simple economic incentive and of a nostalgia for home. One empirical survey, however, suggests that "while nostalgia for the motherland has played its part, their main motive for home is profit" ("SE Asian Chinese head for home," 1993: 25).

With overseas Chinese heading for home, the worldwide web of their business has become a catalyst for the formation of the CEA. Not only have many Taiwanese and Hong Kong businessmen made China the focus of their business growth for the next decade, but also many overseas Chinese businessmen, particularly from Southeast Asia, have followed suit. In spite of early investment from Taiwan and Hong Kong which sought low cost production factors and thus, quick profits, businessmen from both economies have more recently engaged themselves in longer term projects for China's economic development because of China's commitment to reforms and the increasingly highe profile of the CEA concept.

It has been the unprecedentedly large number of overseas Chinese from Southeast Asia investing in China and joining forces with Taiwanese and

Hong Kong businessmen that has brought about the preliminary conditions to form the CEA.[22] Analyzing their investment strategies, which are characterized by five main factors, one can dig up the recent trends in CEA development as follows:

> "1. They are motivated less by China's cheap labour costs and plentiful land and more by the country's latent consumer demand. 2. They are helping to modernize China's primary industries and build up its infrastructure. 3. They are bringing to China the management skills they have successfully used in ASEAN to apply sophisticated Western technology in an underdeveloped environment. 4. They are advancing into places often ignored by other foreign investors. 5. Cash-rich and debt-free, they are committing long-term investment to China"("SE Asian Chinese head for home," 1993: 24-25).

Doing business in China today, businessmen realize that the first priority is not seeking a good contract, but having good "guan xi" (personal relationships) in the society.[23] Because the modern legal systems of Western countries have not yet taken root in mainland Chinese society, most foreign businessmen have complained about corruption, bureaucratic inefficiency, and lack of regulations. This unhealthy business environment, to some extent, has allowed informal, private, and even underground business activities to play a part. It does not mean, though, that the shortcomings of the Chinese economic system, relative to the western developed market economies are a necessary condition for overseas Chinese investment. Since an element of Dengist reforms has been heavily dependent upon foreign trade and foreign investment, China's persistence in opening its markets opening and economic potential have served as incentives to lure foreign investment. Maybe coincidentally, for many generations "Chinese entrepreneurs have been operating in a network of family and clan" (John Kao, 1993: 24). Their businesses in China and elsewhere have been set up by means of family links, either through joint ventures or partnerships. For example, overseas Chinese tycoons have favoured this network: Liem Sioe Liong, a leading Indonesian entrepreneur who originally came from Fujian Province, has recently developed his businesses in Fuzhou (Fujian) and Mei Zhou Island (Fujian) in cooperation with Fuzhou Municipality and Taiwan investors, respectively (*Asian Business*, April 1993: 26-27). In the case of investing in China, dialect, kinship, and a common origin in a clan, village or county have provided a certain assurance for overseas Chinese business (*The Economist Yearbook*, 1993: 154). For example, S. Y. Tan, who left mainland China in the late 1940s and is now the president of Kao-Lo Foods Co. in Taiwan recalled that his business in China began by cooperation with Yuo-Li Trading Co., one of China's special trading bodies established for linking Taiwanese, through the introduction of a high school friend in the mainland (*Business Weekly*, May 19, 1991: 33-35).

Unlike Japanese *Keiretsu* (industrial groups anchored by major banks), the network of Chinese entrepreneurs is characterized by its diversity and yet potentially open system: "it represents access to local resources like information, business connections, raw materials, low labour costs, and different business practices in a variety of environments" (John Kao, 24). It can be seen that in access to China's market, in general, the Japanese have not been as successful as overseas Chinese enterprises. For example, in 1991, amongst China's 13,086 total proven foreign investment venture projects, Hong Kong and Macao signed 8,879 projects and Taiwan signed 1,735 projects. Japan had 607 projects (*Economic Yearbook for The Two Sides of the Taiwan Strait*, 1992: 533). While overseas Chinese have taken advantage of China's economic development by expanding their businesses from coastal areas and riversides into the hinterland, all Western and Japanese firms can do is watch enviously, and struggle "to keep up with the overseas Chinese" (*The Economist, November* 27, 1993: 79).

Overseas Chinese today, including those in Taiwan and Hong Kong, account for 55 million people around the world, and they have continuously projected their economic dynamics across continents. One analyst even describes Chinese business networks as the "Chinese commonwealth" (John Kao,). Whatever names one may use, the global network of the Chinese business community is a "loose common market system" based not on geography but on a common culture. China's quickly growing economy has shown that, on the one hand, China has greatly profited from the resources contributed from these networks. On the other hand, in pooling resources to China, overseas Chinese entrepreneurs have extended industrial cooperation with other overseas Chinese and mainland Chinese entrepreneurs. Therefore, China's persistent reforms have brought about a large scale of cooperation between overseas Chinese entrepreneurs from which the CEA can stem. The effects of the Chinese entrepreneurs' jamboree in China have boosted the possibility of bringing the CEA into being.

The Effect of Economic Interaction between China, Taiwan, and Hong Kong: Advocates of Integration

Within the existing favourable political and economic circumstances pursued by related governmental policy, economic interactions, trade and investment flows across existing borders have occurred spontaneously from businessmen pursuing profits. While massive trade and investment flows have rushed into China seeking profits, regional governments across East Asia have far outstripped business communities in acting on this. There has been a fast-paced trend towards interdependence of related economies, although transactions among them were originally not focused by an ambitious integration plan. As transactions flow within the CEA, they became more based on economic complementarity, and occur faster and more frequently, for intermediaries, components and semi-finished products which are redirected back to Taiwanese assembly lines for export.[25] An empirical study has pointed to the immediate advantage of importing Chinese semi-finished products for Taiwanese industries' exports, because the market price for products labelled "made in Taiwan" is about 10-15 per cent higher than that for the same products labelled "made in China" (Kao, Lee, and Lin, 1992: 135). In other words, with Taiwan's labels, exporting products will be more profitable. To proceed towards further integration in the CEA, governmental commitment from Beijing, Taipei, Hong Kong, will be decisive, in theory and in practice. Before political hostility between Taipei and Beijing can be watered down, the Chinese and Taiwanese governments will have to act on behalf of their businessmen's interests in dealing with increasing practical problems caused by their more frequent interactions. In the meantime, indigenous industries within the CEA and the TNCs endorse the ongoing CEA with more investment projects and by preparing operation center plans targeting the CEA as a whole rather than as a single economy. This could positively improve both economic growth and prospects for future integration.

Governments' Commitment to the Formation of the Chinese Economic Area

As transaction flows have tied the industries of China, Taiwan, and Hong Kong, into various frameworks for the division of labour, the level of their industrial interdependence (which is composed of the current trade regime for commodities, investment, and industrial cooperation in exchanging semi-finished products, personnel and technologies) becomes more and more apparent. Facing the increase of business, economic, and social transactions within the CEA, businessmen can never again let go of this opportunity for profits and market shares inside the CEA. Nor would governments willingly risk missing any opportunities for forming a regional bloc. Singapore's former Prime Minister, Lee Kwan-Yew, states that:

> "Chinese reunification is not so easily accomplished. But, as soon as transactions between the two sides of the Strait begin, reunification is to be a dynamic and everlasting process. ... So, the ongoing (benign) situation between them will not be reversed anyway" (*Central Daily News*, September 6, 1993).

The more the Chinese economy integrates with the world economy, the more it will be directed by global market forces rather than by the Chinese state. Part of the effect of these forces has been to intensify the business, political, and economic transactions across the Strait which constitute the beginnings of economic integration, and to a lesser extent, of Chinese reunification. In spite of political obstacles, the transactions continue to thrive while the problems which have occurred were collectively sorted out. Therefore, official moves towards linking with one other have concentrated on bringing about a common ground for the removal of differences.

Chinese Endorsement of Reform. China's commitment to its reformist open door policy has become a crucial factor not only for its own economic development, but also for the CEA's possible formation. No Chinese official has ever openly commented on the economic integration of the CEA. Recently, however, for the first time, Chinese Vice-Premier and Foreign Minister Qian Qichen made a direct reference to the concept of a "Greater China Economic Sphere" as being still far from a reality.[26] The willingness of Beijing to keep a low profile over the CEA is obvious lest there be a backlash from other countries, notably Japan and the ASEAN countries.

Despite the CEA's lack of formal confirmation from Beijing, the latter's guarantee of a reformist policy has been a positive incentive. In comparison with economic reform, the pace of China's political change has not been so prominent. In terms of progress towards democracy, the focus has been not so much on the political system itself, but rather on arranging for the transfer of power. It is very clear that Deng Xiao-Ping's "theory" encourages more reforms toward market-driven economic growth, but, at the same time, he is inclined to keep quiet about political change. In other words, the theory's legitimacy stems from "its ability to deliver economic prosperity without forfeiting political security" (Perry, 1993: 14). Deng said in 1984 that "the domestic policies emphasize two points — politically, to develop democracy, and economically, to adopt reform" according to the rules of socialist development (*Beijing Review*, November 22-28, 1993: 33). Deng's perception of democracy linking with reform characterized by Chinese socialism is very different from Western definitions of a pluralist society. His concept of democracy may have focused on democratic centralism within the party system, which allows party elites, rather than the public, to be involved in the decision-making process in order to legitimize the role of collective leadership. Such a theoretical understanding has set up a complex political and economic paradox: a "socialist market economy," alongside a socialism characteristic of China.

No matter what happens in Beijing's unpredictable power struggle, persistent reform on the economic front has been an unquestionably necessary part of Chinese development. So long as reform is to continue in China, economic build-up is likely to push the formation of the CEA further forward. For Beijing, insistent reforms will undoubtedly speed up an economic development which has become tied to Hong Kong and Taiwan as well as the other economies of the region. Since early 1992, the Beijing government's policy of reform has been confirmed on many important occasions: in January 1992, Deng Xiao-Ping's Southern tour; in October 1992, the 14th Communist Party Congress' affirmation of a capitalist economic development; and in April 1993, the first endorsement of a Chinese style of so emerging networks will bring about a rethinking of economic integration.

On the contrary, instead of governmental initiatives, the great volume of transaction has raised a strong demand for certain organizations to resolve the problems which have occurred in the transaction process. The importance of establishing such organizations was later realized and endorsed by the governments. Indeed, there have been some individual semi-official organizations which have dealt with common functional problems across the Taiwan Strait. For example, the Taiwan-based Strait Exchange Foundation and the China-based Association for Relations Across the Taiwan Strait (ARATS), on behalf of their own respective governments' interests, held the first summit meeting for mail and documentary registration between China and Taiwan in April 1993 in Singapore (*World Broadcast*, FE/1675, 29 April -3 May, 1993)). Since then, the talks between the two bodies have continued on a regular basis in accordance with the consensus agreed in the first meeting for dealing with their functional affairs. Because these talks have been frequently interrupted by Beijing's intention to politicize them (to Taipei's anxiety), they have always ended without agreement. The fourth meeting in Beijing continued the talks up to March 1994.

However, these transactions provide some evidence that there is a strong demand from the business community for regulation of transactions across the Strait. This has, to some extent, directed government policy.[24] Unlike transnational institutions for integration elsewhere, these CEA groups are attempting to be, for now, "a mediator" on the part of the business communities, rather than "a manager" in integration. It is very distinctive that the transaction volume within the CEA today presents an unbalanced relationship, or maybe more precisely a distorted partnership. Because of the policy restraints, Taipei does not want its market to be fully opened to China without further endorsements of friendliness from Beijing, as enshrined in Taipei's recent "Guidelines for National Unification." Although Taipei has continuously defied Beijing's proposal for direct communication and has reluctantly allowed its businessmen to trade with China via Hong Kong and elsewhere, trade and investment between China and Taiwan is still expanding very quickly. There is a likelihood that direct trade between Taiwan and China will be set up sooner or later, as pressure from industrialists has increased. In addition, Hong Kong's position as the "third country" of Taiwan's trading gateway to China will change in 1997. This has pressured Taipei into either possibly changing policy to allow limited "direct trade" between Taiwan and certain Chinese ports, or seek alternative means for continuing "indirect trade." Indeed, in planning a regional operational center and mainland policy, it is clear that there have been struggles within the Taipei government (*Central Daily News*, March 21, 1994).

For Taiwanese industrialists, in the first wave of investment in China, the mainland used to be merely a base for labour-intensive manufacturing for export. More recently, China has been treated as a manufacturing base capitalism by the session of the eighth National People's Congress. With Congressional approval, "a socialist market economy" has been set as a goal for reform in China (*Beijing Review*, April 12-18, 1993: 9). According to China's own explanation, a "socialist market economy" is "a comprehensive concept, which seeks to combine the superiority of public ownership with a rational disposal of resources ensured by a market economy" (*Beijing Review*, August 23-29, 1993: 9). One surmises that the implications of this term are "free markets without free politics; a vibrant private sector alongside a dominant public sector; a further opening to the west, but a vigorous fight against pollution by some Western ideas"(*Financial Times*, October 14, 1992: 20).

In a press conference the Premier Li Peng, the hardliners' protege even said that "economic development is the most important task for this government" and that "the government will ... open wider to the outside world over the next five years" (*Beijing Review*, August 23-29, 1993: 9). Chinese President Jiang Zemin urged that the deepening of reforms was "crucial in solving the new contradictions and problems in China's economic activities" and called for "stepped-up efforts to carry out reforms in all fields, especially in the areas of the financial, investment and taxation systems, to speed up the establishment of a socialist market economy" (*Beijing Review*, September 13-19, 1993: 5). Furthermore, Chinese Vice-Premier Zhu Rongji said that "China's booming economy has given investors and businessmen more and more confidence because of its tremendous potential and wide ranging opportunities" and asserted that "China will not slow down its reform" (*Beijing Review*, September 20-26, 1993: 5).

Although the return of the hardliners is always a danger, both sides of Beijing's political groups have agreed that reforms will have to be carried out in dealing with actual economic development. As long as China's reform program remains in place, its desperate demand for foreign capital will lead to increased dependence on Hong Kong and Taiwan. More and more people, especially in the Hong Kong and Taiwanese business communities, trust that the deepening and widening effects of economic interactions between China, Taiwan and Hong Kong will only encourage the formation of the CEA. As far as economic integration is concerned, the development of the CEA has reflected, up till now, China's bases for defining the current reforms as purely economic and unofficial in nature. It is very likely that Beijing will be amicable to the formation of the CEA, as long as it exhibits self-restraint by confining itself to an economic event.

Hong Kong: Tying up with China. Hong Kong has been very keen on developing commercial links with China, because not only has its highly commercial and industrialized economy of export orientated strategies taken advantage of China's low cost production factors, but has also through its "middleman" role with regard to China, increased its importance in managing foreign investment flows to China. Apart from the economic incentives of advantages, Hong Kong investment has boosted economic growth in China generally, and the nearby province of Guangdong particularly. This has carried with it an undetected belief in steering China's economy to greater integration with the capitalist economic world. This belief may have contributed much to the emergence of China's recent market approach. It seems likely that, provided the economic development gap between Hong Kong and China can be further narrowed in the next few years, market forces capable of enduring will have taken charge of Hong Kong's fate even after 1997 under China's government. Recent examples of heavy investment by Hong Kong entrepreneurs in China's infrastructure has reflected this hopeful line of thinking.

Because of the free market economy Hong Kong's enterprises have been profit-orientated. In addition, Hong Kong's industrial development policy has been based on a laissez-faire approach. The government's intention has been to "provide the private sector with an economic environment and the infrastructure conducive to rapid growth, including the provision of adequate industrial support facilities and services" (OECD, 1988: 47). While China's open door to the outside world has encouraged great opportunities for potential businesses, the Hong Kong government has been actively offering specific help for enterprises. For example, the Hong Kong Trade Development Bureau set up links with Beijing in 1986. Since then, the Bureau has purposively played an important role in linking Hong Kong enterprises with China (*Global Views*, December 15, 1993: 146). It may be that such efforts have arisen from a British hope of securing within the CEA vested interests with as strong a presence as they once enjoyed in the colony.

Therefore, it is in the Hong Kong government's interest to involve itself actively in the formation of any economic groupings with China. In the short term, China's industrial scale economies could through further industrial cooperation reinforce a Hong Kong economic power to which they have both contributed in the past. As Singapore has been for the Malaysian economy, so Hong Kong may become for the Chinese economy and, to some extent, for the CEA. In the long term, with a leading role in the CEA, Hong Kong will be much more confident about maintaining its prosperity within the Chinese "socialist market economy." Facing an uncertain future because of the current political structure, Hong Kong's future may depend entirely upon the tightening of its links with China, or at least with Southern China, economically. Although the current tension between Hong Kong Governor Chris Patten and Beijing over Hong Kong's political reform has caused a division within her society, Hong Kong's will to tie its economy to China's economic development remains solid.

Taiwan: Asian Pacific Regional Operational Center? The Taipei government has brought forward a very ambitious program for building itself up as a regional operation center for R & D, manufacturing, finance, and transportation. Because of its implications for the development of the CEA, th program has inspired a widespread discussion among officials, economis and industrialists in Taiwan,. One governmental analysis suggests that:

> "From the viewpoint of resource complementarity and division of labou current restrictions on indirect investment and trade across the Straits will b relaxed to an appropriate degree; technological exchange will be strengthene and more effective guidance and support will be given to Taiwan manufa turers that invest in mainland China" (Council for Economic Planning ar Development, 1993: 8).

Dozens of economic reasons seem to support the program that ha been put forward: diversified export markets, upgraded industries, balance bilateral trade, an improved environment for investment, and interna tionalization of management to cope with fierce global competition. Sinc 1992, the transactions between Taiwan, Hong Kong and China have reache a "threshold" which has brought their relationship into a new era of inte dependence. According to conservative estimates, there are at least 10,00 Taiwanese companies now located in China, and total investment ha reached the record level of US$ 10 billion.[27] In Taiwan unofficial guesse put the amount of investment at US$ 15 billion-25 billion (*The Economis* May 22, 1993: 73).

What this program is concerned with are the preliminary conditio that Taiwan must develop to become an operational center, and i prospects in the CEA. To become a regional center Taiwan will have t remove all political and legal obstacles in order to accommodate th business strategies of multinational corporations. Mrs Ying Price th Director of the Commerce Department of the United States in Taipe pointed out that Taipei's policy of non-communication with China wi definitely bar many multinationals from Taiwan, simply due to its lack c access to the CEA market (*Business Weekly*, June 28, 1993: 61-63). As fa as the regional operations center is concerned, the program has to be co sidered in the context of economic integration with the CEA. If Taiwan to be an Asia-Pacific regional operations center, then, in addition to oth necessary conditions, it will first have to define its position within the CE which means that Taiwan's direct trade links with China will be essenti More recently, Taipei has proposed an alternative policy for negotiati "selective" direct trade links with Beijing (*Central Daily News*, September 1 1994). While current transactions are still considered to be in the short te phase, the preliminary conditions for a regional operations center have be regulated in the medium term, according to the Guidelines for National Uni cation.

From an economic perspective, the regional operations center will conducive to Taiwan's economic success through alliances with the TNCs upgrading technology and establishing a leading role in the division of labour across the CEA. Although the Taipei government has never blatantly advocated the concept of the CEA, it has tacitly recognized its importance with regard to its program for the regional operation center.[28] In accordance with the Guidelines, and with market forces, policy modifications have been quietly brought forward:

> "Relaxation of indirect trade across the Straits and expansion of imports of semi-finished products from the mainland. Promotion of cross-Straits exchange of industrial technology and recruitment of talent from the mainland. Strengthening of guidance and support for Taiwan businessmen investing in the Mainland" (Council for Economic Planning and Development, 13)

Many argue that the emergence of the CEA has served as a pure economic cooperation mechanism in the greater Chinese community.[29] In spite of no straightforward confirmation of economic integration from the CEA governments, Taipei's commitment to the CEA has been repeatedly apparent in its partnerships with the TNCs. In response to the occurrence of the CEA's reality, the Industrial Development Bureau (under the Ministry of Economic Affairs) in Taipei has drafted a comprehensive framework for integrating "industrial division of labour across the Taiwan Strait" (*Central Daily News*, December 13, 1993).

In addition, the Council for Economic Planning and Development a ministerial level institution (under the Executive Yuan) emphasizes that to keep up with the increasing trend of economic exchange between China and Taiwan, the latter will not hesitate to develop its economic blueprint for the future upon China as a hinterland. Since no direct link exists with China, a practical move has been made in setting up an Asia-Pacific regional operational center on Taiwan's west coast as an expediency (*Central Daily News*, December 12, 1993). In commenting on Taiwan's regional operation center program, Olivier C. Moore, a French businessman and Chairman of the Taipei-based European Council of Commerce and Trade, stated that for many European enterprises, Taiwan is seen as a springboard from which many businesses of the TNCs have launched development from Taiwan to China, or to the Chinese community in Southeast Asia.[30] The American Offshore Institute has offered an insight into the industrial cooperation occurring in Taiwan:

> "As major industrial corporations from around the world and especially the high technology sectors open regional offices in Taiwan, joint ventures between the newcomers and Taiwanese businesses and agencies aim at strategic placement for basic needs in key areas such as semi-conductors, chemicals and telecommunications. China is the main target of this planning" (The American Offshore Institute, 1993: 8).

Global Strategy vs. Regional Economic Integration: the Position of Transnational Corporations in the Chinese Economic Area

Clearly, multinationals base their strategy for investment on profit through the making of opportunities. In terms of protectionism and national trade barriers, the effects of regional integration on the TNCs' global market operations are less clear. While the TNCs' profit gaining strategies are usually noticed, there is a tendency to ignore how important the TNCs are to the process of regional integration. Corporate integration is the term used by some to define the causes and effects of integration activities (Dunning, and Robson, 1987). Regional government officials have described how important the TNC was to regional economic development:

> "the very rapid growth of East Asian economies over the past three decades has been due, in large measure, to the technology, capital, and managerial and marketing know-how contributed by multinational corporations" (Siew, 1993: 15)

From the perspective of regional economic integration, through industrial division of labour (and in some cases division of trade which was established as a result of foreign capital investment), various national economic interests in the region could be linking together. The hope is that a common interest will emerge as a result. For example, while many other industries are seeking to pursue industrial cooperation within the greater Chinese market whether individually or collectively, the information and computer industries have already established their own links targeting the CEA. Microsoft, Philips, IBM, and Hewlett-Packard have, since 1992, set up headquarters in Taiwan to manage the rationalization of their resources covering Taiwan itself, China, and Hong Kong (*Central Daily News*, November 13, 1993). In the petrochemical industry, ICI (London) has as a way of looking ahead to the wider Asia-Pacific market, invested in China and Taiwan and gained a market share in the CEA (Alperowicz, 1992: 35). Through the TNCs' "greater China" marketing vision, one can expect that an increased exchange of resources, personnel, and components will intensify existing interdependence and be both meaningful and beneficial to economic integration.

Apart from the technology and marketing experience that the TNCs normally introduce, today their targeting of the CEA is concerned with an exchange of managerial and technical personnel. For instance, Philips' President, J. D. Timmer, in a speech to mark the 25th anniversary of Philips Taiwan, pointed out that:

> "... with our active participation in this market (the Pacific basin) with its prospects for growth and its enormous potential, Philips definitely intends to expand its presence in this region," and "Philips Taiwan has always been the

essential 'Chinese component' in the Philips family" (Philips Taiwan, 1991).

Thus, Taiwan Philips' management teams have been chosen to run its Asia-Pacific strategy of access to the CEA (*Central Daily News*, May 30, 1993). Within its global strategy, the development of Hewlett-Packard's greater China plan emphasizes establishing networks and exchanging managerial experience between China, Taiwan and Hong Kong. Since Hewlett-Packard is already highly focused on China's domestic market, it has sent a group of Taiwanese managers there in the belief that these well-educated and experienced managers are probably best suited to conduct business in China and to become "networking technicians" for their Western and Chinese clients.[31] For reasons of culture, language, and technology, some Japanese firms have employed Taiwanese technicians in their mainland China development. N. Tatara, a standing member of the board of Mitsushita Taiwan Ltd., reveals that the company has sent out seven of its Taiwan trained engineers to help other Mitsushitas operating in China (*Taiwan Industrial Panorama*, November 1992: 3). Recently, some cases of strategic alliance between the TNCs and Taiwanese companies targeting the CEA have brought about a division of labour within the CEA. Examples are: Carpenter Technology Co. of the US and Wálsin Lihwa Electric Wire & Cable Co. of Taiwan; Taiwan's Teco Electric & Machinery Co. and Nippon Electric Co. (NEC) (*Taiwan Industrial Panorama*, April 1993: 3). Moreover, while American Telephone & Telegraph Co. (AT&T) developed a strategic alliance in 1993 with the Taiwan telecommunication industry "to manage technology transfers, win contracts and operate manufacturing projects," it was also discussing the formation of joint ventures with China to make telephone switching equipment (*Taiwan Industrial Panorama*, March 1993: 3). Many indigenous industries have also followed in the TNCs' footsteps by expanding their operations within the CEA. For example, Nan Ya Plastics Co., Taiwan's leading manufacturer, has announced its plan to set up a US$30 million plastics factory in Guangzhou to supply upstream materials to Taiwan's downstream plastic producers in the region (*Central Daily News*, April 1, 1994).

Industrial cooperation in targeting the greater vision of the CEA amongst the TNCs and indigenous industries is virtually laying out a preliminary approach toward further economic integration. This industrial cooperation is regardless of political constraints all but knitting transaction networks between the regional economies. These networks are considered a necessary preliminary development to the formation of a community. Logically, an industrial strategy bound up by cooperation would not necessarily advance to a larger scale of integration. But it is to be borne in mind that without those efforts for industrial unity which are naturally or purposively underway integration would not be thought of. However, while the depth and width of industrial links go beyond the definition of business strategies, a larger scale of economic spillover is yet to appear.[32]

Pre-transnational Institutions for Economic Integration: Regional Business Associations on the Move

A great move toward economic integration between China, Hong Kong, Taiwan, and the Asian Chinese Community, has been underway for a decade or sothough it does not seem to be quite following the European track. The Japanese scholar and head of the Domestic and International Policy Studies Institute in Tokyo, Saburo Okita, made the comparison that:

> "one of the big differences between East Asian integration and European integration is that in Europe it's based on treaties. In East Asia it's based on market force"(*Fortune*, October 5, 1992: 47).

Though it has been manifested mainly in economic forms, European integration was motivated by political factors from the beginning. The development of the CEA, one of the East Asian groupings driven by market forces, has been spontaneously pushed by the efforts of many businessmen in the private sector. It is only activists, mainly businessmen and academics, who have recognized these developments in terms of integration. Although businessmen scarcely consider economic activities beyond their own self-interest, some have understood the growing need for the establishment of industrial organizations to act on behalf of their common interest.

There has been an absence of official links between Beijing and Taipei, so that businessmen have had to rely on their own "guan xi" in dealing with China. Many different functional organizations have emerged as a result, e.g., the semi-official Strait Exchange Foundation (SEF), and the Association For Relations Across the Taiwan Strait (ARATS), the unofficial Association for Commerce across the Taiwan Strait and many other industrial associations. To begin with, some of these organizations developed as trouble-shooters or, to some extent promote dialogue. The Taiwan Computer Association which, among many others, has been successful in setting up a "street for electronics in Shanghai", and has managed to sort out all the legal procedures and marketing in China for over thirty computer companies from Taiwan.[33] The SEF's earlier business was focused mainly on dealing with smuggling and expatriating smugglers on the government's behalf. While these activities gradually became routine, demands became increasingly powerful for larger scale cooperation. The first talks between the SEF and the ARATS, held in Singapore during April 1993, marked a new milestone for further cooperation and dialogue between China and Taiwan. More importantly, a network for regular consultation has been agreed upon.

Another influential organization has been the Commercial Development Foundation across the Taiwan Strait led by P. S. Chan, the Chairman of the Taiwanese Association of Commerce. Sponsored by 48 entrepreneurs who are currently active investors in China, the Foundation exists to collect business information, provide consultation services, arrange commercial exhibitions, bring together Taiwanese businessmen, and to carry out marketing research (Huang, 1993). As usual, China immediately created a parallel organization, the Economic and Trade Association Across the Strait, to liaise with it. China's intention to take the lead in private sector transactions is clear. Some leading industrialists in Taiwan and Hong Kong have appealed for greater cooperation between the three economies. In this context the "Hong Kong-Taiwan Committee For Economic and Trade Cooperation" was established in 1992 to strengthen economic and trade cooperation between Hong Kong and Taiwan. Thereafter the Committee promised to meet on a regular basis in rotation of two sides once a year. At the second meeting, held in Taipei during May 1993, over twenty entrepreneurs from Hong Kong, led by M. S. Chan, the Chairman of the General Chamber of Commerce of Hong Kong (GCCHK), and about a hundred local industrialists led by S. F. Hsiu, the former Chairman of the Chinese National Federation of Industries (CNFI), called for improved administrative regulations to speed up the trade between them. Because of its importance Taipei's decision-makers in economic and mainland affairs were also present at the event.

Most recently, Chairman Hsiu of the CNFI has in company with the GCCHK and the China Promotion Council for International Trade (CPCIT) launched omnidirectional moves to integrate economic resources inside the CEA. He believes that, in terms of capital, resources, and technologies, current transaction networks do not measure up to the objectives of economic effectiveness (*Central Daily News*, September 11, 1993). He has firmly devoted himself to the concept of forming a Southern China Economic Sphere upon which the CEA economic integration is based. In the present stage, economic transactions, trade, foreign investment, and making-up industrial division of labour, have to a considerable extent taken place in the area of Hong Kong, Taiwan and Southern China, i.e., Guangdong and Fujian provinces.

Hong Kong and Taiwan's investments have largely been pouring into China's coastal areas, mainly in the provinces of Guangdong and Fujian, due to their geographic proximity, and to sharing common culture and dialects. According to Taiwan's official statistics on the locations of its investment in China, permitted investment has gone mainly to Shenzhen, Guangdong, Xiamen, Guangzhou, and Fuzhou, and accounted for 55.95 percent of Taiwan's total permitted investment in China for 1991; and 44.37 per cent for 1992.[34] In addition, information about the geographic locations of Taiwanese manufacturers, also shows that the coastal areas have been the most favoured. In April 1991, among the 2503 companies registered with the Taipei government, there were 1854 companies (74.1 per cent) relocated in Southern coastal China.[35]

In Chairman Hsiu's report on an investigative trip made in late October 1993 to Hong Kong and China, he suggested that in terms of industrial cooperation, Taiwanese mainland investment will have to be brought to a macroeconomic-level in the CEA as a whole, and develop more details for the industrial division of labour with China through individual industrial associations (*Central Daily News*, October 31, 1993). Furthermore, K. C. Lin, President of Sino-Japan Feed Industry Co., proposes that to be more effective in managing trade, commerce, and investment between China, Taiwan, and Hong Kong, it is best to establish a collective sharing company combined with capital and entrepreneurs from the above economies through tasks undertaken jointly for the CNFI (Taiwan), the GCCHK (H. K.) and the CPCIT (China).[36] The essence of this proposal is combining: Taiwan's capacity in design, commercial R & D, marketing, and management; Hong Kong's financial and trading prominence; and China's promising production and manufacturing advantage. Although so far this plan is merely for the sake of industrial cooperation, a keen willingness to form "a company," which to some extent would be a managing body for further cooperation, has been shared by many businessmen within the CEA. To avoid any uncertainty, Lin's proposal has been regarded as a practical move to integrate the CEA's capital, technology, marketing, and manufacturing and to guarantee the current optimal economic transactions between the three economies (*Central Daily News, November* 3, 1993). If this can be worked out, industrial cooperation between China, Taiwan, and Hong Kong will be able to bring about the hope for economic integration.

Conclusion

Although the CEA has often been the marketing concept of the region's business community, its increasing economic importance has become the focus for industrial development, economic growth and regional economic integration. Since the mid-1980s Hong Kong and Taiwan have in order to survive external competition in trade and industrial development been undertaking industrial restructuring. China, on the other hand, has been on the reformist track since 1979, during which period its industrial structure and economy as a whole have been rapidly modernizing. It is this fundamental economic complementarity between China (market and labour), Taiwan (capital, manufacturing experience and technology) and Hong Kong (financial service and transport center), which has provided the favourable incentives for their economic cooperation.

The international political and economic context of post-Cold War which favours economic interaction, because of the increased intensify of industrial competition and overseas Chinese investment in the Asia-Pacific region, has accelerated the CEA's process of formation. More importantly, intense global industrial competition and the emergence of regional trade groupings with protectionist measures, have marginalized Taiwan and Hong Kong's trading position as the suppliers of cheap manufacturing products in world markets. As part of a strategy for industrial restructuring, Taiwan and Hong Kong have relocated their manufacturing sites to and increased their direct investment in low-cost neighbouring economies, i.e., China and Southeast Asian countries. As China is experiencing rapid economic development, the potential market there provides Taiwan and Hong Kong their best opportunity for restructuring industry. Moreover, industrialists from China, Hong Kong, and Taiwan have recently started to campaign for closer economic cooperation in the hopes of building-up an industrial partnership within the CEA. While economic benefits, instead of political motives, have been the constant driving force behind the formation of the CEA, from the beginning the private sector has been leading the CEA's process of economic integration. The peculiar political atmosphere between China and Taiwan, and between China and Hong Kong, has reinforced this trend.

Notes

1. The notion of the "Chinese Economic Area" has been widely identified by academics and in international institutions such as the OECD and the World Bank, although there are some other terms in use, e.g. "Greater China", "South China Economic Sphere", "Chinese Economic Community". Whatever the term, they all refer to China, Taiwan, Hong Kong, Macao, and sometimes even Singapore. In reality, the CEA is based on the "South China Economic Sphere" which includes Hong Kong, Taiwan, Fujian, and Guangdong. Through their close industrial links, a full schedule for integration may be appearing.
2. According to Balassa's analysis of the levels of economic integration, there are five stages: free trade area, customs union, common market, economic and monetary union, and total economic integration.
3. Singapore has been ranked in the ANICs' group, while another small but rich member of the ASEAN, Brunei, is also considered to be different from the rest of ASEAN countries.
4. In terms of the composition of manufactured exports, the obvious increase of exports in office machines, telecommunications and sound equipment, and transport equipment has shown these exports' changing pattern. In Singapore and South Korea, the share of these sophisticated industries accounted for less than 2 per cent in 1966 and more than 30 per cent in 1987. Taiwan's export structure also shows a similar change. Its share of these industries rose from 16.4 per cent in 1970 to 28.3 per cent in 1983.
5. In the case of Thailand, while its heavy industries, high-skill, labour-

intensive industries rose from 41.6 per cent in 1970 to 50.5 per cent in 1986, food and related industries declined from 39.3 per cent to 26 per cent in the same period.

6. In various articles, the "flying geese" pattern, which was first postulated by Kaname Akamatsu in the 1930s, has been widely used to describe the fast growing East and Southeast Asian economies led by Japan.
7. Based upon a criticism to the Vinerian approach of weighing the cost and benefits of regional integration, The Johnsonian approach was developed systematically by Harry G. Johnson, and C. A. Cooper, and B. F. Massel.
8. Mounting appreciation pressure on the Japanese yen has placed Japanese companies on the verge of losing competitive advantage, which has directly resulted in Japan increasing procurement for components from neighboring economies, instead of from costly domestic producers. The bicycle industry, among others, is a prominent one.
9. OEM is a way of industrial cooperation between big name companies and producers, which allows manufacturers to produce goods for their buyers licensed with buyers brand names, such as in the foot wear industry (OEMs: Reebok, Hi-Tech, and Puma) and the toy industry (OEMs: Hasbro, Mattel, Brandai, and Tomy). Even in the computer industry, many of the world's leading computer makers have turned to Taiwan's OEMs, such as IBM, Hewlett-Packard, Compaq, and Epson.
10. According to the EC experience, firms are pooling their resources together for R & D and market share in order to get better positions against their American and Japanese competitors, before and after economic integration.
11. The same year, Taiwan accounted for 9.3 percent, Japan 6.6 percent, the US 4.6 percent, and European Union 2.2 percent.
12. According to the declarations of China's State Council, "Provisions for the Encouragement of Foreign Investment" (1986), and "Provisions for the Encouragement of Investment By Taiwan Compatriots" (1988), special privileges have been given to Hong Kong and Taiwan investors. Some Chinese companies redirect their returns through agents outside China so they are seen as foreign investment and the companies receive tax breaks.
13. Information taken from interviewing Taiwanese businessmen over July and August, 1993, in Taipei. Y. L. Wang, deputy-manager of Chuanshyh Garment Co., Ltd., pointed out that an office in Hong Kong, no matter the trade under whatever trade name is crucial for investors to get money inflow from Taiwan no matter the trade name, is crucial for investors managing money inflow from Taiwan and outflow to China. However, its most important job is to link to Hong Kong's financial service channels to make sure that their payback on investment can be safely steered out of China.

14. Hua-Nan and the First Commercial Banks and Bank of Taiwan have branches in Hong Kong. Chang Hwa Commercial Bank is to follow suit soon. The Medium Business Bank of Taiwan, China-Trust Commercial Bank and Taipei Business Bank have also set up Hong Kong offices. See *Central Daily News*, International Edition (24 May, 1994).
15. In an interview, Thomas Huang, Chairman of the Taiwan Sweater Industry Association, complained that it was this particular law which has driven off many businesses in the past few years. The interview has conducted in Taipei, on July 23, 1993.
16. The most obvious case here is the footwear industry. For instance, the American firm, Nike, guarantees some regular orders for Taiwanese partners to manufacture in China. In return, Taiwanese suppliers to Nike brought their management teams to China. See *Far Eastern Economic Review* (September 17, 1992), p. 24.
17. The survey which focused on CEO business confidence in the 1000 largest manufacturers was conducted by Commonwealth Magazine Co. The results were published in *Commonwealth* (March 1, 1992).
18. The survey sampled 242 companies on the stock market regarding their FDI trends and analyzed the possible influence on Taiwan industrial structure as a whole. "Ch'u Taiwan Hou Chi Yieh Wan Na Li Chui?" (Where are enterprises to go, after leaving Taiwan?), *Business Weekly* (May 24, 1993).
19. About the government's worry see K. L. Kao, "Trade and investment across the Taiwan Straits maintaining competitive advantage, pursuing complementarity," Mainland Affairs Council, The Executive Yuan, R. O. C., 1993, pp. 11-13.
20. Chinese belief of "Lo yeh guei ken" (As a leaf is for the root, so a person is for his homeland.) keeps driving overseas Chinese home.
21. Many scholars agreed with overseas Chinese entrepreneurs helping to establish the CEA in Beijing's Conference of "Mainland, Taiwan, and Hong Kong Economic Cooperation Trend" in 9-10 September, 1993.
22. Many Taiwanese businessmen interviewed in August 1993 commonly acknowledged that successful "guan xi" means a successful start for business.
23. Charles H. C. Kao points out that Taiwan's mainland policy is not made by the government or the KMT, but by Taiwanese businessmen who have invested in China. The Vice Chairman of Strait Exchange Foundation, C. V. Chen, confirms that Taiwanese businessmen are the promoters of developments in mainland policy and the relations between the two sides of the Strait.
24. For example, members of the Bicycle Manufacturing Committee of the Taiwan Association of Vehicle Industries confirmed that it was decided to import bicycle components from China in order to increase competition in related sectors. *Central Daily News* (August 30, 1993). Taiwan's

clothing industry is hoping for the government's consent of importing more semi-finished products from China in order to build the international division of labour. *Central Daily News* (July 8, 1993).

25. Qian Qichen, in his visit to Los Angeles on November 22, right after the annual meeting of Asian Pacific Economic Cooperation conference in Seattle, openly expressed Beijing's attitude toward the concept of a "Greater China Economic Sphere". It was the first time a Chinese official had commented on this concept.
26. I. S. Kao, Director of the Industrial Development and Investment Center, under the Ministry of Economic Affairs, quoted this information to confirm the government's intention to act on this change in "The Feasibility of Taiwan to be Asia-Pacific Regional Operation Center".
27. In an interview on August 13, 1993, Dr. H. H. Tsai, Vice Chairman of Council for Economic Planning and Development, R. O. C., admitted that the government has endorsed the formation of the CEA in its program for the regional operation center.
28. Professor C. Y. Cheng of Ball University, USA, and Professor W. S. Chen of Fu-Dan University, China, argued that pooling resources in the CEA through rational distribution could generate a certain economic unity in the Conference for "Trade Relationship Between the Two Sides of the Strait" held in Taipei, September 27-28, 1993.
29. According to his comments, Taiwan has a solid manufacturing base, plenty of skilled labour, a superior geographic location in the Asia-Pacific market, and the same cultural background as China. Foreign companies can therefore use Taiwan as a multi-functional base in the CEA. *Central Daily News (August 13, 1993).*
30. Information obtained from an interview with Mr. Jia-Bin Duh, Deputy General Manager, Hua Pu Information Technology Co. Ltd. (Subsidiary of Hewlett-Packard in China), on August 6, 1993 in Taipei.
31. Industrial cooperation could be leading not only to the formation of joint ventures, but also to integrated management, labour markets, marketing networks, to name but a few developments. Hence, the TNCs' lead may draw many more small and medium size enterprises towards industrial cooperation.
32. "A street for electronics," which is invested by Taiwanese electronics and computer industries, is predicted to be an electronics and computer center for Eastern China. It has been formally operating since October 1994.
33. Information was based on Investment Commission, Ministry of Economic Affairs, R. O. C.
34. 1854 companies include companies in Xiamen (275/11%), Fujian Province (323/12.9%), Dongguan (187/7.5%), Guangdong Province (561/22%), Shenzhen (379/15.1), Zhuhai, and Shantou (129/5.2)
35. This proposal was announced on November 1, in Hong Kong at the

conference for "Lian An Shan Bien Gin Mao " (Economic and trade relationship amongst three parties between two sides of the Taiwan Strait), which was the first meeting ever joined by the leading industrial associations of China, Taiwan, and Hong Kong.

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