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Chapter 15

Understanding the Chinese-Speaking Economies

Mt. Hua, Shaanxi. Source: http://en.wikipedia.org/wiki/Mount_Hua.
Mt. Hua (Huashan) is located near the southeast corner of the Ordos Loop section of the Yellow River basin, south of the Wei River valley, at the eastern end of the Qinling Mountains, in southern Shaanxi province. Mt. Hua is usually referred to as one of the birthplaces of the ancestors of the Hua-Xia (Han) Chinese now living in Hong Kong, Macau, Taiwan, and mainland China.

The king of the state of Wei intended to attack Handan. Ji Liang heard of this and went to see the king, and said: ‘Your majesty, on my way here I saw a man driving his carriage which was facing north. He told me that he wanted to go to the state of Chu. ‘Why are you going north?’ I asked. ‘I have fine horses,’ he said. ‘Even though you have good horses, this is not the road to Chu,’ I pointed out. ‘I have plenty of money for my journey,’ he said. ‘But this is not a right direction,’ I said. ‘I have an excellent driver for my carriage,’ he said. The better the resources, the farther he was going from Chu. Now you seek to raise above all the kings and win the support of the common people everywhere. However, you plan to extend your territories and raise your prestige by attacking Handan, relying on the powerful strength of your state and the well-trained soldiers. This is as effective as going north hoping to reach the state of Chu.’

— Zhanguoce (475–221 BC)

15.1 THE GREATER CHINA AREA

The term ‘Greater China’ is defined in this chapter as one which includes Taiwan, Hong Kong, Macau, and mainland China. There have been different names for the greater China area, such as ‘the Chinese circle’, ‘the Chinese community’, ‘the greater China community’, ‘the Chinese economic circle’, ‘Chinese economic area’, ‘China economic zone’, and so on. Probably first used by George Cressey at least as far back as the 1930s, the term ‘Greater China’ was to refer to the entire Chinese empire, as opposed to China proper (Harding, 1993, p. 660). The term ‘Greater China’ is now generally used for referring to the cultural and economic ties between the relevant territories, and is not intended to imply sovereignty. Sometimes, to avoid any political connotation, the term ‘Chinese-speaking world’ is often used instead of ‘Greater China’.

In order to help understand the economic mechanisms of the greater China area, let’s briefly review the historical evolution of Hong Kong, Macau, and Taiwan and the current situations of their economic relations with mainland China.

15.1.1 Hong Kong

In ancient China, Hong Kong was initially included in Bao’an county, while the latter today also included Donguan county and Shenzhen municipality, Guangdong province (see Figure 15.1). In 1573, Xin’an county was established and was entitled to administer Hong Kong for more than two hundred years since that time. Following the end of the first Opium War, the Treaty of Nanjing in 1842 ceded the island of Hong Kong to Britain in perpetuity. Kowloon, Stonecutters’ Island and some small islands were annexed in 1860. In 1898, Britain acquired, under the ‘Treaty of Peking’, what is known as the New Territories and 236 associated islands, which were mainly agricultural lands, which were leased from the Qing dynasty (1644–1910), on a 99-year lease. At present, Hong Kong consists of the island of Hong Kong (83 sq. km), Stonecutters’ Island, Kowloon Peninsula, and the New Territories on the adjoining mainland, with 1,068 sq. km of land and a population of just over six million.

Over the past few decades, there has been a special geopolitical scenario between the two sides of the Shenzhen river. Even though the Chinese character, Shenzhen, means a deep gutter, no one would have expected that the ‘gutter’ would serve as a forbidden frontier between the socialist mainland China and the capitalist Hong Kong in the mid-twentieth century, and that it would also create economic prosperity for Hong Kong and continue to fuel the industrialization of the South China area.

China has always maintained that the three treaties on Hong Kong were signed under coercion, and were therefore unjust. On 19 December 1984, the Chinese and British governments issued a joint declaration in relation to the question of Hong Kong. As a result, the sovereignty of Hong Kong was transferred from the UK to the PRC on 1 July 1997. Upholding national unity and territorial integrity, maintaining the prosperity and stability of Hong Kong, and taking account of its history and realities, China has made Hong Kong a Special Administrative Region (SAR) of the People’s Republic of China (PRC) in accordance with the provisions of Article 31 of the Constitution of the PRC. The Joint Declaration also provides that for 50 years after 1997, Hong Kong’s lifestyle will remain unchanged. The territory will enjoy a high degree of autonomy, except in relation to foreign and defense affairs, and China’s socialist system and policies will not be put into practice in the SAR. Under the principle of ‘one country, two systems’, the socialist system and policies shall not be practiced in the Hong Kong special administrative

1. See Zhou (1989), Hwang (1988, p. 924), Zheng (1988), Feng (1992, pp. 6–9), Fei (1993, p. 54), Segal (1994, p. 44), Zhou (1992, pp. 18–21), Yang (1992). In addition, Dong and Xu (1992, pp. 10–13) and Wei and Frankel (1994, pp. 179–90) add Singapore, Malaysia, Indonesia, Thailand, and the Philippines to this area.

2. See ‘Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People’s Republic of China on the Question of Hong Kong’, Beijing, 19 December 1984.
region, and the previous capitalist system and way of life shall remain unchanged for 50 years'.

Since the Asian financial crisis, Hong Kong has tried to exploit its connections with mainland China in order to boost its economy. The measures introduced included the relaxation of controls against tourists and skilled workers from the mainland, and the promotion of economic integration with the Pearl River delta. Hong Kong also proposed the formation of an FTA (free trade area) with the mainland. On 29 June 2003, the ‘Mainland and Hong Kong Closer Economic Partnership Arrangement’, or ‘Closer Economic Partnership Arrangement’ (CEPA) was signed between the Government of the Hong Kong Special Administrative Region and the Central People’s Government of the People’s Republic of China. In addition, annual supplements have been signed between the Mainland and Hong Kong governments. This was the first free-trade agreement for either the mainland or Hong Kong.

15.1.2 Macau

Located in the west side the Pearl River (Zhuijiang), Macau was included in Xiangshan county, Guangdong province in ancient times. In 1533 the Portuguese rented Macau from the Chinese government. After the Opium War (1840–42), they extended their possessions in Macau. Macau became a formal Portuguese colony in 1887. Bordering on Zhuhai municipality, Guangdong province, Macau now has an area of 16.92 square kilometers, including Macau peninsula and Taipa and Toloane islands. Macau has a population of more than 400,000. In accordance with the Sino-Portugal Joint Declaration signed on 15 January 1988, Macau was handed over from the Portuguese administration to mainland China on 20 December 1999. Since this time, Macau has become the second SAR of the PRC, operating like Hong Kong under the principle of ‘one country, two systems’.

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3. See ‘Basic Law of the Hong Kong Special Administrative Region of the People’s Republic of China’, Article 5, the Third Session of the Seventh NPC, 4 April 1990.
4. For the full text of the CEPA, see http://www.tid.gov.hk/english/cepa/files/main_e_pdf. Accessed on November 29, 2011.
In order to promote Macau’s economic strength, a similar agreement, known as the Mainland and Macau Closer Economic Partnership Arrangement, was signed between the Government of the Macau Special Administrative Region and the Central People’s Government on 18 October 2003.

15.1.3 Taiwan

With 36,000 square kilometers of land and a population of more than 20 million, Taiwan is composed of Taiwan, Penghu, Mazu, and other small islands adjacent to mainland China (see Figure 15.2). The Sino-Japanese War was ended with the signing of the Shimonoseki Treaty on 17 April 1895. Under the Treaty, Japan seized Taiwan and the Penghu islands from the Qing dynasty (1644–1911), subjecting Taiwan to colonial rule for half a century. At the end of World War II, in cooperation with the Allied forces, China defeated Japan. On 25 October 1945, Taiwan and Penghu islands returned unconditionally to the Chinese government, marking the end of Japan’s colonization. However, with the civil war coming to an end, Taiwan and mainland China were again politically separated in 1949 when the Nationalist-led government fled to Taiwan and the Communists took power in the mainland.

Since the late 1940s, in practice China has been ruled by two ideologically antagonistic regimes, each of which has laid claim to the sole sovereignty of the whole nation and treated the other side as its ‘rebel’ local government.\(^5\) The division of the Chinese nation extends through many phases of Chinese life – political, economic, and social. The decades-long cross-Strait separation led to a series of tragic conflicts and produced mutual distrust and many other human and national agonies. Since then, it has become the inviolable mission and long-term goal for the two regimes to maintain peaceful relations and to promote all-round revitalization of the nation.

At present, Taiwan has only maintained 23 diplomatic allies, most of which are small developing countries on Pacific islands, in Africa, or in Latin America. According to the website of the ROC Ministry of Foreign Affairs (MOFA), Taiwan currently has its own informal representations in 57 countries, while 49 countries maintain offices in Taiwan.\(^6\) The names and levels of competence of these representations vary considerably both on the Taiwanese as well as on the foreign side, and they all stop short of being formal embassies, although many of them fulfill similar functions. In addition, MOFA’s website also lists 32 international organizations of which Taiwan is a member.

Taiwan joined three quarters of them after 1987, when it started its policy of overture to international organizations.

In 2008 new President Ma Ying-jeou saw that Taiwan was fighting a losing battle with more and more states drawn into China’s orbit as a fast power. He proposed a ‘diplomatic truce’ with the mainland, meaning in part that both sides would stop stealing each other’s diplomatic allies. Since then, no country has switched sides (Winkler, 2011).

15.1.4 Summary

For a period of time, in spite of their common history, and cultural and linguistic homogeneity, the four economic areas have followed divergent political systems, which have resulted in different social and economic performances. For example, as soon as the PRC was founded in 1949, mainland China had effectively adopted and practiced a Marxist-Leninist command economy as imposed by the Soviet Union, before it decided to introduce structural reform in the late 1970s. Hong Kong and Macau – two former colonial economies under the British and Portuguese administrations, respectively – have been fundamentally incorporated into Western-style society, albeit that Chinese culture and language are still accepted by most of the citizens that live there. From an economic viewpoint, Hong Kong and Macau each have an autonomous entity, are separate customs territories and founding members of the WTO. Each has an independent fiscal and monetary system, issuing their own currencies that are linked to the US dollar. Each issues its own passport and retains its legal system, maintaining its own court of appeal. Each runs its internal affairs without interference from the central government, except in matters of defense and foreign affairs.

Taiwan had been under the colonial rule of the Japanese for 50 years before it was liberated and returned to China in 1945. With the Civil War (1946–49) coming to an end, however, the newly reunified nation was separated by two ideologically rival regimes – the Nationalists (Kuomintang, or KMT) in Taiwan and the Chinese Communist Party (CCP) on the mainland. Backed by the United States, Taiwan followed the capitalist road of economic development. While both sides of the Taiwan Strait have declared that there is only one China in the world and that their motherland should be reunified sooner or later, many of the political issues arising from the bloody war which was eventually detrimental to national cooperation still remain unresolved.

The end of the Cold War and the implementation of economic reform and the open-door policy in mainland China in December 1978 heralded a new era. In January 1979 the USA established diplomatic relations with mainland China and broke off its long-standing diplomatic relations with Taiwan. Ties between Hong Kong and the mainland developed very rapidly. The development of

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5. For example, the Mainland Commission has still been established by the Taiwanese government to officially manage its ‘mainland affairs’, while in mainland China, the Office for Taiwan Affairs is also authorized by the State Council to deal with the ‘Taiwan affairs’.
6. Data source: http://www.mofa.gov.tw. Accessed on November 22, 2011.
mainland Taiwan ties mainly took place after November 1987 when Taiwan lifted its ban on visits to the mainland. Hong Kong and Macau reverted to Chinese sovereignty in 1997 and 1999, respectively, while preserving their capitalist system for 50 years under the formula of ‘one country, two systems’.

It can be seen that since the 1980s the greater China area has been undergoing various political and economic
transformations. Since 1997 and 1999, respectively, Sino-Hong Kong and Sino-Macau relations have no longer been treated as international in nature. Regardless of the political separation, non-governmental relations between the two sides of the Taiwan Strait have been developed gradually since 1980 when the Standing Committee of the NPC firstly publicized ‘Message to the Taiwan Compatriots’, especially since 1988 when private visits from Taiwan to the mainland were permitted by the Taiwanese government. In the remainder of this chapter, we will try to analyze economic performances and relations between Hong Kong, Macau, Taiwan, and mainland China.

15.2 A MULTIREGIONAL ECONOMIC COMPARISON

15.2.1 Social and Economic Differences

Despite the common historical, cultural, and linguistic homogeneity, the greater China economic area has followed different routes of economic development. Hong Kong and Macau have been under the colonial administrations of the UK and of Portugal, respectively. Taiwan was a Japanese colony between 1895 and 1945 and, following a short period of reunification with mainland China, has been operating independently from the rest of the world. As a result, significant social and economic differences have been present in the four parts of the area, especially since 1949. In what follows we will analyze them in detail.

Table 15.1 shows the basic social and economic indicators of greater China in the early years of the twenty-first century. In 2003, Taiwan’s GDP was 1.8 times that of Hong Kong. The GDP of the mainland was 4.9 times that of Taiwan and 8.9 times that of Hong Kong. The mainland’s 2003 exports of US$438 billion surpassed Taiwan’s exports of US$144 billion and also substantially surpassed the level of Hong Kong’s domestic exports (that is, exports made domestically in Hong Kong) of US$16 billion. The figure for Hong Kong’s total exports (that is, including re-exports) of US$225 billion is large because Hong Kong is re-exporting Chinese products to third countries and third-country products to China. In other words, Hong Kong is China’s gateway to the world in commodity trade.

From Table 15.1, one may also note that all parts of the greater China area have enjoyed higher annual GDP growth rates than most of the remaining economies in the world. Particularly noteworthy is the fact that mainland China’s GDP growth rate is among the highest of all of the world’s dynamic economies. If all goes according to plan, mainland China’s economic size and per capita GDP will continue to increase at a higher rate than those of the other parts.

Hong Kong’s economy was seriously affected by the Japanese invasion during World War II. The population decreased sharply from 1.6 million in 1940 to 0.60 million in August 1945 and 60 percent of the buildings were destroyed (Wu and Liang, 1990, p. 235). By the 1950s and 1960s the constant influx from China of capital and manpower led to the establishment of light manufacturing in Hong Kong. At the same time, Hong Kong’s tax policies began to attract growing levels of foreign investment, adding further impetus to the rapid growth of the territory. In the 1950s Hong Kong began in earnest a new career as a manufacturing and industrial center. Textiles, electronics, watches, and many other low-priced goods stamped ‘Made

| Indicator                          | Taiwan | Hong Kong | Macau | Mainland   |
|-----------------------------------|--------|-----------|-------|------------|
| Area (sq. km)                     | 36,188 | 1,098     | 19    | 9,600,000  |
| Population (million persons)      | 22.5   | 6.8       | 0.4   | 1,284.5    |
| GDP (2003, billion US$)           | 286.8  | 158.6     | 7.9   | 1,416      |
| GDP per capita (2003, US$)        | 12,751 | 23,311    | 17,782| 1,090      |
| Average growth rate of GDP per capita (1978–2002, %) | 5.50 | 3.98 | 2.03\(^a\) | 8.04 |
| Exports (2003, billion US$)       | 144.2  | 224.6 (15.7\(^b\)) | 2.6    | 438.4      |
| Life expectancy (1990s, Female/male, years) | 77/71.8 | 81.2/75.8 | 71/68  |            |
| Adult literacy rate (1990s, Female/male, %)\(^c\) | 86/96 | 88/96 | 95.7\(^d\) | 73/90 |

\(^a\)Growth rate for 1982–2002.
\(^b\)Exports of Hong Kong goods (re-exports are excluded).
\(^c\)ADB (1996, pp. 11 and 28), SSB (1996, pp. 769, 781, and 803).
\(^d\)Xie (1992, p. 115) for labor population.

Source: Websites of the respective governments except those that are noted otherwise.
in Hong Kong’ flowed from the territory in ever-increasing amounts. Restricted by the shortage of land and other natural resources of its own and the closed-door policy in mainland China, Hong Kong’s economy grew very slowly in the period before the 1970s.

Since the late 1970s, Hong Kong’s economy has grown rapidly, as a result of its favorable geographical location in terms of international trade and its proximity to mainland China. During the 1980s Hong Kong started to work with China on a series of joint projects that brought the two closer together. Today the financial service industries have taken over from manufacturing as Hong Kong’s main enterprise. This small territory was the first developing economy to enter the world’s top ten economies and the highest of the ‘four Asian dragons’ in terms of per capita GNP. And while much of the manufacturing is now likely to be done either in the region across the border or further afield, Hong Kong is still one of the world’s largest exporters. Social programs continue to raise the standard of living, which is comparable to that found in many Western countries.

In mid-1997 the Asian financial crisis struck Hong Kong shortly after Hong Kong’s reversion to China. Hong Kong’s GDP contracted by more than 5 percent in 1998, the first recorded instance of negative annual growth since official GDP figures became available in 1961. Though the Hong Kong economy recovered in 1999–2000, the slowdown of the US economy and the September 11 terrorist attack led to another recession, and GDP growth fell to 0.5 percent in 2001. Recovery in the second half of 2002 was interrupted by the outbreak of SARS in March 2003. Since the Asian financial crisis, Hong Kong has tried to exploit its connections with mainland China in order to boost its economy. The measures introduced included the relaxation of controls against tourists and skilled workers from the mainland, and the promotion of economic integration with the Pearl River Delta. Hong Kong also proposed the formation of an FTA (free trade area) with the mainland, resulting in the implementation of the ‘Closer Economic Partnership Arrangement’ (CEPA) on 29 June 2003. The CEPA has brought positive economic benefits to both Hong Kong and the mainland.

For the past 400 years, the mixture of the Western and Chinese societies has resulted in Macau developing a unique cultural landscape. However, Macau’s industrialization only began during the 1960s and it has been restricted by the trade protectionism that was imposed upon Hong Kong by the USA and the EU before the 1980s. Since the early 1980s, the economic development of Macau has benefited greatly from its proximity to both Hong Kong (one of the freest markets in the world) and mainland China (one of the world’s cheapest sources of labor and raw materials). Today, Macau’s three major industries are trade, tourism, casinos, property, and construction.

In recent decades, Taiwan has been successfully transformed from a colonized and agriculturally based economy to a newly industrialized economy and has become known as one of the ‘four Asian economic dragons’. In 1953, its per capita GNP was less than US$200, a figure that grew dramatically to more than US$15,000 in the 2000s. Economic development in Taiwan faced many obstacles, including a lack of energy and industrial resources, high population density, and the need to fund a high level of spending on defense in order to sustain a balance with mainland China (as shown in Table 15.3), a series of failures in foreign affairs, as well as the increasing political pressure coming from the mainland, the effects of regional protectionism, and so on. The Taiwan miracle, however, has been ascribed mainly to the indomitable spirit of the Taiwanese people themselves, embodied in the phrase by Kao and Shong (1992, p. 10): ‘the more difficulties they faced, the harder they would work’.

With the heterogeneous natural and social conditions, there exist substantial differences of real living standards in the greater China area. However, owing to the differing personal consumption structures, as well as their purchasing powers, it is very difficult for us to conduct a complete and reasonable comparison of the four parts. In brief, Hong Kong and Macau, as two municipal economies, have the highest living standards in the greater China area. Nevertheless, the socioeconomic gap between Taiwan and mainland China would be narrowed substantially if the purchasing power differences are taken into account.

Other indicators, such as life expectancy, literacy, and other physical quality-of-life indices, not to mention the political freedom of the individual (which is the most valuable criterion in Western nations), seem to indicate that there exist significant differences within the greater China area.

### 15.2.2 Complementary Conditions

Obviously, the mutually complementary conditions exist in the greater China area in terms of natural resources, labor force, technology, and industrial structure, as demonstrated in Table 15.2. For example, mainland China has adequate and various agricultural products and oil, coal, building materials, some high-tech products, excess and cheap labor, and a huge domestic market. However, mainland China lacks capital, advanced equipment, technology, and management experience, especially in its western, inland areas. Taiwan, with its high levels of capital saving, its portable advanced equipment, and vanguard agricultural and industrial products and management experience, suffers from a shortage of energy and industrial resources, and faces increasing inefficiency and high costs of labor supply. Furthermore, its economic development seems to have been restricted by the limited domestic market. As
the freest economies in the world, Hong Kong and Macau have capital surplus, favorable conditions for international trade, and advanced management experience in commercial and financial markets; while they are severely lacking agricultural and industrial resources, especially fresh water, foodstuffs, energy and land. In addition, like Taiwan, Hong Kong and Macau are also facing a serious deficiency and high cost of labor.\(^7\)

Traditionally, both Hong Kong and Taiwan are strong in labor-intensive, export-oriented industries: Hong Kong’s niches are in clothing, toys, watches, and electronics, while Taiwan’s are in footwear, umbrellas, textiles, and electronics. Such traditional industries have all but relocated to the mainland. The opening up of the mainland came at the right time for Hong Kong and Taiwan as they had accumulated valuable human capital in the management and manufacturing of labor-intensive products for exports from the 1950s to the 1970s. However, successful export-oriented industrialization had raised the levels of their wages, and their labor-intensive industries were threatened in the 1980s. The majority of manufacturing firms in Hong Kong and Taiwan were small, and lacked the ability to operate internationally; for example, to relocate to Southeast Asia. Without the opening of the mainland, the vast majority of these small firms would have gone bankrupt. However, the opening of the mainland allowed small firms to relocate to a culturally familiar environment and thereby utilize their valuable know-how to build a ‘global factory’ – that is, a production base dominating the world market (Sung, 2004, p. 3).

Under the mutually complementary conditions, the multilateral economic cooperation may generate a series of positive effects on the economic development of the greater China area. Through trade and the spatial relocation of such production factors as labor, raw materials, technology and capital, economic optimization will be undoubtedly increased in the greater China area.

### 15.2.3 Summary

Despite their common history and cultural and linguistic homogeneity, over the course of recent decades the greater China area (including Taiwan, Hong Kong, Macau, and mainland China) has followed divergent political and economic systems, which has resulted in different social and economic performances. Along with mainland China’s economic renaissance and the returns of Hong Kong and Macau from the British and Portuguese governments to China in 1997 and 1999, respectively, the economic ties between the three parts as a single sovereign nation have been accelerated under the principle of ‘one country, two systems’.

After the return of Hong Kong and Macau from the British and Portuguese governments to mainland China in 1997 and 1999, respectively, the economic development of the PRC has been further advanced by approximately two to three years.\(^8\) The two sides of the Taiwan Strait, however, have been politically separated for more than fifty years due to the mutual distrust and hostile strategies arising from the bloody conflict between the Nationalists and the Communists at the end of World War II.

It is close to a rule among practitioners and theorists that multilateral conflicts frequently arise from narrow individual interests and the expectations of different communities on the one hand, and a chaotic interdependent system on the other. Notwithstanding the political, economic, and social differences within the greater China economic area, it appears to be increasingly possible for all Chinese, under increasing comparative advantages, mutual complementary conditions, as well as the tendency toward the development of unanimity in relation to political,

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7. During the early 1990s, average labor cost in Hong Kong, Macau, and Taiwan was 10–20 times that in mainland China (Yang, 1992, p. 3).

8. See Annex A for a detailed description of the calculations.

| Economy          | Advantages                                                                 | Disadvantages                                                                 |
|------------------|-----------------------------------------------------------------------------|------------------------------------------------------------------------------|
| Mainland China   | Adequate and various agricultural products, energy, industrial materials, excess labor, some high-tech products, and huge domestic market. | Relative shortage of advanced equipment; shortage of international management experience and economic infrastructures, especially in the western, inland provinces. |
| Taiwan           | High capital saving, advanced equipment ready to move out, vanguard agricultural and industrial products, and management experience. | Shortage of energy and industrial resources, limited domestic market, and insufficient and high costs of labor supply. |
| Hong Kong and Macau | Capital surplus, favorable convenient conditions for international trade, the freest economic environment, and management experience in commercial and financial markets. | Severe shortage of agricultural and industrial resources, especially fresh water, foodstuff, energy, and land and deficiency of labor; limited domestic market. |
social, and especially economic points of view across different parts of the area, to find an appropriate approach that can maximize the benefits for all of the parties concerned, while also taking into account their respective articulated objectives.

15.3 CROSS-TAIWAN STRAIT ECONOMIC RELATIONS

The state of Zhao was going to assault the state of Yan. Su Dai came to see King Hui of the Zhao, and said, 'On my way here I saw a clam just coming out to bask in the sun on the shore of the Yishui river. A snipe came over to peck at the flesh of the clam, which closed its shell and gripped the snipe’s beak. The snipe said, ‘If it does not rain today and tomorrow, you will become a dead clam.’ If you cannot free yourself today and tomorrow, you will become a dead snipe,’ replied the clam. Neither one would give way and eventually a fisherman caught them both. Su continued, ‘Now if Zhao is ready to attack Yan, but if both states were locked in a long stalemate with neither side ready to yield, I am afraid then the powerful Qin will turn up as the fisherman. Therefore, I do hope that you will give this matter careful consideration before you act.’ ‘Well said,’ nodded the King. And he gave up his military plan.

-- Zhanguoce (475–221 BC)

15.3.1 Historical Evolution

The Taiwan Strait became a forbidden boundary in 1949 when the Nationalist-led government fled to Taiwan and, at the same time, the Communist-led government was founded on the mainland. Since then, Taiwan and mainland China have been two divergent regimes. Against the common cultural and linguistic homogeneity, mainland China chose essentially to pursue a socialist line, while Taiwan followed the route of market-oriented capitalism. Furthermore, the two sides have also treated each other antagonistically, particularly during the high tide of military confrontation, when the mainland claimed that it would liberate the Taiwan compatriots from the black society sooner or later, while in turn Taiwan maintained that they would use the ‘three democratisms’ to reoccupy the mainland eventually.

Throughout the 1950s and the 1960s the Taiwan-based Nationalists had been the internationally recognized government representing China as a whole. On October 15, 1971, the United Nations seat was changed from Taiwan to mainland China in accordance with UN Resolution No. 2758. Since this time, the international positions of Taiwan and mainland China have been reversed. Following the United States’ transference of its diplomatic relations with China from the KMT-led Taiwan to the CCP-led mainland in December 1978, an increasing number of Western nations began to establish their own formal ties with the mainland. As a result, Taiwan lost most of its friends.

Even though ‘[the cross-Taiwan Strait] reunification does not mean that the mainland will swallow up Taiwan, nor does it mean that Taiwan will swallow up the mainland’ (Jiang, 1995, p. 2), many critical issues concerning the cross-Taiwan Strait relations still remain unresolved. For instance, even though both mainland China and Taiwan have declared to the outside world that they are pursuing the ‘one China’ policy, the contents of which are absolutely different from each other. Mainland China proudly stresses that the ‘People’s Republic of China’ (PRC) has been one of the five permanent members of the UN’s Security Council and of course should be – and has already been – the only legal government representing China of which, to be sure, Taiwan is only a province.9

The Taiwanese government, however, strongly argues that the ‘Republic of China’ (ROC) founded by Dr Sun Yatsen has existed since 1911 and is still in rapport with a certain number of independent nations. More importantly, in addition to Taiwan’s remarkable economic growth and social progress, the Taiwanese government, after a long period of silence, has increasingly felt that it is time to expand its international presence and to let the outside world know the fact that there exists the ‘Republic of China on Taiwan’ at least in parallel with the ‘People’s Republic of China’ in the mainland (see Box 15.1).

A comparison of military expenditures between Taiwan and mainland China is shown in Table 15.3.

Nevertheless, progress toward peaceful relations has been registered in negotiations over a number of specific issues. In order to find a practical way to maintain contacts, each of the two sides established a ‘non-governmental’ institution, viz., the Foundation of the Taiwan Straits Exchanges (FTSE) in Taiwan and the Association for the Taiwan Straits Relations (ATSR) on the mainland. During the early 1990s, the ATSR–FTSE talks represented forward steps in the relations between the two sides of the Taiwan Strait. In November 1992, the mainland China-based Association for Relations across the Taiwan Strait (ARATS) and the Taiwan-based Straits Exchange Foundation (SEF) held a meeting in Hong Kong. Three months before the meeting, the Taiwan side (on August 1, 1992) published the following statement in respect of its interpretation of the meaning of ‘one China’:

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9. The PRC’s attitude towards Taiwan’s position in the international community may be briefly summarized by Jiang (1995, p. 2) as that ‘... Under the principle of one China and in accordance with the charters of the relevant international organizations, Taiwan has become a member of the Asian Development Bank, the Asian-Pacific Economic Cooperation Forum, and other international economic organizations in the name of “Chinese Taipei”.'
Understanding the Chinese Economies

Both sides of the Taiwan Strait agree that there is only one China. However, the two sides of the Strait have different opinions as to the meaning of ‘one China.’ To Peking, ‘one China’ means the ‘People’s Republic of China (PRC),’ with Taiwan to become a ‘Special Administration Region’ after unification. Taipei, on the other hand, considers ‘one China’ to mean the Republic of China (ROC), founded in 1911 and with de jure sovereignty over all of China. The ROC, however, currently has jurisdiction only over Taiwan, Penghu, Kinmen, and Matsu. Taiwan is part of China, and the Chinese mainland is part of China as well.10

The Kuomintang (KMT) led ROC government had expressed the 1992 meeting’s outcome as ‘one China with different interpretations’: that both sides agreed that there was one China, but indirectly recognized and respected that both sides had different interpretations of that concept.

By contrast, the PRC government consistently emphasizes that the 1992 meeting reached an understanding that there is ‘one China’. ROC’s main opposition party, the Democratic Progressive Party (DPP), however, did not see the 1992 meeting as reaching any consensus on there being only ‘one China’. Instead, it saw the outcome of the meeting as establishing that the two sides had different interpretations of the status quo.

In Taiwan, supporters of the pan-Green coalition led by the DPP remained insistent that the meetings in 1992 did not come to any consensus over the one China principle. In support of this view, they point out that both Hsu Huei-yu and Koo Chen-fu, who participated in the 1992 meeting as SEF delegates, have publicly affirmed that the meeting did not result in any consensus on the ‘one China’ issue. Instead, they claim, both sides agreed to proceed with future meetings on the basis of equality and mutual respect. Koo stated in his biography that, ‘Both sides across the strait have different interpretations of the 1992 Hong Kong meeting. Rather than using ‘consensus,’ the term of art should be ‘understanding’ or ‘accord’ to better reflect the fact, thus avoiding untruthful application.’

After 1996, the cross-Taiwan Strait relations became strained by two significant developments: (i) the Taiwanese president, Lee Tenghui, insistence on seeking to expand Taiwan’s ‘international living space’ which is aimed at, as claimed by mainland China, creating ‘two Chinas’ or ‘one China, one Taiwan’; and (ii) mainland China’s missile tests within the Taiwan Strait area.

Taiwan’s economy suffered from the Asian financial crisis during the late 1990s, from the September 11 terrorist attack in 2001 and from the Severe Acute Respiratory Syndrome (SARS) in 2003. While economic difficulties have spurred Taiwan toward the establishment of closer links with the mainland, Taiwan was less active than Hong Kong in capturing the mainland market, owing to high levels of political antagonism. Taiwan’s GDP

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10. This statement was published in the Mainland Affairs Council, Executive Yuan, ROC, ‘Consensus Formed at the National Development Conference on Cross-Strait Relations,’ February 1997. – Cited from Kan (2011).
contracted by 1.9 percent in 2001, the first record of negative annual growth since data were first made available in 1951. Taiwan’s unemployment rate rose about 5 percent in 2002, the highest since 1964, when statistics on unemployment were regularly available (Sung, 2004, p. 7). While Taiwan’s business community has been eager to improve relations with the mainland, the election and re-election of Chen Shui-bian (representing the pro-independence Democratic Progressive Party, or DPP) to Taiwan’s presidency in 2000 and 2004, respectively, exacerbated political tensions across the Taiwan Strait.

In fact, the long-awaited breakthrough on direct links has been achieved during the second term of Chen’s presidency. A brief chronology of cross-Strait relations is as follows:

On May 17, 2004, Hu Jintao made friendly overtures to Taiwan on resuming negotiations for the ‘three links’, reducing misunderstandings, and increasing consultation.

In March 2005, China passed the ‘Anti-Secession Law’ where it laid down in writing that ‘the state [the PRC] shall employ non-peaceful means and other necessary measures’ if Taiwan’s formal secession from China becomes imminent.11 In April, there were increased contacts culminated in the Pan-Blue visits to mainland China, including a meeting between the CCP Secretariat General Hu Jintao and then-KMT Chairman Lien Chan.

On March 20, 2008, the KMT party won the presidency in the Republic of China. It also has a majority in the Legislature. On April 12, 2008, Hu Jintao met with ROC’s then-vice-president elect Vincent Siew as chairman of the Cross-strait Common Market Foundation during the Boao Forum for Asia. On May 28, 2008, Hu met with KMT chairman Wu Po-hsiung, the first meeting between the heads of the CPC and the KMT as ruling parties. Dialogue through semi-official organizations (the SEF and the ARATS) reopened on June 12, 2008 on the basis of the 1992 Consensus, with the first meeting held in Beijing. Neither the PRC nor the ROC recognizes the other side as a legitimate entity, so the dialogue was in the name of contacts between the SEF and the ARATS instead of the two governments, though most participants were actually officials in PRC or ROC governments.

On May 1, 2009, the ROC’s financial regulator, the Financial Supervisory Commission, announced that mainland Chinese investors would be permitted to invest in Taiwan’s money markets for the first time since 1949.

On June 29, 2010, the Economic Cooperation Framework Agreement (ECFA) is signed between the governments of the People’s Republic of China (mainland China) and the Republic of China (Taiwan) that aims to reduce tariffs and commercial barriers between the two sides.

On October 10, 2011, in the 100th anniversary of the Xinhai Revolution, Chinese President Hu Jintao calls for reunification with Taiwan; in Taipei, Taiwanese president Ma Ying-jeou calls on mainland authorities to remember Sun Yat-sen’s founding ideals of China as a nation of freedom, democracy and the fair distribution of wealth.

15.3.2 Bilateral Economic Cooperation

Bilateral trade and economic exchanges between Taiwan and mainland China had been frozen before 1979, except for small amounts of indirect trade of, among others, Chinese medicine and other native products from mainland China to Taiwan (mainly conducted via Hong Kong). In 1979, mainland China’s ‘Taiwan policy’ was transformed from ‘liberating Taiwan’ to ‘peaceful reunification’. Since this time, indirect trade between the two sides of the Taiwan Strait and the Taiwanese investment in mainland China via Hong Kong and other regions have grown rapidly as a result of the cross-Taiwan Strait détente. In addition, tourism, technological and labor cooperation between the two sides have also achieved considerable progress.

In 1985, the Taiwanese government instituted the ‘non-interference’ policy to Taiwan’s exportation to mainland China. Thereafter, the restrictions of the cross-Taiwan Strait trade were gradually worn away under the principle of ‘indirect trading’ – that is, the direct trade partners should be located outside mainland China and trade movements should be via third countries (regions). Until the 1990s, the cross-Taiwan Strait trade had still been managed through a ‘concentrated’ approach in mainland China, not allowing the mainland’s foreign trade companies to deal directly with Taiwanese companies outside Hong Kong and Macau. This policy, nevertheless, has promoted the two sides’ foreign trade companies to open up either sub-companies or branches of their own in Hong Kong and Macau.

During the early period, Taiwanese investment in mainland China was usually conducted under the names of investors from Hong Kong, Macau, overseas Chinese and others who would nominally be accepted by the two sides.12 In order to overcome the lack of foreign capital,

11. The full text of the Law is posted on the website of the Taiwan Affairs Office of the State Council of the PRC (http://www.gwytb.gov.cn/en/Special/OneChinaPrinciple/201103/t20110317_1790121.htm. Accessed November 10, 2011.)

12. In 1985, Chen Guoshun, a Taiwanese businessman, was sentenced in Taipei to 12 years in prison for ‘rebellious’ activities. The prosecutor charged Chen with illegally entering mainland China in 1984, signing a contract, and engaging in direct investment in the mainland. Chen’s sentence sent a shock wave to those who had engaged or intended to conduct direct business activities (Pai Shing Semimonthly, 1 March 1986, p. 52).
mainland China introduced a flexible policy entitled ‘attraction of the Taiwanese capital via Hong Kong and overseas Chinese’ (yi gang yin tai, yi qiao yin tai) which was intended to encourage Taiwanese businessmen to invest in mainland China. Since October 1990, when the Taiwanese government formally allowed Taiwanese businessmen to invest in mainland China, it has always required that the Taiwanese investors should be under the names of their sub-companies housed in the third areas. In order to encourage Taiwanese businessmen to invest in the mainland, mainland China promulgated the ‘Regulations Concerning the Promotion of the Taiwanese Compatriots’ Investment’ in July 1988 and the ‘Law of Protecting the Taiwanese Compatriots Investment’ in March 1994, respectively.

Financial movements between Taiwan and mainland China had been prohibited strictly by the Taiwanese government before May 1990 when the South China Bank (in Taiwan) was allowed to indirectly (via a British bank in Hong Kong) offer individual financial businesses from Taiwan to mainland China. Since then the level of Taiwanese investment in mainland China has increased dramatically. In July 1993, financial movements were able to extend from individual to business activities, and furthermore banks in the Taiwan area were able to receive funds sent indirectly from mainland China. As Taiwanese businessmen were only allowed to invest in mainland China via third regions or countries, this kind of ‘indirect investment’ is, in theory, one between a third region (country) and mainland China, which might result in many unresolved issues.

In Taiwan, the population is identified mainly by two groups – native Taiwanese and Han- and other ethnic Chinese who fled to Taiwan when the Nationalists (KMT) lost the mainland in 1949. In addition to the cross-Taiwan Strait trade and Taiwanese investment on the mainland, other exchanges between the two sides of the Taiwan Strait have also grown rapidly since many Taiwanese have relatives in mainland China. Since November 1987, when Taiwanese citizens were first allowed to pay private visits to mainland China, there has been a considerable increase in the numbers of visitors from Taiwan to the mainland, resulting in a large amount of expenditure including traveling expenses, donations and others. In addition, there have been rapid developments in terms of the exchanges in labor, science and technology between the two sides.

In spite of the very cool political relations during the Chen Shui-bian years, economic relations continued to intensify. Mainland China replaced the United States as Taiwan’s most important trading partner around 2002. In 2008 Taiwan’s exports to mainland China and Hong Kong together (US$99.6 billion) were more than three times greater than Taiwan’s exports to the United States (US$30.8 billion) (Bottelier, 2009, p. 100). On June 30, 2010, the Economic Cooperation Framework Agreement (ECFA) was signed between and the ARATS and the SEF, both of which represent the governments of the People’s Republic of China (mainland China) and the Republic of China (Taiwan), respectively. The ECFA is a preferential trade agreement that aims to reduce tariffs and commercial barriers between the two sides. For a long period of time, the Chinese government uses its influence on neighboring economic powers to prevent them from signing free-trade agreements (FTAs) with Taiwan. Instead, under the leadership of the Kuomintang, Taipei was motivated to sign the ECFA with mainland China partly in hope that once it has this agreement the PRC will stop pressuring other countries to avoid such agreements with Taiwan. The ECFA has been compared with the Closer Economic Partnership Arrangements (CEPA) signed by mainland China with its two Special Administrative Regions (Hong Kong and Macau).

The ECFA was seen as the most significant agreement since the two sides split after the Chinese Civil War in 1949. The deal is thought to be structured to benefit Taiwan far more than mainland China. The ‘early harvest’ list of tariff concessions covers 539 Taiwanese products and 267 mainland Chinese goods. The advantage to Taiwan would amount to US$13.8 billion, while mainland China would receive benefits estimated at US$2.86 billion. Mainland China will also open markets in 11 service sectors such as banking, securities, insurance, hospitals and accounting, while Taiwan agreed to offer wider access in seven areas, including banking and movies.13

15.3.3 Direct Air and Shipping Services

Dividing the Chinese nation into two economically complementary but politically antagonistic counterparts, the Taiwan Strait has been perhaps one of the most special borders in the world. The nearest distance between Taiwan and mainland China is less than 1.8 km. Since the 1980s, efforts have been made to promote negotiations on the basis of reciprocity and mutual benefit. These have included the signing of non-governmental agreements relating to the protection of industrialists and businessmen. For years, Taiwan businesses had been asking for direct links across the 160-km wide Strait. But the pro-independence Democratic Progressive Party (DPP) had refused to re-establish direct links with the mainland. In the past, planes from the two sides had to fly through Hong Kong or

13. Source: http://www.mashpedia.com/Economic_Cooperation_Framework_Agreement. Accessed on November 18, 2011.
Macau airspace, and cargo ships usually sailed via Japan’s waters. Direct links for postal, air and shipping services and trade between the two sides are the objective requirements for their economic development and contacts in various fields, and since they are in the interests of the people on both sides, it is absolutely necessary to adopt practical measures to speed up the establishment of such direct links.  

The ‘three direct links’ across the Taiwan Strait were finally established in 2008. According to agreements signed between Taiwan and mainland China on November 4, 2008, daily passenger flights have been launched. The two sides have agreed to increase the number of direct charter flights to 108 a week and the frequency from four to seven days a week between 21 mainland cities (Beijing, Shanghai, Guangzhou, Xiamen, Nanjing, Chengdu, Chongqing, Hangzhou, Dalian, Guilin, Shenzhen, Wuhan, Fuzhou, Qingdao, Changsha, Haikou, Kunming, Xi’an, Shenyang, Tianjin, and Zhengzhou) and eight Taiwan cities (Taipei, Taoyuan, Kaohsiung, Taichung, Penghu, Hualien, Kuemen, and Taidong).

In addition, 48 ports in mainland China have been approved for the establishment of direct air and shipping links with Taiwan: Dandong, Dalian, Yingkou, Tangshan, Jinzhou, Qinhuangdao, Tianjin, Huanghua, Weihai, Yantai, Longkou, Fengshan, Rizhao, Qingdao, Lianyungang, Dafeng, Shanghai, Qingbo, Zhoushan, Taizhou, Jiaxing, Wenzhou, Fuzhou, Shongsxia, Ningde, Quanzhou, Xiaocuo, Xiuyu, Zhangzhou, Xiamen, Shantou, Chaozhou, Huizhou, Shekou, Yantian, Chiwan, Mawan, Humen, Guangzhou, Zuhai, Maoming, Ganjiang, Beihai, Fangcheng, Qinzhou, Haikou, Shanya and Yangpu and 15 river ports of Taichang, Nantong, Zhangjiagang, Jiangyin, Changshu, Changzhou, Taizhou, Zhenjiang, Nanjing, Wuhu, Ma’anshan, Jiujiang, Wuhan, and Chenglingji. Taiwan’s ports granted to set up direct links with mainland China include six ports (Keelung (including Taipei), Kaohsiung (including Anping), Taichung, Hualien, Mailiao and Budai) on Taiwan island as well as five other ports on Kuemen, Shuitou, Mazu, Baisa and Penghu islands.

On December 15, 2008, a Trans-Asia Airways jetliner took off from Taipei’s Sungshan airport, carrying 148 Taiwanese tourists and businesspeople on the 80-minute flight to Shanghai. Taiwan’s ERA Cable Station also aired footage of a China Eastern Airline jetliner at Shanghai airport that was preparing to depart for Taipei. The flight time is now cut by an hour because the planes are no longer required to fly south through Hong Kong’s airspace, a detour that Taiwanese authorities had insisted on for security reasons. Cargo ships had been required to stop at the Japanese island of Okinawa north east of Taiwan (see Figure 15.3).

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14. According to CEC (1996), the direct cross-Taiwan Strait links would have resulted in a net saving of US$731.5 million per annum for postal, remittance, air, and shipping services between the two sides of Taiwan Strait, including: (1) US$248.0 million for shipping service; (2) US$437.5 million (6.95 million hours) for air service; (3) US$24.0 million for postal service; and (4) US$22.0 million or more for remittance service. Cited from Cankao Xiaoqi (1996, p. 8).
The distance and time for the direct air travel across the Strait have been shortened significantly. A plane taking off from Beijing to Taipei, for instance, will fly 1,100 km less with its flying time becoming shortened by 80 minutes. Meanwhile, direct shipping lanes will cut costs and reduce time for businesspeople. Taiwan authorities are anticipating that shipping companies will save NT$1.2 billion (US$36 million) and airlines at least NT$3 billion a year.\(^\text{15}\) The direct postal link will cut the time it takes to send express mail from around a week to only two or three days. The convenience will greatly facilitate cross-Strait trade, economic cooperation, and personnel exchanges.

\[\text{15. Source: www.cnnb.com.cn, accessed on December 15, 2008.}\]

### 15.3.4 Future Perspective

In view of the development of the world economy in the twenty-first century, the cross-Strait economic exchange and cooperation should be accelerated further. Only this can achieve prosperity for both sides and benefit the entire nation. The two sides have promised that political differences should not affect or interfere with economic cooperation between the sides. Under the principles of peace, equality and bilateralism, the Taiwanese government is willing to promote cross-Taiwan Strait economic exchanges and to treat the mainland as its hinterland. In order to seek the most efficient way of raising the level of the national economy, the PRC’s government seems intent to continue to implement, over a considerable period of time, the policy of encouraging industrialists and businessmen from Taiwan to invest in the mainland. Definitely, the increasing contacts and exchanges between the two sides will further enhance the level of mutual understanding and trust.

Still, nobody can predict when the reunification of greater China will become a realistic possibility. With the Cold War coming to an end and private and semi-official cross-Taiwan Strait contacts being guaranteed by the both sides, all Chinese see no reason why their country should be left out of the surging tide of détente and further divided by man-made barriers.

Where there is patience and willingness to compromise, there is still hope. The hope emerges when the two sides find that their differences are not really so fundamental. Without doubt, the creation of political harmony and reunification between Taiwan and mainland China may still require time and patience on the part of both parties. It is a hopeful sign that the political regimes have promised to reunify peacefully as a single nation. Chinese people on both sides of the straits, and also the outside world, will watch carefully.

### 15.4 OVERSEAS CHINESE ECONOMICS

#### 15.4.1 A History of Chinese Emigration

The Chinese people have a long history of migrating overseas. One of the migrations dates back to the Ming dynasty when Zheng He (1371–1435) became the envoy of the Ming emperor. He sent people – many of them Cantonese and Hokkien – to explore and trade in the South China Sea and in the Indian Ocean. Different waves of immigration led to subgroups among overseas Chinese such as the new and old immigrants in Southeast Asia, North America, Oceania, the Caribbean, Latin America, South Africa and Russia.

From the mid-nineteenth century onward, emigration has been directed primarily to Western countries (such as Australia, Brazil, Canada, New Zealand, the United States, and Western Europe). Many of these emigrants were themselves overseas Chinese or were from Taiwan or Hong Kong, particularly from the 1950s to the 1970s, a period during which the PRC placed severe restrictions on the movement of its citizens. In 1984, Britain agreed to transfer the sovereignty of Hong Kong to the PRC; this triggered another wave of migration to the United Kingdom, Australia, Canada, USA, Latin America, and the other parts of the world. The Tiananmen Square protests of 1989 further accelerated the migration. The wave calmed after Hong Kong’s transfer of sovereignty in 1997. In addition, many citizens of Hong Kong hold citizenships or have current visas in other countries so if the need arises, they can leave Hong Kong at short notice.

#### 15.4.2 Distribution of Overseas Chinese

There have been more than 40 million overseas Chinese living in over one hundred countries (see Annex B). Urban areas with large Chinese populations include Bangkok (2,900,000 persons; 2009 census, registered resident only), Singapore (2,800,000 persons; 2010 census), Kuala Lumpur (612,277 persons; 2000 census, city only), Penang (650,000 persons; 2005), Jakarta (528,300 persons; 2010 census), New York City Metropolitan Area (665,714 persons), the San Jose-San Francisco-Oakland Combined Statistical Area (562,355 persons; 2009), as well as the Greater Toronto Area (486,300 persons; 2006 census, metropolitan area).

Since the early twenty-first century, China has built increasingly stronger ties with African nations. As of 2010, there were more than 700,000 Chinese working or living in...
different African countries. The countries with the largest Chinese communities include South Africa (with 350,000 Chinese), Angola (with 100,000 Chinese), Egypt (with 100,000 Chinese), and Madagascar (with 60,000 Chinese). Russia’s main Pacific port and naval base of Vladivostok, once closed to foreigners, has been a dwelling place for 10 million and Chinese may become the dominant ethnic group in the Russian Far East region in the years to come. In addition, as of 2010, a growing Chinese community in Germany consists of around 76,000 people; and 15,000 to 30,000 Chinese live in Austria, including a significant Chinese community in Vienna.16

15.4.3 Global Economic Contributions

Since World War II, and especially since the 1970s, the wealth of the overseas Chinese has been growing rapidly and it has played an increasing role in the world economy. According to an incomplete estimate, the overseas Chinese already had US$223.1 billion of foreign currency deposits by the end of 1993, which is distributed mainly in Taiwan (US$90.6 billion), Hong Kong (US$32.7 billion), Singapore (US$43.7 billion), Thailand (US$23.4 billion), Malaysia (US$15.4 billion), Indonesia (US$11.0 billion), the Philippines (US$4.3 billion) and other nations (US$2.0 billion).17

In countries with small Chinese minorities, the economic disparity can be remarkable. For example, in 1998, ethnic Chinese made up just 1 percent of the population of the Philippines and 3 percent of the population in Indonesia, but controlled 40 percent of the Philippines private economy and 70 percent of the Indonesian private economy (Chua, 2003, pp. 3 and 43). The book World on Fire, describing the Chinese as a ‘market-dominant minority’, notes that:

*Chinese market dominance and intense resentment amongst the indigenous majority is characteristic of virtually every country in Southeast Asia except Thailand and Singapore.*

(Chua, 2003, p. 61)

Briefly, several factors can explain this remarkable growth of the overseas Chinese economy. These include:

(1) the thriftiness and hard-working nature of the overseas Chinese

(2) an elite group of intellectuals

(3) a positive role of overseas Chinese organizations

(4) closer socioeconomic ties with mainland China.

Since the early 1980s, when the open-door policy was implemented in mainland China, overseas Chinese have made great contributions to the economic development of mainland China, and in particular the coastal area with which they had the closest relations. Including the ‘compatriots’ (tongbao) of Hong Kong, Macau and Taiwan, the great majority of foreign direct investment (FDI) in China has come from the Chinese diaspora. Local development patterns have been strongly affected by the extent, or lack, of emigrant connections (Smart and Hsu, 2004). FDI in China is positively related to the population share of ethnic Chinese in the source country, and interpret this as showing the significant role of ethnic Chinese networks in FDI in China. For example, the result of an econometric analysis suggests that a one percentage point increase in the ethnic Chinese population share leads to a 3.7 percent or higher increase in cumulative FDI in China (Gao, 2003).

In addition, China’s growing exports have also been widely promoted by the overseas Chinese networks (this has been discussed in Section 12.4 of Chapter 12).

ANNEX

A. Method of Estimating the Static Economic Effects of Reunification

After the return of Hong Kong and Macau from the British and Portuguese governments to mainland China in 1997 and 1999, respectively, the economic development of the PRC has been further advanced. A quantitative method by which estimate these influences is as the following:

\[
\frac{\text{GNP}_{\text{MC}} + \text{GNP}_x}{\text{POP}_{\text{MC}} + \text{POP}_x} = \frac{\text{GNP}_{\text{MC}}}{\text{POP}_{\text{MC}}} (1 + R_{\text{MC}})^T, \\
\text{with} \quad \frac{\text{GNP}_x}{\text{POP}_x} >> \frac{\text{GNP}_{\text{MC}}}{\text{POP}_{\text{MC}}} \text{ and } R_{\text{MC}} > 0.
\]

Where GNP = gross national product, POP = population, MC = mainland China, x = Hong Kong, Macau, or Taiwan, \(R_{\text{MC}}\) = the average annual growth rate of per capita GNP for mainland China within a certain period in the future, and \(T\) = time period (in years) by which the per capita GNP of mainland China will reach that of mainland China and x combined.

Solving the above equation with the data in Table 15.1, we can obtain \(T_x\) (for a constant rate of \(R_{\text{MC}} = 7\%\): \(T_{\text{Hong Kong}} = 2.51\) years, \(T_{\text{Macau}} = 0.03\) year and \(T_{\text{Taiwan}} = 4.58\) years.)
B. Statistics of Overseas Chinese Population, by Country

| Country          | Number (Persons) | Year |
|------------------|------------------|------|
| Asia             | 31,279,797       | 2006 |
| Thailand         | 7,053,240        | 2005 |
| Malaysia         | 6,390,900        | 2010 |
| Indonesia        | 7,000,000        | 2008 |
| Singapore        | 2,794,000        | 2010 |
| Vietnam          | 1,200,000        | 2005 |
| Cambodia         | 1,180,000        | 2008 |
| Philippines      | 1,100,000        | 2005 |
| Myanmar          | 1,100,000        | 2005 |
| Japan            | 655,377          | 2008 |
| South Korea      | 624,994          | 2009 |
| Kazakhstan       | 300,000          | 2009 |
| India            | 189,470          | 2005 |
| Laos             | 185,765          | 2005 |
| United Arab Emirates | 180,000 | 2009 |
| Brunei           | 43,000           | 2006 |
| Israel           | 23,000           | 2001 |
| North Korea      | 10,000           | 2009 |
| Pakistan         | 10,000           | 2009 |
| Sri Lanka        | 3,500            | ?    |
| Iran             | 3,000            | –    |
| Kyrgyzstan       | 1,813            | 2009 |
| Mongolia         | 1,323            | 2000 |
| Bangladesh       | 1,200            | 2011 |
| Americas         | 6,059,240        | 2008 |
| United States    | 3,500,000        | 2007 |
| Canada           | 1,300,000        | 2006 |
| Peru             | 1,300,000        | 2005 |

| Country          | Number (Persons) | Year |
|------------------|------------------|------|
| Brazil           | 151,649          | 2005 |
| Panama           | 135,000          | 2003 |
| Cuba             | 114,240          | 2008 |
| Argentina        | 100,000          | 2008 |
| Mexico           | 23,000           | 2003 |
| Nicaragua        | 12,000           | –    |
| Suriname         | 40,000           | 2011 |
| Jamaica          | 70,000           | –    |
| Dominican Republic | 15,000       | –    |
| Costa Rica       | 7,873            | 2009 |
| Chile            | 5,000            | –    |
| Trinidad & Tobago | 3,800           | 2000 |
| Guyana           | 2,722            | 1921 |
| Belize           | 1,716            | 2000 |
| Puerto Rico      | –                | –    |
| Haiti            | 230              | –    |
| Europe           | 1,716,233        | 2006 |
| Russia           | 998,000          | 2005 |
| France           | 700,000          | 2010 |
| United Kingdom   | 500,000          | 2008 |
| Italy            | 201,000          | 2011 |
| Spain            | 128,022          | 2008 |
| Netherlands      | 76,960           | 2011 |
| Germany          | 71,639           | 2004 |
| Serbia           | 20,000           | 2008 |
| Ireland          | 16,533           | 2006 |
| Denmark          | 10,247           | 2009 |
| Bulgaria         | 10,000           | 2005 |

(Continued)
Throughout history, political leaders have struggled to increase their territories through conquest. However, probably they forgot one fact: the territories per se are also an endogenous factor determining the lifespan of the regimes, particularly when the latter are authoritarian ones.

Thousands of archeological finds in China provide evidence that explains how China’s dynastic cycles have been determined by its location, size and political economy.

Many historians have believed that it was the crude rule of the last king of the Shang – named Zhou – that made the dynasty collapse. But there have been some historical records arguing that the war launched by the king Wu against the Shang dynasty was more a result of Wu’s injustice than that of the king Zhou’s cruelties. Nevertheless, it is reasonable to believe that the disadvantageous geographical location of the Shang’s capital in the north frontier of its territory did not enable the Shang court to keep an effective control over its remote, southwest frontiers where small tribes could grow strong enough to, under the leadership of the king Wu, eventually defeat the Shang dynasty in 1046 BC. This hypothesis can be supported by king Wu’s intention to move the Zhou’s capital from Hao (near Xi’an) in western China to Luoyi (now known as Luoyang) in central China in order to keep a more effective control over the whole nation.

In fact, perhaps king Wu’s father, the king Wen, also recognized the crucial role of geographical locations and moved their capital from the middle reaches of the Wei River to Hao around today’s Xi’an city, Shaanxi province.

Case Study 9
Location, Size, and Political Economy of Chinese Dynastic Cycles

Thoughout history, political leaders have struggled to increase their territories through conquest. However, probably they forgot one fact: the territories per se are also an endogenous factor determining the lifespan of the regimes, particularly when the latter are authoritarian ones.

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18. Evidence from the royal tombs indicates that royal personages were buried with articles of value, presumably for use in the afterlife. Perhaps for the same reason, hundreds of commoners, who may have been slaves, were buried alive with the royal corpse.

19. See, for example, Dai and Gong (2000, vol. 1, p. 68).
### TABLE 15.4 A Comparison of Selected Chinese Dynasties in Terms of Location, Size, and Other Parameters

| Indicator                               | Zhou (1046–221 BC)                      | Han (206 BC–AD 220) | Jin (265–420) | Tang (619–907) | Song (960–1279) | Ming (1368–1644) | Qing (1644–1911) |
|-----------------------------------------|-----------------------------------------|---------------------|--------------|----------------|----------------|------------------|-----------------|
| Capital city                            | Hao (Xi’an)²; Luoyi (Luoyang)²          | Chang’an (Xi’an)²;  | Luoyang³; Jiankang (Nanjing)³ | Chang’an (Xi’an) | Kaifeng⁴; Lin’an (Hangzhou)⁴ | Nanjing; Beijing⁴ | Beijing         |
| Distance between capital and farthest frontier (km)³ | 1,200⁵; 950⁶ | 3,200⁷; 3,300⁸ | 3,500⁹; 2,000⁹ | 3,500 | 2,000³; 1,700⁶ | 2,000³; 2,600³ | 3,900           |
| Area of territory (million km²)⁴        | 3.4                                      | 8.9                  | 9.2⁵; 2.3⁵    | 12.5–8.0       | 4.6⁶; 4.0⁹     | 7.1              | 13.1            |
| Length of existence (years)⁵           | 825 (571⁶)                              | 426                  | 155           | 289            | 319            | 276              | 267             |
| Major force(s) for collapse             | Endogenous                              | Endogenous          | Exogenous & Endogenous | Endogenous     | Exogenous      | Endogenous & Exogenous | Endogenous     |

Notes:
- ¹from 1046 to 771 BC.
- ²from 771 to 221 BC.
- ³from 206 BC to AD 220.
- ⁴from AD 25 to 220.
- ⁵from 265 to 316.
- ⁶from 317 to 420.
- ⁷from AD 960 to 1277.
- ⁸from AD 1127 to 1279.
- ⁹from AD 1368 to 1420.
- ¹⁰from AD 1421 to 1644.

Estimated by the author based on the maps of ancient China.

Available at [http://bbs.zanba.com/message/122377/122377304.html](http://bbs.zanba.com/message/122377/122377304.html).

*Figure within parenthesis does not include the ‘Warring States’ period (from 475 to 221 BC).*

Source: Calculated by the author except those that are specifically cited.
Although the construction of Luoyi as an alternative capital of the Zhou was eventually completed by Wu’s son and successor, king Cheng (reign 1043–1007 BC), Hao continued to be the Zhou’s capital till 771 BC when the king You was killed by invading barbarians from the northwest frontier.

Compared with its predecessor, the Zhou dynasty, the Qin dynasty had an enlarged territory, but it was short lived (see Tables 15.4 and 15.5 for a comparison of the two dynasties). Historians have identified many factors leading to the shortness of the Qin empire, which include, among others, Qin Shihuang’s tyranny, harsh law imposed on the lives of people, large expenditure on big projects (such as the Great Wall) and persecution of Confucianism. The direct cause of the Qin’s collapse, however, was initially connected with a long-distance trip of the border patrol led by Chen Sheng and Wu Guang. For example, the following was reported in Sima Qian’s (104 BC) famous book Shiji (historical records):

In 209 BC, Huhai, the second emperor of the Qin dynasty, ordered 900 people in the region of Huahei river to Yuyang (today’s Miyun county in northeast Beijing) to serve as border patrol. Chen Sheng and Wu Guang, who were among them, were appointed leaders of the troop. When people arrived in Dazexaing (in southwest of today’s Suxian county, Anhui province), due to heavy rain, the roads were damaged and their trip to the destination was delayed. According to the Qin’s penal code, those in military service would be executed if they failed to keep their appointments, so these people faced the threat of death. Since Chen Sheng and Wu Guang had long been dissatisfied with their poverty-stricken life, and now faced the treats of death, they decided to initiate an uprising to ‘save’ themselves. Soon, many people joined (including Xiang Yu and Liu Bang) and the uprising spread across the country. They led the peasants to attack and occupy finally Chen County (today’s Huaiyang in Henan province), and they established their own regime entitled Zhanguo. Then their army sent by Chen Sheng to fight against Qin army was defeated by Zhang Han. Later, Chen Sheng and Wu Guang were murdered by their subordination. And the rest of the army was surrendered to Liu Bang and Xiang Yu. In 206 BC, the Qin dynasty came to an infamous end.

The Han dynasty, after which the members of the ethnic majority in China, the ‘people of Han’, are named, was notable also for its military prowess. The empire expanded westward as far as the rim of the Tarim Basin (in modern Xinjiang), making possible relatively secure caravan traffic across Central Asia to Antioch, Baghdad, and Alexandria. The paths of caravan traffic are often called the ‘silk route’ because the route was used to export Chinese silk to the Roman Empire. Chinese armies also invaded and annexed parts of northern Vietnam and northern Korea toward the end of the second century BC. Han control of peripheral regions was generally insecure, however. To ensure peace

### TABLE 15.5 A Comparison of China’s Three Short-Lived Dynasties and Their Predecessors

| Indicator | Qin (221–206 BC) | Sui (AD 581–618) | Yuan (1279–1368) |
|-----------|------------------|------------------|------------------|
| Capital city | Xian’yang (near Xi’an) | Chang’an<sup>1</sup>; Luoyang<sup>2</sup> | Dadu (Beijing) |
| Length of lifespan (years), which is | 15 | 37 | 89 |
| Less than that of its predecessor by | 810 (556)<sup>3</sup> | 118 | 230 |
| Distance between capital and farthest frontier (km)<sup>4</sup>, which is | 2,000 | 3,200<sup>a</sup>; 3,100<sup>b</sup> | 4,000 |
| Longer than that of its predecessor (km) by | 800<sup>a</sup>; 1,050<sup>b</sup> | −300<sup>b</sup>; 1,100<sup>b</sup> | 2,000<sup>b</sup>; 2,300<sup>b</sup> |
| Area of territory (million sq. km)<sup>5</sup>, which is | 3.6 | 8.4 | 16.8 |
| Larger than that of its predecessor (million sq. km) by | 0.2 | −0.8<sup>b</sup>; 6.1<sup>b</sup> | 12.2<sup>h</sup>; 12.8<sup>h</sup> |
| Major force for collapse | Endogenous | Endogenous | Endogenous |
| Compared to that of its predecessor | Endogenous | Exogenous & Endogenous | Exogenous |

Notes:

<sup>1</sup> from AD 581 to 605.
<sup>2</sup> from AD 606 to 618.
<sup>3</sup> figure within the parenthesis is based on that the Zhou dynasty does not include the ‘Warring States’ period (from 475 to 221 BC).
<sup>4</sup> estimated by the author based on relevant maps of ancient China.
<sup>5</sup> based on the Western Zhou dynasty (1046 to 771 BC).
<sup>6</sup> based on the Eastern Zhou dynasty (771 to 221 BC).
<sup>7</sup> based on the North Song dynasty (AD 960 to 1127).
<sup>8</sup> based on the South Song dynasty (AD 1127 to 1279).
<sup>a</sup> available at: //bbs.zanba.com/message/122377/122377304.html.
<sup>b</sup> Source: Calculated by the author based on Table 15.4 except those that are specifically cited.
with non-Chinese local powers, the Han court developed a mutually beneficial ‘tributary system’. Non-Chinese states were allowed to remain autonomous in exchange for symbolic acceptance of Han lordship. Tributary ties were confirmed and strengthened through intermarriages at the ruling level and periodic exchanges of gifts and goods. In 25 AD, after years of chaos, the new Han ruler moved its capital from Chang’ an (today’s Xi’an) to Luoyang in the east.

The collapse of the Han dynasty was followed by nearly four centuries of rule by warlords. Unity was restored briefly in the early years of the Jin dynasty (AD 265–420), but the Jin could not long contain the invasions of the nomadic peoples. In AD 317 the Jin court was forced to flee from Luoyang to Jiankang (today’s Nanjing) in the south. Though militarily stronger than its predecessor, the Sui dynasty only ruled for 36 years, a much shorter period than that of the Jin dynasty. Similar to another short-lived dynasty, the Qin, the Sui dynasty also had a tyrannical ruler during its last stage. Weakened by costly and disastrous military campaigns against Korea in the early seventh century, the Sui dynasty disintegrated through a combination of popular revolts, disloyalty, and assassination.

The Tang dynasty spanned the reigns of 21 sovereigns, in total for a period of 289 years. At the height of its power (from 712–755 AD), the Tang dynasty enlarged its territory to 12.4 million square kilometers, extending to Mongolia in the north, Xinjiang in the west, to the northern part of the Korean peninsula in the east, and to the northern part of Annam (today’s Vietnam) in the south, which was larger than in any previous period. In the Tang dynasty, the Chinese culture influenced as far away as India in the western side of the Himalayas and Japan in the east. For example, the traditional written language, architecture, and political institutions of Japan and Korea were to some extent imitations of the Tang model. However, at the late stage of the dynasty, the huge size of the territory and the capital’s proximity to the north and the west frontiers were full with domestic chaos and invasions by barbarians. As soon as the Tang declined in the early tenth century, five dynastic changes occurred along the valley of the Yellow River and ten regional powers controlled different sections of the Yangtze River.  

After the founders of the Song dynasty unified China in AD 960, there had been two locations that could serve as the capital: Luoyang and Kaifeng, in the western and the eastern Henan province, respectively. Economically, Kaifeng was a better choice, given its convenient transport and communication facilities. This can be witnessed by the rapid economic, commercial, and technological developments enjoyed by Kaifeng and by China as a whole during the North Song dynasty (AD 960–1127). However, Kaifeng was not an ideal city for military purposes, since it was so near to its northern enemies that no geographical barriers (with the exception of the Yellow River) could protect it from invasions. Clearly, this has been witnessed by the forced abandonment of Kaifeng and northern and central China by the Song court in 1127; as a result, the Song’s capital was moved from Kaifeng southwardly to Lin’an (today’s Hangzhou). By contrast, Luoyang is an ideal city for military, but not for economical, purposes. Transportation between Luoyang and the economic center in southeast provinces was very costly since there was no convenient waterway.

Under the Mongol rule, China’s territory increased to 16.8 million square kilometers, covering areas of Korea and the Muslim kingdoms of Central Asia. Effective control over this huge territory was always a difficult task. But this short-lived empire collapsed suddenly due to rivalry among the imperial heirs, natural disasters, and peasant uprisings. Then, why was Yuan’s capital transferred from Karakorum (in modern Mongolia) to Beijing? The first possible driving force for the southward move of the capital might be the change in territorial size. As a result of the fall of the Jin and the Song courts, most of Chinese territory, formerly under the control of the Jin and the Song dynasties, had been under the Mongol’s control. If Karakorum is a geographically optimal location as the capital for the Mongol state (AD 1206–1271), ceteris paribus, the optimal location for the capital of the newly established, spatially enlarged dynasty, the Yuan should move to the south.

There are many factors that could result in a short lifespan for the Yuan dynasty, which include natural disaster, misgovernment, as well as rivalry among the Mongol imperial heirs, among others. But it was the large territory and the long distance between Beijing and the southern fields of peasant uprisings that eventually led to the collapse of the Yuan dynasty. A comparison of selective parameters in Table 15.5 shows that the huge area of territory of the Yuan dynasty, which is much larger than that of its predecessor, the Song dynasty, should have been one of the major factors responsible for its shorter lifespan.

The Ming dynasty (1368–1644) moved its capital from Nanjing (southern capital) to Beijing (northern capital) in 1420, in order to help the Ming court to effectively control its northern territory with close proximity to the Mongols and to the Manchus. Long wars with the Mongols and the Manchus in the north and the harassment of Chinese southeast coastal areas by the Japanese in the sixteenth century weakened Ming rule. However, in 1644, Li Zicheng and his peasant rebels from western China took Beijing, though they were defeated by the Manchus shortly after.
afterwards. To some extent, the Ming is not a successful dynasty in terms of military and culture (if compared with the Tang) or in terms of industry, trade, science and technology (if compared with the Song). Like the Song, the Ming fell suddenly, partly as a result of its capital being adjacent to the northern enemies.

The Qing dynasty’s moving of its capital from Shengjing (now named Shenyang) to Beijing also provides evidence to support, and can be further explained by, geo-economics. This is similar to that of the Yuan dynasty. But, different from the Yuan, the Qing court applied the Han-Chinese way to govern China, which enabled it to sustain a longer period than the Yuan. Entering the nineteenth century, the Chinese society became a totally autarkic one. The Chinese nation fell behind the Western nations in science and technology. After the Opium War in the mid-nineteenth century, China declined into a semi-colonial and semi-feudal country. Britain and other Western powers such as Belgium, the Netherlands, Prussia, Spain, Portugal, the USA, and France, seized ‘concessions’ and divided China into ‘spheres of influence’. During the second half of the nineteenth century, many peasant leaders and national heroes rose time and again, eventually resulting in the disintegration of this nation.

Indeed, each dynasty has a different lifespan; but no dynasty can last forever. A comparison of the Chinese and Korean dynasties (see Figure 15.4) indicates that the Korean dynasties did sustain a much longer average lifespan than the Chinese ones during approximately the same period of time. If political and economic factors were not quite responsible for these differences, geographical factors (size and location) must have contributed. Furthermore, we can find that the three Korean dynasties had significantly different lifespans. For example, the Koryo dynasty (915–1391 AD), with its capital in Kaesong, and the Chosen dynasty (1392–1910), with its capital in Seoul, lasted for 477 and 518 years, respectively, and could have been even longer had the two dynasties not been invaded by external forces. By contrast, the unified Shilla dynasty (668–915 AD), with its capital in Kyongju, only lasted for 247 years, which is less than that of the Koryo, and even less than half that of the Chosen.

![FIGURE 15.4 A comparison of the Chinese and Korean dynasties.](image)

![FIGURE 15.5 Location, territorial size, and Chinese dynasties.](image)

*Source: Tables 15.4 and 15.5 and the author’s calculation.*
It is reasonable to believe that it was the disadvantageous (southeast coastal) location of the capital that made the Shilla court gradually lose efficient control over the northern peripheries and eventually the whole country as well.

In short, a historical review of the national development of China has left many issues unexplained. They include such important problem as: Why were China’s political centers usually located at the geographical peripheries during its prosperous periods, and located at the geographical centers during its stagnant periods? Besides, why have various forms of economic integrations existed between Hong Kong, Macau, Taiwan, and mainland China, while cultural and economic separations existed between China’s western, less developed provincial administrations? The geographical location of capital cities and the territorial size of the Chinese nation have mattered very much to the dynastic changes in the Chinese history, as shown in Figure 15.5.

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