

Chapter Six:

A Case Study on Southern China Sub-regional Economic Zone (SC SREZ)

Introduction:

This is the last case study in this thesis. With similar purposes to chapter Four and Five, this chapter seeks to find out the factors account for SREZ's establishment, transformation, and progressing; as well as to explain its relation to region-building in the East Asia Pacific. This chapter follows the same format, the methods, and the definition utilised in the previous two chapter to make systematic analysis.

In the last two chapters, we have explored SIJORI and TRADP, two significant sub-regional cooperation cases in Southeast and Northeast Asia. Each case has its flaws and limitations. SIJORI is a sub-regional cooperation pioneer and has fulfilled the expectation set for the project. However, the self-content reason and the comparatively small scale nature of the project have hindered its expansion. As for the TRADP, the programme, it is still in an initiative stage. Political complexity, insufficient capital and poor infrastructure in the area have seriously delayed the development of TRADP. So is SC SREZ, the third significant sub-regional cooperation in the East Asia Pacific, any better than its predecessors? Can it build on the achievements of SIJORI and have overcome the pitfalls of TRADP?

In this chapter I am going to explore SC SREZ, the largest sub-regional cooperation case in this thesis, in terms of geographic boundary. It is generally believed that defining the boundary of a SREZ is an operational matter. Over the years, scholars have been promoting the concept of building up either a formal or informal economic zone to increase sub-regional competitiveness of the Greater Southern China area. Since there is no apply-to-all principle to follow, the names for such an “operational matter” may differ from The Chinese People Common Community, The Southern China Economic Zone or The China Zone to The Greater China Zone. Nevertheless, the fundamental purpose is to integrate the strengths of Southern China and its nearby areas to boost economic development.

Since the location of economic activities is the determinant of a naturally formed SREZ, this research shall assess the names proposed by different scholars to see which has the strongest connection in terms of geographical proximity. It must encompass Guangdong Province and Fujian Province of China, Hong Kong, and Taiwan.

It is worth noting that even though national boundary is not the essential indicator to define a SREZ, it is often found that participants are more or less geographically attached to one another. TRADP, for example, is one standard case in the East Asia Pacific. However, such a feature cannot be found in SC SREZ. The Southern China, Hong Kong and Taiwan are separated from each other by the strait. In addition to that, the political intensiveness, especially Cross-Strait relationship, is extremely high in comparison to two other SREZs in

East Asia explored in this thesis¹. The confrontation between China and Taiwan which is over fifty years has made the Taiwan Strait one of the most dangerous areas in the world. The Taiwan Strait is even labelled as having the potential to trigger World War III. Nevertheless, such hostility towards each other could not stop the SC SREZ from taking shape.

Compare with SIJORI and TRADP, SC SREZ seems to have even more tangled relations between its members. However, would such political complexity compromise SC SREZ's progress? The fact is, in comparison with SIJORI and TRADP, SC SREZ have some unique advantages as a firm basis for its development: people involved in SC SREZ have the same origin. They share the same culture, backgrounds, languages, and similar life style. Later in this chapter, these factors will be assessed to find out if they are essential forces or merely accessory forces in promoting SC SREZ.

In order to understand the difficulties and perspectives of the SC SREZ, the first part of this chapter is to review the historical relationship between China, Hong Kong and Taiwan, and reasons for the SC SREZ to come into existence. Sections about the divergence and the similarity of the three economies, as well as their interests in the programme will be followed. I will, again, investigate the progress of SC SREZ with EGPIB factors. Along with analysing the development of the programme, several questions would be asked: what economic resources do SC SREZ members have? Have these members satisfied each other's desire for comparative advantages? How much have the authorities

¹ The cross-strait relation is referring to China-Taiwan relation as they are separated by the Taiwan Strait.

involved in the progress? How well is SC SREZ's physical area developed? And how strong are the business networks in this sub-regional cooperation?

If SC SREZ is categorised an on-going sub-regional cooperation, further analysis should be made to find out whether spill-over effect has been generated. We have defined in Chapter Four that an on-going SREZ may have expansion in three fields: geographical, economic, and political. We will continue to examine the case to find out which of the three expansion the SC SREZ has achieved.

Apart from discussing the present ongoing development of the SC SREZ, this chapter will also look into the obstacles that may hinder the future cooperation between the three participants. Moreover, this case study will give readers a further understanding about what roles micro-regionalisation and micro-regionalism play in sub-regional cooperation, as well as how they work in practice. Are they equally important in terms of determining the development of the programme?

The SC SREZ is the last case study discussed in this empirical thesis. The initial findings is that there is increasing direct and indirect involvement of the governments in the SC SREZ case. However, it could be motivated by different kinds of intention, especially between China and Taiwan. As for Taiwan, The Strait Exchange Foundation (SEF) is the main organisation with government's silent endorsement to help the citizens to cope with matters regarding to investing in China. It has created a "Service Centre for Taiwan Business People", focusing on three main services: services for Taiwan businessmen in China;

document verification and legal counselling services; and travel and emergency services (Tien, 2005). However, China's official involvement is more complicated and politically oriented.

For the Chinese government, the SC SREZ is not just a economic cooperation project but a non-military tactic, imposing "One China" principle and "One Country, Two System" formula upon Taiwan. The U.S. Department of Defense (DOD) notes that "mainland China seeks to check movement toward Taiwan independency by the passage of its 'anti-secession law,' use cross-strait exchange to influence Taiwan' domestic politics, and exert international pressure on Taiwan's pace for diplomatic action. Beijing has also been using economic and cultural tools to encourage Taiwan businesses and people to pressure the government as a means of achieving its political objectives"².

Is it important to have a politically-stable environment and transparent interaction among the economies to strengthen micro-regionalisation, and to balance the economic cooperation? In this chapter, I will try to answer the question by exploring the SC SREZ and see if the participators, especially China and Taiwan, could gradually ameliorate interrelationships for future cooperation.

History Review

The concept of building up an either formal or informal economic zone to increase sub-regional competitiveness of the Greater Southern China area has

² Quoted from "U.S. DOD Releases 2005 Report on PRC Military," Exchange, No. 83, October 2005, pp33

been discussed since early 80s. However, during the first decade from 1980 to 1990, there was no agreement reached among the scholars on the matters of the official name, the style, or the embraced areas. According to Mainland Affair Council of Taiwan’s research, in the year of 1980 Zi-lian Huang was the first scholar in the history who proposed The Chinese People Common Community, a common market style economic zone with seven economies involved including Fujian, Guangdong, Guangxi, Nanhai, Hong Kong, Macao and Taiwan (Table 6.1). From the time-ordered cases listed in the Table 6.1, it clearly shows that each advocator has their own ideas about the concepts and characters of “the Greater Chinese Economic Zone”. Nevertheless, the very common point is that they all share the same fundamental idea of boosting the sub-regional economic development by utilising the complementary resources and integrating the advantages of the Southern China as well as its nearby areas.

Table 6.1: The Concepts and Characters of The Greater Chinese Economic Zone

| Name | Promoter/ Time | Style | Area |
|---|--------------------------------|-------------------|---|
| 1. The Chinese People Common Community (or The Southern China Zone) | Zi-lian Huang(1980) | Common market | Fujian, Guangdong, Guangxi, Nanhai, Hong Kong, Macao and Taiwan |
| 2. The China Zone | Kun-yao Chen (October 1987) | Semicommon market | China, Taiwan and Hong Kong |

| | | | |
|---|--|-------------------|--|
| 3. The Greater Chinese Zone | Zhu-wei Cheng (June 1988) | Common market | Taiwan, China, Macao and Hong Kong, Singapore |
| 4. The China Economic Zone | Yi-cuen chen (August 1988) | Semicommon market | China, Taiwan and Hong Kong |
| 5. The Asian Chinese Common Market | Xi-Jun Kao (October 1988) | Common market | China, Taiwan and Hong Kong, Singapore |
| 6. The Cross-Strait Economic Zone | Hong-fan Jin (1989) | n/a | Fujian, Guangdong, Guangxi, Nanhai, Hong Kong, Macao and Taiwan |
| 7. The Southeast China Free Trade Area | Ren-jun Zhou (Septemer 1989) | Free market | The Changjiang River Delta, the Pearl River Delta, Hong Kong, Macao and Taiwan |
| 8. The Southern China Economic Cooperation Area (or The Southern China Economic Zone) | Cheng-shou Weng, Xing-peng Xu. (1990) | n/a | Fujian, Guangdong, Guangxi, Hong Kong, Macao and Taiwan |

Source: Adopted from The Mainland Affair Council, Taiwan

http://www.mac.gov.tw/big5/rpir/2nd7_2.htm

Among all these names, we have explained in Chapter One that taking both the theory and the reality into account, SC SREZ should be best defined to have three members: Guangdong, Hong Kong and Taiwan.

Map 6: The Involved Areas of The SC SREZ Discussed in This Chapter.



Source:

<http://encarta.msn.com/encnet/features/mapcenter/map.aspx?refid=701516645>

The development of the SC SREZ is highly related to the tangled split between “Chinese” people. In order to understand the progress of SC SREZ and participants’ choice and response over various cooperation issues, it is important to analyse the historical backgrounds.

The relation between China and Hong Kong is comparatively simple. There was no hatred or misunderstanding between each other. Hong Kong was colonised by the UK. However, there was an official agreement stating the exact time for the UK to return the land in 1997. When the deadline was approaching, especially during the phase about three to five years before the year 1997 to come; some people were in a great panic, and chose to leave Hong Kong and immigrate to Canada or the UK. Most people in Hong Kong have prepared themselves to be part of China and acknowledge themselves as “Chinese”. In order to maintain the prosperous economy and to stabilise the society in Hong Kong, China announced it to be a Special Administrative Region (HKSAR) where governing systems would not be changed for 50 years. Hong Kong still remains as a highly autonomic economy. The only difference is that the governor of Hong Kong was the viceroy appointed by London but now is the Chief assigned directly by Beijing.

The split between China and Taiwan, however; is a somewhat more complicated situation. The confrontation officially started when the Kuomintang (KMT) retreated to Taiwan after losing the civil war against the Chinese Communist Party (CCP). In 1st October 1949, CCP announced that the Republic of China (ROC) had been overthrown. A new regime of the People’s Republic of China (PRC) was established to rule the whole of China, including Taiwan. It was then both sides across the Taiwan Strait regard each other as a rebellious party and claim themselves as the authentic regime over “the one and the only China”. Civil war has separated “the Chinese” into Mainland Chinese and Taiwan-Chinese. Since there is no armistice being signed; theoretically, the civil

war is still on going.

Unlike PRC tight hold on “One China Policy”, people in Taiwan have suffered from self-identification over the years: are they Chinese or Taiwanese? Although it appears to be “Two China” in practice, the cross-strait relations have experienced several different stages. "One side, one country" brought up by Lee, Deng-hui, Taiwan's ex-President might have well-described the real political status quo; yet, it also led to a great disturbance (Su, 2004:76-80). PRC took it as Taiwan's attempted to seek independency from China when there was in fact, not a single word about independency was mentioned in Lee's statement. Professor Chiu and M.P. Su believe that China's overreaction was due to lacking of mutual understanding (Su and Chiu, 2005). “Fortunately, the growing economic connection between China and Taiwan has helped to build a better understanding for one and other”, said Professor Liu, who was also the Ex-Director of Economic Bureau, Taiwan Affairs Office of the State Council (Liu, 2005). Especially after Ma, Ying-jiu, who was greatly supported by Taiwanese businessmen in China, became Taiwan's new President in 2008, the authorities of both sides have once again come back to the “1992 consensus”: there is one China for which each side has its own interpretation (MAC, 2008:36)³.

It is generally believed that China's adoption of open-door policy in 1979 gave the cross-strait regimes a chance to put aside political disagreement and prompted economic cooperation. That same year in June, for the first time in Chinese history, the Equity Joint Venture Law opened the gateway for foreign

³ The statement that Ma, Ying-jiu is greatly supported by most Taiwanese businessmen in China is based on the the fieldwork research result. Please refer to the next chapter for the interview details.

investments (Pomfret, 1996:212). Over the years, China has not only released liberal policies but also improved the operational environments which have greatly favour investors to enhance their business in the area. The open economic reformation can be divided into three periods: firstly, the establishment of special economic zones (1980-1983); secondly, the open up of the coast area (1984-1990); and thirdly, the fully open up to the outside world (Gong, 2001:32-34).

According to Gong (2001:34-48), there are five main aspects in coast area economic development polices:

1. The Deregulation in July 1979 in Guangdong Province and Fujian Province.
2. The policy of open up the coast cities in 1984.
3. The policy of establishing economic technique development zones in 1989. The first trial was in 1986 though.
4. The coastal economic open zone policy in February 1985.
5. Hainan and Pudong special zones development policy in 1988 has granted the Hainan extremely high economic autonomy.

China's open-door policy has created opportunities for Taiwanese enterprises to save their business from withering away, and has boosted growth of the SC SREZ. Nevertheless, it does not follow the free market mechanism. Scholars and businessmen who invest in SC SREZ claim that the enterprises cannot invest in their own ways as the regulations against China have not been fully loosened yet. (Chen;. Zhou, Zhan, and Xu, 2005).

Moreover, Huang, Executive Secretary, and Chang, National Security Officer, assert that the Mainland Affairs Council and the Ministry of Economics in Taiwan have set up strict regulations confining the mutual direct activities for national security reasons and also for political reasons in case that the interactions may project an image of “domestic affairs” in the international society (Huang; Chang, 2005). Therefore, Hong Kong has become a convenient alternative choice for Taiwan’s people and capital to enter the mainland just to make it look like China and Taiwan are two individual regimes (Shen, Shen, Yeh, 2005). In reality, Hong Kong and Taiwan separately have stronger interactions with China than with each other.. This has also led to the fact that the SC SREZ, inevitably, would be an unbalanced triangle. A more detailed discussion will be followed later in this chapter as well as in the next chapter.

The SC SREZ started to take shape in the mid-1980s. There are many similarities between the SC SREZ and the SIJORI. The major strike which initiated the sub-regional cooperation in the area was that the core leading economies (i.e. Hong Kong, Taiwan and Singapore) were experiencing difficulties in maintaining competitiveness of their labour-intensive industries. Sheng, vice secretary-general of Taiwan Businesswoman Association; and Chang, Chairman of National Taiwan Businessman Service Centre in China, point out finding alternative labour sources whilst keeping the cost of transportation, land fare, and other consequent expenditure under a reasonable budget has become the main task to overcome at the time (Sheng, and Chang, 2005).

As what was mentioned earlier in the history review section above, China's dramatic policy shift in 1979 has broken the handicaps for foreign capitals to take part in its economic activities, mostly at the coastal area. Nevertheless, it did not dramatically draw foreign investors to flock, at least not in the first five years. According to Pomfret's research, only 190 equity joint ventures had been approved by the end of 1983. "Even fewer were in operation, and they tended to be small and concentrated in the Special Economic Zone of Shenzhen, adjacent to Hong Kong" (Pomfret, 1996:212). The society has been locked up and the market has been controlled by the communism ideology for so long that both the government and the investors were acting cautiously to adapt the new change.

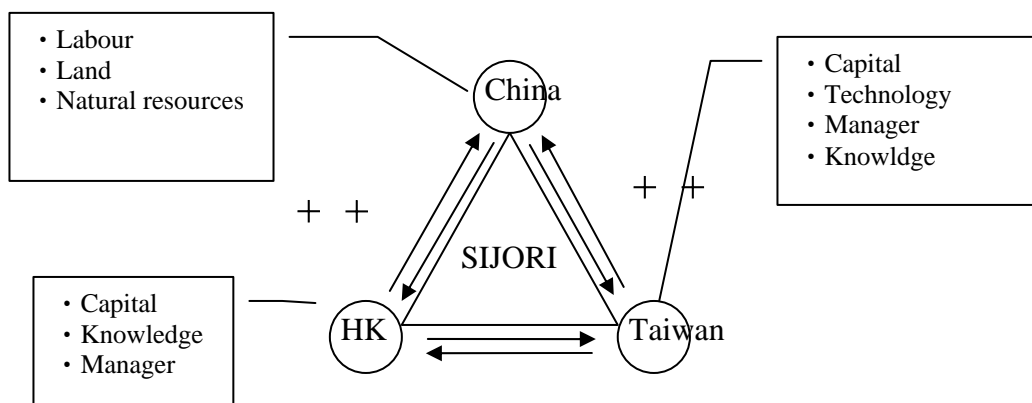
Pomfret (1996) points out that it was during 1984-1985, with comparatively transparent and improved legislation as well as prosperous domestic economy, that China has tasted its first foreign investment boom. In addition to this inner factor, there were two significant outer factors that reinforced the sub-regional cooperation to emerge in the area. Firstly, during that same period of time, the wage rates and property value were rising sharply in Hong Kong and Taiwan. Moreover, it was also at the same time that these two economies' currency tie to the appreciating US dollars had mired themselves in losing competitiveness of the labour-intensive manufactured exports, which had driven their growth for decades.

In order to put a stop to the declining competitiveness, Hong Kong and Taiwan manufacturers had no choice but to shift their labour-intensive activities across the border/strait to Guangdong Province. Step by step, the transfer of

production activities went in waves from Shengzhen then further up to the Pearl River Delta where wages and rents were even lower. However, as transport and communication links became more extended, the private businessmen have financed highway projects as well as other integrated transport plans to create easier access for the materials and goods to travel.

The three participants play different roles in the sub-regional cooperation project: China as the lower tier provides massive land and cheap labour and raw materials; Hong Kong as the higher tier pours in capitals; while Taiwan, another higher tier, provides technologies and management skills. However, different from the TRADP, the SC SREZ has formed a very unbalanced triangle relation in which China has intensive connection with Hong Kong and Taiwan while there is almost no cooperation between Hong Kong and Taiwan (Chen, Hsieh, Yao, 2005). Such economic relations can be observed from figure 6.1 below.

Figure 6.1: The Economic Complementarity in SC SREZ



* “+” means there is positive economic complementarity exists between two participants. The number of “+” refers to the tense of economic complementarity.

Take Hong Kong and Guangdong Province for example. In addition to sharing the same dialect, the cultural affinity can be seen in various aspects. Hong Kong dollars are generally accepted in Guangdong and Hong Kong TV stations are widely received by Guangdong residents. The commercials on the TV also bring convergent influence in a way that people are used to the life style of consuming Hong Kong-based fast food, retail chains, and entertainment in Guangdong (Pomfret, 1996).

The role of Taiwan was less clear than that of Hong Kong due to the restrictions on trade and investment with China. There were no official documents or transparent reports to record the early Taiwanese enterprises' economic activities in China. However, long before the Taiwanese authorities loosened restrictions of investing in China, businessmen have set up their factories mostly in Guangdong and Fujian Province under the table to cope with the unbearable fact of becoming uncompetitive in producing and exporting manufactured goods (Cheng, Yang, Liu, 2005).

Taiwanese managers had valuable expertise in producing and exporting such goods. Hence, the solution was to move the manufacturing activity offshore. In the past, due to the political conflicts, the area was closed and the development was very slow. After China has carried out economic reformation, foreign investments have been greatly drawn to the area. Guangdong is therefore known as the world's factory (Dai, Chang, 2005).

In order to support the growth of the SC SREZ, there are formal and informal agreements signed between the economies including CEPA and KMT-CPC Forum.

CEPA is known as “Closer Economic Partnership Arrangement”. “The Mainland and Hong Kong signed the main text of CEPA on 29 June 2003 and its Supplement on 27 October 2004 (CEPA I and CEPA II). As CEPA adopts a building block approach, the Central People’s Government (CPG) and the Government of the Hong Kong Special Administrative Region (HKSARG) entered into consultation regarding further trade liberalisation between the two places in mid-2005,” introduced by Information Services Department, Trade and Industry Department, and the Government of the Hong Kong Special Administrative Region (2005). Later, on 18 October 2005, the two sides have reached the third phase of the agreement and further trade liberalisation measures were officially recorded on CEPA III (The Government of Hong Kong, Special Administrative Region, 2005).

There are three major parts involved in the implementation details: trade in goods, trade in services, as well as trade and investment facilitation. The highlight of the implementation about trade in goods is that “under CEPA III, the Mainland has agreed to give all products of Hong Kong Origin tariff free treatment starting from 1st January 2005, upon applications by local manufacturers and upon the CEPA ROOs being agreed and met⁴” (The Government of Hong Kong, Special Administrative Region, 2005).

⁴ CEPA ROO stands for CEPA Rules of Origin.

In addition to that, the Mainland has also agreed to provide preferential treatment to Hong Kong's service suppliers in 27 service area (see Table 6.2 below). Such treatment has granted Hong Kong service suppliers an early access to the Mainland market ahead of China's World Trade Organisation timetable. Therefore, it is more likely for Hong Kong service suppliers to take over most of the market.

Table 6.2: The Latest Report about China's Preferential Treatment of Hong Kong Service Supplier in 27 Service Areas in CEPA, 2005.

| | | | |
|----------------|-------------------------------|---|---|
| 1. Accounting | 8. Distribution | 15. Legal | 22. Storage and warehousing |
| 2. Advertising | 9. Freight forwarding agency | 16. Logistics | 23. Securities and futures |
| 3. Airport | 10. Individually owned stores | 17. Management consulting | 24. Telecommunications |
| 4. Audiovisual | 11. Information technology | 18. Medical and dental | 25. Tourism |
| 5. Banking | 12. Insurance | 19. Patent agency | 26. Trade mark agency |
| 6. Cultural | 13. Job referral agency | 20. Professional qualification examinations | 27. Transport (including road freight/passenger |

| | | | |
|------------------------------|----------------------|----------------------------------|--|
| 7. Convention and Exhibition | 14. Job intermediary | 21. Real estate and construction | transportation and maritime transport) |
|------------------------------|----------------------|----------------------------------|--|

Source: Information Services Department, Trade and Industry Department, The Government of Hong Kong, Special Administrative Region, 2005.

Moreover, in order to follow out CEPA's main spirit of being an open and developing platform, seeking further liberalisation of trade in goods and services in the Mainland market, the HKSARG and the Mainland authorities have agreed to enhance cooperation in the following areas (Information Services Department, Trade and Industry Department, The Government of Hong Kong, Special Administrative Region, 2005):

1. Trade and Investment promotion.
2. Customs clearance facilitation
3. Commodity inspection and quarantine, good safety and quality and standardisation.
4. Electronic Business
5. Transparency in laws and Regulations
6. Cooperation of small and medium enterprises
7. Cooperation in Chinese traditional medicine and medical products sector.

However, is it true that new business opportunities, generated through CEPA, in the Mainland for Hong Kong business and services suppliers, enhance Hong Kong's attractiveness to overseas investors? The HKSARG completed in April

2005 a survey study on the economic impact, which revealed that an overwhelming majority of respondents considered that the first phase of implementation of CEPA was beneficial to the Hong Kong economy⁵. “The implementation of the second phase of the Closer Economic Partnership (CEPA), the free trade agreement between the Central People’s Government and the Government of the Hong Kong Special Administrative Region, appeared to boost Hong Kong’s attractiveness to foreign investors. One-fourth of all the investors in projects completed so far this year have indicated that CEPA was either the primary or one of the main factors considered when making the investment” (InvestHKJ, 2005).

Since China and Taiwan cannot disarm themselves for peace negotiation, it is impossible to have any official agreement signed at the moment. However, there can be informal meeting which plays influential role in the cross-strait relations. Cross-Strait Economic, Trade and Cultural Forum (KMT-CPC Forum) is known as an important platform for the cross-strait dialogue. KMT-CPC forum highlights the irrationality of thinking that cross-strait exchange activities must be conducted under the “One China” political framework set up by the Chinese authorities. Yet, it gives flexibility for the both sides to interpret the status quo by themselves. In other words, the holding of KMT-CPC forum is built upon the spirit of “1992 Consensus” and “agree to disagree”⁶. “Agree to disagree” was first brought up by Stephen John Hadley, Assistant to the President for National Security Affairs of USA, also known as National Security Advisor, to explain the

⁵ Trade and Industry Department, the HKSARG

⁶ Stephen John Hadley first mentioned the term “agree to disagree” in the White House Briefing Room after President Bush had conversation with Hu, Jintao on the phone on 26th March 2008. <http://udn.com/NEWS/NATIONAL/NATS5/4278592.shtml>

content of “1992 Consensus”. It means the two regimes across the Taiwan Strait agree ‘there is only one China’. Meanwhile, they also agree on the fact that they have their own definition to this “One China” statement. That is to say they “respect” the disagreement on who represents China. (Hadley, 2008)

During the time when Democratic Progressive Party (DPP) was the ruling party of Taiwan, it took strong stance against such non-governmental contact⁷. On MAC’s press release, it denounces that “during the forum, the Chinese leaders made slanderous and untruthful criticism of Taiwan’s democracy, which shows that they have not only completely ignored the political reality that Taiwan and China have no jurisdiction over each other, but have also lacked the slightest respect for the right of the Taiwanese people to choose their future. This is the most fundamental obstacle to the cross-strait relations. We urge the Chinese authorities to take more concrete actions to normalise the cross-strait relations, rather than making high-sounding statements about so-called ‘peace and development’” (MAC, 2007)⁸. However, in practice, KMT-CPC forum does bring more interests than conflicts.

The third KMT-CPC Forum with the theme “Cross-strait direct transportation; Tourism and Education exchange” held in Beijing 2007, Hu, Jin-tao, the chairman of PRC has release up to 13 beneficial treatments to Taiwan. Hu addressed a closer economic cooperation and cultural exchange on the first day opening. And all those 13 beneficial treatments have further more strengthen the flexibility for Taiwanese businessmen to continually increase their investments in

⁷ DPP’s main appeal is Taiwan seeking independency from China,

⁸ Mainland Affairs Council--Press Release . April 29, 2007, No. 43.
<http://www.mac.gov.tw/english/english/news/07043.htm>

the SC SREZ. Reuters points out that Hu aims to win Taiwanese heart with strong economic development as well as massive market ⁹.

Under the regulations of "Principle of Relationship between Taiwan and the Mainland", no governmental organisation from Taiwan is allowed to sign any agreement with PRC. Therefore, KMT-CPC Forum disclosed the consensus reached in a press communiqué. KMT has even officially written the press communiqué on its party programme. Ma, Ying-jiu, the current President of Taiwan and also the chieftain of KMT, believes that KMT-CPC Forum is worthy of carrying on even after the two sides re-open the gate for governmental level negotiation as it gives a platform to increase mutual understanding. Such "mutual understanding is definitely beneficial to peace making", said Ma¹⁰ (United Daily, 2007).

As previously mentioned, it is the potential economic benefits that draw the members to put aside their political disputes and give at least silent consent for the ongoing projects. In other words, it is the potential comparative and complementary factors that drive the growth of the SC SREZ.

The SC SREZ may not be famous for its abundant natural and human resources in comparison with other two SREZ cases. However, the well-constructed infrastructure and liberal policies have easily drawn the

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http://news.bbc.co.uk/go/pr/fr/-/chinese/trad/hi/newsid_6600000/newsid_6606200/6606231.stm

¹⁰ <http://udn.com/NEWS/NATIONAL/NATS4/4278384.shtml>

attention of foreign investors. Two major concerns for China are CEPA and the Three Links¹¹.

Other main content includes transportation, trade and investment, tourism, labour market, and agriculture. The SC SREZ content will be discussed in greater detail in the next chapter.

The Involvement of Key Actors

The SC SREZ is ambitiously reputed because it has successfully enlarged the scale in terms of both wider and deeper cooperation. Its experience has inspired many other SREZs to come into existence in China. However, as for SC SREZ, participants may respond differently in light of their national development and mutual relations. It is important to build up a thorough understanding of SC SREZ's progress through examining the background of the involved economies. Therefore, this section will begin with evaluating the divergence of the three economies in terms of social structure, economic system and political ideology; as well as their roles and powers in the cooperation.

The divergence can be seen in the following aspects:

1. population density;
2. economic developed level and management;
3. political system;
4. industrial structure.

¹¹ Three Links refer to the availability of direct flight, shipping and postal services between China and Taiwan (Jiang, 1995:5).

China is famous for its massive population ranked world number one and vast land ranked world number three, only next to Russia and Canada (Dai, 2004). Hong Kong and Taiwan, on the contrary, are much inferior to China on these aspects. The only physical condition these three economies may share is that their density of population is all very significant (Li, Z.S., 1997).

The disagreement in political nature and economic systems has once led to confrontations and little economic interdependence in the region. The participants, especially China and Taiwan, are used to the atmosphere of being long-term adversaries. It has been difficult for the either side authorities to change the political status quo through official channels. On the contrary, the commercial sectors have improved the cross-strait relations through greater economic interdependency.

(1) Hong Kong:

140-year of colonisation had a great influence on Hong Kong's economic development. During the time, it has become an axis of Asia as well as a global centre for business and finance (Zhu, 2003:97). In 2004, 1098 regional headquarters chose to base in Hong Kong. Also, 73 of the world's top 100 banks chose to operate here. Moreover, it is also "home to more than 310 banking institutions, over 190 insurers, around 700 securities dealers and about 1900 units trusts and mutual funds". The Government of the Hong Kong Special Administrative Region comments itself as "Asia's most international city: a vibrant, cosmopolitan community where East meets West" (InvestHK, 2005b).

Luckily, all these characters were able to be preserved under the frame of “one state, two systems” after Hong Kong was returned to China. Hong Kong keeps itself a duty-free port and applies no restriction on money, goods and services flow. Its “open to all” has earned the reputation of world’s freest economy ranked by the Heritage Foundation and Fraser Institute (InvestHK, 2005b).

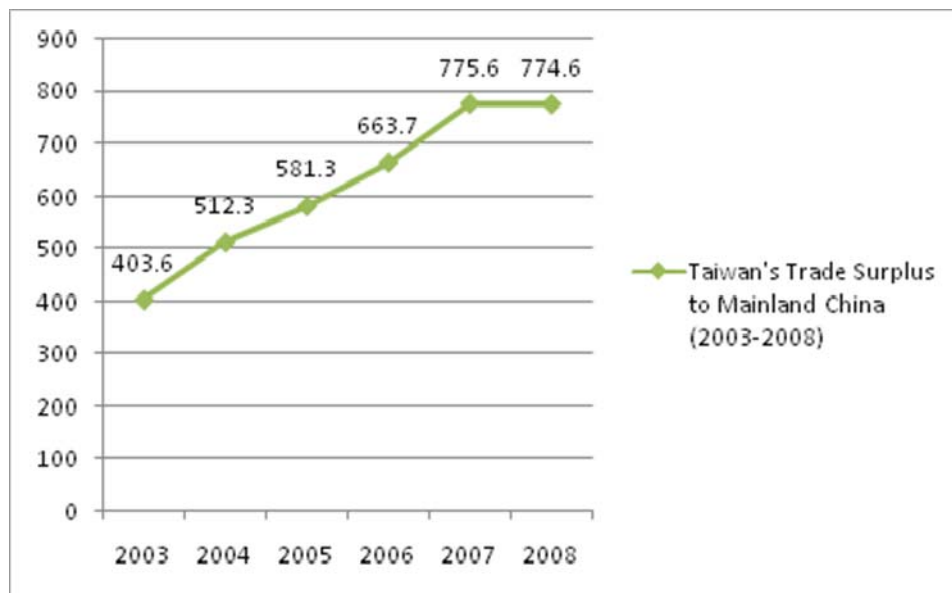
However, abundant flow of capitals and skilled labours as well as professional service providers cannot solve the problems of the increasing cost on labour and land. What Guangdong Province could offer just come in the right place that without much advocating, a plan for cooperation between Hong Kong and Guangdong has come into existence.

(2) Taiwan:

Taiwan shares many similarities with Hong Kong in its history of development. Politically, Taiwan was also a colony ruled by Japan since 17 April 1895 till 25 October 1945. Nevertheless, the break of the civil war in 1949 continues the island’s separation from the mainland (Jiang, 1995). Very much like Hong Kong and Guangdong province, Taiwan and Fujian share the same dialect, life style and other the cultural affinities (Pomfret,1996; Chen,2005; and Wong, 2005). “This innate connection is unbreakable”, said Liu, the Ex-Director of Economic Bureau, Taiwan Affairs Office of the State Council (Liu, 2005). “The cooperation between Taiwan Chinese and China Chinese cannot be more natural to have come into being.” Therefore, when Taiwan’s economy suffered from with a downward tendency, Southern China, the proximal area, was on the top of the list for businessmen seeking to make a change.

According to Huang’s research, the cross-strait commercial relationship can be defined into a few different stages (Huang, 2005:110-123). Before 1979, while the two regimes carried out serious antagonistic war-path against each other, the economic connection was cut off completely. In same year the trade volume across the strait was only 77 million US dollar trade volume and indirectly through Hong Kong and other economies. It was on 1st January 1979 “The Letter to Taiwanese Compatriots”, the authorities of China proclaimed a series of policy and guidelines aiming to trigger a regular trade interchange (Jiang, 1995:1).

Table 6.3 Taiwan’s Trade surplus to Mainland China (2003-2008)

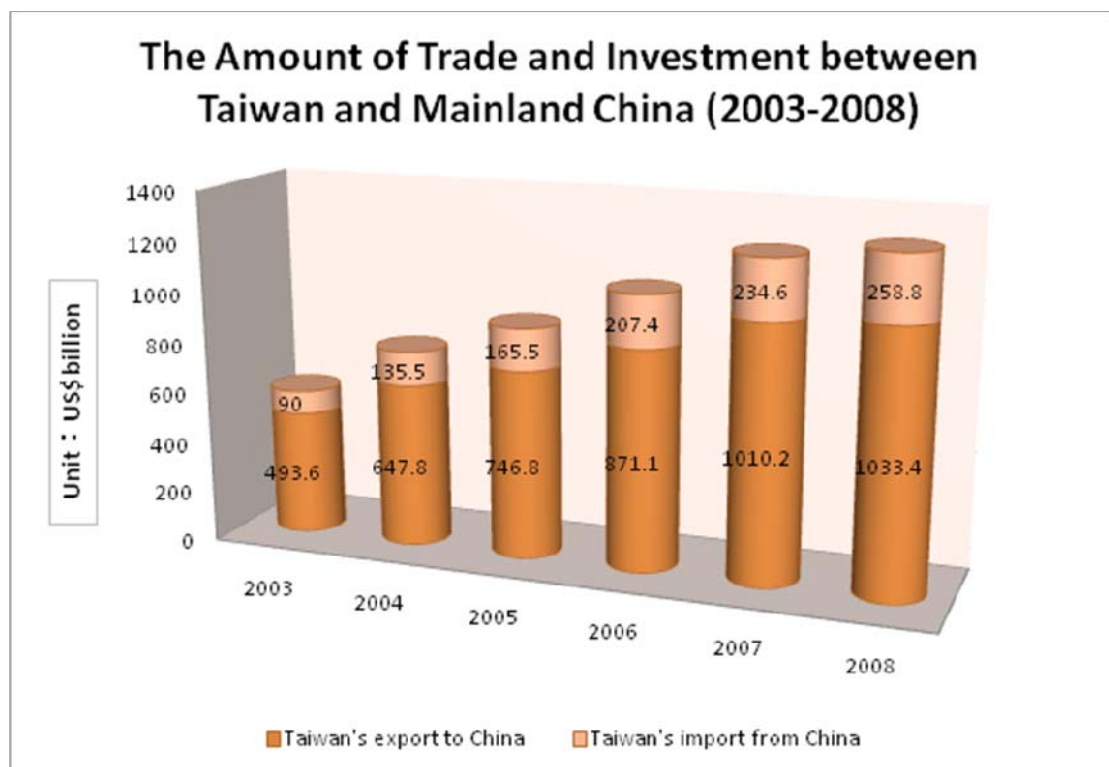


Source: Ministry of Commerce of the People's Republic of China <http://www.mofcom.gov.cn>

The trade interdependency between China and Taiwan has increased with the time. In 2002 China has become Taiwan’s greatest export market (Huang,

2005:121). Table 6.3 above clearly shows the upwards tendency of Taiwan's Trade surplus to China. There is an obvious trade surplus between 2003-2007 but not much change since then. In other words, 2008 is a turning year. It shows two hidden messages behind the chart which are worth noting. First, the trade surplus in 2007 was almost twice of that in 2003. We focus on the same period of time and from Table 6.4 below, it tells that the volume of Taiwan's import and export to China from 2003 to 2008 did not stop from growing up. However, the trade surplus was going downwards for the first time in the 5 years. Does that imply the economic relationship between Taiwan and China is facing a turning point? That the current cooperation mode between these two economies needs make a change?

Table 6.4: The Amount of trade and Investment between Taiwan and Mainland China (2003-2008)



Source: Ministry of Commerce of the People's Republic of China <http://www.mofcom.gov.cn>

From the first point, it leads to the second question: how important does the role of the SC SREZ play in the Taiwan-China economic relationship? According to “2008, Top 1, 000 Taiwan enterprises in China”, the most credible guiding Bible for Taiwanese businessmen to invest in China, there are 14 enterprises of out top 50, and 21 enterprises out of top 100 having their business settled down in Guangdong Province the area of SC SREZ (2008, Top 1, 000 Taiwan enterprises in China, 2008:88-91)¹².

Geographically, the route between Fujing Province and Taiwan is the easiest and shortest in distance. Besides, they both embrace subtropical climate so that their natural ecosystems are very much alike. It gives the two areas a good chance to develop agricultural cooperation. Moreover, a great proportion of Taiwanese are the offspring of immigrants from the Fujing Province. It is estimated that around 75% of Taiwan’s population speaks the same dialect that spoken in Fujian. Such blood relationship has formed a strong force to cohere these two lands and made Fujian become the first and the main commercial centre for Taiwan businessmen to invest in during the early cross-strait economic interchange stage (Huang, 2005:190-191). This was indeed the case at first. According the Huang’s research (2005:193), in the first wave of Taiwan investing in China in the 80s, Fujian took up 38.5% of total capitals that Taiwan businessmen placed in China, while Guangdong took up 28%. Yet, Taiwan businessmen have gradually shifted their focus to Guangdong later on.

¹² “2008, Top 1,000 Taiwan Enterprises in China” was recommended by interviewees including businessmen, consultant and government officers as guiding bible to invest in China.

Why do Taiwanese businessmen favour Guangdong Province more than Fujian Province? Why does not the convenience of sharing similar cultural backgrounds, geographical proximity and other innate connection that has boosted the economic cooperation between Hong Kong and Guangdong Province project the same positive effect on Taiwan-Fujian Province economic relationship? In order to answer these questions and to draw a complete picture of the SC SREZ, a fieldwork research focused on Hong Kong, Taiwan and Guangdong Province was undertaken and the result of the research will be discussed in the next chapter.

(3) China:

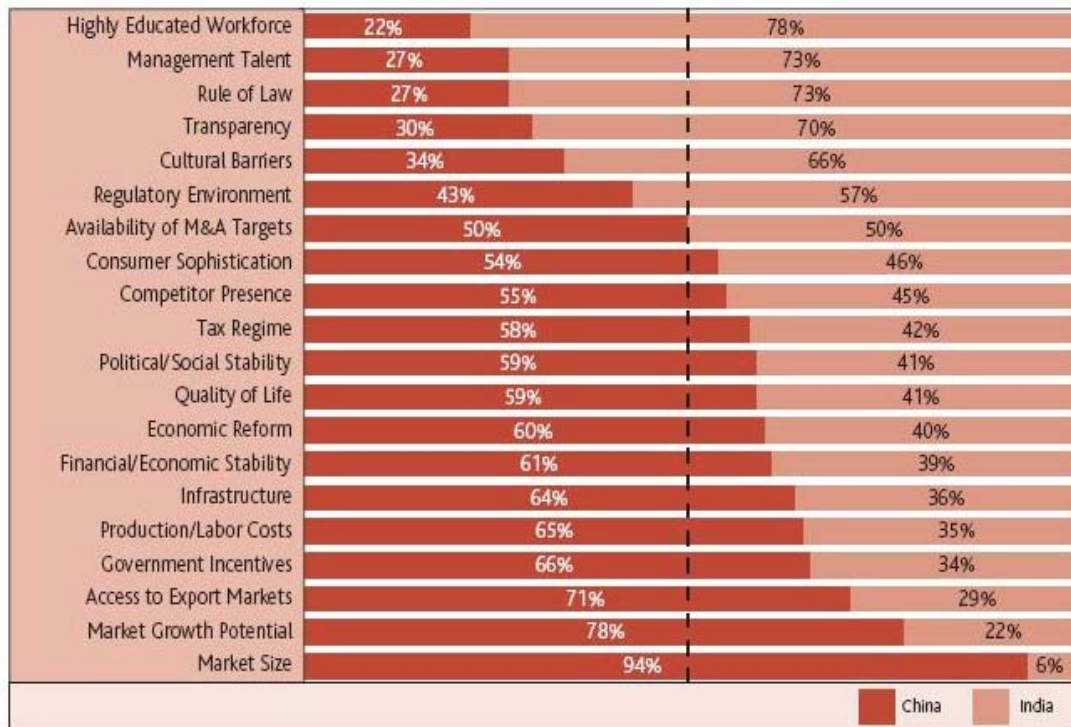
China remains one-party communist rulership but its policy for economic liberalisation has re-engaged itself with the global economy. It has launched several special economic zones along the coasts to attract foreign capital with the hope that these capitals can be redirected to develop the inland¹³.

Its GNP increases every year and it has become one of the major markets in the world. From 1978 to date, China has quadrupled its per capita income and its trade keeps posting a double digit growth rate. Gombo (2002) believes that there is yet no other country that could be able to sustain such a marvellous growth for over twenty years. Moreover, more and more scholars have pointed out the potential of China to be the regional hegemony in the forthcoming future. Its enhanced influential power has compressed the development of other contiguous

¹³ Refer to South China SREZ case study for further information.

states in the region. For example, India, with population over 1 billion ranked as world's number two, the advantage of speaking English as their official languages, and the reputation of having world's third largest numbers of high-tech engineers, was once believed to be the one of the most competitive country to attract foreign investment in the region (Yahoo News, 2006). The annual World Economic Forum meeting in 2006 put China and India at the same level, addressing that the raising of these two countries would shift the focus of the world economic to Asia (Sina News, 2006). However, according to the research carried out by TVBS and United Daily Newspaper in 2004, India actually only attracted less than US\$ 5 billion dollars investment in 2003 while China attracted more US \$540 billion. Furthermore, China's economic scale has reached US\$ 1,400 billion, which is three times than that of India. From the figure below, the comparison of China and India in 20 different aspects indicates that China is more attractive in terms of drawing foreign capitals for the investment.

Figure 6.2: Which is more attractive for the following FDI attributes—China or India?



Source: directly quoted from A.T. Kearney, 2004:8 (Percentage of Total Respondents)

Analysis of the Case

Despite the massive population of 1.3 billion people, China’s economic growing rate is always kept above 7%. According to the long-term plan, it will need a large number of capitals and new technologies to build up the infrastructure, upgrade the industries and reform the enterprise technologies by the year of 2010 (Zhao, 2002: 43). Thus, the responsible sectors have devoted themselves to seeking for intensive and extensive cooperation with other countries to attract foreign investment on the area.

For Hong Kong, only economic interests that does matter; however, the other two participants in the SC SREZ have more to worry about. Especially for Taiwan, a deeper and wider cooperation with China may result in higher risk in national security.

(1) Security Concerns:

The long lasting confrontation between China and Taiwan has always been complicated and difficult. On 30th January 1995, the Chairman of China Jiang, Zeming had made the point clear once again in a Chinese New Year Speech that “One China Principle” to be the only basis for the peaceful reunification (Jiang, 1995:3). Although he claimed that China was willing to seek peaceful path for reunification with Taiwan through negotiation, he addressed that they would never give up resorting the matter to force (Jiang, 1995:3). In fact, China has taken further step approving the Anti-Secession Law in March 2005, which places a solid legal footing for adopting non-peaceful means for resolving the Taiwan issue to be a part of Beijing’s systemic policy.

Lai comments that such law has freed the leadership from individual political responsibility (Lai, 2005: 34). In other words, the passage of Anti-Secession Law has granted China a justifiable excuse to take any military means against Taiwan regardless of the changing of the leadership.

In addition to legislation, China has been militarily increasing the number of missiles aiming at Taiwan along its east coast throughout the years. According to

the report entitled “The Military Power of the People’s Republic of China 2005” that The U.S. department of Defense (DOD) released on 19 July 2005, “Mainland China has increased military spending by over 10% annually for over a decade, with the official figure estimated to reach US\$30 billion this year. The actual figure is likely to be two to three times this level, or as high as US\$90 billion, placing it first in Asian and third in the world by this measure”¹⁴. The report points out that the People’s Liberation Army (PLA) has been developing and deploying various strategic weapons including 650 to 730 short range and medium-range missiles on the coast¹⁵. Its Missile range is estimated being able to strike not only Taiwan but also U.S. and Japanese military targets on the Ryukyu Islands. The fact that China is continuing expanding its military power has certainly posed a serious threat to Taiwan.

China's flush defence budget draws Taiwanese concern. As a leading ally of Taiwan, the United States is bound to provide Taipei with defensive weapons to maintain balance of power across the strait based on the 1979 “Taiwan Relations Act.” Despite U.S. Deputy Secretary of State John Negroponte claimed that the weapons “would be for strictly defensive purposes”, Beijing, in turn, raised opposition to Washington's plans to sell some \$400 million in weapons to Taiwan and still have approximately nine hundred missiles pointed at Taiwan (Zissis; 2007). Zissis (2007) also points out that in 2007 “Taiwan and China have engaged in a new round of verbal sparring, aggravated by Beijing's announcement of increased defence spending and Taipei's latest call for

¹⁴ Quoted from “U.S. DOD Releases 2005 Report on PRC Military,” Exchange, No. 83, October 2005, pp31.

¹⁵ The DOD report claims the figure of missiles China has deployed on the coast is increasing by 75 to 120 each year.

independence”.

Although both China and Taiwan assert to resume interaction and dialogue under a peace and stability framework, the real tension China has raised up by making massive military procurements has seriously paralysed the progress of normalising mutual relations. All these potential threats to Taiwan make a peaceful cross-strait relation that China promised appear unpromising.

(2) National political stable Concerns:

Dose being in the SC SREZ have any impact on each economy's domestic politics? The very essential idea of a SREZ is to even up scarcity and superabundance among the participants, so that the members can make profits from the co-operative projects. However, not all projects are successful in practice. Take the case of Taiwan fruit exports to China as an examining sample. The news hit on all print media and television in China on the day of Taiwan fruits' arrival in Shanghai, the epicentre of China's consumer culture; nevertheless, the high price has scared off most people. Although tariff-free policy could make Taiwanese fruit come down by 10-20%, the price is still beyond the affordability of the general consumers. “Even if you knock off 20% of the price of a Mercedes Benz, it's still unaffordable for most,” quoted from Shanghai's commodity manager (Wang, 2005: 40). In other words, such project has only very limited market.

If neither can the people from China generally enjoy the quality of Taiwanese fruits, nor can the farmers from Taiwan make huge profits through

this tariff-free policy; then what is the reason for Chinese officials to push so hard in promoting its importation? For China, it recognises Taiwan as its rebellious province. Therefore in order to take Taiwan back, the task of the special agency United Front is to win the hearts of the Taiwanese people by stirring a bottom-up call for national reunion on the island, open propaganda and other implicit activities. The findings drawn from the fieldwork research in the next chapter also show that there is not one policy which is solely motivated by economic interests, without any political agenda to “win over Taiwanese hearts”. Meanwhile, the authorities in Taiwan are very much aware of China’s intention of “waging a war to reincorporate Taiwan”. In the eyes of Taiwan government, such a favoured treatment is not merely commercial activities but a “fruit war”¹⁶. In addition to fruits, the Ex-President Chen, Shui-bian of Taiwan publicly announced that the sale of Taiwan agricultural products to China must be guided and authorised by the government. “Taiwan External trade Development Council (TAITRA) is the only negotiating window authorised by the government of Taiwan, therefore direct negotiations with mainland China by any groups or individuals will be invalid” (Exchange, 2005: 62)¹⁷.

The other reason that Taiwanese government takes such a strong stance over agricultural products exported to China is because of its disastrous experience in the past. The Taiwanese eel industry had lost its market share completely after China absorbed the breeding techniques from the imported eels and reproduced them in amounts way exceeding quantities that Taiwan could supply (Wang,

¹⁶ The term “fruit war” is used in Wang’s article “Examining Taiwan Fruit Exports to the Mainland”. (Wang, 2005:41)

¹⁷ Quoted from Chronicle of Cross-strait Relations edited by ‘Exchange’, bimonthly magazine No.83 (2005:62)

2005:41). The previous alarming experience has made the Taiwanese government overly cautious in guarding its core horticultural techniques from being absorbed again. However, rather than taking an indiscriminate attitude towards the prevention of techniques from flowing out of Taiwan, the government should focus on helping the industries to keep their competitiveness and interests. Otherwise, the industries would still move on to other remunerative environments where they can make profits even when that means to operate in China and break Taiwan's law. The most significant example is that this is exactly how SC SREZ has come into being.

The area has been over-developed. Previous advantages in terms of land and cheap labour are no longer competitive in comparison with other under-developed areas of China. More and more SREZ has been created through years. Is SC SREZ coming to an end? The next chapter will explore this in more details.

Summary:

This case study along with previous two case studies form the subjects for comparison in the end of this research. In Chapter One, SC SREZ was identified as the most dynamic and on-going SREZ that is more worth studying than the other two significant cases. Therefore, the fieldwork research is designed in the next chapter to analyse further the interaction between micro-regionalism and micro-regionalisation in the SC SREZ. And the EGPIB factors will be conducted in the next chapter too.

As addressed earlier, the very essential idea of a SREZ is to even up scarcity and superabundance among the participants so that the members can all make profits from the cooperation projects. Meanwhile, SC SREZ could serve as one of China's multifaceted approaches, an economic and cultural tool, to encourage Taiwan businesses and people to pressure the authorities to achieve Beijing's political goals.

SC SREZ encompasses many areas, including transportation, trade and finance, and the task of opening trade would be too much to facilitate all at once. Therefore, Ma, the President of Taiwan realistically asserted that those with fewer difficulties in terms of political concerns and technical problems, such as direct flight and tourism, should be carried out first. However, in the end, governments have to step in to sign an official agreement which in Ma's words "a general economic agreement" to deal with the economic issues that affects both governments and the people across both sides of the strait.

Generally speaking, governments play a limited role in defining and establishing a SREZ. The SC SREZ case is no different. Its existence and growth are a naturally occurred phenomenon in order to cope with the need of an expanding market. What worth noting is that the flexible government policies are necessary conditions but insufficient on its own in promoting a SREZ to come into being.

Clearly, SC SREZ is a very unbalanced triangle which the most economic

activities fall on the edges of China-Hong Kong and China-Taiwan. However, such uneven relationship does not hinder the SC SREZ from going deeper or spreading wider in economic cooperation. Moreover, differ from the TRADP which the economic interaction is highly based on natural resources, SC SREZ has neither rich minerals nor energy resources. Moreover, as it is such a long distance to reach those areas with abundant natural wealth in the southwest or northwest, the development of SC SREZ is fated to be export-oriented.

This Chapter laid down the background information on the participants, their relationships and how they may affect the SC SREZ. In the next chapter, a fieldwork research is undertaken for the purpose of capturing the current progress of the SC SREZ: is it still an on-going cooperation programme? Has it made any significant contribution to the participants? Has it transcended SIJORI and TRADP and achieved what they were unable to achieve? If so, what are the factors that result in SC SREZ's establishment and transformation? Moreover, is there any limitation for its development? Can SC SREZ surmount such limitation and become a model that could boost East Asian integration? It is anticipated that with the application of EGPIB factors and in-depth interview, the findings generated from SC SREZ will be able to explain what accounts to a SREZ's establishment, transformation and progressing, as well as what force sustain a SREZ's development and generate spill-over effect.