

GREATER CHINA AND ITS NEIGHBOURS: ECONOMIC, POLITICAL AND STRATEGIC DYNAMICS AND THEIR REGIONAL IMPLICATIONS

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(‘Greater China and its Neighbours: Economic, Political and Strategic Dynamics and their Regional Implications’ in G. Mills & N. Skidmore (eds) *Towards China Inc? Assessing the Implications for Africa*, Johannesburg: South African Institute of International Affairs, 2004, 1-18.)

The rise of China as an industrial and exporting power over the last few years has been remarkable. In 2002, Chinese exports reached \$US325 billion, more than twice the 1996 level of \$US150 billion. As this growth continues, there is also an expansion of linkages in East Asia (Australia, 2003). In particular, the growing ties – trade, technological and investment – between China, Hong Kong, Macao, and Taiwan have given rise to much speculation about the emergence of a large economic grouping, or at least a convenient arrangement, that has been variously called *Greater China* (Ash & Kueh, 1993; Harding, 1993; Lee, 1995; Rawnsley & Rawnsley, 2003; Shambaugh, 1995), *The China Circle* (Naughton, 1997) or *China, Hong Kong, Taiwan Inc.* (van Kemenade, 1997). These concepts have been used principally to describe the growing level of trade and investment between these economies, essentially informal economic cooperation across political boundaries, but there has also been some speculation about the formalisation of these arrangements to create a large economic bloc. Also, there has been debate about the importance of ethnic and cultural ties in the formation of these regional linkages, and about the political implications of these growing relationships. In particular, questions have been asked about the role of these trade and investment relationships in ameliorating some of the political tensions that exist across the Taiwan Straits.

My aim in this paper is to present a critical evaluation of the whole concept, try to unravel some of the terminology that has been used, and attempt to separate ideology and wishful thinking from the realities of the current situation in East Asia. I also want to consider some of the wider regional implications of the current developments in Greater China. The paper is divided into six major sections. First, I examine the genesis of the terms used and attempt to evaluate the usefulness of some of the concepts that have been put forward at various times. I also try to see the distinct ways in which various ideas are viewed in different parts of the region. Secondly, I describe what I see as the most important features of the current economic and political dynamics in China. This is a very complex area, and I can only hope do give the barest outline of what is happening there. Thirdly, I look at the considerable progress that has been made in creating economic linkages between China, Hong Kong and Macao to create what is becoming known as the Pearl River Delta Region. This process has now been considerably

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simplified following the reversion of both Hong Kong and Macao to Chinese rule. But I also want to consider the extent to which this recent experience can provide a blueprint for future relations between China and Taiwan. Certainly the unfolding of events in Hong Kong is being closely watched from Taipei. Fourthly, I consider very briefly some developments in relations between China and Taiwan. Given that another paper in this volume considers this topic in detail, here I will only present some short comments that are essential for my general argument. Fifthly, I analyse the development of the “China Circle”, and consider in particular the economic dynamics that seem to be at work, especially in key industries such as electronics. Finally, I move on to evaluate the wider region implications of these trends, including the political and strategic ramifications. I argue that this is a key turning point for Asia as it seeks to redefine itself in the wake of the Asian economic crisis, the Iraq war, and the new relationships that have emerged with the United States in particular. I argue that developments involving Greater China are central to these emerging dynamics.

The Evolution of Greater China: Concepts, Ideologies and Realities

To begin this discussion I want to consider some alternative definitions or mappings of the phenomenon we are considering in this study. As I have already noted, several alternative terms have been discussed in the literature, and it is important to recognise that these represent somewhat different formulations of the key variables that are involved.

Let me begin with the concept of *Greater China*. As Harding (1993) has noted, the term is used in a variety of ways. Some commentators have focussed on the rapidly increasing interaction between a number of Chinese societies around the world. But most have concentrated on purely commercial ties, while a few have explored broader cultural relationships between various ethnic Chinese groups. Still other commentators have reflected on the opportunities for political reunification that are generated by these emerging economic linkages (Copper, 2003). Some have given particular attention to linkages between China, Taiwan, Hong Kong, and Macao, but others have included relationships with Chinese communities in countries like Singapore. Some formulations have been purely descriptive, identifying the strength of the emerging ties, while others have tried to be more normative, talking about the institutions that should govern these links. Harding also notes that the term “Greater” is generally used for units that consist of viable economic or cultural regions that span a number of political jurisdictions, however in the political sphere the term may have some pejorative connotations, as in the “Greater East Asian Co-Prosperity Sphere” concept put forward by the Japanese in the 1930s. This is perhaps one reason why a number of governments in Southeast Asia have reacted badly against the idea of “Greater China”.

Harding (1993) also points out that while the specific term is of quite recent origin, the concept is much older. It can be traced to the traditional distinction, made first by the Chinese themselves and then taken up by many Western geographers, between “China Proper” and “Outer China” or “Chinese dependencies”. The former referred to

the territories directly under political control by the central government, while the outer area consisted of ethnic minorities under the suzerainty of the Chinese state. Such distinctions were also used on later US government maps to designate areas claimed by the Nationalist regime, but not then under political control.

More specific usage of the term “Greater China”, Harding suggests, began in the 1970s in Chinese-language publications examining growing economic linkages between China and Hong Kong. Slightly later, in a 1979 issue of a Taiwanese journal, the concept was extended to include Taiwan, and the idea of a “Chinese Common Market” was also raised at this time. Harding claims that the first use in English of the term was in the mid to late 1980s, when journal such as *The Economist* began to speculate about the emergence of a “greater China confederation” that might eventually include Taiwan. During the 1990s, the use of the phrase became even more common, but mainly in the sense of describing emerging business and trade linkages. Such networks are not new of course, as has been explored in a recent historical study by Sugiyama & Grove (2001), but there is little doubt that the scale of such relationships has expanded dramatically in recent years.

The use of the term to describe the realities of economic linkages within this part of East Asia seems to be relatively unproblematic (Ash & Kueh, 1993). More intense debate has centred, however, on the desirability and possible design of more formal institutions of economic or political integration (Copper, 2003). Current work seems to be much more modest in this regard, concentrating on issues of more informal co-ordination or consultation.

The use of the term the “China Circle” is somewhat different, and in some respects rather more sophisticated conceptually. Naughton (1997) argues that the development of a functional economic region consisting of China, Taiwan and Hong Kong “represents in certain respects the triumph of economics over politics” (p.3). The core of this conception is the existence of a series of three concentric circles centred on Hong Kong, containing interacting economic activities and crossing political boundaries (Sung, 1997):

- The smallest circle consists of Hong Kong and its immediate hinterland in China. This is based on the specialised business services located in Hong Kong. With much of the manufacturing activity now relocated to adjacent areas of the Pearl River Delta region.
- The second circle contains Hong Kong, the Chinese provinces of Guangdong and Fujian, and Taiwan. This area has developed a complex division of labour, resulting in very large flows of trade along well-developed production chains. Trade in intermediate goods is central to the flows of goods. This is now a tightly integrated production region, but there are still firm controls on investment and labour flows. Tariffs are also significant in some cases, and currency exchange risks remain.
- The third circle is generally in an earlier stage of its formation, and includes all of the rest of China. Particularly important, and now well integrated into the wider system, are the coastal provinces of Shanghai, Jiangsu and Zhejiang.

This then is a very economic definition, but one that is firmly grounded in the dynamics of the emerging regional and global economy. It encompasses explicit theories on the spatial division of labour and on the diffusion of technologies and production networks. It parallels the extensive work that has been done on the production networks established by Japanese companies (see, for example, Katzenstein & Shiraishi, 1997), and indeed there is considerable overlap between these Chinese and Japanese production chains, although as we will see later there are important differences between them.

The notion of “China, Hong Kong, Taiwan Inc.” is somewhat different again. It focuses quite centrally on China and its search for a new model of development, or perhaps a new way of establishing its old role as the dominant power in the East Asian region. Thus the concept is very political, although it is underpinned by the drive to economic maturity in China. The study also examines the ways in which alternative political systems can promote or inhibit economic transformation, and the possibilities for the creation of “democracy with Chinese characteristics”. The idea of greater integration in the region is thus part of this bigger project of economic and political modernisation in China.

It is important to ask whether the whole idea of “Greater China”, of whatever we may wish to call it, is seen in the same way in different parts of the region. What seems clear is that there are marked differences in perception of the phenomenon, reflecting quite different economic and political priorities.

For Hong Kong, the concept of greater integration is seen predominantly as a way of preserving its own particular economic, cultural and political identity by safeguarding its position as a regional or even global financial centre. Hong Kong is already a major financial centre servicing the local, regional and indeed global markets. This position has been based on a series of important factors and resources including: a strong financial and corporate services base; a legal system that is regarded as transparent and fair; excellent trade, transport and telecommunications infrastructure; a skilled and well-educated labour force; and, intellectual property protections and corporate governance regimes that are superior to others in the immediate region. However, this is an extremely competitive area, and Hong Kong is now facing a serious challenge from Singapore, and in the longer term perhaps from Shanghai (Sung, 2002). The number of regional headquarters and regional offices established in Hong Kong has been increasing steadily: the number of regional headquarters increased from 816 in 1996 to 948 in 2002, while regional offices rose from 1,491 to 2,171 in the same period. However, the government is well aware that in this competitive area it is essential to ensure that infrastructure, legal systems and other key factors are constantly being updated and improved. This then is a real incentive for an ongoing process of reform in a range of areas. The Hong Kong Monetary Authority has been active in the development of international and regional co-operation in issues such as financial stability and in the development of regional bond markets, and this has helped to buttress the role of Hong Kong as an international financial centre.

For Taiwan, the goals are rather different, and the stakes are much higher. Taiwan's continued economic health is of course a major priority, and the key to its relative independence of action, and the economic opportunities offered by China as both a market and a source of labour are central to this project. At the same time, some concerns have been expressed about the "hollowing out" of the island's economy as more and more factories, offices and jobs move to the mainland (Chi Lo, 2003). Taiwan is also keen to promote cultural and economic ties with China, although these are generally seen as alternatives to political unification rather than as preliminary steps in that direction.

For China, these issues are even more complex. It has been usual to assume that China sees the establishment of economic ties as an important preliminary to wider political unification, and as a way of fostering its own economic development. Certainly, in Chinese eyes, they are a way of engendering confidence in the Chinese system, especially in Taiwan. This is one reason why China has been so careful not to antagonise the citizens of Hong Kong over issues such as the recent Article 23 debate. But there may be other issues that have been less discussed in the literature. Wang Gungwu (2003) has recently raised some of these deeper questions. They go, he argues, to the very core of what kind of state China will become in the future.

At the heart of the problem is the question of whether China will continue to have a distinct political culture of its own. For the Chinese elites, their inherited culture is different from what is being offered by the West to China today. In that case, what parts of that culture would still be viable and how much could be preserved in the face of the powerful changes that the whole world is experiencing? Two factors dominate China's political culture. First is the fact that it has had such a long continuous history and has survived all attempts so far to destroy it. The second follows from the first: the fact that its population has grown to 1,300 million people, with over 90 per cent of them sharing that political culture, can be awe-inspiring, even for the Chinese themselves when they know enough to compare that culture with those of other countries. China's history and size do not enable the country to fit easily into the nation-state international system and accept its norms. But the Chinese elites will find that there are unlikely to be alternatives to these norms and, therefore, will have to live with the discomfort of conforming to them for a long time. But they have hopes that the pressures could be eased a little. The various efforts at regional groupings, if not fully developed regionalism, could soften the impact and go some way in diluting the iron boundaries of narrow national concerns.

(Wang Gungwu, 2003, pp.13-14)

These are key issues, not just for the question of Greater China but also for a better understanding of the wider linkages in the future Asian system. They will be discussed in more detail in the next section of the paper, which examines the central role of China in setting the broader regional agenda.

Current Economic and Political Dynamics in China

This is a vast topic, and I can only hope to present here some of the key features of the complex dynamics now at work in this large and rapidly changing nation. As a number of authors have pointed out, Chinese policy making especially in matters pertaining to foreign relations is characterised by considerable subtlety and by attention

to long term strategies rather than immediate tactical issues (see, for example, Robinson & Shambaugh, 1994). Chinese policy is usually thought of in terms of long-term hierarchies of goals. This list represents clear priorities, and also provides guidance on shorter term tactics, and the whole process is sophisticated enough to accommodate the fact that some short and medium term priorities may conflict with longer term goals, and some items on the hierarchy of aims may not work well together.

At present the overriding aim is for a continuation of rapid rates of economic growth. From this success flows the legitimacy of the regime, and from the fruits of its own growth China will be able to fund those things that it sees are necessary for its ability to extend its own power and influence in the wider region. In particular, the modernisation of its military is dependent on continued economic development.

Continued growth depends on several factors. One of them is certainly continued inflows of foreign investment, and Taiwan is of course a major investor in China. But China is not only attempting to increase the size of its economy, but also to become involved increasingly in more sophisticated manufacturing and other activities. This is not just a matter of investment but also access to new technology. To some extent China has followed the conventional pattern of economic liberalisation to achieve greater innovation, but there are several unique features in this policy that make the country somewhat unique. The Chinese leadership is well aware of the contradictions that can arise from a liberalised economic structure coming into daily contact with a more restrictive political system, hence these economic reforms have only been partial and extremely selective. At the same time, China has been attracted by many of the methods adopted earlier in Korea to generate rapid rates of industrial change. These involved intensive state intervention, a nationalistic approach to economic policy, and a strong preference for large-scale business units (Nolan, 2001). In spite of the 1997 Asian crisis, a number of these methods still retain favour. Also, China is a very large country, and hence it believes that it can rely on its own resources to a large extent. Perhaps most importantly of all, China takes for granted the fact that it will in due course assume the status of a great power, hence many decisions about economic and technological policy also have strong strategic and military overtones (Naughton & Segal, 2003).

The result of all these complex forces is that China is searching for a new model for its development, one that is compatible with its own particular history, institutions and political culture but is still able to generate rapid growth. I would see its involvement in “the China Circle” as central to this policy development. Many commentators, especially those writing from a conventional neo-classical economic framework, argue that China still has some way to go in its economic reforms (for example, Lardy, 1998), but there has been general optimism that China’s accession to the WTO will provide a strong impetus for continued reform (Lardy, 2002; Australia, 2002). However, such transitions are not so easy: the opening up and internationalisation of China is a huge and problematic task (Zweig, 2002). Some writers (notably Chang, 2002) have even gone so far as to say that China will collapse because of the lack of progress in reform of the financial system, state-owned enterprises and other problem areas. It seems that over the last few years, especially since 1997, China has been using Hong Kong as a place close to

home where Chinese companies, banks and other institutions can learn about how to operate in the wider international economy, and the government of Hong Kong is certainly aware of this role that it is playing.

But it is in political sphere that most doubts have been expressed about China's transformation. In a recent book, Ross Terrill (2003) has argued that Beijing is yet to decide whether it will be a modern industrial state, and adopt the policy reforms that are necessary to achieve this, or whether it will continue the legacy of the old Chinese empire. In my view, this is stating the problem in too stark a form, but it is certainly true that the current government in Taiwan is very suspicious of the motives and methods being adopted by the Chinese government. Offers of a Hong Kong style "one nation, two systems" settlement are viewed very sceptically. It is to the development of this Hong Kong model since 1997 that I now turn.

China-Hong Kong Integration: The Pearl River Delta Region as a Model?

Hong Kong has for long played an important role as a gateway for trade and other linkages both into and out of China, but particularly for the southern part of the country. This still continues, but a number of commentators have suggested that this traditional function is now under some pressure. Lo Chi (2003), for example, argues that as China opens up further to the rest of the world, and in particular with its accession to the WTO, Hong Kong is bound to lose its traditional role as a conduit for trade and investment. This will include, it is suggested, trade and investment to and from Taiwan. Since 1987, when trade via Hong Kong was first allowed, annual indirect cross-strait trade has grown to over \$US 10 billion per year. With the entry of both China and Taiwan to the WTO, many commentators are arguing that direct trade will only be a matter of time, thus removing some 6.0 per cent of Hong Kong's annual total exports. Similarly, Hong Kong may lose the benefits of passenger flows from Taiwan to China, which currently account for some 6.9 per cent of all tourist arrivals. There may be similar losses of banking and other financial services.

Others have suggested that any such loss will be offset by Hong Kong's continued role in the re-export of increased volumes of Chinese goods as China's trade expands in response to WTO entry. Currently this re-export business amounts to \$US 111 billion in 2002 or 69 per cent of Hong Kong's GDP. But it may be that in future far more of this trade will move via ports and airports in China itself. For example, as new airport services develop in Baiyun and Shenzhen, some of the air traffic originating in the Guangdong area that currently moves through Hong Kong's Chek Lap Kok Airport may fly directly (Lo Chi, 2003).

However, a recent survey by the Hong Kong Trade Development Council of 906 enterprises in the Guangdong, Jiangsu and Zhejiang provinces, the three most economically developed areas of the country, suggests that no other city can replace Hong Kong as an international commercial and financial centre. Some 82 per cent of respondents placed particular value on the transparent legal system, and 53 per cent

reported that they has raised funds there (Hong Kong Trade Development Council, 2002). Based on this sort of evidence, the Hong Kong government argues that Hong Kong still maintains its important advantages as a gateway, and is in the process of redefining and expanding its economic and trade relationships with China. The Closer Economic Partnership Arrangement (CEPA) signed between China and HKC on 29 June 2003 freed up trade in goods and services and facilitated trade and investment, and this will be followed up with further discussions leading to progressive liberalisation. This is likely to attract to Hong Kong manufacturing of brand-name products and the production of goods with higher levels of technology input and intellectual property requirements. The government of Hong Kong expects that these “WTO plus” liberalisations will give important “first mover” advantages to companies in Hong Kong, especially in the service industries.

Hong Kong is now playing a crucial role in one of China’s most rapidly expanding regions, the Pearl River Delta (PRD), which comprises Guangdong, Hong Kong and Macao. A major part of Hong Kong’s economic activity is now linked to manufacturing activities across the border. It is estimated that some 500,000 workers in Hong Kong are employed in companies that are involved in manufacturing or import-export activities on the Mainland (Federation of Hong Kong Industries, 2003). Another one million workers are indirectly employed in producer service activities related to cross-border manufacturing. This partnership has transformed Guangdong into the most rapidly growing region of China, with some 13 per cent of all value added industry in 2002. The PRD has been called the Fifth Asian Dragon and now receives more FDI than any country in Southeast Asia. Total exports from the region are around \$US 283 billion, or 4.69 per cent of world exports. It is estimated that some 63,000 HKC companies are engaged in manufacturing activities across the border in the Mainland. Of these, 7000 are directly involved in production, while 56,000 are engaged in import-export activities. Hong Kong based companies operate some 59,000 factory facilities on the Mainland, with 53,000 of these being in Guangdong. Thus the level of linkage in this region is truly enormous.

Hong Kong is also marketing itself as the best base for foreign companies planning to open operations in the PRD. For example, a recent survey of Korean companies investing in the PRD has suggested that most were motivated by the proximity of Hong Kong, and some 80 per cent have offices in Hong Kong for easy access to financial services, business support and logistics (Hong Kong Trade Development Council, 2003). Other surveys by the same organisation suggest that companies from a range of countries are now using Hong Kong as a service platform in the PRD.

Hong Kong companies have generally moved to Guangdong in search of cheaper labour and larger tracts of cheaper land. However it appears that most Hong Kong companies continue to carry out overall management of their activities in Hong Kong, along with much of their financial control, marketing and research and development. Thus there appears to be a clear division of labour emerging in the PRD region, one that is very beneficial to the economy of Hong Kong. Once again, these developments are

having a clear impact on the trade and investment liberalisation and facilitation programmes of the government.

The discussion so far has been broadly centred on Hong Kong's crucial relationship with China and how this is evolving with the new political arrangements since 1997. Crucial for the future of Hong Kong will be the precise form of the wider relationship that emerges between the two economies. There seem to be several alternative scenarios here. Hong Kong has done very well so far as a partner in export industries, especially in the PRD, and as a provider of logistical, financial, technological and other services. However there seem to be real limits to this role. Most importantly, China is developing its own service industries, although the gap in skills and regulatory frameworks is quite large at the moment. Continuous upgrading of skills thus becomes essential for Hong Kong if this function is to be maintained.

However, in the longer term, it appears to be necessary for Hong Kong to move beyond this traditional role. The danger, as seen by a number of commentators (for example, Sung, 2002) is that China will attempt to box Hong Kong into a purely regional role to service the needs of the Pearl River Delta. This is an important and rapidly growing region, as was noted in the earlier section, but the possibilities here fall far short of the ambitions that the government of Hong Kong holds for the future. This involves a drive to become a truly world city, operating at the level of a New York or a London. Hong Kong is already being marketed as "Asia's World City" but the achievement of such a status will require a huge effort, and an equal amount of investment. Ambitious government efforts are already underway in information technology and in the training of IT staff, and a new programme has been launched to attract investment to Hong Kong.

These growing economic linkages within Southern China are important, but the extent to which the Hong Kong integration into the PRC can be regarded as a successful model for Taiwan will depend much more on the degree to which the cultural and political linkages develop satisfactorily. As Steve Tsang (2003, p.233) has noted, Chinese identity in Hong Kong is deeply ambiguous:

On the one hand, as Hong Kong citizens, they want to preserve their own way of life under the principle of 'one country, two systems', which requires non-intervention in each other's affairs by both the PRC and Hong Kong. On the other hand, feeling that they are PRC nationals too, they believe they have the right to have a say in vital matters affecting the future of the nation, which inevitably involves PRC politics. Few among the Chinese of Hong Kong can see that there is in fact an inherent contradiction between asserting their right to have a say in the politics of the PRC and their demand that the PRC should not interfere into Hong Kong's domestic affairs.

This ambiguous identity was already being formed at the time of the traumatic putting down of the democracy movement in Tian'anmen Square in 1989. Many in Hong Kong feared for their future after the handover of Hong Kong to Chinese rule in 1997. Many chose to leave the country, while others stayed to mount a campaign for greater democratic freedoms in China. Since 1997, Tsang argues, the removal of British protection has resulted in a greater degree of pragmatism, but this dual identity still survives. They still regard themselves primarily as belonging to Hong Kong, but they also accept that they are now PRC national as well, although they would see themselves

as a distinct group, quite different from the rest of the population of the mainland. As we will see, profound ambiguities also characterise identities in Taiwan, although the manifestations are rather different.

China-Taiwan Relations: Integration or Conflagration?

As I noted in my introduction, I do not want to say much here, since another paper in this volume is devoted specifically to this issue. I just want to make a couple of specific points about the development of the Taiwan economy that are, I think, essential to my later argument. In spite of its success in weathering the Asian crisis of 1997, Taiwan has been going through some serious questioning about future directions for the economy. Much of this debate, as in Korea, has revolved around two questions – the so-called ‘hollowing out’ of the economy, and the difficulties in navigating change towards higher technology in the manufacturing sector. I also want to make some brief points about Taiwanese identity, and the ambiguities involved in its current formulation.

The large-scale relocation of more traditional and labour-intensive manufacturing activities to the mainland, as well as to some countries in Southeast Asia, has been criticised by some commentators as giving away Taiwanese jobs and handing power over the future of the Taiwan economy to the rulers on the mainland. Ironically, some critics in China have suggested that these arrangements are in fact handing power over the future of the Chinese economy to companies in Taiwan! Kao & Wu (1998) assess these arguments and conclude that there is little evidence so far of this ‘hollowing out’ phenomenon. Rather, Taiwan has benefited from this division of labour across the Taiwan Straits. However, they do urge caution in the further development of this relationship, arguing that companies in Taiwan need to look at their possible investments very carefully and realise that their own future prosperity is closely tied to the future health and vitality of the local economy. A recent Australian government publication (Australia, 2003) also tends to dismiss this ‘hollowing out’ argument. It argues that China’s core competitiveness still lies in labour intensive production, and much of its move into higher technology has simply involved the assembly of imported components from more advanced neighbours in East Asia. Thus, economies such as Korea or Taiwan have much to gain from continued expansions in their links with China.

The future direction of this debate will hinge very heavily on the success that Taiwan has in its continued push towards high technology development. In areas such as electronics, success will depend on the viability of the joint ventures that have been negotiated with a number of foreign companies. But the role of the state will also continue to be crucial, although in precise ways that are quite different from those of the past when Taiwan was seeking to develop its early phases of industrialisation. As Linda Weiss (2003) has noted:

The experience of Taiwan demonstrates that in spite of extensive liberalisation (not to mention full-fledged democratisation), developmentalism remains relatively robust at the turn of the century. International and domestic constraints notwithstanding, the state centred on Taipei retains both the key role in defining financial and industrial strategy and a capacity for effective implementation.

Increasingly, these new strategies for technological development may include co-operation with China, which as was noted above has embarked on a high technology of its own. Thus, it may be that the China circle may move to a new phase of technological cooperation.

The logic for increased economic co-operation with China seems to be generally accepted in Taiwan, but the cultural, political and strategic dimensions of the relationship are of course much more problematic. After reviewing a range of evidence on the dimensions of Taiwanese identity, Chu & Lin (2003) argue that more than anything else, the memories of China's many threats and intimidations, especially at the time of the 1996 presidential election, have created a sense of shared identity and destiny among the people of Taiwan. They now regard with horror the possibility of becoming another Hong Kong, and look for some support from the international community. The move towards democracy in particular has created a security dilemma for Taiwan. On the one hand, democracy has generated a strong sense of national solidarity, enhanced the island's international legitimacy and done much to discredit China's claim to sovereignty. However, most people realise that democratisation has increased the chances of military intervention by the PRC. The desire for a separate national identity has been enhanced by the growth of democracy, but it has also increased the external threat (Chu & Lin, 2003, pp.260-1). Thus, moves towards the further consolidation of democracy may be more difficult than might be imagined. All of these considerations suggest a profound mismatch between economic and political factors, making a peaceful settlement more and more difficult.

The China Circle and Regional Cooperation

There is some evidence to suggest that the China Circle is now at the very centre of change in the global economy, especially in key industries such as electronics. Borrus (1997) has argued that investment in the China Circle has been central in the reinvigoration of US electronics companies, which have utilised the production network possibilities in the region to regain technological dominance over their Japanese competitors. The US companies have established quite new kinds of production: open to outsiders, fast, flexible, but formal (i.e. structured through legal relationships) and disposable. These networks are quite different from those set up earlier by Japanese companies. These tend to be closed to outsiders, more cautious in creation, long-term and stable. The role of the dynamic and technologically sophisticated companies in Taiwan are clearly central to these processes, yet it has been argued that the sheer size and dynamism of the Chinese economy will ensure that the China Circle will be increasingly absorbed into the mainland economy, with Hong Kong and Taiwan as mere outliers. Naughton (1997 p. 289), for example, has suggested that the China Circle will "merge into a broader and more integrate East Asia, involving more of the PRC mainland economy". But, as Naughton also acknowledges, it is political rather than economic considerations that are the most problematic in predicting such a future. The unpredictability of political development in Beijing, he suggest, are particularly

problematic, but it is the China-Taiwan relationship that is the most important unknown. Since Naughton wrote this opinion, there has been far greater predictability in Chinese policy making, but his point about Taiwan still stands.

The recent Australian government report mentioned earlier (Australia, 2003), gives a rather different view of likely future economic scenarios, and in particular questions the chances of China controlling the future economic system. The authors argue that China's export specialisation is not becoming more similar to those of other East Asian nations. Rather, China is becoming more embedded in the region's production chains. Each economy is becoming more specialised in the particular items that reflect local strengths and experience. These chains still involve for the most part the production of more sophisticated components in Korea, Japan and Taiwan, and these are assembled in low cost facilities in China and Southeast Asia. Thus, the region is becoming more integrated, but there appears to be little sign of the Chinese dominance predicted by some commentators.

Given that the economic linkages in Greater China are relatively well-developed, and seem to be in the interest of all of the players, what can we say about the role of this regional relationship in terms of the fostering of political change and the creation of more harmonious international relations? In a new study of political change and the possible emergence of a new political consciousness in Greater China (Rawnsley & Rawnsley, 2003), a number of authors have speculated about the ways in which new social and political ideas, notably those surrounding democracy, are being diffused as economic ties increase. Copper (2003) argues that while the notion of Greater China emerged as a result of economic reform in China and the consequent creation of economic linkages, the idea did have a historical basis.

It was also a concept that as it developed was in many respects in consonance with how most Chinese view their culture and, in some ways, how Beijing and other Chinese entities view the world. The notion of an economic community of Chinese 'participants' became widely heralded in the early 1980s after it began to garner strong support from various Chinese political actors and the overseas Chinese.... Subsequently, Greater China came to have very salient political implications, especially as the 'Taiwan issue' became more heated and difficult with rapid democratisation on the island. However, a political Greater China did not win such broad and enthusiastic support as an economic Greater China.

(Copper, 2003, p.29)

For Beijing there is no problem in defining a 'united' or 'greater China' that would include Taiwan, but this would only be on the basis of complete control by China on terms that are not currently acceptable to Taiwan. Renwick (2003) argues that it would be better for China if ideas and norms from Hong Kong and Taiwan were to acquire greater importance in China. This would allow the resolution of the current problem of the state in China, and allow the completion of some fundamental processes of societal and political transformation. Indeed, he argues, the very future of China, as well as of Greater China, may hinge on the success of these changes.

In the final section, I want to examine the broader regional consequences of the changes and uncertainties that I have been describing, especially in terms of the wider ramifications and foreign policy implications.

Some Regional Implications

The economies of East Asia, having put the 1997 crisis behind them, are on the move again in a very aggressive way. In many ways, the reforms that were necessitated by the crisis have made them much stronger, and certainly more determined. Asia has vowed that never again will it allow itself to be so vulnerable to outside forces. This resolve is at the heart of many of the current developments that are redefining the architecture of the region. Plans for an Asian Monetary Fund, initiated in response to criticisms of the IMF at the time of the crisis, are moving ahead quickly, in spite of opposition from the United States. Regional economic integration plans are being put forward at a rapid pace, although the precise details of the final form of this are not yet clear. The most likely result will be an “ASEAN plus three”, consisting of the ASEAN 10, plus China, Japan and South Korea. This system, if it does come to fruition, will have a central role for greater China, indeed that will be its dominant core. This will cement relationships within the China Circle, plus extend its role in to the rest of East and Southeast Asia. Thus, the economic future of Greater China seems assured.

But what of the political and strategic implications? China-Taiwan relations are likely to be fraught for the foreseeable future. Rivalry between Japan and China for domination of Asia will also continue, and this is likely to have a major impact on the future shape of Greater China. China is very important to the future economic growth of Japan, and investments there have been very large, but Taylor (1996) has argued that Japan fears giving economic assistance and technology to China, lest it assist in the creation of a superpower that can threaten its own future. Thus, the easy diffusion processes of the “flying geese” model may be at an end. But it may be that the two leading powers in the region may come to some arrangement eventually. As Austin & Harris (2001) have argued, both nations, despite their rivalry, have Asian starting points, with different assumptions from those of the West. Both share a belief in the distinctiveness of Asia and in the need to create a new Asian order. Once again, the role of Greater China in the achievement of a new relationship will be central.

Finally, what are the implications for relations with the United States? At various times there have been suggestions that China and Japan might combine to limit US influence in the Asian region, but few commentators seem to give this idea much credibility. Both Japan and China will continue to rely, each in its own way, on the role of the US in the region (Metzger & Myers, 1996). Given the strong relationships that exist at the moment between Taiwan and the Bush Administration, there is no sign that Greater China has any place as a unit of analysis in US foreign policy formulation. Rather, the US has clear policy distinctions between China, Taiwan, Hong Kong and Macao. In this sense, Greater China has no meaning in strategic formulations.

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