

This volume, "Changing China", represents the inaugural issue of the *International Journal of China Studies*, the academic journal of the Institute of China Studies, University of Malaya. The ten papers selected for inclusion in this inaugural issue showcase the major areas of the institute's research interest: contemporary China's political and socioeconomic development, and her external political and socioeconomic relations in the context of regional and global political economy. More specifically for this inaugural issue, related to the former area of study are three papers that deal respectively with contemporary China's interregional developmental disparity, her developing political model, and Shanghai as a potential international financial centre, while covering the latter field of research are another three papers that look at the geopolitics of resource security, China-Southeast Asian economic relations and China's role in East Asian regional integration. In a way spanning both domains are a paper that focuses on the critical issue of cross-Strait integration and three others that analyze the economic, social and gender aspects of the Chinese "new migrants". With a broader view of migration based on its defining feature of cross-border mobility, the latter papers deal with an age-old phenomenon, albeit in new forms, that is affected by and in turn impacts upon the socioeconomic development of not only the destination country but also the country of origin.

As the first issue of the journal, this volume thus brings together research outputs on these main areas of the institute's research focus encompassing the many challenges stemming from the emergence of China as a global and regional economic power and increasingly important political player in the contemporary increasingly globalizing world. The publication of this inaugural issue of the journal also marks the continued development of the Institute of China Studies, University of Malaya, as an academic research organization dedicated to the advancement of scholarship on China's political and socioeconomic development and her international relations in the context of regional and global development.

Emile Kok-Kheng Yeoh
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China's Self-Extrication from the "Malacca Dilemma" and Implications*

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Abstract

A so-called "Malacca dilemma" has been identified to describe such a delicate situation where China has great stakes in the Strait of Malacca both economically and strategically, but little influence that it can exert has made it vulnerable. To extricate itself from this strategic weakness, Beijing has taken a series of measures. This paper aims to examine the new developments of China's measures, the motivations behind them and the implications for Southeast Asia. It is suggested that economically, notwithstanding the success that China has made in diverting from the Strait of Malacca, its reliance will continue, whereas its military modernization is likely to lead to arms race in Asia and Southeast Asian countries' hedging initiative.

Keywords: *Strait of Malacca, China, "Malacca dilemma", Southeast Asia*

1. Introduction

"Whosoever commands the sea commands the trade; whosoever commands the trade of the world commands the riches of the world, and consequently the world itself," asserted Great Britain's Sir Walter Raleigh. Command of the sea and maintenance of rights of free passage on Mahan's "great highway" or "wide common" are key to national survival and economic development. (Mahan, 1987: 25) Indeed from history to date, the oceans have been important sources of economic wealth, commercial growth and national security. This is in particular so for Asian countries like China who are dependent on the sea as the primary avenue of commercial life and economic health. (Cole, 2008: 10)

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Foreign trade has been a key driver for China's fast-growing economy, but most trade with Europe, Africa and the Middle East has to traverse the Strait of Malacca. In particular, China's surging demands for fossil fuels have made it more reliant on foreign oil imports. 80 per cent of China's oil imports, however, must pass through the strait too. In every respect can the Strait of Malacca be regarded as a life line of the rising dragon. However, as China lacks the capacity to project its naval power, the growing reliance on the Strait is rapidly turning into a strategic weakness.

To extricate itself from the "Malacca dilemma", the Chinese government has taken a series of measures, such as upgrading its naval power, diversifying energy import sources, constructing alternative ports that will allow shipping to avoid the Strait of Malacca, and so on. Some studies have examined why the Strait of Malacca is a dilemma for China and the measures that China has taken,¹ but the undergoing global economic recession has brought about new development and new changes. What are the new policy changes? What is Beijing's strategic thinking behind them? Does China's extrication mean a definite decrease of using the Strait of Malacca? And what are the implications for Southeast Asia? These are the questions that this study aims to examine.

This study will be conducted from both economic and security dimensions. Economically, notwithstanding the success that China has made in diverting from the Strait of Malacca, its reliance on the Strait will continue as long as China maintains an economic growth mode of low energy efficiency and foreign trade driven; from the perspective of security, China's military modernization is likely to lead to arms race in Asia and Southeast Asian countries' hedging initiative.

The next section will first examine why China tends to regard passage through the Strait of Malacca as a dilemma. In the third section, we will analyze the new developments of China's countermeasures amid the global economic recession. At last, the impact resulting from China's measures on Southeast Asia will be delved into.

2. "Malacca Dilemma"

The "Malacca dilemma" denotes such a delicate situation where China has a high dependence on the Strait of Malacca in terms of both economic security and geopolitical security, but little sway that Beijing can exert upon the waterway has made it susceptible to foreign risks. It was said that President Hu Jintao referred to such a strategic vulnerability as the "Malacca dilemma" and called for the adoption of new strategies to mitigate the perceived vulnerability. (Storey, 2006) This vulnerability has further been intensified in view of the territorial disputes surrounding China in the East and South China Sea and across the Taiwan Strait.

2.1. Strait of Malacca

The Strait of Malacca is one of the strategic points crucial to global maritime power that Mahan underscored. (Cole, 2008: 12) Located between the east coast of Sumatra Island in Indonesia and the west coast of Peninsular Malaysia and linked with the Strait of Singapore at its southeast end, the Strait of Malacca is 600 miles long and provide the main corridor between the Indian Ocean and the South China Sea (see map in Appendix). Considering that the strait is relatively shallow, only 23 metres deep at most points, the International Maritime Organization (IMO) requires an under-keel clearance of 3.5 metres for ships transiting the strait, which translates to ships of at most 200,000 deadweight tons.

At its narrowest point, the navigable channel is only 1.5 miles wide, but according to United Nations statistics, more than 60,000 vessels pass through the strait every year. Among them, more than 200 ships of 300 gross tons and above and of 50 metres or more in length pass through the Strait of Malacca daily. (Ho, 2006: 558-574) It is this narrow waterway that carries 80 per cent oil bound to Northeast Asia and more than 25 per cent of world trade, particularly trade between Northeast Asian countries like China, Japan and South Korea and their partners from European Union, Africa and the Middle East.

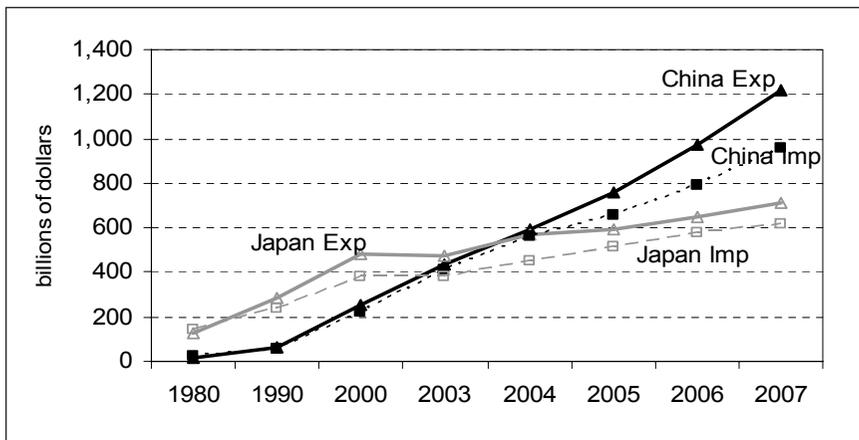
2.2. Significance of the Strait of Malacca for China's Trade and Oil Imports

Coupled with consumption and investment, foreign trade has become one of the pillars underpinning China's phenomenal economic growth in the past decades. Most trade goes by sea, and particularly trade with EU, Middle East, and Africa has to traverse the Strait of Malacca. In 2005 the contribution rate of China's net exports to its economic growth reached 35 per cent.² Since 2005 EU has become the largest trade partner of China. So far it is also the largest source of China's introduction of foreign technology and a major source of foreign investments. Meanwhile, China has replaced the US to become the largest source of EU's imports and its second largest trade partner after 2007.³ As Figure 1 shows, both Japan and China, the second and third largest economies in the world, have witnessed a surge of foreign trade over the past three decades. The shares of trade with EU and Africa in China's total trade rose from 16.8 per cent and 1.7 per cent in 1997 to 19.7 per cent and 3.4 per cent in 2007 respectively (see Figure 2). Beijing thus has many stakes in ensuring the smooth passage of its cargo ships through the Strait of Malacca.

Together with China's rapid economic development is its growing reliance on the import of raw materials especially oil. China became a net oil importer after 1993 and since then, indigenous resources can hardly catch up with domestic soaring demand. As a result, China has to import more to satisfy its

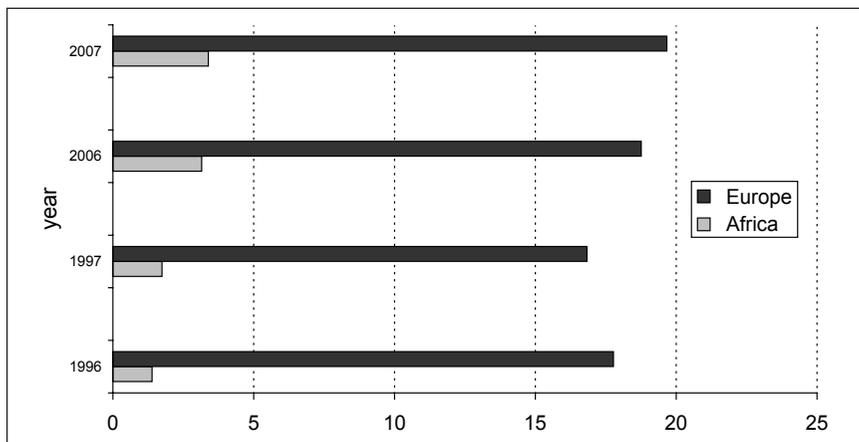
growing appetite (see Figure 3). China's indigenous oil production rose from 138 million tons (Mt) to 187 Mt between 1990 and 2007, gaining 35 per cent only, whereas domestic oil demand in 2007, capturing 368 Mt, was 2.3 times that of 1990. In fact, China's oil consumption increase was so stunning that its share in the world's annual growth even reached 60 per cent in 2006 (see Figure 4).

Figure 1 Imports and Exports of China and Japan



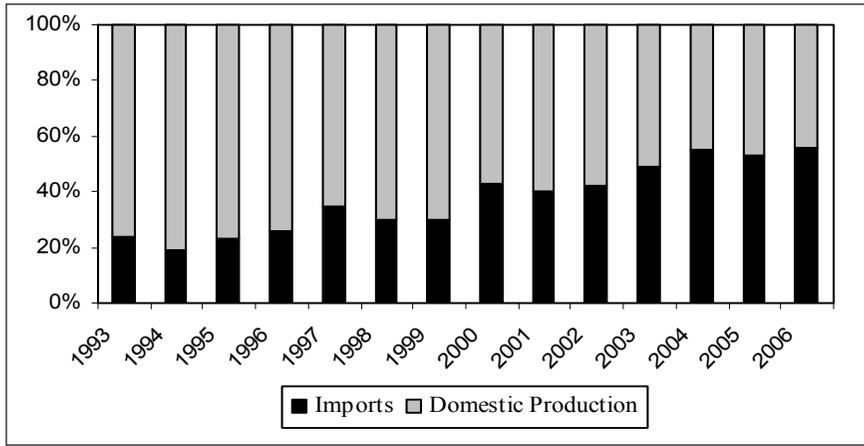
Source: UNCTAD (United Nations Conference on Trade and Development), *Handbook of Statistics 2008*, pp. 4-9.

Figure 2 Share in China's Total Trade (%)



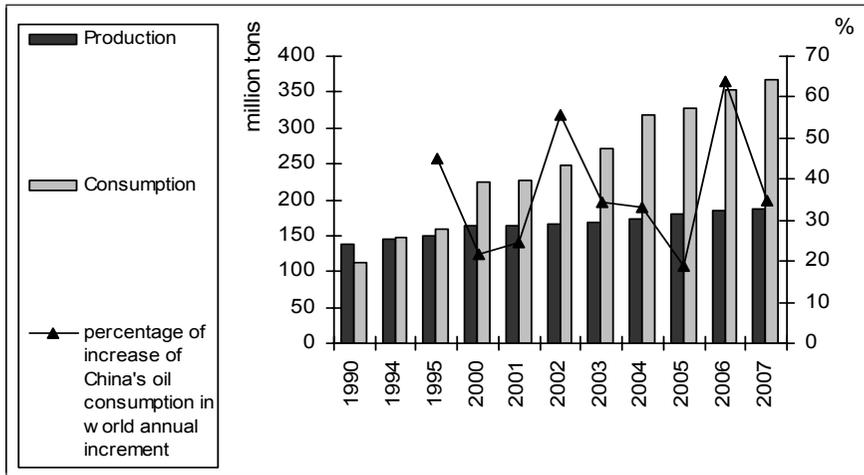
Source: *China Statistical Yearbook*, 1998 and 2008.

Figure 3 China's Oil Imports



Source: *China Statistical Yearbook*, various issues.

Figure 4 China's Oil Production and Consumption



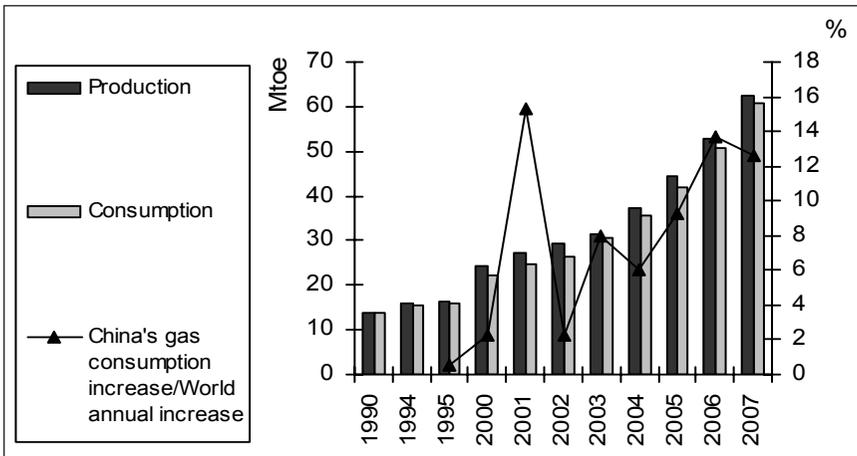
Source: Based on data from *BP Statistical Review of World Energy*, June 2008.

Likewise, natural gas consumption has grown rapidly over the past years. It rose 3.4 times from 13.7 million tonnes oil equivalent (Mtoe) in 1993 to 60.6 Mtoe in 2007. During that period, indigenous natural gas output was able to meet domestic consumption (see Figure 5), but according to International Energy Agency (IEA), imports will reach 37 Billion cubic metres (Bcm) by 2030, constituting 29 per cent of total natural gas consumption (162 Bcm). (IEA, 2007: 110 & 257)

China is set to rely more on foreign fossil fuels, particularly crude oil from the Middle East and Africa. As shown in Figure 6, the Middle East remains as the heavyweight in China's importing sources notwithstanding its diversification efforts. Crude oil imports from Africa have also risen sharply over the past decade. By 2005, the share reached 30 per cent, making it the second largest source of supply, just next to the Middle East. In a nutshell, with China's growing reliance on foreign oil, it will strive harder to diversify the import sources, but the Middle East and Africa remains significant in China's energy security.

Based on the percentage of the first four countries in total oil imports, Saudi Arabia, Angola, Iran, and Russia in that order have become the first four largest suppliers of China's crude oil. Crude imports from the above four countries have consistently accounted for more than one half of China's aggregate crude imports (See Table 1).

Figure 5 China's Gas Production and Consumption



Source: Based on data from *BP Statistical Review of World Energy*, June 2008.

Figure 6a Crude Imports, 1995 (Total: 17090 B.T.)

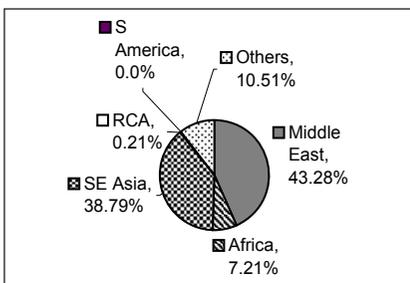


Figure 6b Crude Imports, 2005 (Total: 126818 B.T.)

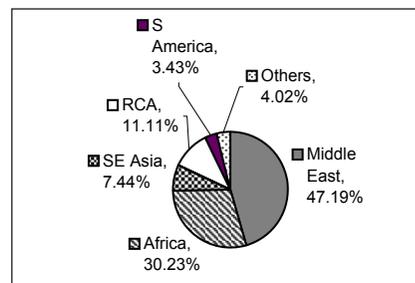


Table 1 Major Sources of China's Crude Oil Imports (million tons)

Year	Ranking	Country	Quantity	Total Yearly Imports	%
2005	1	Saudi Arabia	22.2	126.8	17.5
	2	Angola	17.5		13.8
	3	Iran	14.3		11.3
	4	Russia	12.8		10.1
	% of the first four countries in total crude imports				52.6
2006	1	Saudi Arabia	23.9	145.2	16.4
	2	Angola	23.5		16.2
	3	Iran	16.8		11.6
	4	Russia	16.0		11.0
	% of the first four countries in total crude imports				55.1
2007	1	Saudi Arabia	26.3	163.2	16.1
	2	Angola	25.0		15.3
	3	Iran	20.5		12.6
	4	Russia	14.5		8.9
	% of the first four countries in total crude imports				52.9

Source: *China Commerce Yearbook*, 2007-2008.

As oil is intimately related to China's economic catch-up and socio-political stability, and most crude oil imports from the Middle East and Africa have to pass the Strait of Malacca, it is not overemphasized that the economic and strategic importance of the Strait of Malacca, which as a chokepoint, directly affects China's sea lane of communications (SLOCs). It is estimated that among the ships transit through the Strait of Malacca each day, 60 per cent belong to China. (Shi, 2004)

Hence, Beijing feels susceptible to this strategic weakness considering that any unexpected event could disrupt its trade flows and particularly oil imports, which could further deal a blow to China's economic development, social stability and military operations.

2.3. China's Concerns about the Strait of Malacca

Due to the strategic importance of the Strait of Malacca, the Chinese government has every reason to be concerned about the safe and smooth passage of its vessels. Other than natural disasters, oil spill incidents, and

ship collisions which can affect the SLOCs, currently China has three major concerns. One is the threat of piracy and transnational crime. In the 1980s and 1990s, the yearly reported piracy incidents in Southeast Asian waters were below 60, but this number rose dramatically. There were 1220 actual and attempted attacks over 1999-2005 (see Table 2). Moreover, it was said that pirate attacks might be underestimated.⁴ As a result, Southeast Asia was regarded as one of the world's two most frequent scenes of pirate attacks against seaborne vessels. (Davis, 2004) As shown in Table 2, the Strait of Malacca is frequently troubled by piracy attacks, just next to Indonesia. To stamp out rampant piracy in the Strait of Malacca, Indonesia, Malaysia and Singapore launched coordinated patrols in July 2004. According to Chew Men Leong, Singapore's Chief of Navy, their joint patrol and coordinated efforts with other countries have successfully brought the piracy attacks down to 4 cases in 2008 from 38 in 2004.⁵ Despite such a decline, possibilities of pirate attacks can hardly be ruled out.

Maritime terrorism is another concern with China's growing reliance on seaborne shipments. There is no consensus regarding the seriousness of this problem in the waterways of the Strait of Malacca. On one end are countries like the US and Singapore which tend to highlight the vulnerability of the Strait of Malacca to terrorist attack; they claimed that the threat of attacks has increased since the 11 September 2001. On the other end are Indonesia and Malaysia, the other two littoral countries, believing that some countries

Table 2 Piracy in Southeast Asia – Actual and Attempted Attacks

Location	1999	2000	2001	2002	2003	2004	2005	Total
SE ASIA								
Cambodia/Vietnam	2	6	8	12	15	4	10	57
Indonesia	115	119	91	103	121	94	79	722
Malacca Strait	2	75	17	18	28	38	12	190
Malaysia	18	21	19	14	5	9	3	89
Philippines	6	9	8	10	12	4	0	49
Singapore Strait	14	5	7	5	2	8	7	48
Thailand	5	8	8	5	2	4	1	33
South China Sea	3	9	4	0	2	8	6	32
TOTAL	165	252	162	167	187	169	118	1220

Source: John C. Fawcett-Ellis, "Maritime Security in the Straits of Malacca and Singapore – Industry's Views", MILOPS 2006, 17th-19th July, Bangkok.

used greater risks of piracy and terrorist attack as an excuse to control the important waterway. As Indonesia's navy chief, Admiral Bernard Kent Sondakh said in an interview that foreign governments – including the US – were primarily interested in the waterway because it was economically strategic, rather than because of terrorism fears. (BBC, 2004) While China has fears that international terrorists might target ships passing through the Strait of Malacca, it also holds misgivings that the US might control the waterway, as to be illustrated below.

The third concern, probably the deepest one, rests with the US's active presence in the Asian Pacific waters. Within China perceptions about the influence of the US and its intention of interdicting China's maritime shipment are divided. In the eyes of some Chinese strategic analysts, the Strait of Malacca is one of the strategic locations that the US endeavours to command in that they are crucial for Washington to gain geopolitical preeminence, check the rise of China and other powers, and control the flow of world energy. (Shi, 2004) China particularly worries that the US might interdict seaborne oil flows into China in the event of its military action against Taiwan. (Lee, 2005: 269) It also holds misgivings that Washington would make use of its presence in the critically strategic Strait of Malacca to forestall the People's Liberation Army Navy (PLAN) to go to blue waters, a precondition for its rise as a world power.

Meanwhile, such a contention was dismissed by You (2007), "In a way, SLOC risks are often overstated, by seeking to portray SLOC insecurity as a matter of life and death for nations, in view of its adverse impact on economy." On the one hand, there are three straits available that can bypass the Strait of Malacca, including Sunda, Lombok and Makassar, and making that detour would not cost that much as is generally imagined. On the other hand, blocking all the four straits is too costly for the US.⁶ Currently, as illustrated below, Beijing's strategy in dealing with the US factor seems to vacillate between the above two possible scenarios: free riding and preparing for a rainy day.

3. Reducing Reliance on the Strait of Malacca

Given the strategic importance of the Strait of Malacca and China's little sway on the waterway, what steps has China taken to cope with the perceived "Malacca dilemma"? And what are the new developments of Beijing's measures against the backdrop of the global economic recession? We classify Beijing's measures into four categories: energy supply-sided measures, energy consumption-led measures, cooperation with littoral states, and military strategy. China's willingness to cooperate with other states is to be discussed in the next section.

3.1. Energy Consumption-led Measures

Energy consumption-led measures that China has taken are not directly linked to the “Malacca Dilemma”, but as efforts to enhance China’s energy security, these measures objectively can slow down or even reduce its energy consumption, thus alleviating its reliance on foreign energy imports and the use of the Strait of Malacca. These include measures aiming to improve energy use efficiency, “getting price right”, strengthening environmental protection, developing public transportation, tightening regulations over the auto industry, and so on. They largely comply with the “conservation-minded society” (*jiyue shehui*) and “scientific development concept” (*kexue fazhanguan*) initiated by the current Hu Jintao and Wen Jiabao Administration.

These measures, if strictly implemented, could greatly contribute to moderating Beijing’s growing appetite for oil and gas, thus reducing energy imports from abroad. Indeed the Chinese central government has spared no efforts to implement a series of measures centring on the “scientific development concept.” However, it was reported that “scientific development” is giving way to the old way of developing local economy at any cost in their endeavour to expand employment under the percussion of the global financial crisis. A large number of polluting firms, which should have been prohibited, were allowed to be started or resumed to work by the Ministry of Environmental Protection and local Environmental Protection Bureaus. And Guangdong’s ambition of taking advantage of the financial crisis to push forward industrial upgrading was out of steam as it faces tremendous pressure of preventing further unemployment from both the centre and other provinces.⁷

3.2. Energy Supply-side Measures

Energy supply-side measures are the major ones that China resorts to handle the “Malacca dilemma.” These measures include seeking other transportation routes bypassing the Strait of Malacca, diversifying oil import sources, and the less directly linked building oil stockpiles. The global financial crisis contributes to Beijing’s efforts. With a deep pocket, Beijing tried to make use of the opportunities resulted from the crisis, which caused liquidity bottleneck in many energy companies and oil rich countries and forced many of them to tone down energy nationalism by turning to foreign investments.

Crucial is China’s effort to find alternative pathways bypassing the Strait of Malacca. Initially there were four schemes under consideration, which include: (a) a channel through the Kur Strait in Thailand; (b) a pipeline from Myanmar to Kunming; (c) a pipeline from Gwadar in Pakistan to Shanghai via Xinjiang; and (d) a pipeline started from Iran right across Pakistan and India to China. Each of these projects, if implemented, would encounter tremendous technological obstacles, and hence calling for exorbitant costs.

Relatively cheaper among these schemes is the second one. Currently the first and fourth schemes have already been scrapped either because of cost ineffectiveness or political concerns. The second one was just signed between China and Myanmar. In terms of the third scheme, China has completed the port construction work in Gwadar, but there is no plan to build a pipeline to China thus far.

After years of consideration, a pipeline linking China and Myanmar has emerged on the horizon. On 27 March 2009 both sides signed an agreement for building an oil pipeline and a gas pipeline, with a planned expenditure of US\$1.5 billion and US\$1 billion respectively. The oil pipeline will transport Middle East and African crude oil from Myanmar's Arakan coast to China's southwestern Yunnan province, while the gas pipeline will tap into Myanmar's reserves at the Shwe gas fields. To some extent the financial crisis has expedited their implementation. Construction of the two pipelines will begin soon and is expected to be completed by 2013. China National Petroleum Corporation (CNPC), the largest oil and gas company in China, holds 50.9 per cent stake in the project, with the rest owned by the Myanmar Oil and Gas Enterprise (MOGE). (Sudha, 2009)

In August 2001 the Chinese and Pakistan governments clinched a financing agreement on the first-phase project of building the Gwadar Port. According to this agreement, China had financed this project with US\$198 million in the forms of unpaid aid, preferential loan and low-interest loan while Pakistan self-raised US\$50 million. The port was constructed by a Chinese company. The first phase of this project has been completed in April 2005. It was reported that Beijing plans to invest in the second phase of this project, which would add nine berths, tank stations and other facilities.⁸ However, China did not participate in the bid for running the Gwadar Port and hence has not secured the operation rights; instead, Singapore's PSA International won the bid and is responsible for its operation.

The China-Pakistan oil pipeline, however, has not been in place despite years of heated debate. Compared with the Sino-Myanmar pipeline, the China-Pakistan pipeline is much less competitive. First, construction of this pipeline costs much higher as it travels much longer distance and across more complex geographic terrains. Second, there is no much petroleum in Pakistan. Third, the oil through this pipeline goes into Xinjiang, which itself does not lack oil; the imported oil still needs to be moved thousands of miles away before arriving in the coastal regions where China's economic powerhouse locates, which will add more costs. Saying that the China-Pakistan is less competitive does not amount to denying its strategic importance, but it remains a suboptimal option for China compared with the China-Myanmar pipelines. The latter, once ready, will be the first pathway alternative to the one through the Strait of Malacca.

Other than seeking alternative maritime pathway, China is also making efforts to secure land-based pipelines so as to reduce its dependence on the Middle Eastern and African oil resources and the risky seaborne shipment via the Strait of Malacca. Two successful deals are the oil pipelines with Russia and Kazakhstan. As a matter of fact, in the *Comprehensive Statement on the Development of China's Refining Industry in 2005*, released by the National Development and Reform Commission in 2005, the government has put forward the goal of building four major transportation pathways for imported crude oil in response to its fast-growing reliance on foreign oil imports, namely, China-Kazakhstan and China-Russia land-based crude oil pipelines, and the Strait of Malacca and China-Myanmar maritime pathways for crude oil. (China Center for International and Strategic Studies, 2007)

The Sino-Kazakhstan pipeline is the first project being in place other than the present Strait of Malacca pathway. According to the agreement signed between CNPC and the Kazakhstan state oil company KazMunaiGaz, the 3,000 km-long pipeline (625 mile) from Atasu, in northwestern Kazakhstan, to China's northwestern Xinjiang region, would be completed by three phases. The first section, with a length of 450 km from Atyrau to Kenkiyak in northwest Kazakhstan, was put into operation in December 2002. In September 2004, the second section, from Atasu to Allah Mountain Pass, was put in use from December 2005. The third phase, connecting Kenkiyak and Kumkol, is under construction from December 2007 and is expected to be due in October 2009. Nonetheless, Kazakhstan has started to export oil to China through the available pipeline since May 2006.

Acquiring the so-called loan-for-oil deal with Russia has moved China closer to its aforementioned goal of building four major pathways. Until recently did China and Russia make the deal of building a branch oil pipeline notwithstanding their over one decade bargains. For long China has striven to secure an oil pipeline from Siberia to Daqing, China's oil bonanza in the Northeast, but Japan's involvement and Moscow's energy diplomacy had complicated this process. Moscow finally decided in April 2005 to build a pipeline to the Pacific Ocean from Eastern Siberia, a decision regarded more favourable to Japan.

However, in February 2009 the loan-for-oil agreements were clinched between China and Russia. The China Development Bank agreed to provide US\$25 billion loan to Russian state oil exporter Rosneft and pipeline company Transneft. As an exchange, Russia permits to build an oil pipeline to Daqing, and will export 300 Mt of crude oil (around 241 thousand barrels per day, or 15 Mt per annum) over a 20-year period through the pipeline.⁹ To a large extent this deal was attributed to the global financial turmoil, which has badly hit Russian economy and its oil giants.

3.3. Military Strategy

Within China there are different voices concerning the presence of the US military in the Asian Pacific waters. In the past China primarily perceived it as a threat, but in recent years Beijing has eventually accepted the constructive role that the US has played in ensuring regional peace and security as well as free passage in the international waters, which has created conditions for carrying out bulky trade between China and outside world. In the foreseeable future, China will continue acting a free rider in that regard. Hence, Beijing primarily relies on the non-military means to alleviate its concern of the "Malacca dilemma".

Nonetheless, Beijing also has three major concerns. First, it worries that the US would interdict oil shipment bound to China. Such a concern seems reasonable. As John Walsh claimed, "American forces hang around the Straits regularly and make it clear that they could, if they had a strong enough motive to do so, to close the Straits and starve China of its oil and other imports." (Walsh, 2007) Second, China holds such a misgiving that the US would try to block its rise by establishing a "North Atlantic Treaty Organization (NATO)" along with Japan, India and Australia in Asia. And third, in the eyes of Beijing, the US has constructed an encircling chain along Japanese Okinawa, the Philippines and Taiwan. To avoid the worst scenario, Beijing also resorts to a military strategy. As early as 1987 Beijing did work out a long term blue water strategy. This strategy aimed to "acquire power for efficient sea-control within China's adjacent waters (from the Bohai Sea to Yellow Sea and some areas of the East China Sea) by 2000, a sea denial capability within the first island chain in the West Pacific in 2010-2020, and a status of powerful regional navy with global reach in 2050." (Liu, 2004 and You, 1991: 137-149)

Beijing stepped up its naval buildup, driven by the need to ensure smooth passage of its shipments, its grand strategy of rising up as a world power and the Taiwan contingency which might incur the US intervention. China's 2006 Defense White Paper proclaimed that its navy would take on a more expansive role, reaching out beyond its traditional focus on the coastline.¹⁰ As of 2008, it was conjured that the PLAN for the first time possesses the military power to "break the first-island chain of land-based air and missile protections". (Huang, 2009) As its 2008 Defense White Paper asserts, the PLAN will continue its efforts to build new types of submarines, destroyers, frigates and aircraft so as to form "a preliminary weaponry and equipment system with second-generation equipment as the core and the third generation as the backbone."¹¹

Notable is the fact that China's concern about the SLOCs issue, particularly the Strait of Malacca, only comes about when the country has become more reliant on foreign oil resources and foreign trade. China thus

has more stakes in the outside world and forces the government to ponder over how to prevent risks of trade disruption and how to protect the country's cargo shipments. It is against this backdrop that the PLAN for the first time deployed two destroyers to Somali water to protect Chinese cargo ships from pirate attacks in the Gulf of Aden.

China has become more confident after the eruption of the global financial crisis, as shown by the fleet parade at the 60th anniversary of the PLAN. The financial tsunami has not stopped China's ambition for a blue-water navy – one capable of operating in the open seas far off its own shores, nor has the warming up of cross-Strait relations after Ma Ying-jeou came to power in May 2008. Peng Guangqian, a military expert in Beijing, said one reason China needed a blue-water navy was to safeguard sea lanes for its exports and energy imports.¹² Conspicuous is Beijing's intention of building an aircraft carrier. "China will not remain the world's only major country without an aircraft carrier,"¹³ declared China's Defense Minister Liang Guanglie in a talk with his Japanese counterpart on 20 March 2009.

Hence, from the above analysis, the global economic recession has brought about new changes of Beijing's policies. These changes mainly include the following two aspects: on the one hand, badly hit by the global financial crisis, Beijing tends to regard it as a rare opportunity for its rise. Commercially, this is a good opportunity for Chinese enterprises to "go out", conducting some acquisitions and merges by taking advantage of the liquidity problems that many foreign firms are troubled. Strategically, possessing the largest foreign reserves and a fast economic growth rate, China's role in the world appears more prominent in "saving the world". Moreover, as developed countries are overwhelmed by economic crisis, this has left Beijing more leverage and maneuvering space. On the other hand, China is confronting two dilemmas arising from the global financial crisis: one is between its adherence to "scientific development", advocating economic development should be based on high value add, high energy efficiency and low environmental pollution, and its endeavour to ensure fast economic growth so as to create more job opportunities. The other dilemma relates with China's philosophy of peaceful rise and non-interference *vis-à-vis* a more confident China in international affairs and more assertive in naval buildup.

4. Implication for Southeast Asia

The measures that China has taken can produce different impact on different countries. Standing from the perspective of Southeast Asia, this study will analyze the implications in the economic and security spheres. Before that, it is necessary to look at China's overall strategy towards ASEAN and its role in preserving the safety of the Strait of Malacca.

4.1. China's Overall Strategy towards ASEAN

While it is undeniable that there exist some thorny issues between China and Southeast Asian countries with the South China Sea in particular, it should not be taken as a bone of contention that could hijack the agenda of China, or for that matter, ASEAN, to work closely with each other. In fact, overall Sino-ASEAN relations have improved over the years since the 1990s. As part and parcel of its strategy to focus on its own development, China has been emphasizing the importance of having friendly neighbours in its foreign policy. As such, Southeast Asia and ASEAN, the regional organization encompassing all the Southeast Asian states, would naturally be an important area not only for economic purposes but also for security reasons.

China was seen to be helpful to ASEAN in the area of finance and economics. Notably, it did not devalue the Yuan after the Asian financial crisis so as to lessen the economic and financial challenges of some of its East Asian neighbours. More importantly, China made a deliberate effort to enhance closer trade and investment relations with ASEAN which was not really a major economic partner of China especially when compared with the US, Japan and the European Union. Most importantly of all, China was the first state to sign the Framework Agreement for Comprehensive Economic Cooperation in November 2001 with ASEAN to establish a free trade area, namely, the ASEAN-China Free Trade Area (ACFTA) in 10 years.

In the area of security, more was done by China with the turn of the century. This was demonstrated by, among other things, the signing of the Joint Declaration of China and ASEAN on Cooperation in the Field of Non-Traditional Security Issues. Moreover, China was the first extra-regional power to accede to the Treaty of Amity and Cooperation in Southeast Asia in 2003 and became ASEAN's strategic partner by signing the Joint Declaration of the Heads of State/Government of the ASEAN and the PRC on Strategic Partnership for Peace and Prosperity in the same year. Last but not least, consultations are being conducted to see if China could accede to the Protocol to the Treaty on Southeast Asia Nuclear Weapons Free Zone.

Although the above agreements on security may take time to bear fruits, they do demonstrate that China is prepared to work with ASEAN and vice versa by putting aside past differences and trying to work together for cooperative security. It can also be seen that in spite of the fact that ASEAN is not a major power and the competition for foreign investments and markets between China and ASEAN, Beijing is making a deliberate political and strategic move to emphasize and elevate the importance of ASEAN. China is using its newly gained economic strength to bring ASEAN into its power ambit, and if possible, to wean off ASEAN's heavy reliance on the West, particularly, the US.¹⁴

4.2. International Cooperation

Thus far China's prior strategy with regard to its SLOCs including the chokepoint of the Strait of Malacca has been placed in joining the international community and cooperating with other states to safeguard the international waters. This is not only because it is in China's best interest as a developing country, but also because Beijing lacks the naval capability to engage the US Navy in the high seas far from home.

Given that some littoral states like Indonesia and Malaysia remain sensitive to the sovereignty issue, this translates China's role mainly as a free rider in preserving the safety in the Strait of Malacca. But with its growing powerhouse, China is more willing to undertake some international obligation and cooperate with littoral states to ensure the smooth passage in the Strait of Malacca waterways. For instance, China signed the Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia (ReCAAP), which is the first regional government-to-government agreement to promote cooperation against piracy and armed robbery in Asia and has entered into force since September 2006.¹⁵ As non-conventional security problems such as piracy, terrorism and marine environmental pollution are looming larger, in the foreseeable future China may play a more active and more cooperative role. In December 2008, Beijing for the first time dispatched two fleets of escort ships to the Gulf of Aden on escort missions to protect commercial vessels.

Nevertheless, as aforementioned, with growing concerns about its SLOCs due to its reliance on trade and oil imports, China is brewing some contingency strategy. It is considering preparing for a rainy day by seeking other routes and strengthening its military power, but the use of military means to protect its SLOCs "is always a last resort in Beijing's hierarchy of choices." (You, 2007: 478)

4.3. Economic Implication

China's surging energy appetite and its efforts to diversify oil and gas import sources have both pros and cons. On the one hand, Beijing may stiffen its sovereignty claims over the South China Sea, which is described by some Chinese as the second "Persian Gulf" as it is believed that the area has substantial oil, gas and combustible ice resources. It may also run cut-throat competition with other Asian energy consuming countries like Japan and India, two Asian giants with the second and sixth largest oil imports in the world.

On the other hand, Southeast Asia can gain tremendous economic and diplomatic benefits from China's quest for raw materials and its concurrent "charm offensive". As China has placed emphasis on Southeast Asia in

its diplomacy, both Beijing and its neighbours have a strong interest in strengthening bilateral ties and promoting bilateral trade and investments. As part of its "charm offensive" strategy, Beijing recently announced to create a US\$10 billion investment cooperation fund and offer US\$15 billion in credit to ASEAN in order to help its neighbours to weather the global financial crisis. The investment fund is used for infrastructure development connecting China with ASEAN members.¹⁶ In the energy area, Southeast Asia used to be China's second largest oil importer in the 1990s (see Figure 6). Although its share has shrunk a lot in China's oil import equation due to a surge of indigenous oil consumption, the region remains important in supplying China with oil, gas, renewable energy and other raw materials in its onerous efforts of reducing oil imports from the Middle East. Energy is one of the key areas that China is keen on investing in ASEAN, particularly in Myanmar and Indonesia. The news that huge oil and gas fields with recoverable reserves of 700 million barrels of crude oil were discovered in Cambodia also allured Chinese companies.¹⁷

The Sino-Myanmar oil and gas pipelines can not only deliver Myanmar oil and gas to China, but also transport oil coming from the Middle East and Africa to mainland China. Moreover, this route can short-circuit the long sea voyage past Singapore to Guangzhou by 1820 nautical miles, thus greatly saving transportation costs. However, since the pipelines reach Kunming, which is not a major energy consuming centre and has no refinery and other facilities, refineries and large-scale infrastructure for transporting oil to other provinces and cities from Kunming are required to be built. Construction and refining activities again arouse people's concern about the environmental impact on Yunnan, a province famous for its beautiful natural sceneries.

As illustrated above, China plans to use Sino-Russia oil pipeline, Sino-Kazakhstan oil pipeline and Sino-Myanmar oil and gas pipelines as the other pathways alternative to the route via the Strait of Malacca and its adjacent waterways. Currently 60 per cent of ships plying the Strait of Malacca every day are bound to China. With growing trade and oil imports in Northeast and Southeast Asian countries, the Strait of Malacca will be more congested. It is evident that China's measures help reduce its use of the Strait of Malacca and greatly alleviate the traffic jam in the narrow chokepoints.

But does that mean that China will not use or try not to use the Strait of Malacca? We can compare China's oil imports with the designed capacities of those pipelines in use or to be constructed. As shown in Table 3, the aggregate designed capacities of the Sino-Kazakhstan, Sino-Russia, and Sino-Myanmar oil pipelines reach 55 Mt each year. Suppose they could be operated in full capacity, the aggregate capacity accounts for 26 per cent of China's oil imports of 211.4 Mt in 2007. (National Bureau of Statistics of China, 2008) Hence, China still needs to heavily depend on the Strait of Malacca. There

Table 3 Major Pipelines from Abroad

Project	Length (km)	Destination in China	Designed Capacity (Mt/y)	Due Date	Expected Costs (billion US\$)
China-Kazakhstan Oil Pipeline	3088	Allah Mountain Pass in Xinjiang	20	2005-12	3
China-Russia Oil Pipeline	2764	Major pipeline – Taishet in Siberia to Skovorodino, then to Daqing	15, for 20 years	2011	25, loan to Russia
China-Myanmar Oil Pipeline	2000	Kunming	20, for 30 years	2013	1.5
China-Myanmar Gas Pipeline	2000	Kunming	10 billion cubic metres, for 30 years		1
China-Pakistan Oil Pipeline	7000	Shanghai via Xinjiang			over 6

Source: Table made by the author according to various sources.

are several points worth noting too. First, not all the pipelines are ready for use; the promised capacity can last for certain years, and much is depended upon oil resources available in China's counterparts. Second, China's oil imports in the coming years are set to rise as long as it maintains an economic growth mode of low energy efficiency and foreign trade driven, implying that more imported oil needs to traverse the Strait of Malacca. Third, the above discussion does not take China's oil exports and trade of other commodities into account.

4.4. Security Implication

Assessing the security implications of China's measures in handling the "Malacca dilemma" is not an easy task as it involves various factors such as the judgment of its foreign and military strategies, its military intentions and capabilities, other countries' perceptions and responses.

Beijing used to keep a low profile with regard to its naval buildup, worrying that flexing its naval clout could arouse suspicion from neighbouring countries. But as China's interests spread globally, Beijing has gradually realized that it needed a strong naval force to protect its blue water interests. Unlike the previous powers like Great Britain, Germany or Japan which

already possessed a globally capable military force before their rises, China still has a long way to go before it can develop such a global military capability. This has placed it in a dilemma. On the one hand, with more stakes overseas, the rising power deems it necessary to develop such a military power in order to protect its interests. In history no power can last long without the buttress of a powerful military. Also, unlike the previous powers which wielded their strong military to help their expansion, China is still troubled by several territorial disputes with its neighbours. Developing a strong army does not mean that China would resort to forces to resolve these disputes, but Beijing is afraid of losing the upper wind in negotiating with its disputants or lose the last resort in any emergent circumstance.

On the other hand, China's military buildup is very liable to lead to arms race, which might bring about an environment unfriendly for its development. Other countries in the Asia Pacific are not willing to see the power balance being broken, and lack of transparency can often lead to misunderstandings and suspicions about China being a "threat" to world security. (Wu, 2009)

In particular, the US would not allow its hegemonic status being challenged by other powers. Irritated by China's naval expansion, Japan has embarked on operational deployment of its quasi-aircraft carriers which are next below aircraft carriers banned by Japanese Constitution.¹⁸ India also came up with its blue water drive to counter against China. (Toshi and Holmes, 2007; and Toshi, 2006: 23-51)

China's hasty naval development would also force other countries particularly ASEAN states to take a hedging. They would try to get other big powers involved in regional affairs, constructing closer alliance with the US, or push their territorial disputes with China, say the South China Sea dispute, to the international community, thus making regional security more complicated.

No doubt is that there is distrust between China and other countries in the Asia Pacific, which makes countries concerned liable to slip into the "security dilemma." For example, the US, regarding China as a peer competitor which might defy its maritime preeminence, highlighted a maritime strategy of deterrence with the threat of *denial*, that is, "denying China access to its crucial sea lanes of communication and commerce, especially for its imports of oil through the South China Sea and its exports of manufactured goods through both the South and the East China Seas; this denial would be effected by US attack submarines and surface ships. In addition, it will be important for US forces to be able to deny China the capability to deny the United States the use of these seas (a compounded version of denial or what can be thought of as denial)." (Hattendorf, 2006)

Facing such dilemmas, China has primarily adopted a development strategy of integration. By integrating itself into the international system

featured by market economy and democratic principles, China can act as a free rider of the international security system. (Huang, 2004: 237-239) At the same time, Beijing is making efforts to improve cooperation with other navies and transparency of its naval development. For example, China and Japan made their first exchange of port calls by naval ships and are considering the establishment of a maritime liaison mechanism. The PLAN conducted a host of bilateral or multilateral maritime training exercises and rescue exercises with other countries such as the US, India, Australia, Singapore and so on in the past few years. Recent naval display is a sign of China's efforts to enhance transparency and mutual understanding with foreign navies.

China's efforts in alleviating its SLOC concerns across the Indian Ocean have been dubbed as a "string of pearls" strategy. In helping Myanmar to build the Sittwe Port and Pakistan to build the Gwadar Port, it was claimed that China could use these ports for military purposes. But their military significance for China is questionable. First, without effective air cover, the port itself would be first mowed down in time of war. The ports can be used for monitoring purposes, but they also reflect "China's limited presence for limited scope of missions." (You, 2007: 484) Moreover, according to China's Myanmar specialist Li Chengyang, Myanmar would not accept Chinese troops stationed in its territory, and it is also reluctant to allow China to build any naval bases in Myanmar.¹⁹ Pakistan holds similar stance in that regard. (You, 2007: 483) Also notable are the facts that Singapore is operating that port now and Pakistan is the ally of the US which stations troops in its territory.

5. Conclusion

Sustained economic growth and commensurate military capability are key to China's rise as a great power status. Both goals, however require the power engines of constant and sufficient energy supply. China has to rely on the Strait of Malacca to transport its bulky trade with oil imports in particular, whereas little influence on this sea route has exposed it to a serious strategic weakness. The so-called "Malacca dilemma" has thus gone around both within and outside China. This paper has examined the implications of China's efforts of coping with the strategic vulnerability that it has perceived. It is found, however, that the risk that China is facing in the Strait of Malacca tends to be exaggerated. China's countermeasures, though economically, are conducive to mitigating its reliance on the Strait of Malacca, such a reliance will continue; from a geopolitical point of view, its military modernization is likely to lead to arms race in Asia and Southeast Asian countries' hedging initiative.

Appendix

Map: Shipping Patterns in East Asia



Source: From John C. Fawcett-Ellis, "Maritime Security in the Straits of Malacca and Singapore – Industry's Views", MILOPS 2006, 17th-19th July, Bangkok.

Notes

- * The author appreciates the valuable comments from an anonymous reviewer, as well as the comments received in the International Conference on "China's Future: Pitfalls, Prospects, and the Implications for ASEAN and the World" held by the Institute of China Studies (ICS), University of Malaya, 5th-6th May 2009.
- 1. See for example, You (2007: 467-489); Storey (2006); Lanteigne (2008: 143-161); Ho (2006: 558-574).
- 2. "Jinnian Jingchukou Dui Jingji Zengzhang de Gongxian Lv Jiang Chaoguo 35%" [The contribution rate of net exports to economic growth will be over 35%], by Xiao Ming, *Xinhua*, 31st October 2005.
- 3. "Maoyi Mocha Wai Ai Zhong-Ou Hezuo, Zhong-Ou Jingmao Fazhan Jinru Xin Jieduan" [Trade frictions do not hinder Sino-EU cooperation, Sino-EU economic and trade development has entered a new phase], by Zhang Yi and Wang Yu, *Xinhua*, 25th March 2007.
- 4. The above numbers are based on Cole (2008: 88).
- 5. "Zhongguo Haijun Chengli 60 Zhounian, Xinjiapo Haijun Zongzhang: Wei Weihu Haiyun Anquan, Geguo Ying Gongxiang Xinxi" [The 60th anniversary of China's navy, Singapore's Chief of Navy: Countries should share information in order to preserve safety of maritime shipment], by Han Yonghong, *Zaobao*, 22nd April 2009. <http://www.zaobao.com/zg/zg090422_505.shtml>

6. It was estimated that the expenses for blocking all the four straits would reach US\$8 billion, based on the trade flows in 1993. See Grove (2006: 28).
7. "Slump Tilts Priorities of Industry in China", *New York Times*, 18th April 2009.
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11. *China's National Defense in 2008*, released by the Information Office of the State Council, January 2009, p. 33.
12. "China Plans to Expand Navy", by Hille, Kathrin and Demetri Sevastopulo, *Financial Times*, 16th April 2009.
13. "Defense Minister: Aircraft carriers Needed", Website of the State Council of China, 24th March 2009. <http://www.china.org.cn/international/2009-03/24/content_17492000.htm>
14. Relations between China and ASEAN are based on Lee and Chen (2008).
15. To date, 14 countries have ratified the ReCAAP Agreement, namely, Bangladesh, Brunei, Cambodia, China, India, Japan, Republic of Korea, Laos, Myanmar, the Philippines, Singapore, Sri Lanka, Thailand, and Vietnam. But Malaysia and Indonesia, two key littoral states have not signed the agreement so far.
16. "China Planned \$10 Billion Invest Fund at Failed Summit", by Lucy Hornby, *Reuters*, 12th April 2009.
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18. "Zhongguo de Dayang Haijun" [China's blue-water navy], by Piao Douzhi, *The Chosun Ilbo*, 25th April 2009.
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China-Southeast Asian Economic Relations in the 21st Century: Evolving Features and Future Challenges*

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Abstract

This paper introduces the evolving features of China-Southeast Asian economic relations since the beginning of the 21st century from the aspects of bilateral trade, cross-investment, and other forms of economic cooperation, and explores the driving forces of accelerating the economic relations of both sides from the different perspectives of global, regional and country level. It analyzes the problems that exist and predicts the opportunities and challenges brought forth to the Southeast Asian countries by China's economic adjustment and large-scale industrial restructuring and rejuvenation programme under the context of global economic recession.

Keywords: *China and Southeast Asia, economic relations, evolving features and challenges*

1. Introduction

The 21st century has witnessed evolving characteristics of economic relations between China and its close neighbours – the ASEAN-10 member countries.

The bilateral economic relations between China and Southeast Asian countries have unprecedentedly increased in almost one decade of the 21st

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century from 2000 to 2008. In addition to the booming trade in both goods and services, mutual investment, particularly Chinese investment to its neighbouring countries is also increasing, hence changing the almost “one way” situation in the area. Some other types of economic cooperation, such as tourist cooperation and financial coordination have also been expanding. China is becoming a major source of foreign trade and foreign investment to ASEAN countries and even one of the major sources of foreign aid or assistance to the new ASEAN member countries, in particular Myanmar, Cambodia and Laos. Southeast Asian countries are becoming the tourist destination of the Chinese people, a phenomenon increasingly attracting worldwide attention from the political, academic and business circles.

Complex forces and multifarious factors are contributing to the gaining momentum of China’s growing economic contacts with ASEAN member countries. At the global level, the driving forces of “globalization from above”, as well as the driving forces of “globalization from below”, are recognized as the major impetus in promoting the bilateral economic contacts as China and most of the ASEAN countries are in the World Trade Organization (WTO). At the regional level, various kinds of regional economic cooperation are playing important roles with the implementation of the China-ASEAN Free Trade Area at the centre and the bilateral free trade agreement and sub-regional economic cooperation as the accessories. In addition, the “good neighbour” diplomacy implemented by the Chinese government has also brought about a direct and positive effect on closer China-ASEAN bilateral economic contacts, although this remains debatable since there have been widespread fears that the expansion of China-Southeast Asian economic relations symbolizes the rise of China’s “soft power” (Lum *et al.*, 2008), and China’s “charm offensive” (Percival, 2007), which will mostly benefit China, less for Southeast Asian countries, and does harm to US and Japanese economic interests in the region of Southeast Asia.

Facing the resurgence of global trade protectionism worldwide and particularly led by the US, China has set its mind to readjust its economic development and attach importance on two markets, i.e. both the home market and the foreign market, and two kinds of resources, i.e. foreign investment and domestic investment. At the same time, China is starting to launch a large-scale industrial restructuring and rejuvenation programme for ten key industries, and make energetic efforts for progress and innovation in science and technology to promote the development of high-tech industrial clusters and cultivate new economic growth areas. In addition to that, China will put job creation and people’s livelihood at the top of the agenda. The adjustment of China’s economic development strategies and policies will indubitably affect the trade and investment structures of China and Southeast Asian countries, as well as the overall economic cooperation of both sides

and will bring about both challenges and opportunities to the Southeast Asian countries.

This paper is divided into four sections. Section 1 is the introduction of the whole paper. Section 2 introduces the evolving features of China-Southeast Asian economic relations since the beginning of the 21st century from the aspects of bilateral trade, cross-investment, and other forms of economic cooperation such as trade in service, financial cooperation, tourist cooperation as well as China's aid and assistance to the new ASEAN member countries. Section 3 explores the driving forces of accelerating the economic relations of both sides from the different perspectives of global, regional and country level. Section 4 further analyzes the problems that exist and predicts the opportunities and challenges brought forth to the Southeast Asian countries by China's economic adjustment and a large-scale industrial restructuring and rejuvenation programme under the context of global economic recession.

2. Evolving Features of China-Southeast Asian Economic Relations in the 21st Century

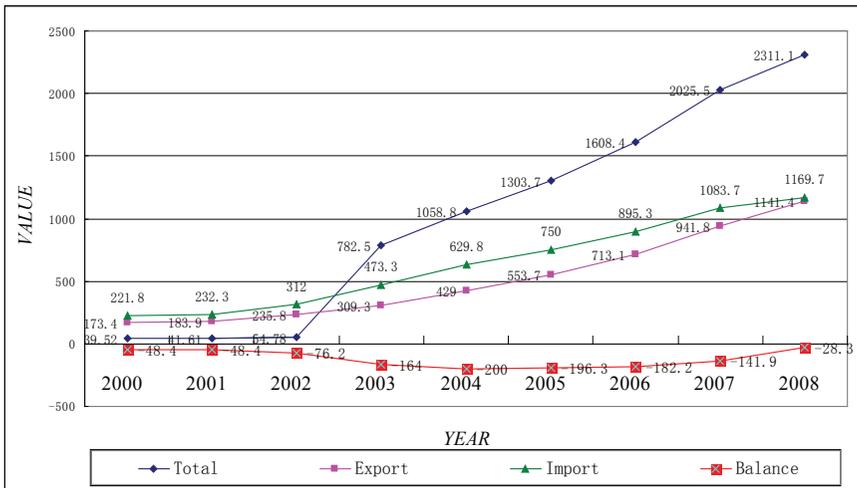
Although the official economic statistics provided by China and Southeast Asian countries are not in common, the booming of bilateral economic relations between China and Southeast Asian countries in the first nine years, from 2000 to 2008, of 21st century is apparent, and that is of great significance not only for both sides, but also for the East Asian region as well as the world.

2.1. Trade in Goods Has Greatly Expanded and Trade Surplus Is on ASEAN's Side

According to China's official figures, the annual average growth rate of China-ASEAN bilateral trade in the 21st century (from 2000 to 2008) reached 27.5 per cent compared with that of 17 per cent from 1991 to 2000. Figure 1 shows that the trade value expanded from US\$395.2 hundred million in 2000 to US\$2311 hundred million in 2008, with an increase of almost six fold. The ASEAN-10 member countries as a whole enjoyed a hefty trade surplus in their trade with China with rapidly increasing trade surplus from US\$48.4 hundred million in 2000 to a peak of US\$196.3 hundred million in 2005. The total value of bilateral trade exceeded US\$202.55 hundred million in 2007 which has three years in advance to reach the goal of US\$2000 hundred million when the original goal was the year of 2010.

However, affected by global economic recession, the growing momentum of trade has weakened, and it reached a 14.1 per cent increase only of the total value in 2008. The trade deficit on China's side has also diminished to US\$28.3 hundred million due to the worsening of the global economic

Figure 1 China-ASEAN Bilateral Trade, 2000-2008 (US\$ hundred million)



Source: Customs Statistics, National Bureau of Statistics of China, quoted from *China Commercial Yearbook*, 2004-2008.

situation caused by the “overspill” effect of the American financial crisis on the real economy of the Southeast Asian countries, and the bilateral trade of both sides has displayed the sign of sharp shrinking. The Chinese source shows that the total value of bilateral trade in January and February of 2009 reached US\$235.1 hundred million, a decrease by 32.2 per cent compared with the same period of the previous year. Of this, export decreased by 24.5 per cent, whereas import decreased by 39 per cent. Along with this, China’s deficit also fell to US\$0.97 billion.¹

From ASEAN’s perspective, China is becoming a major trading partner. Using ASEAN data, China ranked as ASEAN’s 5th largest partner, its 5th largest export market and its 3rd largest source of its imports in 2005.²

Data from China’s Ministry of Commerce have indicated that ASEAN is China’s fourth largest trading partner after the European Union, United States and Japan in 2008. The share of China’s trade with ASEAN in China’s overall trade rose from 6.0 per cent in 1990 to 8.45 per cent in 2000 and 9.15 per cent in 2008.

2.2. Chinese Investment Flow to ASEAN Is Increasing and the Model of “Two Way” Investment Is Coming into Being

In addition to the booming trade, mutual investment of both sides is keeping a steady situation. In spite of the Southeast Asian economies being affected by the 1997 financial crisis for about 5 years till 2002, and suffering some

other tortures such as the avian flu in 2003 and the global economic slump in 2005, the investment of ASEAN member countries as a whole has been steadily growing due to China's sound investment environment and favourable policies, and reached the amount of US\$3.05 billion in 2006 (Table 1). Affected by the American financial crisis which was spreading widely to the world and had engendered strong negative impacts on the real economy of the Southeast Asian countries, investments flowing to China from Southeast Asian countries, particularly the five ASEAN old member countries, were also shrinking. The contract investments in 2007 and 2008 decreased, with those to Indonesia dropping to negative 43.87 per cent and negative 33.82 per cent respectively compared to the previous year. With the same items, those to Malaysia dropped to negative 15.18 per cent and 23.16 per cent, those to the Philippines dropped to negative 43.54 per cent and negative 38.55 per cent, those to Singapore dropped to negative 10.93 per cent and negative 28.52 per cent, and those to Thailand dropped to negative 26.85 per cent and negative 29.11 per cent respectively. Nevertheless, the utilized amounts of ASEAN-5's direct investment to China in 2007 and 2008 were all experiencing a slight increase with a little exception.³

With the implementation of China's reform and open-door policy, and encouraged by the "going out" policy of the Chinese government, Chinese investment to the neighbouring countries has apparently been increasing since the mid-1990s, reaching the figure of US\$136.73 million in 1995 – the highlight being 1998 when Chinese investment in ASEAN was US\$291.25 million. Owing to the deterioration of economic fundamentals caused by the financial meltdown and fluctuation of the Southeast Asian economy afterwards till 2002, massive Chinese investment fled away from the region. The statistics provided by the ASEAN secretariat revealed that Chinese FDI to ASEAN as a whole from 1999 to 2001 were only between US\$44.01 million and US\$60.86 million. The figure was even negative in 2002 when Chinese FDI fleeing away from the region reached the amount of US\$157 million.⁴

Under the guidance of the "good neighbour" policy and inspired by the preferential treatments provided in the China-ASEAN Free Trade Agreement, the Chinese companies and corporations are forging ahead to invest in the region with the State-owned corporations taking a lead, and China's FDI in the Southeast Asian countries increased to the amounts of US\$1.5 billion, US\$0.6 billion and US\$2.5 billion in 2004, 2005 and 2006 respectively, and the share of China's FDI in ASEAN was 4.3 per cent, 1.5 per cent and 4.9 per cent respectively.⁵ According to China's official statistics, China's accumulated direct investment in ASEAN has reached US\$6 billion by April 2009.⁶

Global economic recession could be preventing for a time China's FDI from flowing to the Southeast Asian countries, but investing in Southeast Asia will inevitably be the primary goal, or the first step for many Chinese

Table 1 Southeast Asian Investment in China under Various Investment Incentive Policies, 1997-2006 (US\$ ten thousand)

Year	Total	Brunei	Myanmar	Cambodia	Indonesia	Laos	Malaysia	Philippines	Singapore	Thailand	Vietnam
1997	342523	9	269	545	7998	39	38183	15563	260641	19400	154
1998	421624	183	511	290	6897	112	34049	17927	340397	20538	1414
1999	327758	18	1101	248	12917	-	23771	11728	264249	14832	13
2000	284228	-	230	194	14694	307	20288	11112	217220	20357	56
2001	298159	10	226	930	15964	104	26298	20939	214355	19421	148
2002	322182	1736	1676	1374	12164	515	36786	18600	233720	18772	251
2003	286932	5260	351	1252	15013	40	25103	22001	205840	17352	331
2004	293570	9605	878	2069	10452	425	38504	23324	200814	17868	114
2005	294130	16039	374	276	8676	-	36139	18890	220432	9590	127
2006	304956	29421	736	212	10068	-	39348	13434	226046	14482	1366

Note: For paid-up capital.

Source: Customs Statistics, National Bureau of Statistics, China. <<http://www.stats.gov.cn/t.js.j/nds.j/>>

enterprises, both State and private, to run business abroad. The two-way investment is indeed taking shape.

2.3. Other Forms of Economic Cooperation Are Vital to Bilateral Economic Growth and Development

The expansion of economic relations between China and Southeast Asian countries can be seen not only with respect to trade in goods and investment, but also in other forms, including trade in services, financial coordination as well as tourist cooperation.

Trade in services

According to the Chinese statistics, ASEAN has become China's important destination of export in services, especially in the fields of contracted projects, labour cooperation and design consultation. Table 2 shows that although the turnover of China's trade in services with ASEAN from 2000 to 2006 was not very large, it showed an increasing trend. However, the percentage declined with the expansion of China's cooperation with the other parts of the world. China's export of services is concentrated in the field of construction involving highways, harbours, hydro-electric power plants, thermal power plants, power transmission lines, rural water supply, public markets and the others with the advantages of lower labour costs and high quality.

Financial cooperation

Financial cooperation of both sides is gaining momentum since the eruption of the 1997 Asian financial crisis which has manifested a new type of cooperation between the two sides. The scope of cooperation has not only concentrated on opening new banks and banks' branches in its counterpart with the aim to facilitate bilateral trade and investment, but also to enrich with providing aid or assistance, even expand to currency cooperation.

In order to avoid the over disturbance of currency such as that caused by the global economic meltdown originated from the American financial crisis, and to promote bilateral trade and investment to boost the economic growth and development of the two countries, the central banks of Malaysia and Indonesia have signed with the People's Bank of China (PBOC) a bilateral currency swap agreement respectively. The agreement allows PBOC and Bank Negara Malaysia to swap 80 billion yuan/40 billion ringgit in three years.⁷ With the same aim, the Indonesian central bank also signed an agreement with PBOC for swaps of 100 billion yuan (\$14.65 billion) or 175 trillion Indonesian rupiah over three years, which could be extended by mutual agreement.⁸

Table 2 Turnover of China's Trade in Services with ASEAN, 2000-2006

Year	Turnover with ASEAN (US\$ billion)				ASEAN's Share in China (%)			
	Total	Contracted projects	Labour cooperation	Design consultation	Total	Contracted projects	Labour cooperation	Design consultation
2000	1.92	1.25	0.67	0.01	17.0	14.9	23.7	4.2
2001	2.10	1.27	0.80	0.02	17.3	14.3	25.1	37.8
2002	2.31	1.64	0.66	0.01	16.1	14.6	21.4	13.9
2003	2.30	1.76	0.53	0.01	13.3	12.7	15.9	11.0
2004	2.79	2.23	0.54	0.02	13.1	12.8	14.3	16.8
2005	3.35	2.86	0.47	0.02	12.5	13.2	9.8	7.5
2006	4.40	3.88	0.50	0.03	12.3	12.9	9.2	9.2

Source: *China Statistical Yearbook, 1999-2007*.

In addition to taking an active part in the regional financial cooperation and currency cooperation under the CMI initiative, China has promised to set up a \$10-billion China-Asian investment fund when Premier Wen Jiabao attended the Boao Forum on 19th April 2009 in the southern Chinese province of Hainan. With such encouraging signs, high-level officials and business leaders hope that Asia could ride out the worst financial crisis in decades and lead the recovery in the world.⁹

Tourist cooperation

With the signing of various kinds of treaties or memoranda of understanding regarding tourist cooperation between the governments of China and Southeast Asian countries, the tourist industry between the two sides has been growing very rapidly since the beginning of the 21st century. The effect of the linkage of the tourist industry to economic expansion has already been recognized as an engine for economic growth, especially during the period of global economic recession. Table 3 provides the development of tourist cooperation between China and the five ASEAN member countries from 2003-2006.

With the Chinese yuan appreciation, China has declined as a tourist destination for the world including Southeast Asian countries. In recognition of the linkage effects on economic growth and development, the ASEAN countries have adopted various measures to attract Chinese tourists. The

Table 3 Bilateral Tourist Reception of China and ASEAN-5, 2003-2006
(in ten thousand person-times)

	Chinese tourists to ASEAN-5				ASEAN-5 tourists to China			
	2003	2004	2005	2006	2003	2004	2005	2006
Malaysia	35.1	55.0	35.2	43.9	59.2	74.2	90.0	91.0
Singapore	56.9	88.0	85.8	103.7	5.0	6.4	75.6	82.8
Philippines	3.6	5.4	3.3	5.2	50.9	54.9	65.4	70.4
Thailand	62.4	77.9	76.2	103.0	38.6	46.4	58.6	59.2
Indonesia	4.1	5.1	11.2	14.7	27.5	35.0	37.8	43.3
Total	162.0	231.3	211.7	270.9	225.9	274.2	327.3	346.7

Sources: Constructed by author; data from China <<http://www.cnta.com>>, Malaysia <<http://www.statistics.gov.my>>, Singapore <<http://www.singstat.gov.sg>>, the Philippines <<http://www.census.gov.ph>>, Thailand <<http://web.nso.go.th/eng/index.htm>>, and Indonesia <<http://www.bps.go.id/index.shtml>>.

Philippine Department of Tourism (PDT) has targeted China as one of the priority markets. In order to catch up with its neighbours, PDT opened the first Philippine tourism office within the Philippine embassy in Beijing on July 18, 2004. The tourism attaché of the Philippine embassy in Beijing deals with tourism and travel-related services.

Aid and assistance

In addition to the above-mentioned areas of cooperation, China has provided various kinds of aid and assistance to the Southeast Asian countries with no conditions. For the less-developed ASEAN new member countries, China's aid or assistances are mostly devoted to the building of infrastructures such as railroads, highways and the facilities for market access, etc. China provides agricultural technologies and sends Chinese technical personnel to the Philippine-based International Rice Research Institute to provide volunteer training programmes and this has earned admiration of Filipinos.

3. Exploring the Driving Forces for the Expansion of China-Southeast Asian Economic Relations

A proliferation of studies have ascribed the fast expansion of China-Southeast Asian economic cooperation to the Framework Agreement on Comprehensive Economic Co-operation to create the China-ASEAN Free Trade Area within 10 years signed in November 2002, and the Agreement on Trade in Goods and the Agreement on Trade in Services signed by both sides of ASEAN and China in November 2004 and January 2007 respectively afterwards (Zhao, 2007; Vaughn and Morrison, 2006; Lum, Morrison and Vaughn, 2008). Nevertheless, a painstaking study will find that much more important forces are boosting the advancement of bilateral relations.

3.1. "Globalization from Above" and "Globalization from Below" Are the Driving Forces in Boosting China-ASEAN Economic Relations

The first and most important reason for the rapid growth in bilateral trade and investment is the fact that China and most of the ASEAN member countries are members of the WTO, World Bank and International Monetary Fund (IMF), and "globalization from above" and "globalization from below" are the driving forces in boosting China-ASEAN economic relations.¹⁰

After fifteen years of tough negotiations on terms and conditions of membership, China was finally admitted to the WTO in November 2001. George W. Bush, the former US president, spoke in a news conference in Beijing on 21st February 2002, "China, as a full member of the WTO, ...

will have the right and responsibility to fashion and enforce the rules of open trade” (Chan, 2002). China’s membership of the WTO carries heavy duties and responsibilities which were laid down in detail in a legal document some 900 pages long. There are some commitments directly related to the opening of foreign investment, cited as follows:

To allow all its enterprises to import and export all goods, and trade with them throughout the customs territory with limited exceptions, within three years of accession; to stop maintaining or introducing any export subsidies on agricultural products; many of the restrictions that foreign companies have at present in China will be eliminated or considerably eased after a three-year phase-out period. China has to adopt non-discriminatory practices and to increase transparency in business transactions in accordance with WTO rules and regulations.

As China has completed its transitional period as a WTO member at the end of 2006 after its five years in the WTO, China’s entrepreneurs (including the joint ventures, state corporations and small and medium enterprises) could have easy access to the world market, but China’s domestic market has also already been opened widely to the world. This has brought opportunities to merchants and entrepreneurs of China and the world, as the average statutory tariff rates in China dropped sharply after China’s accession to WTO with the tariff rates, simple and weighted, of all products dropped from 16.6 per cent and 12.0 per cent in 2001 to 9.8 per cent and 6.8 per cent respectively in 2006. Of these, primary products dropped from 21.6 per cent and 17.7 per cent to 13.2 per cent and 3.6 per cent respectively, and manufactures from 16.2 per cent and 13.0 per cent to 9.5 per cent and 6.9 per cent (Ianchovichina and Martin, 2004). Taking advantage of geographical contiguity, the trade of both sides increased.

Except Laos, the nine ASEAN member countries have all joined the WTO. Although Myanmar, Brunei and Cambodia have not been active in the WTO, the ASEAN-5 (Singapore, Malaysia, Thailand, the Philippines and Indonesia) are relatively well integrated into the WTO, and take an active part in WTO committees and working groups although in the multilateral track. They are also applying the tariff level which they have pledged while accepting as members of the WTO. The simple average applied rate for Singapore is zero, while those for Malaysia, Thailand, Indonesia and the Philippines are 9.2 per cent, 16 per cent, 7.3 per cent and 5 per cent respectively (Sally, 2004).

Benefiting from the liberalization and facilitation of trade and investment through the government’s efforts of de-institution, various kinds of corporations, including multinational enterprises (MNEs) and transnational corporations (TNCs) as well as national trading or investment corporations, whether big, small or medium, are plunging into cross-border economic

activities that increase rapidly the value of the bilateral trade and cross-investment between China and Southeast Asian countries. They are the major driving forces “from below” in boosting China-ASEAN economic relations in the process of searching for sites of sources and markets and in pursuit of the best and cheapest products throughout the region with an aim to get the maximum profit.

3.2. Various Kinds of Regional Economic Cooperation Are Playing an Important Role in the Expansion of Bilateral Relations

The first and foremost factor might be the implementation of the China-ASEAN Free Trade Area (CAFTA) mentioned by many scholars both at home and abroad (Zhao, 2007; Lum, Morrison and Vaughn, 2008; Vaughn, 2006). However, one might overestimate the efficiency of CAFTA if one gives attention to the regulation covering the Rules of Origin (ROO) in the China-ASEAN Free Trade Agreement, which is in fact a stumbling block, or a barrier in the facilitation of the bilateral trade between China and ASEAN at this moment.

As a vital component in bilateral economic treaties including CAFTA, the Rules of Origin is a measure that sets the condition under which a good is considered to have origin in a partner country with at least 40 per cent local content requirement, referring to both a single country and cumulative ASEAN content. If a product does not satisfy the ROO criteria then it is deemed to be originating from a third country and cannot be traded under the CAFTA. Though this is done to prevent non-members of CAFTA from taking advantage of differential external tariff rates imposed by both sides, it adds a lot of workloads and needs painstaking efforts to coordinate with the customs from both sides actually augmenting the costs of the enterprises. Some fieldworks and interviews did in China, particularly in Xiamen of Fujian Province, showed that Xiamen entrepreneurs have paid little attention to ROO. The latest figure from China’s Ministry of Commerce has also confirmed that though the number of forms regarding the ROO issued by China’s related institution and the contracts signed involving ROO have increased by 33.2 per cent and 12.1 per cent respectively from January to April 2009 in comparison with the same period of previous year, the value of Chinese exports to ASEAN covering ROO in 2009 was only 6.4 per cent, an increase of 1.9 per cent of that of 2008.¹¹

Border trade and sub-regional cooperation actually play a key role in improving China-ASEAN economic relations. For instance, the cooperation of China with the other six Mekong countries started in 1992 under the mechanism of the Asian Development Bank has expanded to the construction of infrastructures, exploration and management of water conservancy,

agricultural cooperation, environmental protection, trade and investment cooperation, development of human resources, and tourist cooperation. GMS countries are the first choice for the Chinese investors from southern China to invest abroad.

Some new models of cooperation have greatly encouraged transnational investment, such as the China-Singapore Suzhou Industrial Park (CS-SIP), one of the bases of Singapore's trans-border industrialization which was officially launched on May 12, 1994. The Singapore model, as applied to CS-SIP, envisaged a large-scale project to facilitate institutional innovation, with autonomy from the aspects of local government control and investment in administrative practices or software development. After several years of construction, investments began to pour in. By the year 2006, CS-SIP has attracted over 1300 foreign companies and 6500 domestic companies, accounting for a cumulative contractual foreign investment of US\$15 billion and cumulative contractual domestic investment of RMB30 billion. Its tenant profile includes not only Singaporean and Chinese investors but also a significant proportion of American and European investors (including 50 Fortune 500 companies), with some 73 per cent of the investments directed into electronics, information technology and other high-tech segments.

3.3. "Good Neighbour" Diplomacy Implemented by Chinese Government Has also Brought about Direct and Positive Implications for China-ASEAN Bilateral Economic Contacts

At the first ASEAN+3 summit held in Malaysia in December 1997, China and the Southeast Asian countries agreed to "promote good neighborly and friendly relations, increase high-level exchanges, strengthen the mechanism of dialogue and cooperation in all areas to enhance understanding and mutual benefit."¹² Since that time, China has made great efforts to demonstrate its good neighbourliness and friendship to the countries of Southeast Asia. In the economic aspect, the Chinese government advanced and signed with ASEAN the framework of China-ASEAN Free Trade Area with the intention to let ASEAN countries enjoy economic benefits earlier than other developed countries after its WTO entry. With the reluctance of the small and medium private enterprises investing abroad, the State-owned companies and corporations or the private consortiums which have some official background or have close relations with the government are actually taking the lead in answering the call even at a loss while trading with or investing in China's neighbouring countries.

Taking Chinese investment in the Philippines as an example, except for the Manila Branch of the Bank of China and the China Commodity Inspection Corporation, there are 24 big State-owned or private corporations

breaking their way to invest in the Philippines in just the recent years, listed as follows:¹³

1. Geo-Engineering Corporation
2. China Kuang Ye Non-Ferrous Metal Ltd. Liability Co. Phil.
3. China Electric Power Technology Import & Export Corp.
4. China Harbour Engineering Company (Group)
5. China International Water & Electric Corp.
6. China CAMC Engineering Co. Ltd.
7. China National Technical Import and Export Corp.
8. China Non-Ferrous Metal Industries Foreign-Engng & Construction Co. Ltd.
9. China Road & Bridge Corporation
10. China Shipping Manila Agency Inc.
11. China Southern Airline.
12. China State Construction Engineering Corp.
13. China Wuyi Co. Ltd. (Phils)
14. COSCO Philippines Shipping Inc.
15. Dalian Bingshan Grp. Import & Export Co. Ltd.
16. Huaxia Motor MFG. & Trading Corp.
17. Harbin Power Engineering Corp.
18. Holley Int'l Phil. Office
19. Hunan Road & Bridge Construction Group Corp.
20. Huawei Technologies Phils. Inc.
21. Philippines Dong Yun Platemaking Corp.
22. TCL Sun Inc.
23. Xian Electric Engineering Co. Ltd.
24. ZTE Corporation

Chinese investment has made up the shortage of Philippine FDI caused mostly by its domestic political instability. COSCO Philippines Shipping Inc. is going to invest US\$3.6 billion in the Philippines as this might be the “political assignment” assigned by the central government of China. It is a fact that doubts would arise whether such kind of investment could be sustainable.

4. Problems and Future Challenges

4.1. Problems in China-Southeast Asian Economic Relations

In spite of the rapid expansion of China-Southeast Asian economic relations, many problems exist and will continue to be discovered if more careful studies are undertaken.

Firstly, unbalanced structure exists in both the areas of trade and investment. Singapore, Malaysia and Thailand are the major trading partners of China; they occupied about 2/3 of the total value of China-ASEAN trade, with the percentages of 66.3 per cent, 65.6 per cent, 65.7 per cent and 63.3 per cent respectively in the years of 2004, 2005, 2006 and 2007. China's trade turnover with the rest of seven ASEAN member countries was only about 1/3 (Table 4).

Not only Southeast Asian investment in China, whether in the form of contracted amount or utilized amount, is small, the major source of investment actually comes from Singapore. Malaysia and Thailand are in the second and third places. The investments from other ASEAN countries are very small that can even be neglected according to China's official statistics (Table 5). Taking into account the investment-led trade, one can understand that the expansion of China-Southeast Asian bilateral trade is in fact brought about by the inter-trade within the corporations of Sin-Ma-Thai set in China.

Secondly, a lot of trade between China and the region is often double counted, and the value is exaggerated, especially for those intra-industrial goods containing electronic products, crossing borders more than one time. This double counting is estimated to be as high as 30 per cent of the total trade between China and the ASEAN member countries. In the China-Singapore trade, entrepot trade accounts for 46 per cent of China's export to Singapore, 40 per cent of Singapore's export to China (Sheng, 2007; Percival, 2007). Lacking training and good services in evaluating whether the products are 40 per cent using the native materials as required under CAFTA, some exporters took advantage of the low tariff rates, thus expanded illegally the bilateral trade. Adding to this, taking into account China's total trade expansion after its accession to the WTO, the percentage of the turnover of China-ASEAN trade in the total trade of China with the world has been stable at around 7.2 per cent to 7.7 per cent from 2002 to 2007¹⁴, and one could imagine that the bilateral trade which ought to be beneficial to the livelihood of the people is virtually decreasing.

Thirdly, analysis of the structures of China's imports and exports with ASEAN countries showed that the relationship is not the one of the colonial nature, which has shown the feature of horizontal division of labour. The five major imports of China from ASEAN are: integrated circuit, computers, plastic, crude oil or edible oil, and rubber in 2003, 2005 and 2007. In the same period, the five major exports of China are: textiles, finished oil products, steel or plastic, computers, grain or costume. Nevertheless, at least three major commodities overlapped in import and export will again raise the questions of sustainability when taking into consideration the interference by the Chinese government in trade with its neighbouring countries. Free trade pact of "earlier heavies" concluded by the government of Thailand in

Table 4 Trade Value of China and ASEAN-10 Member Countries, 2003-2008
(US\$ ten thousand)

	2003			2004		
	Total	Export	Import	Total	Export	Import
China in total	85120729	43837082	41283647	115479162	59336863	56142299
Brunei	34616	3389	31227	29894	4789	25105
Myanmar	107724	90771	16953	114549	93859	20690
Cambodia	32065	29465	2600	48243	45250	2993
Indonesia	1022905	448075	574830	1348050	625686	722364
Laos	10943	9823	1120	11353	10088	1265
Malaysia	2012782	614115	1398667	2626112	808677	1817435
Philippines	940011	309381	630630	1332783	426893	905890
Singapore	1935228	886853	1048375	2668392	1268729	1399663
Thailand	1265529	382823	882706	1734321	580157	1154164
Vietnam	463432	317852	145580	674280	426084	248196
	2005			2006		
	Total	Export	Import	Total	Export	Import
China in total	142207194	76195341	66011853	176068645	96907284	79161361
Brunei	26087	5314	20773	31494	9963	21531
Myanmar	120925	93485	27440	146007	120742	25265
Cambodia	56333	53603	2730	73289	69780	3509
Indonesia	1678790	835037	843753	1905709	945031	960678
Laos	12893	10338	2555	21837	16872	4965
Malaysia	3070253	1060635	2009618	3711229	1353735	2357494
Philippines	1755765	468763	1287002	2341260	573833	1767427
Singapore	3314870	1663226	1651644	4085431	2318538	1766893
Thailand	2181116	781930	1399186	2772660	976417	1796243
Vietnam	819582	564390	255192	995054	746463	248591
	2007			2008		
	Total	Export	Import	Total	Export	Import
China in total	217383301	121801452	95581850	256163205	142854571	113308634
Brunei	35488	11273	24216	21843	12956	8887
Myanmar	206204	169098	37106	262601	197846	65755
Cambodia	93281	88173	5019	113335	109443	3891
Indonesia	2500895	1261143	1239752	3152141	1719162	1432978
Laos	26244	17741	8503	41552	26815	14738
Malaysia	4639808	1769058	2870750	5346945	2137527	3209419
Philippines	3061574	750005	2311569	2857957	907788	1950168
Singapore	4715686	2963805	1751882	5243661	3230021	2013540
Thailand	3463901	1197447	2266454	4125287	1560539	2564748
Vietnam	1511746	1190150	321596	1946450	1512151	434299

Sources: China Customhouse, data of 2003-2007 quoted from *China Commerce Yearbook*, published by *China Commerce Yearbook* Editor Committee in 2004, 2005, 2006, 2007, 2008; data of 2008 quoted from *International Trade* (Beijing), No. 2, 2009: 70.

Table 5 ASEAN-5's Investments in China, 2005-2008
(US\$ ten thousand)

	2005					
	Number of Projects	Increase (%)	China's Total (%)	Utilized Amount	Increase (%)	Total (%)
China in total	44109	0.81	100	7240569	19.42	100
Indonesia	128	4.92	0.29	8676	-16.99	0.12
Malaysia	371	5.4	0.84	36139	-6.14	0.5
Philippines	190	-21.16	0.43	18890	-19.01	0.26
Singapore	1217	-4.85	2.76	220432	9.77	3.04
Thailand	147	-9.26	0.33	9590	-46.33	0.13
	2006					
	Number of Projects	Increase (%)	China's Total (%)	Utilized Amount	Increase (%)	Total (%)
China in total	41485	-5.76	100	6946761	-4.06	100
Indonesia	115	-10.16	0.28	10068	16.04	0.14
Malaysia	336	-9.43	0.81	39348	8.88	0.57
Philippines	147	-22.63	0.35	13434	-28.88	0.19
Singapore	1189	-2.3	2.87	226046	2.55	3.25
Thailand	108	-26.53	0.26	14482	51.01	0.21
	2007					
	Number of Projects	Increase (%)	China's Total (%)	Utilized Amount	Increase (%)	Total (%)
China in total	37892	-8.69	100	8352089	14.86	100
Indonesia	68	-40.87	0.18	13441	25.79	0.16
Malaysia	285	-15.18	0.75	39725	-11.96	0.48
Philippines	83	-43.54	0.22	19532	37.29	0.23
Singapore	1059	-10.93	2.79	318457	29.3	3.81
Thailand	79	-26.85	0.21	8948	-39.78	0.11
	2008					
	Number of Projects	Increase (%)	China's Total (%)	Utilized Amount	Increase (%)	Total (%)
China in total	27514	-27.35	100	9239544	23.58	100
Indonesia	45	-33.82	0.16	16725	24.43	0.18
Malaysia	219	-23.16	0.8	24696	-37.83	0.27
Philippines	51	-38.55	0.19	12687	-35.05	0.14
Singapore	757	-28.52	2.75	443529	39.27	4.8
Thailand	56	-29.11	0.2	12921	44.4	0.14

Sources: Data of 2005-2007 quoted from *China Commerce Yearbook*, published by *China Commerce Yearbook* Editor Committee in 2006, 2007, 2008; data of 2008 quoted from *International Trade* (Beijing), No. 2, 2009: 69.

2003 was considered an experimental arrangement of CAFTA, and both sides agreed that tariffs on more than 200 items of vegetables and fruits would be immediately eliminated. Under the agreement, Thailand would export tropical fruits to China while winter fruits from China would be eligible for the zero-tariff deal. The expectations of mutual benefit evaporated after a few months, however, with Thai and Chinese commentaries admitting that both China and Thailand got a bad deal.

Last but not least, due to the lack of knowledge of the political complexion of Southeast Asian countries, or the neglect of the natural order, some of the China's aid and assistances to Southeast Asian countries though without conditions and maintaining "non-interference in domestic affairs" have not reached the original goal of having good relations with, and bringing peace and prosperity to China's neighbouring countries. On the contrary, some foreign aid experts, non-government organizations (NGOs) and local people have criticized Chinese aid for failing to promote democracy, sustainable development and environmental conservation (Lum, Morrison and Vaughn, 2008). Chinese labour has somewhat not been very much welcome by its neighbouring countries, and has sometimes even been met with resistance of the local people in some of the Southeast Asian countries who regarded it as a threat to local employment. Some of China's State-owned companies could not accommodate well with local conditions while investing in Southeast Asian countries.

4.2. Opportunities and Challenges of China's Economic Adjustment and a Large-scale Industrial Restructuring and Rejuvenation Programme under the Context of Global Economic Recession

Global economic meltdown has put China's economic growth and development in a critical moment confronting severe challenges. In facing the resurgence of global trade protectionism worldwide, particularly led by the US, China has set its mind to readjust its economic development strategies. While consolidating and strengthening the position of agriculture as the foundation of the economy, and accelerating and promoting energetically the transformation of the pattern of development, China is starting to launch a large-scale industrial restructuring and rejuvenation programme for ten key industries such as the automobile, steel, shipbuilding, petrochemical, textile, nonferrous metal, equipment manufacturing, information technology, modern logistics, and light industry. China decides to make energetic efforts for progress and innovation in science and technology to promote the development of high-tech industrial clusters and cultivate new economic growth areas.

The re-emergence of global trade protectionism led by the US, the former bugler of global trade liberalization and facilitation and the economic

calamity occurred due to the over innovation in finance have warned again the Chinese government should attach importance on two markets, i.e. both the home market and the foreign market, and two kinds of resources, i.e. the foreign and the domestic. The direct impact of the crisis on unemployment in an unprecedented scale has also urged the Chinese government to put job creation and people's livelihood at the top of the agenda.

The adjustment of China's economic development strategies and the launching of the industrial restructuring and rejuvenation programme for ten key industries will indubitably affect the trade and investment structures of China and Southeast Asian countries, as well as the overall economic cooperation of the two sides and will bring about both challenges and opportunities to the Southeast Asian countries.

Notes

- * This is the revised version of a paper presented as the keynote address for the international conference "China's Future: Pitfalls, Prospects, and the Implications for ASEAN and the World" organized by the Institute of China Studies, University of Malaya, 5th-6th May 2009. The authors are grateful to the director of the Institute of China Studies, Associate Professor Emile Kok-Kheng Yeoh, for his kind invitation.
- 1. China Ministry of Commerce, quoted from the Economic and Commercial Counselor's Office of the Embassy of Malaysia, 2009-03-19.
- 2. Ranking for 2006 was not available.
- 3. China's Ministry of Commerce, quoted from *International Trade*, No. 2, 2009.
- 4. Data compiled from the respective ASEAN central banks and central statistics offices.
- 5. Data compiled from the respective *China Statistical Yearbook*, 1994-2007, and *World Investment Report 2007*.
- 6. China News Agency, April 10, 2009. <<http://news.sohu.com/20090410/n263303579.shtml>>
- 7. "China's central bank signs currency swap agreement with Malaysia". <<http://waiyu.kswchina.com/jryy/zh/yd/459190.html>>
- 8. Source: Xinhua, 2009-03-24.
- 9. "Boao Forum for Asia wraps up" (*chinadaily.com.cn*). <http://www.chinadaily.com.cn/china/2009-04/20/content_7695435.htm>
- 10. The convergence pressures for liberalization and facilitation of trade and investment stemmed from three major international institutions, IMF, World Bank and WTO, as well as the US Treasury, could be regarded as the forces of "economic globalization from above". The forces of "economic globalization from below" stand for international market actors including transnational corporations and domestic enterprises.
- 11. "China's enterprises using actively the preferential policies of China ASEAN Free Trade Area", *Global Business*, May 22, 2009. <<http://www.unsbiz.com>>

12. "Joint Statement of the Meeting of the Heads of State/Government of the Member States of ASEAN and the President of People's Republic of China", 17th December 1997.
13. Data from the Economic and Commercial Counselor's Office of the Embassy of the People's Republic of China in the Republic of the Philippines. <<http://ph.mofcom.gov.cn/static/column/zxhz/zzjg.html/1>>
14. With the exception of 2008, the percentage is 8 per cent.

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China and East Asian Regional Integration: Inception of ACFTA and APEC at 20

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Abstract

The rapid rise of China as a major economic power within a short span of 30 years is often described as one of the greatest economic success stories in modern times. For the past 30 years, China has opened and strengthened diplomatic relations and expanded her trading network. With the rise of China as a colossal trading power, it is important and timely to study the role of China in shaping the regional trade pattern between China, East Asian countries and ASEAN. Focusing on trade relations between China, Malaysia and countries in the East Asian region, this paper examines the role of China in the Asia-Pacific trade framework in the context of APEC and analyzes the possible regional implications of ACFTA/CAFTA as part of a paradigm shift in China's trade policy with particular reference to Sino-Malaysian economic relations.

Keywords: *APEC, ACFTA/CAFTA, trade, foreign direct investment, FTA, PTA*

1. Introduction

The phenomenal rise of China since the 1980s has seen the country emerge as a major global economic power in recent years. For the past 30 years, China has opened and strengthened diplomatic relations and expanded her

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trading network. With a real gross domestic product growth at an average annual rate of 10 per cent¹, China's economic reforms have transformed China into a major trading power. This is evident in the growth of China's exports from US\$14 billion² in 1979 to US\$1,429 billion in 2008 (Morrison, 2009: 8). Thanks to her trade surpluses, China has accumulated the world's largest foreign exchange reserves, totalling nearly US\$1.95 trillion, as reported in 2008 (Setser and Pandey, 2009: 1).

For close to half a century, the United States of America (US) has enjoyed a position of superpower among all nations, in part because of her strong intellectual, economic and military power. However, the People's Republic of China has experienced tremendous growth in the past decade. If China continues to grow at the same rate, a "major reallocation of power among the world leaders" is expected to occur in the next 20 years with China rivalling the US for the world leadership position.³ As a growing trade power, China has gradually replaced the US as the most important export market for Southeast Asian countries. At present, China has trade deficits as large as tens of billions of US dollars with neighbouring countries and regions.⁴ Japan, the hitherto dominant player in the Asian region, is ceding this status to China.

Due to the rise of China, the Asia-Pacific region has drawn growing attention in recent years as a region that is integrating successfully into the global economy. With the rise of China as a colossal trading power, it is important and timely to study the role of China in shaping regional trade pattern between China, the East Asian countries and the ASEAN countries. Focusing on trade relations between China, Malaysia and countries in the East Asian region, this paper examines the role of China in the Asia-Pacific trade framework in the context of the Asia-Pacific Economic Cooperation (APEC) forum.

In addition, this paper also analyzes the possible regional implications of ACFTA/CAFTA⁵ as part of a paradigm shift in China's trade policy with particular reference to Sino-Malaysian economic relations. In this context, past trade and investment patterns between China and Malaysia are examined. The growing level of pre-ACFTA Sino-Malaysian trade in some way suggests that ACFTA has the potential to yield substantial economic benefits for the trading partners concerned in the years to come.

In the analysis of bilateral and multilateral trade relations, various FTAs⁶ and collaborations between China, other East Asian countries and Southeast Asian countries in regional trade are examined in this paper. It is suggested that with proper coordination and cooperation, intra-regional trade among the aforesaid countries would benefit one another. However, to further assert herself as a global power, China needs to solve her domestic problems and

change her political strategy in the near future. In addition, China should actively participate in various agreements and bring new ideas to the table making win-win policies for all.

2. Regional Economic Integration

Major regional economic integrations have developed in the Americas, Europe and the Asia-Pacific region in the last century.

In the case of the European Union (EU), regional economic integration has developed for more than 50 years since the Cold War. In the early 1940s, the Benelux (Belgium, Netherland and Luxembourg) union was formed for cultural, economic and geographic integration.⁷ In the early 1950s these three countries were joined by France, West Germany and Italy to form the European Coal and Steel Community which was the first European continent community.⁸ The Benelux countries created the community to coordinate economic activities among them to promote sustainable growth within the community. In addition, the countries also established the Benelux Court of Justice in Brussels “to promote uniformity in the application of common rules of law”.⁹

The US has been successful in her economic integration with Canada and Mexico. The North American Free Trade Agreement (NAFTA) was launched by the US, Canada and Mexico.¹⁰ The agreement created “a trilateral trade bloc” in North America.¹¹ This agreement removed most barriers related to trade and investment among the countries.¹² However, this trilateral trade bloc is still at an infant stage compared with the EU’s economic integration. In a way, NAFTA can be seen as a channel for the US to fulfil her own dream. George Bush Sr, during his tenure as the US president, introduced the Enterprise of the Americas Initiative (EAI), “a hemispheric program that he projected would establish a free-trade zone stretching from Anchorage to Tierra del Fuego, expand investment and provide a measure of debt relief to the countries in Latin America and the Caribbean”.¹³ Among the member countries of NAFTA, the US is a much bigger nation and possesses much more power than her counterparts. Thus, the US has taken the leadership of the continent and this leadership position has provided the catalyst for the US’s economic success.

Turning to the Asia-Pacific region, APEC, which was created in 1989,¹⁴ has not seen much result. Compared to the NAFTA and the EU, APEC covers a huge geographic region and major economic disparities exist among its member nations. Thus, the member countries of APEC are characterized more by heterogeneity rather than homogeneity, whether in terms of level of economic development and resource endowment or in terms of cultural heritage.

Since the launching of the “Open and Reform” policy, China has strengthened herself and is now ranked first in terms of exports, overtaking Germany recently, in the global community. China has transformed herself into an industrial nation and it is now the right time for China to provide the impetus for integrating the countries in the Asian region. In this respect, China has started forming FTAs with many Asian nations and is in the process of playing an even more important role in the Association of Southeast Asian Nations (ASEAN) and ASEAN Free Trade Area (AFTA).

On the other hand, Japan who has long been the major player in the Asian region is losing her power to China. China has taken several steps in recent years to gain influence. Apart from exerting her influence over the region through the ASEAN Plus Three, she has taken up an active role in the East Asian region. Japan has always supported the US in several trade-related issues. The US wants to engage in further economic integration with the ASEAN and Pacific regions and assume leadership position. However, in the last decade, we have seen that the World Trade Organization (WTO) has failed to achieve its goals. No solutions were found for various regional trade problems and the US has also shown little interest to resolve the WTO issues. At the same time, Japan has also started to engage several other countries for her benefit. ASEAN Plus Three (ASEAN, China, Japan, South Korea) and ASEAN Plus Three Plus Three (ASEAN, China, Japan, South Korea, India, New Zealand, Australia) countries are now in the process of building an East Asian Community.

The three consecutive years from 2009 to 2011 provide the best chance for the US to exert her influence over trade-related matters in her own interest. In the recent 2009 APEC conference in Singapore¹⁵, the US has made progress in relation to playing a more important role in ASEAN. After the 2010 APEC conference held in Japan, an allied nation of the US, the 2011 APEC conference will be held in the US.¹⁶ The US, with support from Singapore and Japan, will attempt to prepare a better model for regional economic integration based on her own leadership. The Obama Administration has already started working on improving trade relations with the Asia-Pacific region. The US is trying to gain support from the Asia-Pacific region so that she can increase her exports. In the 2009 Singapore APEC conference, different countries received different agendas from the US, mostly related to deregulation and financial support. The 2010 APEC conference in Japan provides the US an opportunity to collect information and feedbacks from the countries so that she can formulate a new model for the Asia-Pacific region. Finally, the US is expected to make concrete policy recommendations during the 2010 APEC conference so that tangible results could be obtained in the near future. If an FTA can be formed between the Asia-Pacific countries and the US, the US would benefit by having greater access to the Asia-Pacific market.

3. APEC and What Has It Achieved So Far?

APEC is designated to be the main forum for “facilitating economic growth, cooperation, trade and investment in the Asia-Pacific region”.¹⁷ Since the birth of APEC in 1989, it has grown to encompass 21 members from four continents. It represents the “most economically dynamic region in the world”¹⁸ and accounts for approximately 40.5 per cent of the world’s population, 54.1 per cent of world GDP and 43.7 per cent of world trade.¹⁹ The forum was created “to enhance economic growth and prosperity in the region” and “to strengthen the Asia-Pacific community”.²⁰

The 21 APEC member economies of APEC include Australia, Brunei, Canada, Indonesia, Japan, Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand and the US who joined in 1989, Taiwan (Chinese Taipei), Hong Kong and People’s Republic of China who joined in 1991, Mexico and Papua New Guinea who joined in 1993, Chile who joined in 1994, and Peru, Russia and Vietnam who joined in 1998.

APEC is a unique organization which has been revolving around dialogues with no binding obligation.²¹ APEC member countries have already held several meetings with no fruitful results. Since its establishment in 1989, many have claimed that APEC is merely “a loose discussion forum”, and in fact, many claim that APEC will remain as such (Liao, Liner and Müller, 2006: 1). Therefore APEC still faces a momentous task to make things happen at the regional level rather than merely “talking” about the issues.

Nevertheless, the diversity of member countries and the coverage of an extensive geographical area make APEC a relevant avenue for regional collaborations. Since the 1995 Osaka meeting, APEC has expanded international interaction and increased its national level activities. It has widened both its membership and scope. (*ibid.*: 3) APEC greatly differs from other regional organizations due to the “high diversity of its members”. The member nations of APEC do not share “cultural ties”, “common history” or any “big historical trauma”. (*ibid.*: 2)

Asian countries so far have not been as inclusive as their Western counterparts. Comparing with the European Union, Asian countries neither have enough widening policy nor deepening efforts for regional collaboration. Unlike Western countries, Asian countries do not have many trade agreements which can help to integrate the region. They have also hardly taken any initiatives to deepen integration.

At the beginning of 2010, China and Southeast Asia established the largest FTA in the world, “liberalizing billions of dollars in goods and investments” which covers “a market of 1.7 billion consumers”.²² In eight years’ time, it is expected that ACFTA will “rival the European Union and the North American Free Trade Area in terms of value and surpass those markets in terms of population”.²³ It is also expected that ACFTA will “expand Asia’s

trade reach” and “boost intra-regional trade”.²⁴ In fact, China has become ASEAN’s “third largest trading partner” after overtaking the US. It is also widely believed that China will leapfrog Japan and the EU within a few years’ of the inception of the ACFTA.²⁵

Trade between ASEAN countries and China has “exploded in the past decade”, increasing from US\$39.5 billion in 2000 to US\$192.5 billion in 2009.²⁶ Therefore, China has the advantage in terms of trade negotiation, monetary cooperation and investment in the region. In addition, the average tariff rate that China charges on ASEAN goods would be cut to 0.1 per cent (from 9.8 per cent) and the average tariffs imposed on Chinese goods by ASEAN countries will fall to 0.6 per cent (from 12.8 per cent).²⁷

China’s influence on the region and in the globe has increased significantly in the last twenty years. With growing trade deals and several bilateral agreements, China will likely obtain more trade and investment deals in the Asian region in the near future. The growth of China’s influence in the region has sparked fear and anxiety from the US and Japan.

The ongoing WTO negotiations have brought no significant outcomes and this explains why the US would be interested in signing bilateral agreements with countries in the Asia-Pacific region. The 2009 APEC meeting was successfully held in Singapore and subsequent meetings for 2010 and 2011 will be held in Japan and the US. The US will utilize the opportunities provided by the APEC meetings held in these consecutive years to advance her position in the region in a bid to rival the rise of China. The three advanced nations are allies of the US and fully support the US’s proposal for a Free Trade Area of the Asia-Pacific (FTAAP).

Despite the fact that APEC is not a binding organization, its significance in the region will gradually grow and APEC is expected to emerge as a powerful organization in the near future. With more than 2.7 billion consumers and nine member countries in the G20²⁸, APEC will liberalize various sectors in its member countries, provide an impetus for the growth of the member countries and spur trade across the Asia-Pacific region.

In November 1994, the APEC Economic Leaders Declaration²⁹ was adopted in Bogor, Indonesia, with the goal of freeing and opening trade and investment in the Asia-Pacific region. Clause 6 of the declaration states as follows:

With respect to the objective of enhancing trade and investment in the Asia-Pacific, the member countries agreed to adopt the long-term goal of free and open trade and investment in the Asia-Pacific. The goal was made to further reduce barriers to trade and investment and promoting the free flow of goods, services and capital among the countries.

The member countries also announced their commitment to complete the achievement of the goal of free and open trade and investment in the Asia-

Pacific no later than the year 2020. The pace of implementation will take into account differing levels of economic development among APEC economies, with the industrialized economies achieving the goal of free and open trade and investment no later than the year 2010 and developing economies no later than the year 2020.

Prominent Asian scholar Hadi Soesastro pointed out in a Shorenstein seminar that the Bogor Declaration outlined seven major principles regarding the goal of trade and investment liberalization (Soesastro, Noland and Emmerson, 1995):

- The goal will be pursued promptly by reducing barriers to trade and by promoting the free flow of goods, services and capital throughout the APEC countries.
- The goal will be achieved in a GATT-consistent manner.
- The goal will be achieved no later than the year 2020.
- The pace of implementation will reflect differences in economic development across the region, with industrialized countries achieving the goal by 2010 and developing economies having an additional ten years.
- APEC opposes the creation of an inward-looking trade bloc, and thus the goal will be pursued in a way that encourages worldwide trade and investment liberalization.
- APEC liberalization will not only reduce barriers among APEC economies but also between APEC and non-APEC economies.
- Special attention will be given to ensuring that non-APEC developing countries benefit from APEC liberalization in conformity with the provisions of the General Agreement on Tariffs and Trade and the World Trade Organization (GATT/WTO).

Dr Hadi Soesastro also noted that, immediately after the APEC meeting, “the Malaysian and Thai governments expressed some reservations and clarifications of their positions on the Bogor Declaration” in separate statements. There were three points in common in these statements (*ibid.*):

1. The goal is “not to create an exclusive Asia-Pacific free-trade area in the sense of the European Union or NAFTA”.
2. The “target dates of 2010 and 2020 are not binding commitments”.
3. The “elimination of trade and investment barriers in the region will proceed gradually”.

As pointed out, there is a widespread agreement among the APEC leaders that the timetable is nonbinding. Although the “nonbinding” nature of the timetable “raises questions about the value of the agreement”, it was pointed out that the “political commitment” by the APEC leaders is an important

“confidence-building step” that will encourage “trade liberalization across the region” (*ibid.*).

To achieve the Bogor Goals, APEC carries out work in three main areas, namely trade and investment liberalization, business facilitation, and economic and technical cooperation.³⁰ When APEC was established in 1989, average trade barrier in the region was 16.9 per cent and they had been reduced to 5.5 per cent within a span of 15 years.³¹ It will gradually diminish to zero. APEC has taken several reform efforts in the area of business facilitation. During 2002-2006, the “cost of business transactions across the region was reduced by 6%” and between 2007 and 2010 APEC “hopes to achieve an additional 5% reduction” in business transaction costs.³²

Since the inception of APEC, many countries have initiated several cooperative programmes for human resource development (education and training, especially for improving management and technical skills), the development of APEC study centres, cooperation in science and technology (including technology transfer), measures aimed at promoting small- and medium-scale enterprises (SMEs) and steps to improve economic infrastructure, such as energy, transportation, information, telecommunications and tourism, with the aim of contributing to sustainable development.³³

Financial crises have actually strengthened cooperation within the region. Asian countries have recently gone through two major financial crises: the first one in 1997-1998 and the second one in 2008-2009. In the aftermath of the Asian financial crisis many ASEAN countries suffered liquidity problems. Countries like Thailand, the Philippines and South Korea were supported by the International Monetary Fund (IMF) through bailout programmes. These countries have repaid the debts and their economies have recovered. Several other countries like Malaysia, took their own steps to overcome the difficulties. Asian countries have learnt from the financial crisis that they need to cooperate with one another in terms of trade, investment and finance for the sustainable growth of their economies.³⁴

The 1997-1998 Asian financial crisis has led to strong cooperation among the Asian countries, and in recent years the “institutionalization of the ASEAN Plus Three (APT) process has started to take shape” (Stubbs, 2002: 440). Government leaders and officials from ASEAN and the three Northeast Asian states (China, Japan, and South Korea) are “consulting on an increasing range of issues” (*ibid.*). The emergence of ASEAN Plus Three “raises questions about relations between it and other regional groupings such as the Asia-Pacific Economic Cooperation (APEC) forum and ASEAN itself”, and due to the differences among the East Asian countries, a number of obstacles to the development of ASEAN Plus Three had arisen (*ibid.*). The Asian economic crisis has enhanced the importance of ASEAN Plus Three.

Indeed, the regional grouping now has “the potential to become the dominant regional institution in East Asia”. At present, ASEAN Plus Three “continues to hold annual conferences and meetings”, while it is also trying “to form a better monetary cooperation in order to avoid any future financial crisis”. (*ibid.*: 454)

Countries and regions in East (including Southeast) Asia have signed the Chiang Mai Initiative Multilateralization (CMIM) to “address the short-term currency liquidity problem”.³⁵ The agreement was signed by the finance ministers and central bank governors of the ASEAN countries, China, Japan and the Republic of Korea (ASEAN+3), as well as the Hong Kong Monetary Authority.³⁶ An agreement was reached on all main aspects of creating a US\$120 billion regional reserve pool to “provide emergency liquidity for countries and regions in financial crisis”.³⁷ The objective of the agreement was to address problems related to balance of payment and short-term liquidity in the region.³⁸ China and Japan will contribute US\$38.4 billion each, the Republic of Korea will contribute US\$19.2 billion and the 10 ASEAN nations will provide a combined US\$24 billion to the liquidity pool (Rajan, 2009: 18). In addition, under the Chiang Mai Initiative (CMI), “a full series of bilateral swap and repurchase agreements between the ASEAN+3 countries” will be made, and under such an arrangement, member countries can swap their local currency for major international currencies (de Brouwer, 2005: 25).

The 2008-2009 global financial crisis, which was triggered by the US subprime mortgage crisis, has significantly affected the EU and Asian countries. Having experienced the 1997-1998 crisis, most Asian countries have restructured their financial and banking industry. Their previous experience and cooperation with one another has helped them to recover at a faster rate than their Western counterparts.

The Asian countries like Japan, China and South Korea are better placed than their G20 counterparts. The G7 countries alone are unlikely to be able to solve the financial crisis without the cooperation from the Asian countries. The fact that emerging economic powers are now playing a very important role in the world economy can be seen from the choice of Brazil and South Korea as the venues for the next G20 meetings.

The Asia-Pacific region compared to the EU and America differs in a very important aspect. Countries in the Asia-Pacific region have always lacked a strong leadership. APEC, which was formed 20 years ago, is an attempt to promote economic partnership within the region under one leadership. As such, it is hoped that APEC would provide a better platform for all participating countries to engage in well-coordinated economic integration under one leadership.

4. Growing Economic Integration and Cooperation of China in the Asian Region

At the beginning of this year, 2010, China and ASEAN officially launched the ACFTA.³⁹ China-ASEAN trade is targeted to hit US\$200 billion, by 2010 up from US\$113 billion in 2005. This will make ACFTA the third largest free trade zone in trade volume after the EU and NAFTA.⁴⁰ China sees the free trade agreement as a way of securing raw materials, while countries in ASEAN see opportunities in China's huge market.⁴¹ China and ASEAN signed an initial FTA in November 2002 and some tariffs have been reduced since 2005.⁴² From 2010, tariffs on 90 per cent of goods traded with China will be eliminated for Malaysia, Indonesia, Brunei, the Philippines, Singapore and Thailand and by 2015 for Laos, Vietnam, Cambodia and Burma.⁴³ Companies from ASEAN which are interested in entering China's service market (business services, tourism, etc) are given preferential access and vice versa.

For Malaysia, ACFTA is seen as having the potential to accelerate the development of economic relations between her and China and the economic growth of the two countries.⁴⁴ Trade tariff barriers between China and Malaysia will be eliminated following the full establishment of the FTA.⁴⁵ The FTA will "bring business and trade between the two countries to a new height" and also "benefit the banking industry which serves as a bridge of economic promotion and trade development". The Bank of China (Malaysia) is said to be "committed to promoting trade activities actively between China and Malaysia by rendering value-added services".⁴⁶ Presently, more than 100 corporations from China have established operations in Malaysia.⁴⁷

However, some Indonesian and Philippine manufacturers are against ACFTA, claiming that ASEAN member countries will only become the supply chain for China's booming economy which will be further propelled by gradual trade liberalization under ACFTA. Industry players in Indonesia have formally requested for the postponement of the treaty implementation for fear of the entry of cheap Chinese products undermining their manufacturing businesses. The Indonesian industries submitted a list of 228 items including iron and steel, textiles, machinery, electronics, chemicals and furniture covered by the FTA.⁴⁸

It is submitted that ASEAN countries and China should seek to promote proper coordination and cooperation in economic integration. Looking at US-China trade relations, it is observed that a failure to do so would bring about highly disruptive effects. Recently, the US government took the decision to approve extra tariffs of 35 per cent, 25 per cent and 20 per cent over the next three years, in addition to the regular 4 per cent levy on tires imported from China.⁴⁹ Since then, China has slapped import tariffs or restrictions on imports of US nylon, industrial acid, chicken and other products.⁵⁰ In addition, China has also initiated an investigation into whether US automakers are selling

below cost (“dumping”) cars in China. The US has retaliated by looking into allegations of dumping in other products and imposing tariffs on imports of Chinese steel pipes.⁵¹ This growing tension has “exacerbated protectionist fears on both sides of the Pacific” and it is “one reason global trade talks once against collapsed in Geneva last year”.⁵²

Against this background, China and ASEAN should learn from the China-US experience and avoid trade war or other conflicts. Proper coordination and cooperation is needed for the benefit of both China and ASEAN.

5. Role of China in the Asia-Pacific Region

Japan and the US are losing their power in the Asian region and China’s influence is increasing in the region. As such, Japan and the US are trying to strengthen their diplomatic relations with other Asian countries. In addition, the US is also trying to increase their export activities in the region. In recent years, the US is becoming very aggressive in approaching Asian countries for establishing economic relations. Politically, the US wants to limit China’s influence in the Asian region.

With her growing economy, China has increased her economic activities with other Southeast Asian countries. For example, she is supporting the ruling regime of Burma to build a sea harbour in the Indian Ocean. On the other hand, the US’s allies like Japan, the Philippines, Thailand and Singapore provide support for the presence of the US marine in the region. Most trading activities in Asian countries pass through the Strait of Malacca. The security of this waterway, particularly in the context of maritime terrorism, is therefore a great concern for many countries. Furthermore, China has also gradually expanded her activities in the waters of the Taiwan Strait and South China Sea, much of which she claims to be under her sovereignty. In recent years, China is spending more money on naval activities than she did before.

The rise of the Chinese economy has not only brought development for the country but also created some problems. China is trying to acquire raw materials and other natural resources, but this also creates problems for the global society. The Western nations and Japan realize that the integration of China into the Asian region will increase the superiority of China and decrease their powers in the global arena. This leads to the US and Japan attempting to expand their regional FTAs from the Asian region to the Asia-Pacific region. In addition, there are plans to include countries which do not come under these regions. Countries like India, Mongolia, Pakistan, Laos, Bangladesh, Colombia, and Ecuador are now seeking membership in some of these FTAs.

China, India and ASEAN are growing at a very fast rate and are playing major roles in the global economy. The rapid growth of these emerging

economic powers and the ASEAN Plus Three economies has stimulated world economic recovery after the global financial crisis. During the Cold War era, Japan dominated the region. She exported manufactured goods and in return received raw materials and agricultural products. Several ASEAN countries have criticized the Western countries as they have not shared similar level of foreign direct investment (FDI) and technological transfer. While Japan was fully supported by the US during the era, Asian countries have now sought for Japanese assistance for capital and technology through forging closer ties. However, at present, the Japanese export market is falling due to the rise of South Korea and China. China has dominated the region and now initiating several investment and monetary cooperation with other Asian countries. It is widely believed that China will succeed in creating a proper platform for investment and monetary cooperation in the region. When this is achieved, countries in the region will be the first to benefit.

In the last few years, China has replaced Japan as the dominant player in the Asian market. She is expected to overtake Japan and become the second largest economy after the US sometime in 2010. The WTO has failed to meet the expectation of both developed and developing countries, but it has surely made the US the most powerful developed country in the world. Recently, however, the emergence of new and potential economic powers like Brazil, Russia, India and China (BRIC), and particularly the growing influence of China, is causing much anxiety among many advanced nations.

However, China's financial market is underdeveloped in comparison with those of the Western countries. This is probably due to her socialist capital market system. Recently, the Chinese government has announced her commitment to stimulate the economy, by building Shanghai into an international financial centre and maintaining economic growth which would stabilize the capital market.⁵³ Shanghai is likely to become the financial centre of the future for China as well as for the Asia-Pacific region. The global financial crisis of 2008-2009 has momentarily halted the global expansion of financial markets. To become the global leader in the financial market, China in the next phase needs several major reforms aiming at improving market infrastructure and functionality, improving market regulation and supervision, and strengthening her legal framework. She also needs to increase the level of competitiveness among financial institutions, improve her market mechanism and corporate governance.

China has often been accused of "manipulating the exchange rate". It is true that the Chinese government needs to purchase dollars in large quantities to keep the yuan exchange rate "within certain target levels". Even though the yuan appreciated significantly after the July 2005 reforms against the US dollar, many people believe that it "remains highly undervalued against the dollar" (Morrison, 2009: 20). In addition, it is believed that the Chinese government's

policy could “undermine long-term economic stability” as it causes “over-production in various sectors”, increases the quantity of non-performing loans and causes inflation, for the reason that China’s currency policy has rendered the economy “overly dependent on exports and fixed investment for growth” and, furthermore, “promotes easy credit” (*ibid.*: 20-21).

China has grown so fast that she has realized that she might become a global power much faster than she thought.⁵⁴ She is treated as a *de facto* global power by the US, at least with regard to economic matters, with the two countries for all intents and purposes forming a “G2”.⁵⁵ China is already a major trading country, and there is little doubt that it will be a strong financial market player in the near future. This is the best time for China to change her policy to rise and become a strong financial power in accordance with her position as a G2 country.

Since the last decade, China has accumulated trade surplus on a yearly basis. The country’s exports have consistently exceeded her imports. Accumulating foreign reserve through trading, China currently possesses a foreign exchange reserve of over US\$2 trillion.

In terms of trade, China has gradually replaced the US as the main export market for Southeast Asian countries and now has trade deficits of tens of billions of US dollars with neighbouring countries and regions.⁵⁶ This explains why “the process of RMB regionalization has started with the ASEAN members adjoining the PRC”.⁵⁷ The renminbi has been used in “cross-border trade settlement”. In this respect, China has “signed bilateral currency swap deals with several countries and regions around the world since the beginning of 2009” (Nie, 2009). However, several steps must be taken before the regionalization of the RMB takes place.⁵⁸ Firstly, the implementation of RMB settlements must be carried out “within surrounding countries” first before moving to “broader regionalization”.⁵⁹ To achieve this, the Chinese government has declared that “Guangdong, the Yangtze River Delta Area, Hong Kong, Macao, Guangxi Zhuang Autonomous Region and Yunnan Province would begin quoting prices and settling accounts in RMB in trade with ASEAN” from the end of 2008.⁶⁰ In addition, the People’s Bank of China has “signed a currency swap agreement valued at RMB650 billion with monetary authorities in Hong Kong, the Republic of Korea, Malaysia, Indonesia, Belarus and Argentina”.⁶¹

This is the beginning of the rise of renminbi as the leading international currency. With a huge foreign exchange reserve, China is well positioned to advance in the financial world. With faith in the US dollar waning, China can begin to strengthen its financial infrastructure and gradually open up her financial market and elevate the renminbi to the status of a leading international currency. This is important for China if she wants to exert her influence in the region.

6. Sino-Malaysian Experience

With the changing global trade patterns and proliferation of preferential trading agreements (PTAs), a small open economy like Malaysia is set to see changes in her international trade partners. In the past, the US, Japan and the EU have been the major trading partners of Malaysia. However, with rapid economic growth, the emerging and transforming economic entities in East Asia, China in particular, are going to become more integrated, through trade and capital flows, with other East Asian countries, including Malaysia. As China is anticipated to sustain relatively high growth rates in the foreseeable future, Malaysia is positioning herself to take advantage of the growth opportunities. This could explain Malaysia's enthusiasm in getting actively involved in negotiations with the other ASEAN members to sign the ACFTA agreement with China not only to promote an increase in intra-regional trade but also to enhance market integration. Malaysia sees the FTA in terms of substantial potential gains through competition and scale effects, which could be used strategically to serve the growth objective. However, positive outcomes are only possible with careful policy design including detailed consideration of the implications of the agreement, identification of the readiness of the industries for liberalization and market access opportunities in partner countries, and ensuring effective enforcement mechanisms. (Yeoh and Ooi, 2007b: 5)

Basically in response to certain ASEAN members' doubt regarding the real benefits of ACFTA for them, China proposed a fast-track trade liberalization of agricultural products to "let ASEAN pick the peaches and taste the sweetness first" (Ravenhill and Jiang, 2007: 18). This was the "Early Harvest Programme" (EHP) negotiated on a bilateral basis between China and the individual ASEAN members. Member countries can exempt certain products from the programme's coverage under the Exclusion List. Conversely, there is a Request List for the inclusion of certain products not covered by the programme but mutually agreed by China and the concerned ASEAN member. Commenced in January 2004, EHP enables the reduction of tariff for certain products before ACFTA is fully implemented. These products include 562 items at 8/9 digit level in Chapters 1-8 in the Harmonized System of tariffs. (ASEAN Secretariat, 2002)

According to the Malaysian Ministry of International Trade and Industry (MITI), Malaysia has placed 590 products under EHP in which 503 are categorized as unprocessed agricultural products and 87 as processed and manufactured products. Malaysian exporters have benefited from the EHP⁶² since its inception in 2004 with total exports amounting to US\$135 million. Malaysia has placed 87.3 per cent of (or 10591) products in the normal track and 6.5 per cent (or 418) in the sensitive track. Products in the sensitive list are swine, milk and cream, wood products, cement, automotive, iron, steel

and others. For Malaysia, 0.6 per cent of the products, comprising alcoholic beverages, arms and weapons, tobacco refuse, and used tires, are excluded from tariff liberalization under ACFTA. In 2005, a total of 3780 Preferential Certificates of Origin were issued by Malaysia for EHP exports to China amounting to US\$540.3 million. Malaysian products which have benefited under EHP and TIG (Trade in Goods) agreements included chemical products, palm oil, stearic acid, rubber products, and detergent and soaps. On the other hand, Malaysia imported goods worth US\$3.7 million from China under the EHP and TIG agreements in 2005. (MITI, 2006a: 189-190)

6.1. Investment Profile

Historically, Malaysia relies heavily on foreign direct investment (FDI) for her economic expansion and industrial upgrading. Table 1 shows that China was the 8th largest foreign investor in Malaysia from 2001 to 2005. The amount of investment stood just below the Republic of Korea and surpassed investments from Taiwan and the Netherlands. According to MITI (2006b), Malaysia was the 6th largest source of imports and the 15th largest export destination of China in 2005 (Devadason, 2007: 138) and Sino-Malaysian trade reached US\$16.5 billion for the first six months of 2006 and expected to reach US\$50 billion by 2010⁶³. The statistics published by the Malaysian Industrial Development Authority (MIDA) show that the approved projects from China totalled 10 as compared to the total of 705 approved projects from foreign

Table 1 Approved FDI Projects in Malaysia – Top 10 Sources, 2001-2005
(RM million)

Country	2001	2002	2003	2004	2005	Total
US	3412	2668	2182	1059	5155	14476
Germany	2603	5055	170	4724	388	12940
Japan	3366	587	1295	1011	3672	9931
Singapore	2228	1019	1225	1515	2920	8907
United Kingdom	123	168	3870	151	99	4411
United Arab Emirates	–	0.9	3952	–	–	3952.9
Republic of Korea	1703	369	447	325	674	3518
Mainland China	2923	55	247	187	40	3452
Taiwan	1140	252	622	415	431	2860
Netherlands	69	607	316	99	1674	2765

Source: Yeoh and Ooi (2007b: 6), Table 2. Data of 2001 and 2002 are from IDE-JETRO and SERI (2004: 10), Table 5. Data of 2003 to 2005 are from MITI.

Table 2 Approved FDI Projects in Malaysia – Top Sources, 2005-2009
(RM million)

Country	2005	2006	2007	2008	2009*
US	5155.0	2476.6	3020.0	8669.0	288.5
Australia	155.9	2560.1	1685.1	13105.8	307.0
Netherlands	1674.0	3284.2	1690.4	1795.7	457.9
Hong Kong	105.4	84.5	59.8	83.6	116.3
Indonesia	52.5	214.9	41.2	22.1	2.2
Japan	3671.7	4411.6	6522.7	5594.9	6466.1
Germany	387.7	232.3	3756.8	4438.3	198.0
Republic of Korea	673.6	437.8	1118.8	197.6	431.8
Singapore	2919.9	1884.7	2952.2	2004.3	1613.9
Taiwan	430.7	405.5	408.7	911.6	610.4
United Kingdom	99.2	642.0	385.3	850.5	166.9
Others	2557.3	3593.8	11785.1	8425.5	1501.5
Total	17882.9	20227.9	33425.9	48098.8	12160.4

Note: * January-August.

Source: Malaysian Ministry of Finance, *Economic Report 2009/2010*.

investors in 2001, with the investments amounting to RM2923 million⁶⁴, or 15.46 per cent of total foreign investment in Malaysia. The number of projects approved was 9 with a total amount of RM55 million in 2002; it accounted for only 0.47 per cent of the total foreign investment in Malaysia. Investment from China regained its strength as it grew by more than four-fold to RM247 million; this accounted for 1.58 per cent of the total foreign investment in Malaysia in 2003. Investments from China in 2004 and 2005 were RM187 million and RM40 million respectively, with a share of 1.42 per cent and 0.22 per cent of the total foreign investment in Malaysia. However, mainland China has since dropped out from the top 10 FDI sources (Table 2).

Table 2 shows the FDI inflows to Malaysia for the period of 2005-2009. The top five sources of foreign investment were Japan (RM26667 million), the US (RM19609 million), Australia (RM17814 million), Singapore (RM11375 million), and Germany (RM9013 million). FDI to Malaysia increased from 2005 to 2008 with a total of 521 projects involving foreign investment in 2008. Total foreign investment in approved projects increased by 43.90 per cent from RM33425.9 million in 2007 to RM48098.8 million in 2008. This reflected the fact that Malaysia remained an attractive investment destination in this region during the period. However, total FDI inflow to Malaysia dropped sharply to RM12160.4 million. The decrease is likely to be caused by the global financial crisis. The electrical and electronics (E&E) industry received the highest amount of FDI with a total of RM11.3 billion or 63 per

Table 3 Sources of FDI to Malaysia – Comparison of China with ASEAN Countries, 2001-2009 (RM million)

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009*
Singapore	2228	1019	1225	1515	2920	1885	2952	2004	1614
China	2923	55	247	187	40	–	–	–	–
Indonesia	76	12	48	87	52	215	41	22	2
Thailand	68	9	264	37	142	–	–	–	–
Philippines	–	1	34	215	–	–	–	–	–
Vietnam	–	3	–	–	–	–	–	–	–
Burma	–	2	–	–	–	–	–	–	–

Note: * January-August.

Source: Yeoh and Ooi (2007b: 7), Table 3. Data of 2001 and 2002 are from IDE-JETRO and SERI (2004: 10), Table 6. Data of 2003 to 2005 are from MITI. Data of 2006-2009 are from Malaysian Ministry of Finance, *Economic Report 2009/2010*.

cent of the total foreign investment approved in 2005. This was followed by investments in scientific and measuring equipment with a total of RM1.4 billion, chemicals and chemical products worth RM596.1 million, plastic products worth RM594.8 million.⁶⁵

Table 3 shows the source of FDI from ASEAN members and China to Malaysia. Singapore accounted for the highest amount of investments with RM17362 million from 2001 to 2009. Investments from Singapore have recorded an increasing trend from 2002 to 2005 and from 2006 to 2007. The increasing investments were mainly due to major expansion projects in the E&E industry. From 2007 to 2009, investments from Singapore decreased. In 2007, investments from Singapore amounted to RM2922 million, the highest during the period of 2001-2009. Singapore was the second largest source of foreign investments in 2009.

Compared to ASEAN countries, FDI from China to Malaysia is second only to Singapore and well ahead of the second largest ASEAN source of FDI, viz. Indonesia. A total of 214 projects from China have been approved from 2001 to 2005. Investments from China are involved in the following industries: E&E, chemical and chemical products, wood and wood products, non-metallic mineral products, machinery manufacturing, food manufacturing, and plastic products manufacturing.

In the case of ASEAN, China's FDI in the grouping amounted to only about 1 per cent (US\$226 million) of the total FDI in ASEAN in 2004. For the period of 1995-2004, China's cumulative FDI in ASEAN, just exceeding US\$1 billion, amounted to only less than the 0.5 per cent of ASEAN's total inbound FDI for the period. FDI inflow from China has been constantly

Table 4 Foreign Direct Investment in ASEAN Countries (US\$ million)

	1997	2002	2003	2004	2005	2006	2007	2008
<i>Within ASEAN</i>	5235.7	3634.4	2301.8	2432.7	4217.7	7602.3	9408.6	11070.8
<i>Rest of the World</i>	28694.7	10070.3	16145.2	19371.1	34738.3	45767.9	59106.0	49355.2
EU	8326.5	5087.5	6674.7	6357.7	10015.6	10672.2	18383.5	12445.3
US	4950.1	357.6	1395.3	5051.9	3945.8	3406.4	6345.6	3392.5
Japan	5229.5	3366.2	2317.7	2538.2	6655.0	10222.8	8382.0	7653.6
Taiwan	914.0	270.7	826.9	1186.6	-6.8	785.3	872.3	1463.1
South Korea	721.8	92.4	632.0	896.5	507.0	1253.8	3124.7	1279.1
Hong Kong	1884.8	204.5	100.1	344.9	586.4	1278.8	1622.4	619.5
Mainland China	62.1	-80.9	188.7	225.9	537.7	1016.2	1226.9	1497.3
Others	6605.9	772.4	4009.8	2769.5	12497.6	17132.4	19148.6	21004.8
Total	33930.5	13704.7	18447.0	21803.9	38956.0	53370.2	68514.6	60426.0

Source: HKTDC, 2006; ASEAN Statistical Yearbook 2008.

Table 5 Actual Foreign Investment by ASEAN Countries in China
(US\$ million)

	1997	1998	2003	2004	2005	2006	2007
Singapore	2606.4	3404.0	2058.4	2008.1	2204.3	2260.5	3184.6
Malaysia	381.8	340.5	251.0	385.0	361.4	393.5	397.3
Philippines	155.6	179.3	220.0	233.2	188.9	134.3	195.3
Thailand	194.0	205.4	173.5	178.7	95.9	144.8	89.5
Indonesia	80.0	69.0	150.1	104.5	86.8	100.7	134.4
Brunei	0.1	1.8	52.6	96.1	160.4	294.2	376.9
Cambodia	5.5	2.9	12.5	20.7	2.8	2.1	6.3
Burma	2.7	5.1	3.5	8.8	3.7	7.4	3.3
Laos	0.4	1.1	0.4	4.3	–	–	3.0
Vietnam	1.5	14.1	3.3	1.1	1.3	13.7	0.7
Total	3428.0	4223.2	2925.4	3040.5	3105.5	3351.2	4391.3

Source: HKTDC, 2006; *China Trade and External Economic Statistical Yearbook*, 2007 and 2008.

increasing from 2002 to 2008. However, FDI inflow from China still amounted to only around 2 per cent of ASEAN's total inbound FDI from 2006 to 2008. On the other hand, Singapore topped the recipient list of China's outward FDI in ASEAN. ASEAN's cumulative investment in China surpassed US\$4000 million by the end of 2007, accounting for more than 4 per cent of China's total inbound investment. Singapore alone accounted for more than 70 per cent of China-bound FDI flows from ASEAN.

6.2. FTA and FDI

In the 1980s and early 1990s, ASEAN economies grew rapidly, at an average pace of 7 per cent annually. Rapid input factor accumulation, especially capital from FDI, was essential to this growth. Since 1997, FDI into ASEAN countries has declined as a proportion of global FDI and FDI directed to developing countries. Furthermore, the Japan External Trade Organization found that ASEAN bore the brunt of the decline of Japan's FDI to East Asia in recent years. Japanese investments in Indonesia, Malaysia, the Philippines and Thailand declined by more than half between 1997 and 1999. The decline has been attributed to the competition with China for FDI (Saywell, 2001), the lack of liberalization and the Asian financial crisis. Hence, the formation of ACFTA, it was hoped, would promote investments in the region and to recoup some of the shares of FDI to China. Besides, China and ASEAN could become a whole piece of platform for FDI with the formation of an FTA.

When the tariff rates are reduced to zero, the region will have the potential of becoming an attractive FDI destination. (Yeoh and Ooi, 2007a: 3)

On the part of China, it is obvious that she now sees FTAs as a crucial means to enhance economic development through expanding market size and establishing market coordination mechanisms to improve the investment environment and attract more investments from outside the region. This is in line with Beijing's need to guarantee the supply of energy and raw material from ASEAN and to help diversifying export markets. (Ravenhill and Jiang, 2007: 19)

The formation of ACFTA has the potential to further increase Malaysia's investment opportunity in China with both sides having entered into negotiations in order to progressively liberalize the investment regime. China's large market, abundant human resource and low production cost in combination may provide great opportunities for Malaysian firms to invest there. MIDA's statistics on Malaysian investment in China suggested opportunities in the China market, e.g. one of the Malaysian firms, Hytex Integrated Berhad has invested some US\$25 million to set up a new garment factory in China. Another, Karyon Industries Berhad, with a joint-venture with a China firm, will produce lead-free metal stabilization in China. (MIDA, 2006, <http://www.mida.gov.my>) With rising labour costs and shortage of workers in the domestic market, Malaysia is no longer a cost-competitive location for labour-intensive operations, and this leads to the option for labour-intensive manufacturers to relocate to cost-competitive countries like China and Vietnam. For instance, certain Malaysian firms have shifted the labour-intensive operations such as shoemaking and garment industries to China, seeking lower labour costs, lesser capital outlays, and higher profit margin. In short, the formation of ACFTA has the potential of generating opportunities for Malaysian firms to invest in low-cost and labour-intensive sectors within the FTA. (Yeoh and Ooi, 2007a: 11)

6.3. Trade Relations and Market Access Opportunities

Bilateral trade between Malaysia and China has increased significantly since 1994 and China was Malaysia's fourth largest trading partner in 2005, having replaced Taiwan since 2001. Trade flows between Malaysia and China have increased significantly from US\$4.264 billion to US\$46.386 billion for the 1998-2007 period, reflecting the mutual efforts of the governments and the intrinsic increasing domestic needs for the rapid economic development of both countries. Malaysian exports to China increased more than 10-fold from US\$1.596 billion to US\$17.689 billion for the 1998-2007 period. Bilateral trade between China and Malaysia is even higher if trade flows between Malaysia and Hong Kong are included. In 2005, the total value of trade between Malaysia and Hong Kong was RM42 billion, with exports amounting to RM31.21 billion and imports totalling RM10.79 billion. Between 1998 and

2007, imports from China rose by more than 10-fold from US\$2.668 billion to US\$28.697 billion. Malaysia recorded trade surplus with China for the 1994-1996 period; this was followed by a trade deficit of RM1.02 billion in 1997. Malaysia recorded trade surplus for the 1998-1999 period, followed by a trade deficit of RM0.81 billion in the year 2000. Trade deficit was also recorded from 2002 to 2005 (Yeoh and Ooi, 2007a: 18). However, ideally with the establishment of an FTA, the abolition of trade barriers will lead to trade expansion through trade creation or diversion. In the future, with China increasing her share in Malaysia's total trade, there is a likelihood that Malaysia will gain from the trade integration of China and ASEAN.

Table 6 Trade between China and Malaysia, 1998-2007 (US\$ billion)

Year	China's Export to Malaysia	China's Import from Malaysia	Total China-Malaysia Trade	Total China-ASEAN Trade
1998	1.596	2.668	4.264	23.5
1999	1.674	3.606	5.28	27
2000	2.565	5.48	8.045	39.5
2001	3.22	6.205	9.425	41.6
2002	4.975	9.296	14.271	54.8
2003	6.141	13.987	20.13	78.3
2004	8.087	18.174	26.26	105.8
2005	10.607	20.096	30.703	130.4
2006	13.537	23.572	37.109	160.838
2007	17.689	28.697	46.386	202.533

Source: Data for 1998-2005 from Li (2006: 128), Table 9.1 (data source: *Yearbook of China's Foreign Trade and External Economic Cooperation, 1998-2005*, China Foreign Economic Relations and Trade Publishing House). Data for 2006-2008 are from *China Trade and External Economic Statistical Yearbook, 2007 and 2008*.

Table 7 Malaysian Exports to China by Product Group (RM billion)

Description	Year	1994	2004
	TOTAL EXPORTS		5.06
E&E products		0.17	12.70
Palm oil		1.91	5.29
Chemicals & chemical products		0.07	3.92
Crude petroleum		0.13	1.57

Source: Kwek and Tham (2007:125), Table 6.2. Data from MATRADE.

Table 8 Commodity Composition of Exports to China from Malaysia (%)

Year	Agriculture-intensive	Mineral-intensive	Labour-intensive	Capital-intensive
1990	78.7	7.5	1.4	12.5
1995	66.3	6.2	4.3	23.2
2000	21.5	9.5	2.4	66.7
2003	14.4	7.7	1.3	76.7

Source: Li (2006:129), Table 9.2. Computed with data from UN Comtrade database.

As noted earlier, an Early Harvest Programme (EHP) was introduced in the early 2000s to eliminate tariffs on an agreed list of products prior to the actual implementation of the ACFTA as a gesture of the earnestness of the countries involved. The EHP was implemented on 1st January 2004 and the elimination of tariffs was scheduled to complete by 1st January 2006 for the six original members of ASEAN (ASEAN-6) and 2010 for Cambodia, Laos, Burma and Vietnam (CLMV). Covered under the EHP are agricultural and primary products in the HS Chapters 1 to 8 of the Customs Duties Order (unless specifically excluded by a member country) and specific products in Chapters 9, 15, 18, 27, 34, 38, 40 and 70. Malaysia has offered 590 products under the EHP, which include 503 unprocessed agricultural products and 87 specific products including coffee, cocoa and cocoa products, animal and vegetable fats/oils, mineral fuel, soap and stearic acid, articles of rubber and glass envelopes for cathode-ray tube. China has offered 581 products under the EHP. Take the year 2004 as an example: Malaysian exporters could be seen to have benefited by exporting these products to China. A total of 2046 Form E (Preferential Certificates of Origin under ACFTA) were issued for exports to China. Total amount of exports under EHP was RM514.1 million. Meanwhile, no imports from China were recorded under the EHP in 2004, pointing to the unequal nature of the agreement as noted earlier. Malaysia's exports under the EHP had further increased to RM540.3 million in 2005. (MITI, 2006a: 189-190) The Agreement on Trade in Goods (TIG) came into force on 20th July 2005. Malaysia's exports under the agreement are encouraging with a total of 1381 Form E being issued by Malaysia for exports to the China market. The value of exports under this agreement totaled RM756.5 million. In terms of imports from China, a total value of RM3.7 million was recorded in 2005. (*ibid.*)

On the other hand, it should be noted that the formation of ACFTA could also create challenges for Malaysia, one of which is the fact that the labour force in China is undeniably huge compared to ASEAN-5, hence giving China

a definite advantage in the labour-intensive sectors, although annual growth rate of labour force in China was the lowest among these economies (Figure 1). Monthly wages of unskilled production workers for some companies in the eastern seaboard cities of China could be 20-70 per cent lower, as compared to Malaysia. Some companies in Malaysia, such as Motorola, Sony Electronics, Acer Technology and Philips Semiconductor have relocated some of their operations to China to take advantage of the lower labour costs (UNDP,

Table 9 Early Harvest Programme

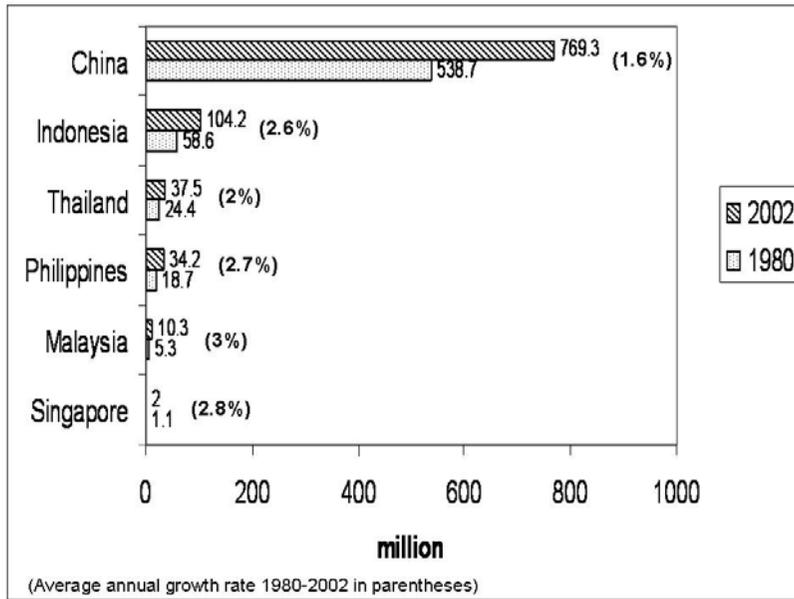
Tariff reduction commenced from 1st January 2004, 0% tariff rates by 2006. It covers more than 500 products, mostly agricultural products listed in the first 8 Chapters of HS Code	
Chapter	Description
01	Live animals
02	Meat and edible meat offal
03	Fish
04	Dairy produce
05	Other animal products
06	Live trees
07	Edible vegetables
08	Edible fruit and nuts

Table 10 Malaysia's Main Exports under ACFTA, 2005

Product Category	RM million	Share of Malaysia's Total Export Under ACFTA (%)
TOTAL	1296.8	100
Chemical products	613.1	47.3
Palm oil	196.7	15.2
Stearic acid	134.5	10.4
Rubber products	105.3	8.1
Detergent and soaps	95.9	7.4
Cocoa products	74.9	5.8
Fish and crustaceans	19.1	1.5
Mangosteen, watermelon and papaya	18.9	1.5
Cathode-ray tubes for television	13.2	1.0

Source: Yeoh and Ooi (2007b: 22-23), Table 13. Data from MITI.

Figure 1 Total Labour Force of ASEAN-5 and China



Source: Mukhriz and Nor' Aznin, 2005: 18, Table 7.

2006: 73). Furthermore, the formation of ACFTA and the removal of trade barriers will enable the competitive exporter with cheaper products to access the region's markets easily. Hence, Malaysian manufacturers will face greater competition in the domestic market as well as in the third-country markets of ASEAN involving many lines of textile and clothing, plus consumer electronics, footwear, toys and plastic products. In particular, garment producers in Malaysia have faced negative impacts from home-market penetration and third-market displacement by China in recent years (Yeoh and Ooi, 2007b: 30). According to Yeoh (2001), Malaysia's Associated Chinese Chamber of Commerce and Industry reported that out of over 4,000 small and medium enterprises involved in the garments and textiles sector, some 3,000 had closed down. In addition, China has developed competitiveness in a wide range of other manufactures, including machinery and electrical appliances, optical instruments, clocks and watches, metal products and several chemicals. In fact, these manufactured goods accounted for about 70 per cent of all ASEAN imports from China (Wattanaputtipaisan, 2003). There are worries in Malaysia that the shift in the composition of China's exports to higher value-added products and the rising domestic production of components would eventually make China a more favourable location than Malaysia particularly in outsourcing activities as according to the A.T.

Kearney Offshore Location Attractiveness Index, Malaysia ranked third for business process outsourcing after India and China (*Third Industrial Master Plan, 2006-2020*, MITI; Devadason, 2007: 139). Due to the reallocation of the production base towards China, in mid-2003, electrical and electronic firms in Malaysia, the state of Penang in particular, employed 17 per cent fewer workers than in 2000 (Woo, 2004, cited in Devadason, 2007: 139). For further illustration, Malaysia's "revealed comparative advantage" (RCA)⁶⁶ with respect to China was computed in Table 11 to identify niches for exporting to China, while Table 12 shows her opportunity for importing from China.⁶⁷

Table 11 RCA for Malaysia, 2004

Code	Product	RCA
15	Animal, vegetable fats and oils, cleavage products, etc.	12.91
80	Tin and articles thereof	6.83
44	Wood and articles of wood, wood charcoal	2.82
85	Electrical, electronic equipment	2.45
40	Rubber and articles thereof	2.44

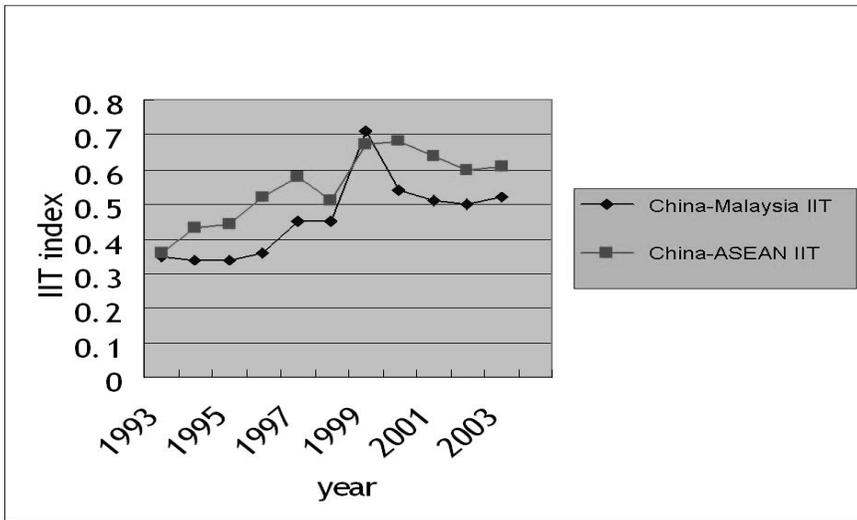
Source: Yeoh and Ooi (2007a: 23), Table 17. Computed with data from ITC database, UNTACD.

Table 12 RCA for China, 2004

Code	Product	RCA
46	Manufactures of plaiting material, basket work	9.31
66	Umbrellas, walking-sticks, seat-sticks, whips, etc.	8.27
67	Bird-skin, feathers, artificial flowers, human hair	6.63
42	Articles of leather, animal gut, harness, travel goods	4.84
43	Fur skins and artificial fur, manufactures thereof	4.41
95	Toys, games, sports requisites	4.18
63	Other made textile articles, sets, worn clothing, etc.	4.10
64	Footwear, gaiters and the like, parts thereof	3.75
61	Articles of apparel, accessories, knit or crochet	3.33
62	Articles of apparel, accessories, not knit or crochet	3.33
58	Special woven or tufted fabric, lace, tapestry, etc.	2.88
81	Other base metals, cements, articles thereof	2.74
96	Miscellaneous manufactured articles	2.62
60	Knitted or crocheted fabric	2.31
94	furniture, lighting, signs, prefabricated buildings	2.3
54	Manmade filaments	2.14
52	Cotton	2.06

Source: Yeoh and Ooi (2007a: 24), Table 18. Computed with data from ITC database, UNTACD.

Figure 2 China-Malaysia and China-ASEAN Intra-industry Trade (IIT)



Source: Li (2006: 131), Figure 9.1 (data from <http://www.aseansec.org>).

Regarding trade overlap between Malaysia and China, Li (2006) found the Sino-Malaysian intra-industry trade (IIT)⁶⁸ having steadily increased during 1998-2001, reaching around 50 per cent, although IIT had been relatively low (less than 30 per cent) till the mid-1990s (Li, 2006: 131), concurring with the finding of Wong (2004). Similarly, Devadason (2007) has found that the extent of Sino-Malaysian IIT has experienced steady increase between 1980 and 2005, reaching almost 50 per cent of total trade by 2001, exceeding Malaysia's IIT with the US and Japan (Devadason, 2007: 144). Li also found that the Sino-Malaysian IIT (Grubel-Lloyd index) is below that of Singapore, above that of the Philippines and Indonesia, rather parallel to that of Thailand after 2002.

6.4. Reduction in Over-dependence on Developed Countries

Besides expanding trade between Malaysia and her partner countries, ACFTA could also reduce her exports dependence on developed countries. Although trade between Malaysia and the other member countries of ACFTA would increase greatly, Malaysia's exports are heavily dependent on developed countries such as the US, the EU and Japan. The total share of exports of these countries accounted for 56.1 per cent of Malaysia's exports in 1980. The share of exports decreased to 47.6 per cent in 1990, 47.3 per cent in 2000

Table 13 Percentage Share of Malaysia's Exports to US, EU and Japan

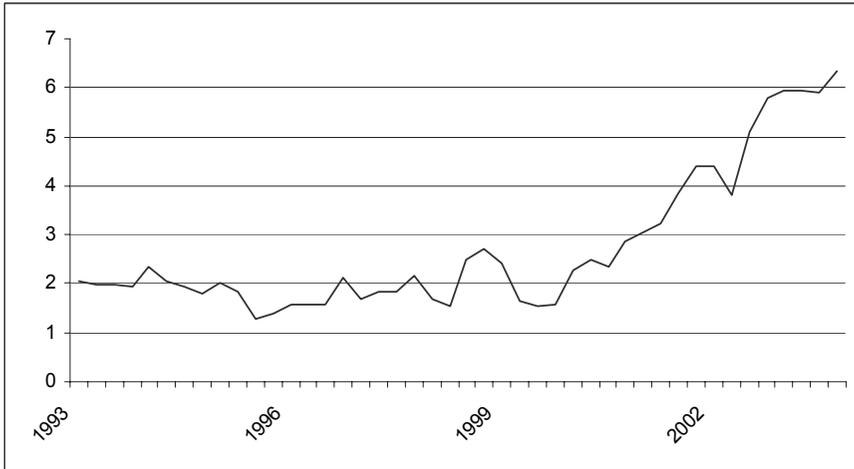
Country	Year				
	1970	1980	1990	2000	2005
US	13.0	16.4	16.9	20.5	19.7
EU	19.2	16.9	14.9	13.7	11.7
Japan	18.2	22.8	15.8	13.1	9.4

Source: UNDP (2006: 31), Table 2.4.

and 40.8 per cent in 2005. (Yeoh and Ooi, 2007a: 25) Sluggish economic growth is the key factor for the decline in exports demand in these major markets. Japan was a major exports market for Malaysia in the 1980s and 1990s. However, exports to Japan dropped significantly to 13.1 per cent in 2000. In 2005, Malaysia's exports to Japan accounted for only 9.4 per cent. This was due to Japan's low economic performance that decreased her market demand. That may be the biggest problem of over-dependence on a single export market.

In terms of trade intensity, Kwek and Tham (2007) has found that Malaysia's trade ties with China have grown faster than her trade ties with the rest of the world, with the trade intensity index of Malaysia's trade with China (comparing the relative intensity of Malaysia's trade with China relative to her trade with the rest of the world) having increased significantly from 1.60 in 1995 in 2000 and further to 6.04 in 2003. The increase was particularly remarkable after the financial crisis in 1998. Growth in exports to China and ASEAN could offset the decline of Malaysia's share in her key market with the formation of the FTA. Malaysia's exports market has been widening with China's accession to the WTO and the agreement to establish an FTA with ASEAN. These could gradually reduce Malaysia's over-dependence on the developed countries. Considering these factors, it leaves greater room for the future development and expansion in trade between Malaysia and the other members of ACFTA. In the context of global economic slowdown, and years of recession of the regional economic power, Japan, ACFTA by enhancing trade flows of the member countries will be especially beneficial. On the part of China, from the geopolitical perspective, she is of course happy to see that with the implementation of ACFTA, ASEAN's traditional economic dependence on the US, Europe and Japan would be gradually shifted to herself, although both she and ASEAN are still facing a risk in the over-concentration in electronics whose final market is over-dependent on the US (Ravenhill and Jiang, 2007: 21).

Figure 3 Quarterly Trade Intensity Index of Malaysia's Trade with China (1993:Q1 – 2003:Q4)



Source: Kwek and Tham (2007: 127), Figure 6.1.

Table 14 Malaysia and China: Pre-AFCTA Import Duties on Selected Products (%)

Product Sector	Malaysia	China
	Import Duty	Import Duty
Wood Products	5	17 – 27
Rubber Products	30 – 40	29.9 – 30
Furniture and Parts	Nil	20.7
Food and Beverage	0 – 25	22 – 45
Chemicals and Chemical Products	0 – 20	20 – 27
Jewellery and Parts	10	40 – 52
Boiler, Machinery and Mechanical Appliances	0 – 30	17 – 40
Electrical Machinery and Equipment, Electronics Parts and Accessories	0 – 30	17 – 47
Animal or Vegetables Fats and Oils and their fractions including edible preparations	0 – 10	22 – 47
Parts and Accessories for vehicles other than railway or tramway	25 – 30	23 – 33

Source: Kwek and Tham (2007: 134), Table 6.6. Data from MITI.

6.5. Competition to Enter the China Market

Malaysia has, in general, lower tariffs than China;⁶⁹ for instance in 2004, Malaysia's average tariff was 9.2 per cent while China's was 17 per cent. ACFTA's tariff reduction is poised to increase Malaysian firms' access to the China market with potential customs duty savings arising from the margin of difference between the Most-Favoured Nation (MFN) tariff rate and the lower preferential ASEAN-China tariff rate (Kwek and Tham, 2007: 134).

However, Malaysia will encounter a certain amount of other barriers to enter the China market. There is competition in the substitutes between Malaysia and the other ASEAN members in the China market due to the similarity of their economic structures and commodity exports to the China market.

6.6. Other Forms of Economic Cooperation

Besides the domains discussed so far, there are also potential benefits that Malaysia could hope to reap from the services sector in China's market. These may include building construction, tourism, financial services, education services and the (Muslim) halal food market.

There are opportunities for Malaysia to boost her tourism industry by attracting more tourists from China, based on the strong economic forecast in China that will lead to substantial increase in demand for various services especially recreational activities. China's National Tourism Administration reported an astounding 29 million China nationals travelling abroad in 2004, and the number had increased substantially in subsequent years with further travel concessions in place and new availability of outbound travel products (Yeoh and Ooi, 2007b: 24). In recognition of China's potential as a big tourist country given that a remarkable portion of China's population is getting rich, the Malaysian government has adopted various measures to attract tourists from China. For instance, the Malaysian Ministry of Tourism has intensified its tourism promotion by setting up tourism offices in Beijing and Shanghai, simplifying visa formalities, opening more chartered flights and staging promotion exhibitions in various major cities in China.

In order to attract more tourists, the Malaysian Ministry of Tourism has also participated in exhibitions in cities in central and western China. In addition, the ministry also stations *Putonghua* (普通话)-speaking immigration personnel at the country's main gateway, the Kuala Lumpur International Airport, to ensure that tourists from China will not face any problem when entering the country. The booming of the tourism industry is expected to bring services-related FDI into restaurants, tourism facilities, and wholesale and retail trade, thus helping to invigorate the domestic private sector and stimulate the services sector to spearhead economic growth.

With an education market estimated to be worth US\$54 billion and projected to grow at 20 per cent annually, China has been developing her joint educational venture with the outside world very rapidly in recent years, and there were 657 joint educational ventures in China in 2005, compared to only 70 in 1995 (Shen, 2005: 223). IDE-JETRO and SERI (2004: 15) reported that various Malaysian education providers have entered the China market to capture the growing demand there for tertiary and technical education, e.g. the Kuala Lumpur Infrastructure University College (KLIUC) has signed a Memorandum of Understanding with Tongji University, Tianjin Engineering and Technical Institute, and Tianjin University to provide joint technical twinning degrees in engineering and scientific fields, while the Inti International College has been providing management education in Beijing for more than a decade since 1993. In addition, China and Malaysia – who was already hosting about 10 thousand students from China in 2005 – have agreed to work together on a mutual accreditation programme for tertiary students of both countries. Having launched a media blitz to promote Malaysia's educational facilities to attract more students from China to study in Malaysia, the Malaysian Ministry of Higher Education is currently shifting its focus to mid-western China and planning to reach out to more students in this region.⁷⁰ In addition, twinning programmes with foreign universities in the United Kingdom, the US and Australia could enable students from China to obtain foreign degrees in Malaysia at a lower cost. (Yeoh and Ooi, 2007b: 25-26)

With an estimated 150 to 200 million Muslim population, China also provides an opportunity in the halal food sector. MIDA (2006a) reported that BIZ Link Global Sdn Bhd, a *Bumiputera* halal product manufacturer, has ventured into the China market, reckoning the immense opportunities that China offers for halal products, with the signing of a Memorandum of Understanding in Shanghai to export halal food products to two companies, viz. Shanghai Henyi Trading Co Ltd and Shanghai JD Trading Co Ltd. Much is yet to be done, nevertheless, to achieve the Malaysian goal of becoming a regional halal food hub, as Thailand and the Philippines have already established halal food programmes of their own to serve the global halal food market, which will be in direct competition with Malaysia's plans (Yeoh and Ooi, 2007b: 26-27).

Besides the above, despite reservations regarding China's reluctance to negotiate on services, many business service providers in this region are looking forward to a more liberal investment environment in the services sectors with the establishment of ACFTA. Incidentally, the International Management firm AT Kearney in a recent report described Malaysia as a rising alternative to India and China for offshore services.⁷¹

In addition, the construction of infrastructure and residential and office buildings in China is providing opportunities for the construction sector,

especially in areas such as ports, roads, highways, telecommunications and transportation, and oil and gas exploration. MIDA (2006b) reported that, venturing into contract biddings, many Malaysian companies had been keen to undertake the management of wastewater treatment plants, water supply work and city gas distribution projects on a build, own and transfer basis, e.g. Salcon Berhad, one of the leading water and wastewater service providers in the region, has won a 30-year contract through its wholly-owned subsidiary, Salcon Zhejiang (HK) Private Limited to operate and manage the supply of treated water in Haining, Zhejiang province, China. IDE-JETRO and SERI (2004: 15) also reported that Malaysian conglomerate Lions Group has already been involved in property development including hotel building and retail property development in China.

China's current "Develop the Western Region" (*xibu dakaifa* 西部大开发) strategy will also create opportunities in construction and infrastructure in China's western region. It has been observed that in accordance with China's general principles in PTA negotiation, individual agreements have often been geared towards particular economic ends.⁷² While CEPAs⁷³, for instance, with Hong Kong and Macau could be seen as intended to give Chinese networks in these two enclaves an advantage over those involving Taiwanese capital that operate across the Taiwan Strait, ACFTA, on the other hand, is providing a foundation for infrastructural strengthening and micro-regional development in the Greater Mekong River sub-region in western China (Ravenhill and Jiang, 2007: 11), in line with the *xibu dakaifa* policy.

China's successful bid for the 2008 Olympic Games and the 2010 Asian Games has also reinforced the optimism for prosperous development in that sector. Besides, Sino-Malaysian cooperation in energy and other natural resources could be growing to the benefit of both countries. In October 2006, the Malaysian State energy firm Petronas won a 25-year contract to operate and manage the supply of some three million tons of natural gas annually to Shanghai, China. The natural gas supply contract signed between the two nations was worth a reported US\$25 billion.⁷⁴ (Yeoh and Ooi, 2007b: 28)

7. The Future: What Role Can China Play?

In 2009, APEC celebrated its 20th year of successful establishment. Since its inception 20 years ago, APEC has positioned itself as the premier forum for facilitating economic growth, cooperation, trade and investment in the Asia-Pacific region.⁷⁵ Being "the most economically dynamic part of the world"⁷⁶, APEC member economies "generated nearly 70 percent of global economic growth"⁷⁷ and the APEC region "consistently outperformed the rest of the world, even during the Asian financial crisis" (APEC Secretariat, 2005: 4). At

present, the rapid economic growth of China, Russia and Vietnam still draws much attention from various parts of the world.

APEC's success could be mainly attributed to the "designs and functions of APEC in the region for the economic activities" as the "active participation of private sectors" provides the public sectors in APEC member nations "cutting-edge advices on entrepreneurial developments and high-technology", while through such cooperation between the public and private sectors, problems related to business growth are often effectively solved, and in this respect, APEC members have demonstrated the ability to forge strong public-private sector partnerships within the nations (Chang, 2008: 2). Furthermore, APEC should explore the possibility of expanding its membership. The rise of BRICs is one of the most important economic trends in the 21st century. APEC should "embrace this economic momentum mainly growing from within the region" and "be more aggressive in bringing these other two neighbors, India and Brazil, or their neighboring countries, into the APEC community" (*ibid.*: 3). Although, since its inception, APEC has become more "dynamic and heterogeneous" through the "enlargement of its membership", providing an "unprecedented opportunity for regional integration" for many member countries, APEC is still primarily an Asian body, and as such, the "Asian nature of APEC" would actually be a "sustaining force", while the "sense of ownership" is also equally important as evident in Japan's participation in the Kyoto Protocol (Liao, Liner and Müller, 2006: 3).

There are many indications which point towards APEC expanding its "scope of competence" while remaining relevant and effective in the future – as interaction between member countries increase, a "sense of common destiny" is likely to be strengthened, and it is this "sense of common destiny" which could even evolve into a "common vision of Asia-Pacific" with consequences far beyond the original objectives of APEC (*ibid.*). As such, APEC is entering a new and complex phase with the expected "development of action plans for liberalization by each member economy" and their "subsequent continuing review" (Woods, 1995). Thus, it would seem that the strategy for APEC in the future is to act as swiftly as possible to "negotiate and implement a Trans-Pacific Partnership as the first and major step toward a Free Trade Area of the Asia-Pacific" and thereby achieve the "Bogor goals" (Bergsten, 2009).

Looking back at APEC's history, the level of success of the organization has been primarily judged on the degree of trade liberalization among its member states, and in this respect, Japan has "taken a very active leadership role within Asia" to "promote a new Asian economic architecture", and "proposed the ASEAN+6 variant" and "initiated the East Asian Summits", giving hope that "a successful realization of the Trans-Pacific Partnership" would further encourage "trade liberalization" and "restore the vitality of

APEC” (*ibid.*). In addition, the fact that the most senior-level personnel of member countries continue to attend APEC meetings is evidence of its importance and success.⁷⁸ Since its formation, APEC has grown from 12 founding members to 21. At present, APEC economies account for “more than 40 percent of the world’s population and world trade”, and “more than half of global production”.⁷⁹

Due to the current economic uncertainty surrounding the world, it is well nigh impossible to predict the future of APEC with any precision. Even though the 21 countries within APEC have increased regional economic cooperation and coordination considerably, huge economic and developmental disparities continue to exist between APEC member states. In fact, developed countries within APEC are gaining more from the strengthening APEC regional ties than their developing counterparts. In order to narrow the growing discrepancy between the member countries, it would be of utmost importance to ensure that free trade exists among all APEC countries. Within the APEC organization, the US, Japan and China are the most powerful nations. No one has ever imagined or predicted that China can attain the present level of economic development within such a short span of time. In fact, China has achieved such economic and technological clout that she will soon be replacing Japan to become the second largest economy in the world.⁸⁰ It is very possible that China will lead the Asian region, and even the world, in the future. China has attained such a high level of development primarily by exporting her products to the rest of the world. In addition, China has also started making huge investments in the industries of neighbouring countries within the Asian region, benefiting her neighbouring countries in the process while gaining popularity and power. With China’s increasing trade within the region, Japan and the US have lost some of their market shares to China. In order to retain her market share, China has taken the initiative to sign several FTAs with other Asian countries. Although similar FTAs are signed by Japan and South Korea within the region, China remains in the leadership position.

In terms of bilateral and multilateral trade agreements, China has focused her attention on establishing the China-ASEAN FTA. The creation of ACFTA has further strengthened China’s leadership in the region. It appears that China would not favour including Russia and the US in the FTA. On the other hand, China supported the inclusion of Japan and South Korea. A possible explanation for this is that China does not view Japan and South Korea as too much of a threat in terms of trade in the region. Japan supported explicitly the US’s proposition to add more new members to the FTA. China does not seem to worry about this as Japan is gradually losing her power in the region.

The US is very much interested in widening FTA arrangements to include countries in the Asia-Pacific region. She is looking forward to include more

countries from the region to join Brunei, Singapore and New Zealand which are already member countries of the FTAAP. The 2009 APEC conference in Singapore, the 2010 conference in Japan and the 2011 conference in the US provide great opportunities for the US to exert her influence in forging stronger ties with other APEC member countries.

The US's interest in the Asian region is further sparked by the uncertainty shrouding the WTO. The WTO has 153 members (representing more than 95 per cent of total world trade) and 30 observers, all seeking membership.⁸¹ The WTO is currently working on a trade negotiation called the Doha Development Agenda to "enhance equitable participation of the poorer countries".⁸² However, the Doha Development Agenda has been "dogged by disagreement between exporters of agricultural bulk commodities and countries with large numbers of subsistence farmers" on the "precise terms of a 'special safeguard measure' to protect farmers from surges in imports".⁸³ With such uncertainties surrounding the Doha Round, the US has become more interested in enhancing her trade relations within the Asia-Pacific region.

It is observed that while China wants the concept of free trade to be restricted to a few countries within the region, the US wants a much wider free trade zone. A probable explanation for China's preference of a more restricted FTA is that China can more easily lead the region and benefit from a restricted FTA because China's strength and influence mainly lie in the Asian region. An FTA which covers both the Asia and Pacific regions will increase the power and influence of the US and Japan in the region. China does not favour a wider FTA for fear of losing influence and advantage in trade in the region.

The US's proposition for a wider free trade zone is based on three major concepts which are summarised in the "goals of the G20 Framework for strong, sustainable and balanced growth".⁸⁴

- *Balanced growth*: Strong and sustained economic growth will require structural reforms to gradually unwind global imbalances and raise the potential output of the economies. APEC will ensure that the fiscal monetary, trade and structural policies are consistent with a more sustainable and balanced trajectory of growth, both within and across the APEC economies and develop own financial markets to better serve the real economy.⁸⁵
- *Inclusive growth*: To achieve inclusive growth APEC nations must broaden access to economic opportunities and build the resilience of the most vulnerable against economic shocks. The countries must help small and medium enterprises and women entrepreneurs gain better access to global markets and finance. They need to facilitate worker retraining,

skills upgrading, and domestic labour mobility which can provide short-term support but avoid long-term dependency.⁸⁶

- *Sustainable growth*: Future growth must be compatible with global efforts to mitigate climate change. At the same time, efforts to address climate change must be consistent with keeping trade and investment free and open. The countries need to rationalize and phase out over the medium-term fossil fuel subsidies while providing those in need with essential energy services.⁸⁷

In order to achieve the three types of growth mentioned above, the US suggests that she can contribute significantly at a micro-level in the area of education, technology, SMEs, worker training, microfinance, opportunities for women, etc. the US has marketed herself as a country which can offer the best assistance for fellow nations to achieve long-term economic and trade growth in the abovementioned fields.

The US and China share a complicated relationship in terms of FTA arrangements. China is well aware of the risk of losing her leadership position and power in the region if she accepts the US's proposal of a larger free trade zone. On the other hand, the US also realizes that the road towards successful economic integration in the region will be riddled with difficulties without China's cooperation.

It is often advocated that if China can cooperate with the US in developing a wider free trade zone in the Asia-Pacific region, China can gain more political stability and leadership in the region. Apart from that, the US would also be willing to actively work together with China to deal with the nuclear proliferation problem. This will contribute towards overall peace in the region and the world. On the other hand, disputes between China and the US will only bring problems to the global society rather than solve them.

In Asia, Japan is facing the aging problem domestically and is losing power in the continent. The US is trying to build a new model for supporting her allies in Asia. If the US succeeds in exerting further influence in the Asian region, China's leadership position would be shaken. After the recent global financial crisis, it is argued that China has caught up with the US. However, it is submitted that it would be difficult for China to compete with the US unless China further strengthens her economy.

China needs to act strategically on specific domestic and global issues. To strengthen herself as a major power, China needs to resolve her domestic problems and enhance social and economic development. In addition, China should try to make the yuan a key currency in the global market and play a more global role than she is playing right now. Thus, to strengthen her position as a leader in world trade, more specifically in the Asia-Pacific region, China will not only need to develop her economic and trade cooperation with countries in the region, but will also need development on all fronts.

Notes

1. <http://www.chinability.com/GDP.htm>
2. “Billion” = thousand million.
3. “Is Globalization Inevitable?”, Free Media Productions, 2009. <<http://www.freemediaproductions.info/Editorials/author/maverick/>>
4. Gu, X., “China Tries RMB Regionalization Measure”, *China Today*, 19th June 2009. <http://www.chinatoday.com.cn/ctenglish/se/txt/2009-06/19/content_203295.htm>
5. China calls this China-ASEAN Free Trade Area (CAFTA); ASEAN calls this ASEAN-China Free Trade Area (ACFTA). To avoid confusion with another CAFTA (Central American Free Trade Agreement), the acronym “ACFTA” is used in this paper.
6. However, Ravenhill and Jiang (2007: 1) preferred the term “preferential trading agreements” (PTAs) to “regional agreements” (RAs) or “free trade agreements” (FTAs) for the fact that their membership is often not “regional” in any conventional geographic sense of the word and “relatively few of the large number of preferential arrangements negotiated in the last decade come close to conventional criteria for ‘free’ trade”.
7. For more details about Benelux, reference can be made to http://www.benelux.be/en/home_intro.asp (Benelux Economic Union), <http://www.benelux-parl.org/> (Benelux Parliament), <http://www.courbeneluxhof.info/> (Benelux Court of Justice) and <http://www.boip.int/en/homepage.php> (Benelux Office for Intellectual Property).
8. http://europa.eu/legislation_summaries/institutional_affairs/treaties/treaties_ecsc_en.htm
9. <http://www.pict-pcti.org/courts/beneluxCJ.html>
10. Details about NAFTA can be found at <http://www.sice.oas.org/Trade/NAFTA/naftatce.asp>
11. <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/nafta-alena/index.aspx>
12. <http://www.fas.usda.gov/itp/Policy/nafta/nafta.asp>
13. “The Enterprise for the Americas Initiative: Description and Up-date”, The Development GAP, October 1992. <http://www.developmentgap.org/americas/EAI_Description_and_Update.pdf>
14. http://www.apec.org/apec/about_apec/achievements_and_benefits.html
15. Details about the 2009 APEC Conference can be found at http://www.apec.org/apec/leaders_declarations/2009.html
16. <http://www.apec.org/>
17. *Ibid.*
18. <http://www.apec2007.org/>
19. http://www.apec.org/apec/about_apec.html
20. *Ibid.*
21. http://www.apec.org/apec/about_apec.html
22. Coates, S., “ASEAN-China Open World’s Largest Free Trade Area”, *Industry Week*, 30th December 2009. <http://www.industryweek.com/articles/asean-china_open_worlds_largest_free_trade_area_20729.aspx>

23. "Asian Opening", *Lanka Business Online*, 30th December 2009. <<http://www.lankabusinessonline.com/fullstory.php?nid=182100356>>
24. *Ibid.*
25. *Ibid.*
26. "ASEAN, China Open World's Biggest Free Trade Area", *Borneo Post Online*, 31st December 2009. <<http://www.theborneopost.com/?p=2142>>
27. <http://www.thefreelibrary.com/ASEAN-China+open+free+trade+area-a01612103457>
28. <http://www.america.gov/st/business-english/2009/November/20091104135511dmslahrellek0.9469721.html>
29. This summary of the Bogor Declaration can be found at http://www.apec.org/apec/leaders_declarations/1994.html
30. These three pillars of the Osaka Action Agenda is discussed in detail in the Joint Statement of the 7th APEC Ministerial Meeting, 1995.
31. http://www.apec.org/apec/about_apec/achievements_and_benefits.html
32. *Ibid.*
33. <http://www.asianlii.org/apec/other/agrmt/2aeldocr429/>
34. http://en.wikipedia.org/wiki/1997_Asian_Financial_Crisis
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36. *Ibid.*
37. *Ibid.*
38. *Ibid.*
39. "Launch of China-ASEAN FTA Significant Event in Asia: Singapore Scholar", *Xinhuanet*, 29th December 2009. <http://news.xinhuanet.com/english/2009-12/29/content_12723814.htm>
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41. *New York Times* (31st December 2009).
42. <http://www.smidec.gov.my/node/957>
43. *Ibid.*
44. "China-ASEAN FTA to Speed Up China-Malaysia's Economic Growth", *Global Times*, 26th December 2009. <<http://business.globaltimes.cn/china-economy/2009-12/494529.html>>
45. *Ibid.*
46. "Launch of China-ASEAN FTA Significant Event in Asia: Singapore Scholar", *Xinhuanet*, 29th December 2009. <http://news.xinhuanet.com/english/2009-12/29/content_12723814.htm>
47. *Ibid.*
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50. *Ibid.*

51. *Ibid.*
52. *Ibid.*
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55. *Ibid.*
56. Gu, X., "China Tries RMB Regionalization Measure", *China Today*, 19th June 2009. <http://www.chinatoday.com.cn/english/se/txt/2009-06/19/content_203295.htm>
57. *Ibid.*
58. *Ibid.*
59. *Ibid.*
60. *Ibid.*
61. "Strengthen Regional Financial Cooperation and Actively Conduct Currency Swap", The People's Bank of China, 31st March 2009. <<http://www.pbc.gov.cn/english/detail.asp?col=6400&ID=1299>>
62. Malaysia has no exclusion of any products for China and the other ASEAN member states under the EHP.
63. *The Star* (Malaysian daily), 2006, cited in Devadason (2007: 138).
64. "RM" = (Malaysian) ringgit. RM1 is equivalent to about US\$0.295.
65. MIDA <<http://www.mida.gov.my>>.
66. RCA measures the share of each commodity group in an economy's total exports, relative to that commodity's share in world exports; hence, the larger the value, the greater the comparative advantage and the more competitive for the industry concerned (Balassa, 1961):

$$RCA_i = \frac{\left[\frac{X_{ij}}{\sum_i X_{ij}} \right]}{\left[\frac{\sum_j X_{ij}}{\sum_j \sum_i X_{ij}} \right]}$$

where X_{ij} = exports of sector i at country j ,

$\sum_i X_{ij}$ = total export of country j ,

$\sum_j X_{ij}$ = world export of sector i , and

$\sum_j \sum_i X_{ij}$ = total world export.

If a country's share of world exports of a particular commodity is greater than its share of world exports of all commodities, the RCA will be greater than one. A country therefore has an RCA only in those products for which its market share of world exports is above its average share of world exports. Increased opportunities for exports to China, after the inception of ACFTA, is identified in product groups where Malaysia's RCA is greater than two and where China's RCA is less than one (Yeoh and Ooi, 2007a: 23).

67. Identified by the product groups, where China's RCA is greater than two, while Malaysia's RCA is less than 1 (*ibid.*: 24).
68. The overall level of IIT in country i is here measured by the Grubel-Lloyd index:

$$GL_{ij} = 1 - (X_{ij} - M_{ij}) / (X_{ij} + M_{ij})$$

with X_{ij} denoting export of commodity j in country i , and M_{ij} import of commodity j in country i . In general, the higher the GL_{ij} index, the higher is the intensity of intra-industry trade in this commodity, reflecting the advantage of specialization in international division of labour (Li, 2006: 130-131):

$$GL_i = \sum_{j=1}^n GL_{ij} \left[\frac{|X_{ij} - M_{ij}|}{\sum_{j=1}^n (X_{ij} + M_{ij})} \right]$$

69. MATRADE (<http://www.matrade.gov.my>) gave an average tariff rate of 20.4 per cent for agricultural goods, 11.5 per cent for chemical products, 14.6 per cent for machinery and parts, 6.9 per cent for metal products, 27.2 per cent for textiles and 12.9 per cent for wood and related products (Kwek and Tham, 2007: 134).
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72. Citing the focus on nurses in China's PTA negotiation with Australia, Ravenhill and Jiang (2007: 11) observed that one of China's objectives in service negotiations with industrialized economies "has been to improve the opportunities for Chinese professionals to work in partner economies" and Beijing is apparently seeing PTAs as providing a partial solution to the lack of domestic employment opportunities. China has also sought to include provisions in her PTAs that would enable her resource companies to bring in China's labour to staff her resource projects (*ibid.*: 9).
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82. http://en.wikipedia.org/wiki/World_Trade_Organization

83. *Ibid.*
84. These three major concepts are thoroughly discussed at http://www.apec.org/apec/news__media/media_releases/20091115_leadersstatement.html
85. *Ibid.*
86. *Ibid.*
87. *Ibid.*

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Is Cross-Strait Unification Possible?

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Abstract

Mainland China and Taiwan share a common people, history and culture, despite the political division which represents an artificial relic of the Cold War. The different political models followed by the two sides have made the possible integration between them difficult, though many parallels with the German reunification have pointed to the possible reunification of mainland China and Taiwan. While the existing literature on the prospects for the reunification of mainland China and Taiwan focuses primarily on the economic consequences of such unification, this paper examines the possibility of such reunification from a more global perspective that encompasses not only the economic dimension but other relevant dimensions as well, with the use of the GDRI Model which looks at regional integration simultaneously from political, social, economic and technological perspectives.

Keywords: mainland China, Taiwan, unification, GDRI Model, global development indices

1. Introduction

China has been divided into two political and economic entities since the civil war ended in 1949 with the establishment of the People's Republic of China by Mao Zedong on the mainland. Mainland China and Taiwan (Republic of China) share a common people, history and culture, despite the political

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division which represents an artificial relic of the Cold War. Continuous rapid growth and expansion of trade in the world context have transformed mainland China from a typical developing country into an economic powerhouse which is now the world's third largest economy. On the other hand, Taiwan experienced decades of constant economic growth from the 1960s until today. However, the different political models followed by the two sides have made the possible integration between them difficult until today, though many parallels with the German reunification which took place in the 1990s have pointed to the potential reunification of mainland China and Taiwan.

The existing literature on the prospects for the reunification of mainland China and Taiwan focuses primarily on the economic consequences of such unification. This is perfectly understandable in the light of the fact that the gaping difference in income levels between the two sides is now smaller compared to 30 years ago and the lower economic costs of such unification for Taiwan. On the other hand, the poor performance of the German economy since reunification has highlighted the potential adverse effects of unification for the economy in the case of mainland China and Taiwan. The central objective of this paper is to contribute to the literature on China integration by examining the possible reunification of mainland China and Taiwan from a more global perspective that encompasses not only the economic dimension but other relevant dimensions as well. To do so, we use the Global Dimension of Regional Integration Model (henceforth GDRI Model) developed by Ruiz (2004). The defining characteristic of the model, which we discuss in the next section, is that it looks at regional integration simultaneously from political, social, economic and technological perspectives. We apply the model to a comparative analysis of the development levels of mainland China and Taiwan in the 1980s, 1990s and the 2000-2009 period. Convergence has positive implications about the prospects for unification whereas divergence has negative implications.

2. The Global Dimension of Regional Integration Model (GDRI Model) and Its Application to a Comparative Analysis of Mainland China and Taiwan

The main objective of the GDRI Model is to provide policymakers and researchers a new analytical tool to study the evolution of any regional integration process from a global perspective encompassing the political, social, economic and technological dimensions. The simple and flexible model is based on a group of indexes and graphs, and it can be applied to any case of regional integration. The GDRI Model involves four basic phases. The first phase is the design of the multi-input database table. The second phase is the measurement of individual Regional Global Development Indexes

(Xi), which include the Regional Global Political Development Index (X1), Regional Global Social Development Index (X2), Regional Global Economic Development Index (X3) and Regional Global Technological Development Index (X4). The third phase is the measurement of the Regional Global Development (RGD) index. The last phase is the measurement of the Regional Integration Stage (RIS) index.

Let us now discuss each of the four basic phases, beginning with the design of the multi-input database table. Table 1 is an example of the multi-input database table and shows the global regional political development. “Global” refers to the multidimensional nature of political development and is represented by a wide range of political variables. “Regional” refers to the specific region of interest to the research. Therefore, in our case, global regional political development refers to the political development of mainland China and Taiwan as measured by the 15 political variables in Table 1. There is no reason why the number of variables in a multi-input database table should be constant and it can vary according to the objectives of the research and data availability. We can similarly construct multi-input database tables for the global regional economic, social and technological development.

Table 1 Multi-Input Database: Global Political Development

Code	Political Factors
<i>P.1.</i>	<i>External factors</i>
P.1.1.	Colonization (country)
P.1.2.	Group negotiation power
P.1.3.	Foreign policy influences
P.1.4.1.	Regional
P.1.4.2.	Global
P.1.5.	Negotiation style
<i>P.2.</i>	<i>Internal factors</i>
P.2.1.	International organizations support
P.2.3.	Political regime
P.2.4.	Legislative background
P.2.5.	Internal security
P.2.6.	Human rights
P.2.7.	Border problems
P.2.8.	Political stability
P.2.9.	Political structure and public administration
P.2.10.	Army size
P.2.11.	Bureaucracy level

The second phase of the GDRI-Model is to measure the Global Development Indexes (X_i) using the variables in the four multi-input database tables described above. The four Global Development Indexes are the Global Political Development Index (X_1), Global Social Development Index (X_2), Global Economic Development Index (X_3) and Global Technological Development Index (X_4). The data we input for each political entities in the region – in our case, mainland China and Taiwan are the political entities and China, encompassing the two, is the region – are based on statistical and historical data. Furthermore, all our data are binary – i.e. either 1 or 0 – and determined by either quantitative or qualitative criteria. An important reason for using binary data is that we attach the same level of importance to all the variables in our multi-input database tables.

Table 2 is an example of a multi-input database table with binary data inputted, and it shows the global political development of mainland China and Taiwan in the 1980s. For example, the value for the variable “political regime” is 1 for a democracy and 0 for a non-democracy, and similarly, the

Table 2 Global Political Development of Mainland China (m) and Taiwan (t) in the 1980s

Code	Political Factors	m	t
<i>P.1.</i>	<i>External factors</i>		
P.1.1.	Colonization (country)	0	0
P.1.2.	Group negotiation power	0	0
P.1.3.	Foreign policy influences		
P.1.4.1.	Regional	1	0
P.1.4.2.	Global	0	0
P.1.5.	Negotiation style	0	0
<i>P.2.</i>	<i>Internal factors</i>		
P.2.1.	International organizations support	0	1
P.2.3.	Political regime	0	1
P.2.4.	Legislative background	0	1
P.2.5.	Internal security	1	1
P.2.6.	Human rights	0	1
P.2.7.	Border problems	0	0
P.2.8.	Political stability	0	0
P.2.9.	Political structure and public administration	0	0
P.2.10.	Army size	0	0
P.2.11.	Bureaucracy level	0	0
TOTAL		2	5
TOTAL (%)		14%	31%

value of the variable “human rights” is 1 if a country’s protection of human rights is strong and 0 if it is weak. The last two columns of Table 2 show the respective values for mainland China and Taiwan. The table shows the total to be 2 or 14 per cent and 5 or 31 per cent respectively for mainland China and Taiwan, hence the global political development of the two sides in the 1980s is 14 per cent and 31 per cent respectively.

We can similarly input binary data for all the variables in the multi-input database tables for social, economic and technological development of mainland China and Taiwan in the 1980s. We find the global social development of mainland China and Taiwan in the 1980s to be 39 per cent and 47 per cent respectively, the global economic development of mainland China and Taiwan in the 1980s to be 30 per cent and 55 per cent respectively, and the global technological development of mainland China and Taiwan in the 1980s to be 30 per cent and 60 per cent respectively.

The third phase of the GDRI model is to use the four Global Development Indices (X_i) we found in the model’s second phase – i.e. political, social, economic and technological – to estimate the Global Overall Development Index (X), which sums up the information contained in the four indices. Intuitively, the Global Overall Development Index (X) measures a country’s overall level of development from a multidimensional or global perspective encompassing political, social, economic and technological development. Furthermore, as we saw earlier, we measured political, social, economic and technological development themselves from a multidimensional or global perspective, using a wide range of variables relevant to the development of each sphere. The first step in estimating the Global Overall Development Index (X) is to plot the values of the four Global Development Indices (X_i). We compute the overall global development index (X) as the sum of the four areas – A_1 , A_2 , A_3 and A_4 . In computing A_1 , it is useful to think of the value of the Global Political Development Index (X_1) as the base and the value of the Global Social Development Index (X_2) as the height. We compute A_1 by first multiplying X_1 and X_2 , and then dividing their product by four. Similarly, we can compute A_2 , A_3 and A_4 by doing the same with the pairs (X_2 , X_3), (X_3 , X_4) and (X_4 , X_1), respectively. For example, for Taiwan, A_1 is 7.3 per cent since X_1 is 31 per cent and X_2 is 47 per cent. Likewise, we compute A_2 , A_3 and A_4 for Taiwan to be 13 per cent, 16 per cent and 9 per cent. Therefore, Taiwan’s overall global development index (X_i) is 48 per cent. We can similarly compute X for mainland China as 28 per cent. Therefore, in the 1980s, Taiwan’s overall development level was about five times higher than that of mainland China.

The fourth and final phase of the GDRI model is to use the four Global Development Indices (X_i) and coefficients to measure the Global Development Stage (Y) of mainland China and Taiwan. The coefficient

indicates the relative importance of the political, social, economic and technological dimensions, and sum up to one. For example, if we attach equal importance to the four dimensions, the coefficient for each dimension is 0.25. To obtain the Global Development Stage (Y), we first multiply the Global Development Index (Xi) with the corresponding coefficient – for example, the Global Political Development Index (X1) and the political coefficient – and then sum up the four products. Assuming that each of the four coefficients is 0.25, so that the four dimensions are equally important, we can compute the Global Development Stage (Y) for mainland China and Taiwan as 28 per cent and 48 per cent respectively in the 1980s. The large gap in Y between mainland China and Taiwan indicates a large gap between the two in terms of overall development.

The Global Development Stage (Y) is broadly similar to the Global Overall Development Index (X) since both reflect the overall development level of a country or a region. We define a value of Y between 0 per cent and 33 per cent as the underdeveloped stage, 34 per cent and 66 per cent as the developing stage, and 67 per cent and 100 per cent as the developed stage. Therefore, in the 1980s, mainland China was in the underdeveloped stage whereas Taiwan was in the developing stage. We should note that Y is more flexible than X in the sense that it allows us to attach any combination of relative weights to the political, social, economic and technological dimensions. For example, if we attach more importance to the political dimension than the other dimensions, the political coefficient may be 0.40 while the social, economic and technological coefficients may each be 0.20. More generally, we can flexibly vary the relative sizes of the four coefficients to suit our needs.

We now report the main results of our GDRI Model analysis of mainland China and Taiwan during the 1980s and the 1990s. Taiwan's Global Political Development Index (X1) increased from 31 per cent in the 1980s to 47 per cent in the 1990s and 59 per cent in the 2000-2009 period, which indicates that Taiwan has become progressively more politically developed over time. This reflects Taiwan's transformation from authoritarian military-based governments to a thriving pluralistic democracy. In contrast, the same index has remained a constant growth from 14 per cent in the 1980s till 38 per cent in the 2000-2009 period for mainland China in the three decades, which is hardly surprising given the almost unchanged political system on the mainland. The large and growing gap between mainland China and Taiwan in political development does not bode well for the prospects of reunification since common political values facilitate regional integration, as most clearly evident in the European Union.

The social development of Taiwan has moved significantly forward in the 1980s and 1990s, *vis-à-vis* the mainland, which has proved to make a lot of

progress in this area. Taiwan's Global Social Development Index (X2) rose from 47 per cent in the 1980s to 65 per cent in the 1990s and 75 per cent in the 2000-2009 period, which, to a large extent, reflects Taiwan's rapid economic development since basic social services such as healthcare and education tend to improve with a country's living standards. In stark contrast, the same index increased from 39 per cent in the 1980s to 45 per cent in the 2000-2009 period for mainland China. The large gap in social development between mainland China and Taiwan and the consequent costliness of integrating the social systems of the two sides has negative implications for unification.

The economies of mainland China and Taiwan have achieved rapid growth and development in the last 30 years. Taiwan's Global Economic Development Index (X3) has more than doubled, from 55 per cent in the 1980s to 70 per cent in the 1990s and 84 per cent in the 2000-2009 period. This is consistent with her radical transformation from a poor developing economy to a highly successful newly industrialized economy (NIE) that has become a model of economic development for the Third World. For mainland China, the same index has expanded from 30 per cent in the 1980s to 75 per cent in the 2000-2009 period. The economic development of mainland China is reflected in her rapid economic growth. The closing economic gap between mainland China and Taiwan generates favourable conditions to unify the two sides. It implies that the financial and economic costs of unification may be sustainably low for Taiwan. Taiwan has made substantial technological progress and has reached a high level of technological development, as evident in the evolution of its Global Technological Development Index (X4), which rose from 60 per cent in the 1980s to 70 per cent in the 1990s and 90 per cent in the 2000-2009 period. This is hardly surprising in the light of the fact that technological upgrading has been an essential ingredient of Taiwan's successful economy. On the other hand, China's X4 increase from 30 per cent in the 1980s to 45 per cent in the 1990s and 65 per cent in the 2000-2009 period. The small and closing technological gap between the two sides decreases the technological costs of unification and thereby has positive implications for the prospects of unification.

Table 3 summarizes the global development of mainland China and Taiwan in the political, social, economic and technological spheres during the 1980s, 1990s and the 2000-2009 period. Table 3 clearly shows an unmistakable difference between the two sides.

We now use the four Global Development Indices (Xi) to estimate the Global Overall Development Index (X) for mainland China and Taiwan in the 1980s and 1990s. To repeat, the Global Overall Development Index (X) measures a country's overall level of development from a multidimensional perspective encompassing the political, social, economic and technological aspects. The evolution of each aspect over time confirms the picture of a

Table 3 Global Political, Social, Economic and Technological Development of Mainland China (m) and Taiwan (t) in the 1980s, 1990s and 2000-2009 Period

Variables	1980s		1990s		2000-2009	
	m	t	m	t	m	t
Political	14%	31%	28%	47%	38%	59%
Social	39%	47%	40%	65%	45%	75%
Economic	30%	55%	50%	70%	75%	84%
Technological	30%	60%	45%	70%	65%	90%

shorter gap between mainland China and Taiwan. Taiwan has managed to reach a high overall development level through rapid progress in all four areas while mainland China's overall development level continues to expand at a very high level.

We use the four Global Development Indices (X_i) and coefficients reflecting the relative importance of each X_i to measure the Global Development Stage (Y) of mainland China and Taiwan in the 1980s and 1990s. To repeat, the Global Development Stage (Y) is similar to the Global Overall Development Index (X) in the sense that both reflect a country's overall development level. Assuming that each coefficient is 0.25, so that the political, social, economic and technological dimensions are equally important, we compute the Global Development Stage (Y) for mainland China and Taiwan to be 28 per cent and 48 per cent respectively in the 1980s. Our computed value of Y rises to 70 per cent for Taiwan but falls even further to 50 per cent for mainland China in the 2000-2009 period. According to our earlier definitions, Taiwan has been well into the developed stage *vis-à-vis* the mainland. The large and growing difference in Y between the two sides mirrors growing difference in their overall development level.

3. Analysis on Viable and Sustainable Union

The results in this paper show that a viable and sustainable union between mainland China and Taiwan is very difficult to achieve. The economic and technological development gap between mainland China and Taiwan is narrowing decade by decade, but the social and political development gap between them is widening. The development gap between mainland China and Taiwan in the 1980s was 17 per cent in terms of political development, 8 per cent in terms of social development, 25 per cent in terms of economic development and 30 per cent in terms of technological development. The development gap between mainland China and Taiwan in the 1980s was not

so large as in the 1990s and the 2000-2009 period. The balance point between mainland China and Taiwan was large and difficult to reach by both sides. To do so, Taiwan needed to sacrifice from her political development -8 per cent, social development -4 per cent, economic development -12 per cent and technological development -15 per cent. For mainland China to arrive at the balance point in the 1980s, she needed to gain in political development +8 per cent, social development +4 per cent, economic development +12 per cent and technological development +15 per cent. The development gap and balance point in the 1980s meant that it was hard to facilitate the union of the two sides (see Table 4).

Table 4 Viable and Sustainable Union, 1980s

Variables	m	t	C	GD	BP	LC-m	LC-t
Political	14%	31%	45%	17%	23%	+8%	-8%
Social	39%	47%	86%	8%	43%	+4%	-4%
Economic	30%	55%	85%	25%	43%	+12%	-12%
Technological	30%	60%	90%	30%	45%	+15%	-15%

Notes: m = mainland China t = Taiwan C (China) = m + t

GD (Development Gap between mainland China and Taiwan) = $t - m$

BP (The Balance Point is the point that the two sides need to arrive for a possible viable and sustainable unification, e.g., mainland China and Taiwan):

$$BP = C/2$$

LC-m (Level of contribution of mainland China in the process of unification with Taiwan):

$$LC-m = BP - m$$

Negative result (-) = How much mainland China needs to sacrifice of her development to arrive at the balance point to generate a possible unification with Taiwan

Positive result (+) = How much mainland China needs to work to arrive at the balance point to generate a possible unification with Taiwan.

LC-t (Level of contribution of Taiwan in the process of unification with mainland China):

$$LC-t = BP - t$$

Negative result (-) = How much Taiwan needs to sacrifice of her development to arrive at the balance point to generate a possible unification with mainland China

Positive result (+) = How much Taiwan needs to work to arrive at the balance point to generate a possible unification with mainland China

In the 1990s the development gap continued decreasing: 19 per cent in terms of political development, 25 per cent in terms of social development, 20 per cent in terms of economic development and 25 per cent in terms of technological development. However, the balance point was less distant for Taiwan in comparison with mainland China. Taiwan needed to sacrifice more than mainland China to unify the two sides (see Table 4). In the case of mainland China, she needed to work harder to meet Taiwan at the balance point (see Table 5).

Finally, in the 2000-2009 period the development gap between mainland China and Taiwan was extremely small compared to the 1980s and 1990s. In the 2000-2009 period the development gap showed: 21 per cent in terms of political development, 30 per cent in terms of social development, 9 per cent in terms of economic development and 25 per cent in terms of technological development. The balance point in the 2000-2009 period between mainland China and Taiwan was relatively small and hence possible to arrive at by both sides. Taiwan needed to sacrifice more than mainland China in the last two decade (1980s and 1990s) in her political development -10 per cent, social development -15 per cent, economic development -4 per cent and technological development -12 per cent. In the case of mainland China, to arrive at the balance point in the 1990s required political development +10 per cent, social development +15 per cent, economic development +4 per cent and technological development +12 per cent. The small development gap and

Table 5 Viable and Sustainable Union, 1990s

Variables	m	t	C	GD	BP	LC-m	LC-t
Political	28%	47%	75%	19%	38%	+9%	-9%
Social	40%	65%	105%	25%	53%	+12%	-12%
Economic	50%	70%	120%	20%	60%	+10%	-10%
Technological	45%	70%	115%	25%	58%	+12%	-12%

Notes: As with Table 4.

Table 6 Viable and Sustainable Union, 2000-2009 Period

Variables	m	t	C	GD	BP	LC-m	LC-t
Political	38%	59%	97%	21%	49%	+10%	-10%
Social	45%	75%	120%	30%	60%	+15%	-15%
Economic	75%	84%	159%	9%	80%	+4%	-4%
Technological	65%	90%	155%	25%	78%	+12%	-12%

Notes: As with Table 4.

balance point in the 2000-2009 period for both sides generate possibilities for a possible union in the medium term (see Table 6).

We can say that the unification of the two sides has a cost for Taiwan, because Taiwan needs to sacrifice a lot of her political and social development to achieve the union, but in the case of mainland China, she needs to work harder to reach the balance point and reduce the development gap between the two sides. Therefore, a possible successful unification between mainland China and Taiwan is not easy to achieve.

4. Concluding Remarks

Unification is inherently a complex and multidimensional phenomenon entailing the unification of the two sides' economies, political systems, social systems, and a wide range of other societal hardware and software. The German unification of 1990 clearly illustrated this multidimensional nature. In this paper, we look at the prospects for the unification of mainland China and Taiwan by comparing their development from a multidimensional perspective rather than focusing solely on any single dimension. To carry out such a broader analysis, we use the Global Dimension of Regional Integration Model (GDRI Model) developed by Ruiz (2004), which evaluates the prospects for regional integration from a global or multidimensional perspective. More specifically, we use the GDRI model to examine and compare the political, social, economic and technological development of mainland China and Taiwan in the 1980s, 1990s and the 2000-2009 period. Our main finding is a large and growing gap between mainland China and Taiwan in terms of political, social, economic and technological development and consequently, overall development. Our analysis thus clearly reveals a divergence between mainland China and Taiwan rather than a convergence, which suggests that unification is likely to be a painful and disruptive process entailing large adjustment costs.

In terms of policy implications, our analysis suggests that while the large and growing political, social, economic and technological gap between mainland China and Taiwan is indeed a serious obstacle to integration and unification, policymakers would do well to appreciate the inherently multidimensional nature of unification. That is, unifying mainland China and Taiwan is not simply a matter of unifying two economies but also unifying the political, social and technological systems as well. This is a valuable lesson that is also highly relevant for policymakers in other countries pursuing closer integration. Our analysis provides support for the effort of diplomatically engaging the other side across the Strait and providing economic assistance in the sense that such a policy will slow down the momentum of divergence in the short run and promote convergence in the long run. The international

community also has a stake in facilitating the eventual unification through dialogue and assistance since convergence and stronger links between the two sides offer the best hopes for a peaceful solution.

At the same time, policymakers should pay closer attention to the non-economic aspects of convergence. Our analysis implies that a narrow policy approach based only on the economic aspect alone is likely to be misguided and unproductive since the lack of political convergence may hinder unification even if there is significant progress in terms of economic convergence, which in a way also lends support to the European Union's policy of requiring potential new members to pursue reforms in non-economic areas well as economic areas. Of course, economic convergence could indirectly promote convergence in the political, social and technological spheres as well. After all, materially better off societies tend to have more open political systems, provide better education and use more advanced technology. Be that as it may, in the light of our findings, policymakers would do well to take into consideration a more multidimensional perspective which has direct positive implications for multidimensional development and hence multidimensional convergence.

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China's Model of Democracy

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Abstract

In a world where democracy is regarded as a universal value, the political legitimacy of the Chinese Communist Party (CCP)'s rule seems to be a suspect. There are calls for democratizing China's political system, implicitly after the fashion of Western liberal democracies, in particular the American model. Few scholars have questioned the desirability of building a democracy in China, yet it is far from being clear what China's model of democracy should be. This article will highlight major features of China's political system and elaborate a China's model of democracy.

Keywords: *political legitimacy, the Chinese Communist Party, China's model of democracy, the American model, China's political system, political reform*

1. Introduction: The CCP's Rule and the Issue of Political Legitimacy

Who are you to judge someone else's servant? To his own master he stands or falls.

– Romans 14:4

It is taken for granted in the Western media and academe that the Chinese Communist Party (CCP) has an issue of political legitimacy.¹ Since China scored very low on a series of widely used international indexes on political openness and governance, it is claimed, the CCP's rule is in a serious legitimacy crisis.² As Minxin Pei presented it, China is one of the most authoritarian political systems in the world according to the Polity IV Project; is almost completely "unfree" according to the Freedom House; and is one of the most corrupt countries according to Transparency International. China

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was ranked in the bottom third of the eighty countries surveyed in terms of “quality of governance ranking” according to one group of the World Bank and was considered a weak state according to another group of the World Bank. China found itself next to the legion of failed states and most repressive countries in terms of “voice and accountability” and also in the company of weak states such as Nicaragua, Cambodia, Papua New Guinea, Egypt, and Mali in terms of “regulatory quality”. China was no better than Namibia, Croatia, Kuwait, and Mexico in terms of “government effectiveness”, was comparable to Belarus, Mexico, Tunisia, and Cuba in terms of “political stability”, and was in the company of Mexico, Madagascar, and Lebanon in terms of “rule of law”. (Pei, 2006: 5-6)

In comparative terms, China and the United States stand worlds apart in all these measures. The United States received a constant score of 10 on a scale from -10 to 10 from 1946 to 2007 in terms of “authority trends”,³ and China’s scores were ranged between -9 and 5 during the same period. More specifically, China’s score was 5 between 1946 and 1949 but fell to -8 in 1949 as a result of “R” (“Revolutionary Change Events”). And it received a constant score of -7 from 1977 to 2007.⁴

In terms of the Freedom House scores in 2008, the United States receives scores of 1 for both “political rights” and “civil liberties” on the scale of 1 to 7, with 1 representing the most free and 7 the least free and has a status of “free”; and China receives a score of 7 for “political rights,” 6 for “civil liberties,” and “not free” status.⁵

The United States is also less corrupt than China. According to the 2008 Corruption Perceptions Index produced by Transparency International, the United States is ranked 18 with a confidence range between 6.7 and 7.7 on a 1-10 scale (10 being the least corrupt) and China is ranked 72 with a confidence range between 3.1 and 4.3.⁶

Yet not all of these measures are useful and meaningful. The scores from Polity IV for both China and the United States have ignored significant historical variations. A constant score of 10 does not shed any light on the historical evolution of the authority in the United States from 1946 to 2007, in particular the damage the 2000 presidential controversy and the subsequent Bush years did to the credibility of the democratic system in the country. Nor is it meaningful to give China a constant score of -7 for the period of 1977 to 2007, completely ignoring the major events of the country in the interim.

Moreover, it is not clear why the United States should receive a positive score of 10 and China a negative score of 7 instead of vice versa. Had an authoritarian regime been regarded more desirable, the scores would have been reversed.

But do these low scores really constitute evidence for a legitimacy crisis in China? “Legitimacy,” according to Dolf Sternberger, a German political

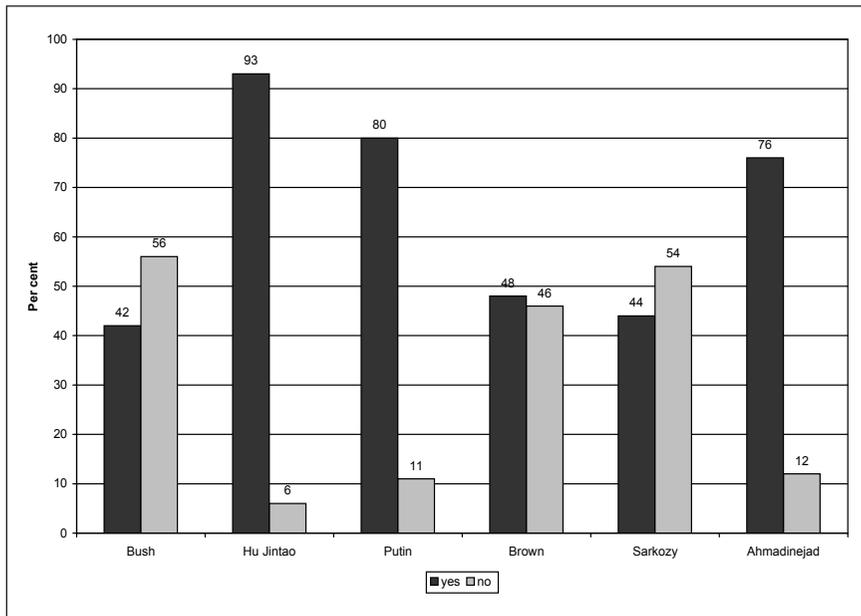
philosopher, “is the foundation of such governmental power as it exercised both with a consciousness on the government’s part that it has a right to govern and with some recognition by the governed of that right.” (Sternberger, 1968) In other words, whether a regime is legitimate or not does not depend on the “expert” opinion of Western scholars but on the recognition of the government and the governed that the regime has right to govern. In spite of these low scores, the CCP government has no legitimacy issues. Externally, the CCP government is legitimate in the eyes of 169 countries in the world⁷ and all international organizations. Internally, it is legitimate in the eyes of the Chinese people in Mainland China, Hong Kong, Macao, and even Taiwan, though the last one does not recognize the CCP rule over itself.

A survey conducted by the National Bureau of Statistics of China in November 2008 provides more details about how the Chinese look at their own government. The survey was conducted in 500 urban neighbourhood committees in 18 prefectural-level cities and 100 towns and villages in 20 counties. The total sample is 10,000, including 7,000 in urban areas and 3,000 in rural areas. According to the survey, 91.5 per cent of respondents have confidence in China’s future directions; 95.1 per cent agree that the socialist political system with Chinese characteristics is a right match to China’s situation; and 86.4 per cent are confident about the prospect of building a comprehensive well-off society by 2020.⁸

In contrast, people in democracies neither are confident about their leaders in handling world affairs nor trust their abilities to ensure right policies for their own countries. First, people in major democracies are less confident about their leaders in correctly handling world affairs than people in authoritarian countries are about their leaders. According to a 2008 World Public Opinion poll,⁹ politicians of some major democracies are not particularly inspiring in their own countries. To a question, “How much confidence you have in a leader to do the right thing regarding world affairs,” neither U.S. President George W. Bush nor British Prime Minister Gordon Brown nor French President Nicholas Sarkozy received more than 50 per cent in the category of “a lot/some confidence” (Figure 1). Among the three, Brown did the best, with a score of 48 per cent. Those who have confidence in him are more than those who lack confidence in him (46 per cent). More French distrust Sarkozy in handling world affairs (54 per cent) than those who trust him (44 per cent). And Americans mostly have no confidence in Bush as a world leader. Fifty-six per cent of the people distrust him as a world leader and only 42 per cent have some confidence in him.

Leaders of authoritarian regimes, on the other hand, are much better regarded in their own countries. In Iran, 76 per cent of people believe that their president, Mahmoud Ahmadinejad, can do the right thing regarding world affairs while only 12 per cent don’t. In Russia, 80 per cent trust Vladimir Putin

Figure 1 Confidence in Politicians as World Leaders



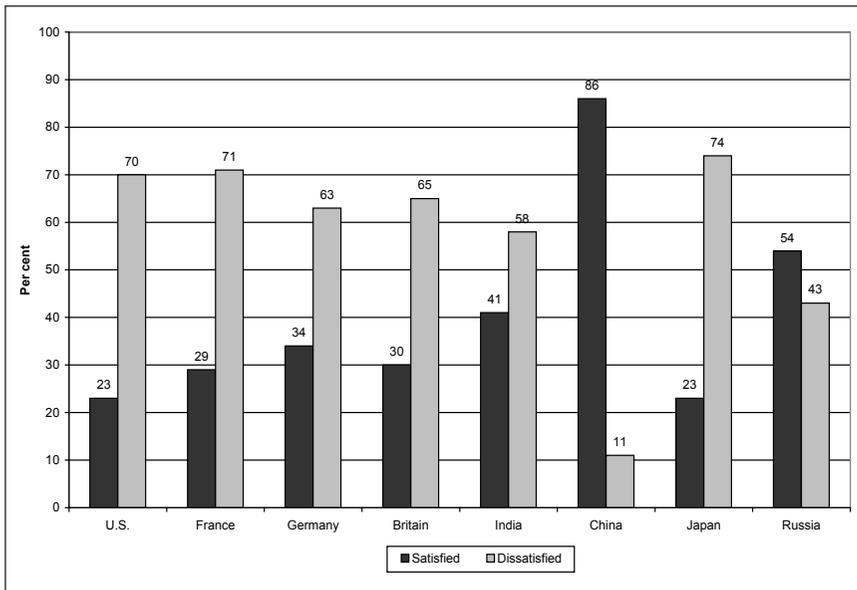
Source: <http://www.worldpublicopinion.org>

on world affairs and 11 per cent don't. In China, the overwhelming majorities (93 per cent) have confidence in Chinese President Hu Jintao to do the right thing regarding world affairs and only 6 per cent don't.

Second, majorities in major democracies are dissatisfied with the way things are going in their own countries. According to a 2008 24-Nation Pew Global Attitudes Survey, 58 per cent of the people are dissatisfied with country direction while 41 per cent are satisfied in India; 63 per cent of the people are dissatisfied with country direction and 34 per cent satisfied in Germany; the split between the dissatisfied and the satisfied in Britain is 65 per cent vs. 30 per cent; 70 per cent are dissatisfied while only 23 per cent are satisfied in the United States; 71 per cent are not satisfied and 29 per cent are in France; and 74 per cent are dissatisfied with country direction and 23 per cent are satisfied in Japan (Figure 2).¹⁰ Clearly, people in these democracies are not happy about how their countries are governed.

However, people under authoritarian regimes are much more optimistic about the way things are going in their countries. In Russia, 54 per cent of the people are satisfied with the way things are going in their country. The Chinese are the most optimistic of all: 86 per cent of them are satisfied with their country's direction.

Figure 2 Satisfaction with Country's Direction



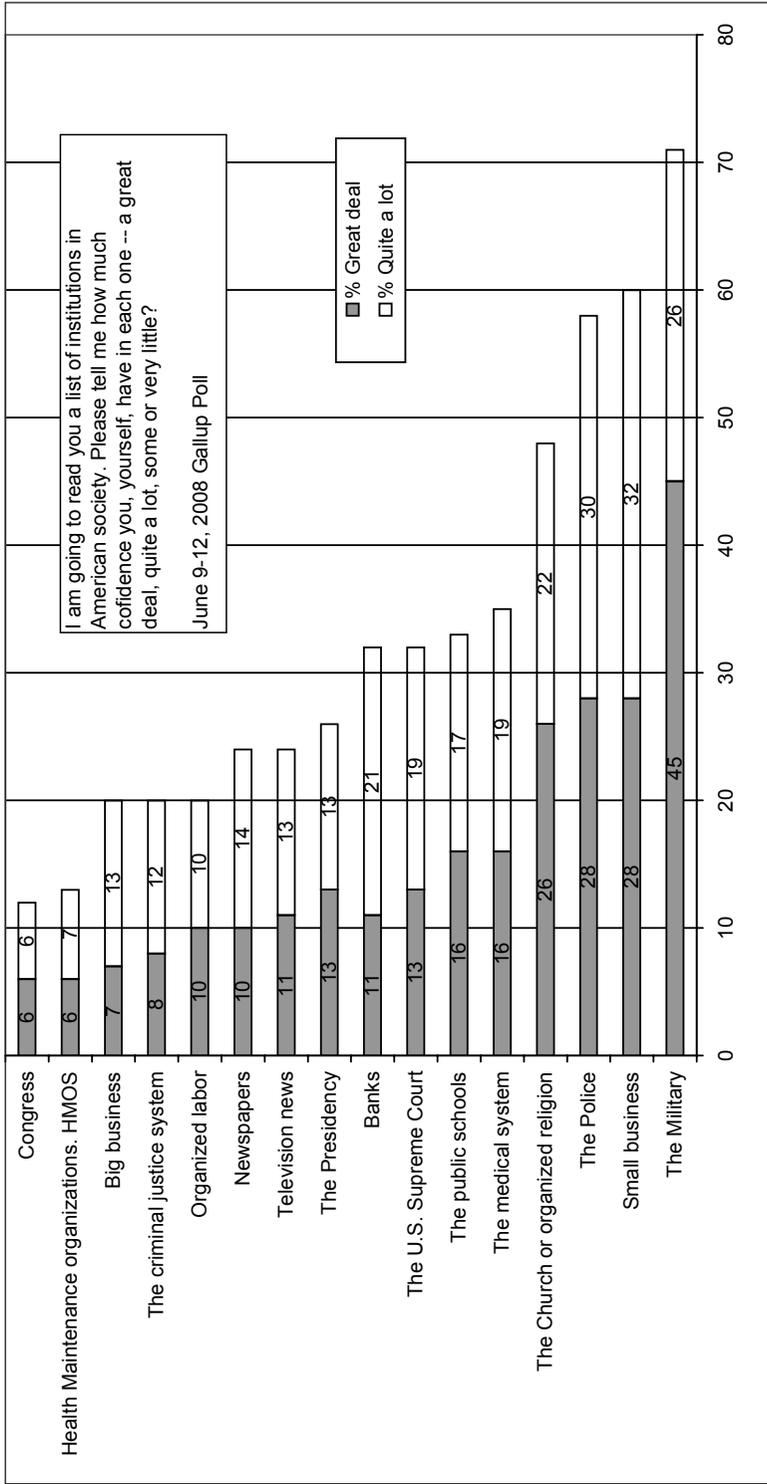
Source: <http://www.pewglobal.org>

Finally, majorities in some democracies have lost confidence in the key institutions of their own countries. Few Americans, for instance, have faith in any of the three major institutions of their own democratic system. In a Gallup poll taken on June 9-12, 2008 asking people how much confidence they had in a list of American institutions, none of the three branches of the federal government received high ratings. In the favourable categories of “great deal” and “quite lot”, the U.S. Supreme Court received a combined rate of 32 per cent; the Presidency 26 per cent; and Congress 12 per cent (Figure 3).¹¹ These are hardly inspiring numbers for a model democracy with no legitimacy problems. Or should we justifiably contend that the United States has a serious legitimacy problem?

2. Features of China's Political System

China's political system is unique in the world with several key features. First, its legislature is neither one-chamber nor bicameral. There are two parallel houses in the legislative branch: the National People's Congress (NPC) and the National Committee of the Chinese People's Political Consultative Conference (CPPCC). Between 1949 and 1954, the CPPCC functioned as the legislature. A coalition of political elites from different political parties and

Figure 3 Confidence in American Institutions



Source: <http://www.gallup.com>

social groups, the CPPCC established the People's Republic of China (PRC) and promulgated the Common Program (the provisional constitution of the PRC) in 1949.

Mao Zedong served as its chairman from 1949 to 1954. When the first National People's Congress was elected as the legislature in 1954, however, the CNPPCC was allowed to exist along with the NPC, primarily as an organization of political consultation. In addition to Mao Zedong (1949-1954), six people have occupied the position of the head of the CPPCC: Zhou Enlai (1954-1976), Deng Xiaoping (1978-1983), Deng Yingchao (1983-88), Li Xiannian (1988-93), Li Ruihuan (1993-2003), and Jia Qinglin (2003-2013). Among them, Li Xiannian was the only one who was not a concurrent Politburo member; and Deng Yingchao was the only woman and a concurrent full member of the Politburo. All the rest were Politburo standing members. Both Li Ruihuan and Jia Qinglin are ranked No. 4 in the Politburo Standing Committee.

The Eleventh National Committee of the CPPCC has 2,237 deputies from 34 social groups. Among them, 892 (39.9 per cent) are CCP members and 1,345 (60.1 per cent) are not. There are 395 female deputies, taking 17.7 per cent.¹² Externally, the leaders of the CPPCC are often treated as if they were leaders of an upper house in the legislature. Domestically, the CPPCC functions as a political consultation organ. There are also 3,164 local CPPCC organs at three levels of local government (provincial, municipal, and county levels) with 615,164 local deputies.¹³ Instead of an arm of the legislature, the CPPCC has helped to absorb social talents from various sectors, lowering the risk of forming an independent opposition party in China.

Second, China is a federal state in form and a unitary state in essence. The National People's Congress (NPC) is the highest organ of state power in the PRC (Article 57 of the 1982 PRC Constitution), but the NPC has no statutory power over people's congresses of lower levels. People's congresses are established at the four levels of local government (provincial, municipal, county, and township levels) (Article 95), and local people's congresses at different levels are local organs of state power (Article 96). According to the Organic Law of the Local People's Congresses and Local Governments, local congressional, government, and judicial leaders are all elected or ratified by the local people's congresses.¹⁴ Therefore, they are accountable to the local people's congresses. In lawmaking, the provincial-level people's congresses are almost as powerful as the National People's Congress. They may adopt and promulgate local regulations, which must not contravene the Constitution, the statutes, and the administrative rules and regulations, and shall report such local regulations to the Standing Committee of the NPC and the State Council for record. In the meantime, the people's congresses of the provincial capitals and other cities approved by the State Council will have to get their local

regulations approved by the standing committee of the provincial people's congress, and the standing committee of the provincial people's congress then reports such local regulations to the Standing Committee of the NPC and the State Council for record (Article 7 of the Organic Law). No other local people's congresses have legislative powers.¹⁵

However, the central leadership of the Chinese Communist Party (CCP) has powers over personnel issues at the provincial level. Consistent with the principle of the Party controlling the cadres, the CCP decides candidates for all important positions at the provincial level including the provincial Party committee, the provincial congressional leadership, the provincial government leadership, and the provincial judicial leadership. In theory, provincial Party secretaries are supposed to be elected by the provincial Party committee. But almost two thirds of current provincial Party secretaries have been transferred from outside the provincial units. Out of four centrally administered municipalities, only Liu Qi was elected locally. Tianjin's Party Secretary Zhang Gaoli was transferred from Shandong; Shanghai's Party Secretary Yu Zhengsheng was transferred from Hubei; and Chongqing's Party Secretary Bo Xilai was transferred from the Ministry of Commerce. Moreover, Guangdong's Party Secretary Wang Yang was transferred from Chongqing; Jiangxi's Party Secretary Su Rong was transferred from the Central Party School; Sichuan's Party Secretary Liu Qibao was transferred from Guangxi; Shaanxi Party Secretary Zhao Leji was transferred from Qinghai; Qinghai Party Secretary Qiang Wei from Beijing; Heilongjiang Party Secretary Ji Binxuan, Shandong Party Secretary Jiang Yikang, Zhejiang Party Secretary Zhao Hongzhu, and Hebei Party Secretary Zhang Yunchuan are all from the central apparatus. Moreover, all but six provincial Party secretaries are concurrent chairmen of the provincial people's congresses and all provincial governors (mayors and chairmen of autonomous regions) are deputy secretaries of their respective provincial Party committees.

Third, China is a party-state. The People's Republic of China (PRC) was founded by the Chinese Communist Party (CCP)¹⁶ by force in 1949, and the CCP has been dominant in state power ever since. With more than 75 million members, the CCP is the largest political party in the world.¹⁷ It is also one of the oldest political parties in the world with a history of 88 years. As a ruling party, the CCP is dominant in decision-making on all foreign and domestic affairs. The CCP's Political Bureau (Politburo), especially its nine-member standing committee, is the decision-making organ of the PRC. The National People's Congress, the highest organ of state power according to the Constitution of the People's Republic of China, usually approves policies proposed by the Politburo Standing Committee, and the State Council is the apparatus to implement these policies. There is a significant overlap between the Party and the state apparatuses. Top state leaders such as the chairman

of the National People's Congress Standing Committee and the premier and the executive vice premier as well as the chairman of the Chinese People's Political Consultative Conference (CPPCC) have to be members of the Politburo Standing Committee. And vice premiers, some state councilors, vice chairmen of the Central Military Commission, and the first vice chairman of the National People's Congress Standing Committee are also members of the Politburo. Finally, almost all top political elites in the state apparatus, the provinces, the military, the business, and the academe belong to the Central Committee of the CCP.¹⁸ Most importantly, the People's Liberation Army is an army of the CCP, not an army of the PRC. The Central Military Commission (CMC) of the CCP controls the PLA, and the chairman of the CMC is the commander-in-chief.

Nevertheless, the CCP of 2009 is different from the CCP of 1949. First, the CCP is more institutionalized in 2009 than in 1949. Although the national Party congress is supposed to be held once every five years, this was not true until late 1970s. There were long gaps between congresses from 1949 to 1973. The first national Party congress after 1949 (the Eighth Party Congress) was not held until 1956, 11 years from the previous congress, and the second national congress (the Ninth Party Congress) was held in 1969, 13 years after the Eighth. It was not until 1977 when the CCP began to have regular congresses once every five years. The past seven congresses have been held as scheduled, without any major interruptions.

Second, the CCP has basically solved the problem of succession. During Mao's era, one successor died of torture and one died of a plane crash. In the early years of Deng's era, one Party chairman and two general secretaries were dismissed. It was not until 2002 when the first smooth power transition took place. Jiang Zemin stepped down from the positions of power without being disgraced, and Hu Jintao took over these powerful positions peacefully.

Third, the CCP has been the driver behind China's phenomenal economic performance of the past three decades. With an annual growth rate of 9.7 per cent from 1978 to 2008, the CCP outperformed all the other regimes in the world in economic growth. During the same period, the annual growth rates were 3.0 per cent and 2.7 per cent for the United States and Japan, respectively.

3. A China's Model of Democracy

There have been three arguments against democratization in China.¹⁹ The first is that democracy does not fit China.²⁰ Of course, those who make this kind of arguments do not say that democracy does not fit China; they argue against Western-style democracy – which is usually characterized as having multiple parties, general elections, and separation of powers among three branches – in

China. Deng Xiaoping probably was the first to raise objections to copying Western models of democracy, in particular U.S. model. In his speech on December 30, 1986, Deng pointed out:

In developing our democracy, we cannot simply copy bourgeois democracy, or introduce the system of a balance of three powers. I have often criticized people in power in the United States, saying that actually they have three governments. Of course, the American bourgeoisie uses this system in dealing with other countries, but when it comes to internal affairs, the three branches often pull in different directions, and that makes trouble. We cannot adopt such a system.²¹

China's leaders after Deng also expressed similar objections. According to Jiang Zemin, democracies are relative and specific, not absolute and abstract; and there are varieties of democracies in the world. China does not intend to impose its own political system on others; nor does it tolerate others trying to impose their political system on it.²² Although Hu Jintao is willing to draw on useful results of the political civilization of mankind, he insists on adhering to China's own path of political development in the meantime.²³

On March 9, 2009, Wu Bangguo, chairman of the NPC Standing Committee and No. 2 Politburo Standing Member, made it clear in his speech to the NPC Session that China shall never simply copy the system of Western countries or introduce a system of multiple parties holding office in rotation, a system with the separation of the three powers or a bicameral system.²⁴

Some scholars also support this view. The fact that the Western liberal democracy is successful in western countries, as Song Luzheng, a blogger who is a resident of France, argues, should not be taken as an argument for promoting Western-style democracy in China. The success of western democracies is not replicable because of their unique historical circumstances. First, western countries realized their primitive accumulation through wars, colonization, and robbery. Second, democratization in western countries was implemented through a gradualist approach. It took them more than 200 years to have genuine general elections. The United States, for instance, did not have a general election of all the people until 40 some years ago.²⁵ His conclusion is that democracy is good but western-style democracy is not good for China. In fact, many people who hold this view argue against promoting western-style democracy in other non-western countries as well. Citing examples of India, Russia, Thailand, and Taiwan, they pointed out the negative consequences of democratization in non-western countries in general.²⁶

Fang Ning, a research fellow and deputy director of the Institute of Politics at the Chinese Academy of Social Sciences (CASS), published an article in February 2009 in the *People's Daily* against the introduction of a multi-party system into China. Entitled "China must not engage in Western

multi-party system,” the article criticized the multi-party system in the West and argued against its introduction to China. In the West, Fang pointed out, political parties are controlled by private capital, in particular major capitalists. Since it is very costly to get elected in such a system, whichever party that wants to take power has to be supported by capitalists. In the United States, the cost for running elections in 2004 was US\$2.51 million on average per senator with a maximum of US\$31.48 million and US\$0.51 million per congressman with a maximum of US\$9.04 million. Moreover, multi-party competition has a tendency to expand social differences and is not conducive to social harmony and stability. In order to compete for voters, political parties tend to polarize voters and dramatize their differences, causing and deepening social divisions. This divisive politics has resulted in serious negative consequences in many developing countries while in a transition of industrialization and modernization. China is in the golden period of development as well as in a period of serious social conflicts. Various problems have emerged as a result of rapid social and economic development. China should minimize these problems. Therefore, China must not engage in such a multi-party system. The Chinese Communist Party (CCP) is not a representative of any interest group but the representative of the entire population of China. It can produce policies that will maximize the benefits to the whole society and the whole nation.²⁷

Fang Ning also cited three reasons against democratization in China in an interview. First, competitive elections will result in money politics. Second, they will exacerbate social divisions. Third, costs are too high. If China were to conduct competitive elections now, it would have nominal gains but inviting real troubles.²⁸

The second argument against democracy in China is that China is not ready for democracy at this stage of development. In this view, China is not ready for democracy at this stage of development for three reasons. First, democratization in the current international environment is nothing but a means by which western countries, in particular the United States, attempt to interfere with other countries’ internal affairs. If a ruling party of a country does not listen to the command of the United States, the United States would instigate a “color revolution” by supporting its opposition party to overthrow the ruling party. Second, there will be chaos during the transition from a new democracy to a mature democracy. There is no guarantee that this transition will be short and painless. Taiwan is a good example. In the past eight years, Taiwan dropped from the leader of the four little tigers to the laggard of the four little tigers in terms of economic growth, witnessed high suicide rates and unemployment rates, and has been divided into blue and green camps. Third, China is a developing country with a population of 1.3 billion people. Considering the fact that the overall quality of the Chinese people is not high

and that China is surrounded by a group of hostile countries, democratization in China would likely result in chaos. Democratization will also slow down China's pace of development, enlarging China's gap from the developed countries.²⁹

The third argument against Western-style democracy in China is that China has already established a democracy with Chinese characteristics. Liu Xirui, a professor of the National School of Administration, announced in April 2007 that a China's model of democracy has been basically established. This model has four characteristics. First, it recognizes the sovereignty of the people. All the power of the government comes from the people. On this point, the China model of democracy is no different from the western liberal democracy. Democracy, rule of law, freedom, human rights, equity, and universal fraternity are all common values of the mankind. Second, the China model is one of representation (*daibiao zhi*) while the western liberal democracy is one of delegation (*daiyi zhi*).³⁰ The system of delegation in essence is a system of elite rotation in which voters have power only at the time of election. Once the election is over, the delegates will no longer be subject to the will of voters. The system of representation, on the other hand, is more democratic because representatives are accountable to voters and follow their mandate in their representation. The theory of "three represents" is an extension of this principle of representation. Third, the China model of democracy is composed of democratic mechanisms for both the Chinese Communist Party and the People's Republic of China. In the Party, these are the Party congress system, democratic life system of the Party members, and collective leadership of the Party organizations. In the state, these are the people's congress system, people's participation, self-government of villages and urban neighbourhoods, autonomy of ethnic minority regions, and political consultation with democratic parties. Finally, China has also experimented with various forms of democracy, especially at the grassroots level.³¹

Before we proceed to evaluate these objections, we need to have a functional definition of democracy. Democracy, according to Robert Dahl, is a function of two mechanisms. On the one hand, politicians should be allowed to compete for power, i.e., contestation. On the other, citizens should be allowed to participate in selecting leaders, i.e., participation. (Dahl, 1972)³² According to these measures, the current political system in China is neither completely undemocratic nor fully democratic. In China, citizens do vote. They directly decide grassroots leaders and elect deputies to the people's congresses of counties (county-level cities and urban districts) and townships. The deputies thus elected then elect deputies to the people's congresses of the next higher level. And the deputies to the people's congresses of provincial units elect deputies to the national people's congress. However, there is no constitutionally sanctioned contestation for power.

Throughout the history of China, contestation for power has been the norm rather than the exception. Yet contestation for power is usually backed by military forces. In the 1920s, territorially based military warlords competed for political power in China. In the late 1940s, two political parties (the CCP and the KMT) also competed for power with military forces. In fact, the PRC was born of the contestation between the CCP and the KMT. To avoid military contestation, there should be separation of military forces from political parties.

Currently, the People's Liberation Army is the military of the CCP; and there is no evidence that the CCP is willing to give up its control over the military. On the contrary, one of the historical missions of the PLA, according to Hu Jintao, is to provide support for the CCP's rule³³ and the PLA generals have voiced their objections to turning the armed forces of the Party to those of the state.³⁴

Until the CCP gives up its monopoly over the military and security apparatus, it is unlikely that genuine political contestation will take place in China. It does not appear that Hu Jintao is going to transform the military from the Party to the state any time soon. Nor is it likely that his successor will be engaged in such transformations in his first five years in office.

Moreover, it is not likely that the CCP will allow a competitive multi-party system in China. Currently, there is a multi-party system in China. In addition to the CCP, there are eight political parties in China. They are Revolutionary Committee of Chinese Guomindang, China Democratic League, China Democratic National Construction Association, China Association for Promoting Democracy, Chinese Peasants and Workers Democratic Party, China Zhi Gong Party (Public Interest Party), Jiu San (September 3) Society, and Taiwan Democratic Self-Government League.

These political parties were all established before 1949 and were all political allies of the CCP. These political parties have been well integrated into the political system under the CCP's leadership. Out of eight chairpersons, six (Zhou Tienong, Jiang Shusheng, Chen Changzhi, Yan Junqi (f.), Sang Guowei, and Han Qide) are vice chairpersons of the National People's Congress Standing Committee and two (Wan Gang and Lin Wenyi (f.)) vice chairpersons of the CPPCC. In addition, six executive vice chairpersons of these parties (Wang Zhizhen (f.) of Jiusan Society, Chen Zongxing of Nonggong, Luo Fuhe of Minjin, Li Wuwei of Minge, Zhang Rongmin (f.) of Minjian, and Zhang Meiying (f.) of Minmeng) are also vice chairpersons of the CPPCC. Wan Gang, chairman of China Zhi Gong Party, is both a vice chairman of the CPPCC and minister of Science and Technology. It is inconceivable that these parties would compete for power with the CCP.

In addition to these nine parties, there are also political parties in Hong Kong, Macao, and Taiwan. There are 12 political parties (groups) in Hong

Kong that participate in elections but none of them operate beyond the boundaries of the Hong Kong Special Administrative Region.³⁵ There are also 12 political parties (groups) in Macao, but these groups are less contentious than those in Hong Kong and they are all local political groups in Macao.³⁶ Although there are 147 legal political parties in Taiwan,³⁷ only two of them truly matter in politics. The KMT is now the ruling party with Ma Ying-jeou as Taiwan's president and 81 seats in the Legislative Yuan. The Democratic Progressive Party (DPP) was the ruling party from 2000 to 2008 and is now the second largest party in Taiwan with 27 seats in the Legislative Yuan.³⁸ However, they are both local political parties of Taiwan. A major political party on the mainland from 1920 to 1949, the KMT would come back to the political stage on the Mainland only when Taiwan agrees to be unified under the People's Republic of China.

From this perspective, we can object the third argument against democratization in China: China has already established a democracy with Chinese characteristics. China has its own political system with its own legitimate government. But it does not mean that this legitimate government is the outcome of a democratic process. The first argument that democracy does not fit China is objectionable as well. Grassroots democracy has been implemented in China for more than two decades. It is not clear why democracy can not be introduced to China as a whole. It is true that the CCP's policies have benefited millions in China in the past three decades. But the CCP has not been subject to competitive elections.

The second argument is more convincing. China is in a major economic and social transformation, for which a strong polity is required. The CCP has proved to be an effective ruling party, and its economic performance in the past three decades is unparalleled in the world. Although it is ideal to implement a more democratic system through general elections among candidates from multiple political parties, it is also likely that China may degenerate into competition with arms.

Nevertheless, the question remains on what a model of democracy is good for China when China is ready for democracy. There is not a single model of democracy in the West. There are parliamentary models as well as presidential models. In a parliamentary system such as in Great Britain, the key political leader, the prime minister, is not directly elected. In a presidential model such as in the United States, the president is popularly elected. China's institutional setup is a parliamentary system. In this system, the premier is nominated by the president and elected by the National People's Congress. It is conceivable that China would improve its congress system by allowing direct elections of its deputies to the National People's Congress.³⁹

China's model of democracy, therefore, could have the following characteristics. First, it may be a parliamentary system. Second, candidates

from multiple parties should be allowed to compete for seats in the National People's Congress. Third, voters in different constituencies would directly decide candidates for seats in the NPC through secret ballot.

China's NPC system has two distinctive features. First, the number of deputies is very large. The numbers of NPC deputies range from 1,226 in the First Congress to 3,497 in the Fifth Congress (Appendix Table 1). Currently, there are altogether 2,985 deputies in the Eleventh National People's Congress from 35 electoral units (constituencies) (Appendix Table 2).

This is the largest congress in the world. It is 4.5 times as large as the House of Commons of the United Kingdom, which has 646 members; 5.3 times as large as the lower house of India's parliament (the Lok Sabha), which has 545 members; and 6.7 times as large as the House of Representatives of the United States, which has 435 members.

The reason why there are so many NPC deputies is that China is a country with a large population of multiple nationalities and a large territory.⁴⁰ Although the NPC has the largest number of deputies in absolute numbers in the world, it does not necessarily have the largest number of deputies in proportion to the population. Per million people, the NPC has only 2.3 deputies while the House of Commons of the United Kingdom has 10.6 MPs. If we add MPs from the House of Lords, which are 743, to the Parliament, the rate goes up to 22.8 MPs per million. This is because there are altogether 1,389 members of the Parliament in the United Kingdom and there are only 60,975,000 people in the country.

In other words, the NPC has to have many deputies to have sufficient representation of the underlying population. Yet, on the per-million basis, there are too few NPC deputies. Anhui's population, for instance, is 62 million, larger than that of the United Kingdom. But it has only 114 NPC deputies. Hunan, Hebei, Jiangsu, Guangdong, Sichuan, Shandong, and Henan all have larger populations than UK, but none of them has more than 170 NPC deputies.

The second feature of the NPC is that the NPC sessions are usually very short. The NPC meets once a year, for only five to 26 days (Appendix Table 3). In contrast, the U.S. Congress meets for nine and a half months a year; France's Parliament meets for nine months a year; the National Diet of Japan meets for 150 days a year; and even the Belgian Federal Parliament meets once a year for 40 days.⁴¹

The reason why NPC sessions are usually short is because the NPC has too many deputies and many of these deputies have their own jobs. It is not realistic to ask a congress of almost 3,000 people to meet for six months or longer. For this reason, a standing organ of the NPC is necessary. Therefore, the NPC sets up a standing committee of about 170 members. According to Article 57 of the PRC Constitution, the NPC is the highest organ of state

power and its permanent body is the Standing committee of the NPC. The NPC Standing Committee exercises a broad range of powers and meets twice a month, for seven days each. The Standing Committee of the Eleventh NPC is composed of 174 members, including one chairman (Wu Bangguo), 13 vice chairmen, and 160 standing members.⁴²

To establish a parliamentary democracy, China will have to first establish a rule of law. The Chinese Communist Party organizations should gradually phase out from the daily operations of the government.

4. Concluding Remarks

It is wrong to evaluate the legitimacy of the CCP rule by relying solely on “expert” opinions of the Western academia and media because they are in no position to judge whether the CCP has right to rule or not. To assess the legitimacy of any political regime, we need to see whether such a regime is receptive to the governed. From this perspective, the CCP has no legitimacy crisis. It has been recognized as legitimate internationally as well as by the people of China.

Moreover, the CCP leaders and their policies in fact are better received by the Chinese people than their counterparts in Western democracies. More than nine out of ten people (93 per cent) in China consider President Hu Jintao a trustworthy world leader, while less than fifty per cent of the people in the United Kingdom, France, and the United States have any confidence in their respective leaders (Gordon Brown, Nicolas Sarkozy, and George W. Bush) to do the right thing regarding world affairs. The majority of the Chinese people (86 per cent) are satisfied with the way things are going in China, but in most major democracies no more than 35 per cent of the people are satisfied with their country’s direction. Most amazingly, the Americans have mostly lost confidence in their democratic institutions. They have more confidence in the public schools than in the U.S. Supreme Court; more confidence in banks than the presidency; and more confidence in health maintenance organizations (HMOs) than in Congress. The only 12 per cent of the people have any confidence in Congress, in contrast to 71 per cent in the military.

China’s political system has three distinctive features. First, its legislature is neither unicameral nor bicameral. The National People’s Congress is the highest organ of state power, and the CPPCC serves as an advisory body for the NPC. Second, China is a federal state in form and a unitary state in essence. The NPC has no statutory power over provincial-level people’s congresses but the Central Committee of the CCP can manage provincial leaders at will. Third, China is a party-state. As the largest party in the world, the CCP has dominated the NPC, the State Council, and the military. The CCP

is able to maintain its monopoly over power partly because of its economic performance of the past three decades.

There are three arguments against democratization. The first is that democracy, i.e., Western liberal democracy, does not fit China. The argument is that Western democracies are not replicable because of their unique historical circumstances; that democratization in non-Western societies has often produced some undesirable consequences; and that Western multi-party system is particularly unfit for China because of money politics and polarization of social groups.

The second argument against democratization in China is that China is not ready for democracy at this stage of development for three reasons. First, the United States may intervene in China's domestic affairs by exploiting political divisions as a result of democratization. Second, China may miss the opportunity for further development. Third, democratization in China may result in chaos.

The third argument against Western-style democracy in China is that China has already established a democracy with Chinese characteristics. The China's model of democracy has four characteristics. First, it recognizes the sovereignty of the people. Second, the China's model of democracy is one of representation, a more democratic system than the system of delegation. Third, the China's model of democracy is composed of democratic mechanisms for both the CCP and the PRC. Fourth, China has also experimented with various forms of democracy. Since China already has a system of democracy, therefore, there is no need for democratization.

According to a well-received definition introduced by Robert Dahl, democracy refers to both contestation and participation. Politicians compete for vote by citizens. In this sense, the current political system in China is not fully democratized. There are elections but not general elections. There are competitions for offices but not from different political parties.

Historically, contestation for power is more of a norm than an exception in China. Yet competing parties are often competing with armed forces. In the 1920s, territorially based military warlords competed for political power in China. In the 1940s, two major political parties competed for power with military forces. As long as the armed forces in China are the army of the Party instead of the army of the state, it will not only be difficult but also dangerous to contemplate multi-party competition. Until the CCP gives up its monopoly over the military and security apparatus, it is unlikely that genuine political contestation will take place in China.

From this perspective, we may object the third argument, i.e., China has already established a democratic system of sort. We can also object the first argument that democracy does not fit China. For China has experimented with democratization at the grassroots level for more than two decades. There is

no reason why similar experiments can not be implemented at higher levels. The second argument seems more convincing. As a major country with the largest population in the world going through major social and economic transformations, a strong polity is required.

In the meantime, however, China's political system can be gradually modified to be more democratic. In the future, a parliamentary democracy should be established in China with the following features. First, a rule of law should be established. Second, the Chinese Communist Party should phase out from the daily operations of the government. Third, candidates from different political parties should be allowed to compete for seats on the NPC. Fourth, voters should be allowed to directly elect deputies to the NPC. Ultimately, political reform should not be for the reform's sake. Nor should it be used to please foreign governments, scholars, and journalists. Political reform, including democratization, should improve the performance of the political system to better serve the interests of the people.

Appendix Table 1

Number of Deputies to National People's Congresses

Congress	Year	Total No. of Deputies	Female Deputies	Minority Deputies	(person) % to Total Deputies	
					Female Deputies	Minority Deputies
First Congress	1954	1226	147	178	12.0	14.5
Second Congress	1959	1226	150	179	12.2	14.6
Third Congress	1964	3040	542	372	17.8	12.2
Fourth Congress	1975	2885	653	270	22.6	9.4
Fifth Congress	1978	3497	742	381	21.2	10.9
Sixth Congress	1983	2978	632	403	21.2	13.5
Seventh Congress	1988	2978	634	445	21.3	14.9
Eighth Congress	1993	2978	626	439	21.0	14.8
Ninth Congress	1998	2979	650	428	21.8	14.4
Tenth Congress	2002	2985	604	414	20.2	13.9
Eleventh Congress	2007	2985	637	411	21.3	13.8

Sources: <http://www.stats.gov.cn/tjsj/ndsj/yb2004-c/html/W2301ae.xls>
<http://china.yinet.com/view.jsp?oid=28296467>
http://www.zibo.gov.cn/art/2008/3/14/art_1484_10141.html

Appendix Table 2
Deputies to the National People's Congress of the
People's Republic of China (2009)

Province*	Deputies	Population (2004)	Rate**
Beijing	58	14,927,000	3.9
Tianjin	45	10,236,700	4.4
Hebei	122	68,090,000	1.8
Shanxi	70	33,350,700	2.1
Inner Mongolia	59	23,844,000	2.5
Liaoning	110	42,170,000	2.6
Jilin	68	26,619,000	2.6
Heilongjiang	103	38,168,000	2.7
Shanghai	64	13,523,900	4.7
Jiangsu	157	74,325,000	2.1
Zhejiang	91	47,195,700	1.9
Anhui	114	62,280,000	1.8
Fujian	61	35,110,000	1.7
Jiangxi	80	42,835,700	1.9
Shandong	181	91,630,000	2.0
Henan	166	97,170,000	1.7
Hubei	124	60,161,000	2.1
Hunan	118	66,977,000	1.8
Guangdong	159	78,047,500	2.0
Guangxi	88	48,890,000	1.8
Hainan	19	8,178,300	2.3
Chongqing	61	31,442,300	1.9
Sichuan	147	85,953,000	1.7
Guizhou	66	39,037,000	1.7
Yunnan	91	44,152,000	2.1
Tibet	20	2,634,400	7.6
Shaanxi	67	37,050,000	1.8
Gansu	48	26,190,000	1.8
Qinghai	21	5,390,000	3.9
Ningxia	19	5,877,100	3.2
Xinjiang	60	19,631,100	3.1
Hong Kong	36	6,883,000	5.2
Macao	12	457,000	26.3
Taiwan	13	22,689,000	0.6
People's Liberation Army	268		
Total	2985	1,311,115,400	2.3

Note: * This refers to provinces, centrally administered cities, autonomous regions, and special administrative regions.

** Rate refers to the number of deputies per million people.

Source: http://news.xinhuanet.com/ziliao/2008-03/03/content_7708230.htm

Appendix Table 3
National People's Congress Sessions

	First Session	Second Session	Third Session	Fourth Session	Fifth Session
First NPC	14	26	16	11	
Second NPC	11	12	21	17	
Third NPC	15				
Fourth NPC	5				
Fifth NPC	8	14	12	14	15
Sixth NPC	16	17	15	19	18
Seventh NPC	20	16	16	16	14
Eighth NPC	17	13	14	13	15
Ninth NPC	15	12	11	11	11
Tenth NPC	14	10	10	10	12
Eleventh NPC	14	9			

Source: http://news.xinhuanet.com/ziliao/2004-11/15/content_2221419.htm

Notes

1. For a survey of the issue of legitimacy in East and Southeast Asia, see White (ed.) (2005).
2. For a survey of the literature on the CCP's legitimacy crisis, see Schubert (2008).
3. <http://www.systemicpeace.org/polity/usa2.htm>
4. <http://www.systemicpeace.org/polity/chn2.htm>
5. <http://freedomhouse.org/template.cfm?page=22&year=2008&country=7372>
6. http://www.transparency.org/news_room/in_focus/2008/cpi2008/cpi_2008_table
7. <http://www.china-embassy.org/eng/fyrth/t328655.htm>
8. http://news.xinhuanet.com/newscenter/2009-01/23/content_10709632_1.htm
9. For details, see http://www.worldpublicopinion.org/pipa/articles/views_on_countriesregions_bt/488.php?lb=brglm&pnt=488&nid=&id=
10. For details, see "Some Positive Signs for U.S. Image: Global Economic Gloom – China and India Notable Exceptions", *The Pew Global Attitudes Project*, 12th June 2008. <<http://pewglobal.org/reports/pdf/260.pdf>>
11. Jeffery M. Jones, "Confidence in Congress: Lowest Ever Any U.S. Institution", *Gallup*, 20th June 2008. <<http://www.gallup.com/poll/108142/Confidence-Congress-Lowest-Ever-Any-US-Institution.aspx>>
12. <http://china.zjol.com.cn/05china/system/2009/02/26/015289283.shtml>
13. <http://china.zjol.com.cn/05china/system/2009/02/26/015289283.shtml>
14. For a complete text in Chinese, see http://www.chinaorg.cn/zcfg/01_fl/2007-05/22/content_5013426.htm

15. For details, see Bo (2004).
16. For a study of the Chinese Communist Party in comparative terms, see Shambaugh (2008).
17. http://news.xinhuanet.com/politics/2007-10/08/content_6845380.htm
18. For a detailed analysis of the Seventeenth Central Committee of the CCP, see Bo (2009).
19. In addition to these arguments against democratization in China, there are also concerns that democracies may underperform. Bryan Caplan, for instance, finds it baffling that democracy is supposed to be a bulwark against socially harmful policies, but in practice it gives them a safe harbour. For details, see Caplan (2007). Of course, the author is not arguing against democratization. He simply points out the failures of democracy and explains the causes for these failures.
20. A Chinese blogger has developed a parody, saying that democracy does not fit the United States. In this blog, the blogger argues that although democracy is a good system, it does not fit the United States for three reasons. First, the history of the United States is too short to be suitable for democracy. Second, American culture is too individualistic to be suitable for democracy. Third, the population of the United States is too large to be suitable for democracy. For details, see “论美国不适合实行民主制”. <<http://cnmpq.com/html/33/1/1067/1.htm>>
21. Deng Xiaoping, “Take a Clear-Cut Stand against Bourgeois Liberalization” (30th December 1986), *Selected Works of Deng Xiaoping*, Vol. 3, Beijing: Renmin Chubanshe, 1993, p. 195 (English translation, <http://web.peopledaily.com.cn/english/dengxp/vol3/text/c1630.html>).
22. Jiang Zemin, “The Goal of Political Reform Is to Perfect Socialist Political System” (2nd April 2001), *Selected Works of Jiang Zemin*, Vol. 3, Beijing: Renmin Chubanshe, 2006, p. 236.
23. Hu Jintao, “Speech at the Grand Rally of People from All Walks of Life Marking the Fifty-fifth Anniversary of the Founding of the Chinese People’s Political Consultative Conference (CPPCC)” (21st September 2004), *Remin Ribao*, 22nd September 2004, p. 2.
24. http://news.xinhuanet.com/video/2009-03/09/content_10974257.htm
25. Song Luzheng, “我为什么认为民主不适合中国—兼与颜昌海先生商榷”, 27th January 2009. <<http://blog.ifeng.com/article/2099462.html>>
26. Huashan Menghu, “西方式民主不是普世价值并不适合中国，中国式民主亦应大力完善和推进” <http://military.club.china.com/data/thread/1011/2540/36/66/9_1.html>; and Song Luzheng, “2008年：西方民主一元化阶段的终结” <http://www.zaobao.com/special/forum/pages6/forum_us081229a.shtml>. One blogger even “argued” against democratization in the United States. See “论美国不适合实行民主制,” 22nd June 2007 <<http://cnmpq.com/html/33/1/1067/1.htm>>.
27. Fang Ning, “我国决不能搞西方的多党制”, 9th February 2009. <<http://theory.people.com.cn/GB/40557/83676/142457/8767191.html>>
28. Wang Qiang, “‘中国式的民主’路在何方？-- 访中国社会科学院政治学研究所副所长房宁”. <<http://news.sohu.com/20070524/n250195708.shtml>>
29. “中国现阶段不适合实行民主制度”, 1st May 2007. <<http://ido.thethirdmedia.com/article/frame.aspx?url=http%3a//ido.3mt.com.cn/article/200705/show710861c30p1.ibod&rurl=&title=%u4E2D%u56FD%u73B0%u9636%u6B>>

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30. The difference between the two is not clear. A blogger has developed a sarcastic parody to describe the contrast between the *daiyi zhi* and the *daibiao zhi*:

“资产阶级专政的国家普遍采用的是代议制，无产阶级专政的国家普遍采用的是代表制，两者有着本质的区别。具体的不同，闲人想到了五个。

1. 代议制是公民选举，代表制是代表选举。
2. 代议制是募捐选举，代表制是拨款选举。
3. 代议制是普遍选举，代表制是内部选举。
4. 代议制是虚伪民主，代表制是人民民主。
5. 代议制是先选后定，代表制是先定后选。

可能还有其它，请各位补充。”

These can be translated as follows: “Countries of capitalist dictatorship commonly adopt a system of delegation, and countries of proletarian dictatorship usually adopt a system of representation. The two have fundamental differences. Specifically, I can think of five differences. First, the system of delegation is vote by citizens; and the system of representation is vote by representatives. Second, in the system of delegation funds for election have to be raised; and in the system of representation funds for election are allocated. Third, the system of delegation is general election; and the system of representation is internal election. Fourth, the system of delegation is fake democracy; and the system of representation is people’s democracy. Fifth, in the system of delegation there is an election before decision; and in the system of representation decision precedes election. There may be others, you are welcome to add them on.” <<http://home.cyou.com/html/77/174477-10465.html>>

31. Liu Xirui, “中國的民主模式已經確立”, 25th April 2007. <<http://politics.people.com.cn/BIG5/30178/5664377.html#>>
32. See also Schumpeter (1954). According to Schumpeter, democracy is a method by which politicians compete for votes and elected officials make decisions on behalf of the electorate.
33. For details, see Bo (2007: 359-364).
34. David Shambaugh argues that the PLA is becoming more autonomous from the CCP under the fourth generation leadership. For details, see Shambaugh (2004).
35. http://en.wikipedia.org/wiki/List_of_political_parties_in_Hong_Kong
36. http://en.wikipedia.org/wiki/List_of_political_parties_in_Macau
37. http://en.wikipedia.org/wiki/List_of_political_parties_of_the_Republic_of_China. The 147th party in Taiwan is the Communist Party of the Republic of China established by Chen Tianfu, a cousin of Chen Shuibian (former president of the Republic of China). <http://www.dwnnews.com/gb/MainNews/Forums/BackStage/2009_4_6_18_5_18_31.html>
38. For details, see Bo (2008).
39. For a list of suggestions, see Nathan (2006).

40. <http://www.people.com.cn/GB/14576/28320/35193/35194/2649738.html>
41. For a list of 45 parliaments with the length of their respective sessions a year, see Cai (1992), Appendix 11, pp. 344-345.
42. For a detailed list, see http://news.xinhuanet.com/ziliao/2008-03/12/content_7781570_1.htm

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Why China Needs to Build Shanghai into an International Financial Centre?

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Abstract

After China adopted the open-door policy in 1978, Shanghai began to embark on a revival process to become China's economic and financial hub. The directive to turn Shanghai into an international financial centre is timely as it came at a time when China is assuming a leading role in the global economic landscape. China is becoming bolder in the internationalization of its currency and is actively exploring means to reduce its dependency on the US dollar. It is a strategic move by the Chinese Government to identify Shanghai as China's financial centre in order to prepare the country for the post-financial crisis era.

However, Shanghai has to overcome a number of challenges. The first, in China today the government still plays important role in the economy. Most of the headquarters of China's national and foreign banks as well as MNCs and local enterprises all prefer to be located in Beijing so that they can be nearer to the policymakers and regulatory commissions. Therefore, further financial reform and reduction of government intervention are the most important conditions for Shanghai's international financial centre status.

The second challenge is: Shanghai has to find a way to accommodate the ambition of other Chinese cities in becoming financial centres, such as Tianjin, Shenzhen, Guangzhou, Chongqing, Dalian and others.

The third challenge is: Shanghai still has a lot to do in order shore up its current financial infrastructure. The most important step is to allow the convertibility of the yuan and allow the Chinese currency to be traded on the foreign exchange. China can relax the existing regulatory financial

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mechanisms and allow more foreign companies to be listed in the QFII and local investors and enterprises in the QDII. China should also establish more financial products for investors. Authorities from the central government should also work with Shanghai officials in areas such as improving the efficiency and transparency of the city's legal and accounting system in the financial sector as well as introducing incentives to attract financial talents to Shanghai.

Hong Kong is able to provide invaluable lessons for Shanghai to develop its financial sector especially in areas such as liberalizing its capital market and improving its legal system. While these may indicate that Shanghai and Hong Kong could compliment each other, it could change in the coming years especially after China's efforts to liberalize its financial sector and improve its financial governance gather steam.

Keywords: *international financial centre; US dollar trap; financial reform; convertibility*

1. Introduction

When Deng Xiaoping made his famous Southern Tour in 1991 he pointed out to Shanghai officials that Shanghai had been an important international financial centre before and could regain its financial status again in the future.

After eighteen years in March 2009, China's State Council announced an ambitious plan of turning Shanghai into a major international financial centre, on par with Hong Kong, Singapore, New York and London, by 2020. The State Council's announcement is significant as it marked for the first time a concrete national-level backing and recognition of the city's status as a financial hub. Prior to then, Shanghai was only functioning as China's *de facto* financial hub and has recently been jostling this position with Beijing.

The questions we need to discuss in this paper are: What is the specific target for Shanghai as China's international financial centre from the Chinese government's point of view? What has been achieved in Shanghai? Why does the Chinese government make this announcement now? Could Shanghai get this target? What are the main challenges?

2. What is the Target for Shanghai as an International Financial Centre?

There have been many cities in East Asia that serve as the International Financial Centres such as Hong Kong, Singapore, Tokyo, Seoul, and others. They do not just compete with each other, but also compete with many

financial centres outside the region such as New York and London, and inside the region such as Shanghai and others.

Since 1978 Hong Kong has served China as an International Financial Centre. Many foreign investments went into China via Hong Kong. Many of China's large SOEs have been listed in the HK stock market or financed from the HK bond market or money market. Owing to China's fast growing in 2009 HK Stock Exchange was No. 1 in the world for the raised capital through IPO. Then, the question for us is that why in 2009 the Chinese government needs to announce to build Shanghai as China's International Financial Centre in 2020?

As stated by Liu Tienan, Vice-Minister of the National Development and Reform Commission (NDRC), the reason why the State Council gave its official endorsement is simply because the city is the "most qualified metropolitan city on the Chinese mainland to pursue the ambition".

As shown in the guidelines accompanying the State Council's decision, the process to build Shanghai into an international financial hub encompasses features such as advocating the use of yuan for international trade settlement, developing private equity and developing a re-insurance market, and encouraging overseas enterprises to issue yuan-denominated bonds in China (Table 1).

Table 1 Key Measures to Support Shanghai's Development as a Financial Hub

Key Measures
1 Conduct trade settlement in yuan on trial basis
2 Fully tap the financial market in Shanghai in terms of clearing in yuan
3 Develop over-the-counter markets for non-listed companies in the Yangtze River Delta
4 Study a mechanism to help companies traded on the OTC markets to be transferred to the main stock boards
5 Develop pension products that offer tax breaks to encourage people to pay into pensions
6 Encourage more international development institutions to issue yuan-denominated bonds
7 Study plans to allow overseas enterprises to issue yuan-denominated bonds in China
8 To allow qualified overseas companies to issue yuan-denominated shares
9 Step up development of the re-insurance market
10 Give priority in terms of business expansion to securities and fund-management joint ventures
11 Encourage financial institutions to cover a wider range of businesses
12 Encourage the development of private equity and venture capital companies

Source: *China Daily*.

From these measures and statements it is very clear that the most important target for Shanghai in 2020 is being the centre for the RMB transaction in the world for trade settlement and equity investment.

Besides, the State Council also called for the city to step up efforts to shore up its soft infrastructure. These include introducing initiatives such as providing incentives and measures to attract and train financial talents. It also requires banks in China to provide sophisticated investment products, creating a more transparent and independent legal system and promulgating favourable tax policies to attract financial companies. These are basic conditions for all financial centres.

3. How Suitable is Shanghai as an International Financial Centre?

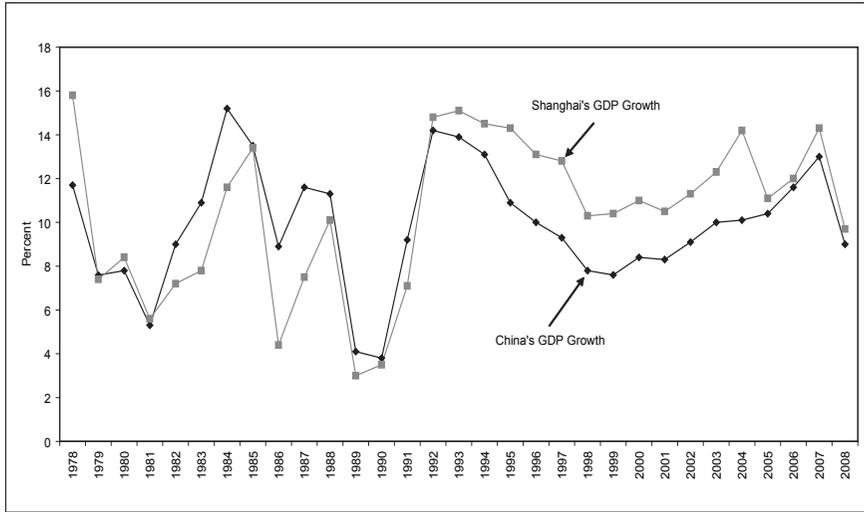
Historically, Shanghai has always been a centre for trade and commerce especially after its establishment as a treaty port in the mid-19th century. By the 1920s and 1930s, the city has flourished to become one of the world's major cities and an important entrepot. Consequently, this also led to the growth of Shanghai's financial sector. However, the city's progress as an economic and financial hub was interrupted and overshadowed by Hong Kong after 1949.

After China adopted the open-door policy in 1978, Shanghai began to embark on a revival process to become China's economic and financial hub. This process was consolidated and gathered speed after Deng Xiaoping initiated the Pudong New Area Project in his *nanxun* (southern tour) in 1992. Thereafter, Shanghai experienced a period of spectacular economic growth that lasted until the present. As Figure 1 shows, Shanghai's GDP has been growing double-digit for most years since 1992.

Shanghai's revival also took place on a different course that is different from most Chinese cities. Instead of focusing on the growth of the manufacturing sector as seen in cities such as Shenzhen, Tianjin and Beijing, Shanghai's economy was powered by the service sector. As seen in Figure 2, Shanghai's service sector contributed to nearly 55 per cent of the city's GDP in 2007. It also absorbed about 55 per cent of the city's labour force in the same year.

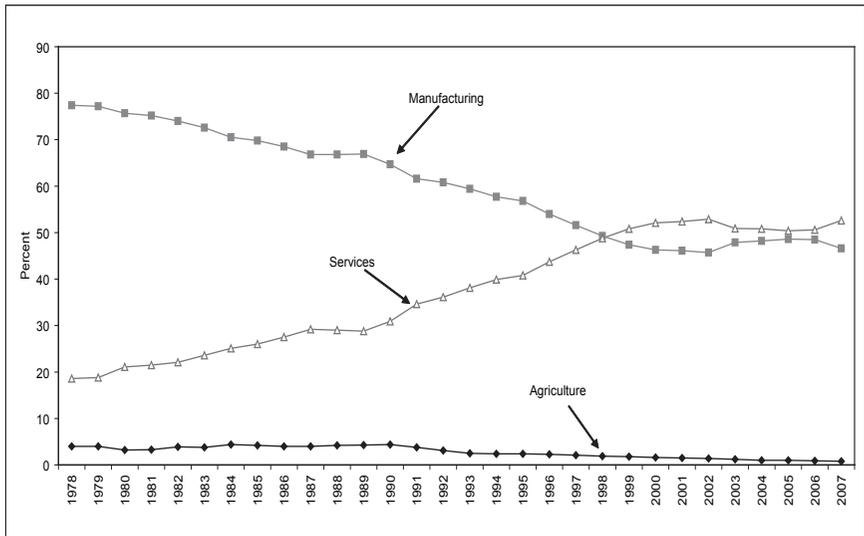
In this sense, it is no surprise that Shanghai has a relatively complete financial sector. In 2007, Shanghai's financial industry generated an added value of about 144 billion yuan (US\$21 billion). This is an increase of about 15 per cent from the previous year and about 10 per cent of Shanghai's total GDP in 2007 (Figure 3). As at the end of 2008, there were a total of 689 financial institutions in the city. Of that, 124 were commercial banks, 291 were insurance companies and the remaining 94 were securities companies. Of the total, 165 were foreign banks (Lan, 2009).

Figure 1 Shanghai's and China's GDP Growth, 1978-2008



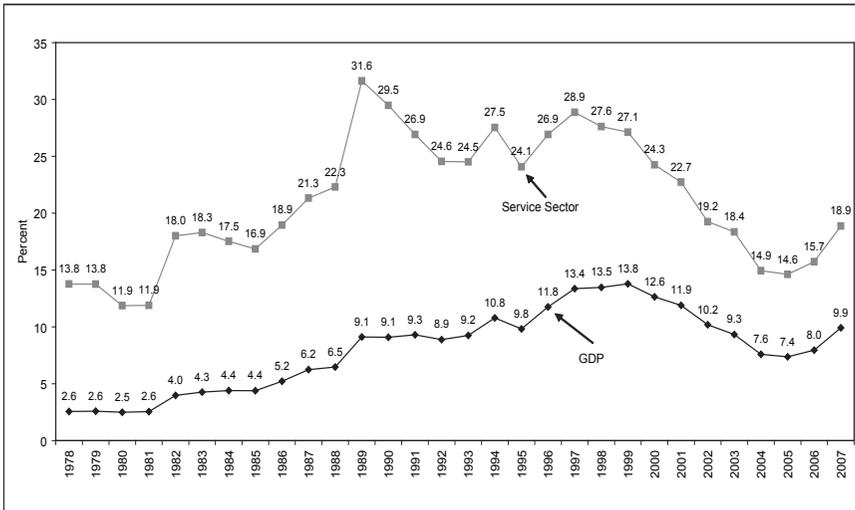
Source: *China Statistical Yearbook*, various issues; *Shanghai Statistical Yearbook*, various issues.

Figure 2 Components of Shanghai's GDP, 1978-2007



Source: *Shanghai Statistical Yearbook*, various issues.

Figure 3 Percentage Share of Financial Sector in Shanghai's Total GDP and Service Sector, 1978-2007



Source: *Shanghai Statistical Yearbook*, various issues.

Shanghai is also home to the Shanghai stock exchange (SSE). As at the end of 2008, the SSE had 864 listed companies with a combined capitalization of RMB\$9.7 trillion and raised capital of RMB223.8 billion. This made the Chinese benchmark the world's sixth largest stock index in terms of market capitalization and capital raised. The trade volume amounted to RMB18.0 trillion and ranked the No. 7 in the world and the No. 2 in Asia.

Since it was set up in 1990, trading within the SSE has gradually been liberalized to allow the inflow of foreign funds and yuan-denominated trading. For instance, the SSE introduced the Qualified Foreign Institution Investor (QFII) programme in 2003 and the Qualified Domestic Institutional Investor (QDII) programme in 2006.¹ The QFII allowed foreign investors to buy yuan-denominated shares in the SSE, while the QDII allowed domestic financial institutions to invest in shares in offshore markets. These measures are seen as milestones as China's capital market has always been heavily regulated by the central government since it adopted the open-door policy.

Presently, 30 fund management companies are located in Shanghai and manage RMB721 billion assets, 37.1 per cent of the total in China. Six insurance assets management companies are located in Shanghai and manage about RMB1 trillion assets, 46 per cent of the total in China. Other kinds of securities investment funds, QFII, QDII and private bankings are mainly concentrated in Shanghai as well. By the end of 2008, Shanghai has 10 private

banking institutions. Due to the rapid accumulation of Chinese wealth and the continuously increasing enthusiasm of international capital into China, capital assets management business will continue to grow rapidly.

In addition to the stock exchange, Shanghai has also introduced a number of financial institutions since 1990. These include bond market, money market, exchange market, commodity future market, financial future market, gold market, property exchange market and OTC derivatives market (see Table 2).

In 2008 the trading volume of caoutchouc future amounted to RMB9.3 trillion in Shanghai Future Exchange, ranked No.1 in the world. The trading volume of copper futures amounted to RMB9.9 trillion, No. 2 in the world.

Table 2 Financial Institutions in Shanghai since 1990

Institutions	Content	Founding Year	Status or Scale
Shanghai Securities Exchange	Main, capital market (equity, bonds)	1990	80 per cent of total trading turnover in China
Foreign exchange trading centre	Foreign exchange	1994	Head office of national trading market
Inter-bank loan centre	Money market	1996	National centre for interbank trading
RMB bond trading centre	Money market	1997	National centre for bond trading
Shanghai Futures Exchange	Rubber, copper, aluminium and fuel oil	1999	60 per cent of futures trading volume of all China
Shanghai Gold Exchange	Gold market	2002	The only gold market
Note market service centre	Provide note transaction information and service	2003	Principal note pricing system in China
Shanghai Petroleum market	Futures transactions	2006	The only petroleum market in China
China Financial Futures Exchange	Financial derivative transactions	2006	The only derivative market in China

Source: Young *et al.* (eds) (2009: 234).

And the trading volume of spot gold amounted to RMB869.6 billion in Shanghai Gold Exchange and also ranked No. 1 in the world.

However, in order to prepare Shanghai's progress into an international financial hub, the central government needs to do more to further liberalize China's capital market. Indeed, in June 2009, Beijing approved foreign companies to be listed in the SSE.² This is an unprecedented move and a huge step forward in liberalizing China's capital market as the policy will not only set the stage for the inflow of more foreign funds, but also allow foreign companies to raise capital in China.

4. Rationale of Turning Shanghai into an International Financial Centre

The directive to turn Shanghai into an international financial centre is timely as it came at a time when China is assuming a leading role in the global economic landscape. Indeed, China is set to replace Japan as the second largest economy in the world in the coming months. It is also the world's largest manufacturing base, the largest exporter, and also the biggest commodity importer. Besides, China holds 40 per cent (or around US\$2.4 trillion) of the world's foreign exchange reserves and is also the world's largest holder of US treasury bills. In addition, three of China's Big Four Banks have become the leading world banks in terms of market capitalization (see Appendix Table 1). More importantly, China is becoming bolder in the internationalization of its currency and is actively exploring means to reduce its dependency on the US dollar.

As the world is beginning to witness, the emergency actions taken by the global economies, particularly the United States, to free credit markets and boost demands are likely to bring a second round of inflation.³ In fact, signs of inflationary pressure could be seen with the recent spike of oil prices from about US\$40 per barrel in March 2009 to over US\$80 per barrel by the end of 2009 as well as the 30 per cent increase of raw material prices and the surge of gold futures to over US\$1,100 during the same period.

The imminent arrival of a second round of inflation is no good news for the US dollar. Signs of a weakening dollar can already be seen with yields of the ten-year Treasury bill jumping from around two per cent at the end of 2008 to almost four per cent by early June 2009.⁴ Besides, exchange rates of the Euro as well as other international currencies have also strengthened considerably against the US dollar in 2009. As the global economy shows signs of life, there will be even more downward pressure on the US dollar as investors become less risk averse and do not need the dollar's security.

With this developing trend, there is now a possibility that China would be plunged into the "US dollar trap". Coined by Nobel laureate Paul Krugman in

his *New York Times* article, this concept is used to explain the massive value loss that China would face on its huge foreign reserve due to a depreciated US dollar (Krugman, 2009).

Beijing is aware of this developing trend and has come out with a number of ways to address it. For instance, in March 2009, Zhou Xiaochuan, governor of the People's Bank of China, called for the establishment of a super-sovereign reserve currency based on the existing special drawing rights to replace the US dollar (Yang and Chen, 2009). Furthermore, since December 2008, Beijing has concluded a series of swap currency agreements with its trading partners and experimented with the idea of conducting trade and investment activities using yuan and the respective partners' currency. To date, the People's Bank of China has arranged six bilateral currency swaps, totalling more than 650 billion yuan (US\$95 billion), with countries including Japan, South Korea, Malaysia, Hong Kong, Brazil and Argentina.⁵

The swap currency could be used for trade settlements between China and its trading partners. As a start, Shanghai, Shenzhen, Zhuhai, Dongguang and Nanning were chosen by the Chinese government to use RMB for trade settlements. The first swap currency agreement between China and Hong Kong which involved more than 440 companies would take effect in June 2009.⁶ The Chinese government is also planning to include the purchase of RMB financial products in the currency swap agreements.

However, establishing these non-US dollar denominated platforms would not be possible if the Chinese yuan remains nonconvertible and foreign capital flows are still heavily restricted. Furthermore, there will be even more shortcomings if there isn't any base for foreign traders or investors to get a foothold on China's financial market. Therefore, it is a strategic move by the State Council to identify Shanghai as China's financial centre in order to prepare the country for the post-financial crisis era.

5. Challenges Ahead

In order to fully become an international financial centre within the stipulated timeframe, Shanghai has to overcome a number of challenges. The first and the most important challenge is despite being designated as China's official financial centre, Shanghai still needs to wrest this position from competing with Beijing. In fact, Beijing's financial prowess is comparable to Shanghai. In 2007, Beijing's financial sector was worth 112.7 billion yuan (US\$16.1 billion), making up about 12.5 per cent of the city's GDP. Shanghai's financial sector, on the other hand, was worth around 119.6 billion yuan (US\$17.1 billion) or about 10 per cent of its GDP in the same year.⁷ In addition, Beijing is home to 677 financial institutions compared to Shanghai's 604 and most of

the headquarters of China's national and foreign banks are located in Beijing instead of Shanghai.

Largely, this is because in China today the government still plays an important role in the economy. For instance, government investment is the most important driving force for China's economy, the main source of bank deposit and the largest loan issuer. In addition, IPOs and the reissuing of shares are controlled by the China Securities Regulatory Commission in Beijing. As a result, most of the headquarters of China's national and foreign banks as well as MNCs and local enterprises all prefer to be located in Beijing so that they can be nearer to the policymakers and regulatory commissions.

In fact, the market mechanism in financial resource allocation is the most important thing for a city with a comparative advantage to become an international financial centre. So, the further financial reform and reduction of the government intervention are the most important conditions for Shanghai's international financial centre's status. It is not an easy task, obviously, and could not be controlled by the Shanghai government.

However, compared with Shanghai, Beijing does not have an institutionalized stock market, money market, currency market and future market. Its financial infrastructure is less established. For instance, it does not have a stock exchange or gold and futures exchanges. This gives Shanghai the edge to function as China's main financial centre.

The second challenge is Shanghai has to find a way to accommodate the ambition of other Chinese cities in becoming financial centres. In the years ahead, Shanghai is bound to face more competition from other Chinese cities as they try to build up their service sector. In fact, Tianjin, Shenzhen, Guangzhou, Chongqing, Dalian have recently announced that they will be adopting this development strategy. To accommodate this development trend, Shanghai can start by working with these cities to create a win-win situation. One suggestion is to have Shanghai to position itself as the main financial centre in China and the competing cities to be regional financial centres. For instance, Beijing and Tianjin can provide financial support to the northern areas while Shenzhen can be the financial centre of the Pearl River Delta region.

The third challenge is Shanghai still has a lot to do in order shore up its current financial infrastructure. Although Shanghai has a better financial platform compared to its city rivals in China, it is still not up to international standards. According to the latest Global Financial Centres Index (GFCI) which ranks the competitiveness of financial centres across the globe, Shanghai is positioned at 35 out of the total of 62 centres in 2008, one place worse than the previous year (Table 3). On the other hand, the financial cities that Shanghai wants to emulate, namely London, New York, Hong Kong and Singapore, are among the top five.

Table 3 The Global Financial Centres Index 2007 and 2008 Ranking

Financial Centre	GFCI 2007 Ranking	GFCI 2008 Ranking
London	1	1
New York	2	2
Singapore	3	3
Hong Kong	4	4
Zurich	5	5
Geneva	6	6
Chicago	9	7
Frankfurt	8	8
Boston	7	9
Dublin	13	10
Shanghai	34	35
Beijing	47	5
Budapest	59	62

Source: *The Global Financial Centres Index 5*.

The reason why Shanghai fared that badly is simply because the city could not offer the business environment that makes it accessible and competitive. To a large extent, this is due to high level of restrictions in the city's financial sector. This includes the strict capital control and regulatory environment as well as the ineffective taxation policies on companies. In addition, Shanghai is also lacking in terms of having an efficient legal and accounting system and in attracting and retaining financial services professionals (Yeandle *et al.*, 2009: 22-23).

To deal with this problem, China can start by stepping up efforts to liberalize the nation's capital market. Among the most important steps is to allow the convertibility of the yuan and allow the Chinese currency to be traded on the foreign exchange. This would not be easy as government interventions and initiatives take precedent over market mechanisms in China. Nonetheless, China's policymakers have to overcome this tradition in order to successfully turn Shanghai into an international financial centre.

Another step that China can take is to relax the existing regulatory financial mechanisms such as the QFII and QDII programmes. China's administrators could first increase the investment quota and allow more foreign companies to be listed in the QFII and local investors and enterprises in the QDII. This would improve the platform for both foreign and local investors to invest directly in both overseas and domestic markets.

In addition, China should also establish more financial products for investors. Some of these include future markets and markets for bonds, derivatives and currency trade. Besides, authorities from the central government should also work with Shanghai officials in areas such as improving the efficiency and transparency of the city's legal and accounting system in the financial sector as well as introducing incentives to attract financial talents to Shanghai.

While it is important for Shanghai to develop its financial platform by expanding its modern financial services and products such as offering banking, international settlement, financing for merger and acquisition, insurance and asset management services and other sophisticated investment products, the city should also preserve some of the more traditional financial services. This includes providing services and incentives to help foreign and local companies to set up a regional headquarter in Shanghai where they can manage their production network in the area.

So far, Shanghai seems to be heading down this path by introducing measures such as allowing locally incorporated foreign banks to issue yuan-denominated bonds or to allow China-based foreign companies to be listed in the Shanghai stock exchange. There are also talks on the possibility for the State Administration of Foreign Exchange (SAFE) to increase to investment quota of the QFII programme so that more foreign funds could enter the Chinese financial market. While these are encouraging development, there is still a lot to be done. In fact, Chinese authorities should start considering abolishing these control measures completely at the national level so that funds can flow in and out of the financial market freely.

6. Hong Kong's Role in Shanghai's Ambition

The State Council's announcement to turn Shanghai into an international financial centre by 2020 has raised concerns in Hong Kong. According to reports, Hong Kong is worried that Shanghai's ambition would undermine the city's position as an international financial centre. To allay such fear, Shanghai's Party Secretary Yu Zhengsheng assured Hong Kongers that Shanghai is still lagging behind Hong Kong as a financial centre in many aspects.⁸ Furthermore, it is also likely that Shanghai will continue to function as a regional financial centre as the city continues to develop and liberalize its financial sector in the coming years.

As one of the world's leading financial centre, Hong Kong is also able to provide invaluable lessons for Shanghai to develop its financial sector especially in areas such as liberalizing its capital market and improving its legal system. In addition, Hong Kong could also help Shanghai to improve the latter's corporate and commercial infrastructure (see Appendix Table 2

for SWOT analysis of Hong Kong and Shanghai as international financial centre).

While these may indicate that Shanghai and Hong Kong could compliment each other, but it could change in the coming years especially after China's efforts to liberalize its financial sector and improve its financial governance gather steam. In addition, unlike Hong Kong, Shanghai has the added advantage of having a strong manufacturing base located in its own backyard: the Yangtze River Delta. Furthermore, Shanghai's manufacturing sector also has a high level of technology innovation capability, giving the city an advantage to attract value-added companies. The Chinese city also has a well-developed transportation and logistic sector. With a favourable financial environment, these could make Shanghai more suitable than Hong Kong to serve as a platform for companies to set up their headquarters to manage their production in the area. In fact, Premier Wen Jiabao warned Hong Kong to "raise its game or face decline" in the same month after the State Council's announced the directive to turn Shanghai into a financial centre.⁹ The news was chilling for Hong Kong especially its economy was badly hit by the current global financial crisis.

Nonetheless, Hong Kong could overcome Shanghai's challenge and turn it into a "win-win" situation by revising its traditional role as the gateway to China for investors. Some of the new roles that it could adopt may include providing consulting services to Chinese businesses seeking to expand overseas or as an education hub to train Mainland Chinese to become qualified financial and business professionals. This process is not something new as the city has adapted before as it went from selling plastic flowers to higher levels of manufacturing before reaching the present state of being a global financial capital.

7. Conclusion

International financial centres are the places where all sorts of international financial services and legal services such as underwriting, trading, dealing and brokerage of services are produced, sold and exported. Shanghai with almost all kinds of financial markets established in the last twenty years has obvious potential to be built as China's international financial centre.

However, there are two most important conditions: further financial reform (Shanghai really becomes the No. 1 financial centre in China, but not Beijing) and the full convertibility of RMB are totally dependent on Beijing's leaders, but not market. There is no doubt that China's economy is going to exceed Japan's and US's, and RMB will be internationalized, and Shanghai will be China's international financial centre, eventually. But, could it be completed in the next ten years? We need to watch it carefully.

Appendix Table 1
 Top 10 Biggest Banks in 2004 and 2009

Ranking	2004 Ranking		2008 Ranking	
	Banks	Market Value (US\$ billion)	Banks	Market Value (US\$ billion)
1	Citigroup	259	Industrial & Commercial Bank of China	252
2	HSBC	163	China Construction Bank	180
3	Bank of America	118	Bank of China	151
4	Wells Fargo	97	HSBC	140
5	RBS	89	JP Morgan Chase	125
6	UBS	86	Wells Fargo	110
7	JP Morgan Chase	85	Banco Santander	95
8	Mitsubishi Tokyo	63	Bank of America	85
9	Wachovia	61	Mitsubishi UFJ Financial	75
10	Bank One	60	BNP Paribas	74

Source: Young *et al.* (eds) (2009: xlvii).

Appendix Table 2

Swot Analysis of Hong Kong and Shanghai as International Financial Centre

HONG KONG	SHANGHAI
Strengths	Strengths
<ul style="list-style-type: none"> • High level of transparency of the government and its policies • Political and social stability • Equitable treatment of foreigners • Foreign exchange stability and abundant liquidity • Superb financial infrastructure • Minimal interference by financial supervisory/regulatory authority • Predictable legal environment • Workforce with good financial expertise and international experiences • English-speaking population • Regional headquarters for many global financial institutions, including investment banks 	<ul style="list-style-type: none"> • Very large economic power and abundant human resources • Large domestic capital market • Very good potential for continuation of high growth • Possess a large amount of domestic savings
Weaknesses	Weaknesses
<ul style="list-style-type: none"> • Limited local market size • Serious air pollution 	<ul style="list-style-type: none"> • Regulations hindering efficient functioning of the market mechanism • Limited openness to foreign investment • Slow internationalization of the capital markets • Soft financial infrastructure development lagging behind hard infrastructure development • Limited command of the English language among the local population
Opportunities	Opportunities
<ul style="list-style-type: none"> • Physical proximity with China • The role of a bridge connecting foreign companies to investors in China 	<ul style="list-style-type: none"> • Opening of the market to foreign firms and investors
Threats	Threats
<ul style="list-style-type: none"> • Competition with Shanghai as a financial centre 	<ul style="list-style-type: none"> • Competition with Hong Kong to become the main financial centre in China

Source: Young *et al.* (eds) (2009: 7, 15).

Notes

1. See Lu and Li (2007: 282-283) for more details on reforms carried out in the Shanghai Stock Exchange.
2. “Shanghai Stock Market Opens to Foreign Firms”, *Telegraph*, 1st May 2009.
3. “The Biggest Bill in History”, *The Economist*, 13th June 2009.
4. “This Way Out”, *The Economist*, 6th June 2009.
5. “BIS-China, Brazil Working on Trade FX Deal-cenbanks”, *Reuters*, 28th June 2009.
6. *The Straits Times*, 3rd July 2009, Singapore; *Xin Bao*, 30th June 2009, Hong Kong.
7. “Beijing’s Financial Dream”, *Beijing Review*, 24th May 2008.
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Interregional Comparative Analysis of China's Developmental Disparity

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Abstract

Since the launching of the market reform policies in the late 1970s, China has experienced rapid economic growth. However, the eastern region of China has since developed at a relatively more rapid rate than the rest of the country due to various factors like stronger economic foundation, better geographical location, preferential government policies and well-developed infrastructures. On the contrary, due mainly to historical and geographical factors, the development in western China is much slower. This has led to a huge gap between these two regions which will become even larger if the Chinese government does not take the effort to minimize it. This paper examines and analyzes the phenomenon of interregional disparities in China from various crucial perspectives. It looks at the root causes of the existence of such disparities and examines the State's policy response in the form of the "Western China Development" strategy in the context of building a "moderately well-off" society. Recognizing that China's rapid economic growth and expanding

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trade is not a purely economic phenomenon but a multidimensional one, this paper proceeds to evaluate the prospects of the eastern region and western region of China from a multidimensional perspective encompassing the political, social, economic and technological dimensions.

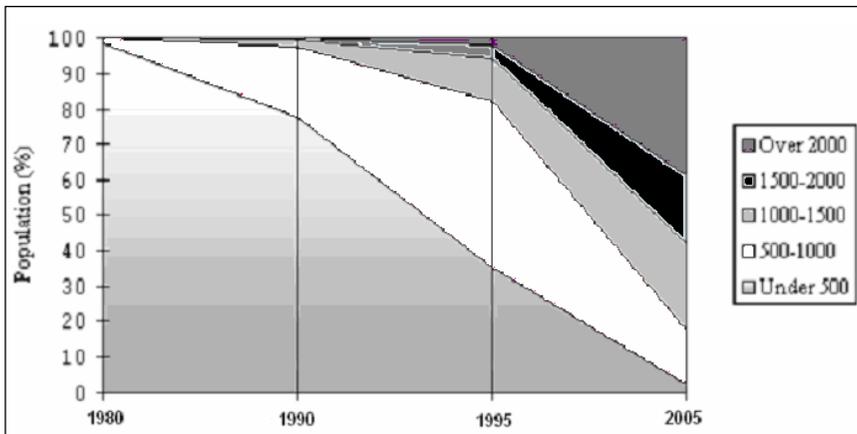
Keywords: regional development, interregional disparities, Western China Development strategy, “xiaokang” society, multidimensional perspective

1. Introduction

The central planning, command economy from 1940s to 1960s had reduced China to one of the poorest countries in the world. However, from 1980s to 1990s – the period that witnessed the ideological reforms in the USSR based on perestroika followed by the collapse of USSR – China began to open up for faster economic development. Continuous rapid growth in recent decades has since transformed China into a high-growth economic powerhouse that exports manufactured goods all over the world. China is now the world’s third largest economy in terms of Gross Domestic Product (GDP) and home to a growing number of local and transnational companies. Furthermore, China is no longer merely a technological follower but has become a manufacturing leader in some areas, most notably in electronics and basic manufactured goods. In terms of personal income, China’s remarkable transformation can be seen in Figures 1 and 2.

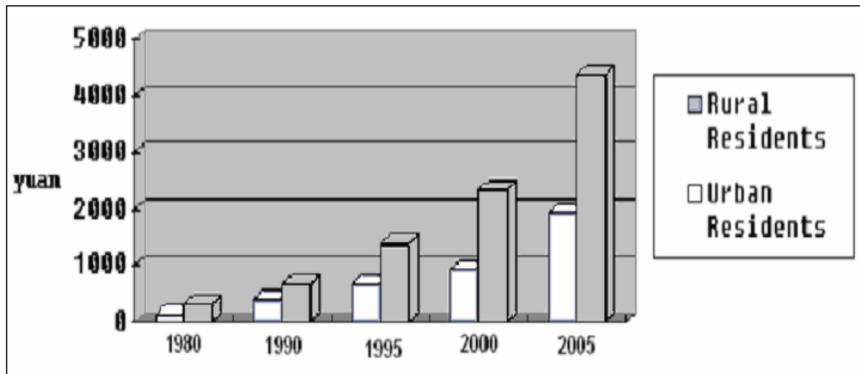
In the government document “Scientific Concept of Development and Harmonious Society” that formed *the* theme of China’s 17th National

Figure 1 China: Population Distribution by Income per Capita



Source: *China Statistical Yearbook*, 1980-2005.

Figure 2 China: Wage Income of Rural Residents v Urban Residents



Source: *China Statistical Yearbook*, 1980-2005.

Congress of the Communist Party, 2007 (15th–21st October 2007), it was reiterated that “[t]o coordinate development among different regions, we should promote the common development of all regions. Regional gaps are not only found between eastern China and western China, but also between provinces, autonomous regions and municipalities directly under the central government. This problem should be gradually addressed in the course of industrialization, urbanization and market development.”¹ While brief, this statement reflects the probably understated concern of the ruling regime of the People’s Republic of China over the widening gap in economic development between eastern and western China, between rural and urban population, and between different social strata. In spite of the astounding economic performance – nothing short of a miracle – over the past few decades, China is undeniably facing acute problems on various fronts. For instance, agriculture accounted for only about 14.6 per cent of China’s GDP in 2003 but 49.5 per cent of her labour force, while up to 59.5 per cent of the country’s total population is rural. This is in addition to the fact that only 13 per cent of China consists of arable land and the country has 40 per cent less arable land per capita than anywhere else in the world. Hence, with more people and less arable land in rural areas, the country has a lower comparative advantage in agriculture, and hence investments have been concentrated in the cities and industries and this has led to increasing rural-urban disparities in socioeconomic development and income distribution (Bi, 2005: 114), as well as the increasingly alarming socioeconomic disparity between the country’s eastern, coastal regions and the inland, especially western, regions.

This paper examines and analyzes the phenomenon of interregional disparities in China from various crucial perspectives. It looks at the root

causes of the existence of such disparities and examines the State's policy response in the form of the *Xibu Dakaiifa* (西部大开发) / "Western China Development"² strategy in the context of building a *xiaokang* (小康) / moderately well-off³ society. Recognizing that rapid economic growth and expanding trade of the People's Republic of China is not a purely economic phenomenon but a multidimensional one, this paper proceeds to evaluate the prospects of the eastern region and western region of China from a multidimensional perspective encompassing the political, social, economic and technological dimensions.

2. China's Regional Development and Disparities

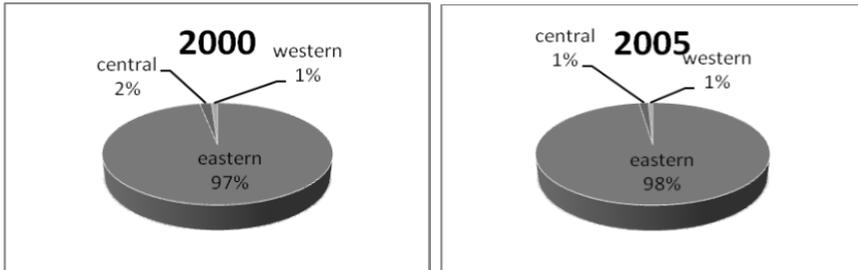
Since the establishment of the People's Republic in 1949, China has undergone a number of radical policy changes in regional development. China has adopted an equal growth strategy with the aim to help the "Third Front"⁴ in economic development during 1949 to 1972. However, China has begun to shift the priority from the inland region to the eastern region since 1973 (Liu and Liu, 2002: 15). Immediately after the adoption of economic reform and open-door policy, the Sixth Five-Year Plan (1981-1985) outlined the regional development that emphasized on comparative advantages (Chen, 2000). This shows that the government intended to have a balanced regional development in the early 1980s.

According to Démurger (2001), the distinct inequalities between the eastern, coastal region and the inland region was reflected in the growth of international trade. Guangdong is the province which derives the greatest benefit from this growth. This is mainly because of the introduction of the "open and reform" policy since 1978 that was initially established in Guangdong. As a result, the eastern region is much more export-oriented than the western and central regions. Moreover, the eastern region's share of total exports remains high as the figure increased from 97 per cent in 2000 to 98 per cent in 2005 as shown in Figure 3.

Besides international trade, the liberalization policy which successfully attracted FDI also has deep impact on regional disparity. Indeed, attracting FDI has been a pillar of China's policies to increase its openness to the world economy. Due to this open-door policy, China has become the largest recipient of FDI among developing countries, accounting for about 25 to 30 per cent of FDI flows to all developing countries (Graham and Wada, 2001).

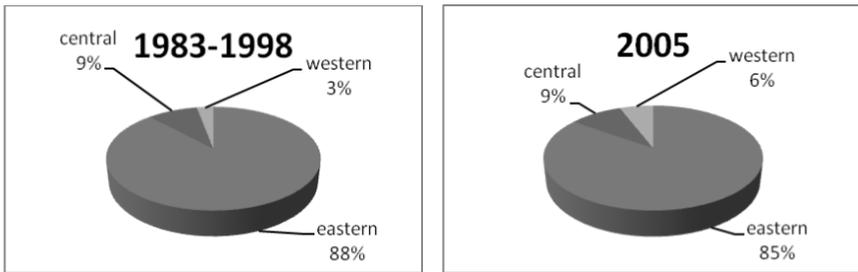
However, the geographical pattern of FDI in China shows that there is a huge disparity between different regions. The eastern region accounted for nearly 88 per cent of FDI from 1983 to 1998, while the central region took up 9 per cent and the western region attracted only 3 per cent, as shown in Figure 4. The figures have changed only slightly by 2005. After the Western China

Figure 3 China: Geographical Distribution of Exports by Foreign-funded Enterprises, 2000 and 2005



Source: *China Statistical Yearbook 2006*, Table 18-13.

Figure 4 China: Foreign Direct Investments by Region, 1983-1998 and 2005



Source: *China Statistical Yearbook*, various years.

Development programme has been launched, there is a significant increase in FDI for the western region. In 2005, FDI for the eastern region dropped to 85 per cent, while that for the central region remained at 9 per cent and that for the western region doubled up to 6 per cent.

A number of studies have shown that globalization and economic liberalization have significant influence on regional growth (Lin, 2000; Sun and Parikh, 2001; Brun, Combes and Renard, 2002). However, if regions are not integrated, globalization and economic liberalization might expand regional inequalities due to regional differences in their involvement in the globalization or liberalization process within their level of development. Regions with higher share of trade and FDI tend to grow faster than those with lower share. Due to the lack of social capability which governs knowledge diffusion, resource mobility and investment, Regions at a low level of development might not be able to benefit much from the globalization or liberalization process (Jia, 1998).

According to Song, Chu and Cao (2000), Chinese government's preferential policies for the coastal region since the 1980s constitute an important reason for the increase in regional disparities. Although there is no doubt that preferential policies have promoted growth in the coastal economies, it is indisputable that the coastal economies are most strategically located to engage in international trade. According to Zhang and Zou (1996), however, the concentration of FDI in the coastal regions can be explained by their inherent local comparative advantages.

Apart from those reasons, internal reforms and sectoral structural changes at the provincial level have played an important role in the accentuation of interregional disparity. Agricultural and industrial activities were pivotal in the early 1970s in China. Most of the developing countries in Asia have relied primarily on agriculture at the early stage of development. The growth and structure of China's agricultural production and trade have been heavily affected by the government's policy that governs the country's external economy (Huang and Rozelle, 2002).

Furthermore, regional disparity can be enlarged due to a high poverty rate either in the urban or rural area. According to *China Population and Development Country Report 2004*⁵, China's rural poverty rate experienced a sharp decline over the last decade. According to the Urban Social Economic Survey by the National Bureau of Statistics (NBS), the average income per person in 1999 was 5,854 yuan, with an increase of 7.9 per cent from 1998 for almost 40,000 families nationwide. In fact, the visible income gap between China's rich and poor had started to manifest itself since about a decade ago. Rough estimates also revealed that the top 10 per cent of the country's population were holding 40 per cent of the banks' savings. By the mid-1990s, 20 per cent of the population were holding 80 per cent of such savings.⁶

It has been noted that regions with systematic infrastructural development are conducive to attract foreign direct investment because fine infrastructures facilitate investors' utilization of resources, e.g., the amount of utilized FDI in China's eastern region outnumbers that in her western region by over 25 times, and around 71.5 per cent of the country's industry was concentrated in the coastal region in 1994, *vis-à-vis* merely 28.5 per cent in the inland region (Han, 2002). Thus, this also leads to the interregional dichotomy that human resource is concentrated in eastern, coastal region while mineral resources are found chiefly in the inland region where productivity and living standard are much lower than those in the eastern, coastal region (Unel and Zebregs, 2006).

Besides this, there is a significant trend that members of the younger generation prefer to work in metropolitan cities as there are more working opportunities in cities than in small towns and villages. Cities, too, have

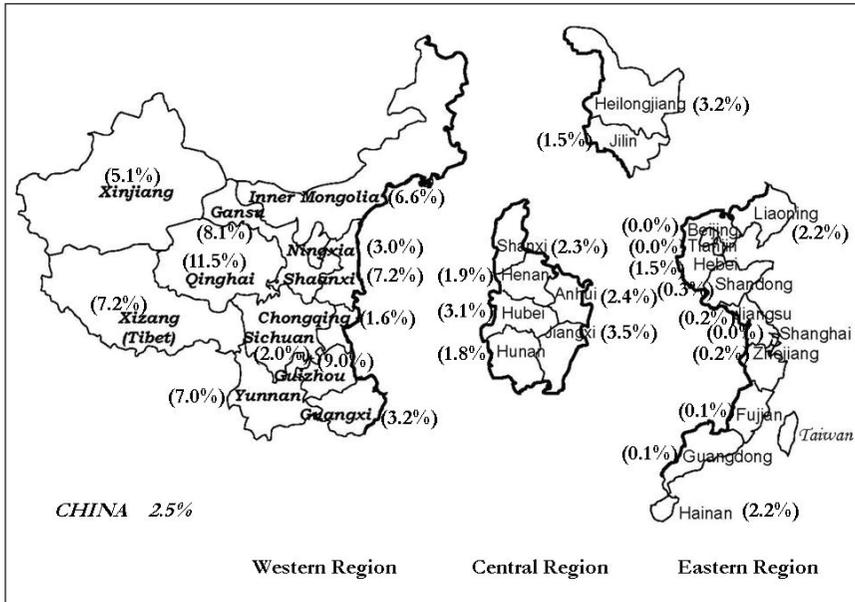
higher productivity since most of the human capital and technological advances are concentrated there. On the other hand, as more and more young people migrate to the cities, and only the children and old folks remain in the villages, the gross dependency rate in the rural areas must be higher than that in the urban areas, leading to heavier burden of the local governments in the rural areas which directly affects the growth of these areas as the local governments have to subsidize those who are not in employment such as children, old folks and women.

In this context, uneven regional development is distinct in such a big country as China where the coastal region has historically always been more advanced than the inland region in terms of development and modernization. As we have seen earlier, the Chinese government did extend substantial industrial support to the inland region during the pre-reform period (from 1949 to the late 1970s). Nevertheless, the rigid central planning system of the command economy had caused serious distortion in the market mechanism, leading to misallocation of resources and hence economic inefficiency, while the Mao era had achieved little in ameliorating interregional inequality in development.

Since the launching of the market reform policies in the late 1970s, China has experienced rapid economic growth. However, stronger economic foundation and better geographical location have led to the eastern region of China developing at a relatively more rapid pace. Besides the abovementioned factors, preferential government policies and well-developed infrastructures also contributed to the rapid economic growth in eastern China. Due to historical and geographical factors, the development in western China is slower than the development of the eastern region. Hence, a huge gap exists between these two regions and it will become even larger if the Chinese government does not take the effort to minimize it.

In order to minimize the disparity, Chinese leader Jiang Zemin (江泽民) put forward the guidelines for accelerating the development of western China on 17th June 1999, stressing that a coordinated development between the population, resources, environment, economy and society should be achieved step by step through inputs of domestic and overseas capital as well as technical personnel (*China Statistical Yearbook 2002*). The economic development in western China is accelerated after the implementation of the Western China Development programme. To a certain extent, basic infrastructures are better developed, intra-regional and interregional income gap has been narrowed and the collaboration between the eastern region and the western region has been improved. Nevertheless, according to the *Zhongguo Xibu Fazhan Baogao 2008*, even with continuous support and aid from the central government, the Western China Development programme still has a long way to proceed.

Figure 5 China: Incidence of Absolute Poverty by Province/Zizhiqu/Zhixiashi, 2005



Source: Yeoh (2009b: 240), Figure 10.29. Data from *Zhongguo Fazhan Baogao 2007*, p. 39, Table 2.3.

Although it has often been noted that the Western China Development strategy was a big gambit for Jiang Zemin (Yeoh, 2008a: 25), something that neither Mao Zedong (毛泽东) nor Deng Xiaoping (邓小平) could do during their lifetime”, the basic reason for launching the Western China Development strategy is the increasing worries on the part of China’s central State regarding the growing interregional economic disparity that could have grave consequences for the country’s stability and the security of the regime (see Figure 5).

3. “Western China Development” Programme

The “Western China Development” programme was initiated in January 2000 by the Leadership Group of Western China Development (西部地区开发领导小组) which was led by Premier Zhu Rongji (朱榕基). The main objectives of this programme are to develop the infrastructure in transportation, telecommunications and energy usage; to increase the level of foreign investment to this region; to increase the effort on ecological protection; to

promote a better education; and to reduce the poverty rate in order to narrow the gap between the eastern region and the western region (*Zhongguo Xibu Fazhan Baogao 2008*).

Under this “Western China Development” policy, China is divided into three regions – eastern, central and western (see Figure 6). The western region consists of 6 provinces (Gansu, Guizhou, Qinghai, Shaanxi, Sichuan and Yunnan), 5 “autonomous regions” (Guangxi, Inner Mongolia, Ningxia, Tibet and Xinjiang) and 1 municipality (Chongqing).⁷ The western region of China is home to one-third of the country’s administrative provinces and autonomous regions. It covers an area of 5.4 million square meters and has a combined population of over 280 million, making up 56 per cent and 23 per cent of the national total respectively. The western region is used to be described as “barren, remote, poor, large, valuable and beautiful” and most of the populations are national ethnic minorities especially in Xinjiang and

Figure 6 China: Eastern, Central and Western Regions



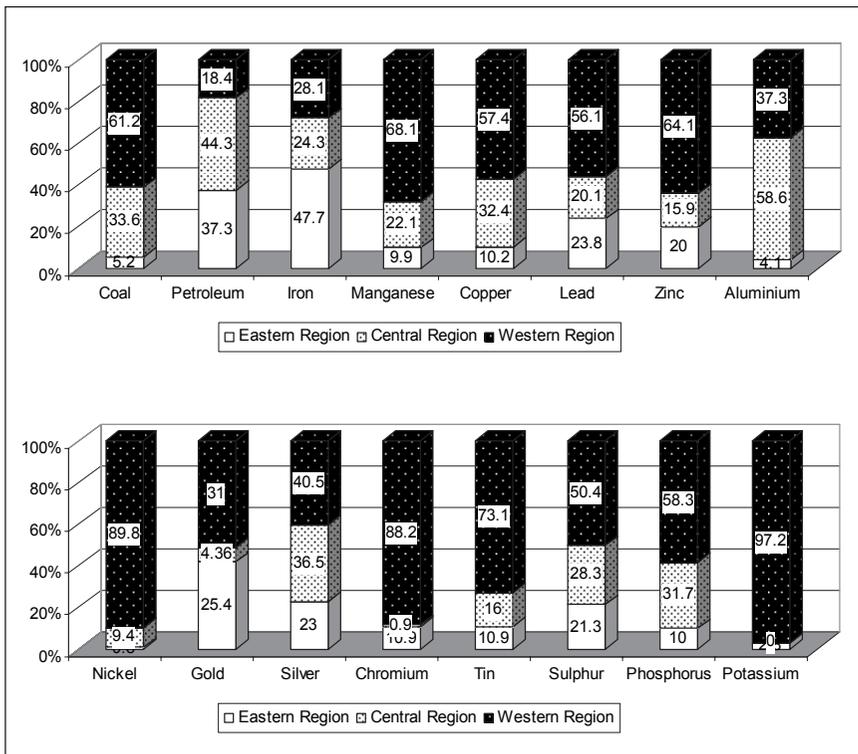
Notes: Province/Zizhiqu/Zhixishi in the officially designated Western Region in bold italics.

— Regional Boundary

Source: Yeoh (2009b: 237), Figure 10.23.

Tibet (Goodman, 2004). Besides that, the western region is rich of a variety of natural resources such as petroleum, natural gas, coal, iron, magnesia, copper, zinc and others (Figure 7). Apart from the above minerals, the water resource in western China is about 82.5 per cent of the total water resources in China (*Zhongguo Xibu Fazhan Baogao 2008*). In addition, the western region has great potential in tourism as most of the famous tourist spots in China such as, Jiuzhaigou Valley in Sichuan, Mogao Caves or Caves of the Thousand Buddhas in Gansu, the Terracotta Army in Shaanxi and the Potala Palace in Tibet are concentrated in the western region. The GDP and GDP per capita of the western region in relation to the national figures are shown in Table 1.

Figure 7 China: Distribution of Mineral Reserves
(Region as Proportion of All China)



Source: Yeoh (2008c: 39), Figure 8. *Zhongguo Diqu Jingji Fazhan Zhanlue Yanjiu*, 2003, p. 122, Table 7-4. (Computed from “Quanguo Kuangchan Chuliang Hui Zongbiao 全国矿产储量汇总表”. Calculated with reserve volume as at end of 1997.)

Table 1 GDP and GDP per Capita of China's Western Region

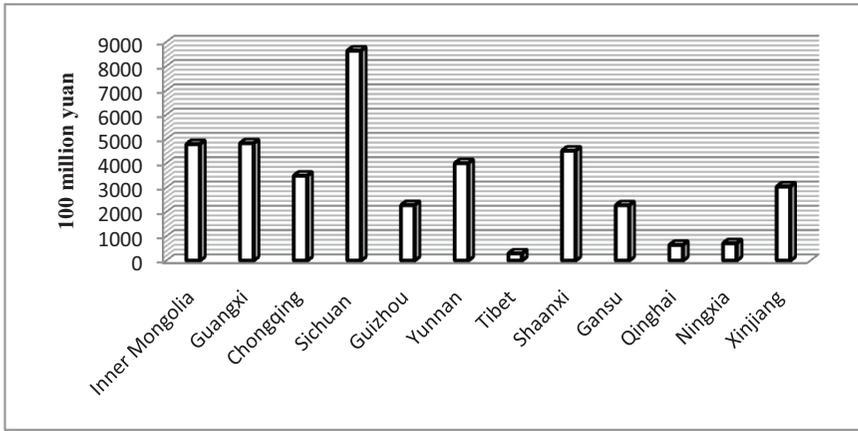
	<i>Year</i> <i>Unit</i>	1999	2000	2001	2002	2003	2004
GDP of the western region	billion yuan	1535.4	1665.5	1824.8	1988.6	2295.4	2758.5
National GDP	billion yuan	8206.75	8946.81	9731.48	10517.23	11739.02	13687.59
GDP of the western region as percentage of national GDP	%	19.0	18.9	19.0	19.1	19.7	20.1
GDP per capita of the western region	yuan	4302	4667	5070	5438	6306	7728
National GDP per capita	yuan	6551	7086	7651	8214	9101	10561
GDP per capita of the western region as percentage of national GDP per capita	%	65.67	65.86	66.26	66.20	69.28	73.2

Source: Yeoh (2008b: 176), Table 8.19. Data from *Zhongguo Xibu Nongcun Quannian Xiaokang Zhibiao Tixi Yanjiu*, 2006, pp. 51-52, Tables 4-1, 4-2.

Figure 8 shows the gross regional product of each province/zizhiqu/zhixiashi in the western region in 2006. Sichuan has the highest gross regional product of 863,781 million yuan in 2006. On the other hand, Tibet is found to have the lowest gross regional product of 29,101 million yuan in the same year. The data show that the Chinese government needs to exert more efforts to ensure the equal growth of every province in this region.

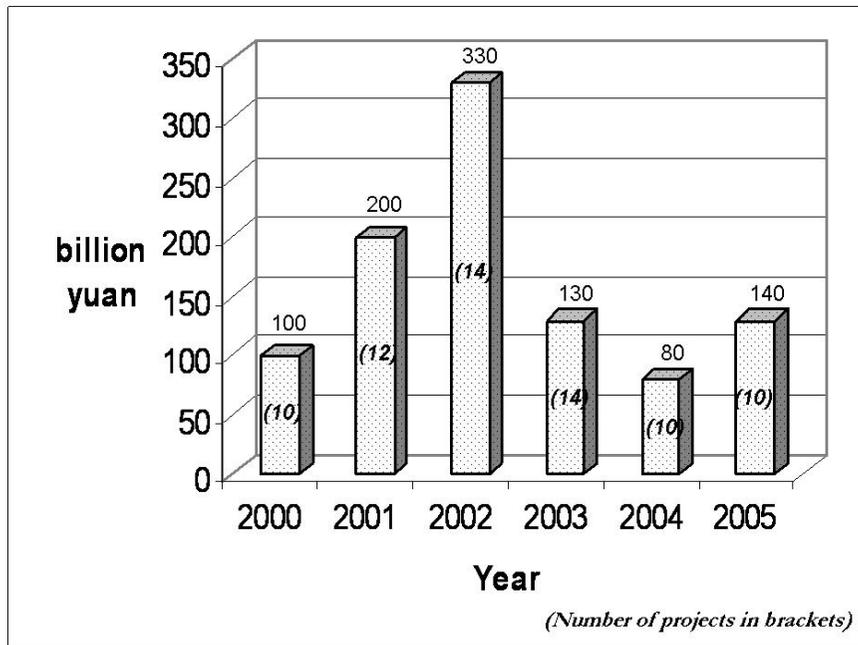
With the launching of Western China Development programme, the gross regional product in the western region has grown from 1,873,500 million yuan in 2001 to 3,952,700 million yuan in 2006 while the per capita gross regional product has increased from 5,183 yuan in 2001 to 10,959 yuan in 2006. However, the gross regional product in western China is only 17.1 per cent of the nation's gross domestic product in 2006 (*Zhongguo Quyu Jingji Tongji Nianjian 2007*). Besides that, the revenue of local government

Figure 8 Gross Regional Product in Western China, 2006



Source: *Zhongguo Xibu Fazhan Baogao 2008*, Table 9-2-1.

Figure 9 Major Projects and Amounts of Investment in China’s Western Region since the Implementation of “Western China Development” Strategy



Source: Yeoh (2009a: 260), Table 10.10. Data from *Zhongguo Fazhan Shuzi Ditu*, 2006, p. 225.

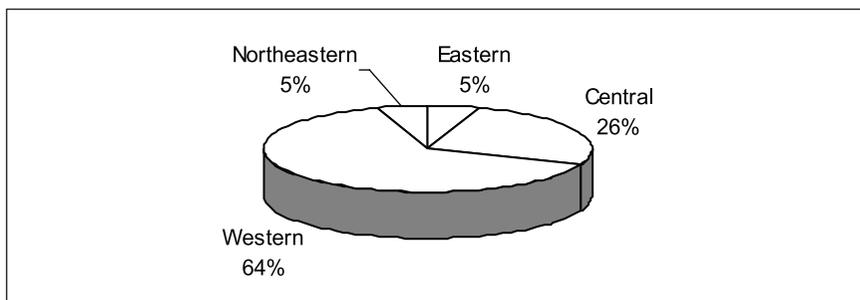
in western region increased from 130,070 million yuan in 2001 to 305,900 million yuan in 2006 while the total investment in fixed assets was brought up to 2,199,700 million yuan in 2006 and the increment was about triple as compared to 715,900 million yuan in 2001 (*Zhongguo Xibu Fazhan Baogao 2008*). Figure 9 shows the major projects and amounts of investment in the western region since the implementation of the Western China Development programme.

4. Poverty in Western China

Due to the huge gap between the eastern region and the western region in China, an issue which has gained serious concern is the poverty rate in western China. China's rural poverty is concentrated in the western region (see Figure 5 earlier). For instance, the poverty rate at Inner Mongolia, Yunnan, Shaanxi, Gansu, Ningxia and Xinjiang is between 5 to 10 per cent. The poverty rate in Guizhou, Tibet and Qinghai at more than 10 per cent is even worse. In fact, in 2006, the rural absolute poor plus rural low-income population reached 13.7 per cent of total rural population in the western region (Yeoh, Liong and Ling, 2009: 182). Figure 10 shows the distribution of population in absolute poverty in the countryside by region in 2006.

The distribution of population in absolute poverty in China can be divided geographically into four regions, namely the eastern region, central region, northeastern region and western region (Figure 10). Almost 64 per cent of the population in absolute poverty are found in the western region, followed by 26 per cent in the central region. However, only 5 per cent are found in the eastern region and another 5 per cent in the northeastern region. Hence, the absolute poverty rate is unmistakably very much higher in the western region.

Figure 10 China: Distribution of Rural Population in Absolute Poverty by Region, 2006



Source: *Zhongguo Xibu Fazhan Baogao 2008*, Chart 7-1.

On the other hand, the annual disposable income per capita of urban households is about 14,967 yuan and 9,728 yuan in the eastern region and the western region respectively, while the net income per capita of rural residents is 5,188 yuan and 2,588 yuan in the eastern region and the western region respectively (*Zhongguo Xibu Fazhan Baogao 2008*), with the huge income gap leading to imbalance in living standard between the two regions.

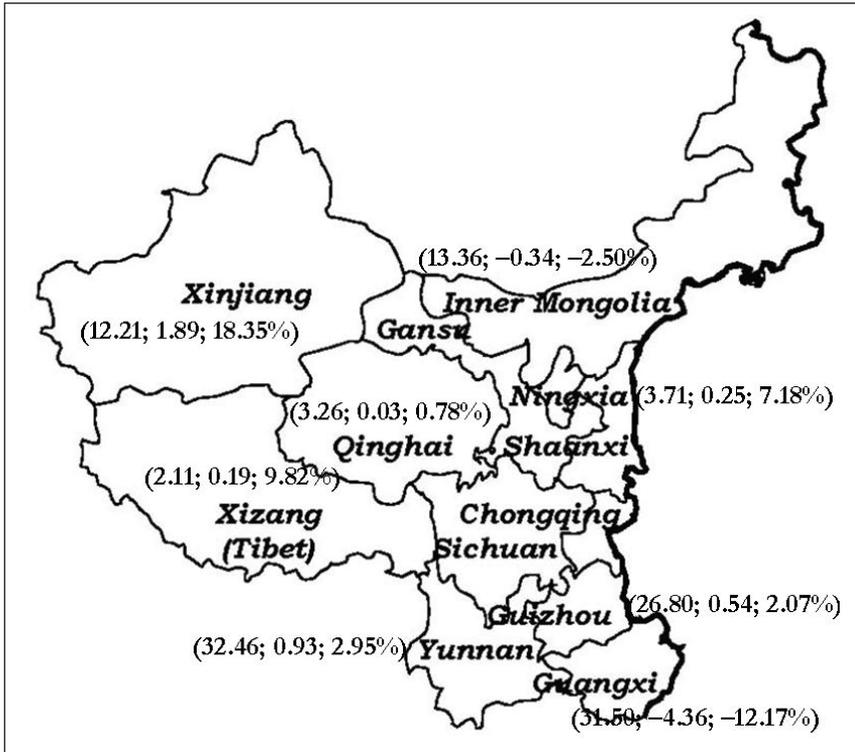
From Table 2, it can be observed that more than 50 per cent of the population in the western region are involved in the primary sector. Most of the population in the western region work in agriculture (Figure 11), agribusiness, fishing, forestry and mining sectors. Due to the availability of rich natural resources and arable land in the western region, the primary sector takes up the biggest proportion of industrial composition. The land area in the eastern region is about 916,000 km² while the land area in the western region is about 6,867,000 km² (*Zhongguo Quyu Jingji Tongji Nianjian 2007*). On the other hand, most of the population in the eastern region are involved in the tertiary sector. In Beijing and Shanghai respectively, 69 per cent and 54 per cent of the population are involved in the tertiary sector (*ibid.*: 33). Hence, the income per capita for the western region, especially in the rural areas, is comparatively low because wages in the primary sector are lower and less stable as compared to the tertiary sector.

Table 2 Industrial Composition in Western China, 2006

Region	Primary Sector (%)	Secondary Sector (%)	Tertiary Sector (%)
Inner Mongolia	53.8	15.6	30.6
Guangxi	56.2	11.2	32.6
Chongqing	45.3	21.5	33.2
Sichuan	50.6	18.4	31.0
Guizhou	57.4	10.3	32.3
Yunnan	69.4	10.0	20.6
Tibet	61.5	9.2	29.3
Shaanxi	50.8	18.5	30.7
Gansu	57.2	13.7	29.1
Qinghai	49.1	17.4	33.5
Ningxia	48.4	22.3	29.3
Xinjiang	53.3	13.3	33.4

Source: *Zhongguo Xibu Fazhan Baogao 2008*, Table 9-4-2.

Figure 11 China: Population Engaged in Agriculture in Ethnic Zizhiqu and Multiethnic Provinces (million people in 2000; growth in million 1990-2000; growth rate)



Source: Yeoh (2009b: 240), Figure 10.30. Data from *Zhongguo Minzu Fazhan Baogao, 2001-2006*, p. 232, Table 19 (original data source: 2000 Population Census).

5. Xiaokang Society Construction in Western China

Although the poverty rate is still considerably high in the western region, the construction of a *xiaokang* society in the western countryside has gained momentum since the implementation of the Western China Development programme. A *xiaokang* society refers to a society with good economic growth and a satisfactory standard of living. The criteria which are taken into account include consistent economic growth, well-developed infrastructure and telecommunication services, good education system and clean environment.⁸ Table 3 shows the degrees of realization of *xiaokang* society in the eastern region, central region and western region of China from 2002 to 2006.

Table 3 China: Degree of Realization of *Xiaokang* Society by Region, 2002-2006

Year	Total (%)	Eastern Region (%)	Central Region (%)	Western Region (%)
2002	12.5	30.8	9.8	-14.1
2003	16.9	35.6	13.8	-9.7
2004	21.6	40.5	18.3	-5.1
2005	28.2	47.6	24.6	1.3
2006	34.9	54.7	31.0	7.8
Average Growth	5.6	5.975	5.3	5.475

Source: *Zhongguo Xibu Fazhan Baogao 2008*, p. 303, Table 8-1.

Table 3 shows that a huge gap exists between the *xiaokang* society composition in the eastern, central and western regions. In 2006, about 55 per cent of the society in the eastern region is *xiaokang*. This means that the eastern region has almost completed half of the journey towards a *xiaokang* society. On the other hand, about 31 per cent of the society in the central region is *xiaokang*. This means that the central region has gone through almost one third of the journey. However, in the western region, only 7.8 per cent of its society is *xiaokang*. This shows that the construction of a *xiaokang* society in the western region is only at the initial stage and there is still a long journey for the western region to achieve the *xiaokang* society target. Although the percentage of society which is *xiaokang* in the western region is comparatively lower, it is growing at a faster rate (6.5 per cent) compared to the central region (*Zhongguo Xibu Fazhan Baogao 2008*, p. 302). This could be a good indicator to show that the Western China Development programme has started to slowly show its effect. More details by province/zizhiqu/zhixiashi are shown in Table 4.

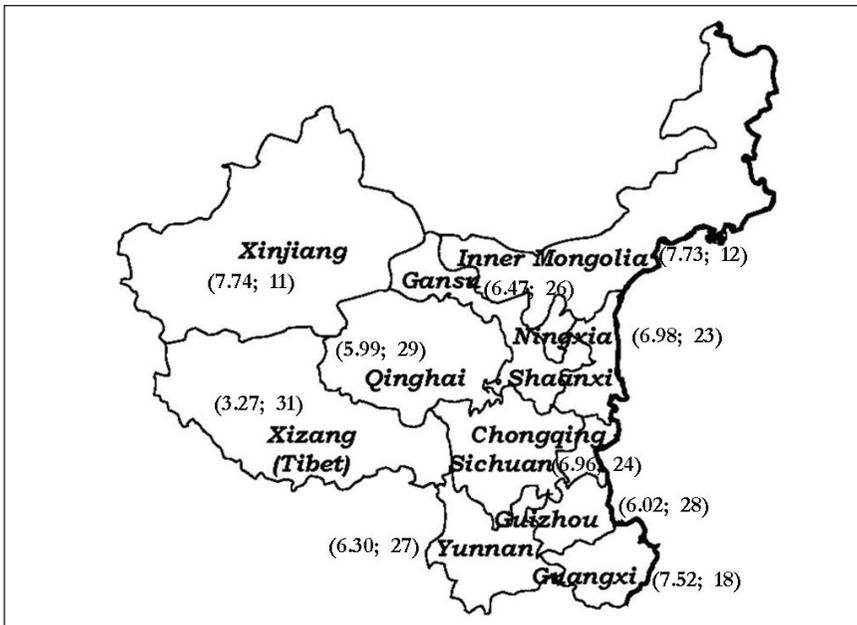
The main factor which has contributed towards the abovementioned imbalance is the weak and fragile social background in the western region. The western region started off with the lowest percentage of *xiaokang* society and lags behind the central region and eastern region in this respect. Although the average growth of *xiaokang* society in the western region has been dramatically fast since 2003, the region still has the lowest percentage of *xiaokang* society among the three regions.

While undoubtedly the Chinese government has realized fully the need to develop the western region, there exist a number of constraints in enhancing the proportion of *xiaokang* society in the region. First of all,

the government faces the problem of improving the education of peasants (Figure 12). The average education level for most of the population in the western region is only 6.5 years (*Zhongguo Shehui Tongji Nianjian 2008*). The region experiences a high drop-out rate and a low school enrolment rate for children. The main reason is the lack of awareness of the importance of education among the population in this region. Besides that, low and insufficient education funds also lead to high drop-out rate in the region. The school enrolment rate in Yunnan, Tibet and Qinghai is below 90 per cent. (*Zhongguo Xibu Fazhan Baogao 2008*) Hence, the Chinese government must invest more in education, especially for the population in the western region. The standard of living for the population in the western region can only be improved via a reform of the education system. A high literacy rate is pertinent for encouraging economic growth in the region.

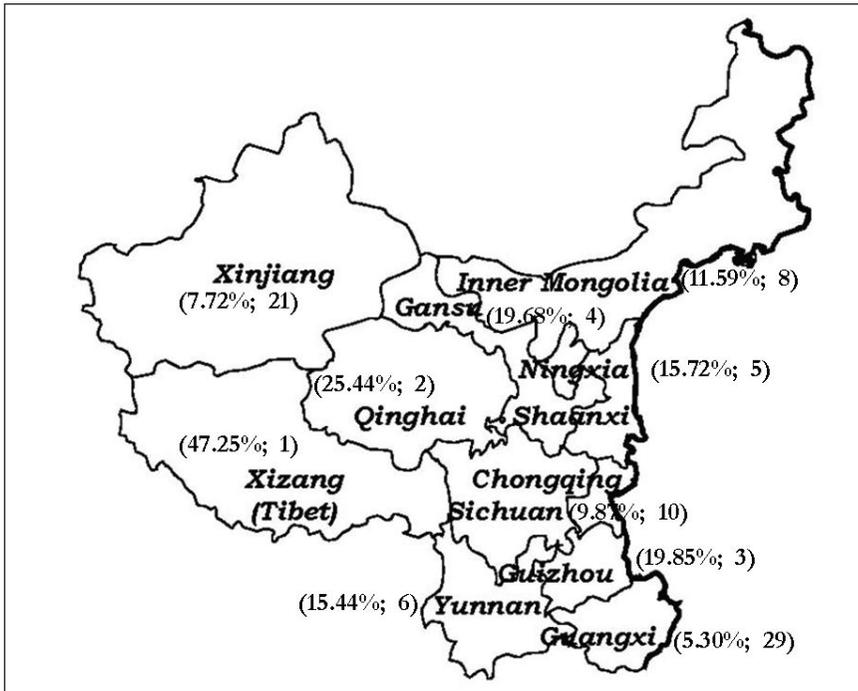
Apart from the problem in the education system, the low level of income which is linked to low literacy rate is another constraint for the development of the western region (Figure 13). Due to illiteracy, most people in the

Figure 12 China: Average Education Level in Ethnic Zizhiqu and Multiethnic Provinces, 2000 (years of schooling; national ranking of education level)



Source: Yeoh (2009b: 239), Figure 10.27. Data from *Zhongguo Minzu Fazhan Baogao, 2001-2006*, p. 231, Table 17 (original source: *Zhongguo Renkou Wenhua Suzhi Baogao, 2004*).

Figure 13 China: Illiteracy in Ethnic Zizhiqu and Multiethnic Provinces, 2000
(illiteracy rate; national ranking of illiteracy rate)

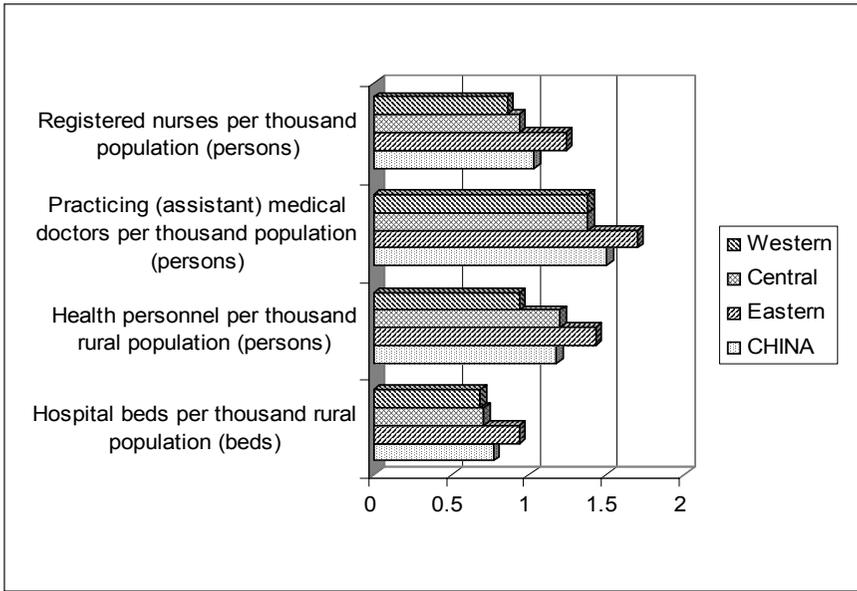


Source: Yeoh (2009b: 239), Figure 10.28. Data from *Zhongguo Minzu Fazhan Baogao, 2001-2006*, p. 230, Table 16 (original source: *Zhongguo Renkou Wenhua Suzhi Baogao, 2004*).

western region are involved in agricultural activities. In 2005, the per capita disposable income in the western region is only 2,029 yuan, which is lower than the minimum per capita disposable income requirement of 2,200 yuan for a *xiaokang* society (*Zhongguo Shehui Tongji Nianjian 2008*). The reason is that the disposable income per capita in the western region has always been low and the average disposable income growth rate has been weak.

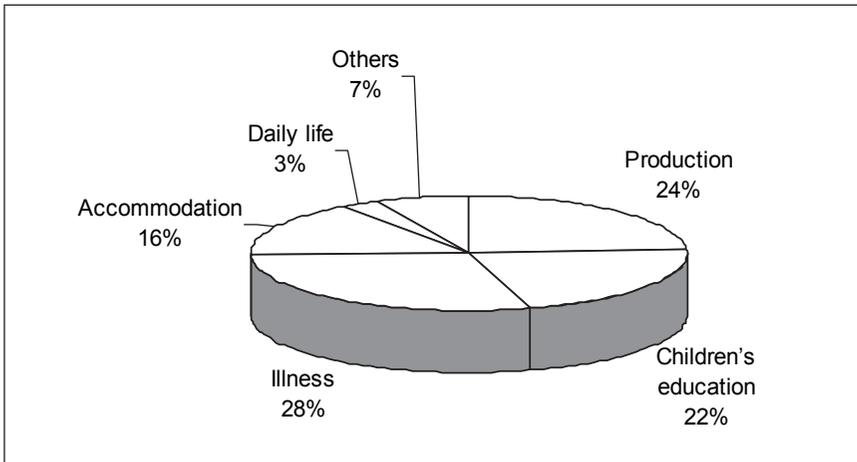
Besides that, low health consciousness among the population and inadequate public infrastructure in the western region is another constraint. In the western region, the accessibility of medical services is limited and the quality of the services has not achieved the national standard (Figure 14). In 2005, the medical coverage rate in the western region is only 14 per cent (*Zhongguo Weisheng Nianjian 2007*). Most patients have to pay the medical expenses with their own fund, and this becomes a huge burden for most people in the western region (Figure 15).

Figure 14 China: Healthcare by Region, 2004



Source: Yeoh (2008b: 191), Table 8.32. Data from Nie and Yang (2006: 287-288), Tables 7-1, 7-2.

Figure 15 Reasons for Peasants' Indebtedness in China



Source: Yeoh (2009a: 267), Figure 10.12. Data from Han and Luo (2005), cited in Nie and Yang (2006: 292), Table 7-6.

Due to the complicated geographical factor and low population density, developing the western region becomes a costly affair. Thus, the development of this region has inevitably to be a slow process.

The development of the western region thus poses a dilemma for the Chinese government. If the current situation in the western region remains unchanged and the other regions in China enjoy rapid growth, regional disparity in China will only worsen. This will cause increased dissatisfaction in the western region and possibly bring about instabilities in the region. As a result, the peace of the nation will be threatened and the economic growth of China will be jeopardized. However, the Chinese government has shown that it has not given up the idea of developing the western region. For instance, the building of the Qinghai-Tibet railway is one of the efforts by the Chinese government in developing the western region. The total length of this railway is 1,956km and it connects Xining in Qinghai to Lhasa in Tibet (*Zhongguo Xibu Fazhan Baogao 2008*). While in certain ways controversial, the building of this railway does accelerate the growth in tourism and transportation. Continuous development of the western region is crucial. Only if the region's poverty rate could be reduced and its per capita income could be increased, the standard of living in the western region would improve.

6. Interregional Disparities in Chinese Development: A Multidimensional Perspective

This section of our paper moves on to examine China's regional development and evaluate the prospects of the eastern region and western region of the country from a more global perspective that encompasses not only the economic dimension but other relevant dimensions as well, in recognition that rapid economic growth and expanding trade of the China in recent decades represent not a purely economic phenomenon but a multidimensional one. To do so, in contrast with the existing analytical methodologies that all measure changes of welfare based on the evaluation of the some basic variables in the study of the development process of a country, this section of the paper focuses on the developmental process of China with the simultaneous inclusion of the social, economic, political and technological dimensions, utilizing the Domestic General Development (DGD) Model⁹ which is based on the General Dimension of Regional Integration (GDRI) Model developed by Ruiz Estrada (2004a). The defining characteristic of the model is that it looks at regional development simultaneously from the political, social, economic and technological perspectives. We apply the model to a comparative analysis of the development levels of China in the 1980s, 1990s and 2000-2006.¹⁰

For this purpose, as in line with the Western China Development strategy, we still divide the People's Republic of China into "Eastern" China (coastal)

and “Western” China (inland), but for analytical purposes, included under Eastern China (coastal) are only the cities and municipalities of Dalian (大连), Beijing (北京), Jinan (济南), Shanghai (上海), Hangzhou (杭州), Fuzhou (福州), Guangzhou (广州), the special administrative regions (SARs) of Hong Kong (香港) and Macau (澳門), and the island province of Hainan (海南), and under Western China (inland), Lanzhou (兰州), Kunming (昆明), Hohhot (呼和浩特), Ürümqi (乌鲁木齐), Lhasa (拉萨), Chengdu (成都), Xi’an (西安), Kashgar/Kashi (喀什) and Guiyang (贵阳). This East-West division is used here to analyze the gap of development between the two sides.

A discussion of each of the four basic phases through which this analysis is conducted should begin with the design of the multi-input database table that indicates global regional political development. Here, “global” refers to the multidimensional nature of political development, represented by a wide range of political variables while “regional” refers to the specific region of interest to the research. Therefore, in this case, global regional political development refers to the political development of China as measured by the 15 political variables utilized in this model. There is no reason why the number of variables in a multi-input database table should be constant and therefore it can vary according to the objectives of the research and data availability. Hence, multi-input database tables can similarly be constructed for global regional economic, social and technological development.

The second phase of the DGD-Model is to measure the Global Development Indices (X_i) using the variables in the four multi-input database tables described in Ruiz Estrada (2004a). The four Global Development Indices are the Global Political Development Index (X_1), Global Social Development Index (X_2), Global Economic Development Index (X_3) and Global Technological Development Index (X_4). The data we input for each country in a region, or in this case, different regions of a country – Eastern China (coastal) and Western China (inland) – are based on statistical and historical data. Furthermore, all our data are binary – i.e. either 1 or 0 – and determined by either quantitative or qualitative criteria. A main reason for using binary data is that we attach the same level of importance to all the variables in our multi-input database tables. Another reason for using binary data is that this allows us to analyze countries with limited data, such as Western China (inland).

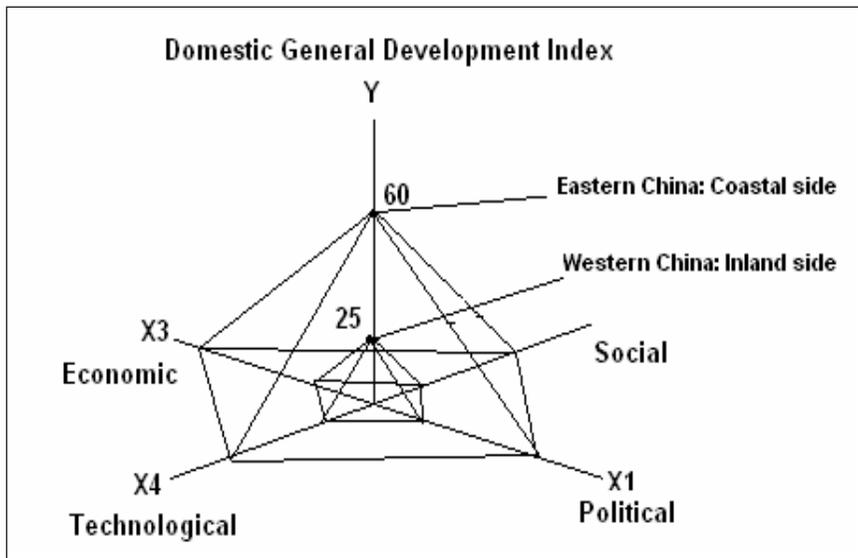
We can similarly input binary data for all the variables in the multi-input database tables for social, economic and technological development of Eastern and Western China from 1980 to 2006. We find the global social development of Eastern China (coastal) and Western China (inland) in the 1980s to be 57 per cent and 29 per cent respectively, the global economic development of Eastern China (coastal) and Western China (inland) in the 1990s to be 40 per cent and 14 per cent respectively, and the global technological development

of Eastern China (coastal) and Western China (inland) in the 1980s to be 60 per cent and 30 per cent respectively.

The third phase of the DGD-Model is to use the four Global Development Indices (X_i) found in the model's second phase – i.e. political, social, economic and technological – to estimate the Global Overall Development Index (X), which sums up the information contained in the four indices. Intuitively, the Global Overall Development Index (X) measures a country's overall level of development from a multidimensional or global perspective encompassing political, social, economic and technological development. Furthermore, as seen earlier, we measure political, social, economic and technological development themselves from a multidimensional or global perspective, using a wide range of variables relevant to the development of each sphere.

The first step in estimating the Global Overall Development Index (X) is to plot the values of the four Global Development Indices (X_i), as shown in Figure 16. To illustrate how we compute X , Figure 16 consists of four different triangular areas – each bounded by the values of two of the four global development indices – for Western China (inland), Eastern China (coastal) and the Chinas. Let us define the triangular area between the political and social axes as A_1 , social and economic axes as A_2 , economic and technological axes as A_3 , and technological and political axes as A_4 . Each area has a maximum value of 0.25 and the total value of the four areas is 1.

Figure 16 Global Development Stage of Western and Eastern China, 1980s



We compute the overall global development index (X) as the sum of the four areas – A_1 , A_2 , A_3 and A_4 . In computing A_1 , it is useful to think of the value of the Global Political Development Index (X_1) as the base and the value of the Global Social Development Index (X_2) as the height. We compute A_1 by first multiplying X_1 and X_2 , and then dividing their product by four. Similarly, we can compute A_2 , A_3 and A_4 by doing the same with the pairs (X_2, X_3) , (X_3, X_4) and (X_4, X_1) respectively. For example, for Eastern China (coastal), A_1 is 35 per cent since X_1 is 47 per cent and X_2 is 57 per cent. Likewise, we compute A_2 , A_3 and A_4 for Western China (inland) to be 15 per cent, 12 per cent and 20 per cent. Therefore, Eastern China's overall global development index (X) is 25 per cent. We can similarly compute X for Western China (inland) as 15 per cent. Therefore, in the 1980s, Western China's overall development level was about eight times higher than that of Eastern China.

The fourth and final phase of the DGD-Model is to use the four Global Development Indices (X_i) and coefficients to measure the Global Development Stage (Y) of Western China (inland) and Eastern China (coastal). The coefficients indicate the relative importance of the political, social, economic and technological dimensions, and sum up to one. For example, if we attach equal importance to the four dimensions, the coefficient for each dimension is 0.25. To obtain the Global Development Stage (Y), we first multiply the Global Development Index (X_i) with the corresponding coefficient – for example, the Global Political Development Index (X_1) and the political coefficient – and then sum up the four products. Assuming that each of the four coefficients is 0.25, so that the four dimensions are equally important, we can compute the Global Development Stage (Y) for Eastern China (coastal) and Western China (inland) as 51 per cent and 20 per cent respectively in the 1980s. The large gap in Y between Western China (inland) and Eastern China (coastal) indicates a large gap between the two parts of China in terms of overall development. Figures 16, 17 and 18 provide a graphical representation of the Global Development Stage (Y). The height corresponds to Y and the quadrangular area inside the dotted lines corresponds to the Overall Global Development Index (X).

The Global Development Stage (Y) is broadly similar to the Global Overall Development Index (X) since both reflect the overall development level of a country or a region. We define a value of Y between 0 per cent and 33 per cent as the underdeveloped stage, 34 per cent and 66 per cent as the developing stage, and 67 per cent and 100 per cent as the developed stage. Therefore, in the 1980s, Eastern China (coastal) was in the developing stage whereas Western China (inland) was in the underdeveloped stage. It should be noted that Y is more flexible than X in the sense that it allows us to attach any combination of relative weights to the political, social, economic and

technological dimensions. For example, if we attach more importance to the political dimension than the other dimensions, the political coefficient may be 0.40 while the social, economic and technological coefficients may each be 0.20. More generally, we can flexibly vary the relative sizes of the four coefficients to suit our needs.

Figure 17 Global Development Stage of Western and Eastern China, 1990s

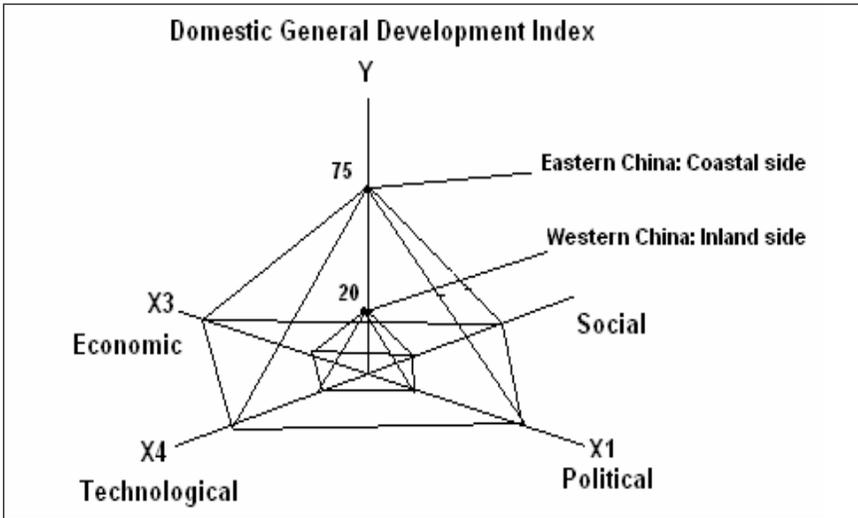
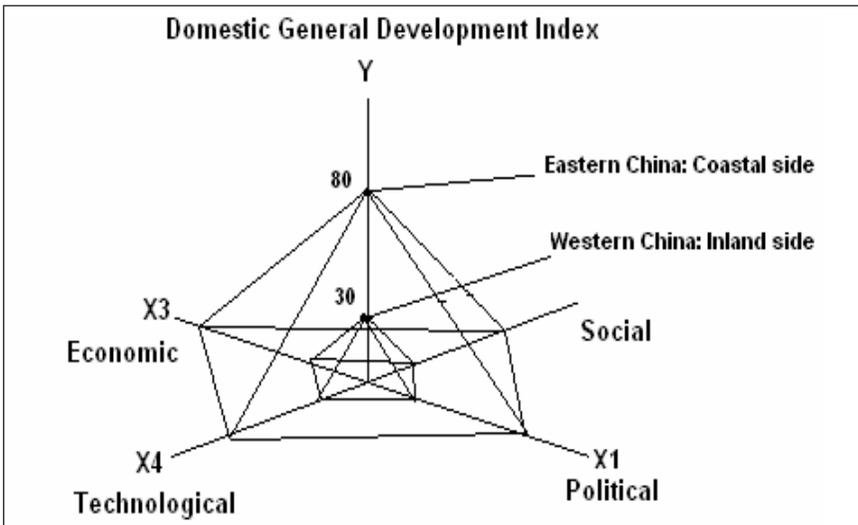


Figure 18 Global Development Stage of Western and Eastern China, 2000-2006



We now report the main results of our DGD-Model analysis of Western and Eastern China during the 1980s and the 1990s. Eastern China's Global Political Development Index (X_1) increased from 47 per cent in the 1980s to 67 per cent in the 1990s and 79 per cent in the 2000-2006 period, which indicates that Eastern China (coastal) has become progressively more politically developed over time. The social development of Eastern China (coastal) has moved significantly forward in the 1990s and 2000-2006, in contrast to Western China (inland), which has failed to make any progress in this area. Eastern China's Global Social Development Index (X_2) rose from 57 per cent in the 1980s to 80 per cent in the 1990s and 85 per cent in the 2000-2006 period. To a large extent, this reflects Eastern China's rapid economic development since basic social services such as healthcare and education tend to improve with a country's living standards. In stark contrast, the same index declined from 29 per cent in the 1980s and 1990s to 14 per cent in the 2000-2006 period for Western China (inland), and this decline paralleled the country's steep economic decline.

Eastern China's economy has achieved rapid growth and development, in sharp contrast to the Western China's economy, which has deteriorated sharply over time. Eastern China's Global Economic Development Index (X_3) has more than doubled, from 40 per cent in the 1980s to 75 per cent in the 1990s and 84 per cent in the 2000-2006 period. This is consistent with the country's radical transformation from a poor developing country to a highly successful newly industrializing economy (NIE) that has become a model of economic development for the Third World. On the other hand, for Western China (inland), the same index has plummeted from 14 per cent in the 1980s to 10 per cent in the 1990s and 15 per cent in the 2000-2006 period. Eastern China (coastal) has made substantial technological progress and has reached a high level of technological development, as evident in the evolution of its Global Technological Development Index (X_4), which rose from 60 per cent in the 1980s to 70 per cent in the 1990s and 90 per cent in the 2000-2006 period. This is hardly surprising in view of the fact that technological upgrading has been an essential ingredient of Eastern China's successful economy. On the other hand, Western China's X_4 fell from 30 per cent in the 1980s to 10 per cent in the 1990s and rose to 25 per cent in the 2000-2006 period, reflecting a sharp decline in the region's technological base. This decline is both an effect and a cause of the region's poor economic performance. The large and increasing technological gap between the two regions raises the technological costs of national harmonic development.

The global development of Western China (inland) and Eastern China (coastal) in the political, social, economic and technological spheres during the 1980s, 1990s and 2000-2006 clearly shows an unmistakable difference

between the two parts of China. While Eastern China (coastal) has achieved substantial progress in all four spheres, Western China (inland) has failed to do so in any of the four spheres. The wide and growing East-West gap is not limited to economic development but extends to development in other areas as well. The fact that the two parts of China are becoming less similar in all aspects rather than more similar does not bode well for their national harmonic development.

We now use the four Global Development Indices (X_i) to estimate the Global Overall Development Index (X) for the two parts of China in the 1980s and 1990s. To repeat, the Global Overall Development Index (X) measures a country's overall level of development from a multidimensional perspective encompassing the political, social, economic and technological aspects. As described earlier for the 1980s, we sum up the four triangular areas between the axes to compute X . We find X to be 55 per cent for Eastern China (coastal) and 10 per cent for Western China (inland) in the 1980s, and 82 per cent for Eastern China (coastal) and 10 per cent for Western China (inland) in the 1990s. The evolution of X over time confirms the picture of a wide and growing gap between the two parts of China. Eastern China has managed to reach a high overall development level through rapid progress in all four areas whereas Western China's overall development level continues to stagnate at a very low level.

We use the four Global Development Indices (X_i) and coefficients reflecting the relative importance of each X_i to measure the Global Development Stage (Y) of Eastern China (coastal) and Western China (inland) in the 1980s and 1990s. To repeat, the Global Development Stage (Y) is similar to the Global Overall Development Index (X) in the sense that both reflect a country's overall development level. Assuming that each coefficient is 0.25, so that the political, social, economic and technological dimensions are equally important, we compute the Global Development Stage (Y) for Eastern China (coastal) and Western China (inland) to be 60 per cent and 15 per cent respectively in the 1980s (see Figure 16). Our computed value of Y rises to 75 per cent for Eastern China (coastal) but falls even further to 20 per cent for Western China (inland) in the 1990s (see Figure 17). Finally, Y rises to 80 per cent for Eastern China (coastal) but rises even further to 30 per cent for Western China (inland) from 2000 to 2006 (see Figure 18).

According to our earlier definitions, Eastern China (coastal) is well into the developed stage while Western China (inland) remains at a very low stage of development. The large and growing difference in Y between the two parts of China mirrors the large and growing difference in their overall development level.

7. Concluding Remarks

China's spectacular economic growth has benefited her provinces and regions quite unequally. In fact, China has also become one of the countries which have the highest degrees of regional income inequality in the world (Jian *et al.*, 1996). The Western China Development programme, however, is not a "mission impossible" for the Chinese government. This programme needs time to succeed. Although there are already some significant developments in the western region, the Western China Development programme remains a long-term task for the Chinese government. The Chinese government has implemented a number of policies to accelerate the development of the western region. To encourage the development of the western region, the Chinese government has continuously stabilized and enhanced the pro-peasant/*huinong* (惠农) policy. The Chinese government has also reduced the operating cost and increased the income of peasants to improve their standard of living. Besides that, recruiting knowledgeable human resources is another important policy to develop the western region. The western region will be able to develop further if it has ample k-workers in hand. Knowledgeable human resources will boost the region's economy through various innovations. Last but not least, the development of transportation, education, culture and healthcare is also important for the growth of the western region. If all of these policies can be implemented successfully, the gap between the western and other regions can then be bridged.

The large gap we found in the analysis presented in the last section of this paper between "Eastern" China (coastal) and "Western" China (inland) is inherently a complex and multidimensional phenomenon entailing the national development of China in terms of her economy, political system, social system, and a wide range of other societal hardware and software. In the last section, we look at the prospects for China's developmental harmonization by comparing the two regions' development from a multidimensional perspective rather than focusing solely on any single dimension.

While the growing economic gap between the prosperous Eastern China (coastal) and the impoverished Western China (inland) clearly increases the costs of the general development of China, a more comprehensive comparative analysis of the two parts of China calls for comparing their overall development rather than solely their economic development. To carry out such a broader analysis, in the last section of this paper we have utilized the Global Dimension of Regional Integration Model (DGD-Model) developed by Ruiz Estrada (2004a), which evaluates the prospects for regional development from a global or multidimensional perspective. Our main finding is a large and growing gap between the two parts of China in terms of political, social, economic and technological development. Eastern China

(coastal) has achieved sustained progress in all four areas and a high level of overall development. In stark contrast, Western China (inland) has failed to make progress in any of the four areas and remains mired in a very low level of overall development. Our analysis in this paper clearly reveals a divergence between the two parts of China rather than a convergence. This suggests that China's development needs to improve more based on development expansion policies such as more open domestic market and easy mobility of domestic investment and labour in the country.

Finally, an appropriate government policy plays a vital role in maintaining a country's peace and stability. The recent efforts to boost economic development in the western region are encouraging. It seems that they have already brought some positive results in the provinces/zizhiqu/zhixiashi in these regions. For instance, during the first half of 2007, the increases in urban fixed asset investment in the eastern, central and western regions are 22.3 per cent, 35.6 per cent and 30.2 per cent respectively (Zheng and Chen, 2007). One of the main reasons that the Chinese central government has launched these regional development programmes is to ease the dissatisfaction of minority peoples and relieve development disparities among ethnic groups. These development programmes to a large extent are to support the development of the minority regions and improved the living standards of minority groups. All these are in line with the overall efforts to bring up the developmental level of China's western region *vis-à-vis* her other more developed regions.

Notes

1. <http://www.china.org.cn/english/congress/227029.htm>
2. Also variously translated as "Western Regional Development", "Develop the West", "Open up the West" and "Go West".
3. Officially usually translated as "well-off", *xiaokang* literally means "moderately well-off".
4. The "Third Front" refers to the large-scale development of industry in China's southwestern hinterland – a government strategy to have a secure industrial hinterland in facing a perceived imminent war.
5. http://english.peopledaily.com.cn/200409/07/eng20040907_156240.html
6. http://english.peopledaily.com.cn/english/200007/12/eng20000712_45330.html
7. Besides the *sheng* (省)/provinces, China's 31 province-level administrative units also includes 5 *zizhiqu* (自治区)/(ethnic) "autonomous regions" and 4 *zhixiashi* (直辖市)/municipalities directly ruled by the central government.
8. These evaluation yardsticks are summarized in this rhyme composed for propaganda (*Zhongguo Xibu Fazhan Baogao 2008*, p. 301):

经济翻两番，收入超六千；
楼房随处见，村庄连成片；

室内通水电，房外有花园；
 家家彩电放，户户电话连；
 教育九望十，就医不走远；
 寿命七十五，山青水天蓝。

9. The DGD-Model is based on the application of a group of indicators and graphs which are designed to show the evolution and stages of the development process of any country from a general perspective. The DGD-Model is not intended to be used as a forecasting model in any case. However, its application is not limited to the study of a special group of countries. It is not constrained by issues about the regions or countries to which the DGD-Model is applied (see Ruiz Estrada, 2004a). The difference between the DGD-Model and other analytical models, such as the human development index is that the DGD-Model presents a general understanding in the study of development process from the economic, political, social and technological perspectives simultaneously. The objective of the DGD-Model is to offer policy-makers and researchers a new alternative analytical toolbox for studying the results achieved for any country in its development process.
10. Data are from the Federal Reserves System (2004), General Information and database statistics <<http://www.federalreserve.gov/pf/pf>>; Green-Peace (2004), General Information and database statistics <<http://www.greenpeace.org>>; Haya-Court (2004), General Information and database statistics <<http://www.wpc-in.org>>; Human Rights Watch (2004), General Information and database statistics <<http://www.hrw.org>>; Inter-American Development Bank (2004), General Information and database statistics <<http://www.iadb.org>>; International Federation of Production Rights Organization (2004), General Information and database statistics <<http://www.ifrro.org>>; International Monetary Found (2004), General Information and database statistics <<http://www.imf.org>>; The Library of Congress U.S. (2004), General Information and database statistics <<http://www.loc.gov>>; Ministry of Commerce of China <<http://english.mofcom.gov.cn>>; Ministry of Education of China (2006) <<http://www.moe.edu.cn>>; Ministry of Finance of China <<http://www.mof.gov.cn>>; Ministry of Foreign Affairs of China (2006) <<http://www.fmprc.gov.cn>>; Ministry of Justice of China <<http://www.legalindo.gov.cn>>; Ministry of Land and Natural Resources <<http://www.mlr.gov.cn>>; Ministry of National Development and Reform Commission <<http://en.ndrc.gov.cn>>; Ministry of Sciences and Technology of China (2006) <<http://www.most.gov.cn>>; National Audit Office of China <<http://www.cnao.gov.cn>>; National Population and Family Planning Commission of China <<http://www.npfpc.gov.cn>>; NATO (2004), General Information and database statistics <<http://www.nato.int>>; Oil Producers Organization (OPEC) (2004), General Information and database statistics <<http://www.opec.org>>; People's Bank of China <<http://www.pbc.gov.cn>>; Transparency International (2004), General Information and database statistics <<http://www.transparency.org>>; United Nations (2004), General Information and database statistics <<http://www.un.org>>; United Nations (2004), Human Development Report 2004, U.N. Development Program <<http://hdr.undp.org/reports/General/2004/>>; World Bank (2004), General Information and database statistics <<http://www.wb.org>>; World Health Organization (2004), General Information and database statistics <<http://www.who.int>>.

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Migration and Trade: The Role of Overseas Chinese in Economic Relations between China and Southeast Asia

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Abstract

In the last 20 years, some 2300-2650 thousand Chinese migrants flew into Southeast Asia. They consisted of business people, students and professionals, technicians, skilled and unskilled labours. Among them more than one million resided in Myanmar, 350-400 thousand lived in Thailand, 350-380 thousand lived in Singapore, while Malaysia, Indonesia, Vietnam, Cambodia and Laos each had 50-120 thousand such Chinese new migrants. The rapid economic integration between China and ASEAN in the last ten years is the most important factor driving the Chinese migrants into Southeast Asia. The increasing Chinese exports, investment, aids and Chinese contracted project constructions in Southeast Asia led to mass Chinese migrants going to Southeast Asia to work in all the economic sectors the Chinese are involved in Southeast Asia. Though they engage themselves in all spheres except politics, the majority of them are traders and hawkers. A great part of them are undocumented and some of them are floating business people between China and ASEAN or within ASEAN.

Keywords: *new Chinese migrants, Southeast Asia, economic integration, Overseas Chinese*

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1. Introduction

The phenomenon of millions of Chinese people emigrating overseas since the 1970s has attracted the world's attention after the 1980s. It is estimated that more than 6 million Chinese migrants left China and most of them headed for the developed countries, particularly those in North America (Zhuang, 2007). However, a new phenomenon has come to be more visible since late the 20th century – i.e. more and more Chinese migrants are heading for the developing countries in Southeast Asia, Latin America and Africa. The new Chinese migrants are different from their predecessors, who were poor farmers looking for their livelihood abroad – poor educated and spoke only regional dialects. A great part of the new Chinese migrants, some of them are well-educated or brought with them funds, began their adventures in Southeast Asia, South Africa and Latin America since the 1990s in the context of China's overseas economic expansion and friendly political relations with these areas. This paper focuses on why and how some two and a half million Chinese immigrated into Southeast Asia and promoted the economic relations between China and Southeast Asia in the last 20 years.

2. New Features of New Chinese Migrants Entering Southeast Asia

2.1. Three Waves of Chinese Migration into Southeast Asia before 1950s

Chinese merchants had appeared in Southeast Asia for more than two thousand years. Mass Chinese migration to Southeast Asia took place in the mid-17th century after the arrival of the Europeans, and we would like to call it the first wave of Chinese migration into Southeast Asia. In the early period, all the European colonist governments in Southeast Asia tried to recruit the Chinese merchants and handicraftsmen for the construction of and bringing prosperity to the trade ports. Our estimation is that there were already about one and a half million Chinese migrants and their descendants in Southeast Asia by the mid-19th century (Zhuang, 2001: 177).

The second wave of Chinese migration could be marked as the Chinese contract coolie migration, which started in the mid-19th century after the British and French defeated the Chinese government in the second Opium War in 1858-1860 and forced the Chinese government to allow them to recruit coolie labours in China. From the late 19th century to the early 20th century, some five million Chinese labours were exported overseas, and a great part of them were sent to the plantations and mines in Southeast Asia. In the 1920s, the number of Chinese in Southeast Asia, including the local born and mixed-blood Chinese, was estimated to be about 5 million (Zhuang, 2001: 185).

The third wave of Chinese migration to Southeast Asia took place in response to the flourishing economic activities in Southeast Asia in the

1920s-1930s. This period witnessed increasing investments by westerners and the establishment of the modern industrial sectors, as well as the growth of Chinese communities and the spread of pan-Chinese nationalism in Southeast Asia. In the middle of the 1940s, more than 7 million Chinese had already settled down in Southeast Asia. At the beginning of the 1950s, about 10 million Chinese resided in Southeast Asia.

In the 1950s-1980s, the mass Chinese inflow to Southeast Asia, which had existed for more than three hundred years, was interrupted. On the one hand, the Chinese Communist Party (CCP) government forbade overseas migration and also considered a great part of those Chinese as “bourgeoisie” who should be eradicated. On the other hand, all the Southeast Asian countries’ governments forbade the mainland Chinese entering their countries after those countries attained independence. From the beginning of the 1950s to the mid-1980s, almost no new Chinese migrants in significant numbers went into Southeast Asia.

Although almost no new Chinese migrants joined the Southeast Asian Chinese communities, even depending solely on natural birthrate, the ethnic Chinese population in Southeast Asia still increased to about 20 million by around 1990. Among them, 5.46 million were in Indonesia, 5.25 million in Malaysia, 4.81 million in Thailand, 2.52 million in Singapore, 0.96 million in Vietnam, 0.85 million in the Philippines, 0.5 million in Cambodia and 0.46 million in Burma.¹

2.2. Fourth Wave of Chinese Migration: A Part of the Tide of New Chinese Emigration since 1980s

From the middle of the 17th century to the beginning of the 20th century, Southeast Asia had been the main destination of the Chinese migrants and more than 80 per cent of the Overseas Chinese were concentrated there. The fourth wave of Chinese migration into Southeast Asia constitutes a significant part of the new Chinese emigration since the 1980s. However, migration into Southeast Asia is no longer the major component of Chinese overseas migration. Within the tide of Chinese emigration that started at the beginning of the 1980s, Southeast Asia had almost not been the target destination of the new Chinese overseas emigrants before 1990.

From the mid-1990s, the direction of the flows of the new Chinese migrants has undergone some changes, and not all migrants are heading for the more affluent countries. A large number of them have emigrated to the developing countries, particularly after 2000, and Southeast Asia, Africa, South America and Russia were the main destinations. Unlike those who targeted developed countries and were mostly either professionals or unskilled labours, the majority of mainland China’s new Chinese migrants in developing

countries are engaged in the commercial sectors, like becoming businessmen, vendors or hawkers. As Southeast Asia is the neighbour of China and the economic cooperation between the two sides is far closer than the others, and there exist large ethnic Chinese communities, the new Chinese migrants can arrive in Southeast Asia at a much lower transit cost and find it easy to get a job. Last but not least important is the fact that Southeast Asia is a very diverse region that includes developed countries like Singapore as well as very poor countries like Myanmar, and hence the different groups of new Chinese migrants can engage in different occupations in different countries. This is a rather different phenomenon compared to the Chinese migrants in Africa, South America and Russia, where most of them can only engage in the commercial sector.

The fourth wave of Chinese emigration to Southeast Asia started in the late 1980s, and the migrants from east Guangdong Province and south Fujian Province were the pioneers. Chaozhou people in east Guangdong where most of the Chinese in Thailand originally came from began again to emigrate to Thailand with tour passports and Jinjiang people in south Fujian where most of the Chinese in the Philippines originally came from tried to enter the Philippines with the pretext of investment or visiting relatives. In the 1990s, Singapore tried to attract as many mainland Chinese students and specialists as possible, especially those who had obtained degrees in developed countries, and China began to export labours to Singapore and Malaysia. The last ten years witnessed an accelerated Chinese emigration into Southeast Asia mainly stimulated by accelerated economic interaction between China and ASEAN as well as China's economic expansion. The hinterland Southeast Asia, like north Thailand and Myanmar, Laos and Cambodia, became the new destinations for Chinese migrants. Meanwhile, Malaysia joined the line of countries who tried to attract Chinese visitors and students. Currently the new Chinese migrants residing in ASEAN should be around some two and a half million, and among them about 100 thousand came from Fuzhou City in Fujian Province.²

2.3. A Great Part of the New Chinese Migrants Are Well Educated

The first influx of the new Chinese overseas emigrants began with students and scholars who were sent by the Chinese government from 1980 onwards.³ Until 2003, 700.2 thousand Chinese students and scholars went abroad for study or research, among them 527.4 thousand settled down abroad,⁴ and most of them are in North America, Europe, Japan and Australia. Following the footprints of the students are those who have family relatives abroad and those who dare to take the risk to emigrate in "irregular" ways – normally through the international human smuggling network. United States is their preferred destination. To the end of the 1990s, some four million Chinese new

emigrants, including those from Taiwan and Hong Kong, settled down abroad and most of them were concentrated in developed countries. This figure is estimated to grow to some 6.5 million towards the end of 2006. Among them more than one million were from Fujian Province,⁵ and almost half of the new migrants from Fujian mainly entered USA.

Regardless of whether they take the way of overseas study for migration or go abroad in the way of family union or overseas investment or even illegal immigration, the new Chinese emigrants are very different from the Chinese migrants before the 1950s. In contrast with their migrant predecessors who were poorly educated and came from poor rural regions, a great part of the new emigrants graduated from universities or colleges in China, and are elites or potential elites in the mainland Chinese society. Our estimation shows that by 2006 about one million mainland Chinese studied abroad and about 70 per cent of them settled down abroad. Adding their families who are normally well educated as well, the number of well-educated Chinese emigrants, including those from Taiwan and Hong Kong who are almost all well educated, could be more than two million.

2.4. Emigration for Better Developing Opportunities instead of Survival

Unlike their predecessors who went abroad searching livelihood for survival, most of these new emigrants did not come from poor families, even including those from rural areas, and what they wanted was to adventure abroad to make a fortune or create a much better life, especially for those who were investment immigrants. China's rapid economic growth results in increasing foreign trade and overseas investment, which offered more chances for new Chinese migrants to engage in occupations in the sectors related to them. In return more new Chinese migrants can promote China's economic expansion. Another difference is in the origins of the Chinese emigrants. For a hundred years almost all the Southeast Asian Chinese came from the Fujian and Guangdong provinces in southeast China. However, the new Chinese emigrants heading for Southeast Asia are from almost all parts of China, and in recent years more and more Chinese migrants from the west and central provinces like Hunan, Sichuan and Hubei are involved in the wave of migration to Southeast Asia.

2.5. Floating rather than Settling Down upon Their First Arrival

Moreover, the process of globalization also gave the new Chinese migrants a floating feature. In contrast to the old emigrant generation who normally landed and rooted themselves in the country they first arrived in, many new migrants are self-called "globalists" preferring to float from one country to

another in order to seek better opportunities. Like their predecessors, they are the first emigrant generation and logically keep close relations with where they originated from because of the strong Chinese consciousness of clan and hometown. However, unlike their nationalist predecessors, the new Chinese migrants mainly look out for their own self-interests when they stress their China link. They are people who are chasing profits everywhere in the world. Therefore, we do not agree with the comments by many western journalists and scholars that these new migrants are Chinese nationalists and do not feel that they have stopped being part of China.⁶

3. What Drives New Chinese Migrants into Southeast Asia?

While many factors which emerged after the mid-1980s stimulated and accelerated the process of Chinese emigration to Southeast Asia, we would like to emphasize the factor of rapid economic interaction between China and Southeast Asia, particularly the rapidly increasing bilateral trade and Chinese investment in Southeast Asia.

3.1. Improvement of Political Relations and Transformation of China's Image

Before the 1980s, the People's Republic of China (PRC) and most of the Southeast Asian countries had been in a politically hostile situation. China was considered by most of the Southeast Asian countries to be bending on exporting the communist ideology, supporting the military insurrections led by the communist parties against the Southeast Asian governments, making use of the Overseas Chinese in Southeast Asia as the Fifth Column, and intending to use military force on land- and sea-border disputes. In short, China was perceived as a threat by most of the Southeast Asian countries. Since 1978, China gradually gave up a foreign policy dominated by radical ideology and proceeded to pursue a "good neighbourliness" policy, the core purpose of which is to keep a stable and friendly relationship with Southeast Asia in seeking a peaceful international environment for domestic economic development.

When Malaysia and the Philippines established diplomatic relations with China in 1974 and 1975 respectively, China promised in the diplomatic statement not to interfere in ethnic Chinese issues. However, the political relations between the two sides did not obviously improved because China had still not totally cut off its relations with the communist parties in these two countries due to its traditional relations with the communist parties in Southeast Asia. Until the early 1980s, China informally promised the anti-Communist governments in Southeast Asia not to support the communist

parties in these countries whether in moral or material terms. In practice China had gradually given up such support based on the communist ideology after the end of the 1970s.

The Southeast Asian communist parties had always been considered by the local authorities to be related to the Overseas Chinese, and China's cutting off its relations with the communist parties in Southeast Asia had helped to reduce the suspicion that the Overseas Chinese could be used by China as the Fifth Column. When the Chinese prime minister Li Peng visited Jakarta in 1990 for the restoration of diplomatic relations between China and Indonesia, he stressed again based on the memorandum for the restoration of diplomatic relations signed by the two governments, that China did not recognize dual nationalities and the Chinese descendants who have Indonesian nationality will not be recognized as Chinese citizens.⁷ When anti-Chinese rioting occurred in 1998 soon after the Asian financial crisis, China kept a patient attitude and avoided criticizing the Indonesian government sharply. After the Suharto regime, the successor Indonesian governments abandoned the assimilation policy on Indonesian Chinese and allowed them to be citizens with full legal rights. As the Indonesian government, which had been considered to be holding the harshest attitude towards the ethnic Chinese, improved its policy on ethnic Chinese, the ethnic Chinese have not become barriers in the relationship between China and the Southeast Asian countries.

The South China Sea dispute among mainland China, Taiwan, Vietnam, the Philippines, Malaysia and Brunei, who all have their own territorial claims to various parts of the South China Sea, had brought China into several conflicts with Vietnam and the Philippines through the 1980s and 1990s. However, these conflicts did not result in serious military confrontation as China would not solve disputes with neighbouring countries by force. In 2002, China signed the Declaration on the Conduct of Parties in the South China Sea which was proposed by the ASEAN Regional Forum and designed to solve dispute by conduct of involved sides (Dalpino and Steinberg, 2003: 49). In October 2003, China's prime minister Wen Jiabao signed in Bali the Treaty of Amity and Cooperation in Southeast Asia which was proposed by ASEAN in 1976, in order to show the Chinese government's attitude to keep a friendly relationship with ASEAN on the principle of mutual respect and thus give up the use of force in disputes. On the thirteenth borderline negotiations at the government level between China and Vietnam in 2007, China and Vietnam agreed to finally clear the dispute on land border in 2008, and let the sea border dispute be discussed in further negotiation. It means that China has already ended the land border disputes and let the South China Sea dispute be solved by further peaceful negotiations in the future.

Last but not least, in terms of political relations between China and Southeast Asia, when Southeast Asian countries were suffering in the financial

crisis of 1997/98 with their currencies in free fall, China resisted pressure to devalue its currency, thereby saving the Southeast Asian countries from being further hurt. Since then, China has received more and more recognition from the Southeast Asian countries as a responsible big country playing a constructive role in regional economic and political affairs.

When China's image was regarded by ASEAN as benign along with China's rapid rising in Asia, Chinese migrants were not considered to be as unacceptable as before.

3.2. Intimate Economic Interactions between ASEAN and China

We paid particular attention to the economic integration between ASEAN and China and considered it as the most important factor that made Chinese migration to Southeast Asia possible and acceptable.

The economic integration between ASEAN and China was partly initiated by the ethnic Chinese in Southeast Asia. In the first decade of China's opening to the world, there were US\$9546.5 million of foreign direct investments (FDI) in mainland China, and among the total FDI in China, US\$9254.16 million came from the Chinese overseas, and US\$292.34 million came directly from the Southeast Asian Chinese.⁸ During 1990-2007, FDI into China increased rapidly, and in the total FDI of US\$790.747 billion, 39.02 per cent or US\$308.533 billion came from Hong Kong, and 5.72 per cent or US\$45.239 billion from Southeast Asia.⁹ Meanwhile, it was believed that a sum much bigger than what the statistics show flowing into mainland China from the Southeast Asian Chinese was in the name of Hong Kong capitals. Because direct investment from some Southeast countries into the Mainland during the 1980s-1990s had raised political sensitivity and resulted in the local authorities' suspicion of the ethnic Chinese loyalty, many huge Southeast Asian Chinese enterprises established their agencies in Hong Kong to engage in investment into mainland China. Hong Kong has played a role as the centre of financial and business services for the Overseas Chinese entrepreneurs in the world, and it is a reasonable and easy choice for the ethnic Chinese in Southeast Asia to invest into mainland China through their Hong Kong branch companies.¹⁰ The intimate economic interactions between ASEAN and China were mainly marked by the rapidly increasing bilateral trade and it was also greatly due to the ethnic Chinese in Southeast Asia, who play a crucial role in promoting trade between Southeast Asia and China in the first two decades after China's opening to the outside world.

The total trade between China and ASEAN increased from US\$7.42 billion in 1990 to US\$202.55 billion in 2007, or increased more than 20 times in 18 years. In 1993 the total trade between China and ASEAN was only US\$10 billion, and in 2000 this figure grew to US\$35 billion. The last

Table 1 Mainland China's Trade with Southeast Asia, 1990-2007
(US\$ billion)

Year	Total	Export	Import
2007	202.55	94.18	108.37
2006	160.84	71.31	89.53
2005	130.37	55.37	75.00
2004	105.88	42.90	62.98
2003	78.26	30.93	47.33
2002	54.79	23.57	31.22
2001	36.52	19.82	16.70
2000	35.01	18.63	16.38
1999	25.41	13.86	11.55
1998	22.40	11.85	10.55
1995	20.42	11.71	8.71
1990	7.42	4.79	2.63

Sources: Figures of 1990-2001 – International Monetary Fund (IMF), *Direction of Trade Statistics*, quoted from Nie Dening, *Quanzhuhua xia Zhongguo yu Dongnanya Jingmao Guanxi de Lishi, Xianzhuang ji Fazhan Qushi* [History, current situation and trends: trade between China and ASEAN under the context of globalization], Xiamen: Xiamen University Press, 2006, p. 406; figures of 2002-2007 – from *Direction of Trade Statistics*, Ministry of Commerce of China.

few years witnessed a high tide of bilateral trade. In 2001 total trade between the two sides was US\$36.52 billion, and in 2007 this figure rapidly grew to US\$202.55 billion.

Actually the real figure of bilateral trade will be more than what is shown in China's government statistics, as a great part of border trade and hawker trade was not included, particularly the trade with Myanmar, Cambodia, Laos and Vietnam.

The launching in November 2002 of the process to establish the China-ASEAN Free Trade Area (CAFTA) was significant to promote the economic interaction of both sides. According to the framework agreement of CAFTA both sides will eliminate most tariff lines from 2005 onwards, until zero tariffs in 2010. It means that the world's largest free trade zone with 1.7 billion people will be created by 2010. Although labour movement between the two sides had not been mentioned in the agreement, more capital and commodity flowing will result in an easier flow of traders and labour between the two sides.

Table 2 Mainland China's Trade with Each Country of ASEAN, 2001-2007
(US\$ million)

Countries	2001	2002	2003	2004	2005	2006	2007
Brunei	165	263	346	299	261	315	355
Myanmar	631	862	1077	1145	1209	1460	2062
Cambodia	240	276	321	482	563	733	933
Indonesia	6724	7928	10229	13481	16789	19057	25009
Laos	62	64	109	114	129	218	262
Malaysia	9425	14271	20128	26261	30703	37112	46398
Philippines	3566	5260	9490	13328	17558	23412	30616
Singapore	10934	14018	19353	26684	33149	40854	47157
Thailand	7050	8561	12655	17343	21812	15704	34639
Vietnam	2815	3264	4634	6743	8196	6666	15117

Source: *Direction of Trade Statistics*, Ministry of Commerce of China.

When cheaper commodities made in China, from large machines to daily necessities, were popularly accepted in Southeast Asia, the Chinese traders, who were suppliers of Chinese goods or investors, were welcome by the local people in Southeast Asia. The Chinese small vendors also benefited from being suppliers of Chinese goods, as they could earn their livelihoods from selling Chinese goods at their street-side stalls. A great part of the new Chinese migrants in Southeast Asia acted as mobile vendors upon their arrival, and several months or years later, they would be able to have small stores with several employees if they had been diligent and thrifty enough like the old migrant generation. Be they big businessmen or small store owners, they all preferred to employ Chinese workers, and this offered a new space for the new coming migrants' living. The new Chinese migrants also benefited from the prosperity of border trade between China and Vietnam and Myanmar, which resulted in several thousand Chinese vendors frequently making a living at the border each day. Currently, the new Chinese migrants owning small stores and street-side stalls are spread over many cities and towns in Southeast Asia, particularly in north Thailand, north Myanmar, Laos, Cambodia, Malaysia and the Philippines. The rapid commercial expansion of new Chinese migrants even begins to challenge the monopoly position of ethnic Chinese in the sale of China-made goods. The cheap Chinese goods occupying a great part of the Southeast Asian market in recent years has greatly helped the Chinese businessmen, vendors and hawkers, who act as the suppliers of Chinese goods, to settle down in Southeast Asia.

3.3. Chinese Investment and Contracted Projects in Southeast Asia

Chinese investment and contracted projects in Southeast Asia have also led to an increase in the number of Chinese migrants because the Chinese invested enterprises like to hire technicians and administrative staff from the Mainland, and the project constructions contracted by Chinese have to depend on Chinese technicians, skilled workers and even unskilled workers introduced from the Mainland, like the cases in Singapore.

Until the late 1990s, China had always been a country waiting for FDI, including those from Southeast Asia, though a few state-owned resource companies did engage in some outward investments, like the Petro China (中国石油公司) investment in the oil sector in Indonesia.

From the late 1990s onwards, China is rapidly emerging as an important investor in Southeast Asia, particularly in the last few years. On the one hand, China's high economic growth from the 1990s onwards has led to a significant increase in the demand for fuel and industrial raw materials, and China's increasingly internationalized economy needs to obtain an international marketing and distribution network as quickly as possible. Moreover, sustained rapid economic growth has also led to substantial capital inflows and a big current account surplus, as well as huge foreign reserves, which have given the Chinese enterprises, especially the state-owned companies, the ability of outbound direct investment. On the other hand, over-supply has become a serious challenging issue in some of China's industries, such as textiles and clothing, bicycles, footwear, and electrical appliances, since the late 1990s. Many small and medium-sized Chinese enterprises were driven by fierce domestic competition into the determination to venture into foreign markets. Southeast Asia became the first target as it is within the neighbouring area and huge numbers of ethnic Chinese, who had been the traditional consumers of Chinese products, lived there.

According to the Chinese government statistics, the Mainland's investments in Southeast Asia amounted to about US\$2.763 billion in 1996-2007. Some Chinese outbound investments were registered in the name of the local people in ASEAN and thus were not shown in ASEAN's statistics, which resulted in different figures in the two statistical sources. In fact, according to either the Chinese government's or ASEAN's statistics, the total FDI from mainland China into Southeast Asia was still very small in comparison to that of USA or Japan, and even much less than those of Taiwan and Hong Kong.

Normally, the private Chinese investors would not show their wealth in China while they also wanted to escape from taxation. Therefore, many small and medium-sized Chinese investors just brought cash abroad, and such investments were actually not included in the Chinese government statistics. When they reported their outbound investments to the Chinese government but invested their capitals in the names of the local partners, these investments

Table 3 Mainland China's Investments in Southeast Asia, 1996-2007
(US\$ million)

Year	Vietnam	Laos	Cambodia	Myanmar	Thailand	Malaysia	Singapore	Indonesia	Philippines	Brunei
1996	1	0	16.305	14.3	3.532	1.32	1.054	1.53	0.681	0
1997	0.58	0	10.017	0	0	0.889	2.424	1.792	0	0
1998	2.22	0	5.877	2.53	0.8	5.616	11.12	10.856	0.832	0
1999	6.62	2	32.77	6.63	2.04	0	2.94	18.95	0	0
2000	17.6135	2.44	17.2255	32.8708	3.2567	0.4789	0.9693	8.0	3.63	0
2001	26.79	1.16	34.8717	1.784	121.2858	0.4392	0.3837	0.64	0.231	0
2002	27.787	6.1	5.1526	15.7794	3.94942	98.72	2.0914	3.71	0.9224	0.4508
2003	8.166	1.2332	33.375	0	49.1318	3.1895	26.2213	103.1155	0.50	0
2004	19.8787	10.22	101.604	12.2832	28.00172	7.075	17.449	26.4455	0.538	0
2005	55.2205	46.992	60.5698	1.004	72.165	15.8539	20.59	30.42927	1.6295	0
2006	43.52	48.04	9.81	12.64	15.84	7.51	132.15	56.94	9.30	0
2007	110.88	154.35	64.45	92.31	76.41	77.67	397.73	99.09	4.50	1.18
Total	320.2757	272.5352	392.0276	179.2614	376.41244	221.0287	615.1227	361.4983	22.7639	1.6308

Note: These figures exclude the financial investment.

Source: Ministry of Commerce of the People's Republic of China – *Zhongguo Duiwai Jingji Maoyi Nianjian (Yearbook of China's Foreign Economic Relations and Trade), 1997-2003*; *Zhongguo Shangwu Nianjian (China Commerce Yearbook), 2004-2008*; *Guobie Maoyi Touzi Huanjin Baogao 2006 (Foreign Market Access Report: 2006)*.

would not be included in ASEAN's statistics. This occurred particularly in northern Indochina where many Chinese investors just brought cash and crossed the border to invest there in the local people's names for the reason of convenience. Therefore we are sure that the Mainland's real total investment is much more than that shown in both statistics, though we could not offer the precise figure.

China's investments in Southeast Asia are mainly involved in the sectors of the exploiting and processing of resources which can be exported to China as well as the manufacturing industries which have export quotas to developed countries, particularly in Laos, Cambodia, Myanmar, Thailand and Indonesia. These sectors need more labours and technicians on low- and medium-tech levels, and this leads to the massive influx of Chinese skilled workers and technicians into Southeast Asia.

By August 2006, the Chinese-invested enterprises in Laos had been involved in 43 projects of mining and mineral exploration, which were about 34 per cent of Laos' total mineral projects.¹¹ The same phenomenon also emerged in Cambodia, Thailand and Myanmar. In Cambodia, Chinese investments were concentrated in the sectors of electricity, textiles, garments, building materials and engineering contracts.¹² In Thailand, China's FDI reached US\$376.41 million in 1996-2007, and most of China's invested projects were involved in the sectors of the processing of agricultural products and exploitation of resources.

In comparison to USA's 19.5 per cent and Japan's 13.3 per cent of total FDI in ASEAN in 1995-2004, China's FDI in ASEAN was only 0.4 per cent of total FDI, and only 7.1 per cent when it included Hong Kong and Taiwan. However, China's investment in ASEAN greatly promoted Chinese migration into ASEAN. Normally, the Chinese-invested projects were constructed by Chinese contractors and managed as well as tech-supported by the Chinese from mainland China. It means that a large number of Chinese managers, technicians and even labours should be imported into these countries. This is mirrored by the TCL groups which are the vanguard of China's TV producers to invest in Vietnam. In order to compete with TVs made in Japan and Korea, TCL paid much attention to after-sales services and sent a large number of technicians and sales staff into Vietnam. By its excellent service and lower prices, TCL's TVs had become popularly accepted in Vietnam.¹³ In Thailand, 5-10 per cent of the employees in the Chinese-invested enterprises were foreigners, and it is believed that they were Chinese. In northern Myanmar, a Chinese-invested sugar cane plantation in a mountain area in the Shan State, which is located opposite to China's border city of Ruili, had recruited some 5000 workers from China to work there.¹⁴

In comparison to China's FDI, China's contractors for industrial and public project construction played an even more active role in Chinese

migration. China's enterprises of external contracted projects are quietly successful in the international competition in ASEAN and getting stronger in the last few years. ASEAN has been one of the most important markets to Chinese contractors of external project construction. In 2004, Chinese contractors obtained contracted projects valued at a total of US\$23.75 billion and finished the projects valued at US\$14.17 billion, and among them, almost one third of the total contract value was offered by Singapore.¹⁵ In 1995, the Chinese enterprises contracted only a value of US\$495.11 million of project constructions in ASEAN, but by 2005 this figure had increased to US\$28.6193 billion.

Chinese investments, projects contracted by the Chinese and China's labour cooperation with ASEAN, have led to massive numbers of Chinese technicians, skilled workers and even unskilled workers who being introduced legally to ASEAN. According to China's statistics, this number in 1995 was 40652. By 2000, the number had increased to 113861, and since then, this scale has been keeping stable. Among the ASEAN member countries, Singapore is the most important market to the Chinese external project contractors, and also the country into which the largest number of Chinese workers have been introduced legally. The Chinese contracted projects in Singapore led some 100 thousand Chinese workers from the Mainland into Singapore as early as in 2001, and most of them worked in the construction industry.¹⁶

The numbers of contracted workers and technicians in Table 4 refer to those introduced legally from China. Actually, much more Chinese workers and technicians worked in Southeast Asia without work permits. Moreover, because most of the Chinese contracted projects last 1-2 years or longer, and massive numbers of Chinese technicians and administrators and even labours were recruited from the Mainland, many of them adapted to the local social environment and knew how to settle down there after the projects were finished. In Malaysia, the Chinese ambassador recognized there were some 20000-40000 illegal Chinese workers in 2004 while the legally introduced workers from the Mainland were only 3816.¹⁷

Although we could not provide an exact number of legal and illegal Chinese labours in ASEAN, this figure will not be less than 2000 thousand. In Singapore alone, there were about 746 thousand legal Chinese contracted workers towards the end of 2005. Besides Singapore, Myanmar became the second important market to Chinese external project contractors since 1999. In 1995, Chinese contractors only obtained a value of US\$20 million in Myanmar, but in 1999, it amounted to US\$192.69 million. In 2000-2005, Chinese contractors had obtained a total value of more than US\$17 billion for the project constructions in Myanmar. The rapidly increasing value of Chinese contracted projects could partly explain why so many Chinese flew into Myanmar in the last five years.

Table 4 Numbers of Chinese Technicians and Labours Introduced to ASEAN in 1995-2005

Years	Singapore	Thailand	Malaysia	Indonesia	Philippines	Vietnam	Cambodia	Laos	Myanmar	Brunei
1995	30863	1906	1883	1016	283	1372	563	2525	102	139
1996	45496	2264	3413	832	647	2035	1525	2890	343	343
1997	58583	2584	5239	1215	1058	3004	2466	2737	1204	267
1998	59705	2078	3452	1334	1140	2344	3521	2409	1893	175
1999	73229	1797	3228	1738	681	3692	5598	2598	2497	187
2000	87592	1843	3649	1890	841	4716	6 898	3450	2554	428
2001	99680	3496	4026	2557	1018	6008	5885	2795	2132	76
2002	91220	2906	4498	3552	936	6737	6181	4188	3592	57
2003	81444	2678	5577	4819	1007	8678	5560	3419	4144	215
2004	73844	2963	3816	4713	820	8638	5075	3715	4872	472
2005	74682	2900	3937	2832	804	7943	4798	3094	8726	1263

Source: National Bureau of Statistics of China.

China's aids to ASEAN are also a factor which stimulates Chinese labour migration. Mostly, the Chinese aid projects were contracted to Chinese enterprises, and then the contractors introduced technicians and even labours from China for the reasons of cost and administrative convenience. According to a study by Henry Yep of the National Defense University in Washington, in 2003, China's aid to Cambodia nearly matched the US levels, while its aid to the Philippines was roughly four times greater, that to Indonesia was nearly double, and that to Laos was three times greater than that of USA (Kurlantzick, 2006). In Laos, China provided economic aid of more than US\$1200 million in October 2001-March 2004 after China's president visited Laos, and most of the aid was used to build roads, bridges, large electric

Table 5 Estimation of New Chinese Migrants in Southeast Asia by 2006

Countries	Numbers ('000)	Occupations	Remarks
Myanmar	1000-1100	Hawker, trader, farmer, technician, labour, staff	Mostly "floating people"
Thailand	350-400	Hawker, trader, technician, teacher, artist, staff	Mostly "floating people"
Singapore	350-380	Professional, labour, student, staff, businessman	
Philippines	150-200	Hawker, trader, labour, staff, student	
Malaysia	100-150	Hawker, labour, student, technician, servant, full-time housewife, retired	Mostly "floating people"
Vietnam	100-120	Investor and family, manager, technician, trader, hawker	Mostly "floating people" and Taiwanese
Indonesia	100	Investor and family, trader, hawker, technician	Mostly Taiwanese
Laos	100	Hawker, trader, farmer, technician, labour, staff	Mostly "floating people"
Cambodia	50-100	Hawker, trader, technician, staff	Mostly "floating people"
Total	2300-2650	Involved in all occupations except politics, the majority being hawkers and traders	Mostly "floating people"

utilities and cement, as well as large public buildings like the national culture palace.¹⁸ Since Laos could almost not offer any mining technicians and even skilled constructors, it would be reasonable that all the constructing projects are crewed by the Chinese.

According to the estimation by Zhuang (2008), the total number of new Chinese migrants entering Southeast Asia probably amounted to 2300-2650 thousand from the late 1980s to the present day.

4. Conclusion

The Chinese migrants into Southeast Asia constituted a part of the tide of the new Chinese emigration during the last 30 years since the Chinese government relaxed the policy forbidding overseas emigration. However, the motives and career structure of those migrants going to the developed world and those heading for Southeast Asia have been quite different.

The economic integration between China and ASEAN is the most important factor to drive Chinese migrants into Southeast Asia. The last ten years witnessed a high tide of mutual investments and rapidly increasing trade between the mainland China and Southeast Asia. As a result of the rapid growth of exports, investments, aids and contracted constructions from China to ASEAN, more than two million Chinese went to ASEAN in the last twenty years, particularly the countries bordering China. They are engaging in all occupations except politics, particularly as traders and hawkers selling cheap Chinese goods. In return, several hundred thousand Southeast Asians reside in China managing their investments, like those from Singapore, Malaysia, the Philippines, Thailand and Indonesia, or earning their livelihood, like those from Vietnam, Cambodia and Myanmar.

It seems that a historical phenomenon is appearing again. The overseas expansion of the Chinese business network brought about Chinese emigration from the early 17th century to mid-19th century, which resulted in a large Chinese society in Southeast Asia, and in return, these Chinese migrants became a pillar of the Chinese overseas expanding network by playing their roles both as sellers and consumers of Chinese goods. Currently, the new Chinese migrants are not only greatly dependent on the Chinese goods like their predecessors, but are also benefiting from the capital, technology and aids to ASEAN from China. In return they are contributing to the economic integration between China and ASEAN. However, it is a new phenomenon that more than a hundred thousand Chinese professionals and students have been working and studying in Southeast Asia and most of them are concentrated in Singapore and Malaysia. This trend will continue in the near future as there are many well-educated Chinese who are keen to go abroad and they are welcome by these two countries.

In all the countries of ASEAN, most of these new Chinese migrants are traders and hawkers who make a living mainly by selling cheap Chinese goods to the local people, including the ethnic Chinese. The Chinese-invested enterprises and project constructions contracted by China's enterprises, some of which were financed by China as aid projects or investments, led to a large number of mainland Chinese technicians and labours flowing into ASEAN. In return they became consumers of Chinese goods and promoted the flow of more Chinese traders and hawkers into the ASEAN countries, particularly Myanmar, Thailand, Laos and Cambodia. It is also significant for the new Chinese migrants to engage in commercial agriculture upon their arrival in northern Indochina in order to make use of the tax free condition to export agricultural products to China, which represents a new phenomenon which has never happened before in the history of free Chinese overseas emigration. The Chinese migrants engaging in agriculture are less floating than any other kinds of Chinese migrants, and their growing in number is forming new Chinese communities in northern Myanmar, Cambodia, Laos and northern Thailand.

Whether it is in Singapore where immigration is strictly controlled or in Myanmar where the border or immigration control is loose, a small or big part of the new Chinese migrants is undocumented because they can easily disappear in the vast ethnic Chinese communities in Southeast Asia. In Malaysia, the Philippines, Laos, Cambodia, Thailand, and particularly in Myanmar, the undocumented Chinese constitute a great part of the new Chinese migrants.

The arrivals of the new Chinese migrants, in general, are welcome by the authorities and people in Southeast Asia. Benefiting from the economic integration of China and ASEAN, they bring capital, technology, cheap Chinese goods and even advanced administration to Southeast Asia and contribute to the economic development of Southeast Asia, particularly the inland areas of Indochina. In return, the new Chinese migrants in ASEAN play a key role in China's exports, foreign aids and contracted project constructions in ASEAN, and a great number of emigrants have served to reduce the situation of labour surplus in the sending places in China.

The key mark of globalization is the free flow of capital, technology and labour among countries. In the context of globalization and the rapid growth of economic integration of China and ASEAN, the trend of Chinese emigration to Southeast Asia will continue in a certain scale in the near future as the presence of the Chinese migrants in ASEAN is bringing a win-win situation to both sides. In return, a great number of Southeast Asians will flow into China to manage their investments or find good opportunities in the developed parts of China.

Notes

1. Most of the numbers are estimations and not from population censuses. They are from Suryadinata (1997: 7). We doubt the number of Indonesian Chinese, which is obviously an underestimation.
2. *Survey on Overseas Chinese from Fuzhou City*, by the Council of Overseas Chinese Affairs of the Government of Fuzhou City, 2006, unpublished.
3. The term “new Chinese migrants” we used here refers to the Chinese who emigrated abroad since the end of the 1970s and who are distinct from the old ones who went abroad before the 1950s. This term has become popular around the world, being used by scholars who study Chinese overseas or Chinese emigration, though this term is often used with minor variations regarding definition.
4. Figures from the Ministry of Education of China. <www.Chisa.edu.cn/newchisa/web/8/2004-02-23/news_17713.asp>
5. Figure from the 2006 survey statistics of the Office of Overseas Chinese Affairs of Fujian Province.
6. For example, Nyiri Pal, a Hungarian Sinologist, gave this comment and received wide recognition (see Bertil Lintner, “Third Wave: A New Breed of Migrants Fans Out”, *Asia Times Online*, 17th April 2007).
7. *Renmin Ribao* (People Daily), Beijing, 9th August 1990.
8. Figures from the Ministry of Commerce of China.
9. Figures from *China Commerce Yearbook 2008*, Beijing: China Commerce and Trade Press, 2008.
10. The cases of Liem Sioe Liong and Mochtar Riady’s investment in the Mainland before 2000 can be seen as a model of the Southeast Asian Chinese indirect investment through Hong Kong (see Tracy and Lever-Tracy, 2002: 68-69).
11. The Mining Ministry of Laos, cited from the Economic Department of the Chinese Embassy in Laos.
12. *Guide of Investment in Cambodia*, compiled by the Economic Department of the Chinese Embassy in Cambodia.
13. Association of China’s Overseas Industrial Development and Planning (ed.), *Zhongguo Haiwai Touzi Niandu Baogao 2005-2006* [Annual report of China’s overseas investment 2005-2006], Beijing: Social Science and Document Press, 2006, pp. 113-114.
14. Unpublished interview materials by Dr Qu Jianwen, the Vice-Dean of the School for International Studies in Yunnan University, 2006.
15. Figures from the Economic and Commercial Counselor’s Office of the Embassy of China in Singapore.
16. Yang Ruoqian, “Why Are Chinese Workers Falling Easy Prey in Singapore: Analysis”, *People Daily*, 10th July 2002.
17. *Nanyang Press* (南洋商报, Malaysia), 18th April 2004.
18. Interview of Liu Yongxing, the Chinese ambassador in Laos, by journalist of Xinhua News Agency.

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Chinese Migrant Workers in Singapore: An Analysis Based on Interviews

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Abstract

From 1985 onwards, Chinese migrant workers went to work in Singapore in the form of labour service for foreign contracted projects. Singapore is now a major receiving country for Chinese migrant workers. The number of Chinese migrant workers in Singapore is estimated to be about 200,000. Most of them work in construction, manufacturing, maritime and service industries. They come to Singapore mainly through recruit agents after paying huge commission. They face multifarious problems and risks stemming from system flaws, market disorder and the Chinese migrant workers' weak position.

Keywords: *Chinese migrant workers, Singapore, labour service, overseas employment*

1. Introduction

There are many migration theories such as the traditional “push-pull” theory, migration theory of neoclassical economics, new economics of migration theory, segmented labour market theory, world systems theory, migration network and migration systems theory which mainly explored the reason why international migration occurs. Additionally, many researchers have focused on immigration and emigration policy of labour migration. In recent years, there has been a growing emphasis on universal human rights that would accord to all persons, regardless of their citizenship, basic rights to due process, personal security, equality, and economic and social rights (Nickel, 1980; Tomasi, 1983; Stahl, 1999; Wickramasekera, 2000; Piper, 2004).

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However, not much work was done to understand the working and living situations of Chinese migrant workers in Singapore. A thesis entitled “A Study of Chinese Migration to Singapore 1896-1941” written by Joyce Hong-geok Ee (1959) had discussed the situations of Chinese migrants in Singapore, the emigration factors and its effect on China and Singapore during 1896-1941. Xiang (2006) discussed China’s migration management policies from the view of origin countries, which included six issues such as exit control, diaspora policy, student migration, labour export, regulations on emigration agencies and the government’s response to human smuggling. Low, Liu and Soh (2008) explored the problems of Chinese foreign workers in Singapore’s construction industry based on questionnaire survey.

The term “migrant worker” has different official meanings and connotations in different parts of the world. The United Nations Convention (1990) on the Protection of the Rights of All Migrant Workers and Members of Their Families defines migrant worker as follows: the term of “migrant worker” refers to a person who is engaged or has been engaged in a remunerated activity in a state of which he or she is not a national.¹ OECD further defines foreign migrant worker as: “foreign migrant workers are foreigners admitted by the receiving state for the specific purpose of exercising an economic activity remunerated from the receiving country. Their length of stay is usually restricted as is the type of employment they can hold”.² The term “Chinese migrant workers” in this paper just refers to the OECD definition of foreign migrant workers with “foreigner” replaced by “Chinese”.³

Beginning from 1985, Chinese migrant workers came to work in Singapore in the form of labour service for contracted projects. Singapore is now a major receiving country for Chinese migrant workers. But there are still lots of myths about Chinese migrant workers in Singapore because the Singapore government has never made public data about the number of Chinese migrant workers in Singapore. How many Chinese migrant workers are staying in Singapore now? What problems do they face? Why do they encounter such problems? This paper will attempt to answer the abovementioned questions.

This research especially pertaining to the problems facing Chinese migrant workers in Singapore is mainly based on the author’s interviews with Chinese migrant workers in Singapore who were facing problems and went to the Chinese embassy in Singapore to ask for help, and those who were interviewed by the author on construction sites, shops, restaurants and public places. Some cases were collected from the reports in Singapore’s local newspapers such as *The Straits Times*, *Lianhe Zaobao*, *The New Paper* and *Today*.

2. Number and Occupations of Chinese Migrant Workers in Singapore

The accurate number of Chinese migrant workers in Singapore is still a puzzle to scholars and even to the Chinese government, but may not be so to the Ministry of Manpower of Singapore. The Ministry of Manpower of Singapore has never publicized the number of Chinese migrant workers in Singapore because of political or social consideration. What I can do here is to estimate according to some facts and data from the Ministry of Commerce of China and the China International Contractors Association.

According to the data from the Economic and Commercial Counselor's office of the Embassy of the People's Republic of China in the Republic of Singapore, Singapore has been the largest market of labour service and the second largest market of foreign contracted projects of China for many years⁴ and now ranks the second largest market of foreign labour service following Japan. According to the statistics of the Ministry of Commerce of China, the number of Chinese migrant workers in Singapore under the term of labour service is about 100,000 and most of them work in construction, manufacturing, maritime and services like waiter or waitress at food courts (*Annual Report on China International Labor Cooperation (2007-2008)*, p. 33.). For instance, the industrial composition of Chinese migrant workers in Singapore in 2007 is as follows: 39,378 in construction, 29,388 in manufacturing, 3,405 in agriculture, husbandry and fishing, and 8,076 in transportation (*ibid.*: 11). Furthermore, there are more and more Chinese migrant workers as aircraft maintenance personnel, electric workers, nurses and kindergarten teachers. The number of Chinese migrant workers in Singapore in the form of labour service increased from 2,454 in 1990 to more than 73 thousand in 1999 (Yin, 2002) and 100 thousand in 2007 (*Annual Report on China International Labor Cooperation (2007-2008)*, p. 33; see Table 1). At the same time, the contract value and turnover of labour service cooperation with Singapore increased year by year (see Table 2).

We should note here that the number and turnover of Chinese migrant workers in Singapore derived from the Ministry of Commerce of China shown above are only referring to the number of Chinese migrant workers in Singapore through the Operating Companies of Labor Service in the form of labour service and do not include all Chinese migrant workers in Singapore through the channel of the Intermediary Agencies for Overseas Employment and other ways.⁵ If all factors are included, it is estimated that the conservative stock number of Chinese migrant workers in Singapore via all channels may reach about 200,000. It follows that Chinese migrant workers in Singapore may occupy 22.2 per cent of the total amount of 900,800 foreign workers in Singapore in 2007. The estimation on the number of Chinese migrant

Table 1 The Number of Chinese Migrant Workers in Singapore in the Form of Labour Service (person)

		2005	2006	2007
Total	Number of migrant workers to Singapore in that year	25,802	31,320	29,200
	Number of migrant workers still in Singapore at the end of the year	74,682	84,713	100,000
Labour service to contracted project	Number of migrant workers to Singapore in that year	277	10,691	4,200
	Number of migrant workers still in Singapore at the end of the year	991	20,688	20,000
General labour service	Number of migrant workers to Singapore in that year	15,606	20,629	25,000
	Number of migrant workers still in Singapore at the end of the year	19,921	64,025	69,000
Labour service to design consultant	Number of migrant workers to Singapore in that year	0	0	0
	Number of migrant workers still in Singapore at the end of the year	14	0	0

Source: The Ministry of Commerce of China, edited by author.

Table 2 Contract Value and Turnover of China's Labour Service Cooperation with Singapore (US\$ billion)

Year	Contract Value	Turnover
1976-2001	34.98	32.34
2002	2.19	5.46
2003	2.58	4.29
2004	2.18	4.29
2005	2.62	3.98
2006	2.8	4.2
2007	4.2	4.5

Source: The Ministry of Commerce of China.

workers in Singapore is based on the following factors: a) the number of Chinese migrant workers in Singapore through the Operating Companies of Labor Service Cooperation in 2007 already reaches about 100,000; b) usually Chinese migrant workers have one to three-year labour contracts with their employers – mostly two-year labour contracts – and this means that Chinese migrant workers may stay and work in Singapore for two years, though some Chinese migrant workers got renewal of labour contracts after former labour contracts end; c) there is another group of Chinese migrant workers to Singapore through the Intermediary Agencies for Overseas Employment in China; d) together with one group of Chinese migrant workers through informal employment agencies⁶ or by migrant workers themselves; e) some Chinese migrant workers stay in Singapore without valid work pass.

3. Channels of Chinese Migrant Workers Entering Singapore

How do Chinese migrant workers enter Singapore to work? In other words, by what ways do Chinese migrant workers come and work in Singapore? This question is related to China's management system of Chinese working abroad. The Chinese authorities do not have a single blanket policy covering all categories of emigrants such as student emigration, residential emigration and labour export. The distinct feature of the management system of Chinese working abroad is the system of classified management. The Chinese government classifies Chinese working abroad into two types, supervised by various administrative departments.⁷ One is called as "foreign labour service cooperation"; the other is called "overseas employment". Foreign labour service cooperation refers to the economic activities that domestic enterprises conclude contracts with foreign or overseas companies, intermediary institutions or private employers which are permitted to recruit or employ foreign workers, and recruit, select and dispatch Chinese citizens abroad (or out of the mainland) in an organized way to provide foreign employers with labour services pursuant to the contractual stipulations, carry out the management accordingly in accordance with the Provisions on the Measures for the Administration of Operation Qualification of Foreign Labor Service Cooperation. The enterprises that get the Operation Qualification of Foreign Labor Service Cooperation and Credentials of Labor Service Cooperation from the Ministry of Commerce are called the "Operating Companies of Labor Service Cooperation". "Overseas employment" refers to the employment activities in which Chinese citizens sign labour contracts with overseas employers, provide work abroad and get remunerations for their work. The intermediary activities for overseas employment refer to the activities of providing relevant service for Chinese citizens' overseas employment or overseas employer's employing of Chinese citizens to work

abroad. The agencies that are approved to engage in such activities are the “Intermediary Agencies for Overseas Employment”. The activities of foreign labour service cooperation are supervised by the Ministry of Commerce. The activities of overseas employment are supervised by the Ministry of Labor and Social Security. The differences between them are: 1) foreign labour service cooperation is operated by the Operating Companies of Labor Service Cooperation which have Operation Qualification of Foreign Labor Service Cooperation and Credentials of Labor Service Cooperation from the Ministry of Commerce, and foreign labour service cooperation is the profit-making performance of companies and is considered to belong to trade and economic cooperation; 2) overseas employment is considered as the behaviour of individual citizen and is not included in trade and economic cooperation by the Chinese government. In fact, it is very difficult to differentiate them in practice. In other words, there is no difference between them in the eyes of receiving countries.

So there are four ways for Chinese citizens to come and work in Singapore. The first way is through the Operating Companies of Labor Service Cooperation. The second way is through the Intermediary Agencies for Overseas Employment. These two ways are the major channels for Chinese emigrant workers to work abroad including Singapore. The third way is through those employment agents and middlemen that have no Operational Qualification Certificate of the People’s Republic of China for Labor Service Cooperation with Foreign Parties or the Intermediary Agencies for Overseas Employment that are issued and granted by the Chinese government. This is considered illegal in China. The fourth way is through migrant workers themselves. The third and fourth ways are possible because it is very easy for Chinese to go abroad now as long as they have passports and visa (any kinds of visa) or In-Principle Approval (IPA) under China’s current exit-entry management system.

4. Amount of Agent Commission and Ways of Payment by Chinese Migrant Workers in Singapore

The amount of agent commission and ways of payment vary case by case. According to this author’s investigation and interviews, the amount of agent commission paid by Chinese migrant workers ranges from RMB18,800 to RMB65,000. The agent commission charges are based on the salary which Chinese migrant workers may make in Singapore. The higher the salary of the Chinese migrant workers make in Singapore, the higher the agent commission the agent charges. Among 50 Chinese migrant workers with work permit I investigated, only one person paid less than RMB20,000, 5 persons between RMB20,000 and 30,000, 18 persons between RMB30,000 and 40,000, and

Table 3 Distribution of Chinese Migrant Workers in Term of Commission (person)

<RMB20,000	≥RMB20,000 and ≤RMB30,000	>RMB30,000 and ≤RMB40,000	>RMB40,000 and ≤RMB50,000	>RMB50,000 and ≤RMB65,000
1	5	18	19	7

Source: Counted by author according to field studies.

19 persons between RMB40,000 and 50,000, 7 persons between RMB50,000 and 65,000 (see Table 3). The number of Chinese migrant workers who paid commission between RMB30,000 and 40,000 occupies 36 per cent and the number of Chinese migrant workers who paid commission between RMB40,000 and 50,000 occupies 38 per cent of the total of 50 Chinese migrant workers.

There are three ways of paying commission by Chinese migrant workers to recruit agents. The first, Chinese migrant workers pay all commission to China's agent one time. The second, Chinese migrant workers pay commission to China's agent and Singapore's agent separately. They pay commission first to China's agent before leaving for Singapore and to Singapore's agent at the moment of arriving in Singapore. The third, Chinese migrant workers pay part of the commission first to China's agent and pay the remaining commission by deduction from wage or pay all commission by deduction from wage. For instance, a Chinese construction worker should pay RMB19,000 (S\$4,000) to China's agent in total as commission, but he did not pay before leaving for Singapore because he could not afford to do so all in one time. So China's agent commits Singapore's employer to deduct S\$200 from his salary per month for 20 months during the two-year contract. Furthermore, he will pay additional commission of about RMB9,500 (S\$2,000) to the agent if he extends one more year after the two-year contract.

5. Problems and Risks Faced by Chinese Migrant Workers in Singapore

There are always barriers between dream and reality. Some Chinese migrant workers realize their dreams and make money back their hometown, but some have their dreams shattered in Singapore. There are lots of problems faced by Chinese migrant workers in Singapore, especially for those Chinese migrant workers who hold work permit. I sum up all cases which I collected through interviews with Chinese migrant workers (at food courts, at shops, on airplane, at the Chinese embassy in Singapore), through talking with NGOs

such as TWC2 and HOME, and through collecting the data from newspapers and Internet into following aspects.

5.1. Money Affairs

5.1.1. Losing job within contract duration

a) because of factory or company bankruptcy

Case 1: In July 2002, Singapore United Plastic Factory went bankrupt. About 30 Chinese migrant workers at that factory lost job and failed to get salary of average S\$2,500 per person. Some had been working at the factory for 15 months at the longest and some had only been working half a year at the shortest. Fifteen of them came from Fujian province through two individuals as intermediary agents with payment of RMB55,000 each as intermediary service charges, the other 10 came from Liaoning province through China Shenyang International Economic & Technical Cooperation Corporation and Changchun Municipal Academy of Architecture Design as intermediary agencies with payment of RMB35,000 as intermediary service charges.

These Chinese migrant workers complained to the Singapore office of the China International Contractors Association and hoped to get help. The Singapore office of the China International Contractors Association and the Chinese embassy in Singapore tried their best to help these Chinese migrant workers to get back salary and part of the intermediary service charges through negotiation with the Ministry of Manpower of Singapore, insurance company, Singapore's employment agencies, and China's employment agencies. Finally, those Chinese migrant workers, who were dispatched through the qualified Operating Companies of Labor Service Cooperation, namely China Shenyang International Economic & Technical Cooperation Corporation, obtained RMB5,000 compensation each from China Shenyang International Economic & Technical Cooperation Corporation, S\$1,000 from Singapore's employment agencies and S\$1,100 together with one-way airplane ticket back to China from insurance company; but those Chinese migrant workers who were dispatched through individuals obtained little compensation.⁸

b) because of disputes in salary, welfare, working time, working affairs, etc.

The labour contract has a clause that there is a three-month probation/trial period for employees. The employer can dismiss an employee if he or she is not satisfied with the performance of the employee. Under this circumstance, Chinese migrant workers will be likely to lose job and may go back home soon. They may just get a few intermediary service charges back or even not get any charges back in some cases if they are dispatched through illegal intermediary agencies. Some Chinese migrant workers were dismissed

after working for only one week partly because of their bad performance or inadaptation and partly because of employer's nitpicking.

Case 2: For instance, a Chinese lady was dismissed by her employer after working for only one week because of fighting with the manager owing to work disputes. It is not clear whose fault it was, but the outcome is that the Chinese lady went back to China and did not get any compensation from the employment agency. She suffered big loss in money including intermediary service charges, training fee and travel cost.

c) even because of malicious cheating by employment agency or jointly by employer

Case 3: Liu (male) has worked at a repair depot in Singapore for only two months. He paid RMB20,000 to China's employment agency and wrote a debt note of about RMB60,000 to it as well. That meant the employment agency would charge a total amount of RMB80,000 as intermediary service charges. He was promised by the employment agency to make about S\$2,400 salary per month and got an English version of the contract before he came to Singapore. But when he arrived at the Singapore airport, a man who claimed himself as the representative of Singapore's employment agency took away the English contract and passport from Liu, saying that he could not arrange any job for Liu if Liu did not give him the contract. Subsequently he was sent to a repair depot and only had S\$750 salary per month. Even so the Singapore employment agency still asked Liu to pay another RMB20,000 as intermediary service charges and even said that they did not make any money at all from him. Liu did not agree to pay any fee to that employment agency. Finally he lost the job and his work permit was cancelled by his employer. Liu did not even know where the office of the employment agency was located and could not reach the man from the employment agency at all in the end.

d) because of falling ill during contract period

Case 4: There were 3 Chinese girls from Jilin province. They worked at a KTV for one and a half years from December 2006. They shared a flat with other colleagues, which the employer provided to them. Unluckily they caught pneumonia because they were infected by their roommates and their work permits were cancelled by the Ministry of Manpower of Singapore because of pneumonia. That meant they had to go back home even though the labour contract was not yet due. They claimed that they did not make enough money to cover about RMB42,000 agent commission. Their employer argued that it was not his fault and did not want to take any responsibility for this case.

e) because of uncertain and irregular work and pay

For some Chinese migrant workers like construction workers, their wages are composed of piecework wage. They work some days and take rest some days because the employer cannot provide enough work for them. Their working time is uncertain and irregular. That means their salary is uncertain and irregular. So in this case, they cannot make enough money to cover their commission payment, to say nothing of making money back to China.

5.1.2. Salary deduction and late payment of salary

Case 5: Li Fei came to Singapore in January 2008 with a contract in hand promising him S\$2,501 a month to cook at a restaurant. When he got to the restaurant, he was put to work waiting tables. When he received a pay cheque, he was asked to repay his employer “living expenses” and finally had only S\$800 left. Many Singapore companies in the food and beverage industry use similar tactics to get around hiring quotas and levy for work permit and S-pass holders.⁹

Case 6: Mr Li Bingxin came to Singapore from Shandong province in March 2007 after paying an agent RMB30,000 and worked as a cook at a Chinese restaurant at Geylang in Singapore. He claimed the employer had agreed to pay him S\$2,500 a month but did not pay him regularly from the start in fact. The employer gave him money every now and then. At the end, he only got S\$5,500 in total and was owed S\$18,000 by the boss after 8 months’ work. He left the employer with the hope of getting a new job. When another restaurant was willing to hire him, the former employer refused to cancel his pass, which is required by law when Work Pass holders change employers. He filed complaint with the Ministry of Manpower and turned to get help from HOME (Humanitarian Organization of Migration Economics). In the period of investigation of the Ministry of Manpower, he had no job, no money and no place to stay.¹⁰

5.1.3. Paying performance guarantee deposit (security deposits)

Before 2003, the Operating Companies of Labor Service Cooperation in China had the right to collect performance guarantee deposit which was not more than about 20 per cent of the total amount of earning for each Chinese emigrant worker in order to guarantee Chinese emigrant worker to fulfill the responsibility in the labour contract and be back to China in time. With the more open and encouragement policy taken by the Chinese government, the Ministry of Finance and the Ministry of Commerce began

to implement a new policy of shifting from performance guarantee deposit to performance guarantee insurance on 29th October 2003. In fact, some of the Operating Companies of Labor Service Cooperation in China are still collecting performance guarantee deposit from the Chinese emigrant workers as a method of controlling Chinese emigrant workers to come back home in time by means of changing the term “performance guarantee deposit” into “savings” in labour service contract. On the other hand, the employers in Singapore collect performance guarantee deposit from Chinese migrant workers as well and directly deduct from the monthly salary. In this case, whether Chinese migrant workers get performance guarantee deposit back mainly depends on the Operating Companies of Labor Service Cooperation and the employer. There is a space for disputes to arise on performance guarantee deposit among Chinese migrant workers, employment agencies and employers, and it is even used to be one of the methods of cheating money by some bad employment agencies and the employers. Moreover, some employers in Singapore shift security deposits which are submitted to the Ministry of Manpower of Singapore by employers to Chinese migrant workers.

5.1.4. No transparency on salary

Some interviewees told me they did not know how their monthly salary was calculated because their monthly salary was always different. Especially for construction workers, the monthly salary was composed of piecework wage. A construction worker told me his monthly salary floated about S\$100-200 around S\$1,100 and the monthly salary of the members of the same group (team) was different. There was no salary slip. No one told him how the monthly salary was calculated even when he asked.

5.1.5. Losing remittances

Chinese migrant workers usually remit money through remittance agent instead of through a bank because remittance agent provides higher exchange rate and charges less commission than a bank. But the problem is that it is more risky. The following incident of losing remittance which happened in 2002 was a very typical case. A remittance agent in Geylang was suddenly closed on 26th January 2002 and misappropriated about S\$8.77 million from more than 1,000 Chinese migrant workers. The victims were from all walks of life, male and female, and the value of their remittance varied from 1 or 2 thousand to 60 thousand in Singapore dollars.¹¹ Even though the proprietor was sentenced to 22 years of imprisonment, the victims lost the majority of their hard-earned money.

5.2. Identification Documents like Passport and Work Permit Being Confiscated by Employer or Employment Agency

Identification documents of the Chinese migrant workers I interviewed were taken away by employers or employment agencies shortly after they arrived in Singapore. It has become a way in that the employers and employment agencies manage and control Chinese migrant workers. Some Chinese migrant workers only have a copy of work permit. Chinese migrant workers are under the strict control of employers and employment agencies without valid identification documents during their staying in Singapore.

5.3. Well-being or Welfare Affairs

5.3.1. Overtime work

A construction worker whom I interviewed at the Chinese embassy told me that he worked 84 hours per week. He worked from 8:00 a.m. to 12:00 a.m. in the morning and from 1:00 p.m. to 7:00 p.m. in the afternoon every day (7 days a week) with another 2.5 hours work in 4 nights per week. His monthly salary was about S\$1,000. Of course, there were other problems with him like no pay of 3 months salary and salary deduction. Another case is about an assembly-line lady whom I met on airplane from China to Singapore. She works from 7:30 a.m. to 12:45 a.m. in the morning, and from 1:15 p.m. to 5:00 p.m. in the afternoon, and then from 5:30 p.m. to 8:00 p.m. in the evening every working day with Sunday off work per week. Her total working hours per week are about 67.8 hours. Therefore, the construction worker overworked 32.1 hours more than average weekly hours (about 51.9 hours) in construction in 2006 and the assembly-line lady overworked 17.3 hours more than average weekly hours (about 50.5 hours) in manufacturing in 2006.¹²

5.3.2. Insufficient food or bad-quality food

This case often happens in occasions that the employer provides food for workers with either no pay or payment of fixed sum of money back to the employers by Chinese workers. In Case 5, Li Fei alleged that his meals were sub-standard. "We got the yellowing vegetables that they could not serve to guests, and meat, such as the duck's head, that was a day old".¹³

5.3.3. Bad accommodation

Bad accommodation includes cases where many persons are staying in a room with windowless, bad sanitary condition, or a place not suitable to live in, etc. Li Fei in Case 5 claimed that he was housed in a small, windowless

room at the back of the restaurant packed with about 20 workers, when he was interviewed by a reporter of *The Straits Times*. A Chinese worker complained to the Chinese embassy that he was housed in a room packed with 21 persons and his whole body was full of red spots because of being bitten by mosquitoes. This problem is very common for Chinese migrant workers in Singapore. The deciding reason is for saving cost either by employers or workers themselves.

5.4. Physical Abuse

There are a few cases where Chinese migrant workers in Singapore encountered physical violence or sexual harassment.

5.5. Inadaptability of Working and Living

5.5.1. Language

Although comparing with other countries, Singapore is a bit more suitable to Chinese migrant workers. But English is the official and working language in Singapore after all. It is still a problem especially for those Chinese workers who work at service sectors such as food courts, coffee shops and fashion shops. Many Chinese workers working at service sectors have only graduated from high school and find it hard to communicate with their customers in English. That is one reason why Singaporeans complain that they get low quality service at food courts or shops. Some customers reported to the newspaper that they had a confrontation with Chinese migrant workers due to language barriers.¹⁴

5.5.2. Eating habit

Most of the Chinese migrant workers ate at the food courts which provide various types of food. For tourists, it is no problem to eat at food courts and it should be delicious. But for Chinese migrant workers who live in Singapore for one to three years, it is difficult for them to eat at food courts every day. Some interviewees told me that the majority of landlords do not allow them to cook any food, even instant noodles, at home.

5.6. Psychiatric or Psychological Problems

Many Chinese migrant workers feel homesick, alone and isolated. After all, Singapore is not their hometown and they came with different cultures from their hometowns. Chinese migrant workers face a completely new and different working and living environment and have to start from scratch, with

neither friends nor relatives there. For instance, some Chinese construction workers I interviewed live in construction sites where there are no air-conditioning and TV. They are not allowed to play cards and drink beer, wine or alcohol. The only things they can do as leisure activities are chatting, sleeping, listening to radio and going out for walking.

Among all the problems mentioned above, money problem is the biggest one faced by Chinese migrant workers. The biggest risk for them is being cheated or dismissed during the period of the labour contract because they pay huge amount of intermediary service fee to agents.

6. Reasons Why These Problems Are Faced by Chinese Migrant Workers in Singapore

The reasons are multifaceted, being related to and having arisen from the system, the market and the Chinese migrant workers' weak position *vis-à-vis* the employment agencies and employers.

6.1. System Flaws

Looking at the Chinese side, multi-ministry management is a factor that is creating problems. As discussed above regarding China's management regime on Chinese migrant workers to Singapore, there is no special law for the export of Chinese workers at present and several ministries are involved in managing the export of Chinese workers. Theoretically speaking, the Chinese government carries out classified management in accordance with two types of Chinese emigrant workers, namely foreign labour service cooperation and overseas employment. If the Chinese emigrant workers were sent by the Operating Companies of Labor Service Cooperation in the forms of foreign aid, foreign contracted projects, general labour service, design consultation, outward investment and trainee programme, they are considered as labour service and are included in the statistics of labour service. If the Chinese emigrant workers are sent by intermediary agencies or go out by themselves, they are not considered as foreign labour service and are not included in the statistics of foreign labour service because it is considered as individual behaviour of Chinese citizens. In fact, these two activities of Chinese emigration to work abroad are the same things for the labour receiving countries. Multi-ministry management on Chinese working abroad may result in the following flaws:

- 1) The Ministry of Commerce and the Ministry of Labor and Security issued different regulations on the management of Chinese emigration to work abroad separately, and some provincial governments like Shanghai and

Sichuan issued their own regulations according to these two ministerial regulations. These regulations are sometimes even mutually incompatible and make the employment agencies more confused.

- 2) The Ministry of Labor and Security set lower requirements for the intermediary agencies for overseas employment than the Ministry of Commerce. From 1992 onwards, the Ministry of Labor and Security set a set of unified standards applying to the Intermediary Agencies for Overseas Employment. Later, the Ministry of Commerce issued a new regulation in 2004, which allowed any type of firms, no matter private, state-owned or foreign firms, to apply for establishing the Operating Companies of Labor Service Cooperation as long as the companies satisfy the standard qualification required by the Ministry of Commerce.¹⁵ Therefore, there are numbers of the Intermediary Agencies for Overseas Employment and the Operating Companies of Labor Service Cooperation emerging like mushrooms after rain from 2002 onwards. It makes the market of foreign labour service more competitive. The consequence of over-competition among China's agencies is that most benefit or profit comes to Singapore agencies. According to the words of a staff at a China's agency I had interviewed, 70 per cent to 80 per cent of total intermediary commissions come to Singapore's agencies because Singapore's agencies will cooperate with those China's agencies that transfer more commission to them. For instance, China's agency usually makes RMB5,000 to 7,000 of profits from about RMB35,000 of commission per emigrant worker, but Singapore's agency makes about RMB25,000 of profits. This follows the "principle of buyers' market" where the buyers have stronger bargaining power than the sellers in buyer's market.
- 3) Easy exit control system for Chinese migrant workers to Singapore. Just as mentioned above, Chinese migrant workers leave China and come to Singapore with only valid private passports and In-Principle Approval (IPA) for work permit. This system brings convenience to Chinese migrant workers to Singapore, but at the same time it also gives much convenience to those malicious employers and informal employment agencies for their fraud because it is possible and easy for those informal agencies and individuals in China to do foreign labour service as long as they can get IPA from the Ministry of Manpower of Singapore for Chinese migrant workers. That is why so many informal agencies and even individuals involve in foreign labour service in China. It results in market disorder of foreign labour service in China.

Now looking at the Singapore side, there are some flaws with the Singapore immigration policy on migrant workers.

Firstly, quota and levy system do good to Singapore, but they are not good to migrant workers. Some employers take quota (MYE on construction industry) as a way of profit-making through the resale of MYE. Some employers try to transfer levy to foreign workers by any means and even taking the risk of breaching the law. Furthermore, the migrant workers get lower salary than Singaporeans in the same occupation because the employers need to pay work levy to the government besides salary if they want to hire foreign workers.

Secondly, the employer has authority to apply for work pass for foreign workers and has the authority as well to cancel the work pass easily without consulting with the foreign workers or getting confirmation from the foreign workers. This may result in two consequences:

- 1) The employers may dismiss foreign workers momentarily, easily and optionally with any excuse. Many cases brought to the Chinese embassy show that Chinese migrant workers lose jobs because of tiny fault or different opinion with their employers and some do not even know when the work pass is cancelled. In this occasion, there is no loss for the employer, but the Chinese workers will suffer huge loss of intermediary charges and other costs like proceeding passport, physical examination and training. Chinese workers are forced to leave Singapore within 7 days after the cancellation of work pass.
- 2) This regulation is easy to be used as a way to cheat for those malicious employers and employment agencies.

The system flaws also result in another consequence. That is the disorder of the labour service market.

6.2. Disorder of Labour Service Market in China and Singapore

In China, disorder of foreign labour service market is in the forms of irregular performance of formal agencies' and informal agencies' involvement in labour service. There are 2,196 Operating Companies of Labor Service Cooperation with qualification certificate from the Ministry of Commerce¹⁶ and 501 Intermediary Agencies for Overseas Employment with qualification certificate from the Ministry of Labor and Security up to 8th July 2008¹⁷. These Operating Companies of Labor Service Cooperation and Intermediary Agencies for Overseas Employment are considered as legal agencies or formal agencies that can operate foreign labour service with foreign parties by the Chinese government. Among these formal agencies, some operate irregularly and bring about losses to Chinese workers. The irregular performance of formal agencies which are either the Operating Companies of Labor Service

Cooperation or Intermediary Agencies for Overseas Employment may come up in the forms of the following cases: a) cheated because of no confirming of the legality of foreign employers and foreign employment agencies; b) no signing of labour service contracts with Chinese workers or signing of non-standard labour service contracts without all required clauses which protect the benefits and rights of Chinese workers; c) authorizing individuals or other unregistered employment agencies to recruit workers or multi-layer commission (层层委托); d) even counterfeiting labour service projects together with foreign employers or foreign employment agencies at the risk of having the Qualification of Operating Foreign Labor Service being cancelled by the Ministry of Commerce of China.

Moreover, the involvement of many informal agencies like the education agencies and consultancy companies in foreign labour service exacerbates the disorder of the foreign labour service market. These informal agencies compete with formal agencies through irregular or even illegal means. They always promise orally attractive conditions like high salary and good accommodation to Chinese migrant workers and charge high intermediary commission without giving any receipt or without signing contract with Chinese migrant workers. Many Chinese workers were thus cheated.

In Singapore, the disorder of the labour service market is in forms of following aspects:

- 1) The employers receive payment as consideration for employing foreign workers and recovering employment-related costs such as the levy and security bond from foreign workers. With more competition and distortion in the labour service market in Singapore, the employment agencies in Singapore are willing to pay the employer S\$2000 to 3000 for hiring each Chinese migrant workers, as reported by *The Straits Times* (11th April 2008) and *Lianhe Zaobao*. These rebates come from the intermediary commissions paid by foreign workers. It is a transfer of cost from employment agencies to foreign workers, just as a Chinese saying goes: "After all, the wool still comes from the sheep's back. In the long run, whatever you are given, you pay for".
- 2) There are some employers and employment agencies which make money through frequently changing or firing foreign workers because the employers can receive kickbacks from the employment agencies and the employment agencies can get big sum of intermediary commission from foreign workers. Some employment agencies act as the employer at the same time in order to make money by means of hiring foreign workers and then firing them quickly. Some Chinese workers are fired by employers just after some days or one week based on some excuse, usually on the ground of inadaptation.

Here is an extreme case where Singapore's employment agency tricks Chinese workers. A Chinese worker, Mr Yu, came to Singapore on 11th March 2008 and was arranged to live in Little India by a Singapore employment agency, and was told by the agency to wait for a job. Mr Yu got his work permit on 14th April, but he did not get a job until 20th May. Then his friend checked his work permit for him from the website of the Ministry of Manpower of Singapore and found that his work permit had been cancelled on 28th April on the ground that Mr Yu had not yet gone to work according to the claim of the agency. Then on 22nd May Mr Yu went to the Ministry of Manpower of Singapore to report the fact. The Ministry of Manpower told him that he had better consult with the agency first, but Mr Yu was arrested by police on 23rd May because the agency reported to police that Mr Yu stayed in Singapore illegally. Finally, Mr Yu was judged not guilty and was released by the court after 28 days of detention.

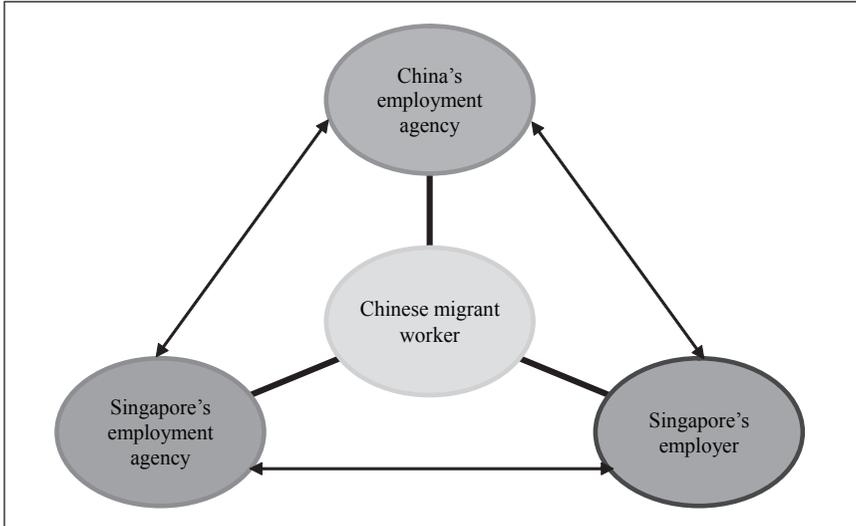
6.3. Chinese Migrant Workers' Ignorance Because of Lower Education, Coupling with Strong Anxiousness to Make Quick Money and Get Rich Quick

Most of the victims are those who have lower education. They have little knowledge of Singapore's related policy, China's related policy and even do not have any consciousness of contract. Those victims who were cheated by employment agencies and employers are those workers without signing any contracts with the employment agencies and employers. Although some of them have contracts, the contracts were finally taken away by the employment agencies through fraud or threat. In this case, it is very difficult for them to get help from the Ministry of Manpower of Singapore and the Chinese embassy in Singapore. Because of ignorance coupling with strong anxiousness to make money, some Chinese migrant workers are very easy to fall into the trap which the malicious employment agencies and employers have designed. They pay huge money to the agencies just according to the oral promise of the agencies. So the malicious employment agencies succeed in cheating through taking full advantage of their relative acquaintance with the two countries' policies, ignorance of the migrant workers and the latter's strong anxiousness to make quick money.

6.4. Chinese Migrant Workers Being in Weak Position or as Disadvantaged Group vis-à-vis China's Employment Agency, Singapore's Employment Agency and Foreign Employer

There are three or four parties which are involved in the process of Chinese emigration to work in Singapore. They are China's employment agency, Singapore's employment agency, Singapore's employer and Chinese migrant

Figure 1 Relations among China's Employment Agency, Singapore's Employment Agency, Singapore's Employer and Chinese Migrant Workers



workers. So there exist very complicated relations among them. Keeping different relations with the other three parties (see Figure 1), Chinese migrant workers are a disadvantaged group and in the weakest position in this context in terms of knowledge, time, money, social resource, bargaining power and so on. Being in a weak position, Chinese migrant workers often take a tolerant attitude towards the employment agencies and employers in fear of losing their jobs. A Chinese construction worker told me, “Either money or dignity” (争财不争气, 争气不争财). Moreover, once something happens, Chinese migrant workers will be kicked back and forth like a football among employment agencies and employer and finally suffer losses.

7. Conclusion

From 1985, Chinese migrant workers began to work in Singapore in the form of labour service to foreign contracted projects. Singapore is now a major receiving country for Chinese migrant workers. The Ministry of Manpower of Singapore has never publicized the number of Chinese migrant workers in Singapore because of political or social consideration. Chinese government does not yet have the complete data about the number of Chinese migrant workers in Singapore because of the classified management regime of emigrants and the statistical method. The number of Chinese migrant

workers in Singapore is estimated to be about 200,000. Most of them work in construction, manufacturing, maritime and service industries. They come to Singapore mainly through recruit agents after paying huge commission.

Making money is the key factor for the Chinese migrant workers to work in Singapore. Apart from this factor, there are other push and pull factors to drive Chinese migrant workers to work in Singapore. The majority of Chinese migrant workers in Singapore make money in due course while making contributions to the Singapore economy, but there are many Chinese migrant workers who had their dreams shattered in Singapore. They encounter such problems and risks as money loss, bad welfare, physical abuse and psychiatric problems. The reasons for those problems are system flaws, disorder of the labour service market and Chinese migrant workers' weak position.

With close economic relationship between China and Singapore, the volume of Chinese migrant workers in Singapore will increase. All the problems and risks faced by Chinese migrant workers will be solved through the cooperation of the labour service between China's government and Singapore's government. China's government has paid more attention to the problems and began to reform the management system of the labour service and signed a memorandum of understanding on labour services.

In July 2008, the activities of "overseas employment" were assigned to be managed by the Ministry of Commerce instead of the Ministry of Labor and Social Security. That means that the system of classified management on labour service was replaced by the system of united management on labour service which will be controlled by the Ministry of Commerce. In addition, China and Singapore have signed a memorandum of understanding on labour services, which regulated the responsibility of the parties involved such as China's Operating Companies of Labor Service, Singapore's employment agencies and employers and the role of the two governments in supervising their domestic labour service market.

Notes

1. The United Nations, "International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families" <<http://www.un.org/documents/ga/res/45/a45r158.htm>> (accessed 20th July 2008).
2. OECD, "Glossary of Statistical Terms" <<http://stats.oecd.org/glossary/detail.asp?ID=1047>> (accessed 21st July 2008).
3. Referring to mainland Chinese in this paper.
4. "Brief Summary of China's Foreign Contracted Projects and Labor Service Cooperation in Singapore" <<http://sg.mofcom.gov.cn/aarticle/tjsj/shehui/200309/20030900128197.html&5574401=529912866>>.
5. In 1992, the General Office of the State Council promulgated five opinions about labour service. One of them said that the Ministry of Foreign Trade and Economic

Cooperation is in charge of labour service and the Ministry of Labor is in charge of “overseas employment” which defines the activities of Chinese citizens going abroad to work as belonging to the characteristic of making living by individual citizen and is not considered as labour service. But for the receiving country, there is not any difference between labour service and overseas employment as classified by the Chinese government and they are both included in the category of migrant workers.

6. Only the Operating Companies of Labor Service and the Intermediary Agencies for Overseas Employment are authorized by China’s government as legal and formal employment agencies which may send Chinese workers to work abroad. The employment agencies which have not got the certification of sending Chinese workers to work abroad from China’s government are illegal and informal employment agencies.
7. See note 5 above.
8. “How to Avoid the Risk of Labor Service: Implication from Bankruptcy Case of Singapore United Plastic Factory” <<http://www.chinca.org/newsShow.aspx?countryID=185&newsID=1260>>.
9. Melissa Sim, “Bosses Cheat on Quotas for Low-skilled Foreigners”, *The Straits Times*, 15th May 2008.
10. Tan May Ping, “One China Cook’s Plight after Salary Row”, *The New Paper*, 5th May 2008.
11. “Large Amount of Remittance Missing” <<http://english.peopledaily.com.cn/200202/01/eng20020201-89751.shtml>>.
12. For average weekly hours of work by industry, see *Yearbook of Statistics Singapore 2007*, Table 4.16.
13. Melissa Sim, “Bosses Cheat on Quotas for Low-skilled Foreigners”, *The Straits Times*, 15th May 2008.
14. See the report “Sorry Sir, I Don’t Understand You ...”, *Today*, 3rd-4th May 2008.
15. Before this regulation, only state-owned companies are allowed to apply for the Qualified Operating Companies of Labor Service Cooperation and operate labour service.
16. The Ministry of Commerce of PRC <<http://fec.mofcom.gov.cn/column/qyml.shtml>>.
17. The Ministry of Labor and Security of PRC <<http://www.molss.gov.cn/gb/ggfw/jwjy.htm>>; the Ministry of Human Resources and Social Security of PRC <<http://w1.mohrss.gov.cn/gb/ggfw/jwjy.htm>>.

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Women, International Migration and Development: Chinese Women's Migration to Southeast Asia since 1978

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Abstract

The feminization of migration is becoming a significant phenomenon in the era of globalization. Especially in the most populous Asian countries, women's migration across national borders is emerging as an important social and economic phenomenon and attracting substantial attention. In Asia, China has been a major migrant exporting country for the past centuries, which has generated millions of Diaspora Chinese who are mainly concentrated in the Southeast Asian countries. Since the beginning of the Open and Reform Policy in 1978, Chinese migration to Southeast Asia has been increasing, with the characteristic of feminization which is changing the tradition of Chinese migration being dominated by the Chinese male migrants. On the one hand, female Chinese migration to Southeast Asia represents an important component of women's international migration, which possesses many common features of women's migration. On the other hand, Chinese women's migration to Southeast Asia demonstrates the culture and politics of Chinese migration, which is not only an extension of historical civil association between China and the Southeast Asian countries, but also a result of the normalization of diplomatic relationship and increasingly deepening economic cooperation between China and Southeast Asia. Generally speaking, Chinese female migrants in Southeast Asia play an important role in promoting the development of civil relationship between China and Southeast Asia. However, the issues brought about by Chinese female migrants in Southeast Asia, such as the Chinese doll syndrome as well as errant Chinese tourists,

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have had a negative impact upon the reputation of Chinese female migrants and the relationship between China and Southeast Asia.

Keywords: *Chinese women's migration, China-ASEAN Relations, international migration, China's Open and Reform Policy*

1. Introduction: Contextualizing the Problem – Feminization of Migration and Chinese Women's Migration to Southeast Asia

The feminization of migration is becoming a significant phenomenon in the era of globalization. According to the report *State of World Population 2006* published by UNFPA, nowadays, women constitute almost half of all international migrants worldwide, reaching 95 million (UNFPA, 2006). In Asia, the most populous region in the world, women also participate actively in the surging global migration wave. The UNFPA report reveals that in Asia the number of women migrating from some countries has surpassed that of males. The majority migrate alone to the neighbouring East Asian countries, the Middle East and elsewhere. By the year 2000, an estimated two million Asian women were working in neighbouring countries. In 2005, over 65 per cent of the nearly 3,000 Filipinos who left their country every day for work or residence abroad were women. From Sri Lanka in 2002, there were two women for every male emigrant. Between 2000 and 2003, an average of 79 per cent of all migrants leaving Indonesia to work abroad were women. By the mid-1990s, an estimated 800,000 Asian women were migrating to the Middle East annually, mostly as domestic workers (UNFPA, 2006).

China, as the most populous country in the world, has been a major migrant export country in Asia in the past centuries which has exported millions of Chinese, the majority being male traders and labours who mainly aggregated in the neighbouring Southeast Asian countries. Since the foundation of the People's Republic of China, owing to the aftermath of the Cold War and the following overall deterioration of relationships between China and the Southeast Asian countries, the process of Chinese migration to Southeast Asia was interrupted from the 1950s to the 1980s, and almost fell to all-time low.¹

Since the launching of the Open and Reform Policy, Chinese migration, after being discontinued for nearly 30 years, is set for revival. According to Zhuang (2008), it is estimated that there are about 2.3 million to 2.65 million new Chinese emigrants to Southeast Asia, including documented emigrants and non-documented emigrants.² This newly emerging and ongoing migration wave with a quite visible characteristic of feminization of migration is attracting enormous attention, and reveals that an increasing number of Chinese women

are joining in the cross-border migration wave and are becoming an important constituent of migrants in the Southeast Asian countries.

For the traditional Chinese migrant society in Southeast Asia, which is constituted largely by male migrants, the newly emerging female migrants who break the limits of social and cultural norms are becoming a controversial topic both in China and in Southeast Asia. Undoubtedly, on the one hand, most documented Chinese female migrants are received hospitably by the local community and have been assimilated into local society. On the other hand, it is obvious that some Chinese female migrants in Southeast Asia are met with disgust and hatred rather than friendly receptions – actually some Chinese female migrants are commonly considered as invaders of local society who will destabilize local families with their immoral activities. With the arrival of a large number of young Chinese women, some newly coined terms such as “study mother” and “Chinese doll” are becoming popular labels for these new Chinese migrant women in Singapore.³ In Malaysia, accumulating resentment towards Chinese migrant women has resulted in a humiliating incident in 2005, in which the police allegedly conducted a strip-searching of a female tourist from China.⁴ The incident sparked off anger in Malaysia and China, resulting in Malaysia having to send officials to China scrambling to soothe relations. In addition, it has raised questions about the numbers of tourists from China which are cloaking a wave of illegal immigrants, smugglers and prostitutes. It also signals the extent to which China’s growing economic clout is quickly turning it into an important diplomatic and political influence in Southeast Asia.

2. Chinese Migrant Women to Southeast Asia: From Minority to Half-Sky⁵

China and ASEAN countries are geographical neighbours inextricably linked by land and water as well as historically associated by trade and other communications, and Chinese migrants has not only been a very important constituent in China-Southeast Asian relations, but also an immense momentum to promote the development of the relationship between China and Southeast Asia. Historically, there have been four waves of Chinese migration into Southeast Asia, according to Zhuang (2008). The first wave of Chinese migration to Southeast Asia lasted roughly 200 years, which began in the early 17th century, and ended in the middle of the 19th century. The first wave of Chinese migration to Southeast Asia was featured with the interplay of trade and migration, which immensely promoted Chinese migration to Southeast Asia and the formation of early Chinese community. The second wave of Chinese migration to Southeast Asia began in the middle of the 19th century, and ended at the beginning of the 20th century, which was largely constituted

by the “coolie” or “contract labours” who were mainly concentrated on the plantations run by western colonists in Southeast Asia. These two waves of Chinese migration to Southeast Asia naturally excluded women’s role in early migration history, which was undoubtedly dominated by Chinese male traders and male labours. The third Chinese migration wave happened in the first half of the 20th century with the characteristic of spontaneous migration which was motivated by short economic boom in Southeast Asia during the First World War. This is the turning point in the history of female Chinese migration to Southeast Asia. The census of British Malaya revealed that during that period, the number of Chinese female migrants moving to the Straits Settlements increased significantly.⁶ Although the majority of Chinese women migrated with the status of dependency for family reunification, they began a new chapter of female Chinese migration to Southeast Asia in terms of numbers, and were motivated by the development of Chinese communities in Southeast Asia and the increasingly deepening interdependence between these Chinese communities and China, and the number of Chinese migrant women who desired to make a living independently in Southeast Asia has also started to increase. According to Fan (2005), Chinese migrant women in Southeast Asia have been increasing since the 1930s, with the majority being Chinese female migrant labour, roughly estimated to be about 190,000 (Fan, 2005: 84-88). In addition, it is noteworthy that Chinese female teachers were also involved in the migration to Southeast Asia for the purpose of teaching Chinese in *huaqiao* (i.e. the Chinese diaspora) schools, an aspect that manifested the new transformation of the structure of female migration. This multi-structure opened another new chapter of female Chinese migration to Southeast Asia.

Generally speaking, it was the first half of the 20th century especially the period of 1930s that witnessed the climax of female Chinese migration to Southeast Asia, which has dwindled steadily following the outbreak of the Pacific War, and finally fell to all-time low in the aftermaths of the end of World War II and the founding of the People’s Republic of China.

With the implementation of the Open and Reform Policy in 1978, the Chinese migration wave, which had been constrained for nearly 30 years broke out again and has kept on surging till now. Southeast Asia, as the traditional and low-cost Chinese migration destination, once again is being targeted by Chinese migrants and incorporated into this newly surging Chinese migration wave. In the context of this new Chinese migration wave, question arises regarding the number of Chinese female migrants who have moved to Southeast Asia since 1978. It is a fairly difficult question since there are no accurate statistics of new Chinese female migrants in Southeast Asia. However, there is probably a rough estimation of Chinese female migrants in Southeast Asia based on Zhuang’s estimation of the total number of new Chinese migrants to Southeast Asia (Table 1). Zhuang estimated that there

Table 1 New Chinese Migrants in Southeast Asia, 2006

Country	Number ('000)	Occupation	Note
Myanmar	1000-1100	businessmen, technicians, labour, farmers	quite significant percentage of mobile population quite significant percentage of non-documented population
Thailand	350-400	businessmen, technicians, employees	
Singapore	350-380	students, professionals, employees, businessmen, labour	
Philippines	150-200	businessmen, employees	quite significant percentage of non-documented population
Malaysia	100-150	businessmen, labour, students, Chinese brides	quite significant percentage of mobile population
Viet Nam	100-120	businessmen, investors, professionals	quite significant percentage of mobile population quite significant percentage of Taiwanese
Indonesia	100	investors, technicians, managers, businessmen	quite significant percentage of Taiwanese
Laos	100	businessmen, managers, technicians, labour, farmers	quite significant percentage of mobile population
Cambodia	50-100	businessmen, technicians, managers, labour	quite significant percentage of mobile population
Total	2300-2650	majority businessmen	quite significant percentage of mobile population

Source: Zhuang (2008).

were about 2.3 million to 2.65 million new Chinese emigrants to Southeast Asia and the trends of Chinese international migrants issued by the Population Division of the Department of Economic and Social Affairs of the United Nations (Table 2) show that women's share of the Chinese international migrants is nearly 50 per cent since 1960. Thus, from 1978, the number of Chinese female migrants to Southeast Asia is estimated at 1 million, which includes a quite significant percentage of mobile population.

3. The Categories and Status of Chinese Female Migrants in Southeast Asia

Besides estimating the number of Chinese women migrants in Southeast Asia, it is also important to examine the occupations and status of Chinese women migrants in Southeast Asia. According to the recent media reports and studies on Chinese female migrants, Chinese female migrants in Southeast Asia can be divided into four categories, including female students and professionals, businesswomen, labours (including the number of Chinese women involved in sexual industry) and Chinese brides.

Since the implementation of China's Open and Reform Policy, the number of Chinese students studying abroad has been mounting tremendously. At the beginning, Chinese students preferred to study in the United States and Europe. From the 1990s, some Southeast Asian countries such as Singapore, Malaysia and the Philippines, where universities offer English education, began to attract much attention of Chinese students. With advantages of having comparatively low costs and close links with universities in western countries, Southeast Asian countries are gradually becoming the ideal destination of many Chinese students who want to study overseas.

In addition, the governments of some Southeast Asian countries are also eager to explore the market of education in China, and are thus making active policies to attract Chinese students. For example, in the middle of the 1990s, the Singapore government formulated various projects in order to lure foreign talent to study or work in Singapore. These projects had since been integrated into the current immigration policy of Singapore.⁷ In the context of Singapore's Foreign Talent Policy, since the 1990s, many mainland Chinese talents in various fields, especially in science and technology have been attracted to stay in Singapore. Besides, Singapore has an elaborate scheme to enroll brilliant high school students in mainland China at Singapore universities. These students will be awarded scholarships and have a chance to be granted permanent residentship should they choose to work in Singapore for six years after graduation. The Singapore government is also trying to attract primary students from middle-class families in China to study in Singapore, who actually need mother's company and care. In total, it is

Table 2 Trends of Chinese International Migrants, 1960-2005

Index	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005
Total number of Chinese migrants	248163	263127	283256	301542	314399	326904	379808	441274	512688	595658
Female	117583	128599	137719	144043	147234	156472	186565	216665	251729	292468
Male	130580	134528	145537	157499	167165	170432	193243	224609	260959	303190
Women's share	47.4	48.9	48.6	47.8	46.8	47.9	49.1	49.1	49.1	49.1

Source: Population Division of the Department of Economic and Social Affairs of the United Nations.

estimated that Chinese students in Singapore amount to roughly 30,000. Besides Singapore, Malaysia too is becoming an educational hub for Chinese students. According to *Sin Chew Daily*, a Malaysian Chinese newspaper, the number of Chinese students in Malaysia is currently close to 10,000.⁸ Among Chinese students in Singapore and Malaysia, female students account for quite a significant percentage. The Chinese female students are not only from China's traditional migrant-exporting areas like Fujian and Guangdong, but are also from the economically developed cities and the hinterland provinces in China.

The second group of Chinese female migrants in Southeast Asia consists of businesswomen. A study programme on new emigrants conducted by the School for Southeast Asian Studies of China's Xiamen University reveals that a number of Chinese female tourists who are frequently mobile between China and the Southeast Asian countries, especially in Malaysia, the Philippines and Thailand, are doing illegal retailing. They are largely from Fujian and Guangdong and repeatedly enter these countries by using tourist visas. There, they illegally peddle small household articles or miscellaneous fake articles around the town. Yao (2007) found in her case study on Putian women who are involved in such activities that this kind of business mainly run by mobile female tourists has already become an industry in the local areas and these women have set up a network including market wholesaling, transportation and retailing section (see Yao, 2007). Yao's (2007) study demonstrated that some Putian⁹ women frequently fly to Malaysia, sometimes even making up to 7 roundtrips in one year. Thus, it is not strange that 90 per cent of the passengers on airlines from Xiamen or Fuzhou to Kuala Lumpur are women.

It is neither beneficial to reconstruct the history of Chinese women's migration to Southeast Asia, nor favourable to depict the contemporary Chinese women's migration landscape in Southeast Asia if we neglect the category of Chinese prostitutes whose number is increasing. In 2001, Jiu Dan, a Chinese female novelist in Singapore, published a book *Wuya* about Chinese students involved in prostitution in Singapore, which revealed the uneasy and embarrassing status of some Chinese students in Singapore to a certain extent. This book stirred enormous discussion among the Chinese societies globally in the context of the wave of Chinese studying abroad. On the one hand, following *Wuya*, a number of literature works on the Chinese female migrant group in Southeast Asia have come out, in which Chinese prostitution in Southeast Asia is more or less referred to. On the other hand, Singapore and Malaysian newspapers such as *Straits Times* and *Nanyang Siang Pau* often report that Chinese female migrants have become increasingly involved in prostitution activities in the Southeast Asian countries. According to Malaysian Chinese newspaper reports, in 2000, the Malaysian police arrested

196 Chinese prostitutes from mainland China. This number went up rapidly to 1230 in 2002, 1971 in 2003, and 1821 in 2004. In 2005, the number of Chinese prostitutes was as high as 40 per cent of the total number of 4900 prostitutes arrested by the Malaysian police in 2005 (see Yao, 2007). Thus, it is clear that this phenomenon is becoming an increasingly serious social problem in Malaysia and other Southeast Asian countries. Such immoral activities committed by some Chinese female migrants have severely violated the local laws and damaged social and ethical norms, which is undoubtedly an important factor leading to resentment towards Chinese female migrants.

The fourth group of Chinese female migrants in Southeast Asia consists of the Chinese brides. International marriage has been a major motivation for women to move across national borders. With China's opening to the outside world, more and more Chinese women migrated abroad by international marriage. Southeast Asia has a large number of overseas Chinese who are comparatively well-off, and naturally becomes a preference of Chinese women. In 2006, over 6000 Chinese women legally registered marriage in Malaysia. According to a survey, 2.3 per cent of Chinese female migrants in the Philippines are from Jinjiang, a well-known *qiaoxiang* (i.e. "hometown of Chinese migrants") in Fujian. These women married Philippine Chinese and migrated to the Philippines (Hong, 2006).

In addition, it is noteworthy that compared with some migrant-exporting countries in Asia like the Philippines, Indonesia, Bangladesh and Sri Lanka, which export a large number of domestic workers, there are very few Chinese female migrants engaging in domestic service, as the structural characteristic of Chinese female migrants is shaped by several factors including the social-cultural norms, education as well as language, making Chinese female migrants less competitive than other Asian female labours.

4. Chinese Female Migrants in Southeast Asia: Problem and Impact

It is very clear that the increasing number of Chinese female migrants in Southeast Asia represents not only the continuity of China-Southeast Asia traditional link and the product of normalization of bilateral relations, but also the phenomenon of economic globalization and regional integration of China and Southeast Asia. As an enlarging group in Southeast Asian society, Chinese new migrants are playing an important role in promoting Southeast Asia's advancement in both the social and economic fields. However, problems and the negative impact produced by Chinese new migrants are also mounting and becoming a factor that damages bilateral relations.

The incident of the Malaysian police allegedly humiliating a mainland Chinese female tourist by conducting a strip-search strongly demonstrates the resentment towards Chinese female migrants in Malaysia. Although

the Malaysian government had sent its home affairs minister to Beijing to apologize officially for the incident and try to salvage the country's reputation as a tourist destination, it is not easy to defuse the common resentment towards some Chinese women's immoral activities in society.

The image of Chinese female migrants in Southeast Asia is generally being simplified negatively as a category of "China doll" and "study mother" (*pei du ma ma* in Singapore), in which the fact of the multi-structure of Chinese female migrants in Southeast Asia is actually being ignored. As a result, there is an emerging trend to boycott the Chinese female migrants in Malaysian society after the 2005 incident, which had a negative impact on the normal migration of Chinese women and communication between China and Southeast Asia.¹⁰

It should be pointed out that the problem of "China doll" in Southeast Asia is a part of the thriving prostitution industry in the region, which is closely related with economic prosperity in Asia-Pacific in recent years. With the rapid development of tourism in the region, the Southeast Asian countries are unavoidably confronting mounting problems by tourism such as illegal migrants, prostitutes, HIV/AIDS, smugglers and so on.¹¹ In the case of "China doll" issue, it cannot be separated from Southeast Asia's strategy of advertising tourism in China.

Since 1978, with a booming economy, China removed limits of overseas travels to allow Chinese civilians to take holidays overseas with preference to the Southeast Asian Countries. As a friendly neighbouring country in which a substantial number of overseas Chinese resided, Thailand was firstly granted the Approved Destination Status for Chinese in 1988. With the normalization of relationship between China and other Southeast Asian countries, all other Southeast Asian countries had been granted Approved Destination Status for Chinese in the following years.¹²

In order to woo Chinese tourists, the Southeast Asian countries have taken many measures, including loosening entry regulations and simplifying immigration procedures. For example, on 1st November 2003, the Singapore government declared that mainland Chinese could enter Singapore by Visa-Upon-Arrival and have their stay extended to no more than 30 days. This was very effective in encouraging Chinese visitors, with 71,013 Chinese tourists arriving in Singapore in December, which represented an increase of 21 per cent compared to that in October.¹³ Following Singapore, other Southeast Asian countries also extended the Visa-Upon-Arrival policy to Chinese tourists. Due to the favourable policy and convenience as well as comparatively lower expenses, enormous numbers of Chinese tourists flooded into neighbouring Southeast Asia as their first preference of overseas travel adventures. The number is thus increasing remarkably, and there are over 3 million Chinese tourists who arrived annually in Southeast Asia from 2004

to 2007, which accounted for 10 per cent of Chinese overseas tourists.¹⁴ According to the data issued by the ASEAN secretariat, following EU and Japan, China is becoming the third tourist source country for Southeast Asia. Among Southeast Asian countries, Thailand, Singapore and Malaysia are the big winners in the competition of wooing Chinese tourists. In 2005, 800,000 Chinese tourists landed in Thailand¹⁵, while over 1 million mainland Chinese visited Singapore in 2006.¹⁶ Meanwhile, the Malaysian government aggressively promoted the “Visit Malaysia Year 2007”, and succeeded in luring over 800,000 Chinese tourists to visit Malaysia despite the aftermaths of the 2005 incident.¹⁷ Comparatively, the Philippines and Indonesia received much fewer Chinese tourists. However, both countries are also actively exploring the China market, resulting in the fruitful arrival of aggressively increasing numbers of Chinese tourists – 159,000 to Indonesia in 2005¹⁸ and 130,000 to the Philippines in 2006 respectively.¹⁹

Economically, the flood of Chinese tourists brought Southeast Asian countries considerable earnings in foreign exchange. However, the increasing number of tourists also unavoidably resulted in severe social problems such as the Chinese prostitutes who conveniently exploit their tour visas to enter Southeast Asia, and the illegal immigrants who land in legal ways by tour visas and extend their stay illegally. Southeast Asia is a major residing place of Overseas Chinese, and is regarded as an ideal immigration destination for mainland Chinese from southern China which is closely linked with these countries. According to a survey by a programme on Fujian New Immigrants, it was indicated that roughly 34.1 per cent of Jinjiang emigrants to the Philippines were tourists, of which 91.1 per cent extended their stay, including a quite significant percentage of women, who could capitalize on the traditional immigrant network to survive easily in the Philippines (Hong, 2006). Fujianese keeps the tradition of emigration, in both legal and illegal ways. It is said that the Xiamen airport has received 9,200 repatriated illegal emigrants from Malaysia, Japan, the Philippines, Thailand and Korea from 1998 to 2003, of whom most are Fujianese (Yao, 2007).

As a matter of fact, China and Southeast Asian countries both have paid attention to the issue of Chinese female migrants. Disturbed by “China doll syndrome”, some Singaporeans appealed to their government to be cautious in making immigration policies, paying enough attention to the negative impact produced by excessively loose immigration policies.²⁰ Similarly, the Malaysian government has tightened tour visa regulations, limiting young Chinese women exclusively, so that Chinese women ranging from 10 to 25 years old could enter Malaysia only if they were accompanied by a male family member. The humiliating incident in 2005 exposed the severe resentment towards Chinese women tourists in the Malaysian society, which produced the pretty negative impact on China-Malaysia relationship. In order to mend

the damaged relations, the Chinese premier Wen Jiabao consulted with his counterpart the Malaysian premier Abdullah Badawi on this incident in the East Asia Summit in December 2005 in Kuala Lumpur. This suggests that the migrant issue is increasingly becoming a factor influencing bilateral relations. In short, the influence of the surging tourism in East Asian integration would be beyond the economic dimension, and it is necessary to be very prudent on tourism (migration) policies in the regional integration process.

5. Conclusion

The feminization of migration is becoming a significant phenomenon in the era of globalization. Chinese women migrants represent not only a striking gender issue in the era of globalization, but also a serious issue with regards to diplomatic conflicts in the context of the increasingly deepening regional integration in East Asia. In the case of Chinese women migration to Southeast Asia discussed in this paper, firstly, it demonstrates that the traditional link between China and Southeast Asian countries has been playing an important role in maintaining and promoting Chinese women's migration to Southeast Asian countries. Secondly, we notice the role of tourism in promoting Chinese women's migration to Southeast Asia and its impact on bilateral relations, which reveals the interplay between cross-boundary travel and international relations. Mowlana and Smith argued that international travel, as an important part of trade, actually reflects one side of a nation's foreign policy, and as a result, international travel is an important constituent of international relations (Hall, 1994: 59). China is becoming an important guest source of Southeast Asia, and this fact regulates to some extent the relationships between China and Southeast Asia. In the context of East Asian regional integration, booming tourism and a series of issues with regards to tourism should be integrated into the China-ASEAN regional integration and sustainable development agenda.

Notes

1. From 1950s to mid-1980s, in some border provinces, there existed cases of migration to Southeast Asia. For example, in Yunnan, in the 1970s, thousands of *zhìqīng* (which means "youth intellectual", a term coined during China's Cultural Revolution) who could not stand the toil in rubber plantations crossed the border to join the Myanmar Communist troop in Northern Myanmar. And in Fujian, thousands Fujianese migrated illegally to the Philippines to seek family reunification or better living in the mid-1970s.
2. Actually, it is very difficult to collect the precise number of Chinese new migrants to Southeast Asia owing to various factors. Professor Zhuang Guotu's estimation just reveals a huge number of Chinese new migrants in Southeast Asia, which

- include a great number of Taiwanese businessmen and their family members. See Zhuang (2008).
3. “Study mother” is a term coined by the Chinese media in Singapore (*The Straits Times*, 24th August 2003). It literally means “mothers accompanying their children who are studying”. “Study mother”, a practice among some Chinese middle-class families, is a product of the project of transnational education launched by the Singapore government. These families send their children to Singapore for English-based education, and most of them have to find a job in order to afford the high remaining expenses. Some of them have been involved in vice (sexual) activities and are strongly condemned by the Singaporeans. Similarly, the term “China dolls” refers to China’s young women who are involved in sexual trade in Singapore and other Southeast Asian countries.
 4. However, according to the Malaysian government’s investigation, the woman in the strip-searching video-clip could be a non-Chinese.
 5. “Half-sky” is a term coined in the early period of the People’s Republic of China. Chinese leaders had envisioned a China in which women would hold up half the sky. Thus, “half-sky” literally means that women have the capability to hold up half the sky equally as men do.
 6. For example, from 1934 to 1938, the number of Chinese women who migrated to Malaya was increasing – 35063 (1934), 40921 (1935), 51522 (1936), 95911 (1937) and 44993 (1938), which were respectively about 38.18 per cent, 31.99 per cent, 39.76 per cent, 46.65 per cent and 53.43 per cent of the total numbers of Chinese migrants during the same period. See Fan (2005: 80).
 7. Vince Chong, “Foreign Talent Policy Here to Stay: Lee Kuan Yew”, *The Business Times*, 19th February 2003. <<http://yaleglobal.yale.edu/display.article?id=999>>
 8. <http://www.chinaqw.com/lxs/lxsxw/200812/27/144095.shtm>
 9. Putian is a well-known *qiaoxiang* where people historically largely migrated to what is today Malaysia to make a living. The 1980 census of Malaysia reported that the ancestral home of 0.33 per cent of the Malaysian ethnic Chinese is in Putian. Till now, Putian people tend to capitalize on this kind of link with local Putian community to realize migration or run businesses.
 10. For example, the leader of the Women’s Wing of the Malaysian Chinese Association (MCA), a major component party of the ruling coalition, publicly opposed to opening the domestic labour market to mainland Chinese women, and suggested that the problem of Chinese female migrants in Malaysia should be worked out before implementing the policy of importing Chinese maids.
 11. See Chheang (2008). The paper examines and analyzes the development of tourism in Cambodia since the 1990s and its impact on the social and economic dimensions, with focus on mismanagement and ineffectualness of tourism policy which led to the spread of HIV/AIDS and the boom of children sex industry.
 12. From 1990 to 1992, Singapore, Malaysia and the Philippines were granted Approved Destination Status for Chinese tourists, Viet Nam, Myanmar, Brunei, Cambodia and Indonesia were granted the same status from 2000 to 2002, and the People’s Republic of Laos was given the status in 2005.
 13. <http://www.getformingsingapore.com/previous2004/previous050704>
 14. <http://www.cnta.gov.cn/html/2008-6/2008-6-2-14-52-59-213.html>

15. <http://news.sina.com.cn/w/2007202201/113911141470s.shtml>
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Book Reviews

Gregor Benton and Edmund Terence Gomez, *Chinese in Britain, 1800-Present: Economy, Transnationalism, Identity*, Houndmills and New York: Palgrave Macmillan, 2008, 470 pp. + xv.

One can view this book in two ways. It is on the one hand a history of the Chinese in Britain. On the other hand, it adds to the discourse on transnationalism in diasporic communities, and refutes transnational studies that posit a pan-ethnic unity among such communities.

As to the Chinese in Britain, they are a very small minority. In 1991, they numbered, according to the figures, 156,938 as compared to a white population of 51,874,792, and are in fact the smallest of the minority groups in Britain. Despite this small size, the Chinese have been in Britain for some time and have participated in British life, both in terms of their contribution to the British economy, small as it is, and in the strategic and political sense. Strategically, the Chinese contributed to the British war effort in the First World War as contract labourers. Some 50,000 were involved, mainly in the western front. Their political contribution was in the negative side in that they were victims of British racism when they competed economically with British workers, and they also reminded the British of the yellow peril. This racism, according to the authors, led to their marginalization from the British mainstream society, a marginalization responsible for the confinement of the Chinese to Chinatowns, though the British Chinatowns cannot be compared to the Chinatowns in San Francisco and New York as they lacked the residential density of their American counterparts.

The Chinese economic participation in Britain can be encapsulated in the following expressions. These are “from salt to soap” and “from soap to soy”. The first expression depicts the first occupation of the Chinese as seafarers employed by British shipping lines. Some of these seafarers temporarily stayed in Britain during their off periods but eventually some settled down to a land-based job such as in the laundry business. The authors give an interesting account of how the Chinese, the original seafarers and others, were subjected to the hostility of British organized labour and street mobs who feared competition from them. Such hostility died down when the Chinese settled on hand-made laundry. Hand-made laundry was not considered a threat as it was an occupation mainly identified with British females. British trade unions fought mainly for males! Also, the Chinese kept out of power laundry,

which could have got them into trouble with British interests. The authors point out that the laundry business was the sole occupation of the Chinese in Britain, unlike that of the Chinese in Australia and the United States who had more diverse occupations. The third important occupation was catering. Like the laundry business, catering was developed by the seafarers. The Chinese caterers in the early days rarely served British customers. It was only after World War Two when steam laundry went out of fashion did the business focus of the Chinese community switched wholesale to catering. And in very recent times, Chinese professionals and investors have come to Britain as to suggest that the Chinese economy is not all salt, soy and soap.

The Chinese in Britain are not a homogeneous group. They are divided among other things along lines of class and places of origin. Of the latter, the dominant group, until recent times had been the Siyinese, better known here as the Sze Yap or Sanning (one of the districts of Sze Yap). They dominated the laundry business. In the postwar period, Hakkas from the New Territories of Hong Kong came in some numbers. They were encouraged by the colonial government because many were left unemployed as a result of the then deteriorating economy of the New Territories. A smaller group, the Hubeinese, also came. This group was a spillover of the Hubeinese in Europe who came all the way by land from the northern part of China! This heterogeneity was further enhanced in the postwar period not only by Chinese migrants from Hong Kong or China but also Southeast Asia. These Chinese were mainly from Vietnam (who came as refugees) and professionals from Malaysia and Singapore.

On transnationalism, the authors try to refute transnational studies on the Chinese and Indians that “posit a pan-ethnic unity in these diasporas that promotes interlocking economic and social ties and facilitates the development of their enterprises around the globe. New means of communication have supposedly fortified these transnational networks reputedly a key characteristic of ‘ethnic capitalism’” (page 3). The authors argue that these studies primarily focus on recent migrants and do not take into account the history of the ethnic community studies where the profound differences, both in the community in the host country and between this community and the diaspora, become manifest.

The authors refute the transnational argument by looking at the history of the Chinese in Britain. Here they focus on three aspects. These are the ties the British Chinese have with their hometowns or ancestral places; with their homeland states (mainland China, Hong Kong and Taiwan) or political parties; and with the diasporic Chinese communities in other places. As to the first aspect, the seafarers in the early days attempted to maintain their links with their hometowns, but those who remained in Britain did not keep close enough touch with China to keep their transnational identification. The

other Chinese, the caterers for example, also tried to maintain links as they imagined their tenure abroad to be temporary, and lived Chinese lives. But as the immigrants died out transnational ties to the sending towns and villages frayed and broke.

As to the second aspect, the Chinese state and Chinese political parties have repeatedly attempted to rope the Chinese in Britain into their projects. But there are two factors that made for the lack of commitment to the homeland state. One is the small size. There are too few British Chinese to weigh in much in the Sino-British equation. The second is their prosperity. They have thus not sought or attracted much attention. And finally, the Chinese in Britain are extremely diverse. They originate largely outside mainland China. They are from Hong Kong, Southeast Asia and even in an earlier period from the US when some Chinese there fled to Britain to escape from the anti-Chinese hostility there. They have no common religious faith to link themselves with the diasporic community together, unlike the Indians with their Hindu faith, and the British Muslims with their Islam. They are also divided according to class. Thus their habits of association are shaped more by activities at home than by Chinese forms.

This is a well-researched book on the Chinese in Britain. The argument against transnationalism as it applies to the British Chinese case is also convincing. However it has to be said that because the community studied is rather small, there are constant comparisons with the Chinese elsewhere, such as in Europe, the United States and Australia. Because of the tiny size of the British Chinese community and the distance of Britain from China (compared to the millions of Chinese in Southeast Asia), one is not sure that theirs is the last word on this subject of transnationalism, even if one is sympathetic to the stand of the authors. Such notwithstanding, this is a book I would recommend for those wishing to read a comprehensive book on the Chinese in Britain.

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Tomoko Shiroyama, *China During the Great Depression: Market, State, and the World Economy, 1929-1937*, Cambridge (Massachusetts) and London: Harvard University Asia Centre, 2008, 325 pp. + xvi.

In this study, Tomoko Shiroyama discusses how some of the challenges China faces in the 2008 financial crisis have echoes in the Great Depression period. The current opening of China and her economic reforms are neither new nor

of recent development. Through trade and links with international financial services, China had already in the late 19th century become part of the modern world economy. Not unexpectedly therefore, when the Great Depression of 1929 to 1935 happened, China suffered to almost much the same extent as most other countries of the world did. But Shiroyama in this study also shows how different China's economic position in the world is today compared to what it was almost some eighty years or so ago.

A central question asked in the book is why China did not move early to reform her monetary system when signs of the Great Depression were evident elsewhere and she was forced only to do so when there was widespread rural distress, decline in her industries and almost a collapse of the financial market in Shanghai. Shiroyama contends that China was not badly affected in the early part of the Great Depression. Between 1929 and 1931 when the economies of most other countries sharply decline, China's industrial output in fact increased and there were both domestic and foreign demand for her products. The worst effects of the crisis were felt only in 1932 when by this time the worst was largely over in the Western world.

Shiroyama argues that the grave economic problems China endured during the Great Depression had to do with China's linking of its currency to the silver standard. Shiroyama explains that the weakness in China's monetary system was that silver, which backed its currency, was traded in China and internationally, and its price fluctuated depending on market conditions. This fluctuation of silver price affected China's exchange rate. Thus when silver price rose, the yuan depreciated in value and the reverse was the case. Shiroyama points out that since 1929 there were wide fluctuations in silver price and consequently in the exchange rates, and she shows that this affected the flow of trade, investments, and remittance from overseas.

Between 1929 and 1931 when the Great Depression was most severe elsewhere, the international price of silver fell. China's export was affected because of falling demand for Chinese goods in many economically hit countries including Southeast Asia. However, this export decline was offset when with the decline in the price of silver the exchange rate fell and there was large inflow of direct investments and remittance. Large quantities of silver also flowed into China where the price was higher than in the international market. According to Shiroyama the money supply in China increased as a result and this benefited industrial entrepreneurs. But when the international price of silver rose as it did in 1931 there was an outflow of the commodity out of China. And as the exchange rate rose, Chinese goods faced severe domestic and foreign competition.

The fluctuating silver price and exchange rate had major implications on bank loans and collateral. Chinese industries, particularly cotton and silk, relied largely on bank loans for both long-term and short-term capital. For use

as collaterals, banks accepted assets such as real estates. However, Shiroyama shows how vulnerable such loans were to downturns in prices. With silver prices rising in 1931 and commodity prices declining funds in the economy in the rural areas became depressed. The effects of the Great Depression with low export demand led to a drop in agricultural prices. In April 1934, real estate prices in Shanghai started to drop. Earlier land prices had been pushed up by speculators especially in Shanghai. But once commodity prices dropped, bankers began to stop lending to enterprises and required repayment of the principal. When debtors could not repay the banks sold assets used as collateral and this set off a cycle of more liquidation and drop in property prices.

China eventually realized that she had to abandon the silver standard if there was to be stability of the exchange rate. Otherwise the value of her currency would continue to be subjected to silver price in the international market. There was urgency as the worsening economic situation in rural areas had grave political implications for the national government. Only when the national government reformed her monetary system by abandoning silver in 1934 and maintaining a stable exchange rate did China began to recover from depressed economic conditions. In the process, the state was forced to shift from laissez-faire to intervention economics. As with the current situation, China's exchange rate was of concern to the international community and major powers then such as the United States, Britain, and Japan tried to have the Chinese yuan linked to their currency. China at this time was the only country on the silver standard while the currencies of most other countries were backed by gold.

Shiroyama discusses in considerable detail how China negotiated to sell silver to the United States to raise her foreign reserves necessary for a reformed monetary system. China had also to deal with the major powers like the United States, Britain, and Japan which were keen that yuan should be linked to their currencies.

But the Chinese government was concerned that a currency not convertible to silver might not be widely accepted. Furthermore, a reformed monetary system could limit a fiscal flexibility needed to increase expenditure to stimulate China's economy then. In the end, China avoided basing her exchange rate with any single foreign currency. And by ensuring fiscal discipline, there was wide acceptance of yuan and confidence in the financial market was restored. In November 1934, the government required all silver to be handed over in exchange for bank notes issued by the reorganized Central Bank.

Shiroyama draws attention to the importance of overseas Chinese remittance to China. For most of the pre-war period China suffered regular trade deficit. However, this deficit was balanced by a large invisible trade of overseas Chinese remittance and investments from abroad. The amount

of remittance from overseas, however, was influenced by the fluctuating exchange rates in China. When the price of silver declined and China's currency depreciated, the amount of remittance to China was high. There was record remittance to China from Chinese overseas between 1927 and 1929 because of declining silver price and because of capital flight from countries experiencing the start of depressed economic conditions. However with the rise in silver price in 1931, it cost more for overseas Chinese to send money back to China. This led to a fall in the amount of funds received in China from the overseas Chinese. For example, total remittance from settlers in Hong Kong and Southeast Asia to China fell to about one-tenth of what used to be the amount sent.

A study into fluctuation in exchange rates and remittance opens up a fascinating research area that would allow studies into conditions in China and in Southeast Asia. Shiroyama suggests that falls in remittance were also due to depressed economic conditions in Southeast Asia which had led to high unemployment, temporary halt to recruitment of Chinese labour, and repatriation of immigrants back to China.

This study on China at a time of grave social and political change in the 1930s is an important and timely one. There is today revived interest in the Great Depression period especially in looking for parallels with the present crisis and for lessons to learn. And there is particular attention on China since amidst the worldwide depressed conditions she has displayed considerable resilience and her economy is among the first to recover, due largely to her massive fiscal stimulus.

But it is not an easy subject to deal with for not only were the issues complex but the study has to take note of wide geographical and economic variations. For example it was the industries in the lower Yangtze that suffered most when the impact of the Great Depression hit China. Elsewhere such as southwest China the impact was less. There were also the domestic political and social problems which the national government was struggling with and these must have strongly influence on the way economic decisions were made. Not all of these were dealt with in the book and it could not be expected to. By focusing on the silk and cotton industries in the pre-war period and the growing problems faced by the two industries, Shiroyama describes key links between China's cities and villages, her banks and industrial enterprises, the government and the market, and the domestic and world economy.

This book is of great value to both economists and historians.

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