Vorwort

Seit einigen Jahren ist die Welt mit dem Aufstieg der chinesischen Region zu einem der wichtigsten Handelspartner der entwickelten Industrienationen konfrontiert. Wenn sich die Gewichte im Welthandel verschieben, komparative Vorteile von Nationen im internationalen Wettbewerb ändern und neue Wettbewerber auftreten, so ist regelmäßig eine Anspannung des handelspolitischen Klimas zu beobachten. Die Handelspolitik wird allzu leicht zum Instrument einer falsch verstandenen Besitzstandswahrung. Insofern stellt der Aufstieg der chinesischen Region ohnehin eine Herausforderung an die Wirtschaftspolitik der entwickelten Industrienationen dar. Diese Herausforderung ist aber um so schwieriger, als nicht dem Aufstieg einer Nation, sondern eines Wirtschaftsraumes zu begegnen ist, der große innere Unterschiede hinsichtlich des Entwicklungsstandes, von Institutionen und der politischen Verhältnisse aufweist. Die herkömmliche Handelspolitik ist jedoch auf Nationen ausgerichtet. Dies gilt auch für die Politik der Europäischen Union, wenn sie auch stets das Ergebnis langer Auseinandersetzungen zwischen EU-internen nationalen Interessen ist.

Der vorliegende Duisburger Arbeitsbericht von Rolf Langhammer, Institut für Weltwirtschaft, Kiel, analysiert die Bedeutung der chinesischen Region für die Europäische Union und die handelspolitischen Fragen, die zu lösen sind, damit Europa und China als zwei Regionen, die höchst unterschiedliche Integrationsprozesse durchlaufen, möglichst konfliktfreie Wirtschaftsbeziehungen miteinander unterhalten können. Es handelt sich, wie schon im Falle der letzten drei Arbeitsberichte, um einen Beitrag zu dem internationalen Symposium "China: A New Growth Center in the World Economy", das zwischen dem 11. und dem 13. 7. 1994 in Duisburg stattfand. Diese Veranstaltung lag fünf Jahre nach dem ebenfalls von der Volkswagenstiftung geförderten Symposium, das die Wirtschaftsreformen der VR China aus entwicklungspolitischer und -strategischer Sicht bewertete. Es stand unter dem Schatten des Massakers am Tiananmen. In den Monaten und Jahren nach diesem schrecklichen Ereignis waren viele Beobachter pessimistisch über die weiteren Erfolgschancen der Reformen, denn der politische Rückschritt schien notwendig auch den wirtschaftlichen Wandel zu behindern. Heute hat China jedoch den Ruf einer Weltwirtschaftsmacht des 21. Jahrhunderts erlangt. Was ist der Grund für diesen raschen Perspektivenwechsel?

Politisch haben sich die Vorzeichen für die chinesische Entwicklung kaum verändert. Für den anhaltenden wirtschaftlichen Erfolg der chinesischen Reformen muß vielmehr ein Faktor verantwortlich erklärt werden, der sich noch beim ersten Duisburger Symposium eher im Schatten anderen Probleme und Themenstellungen befand: Nämlich das Zusammenwachsen des chinesischen Kulturraumes als Wirtschaftsraum. Triebkraft des Wandels ist das China außerhalb der VR China. Rolf Langhammers Beitrag ist, in seinen eigenen Schlußworten, ohne Zweifel ein Schritt beim Bemühen, "to convey the message in political circles of ageing economies that the emergence of Greater China in the world economy is a gain rather than a burden"

Duisburg, den 18.8.1994 *Prof. Dr. Carsten Herrmann-Pillath*

Draft

THE FORMATION OF GREATER CHINA AND THE FUTURE OF EU-CHINA RELATIONS

by

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Content

The Formation of Greater China and the Future of EU-China Relations

I. Introduction

Greater China comprising the PR China, Hong Kong and Taiwan[1] does not exist as an entity, neither as a trading arrangement nor as a monetary arrangement or political grouping. Yet, both the reminiscence of a common history and the ethnical homogeneities have always stimulated fantasies of how such an entity could look like and how it would act in world economic relations. Pragmatic behaviour of trading without institutional backing and recent ice-breaking initiatives at the political level between the PR China and Taiwan have supported perceptions of market-driven integration between the three entities in addition to the 1997 political merger of Hong Kong with the PR China (PRC). Such perceptions depart from impressive economic performance of all three economies during the last fifteen years and from the sheer economic size measured in terms of total purchasing power parity (PPP) GDP. The latter indicator would place Greater China at No. 3 in the world far behind the US (41 per cent of the US PPP GDP) but close to No. 2, Japan, with 95 per cent of the Japanese PPP GDP[2] and far ahead of No. 4, Germany, with 144 per cent of the German PPP GDP.

The paper intends to discuss the economic and institutional background of emerging Greater China (GC) in Section II and to highlight the two dynamic elements of intra-GC economic relations, first between Hong Kong and the PRC but in particular between Taiwan and the PR China as the most recent driving force in trade and capital transactions (Section III). Inevitably, GC attracts the interest of one of the most important global players in the international trading system, the European Union. EU-GC relations are characterised by startling discrepancies between institutional "low profile" and intensive economic transactions. On the one hand, the EU has no formal bilateral or multilateral economic relationship with Taiwan and denies preferential treatment under the Generalised System of Preferences (GSP). Towards China (and Taiwan), the EU concedes most-favoured nation treatment (MFN) outside GATT commitments as China is still negotiating to resume its seat as

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1 The term "Greater China" is not uniformly used in literature. In its narrow definition, it comprises the three economies only. Wider definitions include Singapore as an economy with a majority of Chinese population or even all economic entities with large numbers of overseas Chinese.

2 These are rough estimates based on observed PPP income per capita for China and Hong Kong and on converting the Taiwanese per capita income at current exchange rates into PPP income by using the same ratio between PPP income and current exchange rate income as for the Rep. of Korea [compiled from World Bank, 1993b, Tables 1 and 30, Taiwan Statistical Data Book 1992].

a founding member state of the GATT which was vacated by the Republic of China in 1950. These negotiations condition the Taiwanese entry into the multilateral trading system. On the other hand, trade with both the PRC and Taiwan has grown overproportionately (more on the EU import than export side) irrespective of GSP concessions. Facets of this growth both in merchandise trade, trade in services and - to lesser extent - in capital transactions are presented in Section IV. In this section, structural differences in trade between the PRC and the EU on one hand and GC and the EU on the other hand are analysed in order to assess the implications of further integration deepening with GC on trade with the EU. In spite of (or perhaps just because) of buoyant trade, bilateral relations have been far from frictionless. So-called contingent protection measures (safeguards and anti-dumping measures) have a long tradition in bilateral relations. Explanations why GC entities were prime targets of such measures are given in Section V. Section VI concludes on the results.

II. The Economic and Institutional Background of Emerging Greater China

1. Reform Process in the PRC

China's gradual opening up which began in 1978 has been the most important driving force of emerging GC. Open-door policies were initially implemented and enforced following a very cautious and selective approach in order to maintain options of reversibility and control. Four special economic zones (SEZs) in the Guangdong (three SEZs) and Fujian (one SEZ) provinces were launched following the model of export processing zones in other parts of Asia and embodied into the concept of "open areas" of Guangdong and Fujian provinces. So-called "coastal cities" (numbered 14) complemented this approach. While allocative efficiency and success in attracting resources varied between the different types (they were higher in the SEZs than in the coastal cities [Hiemenz, Li, 1988; Hiemenz, 1990], two important lessons could be drawn from the experiment. Pressures for greater integration into the domestic economy were not suppressed and were instrumental to both the success of the special areas and more outward orientation and efficiency in the surrounding domestic economy. Inflows of resources from the domestic economy (in particular labour but also capital) and outflows of know how, skills and savings were major aspects which helped to avoid the essential flaw of many SEZ in developing countries, i.e. isolation from the rest of the economy and unbridgeable gaps between an outward-oriented SEZ and an inward-oriented economy. In the aftermath of these early experiments, a number of open cities and border regions were opened, for instance Hainan island, and the linkages to the domestic economy were given more attention, for instance when establishing the Pudong development

zone in Shanghai in 1990 [Bell, Kochhar, 1992: 9]. Second, the special areas attracted foreign funds via and from Hong Kong and thus contributed to a welfare-increasing complementation of human and financial capital available in the labour-shortage economy of Hong Kong by tapping the pool of semi-skilled and highly motivated labour in the PRC. Since 1979 about two thirds of foreign direct investment (FDI) into the PRC came via Hong Kong and reportedly, the largest part came directly from Hong Kong sources. According to Overholt [1994:151], at the beginning of the nineties, half of industrial workers in Guangdong (about 3 mill.) were on the pay-roll of Hong Kong-based companies. Three out of four Hong Kong companies had official contacts to the PRC, and five out of six employees of Hong Kong companies held PRC citizenship. Such deep economic integration with Hong Kong and via Hong Kong with the outside world would not have been possible without further liberalisation steps. Such steps comprised

- scrapping the monopoly of initially twelve state-owned foreign trade companies (FTCs) and bringing the number of licensed FTCs to about 4000 by 1989 [Bell, Kochhar, 1992: 10];
- trade policy reforms including dismantling export and import licensing, reducing import tariffs, and introducing the harmonised tariff system;
- unification of the exchange rate and progressive extension of access to so-called foreign exchange adjustment centers (FEACs).[3]

In the view of PRC's trading partners, the PRC's trade and exchange system is still selective and violates the GATT national treatment principle, for instance by discriminating in access to services between non-residents and residents. Compared to the initial state of a command economy, however, China's record in opening up has been impressive and far-reaching.

2. Hong Kong's Merger with the PRC

Economically, Hong Kong's merger with the PRC is at an advanced stage. Notwithstanding this market-driven process, binding guarantees to sustain a purely liberal open-market policy after 1997 were given by the Beijing government to decouple the Hong Kong system from potential uncertainties burdening the current economic system operating in the PRC. Politically, there have been serious tensions

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[3] FEACs are equivalent to a dual exchange rate. They allow approved enterprises to buy and sell retention quotas at rates which in principle are determined by the market. Under a retention system, exporters receive quotas to retain a portion of their foreign exchange earnings which they are usually required to surrender.

aggravated by a much stricter stance of the British government in favour of anchoring Western democratic principles in Hong Kong after the Tienanmen crisis than before. Open controversies and face-keeping endeavours on both sides have injected volatilities into the economic system as witnessed by recent mini-crashes at the Hong Kong stock exchange. Yet, common key projects as the new airport in which both sides have their economic and political stakes give room to the expectation that the political debate on principles will be succeeded by more pragmatic approaches. They should account for the fact that it is pareto-optimal for both sides to preserve economic stability and welfare before and after 1997 as the collective good without which the merger would be much more costly for the PRC.

3. PRC and Taiwan: One Needs Two for a Tango

For many years, official relations between Taiwan and the PRC did not exist while commercial family or non-family links between the mainland and Taiwan ran through Hong Kong. Taiwan strictly refused to respond to any PRC offer of official preferential treatment and instead continued to rely on indirect trade via Hong Kong, or, less importantly, via Japan, Singapore, Guam or other parties. There is also direct so-called "minor" trade through coastal mainland ports.[4] Even when official relations improved and culminated in a government delegations' meeting in Singapore in 1993, direct trade remained of minor importance. Resistance against any form of regional integration grouping will remain as strong on the Taiwanese side as will its focus on principal differences in the two economic and political systems as long as the PRC continues to stick to the "four cardinal principles" and the "one country, two systems" formula [Charng Kao, 1992: 58]. It is also argued by the same author that from the static point of view, institutionalised economic integration between the three sub-entities would unlikely to generate positive trade creation effects and instead give rise to trade diversion. Behind this pessimistic view, there are different arguments, such as the complementary structure of production, the differences in economic development and the low level of intra-regional trade relative to total external trade of the partner countries (estimated by Kao to amount to 5 per cent in 1990 [ibid: 59]). He also draws upon political preferences in each economy for maintaining production of goods which under intra-area free trade conditions would no longer be viable, for instance, labour-intensive goods in Hong Kong and Taiwan and capital-intensive or technology-intensive industries in PRC. This assessment is debatable as experience with regional integration schemes has revealed substitutive rather than complementary structures of production and commonly low levels of

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[4] Charng Kao [1993] estimates indirect trade other than through Hong Kong and coastal mainland trade to account for about 25-33 per cent of total current trade between Taiwan and the PRC.

income as the main stumbling blocks against trade creation. Furthermore, it extrapolates the status quo structure of production which seems untenable under conditions of such rapid growth as in the GC area. Behind economic arguments, there is politically rooted reluctance against institutionalised relations from the Taiwanese side. The benefits from integration are feared to be unequally distributed in favour of the PRC in terms of being less dependent on the Taiwanese market than Taiwan would be vis-à-vis the PRC market and, above all, in terms of bringing Beijing closer to its ultimate target of integrating the so-called Taiwan Province of China into the mainland. This is why loose connections are proposed by Taiwan and why Taiwanese scholars see the main force behind the recent upswing in economic relations in "normal" market-driven economic factors. Such factors include the removal of exchange controls in Taiwan, the appreciation of the NT dollar, labour cost increases, cheap labour abundancy in the PRC, geographical proximity, revealed preferences of the Taiwanese private sector towards business with the mainland, but not official preferential economic relations [Kao, 1993: 2].

4. Integration of Taiwan and the PRC into the International Economy Community

There are several leverages through which the international community can influence integration deepening between Taiwan and the PRC even if both sides were still be reluctant to institutionalise their relations. First, any deterioration of market access conditions in OECD countries might Taiwan force to concentrate trade more on the PRC market than before. Second, during the transition time until GATT membership, OECD countries can strongly discourage or stimulate decisions to invest in the PRC by denying or conceding MFN treatment or by considering treatment as a non-market economy through which unilateral actions against the PRC would become legal. This leverage is particularly relevant for the US which discretionarily decides on MFN treatment year by year based on the US Trade Act (Section 402).[5] To deny MFN treatment, would have serious cross-border repercussions beyond the PRC, Taiwan and Hong Kong. Even recent US announcements to eventually delay the extension of GATT benefits to the PRC even as a new GATT Contracting Party during the first year of membership (non-application clause),[6] could strongly discourage Taiwanese

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[5] Under Section 402 of the US Trade Act (the Jackson-Vanek amendment), the extension of MFN treatment to any non-market economy is linked to the right to emigrate. In recent years, there was increasing congressional opposition against US MFN treatment for the PRC, basically on grounds of general human rights, not just on the right to emigrate [Drysdale, Elek, 1992: 20] .

[6] The non-application clause (Art. XXXV) allows contracting parties to mutually opt out of the application of the Agreement unless they have already entered into tariff negotations and unless the old member has agreed to membership of the new contracting party. Yet, to invoke the non-application clause would be impossible for the US if the PRC's GATT membership would occur through resumption of its old seat. Only under Art. XXXIII (new accession to the GATT), the non-

export-oriented FDI in the PRC. Third, GATT membership of both parties would accelerate the process of harmonisation of the different price systems of the two economies which is rated by Kao [1992: 62] as the chief economic obstacle against integration. Fourth, most importantly, allowing the PRC to become a GATT Contracting Party is seen as a means to further internal goods and factor market liberalisation in the PRC, to stabilise what has been achieved so far (non-reversibility argument), to discipline its conduct especially with respect to dumping and to protect the PRC against unfair trade practices of major trading partners. Fifth, the international community's decisions towards GATT membership of Taiwan has also important implications for emerging Greater China. Taiwan would prefer to accede to the GATT as a developed country with an autonomous customs territory on which it has full control. As the "Customs Territory of Taiwan Penghu, Kinmen and Matsu", it could accede to the GATT under Art. XXXIII with agreement of two thirds of GATT members, and as a developed country, it would eschew claims for exemption from GATT provisions under Part IV and Art XVIII. Thus, it would have a higher status than the PRC which would enter as a developing country (with rights to claim for these provisions). It is argued that a lower status than accorded to Taiwan would never be acceptable to the PRC. The PRC argues that it would simply resume the seat vacated by the ROC and would then sponsor Taiwan's accession under the Art XXVI/5(c). This article has been applied in the case of autonomous customs territories which at the same time were non-autonomous political entities such as Hong Kong and Macau. Notwithstanding the Taiwanese objection that accession under Art. XXVI/5(c) would indirectly mean accepting the sovereignty of the PRC over Taiwan, this door to membership will be closed once the World Trade Organisation (WTO) of the Uruguay Round as the implementing and enforcing institution of the GATT comes into effect. Art. XII of the WTO resembles Art XXXIII GATT and has no reference to the distinction between the metropolitan territory and separate customs territories for which the metropolitan territory as the responsible Contracting Party would take sponsorship (as in Art. XXVI/5(c)). As a result, China has intensified its initiative to accede to the multilateral trading system via the WTO (with two thirds agreement) through which it hopes to circumvent resistance of the US. Drysdale and Elek [ibid: 23] table a number of institutional initiatives as a package approach to bring both economies into the GATT (or the WTO) without interfering into the delicate issues of political sovereignty. Following this proposal, the PRC would communicate to the GATT that it would support the admission of Taiwan as an autonomous customs territory at any time after its own participation had been confirmed, leaving it to the Taiwanese government to negotiate trade policy matters

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application clause could be invoked by any of the Contracting Parties against the PRC if they would not be satified with the accession. See for further details Cai [1992].

with the other Contracting Parties as a condition of its admission. Finally, pressures to harmonise national policies could not only emerge from the multilateral frontier but also from regional economic co-operation. First steps were taken, when the PRC, Taiwan and Hong Kong were invited to join the process of outward-oriented co-operation within the Asia-Pacific Economic-Co-operation (APEC) at the second 1990 ministerial-level meeting in Singapore. All three participated in APEC III in Seoul in November 1991.[7] Since that time, the three economies take part in inter-governmental meetings to find common platforms for co-operation, for instance, at the APEC summit meeting in December 1993 in Seattle.

Overall, there is a process of narrowing gaps between economic policies in the three entities driven simultaneously from internal policy reforms in the PRC and externally by the firm intention of the PRC to join the GATT and WTO.

III. Dynamic Elements in intra-GC Economic Relations

1. PRC-Hong Kong Relations

a) Trade

Bilateral trade flows between the PRC and Hong Kong have been the first dynamic element within the GC. Trade between the two entities was mainly driven by the establishment of SEZs in the Guangdong Province and the subsequent forward and backward linkages between Hong Kong and the labour abundant neighbouring regions in the PRC. Table 1 summarises the main trends in bilateral trade flows. Between 1980 and 1992 the share of the PRC in total Hong Kong exports rose from 6.3 per cent to 21.3 per cent (1986) and to 29.6 per cent in 1992. Trade in the other direction started from an even higher level and reached its current peak in 1992 when 43.5 per cent of PRC exports showed Hong Kong as country of destination. It is evident from the latter figure that Hong Kong is not the final country of consumption but the major entrepôt port for South China's exports. This discrepancy between country of destination and country of consumption has given rise to controversies between the PRC and its OECD trading partners (one of which is the EU) on the true origin of Hong Kong exports. The trading partners argue that large parts of Hong Kong exports originate from the PRC and that Hong Kong increasingly serves as a gateway for the PRC to circumvent restrictions imposed by the EU against direct imports from the PRC. In fact, the shares suggest the free trader Hong Kong to be strongly integrated into the PRC economy especially on the PRC export

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[7] Taiwan participated at Chinese Taipei and was represented by the Minister of Economic Affairs.

side while entry in the PRC via Hong Kong seems subject to stricter controls. Yet, trade in both directions increased much faster than total trade of the two economies, and this is not only due to a base effect of a low initial level.

Table 1 - Basic Figures on Hong Kong - PR China Trade Relations

	1980	1980/86	1986	1986/92	1992
Exports from Hong Kong to PR China (annual average growth rates)	-	35.0	-	29.4	-
Memo: Hong Kong world exports (growth rates)	-	10.3	-	22.5	-
Share of PR China in total Hong Kong exports	6.3	-	21.3	-	29.6
Exports of PR China to Hong Kong (annual average growth rates)	-	14.4	-	25.1	-
Memo: PR China world exports (growth rates)	-	9.6	-	18.4	-
Share of Hong Kong in total PR China exports	24.0	-	31.2	-	43.5

Source: IMF, Direction of Trade Yearbook, various issues.

To put such intensity of bilateral trade flows into perspective, each of the two trade flows (PRC exports to Hong Kong and Hong Kong exports to the PRC accounted for about 11 per cent of the absolute increase in total East Asian trade (including Japan) during the period 1986-92. Within East Asia, Hong Kong-PRC trade proved to be the most rapidly growing segment which matched the relative decline of China-Japan trade (Appendix Table 1). However, it has to be considered that East Asian trade statistics are notoriously flawed and fail to record so-called triangular trade via third countries. It is very likely that large parts of Japanese trade with China is channelled via Hong Kong and thus escapes documentation as flows between countries of origin and country of final consumption.

b) Foreign Direct Investment

To record flows of FDI between Hong Kong and China faces similar problems of registration as in trade. On an approval basis, official statistics of the recipient

countries yield that in 1989 the PRC absorbed more than two thirds of Hong Kong's FDI in East Asia (including Japan) after shares of even 80 per cent in the mid-eighties. Thus, unlike in trade, Hong Kong capital from the very beginning was strongly attracted by the PRC [Chen, 1993: 37] and became more regionally diversified when ASEAN countries and Taiwan began to successfully compete for Hong Kong FDI. Viewed from the PRC side, Hong Kong proved to be the major country of origin with respect to FDI. During 1979-84 more than 55 per cent of FDI inflows into the PRC originated officially from Hong Kong while during the next period (1985-91) this share rose to almost 60 per cent. In 1991, when the Tienanmen-induced slump in FDI was succeeded by a dramatic increase (by more than 70 per cent in 1991 over 1990), Hong Kong capital comprised 60.2 per cent of total inflows followed by Japan (6.8 per cent) [ibid: 52]. 1991 data for Taiwanese investment in the PRC which in 1990 had held the second rank among capital-exporting economies (14 per cent compared to 60 per cent for Hong Kong) were not available from Chinese sources.

Thus, as in trade, Hong Kong proved to be major capital gateway into the PRC. Yet, unlike in trade, this dominant role in capital exports was a traditional Hong Kong stronghold and did not lose in momentum when FDI into China began to soar.

2. Taiwan-PRC Economic Relations

a) Trade

Economic relations between the second dynamic element within GC have been a latecomer. They were insignificant until the mid-eighties and since that time developed with ups and downs. Statistical verification, however, has proven to be difficult due to many politically rooted barriers between the two economies. Table 2 shows trade shares in two way trade between 1979 and 1992 via Hong Kong. As mentioned above, direct trade has been insignificant during this period. The statistical breakdown yields that over time the PRC emerged as an important export market for Taiwan. So did Taiwan as a major sourcing market for the PRC. In both directions, shares amounted to 8 per cent by 1992. As a result, in the same year, Taiwan's exports to China (as measured in official Taiwan statistics) exceeded Taiwan's exports to the US for the first time [Drysdale, Elek, 1992: 7]. However, the PRC did not yet succeed to become a major sourcing market for Taiwan. Nor did Taiwan to become an important export market for the PRC. In this respect, Taiwan still fails to match the privileged entrepôt function of Hong Kong. Trade received support both from dismantling import restrictions on the Taiwanese side as well as from increasing competitiveness of PRC products. Volatility in trade has been caused by few periods of abrupt policy shifts in the PRC when the government

began to follow deflationary policies supported by tightened quantitative import barriers (for instance, between 1982-83 and 1986).

Table 2 - Trade Interdependence Between Taiwan and Mainland China, 1979-1992

	From Taiwan to Mainland China		From Mainland China to Taiwan		Total Trade	
	% of Taiwan's total exports	% of Mainland China's total imports	% of Taiwan's total imports	% of Mainland China's total exports	% of Taiwan's total trade	% of Mainland China's total trade
1979	0.13	0.14	0.38	0.41	0.25	0.27
1980	1.22	1.24	0.40	0.43	0.81	0.85
1981	1.73	1.77	0.36	0.35	1.10	1.09
1982	0.94	1.08	0.48	0.40	0.7	0.74
1983	0.67	0.79	0.47	0.43	0.58	0.61
1984	1.40	1.55	0.58	0.49	1.05	1.07
1985	3.21	2.34	0.58	0.42	2.17	1.57
1986	2.04	1.89	0.60	0.47	1.40	1.28
1987	2.30	2.84	0.83	0.73	1.54	1.83
1988	3.65	4.26	0.95	0.98	2.43	2.65
1989	4.38	4.90	1.12	1.12	2.91	3.12
1990	4.88	6.14	1.40	1.23	3.32	3.50
1991	6.14	7.34	1.80	1.57	4.18	4.28
1992	7.72	7.80	1.55	1.32	4.83	4.47

Source: Census and Statistics Department, Hong Kong Government, Transfer Trade Statistics, various issues. - ROC Ministry of Finance, Monthly Statistics of Exports and Imports, Taiwan Area, Republic of China, various issues. - PRC State Statistics Bureau, Statistical Yearbook of China, various issues, quoted from Kao [1993].

With respect to the commodity composition of bilateral trade, it is interesting to note that its deviates from the specialisation pattern as concerns PRC exports. While the PRC has become a major world exporter of finished goods, its export structure in trading with Taiwan is dominated by agricultural and industrial materials (Chinese herbal medicines, corn and cooking, marine products, minerals and raw materials for textiles). Taiwan exports manufactured and semi-manufactured products to the PRC with a stronger focus on intermediates and capital goods than in world trade in which the Taiwan has succeeded as a traditional finished goods exporter. Such commodity composition has been influenced both by policy interventions (high effective rates of import protection of finished goods in Taiwan) as well as by disparities in income levels promoting more inter-industry than intra-industry specialisation. With continuing normalisation of trade relations and opening of markets, intra-industry specialisation can be expected to become more important. Under such conditions,

the PRC would more strongly exploit its potential as a supplier of low-priced manufactures on a buoyant Taiwanese market than it was able to do in the past.

b) Investment

Taiwanese investment in the PRC started, according to official records, in 1983 and stagnated until 1988 [Kao, 1993: 9]. Since that time, however, Taiwanese investment has risen faster than any other FDI (except for Hong Kong). In 1992, PRC statistics report Taiwan to be no. 2 as a single investor next to Hong Kong but far ahead of the US and Japan (Table 3). Kao [ibid] discusses a number of policy-induced and economic factors pushing Taiwanese investment in the PRC. Most importantly, Taiwanese residents were allowed to visit relatives in the PRC and to directly explore investment possibilities rather than investing indirectly via middle-men based in Hong Kong. Thus, family-based relations served as substitutes for government-protected property rights and other collaterals. Surpluses of domestic savings over domestic investment opportunities in Taiwan, rising real wages in Taiwan, and OECD restrictions against Taiwanese exports were further incentives and served as push factors to invest in the labour-abundant PRC. Therefore, traditionally, investment concentrated on labour-intensive assembly and processing types of industry at a low level of technology. Such investment contributed to defend the international competitiveness of Taiwanese finished products as parts of value added originating from Taiwanese subsidiaries in the PRC and to open new markets. Kao cites investment incentives in the PRC as a third important pull factor. Yet, notwithstanding the fact that such incentives are non-preferential it is well known from experiences in other developing economies that they are not inducive to attract investment unless promising market prospects and factor endowments exist [UNIDO, 1990].

Recent changes in time horizons, sectoral spread, size and location of Taiwanese investment suggest longer gestation periods, larger plant capacities, higher capital intensity, more regional balances towards the North and the coastal hinterland, higher preferences for investment consortia instead of single investors, and, finally wholly-owned companies instead of joint ventures. Such changes coincide more with a medium-term perspective in emerging GC than short pay-off periods and a very limited regional and sectoral spread.

Table 3

3. The Impact of Growing PRC-Taiwan Economic Relations upon the Taiwan Economy

Given the enormous differentials in economic size between the PRC and Taiwan, the impact of Taiwan-PRC economic relations on the domestic economies are very likely to be more crucial for Taiwan than for the PRC. Taiwan has been aware of becoming dependent on the PRC economy and therefore installed a monitoring process as an early warning system to register a politically inappropriate level of dependence. The results of such studies have been reported in Yang, Lin, and Chou [1991 cited in Kao, 1993]. All following analyses consider only the so-called indirect exports from Taiwan to the PRC via Hong Kong. Using an input-output analysis and measuring backward and forward industrial linkage effects, they find Taiwan to have expanded industrial output by twice the amount of exports to the PRC. This is due to the linkage effects which because of the increasing importance of finished goods in Taiwan exports became even larger between 1986 and 1990. For the latter year, they estimate a four-fold increase of industrial output equivalent to a 40 per cent annual growth rate over 1986-90. As a result, Taiwan benefited largely from exports to the PRC.[8] The other side of this increasing multiplier effect is rated by the Taiwanese researchers as a growing dependence on the PRC and possible shockwise changes in its macroeconomic policy. Kao [ibid] comments on research of the Chung-Hua Institution that the adoption of deflationary policies in the PRC resulted in a decrease of Taiwanese exports to the PRC by 30-40 per cent [Chang, 1989: 62-65, cited in Kao, 1993: 19].

Estimates on the effects of Taiwanese investment in the PRC concentrate on investment-induced exports to the PRC. The Taiwanese analyses show that if Taiwan-funded companies in the PRC had imported all inputs from Taiwan, Taiwan would have expanded its exports by 22 per cent of total Taiwanese exports to the PRC in 1990. Furthermore, linkages would have caused spread effects to other industries thus giving rise to a positive effect on the Taiwanese GNP by about 1 per cent. Again, the findings are subject to the limits of the input-output analyses and have to be qualified further with respect to the effects on domestic capital formation. The authors assume that any increase of Taiwanese FDI in the PRC leads to a decrease in domestic investment by the same amount. The capital drain would then have negative effects on Taiwanese output. Balancing positive export expansion effects with capital drain-induced negative effects on output leads - according to the authors - to a net loss for Taiwan's industrial output by 1.7 per cent of its GNP in

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[8] Yet, the limits of input-output analysis with their technologically fixed input coefficients have to be taken into account. The technique ignores opportunity costs and implies that Taiwanese resources would have remained idle in the absence of opportunities to export to the PRC.

1990 [Kao, 1993: 24]. The capital drain assumption, however, does not appear plausible as it ignores differentials in capital productivity between FDI and domestic investment. Without higher expected marginal capital productivity in investment in the PRC relative to domestic investment, FDI had not occurred, and therefore, both investment decisions are not perfectly substitutable. If expectations materialise, investment income from FDI will exceed income from domestic investment and Taiwan's GNP will be higher than under the alternative of domestic investment. Furthermore, positive repercussions of higher profitability of domestic investment due to FDI in the PRC must also be taken into account. Estimates show that FDI in the PRC has materialised in reflows of exports to Taiwan which improved real income of households and the competitiveness of the domestic industry.[9] For these reasons, the net effect of emerging GC through intensified trade and investment between the PRC and Taiwan on both economies is certainly positive provided that investment decisions are not distorted by excessive policy interventions such as monopoly rights for foreign investors or other forms of subsidising capital inflows.

IV. EU-Greater China Economic Relations

1. Greater China in EU Trade

Taiwan's and, more recently, the PRC's outstanding export performance in EU markets is well known. So is known that contrary to those who have forecasted trade diversion effects of the EU single market to the detriment of the two economies because of their dependence on manufactures in export supply, it is just this strong sectoral focus which places the two economies on the gainer's side. The reason for this optimistic assumption is that sustaining high growth rates of manufactured exports could not have been achieved without ample skills for up-grading and product innovation [Langhammer, 1993a; 1993b].

Outstanding results of this performance can be summarised as follows (Table 4).

- Within twelve years, the share of Greater China in total EU imports from non-OECD countries (basically former socialist countries and developing countries) sextupled (from 2.8. to 16.8 per cent).
- In individual product groups, GC either defended and even expanded leading positions in traditional items (textiles, clothing, footwear) or penetrated sharply into non-traditional items as machinery and transport equipment (basically

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[9] FDI-induced PRC exports to Taiwan were found to comprise more than one third of total Taiwanese imports from the PRC in 1990 [ibid: 26].

Table 4

audiovideo electronics). Other industries, a.o., toys, games, sports articles) became a real stronghold of GC comprising more than half of total EU imports from non-OECD countries.

- Structural change between the three entities of GC as seen by a "cascading effect" is distinct. For instance, traditionally, Taiwan was a major footwear exporter in the EU until the mid-eighties but lost this position to the PRC in the 1986-92 period. Taiwan on the other hand successfully upgraded its export supply towards machinery and transport equipment just when the PRC began to challenge its former key export industries in the clothing and footwear sector.
- Hong Kong followed similar strategies as Taiwan without showing such drastical inter-sectoral shifts in its export pattern. This is probably due to the fact that Hong Kong is much more participating in PRC's export growth than Taiwan.
- GC has become a major market for EU exports in non-OECD countries. Changes in export share for industrial goods from 1.9 per cent to 11.7 or from 5 per cent to 30 per cent in machinery and transport equipment are strong signals for the two-way character of bilateral trade relations. Still, inter-industry specialisation dominates. But even in textiles, clothing and footwear, GC's share in EU exports has increased as it did, to a much larger extent, in machinery and transport equipment in which GC absorbed 30 per cent of total EU exports to non-OECD countries in 1992. Less surprisingly, the most absorptive sub-market for EU engineering exports was the PRC accounting for 13 per cent of EU non-OECD exports.[10]
- Preferential treatment under the EU GSP scheme played a major role in EU imports from the PRC. In 1991, almost 52 per cent of GSP eligible imports from the PRC entered the market duty-free (or, in the case of processed agricultural products, duty-reduced). As a result, GSP receiving imports comprised 41 per cent of total EU imports from the PRC which was the largest single GSP beneficiary (accounting for almost 20 per cent of total preferential exports to the EU). Due to barriers mainly related to restricted rules of origin, Hong Kong's benefit from the GSP was much smaller. Only 22 per cent of GSP eligible imports actually received preferential treatment (approximately 25 per cent of total EU imports from Hong Kong) [Eurostat, External Trade, System of generalized tariff preferences (GSP), Imports 1991, Vols. 1 and 2, 1992].

Playing a large role, however, does not mean that without the GSP both the PRC's and Hong Kong's performance would have not been possible. Taiwan's role as a

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[10] To put this figure into perspective, it is equal to 2.5 per cent of extra-EU machinery and transport equipment exports (including OECD countries) in 1992.

non-beneficiary and its excellent export performance amply witnesses the relatively low impact of the GSP to reduce barriers to market access. Trade barriers are mainly in the field of non-tariff-barriers which are not subject to preferential reductions, and the merits of the GSP is basically in a trade-related aid effect due to tariff savings. A back-on-the-envelope calculations may indicate how low this effect is: given an average EU tariff level of 5 per cent, the maximum amount of income shiftable to the PRC amounts to about 300 Mill. ECU if all tariff savings would accrue to the exporters by raising the export price by the amount of tariff savings. Under the small country case, this is very unlikely, however, and thus the benefits from the GDP are very limited for the countries (not necessarily for individual exporters).

Finally, it has been mentioned above that in broad categories there has been a structural shift within GC exporters, for instance between Taiwan and the PRC, the latter challenging Taiwan's leading position as footwear exporter. This shift, however, does not exclude that within product groups overlaps in export supply between the three entities rise and that therefore export structures come more substitutive than complementary. Table 5 shows trade overlap coefficients between the export supply of the three GC entities by product groups on the EU market. Notwithstanding statistical biases,[11] export patterns in general became more substitutive due to the emergence of the PRC as a new rapidly upgrading supplier. This is demonstrated by rising overlaps between the PRC and Hong Kong and between the PRC and Taiwan whereas Taiwan and Hong Kong increasingly (after 1986) specialised in different product groups and thus escaped competing in identical markets.

2. Trade in Services: A Still Stagnating Sector in EU Trade Relations with Greater China

Non-factor services as travel, transport, banking and insurance, and business services (fees, licences, patents, royalties, fairs) are difficult to record empirically. Thus, there are only very few data on bilateral trade between individual EU member states and GC. Such data show for the largest individual trading partner within the EU, Germany, that - unlike in world trade - bilateral trade in services has not grown more rapidly than merchandise trade. In 1986 and 1992, German expenditures for services supplied by GC accounted for each 14 per cent of total German imports (merchandise and service imports) from GC.[12] However, this average share hides

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[11] The statistical bias comes through different disaggregation levels. Higher aggregation yields higher trade overlaps. This is why the different sub-categories in Table 5 are not comparable with respect to the trade overlap levels but can be compared only over time within the respective categories.

[12] Detailed data for bilateral trade in non-factor services between Germany and GC for the years 1980, 1986, and 1993 are recorded in Appendix Table 2.

Table 5

large discrepancies among the three entities. In trade with Hong Kong, services accounted for 31 per cent of total German imports from Hong Kong (merchandise trade plus services) compared to only 17 per cent in 1986. Yet, the unprecedented growth of PRC merchandise exports to the EU countervailed this increase: while in 1986 about 15 per cent of total German imports from the PRC came from services, this share declined to 4 per cent in 1992. The corresponding figures for Taiwan were 9.5 per cent, both in 1986 and 1992. In exports from Germany, being a traditional net importer of services, services played a much smaller role than in imports. In exports to Hong Kong, services amounted to only 18 per cent of total German exports in 1992 (21 per cent in 1986). For trade with the PRC, services comprised only 5 per cent of total German exports in 1992 (7 per cent in 1986). Though it can be assumed that parts of service trade with the PRC is channelled through Hong Kong, it is still merchandise trade dominated by the PRC which rules total trade. Yet, at a more mature stage of trade relations, trade in non-factor services with the GC can be expected to follow a similar dynamic way as in trade with Hong Kong. The service content in merchandise trade will rise, and so will autonomous (disembodied) trade in consumer and business services.

3. EU Investment in GC: still a "Quantité Négligeable"

Analysing EU investment flows to GC, yields a short and disenchanting result: EU investors prefer other host areas than GC. In 1985-87, 2.2 per cent of FDI outflows of EU investors (excluding Greece and Ireland) were channelled to East and Southeast Asia (a minor part of that to GC), and the trend was even declining in subsequent years. In 1988-90, the average share was only 1.7 per cent. 1991 seems to represent a change towards higher shares (2.7 per cent). Yet, even in this year, there was still almost twice as much of FDI outflows to Latin America (5 per cent) as to East and Southeast Asia, the economically fastest growing region [Agarwal et al.: 291].[13] Policy initiatives on member state and EU level are trying to carry horses to the waterhole. Yet, they are bound to fail as long as investment in border areas of the EU is still subsidised by EU funds for regional policies and as long as the prospects of both successful economic transformation and association to the EU in Central and Eastern European markets make these countries promising hosts for export-oriented investment.

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[13] To further illustrate this non-existence, in 1991 GC accounted for only 0.7 per cent of total German FDI abroad (stocks), and recent flow figures for 1992 and 1993 indicate that German investment in so-called Asian state trading economies (basically comprising the PRC) amounted to 0.8 and 0.6 per cent of total German FDI outflows only [Deutsche Bundesbank, Zahlungsbilanzstatistik, various issues].

V. Trade Policy Relations between the EU and GC.

1. The General Pattern

It seems far from exaggeration to state that trade policy relations between the EU and the three entities have been increasingly burdened with tensions and conflicts. Such tensions either arise because partner countries are officially ignored and discriminated against, or because the special nature of a partner country as a free trade zone against the outside world stands against EU views to control rules of origin under preferential and also non-preferential relations, or, finally, because a trading partner does not comply with EU views and proposals to "manage" trade flows and apply "fair pricing".

These three types of tensions exist in EU relations with GC. The first relates to Taiwan and does not imply a major problem, unless official trade relations are important for market access. From the very beginning, the EU has refrained from keeping official trade policy relations to Taiwan, in order to avoid conflicts with the PRC and the UNCTAD Group of 77, the lobby group of all developing countries in international fora. As a result, GSP treatment was denied to Taiwan (unlike in the US GSP scheme), and there was no bilateral VER in trade in textiles between the EU and Taiwan (as with the PRC and Hong Kong), but a unilateral import regulation covering EU MFA imports from Taiwan.[14] Yet, there is little evidence that such benign neglect was harmful to Taiwan. Export performance was outstanding and open discrimination was applied in tariffs only which were not the decisive determinants of market entry. The contents of measures regulating MFA imports from Taiwan were similar to those agreed upon in bilateral VERs. The only aspect of true discrimination came from Taiwan's non-membership in the GATT which gave the EU the leverage to condition MFN treatment and to inject more uncertainty in the stability of market access.

The second type of tensions is intertwined with the third but only since the PRC uses Hong Kong as an export gateway. Before Hong Kong was virtually integrated into the division of labour with the PRC, tensions with EU arose primarily because a free trade area (FTA) as Hong Kong inhibits controlling strict rules of origin as demanded by the EU as a prerequisite for preferential treatment. A FTA is even handicapped as it buys inputs from the cheapest source and thus fails to meet local content

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[14] This is a legal distinction only. The substance was basically the same as the regulation was based on mutual understanding between EU and Taiwanese officials. In recent years, the concept of benign neglect has been relaxed somewhat (freight tax agreement in August 1990, establishment of a European Chamber of Commerce in Taipei, consultations on intellectual property rights and other issues) without going beyond, however, what is called "informal contacts".

requirements. In many cases, Hong Kong neither met the "substantial processing" requirements (relevant for textiles) nor those of "minimum local value added" (relevant for audiovideo electronics) and thus was denied GSP treatment. In this respect, Hong Kong's treatment by the EU resembles Taiwan's treatment. Yet, with the emergence of the PRC in EU imports, Hong Kong became additionally affected as disputes arose (and are still unsettled) on the "true origin" of products shipped through Hong Kong. The EU counts substantial amounts of shipments through Hong Kong as PRC-originating goods (because of assumedly low Hong Kong value added) and thus inflates EU imports from the PRC. Not surprisingly, the PRC offers lower figures on trade.

2. EU Trade Policies Toward the PRC

Compared to the former two types of tensions, the third one may be called severe. It is the conflict between the EU and the PRC on what the EC calls export surges and unfair pricing and what the PRC calls normal export behaviour and price competitiveness. This conflict has manifested in two sets of EU measures applied against the PRC: quantitative restrictions and anti-dumping procedures.

As concerns quantitative restrictions, the PRC has been one of the last third countries remaining subject to quotas at the EU level as well as - for the time being - on very few items at a national level (though there is no scope for imposing national quotas in the single market). EU member states have been split in their stance against the PRC. While in 1993 Germany and the UK unilaterally liberalised trade with the PRC (by removing most national quotas), France and the Mediterranean countries vetoed this step as inconsistent with a common trade policy in a single market. In March 1994, the EU Commission took the decision to "freeze" import volumes in disputed items at the 1992 level in order to force the PRC to comply with EU views. This decision signals that bridging the two dissenting views in the EU ended with a compromise at the expense of the PRC ["Handelsquoten mit China in der Kritik", 1994]. As concerns the bulk of products affected, i.e., consumer goods such as clothing, footwear, toys, dolls, car radios), the measure will raise the rate of effective protection of EU domestic substitutes. Yet, intermediates such as silk and linen are affected as well. This would lower the protection for finished goods (silk shirts, for instance). The net effect on the effective rate of protection depends on the magnitude of the measure against finished goods relative to intermediates. As the PRC is a major supplier of raw silk on world markets, the EU measure may contribute to rising commodity prices on world markets as well as on accelerated up-grading efforts of PRC suppliers of silk-made finished goods. Thus, the measure against imports of inputs may have backfiring effects for the competitiveness of EU finished goods producers in the similar way as a PRC export restriction on

commodities or an anti-dumping margin on these goods ("cascading" effect to downstream producers).

Anti-dumping procedures have become a main instrument targeted against the PRC. Of 539 AD determinations which published the EU between 1980 and 1990, 31 concerned the PRC. In 1991, additional nine determinations were launched and seven new proceedings were initiated [Vermulst, Graafsma, 1992: 5]. In 1992, eight proceedings were initiated; two provisional measures and one final measure were taken [EG Kommission, Kom(93) 516 endg.]. Of the two possible measures, AD duties or price undertakings, the former dominated clearly. In 1992, the Commission did not accept price undertakings as a sole measure; in some cases, AD duties were introduced together with price undertakings [ibid: 67]. Economically, dumping is a gift of the exporting countries as they forego part of their income. From the importing countries` perspective, the losses for individual companies should be balanced against consumer gains and efficiency losses of downstream industries incurring higher costs once AD duties are imposed on inputs. Yet, such conventional wisdom is not accepted in trade policies. A macroeconomic balance sheet including consumer gains is not provided. Nor is the neutrality of the incentive system in exporting countries checked.[15] It is the injury incurred by the domestic companies which matters only. Typically, AD procedures are imposed against countries which are alleged of being closed economies or state traders with no competition law enforced. Such allegations have been frequently raised against the PRC.

Summarising the practice of AD procedures against the PRC over a decade, Vermulst and Graafsma [ibid: 41] criticise the EU for abusing such procedures for protectionist purposes by systematically denying comparative advantages of the PRC relative to surrogate countries which the EU used as reference markets for constructing a "normal" price. Typically, except for India, all surrogate countries were on the high income side (for instance, the US, Rep. of Korea, Japan, Spain, Norway, Austria, to mention the most important ones). Inevitably, this selection resulted in large margins between the "normal price" and the Chinese export price and therefore in large AD duties. Increasingly, the EU itself and their domestic prices were used as a surrogate case leading to quasi-automatic determination of AD duties. It is further argued that classifying the PRC as a non-market economy (NME) which justifies imposing the same AD duty as on other NMEs (for the same product) denies individual justice to PRC producers and to substantial differences in the reform

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[15] In many developing countries, the incentive system is biased against exports because of excessive import protection not matched by equivalent export incentives. Export subsidies to restore neutrality could be interpreted as dumping. Yet, it would not imply an explicit pro-export bias but only a measure to remove implicit discrimination against exports.

progress between NMEs. Overall, the authors also assume that PRC producers/exporters have sometimes underestimated the importance of EU AD proceedings and that they take them for what they are: efforts of EU producers to make PRC producers less competitive on EU markets or to put them out of the EU market altogether [ibid: 42]. Cosmetic remedies such as selecting more adequate surrogate countries or urging upon the EU Commission to follow the US way of adopting a so-called factor test[16] cannot obscure the fact that trade policy disputes between the PRC and the EU in general, and on "fair pricing" and "export surge" in particular have been the most crucial elements of EU-GC economic relations over the last decade.

VI. The Future of EU-GC Economic Relations

Uncertainty always rules forward-looking scenarios. This holds in particular for relations which are strongly determined by ad hoc policy interventions. EU-GC relations constitute such a case. The EU is facing a number of cross-road decisions as concerns its institutional structure (centralised vs decentralised decision-making; deepening and/or widening of integration; integration at different speeds vs "convoi" approach) and its economic paradigm (open regionalism vs differentiated preferential bilateral relations; liberalism versus inward orientation). GC on the other hand is far from settled and can politically still become subject to volatilities. When high-growth and low-income areas on one hand and low-growth and high-income areas on the other hand compete for mobile resources and markets, defensive reactions of the latter (the EU) will dominate relations if high growth is translated into high export growth rates of labour-intensive goods to the capital abundant area suffering from mass unemployment. This has been the case in the past and is very likely to be sustained in future. Conflicts between emerging GC offering a wide range of competitive goods (including human capital goods and services) and the ageing EU will therefore arise times and again. Capital exports to GC and accelerated adjustment towards product innovations in the EU are the only means to ease such conflicts. Unfortunately, any enlargement of the EU by poorer countries will be conducive to sharpening the conflict as the poorer member states will urge for the "Community preference". Pessimistic scenarios for bilateral relations therefore

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[16] The factor test would take Chinese factors of production into account (as opposed to costs of production), such as the amount of labour and raw materials usage power unit of the finished product. The US experience with the factor test has shown that such test may represent a significant way of minimising dumping margins as it considers to some extent comparative advantages of the PRC. Under the EU approach, it is argued by Vermulst and Graafsma [ibid: 41] that PRC producers can never have a comparative advantage higher than that of the surrogate producers.

comprise enlarging the EU by some transformation economies. More optimistic scenarios depart from the enlargement by EFTA countries only and by the well-founded hope that Scandinavian countries will support the more liberal "party" in the EU against the traditionally more restrictive member states.

With respect to the GC side, an optimistic scenario would point to rapid real appreciation of factor prices in the PRC (as in Hong Kong and Taiwan) in order to channel more funds into the domestically oriented sectors. Furthermore, expanding intra-Asia Pacific economic interactions to the level of European market integration would be instrumental to devaluate politically driven arguments against so-called "laser-beaming" strategy of GC suppliers. But even in the presence of such optimistic scenarios, it will be a formidable task to convey the message in political circles of ageing economies that the emergence of GC in the world economy is a gain rather than a burden.

Appendix Table 1

Appendix Table 2

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Table 3 - Growth and Distribution of Foreign Direct Investment in Mainland China, 1979-1992[a] (Contract Basis) (Unit: US$100 million)

Country / Year	Hong Kong, Macao	USA	Japan	Taiwan	Others	Total
1979-84	65.0 (63.0)	10.3 (10.0)	11.5 (11.1)	-	16.4 (15.9)	103.2 (100.0)
1985	41.3 (65.2)	11.5 (18.2)	4.7 (7.4)	-	5.8 (9.2)	63.3 (100.0)
1986	14.5 (50.9)	5.3 (18.7)	2.1 (7.4)	-	6.4 (23.0)	28.3 (100.0)
1987	19.8 (53.4)	3.4 (9.2)	3.0 (8.1)	1.0 (2.7)	9.9 (26.7)	37.1 (100.0)
1988	35.9 (67.7)	3.7 (7.0)	2.8 (5.3)	4.2 (7.9)	6.4 (12.1)	53.0 (100.0)
1989	32.4 (57.9)	6.4 (11.4)	4.4 (7.9)	5.2 (9.3)	7.6 (13.6)	56.0 (100.0)
1990	39.4 (59.7)	3.6 (5.4)	4.6 (7.0)	9.9 (15.0)	8.5 (12.9)	66.0 (100.0)
1991	75.1 (62.7)	5.5 (4.6)	8.1 (6.8)	14.0 (11.7)	17.1 (14.3)	119.8 (100.0)
1992 (1-9)	212.8 (69.7)	16.4 (5.4)	16.1 (5.3)	29.7 (9.7)	30.4 (10.0)	305.4 (100.0)
1979-92	536.2 (64.4)	66.1 (7.9)	57.3 (6.9)	64.0 (7.7)	108.5 (13.0)	832.1 (100.0)
1988-92 (1-9)	395.6 (65.9)	35.6 (5.9)	36.0 (6.0)	63.0 (10.5)	70.0 (11.7)	600.2 (100.0)

[a]Accumulated investment up to 1987; figures in 1992 are estimated of the first nine months; in brackets: percentage shares.

Source: PRC Almanac of China's Foreign Economic Relations and Trade, various issues (quoted from Kao, 1993].

Table 5 - Trade Overlaps[a] Between Industrial Goods' Exports from PR China, Hong Kong and Taiwan to EU Markets, 1986-1992

	PR China / Hong Kong			PR China / Taiwan			Taiwan / Hong Kong		
Sector	1980	1986	1992	1980	1986	1992	1980	1986	1992
Industrial goods (CN 25-99)	29.8	39.2	53.3	31.5	40.3	51.7	52.5	53.2	44.0
Textiles, clothing (CN 50-63)	28.6	44.2	78.4	38.0	49.8	56.0	67.0	68.3	63.9
Machinery, transport equipment (CN 80-89)	31.8	57.2	81.5	38.2	62.0	58.1	88.2	88.7	69.0
Other manufactures (CN 90-99)	50.8	55.5	36.9	58.8	68.7	68.0	61.2	60.4	46.5

a $S(ab,c) = \{\sum_i Minimum\,[X_i(ac), X_i(bc)]\}$

where X_i (ac) is the share of CN two-digit product group i in country a's exports to the EU. X_i (bc) is the share of product group i in country b's exports to the EU.

Source: Eurostat, External Trade CD RoMs, various issues.

Table 4 - Emergence of Greater China in EU Trade, 1980-1992

		Shares in EU imports from non-OECD countries (in per cent)				Shares in EU exports to non-OECD countries (in per cent)			
		PR China	Hong Kong	Taiwan	Greater China	PR China	Hong Kong	Taiwan	Greater China
All products	1980	0.7	1.3	0.8	2.8	0.6	0.8	0.3	1.7
(CN 0-99)	1986	1.3	1.6	1.4	4.3	1.9	1.3	0.7	3.9
	1992	8.4	3.0	5.4	16.8	3.4	4.4	3.1	10.9
Industrial goods	1980	0.6	1.5	0.9	3.0	0.7	0.9	0.3	1.9
(CN 25-99)	1986	1.2	1.7	1.6	4.5	2.2	1.3	0.8	4.3
	1992	9.3	3.5	6.3	19.1	3.8	4.6	3.3	11.7
Textiles, clothing	1980	3.3	9.3	2.5	15.1	0.4	0.9	0.1	1.4
(CN 50-63)	1986	6.2	9.2	3.1	18.5	0.9	1.4	0.3	2.6
	1992	16.0	9.8	2.8	28.6	0.6	2.9	0.9	4.4
Footwear	1980	2.2	3.0	11.8	17.0	0	1.5	0	1.5
(CN 64)	1986	4.0	2.6	18.1	24.7	0	2.6	0.3	2.9
	1992	19.0	0.8	7.2	27.0	0.1	3.0	0.6	3.7
Machinery, transport	1980	0.1	1.2	1.4	2.7	2.0	1.9	1.1	5.0
equipment	1986	0.2	1.3	2.3	3.8	4.8	1.6	1.4	7.8
(CN 80-89)	1992	9.5	4.2	18.3	32.0	13.3	8.0	8.8	30.1
Other manufactures	1980	0.6	5.4	2.6	8.5	0.7	1.2	0.4	2.3
(CN 90-99)	1986	1.2	3.6	2.6	7.4	1.5	1.4	0.9	3.8
	1992	28.0	8.9	13.8	50.7	2.7	6.2	3.0	11.9

Source: Eurostat, External Trade, CD ROMs, various issues.

Appendix Table 1 - Difference Between Bilateral Trade Shares in Total Intra-East Asian Trade, 1992 and 1986 (in percentage points)

From to	Japan	Hong Kong	Indonesia	Korea	Malaysia	Philippines	Singapore	Thailand	PR China	Taiwan	East Asia
Japan	-	0.0	-0.6	-3.4	0.8	0.1	-0.1	1.2	-4.5	-0.5	-6.9
Hong Kong	0.4	-	-0.1	-0.1	0.0	0.0	0.0	0.1	3.6	0.4	4.3
Indonesia	-2.0	0.0	-	0.1	0.1	0.0	-0.2	0.0	0.3	0.1	-1.6
Korea	-1.1	0.3	0.4	-	0.1	0.1	0.4	0.3	0.7[a]	0.3	1.5
Malaysia	-1.1	0.2	0.1	-0.2	-	-0.1	0.7	0.1	0.1	0.1	-0.1
Philippines	-0.1	-0.1	0.0	-0.1	0.0	-	-0.1	0.0	0.0	0.0	-0.3
Singapore	-0.7	0.1	-0.2	0.2	-1.0	0.0	-	0.1	-0.1	0.0	-1.8
Thailand	0.5	0.1	0.0	0.0	-0.1	0.0	0.1	-	-0.1	0.1	0.7
PR China	-0.8	2.4	0.0	0.6[a]	0.0	-0.1	-0.4	0.1	-	0.2	2.1
Taiwan	-1.1	1.8	0.0	0.0	0.3	0.0	-0.1	0.3	1.0	-	2.4
East Asia	-6.1	4.9	-0.4	-2.8	0.3	0.0	0.5	2.1	1.0	0.7	-

[a]Trade between PR China and Rep. of Korea in 1986 is not officially recorded. Figures for Taiwan's trade with the PR China were taken from national sources. In some cases (Singapore - Indonesia, Taiwan - Malaysia) export figures of the reporting country were taken from partner countries' import figures.

Source: COMTRADE Databank.

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