

China's Economic Policy Towards Taiwan: An Empirical Analysis

Joseph Y.S. Cheng and Kan Chak-yuen

Abstract

This article presents the actual data on the economic exchanges across the Taiwan Straits, through meticulous collection and tabulation from various sources. The basic analysis of the statistical data also highlights the broad trends and issues involved. The expansion of economic exchanges across the Taiwan Straits has strengthened Chinese leaders' confidence as they expect that economic integration will help to provide the foundation for peaceful reunification. This confidence in turn will persuade Chinese leaders to reduce their dependence on military means. The Chen Shui-bian administration, on the other hand, still perceives the increasing economic dependence of Taiwan on Mainland China as an erosion of Taiwan's long-term security.

1 Introduction

Since the release of "A Message to Compatriots in Taiwan" by the Standing Committee of the National People's Congress (NPC) in January 1979, the Chinese leadership has been adopting the long-term objective of "peaceful reunification" in guiding cross-Straits relations.¹ In the new Constitution of the People's Republic of China (PRC) in 1982, a new provision was added: Article 31 stipulates that special administrative regions may be established when necessary, and "the system to be instituted in special administrative regions shall be prescribed by law enacted by the NPC in the light of specific conditions" (Lin & Kan 1999: 86-87). The establishment of special administrative regions and the subsequent "one country, two systems" formula were designed to apply to Hong Kong, Macau and Taiwan.

In terms of economic exchanges and trade across the Taiwan Straits, Beijing has always been hoping to promote direct links with Taiwan to facilitate its policy of peaceful reunification. On the other hand, largely because of political and security considerations on the part of Taiwan, direct links in trade, mail, and transport have not been achieved. The absence of such direct links, however, has not prevented the rapid expansion of trade and investment flows across the Taiwan Straits since the mid-1980s, especially after the southern tour

of Deng Xiaoping in 1992. In April and May 2005, Lien Chan, chairman of the Kuomintang, and James Soong Chu-yu, head of the other opposition party, People First Party, visited China and held discussions with the top Chinese leaders, thus opening up new opportunities for cross-Straits dialogue.

This chapter intends to analyze China's economic and trade policy towards Taiwan, as well as the economic, trade and investment activities across the Taiwan Straits since the early 1990s. The authors have secured unpublished trade data from the Census and Statistics Department of the Hong Kong government, and the data shed light on Hong Kong's intermediary role in cross-Straits economic exchanges. They also help to analyze whether Hong Kong's intermediary role will be adversely affected if direct links between Mainland China and Taiwan are realized. There is naturally a concern that Hong Kong's intermediary role will then be replaced by the ports on both sides of the Taiwan Straits (substitution effect), but there is also considerable optimism that Hong Kong will benefit from a continuous expansion of economic exchanges between Mainland China and Taiwan (income effect).

¹Professor Zhang Linzheng, professor of political science at National Taiwan University, participated in a forum on "The Political and Economic Prospects Across the Taiwan Straits After the Visits of Lien Chan and Soong Chu-yu to Mainland China" in Hong Kong on 19 May 2005. She considered that the chances of realizing the "three direct links" across the Taiwan Straits in 2006 would be very low, and she therefore believed that Hong Kong, for the time being, would not have to worry about its intermediary role in the economic relations across the Taiwan Straits.

2 China's Economic and Trade Policy Towards Taiwan

Within the general approach of peaceful reunification, Jiang Zemin indicated in his political report to the Sixteenth National Congress of the Communist Party of China (CPC) in November 2002 that "the basic pattern and development trends regarding cross-Straits relations have not changed". In the eyes of the Chinese leadership, its Taiwan policy must be in accord with the nation's central task, i.e., economic construction, and the two fundamental approaches, i.e., reform and opening up to the external world as well as the upholding of the four cardinal principles. In terms of actual application, Jiang Zemin's eight-point programme enunciated in 1995 offers a clear explanation.

On the issue of Taiwan's international space (the second point of Jiang's eight-point programme), the Chinese authorities set a limit allowing only informal (*minjian*) economic and cultural relations between Taiwan and foreign countries. Under the "one China" principle, they accept Taiwan's participation in international economic organizations such as the Asian Development Bank (under the name of Taipei, China), Asia-Pacific Economic Co-operation forum (under the name of Chinese Taipei), etc.; and they strongly object to Taiwan's diplomatic activities perceived as promoting "two Chinas" or "one China, one Taiwan".

Regarding issues relating to cross-Straits economic and trade links (the fifth point of Jiang's eight-point programme), the Chinese leadership indicates that it would strongly promote economic flows and co-operation across the Taiwan Straits in support of economic development in Mainland China and Taiwan in the twenty-first century. It believes that the realization of direct trade, mail and transport links is based on objective economic needs, and is in accord with the interests of both Beijing and Taipei. The Chinese authorities perceive the promotion of the establishment of such direct links as part of their policy to push for peaceful reunification. On one occasion, the then Vice-Premier Qian Qichen indicated that the "three links" were an economic issue, and therefore could avoid involvement of the "one China" principle. He even suggested that the negotiations could be conducted between local governments, enterprises and trade associations on either side of the Taiwan Straits. He hastened to add, however, that civil aviation and marine transport routes had to be treated as domestic routes, not international routes, though domestic routes could be more flexibly designated as special routes.

During the visits to Mainland China by Lien Chan and James Soong in April – May 2005, some consensus had been reached on the economic and trade relations across the Taiwan Straits, though the opposition party leaders had no authority to conclude formal agreements. In the meeting between Hu Jintao and Lien Chan on 29 April, the issues of a common market across the Taiwan Straits, exports of fruits from Taiwan to Mainland

China, etc. were discussed. In the following meeting between Hu Jintao and James Soong on 12 May, discussions were also held on the issues of a free trade area across the Taiwan Straits, individual tourists travelling to Taiwan from the Mainland, the expansion of agricultural exports to the Mainland from Taiwan, the realization of direct flights across the Taiwan Straits in 2006, etc. While the expansion in economic interaction, cultural exchange and social communication probably cannot end the security and political conflicts between Mainland China and Taiwan, they can certainly contribute to a reduction of tension in the strategic area (Schucher 2005: 114).

3 Taiwan Investment in Mainland China

Before the era of economic reforms and opening up to the external world in Mainland China, Taiwanese businessmen had already invested in the Mainland under various covers. The investment projects, however, were of very small scale. Since Beijing's adoption of economic reforms and an open-door policy, and especially after the relaxation of foreign exchange controls as well as allowing Taiwan people to visit their relatives in the Mainland by the Taiwan authorities in 1987, and Beijing's release of the "Regulations Encouraging Investment by Taiwan Compatriots" in July 1988, Taiwanese investment in the Mainland began to expand rapidly. Such investment flows were subsequently further encouraged by various preferential measures offered by the Chinese authorities including the establishment of "Taiwan Businessmen Investment Areas". Production networks and Chinese social networks were significant additional factors leading to the rapid increase of Taiwan investment in Mainland China (Schüller 2005: 90). According to a study by Taiwan's Mainland Affairs Council, Taiwan investment in Mainland China amounted to US\$ 100 million at the end of 1987; in the following two years, investment increased by about US\$ 500 million per annum. At the end of 1990, Taiwan investment in Mainland China rose to US\$ 2 billion (Kan 1993: 69-81).

Table 1 (see appendix) provides detailed statistical data on Taiwan investment in Mainland China in the period 1979-2004, based on official Chinese sources. On a cumulative basis, actual Taiwan investment in the Mainland amounted to US\$ 39.605 billion, 7.07 percent of total foreign direct investment (US\$ 560.387 billion), and ranked fourth at the end of 2004. In terms of the number of projects (64,188), Taiwan investment ranked second, indicating that the amount of investment per project was slightly below average.

Table 2 (see appendix) provides the data on the regional distribution of Taiwan investment in Mainland China according to the statistics from the Taiwan authorities. At the end of 2004, Jiangsu (including Shanghai), Guangdong and Fujian were the leading destinations of Taiwan investment; they attracted 43.28 percent, 28.89 percent and 8.45 percent of total Taiwan

investment in the Mainland respectively. In terms of the number of projects, Guangdong was ahead of Jiangsu and Fujian, indicating that investment projects in Jiangsu were generally larger in scale.

Table 3 (see appendix) indicates the distribution of Taiwan investment in Mainland China by economic sector. As expected, Taiwan investment has been concentrating on electronic and electrical appliances, basic metal and metal products, and chemicals, amounting to 34.05 percent, 8.89 percent and 6.79 percent of the total investment respectively in the period 1991-2004. In terms of the number of projects, electronic and electrical appliances, basic metal and metal products, and precision instruments were the leading sectors.

As a result of China's impressive economic growth and its entry into the World Trade Organization (WTO), foreign investment in China has been increasing rapidly in recent years. In 2004, actual foreign investment in China reached US\$ 60.628 billion, 14.13 percent higher than that in 2003. Taiwan's investment in Mainland China has been expanding in a significant manner also. Despite the political difficulties in 2004, Taiwan's investment in Mainland China rose from US\$ 4.594 billion in 2003 to US\$ 6.94 billion in the following year; the number of investment projects also increased from 1,837 to 2,004. Investment from Taiwan continues to focus on the Yangzi Delta and the Pearl River Delta; in 2004, 52.76 percent of the investment funds went to Jiangsu and Shanghai, 20.22 percent to Guangdong and 9.93 percent to Zhejiang. In terms of economic sectors, the trends remain unchanged. In 2004, 43.86 percent of Taiwan's investment in Mainland China went to the manufacture of electronic and electrical appliances, 10.68 percent to basic metal and metal products, 6.51 percent to chemicals, 6.07 percent to non-metallic minerals and 4.44 percent to precision instruments.

In 2004, major investment projects from Taiwan in Mainland China included a semi-conductor manufacturing facility in Shanghai by Taiwan Semiconductor Manufacturing Company, Limited, which planned to invest US\$ 371 million in three years. AU Optronics Corporation also requested to increase investment in its manufacturing plant in Suzhou by US\$ 100 million. Taiwan Formosa Plastics Group indicated its plan to enhance investment in its polypropylene manufacturing facility in Ningbo by US\$ 69 million; Taiwan Honhai Technology Co., Ltd. similarly spent US\$ 68 million more in its subsidiary, Hon Fu Tai Electronics' plant in Yantai, through a third country source; while Taiwan Hsing Ta Cement Co., Ltd. invested US\$ 60 million in a cement plant in Huangshi. It appears that Taiwan investment in Mainland China has been continuing unabated.

In the past two decades and more, Taiwan businessmen have experienced keen competition in their investment ventures in Mainland China. They gradually appreciated that co-operation among themselves would enhance their chances of survival. This sense of solidarity has spread among all Taiwan businessmen in Mainland China, though perhaps more so in the Yangzi

River Delta. In early 2005, a group of Taiwan businessmen formed the Shanghai Taibao Liansuo Qiye Jiameng Xiehui (Shanghai Taiwan Compatriots Chain Enterprises Alliance Association). The association, representing a strategic union among Taiwan businessmen in Shanghai, successfully involved over sixty famous chain-enterprise brands from Taiwan operating in Shanghai such as Zhenguo Kafei, Yonghe Dawang, etc. These Taiwan chain-enterprise groups would co-ordinate their franchise locations to generate an effect of mutual support. At the other end, relaxation of restrictions on foreign investment to meet the requirements of China's WTO membership has also offered Taiwan investors opportunities to act as sole proprietors instead of having to form joint ventures with local partners. This has been a stimulus to increase investment from Taiwan.

China's WTO membership involves a commitment to liberalize its trade regime, i.e., to offer foreign enterprises a level playing field vis-à-vis domestic enterprises in the foreign trade sector. The Chinese authorities, in fulfilling this commitment, will have to lower tariffs on over 7,000 items of imports, and to liberalize its economic environment including the opening up of the domestic market, relaxation of restrictions on foreign investment, revisions of the relevant statutes and regulations, etc. Besides the 218 items which remain monopolies in the hands of state-owned enterprises, other commodities may be freely introduced into China, subject to meeting the stipulations of the relevant statutes and regulations. Foreign enterprises no longer have to depend on Chinese enterprises or joint ventures with local enterprises to serve as their sales agents, thus avoiding the concessions in trade interests. These changes offer new business opportunities for foreign enterprises, but also exacerbate competition among them. Taiwan enterprises in Mainland China will face the same challenges. Trade relations between the PRC and Taiwan as WTO members are not yet well-defined; obviously trade will further increase when political ties across the Taiwan Straits improve.

In February 2004, Chinese Premier Wen Jiabao indicated the need to restrain the over-heated economy in China through macro-economic adjustment and controls (*hongguan tiaokong*). In April 2005, Premier Wen further stated that strong measures had to be adopted to cool down the over-heated economy, generating strong responses in the Asian stock markets and foreign exchange markets; prices of basic metals were also depressed. Such an impact fully demonstrated the increasing weight of the Chinese economy in the international market. The general view among Taiwan investors was that a soft landing was to be welcomed. There was a widespread concern that a bubble had been created because of the sharp rises in the prices of raw materials, energy and real estate in the last two years. The experience also strengthened the view that the integration of the economies across the Taiwan Straits meant that long-term stable growth of the economy in Mainland China would be an important factor affecting the health of the Taiwan economy.

Another significant factor has been the Olympic Games to be held in Beijing in 2008. The event involves substantial investment in infrastructure, especially transport and logistics projects, as well as those in environmental protection, tourism facilities, exhibition facilities, etc. It is also expected that consumption will steadily expand in China in the coming years especially that of food, apparel and digital products in the retail sector. As Taiwan investors take a long-term view regarding the Mainland China market, they tend to give a high priority to the expansion of their respective market shares.

4 Indirect Trade Across the Taiwan Straits through Hong Kong

In the analysis of trade across the Taiwan Straits through Hong Kong, besides the entrepôt trade or re-exports whose value has been released as official statistics by the Hong Kong government, the physical weight of another element, trans-shipment trade, has also been released as official statistics by the Hong Kong government. The latter has not been treated as part of Hong Kong's gross domestic product (GDP) (Census and Statistics Department, various issues). Table 4 (see appendix) attempts to make a comparison between re-exports (entrepôt trade) and trans-shipment trade.

a) Entrepôt Trade

Entrepôt trade has been an important form of trade across the Taiwan Straits. Table 5 (see appendix) offers the data on its historical development, covering Taiwan's exports to Mainland China through Hong Kong, Mainland China's exports to Taiwan through Hong Kong, their respective annual growth rates and Taiwan's trade balance. The shares of these trade flows as percentages of Taiwan's exports and imports are also tabulated.

The development of entrepôt trade across the Taiwan Straits may be divided into six periods:

- 1) before 1979 as the period of prohibition;
- 2) 1979-1983 as the period of preliminary development;
- 3) 1984-1986 as the period of development;
- 4) 1987-1997 as the period of stable growth;
- 5) 1998-2001 as the period of low tide; and
- 6) 2002-2004 as the period of substantial development.

Between 1970 and 1978, entrepôt trade across the Taiwan Straits amounted to US\$ 194.63 million, Taiwan's indirect imports were a mere US\$ 194.44 million, and its indirect exports to Mainland China were as low as US\$ 0.19 million. Taiwan suffered a trade deficit. Prohibition was a result of sharp political confrontation; neither Beijing nor Taipei tolerated exchanges of any kind across the Taiwan Straits.

The beginning of the era of economic reforms and opening to the outside world in Mainland China as well as the release of the "Message to Compatriots in Taiwan" by the Standing Committee of the NPC marked the beginning of a thaw in relations across the Taiwan Straits. Entrepôt trade began to emerge. In 1979, Taiwan's re-exports to Mainland China through Hong Kong sharply rose to US\$ 21.5 million from US\$ 50,000 in the previous year. Between 1980 and 1983, Mainland China's re-exports to Taiwan continued to increase, despite a small decline in 1981. At the same time, Taiwan's re-exports to Mainland China expanded even more rapidly. As a result, Taiwan began to secure a trade surplus from 1980 onwards.

In the period 1984-1986, Taiwan's re-exports to Mainland China experienced sharp fluctuations, though the total value of the indirect trade continued to rise substantially and Taiwan's trade surplus also continued to expand. The fluctuations were probably the result of an announcement made by the Chinese authorities in June 1985, when they stopped the purchase of consumer goods from Taiwan, and limited the indirect imports of goods from Taiwan to entering through only Fujian and Hainan.

The period of 1987-1997 represented a decade of consistent growth in indirect trade across the Taiwan Straits, although the trade volume slightly declined in 1996. Mainland China's re-exports to Taiwan steadily increased in the period, with the exception of 1992 and 1993 which showed a slight drop. At the same time, Taiwan's re-exports to Mainland China rose every year, and the same applied to its trade surplus (with the exception of 1996). It was significant that though the Tiananmen Incident in 1989 and Lee Teng-hui's informal visit to the United States in 1995 caused serious setbacks in cross-Straits relations, the indirect trade had not been adversely affected in a marked manner.

The decade of stable growth was followed by a short period of low tide. In the period of 1998-2001, indirect trade in either direction across the Taiwan Straits adjusted downwards every year, with that in 1998 showing a sharp decline, though there was a rebound in 2000. This was obviously the impact of the Asian-Pacific financial crisis which began in July 1997.

There was, however, substantial development in economic exchanges across the Taiwan Straits between 2002 and 2004. As a result of the PRC and Taiwan joining the WTO in December 2001 and January 2002 respectively, indirect trade in either direction across the Taiwan Straits expanded rapidly, and the total value of the indirect trade showed double-digit growth in all three years (see appendix Table 6 and Table 7).

b) Trans-shipment Trade

Since 1983, the Census and Statistics Department of the Hong Kong government has been collecting data on trans-shipment trade across the Taiwan Straits through Hong Kong. As trans-shipment trade does not have to go through customs, the value of the merchandise

does not have to be declared, and the data are limited to its weight, volume and commodity structure. The trans-shipment trade data collected by the Shipping and Cargo Statistics Section of the Census and Statistics Department were not released annually before 1997, and the authors were only able to examine the complete data at the department (see appendix Table 8). It was noticed that in terms of the weight of the merchandise in trans-shipment trade from Taiwan to Mainland China through Hong Kong, there were declines in 1984 and 1985; in fact the amount in 1985 represented the lowest point throughout the years of the trans-shipment trade. These declines were mainly due to restrictive policies on the part of the Chinese authorities to cool down the over-heated economy in Mainland China in these years. Since 1986, trans-shipment trade across the Taiwan Straits through Hong Kong had been increasing every year until 2001, with greater increases in 1986, 1988, 1989, 1991 and 1992. The Asian-Pacific financial crisis, however, did not seem to have a major impact on the trans-shipment trade, as trans-shipment trade from Taiwan to Mainland China through Hong Kong grew 23.4 percent, 10.8 percent and 32.1 percent in the years of 1997, 1998 and 1999 respectively. The growth continued in the following three years: 21.8 percent in 2000, 18.9 percent in 2001 and 13.8 percent in 2002. There were declines in 2003 and 2004 though.

Regarding trans-shipment trade from Mainland China to Taiwan through Hong Kong, the amounts in 1983 and 1984 showed increases, while those in 1985 and 1986 indicated declines. From 1987 to 2003, there was growth every year, mainly because the Taiwan authorities had adopted more liberal policies towards indirect imports from Mainland China since 1987. It is interesting to note that neither the Tiananmen Incident nor the Asian-Pacific financial crisis had any noticeable adverse impact on this indirect trade flow. In 2004, trans-shipment trade from Mainland China to Taiwan through Hong Kong dropped 11 percent after a long period of continuous growth.

c) Statistics of Trade Across the Taiwan Straits

So far, the statistics of the value of trade across the Taiwan Straits in this chapter have been based on the figures of the entrepôt trade through Hong Kong.² However, as economic and trade exchanges across the Taiwan Straits continue to expand, a number of factors has to be reckoned. In the first place, because of considerations of transport costs and legal restrictions on the part of the Taiwan authorities, some Taiwan businessmen put down Hong Kong instead of Mainland China as the final destination of their merchandise in their customs declarations. Some of this merchandise went into Mainland China through Hong Kong and did not stay in Hong Kong, and some of this merchandise went into Mainland China through other places. Hence both the customs authorities of Hong Kong and Taiwan failed to

compile accurate statistics on trade across the Taiwan Straits. As Taiwan investment in Mainland China continued to increase, the discrepancies in the statistics also expanded, especially because trans-shipment trade from Taiwan to Mainland China going through Hong Kong as well as not going through Hong Kong both continued to rise.

Hence, it is no longer appropriate to use the figures of the entrepôt trade through Hong Kong as the basis of the value of trade across the Taiwan Straits. According to the authors' interviews of Hong Kong's shipping companies, Taiwan businessmen have already begun to ship their merchandise to Mainland China via Naha and Ishigaki-jima Island in Japan, and Pusan, Kunsan and Mokpo in South Korea since 1993 or so.

An examination of Table 9 (see appendix) may offer some illustrations of such discrepancies. In 1993, Hong Kong customs statistics showed that the indirect trade across the Taiwan Straits amounted to US\$ 8.689 billion, while Taiwan's Mainland Affairs Council estimated the trade to have a value of US\$ 15.097 billion. In 2001, the two sets of figures were US\$ 10.5 billion and US\$ 27.8 billion respectively; the latter assessment was 1.64 times higher than the Hong Kong customs figures. The expansion of the discrepancy was mainly due to the increase in trans-shipment trade across the Taiwan Straits through Hong Kong, as well as the increase in goods reaching the other side of the Taiwan Straits through ports like Pusan in South Korea without unloading and changing ships. In 2004, while Hong Kong Customs and Excise Department reported the indirect trade across the Taiwan Straits to be worth US\$ 17.2 billion, the assessment of Taiwan's Mainland Affairs Council registered US\$ 61.6 billion, 3.58 times the former figure, reflecting that the discrepancy had been expanding.

5 Conclusion

The major purpose of this chapter is to present the actual data on the economic exchanges across the Taiwan Straits, through meticulous collection and tabulation from various sources. Relative to the existing literature, this set of statistics is perhaps the most comprehensive and updated. The basic analysis of the statistical data also highlights the broad trends and issues involved.

The Chinese leadership's basic position is to achieve peaceful unification of Taiwan, while retaining the military option as the ultimate resort and as a means to exert pressure on Taiwan. The expansion of economic exchanges across the Taiwan Straits has strengthened Chinese leaders' confidence as they expect that economic integration will help to provide the foundation for peaceful reunification. This confidence in turn will persuade Chinese leaders to reduce their dependence on military means. This economic integration is perhaps most vividly demonstrated by the over one million Tai-

²Available literature, almost without exception, analyzes the indirect trade across the Taiwan Straits based on the statistics on the cross-Straits entrepôt trade released by the Hong Kong government.

wanese working and living in China today as well as another million in Mainland China on short-term visits.

Taiwan leaders, and especially the Chen Shui-bian administration and the Democratic Progressive Party, perceive the increasing economic dependence of Taiwan on Mainland China as an erosion of Taiwan's long-term security. The Lee Teng-hui administration and its successor have attempted to limit Taiwan investment in Mainland China – the controversies over the establishment of eight-inch wafers fabrication facilities in the Mainland by Taiwan investors and Taiwan Formosa Plastics Group's proposed petrochemical complex in Zhangzhou, Fujian were obvious cases in point. Lee Teng-hui's encouragement of Taiwan investment in Southeast Asia in the mid-1990s failed to dampen the attraction of the China market. Today, few in Taiwan want to see a deterioration in cross-Straits economic exchanges as the adverse impact will hurt almost all Taiwan people.

As the PRC and Taiwan have both joined the WTO, direct trade across the Taiwan Straits is expected to be realized sometime in the future. At present, the realization of direct trade across the Taiwan Straits is not expected to have a major economic impact on Hong Kong which has been serving as the intermediary in the indirect trade between Mainland China and Taiwan. In economic terms, the realization of direct trade will generate a substitution effect and an income effect. In the initial stage, direct trade means that merchandise crossing the Taiwan Straits does not have to pass through Hong Kong any more. This substitution effect obviously has a negative impact on the Hong Kong economy. In the longer term, it is hoped that the expansion of economic exchanges across the Taiwan Straits stimulated by the realization of direct trade, accompanied by an improvement of the political climate, will generate an income effect which will benefit Hong Kong. Taiwan's investment in the Pearl River Delta region has been increasing, and in many ways, it is still more convenient for Taiwan merchandise to go through Hong Kong to reach the Pearl River Delta Region. It is yet uncertain whether the sum of the substitution effect and the income effect will be positive or negative for Hong Kong. It is difficult to predict whether the proportion of Taiwan investment in Mainland China going to Guangdong will continue to increase, though the absolute amount will likely rise for a considerable period of time. In general, Hong Kong expects to secure a declining share of the businesses generated by the fast-expanding economy in Mainland China, and hopes that the actual amount of its share will nonetheless continue to expand.

Taiwan's substantial economic interests in the Mainland offer the Chinese leadership ample opportunities to strengthen its united front work in Taiwan. The business community in Taiwan will be an effective lobby for Beijing to the extent that it will seek liberalization measures to facilitate economic exchanges across the Taiwan Straits and deter the Chen Shui-bian administration from challenging the basic position of the Chinese authorities leading to an escalation of tension between Beijing and Taipei. The policy orientations of

the Taiwan business community will certainly influence party politics in the island through campaign finance and other means. It is less clear how coastal provinces in Mainland China benefitting from the economic flows across the Taiwan Straits will influence the Taiwan policy of the Chinese leadership.

In sum, improved economic relations across the Taiwan Straits have reduced the tension and generated vested interests to avoid military confrontation.

Appendix

Table 1: Mainland China Foreign Capital Inflow by Country (Area)

Country (Area)	2004					1979-2004 (cumulative)						
	Projects	Contracted Amount (US\$ billion)	Average Contracted Amount (US\$ million)	Realized Amount (US\$ billion)	Ratio of Realized to Contracted Investment (%)	Projects	Contracted Amount (US\$ billion)	% of Total	Average Contracted Amount (US\$ million)	Realized Amount (US\$ billion)	% of Total	Ratio of Realized to Contracted Investment (%)
HK	14,719	50.138	3.406	18.998	37.89	239,228	464.651	42.38	1.942	241.574	43.11	51.99
USA	3,925	12.165	3.099	3.941	32.40	45,265	98.609	8.99	2.179	48.028	8.57	48.71
Japan	3,454	9.162	2.653	5.452	59.50	31,855	66.650	6.08	2.092	46.845	8.36	70.29
Taiwan	4,002	9.306	2.325	3.117	33.50	64,188	79.335	7.24	1.236	39.605	7.07	49.92
British Virgin Islands	2,641	19.396	7.344	6.730	34.70	11,518	81.408	7.43	7.068	36.895	6.58	45.32
Singapore	1,279	4.423	3.458	2.008	45.41	13,150	47.991	4.38	3.650	25.539	4.56	53.22
South Korea	5,625	13.911	2.473	6.248	44.91	32,753	50.564	4.61	1.544	25.935	4.63	51.29
UK	488	1.284	2.631	0.793	61.76	4,344	21.292	1.94	4.902	12.231	2.18	57.44
Germany	608	2.282	3.753	1.058	46.38	4,112	17.995	1.64	4.376	9.909	1.77	55.06
France	289	1.230	4.255	0.657	53.41	2,591	9.145	0.83	3.529	6.805	1.21	74.41
Macau	715	1.891	2.644	0.548	29.00	9,122	13.978	1.27	1.532	5.738	1.02	41.05
Canada	995	2.202	2.213	0.614	27.88	7,852	14.035	1.28	1.787	4.527	0.81	32.26
Australia	736	2.052	2.789	0.663	32.28	6,809	12.045	1.10	1.769	4.084	0.73	33.90
Malaysia	352	1.300	3.693	0.385	29.62	3,240	8.458	0.77	2.611	3.471	0.62	41.04
Thailand	162	0.794	4.904	0.179	22.49	3,537	7.116	0.65	2.012	2.727	0.49	38.32
Others	3,674	21.937	5.971	9.236	42.10	28,901	103.078	9.40	3.567	46.473	8.29	45.09
Total	43,664	153.473	3.515	60.627	39.50	508,465	1,096.350	100	2.156	560.386	100	51.11

Sources: National Bureau of Statistics of China, Department of Trade and External Economic Relations Statistics, Ministry of Foreign Trade and Economic Cooperation, various issues.

Table 2: Approved Investment from Taiwan in Mainland China by Province, 1991-2004

	1991-2003 (cumulative)			2004			1991-2004 (cumulative)		
	Cases	Amount (US\$ million)	% of Total Amount	Cases	Amount (US\$ million)	% of Total Amount	Cases	Amount (US\$ million)	% of Total Amount
Jiangsu and Shanghai	8,589	14,189.7	41.36	639	3,661.8	52.76	9,228	17,851.4	43.28
Guangdong	10,585	10,512.3	30.64	461	1,403.1	20.22	11,046	11,915.4	28.89
Fujian	4,194	3,031.8	8.84	591	452.8	6.52	4,785	3,484.6	8.45
Zhejiang	1,622	2,051.3	5.98	95	689.5	9.93	1,717	2,740.7	6.64
Hebei	1,999	1,665.3	4.85	72	161.9	2.33	2,071	1,827.2	4.43
Shandong	788	582.9	1.70	25	138.5	1.99	813	721.4	1.75
Sichuan	446	391.9	1.14	23	99.4	1.43	469	491.3	1.19
Hubei	464	316.2	0.92	14	115.8	1.67	478	431.9	1.05
Liaoning	483	346.3	1.01	5	25.3	0.36	488	371.6	0.90
Hunan	276	148.9	0.43	11	19.2	0.28	287	168.0	0.41
Others	1,705	1,072.1	3.12	68	173.6	2.50	1,773	1,245.7	3.02
Total	31,151	34,308.7	100	2,004	6,940.9	100	33,155	41,249.2	100

Notes:

1. Figures include reports and approvals granted after actual investment had been made, according to Article 35 of "Act Governing Relations between Peoples of the Taiwan Area and the Mainland Area", Mainland Affairs Council, Taiwan.

2. Figures do not add up exactly due to rounding up.

3. According to the Taiwan authorities, Shanghai is part of Jiangsu.

Source: Investment Commission, Ministry of Economic Affairs 2004.

Table 3: Approved Investment from Taiwan in Mainland China by Economic Sector, 1991-2004

	1991-2003 (cumulative)			2004			1991-2004 (cumulative)		
	Cases	Amount (US\$ million)	% of Total Amount	Cases	Amount (US\$ million)	% of Total Amount	Cases	Amount (US\$ million)	% of Total Amount
Electronic and Electrical Appliances	5,578	10,999.9	32.06	431	3,044.0	43.86	6,009	14,043.9	34.05
Basic Metals & Metal Products	2,698	2,962.7	8.64	143	741.0	10.68	2,841	3,703.7	8.98
Chemicals	1,938	2,349.8	6.85	85	451.5	6.51	2,023	2,801.3	6.79
Plastic Products	2,603	2,307.9	6.73	94	277.0	3.99	2,697	2,584.9	6.27
Precision Instruments	2,887	1,894.3	5.52	111	307.9	4.44	2,998	2,202.3	5.34
Non-Metallic Minerals	1,388	1,723.2	5.02	47	421.3	6.07	1,435	2,144.5	5.20
Food and Beverage Processing	2,433	1,844.3	5.38	34	89.6	1.29	2,467	1,933.9	4.69
Transport Equipment	994	1,320.9	3.85	64	259.4	3.74	1,058	1,580.3	3.83
Textiles	1,155	1,298.1	3.78	32	147.5	2.12	1,187	1,445.6	3.50
Machinery Equipment	1,214	1,157.4	3.37	105	163.8	2.36	1,319	1,321.1	3.20
Aquiculture & Forestry and Fishery & Animal Husbandry Industry	528	205.2	0.60	5	3.7	0.05	533	208.9	0.51
Services	1,628	1,163.6	3.39	241	264.9	3.82	1,869	1,428.5	3.46
Others	6,107	5,081.3	14.81	612	769.1	11.08	6,719	5,850.4	14.18
Total	31,151	34,308.6	100	2,004	6,940.7	100	33,155	41,249.3	100

Notes:

1. Figures include reports and approvals granted after actual investment had been made, according to Article 35 of "Act Governing Relations between Peoples of the Taiwan Area and the Mainland Area", Mainland Affairs Council, Taiwan.

2. Figures do not add up exactly due to rounding up.

Source: Investment Commission, Ministry of Economic Affairs 2004.

Table 4: Comparison Between Re-exports and Trans-shipment Trade

	Item for Comparison	Re-exports	Trans-shipment Trade
1	Recipient of merchandise	Domestic purchaser	Overseas purchaser
2	Considered part of domestic trade?	Yes	No
3	No. of times of going through customs	Twice (upon entry and exit)	Nil
4	Value of merchandise	Declared	Unknown (only the weight is declared)
5	Financial procedures and insurance	Twice	Once
6	Time required	Relatively higher	Relatively lower
7	Cost	Relatively higher (mainly transport cost and transaction cost)	Relatively lower (mainly transport cost)
8	Form of trade	Indirect trade	Direct trade
9	Contractual relations	Two contracts are involved, but they may be concluded at different times	Only one transaction contract is involved
10	Settlement of payment	Payment settled indirectly in third country	Payment settled directly between exporter and importer
11	Confirmation of destination	Destination may not be confirmed beforehand	Destination confirmed beforehand
12	Merchandise unloaded in third country?	Merchandise unloaded in third country without further action or with slight processing, then transported to the importing country	Merchandise passing through third country without unloading
13	Risks	Relatively higher	Relatively lower

Source: Kan 1994: 27.

Table 5: Entrepôt Trade Across the Taiwan Straits Through Hong Kong, 1993-2004

Year	Total Trade		Taiwan's Exports to Mainland China through Hong Kong			Mainland China's Exports to Taiwan through Hong Kong			Trade Balance of Taiwan
	Amount	Annual Growth Rate (%)	Amount	Annual Growth Rate (%)	% of Taiwan's Exports	Amount	Annual Growth Rate (%)	% of Taiwan's Imports	
1970	1.80	-	-	-	-	1.80	-	0.11	-1.80
1971	2.52	40.00	-	-	-	2.52	40.00	0.13	-2.52
1972	7.94	215.08	-	-	-	7.94	215.08	0.31	-7.94
1973	16.77	111.21	-	-	-	16.77	111.21	0.44	-16.77
1974	21.41	27.67	0.01	-	a	21.40	27.61	0.30	-21.39
1975	25.68	19.94	0.01	0	a	25.67	19.95	0.43	-25.66
1976	41.09	60.01	0.02	100.00	a	41.07	59.99	0.54	-41.05
1977	30.65	-25.41	0.03	50.00	a	30.62	-25.44	0.35	-30.59
1978	46.77	52.59	0.05	66.67	a	46.72	52.58	0.42	-46.67
1979	77.80	66.35	21.50	42,900.00	0.13	56.30	20.51	0.38	-34.80
1980	311.20	300.00	235.00	993.02	1.19	76.20	35.35	0.39	158.80
1981	459.30	47.59	384.20	63.49	1.70	75.20	-1.31	0.35	309.00
1982	278.50	-39.36	194.50	-49.38	0.88	84.00	11.70	0.44	110.50
1983	247.70	-11.06	157.90	-18.82	0.63	89.90	7.02	0.44	68.00
1984	553.20	123.33	425.50	169.47	1.40	127.80	42.16	0.58	297.70
1985	1,102.70	99.33	986.90	131.94	2.21	115.90	-9.31	0.58	871.00
1986	955.60	-13.34	811.20	-17.80	2.04	144.20	24.42	0.60	667.00
1987	1,515.50	58.59	1,226.50	51.20	2.30	288.90	100.35	0.83	937.60
1988	2,720.90	79.54	2,242.20	82.81	3.70	478.70	65.70	0.96	1,763.50
1989	3,483.40	28.02	2,896.50	29.18	4.38	586.90	22.60	1.12	2,309.60
1990	4,043.60	16.08	3,278.30	13.18	4.88	765.40	30.41	1.40	2,512.90
1991	5,793.10	43.27	4,667.20	42.37	6.12	1,126.00	47.11	1.79	3,541.20
1992	7,406.90	27.86	6,287.90	34.73	7.72	1,119.00	-0.62	1.55	5,168.90
1993	8,689.00	17.31	7,585.40	20.63	8.93	1,103.60	-1.38	1.43	6,481.80
1994	9,809.50	12.90	8,517.20	12.28	9.15	1,292.30	17.10	1.51	7,224.90
1995	11,457.00	16.79	9,882.80	16.03	8.84	1,574.20	21.81	1.51	8,308.60
1996	11,300.00	-1.37	9,717.60	-1.67	8.38	1,582.40	0.52	1.56	8,135.20
1997	11,458.90	1.41	9,715.08	-0.03	7.95	1,743.82	10.20	1.52	7,971.26
1998	10,018.97	-12.57	8,364.10	-13.91	7.56	1,654.87	-5.10	1.58	6,709.23
1999	9,803.07	-2.15	8,174.87	-2.26	6.72	1,628.20	-1.61	1.47	6,546.67
2000	11,573.70	18.06	9,593.10	17.35	6.47	1,980.50	21.64	1.41	7,612.60
2001	10,504.80	-9.24	8,811.50	-8.15	7.17	1,693.30	-14.50	1.58	7,118.20
2002	12,019.80	14.42	10,311.8	17.03	7.90	1,708.10	0.87	1.52	8,603.70
2003	13,950.40	16.06	11,789.4	14.33	8.17	2,161.10	26.52	1.70	9,628.30
2004	17,247.28	23.63	14,761.9	25.21	8.48	2,485.38	15.01	1.48	12,276.52

Note: "a" indicates that the figure is smaller than 0.01.

Sources: Census and Statistics Department, Hong Kong Special Administrative Region; Department of Statistics, Ministry of Finance, Taiwan.

Table 6: Taiwan's Major Exports to Mainland China, 2004

Rank	HS Code	Items	Amount (US\$ million)	Growth Rate over 2003	% of Total Exports
1	85	Electrical equipment and accessories	14,043.0	25.7	25.1
2	90	Optical, photographic and related equipment and accessories	5,737.8	80.7	51.3
3	84	Mechanical appliances and accessories	5,646.3	11.0	17.7
4	39	Plastics and plastic products	4,518.4	29.9	41.1
5	72	Steel	2,539.5	-0.2	35.6
6	29	Organic chemicals	1,813.8	63.7	44.2
7	54	Artificial silk fibres	1,274.7	8.7	35.9
8	74	Copper and copper products	1,075.6	52.0	51.2
9	59	Textile products for industrial use	701.6	0.7	44.3
10	55	Artificial cotton fibres	599.8	7.0	33.8
Total			37,950.5	27.8	

Notes:

1. The HS coding system has been applied since June 1995.
2. Figures do not add up exactly due to rounding up.

Sources: Census and Statistics Department, Hong Kong Special Administrative Region; Department of Statistics, Ministry of Finance, Taiwan.

Table 7: Taiwan's Major Imports from Mainland China, 2004

Rank	HS Code	Items	Amount (US\$ million)	Growth Rate over 2003	% of Total Imports
1	85	Electrical equipment and accessories	4,745.8	39.1	11.3
2	84	Mechanical appliances and accessories	3,332.9	32.5	13.8
3	72	Steel	1,459.2	328.8	15.1
4	27	Mineral fuels, lubricants and related materials	1,034.6	57.8	4.8
5	90	Optical, photographic and related equipment and accessories	999.4	115.9	8.2
6	29	Organic chemicals	367.7	44.7	4.8
7	76	Aluminium and aluminium products	328.6	121.5	16.5
8	39	Plastics and plastic products	303.4	58.3	6.7
9	25	Rocks, lime and cement	268.0	32.6	40.8
10	87	Automobiles, parts and accessories	230.3	58.9	6.6
Total			13,069.9	57.7	

Note: Figures do not add up exactly due to rounding up.

Source: Directorate-General of Customs, Ministry of Finance, Taiwan.

Table 8: Trans-shipment Trade Across the Taiwan Straits Through Hong Kong, 1993-2004

Year	Trans-shipment Trade from Taiwan to Mainland China through Hong Kong		Trans-shipment Trade from Mainland China to Taiwan through Hong Kong		Total	
	Amount (in kilotons)	Annual Growth Rate	Amount (in kilotons)	Annual Growth Rate	Amount (in kilotons)	Annual Growth Rate
1993	1,152	-	221	-	1,373	-
1994	1,227	6.5	442	100.0	1,669	21.6
1995	1,718	40.0	557	26.0	2,275	36.3
1996	1,988	15.7	626	12.4	2,614	14.9
1997	2,453	23.4	758	21.1	3,211	22.8
1998	2,717	10.8	873	15.2	3,590	11.8
1999	3,590	32.1	962	10.2	4,552	26.8
2000	4,371	21.8	1,002	4.2	5,373	18.0
2001	5,195	18.9	1,107	10.5	6,302	17.3
2002	5,910	13.8	1,480	33.7	7,390	17.3
2003	5,765	-2.5	1,540	4.1	7,305	-1.2
2004	5,401	-6.3	1,345	-12.7	6,746	-7.7

Notes:

1. The Census and Statistics Department of the Hong Kong Government has begun collecting data on trans-shipment trade across the Taiwan Straits through Hong Kong since 1983.

2. Figures between 1993 and 1999 cover only maritime transport; figures from 2000 onwards cover maritime and river transport.

Source: Census and Statistics Department, Hong Kong Special Administrative Region, Shipping and Cargo Statistics Section. The statistics in this table are not available to the public; they are acquired by the authors through special request.

Table 9: Comparisons of Trade Statistics and Assessment Across the Taiwan Straits from Various Sources, 1989-2004

Year	Statistics from Hong Kong Government			Statistics From Taiwan Customs			Statistics from PRC Customs			Assessment of Mainland Affairs Council, Taiwan		
	Exports	Imports	Total Trade	Exports	Imports	Total Trade	Exports	Imports	Total Trade	Exports	Imports	Total Trade
1989	2,896.5	586.9	3,483.4	-	-	-	-	-	-	3,331.9	586.9	3,918.8
1990	3,278.3	765.4	4,043.7	-	-	-	2,255.0	319.7	2,574.7	4,394.6	765.4	5,160.0
1991	4,667.2	1,126.0	5,793.2	-	597.5	597.5	3,639.0	594.8	4,233.8	7,493.5	1,125.9	8,619.4
1992	6,287.9	1,119.0	7,406.9	1.1	747.1	748.2	5,881.0	698.0	6,579.0	10,547.6	1,119.0	11,666.6
1993	7,585.4	1,103.6	8,689.0	16.2	1,015.5	1,031.7	12,933.1	1,461.8	14,394.9	13,993.1	1,103.6	15,096.7
1994	8,517.2	1,292.3	9,809.5	131.6	1,858.7	1,990.3	14,084.8	2,242.2	16,327.0	16,022.5	1,858.7	17,881.2
1995	9,882.8	1,574.2	11,457.0	376.6	3,091.4	3,468.0	14,783.9	3,098.1	17,882.0	19,433.8	3,091.4	22,525.2
1996	9,717.6	1,582.4	11,300.0	622.9	3,059.8	3,682.7	16,182.2	2,802.7	18,984.9	20,727.3	3,059.8	23,787.1
1997	9,715.1	1,743.8	11,458.9	627.8	3,915.4	4,543.2	16,441.7	3,396.5	19,838.2	22,455.2	3,915.4	26,370.6
1998	8,364.1	1,654.9	10,019.0	834.7	4,110.5	4,945.2	16,629.6	3,869.6	20,499.2	19,840.9	4,110.9	23,951.8
1999	8,174.9	1,628.1	9,803.0	2,539.5	4,522.2	7,061.7	19,537.5	3,951.7	23,489.2	21,312.5	4,522.2	25,834.7
2000	9,593.1	1,980.5	11,573.6	4,217.5	6,223.3	10,440.8	25,497.1	4,994.9	30,492.0	25,009.9	6,223.3	31,233.2
2001	8,811.5	1,693.3	10,504.8	4,745.6	5,902.2	10,647.8	27,339.4	5,000.2	32,339.6	21,945.7	5,902.2	27,847.9
2002	10,311.8	1,708.1	12,019.9	9,945.0	7,947.7	17,892.7	38,063.1	6,585.9	44,649.0	29,465.0	7,947.7	37,412.7
2003	11,789.4	2,161.1	13,950.5	21,417.3	10,960.5	32,377.8	49,632.3	9,004.7	58,637.0	35,357.7	10,962.0	46,319.7
2004	14,761.9	2,485.4	17,247.3	34,046.7	16,681.6	50,728.3	64,778.6	13,545.2	78,323.8	44,960.4	16,678.7	61,639.1

Notes:

- Exports in the table refer to exports from Taiwan to Mainland China, and imports in the table refer to imports from Mainland China to Taiwan.
- Statistics from Taiwan Customs tend to under-estimate the actual amount of trade across the Taiwan Straits. Regarding exports, manufacturers/exporters often reported Hong Kong as the destination, instead of reporting Mainland China as the ultimate destination. Regarding imports, because of various restrictions imposed on imports from Mainland China by the Taiwan authorities, some goods from Mainland China probably had been smuggled into Taiwan or entered Taiwan through fraudulent certificates of origin. The latter phenomena probably have been less significant in recent years, because of much relaxation of restrictions against imports from Mainland China by the Taiwan authorities.
- In the past the People's Republic of China (PRC) Customs did not seriously investigate into the issues of genuine producer countries and ultimate consumption countries, and simply relied on the sources of imports and destinations of exports as statistical standards. As a result, its statistics tended to over-estimate China's trade with Hong Kong, and under-estimate China's trade with other countries because Hong Kong was falsely reported as the source of imports and the destination of exports due to its free trade policies. Since 1993, it has made adjustments and improved the reliability of its statistical data.

Table 10: Share of Cross-Straits Trade in Hong Kong's Entrepôt Trade and Trans-shipment Trade, 1990-2004

Year	Hong Kong				Cross-Straits Trade through Hong Kong				Share of Cross-Straits Trade in Hong Kong's Total (%)	
	Trans-shipment Trade		Entrepôt Trade		Trans-shipment Trade		Entrepôt Trade		Trans-shipment Trade	Entrepôt Trade
	Amount (in kilotons)	Annual Growth Rate	Amount (in US\$ billion)	Annual Growth Rate	Amount (in kilotons)	Annual Growth Rate	Amount (in US\$ billion)	Annual Growth Rate		
1990	7,231	-	53.076	-	93	-	4.043	-	1.3	7.6
1991	8,532	18.0	68.569	29.2	433	365.6	5.793	43.3	5.1	8.4
1992	8,774	2.8	88.567	29.2	1,083	150.1	7.406	27.8	12.3	8.4
1993	9,360	6.7	105.541	19.2	1,373	26.8	8.689	17.3	14.7	8.2
1994	13,152	40.5	121.528	15.1	1,669	21.6	9.809	12.9	12.7	8.1
1995	17,096	30.0	142.624	17.4	2,275	36.3	11.457	16.8	13.3	8.0
1996	16,577	-3.0	152.020	6.6	2,614	14.9	11.300	-1.4	15.8	7.4
1997	17,585	6.1	159.556	5.0	3,211	22.8	11.458	1.4	18.3	7.2
1998	21,109	20.0	148.615	-6.9	3,590	11.8	10.019	-12.6	17.0	6.7
1999	26,766	26.8	151.077	1.7	4,552	26.8	9.442	-5.8	17.0	6.2
2000	31,652	18.3	178.425	18.1	5,338	17.3	11.574	22.6	16.9	6.5
2001	35,292	11.5	170.188	-4.6	6,253	17.1	10.504	-9.2	17.7	6.2
2002	40,694	15.3	183.280	7.7	7,390	18.2	12.019	14.4	18.2	6.6
2003	46,112	13.3	207.788	13.4	7,305	-1.2	13.950	16.1	15.8	6.7
2004	50,479	9.5	242.709	16.8	6,746	-7.7	17.247	23.6	13.4	7.1

Note: Figures between 1990 and 1999 cover only maritime transport; figures from 2000 onwards cover maritime and river transport.

Source: Census and Statistics Department, Hong Kong Special Administrative Region.

References

- Census and Statistics Department, Hong Kong Special Administrative Region (2005), "External Trade Statistics, Frequently Asked Statistics", 26.7. Online: http://www.info.gov.hk/censtatd/eng/hkstat/fas/ex-trade/trade1/aggregate/trade1_long1.xls (accessed 30. August 2005)
- Census and Statistics Department (various years), Hong Kong Special Administrative Region, *Hong Kong Shipping Statistics*, Hong Kong: Census and Statistics Department
- Department of Trade and External Economic Relations Statistics, National Bureau of Statistics of China (comp.) (various years), *China Foreign Economic Statistical Yearbook*, Beijing: China Statistics Press
- Investment Commission, Ministry of Economic Affairs, Taiwan (2004), *Statistics on Overseas Chinese & Foreign Investment, Outward Investment, Mainland Investment, The Republic of China*, Taipei: Investment Commission, Ministry of Economic Affairs
- Kan, Chak-yuen (1993), "Hong Kong's Intermediary Role in Economic Exchanges Across the Taiwan Straits: an Empirical Analysis", in: *Mainland China Studies*, 36 (11) (Chinese: "Xianggang zai Liangan Jingji Jiaoliu de Zhongjie Diwei: Shizheng Fenxi", in: *Zhongguo Dalu Yanjiu*, 36 (11)), pp. 69-81
- Kan, Chak-yuen (1994), *The Emerging Economic Golden Triangle - Mainland China, Hong Kong and Taiwan*, Taipei: Yongye Publications (Chinese: *Juqizhong de Jingji Jimsanjiao - Zhongguo Dalu, Xianggang, Taiwan*, Taipei: Yongye Chubanshe)
- Lin, Zhong-biao & Kan, Chak-yuen (1999), *The China Economy by 2010*, Taipei: Mainland Affairs Council, Executive Yuan, Taiwan (Chinese: *Zhongguo Dalu 2010 Nian zhi Jingji*, Taipei: Mainland Affairs Council, Executive Yuan, Taiwan), pp. 86-87
- Mainland Affairs Council, Taiwan, "Act Governing Relations between Peoples of the Taiwan Area and the Mainland Area". Online: <http://www.mac.gov.tw/english/english/foreign/law1.htm> (accessed 30 August 2005)
- Ministry of Foreign Trade and Economic Cooperation (ed.) (various years), *Intertrade*, various issues, Beijing: Intertrade Publications (Chinese: *Guoji Maoyi*, various issues, Beijing: Guoji Maoyi Zazhishe)
- National Bureau of Statistics of China (comp.) (various years), *China Statistical Yearbook*, various issues, Beijing: China Statistics Press
- Schucher, Günter (2005), "Peace by Means of Rapprochement? On the Impact of Social Integration in Shaping Cross-Strait Relations", in: Schucher, Günter and Margot Schüller (eds.), *Perspectives on Cross-Strait Relations: Views from Europe*, Hamburg: Institute of Asian Affairs, pp. 113-143
- Schüller, Margot (2005), "Cross-Strait Economic Interaction: The Role of the Business Community as a Driving Force for Bilateral Economic Relations", in: Schucher, Günter and Margot Schüller (eds.), *Perspectives on Cross-Strait Relations: Views from Europe*, Hamburg: Institute of Asian Affairs, pp. 89-112

* Joseph Y.S. Cheng is Professor of Political Science at the City University of Hong Kong.
Kan Chak-yuen is Lecturer at the Faculty of Business at Chu Hai College, Hong Kong.