Since the inauguration of China’s open-door policy in 1979, extremely intense trade and investment flows have developed between Hong Kong and the Mainland, and also between Taiwan and the Mainland. It is well known that Hong Kong and Taiwan are respectively the first and second investors\(^1\) in the Chinese Mainland. Trade flows among the three economies are also huge. Since the early years of China’s open-door era, Hong Kong and Taiwan have relocated their labour-intensive, export-oriented industries to the Mainland, and investment from Hong Kong and Taiwan has been crucial to the Mainland’s economic reform and opening.

The important role of Hong Kong in the Mainland’s reform and opening has been well recognized in the literature. To quote a study of the World Bank in 1994:

China’s ‘Hong Kong connection’ has been vital to the success of its export drive. It was noted earlier that more than half of China’s exports to the rest of the world are now handled by Hong Kong. Although the role of Hong Kong as trade intermediary is critical, its contribution to the development of China’s exports goes much further. Most importantly 70 per cent of the cumulative value of $58.1 billion in Foreign Direct Investment (FDI) commitments to China has come from Hong Kong and been mostly directed to export-oriented joint-ventures in the coastal provinces, Guangdong in particular. (World Bank 1994:15)

While the shares of Hong Kong and Taiwan in Mainland’s trade and investment have declined somewhat in recent years owing to the maturation of the Mainland investment environment, the roles of Hong
Kong and Taiwan in the Mainland’s trade and investment are still important. In 2003, close to 55 per cent of the Mainland’s exports came from foreign-invested enterprises, and another 7.6 per cent from domestic enterprises undertaking subcontracting work (processing and assembling) for firms outside the Mainland. In other words, outside firms directly contributed to 63 per cent of the Mainland’s exports, and most of these firms are from Hong Kong and Taiwan.

For brevity, Hong Kong and Taiwan will be referred to as the duo, and the duo plus the Mainland will be referred to as the trio. The trio are often referred to as Greater China, the China Circle or the Chinese Economic Area (CEA). Strictly speaking, the CEA should be the quad, as it also includes the economy of Macau. However, as Macau’s economy is very small it is often ignored in the discussion.

In this book, the term Greater China is used in the economic rather than the political sense. Hong Kong and Macao reverted to China in 1997 and 1999, and Beijing’s insistence that Taiwan is part of China is recognized by most countries. However, the Mainland, Taiwan, Hong Kong and Macau are four separate customs territories, and trade and investment among the four take the form of external trade and investment. In economic literature, China’s economy usually means the Mainland’s economy instead of the trio or the quad. It is thus necessary to designate the economy of the trio or the quad as the economy of Greater China.

In the early days of the Mainland’s open-door era, the duo were very influential in the Mainland’s development owing to their huge lead in level of economic development. The Mainland tailored its opening towards the duo, and gave Guangdong and Fujian special policy packages that vastly increased their autonomy. Guangdong established the three SEZs (special economic zones) of Shenzhen, Zhuhai and Shantou, which were geared towards Hong Kong and Macau, while Fujian established the Xiamen SEZ geared towards Taiwan.

It must be stressed that Hong Kong has played a pivotal role in China’s opening, especially in the early years of the open policy. The development of Shenzhen, the most important SEZ, vividly illustrates the crucial role of Hong Kong in China’s opening. In January 1979, the State Council created an industrial export zone at Shekou, which is close to Hong Kong. The zone was to be developed and managed by the China Merchants Company, a Hong-Kong-based company controlled by the Chinese Ministry of Communications. According to Ho and Huenemann (1984:49), ‘Hong Kong business interests suggested that the zone be expanded to encompass property development and tourism...