

**China and
Southeast Asia's
Ethnic Chinese**

STATE AND DIASPORA
IN CONTEMPORARY ASIA

Paul J. Bolt

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Contents

<i>Acknowledgments</i>	ix
1 China and Asia's Ethnic Chinese	1
China's Economic Reforms and Asia's Ethnic Chinese	1
Greater China	8
Overview and Terminology	12
2 Asia's Ethnic Chinese: Characteristics and Networks	19
The Ethnic Bond Between China and Asia's Ethnic Chinese	19
Characteristics of Southeast Asian Chinese	21
3 Overseas Chinese Remittances and Investments in China: A Historical Survey	37
The Qing and Republican Periods	37
1949–1977	43
Summary and Conclusions	47
4 China's Reform Era Policies Toward Ethnic Chinese and the Ethnic Chinese Response	53
China's Reform Era Policies Toward Ethnic Chinese	53
Levels of Ethnic Chinese Investment	64
Motivations of Ethnic Chinese Investors	70

Remittances, Donations, and Advising	73
Conclusions	75
5 The Economic and Political Effects of Ethnic Chinese Investments in China	83
The Economic Significance of Ethnic Chinese Investment	83
Political Ramifications of Ethnic Chinese Investment	92
6 International Implications of China's Policies and Ethnic Chinese Investments in China	107
Southeast Asian Fears Regarding China and the Ethnic Chinese	108
Difficulties of Ethnic Chinese in Southeast Asia	113
Assimilation and Identification	115
Chinese-Southeast Asian Relations	119
7 Economic Cooperation Between China and Singapore	131
The Singaporean Perspective	132
Singapore's Investments in China	135
The Chinese Perspective	141
Ramifications	143
Conclusions	147
8 Conclusion	153
Three Legs of the Diaspora Relationship	153
Greater China and Beyond	158
<i>Bibliography</i>	163
<i>Index</i>	179

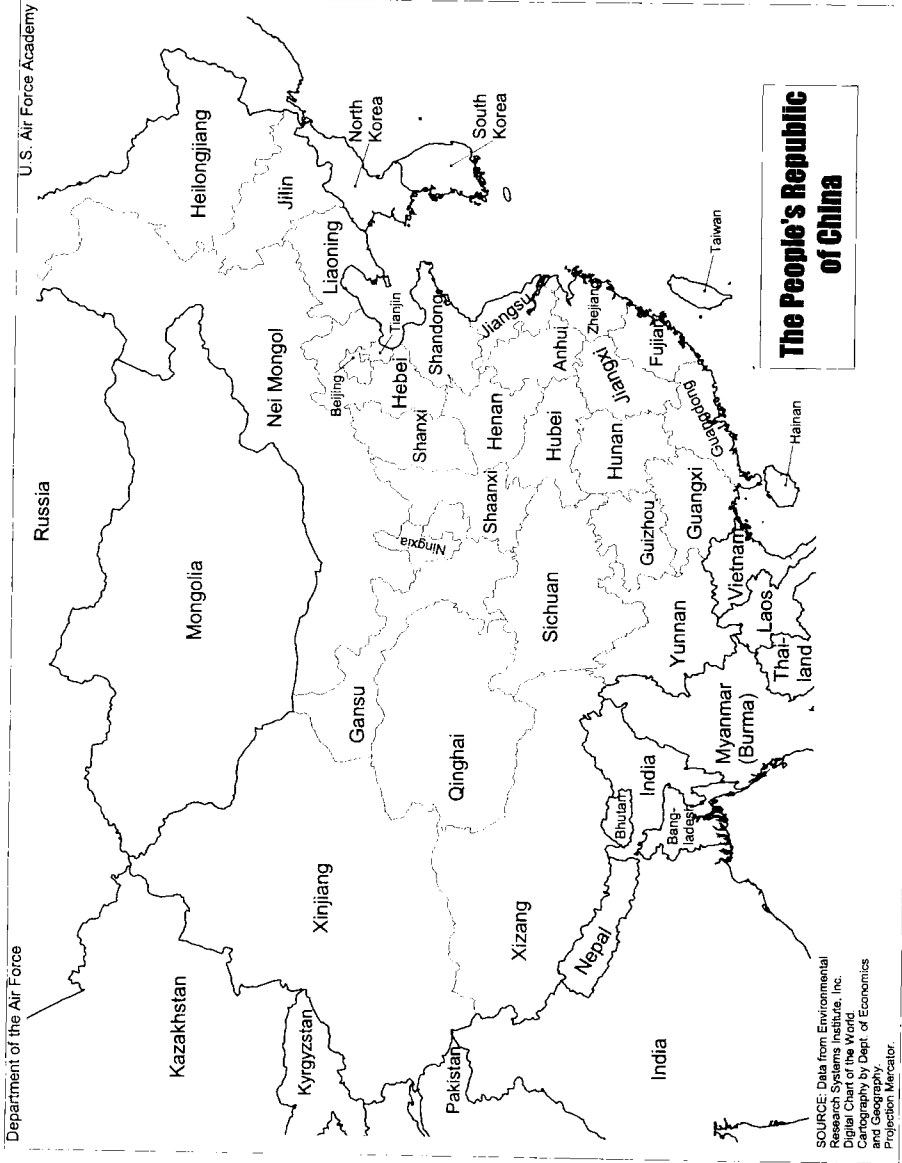
CHAPTER I

China and Asia's Ethnic Chinese

CHINA'S ECONOMIC REFORMS AND ASIA'S ETHNIC CHINESE

In 1978, China embarked on a path of economic reforms that have fundamentally altered the country's economic and social landscape. These reforms have been remarkably successful in raising economic output and increasing wealth. For example, from 1980 to 1993, China's real gross national product (GNP) grew at an average annual rate of 9.4 percent. Rates of growth then slowly declined from 12.6 percent in 1994 to 7.8 percent in 1998.¹ The Chinese government reports that the number of people living below the poverty line dropped from 250 million in 1978 to 42 million in 1998.²

Two central components of China's reforms have been the household responsibility system in agriculture, leading to a doubling of agricultural output in the 1980s, and the open door policy. Under the open door policy the Chinese government has encouraged trade, foreign investment, scholarly exchanges, and increased contact with the rest of the world in a wide variety of arenas. Foreign investment has received special emphasis due to the jobs, technology, and export opportunities that it brings. China has been quite successful in attracting this investment. By April 1999, there were almost 330,000 overseas-funded firms in China with a total contractual investment of \$580 billion and actual paid-in capital of \$270 billion.³ This made China the world's second-ranking host country for foreign investment after the United States. China has also made great strides in expanding its exports. In 1997, exports equaled nearly 20 percent of GDP, up from a negligible amount before the reforms were initiated.⁴



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China's reforms have also brought difficult problems. Throughout the reform period the government has struggled to manage the consequences of unchecked growth, such as periodic inflationary surges and rising income inequalities between individuals and regions. For example, consumer price inflation in 1994 ran at 24.1 percent.⁵ Although subsequently inflation was brought under control, in 1999 policymakers struggled with a deflationary spiral. The loss of state workers' jobs has brought discontent, and millions of migrant peasants roam the country in search of work. Furthermore, corruption is endemic, and at times Beijing seems to have little control over what happens in the provinces. However, what is most remarkable is China's long run of success in expanding its economy, a success that is especially noteworthy in comparison with the economic performance of Eastern Europe and the former Soviet Union.

The current study illustrates one of the distinguishing features of the Chinese economic reform: the active participation of Asia's ethnic Chinese. During the 1990s, the Western press began to pay more attention to the contributions of what it calls the "overseas Chinese" in explaining both China's success and the dynamic economic growth in Asia. For example, James McGregor of the *Wall Street Journal* described in 1992 how the "overseas Chinese" invested "at home," financing at least 75 percent of the foreign-invested enterprises in China and even more in areas such as the southeastern province of Fujian.⁶ In 1993, Joel Klein in *Newsweek* noted three major factors in China's economic boom: China's transition model, the "entrepreneurial edge" of the Chinese, and "the power and pride of the Chinese diaspora." Klein went on to assert that diaspora businessmen "jump-started" China's boom and represent 80 percent of China's foreign capital.⁷ Similarly, in 1996 the German weekly *Wirtschaftswoche* claimed that the overseas Chinese were taking control of Asia from Japan,⁸ while in 1997 the Canadian magazine *Maclean's* asserted that "the world's 57 million overseas Chinese . . . rule the world's third most powerful economy."⁹

There are some inadequacies in these generalized popular accounts. One is the lack of distinction regarding the identity of the "overseas Chinese." Lumping all ethnic Chinese living outside mainland China into the category of "overseas Chinese" is simplistic and causes consternation in Southeast Asia, where this is a sensitive issue. In political terms there are clear distinctions among ethnic Chinese living in Hong Kong, Taiwan, and Southeast Asia. Similarly, referring to "overseas Chinese" as returning "home" is misleading. Most of Asia's "overseas Chinese" have citizenship in their countries of residence and have lived there for generations. Nor is it accurate to describe Asia's ethnic Chinese as members of a single economy whose output can be compared to that of nation-states. Nevertheless, the attention given to the "overseas Chinese" is important and deserving of closer scrutiny. Investments in China by ethnic Chinese throughout Asia have played a crucial role in propelling the Chinese economy. This has important implications for both China's development and the appropriateness of the Chinese model for other developing societies.

At the scholarly level, many Western writers on China's development have not paid adequate attention to the role that ethnic Chinese have played in China's development, focusing instead on government policies. When attention is given to the role of ethnic Chinese, usually it centers on those from Hong Kong and Taiwan rather than Southeast Asia. Furthermore, few writers have attempted to systematically describe the current political and economic implications of ethnic Chinese investments in China. Fortunately, this is beginning to change. For example, the Centre for the Study of the Chinese Southern Diaspora was recently established at the Australian National University to focus on issues regarding people of Chinese descent living in Southeast Asia and the Southwest Pacific.¹⁰

This work examines the role of Southeast Asia's ethnic Chinese in contributing to China's economic development since 1978 and the political ramifications of this role for both China and the region. Although investments from Hong Kong and Taiwan are larger than those from Southeast Asia, Southeast Asian ethnic Chinese are worth examining for several historical and political reasons. First, the popular and scholarly literature has given less attention to them than investors from Hong Kong and Taiwan. This has been due at least in part to their lower profile. A second and related point is that ethnic Chinese in Southeast Asia live in internationally recognized sovereign states. Thus, their interactions with China have a different character than the interactions of Chinese from Hong Kong and Taiwan and require separate analysis. Third, there is a need to account for shifting historical patterns of investment. Before 1949 most external investments and remittances that flowed into China came from Southeast Asia, raising questions about changing patterns of external engagement in China's economy. Nevertheless, it is sometimes necessary to place all ethnic Chinese outside the mainland in a single category, and thus this work examines the interactions of Chinese in Hong Kong and Taiwan with Southeast Asian Chinese and mainland China as well. For example, one cannot speak of ethnic Chinese networks and exclude the role of Hong Kong and Taiwan.

The relationship between Southeast Asia's ethnic Chinese and China is particularly interesting because it illustrates the ties between a diaspora community and a nation-state. Diasporas are by no means a new phenomenon in international politics, although with increased global migration and rising national consciousness they are perhaps more prominent. Gabriel Sheffer defines modern diasporas as "ethnic minority groups of migrant origins residing and acting in host countries but maintaining strong sentimental and material links with their countries of origin—their homeland."¹¹ As such, diasporas create a triadic relationship among "homeland," "host country," and "ethnic diaspora."

The concept of diaspora is inseparable from that of ethnicity. It is well recognized that ethnicity is a factor that can generate strife in both domestic and international politics. There are numerous examples of countries where ethnic conflict has brought bloodshed, such as the former Yugoslavia, Russia, Iraq, Rwanda, India, Indonesia, and Malaysia. Even wealthy societies such as Canada

and Belgium have been threatened by ethnic divisions. However, ethnic identity may play a positive role too. For instance, Joel Kotkin describes "ethnicity as a defining factor in the evolution of the global economy."¹² In examining five global "tribes"—the Jews, British, Japanese, Chinese, and Indians—Kotkin explains their economic successes largely in terms of their ethnic identity, which has maintained unity among the groups through global changes, as well as provided a worldwide network of mutual trust that facilitated the expansion of business activity around the world.

It is useful to treat China's attempt to attract investments from economically successful Chinese located across Asia as a problem of relationships with a diaspora community. First, the People's Republic of China (PRC) government itself behaves in this context. Second, the relationship does potentially manifest the classic dilemmas of the triangular relationship among diaspora, home country, and host country. On the one hand, China wishes to attract overseas entrepreneurs by whatever means possible for its own development, and has seized on the diaspora link as an effective strategy. On the other hand, China does not wish to alarm Southeast Asian governments on an issue that has historically been sensitive. During the cold war, the loyalties of Southeast Asia's ethnic Chinese were often questioned, with suspicions reinforced by PRC support of insurgent groups in Thailand, Indonesia, and Malaysia. With increased investments and interactions between Southeast Asian Chinese and the PRC in the 1990s, such questions have occasionally resurfaced.

However, caution must be used in characterizing Southeast Asia's ethnic Chinese as a diaspora. The definition of diaspora uses terms such as "homeland" and "host" that seem to undercut the sense in which ethnic minorities can be seen as truly belonging to the countries in which they live. In short, the identity of the diaspora community—in its own eyes, the eyes of the "home country," and the eyes of the "host country"—is problematic in an era of state sovereignty, ethnic minority populations, and transnational business activity. In addition, the identity and relation to China of ethnic Chinese in Southeast Asia have changed over time and vary from person to person. While some ethnic Chinese may speak a Chinese language and adhere to Chinese customs, others have lost all cultural connections with China. Thus, labeling all ethnic Chinese as members of a diaspora implies a uniformity that does not exist.¹³

Some have suggested that networks, such as those that link members of a diaspora with each other and the "homeland," pose a threat to the utility of the nation-state. For instance, John Naisbitt claims that due to the demands of efficient production and distribution, "the world is moving from a collection of nation-states to a collection of networks."¹⁴ One such network that Naisbitt has in mind is that of Asia's ethnic Chinese. Networks challenge state sovereignty by providing individuals with information, encouraging the formation of group identities, and facilitating entrepreneurial activity that crosses state boundaries. Some have argued, for instance, that Asian regionalization is network-based rather than institution-based.¹⁵ While institutions are established by states, net-

works are established by individuals. In addition to the threat from networks, the sovereignty of states is being eroded at both the supranational and subnational levels by multinational organizations, nonstate actors, demands for regional autonomy, and natural economic territories that cross state boundaries.¹⁶

Nevertheless, this study suggests that states still play a major role in manipulating ethnic business networks and providing an environment conducive to the activities of such networks. For instance, the Chinese government played a central role in attracting investments from the ethnic Chinese business network. What is needed is a greater understanding of the context and specific issues in which states benefit from or are undermined by a transnational diaspora community. This study examines that context in the case of China and Asia's ethnic Chinese.

As previously suggested, there is a triangular relationship among China, the states of Southeast Asia, and Southeast Asia's ethnic Chinese. Each point of the triangle has both shared and competing interests with the other points, and influence flows both ways along all three legs of the triangle. In examining these relationships the study focuses on how the states of Southeast Asia and China attempt to use the diaspora for their own goals, as well as if and how the transnational activities of the diaspora threaten the autonomy of the various states that are involved.

Later chapters explore all three legs of this triangular relationship and its special features. However, most attention is given to the first leg, the interactions between China and Asia's ethnic Chinese. There are several facets to this relationship. The first is China's use of ethnic appeals to the diaspora, both at local and national levels, to leverage investment from Asia's ethnic Chinese. To a lesser extent the state also seeks charitable contributions. This is a process that has been going on for a century, but only since the early 1980s has it been significant in terms of the effects it has had on China's development. Also within this leg of the triangle is the response of Asia's ethnic Chinese to China's appeals. Is the blood tie more important, or is investment and trade with China largely a response to profit opportunities? In general, in spite of the resurgence of markets and neo-liberal economic logic, culture and ethnicity still play a limited role in economic calculations.

Also related to the first leg of the triangle, but extending outside it as well, is the question of whether ethnic ties that appear to cement the PRC economic relationship with Asia's ethnic Chinese have created a closed and exclusive economic trading area. Have China's efforts to attract ethnic Chinese created a context that discourages other potential investors, who cannot break into the system of ethnically conditioned connections? Or do ethnic Chinese serve as catalysts and partners for others with an interest in China's economy? In addition, can ethnic Chinese investors meet China's needs? Again, there is ambiguity on these points; the answers are complex, and probably point to the operation of both positive and negative effects of the close PRC ties to Asia's ethnic Chinese investors. This issue is particularly salient with falling Asian investment in China

due to the region's economic crisis and China's desire to attract higher-end technology.

At the same time, this study demonstrates that the interactions between China and its diaspora also challenge the Chinese state. This occurs in a context of numerous problems confronting Beijing. China faces the same forces threatening sovereignty from above and below that other countries do. However, these challenges are compounded by the problems stemming from high but unequal economic growth, the struggle to gain macroeconomic controls, major ideological transition, the need for a new system of allocating power between the center and provinces, the predominance of personal rule in politics, and the Asian economic crisis.

In regard to the ethnic Chinese, Beijing's policies may weaken central authority. Ethnic Chinese have many advantages in investing in China, one of which is the close connections they can establish with local and provincial officials. This is both a result and cause of the rapid decentralization of power that is occurring in China, a decentralization that at times appears to threaten dangerous disintegrative consequences and certainly creates strong patterns of cross-boundary ties that reorient high investment regions away from the center. Thus economic interactions between Asia's ethnic Chinese and local officials threaten the authority of the center as local areas obtain greater revenues and feign compliance with Beijing's directives. At the same time, business activity may also create conditions for democratization in China, a prospect that is unwelcome to the current regime.

The second leg of the triangle connects Southeast Asia's ethnic Chinese with their Southeast Asian homes. There are two main issues here. The first is the identity and loyalty of Southeast Asia's ethnic Chinese. This identity and loyalty has long been questioned by the indigenous inhabitants of Southeast Asia. By increasing investments in China, Southeast Asia's ethnic Chinese have risked renewed attacks on their loyalty. Nevertheless, this is perhaps an inevitable contradiction in a world of sovereign states and transnational business. As transnational interactions become more common, the meaning of loyalty is changing, and Asia's ethnic Chinese are adopting multiple levels of identity.

The second issue relates to the ways in which Southeast Asian governments respond to ethnic Chinese investments in China. There are contradictory processes at work here. On the one hand, efforts have been made to improve the domestic environment in order to keep investments in Southeast Asia, coupled with occasional political pressure applied to Southeast Asia's ethnic Chinese to invest at home. This was more pronounced during the Asian economic crisis. At the same time, some Southeast Asian leaders are also encouraging investments in China, both for economic reasons and to integrate China into the wider region.

This leads to the third leg of the triangle, relations between China and the states of Southeast Asia. China wishes to attract ethnic Chinese entrepreneurs by whatever means possible for its own development. However, China does not

wish to alarm Southeast Asian governments over a topic that has historically been sensitive. In the past Southeast Asian governments have feared that China would use the ethnic Chinese to promote its political purposes in the region, and these fears still linger. Thus, ethnic appeals on the part of China are particularly prone to cause problems. This illustrates how dealings with a transnational network can create competition and even friction between states.

In sum, interactions among China, Southeast Asia, and Asia's ethnic Chinese present both opportunities and challenges to China, as well as ethnic Chinese entrepreneurs and the states of Southeast Asia. The opportunities lie mainly in the area of economic development. The dangers are political and reflect the threats faced by both states and individuals as a result of the operation of transnational forces.

GREATER CHINA

The ambiguity regarding what we can expect from the widening linkages between a territorially based state, China, and ethnic Chinese throughout the world is clearly illustrated in discussions of "Greater China." This phenomenon is addressed by John Kao: "The very definition of 'China' is up for grabs. What we think of as Chinese now encompasses an array of political and economic systems that are bound together by a shared tradition, not geography. . . . Chinese-owned businesses in East Asia, the United States, Canada, and even farther afield are increasingly becoming part of what I call the *Chinese commonwealth*."¹⁷ Xiamen vice mayor Zhang Zongxu's comments reflect this situation also: "Politics used to impose borders on business, but today, overseas Chinese from Taiwan, Hong Kong, and Southeast Asia are responsible for 90 percent of all foreign-invested enterprises in my city alone. What this is about is bigger than just politics, I think. What this is about is 21st century China."¹⁸

However, what "21st century China" means for Beijing and the Chinese nation-state is unclear. While some wonder if Beijing will control this entity, others believe that it spells the end of the nation-state as we now know it. Thus, Maria Hsia Chang states that the 21st century will be a "time of transition between nation-states and 'global tribes.'" The first intimations of those future arrangements are current regional developments—such as Greater China I [China, Hong Kong, and Taiwan]. Such economically integrated regions might very well 'sideline' existing nation-states. As the strength of Greater China I increases, Beijing's control over what is now the PRC measurably diminishes."¹⁹

This entity of "Greater China" gained attention in the 1990s. The concept of Greater China is an outgrowth of geographic, technological, ethnic, and political factors. Thus discussions of Greater China can be traced to both the geographic proximity of various Chinese populations and breakthroughs in transportation and communications that make physical distance much less relevant. Regarding ethnicity, the term refers to a group that defines itself as Chinese. Politically, the concept has implications for both the current Chinese state and the concept of

the nation-state in general. Thus, the concept of Greater China provides a focal point for issues that are relevant to this study, illustrating the ambiguity regarding territory and identity when a state interacts with a diaspora.

Perhaps the most striking feature of the term "Greater China" is its ambiguity. Although the term began appearing in Chinese in the late 1970s and in English in the mid- to late 1980s, it has no generally accepted definition.²⁰ This is perhaps appropriate, as the phenomenon which the term purports to label is evolving. Furthermore, the economic, political, and cultural differences that separate various Chinese communities in Asia and around the world make the very concept problematic.²¹

The most restrictive definitions of Greater China include only China's Guangdong and Fujian provinces, Hong Kong, and Taiwan (and perhaps Macao),²² a definition that is no longer as applicable today with the geographic expansion of China's reforms. An expanded definition incorporates all of China, Hong Kong, and Taiwan.²³ A further enlarged definition lists not only China, Hong Kong, Taiwan, and Macao, but also ethnic Chinese living in Southeast Asia and even farther afield. For example, David Shambaugh says that Greater China is used "to describe the activities in, and interactions between, mainland China, Hong Kong, Macao, Taiwan and the offshore islands, and the Chinese overseas."²⁴ Harry Harding states, "In essence, it [Greater China] refers to the rapidly increasing interaction among Chinese societies around the world as the political and administrative barriers to their intercourse fall."²⁵

In order to more closely examine Greater China, we will follow Harry Harding's lead and divide the concept into three spheres: economic, cultural, and political. In the economic realm, most works on Greater China focus on integration among China, Hong Kong, and Taiwan. Links among these three entities are long-standing. For example, a report from 1914 states that Hong Kong and Canton (Guangzhou) "could be viewed as a single entity because of their close working relationship."²⁶ However, the scope of the three-way trade and investment relationship today is unprecedented, especially in light of the many questions that preceded Hong Kong's reunification with China and the political differences that separate Taiwan and mainland China. Over half of direct foreign investment in China originates in or transits through Hong Kong, while China is Hong Kong's largest outside investor. Taiwan's cumulative investment in China jumped from an estimated \$100 million in 1987 to an estimate of as high as \$40 billion in 1999, while according to official Chinese figures, in 1996 and 1997 China's trade with Hong Kong and Taiwan totaled approximately 21 percent of its total trade.²⁷

There are many names given to this triangular relationship. In addition to Greater China, it has been labeled the Greater South China Economic Region, Southern China Growth Triangle, Southern China Economic Zone, South China Economic Periphery, and the China Circle. These names, of course, are not neutral, and their proponents come to the terminological question with defined positions on the underlying political issues.

Several factors have been identified as generating the integrative links among China, Hong Kong, and Taiwan. Some are also relevant to the Southeast Asian Chinese as well. The main factor is complementary economic advantages. With high wages and rents at home, Taiwan and Hong Kong manufacturers have sought lower costs of production in China. China also has need of capital, technology, managerial talent, marketing, transportation, and finance which Hong Kong and Taiwan can provide. Second, more stringent environmental regulations in Taiwan and Hong Kong have played a role in leading businesses to invest in China. Third, cultural ties and a common language make business transactions easier. Fourth, the easing of government restrictions and even encouragement of economic interactions have fueled the trend, although currently Taiwan is attempting to slow investment in China as part of its "no haste, be patient" policy. Fifth, greater access to the Chinese domestic market has spurred investments in China by Hong Kong and Taiwan.

The economic relationship among China, Hong Kong, and Taiwan has largely been market-driven. However, before Hong Kong's return to China there were discussions among scholars as to how economic integration could be formalized. For example, in January 1992, experts from China, Taiwan, Hong Kong, and other places met to discuss "systems for economic cooperation among ethnic Chinese."²⁸ After Hong Kong's reunification with China in 1997, the issue of more formal links centered on Taiwan-mainland relations. Some progress has been made in this regard, such as the opening of mainland-Taiwan shipping links in 1997 for cargo ultimately destined for third countries. In 1998, a Taiwan Democratic Progressive Party legislator, Chang Chun-hung, proposed the formation of a "Chinese Financial Group" consisting of Taiwan, mainland China, Hong Kong, and Singapore in order to better deal with the Asian financial crisis. Nevertheless, overall progress in formal economic integration between the mainland and Taiwan has been slow.

The concept of Greater China also has a cultural component. Many ethnic Chinese around the world share certain cultural similarities that define their Chinese identity. However, with relaxations in political barriers and reform in China, cultural contacts among Chinese communities have greatly increased. Academic and intellectual exchanges are one such area where this is evident. For example, in October 1994, scholars from around the world participated in the inauguration of the International Confucian Association. At its founding, the association made Singapore's senior minister Lee Kuan Yew its honorary chairman, while former Chinese vice premier Gu Mu headed the organization. In the realm of popular culture, imports from Taiwan and Hong Kong play a prominent role on the mainland scene, especially in music and fashion.²⁹ Global Mandarin and Cantonese television broadcasting has become a reality as well.

On the other hand, Chinese culture is not uniform. Various subcultures exist in both China and the ethnic Chinese communities throughout Asia. These subcultures have their own dialects and traditions. However, China's rising world