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THE CHINESE TRIANGLE OF MAINLAND CHINA, TAIWAN, AND HONG KONG

Comparative Institutional Analyses

Alvin Y. So, Nan Lin, Dudley Poston

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THE CHINESE TRIANGLE OF MAINLAND CHINA, TAIWAN, AND HONG KONG

Comparative Institutional Analyses

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and Dudley Poston

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INTRODUCTION:
THE ORIGINS AND TRANSFORMATION
OF THE CHINESE TRIANGLE

Alvin Y. So

The Chinese triangle of mainland China–Hong Kong–Taiwan constitutes one of the world economy’s most dynamic regions. However, mainland China, Taiwan, and Hong Kong are by no means isolated entities. Strong kinship ties link these three territories, and they share common historical, cultural, and linguistic heritages. Since the late 1970s, there has been an escalation of the mainland China–Taiwan–Hong Kong integration process in the economic sphere.

Many studies of Chinese national integration, however, have examined short-term episodes that make headlines rather than delineate the fundamental, long-term institutional transformations. In addition, the literature concentrates exclusively on either political topics such as Beijing–Taipei conflicts and Beijing–London disputes or economic topics such as types of investment. Rarely has the literature highlighted the important role of social institutions in the shaping of the integrative process in the Chinese triangle. To fill this gap in the literature, this volume examines some of the key institutions in mainland China, Taiwan, and Hong Kong as well as their implication for the Chinese diaspora.

This introductory chapter has two aims. First, it aims to provide a historical discussion on the origins and the transformation of the Chinese triangle during the second half of the twentieth century. For readers who are not familiar with Chinese history and society, it is important to understand how the Chinese nation was divided into three separate states in the second half of the twentieth century and how such division had led to the development of different institutions in mainland China, Taiwan, and Hong Kong.

In addition, this chapter provides a brief review of the key arguments presented in this volume. It focuses on the following four themes: (1) economic transformation: four chapters examine how regional integration, Confucian

entrepreneurs, property rights, and work stress have exerted a profound transformation in mainland China, Taiwan, and Hong Kong; (2) gender: three chapters examine the different patterns of gender construction and gender inequalities in Shenzhen (mainland China), Hong Kong, and Taiwan's export-processing zones; (3) network: four chapters examine *guanxi* (social relations), hospital networks, personal networks, and manufacturing networks in the Chinese triangle; and (4) the Chinese diaspora: four chapters study the pattern of emigration from mainland China, Taiwan, and Hong Kong to the United States and Canada.

HISTORICAL ORIGINS OF THE CHINESE TRIANGLE

Before China was incorporated into the capitalist world economy at the turn of the nineteenth century, there was only one Chinese state. The Qing Empire ruled over both Taiwan and Hong Kong. However, in the mid-nineteenth century, the Qing Empire lost the Opium War and was forced to give up sovereignty over Hong Kong to Great Britain. In the late nineteenth century, the Qing Empire lost another war and handed over Taiwan to Japan, which ruled the island until the end of World War II. In 1949 the Chinese Communist Party (CCP) captured the Chinese mainland and forced its rival Nationalist Party (Guomindang, GMD) to retreat to Taiwan. With American military backing, the GMD was able to survive and build up the Taiwanese state. Subsequently, the Chinese nation, after its incorporation into the world economy, was divided into three separate states: the socialist state on the mainland, the authoritarian state in Taiwan, and the colonial state in Hong Kong in the mid-twentieth century.

The development of these three Chinese states was strongly influenced by the United States' regional polarization project in East Asia. After World War II, the United States emerged as the new hegemonic power in the capitalist world economy. This postwar American hegemony, however, was different from the previous empire-building projects because it did not rest upon territorial exclusivity like the old European colonial system. As Cumings (1993, p. 31) points out, this American hegemony can be called an "open-door empire." On the one hand, it was like an empire "policed by a far-flung naval and military basing system and by penetration of allied defence organizations." On the other hand, the American hegemon advocated "free investment" for transnational corporations (Arrighi 1994). In addition, the United States promoted such new ideologies as democracy and modernization in order to decolonize the Third World nations from the European core states. Under American leadership, the postwar world economy thus became much more liberal, multilateral, and interdependent. This new world order under U.S. hegemony led to an unprecedented expansion of the capitalist world economy.

In response to the Chinese communist revolution and the spread of working-class and peasant movements in Korea and Japan, the United States developed a regional polarization project in the late 1940s. East Asia was divided

into two opposing spheres: a communist bloc composed of mainland China, North Korea, and the Soviet Union; and a capitalist bloc composed of Japan, the “free China” of Taiwan, and South Korea. The capitalist bloc was constructed within the framework of U.S. strategic supremacy, and it was used to encircle and isolate the communist bloc in East Asia.

The United States tried its best to contain the spread of communism from China to other East Asian states. The United States sent warships to protect the defeated Guomindang in Taiwan, sent soldiers to fight against the communists in Korea, supported counterrevolutionary activities in China, froze mainland Chinese assets in the United States, imposed an economic embargo on mainland Chinese products, prevented mainland China from gaining a seat in the United Nations, and waged ideological attacks on Chinese “communist totalitarianism” in the mass media.

In this respect, geopolitical concerns—not corporate profitability—were at the heart of the U.S. regional polarization project. In order to build a strong anticommunist bloc in the Pacific Rim, the United States provided economic aid, loans, and industrial contracts and opened its domestic markets to its East Asian allies, while tolerating their continued discrimination against dollar imports. The U.S. patronage of capitalist allies and its assault on communist China in East Asia had a profound impact on the contour of development of mainland China, Taiwan, and Hong Kong after World War II.

This chapter argues that the three divided Chinese states owed their origins to the U.S. regional polarization project in the post–World War II. The Cold War hostility led mainland China to radicalize its Maoist revolutionary policy, induced the authoritarian Taiwanese state to pursue export-industrialization, and allowed the colonial state in Hong Kong to adopt a *laissez-faire* economic policy between the 1950s and the 1970s. However, due to the changing regional dynamics in the 1970s and the limit of Maoist socialist, state-led, and *laissez-faire* policies, mainland China, Taiwan, and Hong Kong had, to a certain degree, pursued a new national reunification project to promote their economic development. Subsequently, there was a formation of the Chinese triangle of mainland-Taiwan-Hong Kong in the 1980s despite the fact that these three Chinese states were still divided along the Cold War fault lines.

To start our discussion, let us examine the relationship between the Cold War and the Maoist revolutionary policies in mainland China.

MAINLAND CHINA: REVOLUTIONARY MAOISM

In the post–World War II era, intense hostility from the U.S. hegemon served to preclude certain developmental options for socialist China. Cut off from contacts with capitalist core states, the Chinese socialist state could not possibly pursue either export-oriented industrialization (due to the closure of Western markets) or import-substitution (due to the economic embargo). Thus, socialist China was forced to miss the golden opportunity of achieving ascent during this upward phase of the world economy.

On the other hand, the Korean War, U.S. economic blockage, and forced withdrawal from the world economy in the 1950s influenced socialist China to adopt certain developmental policies. First, due to the intensive hostility from the United States, the nascent socialist state had to strengthen the political order to confront the “imperialist enemies” from without (notably during the Korean War) and the “counterrevolutionaries” within (notably the remnants of Guomindang opposition). To cope with an increasingly wide range of state functions, the CCP adopted the Leninist model for state building. The Leninist model was elitist in conception (notably the notion of a vanguard party) and authoritarian in operation, with very limited provisions for intraparty democracy. It advocated a tight concentration of decision-making power in the hands of a supreme leader and his cohorts and offered scant provision for effective mass participation in, or control over, the state machine.

Due to the fusion of functions and the overlapping of personnel among the CCP, the state bureaucracy, and the army, there was excessive concentration of power in the vanguard Leninist party. Only political organizations (like peasants’ associations, labor unions, and women’s associations) formally sponsored by the CCP were allowed to operate; other organizations were either made ineffective (like the small democratic parties) or simply banned from operation (like the GMD).

This Leninist party-state was all-powerful in the sense that it extended both vertically and horizontally to every sphere in Chinese society. Vertically, the Leninist party-state was the first Chinese government that was able to exert its political control all the way down to village, family, and individual levels. Horizontally, there was a great expansion of state functions. The Leninist state did not just collect tax and keep social order but also oversaw such functions as education, health care, marriage, culture, economic policy, and so on.

Second, the Cold War climate influenced the nascent socialist state to accelerate processes of collectivization, nationalization, and heavy industry. In the early 1950s, after the conclusion of the land reform, the CCP set up its First Five-Year Plan, modeled after the plans of the Soviet Union. The CCP wanted to imitate the Soviet success in transforming a weak, poor periphery into a strong socialist state on equal footing with capitalist core states. Hence, the First Five-Year Plan focused on heavy industrialization rather than on light industry and agriculture, urban development rather than rural development, and coastal provinces rather than heartland provinces. The rationale was that heavy industrialization in coastal cities would be the quickest path to transform China into a strong, wealthy nation-state to protect itself from foreign invasion during the Cold War.

During the “socialist high tide” in the mid-1950s, the Soviet mercantilist model was discarded because the CCP believed that revolutionary socialism had to be achieved before industrialization and mechanization. The CCP quickly instituted collectivization of agriculture in the countryside and nationalization of industry in the cities. With the expansion of the rural collective sector and the urban state sector, most Chinese resources were allocated through

a unified state plan. Subsequently, markets and the private sector played reduced roles in the Chinese economy.

Third, in order to withstand U.S. aggression, socialist China developed a mass mobilization policy to prepare for war. When the United States intensified its military involvement in Vietnam in the mid-1960s, Mao Tse-tung, the chairman of the CCP, started the Cultural Revolution. At the high tide of the Cultural Revolution, not just the new middle class and the industrial capitalists were attacked, but also the party officials “who were carrying the capitalist road.” Hence, even veteran party leaders were sent to the countryside to perform “labor” so as to be educated by poor peasants. These revolutionary socialist programs were aimed to consolidate support from poor peasants and unskilled workers—the disadvantaged masses in the class hierarchy. Thus, entitlement programs for job security, housing, child care, and pensions were granted to the urban working class, while social programs in education, health care, and welfare became increasingly available to the peasantry.

Finally, the CCP put forward an inward-looking, “self-reliance” model of development, stressing national autonomy, pride in being a poor country, mass mobilization, and labor-intensive industries. During the Cultural Revolution, the new emphases were on developing rural areas rather than urban areas and heartland rather than coastal provinces. By relocating key industries in heartland provinces, the CCP hoped that it could avoid the economic ruin that a U.S. invasion would presumably bring.

If the American regional polarization project placed geopolitical concerns at a higher priority than capitalist profitability, revolutionary Maoism also put “politics in command” in order to mobilize the masses to support the CCP against the United States assault. Subsequently, moderate socialist programs, such as market reforms in the early 1960s, were unable to gain a foothold during the Cold War era.

When the communist state in mainland China actively promoted revolutionary socialism in the late 1960s, the state in Taiwan pursued export-led industrialization.

TAIWAN: AUTHORITARIANISM AND EXPORT-LED INDUSTRIALIZATION

After the Japanese surrendered in 1945, Taiwan was restored to Chinese sovereignty. Hostility soon developed between the indigenous society and the Guomindang (GMD) state apparatus. This was because Japanese colonialism had heightened the cultural differences between the indigenous Taiwanese and the mainland Chinese. Most Taiwanese spoke not Mandarin but the Fujianese dialect and Japanese, making communication with the incoming GMD officials difficult and misunderstanding easy to breed.

Moreover, there was the misgoverning of the GMD. The Taiwan government was run by mainland officials, without any input from local Taiwanese people. Furthermore, the Taiwan government brought with it all the ills of the

mainland GMD regime: lawlessness, corruption, nepotism, and inefficiency. Owing to wartime damages and GMD mismanagement, Taiwan's economy was in a crisis situation by 1946, with plummeted production, high inflation, and serious shortages of food and other basic commodities.

Conflict eventually broke out in the "February 28 Incident." After a rebellion started in Taipei (Taipei) on February 28, 1947, it quickly spread to all the major cities on the island. It was quelled only after the GMD troops began a brutal crackdown on the Taiwanese resistance. The estimate was that at least 10,000 Taiwanese were killed. This February 28 Incident further widened the cleavage between the mainlanders and the Taiwanese.

In this respect, the very existence of the Taiwan state owed much to the Cold War environment. Without U.S. intervention and the Cold War, there would not be two Chinas (communist China versus the "Free China" of Taiwan). In addition, in order to prevent East Asian states from "leaning" toward communist China, the United States provided huge amounts of aid to Taiwan to help its military regimes to stay in power. From 1946 to 1977, military and economic aid (US \$18.5 billion) to Taiwan and South Korea accounted for 10.5 percent of all American foreign aid, exceeding the totals for all of Africa or Latin America. In Taiwan, foreign economic assistance carried great weight in alleviating huge government budget deficits, financing investment, and paying for imports. U.S. aid financed 95 percent of Taiwan's trade deficit in the 1950s; and, through foreign savings, it totaled almost 40 percent of gross domestic capital formation (Bello and Rosenfeld 1990; Cumings 1987).

The United States still had to take an active role to induce the Taiwanese states to adopt a strategy of export-industrialization. In the late 1950s, after making it clear that U.S. aid would not be continued by the mid-1960s, the U.S. Agency for International Development (AID) Mission in Taiwan prodded the Taiwanese state to liberalize its trade regime and reduce its interference in the market. The AID Mission listed areas of economic and financial policies that needed reform, including privatization of public enterprises, liberalization of trade, unification and devaluation of the new Taiwan dollar, stabilization of the monetary supply, and encouragement of private investment. Upon the proposal of the AID Mission, the Taiwanese planning agencies formulated a 19-Point Program of Reform encompassing every major aspect of the island's economic, fiscal, monetary, and trade policies.

In order to provide more incentives for Taiwan to adopt export-led industrialization, the United States was willing to open its own market to Taiwan. That explains, why despite the notoriously closed domestic markets of Taiwan, their exports still enjoyed unrestricted access to the American market for so long. The U.S. market was critical to Taiwan's economic growth because it was its largest single market throughout the 1960s and 1970s.

Aside from influencing Taiwan's path of economic development, the United States' Cold War strategy also has shaped the nature of the Taiwan state. The prospect of resurgence of Taiwanese rebellions and communist invasions continued to haunt the GMD, prompting it to resort to authoritarian and exclu-

sive policies. Stern measures were taken to crack down on labor movements, the socialist movement, and the Taiwanese independence movement. Martial law was declared in May 1949, and independence activists were forced to flee overseas. A two-tiered (central and local) government was constructed. The head of state was the president, who enjoyed a wide range of power because of the state of emergency. Mainlanders continued to dominate at the top level of the government and the party, while local Taiwanese were restricted to political participation at the local level.

In order to exercise complete social control over Taiwan, the Guomintang's Leninist Party deeply penetrated civil society so it could curb the development of any organized oppositional forces. Due to martial law, civil liberties—such as freedom of assembly—were severely limited, and there was strict censorship of the mass media. Moreover, government surveillance and the strong threat of repression were central mechanisms for Guomintang's labor control. Its Labor Union Law prohibited unions in workplaces with fewer than 30 employees—or almost 80 percent of the workforce. For large enterprises, formation of a union had to have the approval of both local government and local Guomintang committees. Strikes were made illegal and banned before the 1980s.

Due to the absence of democratic elections of top political leaders, the legitimacy of the state in Taiwan relied heavily on its ability to promote economic development in Taiwan. Subsequently, the state in Taiwan was highly developmentally oriented. The Guomintang set up a complex trade regime—such as import quotas, tariff barriers, and export subsidies—to regulate foreign trade. Basic and strategic industries in Taiwan were protected from foreign competition, while export-oriented industries were provided incentives. Through ingenious tariff and tax rebate systems exporters were qualified to gain refunds on customs duties and other taxes for inputs that they imported. In addition, through the control of the financial system, selective credit controls were employed to foster the development of preferred sectors such as heavy industry in the 1960s and the 1970s.

Taiwan's state-capital link had the following characteristics. First, the state sector in Taiwan was large, and the average share of public enterprises in Taiwan's GDP was 15.9 percent during 1971–1975, which was almost twice the 8.4 percent share in South Korea. Second, the small and medium-sized (hereafter abbreviated as SM) firms in Taiwan filled up the export sector. Of the 260,000 business enterprises in Taiwan, 98 percent are considered SM firms, and they employ 70 percent of all employees and account for 65 percent of exports (Bello and Rosenfeld 1992, p. 241). Third, the SM firms in Taiwan had to rely upon self-financing or informal money markets. The small-business people in Taiwan complained about the inability to obtain credit from the state, since most credit went to the big enterprises. They also complained that the state failed to supply them with information on trends in international trade and that they had to pay more than the bigger firms to buy materials from big or state-run companies (Bello and Rosenfeld 1992).

What, then, made the Guomintang regime reluctant to fully support SM enterprises in Taiwan? This was because the Guomintang regime and the small capitalists in Taiwan were divided by quasi-ethnic schisms and mutual apprehensions after the tragic February 28 Incident. The Guomintang feared the Taiwanese ambitions for self-sufficiency and independence. As such, the Guomintang regime maintained a large state sector in order to keep the reins of power in the hands of the mainlanders, while it discouraged the concentration of economic power among the local Taiwanese. Subsequently, after the Guomintang took over the enterprises belonging to the Japanese colonial government, it staffed the enterprises primarily by mainlanders, especially in the area of management. In this respect, the state sector had safeguarded the Guomintang's political domination by serving as an economic preserve for the 1.5-million-member retinue of soldiers, bureaucrats, party faithfuls, businesspeople, and family dependents from the mainland. This state sector was used to counter and control the SM sector, which, for the most part, was dominated by indigenous Taiwanese.

HONG KONG: LAISSEZ-FAIRE EXPORT-LED INDUSTRIALIZATION

Hong Kong benefitted incidentally from the Cold War climate in the 1950s. This was because the "windfall profit" from the Chinese communist revolution enabled Hong Kong to take advantage of refugee capital to start its industrial revolution. For example, the "liberation" of Shanghai prompted a large number of Shanghainese textile firms to divert their production to Hong Kong. In addition, the massive inflow of refugees from China, many of whom had industrial employment experience, created a pool of potential entrepreneurs. They were willing to work hard and take the risk of setting up manufacturing firms. The result was the mushrooming of small firms with low-level capital investment and technology. Once started, these firms were able to tap into the extensive commercial networks established throughout Hong Kong's entrepôt history as well as into the abundant supply of cheap and diligent refugee workers.

Several distinguishing features characterized the Hong Kong state and its links with capital. First, it was a liberal colonial state. As a colonial state, the governor of Hong Kong was appointed by the British Parliament and was responsible to the British state. The governor ruled Hong Kong with the help of major British banking capitalists, who were appointed into the Executive Council and the Legislative Council. But unlike other authoritarian states, the state of Hong Kong showed a high degree of political tolerance toward dissent. It is often pointed out that Hong Kong is a free society: its citizens are free to express political opinions, to criticize the Hong Kong state, to form political organizations, to protest, and to travel.

Second, the Hong Kong state adopted a "positive non-intervention" policy toward the economy. While the state in Taiwan intervened extensively in the marketplace to direct industrialization according to state priorities, the colo-

nial state in Hong Kong left investment decisions to the private sector. Certainly, the state in Hong Kong has assisted private capital accumulation in a variety of ways, most notably in infrastructure provisions, such as the maintenance of a low-tax business environment, the expansion of the public education system, and the massive public housing program (which houses more than 40 percent of the population of Hong Kong). The public housing program, in particular, had the effect of subsidizing the earnings of low-wage, working-class families, thus “socializing” the cost of reproduction of labor, keeping down the pressures for wage increases, and increasing the competitive power of Hong Kong products in the world market.

Nevertheless, Hong Kong is still a far cry from the developmental states portrayed in statist literature. In the postwar era, the colonial state deliberately refrained from interfering with the distribution of resources across different sectors as well as from providing any directions for industrial development. For example, the colonial state failed to support technological innovations, to assist industrial upgrading, to provide bank credits to strategic industries, to promote exports, and to protect domestic markets. Haddon-Cave (1984) thus describes Hong Kong’s state–industry relationship as “positive non-interventionism.”

Third, like Taiwan, Hong Kong’s export sector was composed of predominantly small, local firms that received little help from the colonial government. The Hong Kong SM firms had to rely upon themselves for self-financing, technological innovation, and securing links to transnational corporations.

What, then, explains the emergence of this liberal, “laissez-faire” state in Hong Kong after World War II? First, the Hong Kong state was constrained from pursuing an active developmental strategy or embarking on financially risky intervention because, as a colony, it needed to remain financially solvent and balance its budgets or see the British home government step in. In addition, the Hong Kong state also had not benefited from the same sort of geopolitical links with the United States that had endowed the state in South Korea and Taiwan with large amounts of aid and loans.

Second, the long-standing alliance between the colonial state and the financial-commercial capitalists in Hong Kong that evolved during the previous century of *entrepôt* history served as a social basis for the nonintervention policy. These financial and commercial bourgeoisies were inclined to support the state’s hands-off policy in the manufacturing sector. Bankers, for example, opposed the proposal to establish an industrial bank in the late 1950s because they were afraid that this would cause the state to shift resources away from the commercial and financial sectors to the manufacturing sector.

Third, heightened hostility toward the United States during the Cold War explained why socialist China did not take back control of Hong Kong right after the communist revolution. Hong Kong was the only port where China could gain the foreign currency to buy necessary foreign equipment. As a result, China was very willing to supply food products, raw materials, and even drinking water to Hong Kong in exchange for much-needed foreign currency.

This “unequal exchange” between cheap Chinese products and Hong Kong currency subsidized the Hong Kong economy, lowered the cost of living, strengthened Hong Kong’s competitiveness in the world market, and made the direct intervention of the colonial state less necessary.

Finally, the classical ethnic struggle between the British and the Chinese in Hong Kong was not acute in the late 1970s. The sudden influx of Chinese refugees after World War II did not arouse any tension between the Chinese population and the British ruling class in Hong Kong. Since these refugees were fleeing from communist rule, their refugee mentality made them tolerate the British monopoly of the colonial government so as not to “rock the boat.”

In sum, Hong Kong’s financial constraints as a British colony, the strong links between financial capitalists and the colonial state, the support from the communist regime in China, and the lack of ethnic struggles against the British help to explain the liberal and noninterventionist policies of the Hong Kong state. Unlike the South Korean and Taiwanese states, the Hong Kong state did not need to militarize in order to stop the spread of communism or to strengthen its police force to suppress local opposition. The Hong Kong state also did not have to involve itself with the promotion of industrialization, because the Hong Kong Chinese capitalists were already getting a head start in exports in the early 1950s due to their previous experience in conducting entrepôt trade.

THE FORMATION OF THE CHINESE TRIANGLE

To recapitulate, in the mid-twentieth century, the American polarization project, due to its hostility toward the nascent communist regime, further radicalized the CCP to pursue the Maoist revolutionary policy of self-reliance and mass mobilization. On the other hand, the United States provided aid and procurement contracts as well as opened its domestic markets to its allies in East Asia. Blessed by U.S. patronage and the postwar economic boom, the Taiwanese state and Hong Kong businesspeople started export-led industrialization.

However, by the early 1970s, the U.S. project had run its course. Selden (1995) uses 1970 as an approximation for marking a transition in the political economy of East Asia. There were the end of the radical phase of China’s Cultural Revolution; the beginning of U.S. withdrawal from Indochina; and the U.S.–China diplomatic breakthrough, which transformed the lines of regional power, paving the way for China’s full reentry to the capitalist world economy. As the Cold War started to fade away, geopolitics also began to play a much lesser role in U.S. policy toward East Asia than before.

At the same time, the golden era of postwar economic expansion came to an end in the early 1970s. Burdened by a huge military, humiliated by the defeat in the Vietnam War, unable to carry out its welfare promises to its citizens, and plagued by growing budget deficits, the United States gradually turned into a declining hegemon. Its industrial, commercial, and financial supremacy was increasingly challenged by rival core powers. There were also the decline of the

U.S. dollar and the end of its convertibility into gold. Many developing countries—including many Latin American NIEs—slipped into recession by the end of the 1970s due to the downward turn of the world-economy and the closing of the U.S. market.

Mainland China, Taiwan, and Hong Kong, too, had run into various kinds of developmental problems by the late 1970s. On the mainland, the socialist state experienced economic stagnation. Its economic productivity had reached a plateau and could not be raised anymore through mass mobilization; its industrial technology was outdated; its industrial bureaucracy was ossified; and its state workers were not motivated to work hard. There were also very serious unemployment problems, as the mainland population doubled from around 500 million in 1953 to 1 billion in 1980.

Taiwan and Hong Kong, on the other hand, began to experience the limitations of export-led development. Internally, as a result of their economic successes, there were labor shortages, increasing labor disputes, escalating land prices, and the emergence of environmental protests—all of which served to raise the cost of production. Externally, Taiwan and Hong Kong faced stiff competition from Southeast Asian states in exporting goods to the capitalist core, particularly due to the emergence of protectionism in the core since the 1970s. Furthermore, Taiwan was forced to increase the value of the Taiwan dollar due to its huge foreign currency reserve, thus reducing its competitiveness in the world economy.

Thus, mainland China, Taiwan, and Hong Kong had all reached a critical juncture in their developmental trajectories in the late 1970s. Their previous developmental policies—Maoist socialism, state-led and laissez-faire export-industrialization—had run into difficulties, and they needed to formulate new strategies to overcome their problems. What kind of developmental options were then available to them?

MAINLAND CHINA'S NATIONAL REUNIFICATION PROJECT

In the 1970s the United States welcomed China back to the world economy. China could be a new regional power to balance Soviet military expansion and Japanese economic expansion in East Asia. Moreover, the vast Chinese market, cheap Chinese labor, and abundant Chinese raw materials and minerals could considerably increase the competitive power of American industry in the world market. For its part, the CCP was attracted to the economic success of its East Asian neighbors. With U.S. support in the 1950s and the 1960s, Japan, South Korea, Taiwan, and Hong Kong had become highly industrialized, and their people enjoyed a much higher living standard than that of China. Thus, the CCP saw an opportunity to follow the path of its successful neighbors to engage in export-oriented industrialization. On the other hand, the CCP also was becoming highly dissatisfied with its former socialist allies. By the end of the 1970s, the economies of the socialist states in Eastern Europe were in disarray, haunted by foreign debts, low growth rates, and declining living standards.

This failure further convinced the CCP that it was necessary to initiate new economic reforms in order to rejuvenate the stagnant Chinese economy. No sooner had Mao passed away in 1976 than the radical leftists of the Cultural Revolution (the so-called Gang of Four) were arrested and their Red Guard followers purged from the CCP. In late 1978 Deng Xiaoping quickly emerged as the new strongman in the CCP, and his slogan was “Four Modernizations”—to modernize agriculture, industry, science and technology, and the military to catch up with the capitalist core states.

The CCP tried to bring market forces back in. In the countryside, communes were dismantled. Peasant families were given plots of land to cultivate, and they were responsible for their own gains and losses. They were also encouraged to sell their products to rural markets, engage in rural industries, and seek work in nearby township enterprises. In the cities, urban youth were encouraged to engage in petty trading activities or to set up their own small shops (like barbershops and restaurants), especially when they could not find employment in the state sector. State and collective enterprises were asked to contract out their unprofitable operations to small enterprises or temporary workers. The state hoped that a private sector, which absorbed surplus labor and paid attention to market forces, would gradually emerge alongside the state and the collective sectors as the reforms progressed.

In addition, there was an open-door policy toward foreign investments. This open-door policy began with the establishment of four special economic zones (SEZs) in 1979, the opening of 14 coastal cities and Hainan Island in 1984, and the extension to three delta areas in 1985.

This open-door policy was aimed to attract large-scale, high-tech, capital investment from the U.S. and Japanese transnational corporations. The preferred forms of operation were “joint-venture” projects between mainland Chinese government and the transnationals, so Chinese managers could acquire advanced technology, Western management know-how, and information about the world market conditions from their foreign partners. It was hoped that these joint-venture projects would invigorate aging state enterprises, raise industrial production to levels comparable to those of core states, help Chinese industries to break into the world market, and earn the needed foreign currency through export-industrialization.

In order to attract foreign investment, mainland China tried hard to improve the investment climate. More than 200 pieces of joint-venture legislation were passed; the socialist state spent enormous amounts of capital in infrastructure construction; and special privileges such as cheap factory sites, low rates of taxation, low wages, and tariff exemptions were granted to the transnationals.

Nevertheless, these Chinese concessions failed to impress the transnationals. There were frequent complaints about unnecessary regulations and numerous layers of required permits from the Chinese bureaucracy. Projects that had been formally approved at upper levels might not receive cooperation at lower levels. In addition, there were many complaints about operational problems,

including labor laws that prevented transnationals from freely hiring and firing Chinese workers, difficulties in getting reliable supplies of high-quality raw materials, lack of enterprise autonomy, and inability to remit foreign currency profits out of China. Finally, the transnationals expressed concerns about the closed Chinese market. Even though transnationals have invested on the mainland, their products were still not allowed to enter the Chinese market. Since the transnationals could invest in other peripheral states that provided a better investment climate, they did not need to stick to mainland China. Thus, the transnationals generally tended to invest just enough to maintain their footholds in mainland China (Battat 1991). In this respect, the open-door policy failed to achieve its goals to attract high-tech capital investment from the transnational corporations.

Side by side with the open-door policy was the drive toward national unification, for the old generation of CCP leaders perceived national unification as a historical mission that they were duty-bound to accomplish in their lifetime. As they were getting older and older, they expressed a sense of urgency and listed unification as one of the great tasks of the 1980s.

The CCP used a two-step approach to promote national unification. It began with the strengthening of civil society contacts, such as family reunions, tourism, academic meetings, sports events, trade, and investments. Beginning in 1979, the CCP proposed the “three communication” (San Tung) policy, wanting to develop trade, postage, and transportation relationship between mainland China and Taiwan. In the early 1980s the CCP granted special favors to Chinese capitalists from Hong Kong. Whenever the Hong Kong big capitalists were in Beijing, they would be asked to hold highly publicized meetings with high-ranking CCP leaders (like Vice Premier Deng Xiaoping and Party Secretary Hu Yaobang), including “heart-to-heart” talks for a couple of hours, photo-sessions, news conferences, and grand banquets. Those Hong Kong capitalists who had failed to receive patronage from the colonial government were especially impressed by the friendship of the CCP, feeling a sudden elevation in their social status and influence.

After civil society contacts, the next step was to push for unification talks. In the early 1980s the CCP formulated a “One Country, Two Systems” model for unification. In this model, the capitalist economies and lifestyles of Hong Kong and Taiwan will remain unchanged after national unification with the socialist mainland. As special administrative regions (SARs) of the mainland, Hong Kong and Taiwan governments will have a high degree of autonomy, with self-governance in administrative, legislative, and judicial matters. For Taiwan, the Guomindang would even be allowed to retain its military forces and conduct an independent foreign policy.

The national unification drive was highly successful. In the early 1980s Great Britain was lured into unification talks with mainland China, which resulted in the signing of the Joint Declaration to return the sovereignty of Hong Kong to the mainland in 1997. Mainland China also won numerous diplomatic battles

with Taiwan, forcing most of the core states to sever ties with Taiwan in order to set up diplomatic linkages with the mainland.

In the light of the success of the national reunification project and the failure of the open-door policy, a new strategy of upward mobility was formulated by the CCP in the late 1980s. On the one hand, the transnationals kept on complaining about mainland China's investment climate, and they were not willing to bring in high-tech capital investment. On the other, Hong Kong capitalists had developed a cordial relationship with the CCP, and their investments were expanding very rapidly. As such, the CCP calculated that it was better to reorient its trade policies to favor capitalists from Hong Kong and Taiwan rather than the transnationals. The rationale was that increasing economic integration with Hong Kong and Taiwan would strengthen their dependence on the mainland's labor, natural resources, and markets, by which a vested interest group within their civil societies could be developed that would push their states toward political unification.

In 1988 a 22-point regulation was approved by the CCP to encourage Taiwanese investment in production and land development in Hainan Island, Guangdong, Fujian, and other coastal provinces. It guaranteed that Taiwanese establishments would not be nationalized, that exported goods from Taiwanese investments would be free from export tariffs, that Taiwanese management would have complete autonomy in running their firms in mainland China, and that Taiwanese investors would be granted multiple entry visas. The same privileges, of courses, had already been granted to the Hong Kong investors (Hsiao and So 1996).

There were several crucial differences between this coastal development strategy and the previous open-door policy. First, instead of appealing to the American, European, and the Japanese investors, the coastal development strategy was targeted at the investors from Taiwan and Hong Kong. Second, instead of aiming to attract large-scale investments from the transnationals, the present strategy was targeted at small investment projects from the small and medium-sized firms in Taiwan and Hong Kong. Third, instead of demanding high-tech, capital-intensive investment and the utilization of local materials, the present strategy allowed investment in labor-intensive industries that relied solely on raw material imports. Assembly-line industries would help solve the serious unemployment problem, and foreign raw-materials imports would help ease the shortage of raw materials in mainland markets. Fourth, instead of getting approval from such central government agencies as the Ministry of International Economic Relations and Trade, the present strategy decentralized investment decisions. Municipal and county government officials were authorized to sign contracts with foreign investors. Finally, instead of encouraging joint-venture contracts, the present strategy preferred wholly-owned foreign investment because of capital-shortages.

THE CHARACTERISTICS OF THE CHINESE TRIANGLE

As a result of the coastal development strategy, the three territories of mainland China, Taiwan, and Hong Kong suddenly experienced very rapid integration in the late 1980s. The initial phase of this Chinese triangle of mainland–Taiwan–Hong Kong up to the mid-1990s possessed the following special features: state-societal disjuncture, interstitial spatial integration, asymmetrical socioeconomic and political status, and contradictory unification forces.

First, the Chinese triangle was characterized by state-society disjuncture, that is, rapid societal integration in the midst of intensive state rivalry. The three Chinese states in mainland, Taiwan, and Hong Kong (up to 1997) were still divided and hostile to one another. Governor Patten's political reform in Hong Kong in 1993 led to a "war of words" between the Beijing and London governments, and Taiwan president Lee's unofficial visit to the United States led to a missile crisis across the Taiwan Straits in 1996. Nevertheless, despite these intensive interstate rivalries in the Chinese triangle, societal integration among mainland China, Taiwan, and Hong Kong developed very rapidly. Economically, Hong Kong became the largest and Taiwan the second largest investors on the mainland, so mainland China was the largest investor in Hong Kong. Socioculturally, millions of residents from Hong Kong and Taiwan visited the mainland every year to sightsee, do businesses, carry on scholarly communication, and hold family reunions. In return, Chinese *danwei* (work units) sent representatives to live in Hong Kong, learn Hong Kong ways of business, and transfer such knowledge to their home bases. What is surprising is that despite the increasing state hostilities toward mainland China in the early 1990s, societal integrative activities between mainland and Taiwan and Hong Kong still increased very rapidly.

Second, the Chinese triangle was characterized by interstitial spatial integration. As a result of the intensive state hostility or lack of interstate cooperation, the initial stage of economic integration between the mainland and Taiwan and Hong Kong tended to occur in locations that were farthest from the central mainland government. Instead of investing in industrial provinces that had better infrastructure facilities, Hong Kong and Taiwan investment was mostly concentrated in Guangdong and Fujian—the two provinces that were the farthest from Beijing. Instead of investing in cities in Guangdong and Fujian, Hong Kong and Taiwan investment tended to concentrate in small towns and villages. Instead of engaging in joint ventures with state enterprises, Hong Kong and Taiwan investment preferred to set up their "foreign-owned" enterprises or "pseudocollective" enterprises. Hong Kong and Taiwan businesspeople also adopted a decentralized strategy to dispatch their investments into small packages in different localities far from the center in order to bypass state regulations in both mainland China and Taiwan.

Third, the Chinese triangle is characterized by asymmetrical socioeconomic and political status. By the 1980s Taiwan and Hong Kong were upgraded to the status of NIEs, while mainland China still had a very backward economy with

little industrialization. In Taiwan and Hong Kong's investment on the mainland, there was a division of labor through the pattern of "front shop, back factory" (*qiandian houchang*). Marketing, design, financing, and administration took place in the front shop in Hong Kong and Taiwan, while manufacturing and labor-intensive assembly activities were done in the back factory in Hong Kong. Hong Kong also became the cultural model for mainland management and lifestyles. In this respect, Taiwan and Hong Kong emerged as the socioeconomic "core" for mainland China. However, politically, Taiwan and Hong Kong were still treated as a "periphery" of mainland China. Taiwan and Hong Kong were much weaker than mainland China in terms of military strength and status in the interstate community (only the mainland is seen as the legitimate state of China). In particular, Hong Kong was going to be only an SAR of China after 1997. Taiwan and Hong Kong, then, exhibited a peculiar combination of a socioeconomic core with political peripheral status in reference to mainland China.

Finally, the Chinese triangle is characterized by contradictory unification forces. On the other hand, there was a centripetal force to integrate the three Chinese economies. In fact, by the mid-1990s, the economies of Hong Kong and mainland China had become so interdependent and interpenetrated that researchers claim that a new South China economy has emerged across the Hong Kong border. It seems that the economic integration among mainland China, Taiwan, and Hong Kong would take place long before their political integration. On the other hand, there was a centrifugal force to move Taiwan and Hong Kong politics and culture away from mainland China. New ethnic identities of "Taiwan Chinese" and "Hong Kong Chinese" had emerged over the past two decades, and the goal of democratization in Taiwan and Hong Kong is to maximize the autonomy of their governments from the control of mainland government. In Taiwan, the independence movement was no longer a taboo but has become a key component of democratic politics. In this respect, the Chinese triangle possessed the dynamics of both the economic centripetal force and the sociopolitical centrifugal force.

Given the preceding historical origins and transformation of the Chinese triangle, the aim of this book is to examine how different institutions have emerged in mainland China, Taiwan, and Hong Kong and how such institutions have affected the path of development of the three territories. This book, in particular, focuses on four key institutions: economic institutions, gender, social networks, and the Chinese diaspora.

AN OUTLINE OF BOOK CHAPTERS

In Part I, there are four chapters on regional integration, Confucian entrepreneurs, property rights, and work stress. In Chapter 2, Xiangming Chen examines how the evolution of dyadic trade and investment linkages among mainland China, Taiwan, and Hong Kong has led to the formation of a triangular regional network of complex industry- and firm-level ties from 1979 to

1997 and beyond. Chen argues that the consolidation of the Chinese economic triangle has brought about shifting competitiveness of mainland China, Taiwan, and Hong Kong's export-oriented industries in the global economy.

In Chapter 3, Tak Sing Cheung and Ambrose Y. C. King examine an interesting phenomenon that they call "the Confucian entrepreneurs." Confucian entrepreneurs are defined as businesspeople who harbor Confucian values and who combine material interests with moral principles. Drawing on information collected in interviews, Cheung and King describe how these entrepreneurs conduct their business in mainland China, Taiwan, and Hong Kong, in particular with reference to how they try to maintain moral integrity and social harmony in the pursuit of material profit.

In Chapter 4, Chih-jou Jay Chen uses his fieldwork materials to show how local institutions have constrained and promoted certain property rights arrangements. In the Yangtze Delta region, where village officials direct economic affairs by merging village enterprises with the village government, property rights relations are embedded in local bureaucratic coordination characterized by vertical relations in the command system. In contrast, the principal organizational forms in Fujian are the family firms. Consequently, private economy thrives and relies on the resources mobilized through family and clan networks often extending across national borders.

In Chapter 5, Gina Lai's survey data show that after mainland China carried out market reforms, job pressure and interpersonal stress are significant predictors of psychological distress. Conflicts with supervisors are stressful for workers, as is the competition of coworkers as enterprises come under hard budget constraints and the allocation of workplace resources is increasingly done on an individual basis. As a result, workers in private enterprises are found to experience the greatest exposure to job-related stress, report the highest level of psychological distress, and are most vulnerable to job-related stressors.

In Part II, there are three chapters on female workers in mainland China, Taiwan, and Hong Kong. Chapter 6 is a case study of a Hong Kong, capital-owned garment factory in Shenzhen (an SEZ in mainland China) where close to 80 percent of the workers are women. Ngai Pun shows how gender relations intertwine with kinship and ethnic dynamics in the shaping of labor recruitment, the organization of the work process, the everyday life struggles, and the resistance of labor. The role of gender, kinship, and ethnicity, however, was a double-edged sword: although it could be utilized by the workers to facilitate workplace resistance, it could also create mechanisms for management to control the workers.

In Chapter 7, Chi-Kwan Ho examines the impact of economic restructuring in Hong Kong. By the mid-1990s, most of the labor-intensive industries in Hong Kong had already relocated across the border to the Pearl River Delta region in mainland China. Through the workers' own voice, Ho shows that working mothers are particularly hard-pressed by the economic restructuring and pushed into taking up poorly paid, low-end jobs with worsening working

conditions. As caretakers of their families, they are overburdened with the need to maintain a decent living standard for other family members in the face of diminishing income and rising costs. Low income and the instability of their employment situation, in turn, pushed them back into domesticity and dependence on their husbands.

In Chapter 8, Ray-May Hsung and Esther Ngan-Ling Chow study the construction of gender inequalities in Taiwan's export-processing and industrial zones. They examine how work segregation by gender is institutionalized in the manufacturing industries, how the implicit and explicit rules (i.e., personnel policies) of promotion favoring men construct gender inequalities, and how resources and social networks affect men and women differently. They show that family constraints in terms of responsibilities and support are a primary factor making women less competitive with men in bureaucratic work settings.

Part III has four chapters on a conceptual analysis of *guanxi*, hospital networks in Taiwan, a comparative analysis of personal networks, and social networks in the Hong Kong-based garment industry. In Chapter 9, Nan Lin points out that *guanxi* (their instrumental uses, sentimental basis, asymmetric transactions, recognition and reputation building in the social networks, and enduring exchanges) show traits of social exchange in general. The sentimental basis of social exchange has been well argued by George Homans, and obligations are very much in line with the theory of trust. Long-term exchanges are the rules of social exchanges, rather than exceptions. What is so unique about *guanxi* in the Chinese context is that it has been so pervasive and dominant in the entire society, throughout much of Chinese historical, political, and economic contexts.

In Chapter 10, Ly-Yun Chang uses the hospital industry as an example to examine the conventional wisdom that emphasizes the importance of social ties in doing business in Taiwan. Chang finds that the logic of organizational behavior—such as mutual benefit, cost sensitivity, and comparable exchanges—appears to be more important than personal ties in explaining resource exchanges between hospitals. In addition, Chang points out that the employment of personal ties in doing business implies an unbalanced power relation, no free lunch, and attenuated marginal gain and enhances group solidarity.

In Chapter 11, Danching Ruan compares the patterns of personal networks (including those of kin, friends, and coworkers) in mainland China and Taiwan, two societies that share a common cultural tradition but differ in their political and economic systems. Ruan finds that kin play an important role in the discussion networks in both societies. However, in Taiwan friends play the most important nonkin role, while in mainland China co-workers play such a role. Ruan explains that in mainland China the lack of residential and occupational mobility made it possible for coworkers to develop intimate ties.

In Chapter 12, Hon-Chu Leung demonstrates that overlapping social networks provide the structural basis for the competence of the Hong Kong garment industry. For example, the network between garment manufacturers and

workers has made possible a flexible and reliable supply of skilled workers to the industry. Such a supply has been a critical source of competence of Hong Kong manufacturers in catering to markets of rapidly shifting demands. The existence of such a network also helps to explain why the garment industry can survive in Hong Kong despite its high cost of production in wages and rent.

A study of the Chinese triangle is incomplete unless we also bring in the historical phenomenon of the Chinese diaspora. This is because a very large number of Chinese people are living in countries outside mainland China, Taiwan, and Hong Kong. In Part IV, there are four chapters on the PRC immigrants in the United States, Taiwanese immigrants in Los Angeles, Chinese immigrants in Toronto, and the definition of the Chinese American population.

In Chapter 13, Fenggang Yang reports that about half a million Chinese from the PRC have migrated to the United States. While family-based immigrants constituted the majority in the 1980s, employment-based immigrants became more numerous in the 1990s. Many PRC people came on student visa and adjusted later to permanent resident status. PRC immigrants have very limited access to traditional Chinatown organizations. The most important means of integration for the PRC immigrants are Chinese Christian churches, which provide regular and intimate contacts with other Chinese believers.

In Chapter 14, Yen-Fen Tseng and Yu Zhou study the transnational migration between Taiwan and Los Angeles. These Taiwan Chinese transmigrants generally come from well-educated, middle-class, urban professional or business backgrounds. They have settled away from the traditional city-center Chinatown and created vibrant transnational business enclaves in the suburban cities of the Los Angeles area. They have also developed a sophisticated ethnic economic structure with high-tech firms and comprehensive producer services. Tseng and Zhou point out that Taiwan Chinese in Los Angeles should be understood as a transnational anchor point linking a vast global web of ethnic Chinese in Taiwan, Hong Kong, Singapore, mainland China, and other South-east Asian countries.

In Chapter 15, Kumiko Shibuya, Eric Fong, Ming-Long Lam and Clement So examine the interesting phenomenon of return migration among Chinese immigrants in Toronto. Using regression analysis, they find that recent migrants are more likely to express a strong intention to return, suggesting that recent migrants want to minimize the cost of migration by returning as soon as possible after learning about difficulties in the new country. In addition, they also find that business migrants are likely to express a strong desire to return to their home countries. This supports the view that the nature of their location-specific capital prevents them from capitalizing on their assets effectively in Canada.

In Chapter 16, Dudley L. Poston Jr., Runlong Huang, and Hong Dan show the various ways that one may use census data to conceptually define or identify the Chinese American population. In the U.S. census, the objective questions asked about place of birth and language spoken at home; the subjective questions were self-identification ones asking about race and ancestry. What is

problematic is the fact that the subjective ones differ in many ways from the objective ones. There were only 826,000 Chinese Americans in the United States in 1990 if we use the objective questions, but there were more than 1.85 million Chinese Americans if the subjective questions are used.

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PART I

ECONOMIC INSTITUTIONS

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