Economic convergence in Greater China
Mainland China, Hong Kong, Macau and Taiwan

Chun Kwok Lei and Shujie Yao
Contents

List of tables x
Preface xiii
Acknowledgement xxii
Abbreviations xxiii

1 Introduction 1
Economic integration 1
Economic integration in practice 2
Stages of economic integration 3
The role of China in the world economy 3
The economic integration between China, Hong Kong, Macau and Taiwan 6
Significance of the economic linkage between China, Hong Kong, Macau and Taiwan 10
Conclusion 12

2 Economic profiles of China, Hong Kong, Macau and Taiwan 15
Introduction 15
China 16
Hong Kong 40
Macau 53
Taiwan 61
Conclusion 68

3 Economic integration between China, Hong Kong, Macau and Taiwan 70
Introduction 70
The trade tie 71
Foreign direct investment 91
Contents

Human flows 99
Conclusion 104

4 Parametric analysis of the economic integration between China, Hong Kong and Macau 107
Introduction 107
Correlation of real gross domestic product per capita 108
Cointegration analysis and vector error correction model 110
Consequences of economic integration 123
Conclusion 123

5 Income convergence between China, Hong Kong and Macau 125
Introduction 125
Diversification in economic performance 125
Disparities at national level 126
Disparities at the regional level 129
Income convergence between China, Hong Kong and Macau 133
Stochastic convergence 154
Conclusion 157

6 Total factor productivity convergence between China, Hong Kong and Macau 159
Introduction 159
Total factor productivity in stochastic frontier approach 159
Total factor productivity measurement 163
Estimation results 166
Convergence in total factor productivity 174
Conclusion 181

7 The closer economic partnership agreement between Mainland China, Hong Kong and Macau 184
Introduction 184
The closer economic partnership agreement 185
Impacts of CEPA 187
CEPA in practice 190
Conclusion 196
<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Reduction of income dispersion</td>
<td>199</td>
</tr>
<tr>
<td></td>
<td><strong>Introduction</strong></td>
<td>199</td>
</tr>
<tr>
<td></td>
<td><strong>Methodology</strong></td>
<td>200</td>
</tr>
<tr>
<td></td>
<td><strong>Estimation results</strong></td>
<td>201</td>
</tr>
<tr>
<td></td>
<td><strong>Policy suggestions</strong></td>
<td>202</td>
</tr>
<tr>
<td></td>
<td><strong>Conclusion</strong></td>
<td>204</td>
</tr>
<tr>
<td>9</td>
<td>Conclusions, policy implications and prospects of economic convergence in Greater China</td>
<td>206</td>
</tr>
<tr>
<td></td>
<td><strong>Economic integration of the Greater China economies</strong></td>
<td>206</td>
</tr>
<tr>
<td></td>
<td><strong>Economic integration between Mainland China, Hong Kong and Macau</strong></td>
<td>208</td>
</tr>
<tr>
<td></td>
<td><strong>Income convergence between Mainland China, Hong Kong and Macau</strong></td>
<td>208</td>
</tr>
<tr>
<td></td>
<td><strong>Convergence in total factor productivity between Mainland China, Hong Kong and Macau</strong></td>
<td>210</td>
</tr>
<tr>
<td></td>
<td><strong>Reforms as a driving force of economic convergence in Greater China</strong></td>
<td>210</td>
</tr>
<tr>
<td></td>
<td><strong>Policy implications and prospects of economic convergence in Mainland China</strong></td>
<td>212</td>
</tr>
<tr>
<td></td>
<td>Notes</td>
<td>217</td>
</tr>
<tr>
<td></td>
<td>Bibliography</td>
<td>220</td>
</tr>
<tr>
<td></td>
<td>Index</td>
<td>234</td>
</tr>
</tbody>
</table>