

Greater China Economy: 21st Century Challenges and Opportunities

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I. INTRODUCTION

Greater China is expected to play an increasingly important role in the world economy in the 21st century. This special volume investigates various challenges and opportunities facing Greater China today. This examination should yield, we hope, useful insights in the ongoing Chinese economic development process and related financial issues for both policy makers and scholars.

The first article, "Financial Liberalization and Corporate Governance in China," by Fung and Leung documents the Chinese financial market liberalization, corporate control issues and the potential role of offshore markets such as Hong Kong and New York where Chinese firms can raise new capital for growth.

The second article, "Short-term Dynamic Transmission and Long-term Foreign Share Discount: Evidence from the Chinese Stock Markets," by Xu and Liu considers the corporate governance issue by investigating the price differentials between two types of equity, A (with greater proportional voting rights) and B (where a relative loss of voting rights is compensated by a relative gain in dividend payments). Generally the type B shares sell at lower price than the type A. The authors use a bivariate GARCH process to model the short-run dynamic transmissions of information between the two types of shares. They find that company earnings, the company ownership, and the capital structure are significantly related the price discount of B shares relative to A shares.

The third article, "A Location Analysis of Taiwanese Manufacturing Branch-Plants in Mainland China," by Hou and Zhang analyzes the location decision of Taiwanese firms in China for the period: 1987-1998. The study finds that the infrastructure, abundant skilled labor and the market size, cultural proximity and incentives from foreign direct investment by the Chinese government are important factors for the location choice.

The fourth article, "Stock Returns, Volatility, and Trading Volume: Evidence from Chinese Stock Markets," by Chen and Zhou documents strong relationships among stock returns, volatility, and trading volume in each of the two stock markets (Shanghai stock exchange and Shenzhen stock exchange).

Furthermore, it finds strong cross linkages between the two stock exchanges in terms of returns, volatility and trading volumes.

The fifth article, "China's Banking Reform - A Single Step in a Thousand-mile Journey," by Li and Yau presents a framework that sheds light on the evolving nature of relationship between banks and the state-owned enterprises. The framework helps put in perspective special problems encountered by banks during the economic reform process and outlines emerging trends in this process.

The last article, "Chinese Consumer Law: Recent Developments and Implications," by Ip discusses the increasing demand for litigation in China in recent years. The paper illustrates the development of and relationship among various consumer laws that are to protect consumers in the market-oriented economy and explains their implications for firms that are doing business in China.