

## **Both glue and lubricant: Transnational ethnic social capital as a source of Asia-Pacific subregionalism**

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**Abstract.** Social capital not only forms and functions at the individual, group, and organizational levels, but also permeates and transcends the political and geographic boundaries of nation-states. This paper examines transnational ethnic social networks based on ancestral and kinship ties as a form of social capital that facilitates economic growth and transformation in a transborder subregional context. Transnational ethnic social capital works by gluing multiple economic actors on opposite sides of a border together and by lubricating economic transactions among them. When purposefully mobilized by government policies, transnational ethnic social capital in turn induces more responsive and efficient policy initiatives and implementation. This paper also considers whether ethnic social capital is both a necessary and sufficient condition for successful transnational subregionalism by demonstrating its interaction with certain crucial complementary or contradictory factors.

Social capital typically exists and functions at the individual, group, or organizational levels, but community-level social capital can facilitate regional economic development (Putnam, Leonardi and Nanetti, 1993) and can be mobilized to serve national political and policy purposes (Montgomery, this volume). The locus of social capital at various levels presents different analytical challenges to understanding its formation, consequences, and policy implications. The uneven distribution of social capital could account for varied cooperative behavior, performance outcomes, and policy responses. It is attractive to study social capital at several levels because of its consistency and clarity in scale and boundary, which facilitate conceptualization, observation, and analysis.

Social capital also resides within and impinges upon large-scale economic and political phenomena, which are not necessarily confined to the nation-state level and may not fall within state boundaries. It is a challenge to study the impact of social capital on macrostructures; the reward for such an effort, however, could be great.

### **The transborder subregion as the setting**

During the last part of the 20th century, important changes in spatial relations have occurred along the Western Pacific Rim and have crystallized in the emergence of several transborder subregions. This phenomenon reflects the

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accelerated process of economic globalization, the increasing autonomy of localities, the deepening of nation-state restructuring, and the spread of cross-border social networks. This conjuncture of conditions renders the transborder subregion an important setting for studying how the manifestation of social capital transcends national boundaries and matters to economic development in multiple subnational border areas.

The point of reference for the transborder subregion is the conventional transnational regional integration scheme as exemplified by the European Union (EU). This form of regional integration involves the voluntary linking in the economic and political domains of two or more formerly independent states to the extent that authority over key areas of national policy is shifted to the supernational level (Mattli, 1999: p. 1). However, there are less formal and institutionalized regional integration schemes, which are oriented primarily toward trade and investment among the belonging member states. These include free trade areas such as NAFTA, customs unions such as the early European Economic Community, and common markets like the later EEC (Chen, 1995). Some of these cases eventually evolve into complete economic and political unions such as the EU. Regardless of the variations, all these regional integration projects share the basic common principle and structure – independent states brought together as members of a collective union by intergovernment negotiations, formal treaties, and some sort of institutionalized supernational governance.

The transborder subregion differs significantly from the formal regional bloc by featuring a more complex composition that needs to be hierarchically decomposed and then reconstituted. It resides within but spans global-national-local spaces, which are connected and penetrated by the transnational flows of capital, goods, and people. Two levels of integration straddle the economic and political spaces at the global, national, and local levels. A transborder subregion, which intersects the global-national space, comprises multiple intranational regions, generally on or near borders that stretch across the national-local spaces. What complicates this composition further is that the multiple intranational regions of a transborder region contain a hierarchical network of cities or towns and their regional hinterlands near land and/or sea borders. The transborder subregion links cities or towns, many of which may have been previously isolated in their peripheral, border locations, directly to the global economy. The aggregation of several intra- and sub-national areas into a transborder subregion highlights the latter's distinctive geoeconomic composition and in-between location at the interface of global, national, and local spaces.

Although coming across as a striking spatial-economic phenomenon, the Asia-Pacific transborder subregions are conditioned by complex social and cultural forces that may be analyzed through the concept of transnational ethnic social capital.

### **Conceptualizing transnational ethnic social capital**

Social capital is subject to increasingly varied references and conceptualizations as it encompasses mutual trust, norms of reciprocity, a moral resource, or a cultural mechanism (Woolcock, 1998). Pierre Bourdieu defined social capital as the aggregate of the actual or potential resources that are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance or recognition (cited in Portes, 1998: p. 3). Another leading theorist on social capital, the sociologist James Coleman (1990), defines social capital as social structural arrangements that facilitate the attainment of goals for actors in a system. Robert Putnam might have been the first to study social capital at the community level by turning attention to interorganizational networks of civil society and to the nature of government itself (Putnam, Leonardi and Nanetti, 1993; also see Warner, 1999). Given that social capital may reside legitimately at various levels of analysis, it makes sense to recognize different degrees and types of social capital, which are associated with varied performance outcomes (Woolcock, 1998: p. 159). This flexible approach warrants treating social capital as an aggregate of assets and ties that exist and exert influence in the relational macro setting of a transborder subregion.

Despite Putnam's seminal work on regional variations of social capital in Italy, there has been only limited effort to study how social capital accumulates and operates in a regional context. Foster (1998) attempted to differentiate eight types of regional capital – historical, structural, legal, socioeconomic, development, civic, corporate, and political – as assets that may bring about effective outcomes for U.S. metropolitan regions; however, she defined regional capital in such a way so as to come up with numerical indices, which does not facilitate the conceptualization of transnational ethnic social capital.

Gabbay and Stein (1997) brought social capital to a regional level of analysis in the Middle Eastern context. They drew directly from Coleman's idea that in an inter-connected three-actor system, each interaction between any two actors is monitored by the third. This social closure creates a sanctioning mechanism against the violation of norms and potential defection by any two actors. They then argued that by creating the Middle East Electricity Grid, several countries will not only benefit from cheaper generation and transmission of electricity, but also will have created a forum for dialogue, cooperation, and negotiations that will lead to a sustainable peace. If social capital matters for nations as actors at the regional level, it should make an important difference in both theoretical and policy terms to the multiple subnational units that constitute an Asia-Pacific transborder subregion. The latter setting, however, features social capital in more diverse sources, at more levels of analysis, and with more complicated consequences.

Transnational ethnic social capital encompasses several interrelated elements embedded in a cross-border subregional space. First of all, as all social capital is dependent on centuries of entrenched history and culture (Woolcock, 1998), ethnic and cultural ties through a common history and tradition constitute the

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basic building block of social capital. These ties in the Asia-Pacific region were at various times severed or weakened by competing political ideologies, military conflicts, and economic inconsistencies between China and Taiwan, South Korea, the former Soviet Union, and Vietnam. Secondly, kinship and ancestral networks created and sustained by past and present migration circuits, coupled with shared regional dialects, add to the stock of transnational ethnic social capital in the open and highly interactive border environment. Thirdly, transnational ethnic social capital often contains a strong native-place identity based on geographic affiliations, which is reinforced by the spatial proximity characterizing transborder subregions. The key to conceptualizing transnational ethnic social capital is that an overarching ethnicity and culture binds people separated by political boundaries. Moreover, the integrating effect of a shared transnational ethnicity and culture varies according to the actual social networks that are created or modified by ethnic and cultural identity changes.

Wank (1998) suggests that the distinct social networks characterized by kinship, friendship, and ancestry, which involve Chinese emigration to Hong Kong, Taiwan, and Southeast Asia during different historical periods, channel overseas Chinese investment into China in different ways. Kinship networks, rooted in Chinese emigration to Southeast Asia in the 19th and early 20th century, tend to bring overseas Chinese investment back to rural areas in ancestral villages in Fujian and Guangdong Provinces where the support of kin is critical. Friendship networks, on the other hand, tend to draw investment capital largely to urban areas from new, post-1973 Chinese emigrants who use their personal connections to strike favorable deals with city government officials. Ancestral networks involve mostly Taiwanese investors whose ancestors began to emigrate from southern Fujian in the 17th century and who return to invest in the entire home region based on linguistic and subcultural familiarity. These social networks overlap in fostering cross-border capital mobility and economic production in Southern China.

### **The manifestation and role of transnational ethnic social capital**

Transnational ethnic social capital manifests itself through a twofold role in 'gluing' and 'lubricating' the Asia-Pacific transborder subregions. 'Gluing' involves bringing multiple actors on opposite sides of a border together in economic cooperation through mutual investment and joint production. State boundaries, which may separate highly incompatible economic systems, tend to restrict or prevent economic linkages. Social capital in the form of ethnic networks is a powerful resource for creating economic linkages across political boundaries. Just bringing economic actors across borders together is not sufficient, as their cooperation may be hampered by frictions associated with different systems. 'Lubricating' refers to ways in which ethnic social capital smoothes out cross-border economic cooperation. Without lubrication, the glued seams of economic ties tend to strain and come apart under the competing pressures and

practices of incompatible systems. Put more explicitly, the lubricating role of social capital makes cross-border economic cooperation more sustainable.

In fulfilling both roles, transnational ethnic social capital also interacts with other conditions and thus mediates their impact on transborder subregional outcomes. First, transnational ethnic social capital grows from and feeds back on simultaneous globalization and localization. As a globalizing economy extends the commercial and business networks of the Chinese diaspora, especially in East and Southeast Asia, the socially mediated spatial concentration of overseas Chinese investment in China's southeastern coastal areas has created distinctive local economies with extensive export-based global links. Further, transnational ethnic social capital is capable of magnifying the effect of geographic proximity on transborder subregions. Cross-border kinship and ancestral ties facilitate more frequent visits to relatives and hometowns across borders. Much of the early Hong Kong and Taiwanese investment in China's southeastern coastal areas occurred through tourists and relatives visiting local towns and villages.

In the transborder subregional setting, the most important factor in shaping the formation and impact of ethnic social capital is policy making by the increasingly bifurcated state between the central and local levels. If strong political leaders can manipulate nationalist fervor and ethnic loyalty to reshape the attitude of a population, a typical political use of social capital (Montgomery, this volume), they could very well make use of the same elements of social capital to achieve a desired economic development outcome. Their ability to do so, however, may be weakened or compromised if they can no longer enjoy fully autonomous policy making at the national level.

The transborder subregion creates an environment in which the authority of national political leadership and government is eroded, while local autonomy gains strength. In the absence of extensive local-local ties, important decisions regarding border control, customs regulations, trade and investment, taxation, infrastructure development, and tourism in and between neighboring countries would reside with their central governments. As a transborder subregion takes shape through the growth of closer trade and investment ties between border cities and their hinterlands, the demand for local and subregional level policy making tends to rise. The growing pressure of economic globalization on the nation-state, reinforced by the bottom-up pressure from cross-border private sector activity, shifts decision-making power from the central to the local government and alters the type of policy making at the central level. Taking advantage of what the central government has given them in terms of policy autonomy, local governments have become increasingly active and assertive in initiating and executing economic development programs in the transborder subregions. Globalization from above and local autonomy from below in the transborder subregions have not only produced a sandwiching effect on the national state but also brought about a bifurcation between the relative policy autonomy of the central versus the local government.

This bifurcated state has created more space for transnational ethnic social

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capital to respond effectively to specific central and local government policy initiatives such as those for attracting overseas Chinese capital. Social capital may also foster more effective social organization in terms of new or improved governmental and other institutions. Local governments of China's southeastern coastal cities have become more market-oriented and efficient in policy making from dealing with the large number of small, flexible Taiwan and Hong Kong investors. If the local government has a strong role in social capital construction (Warner, 1999), the extent of a decentralized policy-making environment will influence how much horizontal room there may be for social capital to accumulate and exert itself. The transborder-subregional setting provides an ideal testing ground for examining the shifting nature of the relationship between policy making and the outcomes of social capital.

In the next two sections of this paper, one primary case and one secondary case will be used to examine the crucial role of transnational ethnic social capital in shaping different Asia-Pacific transborder subregions. This comparative analysis will evaluate three propositions. First, a transborder subregion endowed with richer transnational ethnic social capital tends to exhibit more positive economic outcomes such as faster growth and more beneficial cooperation. Second, these outcomes are more achievable if transnational ethnic social capital is capable of having a feedback influence on policy initiatives, instead of just being used politically. Third, transnational ethnic social capital fosters more positive outcomes for a transborder subregion if it is associated with complementary factors.

### **The magic of transnational ethnic social capital**

During the last two decades of the 20th century, few processes of regional economic development were more significant than the growth and integration of China, Hong Kong, and Taiwan into a dynamic transnational regional economic system with truly global economic impact. The combined exports of the three Chinese economies as a share of the world's total rose from 4.8% in 1985 to 8.9% in 1997, ranking third behind the U.S.'s 12.6% and Germany's 9.4%, and ahead of Japan's 7.7% (Mainland Affairs Council, 1998: p. 54). The World Bank (1997) projects that China's own share of the world's total exports may rise from 3% in 1992 to 9.8% in the year 2020. Despite their slowed growth and exports due to the Asian financial crisis that erupted in 1997, China, Hong Kong, and Taiwan have shown resilient economic strength and export competitiveness during and beyond the regional recovery. The combined size and might of a regional Chinese economic bloc could make it a legitimate fourth pole to rival the United States, the European Union, and Japan in the 21st century.

The rise of the so-called Chinese economic triangle has been propelled by the dynamic growth and formation of a distinctive transborder subregion that consists of Hong Kong, Taiwan, and China's Guangdong and Fujian Provinces, which term the Greater Southeast China Subregion (GSCS) in this paper. It

conforms to the generic composition of the transborder subregion because at least one of the participating parties (China) involves subnational units (Guangdong and Fujian Provinces) that sit on or are adjacent to international borders. Of all the Asia-Pacific transborder subregions, transnational ethnic social capital in the GSCS has the deepest root, the most visible formation, the most flexible mechanism, and the most intensive interaction with policy dynamics, and exerts the strongest impact on economic growth and cooperation.

The seed of transnational ethnic social capital in the GSCS today may have been sown as far back as the 17th century when the modern Chinese diaspora began. Driven by poverty, war, and political turmoil, the outflow of Chinese migrants to Hong Kong, Taiwan, and Southeast Asia accelerated during the 18th through the mid-20th centuries. A large proportion of these emigrants originated from areas around the first treaty ports opened to Western countries such as Fuzhou, Xiamen, Shantou, and Guangzhou (Canton). Some of the towns in the dynamic Pearl River Delta of Guangdong Province today were also the historical sources for many emigrants who later settled heavily in Hong Kong (Wank, 1998). In addition to these distinctive places of origin, local customs, surnames, dialects, eating habits, and other cultural practices distinguish the diasporic Chinese communities.

Before these historically rooted elements of social capital resurfaced in the late 20th century, they were used by the imperial Qing government for a nationalistic agenda at the end of the 19th century and the beginning of the 20th century. In order to seek financial support and technical skills from the overseas Chinese to increase national strength, the imperial state removed its ban on emigration and established consulates in Southeast Asia (Duara, 1997). To attract abundant overseas Chinese capital to modernize China, the Communist state a century later adopted favorable policies and financial incentives toward Hong Kong and Taiwanese investors. Historical irony aside, this provides consistent evidence for the opportunistic political use of social capital regardless of political regimes (Montgomery, this volume). On the other hand, social capital ingrained in ethnic and cultural ties is subject to politically motivated suppression. Just as the Qing state executed repatriated emigrants to deter potential travelers from leaving the empire (Duara, 1997), the Communist state persecuted many returned overseas Chinese in the late 1950s and PRC citizens with overseas connections during the Cultural Revolution. Social capital possesses such latent power that despite a period of dormancy enforced by these abusive policies, it has reappeared under the more open political climate and economic environment in China since the 1980s.

The resurgence of transnational ethnic social capital in the GSCS has taken hold in a way that is consistent with its historical roots. It manifests itself through a complex set of socially imbedded and mediated cross-border economic relations. More specifically, this manifestation involves a variety of social networks based on overlapped kinship, friendship, ancestry, native-place identity, and dialectic similarity that help organize economic activity and transactions.

The kinship-based social network has become arguably the most effective

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mechanism for tuning the economic engine that has driven wealth creation and prosperity in the GSCS. The phenomenon often begins with Hong Kong and Taiwan residents returning to visit the villages and towns of their ancestral origin. These visits provide the occasion and opportunity for initiating business deals that include making philanthropic donations and setting up factories, sometimes using the former to realize the latter. By the definition of Leung (1993, p. 281), kinship factories in the Pearl River Delta are those that have connections with or are owned by the mainland relatives or close friends of the respective Hong Kong investors/contractors. These factories provide investment confidence and exchange reliability based on the mutual trust established by the kinship or close social relationships between Hong Kong investors and their mainland subcontractors.

At the macro level, kinship-based social networks have contributed to the establishment of thousands of small- and medium-sized processing and manufacturing enterprises that produce labor-intensive consumer goods for export. In addition, hometown connections have led wealthy overseas Chinese to fund large-scale infrastructure projects such as highways, power stations, hospitals, and universities in Guangdong and Fujian Provinces (Wank, 1998). At the firm level, kinship has facilitated the recruitment and management of badly needed workers for labor-intensive manufacturing. At a shoe factory located in Guangdong Province, the Hong Kong owner focused on hiring children of his and his wife's relatives through a closely maintained relationship with his native village that involved frequent visits and sponsoring local causes. He considered it an obligation to look after his kin through his business venture in China (Smart and Smart, 1993: p. 21). Another factory encouraged current workers to recruit a small number of relatives and others from their hometowns. The rationale was that the mutual trust between the recruiter and new employees would ensure the latter's confidence in factory management and thus good performance. With or without kinship ties, Taiwanese managers at some shoe factories in southern China manipulated social capital by invoking the family metaphor in labor-management relations as a strategy for maintaining the paternal authority of the male managers as fatherly figures or elder brothers and disciplining young female workers (Hsing, 1998).

As suggested earlier, the transborder subregion bifurcates the national state to encourage autonomous and flexible policy making by the local governments. In the GSCS, the policy shift began in 1979 when China's central government designated only Guangdong and Fujian as provincial experiments for foreign trade and created four special economic zones on the coast of the two provinces as the first locations open to foreign investment. This region- and location-specific policy was clearly intended to target overseas Chinese investors with social, cultural, and geographic connections to that part of China. Provincial and local governments were given greater authority to approve investment projects and allowed to levy lower taxes on joint ventures. In the late 1980s, the central government adopted a set of policies that targeted Taiwanese capital through the creation of Taiwan Investment Zones in the coastal cities of

Fuzhou and Xiamen facing Taiwan. The flexible implementation of these policies at the local level has enhanced the manifestation and role of social capital.

Even with greater local autonomy in southern China, transnational ethnic social capital does not automatically lead to business deals, which are subject to the flexible and often arbitrary approval by local officials with favorable or not so favorable terms. Therefore, local Chinese officials have become key agents and partners with Hong Kong and Taiwanese investors, who try to cultivate relations (*guanxi*) with the former through material or nonmaterial gift exchanges such as clothes, banquets, color TV sets, crucial information, and key introductions (Smart and Smart, 1991). Some Taiwanese investors have mastered the art of gift exchange by maintaining the balance between offering material favors and expressing friendship and loyalty to each other as the basis of mutual trust. They also use gift-giving to local officials to convey underlying important messages regarding mutual trust and reciprocity (Hsing, 1997: pp. 152–153).<sup>1</sup> Social contacts with local officials provide other opportunities for of building up social capital (Hsing, 1998; Kohut and Cheng, 1996). Given that mutual trust within former Communist societies was compromised by political control (Neace, 1999), trust between overseas investors and local mainland officials might have been more difficult to establish without the shared ethnic Chinese identity.

There is also clear local-level evidence on the economic outcomes of social capital in action. Take the city of Dongguan in Guangdong Province, for example. Located between Guangzhou and Shenzhen in the Pearl River Delta, Dongguan is only three hours away from Hong Kong by bus. It not only has lower land and labor costs than larger cities like Guangzhou and Shenzhen but also benefits from its delta location. Although these advantages are important, it is the social capital of interpersonal networks and place identity that has worked magic in conjunction with flexible local policy making. Some Taiwanese investors with hometown ties emphasize the understanding of local dialects and customs as a key to setting up and expanding factories in Dongguan, in contrast to in such Southeast Asian countries as Malaysia and Indonesia (Chen, 1996).

Moreover, most Taiwanese investors rely heavily on the social and business networks that they have transferred from Taiwan or established within Dongguan. As the downstream electronics manufacturers have moved from Taiwan to Dongguan, more and more up- or mid-stream suppliers of raw and intermediate materials have followed suit, forming a newly indigenized supply and production chain in Dongguan. A PC can be assembled and shipped within 15 days within an area of 50 square kilometers in which specialized suppliers of such peripherals as mice, monitors, and keyboards cluster with motherboard manufacturers and final assemblers. With deep trust among business partners, quick telephone calls have replaced the time-consuming legal contracts; this contributes to the short production and turnaround time, which contrasts with a four-month lead time in the United States (Zang, 1999). Time spent together on golf courses and in karaoke bars provides opportunities for Taiwanese businesspeople to further strengthen friendship ties and mutual trust, which in turn sustain the closely

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linked business networks (S. Chen, 2000). Transnational ethnic social capital has helped sustain the heavy concentration of Hong Kong and Taiwanese capital in Guangdong and Fujian Provinces, in spite of the diffusion of these investments to other regions. During the first seven months of 1999, 45.1% and 6.6% of Taiwanese investment in China flowed into Guangdong and Fujian, respectively (Mainland Affairs Council, 1999: p. 3). At the end of 1998, Taiwanese investment in 11,000 firms in Guangdong exceeded \$7 billion (Liao, 1999). This investment has led to the fundamental transformation of cities such as Dongguan. Formerly a rural township surrounded by rice fields, Dongguan has in little over 10 years exploded into a huge industrial center that covers 2,520 square kilometers and has over five million people. In 1999 Dongguan became the third-ranked city of China in exports and foreign exchange earnings, behind only Shanghai and Shenzhen. This rapid growth has been fuelled by over 3,000 Taiwanese-owned enterprises located in Dongguan. Of the 1,800 electronics manufacturers in Dongguan's most dominant industry, 80% of them involve Taiwanese or Hong Kong investment and management. They also account for over half of the total output from the electronics industry (S. Chen, 2000). With over 20,000 Hong Kong-invested factories in Guangdong employing about six million workers, exports of mainland China origin to other places accounted for 87% of Hong Kong's total value of trade with China during 1998 and 1999.

There is also evidence that transnational ethnic social capital has also reshaped business-state relations and created both pressure and incentives for more efficient and responsive policy making at the local level. Local government officials in Dongguan are flexible in interpreting standard policies and in offering special incentives for land use and tax collection. The heads and party secretaries of the towns in Dongguan often go the extra mile in lowering factory rents and electricity charges for Taiwanese investors. These favorable government practices reflect a cooperative relationship with the local Taiwan business association. Of the over 3,000 Taiwanese firms in Dongguan, over 80% are members. For the total of 32 towns and districts under the municipal government, there are 29 branch Taiwanese business associations. While Dongguan has the largest, most organized and most effective Taiwanese business association in China, it also boasts the only Taiwanese businesswomen's friendship association in China, involving the wives of the businessmen living in Dongguan (S. Chen, 2000). This extensive organization not only provides strong support for the social networks based on interpersonal and interfirm relationships, but also acts as a civic partner in dealing with the local government. A consensus has emerged among foreign firms that the local government in Guangdong is more straightforward and sophisticated than those elsewhere in China in approving and regulating investment projects (Liao, 1999).

By utilizing social capital effectively to gain favors from local officials, Taiwanese and Hong Kong investors in Southern China are successful in circumventing some bureaucratic rules and obstacles and in seeking rents from business ventures and activities with limited access. This evidence supports Smart's (1993: p. 16) argument that behaviors directed toward creating and

capturing rents may make important contributions to economic efficiency in circumstances where the societal and legal infrastructure for market capitalism are underdeveloped.

### **Transnational ethnic social capital matters, but not sufficient**

As transnational ethnic social capital has been shown to be a critical factor in the positive outcomes of the GSCS, the ways in which it manifests itself in other Asia-Pacific transborder subregions will provide comparative evidence on how much social capital really matters. A comparison will show how different sub-regional contexts facilitate or constrain the formation and manifestation of ethnic social capital. Two other transborder subregions provide a combined case for illustrating the similarities and differences in how ethnic social capital manifests and operates across varied political, economic, and geographic settings.

The first of the two subregions is located in the heart of Northeast Asia. It comprises three participating areas: the border zone of China's Jilin Province, centered on the cities of Hunchun, Tumen, and Yanji; the border zone of North Korea, featuring the port cities of Rajin and Sonbong; and the Khasan region of the Russian Far East that includes such port cities as Vladivostok and Posyet. This area is physically defined by the Tumen River and its delta that connects the border areas of China, North Korea, and the Russian Far East. This subregion is labeled the Tumen River Subregion (TRS). The other transborder subregion is the Bohai Rim Subregion (BRS) that consists of the coastal zones of China's Liaoning, Hebei, and Shandong Provinces and South Korea's western coast. If we use the Yellow Sea to help delineate this subregion, it would encircle the entire South Korea and Japan's Kyushu region, in addition to the areas bounded by the BRS.

The transnational ethnic social capital in both transborder subregions pertains to the historical and contemporary conditions and role of the Korean minority in China and the Chinese minority in Korea. This allows our comparison to focus on the historically rooted and ethnically based social ties as the core of social capital and on how it interacts with policy making in shaping development outcomes. The scope of this paper, however, permits only a more cursory look at these two subregions.

Just as historical Chinese emigration laid down the root of transnational ethnic border social capital in the GSCS, early Korean immigration to China created a similar precondition for the subsequent formation of transnational ethnic social capital. While beginning as early as the Yuan dynasty (1271–1368), the main Korean immigration to China occurred in the 1860s. The colonization of Korea by Japan in the early 1900s led to the migration of some Koreans to Japan. By 1940, hundreds of thousands of Korean migrated to work in the factories and mines in Japan and Manchuria (Cumings, 1998), a Japanese puppet state that consisted of China's three northeastern provinces. Before

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1949, the Chinese Communists treated ethnic Koreans in China favorably by granting land to them. This policy was partly a reward for ethnic Koreans, some of whom fought bravely for the Peoples Liberation Army first against the Japanese army and then against the Kuomintang troops.

Given the historical settlement pattern of Koreans in China, the 1990 China census revealed that 97% of the nearly 2 million ethnic Koreans in China lived in the three northeastern provinces, with 1.2 million of them residing in Jilin Province. The Yanbian Autonomous Prefecture of Jilin Province, which administers the key Chinese border cities of Yanji, Hunchun, and Tumen in the Tumen River Subregion (TRS), is home to approximately 80 million or 43% of the entire ethnic Korean population in the country. In the city of Hunchun in 1992, ethnic Koreans accounted for 47.3% of the local population. Similar to the people in Guangdong and Fujian Provinces, ethnic Koreans in China have extensive overseas kinship ties. In 1990, 53,637 households, or 23% of all households, in the Yanbian region had relatives overseas. Of those households, nearly 50,000 had kinship ties with North Korea and about 3,800 with South Korea. More important, a certain percentage of these kin overseas were wealthy businessmen (Li and Wu, 1998). These preexisting transnational kinship connections, coupled with language and cultural familiarity, constitute a foundation for social capital to induce and nurture economic transactions in a similar fashion as in the GSCS.

The geographic concentration of South Korean investment in the Yanbian Prefecture validates the connection between the location of social capital and flow of economic capital. Also spurred by the establishment of diplomatic relations between China and South Korea in 1992, South Korean investors flocked to Yanbian to set up factories in garments manufacturing, food processing, chemicals, and construction materials. The 42 Korean-invested enterprises by the end of 1992 accounted for one-third of all foreign ventures in the prefecture and reached \$16 million in capitalization. The city of Yanji, the capital of the Yanbian Prefecture, became the site for a Chinese-South Korean joint venture, which was the largest in China's husbandry industry. South Korean companies also began to target the city of Tumen near Yanji and the city of Ji'an, which borders North Korea. Another hot spot for earlier South Korean investment was the major port city of Dalian in Liaoning Province, which had attracted 44 South Korean ventures capitalized at \$36.7 million by the end of 1992 (Peng and Yan, 1994).

However, it was the city of Yanji that, as the heart of the Chinese Korean region, has remained the most attractive destination for South Korean investment and remittance. According to the local informants in Yanji whom I interviewed in 1999, a heavy influx of remittance from South Koreans boosted the local economy in the mid-1990s, especially in real estate development and the restaurant business. Some of the remittance came from the Korean Chinese working as temporary labor in South Korea. In 1996, for example, remittance from South Korea accounted for half of the real estate investment in Yanji. Remittance helped elevate per capita income for Yanji to the fourth highest of

all Chinese cities. Heavy spending by South Korean tourists, many of who visited relatives in Yanji, also contributed to the boom of the local economy. The onset of the Asian financial crisis in 1997 dampened Yanji's prosperity. South Korean investors quickly pulled out from their ventures and left behind stockpiles of unsold products waiting to be exported. Since the large majority of the South Korean-invested enterprises were small, collectively-owned local firms, which offered no guaranteed employment (the so-called iron rice bowl), the withdrawal of South Korean capital left many local workers unemployed. The financial crisis also led to a sharp reduction of South Korean tourists, and even those who came in 1999 engaged mostly in window-shopping.

The ethnic and cultural ties between Koreans in Northeast Asia not only brought China and South Korea into close economic cooperation, especially after 1992, but also brought about new types of transborder exchanges between China and North Korea in the Tumen River Subregion. My field interviews with local informants reveal that in the 1960s and 1970s, when North Korea was economically better off than China, some Korean Chinese crossed the border into North Korea, and Chinese residents in the border area depended on North Korea for electricity supply. After China's economic reforms improved local living conditions, some of those who had left early returned home. China began to export daily necessities such as flashlights to North Korea, which has sustained a severe shortage of rural energy (Williams, Hippel and Hayes, 2000). Having maintained ties with their relatives in North Korea even in the face of the latter's self-imposed closed policy, local Korean Chinese have tried to offer assistance to their less fortunate kin across the border. Through difficult prior arrangements, some Korean Chinese would meet their relatives at the Tumen River crossing and even use the occasion to barter for simple goods. Some Korean Chinese even would give enough Chinese currency to their relatives from North Korea to buy a year's grain supply. Driven by hunger, and encouraged by lax border control, growing numbers of North Koreans have been crossing into China to find food and temporary work. Estimated between 100,000 and 400,000 in 1998, this large flow of 'food migrants' constitutes one of the world's most unusual population movements, as most of them return to North Korea after a brief stay in China's border area, especially in rural villages (Hoon, 1999). This phenomenon would not have occurred without the shared Korean identity and extensive family and kinship ties across the China-North Korea border.

The local governments of Yianbian have also adopted a favorable policy by allowing North Korea to contribute limited capital in setting up joint venture restaurants, sauna parlors, karaoke bars, and real estate companies on the Chinese side of the border (Chen, 1995). Illegal young North Korean girls were found to be working in some of the karaoke bars in Yanji without being detained, as local informants revealed. Unlike the South Korean connections earlier, the Korean Chinese use kinship-based social networks under a more open policy to generate economic exchanges intended to benefit Koreans on the other side of the border.

If the Korean Chinese community in northeastern China is the primary

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owner and user of social capital in the TRS, the Chinese Korean community on the west coast of South Korea has played an important role in revitalizing historically-based social capital to build an economic bridge across the Bohai Sea. It is estimated that South Korea has approximately 100,000 Chinese-Koreans of Shandong descent, many of whom are successful businessmen with a strong desire to invest in their place of ancestry. Some of the Chinese Koreans originally emigrated from Dalian and the coastal areas of Liaoning Province; these have been active in promoting business relationships between South Korea and Liaoning Province. There is a concentration of these Chinese Koreans in the port city of Inchon, which faces China's Shandong peninsular. Some of the Chinese Koreans in Inchon were pioneers in fostering business relationships between South Korean and China's Bohai region in the late 1980s, well before the two countries normalized their diplomatic relations in 1992. Since many of them came from the coastal cities and towns of Shandong Province, knew the local customs, and spoke the dialect, they often served as middlemen to help small and medium-sized South Korean companies set up investment projects, which predated the China initiatives of such large conglomerates as Daewoo and Samsung.

After the first shipping route was opened in 1990 between Inchon and Weihai, an industrial port city on the Shandong peninsular closest to South Korea's west coast, most of the early passengers were Chinese Koreans going to conduct business. One of my informants in Inchon, who is ethnic Chinese, gained access to the mayor of Dalian, who recognized his Shandong accent. In the late 1990s, the Inchon municipal government decided to rebuild and expand its Chinatown, the only distinctive Chinese community left in South Korea today. The initiative was intended to improve the past poor treatment of the ethnic Chinese in Korea and to attract more tourists from China on the convenient regular passenger ferry service between Inchon and four Chinese cities on the Bohai Rim. The Chinatown project in Inchon also was spurred by the decentralization of the Korean central government authority and increasing local autonomy after 1996. As in the GSCS, a bifurcated state has created favorable conditions for the manifestation of social capital across national boundaries.

The interaction between transnational ethnic social capital and policy making in the BRS exhibits a similarity to that of the GSCS. To take advantage of the kinship ties and geographic proximity between Shandong Province's coastal region and South Korea without angering the North, China's central government pursued a policy of 'provincial contact only' in the late 1980s. Liaoning and Shandong Provinces established provincial trade offices in Seoul. Shandong also set up several industrial processing zones in such Bohai Rim cities as Qingdao, Yantai, and Weihai to attract South Korean investment (Yun, 1989). Between 1988–1991, 3,580 South Korean business groups with 8,600 people visited Shandong Province, with 3,510 groups coming in the first half of 1992 alone. Of the 54 Sino-South Korean joint ventures either in operation or under contract as of January 1990, 30 (55.6%) were sited in Shandong, Liaoning, Tianjin, and Hebei in that descending order. Shandong and Liaoning Provinces

were first and second in drawing South Korean capital into China, combining for 42.7% of all South Korean-invested projects in China during 1990–1991 (Chen, 1998). In the early 1990s, the Shandong provincial and local governments designated special South Korean Investment Zones in the cities of Qingdao, Yantai, and Weihai, just as the Taiwan Investment Zones were established in Fuzhou and Xiamen of Fujian Province around the same time. This more targeted initiative spurred more South Korean investment. By the end of 1993, the 151 South Korea-invested enterprises in Qingdao were capitalized at \$251 million, which accounted for 10.4% of the total local foreign investment, up from 2.6% by the end of 1989 (Peng and Yan, 1994). This large inflow of South Korean investment contributed to the accelerated growth of the Shandong economy in the 1990s, narrowing some of the gap with the more prosperous southeast coastal region that is part of the GSCS.

Like the GSCS, transnational ethnic social capital in the TRS and BRS manifests itself through the kinship- and ancestry-based social networks, which have facilitated trade and investment flows. The cases, however, differ considerably in the formation of social capital and how it functions in conjunction with other factors in economic development. The TRS and BRS have a much smaller stock of transnational ethnic social capital in that the combined population of ethnic Koreans in China and ethnic Chinese in Korea is much smaller than the diasporic Chinese community in Hong Kong, Taiwan, and Southeast Asia. Social capital in the TRS also has a weaker gluing effect than in the GSCS because it is based on less distinctive local identity and less functional cultural practices. More important, the more limited role of transnational ethnic social capital in the TRS or BRS has a lot to do with the absence of other economic and political factors that have favored the GSCS. The lack of economic complementarity between China and North Korea, for example, has hampered what ethnic ties can do to facilitate economic cooperation within the TRS. The relatively late initiation of a regionally targeted policy by China, coupled with the more guarded border between China and North Korea, dampened the advantage of cross-border ethnic connections for economic exchange. In the BRS, where economic complementarity exists between China and Korea, and where regional and local favorable policy is more extensively implemented, economic exchanges and cooperation depend less on ethnic social capital than in the other subregions. The Korean government's shift to favoring its less developed west coast (e.g., upgrading the ports at Kunsan and Mokpo and building a new world-class airport at Incheon) is likely to have a greater impact on Shandong-Korea economic ties than what the ethnic Chinese in Korea may deliver.

## **Conclusion**

This paper has focused on the generally positive role of transnational ethnic social capital in gluing and lubricating economic transactions that have facilitated the emergence of different Asia-Pacific transborder subregions. It is obvious

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that Hong Kong and Taiwanese investments would not have been heavily concentrated in southeastern China and South Korean investment in northeastern China and around the Bohai Rim, without the entrenched ethnic and social ties across these boundaries. More important, the moral obligation and mutual trust embedded in these ties have made these investment projects generally beneficial in China, whose political and economic systems differ considerably from those of Hong Kong, Taiwan, and South Korea. If all forms of social capital have a potential downside (Portes, 1998) or the possibility of backlash effects (Montgomery, this volume), transnational ethnic social capital is no exception. Hiring relatives and sticking with them even if they are not productive sustains a moral and social obligation, but the practice is economically inefficient and may lead to failing factory operations (Smart and Smart, 1993). By preferring to hiring people from certain places in Guangdong Province, some Taiwanese employers tend to discriminate against using workers from the poor neighboring province of Hunan based on their stereotyped personality (Zang, 1999). Gift exchange may build up interpersonal trust and reciprocity between overseas Chinese investors and local PRC officials. It however has a tendency to slip into bribing and corruption, which led to the prosecution and execution of several customs officers in Guangdong. The favorable treatment of overseas Chinese investors by China's central and local governments may have disadvantaged some state-owned investment projects by creating unfair competition. There is a delicate balance between using transnational ethnic social capital to generate economic benefits and not letting it induce undesirable behaviors and practices.

To minimize the downside of social capital, however, may require modifying or shifting the form and functions of this resource as it evolves. Powerful as social networks or informal associations are in fostering economic development, they may and should be gradually replaced by formal administrative structures and impersonal market mechanisms. The latter are more efficient than networks in selecting the *best* buyer or seller, who may not be part of a network (Serageldin and Grootaert, 2000: p. 53). Although this shift toward more formal institutions of law, market, and governance may weaken or deplete existing social capital, it eventually leads to a new type of social capital that is embedded in the economic system, rather than the other way around (Stiglitz, 2000); this is exemplified by the type of transnational ethnic social capital examined in this paper. The dynamic aspect of social capital, ironically, points to its inherent limitations. In the absence of certain complementary conditions, social capital remains a necessary but not sufficient resource at best, as illustrated by the Tumen River Subregion. The crucial role of social capital may not be sustainable beyond a particular model and stage of successful development, unless it becomes less prevalent and more subordinate to a truly market-based economic system. This may be a scenario facing the rich social capital in the Greater Southeast China Subregion.

The most important implication of this study is that transnational ethnic social capital has interacted with a liberalized local policy-making regime,

which has been integrated into an open, transborder subregional environment. While it was deliberately mobilized by government policy as a resource for facilitating economic development, transnational ethnic social capital has become a more valuable policy resource by drawing from its cumulative capacity for invoking new and more responsive policies. The mutual reinforcement between social capital and policy making, especially at the local level, has indeed brought about varied economic development as a common good for many areas in the Asia-Pacific transborder subregions.

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### Note

1. In one case, a Taiwanese investor gave a box of rare and special Chinese herbal medicine to the vice director of the local land bureau for the latter's mother who needed exactly this particular medicine. The gift carried great significance because it showed the Taiwanese investor caring for the director's family, something closest to the heart of the Chinese people (Hsing, 1997: p. 153).

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