

RGC Ref. No.: UGC/FDS12(14)/H02/14 _____ (please insert ref. above)
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**RESEARCH GRANTS COUNCIL
COMPETITIVE RESEARCH FUNDING SCHEMES FOR
THE LOCAL SELF-FINANCING DEGREE SECTOR**

FACULTY DEVELOPMENT SCHEME (FDS)

Completion Report
(for completed projects only)

<p><u>Submission Deadlines:</u></p> <ol style="list-style-type: none"> 1. Auditor's report with unspent balance, if any: within six months of the approved project completion date. 2. Completion report: within 12 months of the approved project completion date.
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Part A: The Project and Investigator(s)

1. Project Title

Cross-border Exchanges and Shadow Economy in the Pearl River Delta Region

2. Investigator(s) And Academic Department(s) / Unit(s) Involved

Research Team	Name / Post	Unit / Department / Institution
Principal Investigator	HUNG, Po-wah Eva / Associate Professor	Department of Social Science, The Hang Seng University of Hong Kong
Co-Investigator(s)	NGO, Tak Wing / Professor	Department of Government and Public Administration, University of Macau
Others		

3. Project Duration

	Original	Revised	Date of RGC / Institution Approval <i>(must be quoted)</i>
Project Start Date	1 Oct. 2014		
Project Completion Date	30 Sept. 2017	31 March 2018	6 June 2017
Duration <i>(in month)</i>	36	42	6 June 2017
Deadline for Submission of Completion Report	30 Sept. 2018	31 March 2019	6 June 2017

Part B: The Final Report

5. Project Objectives

5.1 Objectives as per original application

1. To describe, in thick details, three types of trans-border exchanges in the Pearl River Delta region in terms of goods (smuggling of daily necessities), capital (money laundering), and labor (illegal migrant workers and prostitutes), with particular emphasis on processual and organizational dynamics such as their organization, methods of operation, terms of transaction, mechanisms of price setting, information dissemination, network building, and so on.
2. To analyze the historical and institutional contexts, in particular the presence of institutional voids, which give rise to the emergence and development of illicit trans-border exchanges.
3. To evaluate the size and extent of the three types of shadow economic activities, to shed light on the shadow economy as an alternative form of economic order, and to explore its relationship as well as its impact on the formal economy.

5.2 Revised objectives

Date of approval from the RGC: Not applicable

Reasons for the change:

- 1.
- 2.
3.

5.3 Realisation of the objectives

(Maximum 1 page; please state how and to what extent the project objectives have been achieved; give reasons for under-achievements and outline attempts to overcome problems, if any)

The project objectives have largely been achieved.

On the first objective, patterns of cross-border shadow exchanges were clearly identified. In different conference presentations we charted the various channels of the flow of goods and money across the border of the Hong Kong-Shenzhen and Macao-Zhuhai nexus. We call it a shades-of-grey taxonomy, under which shadow activities are categorized according to the degree of illicitness. The paper entitled “Organized Informality and Suitcase Trading in the Pearl River Delta Region” published in *Journal of Contemporary Asia* describes the cross-border petty trade as informal but highly organized and identifies four different patterns of “organized informality”. The book chapter, entitled “Borderless Exchanges vs. Locational Embeddedness: Shadow Capital Flow in Greater China” under preparation for review by Amsterdam University Press, focuses on the different channels commonly used to shuffle money in and out of China,

ranging from the light grey channels to the medium grey and dark grey channels. Similar patterns of the flow of people will be described in detail in the monograph prepared for publication by Amsterdam University Press.

On the second objective, the existence of institutional voids and regulatory loopholes giving rise to the emergence and development of illicit cross-border exchanges has also been looked into. In the area of the cross-border flow of goods, we have identified the ambiguous borders and the gaps in the global and local value chains as the major historical and institutional contexts contributing to the voluminous suitcase trading in the Pearl River Delta region. On the massive flow of shadow financial capital between China and Hong Kong and Macao, however, it has more to do with the very strict financial regulations in China. Both have been discussed in the two papers mentioned above.

Regarding the third objective, we recognize that both the size and extent of the three types of shadow economic activities are huge. We also share the view with many other studies on the shadow economy that it is an inevitable phenomenon in the global economy. We shall discuss more fully the shadow economy as an alternative form of economic order alongside the formal economy in the monograph under preparation.

5.4 Summary of objectives addressed to date

Objectives <i>(as per 5.1/5.2 above)</i>	Addressed <i>(please tick)</i>	Percentage Achieved <i>(please estimate)</i>
1. Describing the three types of trans-border exchanges	✓	100%
2. Analyzing the historical and institutional contexts	✓	100%
3. Evaluating the shadow economy as an alternative form of economic governance	✓	100%
4.		

6. Research Outcome

6.1 Major findings and research outcome (Maximum 1 page; please make reference to Part C where necessary)

Based on a review on the ways shadow exchanges have been perceived in the existing literature (see Ngo and Hung 2019), we query the emphasis on “informality” as a defining characteristic in the organization of such exchanges, which tend to be described as either marginal, inadequate, pathological or arising from dysfunctional regulatory governance. Instead, we argue that shadow exchanges are part and parcel of contemporary economic life and can be found in both rich and poor countries and regions. The real paradox lies in the rise and expansion of shadow exchanges in highly regulated contexts, rather than in the practice’s marginality. In fact, the significance of shadow exchanges in contemporary economic life can be reflected in the scale of operation, as can be seen in the size of suitcase trading not only in southern China but also in Central Asia. Shadow activities can also be categorized into a shades-of-grey taxonomy according to the degree of illicitness, and the nature of informality changes in relation to different shades of grey. Further comparative inquiries indicate that the diversity of informality in shadow exchanges varies along several dimensions, namely, the reach of the networks, the professionalization and organizational sophistication of informal operations, and the nature of transactions. These are closely intersected and shaped by forms of mobility, types of borders, local political economies, and checkpoint politics.

Another major finding in relation to the flow of goods across the border is that shadow exchanges, though informal, are indeed highly and effectively organized. In the paper Hung and Ngo (2019), we advance the concept “organized informality” and argue that suitcase trading in the Pearl River Delta region exhibits a combination of organizational competence and informal networks. Notwithstanding its haphazard appearance, suitcase trading in the region in fact runs like an industrial sector, and organized informality evolves essentially from a strategic competence to navigate state control. We probe into the institutional contexts – the ambiguous border under “One Country, Two Systems” and the gaps in the global and local value chains – upon which the trade could flourish, and identify four modes of operation based on the dimensions of organization competence and informal networks: occasional traders, semi-organized professional traders, organized professional couriers with a closed network, and the large syndicates operating with an open network.

Similarly, the massive flow of shadow financial capital between China and Hong Kong and Macao is also highly organized and different channels along a shades-of-greyness taxonomy could be identified, ranging from the light grey channels (including smurfing, payment card abuse, purchases of insurance policies overseas, and making use of remittance quota of FIEs) to the medium grey (including fabricated auction, casino junket operation, and trade misinvoicing) and dark grey channels (including hawala banking / money broker and cash smuggling). Findings of this aspect will be reported in the book chapter prepared for review by Amsterdam University Press.

6.2 Potential for further development of the research and the proposed course of action (Maximum half a page)

Subsequent to this project initiative, a grant proposal entitled *The Politics of Gateway: Checkpoint, Brokerage, and Negotiated Crossing* had been submitted to RGC-FDS and was successfully awarded the funding (Project reference: UGC/FDS/H09/17).

While the new project builds on the previous one, it significantly expands the scope from the Pearl River Delta region alone to include also four other neighboring border zones of China, namely China-Kazakhstan (Ili-Almaty), China-Russia (Heihe-Blagoveshchensk), China-Pakistan (Kashgar-Sost), and China-Myanmar (Ruili-Muse). Comparison could then be drawn on how national policy on immigration and customs control has been applied locally at different territorial regions at the border. The new project also focuses less on the operating logic of the shadow economy but rather emphasizes the power politics of the checkpoint in negotiating the selective permeability of the border and how it impacts on the brokerage system in the informal trans-border exchanges.

Field research on the cross-border shuttle trade of the China-Kazakhstan border was undertaken in August 2018. Similar patterns of informality comparable to idea of “organized informality” of the Pearl River Delta region were indeed found. We note, however, that the kind of informality is in fact even more institutionalized as a result of the role played by the checkpoint in brokering the trade. A conference paper will be prepared in due course.

7. Layman’s Summary

(Describe in layman’s language the nature, significance and value of the research project, in no more than 200 words)

This project examines three aspects of the cross-border economic activities in the Pearl River Delta region, namely, the flow of goods (parallel trade), of capital (capital flight and money laundering), and of labour (illegal workers and prostitutes), and looks into the processual and organizational dynamics such as the organization, methods of operation, terms of transaction, and rules of conduct etc. It also probes into the historical and institutional contexts giving rise to the shadow economy and to evaluate its impact on the formal economy. Accordingly, the empirical significance of this study is to unfold the salient features of the cross-border shadow economy in the Pearl River Delta region. It is a pioneering study because there is hitherto no systematic study detailing exactly how the shadow economy works despite the fact that it is a readily observable phenomenon and constitutes a significant part of the regional economy. By describing the shadow economy in thick details our broader purpose is to relate economic activities to regulatory compliance/defiance that should work to lay the groundwork for further theoretical description of economic behavior. By understanding the maneuvering of the shadow economy and contextualizing the development of an alternative mode of governance, we may then better appreciate the plethora of economic diversity and alternative representations of economic order.

Part C: Research Output**8. Peer-Reviewed Journal Publication(s) Arising Directly From This Research Project**

(Please attach a copy of the publication and/or the letter of acceptance if not yet submitted in the previous progress report(s). All listed publications must acknowledge RGC's funding support by quoting the specific grant reference.)

The Latest Status of Publications				Author(s) (denote the corresponding author with an asterisk*)	Title and Journal / Book (with the volume, pages and other necessary publishing details specified)	Submitted to RGC (indicate the year ending of the relevant progress report)	Attached to this Report (Yes or No)	Acknowledged the Support of RGC (Yes or No)	Accessible from the institutional repository (Yes or No)
Year of Publication	Year of Acceptance (For paper accepted but not yet published)	Under Review	Under Preparation (optional)						
2019				Eva P. W. Hung* & Tak-Wing Ngo	Organized Informality and Suitcase Trading in the Pearl River Delta Region, <i>Journal of Contemporary Asia</i> 49(2), 233-253		Yes	Yes	Yes
2019				Tak-Wing Ngo* & Eva P. W. Hung	The Political Economy of Border Checkpoints in Shadow Exchanges, <i>Journal of Contemporary Asia</i> 49(2), 178-192		Yes	Yes	Yes
			2019	Eva P. W. Hung* & Tak-Wing Ngo	Borderless Exchanges vs. Locational Embeddedness: Shadow Capital Flow in Greater China, book chapter for review by Amsterdam University Press		No	Yes	No
			2019	Eva P. W. Hung* & Tak-Wing Ngo	<i>The Shadow Economy in Greater China</i> , book contract with Amsterdam University Press		No	Yes	No

9. Recognized International Conference(s) In Which Paper(s) Related To This Research Project Was / Were Delivered

(Please attach a copy of each conference abstract)

Month / Year / Place	Title	Conference Name	Submitted to RGC (indicate the year ending of the relevant progress report)	Attached to this Report (Yes or No)	Acknowledged the Support of RGC (Yes or No)	Accessible from the institutional repository (Yes or No)
Dec. 2015 International Institute of Asian Studies, Leiden	Parallel Trading in the Pearl River Delta Region	International Workshop on <i>Cross-border Exchanges and Shadow Economy</i>	2016	Yes	Yes	Yes
Dec. 2016 Kathmandu, Nepal	Negotiating Border Crossing: Parallel Traders and Borderland Politics in Southern China	5 th Conference of the Asian Borderlands Research Network		Yes	Yes	Yes
Dec. 2016 Kathmandu, Nepal	Underground Flows of Capital across Borders in Southern China	5 th Conference of the Asian Borderlands Research Network		Yes	Yes	Yes
May 2017 Hang Seng Management College, Hong Kong	Shadow Capital Flow and its Locational Embeddedness in Greater China	International Workshop on <i>Shadow Silk Road: Non-state Flow of Commodity, Capital, and People across Asia and Eurasia</i>		Yes	Yes	Yes
May 2017 Hang Seng Management College, Hong Kong	Checkpoint Politics in Cross-border Shadow Exchanges	International Workshop on <i>Shadow Silk Road: Non-state Flow of Commodity, Capital, and People across Asia and Eurasia</i>		Yes	Yes	Yes

10. Whether Research Experience And New Knowledge Has Been Transferred / Has Contributed To Teaching And Learning

(Please elaborate)

Knowledge sharing – “The Political Economy of Suitcase Trading in Hong Kong” (走水貨的政治經濟學), as part of a series of Liberal Studies talks organized by the Department of Social Science to secondary schools in Hong Kong.

11. Student(s) Trained*(Please attach a copy of the title page of the thesis)*

Name	Degree Registered for	Date of Registration	Date of Thesis Submission / Graduation
Not applicable			

12. Other Impact*(e.g. award of patents or prizes, collaboration with other research institutions, technology transfer, teaching enhancement, etc.)*

Nil.

13. Public Access Of Completion Report*(Please specify the information, if any, that cannot be provided for public access and give the reasons.)*

Information that Cannot Be Provided for Public Access	Reasons
Not applicable	

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FACULTY DEVELOPMENT SCHEME (FDS)

Completion Report - Attachment

(for completed projects only)

RGC Ref. No.: UGC/FDS12(14)/H02/14

Principal Investigator: HUNG, Po-wah Eva

Project Title: Cross-border Exchanges and Shadow Economy in the Pearl River Delta Region

Statistics on Research Outputs

	Peer-reviewed Journal Publications	Conference Papers	Scholarly Books, Monographs and Chapters	Patents Awarded	Other Research Outputs (Please specify)
No. of outputs arising directly from this research project [or conference]	2	5	1 book & 1 book chapter <i>(pending)</i>	Nil	Nil