Singapore Government
MEDIA RELEASE

CHINA: CHALLENGES OF TRANSFORMATION

**SPEECH BY MR THARMAN SHANMUGARATNAM,
MINISTER FOR EDUCATION AND SECOND MINISTER FOR FINANCE
OPENING ADDRESS AT THE EAST ASIAN INSTITUTE'S
10TH ANNIVERSARY INTERNATIONAL CONFERENCE : "CHINA: THE NEXT DECADE"
ON MONDAY, 18 JUNE 2007, 9.00 AM AT RELC INTERNATIONAL HOTEL**

INTRODUCTION

I am delighted to join you this morning to commemorate the 10th anniversary of the East Asian Institute (EAI). The EAI is the only full-time research institution in Southeast Asia that is devoted to contemporary Chinese studies (or "China watching"). Its predecessor was the East Asian Institute of Political Economy which was set up in the early 1990s by Dr Goh Keng Swee, former Deputy Prime Minister. The rise of China and its impact on the world since has proved Dr Goh's foresight right in establishing the Institute.

The EAI has achieved much in the last 10 years. It has developed a reputation for having its antennas well tuned to developments in China, as well as for scholarly objectivity. It has built up impressive networks, both with scholars in China and overseas. My congratulations to Prof Wang Gungwu and Prof John Wong, and all their colleagues, for creating a research institution of high repute.

CHINA'S ROLE IN ASIAN INTEGRATION

Asia has undergone two major restructurings over the last decade - first, the restructuring of financial systems and corporate governance following the Asian crisis which began in 1997; and second, the restructuring of production and trade patterns in the region that has accompanied the ascendance of China as a major global economic player.

China's virtually unbroken pattern of high growth averaging 10% per year over the last 10 years is well known. What is equally significant is how the dynamic growth of this continental scale economy has altered the pattern of production, trade and capital flows throughout Asia.

For ASEAN and other countries in the region, China has been both a source of competition and a major new market for growth. On balance, however, China has provided a boost to the regional economy. In fact without China's growth and the restructuring it has catalysed within the region, the recovery of the Asian economies from the Asian crisis would have been much more difficult.

Intra-regional trade has surged, especially in the last 6 years. The East Asian economies, excluding China and Japan, have seen a significant shift in their pattern of exports - from exporting to the US to exporting to China. Their exports to the US have fallen from 21% of their total exports in 2000 to 14% in 2006 - a decline of 7 percentage points. Their exports to China have gone up over the same period by 10 percentage points, from 12% to 22%.

What has underpinned this shift in trade patterns has been a major restructuring of Asian manufacturing supply chains, with East Asia now exporting large amounts of intermediate

goods and unfinished components to China for further processing, before the goods are exported on to the US and other developed markets.

China has also grown as a market for export of final goods, as its own domestic demand has grown. By some estimates, about 30% of East Asia's exports to China are now aimed at its domestic market.

However it will be a long while before China displaces the US as the final market for the Asian manufacturing supply chain. US consumption was $9 trillion in 2006, about 10 times the size of total Chinese consumption. So while it is true in matters of production that "China shakes the world" to borrow the name of a recent book, it is still the US consumer whose spending sustains the world.

SINGAPORE'S DEEPENING RELATIONSHIP WITH CHINA

China's rise has been a significant plus for the Singapore economy, given our role as a gate-way for enterprise, capital and people. From the outset, Singapore saw Deng Xiaoping's "open-door" policy not as a threat, but as an opportunity. We moved early to engage, invest and trade with China. This strategy has served us well.

In 2006, Singapore's two-way trade with China reached US$35 billion, and Singapore's cumulative Foreign Direct Investment (FDI) in China amounted to US$28 billion. Overall, Singapore is now China's 7th largest trade partner and its 6th largest investor. These are striking facts, given Singapore's relatively small size. On a per-capita basis, Singapore must surely be number 1 in the ranking of China's external trading partners and sources of investment.

We keep looking for ways to extend the scope of our relations with China. There is in particular considerable promise in service sector activities between Singapore and China - for example in financial services, logistics, environmental engineering, health and education services. In finance, it will not only benefit Singapore's financial markets but serve the Chinese enterprise sector well to raise capital in the Singapore market. They will benefit from tapping into the large and diverse pool of international funds managed in Singapore and the strong investor following in certain niches, such as the marine sector. Singapore can complement Shanghai and Hong Kong in this regard, although they will naturally be the primary markets for IPOs by Chinese companies. I would not be surprised too if the diversification of Chinese companies' capital-raising activities, to Singapore and other financial centres, would over time contribute to moderating the speculative cycles in China's stock markets.

Singapore's relationship with China extends beyond economic and financial ties. Take education for example, where we have a growing collaboration with China at both the school and tertiary levels. China and Singapore share a similar culture of education, with both the strengths and drawbacks that go with that. We are moving in similar directions in some of our basic reforms, aimed at preparing our students for a more globalised and knowledge-based world. Each year, many of our students go to China on student exchange programmes or internship programmes. Likewise, our schools and universities play host to many visiting students from China. More than a third of all Singapore schools now have some form of twinning relationship with Chinese schools.

Some of our schools are taking further steps, to provide their students with deeper exposure to China. Later this year, a group of students from the Hwa Chong Institute will

be going to China to study at the school's new satellite campus in Beijing for up to six months.

We are actively involved in providing training opportunities for Chinese officials. Singapore has trained some 9000 Chinese officials through our various institutions over the years, such as through Masters programmes at the NUS and NTU. The number is growing each year. Earlier this month, during my visit to Liaoning, we agreed to explore a large-scale programme for training of officials from Dalian. We are also engaging in the development of China's technical and vocational education sector.

Today, Singapore enjoys warm ties with China. For this to be sustained, we need to keep our links strong at every level, amongst politicians, scholars, entrepreneurs, professionals and students. We have to find new areas to collaborate and engage with China on a deeper level. But this is only possible if we have Singaporeans who not only speak the Chinese language, but who also understand the Chinese economy, government, society and culture.

An understanding of contemporary China in particular is important for young Singaporeans. We cannot just teach the history of the civilization, or Chinese imperial history. As our entrepreneurs and students in China readily find and tell us, how Chinese society moves is shaped in large part by the worldviews they have formed over the last half century, from the communist revolution to the Cultural Revolution, and to the transformations of the last 30 years.

This is why we introduced the Bicultural Studies (Chinese) programme in selected schools in 2005 to develop students who have a deeper understanding of Chinese culture as well as a grasp of contemporary developments in China. This year, we have also enhanced China Studies in schools by introducing it as an A' Level subject, which students can choose to offer either in Chinese or English. It is oriented towards study of contemporary China. The response to this new subject has been good.

The study of Chinese language, culture and contemporary developments extends to the tertiary level where all three of our local universities offer related courses for their students. The Nanyang Technological University, for example, offers a Masters programme in Contemporary China that aims to cultivate knowledge about the rapidly growing economic and political development of China among its students.

CHALLENGES AHEAD

Looking ahead, there will be many important issues for scholars to tackle and suggest solutions for. The problems of domestic imbalances that China faces as it continues its rapid growth, and the challenges that the world faces as it integrates with the Chinese economy and accommodates China's growing power, are complex and not given to easy solution. I will highlight two key economic challenges, before offering some observations on education.

The most prominent economic challenge is that of highly unequal development between China's coastal and inner provinces, and growing income inequalities within its cities. Addressing these problems has been given the highest priority by China's leadership.

Second, the challenge of imbalances in both savings and investment. China is experiencing extremely high rates of investment. Despite several attempts to cool

investment, it is still growing faster than GDP. But China also faces a surplus of savings. Most economists believe that its high savings have something to do with an underdeveloped social security system, which is not yet equipped to deal with the coming of an ageing population. China is therefore in the unusual situation of having both excessive investment and surplus savings as a percentage of GDP.

China's savings-investment surplus, and the added surpluses arising from capital inflows into China which are recycled abroad through its official foreign reserves, have led to a substantial export of capital to global markets.

China is today therefore in the unique situation of being the world's third largest creditor nation, but with a per-capita income level that is well below the global average (its per-capita income is two thirds of the global average on a PPP basis, or 20% of the per-capita income level of Japan, another major capital exporter). Nothing like this has been seen in the history of economic development. It runs contrary to conventional economic theory by which China would be expected to be a major net importer of capital.

The Chinese authorities face a related challenge, in that they face limits in sterilizing or soaking up the domestic liquidity resulting from capital inflows and the relative fixity in its exchange rate. The excess of liquidity poses the risk of fuelling asset prices. The Chinese authorities are greatly concerned by this imbalance and looking for ways to cool the asset markets without destabilising the economy.

Educational Challenges

Allow me to say something about the challenges that China faces in education. China is in many ways a success story in education among developing countries. Its basic education system is probably one of its main advantages over India, its largest Asian competitor, and one of the reasons why China is likely to grow faster than India for a few decades to come. Illiteracy is low among the young, and progression to middle school is high. Chinese schools in the cities have relatively high standards. Their top schools have higher curriculum standards in science and mathematics than even Singapore's schools. In recent years, China has also seen a rapid increase in progression of students to the tertiary level, although that has brought about its own problems as I will mention in a short while.

I have visited some three dozen Chinese schools, kindergartens and universities over the last 6 years. Many things have impressed me in my interactions with my official counterparts, as well as provincial and city educational authorities and leaders of universities and schools. Like Singapore and many other countries, China is embarking on education reforms. It wants its students to be more than book-smart and exam-savvy to thrive in the new world. It is also placing greater emphasis on all-round development. Just last month the State Council decided on a rigorous programme of physical exercise and sports that schools and even universities should implement for all their students.

The best Chinese schools are in my opinion amongst the top in Asia. They have already moved far in developing a holistic, all-round education and in promoting independent thinking. To take an example - Beijing School No 4, reputed to be the top school academically in Beijing, which I visited last month. It requires its students to take 5 periods of sports a week (more than the national requirement). Every student is required to participate in a sport. It is promoting the humanities among its senior year students, with History now being compulsory for Senior Middle 2 students. In the afternoons, numerous elective programmes are on offer for the students, in languages, sports or other activities.

And School No 4 is sending its students on attachments around the world - besides the US, UK and Europe, it is keen to develop strong links with Singapore schools.

However, China faces major challenges in education. There are still issues that will need to be addressed. Many things have changed in the effort to achieve the concept of a "quality education", aimed at developing both the IQ and EQ of students. However, Chinese educationists point out that the largely unchanged system of university entrance examinations places a constraint on how far Chinese schools can go in implementing a quality education. Scholars feel that the inevitable focus on exam-oriented teaching and learning greatly constrains what Chinese schools can achieve to develop the creativity and potential of their students. There is excessive focus on memorization in most schools, and on teaching students that a question has only one right answer.

China is of course not alone in this respect. Most Asian countries face the same problem. But the scale of the Chinese system, and the intense competition for places in good universities, makes reform of the entrance system far more complex. The Chinese authorities are fully aware of this issue. A new curriculum and assessment system is being piloted in Senior Middle Schools in some cities, as a step towards reform of the single university entrance examination.

Second, China's size also creates challenges of imbalanced educational development between the leading cities and the rest of the country. The gap between schools in the cities and those in rural areas will not be easy to bridge. China is however embarking on what must be Asia's most ambitious plan for delivering distance education to rural schools. The Ministry of Education is using satellite TV and DVDs so that every rural school can receive lessons delivered by the best teachers in the land. Within 3 years, they aim to have a TV set and DVD player accessible in every classroom, so that local teachers can use the lessons delivered by teachers elsewhere and explain them to the class. Graduates from the Normal Universities (which train teachers) are also being given scholarships to serve for 3-4 years in the inner provinces. In another scheme, a year of teaching in the inner provinces will help you get a promotion.

If I had to make a guess from what I have seen around Asia, China will implement quality basic education for its rural schools, through distance learning and teacher rotations, faster than any other developing Asian country.

A third challenge has to do with the balance in China between differentiation and a uniform education, even in the cities. This too is receiving great attention in line with China's emphasis on harmonious development. In recent months, there has been renewed emphasis on ensuring uniformity amongst schools. Model schools and experimental classes or special talent schemes, which have thrived for several years, are now being phased out amongst Junior Middle Schools. Junior Middle Schools will no longer be able to select students based on their primary school examinations, as part of the effort to prevent a concentration of elite students in top schools. Further, only one system of school fees applies to all students, quite rightly aimed at guarding against another type of elitist practice that was prevalent in recent years, where students who did not meet a school's academic cut-off could gain entry by paying higher fees.

How far will the pendulum swing, away from differentiation and towards uniformity? Astute observers of the Chinese education scene tell me that top Chinese schools will still find a way of selecting the best pupils. If parents are allowed to choose schools, then schools will still have to find a way to choose students, at least where too many students apply to

the same school. The tradition of top schools is also deeply engrained in the system, and there are many who feel that it is a good thing to keep the top schools going for the best Chinese talents.

A fourth challenge concerns higher education. China has faced a huge and growing problem of unemployment amongst university graduates, despite a booming economy. This has resulted from a policy of rapid expansion of university places, and conversion of many colleges into universities, over the last decade. The supply of graduates has exceeded demand for them, especially in the case of general degree holders. More cities have also embarked on "university cities", for commercial reasons besides promoting higher education.①

How will this surplus of graduates play out in coming years? The Chinese authorities are clearly concerned. Efforts are being made to make university education more relevant to industry needs, and to encourage and provide incentive for unemployed graduates in the coastal cities to seek opportunities inland. But looking at the numbers in the pipeline, the situation of mismatch between supply and demand for university graduates may get worse before it gets better. It must be a major source of worry.

CONCLUSION

In a country as large and disparate as China – and a country that is undergoing a social and economic transformation on a scale never seen before - it is difficult to reach easy answers to any of these questions. But they deserve serious study by scholars, which could hopefully inform policy options. What happens in China, and how it tackles its problems, will also be of great relevance to the rest of Asia and the world.

I encourage the EAI to build on its track record of objective and rigorous academic and policy-research. I am confident that you will continue to excel, and to deepen your links with top centres of scholarship in China and elsewhere.

Finally, let me wish all of you a productive conference and an enjoyable and fruitful time in Singapore.

---

① See "China's Booming Higher Education", by Quan Xiaohong and Zhao Litao, in *Interpreting China's Development*, edited by Wang Gungwu and John Wong (2007).