

## 东亚研究所通讯

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Legends of the New Rich*Through IPO, China's stock market is providing a new legitimate route to richness*

YANG MU &amp; ZHENG YI

**T**he performance of China's stock market has amazed both domestic and foreign investors. In the past 15 months, China is among the fastest growing stock markets in the world, with its main stock index (Shanghai A share index) jumping from 1,000 in early 2005 to over 3,000 in early 2007. China's stock capitalisation has skyrocketed to RMB 10 trillion (about US \$ 1.2 trillion) and accounting for 50 % of its GDP, a figure that was below 18% before late 2005. Stock market in China has thus been labelled the "Dragon Market".

The recent rally of China's stock market, however, did not arise out of nowhere. It was actually the direct result of a series of institutional enforcement measures aimed at revamping the fragile China's stock market, including split-share reform, amendment on securities law and strengthening of market regulations. Thanks to these reforms, China's stock market has changed from being a "gambling house" to a normal-functioning market based on economic fundamentals. Although short-run risks remain, (a case in point was the market tumble on 27 February 2007), pervasive optimism still dominates China's stock market, ushering in a "Golden Decade" for investors. By March 2007, the number of individual investment accounts in China's stock market had exceeded 100 million, surpassing that of the US. Moreover, the unabated high growth rate of China's economy seems to be able to sustain such a stock market rally at least for years ahead.

It appears that this "Dragon Market" has become an incubator for new millionaires and billionaires. Each IPO issuance is always accompanied by substantial media report in the newspapers, or written as another touching story on television and the Internet of incredibly successful entrepreneurs who also made millionaires out of their business associates. According to Forbes, China is now producing more magnates than any other country in the world on an annual basis, and the majority of these upstarts are owners and top managers of newly listed companies.

There are mainly two types of firm listed in the Chinese stock exchange. The first is state-owned enterprises (SOE) or semi state-owned enterprises which are associated with SOEs and funded by loans from state-owned banks. Although the government still retains control over these companies through its dominant proportion of shares, senior managers are usually entitled to a certain percentage of shares in SOEs or semi-SOEs. As these are large companies, CEOs and senior managers could become millionaires, multi-millionaires and even billionaires easily. Ma Mingzhe, CEO of the recently listed Ping'an Insurance Company (a semi-SOE), gained a wealth of RMB 237 million through its IPO floating in Shanghai Exchange on 1 March 2007, while 10 senior managers in the company also became multi-millionaires overnight. The market value of Ping'an Insurance totalled RMB 300 billion at its Shanghai debut. Thus, on average, its 18,900 share-holding employees had their wealth increased, in paper, to RMB 1.89 million per person.

The other type of listed companies is private enterprises. After China started its

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## A Constantly Changing China

What is intriguing about China in the last ten years are the dynamic changes, occurring at varying speeds but in interconnected ways, in its politics, economy and society. China's economy has been growing at a breakneck pace on a massive scale, fueling talk of China's rise for the first time in two centuries. Political and social changes may be less remarkable, but are nonetheless profound. The ruling Communist Party has sought to better manage the economy and society by promoting "rule by law", strengthening its "governing ability", and building "a harmonious society". Meanwhile, the society has become more differentiated and rights conscious, and now demands more social justice. And, amidst the rapid economic growth, a new generation of the well educated and financially well off has emerged with new values and lifestyles.

Such broad brush strokes, of course, offer at best an approximation of real changes that are multifaceted and more subtle. Against this backdrop, articles in this issue take on specific events and developments. One is the passage of the Real Property Law this March after many delays and revisions. Another is the anti-satellite missile test and official fanfare for a third-generation J-10 combat aircraft. Not forgetting developments like China's indigenous innovation, Tianjin Binhai Area as a new growth pole, and the emergence of the super rich through IPOs on the stock market. As all eyes are now on the 17<sup>th</sup> Party Congress this fall, the ambiguous relationship between the Party and the People's Congress may also be something worth watching.

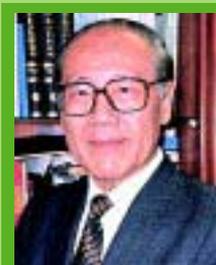
Externally, China's relations with Japan are

making big strides with Premier Wen's ice-thawing visit to Japan. China's economic growth has also caused repercussions worldwide and its leaders have to be increasingly alert to the damage some of the negative images of China

can do to its foreign relations. At home in Macao, China's "one country two systems" is being tested as mounting social tensions plague the island in the wake of gambling industry liberalisation.

Over the last decade, China has experienced tremendous changes; in a very modest way, so has the East Asian Institute. The Institute will be celebrating its 10<sup>th</sup> year of analysing China's development this June, and I must say that I am indeed fortunate to be part of this great team. However, as part of the Institute's self-renewal process, I am pleased to hand over the responsibility of further nurturing the EAI team to Professor Yang Dali from the University of Chicago who will take over as Director from 1 July 2007. I am confident that EAI will continue its excellence in the study of China under his directorship.

The last ten years at EAI have been both an exciting and rewarding experience for me. I have enjoyed every intellectual exchange with my academic colleagues and visiting scholars. Above all, I want to thank the team of administrative and research staff who gave so much of themselves to help build EAI to what it is today.



**Prof Wang Gungwu**  
EAI Director

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# Managing China's Post-WTO Trade Relations

*China's growing weight in the world economy is posing challenges to its leadership*

**SARAH TONG**

China is facing a growing task in managing its external economic relations in recent years. The challenges come from two important sources of its rapid economic expansion. First, China's economic growth has relied heavily on increasing fixed-asset investment, many in capital intensive industries including steel, chemical, and cement industries. This has led to a surge in demand for imports of energy and other resource-based goods. Second, China's economic growth has also depended significantly on rapid trade increase, particularly in manufacture export. In the near future, China has to cope with increasingly diverse and difficult external economic relations to secure growing energy import and to address rising trade tensions especially with key developed markets.

On 19 April 2007, China's National Bureau of Statistics reported that GDP for the first quarter of 2007 increased by a staggering 11.1% compared to that of the first quarter of last year. The rapid growth of the first quarter is a continuation of an accelerated economic expansion since the beginning of the century, from 9.1% a year in 2002 to 10.7% in 2006. What is more striking is the similarity in growth patterns of recent years. Consistently, fixed-asset investment and trade grew significantly faster than that of domestic consumption and more than twice as quickly as that of GDP. More notably, export has outpaced the growth of overall trade in recent years, resulting in a rapidly surging trade surplus.

Since 2002, Chinese companies, especially large SOEs, have been strongly encouraged to invest overseas as part of China's effort to meet its growing demand for energy and resources. In 2004, total outward investment nearly doubled to reach US\$5.5 billion with investment in mining accounting for the largest portion of China's total outward FDI of 48% in 2003 and 33% in 2004. Resource-rich countries, including Sudan, Russia, Indonesia, and Nigeria, are among those receiving the most Chinese investment. Investment as such has its risks and drawbacks. For example, very recently, rebel soldiers in Ethiopia killed nine Chinese oil workers and kidnapped seven. And amongst international efforts to end crisis in Sudanese Darfur, China's oil interest in the country was also criticised for its lack of strong support to impose sanctions on the Sudanese government. Despite China's immense efforts at securing resource supplies, China only has limited alternatives. For example, in 2005, attempts by the China National Offshore Oil Corporation (CNOOC) to acquire an American oil company, Unocol, failed due, in part, to US' concern over national security.

Surging trade imbalance has also been the source of tension between China and some of the world's largest economies. After China joined the WTO in 2001, China's trade expansion has accelerated and, since 2004, it has led to surging trade surpluses. In 2005, trade surplus increased to US\$ 114 billion, nearly three-fold from 2004. Another 70% increase or US\$177 billion was recorded for 2006. The trend has shown little sign of abating this year as trade surplus for the first quarter nearly doubled over that

of the previous year, amounting to US\$ 46 billion.

China has sustained large and growing trade imbalance with the world's two largest economies, the U.S. and the EU. China-US trade surplus, according to Chinese sources, increased from less than US\$ 8 billion in 1994 to US\$28 billion in 2001 but has since grown at an annual rate of 39% to reach US\$144 billion in 2006. China's trade imbalance the EU has experienced a similar trend since late 1990s, albeit at a smaller magnitude.

China's trade surplus with the US and EU was offset by its trade deficit with its neighbouring economies. Between 2001 and 2006, China's trade deficit with Taiwan, South Korea, Japan, and ASEAN totalled US\$154 billion in 2006. This trade imbalance

reflects the intensification of a regional production network based on specialisation and production sharing among Asian economies. The increasing importance of process trade was attributed to foreign invested enterprises in China. In 2005, China's trade surplus in process trade with the US and EU accounted for 81% and 86% of its overall trade imbalance with the two while China's trade deficit in process trade with the four Asian economies accounted for 57% of its total trade deficit with the group.

It is not entirely fair for the U.S. and EU to place their blame on China for their trade imbalance problems. Nonetheless, growing trade imbalances have led to rising trade tensions in recent years, especially with the U.S. On 30 March 2007, the U.S. Department of Commerce announced its preliminary decision to apply U.S. anti-subsidy law to imports of coated free sheet paper from China. Ten days later, the U.S. filed two cases against China with the WTO over deficiencies in China's Intellectual Property Rights Laws and market access barriers to copyright-based industries. Since 2001, the U.S. has issued 31 antidumping orders against China, compared to the 24 between 1993 and 2000. Rising trade surplus with the EU has also prompted numerous actions against imports from China. In fact, China has been the primary target of anti-dumping cases filed with WTO between 1995 and 2006, more than one sixth of the total of nearly 3000 cases.

How can China best manage its growing and increasingly sophisticated external economic relations? There have been efforts to facilitate further and broader economic cooperation with various countries and groups. It is also important for China to enhance its effective use of WTO's dispute resolution mechanism.

**Resource-rich countries including Sudan, Russia, Indonesia, and Nigeria, are among those receiving the most Chinese investment. Investment as such has its risks and drawbacks**

Over the longer run, however, it is possibly more important to advance domestic reforms in order to address issues of external relations. In the past two years, the leadership has highlighted its goal of shifting from growth-centred to more balanced development-centred policies. The objective is to move the economy away from its heavy reliance on investment growth and trade expansion while maintaining a modest growth rate. More measures could be expected from the government. For example, various export promotion policies such as export rebate scheme, especially for resource-based export, would be gradually phased out. Moreover, further liberalisation of

**China has been the primary target of anti-dumping cases filed with WTO between 1995 and 2006, more than one sixth of the total of nearly 3000 cases.**

energy prices will help curb rising demand and encourage efficiency. In addition, measures to increase domestic consumption are important to reduce the economy's dependence on investment and export. Recent efforts to reform the healthcare system, establish a national welfare scheme and reduce financial burden for basic education will have a lasting positive effect. Finally, a modest acceleration of currency appreciation may also serve as an effective way to address China's surging trade imbalance in the longer run. ■

Dr Sarah Tong is Research Fellow at EAI

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## Politics of the Property Law

*Interest politics are behind the many delays and revisions of the Real Property law*

**DAVID KELLY**

Just a year ago, China's political circles were in uproar over a letter written by Beijing University law professor, Gong Xiantian. Claiming that a major piece of a legislation, the *Real Property Law of the PRC*, was unconstitutional, Gong's letter caused the leadership sufficient jitters to hold up the already overdue legislative process. Consideration of the Bill to pass the law was removed from the agenda of the 2006 session of the National People's Congress.

The spanner was duly removed from the works in the 2007 session, which will probably be remembered for the controversy over the Law. It was finally passed with about 98% of the vote cast, dominating domestic and international media coverage for several weeks. The Law itself will come into effect on 1 October 2007. At a roundtable organised to discuss the implications, Yao Yang, a Beijing University economics professor (and recently an EAI visitor) remarked:

*"In terms of setting up a market economy, the Property Law is not in my view a landmark document, because a lot of it is already done and dusted... The proposal of the 13th National Party Congress to create a socialist market economy was the fundamental landmark action, as it was this that determined the direction of China's development."*

Few in the general public or the media at present agree with Yao Yang, however. Property laws are key parts of most legal systems. They are abstract, technical and generally daunting to the lay people. Yet, as the social theorist Hernando de Soto explains in almost poetical terms in his influential book, *The Mystery of Capital* (2000), they offer huge dividends to emerging economies. The full meaning of China's new law will take years to work out, by which time interest in it will be confined to the legal profession. However, it is turning

out to be far from a quiet backwater in political terms.

In 2004 the Constitution of the PRC was amended to provide that "private property is inviolable". To give practical definition to this, a fully featured Property Law was required. This made the Law's ensuing "nanchan" or difficult childbirth all the more visible. Starting in 1993, it had already been through many delays and revisions, with a total of seven readings in the legislature, setting a record in China's legislative history. Few legal bills require more than three or four readings, and any more than this is generally taken to mean that the draft is immature and should be scrapped. Clearly, this was not allowed to happen this time.

Gong (and interest groups supporting him) had claimed that the draft Property Law was "unconstitutional" in stipulating the equal status of state, collective and private ownership. Most experts agree that the last rounds of revision were largely cosmetic. There was never much substance to Gong's charges in legal terms: the alterations were political, not to say symbolic, in nature.

The State Council had released a draft for "public" discussion (in fact by select public groups of an embargoed text) in mid 2005. By October, tens of thousands of opinions had been recorded, and rather than "a balance," scores of balances had been struck between the various interests the law had set in play. Difficulties arose from the fact that at the heart of "real property" is real estate, urban and rural land and housing, which by the early 2000s, was a politically sensitive issue. Developers, housing administration bureaus and urban home owners were lobbying furiously over issues like possession rights to carparking spaces and other shared amenities. The state had no intention of privatising urban properties but sought to strengthen the usage rights. Then there were

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**Developers, housing administration bureaus and urban home owners were lobbying furiously over issues like possession rights to carparking spaces and other shared amenities.**



# Why Publicise J-10 and Test Anti-Satellite Missiles?

*China's domestic politics can complicate the image China wants to project to the world*

**LI NAN**

In late December 2006, China officially declassified its newly fielded third-generation Jian-10 (fighter-10, or J-10) combat aircraft. Official media hailed the aircraft as a breakthrough in China's development of heavy combat aircraft, highlighting its indigenous origins such as its *Taihang* turbofan engine, and home-made on-board avionics and missiles capable of multiple-target and beyond-visual-range attacks. As a result, according to the Xinhua News Agency, "China has become the fourth country in the world to develop its own advanced fighter aircraft, aero-engines and missiles."

On 11 January 2007, China launched a ground-based ballistic missile carrying a kinetic kill vehicle. The missile impacted and destroyed an ageing Chinese weather satellite orbiting 865 kilometres above the Earth. But unlike J-10, this anti-satellite (ASAT) test was not publicised. The U.S., Britain, Japan and Australia asked for an explanation but met with prolonged silence. It was after 12 days that China officially acknowledged the test, but insisted that the test was not directed at any country and that China continues to advocate the peaceful use of space. The two developments clearly represent important improvements in China's military capabilities and may have implications for Asian security. What is the explanation for these developments?

The conventional explanation is that these developments were driven by external considerations such as the issue of Taiwan. They serve, for instance, to enhance the credibility of deterrence by raising the military cost. The publicity of J-10, however, did not touch on the issue of Taiwan. The deployment of this aircraft did not take place opposite Taiwan, but was more evenly distributed in various provinces of China.

The consideration for publicising the J-10 may be more domestic than external. A major domestic consideration has to do with leadership transition and consolidation. China's fourth-generation leader Hu Jintao, for instance, advanced the new concept of "self-reliance-based innovation" ("*zizhu chuangxin*") to guide China's technological and industrial development. The wide and pronounced publicity of J-10, with an emphasis on its indigenous origins, is clearly meant for the domestic audience. It is an attempt to flesh out and justify Hu's new concept, thus helping to enhance the governing legitimacy of Hu's leadership.

There are good reasons to select J-10 as a success story of *zizhu chuangxin*. It, for instance, represents a major departure from the past practice of China making mostly obsolete combat aircraft of Soviet design. For more advanced combat aircraft, China has largely depended on imports from Russia. Such imports dependence, however, may gradually diminish because J-10's performance is allegedly comparable to the 3-G combat aircraft made in the U.S. and Russia. Because of its decent performance and lower cost, J-10

may also be competitive in the export market. Finally, the deployment of J-10 indicates that China has made substantial progress in developing the 4-G combat aircraft, and as a result, the technological gap is narrowing due to *zizhu chuangxin*.

In comparison with J-10, ASAT test may be more driven by deterrence – not as much against Taiwan as against possible U.S. intervention in a military conflict over Taiwan. This is because U.S. military operations are much more dependent on satellites for intelligence, navigation and targeting and telecommunications support, a window of vulnerability that the People's Liberation Army (PLA) intends to exploit. The prolonged silence and lack of an explanation are also consistent with Chinese behaviour over testing of strategic weapon systems. The secrecy is intended to aggravate the sense of uncertainty for the opponents.

But the test may also be driven by domestic considerations such as the leadership transition and evolution of the PLA's thinking on

4-G warfare. One of the new missions that Hu assigned to the PLA in 2004 as the new commander-in-chief, for instance, is to secure China's newly emerging interests in areas such as maritime space, electromagnetic space and outer space. The Central Military Commission also endorsed a policy in 2002 to informationise the PLA, a policy based on the premise that future wars cannot be won without information superiority (*zhixinxiquan*). The logical evolution of this premise is that ground, sea, air and information superiority cannot be realised unless some sort of space superiority (*zhitianquan*) has been achieved. As a result, space operations, including space deterrence (*taikongweishe*), are deemed necessary for winning future wars. The test is clearly an early attempt to operationalise both Hu's new mission and the new doctrine of space operations. So it is

likely Hu is fully aware and supportive of the decision to conduct the test. This is also a good political strategy to confine the PLA to its narrow functional and technical tasks so that it stays away from domestic politics.

An unintended consequence of this strategy is that technological developments driven by narrow institutional tasks, such as the ASAT test, may contradict somewhat the image of China as a rising power committed to peaceful development, one that the Chinese leadership wants to project to the world. At least, this contradiction may incur diplomatic cost to China. At worst, it may trigger countermeasures that may incur higher security cost to China when countering the countermeasures. Therefore, a major challenge facing China's political leadership is how to ensure that China's overall foreign policy objectives are not undermined by the narrow institutional interests-driven technological breakthroughs. ■

**The wide and pronounced publicity of J-10, with an emphasis on its indigenous origins, is clearly meant for the domestic audience. It is an attempt to flesh out and justify Hu's new concept, thus helping to enhance the governing legitimacy of Hu's leadership.**

Dr Li Nan is a Visiting Research Fellow at EAI

# Recent Staff Publications

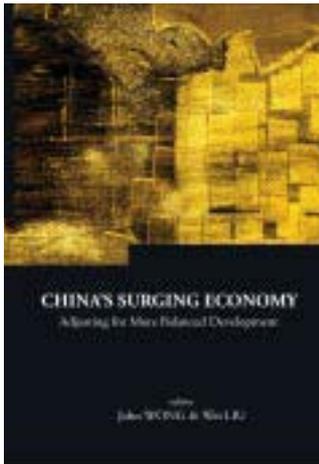
## Books

### *China's Surging Economy Adjusting for More Balanced Development*

**Editors: John Wong and Wei Liu**

**Publisher: World Scientific Publishing**

**Year of Publication: 2007**



The Chinese economy today is at a critical crossroads. Sustained rapid growth has given rise to structural strains as well as sectoral imbalances.

It has also generated socio-economic problems such as rising income inequality, rural discontent and environmental degradation. All of these must be addressed before China can enter the next lap of high growth.

Containing 12 chapters, this volume is the collaborative effort of leading economists from Beijing,

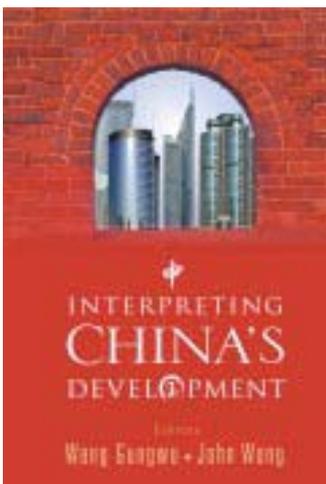
Singapore and elsewhere in the region in analyzing China's economic growth prospects and their concomitant problems and constraints.

### *Interpreting China's Development*

**Editors: Wang Gungwu and John Wong**

**Publisher: World Scientific Publishing**

**Year of Publication: 2007**



This book is the work of leading and perceptive scholars who utilise information up to April 2007 to interpret key political, economic, social and external issues faced by China today and in the coming years.

Each of the 40 over chapters in this volume is a condensation of extensive and meticulous scholarly research and written in clear simple English to provide readers with the most accessible explanation of most important changes in China over the last ten years.

The volume helps solve many perplexing puzzles and shed light on China's future direction. It is organised into four thematic sections, namely, challenges of governance, growth and structural changes, coping with rising social tensions, and relations with major powers and neighbours.

Salient topics include Hu's and Wen's political skills, the coming 17th Party Congress, the sustainability of China's high economic

growth, twin surpluses, banking reforms, energy outlook, widening inequality, environmental crisis, emerging middle class, China's peaceful rise, and China's relations with the U.S., Japan, the EU, Southeast Asia and Africa.

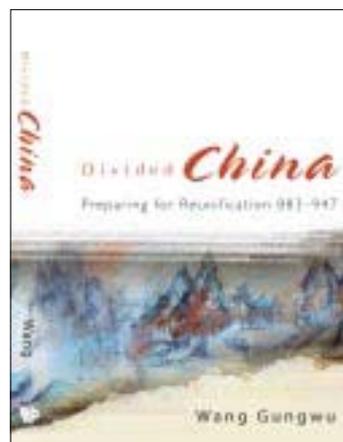
### *Divided China*

**Preparing for Reunification 883-947**

**Author: Wang Gungwu**

**Publisher: World Scientific Publishing**

**Year of Publication: 2007**



The oneness of China was never perfect. As long as certain minimal conditions were met and the polity which proclaimed that oneness was widely acknowledged, that was enough. Chinese ruling elites adopted this pragmatic approach so they could ensure that the ideal could always approximate China's reality.

This is a revised edition of a study undertaken to explain what happened

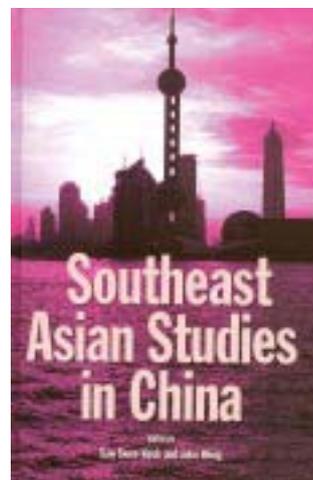
during one of the worst periods of division in Chinese history. What were the key factors that helped the centripetal forces get back to the imperial norm? It begins with the final stage of decline of the Tang dynasty (618-907) and ends 50 years later when it became clear that the foundations for a last push towards unification were in place.

### *Southeast Asian Studies in China*

**Editor: Saw Swee-Hock and John Wong**

**Publisher: ISEAS Publishing**

**Year of Publication: 2007**



This book, an ASEAN-China Study Programme of ISEAS, is designed to promote a better understanding between the people of the two regions as China continues to exert a dominant political and economic presence in Southeast Asia. Needless to say, scholars and academics from both sides have a significant role to play in terms of research, workshops, and conferences. This book traces the development of Southeast Asian Studies in China, discusses the current status of these studies, examines the

problems encountered in the pursuit of these studies, and attempts to evaluate their prospects in the years ahead.



## As Book Chapters, Book Reviews and In Journals

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Melvyn Goldstein, Dawei Sherap, and William Siebenschuh, “A Tibetan Revolutionary: The Political Life and Times of Bapa Phuntso Wangye”, *Chinese Journal of Political Science*, 11(1), (2006)

**Reviewed by Wang Zhengxu**

### **FORTHCOMING**

“Synopsis of Current and Expected Energy Production and Consumption within the Bay of Bengal Region”, in *Energy Security in the Bay of Bengal*, edited by Devare Sudhir, Singapore: Institute of Southeast Asian Studies, **By Elspeth Thomson**

‘Territorial Competition in China and the West’, *Regional Studies*  
**By Chien Shiuh-shen (co-authored with Ian Gordon)**

‘Isomorphism of Regional Development Policy in China - Case Study of National-Level Development Zones in Jiangsu’, *Urban Studies*  
**By Chien Shiuh-shen**

## On the Move

The East Asian Institute would like to express its warmest appreciation to Professor Wang Gungwu, the Institute’s tireless Director for more than 10 years.

Professor Wang has played a major part in building what the East Asian Institute is today. His tenure started with the reconstitution of the former Institute of East Asian Political Economy into The East Asian Institute. This academic year he oversaw the Institute’s move to the historic Bukit Timah Campus. Prior to joining the Institute, Professor Wang served as Vice-Chancellor of The University of Hong Kong from 1986- to 1995. He will step down as EAI Director on 30 June 2007.

Professor Yang Dali will take over as Director on 1 July 2007. Professor Yang joins the Institute from the University of Chicago, where he was Professor and Chairman of the Department of Political Science. He has a number of books under his name including *Remaking the Chinese Leviathan: Market Transition and the Politics of Governance in China*; *Beyond Beijing: Liberalization and the Regions in China*, and *Calamity and Reform in China: State, Rural Society and Institutional Change Since the Great Leap Famine*.

Professor Wang Gungwu will continue to serve in the NUS and has agreed to take over as EAI Board Chairman when Mr Hsuan Owyang retires on 30 June 2007 after 10 years of exemplary service with the Institute. The Institute takes this opportunity to thank Mr Owyang for his past unstinting commitment to the fulfilling of the EAI mission.

EAI Research Director, Professor John Wong, has also kindly agreed to stay on for a short while during the transitional period. Professor Zheng Yongnian from the University of Nottingham is expected to take over as Research Director when Professor Wong retires.

# People's Congress: Still a Rubber Stamp?

*The ambiguous relationship between the Party and the People's Congress can be a source of major political changes in the future*

WANG ZHENGXU

According to China's Constitution, the National People's Congress (NPC) is where the country's highest state power is instituted. It has the power to make laws, elect (and depose) state leaders, including the State President and Premier, approve state budget and policies, and declare war against a foreign country. Then why is the NPC always called a rubber stamp?

The answer lies in none other than the Party: the Chinese Communist Party (CCP). Although not explicitly written in the Constitution, any action the NPC takes in utilising its constitutional powers is in fact carrying-out-the-order-of-the-Party. After the Party decides on matters such as the successors to the State President and the Premier, the government's next fiscal spending, and the bill to be passed as law, among others, it leaves them to the NPC to faithfully turn them into state acts. Onto the Party's decisions the NPC puts its stamp, hence the nice nickname of a rubber stamp. Put it simply, the NPC has the power on paper, but the Party has the power in hand.

From the 1990s, however, more people have been talking about the "growing political muscle" of NPC. Most importantly, NPC is indeed becoming a real parliament or congress in its law-making role. Before the 1980s, the CCP governed China without the need to have a legal system, but economic reform and social modernisation have since increasingly dictated China to have a comprehensive body of laws appropriate for a modern society. The idea of rule of law became more prevalent as China develops, and at the 15<sup>th</sup> Party Congress of 1997, the CCP formally accepted that China will be a rule of law country.

To build the rule of law, the Party has to make laws. For this the Party relies more on the NPC. From 1978 to 2003, the NPC passed 307 laws, an average of 12 laws a year. To build a "comprehensive socialist law system" by 2010, the NPC is set to make 59 laws between 2003 and 2008.

In theory, the NPC's law making is subjected to the leadership and control of the CCP, but in reality many of the laws made are social and economic in nature, and require professional expertise and manpower. Because of this, in general the Party has no feasible way to see through the process. The NPC in recent years has thus been acquiring significant autonomy vis-à-vis Party control. During the tenure of Qiao Shi as the Chairman of the NPC (1993-1998), and that of Li Peng (1998-2003), the NPC did gain much political muscle. The Party had to rely on the NPC to make laws that were needed by China's rapidly internationalising economy.

Some other factors also contributed to the increasing importance of the NPC. Every year the NPC holds a plenary session (during the *lianghui* period), which gathers the almost 3000 deputies for about two weeks of meeting to deliberate and approve various bills and acts. In the past such plenary sessions were mere "window dressing" and talk shops, but in recent years,

some deputies are using it as a forum to articulate the public's interests. Debates on such sessions are becoming more heated, even emotional. With the improved publicity of such debates, this talk shop can to some extent influence the nation's public opinion and is acquiring agenda setting role in national politics.

Meanwhile, the deputies are becoming less hesitant to say "no" to what the Party has put on the table. In a recent case, many deputies cast a "no" vote to a work report delivered by the nation's Chief Procurator, resulting in almost a major embarrassment to the Party. Another evidence of the increasing assertiveness of the NPC is in its supervision of other branches of the government, a power accorded to it by the Constitution. The NPC can request government officials to testify on issues that the NPC feels warrant its attention; from 2007, the local people's congresses can do this under a newly adopted Law of Supervision. As more citizens realise that the NPC may hear and look into their concerns, the NPC can continue to gain political weight.

Nevertheless, the Party's dominance in politics will not change anytime soon, and the NPC will remain a rubber stamp for a long time to come. Even if it continues to gain political muscles, the Party's iron fist can still crush it easily if it so chooses. But things may indeed change in the future. Although by Constitution the Party has the legitimate power to rule, the institutional processes through which the Party rules are hopelessly unspecified. For example, while in real operation NPC receives orders from the Party's Politburo where there is no legal base whatsoever for such an arrangement. If the NPC turns down a Politburo decision, or in a major political crisis the NPC deposes the State President, what can the Party do?

Here is the trickiest part. In a situation in which the NPC goes against the will of the Politburo, what the Party can legally do is probably only to kick the NPC Chairman out of the Politburo, or even strip him of his Party membership. But nothing more. In present times, such scenarios are unthinkable, as the Party's legitimacy is still rather solid, and it still has firm control over the judiciary by which it can easily persecute anyone who dares to run against the Party's will.

**But the point is that current institutional arrangements have huge loopholes which may become the sources of serious political or constitutional conflict in the future whereby the NPC may be able to extricate itself from Party control.** Then it will stop being a rubber stamp and instead assume its lawful role as the representative and legislative organ of the people, the people's congress in the true sense. ■

Dr Wang Zhengxu is a Research Fellow at EAI



# The Tianjin Binhai New Area

*After Shenzhen in the 1980s and Shanghai Pudong in the 1990s, the Tianjin Binhai New Area is expected to become China's new growth pole in the 2000s*

**CHIEN SHIUH-SHEN**

The Tianjin Binhai New Area (TBNA) is hot news in recent years. China's 11<sup>th</sup> Five-Year Programme has singled out TBNA as part of its overall national effort to boost the regional development of the Beijing-Tianjin-Hebei region (*Jing-Jin-Ji* area) in particular, and the Bohai Gulf region in general. The project was initiated by the Tianjin city government in 1993 but it was not until March 2006 that the TBNA officially gained high profile attention from the central government. TBNA has been listed as one of three most important national development projects to enjoy the special status after Shenzhen Special Economic Zone of Guangdong was established for the development of the Pearl River Delta in the 1980s and the Pudong New Area of Shanghai was developed in the 1990s to propel growth of the Yangtze River Delta. On this count, the TBNA is also dubbed the 'Pudong' or 'Shenzhen' of north China.

The shift in emphasis from Shenzhen to Tianjin can also be seen in the latest reshuffling of top provincial-level leaders in China in March 2007. Zhang Gaoli, former governor and party secretary of Shandong province (2002-2007), was promoted to party secretary of Tianjin after having worked in Guangdong since 1985 and as party secretary of Shenzhen from 1997-2001. Zhang is expected to bring his experience of developing Shenzhen to Tianjin for the TBNA.

The development of the TBNA is a result of uneven development within coastal China. China's economic reform over the past three decades generated great development disparity not only across China (coastal vis-à-vis inner regions) but also within three economic areas of coastal China: the Pearl River Delta, the Yangtze River Delta, and the *Jing-Jin-Ji* area. In 2004, in terms of GDP per capita, the *Jing-Jin-Ji* area was only RMB 20,000 or only 60% of the Pearl River Delta's (RMB 35,000), and 40% of the Yangtze River Delta's (RMB 42,000). Similarly, the *Jing-Jin-Ji* area only attracted US\$7 billion of foreign direct investment and US\$150 billion of trade, which were way below that of the Pearl River Delta (US\$12 billion and US\$400 billion) and the Yangtze River Delta (US\$30 billion and US\$340 billion). The TBNA is designed as a new growth pole for the *Jing-Jin-Ji* area to catch up with the prosperity of these two river deltas.

Apart from its strategic location (close to Beijing, where there is high quality manpower) and ambitious and capable leadership (personal networking of banker-turned Mayor Dai Xianglong for developing the financial industry of Tianjin, and political backing of Premier Wen Jiabao, a native of Tianjin), the most important characteristic of the TBNA is strong national support. China declared the TBNA an 'experimental zone' for comprehensive

reforms, and offered support in three areas: land use, industrial policy and financial support. The TBNA is allowed to make experimental land administration reforms, such as allowing peasants to sell land use right directly to benefit from the proceeds. It is also to offer special tax policies to certain high-tech enterprises and domestic-funded enterprises. In addition, the TBNA is encouraged to take innovative initiatives in the financial sectors, such as relaxing control of foreign exchange under capital account, exploring ways to realise RMB capital account convertibility, gradually allowing residents and enterprises to buy and sell foreign exchange on a voluntary basis, and allowing banks to develop offshore finance in the TBNA.

More specifically, three unique financial tools can be identified: the Bohai Industrial Investment Fund, the Bohai Bank, and the over-the-counter (OTC) market in China. The Bohai Industrial Investment Fund, China's first industrial investment fund (US\$770 million), was established in Tianjin end 2006 to

serve as venture capital for mainly innovative enterprises in the transportation and energy sectors. The Bohai Bank, set up in 2005 with an initial capital of RMB 5 billion, is the third commercial bank that caters for the development of specific regions and the first commercial bank in China to admit a foreign shareholder (the Standard Chartered Bank has a 19.99% stake). Tianjin is also proposing to establish the first OTC market in the TBNA to deal with equity transactions of unlisted public companies in Shanghai and Shenzhen stock markets.

Despite these remarkable achievements, there are three main challenges to TBNA. First, TBNA has a relatively underdeveloped hinterland, as compared with the Pearl River Delta and the Yangtze River Delta. Second, historically there has been limited regional

coordination between Beijing, Tianjin and Hebei. Within Tianjin, there is even serious resource competition between the TBNA administrative committee vis-à-vis the administrative committees of Tianjin Economic and Development Area, Tianjin Free Trade Area and Tianjin Port. Third, like many cities in northern China, Tianjin faces environment challenges, particularly in air quality and accessibility of drinkable water. In the short term, the TBNA will have to depend on water diverted from the Yangtze River Basin and desalinated seawater from the Bohai Sea, both of which are costly. Without substantial solutions to these challenges, TBNA's ability to catch up with the Pearl River Delta and Yangtze River Deltas remains questionable. ■

Dr Chien Shiu-h-shen is Visiting Research Fellow at EAI

**In the short term, the TBNA will have to depend on water diverted from Yangtze River Basin and desalinated seawater from the Bohai Sea, both of which are costly.**



# Indigenous Innovation in China

*Fostering a productive environment for innovation is essential to China's quest for indigenous innovation*

QUAN XIAOHONG

Recent policies and propaganda suggest that the Chinese government is adamant in developing indigenous innovation capability. The ambition is well articulated in the National Medium- and Long-Term S&T Development Plan (2006-2020). The Fourth National Science & Technology Conference in 2006 was held to implement the Plan, which represents a new milestone in China's science and technological development.

## THE NEED TO IMPROVE INNOVATION CAPABILITY

Innovation capability in China is currently weak. Take patent as an example. Domestic application for patents in China increased at an annual rate of 18.6% from 69,535 cases in 1995 to 383,157 cases in 2005 while granted patents reached 190,238 cases in 2005. However, invention patent, which represents more fundamental innovation capability, accounted for only a quarter of the total patents granted. Incremental innovation as utility model and external design patents accounted for 75% of the total. Furthermore, foreign entities outside China took the majority of the relatively small number of invention patents registered in China. As a result, although the number of invention patents in China ranked third after Japan and the US, about two thirds of the invention patents were granted to institutions/firms outside China. Comparatively, fourth-placed South Korea has the majority of invention patents coming from its domestic entities.

Impressive progress has been made for scientific publications. The number of national S&T publications in international referencing systems including Science Citation Index (SCI), Engineering Index (EI), and Index to Science and Technical Proceeding (ISTP) accumulated to 153,374 (1994 ~ 2004) or 6.78% of the world total. This earned China the fifth place in world ranking in terms of SCI papers, a big jump from No. 15 a decade ago. Nevertheless, just as in invention patents, foreign institutions and individuals in China have contributed a large part to its international publications.

Data on invention patents and S&T papers shows that China's radical innovation capability, which is essential to changing the long-term international S&T competition pattern and its resultant commercial benefits, is still weak. In fact, the level of basic research, which directs radical innovation, remains quite low. Development and applied research accounted for the majority of the R&D expenditure in China, leaving only about 5% for basic research.

## SOURCES OF INNOVATION IN CHINA

Government-led research institutes and state-owned-enterprises (SOEs) have long been a major source of innovation for the Chinese economy. For example, many leading firms in information technology industries such as Founder and Legend (now Lenovo) were mostly spin-offs from research institutes or universities. Although there is little doubt that they will continue to play a big role in innovation, the growing weight of private entities in the economy has unsurprisingly pushed private small

**... the location of MNCs in the country itself does not guarantee the flow of technology as the incentive for MNCs is to strategically configure resources in their global production network.**

and medium enterprises (SMEs) to become an emergent innovative force. In 2005, the non-state owned S&T SMEs accounted for about 17% of the total National S&T Advance Awards.

On the other hand, China's continued robust growth has attracted an increasing number of overseas returnees, which can be an important source of innovation for China. Familiar with advanced international institutional knowledge and practical norms, they bring with them technology, management skills, knowledge and contracts, as well as a more finely tuned, quality-oriented mindset.

An impressive number of multinational corporations (MNCs) have rushed to China to capitalise on the booming economy. Enthusiastic government usually holds the belief that benefits in domestic market can lure advanced technology from MNCs. However, the location of MNCs in the country itself does not guarantee the flow of technology as the incentive for MNCs is to strategically configure resources in their global production network. Furthermore, technology transfer does not naturally happen without deliberate and systematic local learning. Indigenous innovation is not only crucial for self advancing technological skills, but also indispensable for absorbing external technologies.

## THE RIGHT SOIL FOR INDIGENOUS INNOVATION

The business environment in China is far from well developed for innovation. Venture capital system in China is still in its infancy. Small size, insufficient ways to exit, information asymmetry, poor management skills and inadequate regulations are the shadows that spook investors and entrepreneurs. Most firms, satisfied with ready technologies developed by MNCs, are fighting for thin profit margins, while high royalties are paid to MNCs holding intellectual properties. The few innovative firms may also fall apart by unfriendly money lending policies or complicated *guanxi* networks.

It is thus vital for the Chinese government to have the right soil for indigenous innovation. Creating an innovative economy is a matter of not only getting ingredients such as high-tech labour and money, but building institutions that support innovation. Without the right milieu to cultivate innovation activities, the prospects for China's long term competitive advantage look dim. ■

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# To Melt an Iceberg: Premier Wen Goes to Japan

*Despite Wen Jiabao's "ice melting" trip to Japan, there are still many challenges in the Sino-Japanese relationship*

LAM PENG ER

Sino-Japanese relations fell to its lowest point in more than three decades when then Prime Minister Koizumi Junichiro stubbornly insisted on annual visits to Yasukuni Shrine – the symbol of Japanese militarism to the Chinese. To Beijing, the precondition to better Sino-Japanese relations is the imperative that Japanese Prime Ministers avoid going to Yasukuni. Sino-Japanese relations during the Koizumi era could be described as paradoxical – “red hot economics, deep freeze politics”.

Shortly after Abe Shinzo succeeded Koizumi, the Prime Minister visited Beijing to “break the ice” and adopted a policy of strategic ambiguity of neither confirming nor denying visitation to Yasukuni Shrine as Prime Minister. Being a rightwing nationalist, Abe cannot afford to alienate his domestic political base by publicly declaring that he will avoid Yasukuni. Apparently, both countries have a tacit understanding that the history issue – which has bedeviled both countries – will be set aside insofar as the Japanese Prime Minister refrains from going to Yasukuni.

Much is at stake for both China and Japan to prevent the deterioration of their relationship. On a positive note, China has overtaken the US as Japan's biggest trading partner – valued at US\$215 billion in the fiscal year ended 31 March 2007. Cooperation between the two great East Asian neighbours will also pave the way in the long run to an East Asian Community. Moreover, better relations with Tokyo will also reinforce Beijing's mantra of a “peaceful rise” foreign policy – that China as a rising power chooses to be a good neighbour and its ascendance will not lead to war and instability in the international system. In reciprocity to Abe's “ice breaking visit”, Premier Wen Jiabao turned on his charm with an “ice melting” visit to Japan in April 2007.

In contrast to then President Jiang Zemin's disastrous 1998 Japan visit when he boorishly hectored the Japanese at every stop for being unrepentant on the history issue, Premier Wen was conciliatory towards Tokyo. Although Wen was firm on the history issue (but diplomatically avoided any direct references to Yasukuni) and uncompromising on Taiwan independence, he made two acknowledgements which touched many Japanese: that the Chinese appreciate the many apologies offered by Japanese leaders for their nation's past invasion of China, and that China has indeed benefitted tremendously from generous Japanese ODA (Official Development Assistance).

Wen's visit was a great success – on the surface. Both countries agreed to a “strategic and mutually beneficial relationship” and cooperation in the areas of energy, environment, people-to-people exchanges, and even unprecedented naval exchanges for confidence building. In reality, Wen probably

managed to melt just the tip of the iceberg in Sino-Japanese relations.

Beneath the surface lurk at least three problems that threaten to sink Sino-Japanese relations if the leaders of both sides fail to carefully navigate through occasional storms and choppy waters. First is the continual dispute over Chinese exploitation of natural gas reserves near the East China Sea. Although both sides have agreed to continue their talks (seven rounds thus far), Beijing and Tokyo remain far apart in their interpretation of the extent of the EEZ (Economic Exclusion Zone) – China adheres to the continental shelf principle while Japan insists on a median line between the two countries. Second, public opinion on both sides remains very negative towards each other despite the positive spin given to bilateral relations by their top leaders. Third is the rise of China and the fear this causes in Japan. The Chinese defence budget's rise by 17.8% to US\$45 billion in 2007 and the recent success in shooting down a satellite in space are profoundly disturbing to many Japanese.

This is reflected in Abe Administration's attempts to hedge against China's rise:

- Initiating the May 2007 “Two Plus Two” Talks comprising the Defence and Foreign Ministers/Secretaries of Japan and the US to further strengthen their alliance. More specifically, they called for greater transparency in Chinese defence spending;
- Preparing new maritime laws to protect offshore oil and gas rigs in Japan's claimed EEZ, which may set the stage for greater tension between Beijing and Tokyo;
- Signing a security pact with Australia;
- Engaging in trilateral naval exercises with India and the US;
- Advocating the reinterpretation of Japan's pacifist constitution to allow collective defense, and
- Pursuing a “value-based” diplomacy based on democracy, human rights and freedom. This is consonant to Abe's vision of a democratic alignment of US, Japan, India and Australia which can be interpreted as an attempt to constrain China both geopolitically and normatively.

Insofar as Tokyo does not cross the red line drawn by Beijing over the Yasukuni issue, Sino-Japanese relations are likely to be kept on an even keel given the rising economic interdependence. Both sides will seek to further melt the iceberg, but expanding economics ties alone does not guarantee that Sino-Japanese relations will not run aground against mutual suspicion, hostile public opinion, competition for leadership in East Asia, and disputes over sovereignty and energy resources in the East China Sea. ■

Dr Lam Peng Er is a Senior Research Fellow at EAI

**Wen's visit was a great success – on the surface.**

# Gambling Liberalisation in Macao: Who Benefit from What?

*Mounting social tensions in Macao in the wake of gambling industry liberalisation are testing China's "one country two systems"*

**CHOU KWOK PING**

The gambling industry is the most important pillar of the Macao economy as it generates over 60% of the government's tax income and half of the GDP of the city. After the liberalisation of the gambling industry in 2002, the economy is kept buoyant by the influx of tourists, the growth of government's tax revenue and expenditure, and the advent of foreign capital. Nevertheless, the benefits of economic prosperity are unevenly distributed while the costs disproportionately fall on the have-nots. To what extent has the liberalisation of the gambling industry improved Macao's quality of life merits deep thought.

The 60-year gambling monopoly came to an end in 2002 when the Macao government liberalised the industry and issued three casino operation concessions, one to the incumbent casino operator Sociedade de Turismo e Diversões de Macau (S.T.D.M), one to US-based Wynn Resorts and the last to a consortium of US-based Las Vegas Sands and Hong Kong-invested Galaxy. Since then, the number of gambling tables and slot machines had increased from 339 and 808 in 2002 to 2,762 and 6,546 in 2006 respectively. In 2003, the central government of China relaxed the control of outbound tourism to Macao and Hong Kong in the hope of boosting the economies of the two Special Administrative Regions. Mainland Chinese tourists then surged from 4.24 million in 2002 to 11.99 million in 2006. Many of them headed to casinos, resulting in an increase in gambling tax revenue from MOP10.58 billion in 2003 to MOP17.32 billion in 2005. The GDP grew by a real rate of 14.2% in 2003, 28.4% in 2004, 6.7% in 2005 and 15.4% in 2006 (from first to third quarter) respectively. Newly-created job opportunities pushed down the unemployment rate from 6% in 2003 to 3.8% in the third quarter of 2006.

Behind this rosy picture, however, is the nagging problem of an uneven distribution of benefits to a concentrated few. The government is a major beneficiary of the liberalisation because of its increasing gambling tax revenue. Wynn Resorts and Las Vegas Sands are also winners with the former grossing US\$900 million through subcontracting its casino licence to PBL Diversões, a joint venture with Australian and Hong Kong capital. The latter soon took more than 30% of the market share. Public work expenditure of the government ballooned from MOP1.90 billion in 2003 to MOP3.65 billion in 2005. The construction industry also benefitted as the affluence provides incentives for property developers to construct new buildings and to profit from property development and speculation.

People in the street have benefitted less from the economic upturn, however. The median monthly income increased fast, from MOP4,627 in 2002 to MOP7,318 in 2006. But the increase is mainly generated by the creation of high salaried jobs in the gambling and

construction industries. Casino employees who were hired before gambling liberalisation are not better off. To counteract the competition from the new industry players, S.T.D.M. reformed its customer service and forbade the notorious practice of pressuring gamblers to pay tea money, the source of cash subsidies which once formed the major part of casino employees' remuneration. Senior workers and workers with low education are hardly employable in the gambling industry. Local construction workers do benefit from the thriving construction industry. Nevertheless, many of the highest salaried jobs in the industry are taken by Hong Kong workers because of their higher skill level. Civil servants do not benefit from the rapid growth in gambling tax revenue. The pay rise of civil servants between 2005 and 2007 (10%) is unable to catch up with the inflation rate (11% in the same period).

Moreover, the cost of economic development disproportionately falls on the general public. Residential property prices have doubled in the past three years. Workers in the manufacturing, hospitality, food and beverage, and domestic help sectors are the worst hit – their income rise lags far behind inflation rate, let alone property price. Their wage level is suppressed by the exodus of manufacturing operators and influx of cheap labour primarily from mainland China. The low employment rate provides a convenient excuse for employers to import more labour from 24,970 in 2003 to over 60,000 in early 2007. Though the government has promised to uphold strict regulations on labour import, the regulations, however, can be circumvented by employers with close connection to senior government officials. Many small and medium enterprises without connection are finding it extremely difficult to hire foreign labour and have to struggle amidst rising labour cost and shop rental.

Traffic congestion is another problem. Due to their decent salaries, lots of casino employees are able to afford their own cars. Albeit the small size of the city (28 square kilometres and a population of half a million), private cars and motorcycles numbered over 160,000, or over 300 vehicles per kilometre road surface in 2006. The low unemployment rate and the failure of bus companies to offer competitive remuneration have led to the high turnover rate of bus drivers and the deterioration of the bus service. Massive tourist arrivals (22 million in 2006) have further stretched public transportation.

Apart from economic problems is the social ill of addict gambling. Before gambling liberalisation, high-salaried people (civil servants and casino employees) seldom gambled in casinos: All civil servants are prohibited by law from entering casinos except on the first three days of the Chinese New Year. Casino employees are

**Due to their decent salaries, lots of casino employees are able to afford their own cars. Albeit the small size of the city (28 square kilometres and a population of half a million), private cars and motorcycles numbered over 160,000, or over 300 vehicles per kilometre road surface in 2006.**

prohibited by their employer S.T.D.M from gambling in its casinos. Casinos where most slot machines were housed were then few in number and detached from residential districts. The social norm against casino gambling was also quite effective in holding back locals from gambling in casinos. After liberalisation, new slot machine parlours, which permit the admission of civil servants, mushroom in residential districts. What is worse is that the new casino conglomerates also allow their employees to gamble in their competitors' casinos.

On 1 May 2006, 3,000 protestors took to the streets signalling public discontentment with the economic situation. To pacify the public, the government promised, four weeks before the first anniversary of the mass protest, to increase the number of low-priced public housing units substantially and consider expanding the coverage of social security net and establishing a central provident fund scheme. As these promises go against the interest of property developers and employers, the major stakeholders in Macao's politics, one should not be too optimistic about the outcome. ■

Dr Chou Kwok Ping is a Visiting Research Fellow at EAI

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## Dragon Market Creating Legends of the New Rich

Chinese people seems to have erupted. As a result, a myriad of private corporations mushroomed with many becoming successful and famous entities. This phenomenon is intensified when market-oriented economic reforms, the long-smothered burning desire for entrepreneurship in the Chinese people seems to have erupted. As a result, a myriad of private corporations mushroomed with many becoming successful and famous entities. This phenomenon is intensified when these entrepreneurs utilised the stock markets in Singapore, Hong Kong and NASDAQ of US, and the SME (small and medium-sized enterprises) board of Shenzhen Exchange in China to raise capital by selling IPOs to public investors. A case in point is Netsun Company, listed in Shenzhen SME board on 15 December 2006. Netsun's listing added RMB 2.3 billion to the wealth of Sun Deliang, the company head, and made other senior managers in the company multi-millionaires overnight.

Similarly with state-owned enterprises, when each of these private companies gets listed, hundreds of the new rich will simultaneously be produced and come under the spotlight. The founder and co-founders are the biggest gainers from such listings as they hold the majority of the shares unlike the management of state-owned companies.

Apart from raising IPOs, the implementation of equity incentives for listed companies is also a wealth churning. As of early 2007, among the listed companies that launched share-split reform 30 have proposed to implement "equity incentives schemes". After China's Bank of Communications released the scheme, its 250 senior managers enjoy an average annual income of RMB 0.8 million each.

When more companies go public, a group of new rich has been produced in the stock market at an astonishing rate. In Shenzhen Stock Exchange alone, according to public resources, the SME board has so far created a total of 26 multi-millionaires and 278 millionaires since it was launched two years ago. China's Securities Regulation

Commission (CSRC) reported that during the first quarter of 2007, 28 new IPOs have been launched in the market. At this rate, the total number of IPOs in China would reach around 120 in 2007, and thousands of millionaires and incredibly rich people would be created accordingly.

Practitioners, including securities firms, funds and investment companies, in the financial sector are also direct beneficiaries. They are offering very decent payment packages to lure talents. Ranked as one of the most popular and high-paid lines of business in China, the financial sector has so far brewed a considerable number of young people who made it to the middle and upper classes.

Unlike most of the rich people in the early stage of China's economic reforms who amassed a great sum of money through nepotistic capitalism, the new generation of rich people in China's stock market accumulated their wealth largely based on their own merit. They are mostly from the grassroots, are well-educated and professionally trained; some even develop self-reliant innovative technology and hold corresponding intellectual property rights.

The economy is now entering a new phase with the expanding dragon market allowing the emerging new rich to fully legitimise their newfound wealth. They do not need to hoard their money, smuggle money abroad, or even try to change their nationalities. It is expected that the young rich would drive a new surge in China's domestic consumption. More significantly, by building up wealth from scratch and getting rich rapidly, they are bringing a new "Chinese Dream" to ordinary people in China. ■

Dr Yang Mu is a Visiting Senior Research Fellow at EAI. Ms Zhengyi is Research Officer at the same institute.

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## Politics of the Property Law

even more explosive issues related to rural land owned by collectives which is increasingly subject to arbitrary confiscation and sale by cash-hungry local governments. On all sides could be heard the complaint that property rights were ambiguous and open to abuse. A great many hopes were thus invested in the Property Law as a new deal for owners, and an end to unjust confiscations.

Within a few days of the NPC winding up with the Law passing triumphantly, the unrealistic expectations placed on it were widely replaced by disillusion. A spectacular story of "zui niu dingzihu" ("the most in-your-face holdout household") in which a couple in Chongqing held out against developers trying to flush them out of their house grabbed media attention around the country. Legal scholars tried in vain to explain that the law was not meant to take sides, that if the developers held valid title to the property they were not the "bad guys" according to the law. Professor Jiang Ping, a celebrated legal scholar and "Godfather" of the new law, was openly accused of duplicity and siding with the powers-that-be.

The "holdout household" eventually took a reportedly healthy compensation package and allowed the demolition to proceed. But the populist sentiment that supported them, and which expects the Property Law to act as a lever of social justice, has not diminished and promises to be a bone of contention in future. ■

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# 从物权的出台看中国民主与法治的渐进

谢青霞

中国是否会进行政治改革，中国何时才开始政  
改？人们在不断地猜测、期待，但结果似乎  
总是让人们有些失望。其实，如果以西方或某个既  
定的民主化方式来期待中国的话这种失望是必然的，  
因为正如当下被越来越多的人所认识到的一  
样：和中国的经济改革一样，中国的政治改革也是  
在“摸着石头过河”，在解决具体问题中不断地试  
错逐步地前进，没有既定的模式。确实，不论是民  
主还是法治中国都未做出实质性的大动作，但当人  
们回首十年或二十年前却发现今日的中国社会已  
然开放很多，法制在健全、民主意识在增强，从今  
年物权的出台我们可以看到这种民主与法治的渐  
进。

新中国成立后由于实行社会主义公有制与计划经  
济体制，属于私法的民法一直缺位。改革开放后全  
国人大于1986年颁行了《民法通则》，设《财产权  
所有权和与财产所有权有关的财产权》一节，其中  
关于财产所有权及所有权的四项权能的法理是当时  
国企两权分离改革的理论基础。随后，1992年邓小  
平南巡后提出社会主义市场经济概念，1999年宪法  
修正案将个体经济、私营经济等非公有制经济界定  
为社会主义市场经济的重要组成部分，2004年宪法  
修正案增加“公民的合法的私有财产不受侵犯”。  
同时，近年来国企改革、城市化、旧城改造中出现的  
国有资产流失、非法土地征用、强行拆迁等引起  
社会的强烈不满，群体性事件增多，从根本上来说  
都迫切需要明确财产权利归属。因此今年《物权  
法》出台并不是横空出世，既有以前的立法辅垫也  
是解决改革中问题的需要。

在西方政治传统中，立法始终是政治舞台上最尖  
刻、最具分量和挑战性的角色。但长期以来中国立  
法几乎都是部门立法及领导立法，民众鲜有参与。  
在物权法之前陆续有多部法律制定时采取“开门立  
法”：将法律草案公开，面向社会征集公众意见。  
但效果并不明显，民众似乎并不关心，或有如2001  
年时的婚姻法修订因媒体的宣传而引起民众热烈讨  
论，但人们也只是讨论而已，并未想到如何能影响  
立法，“开门立法”只起到法律宣传的作用。及至  
此次物权的出台这种状况从某种程度上已经发生

了改变。2005年7月物权法草案公布后，40多  
天里共征集到11543条意见。北京大学法学院  
教授巩献田在网上发表了一封公开信质疑草案  
的合宪性引起广大反响，半个月后全国人大常委会  
法工委主任胡康生等人约见巩献田，原定  
于2006年两会进行审议的物权法草案因此而被  
搁置。不同的意见开始在网上交锋，这次人们  
的话题不仅仅是国家立法有何规定，而是讨论  
应该规定什么不应该规定什么；立法机关确实  
也在倾听，如众多业主关心的小区内车库、停  
车位的归属问题最后在定稿中都有落实。此次  
立法机关为物权法而召开的座谈、听证会次数  
之多、所收到民众的立法建议，人们对立法的  
关心程度应是新中国以来前所未有的。

在二十年前你很难想象会有这样的法律出  
台、很难想象能有这样的全国上下对法律草案  
的争吵，物权法的出台让我们既看到法制的健  
全也看到了民主的进步。

当然，我们也看到当前不论是法治还是民  
主这种进步是有限的。从内容上来说，现在的  
物权法远非法学家心目中的物权法，如公法化  
倾向、用语的模糊及限于对现有法规政策的表  
达而前瞻性不足等。就民主而言，虽借助于网  
络的方便，各种利益阶层的声能够有所体  
现，但利益表达渠道远未制度化，甚至导致一  
些新兴利益阶层利益表达过度而工人、农民、  
农民工和其他一些弱势群体则利益表达不足  
的现象。但这也正是中国民主与法治的渐进模  
式的必然。

把物权的出台置于中国民主与法治建设  
的大背景中，它只是走向质变过程中众多量变  
事件中的一个，每一事件都有其进步意义但没  
有哪一事件可作为中国开始政治改革的明确信  
号。今年温家宝总理多次提及要进行政治体制  
改革，人们有理由相信十七大后中国政改的步  
伐会大些，但笔者认为其模式仍是渐进式的，  
如果期待十七大会有一个完满的政改方案出  
台的话那是会再次失望的。

\*谢青霞是东亚研究所访问学者\*

# Some Highlights at EAI



The "East Asian Democracy and Political Participation in China" conference was EAI's first at its new Bukit Timah office



Panelists and participants of the NEAT Workshop held at EAI conference room (top) and the NEAT conference held at Grand Copthorne Waterfront Hotel (below)



*EAI 10th Anniversary  
Lectures*

## ECONOMIC AND SOCIAL CHALLENGES TO CHINA'S ECONOMIC GROWTH

19 June 2007

Shangri-La Hotel, Singapore



*EAI 10th Anniversary  
International Conference*

## CHINA:

### THE NEXT DECADE

18 - 19 June 2007

(English Conference)

20 June 2007

(Chinese Conference)

RELC International Hotel



*EAI International  
Conference*

## 7<sup>th</sup> COUNTRY COORDINATORS MEETING AND 5<sup>th</sup> ANNUAL NEAT CONFERENCE

20 - 22 August 2007

Meritus Mandarin Singapore



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