

Some Highlights at EAI



An EAI-ISEAS joint conference on "Southeast Asian Studies in China: Challenges and Prospects"



Prof Hu AngKang of Tsinghua University gave a stimulating talk at EAI to a packed audience. Prof Ang also gave a public lecture during his visit



Prof Zheng Yongnian in his public lecture on Sino-Japanese relations

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30 June 2006
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WHITHER CHINA'S
ECONOMY:

ADJUSTING
AND
RESTRUCTURING
FOR

SUSTAINABLE
DEVELOPMENT

Co-Organiser:
School of Economics, Peking
University, China

17 - 18 August 2006
York Hotel, Singapore

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China's Eleventh Five-
Year Programme:
New Wine in an Old
Bottle?

China's Regional
Development under
the Hu-Wen
Leadership

Reform as an Ongoing
Project: Building a
New Socialist
Countryside

From Plan to
Programme: Not Just
a Name Change

Reforming China's
Financial Systems as
the Fifth
Modernisation

Improving Energy
Consumption Energy:
Urgent

Social Justice:
Hijacked by the
Conservative Left?

East Asian Institute



EAI Bulletin

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China's Eleventh Five-Year Programme: New Wine in an Old Bottle?

China has changed its Five-Year "Plan" to a "Programme", as the economy continues to transition from a planned to a market one. But the role of government planning will not disappear

SARAH Y TONG & HO KOK SIONG

Compared to previous plans, China's 11th Five-Year Programme (FYP) has a few fresh looks. First, to highlight a shift in the function, the name is changed from "plan" to "programme". Second, considerable efforts have been made for the programme to be formed through a more consultative process. (See contribution by Yan Hao in this issue of the *Bulletin*). The most important change, however, lies with a shift from a previous strong growth emphasis to a more balanced and sustainable development or "scientific development" approach.

There is little doubt that China's economic reform since 1978 has been largely a success. Between 1979 and 2004, China achieved average annual growth of 9.6% in GDP and 8.3% in per capita GDP, respectively (see figure on Page 10). In recent years, however, China's export-orientated and heavily investment driven growth model has engendered a number of problems which threatened China's further development. These problems underpin the strategic shift in China's development strategies.

The first pressing problem is the increasing income gap between urban and rural residents. Rural-urban income inequality is a long-standing issue in most developing economies, but in China it has become particularly sharp in recent years. The ratio of urban to rural per capita disposable income has increased from 2.5 in 1996 to 3.2 in 2005 (see figure on Page 10). The situation is aggravated by rapid urbanisation in recent years while no effective institutional arrangement exists to protect the interests of displaced peasants. As a result, there has been an increasing number of rural unrest related to land disputes, causing high alarm to the leadership. "To build a new socialist countryside" is thus said to be the primary goal in the guidelines (See the contribution by Zhao Litao in this issue of the *Bulletin*).

Furthermore, China's economic growth has been highly energy and resource intensive, a source of distress on its sustainability. The situation has worsened in recent years. Since 2000 energy and electricity consumption has increased faster than GDP, by as much as six to seven percentage point in 2003. This dramatic increase puts serious strain on domestic energy production, which is partly responsible for a number of coal mine accidents. Moreover, energy shortages have already hindered the economic growth in some regions and industries. It has also led to growing dependency on energy import, which has ramifications on both energy security and international frictions. Lastly, high energy consumption is also responsible for high pollution in many Chinese cities. The leadership is determined to address the efficiency issue by including a target to cut energy consumption per unit of output by 20% between 2005 and 2010. (See the contribution by Elspeth Thomson in this issue of the *Bulletin*).

Focusing on more balanced and sustainable development, the FYP covers broad and comprehensive issues. In addition to the above two, a few key areas

continued on page 10

Towards More 'Balanced' Development

China's 11th Five-Year Programme (FYP), for years 2006 through 2010, is attempting to shift development emphases. Gone are the days of single-minded pursuits of GDP growth; today the rhetoric is all about more sustainable and more balanced development. More emphasis is being given to social issues, from greater income equality and more efficient use of energy to better environment protection. A project on "Building a Socialist New Countryside" is highlighted to revitalise the rural economy and the countryside. As for the industrial sectors, the emphasis is on restructuring and upgrading, instead of expansion. Financial and banking industry is likely to face decisive reforms. To achieve a more "balanced" development, a trade off in slower economic growth is deemed necessary. In fact, for the period of 2006-2010, average annual economic growth is projected at 7.5%, far lower than the 9-10% in recent years.

China now faces mounting problems resulting from the urban-centred and indiscriminately growth-oriented developments of the past two decades. In fact, there is a concern that problems surging in China are eroding the "Beijing Consensus", i.e. the development approach China has been stressing since the 1990s. In this light, the shifts in policy focuses are long overdue. But it is far from clear whether a real shift on the ground will materialise. It is doubtful whether China's economic growth will substantially slow down in the next few years, for example. China's state apparatus is still highly growth-biased, especially at the local levels. Many high-sounding policy objectives from reduction of rural poverty to better protection of the environment will also take many years to bear concrete results, if at all.

This issue of the *EAI Bulletin* examines the various aspects of these efforts: From an overview of the FYP to the changes in China's economic planning process, from China's regional development to the attempts to modernise China's finance and banking industry, from improving energy efficiency to the manufacturing industry, and from the building of a "New Socialist Countryside" to the lauded pursuit of social justice.

Underlying these policy shifts is the fact that many Chinese elites, not just the conservatives but also some liberals, are feeling increasingly uneasy over the way the Chinese society is going. This could rekindle the old debate of "socialism vs capitalism", and threaten the on-going economic reform. And there is always the demand for greater political liberalisation from the expanding urban middle- and upper-class.

Daunting as they are, China's problems are solvable only with continuing growth and deepening reforms. This, fortunately, China's leaders are clear about. President Hu and Premier Wen have both vowed to "unshakably persist with reform." The challenge is to manage a suitable balance between promoting economic growth (needed for creating more material resources and jobs) and tackling the many socio-economic problems (potentially a growth reducing force) at the same time. Given that results may take a long time to achieve, the government needs a strong political will to sustain such efforts. Another five-year plan is needed, at the least, for the Chinese government to claim that a real shift in development focuses has occurred. ■



Prof Wang Gungwu
EAI Director

中国的制造业将会在十一五期间出现的新变化

杨沐博士

和过去几个五年计划相比，十一五规划特出地提出了新的战略基点和增长模式。简要地说，是“把增强自主创新能力作为科学技术发展的战略基点和调整产业结构，转变增长方式的中心环节，大力提高原始创新能力，集成创新能力，和引进消化吸收再创新能力”。

经过二十多年的高速发展，中国已经成为世界第四大经济体，第三大对外贸易国。人均GDP正在从1000多美元向3000多美元发展，中国的出口结构中，已经是制品为主，对美国的前五大类产品的排列，已从2000年的制成品杂项（电子游戏，玩具，等），鞋，电脑，服装，音响；改变为2004年的电脑，制成品杂项，音响，鞋，服装。2005年，中国出口的汽车数量，第一年超过了进口的汽车数量。可以说，中国已经有了实现战略变化的物质基础。

但中国也已经成为世界上最大的资源消耗国，消耗全球石油的8.1%，钢材的5.4%，水泥的32.4%，全球原材料的71%。中国的大气污染河水污染的程度也居于世界前列，据专家分析，中国1997年大气污染河水污染的程度约占当年GDP的7.7%。中国是一个制造业大国，但改变原有的制造业之路已是刻不容缓。十一五规划正是在这样的背景下提出的。

自主创新将会全面提升中国制造业的技术水平，一方面，通过振兴装备制造业，突破重大工业流程调整，改造传统制造业，降低消耗，减少污染，提高效益；另一方面，通过加强基础研究，突破核心技术，发展新的工艺流程，实现发展方式转变的新的制造业。中国的制造业将全面地进入一个新的发展阶段，展现一个新的面貌。

这种自主创新，将和正在形成的巨大的国内市场规模的优势相结合，形成中国特有的具有核

心竞争力的产业链和供应链。如中国持续上升的进出口，90%需通过海运，促进中国的远洋运输，沿海运输，江海联运，铁海联运，路海联运，促进港口，物流，商务服务，船舶制造，港口机械制造，集装箱制造，钢铁制造，新型材料制造，。。。这种具有十一五规划中所强调的规模经济的上下游联动，是其他经济体中的制造业不可同日而语的。

这种自主创新，强调资源的节约，和保护环境，促进地方反思过去的做法，像江苏正在反思过去在沿江开发战略的推动下沿长江所建立的化工企业，化工工业园区，这种反思对各地的影响，从而对未来的中国制造业发展的影响将会是根本性的。

十一五规划强调，这种自主创新体制的基本架构是以企业为主体，市场为导向，产学研相结合的技术创新体系。这是和在计划经济体制中的技术创新完全不同的。它所重视的是市场作用加宏观引导。最近，上海等地都在建立一些科技基金，产业引导基金，环保基金等。由民间的企业去承担创新的最初的风险，由科技基金去挑选与支持有潜力的创新，然后，再由产业引导基金和环保基金去组织市场资金支持成熟的项目。规划还强调用政治体制来保障强调自主创新的新的科学发展观的实现。十一五规划中的数字指标只有两项：一是实现2010年人均GDP比2000年翻一番；一是单位GDP能耗比十五期末降低20%。对各级政府的考核和评价首先是实现科学发展观的能力，而不再是GDP，或税收和财政收入的增长。制造业的发展将真正是为了人，而不再是给上级看的数字。

杨沐博士，东亚研究所高级访问学者

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Reform as an Ongoing Project: Building a New Socialist Countryside

By initiating a new project to revitalise the Chinese countryside, the Party wants to show its undisputable leadership role in China's development

ZHAO LITAO

The Chinese Communist Party (CCP) has long bestowed on itself a historic mission to modernise the country. In this mission the countryside has a pivotal role to play. In the 1950s when the concept of a "new socialist countryside" was first proposed, the countryside was asked to sacrifice for state-led industrialisation. The countryside was important as the source of primitive accumulation for industrialisation in the cities.

Five decades later, the CPC renewed its efforts to build a "new socialist countryside" that would feature growing production, better livelihood, cultural development, clean villages and democratic management of village affairs. The new "historic mission" was established as one of the primary objectives of the 2006-2010 Five-Year Programme. This time the countryside is important in a largely negative sense: the country cannot be said to have modernised if the countryside remains underdeveloped.

The two projects are radically different in many ways. For one thing, while the first project created the rural-urban divide, mobilised resources out of the rural sector, and sought to modernise the industrial sector at the cost of an impoverished countryside, the second attempts to narrow the rural-urban gap, provide larger financial support to the countryside, and allow rural China to share the prosperity with urban China. For another thing, the first project was backed by central planning, while the second has to face market forces that tend to pull human and nonhuman resources away from the countryside.

Despite all the important differences, in the eyes of the CCP, the two projects represent two different stages of the same mission, with the CCP in the driver's seat to steer major changes in the right direction. Seen in this light, the current project to build a "new countryside" is not just a policy initiative that aims at narrowing the rural-urban gap; it is first and foremost a consensus building project that reconfirms the CCP as the leader in initiating and managing social changes of historical importance.

A question that has always been asked is whether the CCP can adapt to the changing environment and stay relevant. There has been a great deal of scepticism about the fate of the CCP in the reform era. Conventional wisdom suggests that the communist party cannot either fully embrace the market economy or survive the transition to the market economy. Worldwide experience shows this to be more true than false. Yet the CCP stands as an exception so far. Its ability to manage the market reform has earned the party a lot of credit. China today is a fast growing economy with social unrest kept under relatively good control.

To a large extent the success of the CCP lies in its ability to build new consensus when orthodox ideologies are disfavoured. For more than two decades, "reform" is not just

...the building of "a new countryside" is a consensus building project that reconfirms the CCP as the leader in initiating and managing social changes of historical importance.

institutional change from plan to market, but also a consensus building project that detaches the CCP from entrenched party doctrines, and re-legitimises it on alternative grounds. To the extent that "reform" is widely accepted as a norm, the CCP is more able to push forward changes which are otherwise very difficult. Even when the reform produces undesirable consequences, going back to old days is not a viable option as it is de-legitimised as "anti-reform".

Nevertheless, the legitimacy of reform will be questioned when major political moves and socioeconomic developments hinder consensus building. In the late 1990s when the party sought to embrace private entrepreneurs, it evoked controversy rather than consensus, leading to serious doubts as to whose interest the CCP represents. Into the new millennium, social issues such as widening income gap, rising costs and widespread social injustice became ever more salient and divisive, giving rise to serious doubts about China's reform path and its viability.

Now the CCP seeks to boost the legitimacy of reform by shifting towards the "new socialist countryside" project. For consensus building, this project is appealing not only because it is a natural extension of Hu Jintao-Wen Jiabao's pro-people and "scientific development" approach, but also because it can be fashioned as something historic and socially just. In less than a few months, "building a new socialist countryside" as a vision has won applause from different walks of life. It is gaining legitimacy for the CCP as the agenda-setter and the leader of historic mission.

The project will be Hu-Wen's major focus in the 2006-2010 period, and may last longer if not abandoned by the future leaders. In the years to come, old questions are bound to pop up in new forms: Does the party have the will and capacity to abandon the decades-old bias against the countryside? Can the central government make local governments commit to the project? Will the CCP promote grassroots democracy and peasant participation? All such questions boil down to one: Can the CCP adapt to the changing context and shifting expectations? The "new socialist countryside" project will provide another test. ■

Dr Zhao Litao is Research Fellow at EAI.

Social Justice: Hijacked by the Conservative Left?

The lofty call for "social justice" probably indicates more of a shift in rhetoric than in policies. More importantly, it is a weapon employed by political in-fighting

DAVID KELLY

The unveiling of the PRC's 11th Five-Year Plan in the National People's Congress held in early March 2006 was dominated by the theme—though not the reality—of social harmony.

Since its formal adoption as state policy by last year's NPC, this phrase has been increasingly eclipsed by a strange new term, "social justice." "Paying more attention to social justice" has in principle replaced a formula from the era of Deng Xiaoping: "place priority on efficiency with due attention to social justice."

What is so strange about this term? In democracies, efforts to guarantee social justice are everywhere to be seen. On the extreme right, however, neoliberals insist that the market itself is the best guarantee. State intervention was for the liberal, following Hayek, the beginning of "the road to serfdom."

On the left, socialists traditionally argued that social justice requires a revolutionary transformation of society; once in power, socialist regimes generally close down discussion of the issue, claiming that they themselves embody social justice. It is the social democratic "Third Way" that most warmly embraces social justice as achievable by balancing of state and market mechanisms.

China is far from a social democracy, so there is an air of unreality in such rhetoric. But the demand for social justice is perfectly understandable if one considers the massive discrepancies of interest allocation that have been daily more apparent and publicly acknowledged in recent years. For a government to nail the social justice banner to its masthead, however, involves some big risks. If it does not improve its transparency and accountability, it exposes itself to charges not only of hypocrisy (should the programme fail to please everybody) but of incompetence (since it could have carried on business as usual).

Indeed, the emergence of this rhetoric shows clear signs of political in-fighting among major factions in the power elite. It is the escalation of tensions at this level that has driven the party-state to embark on a higher-risk policy than may have otherwise been necessary. Given the limited information available, the nature of and stakeholders in these factional tensions remain uncertain; but a rough reconstruction can be made as follows.

Liberal intellectuals were the first to point to the deficit of social justice in China's transitional economy. Most prominent was the economic historian Qin Hui, who published a series of essays on the subject around the time of Deng Xiaoping's "Southern Tour" (1992) which heralded the "socialist market economy."

By the late 1990s, the topic had been taken up by intellectuals of many stripes, who collectively discovered, absorbed and transmitted Western theories and practices of

social justice. The state slowly absorbed some of the new thinking.

Tensions developed within professional circles, particularly within the discipline of economics, as traditional classical market liberal ideas came under challenge. Of course, internationally, such tensions have long existed between proponents, broadly, of state and market. In China, however, the state had decreed there would be a market, and empowered the profession of economics to set it up and defend it. The need to "grow out of the state" was so great that for quite a few years market proponents rocked and the voices of social justice were muted.

Things might have continued along these lines, but for the steep rise in citizen contention and social unrest over the last decade, and particularly since the handover of power in the party state to the Hu-Wen administration in 2003. Intellectual circles had seen it coming, and it was not contentious to make open reference to social injustices of many kinds.

An iron fist works best in a velvet glove. The attack on behalf of social justice has found a velvet glove in the new slogans of "social harmony," "human centred government" (*yi ren wei ben*), a "scientific approach to development," and others (see articles on the theme of "Marketing Social Harmony" in last year's issue of the *EAI Bulletin*).

Party leaders Hu Jintao and Premier Wen Jiabao both served in some of China's poorest regions. The lack of social justice in these areas clearly went beyond discrepancies in per capita GDP to questions of equality of opportunity, judicial prejudice and so on. But the recent sharp tone in public discussion has not come from them, but is in fact indirectly aimed at them.

On a number of fronts the old left-conservative front has linked up with other inner-party elements to hijack the social justice theme, using it to extract policy concessions. The economist Liu Guoguang, for example, led a charge in late 2005 on the authority of mainstream market liberal economists. A professor at Beijing University, Gong Xiantian, appears to have delayed passage of the Property Right Law on the 2006 National People's Congress that would have promoted the constitutional status of private property.

Social justice as invoked on these and many other fronts is simpler than the sophisticated concept discussed by intellectuals since the early 90s. Unlike the academic arena, in politics it is used as a motherhood word, an unquestionable (yet undefined) dogma. This adds to the risk. If political attacks in the name of vague and emotive value standards were to boomerang tomorrow, leaving their defenders very little room to hide, it would not be for the first time. ■

Dr David Kelly is Senior Research Fellow at EAI.

Improving Energy Consumption Efficiency: Urgent

Improving energy efficiency will have important economic and environmental benefits. It will also have major international implications

ELSPETH THOMSON

A key priority in the 11th Five-Year Programme (FYP) is energy conservation. Per capita energy consumption is yet very low, but China is now the second largest consumer of primary energy in the world. As incomes and purchasing power increase, energy demand will continue to soar over the next decades. Making matters worse, energy consumption efficiency is notoriously poor in China, i.e., the amount of energy consumed per unit of economic output is considerably higher than the world average.

The Chinese Government cannot escape the scrutiny of the world as it vies aggressively with the world's largest economies for the planet's remaining and increasingly difficult-to-reach reserves of oil and gas, burns ever increasing amounts of fossil fuels, especially coal, and emits large quantities of CO₂ which are now found to be harming not only China, but the planet as a whole.

For these reasons, China must urgently reduce energy consumption per unit of GDP by as much as possible and also reduce air pollution to the lowest technically possible level. The Medium and Long Term Energy Conservation Plan is divided into two phases, the 11th FYP period (2006-10) and the decade thereafter, 2010-2020. Energy consumption per unit of GDP is to fall by 20 percent by 2010. In order to meet the goal of quadrupling total GDP by 2020, while only doubling total energy consumption, total energy consumption is to be held below three billion tons of coal equivalent (ce) by 2020 through improving energy consumption efficiency. Without this measure, it would likely reach 4.4 billion tons ce.

The new standards and procedures drawn up by the National Development and Reform Commission to achieve these targets are technical. Suffice it to say in this short article that the particular foci of attention are the industrial sector (especially the iron and steel, non-ferrous metals, oil, petrochemicals, construction materials, machinery and coal industries), the transportation and construction sectors, and civilian power use.

Buildings alone (cooling, heating and lighting), account for 28 per cent of total energy consumption in China. Those constructed after 2005 must be made to be at least 50 per cent more energy efficient than the existing ones. Energy-efficient lighting will be installed in public facilities, hotels, shopping centres, office buildings, sports venues and factories. Traffic lighting will also be largely replaced.

The performance of medium and small coal boilers, as well as district cogeneration systems is to be significantly improved. Petroleum is to be saved by promoting mixed-motor vehicles, gas-burning buses and taxis, the use of methanol and alcohol as fuels and coal liquefaction. Exhaust heat and pressure will be more fully utilised.

The goal to improve energy consumption efficiency has appeared in many national plans since the late 1970s. In recent years, progress has indeed been made. If adhered to, the 11th FYP, with its more specific and quantifiable targets than ever before, ought to realise substantial results over the next decades.

Rightly or wrongly, China was largely blamed for the drastic increase in the price of oil in 2005 and the knock-on effect on the prices of other types of energy and prices generally. People everywhere are becoming concerned, on the one hand, about the adequacy of the earth's remaining fossil fuels to meet the needs of future generations, but on the other, that consumption of these fuels may potentially cause cataclysmic climate change. The determination of the Chinese Government to improve energy consumption efficiency is already being lauded. It is right to take decisive action sooner rather than later. ■

Dr Elspeth Thomson is Research Fellow at EAI.

EAI's China Journal in Partnership with Project MUSE

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Some topics in the next issue:

- **China's History Activism and Sino-Japanese Relations**
- **Explaining Regime Strength in China**
- **Chinese Prostitution: Consequences and Solutions in the Post-Mao Era**
- **China and India: Towards Greater Cooperation and Exchange**

From Plan to Programme: Not Just a Name Change

Some changes have been adopted in the economic planning process to make the Programme more effective; but, effective implementation of economic plans may remain elusive

YAN HAO

Five-Year Plans are important documents in China that set overall development strategy and policy directions of the Chinese government for the following five-year period. Since 1953, China has accomplished 10 five-year plans. The 11th Five-Year Plan, now named the 11th Five-Year Programme, for the period 2006-2010, is recently approved by the National People's Congress in March 2006. The change from a "plan" to a "programme" suggests not only a name change for China's development blueprint, but also a realignment of the development priorities according to the ideas advocated by the new leadership under Hu Jintao and Wen Jiabao.

The 11th Five-Year Programme gives priority to six key areas: facilitating the change of growth pattern, optimising industrial structure, tackling the rural problems (the "three *nong*" or three areas of rural problems: agriculture, rural society, and peasants), promoting a healthy development of urbanisation, coordinating regional economic development, and building a harmonious society. Three new concepts deserve special attention, i.e. "socialist new countryside", "cycling economy" and "independent innovation", indicating the government's attempt to promote social harmony, environmental sustainability and technological advancement on top of economic growth. Previous five-year plans were characterised by a large number of numerical targets for economic development. To achieve a more balanced development, the current Programme reduces the number of economic targets while increases more non-economic targets. For example, of the 22 targets listed in the Programme Outline, six are related to economic growth and 16 to social advancement and environmental protection. It is worth noticing that, for the first time, the targets are classified as either "anticipatory" or "obligatory". According to Ma Kai, Chairman of National Development and Reform Commission (NDRC), anticipatory targets will be achieved mainly through market mechanism while obligatory ones are designed to emphasise the Government's responsibility in providing public goods and services.

Another new development is in the process of making the plan. Officially, the ministry in charge of drafting the Programme is the NDRC. In the past, the drafting process

involves only NDRC staff and some invited experts. During the making of this FYP, some novel measures were taken to encourage public participation. For example, a website was opened to the public for suggestions, from which over 5,000 suggestion letters were received. A public tender was announced for baseline studies on key development issues, from which 160 studies were completed. Furthermore, an expert committee was set up, with 37 leading experts nominated as members.

The 11th Five-Year Programme presents a general direction to which China will move over the next five years (and beyond). Many of the goals and ideals articulated in the Programme are overdue for China, indeed. Nevertheless, it is still uncertain that programme targets, so inclusive that it covers almost every aspect of economic and social development, will be achieved. Whether the shift in development thinking advocated by the new leadership will be materialised remains to be seen. Now that the national programme has been approved by the National People's Congress, individual ministries and local governments are busy refining their own programmes. Most of the lofty ideas or vague concepts in the national programme will be translated thus into concrete policies, programmes and projects. More importantly, government agencies will need to budget for the planned policies, programmes and projects.

Therefore, three factors often influence the effective implementation of the five-year plans: whether these policies, programmes and projects are properly designed, whether sufficient fund is allocated, and whether officials in charge are qualified and competent. Poor policy making, fund shortage, or mismanagement often lead to failure in meeting the policy goals. What becomes increasingly worrying in recent years is "blockade in the middle": Officials are often unwilling to push forward with implementation, or even take measure to obstruct it, when certain policy may jeopardise their bureaucratic interests.

Without major progress in governance reform, therefore, planning at the national level, even backed by budget allocation, may hardly help reach the desired targets. In fact, governance reform and developing of "socialist democratic politics" are also listed as one of the programme targets. But compared to other goals, changing the functions, structures, and processes of the government are much more difficult to achieve in a five-year period. Hence even if everything goes smoothly, the 11th Five-Year Programme will only be a vehicle to kickstart the "scientific development" concept of the Hu-Wen leadership. We might need another five-year programme to see if the new development thinking can keep momentum and bring expected results. ■

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Three factors often influence the effective implementation of the five-year plans: whether these policies, programmes and projects are properly designed, whether sufficient fund is allocated, and whether officials in charge are qualified and competent

China's Eleventh Five-Year Programme: New Wine in an Old Bottle?

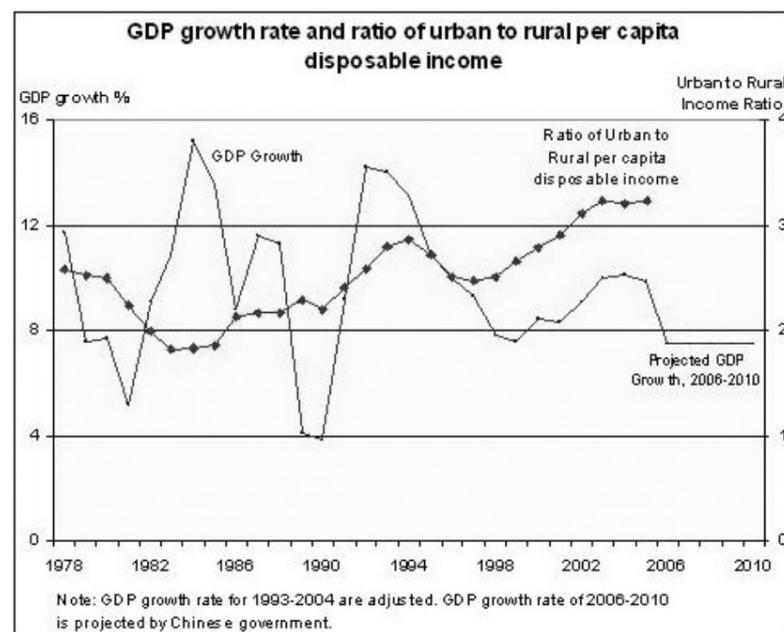
can be highlighted. First, industrialisation will continue to be the primary source of economic growth. More emphasis, however, is put on restructuring and on technological advancement. Second, growth gap across regions is another great concern. Proposals are put forward encouraging different regions to follow different development strategies and across-region coordination (see the contribution by Lai Hongyi in this issue of the *Bulletin*). Third, the FYP stresses heavily on the provision of public goods and social services, to increase domestic demand and partly to alleviate growing

financial burdens on the general public in purchasing services such as healthcare.

The FYP brings to light the initiatives of the current leadership for China's future. To achieve the objectives, Chinese leaders are likely to continue their reliance on both the market and various government apparatus. On one hand, the Programme follows the practice of indicative planning where certain goals are projected but will not be actively pursued. For example, while China's total trade in goods is projected to reach US\$2.3 trillion by 2010, the actual figure will however depend mainly on situations in the marketplace. On the other hand, the Programme identifies specific objectives to be achieved through, at least partly, government efforts such as direct investment in revitalising equipment manufacturing industry as well as key transportation infrastructures.

After 25 years of reform, China's economy looks increasingly like a "typical" developing economy. Resource allocation is carried out mainly through the market. Nevertheless, the government finds planning and direct intervention to be useful and convenient tools for various development goals. The current market-and-plan combined approach is clearly a further step toward a mature market economy. But the time has not come for the old bottle of planning to be discarded. ■

Dr Sarah Tong is Research Fellow at EAI and Ho Kok Siong is Research Officer of the same institute.



China's Regional Development under the Hu-Wen Leadership

Aiming to promote balanced regional development and healthy interaction among regions, the 11th Five-Year Programme contains both continuity and innovative changes

LAI HONGYI

Since Deng Xiaoping's time, China's national government has concentrated on the development of the coastal region, the prodigy of China's rapid growth. In 1999, the then State President Jiang Zemin and Premier Zhu Rongji launched an ambitious programme to develop China's western region, steering the nation away from its single-minded focus on the booming and prosperous coastal region. The current Hu Jintao-Wen Jiabo leadership has inherited the western developmental programme. While continuing mega infrastructural projects in the region, it is fine-tuning the programme and emphasising the practical results. More importantly, it has also set its eyes on other regions that crave for attention. The most notable regional programmes of the current leadership are the revival of the northeast and "the rise" of the central region. Despite some growth, these two regions are lagging further behind the coast.

Aiming to promote balanced regional development and healthy interaction among regions, the 11th Five-Year Programme (FYP) contains both continuity and innovative changes. First, the western developmental programme will go on. A number of key projects, such as the remaining segment of the Qinghai-Tibet Railway and the last phase of the Three Gorges Dam, will be completed while several other projects will start. The greening project and treatment of sandstorms and of stony deserts in ecologically fragile areas will continue. Advantaged sectors and resources processing bases suitable to localities will be promoted. But equally important, the government will further speed up the development of major regions, major cities, and key industrial sectors in the western region.

Second, the northeast revival programme will be expanded into one that revitalises other old bases of the communist revolution. There the challenges will shift to restructuring natural-resources-depleting cities and areas. These include cities whose minerals and timber are depleting and areas where coal mines are caving in. The government is studying the possibility of establishing a resource development compensation mechanism and a support system for sunset industries.

Third, the government will energetically speed up the development of the central region ("the rise" of the central region). The approach proposed is somewhat identical to that for revitalising the northeast. It includes developing commercial grain bases and supporting the rejuvenation of old industrial bases and resource-dependent cities. Similar to what it will do in the western region, the government will be granting major cities a greater role in energising the economy of the region.

The central region does have an edge over the western region in terms of resources and industrial capacity. To make

All areas in the nation are divided into four categories on the spectrum from achieving full development to preserving the nature - preferred areas for development, areas for focused development, areas for limited development and areas off development

full use of these strengths, the government will develop suitable industrial bases. They include bases for producing energy and important raw materials and modern equipment, and for manufactory and high-tech industries. Given the region's industrial resources and high-quality human capital, technological innovation is considered the key to improving its international competitiveness as well as sustainability in development. Moreover, to take advantage of the region's geological position, the state will build modern transportation, a modern retail distribution system and a modern market system.

Two regional policy pronouncements in the 11th FYP are most distinctive. First, all areas in the nation are divided into four categories in the spectrum from achieving full development to preserving the nature— preferred areas for development, areas for focused development, areas for limited development, and areas off development. Second, urbanisation will be a key driving force in regional development. Cities development will accelerate and a large number of peasants will become urban dwellers. The state, however, wants urbanisation to proceed with minimal use of land and efficient use of other resources. Meanwhile, a great variety of institutions and social services needs to be set up in the course.

In sum, this FYP carries a range of new thinking in China's regional development. But it is too early to predict the outcomes. The categorisation of four areas for development and urbanisation with minimal use of resources especially land, for example, may be daunting tasks for implementation. We need to wait for the picture to become clearer. ■

Dr Lai Hongyi is Research Fellow at EAI.

Obituary Zhang Jikang (1959-2006)

Born in 1959, Professor Zhang Jikang began his academic career in China's prestigious Fudan University, Shanghai in 1988. He was promoted to Associate Professor in 1996, and became a Full Professor in 2002.

Between 1992 and 2002, Zhang wrote ten books and published in academic journals and volumes at a rate of 8-10 articles per year. He also edited six books and translated an economics textbook from English to Chinese. An excellent teacher, from 1996 onwards, he supervised over 70 Master-degree students and two PhDs, on top of introducing five new courses in financial economics. He also took up important administrative duties at Fudan such as Directorship of the Centre for

European Studies and Deputy Directorship of two other Centres, as well as actively providing consulting services to governmental and business institutions.

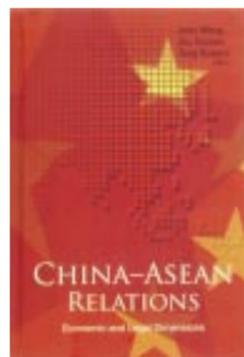
During his career he visited and lectured at many prestigious universities. In 2001 and 2004, he was a Visiting Research Fellow at the East Asian Institute.

Professor Zhang was diagnosed with cirrhosis at the end of 2004, but he continued with his busy agenda. The energetic scholar finally collapsed on 18 February 2006 during a trip to Britain. His sudden departure is a great loss to his colleagues and friends. They will remember him as an articulate and well-trained economist, always ready to cooperate with and help others.

Lu Ding

Recent Staff Publications

Books



China-ASEAN Relations

Editors: John Wong, Zou Keyuan & Zeng Huaqun

Publisher: HongKong Wenhua

Year of Publication: 2006

China's relations with ASEAN have reached a new era with both sides establishing an economic, legal and political framework for their comprehensive cooperation. This book provides a comprehensive overview of China-ASEAN relations from economic, legal and political perspectives and examines various important topics related to non-traditional security issues, free trade zone and regional economic integration, border trade and environmental issues, and maritime security.

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Japan's Relations with China

Facing a Rising Power

Editor: Lam Peng Er

Publisher: Routledge

Year of Publication: 2006

This book examines the fundamental transformation in East Asia's political economy given the phenomenon of "a rising China and a stagnating Japan". Questioning whether their relationship is one of cooperation or conflict, the book reviews China and Japan's bilateral ties to see whether they have deepened and broadened despite differences in outlook, national interest and political systems.

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The Chinese Communist Party in Reform

Editor: Kjeld Erik Brodsgaard & Zheng Yongnian

Publisher: Routledge

Year of Publication: 2006

Contrary to the expectations of many, China's recent economic growth has not led to the collapse of the Chinese Communist Party. This book explores the current state of the Party and the many challenges it faces. It considers more widely the dynamics of development in China, the party organisation, recruitment and management and the party's role in society. It concludes by examining the prospects of the Party.

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As Book Chapters, Book Reviews and In Journals

"Governing the Taiwan Issue in Accordance with Law: An Essay on China's Anti-Secession Law," *China's Journal of International Law*, Vol 4 No 2, 2005, pp 455-463

By Zou Keyuan

"Seeking Effectiveness for the Crackdown of Piracy at Sea," *Columbia Journal of International Affairs*, Vol 59, 2005, pp 117-134

By Zou Keyuan

"The Unocal Bid and Free-market Principles," *Perspectives*, Vol 6, No 4, December 2005

By Elspeth Thomson

"China's Economy in 2005: At a New Turning Point and Need to Fix Its Development Problems," *China & World Economy*, Vol 14, No 2, Mar-Apr 2006

By John Wong

"The Party and the Law," in Kjeld Erik Brodsgaard & Zheng Yongnian (eds), *The Chinese Communist Party in Reform*, Routledge, 2006, pp 77-102

By Zou Keyuan

"A New Model of Joint Development for the South China Sea," in Myron H Nordquist, John Norton Moore & Kuen-chen Fu (eds), *Recent Developments in the Law of the Sea and China*, Leiden/Boston: Martinus Nijhoff, 2006, pp 156-171

By Zou Keyuan

"SARS and China's Rural Migrant Labour: Roots of a Governance Crisis," in Phua Kai Hong, et al (eds), *Population Dynamics and Infectious Diseases in Asia*, World Scientific Publishers, 2006

By David Kelly (with Luo Xiaopeng)

FORTHCOMING

India and China: The Lessons of Globalisation, World Scientific Publishing, 2006

by David Kelly and Ramkishben Rajan (eds)

"Public Intellectuals and Citizen Movements in China in the Hu-Wen Era," *Pacific Affairs*

By David Kelly

"Balancing Economic and Social Development: China's New Policy Initiatives for Combating Social Injustice," in Samir Radwan, ed, *The Changing Role of the State: Visions and Experiences*

By David Kelly (with Gu Xin)

Reforming China's Financial Systems as the Fifth Modernisation

The financial system in China faces huge challenges in reforming itself. Recent plans lack far-sightedness in approach

HENG SIAM-HENG

It is interesting to note how often the best brains from the West can get things wrong when they try to predict the course of events in China. Contrary to their repeated dire warnings of an impending financial melt down, this has not happened. Thanks to the continuing economic growth and high saving rate (of 40%), the Chinese financial system has proved to be much more resilient. It has certainly done much better than those badly affected during the 1997 Asian financial crisis.

Having said this, it does not mean that the Chinese financial system can continue business as usual. For more than a decade, the government has tried to develop market oriented financial institutions and to improve their internal capabilities to assess and manage risks. The stock and government bond markets have grown in size and scope. The basic institutions for an effective supervisory system have been set up and the regulatory bodies are keen to learn from international standards and policies. Burning problems still remain, however. The financial assets are concentrated in the banking system dominated by four state-controlled banks, namely, the Bank of China, the Industrial and Commercial Bank of China, the China Construction Bank, and the Agricultural Bank of China. Private commercial banks account for a very small part of the banking business. Bank loans remain the dominant source of funding for firms. Stocks markets are relatively small and no real corporate debt market exists. Persistent complaints exist among private Chinese entrepreneurs about difficulties in raising capital and obtaining loans.

The task of speeding up financial system reform assumes extra urgency in view of a few factors. First, by joining the WTO, China has committed itself to opening its financial market to foreign players. Chinese banks and financial firms have to ready themselves to compete with newcomers who have long standing experiences in fiercely competitive market economy. Second, the ratio of foreign trade to GDP is rapidly increasing (hitting a staggering 80% in 2004 and down to 63% in 2005). Chinese financial firms

would need to offer corporate clients a range of financial services such as arbitrage, foreign exchange management and risk control. Third, proper allocation of funds, while a basic condition for sustaining long term economic growth, is only possible through a sound financial system.

Recently, the Governor of the People's Bank of China highlighted the following for financial reform:

- Involving private and foreign strategic investors to help Chinese financial firms grow stronger;
- Encouraging state-owned commercial banks to participate in domestic or overseas capital markets;
- Closing financial firms that have lost competitiveness or are found to break regulations; and
- Gradually liberalising interest rates.

Some of these are already vigorously pursued. Foreign strategic investors have taken up sizeable shares of the banks (see table). By 2007, it is estimated that foreign financial groups will control one sixth of China's banking system. But for other measures, how they will be materialised remains to be seen. In any case, it is quite clear that the Chinese leadership is paying more attention to the soft infrastructure such as corporate governance and financial systems. The 11th Five-Year Programme stresses the necessity to develop robust and competitive financial institutions, to promote innovative financial business, to carry out effective supervision and to create a favourable macro policy environment. But Chinese planners remain constrained by their visions. For example, given the state's decreasing role in running the pension system, the most appropriate institution to take over this role is the insurance firms. Unfortunately, this aspect of financial reform which has far reaching consequences has hardly been dwelled on in depth either in the 11th Five-Year Plan or by the top managers of China's financial industry. Perhaps China can elevate the modernisation of her financial sector to be her fifth modernisation. ■

Dr Heng Siam-Heng is Research Associate at EAI, NUS, Singapore and Associate Professor of U 21 Global, Singapore

Foreign Investors in China's Commercial Banks

Foreign Investor	Chinese State Commercial Bank	Shares
HSBC	Bank of Communications	19.9%
Bank of America	China Construction Bank	10%
Royal Bank of Scotland	Bank of China	10%
Goldman Sachs	Industrial and Commercial Bank of China	10%
Temasek (Singapore)	China Construction Bank	5.1%
Temasek (Singapore)	Bank of China	10%
Commonwealth Bank of Australia	Jinan City Commercial Bank	11%