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## Xi Jinping's Five-Year Plan

*Chinese President Xi Jinping dominated the making of the Plan, which reflects his style, values and vision.*

LANCE L P GORE

The 13th Five-year Outline Plan for Economic and Social Development, 2016–2020 is the first handled entirely by Xi Jinping leadership. The drafting of the "Suggestions for drafting of the 13th Five-year Outline Plan" (hereafter the "Suggestions") bears clear marks of President Xi's style and values. His style is domineering, with a comprehensive and methodic approach; and his values are people-oriented and inclined towards environment consciousness.

Xi Jinping, instead of Premier Li Keqiang, headed the drafting team and delivered the report to the Fifth Plenum of the Chinese Communist Party. He summarised the developmental approach of his administration in five words, "innovative, coordinated, green, open and inclusive", which are spelled out in five sessions in the "Suggestions". Such one sweeping stroke is characteristic of his previous policy initiatives as well—"the four comprehensives" and "the five-in-one strategy", etc. He also pioneered integrated consideration of domestic and international development in his "One Belt, One Road" initiatives.

Xi is a methodical planner. In his frequent inspection tours around the country, he has shown special interest in the exhibitions of local urban planning models. He once quipped, "Scientific planning generates the greatest efficiency; planning failure produces the greatest waste, and whimsical planning is the greatest taboo." In his Fifth Plenum speech, Xi described his approach as "problem-led and goal-driven", and every task is accompanied with clear measures, measurable results and a timetable.

On his personal suggestion, the "Suggestions" has incorporated clauses of resources conservation through "rational, thrift consumption", of eliminating waste and extravaganza, of biodiversity, and of crackdown on illicit ivory and wildlife trade. After the chemical explosion at Tianjin Port, he ordered a work safety section be added.

For the first time since 1995, "common prosperity" (*gongtong fuyu*) is targeted in a five-year plan. Xi regards it "the essence of socialism". He also considers poverty eradication, together with environmental protection, as the "short plate" (on the pail) that the 13th Five-Year Plan must make up for. Populism is littered in between the lines of "Suggestions".

The drafting team was formed in January 2015 directly under the Politburo Standing Committee. On 28 January, it sent out a circular to a small circle within the Party soliciting ideas about the "Suggestions". At the first group meeting on 10 February, Xi emphasised that the document should be practical, useful, "refreshing" as well as innovative.

Between 27 May and 17 July, General Secretary Xi held three rounds of meetings with Party secretaries of eastern, south-western, and north-eastern provinces, respectively, to discuss and build consensus on the "Suggestions". It is during his trip to Zhejiang province that Xi proposed the 10 tasks for the five-year plan period, emphasising economic growth, the environment and people's livelihood.

Between March and October, the Politburo met twice and the Politburo Standing Committee three times to deliberate on the drafts. At the Politburo meeting on 13 October, it was decided that the revised document to be submitted to the Fifth Plenum of the Central Committee, which formally passed it in the afternoon of 29 October.

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## Xi Jinping's Plan for China in the Next Five Years

The long-anticipated Proposal for China's 13th Five-Year Plan has been released after the Fifth Plenum of the Chinese Communist Party's 18th Central Committee. This is the first Five-Year Plan proposed by the Xi administration and a blueprint for China's development from 2015 to 2020 under his leadership. Since 2013, Xi has greatly impressed the world with his audacious moves in anti-corruption and foreign affairs. His plan for China's next five years is also ambitious with the aim to double both China's gross domestic product (GDP) and average per capita income by 2020 from their 2010 levels, elevating the country to a moderately prosperous society (xiaokang shehui). Without doubt, Xi's plan for the next five years will be critical for both China and his personal standing in Chinese history.

With a 6.5% target set for annual GDP growth, the 13th Five-Year Plan accentuates the administration's acceptance of China's "new normal" of slower economic growth in the next five years. The focus of China's economic growth would be less on speed but more on the quality. Given China's current per capita GDP of US\$7,800 and negative consequences of GDPism prevalent in the last two decades, a slower but higher-quality economic growth is much preferred over a faster but lower-quality one.

State-owned Enterprise (SOE) reform is another battlefield where Xi must achieve breakthrough in the next five years. Chinese SOEs need to be de-ideologised—SOEs are enterprises and ideology cannot solve enterprises' problems. It is also highly questionable to believe that China's and the Party's fate is significantly determined by SOEs' development. SOEs should

be treated as a market entity and therefore, marketisation should be a key solution for Chinese SOE reform.

Social policies require Xi administration's more conscientious attention in the next five years.

Good social policies are not only an effective stabiliser in today's Chinese society rife with grievances and resistance, but also a strong push to promote Chinese people's consumption, a much-needed new source of China's economic growth in the next five years. From the social policy aspect, housing has become a major financial burden to many city residents, especially the young Chinese. In fact, Chinese cities have an abundant housing supply with a large inventory of unoccupied apartments that can accommodate about 220 million people. To alleviate the housing issues, the Chinese government could consider to purchase these vacant apartments and release them for sale at discounted prices to Chinese residents who cannot afford the prevailing high market prices.

The 13th Five-Year Plan is also reckoned as a good start for Xi's next five years. Despite the multitude of challenges ahead, if the Xi administration persists in the reforms of these important fields, China will certainly achieve another five years of promising development. ■



Professor Zheng Yongnian  
EAI Director

## China to End the "One-Child" Policy

*China's decision to extend the "two-child" policy nationwide to all couples is unlikely to restore its total fertility rate to the replacement level.*

ZHAO LITAO

One of the biggest news coming out of the Fifth Plenum of the Chinese Communist Party's (CCP) current central committee is the decision to allow all couples to have two children regardless of their residence, ethnicity, or their status being the only child or not. The "two-child" policy will come into effect after laws and regulations at the national and provincial level are amended.

### A LONG WAY TOWARDS THE FULL-FLEDGED "TWO-CHILD" POLICY

Among all the alternatives, China opted for the most stringent one. It started with a different policy in the early 1970s, under the guideline of "later marriage, longer birth intervals and fewer births". It remarkably brought down China's total fertility rate (TFR) from 5.81 in 1970 to 2.24 in 1980. Still, Deng Xiaoping and other leaders were not satisfied.

China turned to the draconian "one-child" policy in 1980. From the beginning, it was understood as a policy to be implemented for one generation, or 30 years. The policy was compulsory at the time. Soon forced sterilisation and abortion met with strong resistance in the countryside throughout China, making the enforcement of the "one-child" policy "the most difficult job on earth" for local officials.

In 1984, provincial governments were allowed to fine-tune the birth control policy, paving the way for local variations. The first is the "one-child" policy, implemented in urban areas as of today. The second is known as the "one-and-a-half-child" policy, which allows a rural couple to have a second child if the first is a girl. The third is the "two-child" policy permitting families to have two children but under certain conditions.

The "two-child" policy has been applied to certain ethnic groups at the outset, and to residents in some agricultural prefectures—Jiuquan in Gansu, Enshi in Hubei, Yicheng in Shanxi and Chengde in Hebei—since 1984. By the end of the 1990s, the "two-child" policy had been extended to couples who are both the only child. Henan was the last province to adopt this policy in 2011.

Under Xi Jinping, the "two-child" policy was further relaxed in 2013 to allow a couple to have a second child if either the husband or the wife is the only child. This policy, implemented in 2014, was albeit a short-lived as well as an insignificant one. China's population authority expected a net increase of one to two million new births but the actual additional births was 0.47 million in 2014. In October 2015, the CCP decided to extend the "two-child" policy nationwide to all couples.

### NO WAY TO RETURN CHINA'S TFR TO THE REPLACEMENT LEVEL

Much development has occurred between 1980 and 2015. While concerns over unabated population explosion or overpopulation gradually faded away, population ageing and labour shortages have emerged as new problems. Few policy-makers in the 1980s would expect China's TFR to fall so quickly to such a low level, and let alone foresee a new set of dynamics—i.e. sustained economic growth, rapid urbanisation and education expansion, and new attitudes towards lifestyle like singlehood or late marriage—to render birth control unnecessary in less than a generation's time. By the mid-1990s, China's TFR had dropped below the replacement level. It took another 20 years for the Chinese government to recognise that the low TFR is a problem rather than an achievement.

What would be the implications of the shift to the full-fledged "two-child" policy? First, it would have little impact on the already-low TFR, which dropped below 1.2 according to the 2010 Population Census. Experiences in Singapore, Taiwan and South Korea have shown that when TFR has reached such an extreme low level, lifting birth control could not return it to the replacement level.

Second, the policy would have little effect to change the population structure. China's working-age population has already begun to decline, decreasing by 3.5 million in 2012. It is projected to decrease by eight million every year after 2023. Based on official estimation, the new "two-child" policy can increase the annual new births by over three million. Even with this optimistic estimation—China's population authority has a reputation for overestimating its population growth by a large margin—the long-term trend of declining working-age population is unlikely to change.

Third, the policy is also unlikely to reverse the trend of shrinking family size. The 2010 Census shows an average household to have 3.1 members, down from 3.44 in 2000, and 4.43 in the early 1980s. If the birth control policy was effective in reducing the household size in the 1980s, it has been increasingly less relevant since the mid-1990s. Removing birth control would not be able to bring Chinese families back to the former larger household size of the early 1980s.

In short, with the various alternatives available, China has opted for one that is the most stringent and socially costly. The earlier adjustments made also came too late, too little. China is not yet ready to embrace new initiatives aimed at encouraging births. In light of international experiences, even China abolishes the birth control system altogether, it still needs to find solutions for a myriad of demographic challenges it faces today. ■

Zhao Litao is Senior Research Fellow at EAI.

If the birth control policy was effective in reducing the household size in the 1980s, it has been increasingly less relevant since the mid-1990s.

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EAI Bulletin is published twice yearly by the East Asian Institute (EAI), an autonomous research organisation set up in April 1997 under a statute of the National University of Singapore. EAI succeeds the former Institute of East Asian Political Economy (IEAPE).

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# The Decisive Stage to Attain the First Centenary Goal

Under Chinese President Xi Jinping's leadership, the 13th Five-Year Plan will attest to the Chinese Communist Party's governing capability.

LU DING

Years 2016 to 2020, the period to be covered by China's 13th Five-Year Plan, have been described by Chinese President Xi Jinping as "the decisive stage to attain the first Centenary Goal", which refers to one of the centennial developmental goals pledged by the Chinese Communist Party (CCP) in its Constitution revised three years ago. The first Centenary Goal is to be achieved by 2021, the centenary year of the founding of the CCP. It aims to double China's gross domestic product (GDP) and per capita household income from the levels of 2010 and transform China into a "moderately prosperous society of a higher level". The second Centenary Goal is set for year 2049, the centenary of the founding of the People's Republic of China. It aims to uplift the per capita GDP to "the level of moderately developed countries and realize modernization in the main".

In his explanatory note to the CCP's proposal of the Five-Year Plan, President Xi set the bottom-line growth rates of both GDP and per capita household income to be no less than 6.5% per annum in the 2016–2020 period. This rate is slightly above what is needed to ensure the attainment of the first Centenary Goal.

In constant 2014 US dollar, China's per capita GDP in 2010 was US\$5,679. To achieve the first Centenary Goal, China should double its per capita GDP in 2010 to US\$11,358. In 2014, China's per capita GDP had reached US\$7,594. From this level onwards, the per capita GDP must grow at no less than 5.92% per annum in order to reach US\$11,358 by 2021. According to the United Nations population projection, China's median population annual growth rate will be 0.39% in the 2015–2020 period. China's total GDP must therefore grow at least 6.31% annually for the next few years before 2021.

As acknowledged by Xi, maintaining growth at an annual rate of no less than 6.5% in the 2016–2020 period will be met with serious challenges. The Chinese economy is currently undergoing painful structural changes. Its labour force is shrinking and population is ageing. Evaporation of demographic dividends has led to rising labour costs and disappearance of comparative advantages in labour-intensive industries. Although the share of tertiary sector in GDP has recently surpassed that of secondary sector, growth continues to slow down since the rise of domestic consumption and service sector is not sufficient to make up for the speed loss in manufacturing sector due to weak global demand for China's exports. The growth pattern that relies on high investment growth becomes increasingly unsustainable as corporate leverage and local government debt have already reached dangerously high levels. Environmental degradation accumulated over the recent decades further

constrains growth potentials. Despite decades of prosperity, social harmony is bugged by alarming degree of income inequality and entrenched poverty.

The proposed 13th Five-Year Plan aims to tackle these challenges, capitalising on the buzzwords, "Innovation, Coordination, Greenness, Openness, and Sharing". Most policies and reforms proposed in the name of "innovation" and "coordination" are designed to start new engines for growth in the immediate future. These policy reforms include, for instance, planning for next generation of internet network and ensuring universal telecommunications service to promote integrated development of internet business and economy; enforcing protection of intellectual property rights and boosting capitalisation and industrialisation of science and technology achievements; beefing up the capability of universities and research institutes to enhance technological innovation; and deepening reforms of capital market to improve allocative efficiency of financial resources, etc. Correspondingly, the Party undertakes that the government's role as an administrator of research and development will be transformed to a public service provider for enterprise-dominated innovation; it also assures that all prices in markets of competitive nature will be free of government intervention, and that 100 million migrant workers and their families will gain full permanent status of urban residents.

Measures that address the "greenness" topic are to ensure long-term sustainability of development. These include the establishment of a national Green Development Foundation, the commitment to gradually scale down annual increment of urban land and continuous implementation of the National Primary Function Area Zoning Plan launched five years ago. In addition, "red-lines" that prohibit crossing or trespassing will be drawn to protect agricultural land and ecological zones. Also, rights to the use of energy and water and to emission of pollutants will be defined and allocated systematically. "Openness", on the other hand, places emphasis on two-way opening that is premised on not only providing support to Chinese firms to go abroad via value-chain globalisation and initiatives such as the "One Belt, One Road" projects, but also giving foreign investors national treatment.

The premise of "sharing" in the proposed Five-Year Plan is to close the gap of urban-rural inequality and eradicate poverty. The plan pledges to lift all of the 70 million rural people currently living below the official poverty line out of poverty by 2020 via "precise assistance and precise alleviation". Local officials will be bound with the "poverty alleviation responsibility", which will be used as a yardstick in their performance evaluation.

Since the fall of the Berlin Wall, the legitimacy of the

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# Sustaining Development through Innovation

The Party leadership uses the 13th Five-Year Plan to promote a new development concept that places strong emphasis on innovation.

SARAH Y TONG

"Innovation" has become a buzzword in China's official language and statements in recent years. In particular, since 2013, Premier Li Keqiang has been an enthusiastic advocate of "mass entrepreneurship and innovation", the so-called *shuangchuang*. Official record has shown that between May 2013 and August 2015, at least 22 documents were issued by the central government to promote *shuangchuang*.

Most significantly, innovation is at the very heart of the recently released Party document, the Communist Party of China (CPC) Central Committee's Proposal on Formulating the 13th Five-year Plan (2016–2020) on National Economic and Social Development (hereafter the proposal), adopted at the Fifth Plenum of the 18th CPC Central Committee which concluded on 29 October 2015. Indeed, the term "innovation" appears repeatedly throughout the 22,000-word document consisting of eight chapters.

The rationale behind this is understandable. First of all, the Chinese leadership recognises that China's traditional mode of development has largely exhausted its potentials. Over more than three decades, expansion in investment and labour input have contributed considerably to China's rapid growth. However, as resource and environmental constraints tightened, the number of new entrants to the labour market already started to decline, and external business conditions continue to weaken, the government therefore has to cultivate new sources and a new development concept for the country's future development. The new development concept, as stated in the proposal, includes five ideas: innovation, coordination, green development, openness and shared development. There is strong focus on innovation as the proposal stresses that "innovation is the number one engine driving development".

Moreover, the proposal introduces the innovation concept to a broader range of issues, with the intention of injecting new imperatives to reform and renovate institutions, as this is deemed essential to future development. In fact, the proposal states explicitly that "[we] must place innovation in the core of the overall national development, and constantly promote innovations in theory, institutional innovations, technologically innovations, cultural innovations, and so on. [We] shall make innovation run through all of party and government's work, so that innovation becomes common practice in the entire society."

Innovation, in the narrowly defined technological context, is believed to be vital for the country's development over the next five years, and there is a full chapter, entitled "Adhere to Innovation-driven Development and Strive to Improve Quality and Efficiency", in the proposal touching on the topic. The chapter is further divided into seven subsections covering various sectors and areas, namely cultivating new sources of development; expanding new space for development; further

implementation of innovation-driven development strategy; promoting agricultural modernisation; constructing a new industrial system; building a new development system; and renovating and improving macromanagement. With careful deliberation, the term "innovation" actually refers to both technological innovation as well as innovation in government administration and management.

Promotion of technological innovation is high on the Party's priority list. In fact, "the implementation of major national science and technology projects and the establishment of national laboratories in several major innovation fields" is one of the nine important issues highlighted in Xi Jinping's explanation on the proposal. Xi stressed that "[t]he gap between China and the advanced countries in science, technology and economic strength is reflected mainly in the ability to innovate. To enhance innovation capacity, [we] must build a strong material and technical base for indigenous innovation, and accelerate the construction of infrastructure platforms for innovation led by national laboratories."

In August 2014, the government decided to accelerate the implementation of the existing 16 major national science and technology projects, aiming to generate breakthroughs in core technology in areas such as high-end general chips, integrated circuits and equipment, high-end digitally controlled machinery, nuclear power plants and new drugs development. It has also identified key projects to enhance China's comprehensive competitiveness and capability to defend national security. These include aircraft engines, quantum communication, intelligent manufacturing and robotics, outer-space and deep-sea exploration, and new materials.

To achieve technological advancement, the proposal aims to improve institutional environment to facilitate technological innovation. For example, it is suggested that universities and research institutes to be given greater autonomy in determining and applying pay policies for research personnel based on commercialisation value of knowledge. Similarly, the proposal encourages the development of a modern vocational education system and closer integration between research and application of technologies. Meanwhile, it aims to deepen reforms in fiscal and financial systems so as to provide stronger support for innovation, such as the development of a government procurement system in which innovative products receive priority consideration.

More interestingly, the term "innovation" has been applied beyond the context of technological advancement. For instance, it advocates innovation and improvement in government regulation, referring more specifically to the development and flexible use of various policy instruments to manage the economy. Innovation and further reforms are also encouraged in areas such as the development of cultural

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# What to Expect for Housing Development in China's 13th Five-Year Plan?

*The housing industry will continue to play a crucial role in sustaining China's economic growth in the coming years, although its contribution will not have the same weight compared to the past two decades.*

ZHOU ZHIHUA

The Communist Party of China has approved the 13th Five-Year Plan, which is the high-level road map that sets the direction of national development for 2016–2020. “New normal” has become the norm in the Five-Year Plan, and the Party has sought to transform the investment-intensive and export-reliant economy model to one that is based on innovation, consumption and services. As for the housing sector, the plan briefly outlines the goals, i.e. to “deepen the institutional reform of housing and make more efforts on the innovations of the urban shantytown areas and dilapidated housing in both urban and rural areas”. However, the plan is anticipated to have significant impact on future housing development in several aspects as detailed below.

First, the relaxation of the “one-child” policy in the Five-Year Plan could, to some extent, boost the demand of both larger-size housing units that cater to larger household structure and housing with access to good education facilities. However, the impact that the government’s effort in relaxing the “one-child” policy has on housing development could be limited. In fact, not all couples intend to have a second child for various reasons, particularly those who live in high-tier cities, having to deal with high living cost and housing unaffordability pressures. On the other hand, the factor that could shift housing need into demand is the increased purchasing power of the Chinese, rather than household expansion. Couples in lower-tier cities and towns would probably welcome and are more supportive of the “two-child” policy. Many of these lower-tier cities have already faced issues of a market equilibrium in housing sector or huge housing inventory. The relaxation of birth control policy could help to solve the issues of high housing inventory, but unlikely to drive new housing construction.

Second, the Five-Year Plan places emphasis on urbanisation growth and sets out urbanisation rate target of 60% to be achieved by 2020. In other words, the urban areas will see a population inflow of 17 million citizens (around five million households) each year; this could greatly boost the housing demand in urban areas. Nevertheless, the direction of population flow from rural to urban areas could deteriorate the housing problems, as already evident in China and manifested in regional variations.

Third, as part of a bid to improve people’s quality of life and build a “moderately prosperous society”, the 13th Five-Year Plan stipulates that environment protection will be a policy priority in the next five years, and this will likely have implications to many industries, including the construction

of green buildings. Indeed, in the National New Urbanization Plan 2014–2020 released by the State Council in March 2014, China already announced to increase the proportion of green buildings from 2% of total new buildings in 2012 to 50% in 2020. This will push developers and contractors to use more environment-friendly materials in housing construction, significantly boost the supplies of green materials and help promote industry upgrades.

Fourth, the 13th Five-Year Plan reiterates the need to deepen administrative reform and increase efficiency in governance by simplifying administrative procedures, optimising public services and boosting market capacity. This is crucial for the establishment of a sustainable and stable housing market, which currently sees heavy intervention from an authoritarian government. In addition, institutional rearrangements in the fiscal system and reallocation of fiscal resources between the central and local governments could help redefine the role of local governments in housing development.

Fifth, the 13th Five-Year Plan’s strong emphasis on deepening reforms, including the reform of state-owned enterprises, as well as provision of more assistance to small and medium-sized enterprises would likely have positive impacts on the housing sector. This would promote and improve market competition in the housing sector because some large state-owned or state-affiliated developer enterprises actually dominate the housing supply due to the unfair advantage they enjoy in terms of strong bargaining and negotiation power with the government and good relationships with the major banks. Furthermore, the reinvigoration of rural land sector and the development of capital market and finance sector as stipulated in the five-year plan could significantly enhance the market mechanisms for the land-essential and capital-intensive housing industry.

The 13th Five-Year Plan sets the goal to double China’s economic size and per capita income between 2010 and 2020; this implies that the country would have to expand at a rate of at least 6.5% in GDP growth through 2020. To attain the goal, housing development, which is now an important pillar of the Chinese economy and closely linked to infrastructure and transport constructions as well as construction materials industries (e.g. concrete, cement, steel, glass, etc.), will continue to play a crucial role in sustaining economic growth, although its contribution to economic growth will not have the same weight compared to the past two decades. In this scenario, China will attempt to maintain a moderate and thriving housing market in the coming years. ■

Zhou Zhihua is Visiting Research Fellow at EAI.

# Understanding China's 13th Five-Year Plan from the Aspect of Financial Development

*The significance given to financial sector reform in China's 13th Five-Year Plan demonstrates that the government is determined to bite the bullet and deepen the implementation of reforms in order to overhaul the financial sector.*

WAN JING

China unveiled details about the direction of the country’s 13th Five-Year Plan on 3 November 2015. The general impression of this plan is that it focuses on quality over quantity, and gives greater weight on reform and innovation that is applicable to almost all areas. During the 12th Five-Year Plan period, China was faced with both invaluable opportunities of historic significance and many foreseeable and unforeseeable risks and challenges, and these were also mirrored in the financial sector. For the past five years, China had made much achievements in the financial sector reform, but at the same time encountered unprecedented risks too. It should strengthen its awareness of both the opportunities and challenges ahead. In the financial sector, the lessons learnt may be invaluable but sometimes turn out to be too costly. Hence, it is imperative to exercise risk control and prevention in the financial sector.

China began its financial sector reform step by step five years ago and has accelerated the pace of reform in the last two years. With many objectives accomplished successfully, the reform has profound and long-lasting effect on future financial structure. The launch of the Shanghai-Hong Kong Stock Connect programme in November 2014, the official permission given to margin trading in March 2015, and the establishment of the explicit deposit insurance scheme in May 2015 have paved the way for complete interest rate liberalisation. Also, the central bank had carried out several rounds of targeting policies to boost the small and medium enterprise (SME) and agriculture sectors. Many innovative financial policies and tools have been developed and implemented, including short-term liquidity operation, standing lending facility, pledged supplementary lending, medium-term lending facility and re-lending with credit-asset collateralisation.

Against the backdrop of the fast-paced financial development and snowballing high risks, there is an imperative need for advanced regulations and sophisticated institutions. The alarming growth of shadow banking sector since 2009 and the stock market crash that started in mid-June 2015 have made the government sit up and take notice of the power of market and the importance of risk control.

As detailed in the Five-Year Plan, financial reform will be further accelerated to improve the entire financial sector that will serve the real economy with higher efficiency, prevent systemic risk and encourage structured development and innovation of financial organisations, products and services, as well as raise the overall quality of the financial services. The plan also proposes incorporating private capital into the commercial banking sector and building a multi-layered financial system with wider coverage so that every participant and every sector can benefit. In particular, a spectrum of

financial services and a sound credit guarantee system for SMEs, the agriculture sector and poor rural areas should be set up.

Following China’s stock market rout in the middle of this year, the top Chinese leaders demand for greater transparency and robustness in the capital market, and have committed efforts to conduct further reforms on trading and issuance of stocks and bonds. In view of the potential risks induced by the shadow banking sector, the central government intends to lower the leverage ratio, thus increasing the weightage of direct financing. Developing more innovative financial services—e.g. issuing more high return bonds or developing a mixed financing approach that merges equity financing into the debt financing method—is essential to enhancing the efforts of the entire reform. This also calls for the management of financial institutions and quality of financial services to be improved in order to lower the financing cost for firms.

Also clearly stated in the plan are actions to regulate the development of internet financing service, establish the catastrophe insurance and explore the set-up of insurance asset trading mechanism. Exchange rate liberalisation and interest rate marketisation are two anchor goals in the plan. The plan also lays out several measures to prevent systematic and regional financial risks. These include improving and reforming the current financial regulatory framework, strengthening the rules that are customised for domestic scenario as well as in compliance with the international standard, regulating and managing financial risks, improving the management system of state-owned financial capital and foreign reserves, setting up safe and efficient financial infrastructure, and developing and utilising effective financial risk management tools.

It is also imperative to establish a risk monitoring mechanism as a proactive approach to control and minimise the risk factors. At the macroeconomic level, the monetary authority will continue to make aggregate adjustments, and together with targeted policies, fine-tune the regulations in consideration of the short-, medium to long-term interests as well as the domestic and international aspects.

Overall, China has achieved substantial success in its financial reform for the last five years, and the fundamental goals of the reform for 13th Five-Year Plan is closely consistent with the precious plan. With the reform deepening, more challenges are unveiled. As manifested in the 13th Five-Year Plan, the Chinese government has acknowledged the difficulties ahead in implementing the reform and will nevertheless forge ahead with greater determination. ■

Wan Jing is Visiting Research Fellow at EAI.

# Recent Staff Publications

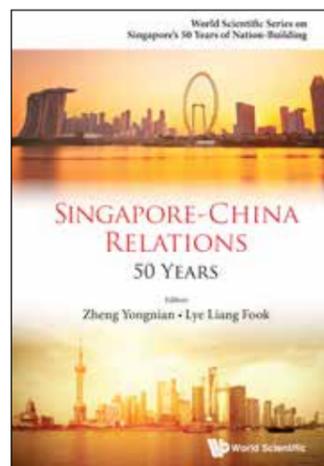
## Books

### *Singapore-China Relations: 50 Years*

Editors: **Zheng Yongnian and Lye Liang Fook**

Publisher: **World Scientific Publishing**

Year of Publication: **2016**



Showcasing the substantive and multi-faceted Singapore-China relationship, this book examines the political, economic, socio-cultural, people-to-people and even military exchanges between the two countries. It also highlights flagship projects and other key private sector-led projects that have become hallmarks of bilateral cooperation. The book argues that the current level of cooperation is built on the earlier foundation laid by Lee Kuan Yew and Deng Xiaoping. In a way, the bilateral relationship is a unique one. The two countries also have a number of bilateral institutional mechanisms that have become more important in reviewing existing cooperation and identifying new ways of working together.

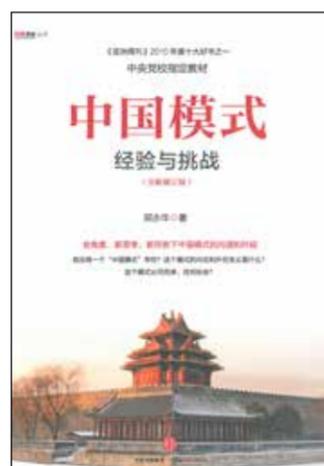
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### *China Model: Experiences and Challenges (New Edition)*

Author: **Zheng Yongnian**

Publisher: **China Citic Press**

Year of Publication: **2016**



The logic underpinning the development of contemporary China is founded on the China model as defined by its experiences of development and reform. Understanding the China model requires one to take a panoramic view of China's practice and experiences. The author, with his years of keen observation and deep analysis of China, investigates the essence

of China model and offers a balanced and comprehensive evaluation of the pros and cons of the model. He argues that China model is an open concept whose core lies in its political and economic ideologies. Understanding where the maladies of these ideologies lie is critical to improve the China model.

### *China in the Next Thirty Years: Key Problems of Reform under the New Normal*

Author: **Zheng Yongnian**

Publisher: **China Citic Press**

Year of Publication: **2016**



The fate of China in the next 30 years depends on how its leaders face the key problems in the "new normal" era and what actions they would take. The 18th National Congress of the Communist Party of China has mapped out a blueprint of comprehensive and deepening reforms. Several achievements are made but questions and uncertainty pervade—What are the new risks

China faces in its current reform? What is the economic logic of "One Belt, One Road" strategy and how it assists China's rise? Facing multiple key problems, the new Chinese leadership places emphasis on actual implementation and action. This book attempts to offer some guidance in dealing with the uncertainties of the future by analysing the causes of, and the status quo and the countermeasures to these new challenges, new conflicts and new orders that China has to face and deal with.

### *China-Taiwan Rapprochement: The Political Economy of Cross-Strait Relations*

Author: **Chiang Min-Hua**

Publisher: **Routledge**

Year of Publication: **2016**



This book examines how, over the last three decades, the economy of Taiwan has become deeply integrated into the economy of China. It goes beyond a consideration of trade and investment flows and discusses also the large population flows, the growing integration of the two financial systems and the nature of the deep economic integration at the industry and firm level. It considers the impact of growing economic integration on Taiwan's economy and

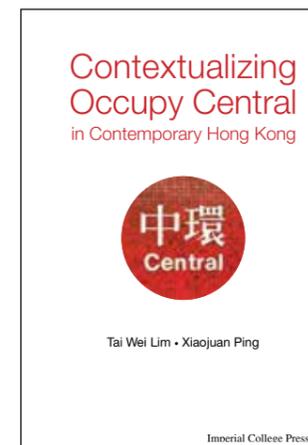
politics, assesses how China-Taiwan economic integration is affecting the East Asian region more widely, and explores the implications for international relations, including the United States dominance in the region.

### *Contextualizing Occupy Central in Contemporary Hong Kong*

Authors: **Lim Tai Wei and Ping Xiaojuan**

Publisher: **Imperial College Press**

Year of Publication: **2015**



The Occupy Central with Love and Peace in Hong Kong (September to December 2014) movement represents a significant event in Hong Kong's history of public advocacy for change by pro-democracy residents. It is viewed differently by various groups within Hong Kong, including eliciting counter-reactions from an opposing movement. To contextualise the current discussions, the authors

have identified three phases of the movement; and included a historical anatomy of Hong Kong's quest to reach an equilibrium between status quo and changes advocated through its social movements. Though the account does not pretend to be comprehensive, it distills the most significant events in each of the three stages of the movement. Centrist, moderate, and conservative views on Occupy Central, as well as the liberal and progressive positions on the movement are discussed and analysed in the book.

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## Hong Kong and Macao in the 13th Five-Year Plan

*Hong Kong and Macao are included in the national Five-Year Plan again for closer economic ties and political considerations.*

HU WEIXING

The new features delineated in the Chinese Communist Party's proposal for the 13th Five-Year Plan are innovation, better coordination, green economic development, opening-up and equitable sharing of benefits with its population. To achieve these goals, further opening-up and integration into world economy and strengthening economic ties between the Mainland and Hong Kong and Macao are imperative.

Hong Kong and Macao are two Special Administrative Regions (SAR) of China. Yet these two SARs were not part of the national economic planning exercises before 2011 despite the natural economic and trade ties they have long developed with the Mainland. After 1997 there was a great deal of debate in Hong Kong whether it should coordinate economic development with the Mainland. Most of Hong Kong elites felt that it should not be part of the national economic planning as Hong Kong is one of the most free market economies in the world and it should remain so. However, three harsh economic realities have made them to reconsider the city's economic future and its role in China's national economic development planning. First, as most of its manufacturing industry has moved out to Guangdong since the 1980s, what would be Hong Kong's future economic drivers? Second, as Hong Kong's economy became more service-oriented, it needs market and clients as well as Beijing's policy support for Hong Kong to be an international financial centre. Third, cross-border transportation networks and infrastructure requires joint planning and policy coordination with the mainland authorities. In the beginning, many Hong Kong SAR officials were reluctant to collaborate with Guangdong province and open up Hong Kong for investment and tourists from the Mainland. But the 1998 financial crisis and the economic slowdown during the SARS crisis in 2003 compelled them to rethink their options and take bigger steps in forging closer economic ties and policy coordination with the mainland authorities.

The two SARs were included in the national plan for economic and social development for the first time in the 12th Five-Year Plan (2011–15). The 12th Five-Year Plan identified three areas of economic cooperation with Hong Kong and Macao. These areas were: (i) to support Hong Kong's efforts in increasing its competitiveness as an international financial centre; (ii) to support the Hong Kong SAR government's initiative to nurture six emerging economic sectors; and (iii) to support Hong Kong-Guangdong and Macao-Guangdong economic integration and to fully implement the Closer Economic Partnership Arrangement between the Mainland and the two SARs.

Compared with the 12th Five-Year Plan, the current 13th Five-Year Plan under discussion gives longer and more

detailed description of economic cooperation between the Mainland and Hong Kong and Macao. In section 6.4 of the CCP Suggestions for the 13th Five-Year Plan, both Hong Kong and Macao are included in the central government's overall strategic layout of national opening-up to the world—an elevated treatment of the two SARs' role and function in national economic plan. While the general goals for China's opening-up are to further open up the Chinese economy to the world, and let China actively participate in global economic governance, provide international public goods, promote "One Belt, One Road" construction overseas and build a larger community of common interest in the world, Hong Kong and Macao are also offered the role to have a full play of their special advantages and functions in China's national economic development and opening-up to the outside world.

For Hong Kong, the central government will give the SAR support to consolidate its role as an international centre of finance, shipping and trade. Hong Kong is also encouraged to get itself actively involved in China's two-way opening-up strategy and the "One Belt, One Road" development. More specifically, the central government will support Hong Kong's efforts in enhancing its position as an offshore renminbi hub, and in promoting sectors such as financial service, commerce and trade, logistics and professional services to be more high-end with higher value-added. As for Macao, the central government will support it to develop into a world tourism and leisure centre, and a business and trade service platform for China to foster trade relations with Portuguese-speaking countries, as well as to help Macao's economic structure become more diversified and sustainable.

Specific projects for building the Guangdong-Hong Kong-Macao cooperation platforms are mentioned in the 13th Five-Year Plan, namely the Qianhai project in Shenzhen, the Nansha development area in Guangzhou and the Hengqin project in Zhuhai. Moving beyond economic platforms, more exchanges and cooperation over intersocietal relations, people's livelihoods, science and technology, culture, education and environment protection are also encouraged between Guangdong and Hong Kong and Macao and in a larger geographic region covering the entire Pan-Pearl River Delta area.

Closer economic ties and the further integration of Hong Kong and Macao into the Chinese national economic and social development are politically important for Beijing and its national unification strategy. Since the return of Hong Kong and Macao to the Chinese sovereignty, the implementation of the "one country, two systems" and "Hong Kong/Macao people governing Hong Kong/Macao with a high degree of autonomy" is not without problems. By further economic

*continued on page 15*

## China's Poverty Alleviation Goals in the 13th Five-Year Plan

*Improving targeting of poverty reduction programmes and providing public services to the rural poor will be the major directions in China's rural poverty reduction policies.*

QIAN JIWEI

In November 2015, the guideline for the 13th Five-Year Plan was unveiled after the Fifth Plenary Session of the 18th Communist Party of China Central Committee. This guideline highlights the importance of rural poverty reduction policies that aim to lift all 70 million rural people out of absolute poverty by 2020.

Rural poverty was a severe problem in China before the 1980s. The World Bank estimated that in 1980 over 848.2 million Chinese of mostly rural residents lived below the official poverty level at less than US\$1.25 per day (at 2005 prices). Between 1990 and 2005, the number of people in China whose income was less than US\$1.25 a day (at 2005 prices) reduced from 683 million to 212 million. Internationally, this represented 76% of the world's total who were lifted out of the poverty. The United Nations Development Programme's Millennium Development Goals to reduce poverty has thus been achieved 10 years in advance.

By the end of 2014, China still have 70.17 million people in rural areas living below the poverty line, which is set at an annual income of RMB2,300 in 2010 price standards (or RMB2,800 at current prices).

There are four major causes of rural poverty in China. First, most rural poor reside in regions characterised by poor geographical conditions, challenging terrain, infertile soil, inaccessible water supply and other factors. Second, inferior infrastructure or the lack of basic infrastructure hinders development of regions, which are thus likely to be poor. Third, credit constraint and human capital constraints, thus resulting in lack of opportunities for the poor. Fourth is the undersupply of basic public services in some regions in the rural areas.

China has initiated its rural poverty reduction programmes since 1986. For a long time, these poverty reduction programmes were area-based, and national-level poverty-stricken counties were the key players to implement these programmes. In the 1980s and 1990s, 592 national-level poverty-stricken counties were identified based on the level of per capita income. Since 2001, the benchmarks used to define national-level poverty-stricken counties have been based on the proportion of the poor, income and fiscal revenue per capita.

Resources utilised for poverty reduction programmes, such as subsidised loans, food-for-work and budgetary development fund, highlighted the importance of economic development and revenue-generating activities in these poverty-stricken counties. These poverty reduction programmes therefore target at regions that are constrained by infrastructure shortage. Education, training and microfinance support were recently incorporated into rural

poverty reduction programmes to address credit and human capital constraints.

While there were remarkable achievements in the first two decades of rural poverty reduction in China, three major issues have emerged. First, inaccurate targeting is a serious concern. Poor households were not directly covered by these programmes because the poverty reduction programmes were targeted at impoverished regions rather than at families. Second, many poverty reduction programmes have produced results that are heterogeneous and context-dependent. That is to say, a given policy may be only effective for certain regions. Third, without a social safety net, the programmes may not have enduring effects on the poor. Some rural poor who had been lifted out of poverty were soon found to have fallen back into poverty again.

There are several new programmes initiated recently for rural poverty programmes. To improve targeting, the implementation of these new poverty reduction programmes is carried out in smaller units by singling out poverty-stricken villages, compared to the usual blanket implementation on counties. Development programmes, such as "Whole Village Advancement", have also been introduced to villages. Over 80% of the poor population were already covered by these poverty reduction programmes.

The Chinese government rolled out the rural social assistance and rural social security programmes in 2007 and 2009, respectively, to address the constraints of underprovision of social services. In 2014, rural social assistance programmes had covered over 52 million recipients. In 2011, about 90 million rural residents claimed pension from the rural social security scheme.

As stated in the guideline for the 13th Five-Year Plan, while the Chinese government will continue to build up rural infrastructure and improve accessibility to water, power and the internet, it has set clear major directions—improved targeting of the rural poor and improved provision of public services—to guide its poverty reduction strategies. First, provision of basic public services, such as education, health care, and other services identified as essential in poor areas, is important for rural poverty reduction. In particular, a social services system for "left-behind" children, women and the elderly will be developed. Local officials will also be evaluated for their performance in implementing effective poverty alleviation programmes in poverty-stricken countries under their charge.

Second, accurate targeting of the rural poor requires constant further improvement in order to fulfil the guideline's vision that there will be no more national-level poverty-stricken countries by 2020. The poverty strategy can be applied differentially targeting the rural poor at household

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# China's Push for Renewed State-owned Enterprise Reform

*The state and the Party have no plans to retreat from the Chinese economy or relinquish their authority over the state-owned enterprises.*

YU HONG

The state sector is still playing a vital role in the Chinese business landscape, with the expanding scope of the state-owned enterprises' (SOEs) business operations. The visible reach of SOE investment activities in both domestic and foreign markets has been astonishing since the outset of the 2008 global economic crisis. State firms have also diversified their businesses into many purely competitive industries in the country. Consequently, many private companies have been either swallowed up or squeezed out of the market by these state giants.

The state wants to maintain its decisive control over the SOEs in strategic sectors vital to the national security and national economy, especially in relation to the centrally administered state firms.

The dominance of SOEs represents a barrier to private entry to key strategic domestic industries for private interests in the Chinese economy. The rapid ascendancy of SOEs in an expanding range of business activities has caused numerous serious problems to emerge not only in the state sector and national economy, but also in the society as a whole.

These problems derive from the administrative monopoly of SOEs that is granted to them, unfair market competition, the lack of efficiency, poor corporate governance, monopolistic practices and abuse of market power, and widespread corruption within the state sector. Worse still, without the preferential treatments and subsidies provided by the government, many SOEs would be operating at a big loss.

In September 2015, the Central Committee of the Chinese Communist Party (CCP) and the State Council of China jointly issued the "Guiding Opinion on Deepening Reform of the State-Owned Enterprises" document (hereafter the plan). This grand plan was approved and endorsed by the Small Leading Group for Comprehensive Reform chaired by Chinese President Xi Jinping earlier this year.

The plan serves as a guideline to reform the bloated SOEs and reflects the state's efforts to reinvigorate the stalled process of SOE reform. The Chinese economy has been slowing down in the past few years, both the domestic and global economic environment are unfavourable and China's economic outlook is uncertain. The central government anticipates that the new SOE reforms will boost the Chinese economy by making it more market-oriented.

According to the plan, the state will promote mergers and acquisitions among state conglomerates. Another key proposal outlined in the new SOE reform is to promote mixed ownership in SOEs through flexible means by introducing

participation of private investors. The Chinese government views mixed ownership as the main strategy to increase the efficiency and competitiveness of SOEs by promoting productivity and improving corporate governance while maintaining their dominance in the Chinese economy.

In addition, new state capital investment corporations will be set up to channel state funds into the SOEs and their subsidiaries, and will be responsible for the security of investment and for increasing capital returns on state-owned assets by managing the SOEs' stock rights. The proposal to establish state capital investment corporations is in fact viewed as a Singapore-inspired quest modelled on the example of Temasek Holdings.

Nevertheless, the state and the Party have no plans to retreat from the Chinese economy or relinquish their authority over the SOEs. With no sign of any relaxation of the state's tight control, it will be extremely difficult for state firms to establish sound systems of management and corporate governance.

The devil is in the detail. The plan sends out confusing signals to the public as the direction of the reform is unclear and some of its proposals seem conflicting. The new reform proposals—which are in fact far less bold and ambitious than the previous SOE reform implemented by the

Chinese government led by Prime Minister Zhu Rongji in the late 1990s—are unlikely to solve the serious problems faced by the SOEs and the Chinese economy as a whole.

Institutionalising the role of the Party in state companies will thus weaken and have negative impact on the functions and role of the board of directors. As the Chinese government intends to bring in more Party-appointed officials to serve on the board of directors in these companies, it is hard to imagine how this reform could help China achieve a clear separation of politics and government from the business of SOEs.

Moreover, the government's highly anticipated mixed ownership reform would probably not bring about any meaningful changes to the operational behaviour and corporate governance of the state companies, as this reform will not grant private investors control of state companies. Both foreign and domestic private investors therefore have no interest and lack incentives to sit on these boards or to inject assets into inefficient SOEs.

To achieve meaningful and significant breakthroughs in SOE reform, the state has to relinquish its control on SOEs to the market forces, and create a level playing field between SOEs and non-state companies to engage in real market competition. ■

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# From Strategic Emerging Industries to "Made in China 2025"

*Commercialisation of innovation, well-allocated financial resources, quality manpower and an effective evaluation system will provide the catalyst to China's goal in becoming a manufacturing superpower.*

KONG TUAN YUEN

As China's economy enters the state of "new normal" characterised by a slowdown, the Chinese government is committed to explore new growth engines in the proposals for 13th Five-Year Plan that will lead China to attain the status of a moderately prosperous society by 2020. The role of strategic emerging industries (SEIs) has been highlighted in the "Made in China 2025" plan (MiC2025), which was released in May 2015.

The SEIs were first proposed by the Hu-Wen administration and later incorporated in the 12th Five-Year Plan in 2011, which identified seven industries to spur industrial restructuring, facilitate economic transformation and enhance global competitiveness. Faced with global industrial restructuring and environmental constraints, the MiC2025, inspired by Germany's "Industry 4.0" plan, will play an important role in the 13th Five-Year Plan. The Chinese government aspires to propel China's manufacturing sector into a global technological superpower that thrives on innovation, green technology and intelligence.

The seven SEIs were expanded to 10 key sectors in the MiC2025 plan, namely the new-generation information technologies, automated machine tools and robotics, aerospace and aeronautical equipment, maritime equipment and high-tech shipping, modern rail transport equipment, new-energy vehicles and equipment, power equipment, agricultural equipment, new materials, and biopharmaceutical and advanced medical equipment. For the first time, the automated machine tools and robotics industry is included in the 13th Five-Year Plan to promote automation and intelligent factories. More importantly, the innovation-driven strategy has an important role in propping up the development of SEIs. Of noteworthy is the emphasis of the service role in manufacturing, such as service-embedded manufacturing and producer services, in the MiC2025 plan.

Based on the report by the National Development and Reform Commission, the performance of SEIs in the first quarter of 2015 was far better than the overall industries. The operating income of 27 main sub-SEIs was RMB3,964.37 billion, an increase of 11.1% year-on-year, and the growth of SEIs' industry category at 10.1% is five times that of the overall industries. The realised profit of SEIs' industry category was RMB163.17 billion, an increase of 17.7% year-on-year, but the overall industries reported negative values. Furthermore, SEIs scored higher in entrepreneur confidence index at 145.2, compared to that of overall industries at 118.4. The second-quarter confidence level for SEIs was strong at 160.9, signalling an optimistic development.

The development of SEIs nonetheless faced numerous challenges. The first challenge is commercialisation of innovation. Most of China's innovation still focus on basic research, rather than commercialisation and industrialisation.

The Chinese State Intellectual Property Office reported that about 95% of the patents filed by colleges and universities are idle and never make it to the marketplace. This is mainly attributed to the fact that the number of patents filed—but not the patent transformation rate—is taken as one of the evaluation criteria of college performance. For example, the core technology of new-energy vehicles, i.e. the battery technology, is still mostly imported from foreign countries despite the Chinese government's heavy investment in research and development (R&D) and the various patents filed over the last decade.

The second challenge is allocation of financial resources. The Chinese government has set up a venture capital fund of RMB40 billion in August 2015 to attract and direct various sectors and companies to pump in over RMB180 billion in investment in SEIs. Most Chinese small and medium-sized enterprises and new ventures are in need of funds to improve quality of product and operational process or embark on innovation efforts. However, the reality is they possess few fixed assets to take out mortgage loans from financial institutions. The financial support is eventually concentrated in those few larger companies, instead of being evenly distributed across various sectors and enterprises.

The third challenge is recruitment of quality manpower. According to a survey conducted in China by ManpowerGroup, technical staff, technicians, R&D staff, IT staff and engineers are among the top 10 positions most difficult to fill in 2015. These talents are also in high demand by SEIs. Apparently, the Chinese labour market is unable to fulfil the demands of industrial development due to skills shortages. The education system, particularly vocational education, has to make adjustments rapidly to train sufficient skilled manpower.

The fourth challenge is inadequacies in the evaluation system. The Chinese government set up five key projects to promote the development of SEIs and establish targets for SEIs to achieve by 2020 and 2025. However, not all SEIs were provided with details of the implementation and specific initiatives, therefore making periodic evaluation of performance difficult. In a fast-changing world, it is also meaningless to evaluate a plan five or 10 years after its implementation. To track the progress of SEIs, the Chinese government should adopt the private sector's practice of evaluation using key performance indicators.

Generally, the scope and content of SEIs have been broadened, with the incorporation of the MiC2025 plan into the proposals of the 13th Five-Year Plan. Increased commercialisation of innovation, even distribution of financial resources, skilled manpower and an effective evaluation system are the essential factors that will accelerate the growth and development of SEIs. ■

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**The dominance of SOEs represents a barrier to private entry to key strategic domestic industries for private interests in the Chinese economy.**

# Food Security and Food Safety Issues in China

*Rural land property rights reform and a comprehensive plan for food safety monitoring system are cautiously anticipated in China's 13th Five-Year Plan.*

JANE DU

At its most elemental, maintaining food security is a question of providing sufficient calories to keep a population healthy and productive. Notwithstanding that it is a mundane and often humble issue, food security is however vital for the legitimacy of the ruling party and the government. Chinese food sector under President Xi Jinping's regime has reaffirmed its fundamental role and embraced some new elements on the politico-economic aspect.

Since the first Five-Year Plan (1953–58), which set the beginnings of China's major industrial development, food security has been regarded as a key support for national industrialisation. Thereafter, among the main objectives developed for each five-year plan, food issues have long been a priority in central policy-making. From the first to the 12th Five-Year Plan (2011–15), China's grain production had grown from 167 million (1953) to 607 million tons (2014), with per capita grain possession almost doubled.

While enhanced agricultural productivity has increased China's capacity to feed its population, new food issues begin to kick in. The Fifth Plenum of the 18th Central Committee of the Chinese Communist Party has introduced a comprehensive package of reform programmes on food issues, of noteworthy are the farmland property rights reform and food safety monitoring system implementation. The shift in reform emphasis from agricultural productivity to institutional arrangements in food sector has raised public awareness that China's food security today has metamorphosed into a far more complex set of challenges.

The first of these challenges is eliminating hunger and undernourishment, which still affect well over 70 million people in China. Although the yearly per person grain output had reached 444 kilogrammes in 2014, there are still 70 million people living below the poverty line. How to ensure food accessibility for this group of people remains an issue to the central government. As President Xi Jinping had said, "Chinese people's bowls must be filled with Chinese grain", food self-sufficiency is once again on the central government's agenda. This signals that the ability of Chinese agriculture to supply basic needs to the whole population remains a core challenge and pressing issue in the coming five-year plan.

The second issue deals with satisfying the changing dietary aspirations of an increasingly urbanising population. The dietary shift from a semi-vegetarian diet to an animal

product-dominant diet in fact raises the need for animal feed, thereby requiring farmers to produce more crops—mainly maize—to supply the increasing demand of domestic animal food sector. Such an effect is already evident in Chinese agriculture—the sown area of maize has increased at a yearly rate of 1.7% from 1978 to 2014, compared to the shrinking acreage of rice (-0.4%) and wheat (-0.5%). To protect the supply of animal feed in order to support the dietary transition of Chinese people, the government is contemplating the implementation of measures to restrict the industrial use of crops. Meanwhile, a re-emphasis of the "red-line" of arable land for major staple food crops is already in place and strictly adhered to.

From a nutritional and sociocultural point of view, food security integrates the notion of food safety, which has newly emerged in recent years as a third challenge. As people's concerns have shifted from "not having enough to eat" to "being afraid to eat", and as obesity and related health problems become more prevalent, the need to improve food safety and food health has become a priority goal. Food safety in China drew significant attention from the government since the 2008 "melamine incident". As a quick response to the incident, the Food Safety Law was timely endorsed in 2009, marking a historic turning point in food safety policy in China. The Chinese government is committed

to implementing effective and timely measures to address food safety problems through improvements in food safety monitoring and surveillance, and by strengthening legislative mandates. After the inclusion of the mechanism of national food safety standards in the 12th Five-Year Plan, the recent outline of 13th Five-Year Plan (2016-20) again emphasised a national plan for strengthening the food safety regulation systems. A detailed blueprint for a unified set of national food safety standards and a science-based food safety regulatory mechanism is expected to be announced.

Overall, China has succeeded in achieving a very high degree of self-sufficiency in meeting its food requirements. The potential for further output growth lies in sustaining higher grain yields, which would be facilitated by the adoption of agricultural technology and supported by rural land property rights reform. Even so, in the face of newly emerged food supply and safety challenges, China may have to step up a gear now to push for a combination of innovative legislative and regulatory actions. That said, gradual improvements are cautiously anticipated in the coming 13th Five-Year Plan. ■

Jane Du is Visiting Research Fellow at EAI.

**The shift in reform emphasis from agricultural productivity to institutional arrangements in food sector has raised public awareness that China's food security today has metamorphosed into a far more complex set of challenges.**

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## Xi Jinping's Five-Year Plan

Altogether, 3,176 individuals were consulted and 2,588 suggestions were received by the drafting team. The draft "Suggestions" were revised in 754 places, incorporating 32.6% of the suggestions received. During the Fifth Plenum, 60 additional changes were made on the basis of the suggestions of the 10 discussion groups of the Central Committee members.

Once the "Suggestions" was passed, work on the actual 13th Five-year Outline Plan began in the National Development and Reform Commission. Technocrats, the expert committee in particular, will tackle the difficult tasks of tying up the loose ends, working out the quantitative targets and indexes, as well as harmonising the various programmes. Many more rounds of consultation and additional research guided by the "Suggestions" are expected along the way till next March, when it will be sent to the floor of the National People's Congress.

The first step of implementation is for central bureaucracies and local governments to work out their own five-year plans based on the "Outline Plan". These five-year plans will also be translated into annual plans. Periodic progress reviews are scheduled.

Piecing together the hundreds of local and sectoral plans has always been challenging. Changes in circumstances and in the priority of the top leadership often render plans irrelevant. In many cases, especially at the lower levels of the Party-state hierarchy, planning documents are found gathering dust on the shelves of government offices.

The main value, however, is in the planning process. The lengthy and elaborate process forces the Party and the government to pay attention to details and build consensus. Most importantly, it offers Xi Jinping an opportunity to inject his values and vision into China grand public policy-making, and to let consensus be built around them. The consensus gives the Party a sense of purpose. It also conveniently serves to maintain the hierarchical order in the Party-state establishment. It is its way of existence. ■

Lance LP Gore is Senior Research Fellow at EAI.

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## The Decisive Stage to Attain the First Century Goal

CCP rule has been defined by its governing capability in sustaining continuous economic growth and improvement of people's well-being. This capability will be further attested by Xi's leadership at this decisive stage of achieving the first Centenary Goal. ■

Lu Ding is Visiting Senior Research Fellow at EAI.

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## Sustaining Development through Innovation

industries, talent development, public service provision, the Party's mass work and social governance.

Indeed, innovation is essential to address the myriad serious challenges China faces today and the importance

of industries, talent development, public service provision, the Party's mass work and social governance.

Indeed, innovation is essential to address the myriad serious challenges China faces today and the importance attached to innovation is largely warranted. It is consistent with the proposal's principle of problem-orientation and embracing a long-term perspective. It also demonstrates the leadership's determination to steer the economy and the country onto a different development path. However, the strong emphasis on innovation also has its potential risks. On the one hand, innovative activities are, by nature, often market-driven and scattered. It is difficult for the government to decide how to best allocate resources in promoting innovation, while it has a tendency of favouring large state-owned enterprises, crowding out small and medium-sized enterprises, which are deemed more dynamic and energetic. On the other hand, the promotion of innovation may also indicate that the government focuses less attention on reforms and that it is not ready for a reduced government intervention approach. ■

Sarah Y Tong is Senior Research Fellow at EAI.

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## Hong Kong and Macao in the 13th Five-Year Plan

integration and allowing the unique advantages of the two SARs to be given full play in national economic and social development, it would certainly help to "improve people's livelihood, move forward democracy and advance harmony" in Hong Kong and Macao. ■

Hu Weixing is Visiting Senior Research Fellow at EAI.

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## China's Poverty Alleviation Goals in the 13th Five-Year Plan

and individual levels. General Secretary Xi Jinping's speech at the Fifth Plenary Session indicates that all 70 million rural poor (based on 2014 data) will be lifted out of poverty by 2020. Xi explained that 30 million people will be lifted out of poverty under programmes promoting local economic development. Another 20 million people will be relocated to find jobs in other places (urban areas) or out of areas with harsh natural conditions. The rest of the 20 million rural poor will be assisted and covered by the social safety net.

Third, apart from the government's efforts and implementation of state-oriented poverty reduction strategies, private investment and social organisations are encouraged to actively participate in poverty alleviation works.

However, challenges remain in China's strategic drive to alleviate poverty. Mobilising and motivating the private sector to finance poverty alleviation projects is difficult. In addition, the lack of coordination among the agencies that implement poverty reduction programmes, social assistance programmes and social insurance programmes remains a perplexing issue. ■

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# Some Highlights at EAI



Above: At the International Conference on "The Chinese Communist Party in Action" organised by EAI and co-sponsored by Lee Foundation, 13 to 14 August 2015. From left: EAI Director Prof Zheng Yongnian, EAI Professorial Fellow Prof John Wong, Prof Joseph Fewsmith and Prof Kerry Brown anchor the first session.



Above from left: Prof Kjeld Erik Brødsgaard, Prof Joseph Fewsmith, Prof Zheng Yongnian, Prof Hu Weixing, Prof Tong Yanqi and Prof Andrew G. Walder engage their minds at a roundtable discussion which concludes the two-day conference on "The Chinese Communist Party in Action".



Above: At the International Conference on "Nationalism in Asia and Europe" jointly organised by Konrad-Adenauer-Stiftung and EAI on 7 and 8 May 2015.



Above: EAI scholars in meetings and discussions with overseas delegates.

## *FORUM*

# EAST ASIA OUTLOOK 2016

Organised by  
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National University of  
Singapore

**19 JANUARY 2016**  
YORK HOTEL, CARLTON HALL  
Singapore

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