

# ACESA

# NEWSLETTER

ASSOCIATION FOR CHINESE ECONOMIC STUDIES, Newsletter No. 1 (August 1999)  
website: <<http://ajrcnet.anu.edu.au/acesa.htm>>, e-mailing list: <[ces-a-oz@anu.edu.au](mailto:ces-a-oz@anu.edu.au)>

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## ABOUT ACESA

The Association for Chinese Economic Studies (ACESA) was founded in 1987 at the Australian National University and was incorporated in 1998 in Canberra. ACESA is a non-profit and non-partisan organisation aimed at promoting research and exchange activities relating to the Chinese economy. It strives to become a leading China research network in the West Pacific region. Its current members come from Australia, China, Hong Kong, New Zealand, Singapore, and Taiwan.

ACESA runs an annual conference and organises a regular policy conference series in China. The publication program centres on its conference proceedings through the Asia Pacific Press. The proposal for an academic journal is being evaluated by a sub-committee.

The Association is run by the Executive Committee within the general policy guidelines set by the Council of Management. The Secretariat of the Association is located at the Australian National University. ACESA also has a website and an electronic mailing list.

## LETTER FROM THE PRESIDENT

Welcome to the first issue of the ACESA Newsletter! The purpose of publishing these newsletters is to keep you informed of ACESA activities and promote interactions or exchanges among ACESA members.

Since its inception in 1987, ACESA has grown significantly in terms of both its membership and the scope of activities. More exciting events are planned. These include the possible launch of our Journal, conferences/workshops in China or other Asian locations, academic exchanges/collaboration between ACESA and institutions in China, election of ACESA officers and so on.

As usual, we need your input, involvement and support. One simple way to show your support is to become a member of ACESA. You can also help by promoting ACESA and recruiting members.

Far more important is your participation in ACESA activities. May I take this opportunity to urge you to attend the forthcoming conference in Chengdu, China and to plan early for next year's annual conference in Canberra (for the Chengdu conference contact myself and for the Canberra conference contact Dr Yiping Huang).

It has been a lot of work for the members of the Committee and the Council since the

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Melbourne conference. I am grateful to them for their time and efforts. I would also like to formally thank Dr Xiao-guang Zhang, Professor Peter Lloyd and their team for organising the successful 1999 conference.

Finally, I would like to thank Dr Yiping Huang for designing and editing this very first issue of the ACESA Newsletter.

Guang Hua Wan  
*President, ACESA*

### **SPECIAL OFFER FOR JOINING ACESA**

ACESA members receive the following major benefits:

- discount on ACESA conference/workshop registration fee (usually 20%) and further subsidy toward accommodation and registration for students;
- access to the wide network of expertises for student members through the Student Academic Coordinator;
- free Newsletters and free subscription to the electronic mailing list;
- discount subscription fee for the proposed ACESA-ANU-China journal (once launched);
- the input and assistance of other members into your research/thesis/projects/China contacts.

The membership fee is AUS\$30 a year for regular members and AUS\$10 a year for student members. As an incentive for joining the Association before the end of 1999, ACESA is now offering a special package: \$100 for 5-year membership and \$300 for life-time membership. From January 2000, these fees will be adjusted to \$150 and \$400, respectively.

The application form can be downloaded from the Association's webpage or obtained by contacting the Secretary directly.

### **NEW STUDENT ACADEMIC COORDINATOR**

ACESA has appointed Dr Ligang Song as the Student Academic Coordinator (SAC) to help students locate relevant expertise and introduce them to senior economists in their fields. Student members who need assistance or advice from senior members of the

Association for their research are encouraged to contact SAC directly.

### **HOW TO SUBSCRIBE TO THE ACESA MAILING LIST**

The ACESA mailing list was created to provide information on seminars, conferences and, occasionally, job opportunities. It is administered by Dr Yongzheng Yang.

To subscribe to the mailing list, send an email message to:

**listproc@anu.edu.au**

Do not put anything on the subject line. The body of your message must have the following in the first line:

**sub cesa-oz <your name>**

If you find it difficult to subscribe, email your name and email address to

**yongzheng.yang@anu.edu.au**

and you will be put on the list.

To post a message, send it to:

**cesa-oz@anu.edu.au**

### **FORTHCOMING ELECTION**

The term of the current ACESA President, Secretary, Treasurer and Council members will expire in July 2000. The Association will hold an election before the end of 1999. The election process consists of two stages: a call for nominations and a postal ballot. Members will hear from the Secretary soon.

### **SUB-COMMITTEE ON THE PROPOSAL FOR A JOURNAL**

At the recent Melbourne conference, there was a renewed interest in founding a high-quality academic journal on Chinese economic studies. ACESA has appointed a sub-committee to evaluate the feasibility of this proposal. The sub-committee is headed by Dr Yiping Huang and also includes Drs Harry X. Wu, Yanrui Wu and Yongzheng Yang. Prof. Ross Garnaut is the adviser.

The sub-committee is expected to submit its report before the end of 1999 for consideration by the Association.

### **THE 1999 CONFERENCE IN MELBOURNE**

The 11th annual conference was held at the University of Melbourne from 15-16 July 1999. This was the first annual conference

held after the official incorporation of ACESA. About 50 economists from Australia, China, Hong Kong, New Zealand, Singapore and United States presented papers at the conference. Prof. Dong Fureng of the Chinese Academy of Social Sciences, Prof. Bai Hejin of the State Development and Planning Commission, Prof. Wang Huijiong of the Development Research Centre of the State Council and Prof. Thomas Rawski of the University of Pittsburgh delivered stimulating keynote speeches on macroeconomic policy, growth prospects and social development in China. The conference was hosted by the Asian Economics Centre of the Department of Economics and sponsored by the University of Melbourne, the Ford Foundation and Foster's Brewing Group Ltd. The conference also attracted attention from government officials in the Department of Foreign Affairs and Trade and the Department of Finance as well as the business community in Melbourne. A selection of papers will be published in a volume by Edward Elgar.

Xiaoguang Zhang  
*Conference Convenor*

## **THE 2000 CONFERENCE IN CANBERRA**

The 12th annual conference of the ACESA will be held in September 2000 at the Australian National University in Canberra. To celebrate the new millennium and the Sydney Olympic Games, the ANU group will make this conference a big event for Chinese economic studies. The conference will be advertised shortly.

## **WTO AND AGRICULTURAL DEVELOPMENT CONFERENCE IN CHENGDU**

Co-sponsored by the Chinese Association of Agricultural Economics and the Rural Working Committee of Sichuan Province in cooperation with Association for Chinese Economic Studies (Australia).

October 15-18, 1999, Chengdu, Sichuan Province, China.

This is an important conference for those who are interested in the development of the Chinese economy in general, and China's rural sector in particular, because the conference will draw top agricultural

economists and policy advisers from China and well-known China experts from all over the world. The official language of the conference is Chinese (contact: Guang Hua Wan).

## **VIEWPOINTS**

### **Has China's actual growth been exaggerated by official claims?**

According to the official statistics, when the rest of Asia was hit badly by the financial crisis in 1998, the Chinese economy managed to grow by 7.8 per cent. However, Professor Thomas Rawski in his keynote speech at the recent ACESA conference pointed out that: "information about declining profits, growing unemployment, idle capacity, unrepayable debt, falling prices and stagnant demand do not fit comfortably with the picture of robust growth portrayed in official aggregate statistics".

Many economists believe that both statistical and institutional factors could have caused upward biases in Chinese official growth figures.

Statistically, the practice of the Soviet-style "comparable price" system has underestimated inflation and therefore exaggerated growth. This is mainly because the selected products for constructing "constant prices" are biased towards the state-owned enterprises (SOEs) and state-listed prices and thus unable to fully reflect price changes at the present and especially, over a period of ten years, to which one set of "constant prices" applies. In addition, the remaining price controls over a few input materials, the tradition of not writing off unsaleable products, and misconduct in output reporting at enterprise level, have also possibly exaggerated growth.

Institutionally, the prevailing data reporting system also tends to produce upward biased growth figures. On the one hand, enterprises have incentives to oblige their supervising bureau by over-reporting output since high growth performance is usually interpreted as evidence of superior management ability authorities. On the other hand, local officials have strong political incentives to ignore or even encourage the misconduct of accounting practices by enterprises that favour high growth targets. It is true that, as commented by some Chinese scholars, "whenever the

leaders insist on accelerated growth or when accelerated growth becomes the content of evaluation, the wind of overstatement flourishes". It may be argued that the institutional factor has become more responsible for the over-reporting since 1998.

One way to get around these effects is to construct an independent output growth index based on physical output rather than value output. Such a quantitative index approach has been applied to countries with a MPS output accounting system, which is perhaps the most systematic and comprehensive method of checking the plausibility and consistency of the official data.

In my recent exercise, I used output data for 123 industrial products in quantity for the period 1949–97 and China's 1987 Input-Output Table (SNA) to construct a growth index. My alternative estimation suggests that China's industry grew at 9.5 per cent per annum for the pre-reform period and 8.5 per cent for the post-reform period, about 1.9 and 3.5 per cent lower than official estimates, respectively. Given the fixed-weight effect and the underlying "quality problem", my results probably still overstate the actual industrial growth.

To evaluate the official GDP growth rate for 1998, we can do the following calculations. Assuming that the contribution by industry to GDP growth in 1998 remained the same as in 1995–97 (55.2%), and using my results for the average annual growth rate of 1995–97 (8.4%) weighted by the industrial share of the economy, we can arrive at an annual GDP growth of 6.5 per cent for 1995–97. Then assuming that the GDP growth in 1998 did slow down by 11.4 per cent as reported, we can get a growth rate of 5.7 per cent. Given the obvious influence of the official figures in this calculation, it may be argued that the actual GDP growth in 1998 was at best between 4 and 5 per cent, and this will be very likely the case for 1999.

Harry X. Wu  
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(buhxwu@smtpgwy.polyu.edu.hk)

### **Devaluation: the way out of deflation**

China is not in recession, but signs of price deflation are overwhelming. While GDP grew at 7.8 per cent in 1998 and 7.7 in the first half of 1999, retail prices dropped by 2.6 per cent

and 3.2 per cent, respectively. The relative high rates of economic growth were results of massive fiscal expansion and showed a clearly declining trend.

A number of factors were claimed to be responsible for the deflation. First, households became reluctant to spend in the face of welfare reforms, privatisation of residential housing, increases in education fees and the rising rate of unemployment. Second, the rates of excess production capacity were already 30–40 per cent in 1995 and increased further after 1997. And, third, overkill of the soft-landing package caused the economy to slow.

The government is desperately searching for effective measures to revitalise the economy. The proposed measures include further cutting interest rates, increasing money supply, continued fiscal expansion, raising income for the poor households and public servants, privatisation of residential housing, new taxes on saving deposits, increases in expenditure on education, and stimulation of the stock market.

Most of these measures, however, are mis-targeted and would not be effective. Some are even highly risky. Further cutting interest rates would have very limited impact because the real interest rates have been at their highest levels since reform began. The cut would only exacerbate the financial positions of the state-owned banks. Increases in money supply would not stimulate the economy because of the 'liquidity traps'. Raising incomes, either for the poor households or the public servants, would merely increase the volume of bank deposits.

These difficulties in policymaking are rooted in the understanding of the *major* cause of deflation. It was not tight monetary policy (in 1998, the M2 growth rate was 14 per cent compared to the GDP growth rate of 7.8 per cent), it was not weak demand (demand was weak but retail sales grew at 6.8 per cent in 1998), and it was not excess capacity (excess capacity was serious but it has been there since reform began). The major cause of deflation was the exchange rate policy.

When the Chinese currency was suddenly overvalued (as a result of the collapse of currencies in the neighbouring economies), domestic prices had to fall to achieve new equilibrium (in order to offset the real

overvaluation). Prices should fall more for tradeable than non-tradeable goods. This was clearly evident in China. In fact, only prices of non-tradeable goods and products monopolised by the state increased in 1998 and 1999. Devaluation is the key to stop deflation.

In the wake of the East Asian financial crisis, it was important for China not to devalue its currency in order to avoid another round of competitive devaluations and to arrest the downward spiral of the regional economy. China stood upright in the crisis and made a positive contribution to the recovery of the crisis-affected economies.

But China paid a high price for this contribution. Both FDI inflows and exports stagnated in 1998 and declined significantly in the first half of 1999 (by -5 per cent and -15 per cent, respectively). This trend is likely to continue and the current account has already started to deteriorate.

Is the Chinese currency overvalued? Some economists argued that it was in fact under pressure of appreciation. This may be so if we only look at the highly regulated foreign exchange market. But after the crisis began in 1997, the Chinese currency was the only one in the region experiencing real appreciation because of the commitment not to devalue. In 1998, total holding of the foreign exchanges by households in Shanghai increased by more than 30 per cent. In the same year, China managed a current account surplus of US\$30 billion, but the foreign exchange reserves only increased by US\$5 billion (half of which was earned from the yen appreciation in October).

Most economists now conclude that devaluation is certain and the only question is when, however few realise the importance of devaluation for fighting deflation.

In the short term, of course, devaluation can lift neither export growth nor GDP growth. To achieve relatively high growth in the short term, fiscal expansion is the only feasible and effective option. But its side-effects, such as the debt burden, inefficiency of public projects and crowding out of private investment, should also be fully taken into account.

Yiping Huang  
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## MEMBERS' NEWS

Dr Xiaolu Wang, a recent PhD graduate of the Australian National University, returned to China and was appointed a Senior Research Fellow and Deputy Director of the influential National Economy Research Institute under the China Reform Foundation in Beijing.

Dr Yiping Huang of the Australian National University recently completed a year of teaching and research at the Columbia University in New York and returned to his position at the ANU in Canberra in early July.

Dr Zhangyue Zhou, the Director of the Asia Agribusiness Research Centre at the Orange Agricultural College of the University of Sydney, is visiting the Department of Agricultural Economics, University of California in Davis for five months from mid-July 1999.

Dr Xinpeng Xu, a Post-doctoral Fellow at the National Centre for Development Studies of the Australian National University, has been offered a position as an assistant professor at the Hong Kong Polytechnic University. Dr Xu will move to Hong Kong in mid-August.

Dr Mei Wen, a Research Fellow at the Department of Economics of the University of Melbourne, has been offered a five-year position as a Research Fellow at the Economics Division, Research School of Pacific and Asia Studies, the Australian National University. Dr Wen is expected take up the new position in December 1999.

## ANNOUNCEMENTS

### Job openings

*Research Fellow* (Trade and Macroeconomic Division), *Post-doctoral Fellow or Research Fellow* (Markets and Structural Studies Division), International Food Policy Research Institute, Washington DC. Visit the website: <<http://www.cgiar.org/IFPRI/>>

*Assistant/Associate Professors* (international economics, industrial organisation or finance), China Center for Economic Research, Peking University. Contact: Prof. Wen Hai, CCER, Peking University, Beijing 100871, China. fax: 86-10-6275-1474; phone: 86-10-6275-3098 e-mail: <wenhai@ccer.pku.edu.cn>

### **Forthcoming conferences**

*China Update*, Australian National University, Canberra, November 1, 1999 (contact: Ligang Song).

*Private Sector Development in China*, Australian National University, Canberra, October 29, 1999 (contact: Ligang Song).

### **Forthcoming and new books**

Ross Garnaut and Yiping Huang (eds), forthcoming, *Growth Without Miracles: Chinese economy in the era of reform*, Oxford: Oxford University Press.

Yongzheng Yang and Weimin Tian (eds), 1999 (forthcoming), *China's Agriculture at the Crossroads*, Houndmills: Macmillan Publishing.

Xiao-guang Zhang, 1999 (forthcoming), *Trade Patterns and International Comparative Advantage*, Houndmills: Macmillan Publishing.

Ross Garnaut and Ligang Song (eds), 1999, *China: Twenty Years of Reform*, Canberra: Asia Pacific Press.

Yanrui Wu (ed.), 1999, *Foreign Direct Investment and Economic Growth in China*, Cheltenham: Edward Elgar.

Kali P. Kalirajan and Yanrui Wu (eds.), 1999, *Productivity and Growth in Chinese Agriculture*, Houndmills: Macmillan Press.

### **PREVIOUS ACESA CONFERENCES**

1987 (Inaugural), Australian National University, Canberra, organised by Yongzheng Yang and his team;

1989, Australian National University, Canberra, organised by Yongzheng Yang and his team;

1990, Macquarie University, Sydney, organised by Jordan Shan and his team;

1991, Monash University, Melbourne, organised by Jianguo Wang and his team;

1992, University of Adelaide, Adelaide, organised by Yanrui Wu and his team;

1993, Australian National University, Canberra, organised by Guonan Ma;

1994, La Trobe University, Melbourne, organised by Garry Tian;

1995/6, University of Queensland, Brisbane, organised by Joseph Chai;

1997, University of Western Australia, Perth, organised by Yanrui Wu and his colleagues;

1998, Orange Agricultural College, University of Sydney, Orange, organised by Zhangyue Zhou and Guanghua Wan;

1999, University of Melbourne, Melbourne, organised by Xiao-guang Zhang and Peter Lloyd.

### **ACESA CONFERENCE PROCEEDINGS**

Peter Lloyd and Xiao-guang Zhang (eds.), forthcoming, *China in the Global Economy*, Cheltenham: Edward Elgar.

Zhang-Yue Zhou, John Chudleigh, Guang-Hua Wan, and Gordon MacAylay (eds.), forthcoming, *Chinese Economy towards the 21st Century*, Volume 1, Sydney: University of Sydney Press.

Guang-Hua Wan, Gordon MacAulay, Zhang-Yue Zhou, and John Chudleig (eds.), forthcoming, *Chinese Economy towards the 21st Century*, Volume 2, Sydney: University of Sydney Press.

Yanrui Wu and Qiang Ye (eds), 1998, *China's Reform and Economic Growth*, Asia Pacific Press, Canberra, 480pp.

Clement Tisdell and Joseph Chai (eds.), 1997, *China's Economic Growth and Transition*, Nova Science Publishers, New York, 517pp.

Yanrui Wu and Xiaohe Zhang (eds), 1994, *Chinese Economy in Transition*, National Centre for Development Studies, Canberra, CPRO 4, 238pp.

Ma Guonan, Xin Meng and Shujuan Lin (eds), 1994, *Chinese and East Asian Economies in the 1990s*, National Centre for Development Studies, Canberra, 220pp.

Chinese Students' Society for Economic Studies, 1992, *Trade, Investment and Economic Prospects in China's Three Economies*, National Centre for Development Studies, Canberra, 186pp.

Chinese Students' Society for Economic Studies, 1991, *China: Trade and reform*, National Centre for Development Studies, Canberra, 244pp.

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Chinese Students' Society for Economic Studies, 1989, *Economic Issues in China*, National Centre for Development Studies, Canberra, 267pp.

**Editor's note:** Thanks to the members of the Association for generous inputs of ideas and time, now we have the first issue of the Newsletter before us. It is not perfect but provides a starting point for a better publication in the future. — Y.H., *Canberra*