

ACESA NEWSLETTER

Association for Chinese Economic Studies (Australia) Newsletter No. 5 (July 2002)

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ABOUT ACESA

The Association for Chinese Economic Studies (Australia) (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 related to the Chinese economy. It strives to become a leading China research network in the West Pacific region. Its current members come from Australia, mainland China, Hong Kong, New Zealand, Singapore, Taiwan and the USA.

ACESA runs an annual conference and organises a regular policy conference series in China. 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 maintains a website (<http://ajrcnet.anu.edu.au/acesa.htm>) and an emailing list (cesa-oz@anu.edu.au).

LETTER FROM THE PRESIDENT

Yanrui Wu

Welcome to ACESA newsletter no.5! Since the release of the last newsletter, we have witnessed dramatic world affairs from the War on Terror to World Cup 2002 Korea-Japan. Several events are particularly of relevance to our field, the Chinese economy. The most important should be China's entry to the WTO in late 2001. There are great expectations from China's WTO membership. It calls for more research on the Chinese economy. New problems will emerge and they require your expertise for solutions. I expect both governments and private agents will invest more in R&D to explore China's market and economy. For sports fans, do not forget to cheer for the Chinese players in FIFA 2002 and to follow up on the 2008 Olympic Games in Beijing.

ACESA activities: our first conference outside Australia was completed smoothly. Both the treasurer and the president attended the Shanghai international workshop. As the convenor, my experience was really enjoyable. ACESA may hold another workshop in China in 2003. I hope more members will attend. The next event is our coming 2002 meeting. The convenors, Drs Guanghua Wan and Zhangyue Zhou, are busily preparing for this annual event. I wish to see all at the meeting in July.

Election: As the term of the current executives is to expire in July, all members should be actively engaged in ACESA election. ACESA needs more fresh blood and young members to be in the executive positions. You can have your say. Please have your say!

Finally, as this is the last 'letter' from the current president, I would like to take this opportunity to thank you all for your support and assistance in one way or another during the past two years. In particular, I thank fellow councillors, Zhangyue Zhou (the treasurer) and Mei Wen (the

EXECUTIVE COMMITTEE: President: Yanrui Wu <yanrui.wu@uwa.edu.au>
Secretary: Mei Wen <rosemei.wen@anu.edu.au> Treasurer: Zhangyue Zhou <zzhou@orange.usyd.edu.au>
COUNCIL OF MANAGEMENT: Chunlai Chen <chunlai.chen@anu.edu.au>
Enjiang Cheng <enjiang.cheng@vu.edu.au> Charles Harvie <charles_harvie@uow.edu.au>
Yiping Huang <yiping.huang@ssmb.com> Ligang Song <ligang.song@anu.edu.au>
Guanghua Wan <g.wan@agec.usyd.edu.au>
Harry X. Wu <buhxwu@smtpgwy.polyu.edu.hk> Yongzheng Yang <YYang@imf.org>
Xiao-guang Zhang <xzhang@pc.gov.au> Xiaohe Zhang <ecxz@cc.newcastle.edu.au>
PUBLICITY OFFICER: Marilyn Popp <marilyn.popp@anu.edu.au>

secretary). It is our pleasure to serve ACESA. We look forward to the election of new executives.

CURRENT AFFAIRS

Membership

ACESA members receive the following major benefits:

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

The membership fee is \$30 a year for regular members, \$10 a year for student members, \$150 for 5-year membership and \$500 for life membership. The application form can be downloaded from the ACESA web page or obtained by contacting the Secretary directly.

Life members

To date, the following have become life members of the Association:

Enjiang Cheng, Yiping Huang, Liu Xiaoyun, Niu Jiangao, Ligang Song, Mei Wen, Harry Wu, Yanrui Wu, Xin Xian, Yongzheng Yang, Xiaoguang Zhang, and Zhangyue Zhou.

Academic coordinator for students

Dr Ligang Song has been appointed 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 the SAC directly.

Mailing list

To subscribe to the ACESA emailing 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, contact Dr Tingsong Jiang at tingsong.jiang@anu.edu.au. To post a message, send it to: cesa-oz@anu.edu.au.

ACESA 2001 SHANGHAI INTERNATIONAL WORKSHOP REPORT

By Zhangyue Zhou

This workshop, organised by the ACESA, was held during 14-15 December 2001 in Shanghai, China.

Around 50 delegates participated from mainland China, Hong Kong, Singapore, France, Japan, Australia, USA, Sweden and UK. About 30 papers were presented. Professor Shan-Tong Li of China's Development Research Centre of the State Council and Professor Xue-Jin Zuo of Shanghai Academy of Social Sciences delivered keynote speeches.

The workshop provided an excellent venue for academics specialising in China's economy to report their findings, exchange their ideas and debate current economic issues. It provided our association with a good opportunity to attract more overseas scholars to join the association and introduce our activities to worldwide fellow researchers. Nine participants joined the ACESA at the workshop. The workshop also proved to be an excellent venue to promote the incoming Sydney conference.

The workshop was sponsored by the Ford Foundation (Beijing Office), the University of Western Australia, and the Shanghai Academy of Social Sciences (SASS). SASS played a pivotal role in putting the workshop together. The two key players behind the successful organisation of the workshop are Dr Yan-Rui Wu, the President of the ACESA, and Ms Cai-Hong Jin, the joint workshop convener in SASS.

CHINA UPDATE 2002

By Ligang Song

The China Economy and Business Program at the Australian National University organised 2002's China Update on 3 March this year at National Museum of Australia in Canberra. About two hundred people participated in the Update. The whole day event covered a wide range of topics including the latest macroeconomic development, state-owned enterprise reform, agriculture,

industrial growth with ownership change, regional income disparities and income distribution, services and insurance sectors, securities markets and the private economy. All the issues were presented in the context of China's entry to the WTO and the slowing down of the global economy.

A book entitled *China 2002: the WTO Entry and World Recession*, edited by Ross Garnaut and Ligang Song, was published by Asia Pacific Press of the Australian National University for the event (<http://www.asiapacificpress.com>). The China Economy and Business Program acknowledges the financial assistance to this project from the Australian Agency for International Development (AusAID).

ANNOUNCEMENTS

ACESA 2002 Annual Conference in Sydney 15-16 July 2002

By Guanghua Wan

ACESA's 14th Annual Conference "Chinese Economy: Social, Institutional and International Dimensions" will be held at the University of Sydney in Australia from 15 July to 16 July 2002. As planned, it will commence on July 15 at the Wesley College of the University of Sydney. The Conference has received over 30 quality submissions with topics covering all different aspects of the Chinese economy.

A good mix of participants will be present at the Conference. In addition to a large group from China, there will be delegates from the Netherlands, the UK, Japan, HK and so on.

The University of Sydney and Ford Foundation (Beijing Office) are the major sponsors. Their financial support will be used to fund invited guests from overseas, keynote speakers and to subsidise conference attendance by students and other guests.

Conference organisers have approached publishers for the English version of the conference proceedings and are in the process of finding a journal for a special issue.

(For further information, please contact Dr Guanghua Wan at the China Links Program of the University of Sydney. Phone: (+612) 9351 6931; fax: (+612) 9351 4953; email: guanghuawan@yahoo.com)

Call for Manuscripts or Book Proposals

London-based Edward Elgar Publishing Press has

launched a new book series on the Chinese economy, *Advances In Chinese Economic Studies*. The series aims to publish the best work on the Chinese economy by economists and other researchers throughout the world. It is intended to serve a wide readership including academics, students, business economists and other practitioners. Edward Elgar Publishing specialises in the publication of economics literature. It has a world-wide distribution network. For further details about the series, please contact Francine O'Sullivan, Edward Elgar Publishing (tel: 44 1242 226 934, fax: 44 1242 262 111 or Dr Yanrui Wu, University of Western Australia

(email: yanrui.wu@uwa.edu.au, fax: 618 9380 1016, tel: 618 9380 3964).

VIEWPOINTS

How to determine China's CO₂ emissions control target in an international agreement?

By Tingsong Jiang

Developing countries have not been bounded by any international agreements to control their CO₂ emissions, however, there are mounting pressures from the developed world, asking them to do so. Developed countries argue that the required extent of abatement cannot be achieved without "meaningful participation" of developing countries. As the second largest emitter in the world and the largest emitter in the developing world, China often bears the brunt of pressure and cannot stay away from an international cooperation forever. Therefore, it is necessary to think about China's stand in the future negotiation.

The key factor affecting such an international agreement is the huge cost associated with the abatement. As CO₂ emission abatement is an international public good, a country reducing its emissions cannot prevent other countries from enjoying the benefit—slowing down of the global warming process, however, the abatement costs are borne by the country itself. Therefore, to set an emission control target, which implies to bear the abatement costs, is a sensitive and difficult issue. Surprisingly, most research on China's CO₂ emissions control has been focused on the measures of achieving certain pre-set targets rather than what strategic target China should set or accept.

To explicitly investigate this issue, a dynamic general equilibrium model, G-Cubed-T, is used. The model aggregates the world into three regions:

China, the United States of America (USA) and the rest of the world (ROW), and has separate detailed energy sectors for each region. The model also allows an adverse impact of global warming on production. The investigation is carried out in two steps. First, baseline projections of CO₂ emissions are made according to the current understanding of future population, productivity and energy efficiency growth in each region. Then, a number of experiments are conducted to investigate different emission control targets. The USA, representing the developed world, is used as a reference for the comparison of targets and implied costs.

There are several ways to set the target. The target could be set in the form of a cap, which, will be determined according to certain principles. One extreme principle is to set the cap based on the current emission level. However, this will be strongly opposed by the developing countries because such targets impose a very heavy burden on them. For example, suppose the target is to stabilise the emissions at the year 2000 level. Under the most conservative scenario, China would have to cut its emissions by 40.4% in 2010, and by 63.4% in 2020. And the corresponding figures for the US would be 22.0% and 37.7% only. As a result, China's output level will decrease by more than 8 percent from the baseline level around the year 2030, while the adverse impact on the American output is much smaller.

Another extreme principle is to set the cap in terms of per capita emissions. If it is accepted that every person living in this planet has the same entitlement to the environment, this principle will generate the most "equitable" proposal. Suppose the US will achieve the Kyoto target (93 percent below base year emissions) by the end of the first commitment period (2012). The per capita carbon emissions of the US would be 14.771 megagrams (4.028 tc). This implies that China would be allowed to emit 5115.56 Mtc per year. According to the baseline projections, China would reach this cap around year 2033/34 to year 2040/41 depending on the changes of population, productivity and energy efficiency growth. In other words, China would not have to do anything in the next thirty to forty years. Not surprisingly, this proposal will be strongly opposed by the developed countries in the negotiation.

Although setting a target at a per capita emission level has a strong human ground, the international community will not let China stay away from emission control for such a long period. And to China's own benefit, it may not be the best choice to ignore the environmental issue as the

warming up effect and flooding becomes more severe in China. Therefore, cost sharing may be a better appeal. One proposal is that the target could be set at such a level that it has the same economic impact (reduction in output level) on each country. Suppose again that the US will stabilise its emissions at the Kyoto target after year 2012 and adopt early actions to ease the abrupt reduction in output. This proposal implies that China will start to control its emissions around year 2019, and then gradually increases the control strength so that the reduction from baseline emissions will be about 8.4 percent around 2040. Henceforth, the required reduction from the baseline emissions will stay virtually the same—from 8.4 to 9.3 percent—over a longer period than the first extreme case requires.

Because the industrialised countries have contributed the most to the global CO₂ stock and are much richer than developing countries, they have the responsibility and capacity to rigorously control their emissions. From this stance, China cannot adopt a target that would hinder its economic growth more severely than the developed countries. Therefore, it could be concluded from the above experiments that the bottom line for China to accept would be a target set according to some cost sharing principles. If developed countries demonstrate that they will honour their commitment in the Kyoto Protocol, China would commence the control on CO₂ emissions between the end of the first commitment period and 2020 and gradually increase the extent of emission cut to around 10 percent (relative to baseline projection) in 2040. Consequently, it would start to impose a carbon tax between 2012 and 2020 and gradually increase the rate to about US\$5-7 per tce in 2040.

(Dr. Tingsong Jiang is a post-doctoral fellow at the National Centre for Development Studies of The Australian National University. For a detailed description of the G-Cubed-T model and baseline projections of CO₂ emissions, please contact : Dr. Tingsong Jiang at National Centre for Development Studies, The Australian National University, Canberra 0200, Australia or email him at: tingsong.jiang@anu.edu.au)

Energy Policy and Environment Issues in China

By Yanrui Wu

Environmental awareness is evolving into a critical factor in determining energy policies in China. As the Chinese people become more affluent, they demand a better quality of life and hence become

more conscious of environmental problems. For example, air pollution has recently become a major concern of urban residents. As a result, in many Chinese cities, the quality of air is monitored and reported every day. Environmental damages also affect the growth of agriculture and forestry. It is estimated that the direct cost of environmental damage in the 1990s amounted to 7 per cent of China's GDP. As a result, environmental concern has become a key parameter in China's energy policy-making.

One of the main pollutants is sulfur-dioxide (SO₂). China's total SO₂ emissions increased dramatically in the 1990s. It amounted to 23 million tons in 1997, the largest single source of SO₂ emissions in the world. This figure was estimated to be 24.6 million tons by the end of 2000. The consequence of SO₂ emissions is widespread acid rain that affects 40 per cent of China's territory. Several factors have contributed to China's rising SO₂ emissions.

It is reported that 75 per cent of China's air pollution is due to burning fuel. Coal as a source of primary energy accounts for the dominant share of China's total consumption. Though this share has declined recently (to 67% in 1999, it is still too high relative to other countries (eg. 24% in US, 19.7% in Russia and 17.6% in Japan in 1996). Thus, a change in the energy structure is vital to reduction in air pollution and hence improvement in the quality of the environment. In addition, only 22.2 per cent of China's coal has been washed. About 90 per cent of coal consumed as raw fuel is not washed. In particular, stack removal of SO₂ has been hardly practised in China.

Another environmental problem associated with energy consumption is CO₂ emissions. Though China's CO₂ emissions are low on a per capita basis, China is already ranked as the world's second largest producer of CO₂, behind only the America. China's CO₂ emission is expected to exceed that of the US during 2020-30.

To rationalise the energy structure and hence protect the environment, the central government and local authorities have implemented various policy measures. For example, many regions have initiated the so-called "clear water, blue skies" project. The goal of this project is to clean and protect the air and water in China. However, the standard of environmental quality varies among regions. The coastal regions, in particular, the coastal cities, have often imposed much higher standards than the national averages. Some of the common measures can be summarised as follows.

- China aims to control its SO₂ emissions in 2010 at the level of 2000.

- New mines are prohibited from the production of coal with sulfur content greater than 3 per cent. For the existing mines producing coal with sulfur content over 3 per cent, they have the options of closure, reduction in production or installation of coal-washing equipment.
- For the coal-fired power plants, they have to reduce SO₂ emissions and eventually install desulphurisation equipment by 2010.

China's energy consumption per unit of GDP is about four times as great as that in the US. Thus, there is great scope for improvement in energy efficiency. In addition, the goal of environment protection and energy conservation may also be achieved through the development of less energy-intensive industries.

The consumption of coal is responsible for about 90 per cent of China's SO₂ emissions. In 2000, coal still accounted for 67 per cent of China's total consumption of primary energy. To reduce SO₂ emissions and hence protect the environment, the Chinese government is actively promoting the policy of replacing coal by oil, natural gas and renewable energy. Current undergoing projects include the Guangdong liquefied natural gas (LNG), West-East Gas Pipeline and the Three Gorge Dam projects. By the completion of those projects and other initiatives, China's energy structure will be more rational with natural gas and renewable energy becoming increasingly important sources of energy

(Dr. Yanrui Wu is a senior lecturer at the Department of Economics of University of Western Australia and current ACESA president).

Can China attract more FDI from developed economies after WTO accession?

By Chunlai Chen

China has been very successful in attracting foreign direct investment (FDI) inflows from the developing economies especially from the NIEs. However, China's performance in attracting FDI inflows from the developed economies has not been very impressive. As a result, the developing economies have dominated FDI in China, while the developed economies have accounted for less than one third of the total FDI in China.

There are many reasons for the low level of FDI flows into China from the developed economies. Apart from the relatively large economic and technological development gaps and the low proximities between the developed economies and

China, there are several other key factors hindering FDI flows into China from the developed economies. First, the firms of developed economies usually possess more advanced technology and production techniques. Since the legal system for protecting intellectual property rights in China is poor, the firms possessing advanced technology and production techniques are reluctant to invest in China. Second, the service sector in the developed economies is much advanced and has recorded the highest growth rate in global FDI over the last decade. However, China's service sector was very restrictive to FDI. Most of the service industries have just opened to foreign investments. Third, the large multinational enterprises (MNEs) have been the main carriers of FDI from developed economies. Cross-border mergers and acquisitions (M&As) are increasingly important approaches for the large MNEs to invest overseas. So far, cross-border M&As transactions by foreign investors in China have been allowed only at an experimental level with very strict restrictions. The above factors may have hindered potential investors in the developed world from actively investing in China and bringing more advanced technologies into China.

China's entry to the WTO provides a great opportunity to improve and diversify her FDI sources. It has strong implications in the composition of FDI sources. In general, with the implementation of trade and investment liberalisation following WTO agreements, China's overall investment environment will be improved and its trade and investment barriers will be reduced substantially. Consequently, both developing and developed economies will increase their investments in China.

Due to their development stage, developing economies have relatively low technological and innovative capacity. As China's FDI source countries, their comparative advantages lie more in the forms of labour intensive production technology, standardised manufacture products and well established export market networks. As the country with the largest population in the world at her early development stage, China obviously provides great investment opportunities and is a very attractive destination to investment from developing economies, particularly for exported-oriented FDI. Meanwhile, WTO membership will greatly enlarge China's export market, because the member countries especially from the developed countries will open more domestic markets for China's exports. Therefore, there are great incentives for investors from developing countries to increase their investment in China in general

and to increase their export-oriented FDI in China in particular. It is expected that China will remain a very important host for investment from the developing economies, particularly from the NIEs.

As China's FDI source countries, the comparative advantage of developed economies are mainly high technology, product differentiation, managerial and entrepreneurial skills, and knowledge-based intangible assets. Therefore, FDI from the developed economies is more market-oriented. China's huge domestic market, fast economic growth and increasing per capita income are very attractive to investors from developed countries, particularly for market-oriented FDI. Therefore, China's WTO membership provides these investors with great opportunities to explore the huge Chinese domestic market. It is expected that with the implementation in trade and investment liberalisation, particularly strengthening intellectual property rights protection, opening up more economic sectors including the service sector to FDI, and allowing and encouraging cross-border M&As, China will become an ever more important host for FDI from the developed countries, which will increase not only total FDI inflows from the developed economies, but also the quality of FDI inflows into China.

Nevertheless, whether China can reach its potential in attracting FDI inflows will largely depend on how China implements the WTO agreements, fulfils its WTO commitments, further reduces and eliminates trade and investment barriers, opens up more domestic markets, as well as manage internal economic reforms, particularly the reforms of state-owned enterprises, and enforce the protection of intellectual property rights.

(Dr. Chunlai Chen is a lecturer at National Centre for Development Studies of The Australian National University.)

Editor's note: This issue of the ACESA Newsletter was edited by Dr. Mei Wen, the Australian National University, rosemei.wen@anu.edu.au. The editor wishes to acknowledge the support of the members of the Association in the compilation of this issue of the newsletter, and in particular, Chunlai Chen, Tingsong Jiang, Ligang Song, Guanghua Wan, Yanrui Wu, Zhangyue Zhou for their generous inputs, and Carol Kavanagh for editorial assistance.