

ACESA NEWSLETTER

Association for Chinese Economic Studies (Australia) Newsletter No. 6 (December 2002)

TABLE OF CONTENTS

ABOUT ACESA	1
LETTER FROM THE PRESIDENT	1
ACESA NEWS	2
NEW COUNCIL AND EXECUTIVE COMMITTEE	2
14TH ANNUAL CONFERENCE IN SYDNEY	2
MEMBERSHIP UPDATE	2
MAILING LIST	2
CHINA ECONOMIC RESEARCH NEWS	3
INTERNATIONAL WORKSHOP ON CHINA'S	
REGIONAL FEEDGRAINS MARKET	3
CHINA AGRICULTURAL POLICY WORKSHOP	3
DILEMMAS OF CHINA'S GROWTH	3
LOGISTICS TRAINING	3
NEW REPORT BY ECONOMIC ANALYSIS UNIT,	
DFAT	4
ESTABLISHMENT OF CANBERRA SOCIETY OF	
CHINESE SCHOLARS	4
ANNOUNCEMENTS	4
2003 ANNUAL CONFERENCE IN MELBOURNE	4
CALL FOR COMMENTS	4
VIEWPOINTS	4
HOW FAST AND HOW FAR CAN CHINA'S GDP	
GROW	4
CHINA EMBRACES THE WORLD MARKET	5
INDIVIDUAL INCOME TAX REFORM AND LABOUR	
SUPPLY IN CHINA	7

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

Zhangyue Zhou

Welcome to the latest ACESA Newsletter.

On behalf of the new Executive Committee, I would like to take this opportunity to thank all the members of the Council and the Executive Committee of the previous term (July 2000 - July 2002) for their enormous contribution to the management and succession of our Association. Particular thanks are due to Dr Yanrui Wu (past President) and Dr Mei Wen (past Secretary) of the Executive Committee for their leadership, initiatives and persistence in leading this Association to be better and stronger. Particular thanks are also extended to you, our members, for your continued interest and involvement in the Association's activities.

The new Executive Committee, formed at the July 2002 Sydney Conference, comprises Dr Lilai Xu of RMIT as the Treasurer, Dr Tingsong Jiang as the Secretary and myself as the President. We are committed to doing our best to serve the Association.

The ACESA continues to aim at promoting any research and exchange activities related to the Chinese economy. It strives to become a leading research network of the Chinese economy in the

EXECUTIVE COMMITTEE

President: Zhangyue Zhou **Secretary:** Tingsong Jiang **Treasurer:** Lilai Xu

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West Pacific region. To achieve these objectives, the new Executive Committee has been working on several initiatives including, for example, the revamping of the Association's website, developing an arena to facilitate member communications, and recruiting new members with a focus on postgraduate students.

Dr Lilai Xu has been working enthusiastically in getting next year's conference organised. Thanks to his hard work, the Committee is confident that an academically rewarding and socially enjoyable conference will be staged in Melbourne. You will soon be provided with details of the conference. As in the past, your support and participation in this conference will be most critical to its final success. We look forward to seeing you in Melbourne next July.

Our newsletter is an important avenue for you to share your thoughts and views and to exchange research findings. Your contributions will be appreciated by many, so please do spare some time to write for the newsletter.

The development and expansion of our Association rest with the efforts and wisdom of all members. The new Executive Committee is open to any suggestions and comments you may have to make our Association even better.

ACESA NEWS

New Council and Executive Committee

The Annual General Meeting held on 15 July 2002 in the University of Sydney elected new Council of Management and Executive Committee members. The Council members are:

Chunlai Chen (ANU), En-Jiang Cheng (U. Victoria), Donald Graham (ANU), Charles Harvie (U. Wollongong), Tingsong Jiang (ANU), James Laurenceson (U. Queensland), Guanghua Wan (U. Sydney), Harry Wu (H.K. Polytechnic U.), Yanrui Wu (U. WA), Lilai Xu (RMIT), Yongzheng Yang (IMF), Xiaohe Zhang (U. Newcastle), Yin Zhang (U. Sydney), Zhangyue Zhou (U. Sydney).

Zhangyue Zhou, Lilai Xu and Tingsong Jiang were elected as the Executive Committee members of ACESA. The Executive Committee members agreed that Zhangyue Zhou as the President, Tingsong Jiang as the Secretary and Lilai Xu as the Treasurer.

14th Annual Conference in Sydney

ACESA's 14th Annual Conference "Chinese Economy: Social, Institutional and International Dimensions" was held at the University of Sydney in Australia from 15 July to 16 July 2002. The Conference has received over 30 quality

submissions with topics covering various aspects of the Chinese economy.

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

The University of Sydney and Ford Foundation (Beijing Office) were the major sponsors. Dr Guanghua Wan of the University of Sydney was the conference convenor. He and his team made a great effort to organise the Conference.

Membership Update

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.

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

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

Mailing List

Currently the ACESA emailing list has over one hundred subscribers. To subscribe it, 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:

subscribe cesa-oz <your name>

or *sign cesa-oz <your name>*

To post a message, send it to: cesa-oz@anu.edu.au. If you find it difficult to subscribe it

or to post messages, contact Tingsong Jiang at tingsong.jiang@anu.edu.au.

CHINA ECONOMIC RESEARCH NEWS

International Workshop on China's Regional Feedgrains Market

This workshop, held on 19 July 2002, was jointly organised by the University of Sydney in conjunction with the Grains Research & Development Corporation (GRDC) and China Agricultural University on Friday, as part of a three-year (2000-2002) research project into China's regional feedgrains market. This GRDC-funded project is entitled "China's regional feedgrain markets: development and prospects" and has been jointly conducted by researchers from both the University of Sydney and China Agricultural University.

Current and future issues affecting the demand and supply of feedgrains in China was presented and discussed with experts from both Australia and China. The workshop provided participants with a valuable insight into not only the Chinese feedgrains market, but also the overall grain demand and supply in China and the underpinning developments of China's livestock industries. Findings presented at the workshop greatly facilitated the understanding of the Chinese feedgrain market, which in turn help to draw out the implications for the Australian grains industries.

Participating at the workshop were representatives from, in addition to the three organising institutions, Australian Bureau of Agricultural and Resource Economics, Australian Centre for International Agricultural Research, Australian National University, Australian Wheat Board, Chinese Academy of Agricultural Sciences, Chinese Academy of Social Sciences, China's Ministry of Agriculture, Meat and Livestock Australia, NSW Agriculture, the University of Western Australia, and Victorian Institute of Animal Sciences. A number of personnel from Australia's grains industry also participated in the workshop.

The workshop generated valuable comments and suggestions for refining the research findings and for deriving implications for Australia's grains industry and also other related industries. Final report from this project will be made available at the beginning of 2003. For further information, please contact Dr Zhangyue Zhou on 02-63605661 or email at zzhou@orange.usyd.edu.au. (Zhangyue Zhou)

China Agricultural Policy Workshop

In September 2002, a workshop on China Agricultural Policy after WTO Accession was held

in Beijing. This workshop was jointly organised by the Asia-Pacific School of Economics and Management of Australian National University, the China Center for Economic Research (CCER) of Peking University and the Research Center for Rural Economy (RCRE) of the Ministry of Agriculture of China. Mr. Duan Yinbi, the Deputy Director of the Office for the Central Leading Group of Economy and Finance, was invited to give a keynote speech. Eight papers were presented in the workshop, discussing the reform of China's grain marketing and trade policy, the impact of China's WTO accession on regional development, agricultural trade and macroeconomic performance. These papers were based on two research projects carried out by the above-mentioned institutions and financed by the Australian Centre for International Agricultural Research (ACIAR).

More than 40 participants attended the workshop. They were from ACIAR, ANU, CCER, RCRE, Ministry of Agriculture, State Development and Planning Commission, State Statistical Bureau, Economic Research Center of State Council, Remin University, China Agricultural University, Nanjing Agricultural University, Center for China Agricultural Policy of Chinese Academy of Sciences, Australian Embassy, the Ford Foundation and the Citibank. (Tingsong Jiang)

Dilemmas of China's Growth

A new book edited by Dr Ligang Song of the Australian National University, *Dilemmas of China's Growth in the Twenty-First Century*, was published recently by the Asia Pacific Press at the Australian National University. Most of the chapters in the book are selected from papers presented at ACESA's 12th Annual Conference held in 2000, Canberra.

Sustaining economic growth has been of paramount importance for securing social stability in China while the economic system has been undergoing fundamental transformation. This book discusses some of the main issues surrounding China's economic growth in the context of reform at the turn of the new century, including WTO accession, ownership reform, banking system reform, income distribution, regional disparity, and environmental protection. For further details, please visit the Asia Pacific Press's website, www.asiapacificpress.com (Ligang Song)

Logistics Training

In November 2002, Asia-Pacific School of Economics and Management of Australian National University organised a short training course in advanced logistics management for a Chinese logistics delegation. The training delegation consists of 19 people, most of them are senior managers of

logistics companies from more than 10 provinces and municipalities of China. It is the first time for APSEM to organise such a large training group from China, and it is also symbolised the beginning of APSEM's long term development strategy of China education program.

The training started with five days' intensive theory and policy oriented lectures in APSEM followed by a combination of lectures and site visits in the second week. The delegation visited several Australian logistics companies including Riverina F.A.R.M, Finemores Transport of Toll Holdings, and CRT Group. (Chunlai Chen)

New Report by Economic Analysis Unit, DFAT

In Melbourne on 26 November 2002, Trade Minister Mark Vaile launched the latest report from the Economic Analytical Unit, *China Embraces the World Market*. As well as examining China's past and future economic performance, the report also takes an in-depth look at the implications of China's WTO entry for Australian business opportunities in key sectors and the likely impact on China's challenging business environment. The report updates the EAU's major 1997 report, *China Embraces the Market*.

A summary of the report's major findings is given in the Viewpoints section below. Further details and order forms are available on the EAU's website, www.dfat.gov.au/eau. Report copies can be ordered by calling 02 6261 3114 or emailing jane.monico@dfat.gov.au. (Michael Growder)

Establishment of Canberra Society of Chinese Scholars

Aiming at promoting multi-disciplinary collaboration and advocating exchange and collaboration between Australia and China in culture, science, technology and education, the Canberra Society of Chinese Scholars was formed recently in Canberra. The founding members of the Society include scholars from Australian National University, Commonwealth Scientific & Industrial Research Organisation, Australian Defence Force Academy, and Commonwealth Department of Education, Science and Training. To celebrate the formation of the Society, a ceremony is to be held in Canberra on 17 December 2002. For further details, please contact Dr Xiaodong Gong at xiaodong.gong@anu.edu.au. (Tingsong Jiang)

ANNOUNCEMENTS

2003 Annual Conference in Melbourne

ACESA's 15th Annual Conference Melbourne will be held in Melbourne on 10-11 July 2003. RMIT

University will host the Conference. The main theme of the conference is China's sustainable business responses to regional and global challenges and opportunities. A formal program will be included in the next issue of ACESA Newsletter and various websites. Deadlines for submitting abstract and final paper are, respectively, 1 April and 1 June 2003. For further details, please contact Professor Robert Brooks at robert.brooks@rmit.edu.au or Dr Lilai Xu at lilai.xu@rmit.edu.au.

Call for Comments

ACESA is going to update its website and calls members to give suggestions about the feature and contents of the new website. Please direct your comments to Zhangyue Zhou at zzhou@orange.usyd.edu.au or Tingsong Jiang at tingsong.jiang@anu.edu.au.

VIEWPOINTS

How Fast and How Far Can China's GDP Grow

Cai Fang and Wang Meiyuan

Professor Thomas G. Rawski suggests that the figures on China's GDP growth since the late 1990s are doubtful because official figures provided by National Bureau of Statistics are inconsistent. For example, during the period 1997–2000, total GDP grew by 24.7 percent, while energy consumption dropped by 12.8 percent. By examining the relationship between GDP growth and variables such as transportation, he thinks that in the absence of major shifts in the structure of GDP, it is unfeasible for China to achieve the growth suggested by official figures. By examining the sources of GDP growth, we try to respond to Rawski's questioning and look into economic growth in the next decade or so.

Credibility of High Growth Rate

First, the structure of China's GDP growth has been changed. The traditional primary and secondary sectors gradually decline while the tertiary sector increases. At the same time, the share of the state sector in GDP drops from 80 percent in 1978 to less than 20 percent in the late 1990s, and the share of private and other sectors increases from zero to nearly two-thirds. With this changing pattern of economic growth, energy consumption changes as well.

Second, there has been no inconsistency between GDP growth and the growth in passenger traffic in the past few years. We find that they are highly correlated--the faster GDP grew the greater the numbers of passengers carried by civil aviation,

although the latter changes to a much larger extent than the former.

Third, employment has been increasing but becoming diversified by component. As the structure of rural and urban employment evolves, urban employment alone and the so-called "formal employment" can no longer explain the overall employment situation in China. Informal sectors, e.g. private sector and self-employment, now play more important role in absorbing labour force. Employment in the urban non-public sector and the rural non-agricultural sector has increased rapidly since 1978 and makes up more than two-thirds of total non-agricultural employment. These changes in employment have greatly contributed to the sustained growth of overall employment in China.

Sustainability of High Growth Rate

By breaking down and analysing the factors driving the Chinese economy, we find that the annual GDP growth rate of 9.5 percent during the period 1978 to 1998 was attributed to (1) increase in physical capital (28 percent of whole sources of growth), (2) increase in labour force employed (24 percent), (3) accumulation of human capital (24 percent), (4) labour mobility from low productivity sector to high productivity sector (21 percent), and (5) total factor productivity (3 percent). We consider each of these factors in turn to investigate whether these sources will be exhausted in the near future.

First, the potential of physical capital, which has been the major contributor to the GDP growth, is unlikely to run out. Since the 1980s the proportion of state budgetary appropriation in total fixed asset investment has been tiny, with little increase. Meanwhile, investment through domestic loans, fund-raising and other channels has been increasing, accounting for the lion's share of total investment. In contrast to some observers' claim that China's prosperity mainly relies upon foreign capital, the contribution of foreign investment in the fixed assets has increased slightly with only a small share in the total. The cumulative amount was US\$519 billion between 1979 and 2000. Diversification of investment sources in China will guarantee a sufficient supply of physical capital.

Second, compared to other sources, the labour force is much less likely to be an economic growth bottleneck given the fact that the population is huge and relatively young. According to various predictions, the proportion of the working-age group in the total population will continuously increase and remain large until 2010, and slightly decline between 2010 and 2020. Throughout most of this century the working-age population will be around 55 percent of the total population, supplying the Chinese economy with enough labour force. Ageing is rapid but not unaffordable, because it is

only by around 2020 that the population aged 65 and above will exceed 10 percent.

Third, the accumulation of human capital has greatly contributed to economic growth and it will continue. The number of years of schooling has been steadily increasing at a rate of 2.3 percent per annum. In the central and western regions the annual growth rates of years of schooling are even higher: 2.4 percent for the central and 2.7 percent for the west. These facts indicate the sustainable supply of human capital to Chinese GDP growth in coming decades.

Fourth, labour mobility between sectors and regions will continue to be an important source of growth. China's labour distribution between rural and urban sectors does not match the output pattern. Therefore there exist opportunities in improving allocation efficiency of labour. The development of labour market will foster the mobility of the rural-urban population on a larger scale and scope. When there are no more institutional barriers to prevent labourers from moving between sectors and regions, the Chinese economy will certainly benefit even more.

Fifth, the very small proportion of total factor productivity in GDP growth implies a great potential for future growth. Promotion of the technical efficiency of the Chinese economy has relied on two drivers. The first is the expansion of the non-state sector. The experiences of the past two decades of reform show a much higher productivity or efficiency in the non-state sector than in the state sector. The continuation of non-state sector expansion will therefore enhance the productivity of the economy as a whole. Second, with the development of the non-state sector and the intensification of competition after China's WTO accession, state-owned enterprises will speed up the process of reform and promote their efficiency.

In sum, the rapid growth of the Chinese economy in the past two decades is unassailable, and it will continue in the coming decades.

(Cai Fang is a professor and Director, and Wang Meiyuan is an assistant professor of the Institute of Population and Labour Economics, Chinese Academy of Social Sciences. Interested readers may contact Professor Cai Fang at fangcai@263.net.)

China Embraces the World Market

Frances Perkins and Michael Growder

China's WTO entry and ongoing reform program are accelerating and reinforcing China's quarter century long embrace of the market. A new report from the Australian Department of Foreign Affairs and Trade's Economic Analytical Unit, *China*

Embraces the World Market, finds major WTO corporate, bureaucratic and legal commitments will combine with ongoing reforms to sustain high economic growth over the next decade. They also should make China's business environment more predictable, particularly through gradually lessening state influence in the economy and levelling the playing field between state owned enterprises and private and foreign businesses.

China's WTO Package

By 2005, China's import tariffs will average only about 10 percent, on a par with more open economies in East Asia. Foreign businesses will be able to participate in virtually all sectors of the economy, including previously restricted services sectors like finance, transport, distribution, retailing and telecommunications.

However, China's WTO entry is about much more than falling trade and investment barriers. China has undertaken to implement a raft of important trade-related corporate and legal reforms that will continue economic restructuring, further entrench market mechanisms and strengthen the business environment boosting growth and increasing opportunities for international businesses. However, these improvements will be gradual, with some measures not fully in place until 2010. Also, implementing China's ambitious WTO package will be complex. As a result, the report finds China's business environment will remain challenging for some time to come.

Chinese Economic Trends

WTO entry builds on many years of Chinese reforms, which include trying to resolve extensive non performing loans in the inefficient state banking system, reforming state owned enterprises, liberalising trade and investment, freeing the private sector, strengthening the legal system and developing local capital markets.

These reforms help explain China's average annual growth of about 8 percent per year since 1997, which made China the fastest growing large economy in the world. China also is rapidly globalising, with the value of exports and imports equal to just under 50 percent of GDP and foreign investment into China expected to exceed US\$50 billion in 2002.

However, China confronts many significant inter-related challenges. China's banks and asset management corporations hold non performing loans estimated at between 25 and 60 percent of total outstanding loans. Most were made to inefficient state owned companies under pressure from the authorities and banks expect to recover only about 20 percent of their value. Financial institutions need to be allowed to operate on fully commercial terms to stop new bad loans occurring.

Many large state owned enterprises still fail to make a profit. Restructuring or privatising potentially viable businesses and merging or bankrupting unviable cases are vital to improving economic performance. Further improving and enforcing new corporate governance standards and the legal system are needed to reduce the risks of doing business in China and to resolve banking and state owned enterprise problems.

How authorities respond to these challenges will shape China's economic performance over the next 5 to 10 years. The report identifies three possible reform and growth scenarios:

- Aggressive reforms of banks and state owned enterprises, which would slow growth in the short term as restructuring impacts on the economy. However, from 2005, stronger productivity gains would boost annual growth to 8 percent.
- Solid progress on China's major reform challenges will produce GDP growth averaging around 7 percent for the rest of the decade.
- Slow, stop-start reform could keep the economy growing at about 7 percent for 2 to 3 years, but thereafter the rising fiscal burden gradually would undermine economic performance, slowing growth to no more than 5 to 6 percent by the end of the decade.

The report concludes that on balance, the second scenario of solid reform progress and sound growth outcomes is most likely, as it best reflects China's policy approach of the last two decades. While not maximising growth outcomes, this approach could minimise potential social instability which either rapid restructuring or slow output and employment growth could result in.

Implications for Australia

Already, China is Australia's fourth largest goods and services export market, and our largest market for key commodities including wool, barley and copper ores. Preliminary 2002 data indicates China is Australia's largest source of overseas students. Over the next decade, continued strong growth and further WTO inspired falls in trade and investment barriers will expand significantly commercial opportunities for Australian firms in the China market.

China's rapid industrial growth will continue to boost demand for traditional exports like minerals and energy commodities and simply transformed manufactures as production inputs. Moreover, growing incomes, economy wide restructuring and increasing competitive pressures also should boost Chinese business and consumer demand for Australian agricultural produce and foodstuffs, advanced Australian technologies and high quality Australian services. The report details a wide

variety of Australian commercial opportunities and profiles over 20 Australian businesses succeeding in a range of sectors, highlighting business challenges and successful strategies for entering the China market.

(Dr Frances Perkins is Executive Director and Michael Growder is Deputy Director of the Economic Analytical Unit (EAU), Department of Foreign Affairs and Trade. EAU is the main agency within the Australian Government responsible for publishing analyses of economic and trade issues of importance to Australia in Asia and other emerging markets. For further details of the book and their work, please contact Dr Frances Perkins at france.perkins@dfat.gov.au or Mr Michael Growder at michael.growder@dfat.gov.au .)

Individual Income Tax Reform and Labour Supply in China

Xiaodong Gong

Individual income tax in China has grown at a rapid pace over the last several years and becomes more and more an important source of government revenues. Figures from the State Administration of Taxation of China indicate that the amount of personal income tax collected in China soared from 7.27 billion RMB yuan (US\$876 million) in 1994 to 99.6 billion RMB yuan (US\$12.1 billion) in 2001, with an annual growth rate of about 48 percent. Although individual income tax still just consists of a bit more than 4 percent of the total tax revenue, it has already become the fourth largest tax base in China. Currently, about 40 percent of the individual income tax comes from tax on wage income.

The current individual income tax system was formulated in 1994. It consists of eleven tax rates and the tax is levied progressively. The first RMB 800 yuan monthly income is not taxable; for the income above RMB 800 yuan and below RMB 1300 yuan, the tax rate is 5 percent; for the next RMB 1500 yuan, the tax rate is 10 percent; and the highest tax rate is 45 percent which applies to the monthly income above RMB 100800 yuan.

The economic environment in China has changed dramatically since 1994. For example, average annual wage increases from 4538 yuan to 9371 yuan in 2000. Therefore many believe that the tax-free threshold of RMB 800 yuan is too low, and the Chinese government is discussing a proposal of raising it to RMB 1500 yuan. In this short essay, I try to evaluate this proposal from its impact on labour supply, an aspect that many studies have ignored.

Labour supply has been studied extensively during the last several decades in both industrial countries and developing countries because of its important implications on individuals' welfare as well as on

the productivity of the whole economy as a whole. However it has never been paid due attention in China. Part of the reason is that it is not considered a 'problem' because of the vast population.

However, understanding individual's labour supply is the basis of income policy evaluation. Labour supply is still an issue in China even it seems have "infinite labour supply". For example, although most people do not worry about the implication of proposed rise in tax-free threshold to overall labour supply, there are suspicions that it might have different impacts on different groups of people. Specifically, it might reduce the supply of skilled labour which China desperately needs. To see what will exactly happen, I simulate the effect of individual income tax reform by estimating a neo-classical labour supply model for male Chinese workers.

In this model, the individual is assumed to maximise a translog utility function over income and 'leisure' (or non-market time) subject to a budget constraint which is a set of points defined over a number of possible working hours given individual's wage and non-labour income. The utility is also assumed to depend upon individual's demographic characteristics such as age, family composition, wife's working hours, geographic location, and so on. The fixed costs of working is also taken into account together with the fact that the wages are observed with measurement errors.

The model is fitted with data drawn from "1995 Urban Household Survey on Consumption and Incomes" conducted by Chinese Academy of Social Sciences. The sample consists of 2998 married men aged between 25 and 65 in 19 Chinese provincial areas. The average man was 42 years old, worked 42 hours per week and earned about RMB 610 yuan per month in 1995.

The results show that the policy change has little impact on male labour supply. The simulated elasticity of labour supply with respect to wage is -0.01 and the elasticity with respect to non-labour income is -0.08. These results confirm that the labour supply in China is indeed very inelastic, in accordance with the fact that China has over supply of labour. The effect of raising the tax-free threshold from RMB 800 yuan to RMB 1500 yuan is also simulated. It shows that by doing so, the average working hours will be reduced by 0.27 percent, or 7 minutes 50 seconds per week on average.

It is also found that labour supply of workers who received higher education is more sensitive to wage than those who did not receive higher education. The wage elasticity is -0.118 for the former and -0.055 for the latter. However, the proposed change has almost identical impact on labour supply: the working hours will be down by 0.26 percent and 0.27 percent respectively. It is understandable that

the policy has small impact on people without higher education because most of them have a monthly wage rate below 800 yuan. On the contrary, small impact on people with higher education occurs because two effects offset each other. On the one hand, higher tax-free threshold implies higher after-tax income which tends to induce more demand for leisure. On the other hand, the higher after-tax wage rate also gives incentives to work longer.

The conclusions from this exercise are that, at least for males, the labour supply in China is inelastic, and that the current individual income tax reform will have little impact on the labour supply.

(Dr Xiaodong Gong is a research fellow at the Economics Program, Research School of Social Sciences, Australian National University. He can be contacted at xiaodong.gong@anu.edu.au)

Editor's note: This issue of the ACESA Newsletter was edited by Dr Tingsong Jiang, the Australian National University. 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, Fang Cai, Chunlai Chen, Xiaodong Gong, Michael Growder, Frances Perkins, Ligang Song, Meiyang Wang, Lilai Xu, Zhangyue Zhou for their generous inputs.

Merry Christmas and Happy New Year!