

ACESA NEWSLETTER

Association for Chinese Economic Studies (Australia) Newsletter No. 8 (December 2004)

TABLE OF CONTENTS

ABOUT ACESA	1
LETTER FROM THE PRESIDENT	1
ACESA NEWS	2
NEW COUNCIL AND EXECUTIVE COMMITTEE	2
16TH ANNUAL CONFERENCE IN BRISBANE	2
MEMBERSHIP UPDATE	2
MAILING LIST	3
CHINA ECONOMIC RESEARCH NEWS	3
UNU-WIDER PROJECT ON INEQUALITY AND POVERTY IN CHINA	3
POVERTY, INEQUALITY, LABOUR MARKET AND WELFARE REFORM IN CHINA	3
CHINA: IS RAPID GROWTH SUSTAINABLE	3
SEMINAR ON THE EXCHANGE RATE POLICY IN CHINA	4
ANNOUNCEMENTS	4
2005 ANNUAL CONFERENCE IN PERTH	4
CALL FOR COMMENTS	4
VIEWPOINTS	4
HOW HIGH IS URBAN UNEMPLOYMENT IN CHINA	4
THE SUSTAINABILITY OF GROWTH IN CHINA	6
STAKEHOLDER PARTICIPATION IN RESETTLEMENT OF DAM PROJECTS IN CHINA	ERROR! BOOKMARK NOT DEFINED.
CONSTRUCTION OF ACESA	
PROPOSAL FOR ESTABLISHING A CONSULTANT FIRM UNDER ACESA	9
ATTRACT PHD STUDENT TO JOIN ACESA	9

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://www.acesa.ecel.uwa.edu.au>) and an emailing list (cesa-oz@anu.edu.au).

LETTER FROM THE PRESIDENT

Ligang Song

Happy New Year to everyone and welcome to the latest ACESA newsletter.

The 16th Annual Conference of the ACESA, Outlook China: Growth versus Development, was held at the University of Queensland in Brisbane on 19-20 July 2004. The conference was hosted by the ACESA in conjunction with the Faculty of Business, Economics and Law and the School of Economics at the University of Queensland. We thank Dr James Laurenceson and his colleagues from University of Queensland for successfully organising the conference in 2004. The Conference Proceedings are now available at (<http://www.uq.edu.au/economics/acesa2004/proceed.htm>).

The 17th Annual Conference of the ACESA will be jointly organised by the School of Economics and Commerce of the University of Western Australia and the Association in Perth Australia on 7-8 July 2005. The conference, under the theme of 'Transition, Growth and Globalisation', invites all papers addressing a wide range of topics concerning the Chinese economy including reforms and growth, foreign trade and agriculture, and resource sector and sustainable development. The Conference Convenor is Dr Yanrui Wu from University of Western Australia. Please refer to the Association's

EXECUTIVE COMMITTEE

President: Ligang Song **Secretary:** Yanrui Wu **Treasurer:** Yu Sheng

COUNCIL OF MANAGEMENT

Chunlai Chen < chunlai.chen@anu.edu.au >	Enjiang Cheng < enjiang.cheng@vu.edu.au >
Charles Harvie < charles_harvie@uow.edu.au >	Ligang Song < ligang.song@anu.edu.au >
Tingsong Jiang < tjiang@thecie.com.au >	James Laurenceson < j.laurenceson@economics.uq.edu.au >
Scott Waldron < scott.waldron@uq.edu.au >	Yanrui Wu < ywu@ecel.uwa.edu.au >
Harry X. Wu < buhxwu@smtpgw.polyu.edu.hk >	Lilai Xu < lilai.xu@rmit.edu.au >
Yu Sheng < yu.sheng@anu.edu.au >	Xiaohe Zhang < ecxz@cc.newcastle.edu.au >
Mei Wen < rosemei.wen@anu.edu.au >	Zhangyue Zhou < zzhou@orange.usyd.edu.au >

PUBLICITY OFFICER

Myrilyn Popp <marilyn.popp@anu.edu.au>

ACADEMIC COORDINATOR FOR STUDENTS

Zhangyue Zhou <zzhou@orange.usyd.edu.au>

website at (<http://www.acesa.ecel.uwa.edu.au>) for more information about the Conference.

The Chinese economy continued to grow strongly throughout 2004. Market-oriented economic reforms centering on liberalisation of economic activities and privatisation of property are the fundamental cause of rapid economic growth in China. Lack of reform in key areas such as the financial, fiscal and social security system poses some systemic risks to the economy. There is increasing concern over widening regional and personal income inequalities, environmental degradation, resource, energy and water constraints, as well as possible external shocks.

Prospects for the Chinese economy depend upon how successfully China overcomes these systemic problems through reform and how to deal with the potential risks should they eventuate in future. The current investment boom and subsequent macro policy adjustments provide a good opportunity to assess the policy regime under which the economy operates.

We thank everyone for your efforts and contributions made for the Association in the past and look forward to your continued support in the future.

See you in Perth in July,

ACESA NEWS

New Council and Executive Committee

The Annual General Meeting held on 17 July 2004 in the University of Queensland elected new Council of Management and Executive Committee members. The Council members are:

Chunlai Chen (ANU), En-Jiang Cheng (U. Victoria), Charles Harvie (U. Wollongong), Tingsong Jiang (ANU), James Laurenceson (U. Queensland), Ligang Song (ANU), Harry Wu (H.K. Polytechnic U.), Yanrui Wu (U. WA), Lilai Xu (RMIT), Wen Mei (ANU), Yu Sheng (ANU), Zhangyue Zhou (U. Sydney), Scott Waldron (U. Queensland), Xiaohe Zhang (U. Newcastle).

Ligang Song, Yanrui Wu and Sheng Yu were elected as the Executive Committee members of ACESA. The Executive Committee members agreed that Ligang Song as the President, Yanrui Wu as the Secretary and Sheng Yu as the Treasurer.

16th Annual Conference in Brisbane

ACESA's 16th Annual Conference "Outlook China: Growth versus Development" was held at the University of Queensland in Australia from 19 July to 29 July 2004. About 30 papers associated with China Economic Growth from various perspectives were

submitted and presented at the conference, and among them, there were a quite few PhD students.

The new executive committee was elected, which consists of Ligang Song (President), Yanrui Wu (Secretary), and Yu Sheng (Treasurer: a second year PhD student at ANU) has been formed after the annual conference.

A memorial letter from ACESA mourning the passing of Professor Yang Xiaokai has been sent to Centre of Increasing Returns and Economic Organisation of Monash University and through it to Ms Xiaojuan Wu

The University of Queensland was the major sponsors. Dr. James Laurenceson of the University of Queensland was the conference convener. Congratulations to James and his colleagues on the contribution made to the success of this 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. For membership issues (membership fees and recruiting), please contact Sheng Yu at his address at ANU:

Yu Sheng

Australia-Japan Research Centre

Asia Pacific School of Economics and Government

Australian National University

Canberra 0200, ACT

Tel: 02 61250572

Fax: 02 61250767

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. For website issues, please contact Dr. Yanrui Wu at yanrui.wu@uwa.edu.au.

CHINA ECONOMIC RESEARCH NEWS

UNU-WIDER Project on Inequality and Poverty in China

UNU-WIDER is holding an essay competition as part of its **project on inequality and poverty in China**. It is open to anyone who submits a paper on measurement, causes, consequences, policy options or any other aspect of poverty and inequality in China. Preference will be given to those who are nationals and residents of developing countries. Females and young researchers are particularly welcome. In addition to the prizes, all winners will be invited to attend a conference to be held in China next April or a workshop to be held in Europe next summer. However, financial support for conference/workshop attendance is limited to one author per paper.

Papers should be written in English and should not exceed 15000 words in length. In exceptional cases, papers in Chinese may be considered. The cover page must include the nationality and current affiliation of each author. In cases of joint authorship, the prize will be divided equally among the authors.

Submission Deadline: December 1, 2004

Announcement Date: January 15, 2005

Send MS Word/PDF file to: wang@wider.unu.edu

First Prize (one only) US\$2000

Second Prize (two) US\$1000

Third Prize (three) US\$500

Papers will be selected by a committee comprising Tony Shorrocks (Director of UNU-WIDER, Chair of the Committee), Guanghua Wan (Project Co-Director), Cai Fang (Project Co-Director), John Bonin (editor, Journal of Comparative Economics), Justin Yifu Lin (Peking University), and Li Shi (Chinese Academy of Social Sciences).

(Zhangyue Zhou)

Poverty, Inequality, Labour Market and Welfare Reform in China

In August 2004, an international workshop on Labour Market and Welfare Reform in China was held at Australian National University. This workshop was jointly sponsored by the National Institute of Economics and Business of Australian National University, the World Bank (WB), and AusAID. Mr. Xiaowu, Song, the Vice Minister of State Council Office of Leading Group for Revisiting Northeast China and Other Old Industrial Bases at State Development and Restructuring Commission, was invited to give a keynote speech. Twenty-three papers were presented in the workshop, discussing the social welfare reform in China, the urban labour market and rural-urban migration, poverty and inequality, education and demographic change. These papers were based on several research projects carried out by the center for income and labour dynamic in Asia (CILDA) ANU, the economic program of research school of social science ANU (ACIAR) and their cooperationists.

More than 80 participants attended the workshop. They were from CILDA, ANU, CCER, RCRE, State Development and Restructuring Commission, State Statistical Bureau, Chinese Academy of Social Science, Oxford University, Oita University, University of Michigan, the Ford Foundation and the World Bank.

(Yu Sheng)

China: Is Rapid Growth Sustainable?

A new book edited by Professor Ross Garnaut and Dr. Ligang Song of the Australian National University, *China's Rapid Growth Sustainable*, was published by the Asia Pacific Press at the Australian National University. Most of the chapters in the book are selected from papers presented at China Update Annual Conference held in October 2004, Canberra.

Sustaining economic growth has been of paramount importance for securing social stability in China while the economic system has been undergoing fundamental transformation. However, whether the

current economic growth in China is sustainable or not is an important question for both Chinese people and the world. This book discusses some of the main issues surrounding China's economic growth in the context of reform one after the accession of China into WTO, including SOEs reform, regional disparity, financial market and employment situation. For further details, please visit the Asia Pacific Press's website, www.asiapacificpress.com

(Sizhong Sun)

Seminar on the Exchange Rate Policy in China

On 16 November 2004, Asia-Pacific School of Economics and Governance of Australian National University organised a special seminar on the exchange rate in China. The seminar was given by professor Max Corden, emeritus professor of International Economics, Johns Hopkins University, and professor Fellow, Department of Economics, University of Melbourne. The title of the seminar was "Exchange Rate Policy in China: An Analytical Approach".

Exchange rate policy in China is a timely issue, first, because the PRC's current fixed-but-adjustable exchange rate regime (FBAR) is unlikely to last as capital controls are reduced or become less effective, and second because of pressure from the US and other countries to float the rate.

There are several distinct issues: (1) What would be the implications for the PRC of an appreciation of the renminbi, whether resulting from floating or from a once-for-all appreciation within the existing FBAR regime? (2) What are the arguments from the point of view of the PRC for and against a regime change, namely to floating (with some management)? (3) What would be the implications of an appreciation of the renminbi for other countries, notably the US?

The effects on interest rates are important. Max Corden used the concept of "exchange rate protection", and drew on the analysis in his book "Too Sensational: On the Choice of Exchange Rate Regimes" (2002).

(Yan Zhou)

ANNOUNCEMENTS

2005 Annual Conference in Perth

ACESA's 17th annual conference will be held in Perth on 7-8 July 2005. University of Western Australia will host the Conference. The main theme of the conference is Chinese Economy: Transition, Growth and Globalization. This theme is devised to reflect the trend of globalisation in the world and

China's responses. Especially, it captures the characteristics of China economic development: transition.

Deadlines for submitting abstract and final paper are, respectively, 1 April and 1 June 2005. Please send your comments and suggestions directly to Dr. Yanrui Wu at yanrui.wu@uwa.edu.au.

Awards for Excellent ACESA Conference Papers

In order to encourage the participation of Ph.D. students into the annual conference, the ACESA plans to set up a scholarship for the annual conference paper. In detail, the committee will choose the best annual conference paper from those surrendered by the current Ph.D. students. The award includes:

1. an annual cash prize worth \$A;
2. free of annual conference participation fee;
3. free of member fees for ACESA for the next year.

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. For the moment, we add the column of "Construction of ACESA", which aims to gather good ideas for further development of ACESA. Please direct your ideas and comments to Yu Sheng at yu.sheng@anu.edu.au or Tingsong Jiang at tingsong.jiang@anu.edu.au.

VIEWPOINTS

How High Is Urban Unemployment in China

Cai Fang

Since the late 1990s, China's labour markets have experienced great pressure characterized by several million workers being laid-off from the state-owned enterprises. The causes of the severe unemployment are threefold. First, due to the downturn of macro economy and rapid industrial structural change in late 1990s, SOEs, which lost their comparative advantage and competitiveness, have been unable to fully utilize their production capacity and became loss-makers. Second, the radical reform of SOE employment system, known for "breaking up the iron-rice-bowl", has worsened the situation. Third, massive rural labours have migrated to cities, seeking urban jobs and bring competition into urban labour markets.

However, the official statistical system so far has not been able to provide sufficient information to depict this situation. Officially used indicator of unemployment is the registered unemployment rate, but it is widely believed as underestimating the

actual unemployment and therefore questioned by domestic and international scholars. Trying to fill the statistical gap, researchers have utilized indirect measures to estimate the "real level" of unemployment, producing various figures much higher than what officially admitted (UNDP, 1999).

How redibility of China's Statistics

A sound statistical system is bound to provide a sufficient database revealing figures and dynamics of employment, lay-off, unemployment, labour force participation and, when people are unemployed, the benefits they receive. Based on the information, a comprehensive understanding can be reached on states of labour force, enabling public policies to touch the actual problems existing in labour markets. However, the current official statistics tends to underestimate the unemployment. The reasons are as following.

First, lay-off vs. registered unemployment: the revealed indicators. Mass unemployment in urban China is a phenomenon emerged as the result of economic transition and structural adjustment in 1990s. Since they are not properly considered within the current official statistics, the figures reported by central government is highly underestimated.

Second, alternate unemployment rates: surveyed and estimated. In 1996, the National Bureau of Statistics (NBS) started the household-based Sample Survey on the Population Changes (SSPC). Based on this survey, relatively accurate unemployment could have been calculated, because it follows ILO recommended definition of employment/unemployment. Though this calculation has never been done officially, one can still do an indirect estimation.

Third, labour force participation: discouraged workers. Both surveyed and estimated unemployment rates reported above are lower than what most researchers and observers expected, because those people, who had experienced unemployment and later quit from labour market, or who are reemployed but their new jobs are informal and not secure, are not counted as unemployed. Consequently, the "discouraged worker effect", changes in labour force participation, is not considered within the current statistics.

How Has Employment Been Created Since the 1990s

Unemployment rate increase and labour participation decrease caused many to have impression that there has been no increase in employment in China since 1990s, or even there has been absolute decrease in employment. For example, Rawski (2001) takes "zero employment increase" as evidence to question on China's GDP growth performance after late 1990s. If we just observe the state and urban collective sectors that

were traditionally only absorbers of urban employment, the employment has indeed declined year by year since the latter part of 1990s. However, because the components of China's economy become diversified, the employment structure experienced huge changes.

In practice, urban employment has been always growing since the reform started and it reached 247.8 million in 2002, 8.4 million more than the previous year. During the entire period from 1978 to 2002, the average annual growth rate was 4.1 per cent—that is, 63.6 million extra jobs were created each year on average. In the same period, the share of state-owned units in total urban employment declined from 78.3 per cent to 28.9 per cent, the share of collective units declined from 21.5 per cent to 4.5 per cent, while employments created by other newly emerged units, making up a diversified employment. The substantial increase of unit employment in such newly emerged sectors, however, does not sufficiently compensate the decline in state and collective employments, causing a residual between classified and total employments.

Statistically, the residual between total and unit employments appeared in 1990. Prior to that very year, figures of urban employment were collected through all production units with independent accounts and registered individual enterprises. Currently, official statistics on employment come from two statistical surveys. One is the Comprehensive Labour Statistics Reporting System (CLSRS), which provides information of employment covering all independent accounting units. Another is the household survey-based Sample Survey on the Population Changes (SSPC) that covers the population of the whole country. The difference between the larger number of urban employment collected from SSPC and the smaller number of employment from CLSRS results in a missing employment.

The existence and expansion of the missing employment not only manifests the incapability of the traditional employment statistics to reflecting the actual labour market situation under the diversified and complicated economic structure, but also indicates a progress of marketisation and a tendency of informalisation in allocating labour force, a result of increasingly severe unemployment and labour mobility. This informal channel has overwhelmingly employed rural-to-urban migrants and reemployed the urban laid-off and unemployed, making contribution to the growth of gross employment in recent years.

Policy Demands Arising from Labour Market

Once we get a rather complete and accurate picture of China's employment, unemployment and labour participation, we should be able to better

understand the realities and answer questions as to whether the situation is manageable. In the mean time, we can also draw some policy implications from it and make relevant policy recommendations.

First, it is obvious that having employment expansion as the top priority in implementing industrial policies, industrial organization policies and macroeconomic policies will not weaken the economic growth, instead, it is a guarantee for sustainable and coordinated growth. To implement the principle of "putting employment first" requires reforms in procedures of making government policies and regulations. (1) for industrial policy-making, all large sized investment projects that are conducted and/or encouraged by the government should be evaluated and approved under this principle. (2) for macroeconomic policy-decision, employment situation should become a major parameter for formulating anti-cycle monetary and fiscal policies and have reducing unemployment rate as their number one goal. (3) for industrial organization policies, criteria are whether they serve to reduce costs of economic activities, particularly the costs of government regulations, thus to generate lower natural unemployment rate. In utilizing macroeconomic policies to leverage the balance between inflation and unemployment rate, the lower the costs of economic activities are, the more possible it would be to use lower unemployment rate to trade for stable inflation, thus to achieve coexistence of low inflation and low unemployment rate (Ottossen, 1992).

Second, in the transition from planned economy to the market one, the legacies of planning continue to be in place, resulting in unique difficulties in employment and social security to China. The workers that urgently need to be done include (1) eliminating institutional obstacles to provide equal rights of employment for migrant labourers, (2) helping the transitional generation to smoothly transit to the new market regime, (3) netting the vulnerable before a comprehensive social security system is established, (4) exerting labour market as the basic mechanism to allocate labour force under imperfection of labour market, and (5) protecting workers from violation of labour law and regulations. In comparison with most transitional countries in East Europe, unemployment rate in China is not high, however, behind the simple unemployment rate is underemployment facing the reemployed and migrant workers and declining labour force participation caused by discouraged worker effect. Migrants particularly face institutional discrimination while seeking urban employment, being disadvantaged group in the labour market. Therefore, where the social security system is not sound enough, employment-related issues are translated into emergence of urban poverty.

In sum, the overall market development since 1990s is not the cause leading to mass lay-off and unemployment; instead, it is the reason for expanded employment and effective reemployment. Therefore, government policies should not aim at reducing lay-off and unemployment through slowing down development of the labour market, but should focus on expanding employment opportunities through developing the labour market.

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

The Sustainability of Growth in China

Ross Garnaut

Over the past decade, China's rapid economic growth has attracted the attention from all over the world. However, with the domestic and international economic challenges ahead, it is necessary to discuss whether such a trend will be sustainable.

A Flawed Financial System

The experience with financial crisis in developing East Asia in 1997 and 1998 has heightened awareness of the risks inherent in the flawed Chinese financial system. Currently, some features of the Chinese loan problem are unusual.

First, non-performing loans ("unpaid loans" in the Chinese nomenclature) are overwhelmingly held by the four state-owned banks. In early 2004, they represented, officially, 21 per cent of the Industrial and Commercial Bank of China's assets, and 30 per cent of the Agricultural Bank of China's assets.

Second, the banks have access to a high proportion of the extraordinarily large Chinese household savings. For the most part, they direct these savings to the least productive and profitable businesses in China—the large businesses that remain in state ownership. For the most part, they deny resources to the dynamic, productive domestic private sector, which continues rapidly to expand its share of economic activity despite unfavourable treatment in the allocation of capital and in other ways.

Third, discrimination by the banks against the private sector is no longer a consequence of state policy. It is now a reflection of private prudence by officers of state-owned banks, with weak capacity for evaluation of business risk, and increasing responsibility for bad lending decisions.

The correction of this important weakness of the banking system must have many parts: (1) reforms to financial legislation and regulation need to be

continued; (2) the task of restructuring the state-owned financial institutions, especially the banks and insurance companies, and recruiting and training staff for new functions and new approaches to work is even more formidable; (3) the expanding roles of foreign entities have been preceded by the emergence of a range of domestic privately owned financial institutions of substantial size; (4) the continuation of rapid privatisation of state-owned businesses and, separately, the explosive growth of the private sector, is increasing the urgency of fundamental financial reform.

Growing Regional And Interpersonal Inequality

The rapid expanding importance of the private market economy, to proportions that are now comparable to advanced industrial economies, and the concentration of opportunities for rapid economic development under the open policies in the coastal provinces, are together generating strong tendencies to wider dispersion in the distribution of incomes.

Two sets of reforms are crucial to constraining the widening of income inequalities in ways that support rather than contradict the continuation of economic growth. One is the removal of artificial barriers to the movement of people, capital, goods and services within China. The other is the introduction of effective income taxation and social security systems.

The rate of increase in rural and especially farm incomes has been held back for most of the past decade by a retreat into state regulation of production and trade in farm products. This is now being unwound, generating another period of stronger growth in farm incomes. Rozell et al. (2004) present data indicating that the reduction of internal transport and transaction costs on movements of goods has reduced these impediments to rural incomes growth to levels comparable to advanced industrial economies. This is an achievement of high historic importance. There has been much less progress in reduction of the even more important barriers to movement of people, and the necessary improvement of education in inland rural locations, to prepare young people for productive lives outside poor rural areas.

There is at least growing realisation that the household registration system, which excludes migrants from rural areas from a wide range of urban services, is an impediment to reduction of the most egregious inequalities in contemporary China. There is as yet little evidence of the national political will that would be required from comprehensive reform.

Progress on taxation and social security reform is being built on increasingly sophisticated analysis of the issues. Reform is being driven by realisation of

the politically explosive nature of continuing unemployment amongst people retrenched from the restructuring of state-owned enterprises. In contrast to reform of the household registration system, here the slow progress reflects the sheer complexity and scale of the task more than resistance by established interests.

Macroeconomic Instability

The inflation in 2003 has some interesting features, not present earlier in China. Rising food prices were part of the response to the running down of much of the huge grain surpluses accumulated in the later nineties in response to inefficient agricultural regulation. Higher farm prices reduced the supply of labour from rural areas, at a time when labour demand was increasing rapidly and tending to push up wages in the rapidly expanding coastal provinces, where the boom in foreign trade and investment has been concentrated.

So part of the new inflation reflects structural changes that are likely to be continuing features of the Chinese economy. Coastal China has commenced the structural transformation that is an inevitable consequence of successful economic growth in the East Asian pattern. Increasingly, with rising costs of labour, the accumulation of capital in all forms, including in the skills of the labour force, the coastal province's comparative advantage is shifting towards more sophisticated and capital-intensive products in China's export. It will go much further.

The policy response came in February 2004, most importantly as restrictions on investment in heavy industry by state-owned enterprises. This sent a shudder through global commodity and financial markets, amidst speculation about whether there would be seen as being necessary to complete the correction. In September 2004 there are signs of substantial reduction in investment in heavy industry, and the temperature in markets for industrial inputs has fallen. So far so good. However, continuing downward pressure on lending to state enterprises over a long period is required if the imbalances discussed last year are to be removed.

The process of rising wages and structural transformation towards more sophisticated patterns of production can be slowed but not stopped by continued large-scale migration from the inland provinces. This provides opportunities for accelerated development in inland China through emigration, transfers of income, and through the shift of production capacity in labour-intensive production.

The size and heterogeneity of the Chinese economy introduces some special challenges into macroeconomic policymaking. The rise in real costs and associated structural change in coastal China

over a long period could occur through inflation, or through nominal exchange rate appreciation.

The special complication in China is that non-inflationary increases in real costs in coastal China through currency appreciation would generate falling prices—all the disadvantages to development of deflation—in the Chinese inland. For this reason, there are advantages in China adopting over a long period of time a combination of exchange rate and monetary policies that secure price stability in the inland alongside moderate inflation in the coastal provinces that are experiencing real cost adjustment and rapid structural change.

These considerations in choice of exchange rate regime have not yet entered the main policy discussion.

More generally on the exchange rate regime, further exchange control and trade liberalisation, the increase in domestic demand and imports and inflation have removed the substantial basis for concern about exchange rate undervaluation that excited international interest in 2003. The case for changes in the exchange rate regime does not at the present time include chronic undervaluation. There are large advantages for China and its international partners in maintaining focus on exchange control and trade liberalisation as instruments for continued external adjustment in the period immediately ahead.

- Beside the above concerns, there are some other perspectives, such as problems in the international trading system, the domestic and international political challenges. In general, it is optimistic to take it for granted that the rapid growth in China's economy will be sustainable. However, there are also many problems to be solved.

(Professor Ross Garnaut is a professor of Economics in the Research School of Pacific and Asian Studies, and Chairman of the China Economy and Business Program at The Australian National University. He was Australia's Ambassador to China from 1985 to 1988. This short article is an excerpt from Chapter one in "China: Is Rapid Growth Sustainable?" (Asia Pacific Press: 2004)

Stakeholder Participation in Resettlement of Dam Projects in China

Cui Dandan

China has a long history of water resources development and large number of dams today as a result of favourable natural conditions. Resettlement, however, is one of the crucial and contentious issues in modern large dam projects. The move to public involvement in resettlement raises the issue of how the level of stakeholder participation might affect resettlement activity. Based on participation theory, it is therefore critical to assess the cause-effect relationship

between stakeholder participation and better outcomes in resettlement of dam projects in China, especially for studying the Three Gorges Project and drawing in information from the Xiaolangdi Project and Nu River Project.

Participation theory suggests that participation practice, both as a means and as an end, might contribute to better project outcomes of implementation if it is applied properly. As a means, participation increases project sustainability. As an end, participation increases empowering of disadvantaged people and capacity building. At the same time, participation faces challenges, such as contexts of different projects, risks induced by divergent interests of stakeholders, and costly and time-consuming process.

Based on such a theory, the hypothesis could be raised as: 'Lack of meaningful stakeholder participation has weakened resettlement outcomes of dam projects in China. Criteria were developed based on WB resettlement policy, WCD notice of good practice in participation and principles of participation by IAP2, to measure participation practice. Main items of the criteria cover how information is provided, how participation is facilitated, how stakeholders influence decision-making and whether all stakeholders' needs addressed. Criteria to measure project outcomes are the goal of each project. In case of the facts in China, several conclusions can be made.

First, basing on the study of the Three Gorges Project, non-government stakeholder participation was insufficiently 'meaningful', complaints from displaced people about lack of information and consultation induced, and unsatisfactory resettlement occurred. However, there are also significant factors other than participation that affected project outcomes: resettlement policy and planning, compensation and corruption. Besides, indirect factors have played an essential role in project appraisal and implementation, such as political pursuit, economic benefits of some interest groups, and economic reforms.

Second, the contribution of participation in the project appraisal of the Nu River Project reveals the limitation of the criteria for measuring participation. Participation in the Nu River Project was more transformational rather than instrumental, going beyond the dam project framework and led to unintended project outcomes. The measuring system developed in this project focuses on participation as a means within the dam project framework, with the purpose of making dam project more equitable and sustainable, rather than putting them on the negotiation table. In this way, the 'mobilisation of stakeholder ownership' is missed or insufficiently considered, as in the Nu River case.

Third, institutional arrangements and cultural background are important factors influencing participation practice. Therefore, improvement in stakeholder participation might heavily rely on these two issues. To achieve this, the awareness raising and capability building of both sides, governmental and non-governmental stakeholders, are essential. For the governmental stakeholders, their awareness and capability of participation practice related to the changing the 'top-down' model of governance and the efficiency of participation as a means in projects; for the non-governmental stakeholders, their awareness and capability of participation relate to mobilising institution construction and coping with their concepts and behaviours of participation; therefore addressing participation both as a means and as an end.

Finally, even though the traditional Chinese culture, in the sense of top-down and centralisation, forms a big challenge of the spreading of democratic concept and practice of participation, the notion of harmonisation in Eastern culture, including Confucianism, might contribute to construct a specific style of participation in China. In addition, the more and more opening environment, the growing market economy and the economic globalisation is offering a huge chance in introducing the concept and practice of participatory management, as it is happening in Eastern China.

(Cui Dandan is a master of Environmental Management and Development, Asia-Pacific School of Economics and Government, Australian National University.)

CONSTRUCTION OF ACESA

Proposal for Establishing a Consultant Firm under the ACESA

Qinyuan Jiang

The establishment of a consultancy service firm will benefit the ACESA in the following aspects:

- To play a critical role in coordinating the training and consultant programs in relevant disciplines of the Chinese study.
- To strengthen the position of the ACESA as a leading research network for the research of the Chinese economy.
- To enhance the communication between the Australian and Chinese academic staff

Organisation Structure

The proposed consultant firm should be a non-profit organisation. The operation costs should be offset by the fee for service. Any residential amount of the consultant revenue should be utilized for the benefits of the ACESA (to publish a journal for example).

A board of directors will be responsible for the operation of the proposed consultant firm. The President or nominee of the ACESA will be the Chair of the board of the ACESA Consultant P/L. A Secretary will be appointed by the board to monitor the operation. The day-to-day operation will be delegated to the Managing Director of the ACESA Consultant P/L. It will be the Managing Director's responsibility to report the financial status by monthly base to the board of director.

The ACESA Consultancy Firm is owned by the ACESA. The ACESA Consultancy Firm does not employ at on-going base due to its non-profit status. The income will generate from the fee-for-service. The major component of the service fee includes:

Direct costs - communication costs, stationary,

transport.

Consultancy Fee - payment to the academic staff who provides direct consultant service.

Administration Fee - payment to the staff that coordinates the training/consultant program.

(Qinyuan Jiang is a PhD Candidate, School of Management, Edith Cowan University)

Attract Ph.D. students to join ACESA

Editor's note: This issue of the ACESA Newsletter was edited by Yu Sheng, 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, Sizhong Sun, Yan Zhou, Ligang Song, Lilai Xu, Zhangyue Zhou for their generous inputs.

Happy New Year!