ACESA NEWSLETTER

Association for Chinese Economic Studies (Australia) Newsletter No. 4 (November 2001)

TABLE OF CONTENTS

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 the latest issue of the ACESA newsletter! As the teaching year ends in Australia, I look back briefly on what has occurred since the publication of the last newsletter. The press headlines have been occupied by news about the terrorist attacks, the war in central Asia and the potential recessions in the world's major economies.

Pessimists have projected a gloomy future for the world economy. There is, however, one bright spot: the Chinese economy is expected to maintain robust growth in the next five years. The consensus view is that China's sustained growth will have (positive) spillover effects on the world economy in general and China's neighbours in particular. I believe that China's continuing growth will boost research work on the Chinese economy too.

I was pleased to see the continuing interest in our annual meeting. This year's meeting in Wollongong was a great success. The organisers are now working towards the publication of the conference proceedings. Professor Charles Harvie and his team should be congratulated for putting up the excellent show. Planning for the 2002 meeting is now well on the way in the able hands of Dr Guanghua Wan and his team in the University of Sydney. I look forward to meeting you all in July next year in Sydney.

2001 is unprecedented in ACESA history. Later this year we will have ACESA's first venture inside China. This ambitious project encountered some obstacles. Fortunately, we now have the collaboration from the Shanghai Academy of Social Sciences to proceed this venture (see the separate report on the proposed workshop in Shanghai).

My colleagues on the Council and I will work harder to improve our services. Our tasks in the near future include fund-raising and a membership drive. As in the past, the Committee expects support from all readers of this newsletter. For suggestions and inquiries, please feel free to contact me or other committee members.

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 Ligang Song at ligang.song@anu.edu.au**.** To post a message, send it to: cesa-oz@anu.edu.au**.**

ACESA 2001 CONFERENCE REPORT

By Charles Harvie

ACESA's 13th Annual Conference was held at the University of Wollongong, NSW, 14-15 July 2001. The theme of the conference was "China's Economy: Confronting Restructuring, Stability, and International Competitiveness". The conference convenor was Associate Professor Charles Harvie, an elected ACESA committee member. This was the first time that the conference had been held in Wollongong. Some 35 participants were in attendance from eight countries and regions (China, Hong Kong, the Philippines, Switzerland, UK, USA, Vietnam, and Australia). A total of 25 papers were presented.

Keynote addresses were presented by Wing Thye Woo (UC Davis), Graeme Thomson (DFAT), Ligang Song (ANU), Robyn Iredale (Wollongong), and Marika Vicziany (Monash).

Participants voted in favour of producing a conference proceedings, and this is currently in process. In addition, a special issue of the *China Economic Review* is being planned based on 7-9 selected paper presentations.

Conference attendees also voted to have the 14th annual conference convened at the University of Sydney, the convenor of which will be Dr Guanghua Wan. The organising committee of the University of Wollongong conference extend their congratulations and best wishes to the University of Sydney conference organisers.

ANNOUNCEMENTS

ACESA 2001 Shanghai international workshop on the Chinese economy, 14-15 December 2001

By Yanrui Wu

In a joint effort with the Shanghai Academy of Social Sciences, the ACESA will be holding an international workshop on the Chinese economy in Shanghai on 14-15 December 2001. The workshop will organise 12 sessions covering topics such as:

- Growth and inequality
- Reform of the state-owned enterprises
- Finance and banking

- WTO accession and globalisation
- Productivity studies
- Political economy
- General economic issues

The workshop has attracted about 50 participants from 11 countries, including 42 speakers. Professors LI Shantong (Development Research Centre, the State Council) and Zuo Xuejin (Shanghai Academy of Social Sciences) will deliver the keynote speeches. The workshop is generously sponsored by the Ford Foundation (Beijing Office), the Shanghai Academy of Social Sciences and the University of Western Australia. For more information, contact acesa@uwa.edu.au.

ACESA 2002 Annual Conference in Sydney 15-16 July 2002

By Guanghua Wan

ACESA's 14th Annual Conference will be held at the University of Sydney in Australia from 15 July to 16 July 2002.

The theme of the conference is "Chinese Economy: Social, Institutional and International Dimensions". The conference offers a unique opportunity for researchers, policy-makers, entrepreneurs, students and other social scientists from all over the world to interact with each other and exchange views on the fastest growing economy on the earth. Well-known economists and participants from China and other countries will analyse the issues and challenges facing the Chinese economy from different perspectives.

The conference is organised by the China Links Program, the University of Sydney; Department of Agricultural Economics, the University of Sydney; Faculty of Rural Management at the University of Sydney's Orange campus; and the Association for Chinese Economic Studies (Australia) (ACESA).

It is planned that a selection of presented papers will be published in both English and Chinese by reputable publishers.

The Organising Committee now calls for submission of abstracts. Submissions will be reviewed and those accepted will be advised shortly after the reviews.

Some important dates to note are:

- Deadline for submission of abstract is 28 February 2002
- Announcement of accepted papers will be on 15 April 2002
- Deadline for submission of complete papers is 15 June 2002

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

New books

Lloyd, P. and Zhang, X.G. (eds) (2001), *Models of the Chinese Economy*, Edward Elgar.

Garnaut, R., Song, L.G., Yao, Y. and Wang, X.L. (2001), *Private Enterprise in China*, Asia Pacific Press.

Wen, J. (ed.) (2001), *WTO and China: Development through Globalisation*, Renmin University Press.

JOB OPENINGS

The Department of Economics at the Chinese University of Hong Kong invites applications for a number of positions to begin August 2002. At the Assistant/Associate Professor level, preference will be given to candidates in the following areas: Microeconomics, Public Economics, Industrial Organisation, General Economics. At the Instructors level, preference will be given to candidates in the following areas: History of Economic Thought, Economic History, Urban & Regional Economics, Asia-Pacific Economies, General Economics, Public Economics, Industrial Organisation. Closing date for application is December 1, 2001 (by post date). For further information, contact Recruiting Chair, Department of Economics, The Chinese University of Hong Kong, Shatin, N.T., Hong Kong (fax: 852-26035805; email: economics@cuhk.edu.hk).

RESEARCH PROJECTS ON CHINA

There are some on-going major research projects on the Chinese economy financed by Australian funding bodies and executed by researchers of various Australian institutions. Highlighted below are some of these projects. For those who are interested in these projects, please directly contact the researchers.

Economic impacts of fibre input options and new processing technologies from a whole-mill perspective

By Scott Waldron

This project is funded by ACIAR (Australian Centre for International Agricultural Research) and is conducted by the China Agricultural Economics Group at the University of Queensland, in collaboration with the Research Centre for the Rural Economy under the Ministry of Agriculture in Beijing.

Designed to add an economic component to a suite of CSIRO projects on wool processing in China, the focus of this project is at the enterprise level – wool textile mills. The project is also concerned with both domestic and imported wool supply channels and with derived demand for wool textile products. Analyses from this project will offer insights into the industries under review. The project is led by John Longworth and Colin Brown with Scott Waldron as Research Officer. For more information about this project, please contact Scott Waldron at email: Scott.Waldron@mailbox.uq.edu.au

The UQ China Agricultural Economics Group has also conducted a number of other projects on China and has produced numerous publications. For more information, visit the website at www.nrsm.uq.edu.au/Nrsm/AgEcon/research/ChinaP/Chinamenu.htm

Chinese grain market policy with special emphasis on the domestic grain trade

By Chunlai Chen

This project was funded by ACIAR and GRDC (Grains Research and Development Corporation). It was started in 1999 and was just recently completed. The project was conducted by the Chinese Economies Research Centre of the University of Adelaide, in collaboration with the Policy and Law Department of the Ministry of Agriculture of China in Beijing, College of Economics and Trade of Nanjing Agricultural University in Nanjing, and the Economics Division of the Research School of Pacific and Asian Studies at the Australian National University (ANU) in Canberra.

The project was designed to measure the extent of inter-regional grain (and other food) transfers within China; to explain the directions of, and constraints to, those transfers; and to evaluate policy proposals including those that reduce the impediments to inter-regional trade.

The results of this project have been incorporated into a series of research reports on various policy options, evaluated in terms of their economic, social and political impacts. The project also provided an assessment of how China's grain policy reforms may affect opportunities for the Australian grain industries.
For more information, please contact Chunlai Chen at email: chunlai.chen@anu.edu.au

Achieving food security in China - implications of likely WTO accession

By Ron Duncan

This ACIAR project has been funded for 3 years from July 2000. The aim of the project is to examine the impact of various agricultural policies that may be adopted following China's accession to WTO. The distributional effects will be a focus of the study.

Originally involving Ron Duncan, Yiping Huang and Yongzheng Yang at the Australian National University, the staffing of the project has had to be reorganised with the departure of Yiping Huang to Hong Kong and Yongzheng Yang to Washington, DC. Rod Tyers, Chunlai Chen, Xiaolu Wang and Tingsong Jiang, all of ANU, have now joined with Ron Duncan to carry out the project. Tingsong recently attended the GTAP modelling course at Purdue University as the research at ANU will involve a substantial amount of analysis using GTAP.

The main collaborators in China are Justin Yifu Lin, Wen Hai, and Feng Lu at the China Center for Economic Research at Beijing University. Other researchers in China include Shi Li and his colleagues at the Institute of Economic Research, CASS (analysing the impact of different policies on income distribution), Fang Cai and his colleagues of the Institute of Population Studies, CASS (examining the impact on poverty), and Weiming Tian and his team at China Agricultural University (researching changes in domestic resource costs).
For further information, please contact Ron Duncan at email: ronald.duncan@anu.edu.au

China's regional feedgrains markets: development and prospects

By Zhangyue Zhou

This three-year project is funded by GRDC. It was started in early 2000 and due to be completed by the end of 2002. Working on this project are researchers from two departments of the University of Sydney, i.e., the Asian Agribusiness Research Centre and the Department of Agricultural Economics. The Chinese collaborators are from the College of Economics and Management at China Agricultural University in Beijing.

The objectives of this project are to assess China's feedgrain demand and supply situations and the potential of feedgrain production at the regional level, to predict China's regional feedgrain and livestock trade patterns under various policy scenarios, and to examine the impacts of different policy options on feedgrain trade within China and internationally, with the aim of drawing trade implications for Australia's grains industry.

For further information on this project and research reports on preliminary findings, please contact Zhangyue Zhou at email: zzhou@orange.usyd.edu.au

VIEWPOINTS

Development of road transportation and the automobile industry in China

By Mei Wen

Although the railways and water transportation systems are still major channels for goods transportation in China, the development of the road transportation system has received increased attention from the government since economic reform. According to the *Key Special Plan of the Comprehensive National Transportation System for the 10th Five-Year Period (2001-2005)*, the total length of highways will be extended to 1.4 million kilometres by the end of 2005.

It is expected that the national highway system will be further improved following the completion of the construction of five north-south national highways (Tongjiang-Sanya highway; Beijing-Zhuhai highway; Chongqing-zhanjiang highway; Beijing-Fuzhou highway; and Erlianhaotei-Hekou highway) and seven east-west national highways (Shanghai-Chengdu highway; Lianyungang-Heerguosi highway; Ruifenhe-Manzhouli highway; Dandong-Lasha highway; Qingdao-Yinchuan highway; Shanghai-Ruili highway; and Hengyang-Kunming highway). Road transportation will then play an even more important role in both goods and passenger transport.

However, in the plan, the composition of different kinds of vehicles for goods and passenger transport is not specific. Public transport vehicles are planned as the main measure for passenger transport. The development of high-quality vehicles is advocated for transport of containers, frozen goods and dangerous goods. As the negative externality generated by different vehicles varies with vehicle type and population density, taxes and fees can be charged by the government according to the price-production cost margin and the differential between the social and production cost of each vehicle type.

The experience of Singapore and Hong Kong shows the importance of municipal planning in the composition of different vehicles for passenger and goods transport. The ratio of the numbers of different kinds of vehicles seems to be very similar in Singapore and Hong Kong. For example, in the year 2000, in Singapore the ratio of the sum of rental cars and taxis to the number of cars was 0.069, which was not much higher than Hong Kong's ratio of the number of taxis to cars, 0.054. Similarly, the ratio of the number of buses to the number of cars in Singapore was 0.032, which was not much lower than Hong Kong's ratio of the sum of buses and light buses to the number of cars, at 0.057. More importantly, Singapore's ratio of the number of goods and other vehicles to the number of cars, at 0.348, was very close to Hong Kong's 0.343 ratio of the number of goods vehicles to the number of cars.

Although Singapore's population density, per capita GDP and absolute number of each vehicle type are different from Hong Kong's, these close ratios may reflect some optimal proportions of different kinds of vehicles which minimise the social costs of their transportation systems. Hence, government long-term planning on the combination can be significant not only for social cost minimisation, but also for long-term development strategy of the automobile industry.

China has had its own automobile industry since the Automobile Manufacturer No. 1 was established in Changchun in 1956. After nearly half a century of development, almost every province (including Beijing, Shanghai, Tianjing and Chongqing) has its own automobile industry. Especially since the economic reforms, there has been more variety of goods vehicles, and more and more sedans, and limousines.

In 1995, the production capacities of automobiles, buses and sedans reached 1662103, 726054 and 518976, respectively while the output of them in the same year were 595997, 216188, and 337024, respectively. In 1999, there were 2362 enterprises in the industry, among which 118 were automobile manufacturers and 107 motorcycle producers.

Due to excess production capacity and the fact that many state automobile companies made losses, the central government has tried to be supportive of three key automobile corporations (Automobile Manufacturer No. 1 Corporation, Dongfeng Automobile Company and Shanghai Automobile Corporation).

However, more and more production capacities are set up by joint ventures, especially for producing sedans. So far, major international automobile manufacturers (such as General Motors, Volkswagan, Audi, Suzuki, Toyota, Honda, Fuji-Subaru, and PSA) all have joint ventures in China mainly producing sedans. Price competition amongst different manufacturers is severe, especially in the sedans market. With an industrial capacity for producing around 2 million sedans, 15 major automobile companies produced around 1.09 million sedans in 1999 and sold around 1.12 million.

Recently the government issued new policies to encourage private agents to buy cars with an engine capacity of less than 3 litres. However, even if more and more individuals can afford to purchase private cars, will China's capital cities be able to handle the increased traffic in the long term? Will urban people suffer more from more severe gas pollution? It is usual to hear taxi drivers complaining about the heavy traffic in cities like Beijing and Shanghai. And it is not uncommon to hear Beijing residents blaming the government for not spending more money on the public transport system.

As China has become a WTO member, China's automobile industry is amongst the industries that will confront the most challenges from overseas producers in the coming years due to the lack of R&D advantage. On the one hand, we have to consider if the government calculates the negative externality of private sedans and the economies of scale of a public transport system, how the "correctly charged" taxes and fees on private sedans and subsidies to the public transport system will change the demand for each kind of vehicle, and hence the excess production capacity of each automobile type. On the other hand, if imported sedans become a large proportion of China's sedan consumption in several years, what will happen to the ever-increasing domestic production capacity? Will the government then have policies to avoid dumping of cars on the domestic market in order to prevent long-term high social costs from profit-seeking dumping? Will the government advocate profitable export to some segments of Asian market?

Clearly, studies are needed to address the above questions. Studies are also needed to conduct research on long-run optimal proportions of different vehicles for cities with different per capita income and population density, and on the development of production capacities of different vehicles, estimations on imports, and estimation of regional demand for and industrial supply of each kind of transport vehicle. Such studies will provide valuable inputs for both government policy formation and long-term automobile industry development strategy. Unfortunately, data necessary for such studies are not yet available. With the national unified vehicle registration system newly introduced this year, it is hoped that research will be carried out in the near future.

(Mei Wen is a Research Fellow in the Division of Economics, Research School of Pacific and Asian Studies of the Australian National University. Those who are interested in further discussion on the issue, please contact Mei Wen at rosemei.wen@anu.edu.au)

China's new banking reforms

By Yiping Huang

It is now certain that China will be a formal member of the WTO from the beginning of 2002. China's financial markets will be opened up quickly as the WTO agreements are implemented. In five years, foreign banks will be able to conduct all kinds of businesses. Foreign insurance, investment banking and asset management companies can participate in domestic markets through joint ventures. The landscape of the financial markets will be changed once and for all.

But at their current state, the domestic financial institutions may not be able to survive international competition. Recent evidence suggests the average proportion of the non-performing loans (NPLs) of the four major banks at 28%. This is after the transfer of about Rmb1.4 trillion NPLs to the asset management companies (AMCs). The banks' capital adequacy ratios continue to fall, from above 8% at the end of 1998 to 6.6% now. Substantial bubble still exist in domestic stock markets because of excessive speculative behaviour. The average price-to-earning ratios are still between 40 and 50 even after the recent correction, compared to 10 to 15 in Hong Kong Stock Exchange and below 30 in New York Stock Exchange. Obviously, the domestic stock markets need to consolidate further.

The financial risks are acutely reflected in fiscal problems. While the official public debts are only 15% of GDP at the present, total contingent liabilities, including costs for bank restructuring, amount to 84% of GDP. In other words, if financial risks are not alleviated quickly, the probability of fiscal crisis may loom high.

To eliminate the financial and fiscal risks after the WTO entry, China has planned a Central Financial Works Conference (CFWC) to draw up a new grand blueprint for financial reforms in the next five years. From early this year, the policy-makers were divided into individual groups to assess various reform options in the areas of financial supervision, reform of the state-owned commercial banks (SOCBs), liberalisation of the interest rates and exchange rate, dealing with the problems of the rural credit cooperatives (RCCs) and the international trust and investment corporations (ITICs), etc. The Conference was originally scheduled for late October but was subsequently postponed to December due to significant disagreement among policy-makers.

While it is difficult to predict the actual policy outcomes at the Conference as debates are ongoing in some areas and things can still change by day, we offer some of our thoughts about the possible directions of the reforms.

Financial supervision is a subject of heated debate surrounding two key issues. First, there is increasing demand from within the financial sector to pull down the Chinese wall between the banking, securities and insurance industries. Second, there is also a strong demand for setting up a separate bank supervision body. We believe the current separation of business line will continue, especially given the existing incentive problems in the financial sectors and the level of supervision ability. But a new bank supervisory body is likely to be separated out from the People’s Bank of China (PBOC).

Reform of the SOCBs will probably adopt a three-step approach: first improving the internal management, then corporatizing the banks and finally listing in either domestic or overseas markets. A recent development is the idea of introducing foreign investors to these banks, either indirectly through the stock markets or directly as strategic investors. The government, however, is likely to introduce a cap on foreign interest in domestic banks at 25%. The SOCBs need to clean up their balance sheets before they can attract any (domestic or foreign) investors.

The existing joint-stock banks are relatively healthier because they have less policy burdens and are more flexible in making changes. But we also expect industry consolidation to occur among these banks, mainly on a regional basis. New private banks may also be introduced over the next five years to not only add competition pressure on the existing banks but also facilitate development of the private sector.

Liberalisation of interest and exchange rates has been well-discussed in the policy cycle. In fact, a three-year program to bring in a market-based interest rate was introduced in September last year but was subsequently postponed on the fear that it might endanger the SOCBs. We expect the reform to resume soon in the next year or so, starting from foreign currency rates, and then local currency lending rates and finally deposit rates. The government has already committed to widen the exchange rate fluctuation band after the WTO entry. While the trade account may deteriorate in the initial period, we expect the exchange rate to remain largely stable as capital inflows, especially FDI inflows, will also be strong. And finally, the probability of an early capital account liberalisation increased significantly during the past couple of months as many senior officials argued that it is better to manage capital flows by formalising them rather than forcing them to go underground.

(Yiping Huang is with the Salomon Smith Barney an d Citibank. Email yiping.huang@ssmb.com)

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Editor’s note: This issue of the ACESA Newsletter was edited by Zhangyue Zhou, the University of Sydney, zzhou@orange.usyd.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, Ron Duncan, Charles Harvie, Yiping Huang, Scott Waldron, Guanghua Wan, Mei Wen, Yanrui Wu for their generous inputs, and Marjorie Wilson for editorial assistance.