China: new engine of world growth
China: new engine of world growth

Ross Garnaut and Ligang Song (editors)
Contents

Tables vii
Figures x
Boxes xlii
Symbols xiii
Abbreviations xiii
Contributors xvii

Macroeconomic performance and new challenges
1 China: new engine of world growth 1
   Ross Garnaut
2 The impact of SARS 19
   Jong-Wha Lee and Warwick J. McKibbin
3 The travails of current macroeconomic and exchange rate
   management 34
   Wing Thye Woo
4 The changing pattern of economic growth 64
   Yipeng Huang

Financial system reform: an unfinished task
5 Transforming the banking sector 82
   Yipeng Huang
6 Financial opening and economic growth: a quantitative assessment 94
   Jordan Shan
7 Rural financial markets and institutions: new developments 111
   Enjiang Cheng

Foreign trade, trade policy and FDI
8 Entry into the WTO: commitments and implementation 131
   Geoff Raby
9 WTO commitment: further marketisation and trade liberalisation 141
   Jiadong Tong
10 A changing role in world trade 151
   Ligang Song and Sizhong Sun
China and the world economy: the FTA strategy
Christopher Findlay

Sectoral impact and policy adjustment

Location determinants and provincial distribution of FDI
Chen Chunlai

The impact of urbanisation on economic growth
Xiaolu Wang and Ronald Duncan

Trade reform, macroeconomic policy and sectoral labour movement
Jennifer Chang and Rod Tyers

Internet development
Fang-Fang Tang

Income distribution and social security

Accession to WTO and foreign pharmaceutical firms’ business opportunities
Yifeng Wu

Political capital and wealth accumulation
Meng Xin

Reforms and challenges of the social security system
Qun Shi

Enterprise reform and regional development

The National Social Security Fund
Tim Murton

Building modern enterprises: challenges and requirements
Mei Wen

Challenges facing small private enterprises
Kim Houghton and Ian Davies

Industrial location and regional development
Jane Golley

Government transfer payments and regional development
Tingsong Jiang and Zhiyun Zhao

China’s role in the world

A new engine for pragmatism in the international security order?
Greg Austin
TABLES

1.1 Output growth and inflation performance in China, 1979–2003  
2.1 Cumulative number of reported probable cases of SARS, 2003  
2.2 Health expenditure and sanitation indicators for selected countries  
2.3 Chronology of SARS and major responses by the Chinese government, November 2002–July 2003  
2.4 Percentage change in GDP in 2003 due to SARS, 1993–2003  
2.5 Forecasts for China’s GDP growth  
3.1 Employment in China’s industries, 1978–2001  
3.2 Growing fiscal spending  
3.3 Investment trends by ownership  
3.4 Rising fragility of China’s banking sector  
3.5 Contingent liabilities in China, end of 2001  
4.1 Investment by the state and non-state sectors  
4.2 China and Asian economies: growth of GDP components and investment–GDP ratio  
4.3 Contingent liabilities  
4.4 Selected Asian economies, long-term growth potential  
4.5 Citigroup estimates of long-term growth potential, selected Asian economies  
5.1 China committed to open up banking sector after WTO accession  
5.2 Estimated contingent liabilities for China  
5.3 The new policy framework for banking reform  
5.4 Loan provisioning standards for Chinese banks  
6.1 Variance decomposition percentage of 36-month error variance  
6.2 Granger causality test  
7.1 Changes in rural deposit savings and loans  
7.2 Changes in real institutional rates of interest  
9.1 Imports and exports by different types of enterprise, 2002  
9.2 Selected Chinese tariff rates prior to WTO accession, 1987–2000  
10.1 Shifting patterns of export specialisation in selected industrial sectors, 1970–2000  
10.2 Foreign direct investments in China, 1980–2002  
12.1 Actual FDI inflows into China, 1979–2002  
12.2 Actual FDI inflows into China’s provinces, 1983–2002
12.3 Accumulated FDI stock in China’s provinces, 1983—2002 196
12.4 List of variables of provincial FDI inflow equation 205
12.5 Regression results of provincial FDI inflow equation 208
12.6 Provincial FDI attractiveness index 211
13.2 Agricultural sector, share of GDP, employment and population, 1952—2002 218
13.3 Agriculture as a source of rural income, 1990–2002 220
13.4 Rural–urban income disparity, 1980 and 2000 220
13.5 Modelling results: urbanisation and economic growth 227
14.1 Official price level changes since the Asian crisis 241
14.2 Model structure 247
14.3 Chinese equivalent import tariff and export tax rates 250
14.4 Ancillary effects of WTO trade reforms 252
14.5 Simulated long-run effects of a unilateral liberalisation of China’s 2001 trade policy regime 253
14.6 Short-run closure 255
14.7 Simulated short-run effects of a unilateral liberalisation of China’s 2001 trade policy regime: by macroeconomic policy regime 258
14.8 Comparing simulated trade reform-driven labour relocation demand with historical experience 264
A14.1 Chinese labour relocation 275
15.1 Growth of networked computers 282
15.2 International bandwidth distribution 282
15.3 Distribution of domain names under ‘CN’ 283
15.4 Growth of online users 284
15.5 Demographics of online users 285
15.6 Education level of online users 286
15.7 Geographic distribution of online users 287
15.8 Methods of financing online access 288
15.9 Monthly income distribution of online users 290
15.10 Main location of going online 292
15.11 Time of usual online use 293
15.12 Hardware used to go online 293
15.13 Main purpose for going online 295
15.14 Type of information users read online 296
15.15 User perception of important problems of online transactions 296
15.16 Goods or services purchased online 297
15.17 Proportion of users who purchased 298
16.1 Structure of the Chinese pharmaceutical industry in 2000 303
16.2 Research and development expenditures, of large and medium-sized pharmaceutical enterprises 305
16.3 International trading competitiveness indices of chemical raw medicines and pharmaceutical products 307
16.4 Price indices of chemical raw medicines and pharmaceutical products 308
16.5 Number of patent applications in the field of medicine 311
17.1 Summary statistics and inequality measures of real income and wealth, 1995 and 1999 319
17.2 Effect of housing reform on housing ownership, 1988–99 319
17.3 Determinants of net total wealth, 1995 and 1999 323
17.4 Determinants of financial wealth, 1995 and 1999 324
17.5 Determinants of net housing wealth, 1995 and 1999 325
17.6 Direct and indirect effects of unemployment and party membership on wealth 325
18.1 Employment structure by ownership in urban China, 1980–99 332
18.2 Number of retrenched workers of SOEs, 1997–2001 333
18.3 Summary of Chinese unemployment insurance reforms in the 1980s and 1990s 335
18.4 A summary of public pension reforms in the 1980s and 1990s 336
18.5 Retiree/employee ratios by ownership structure in China, 1982–98 337
18.6 Selected aggregate figures for the UMLS program, 1998–2002 340
18.7 Contributions, employment and replacement rate of pensions 346
21.1 Siying Qiye and Getihu in Harbin and Qingdao, 2002 390
21.2 Responses by business type and survey mode 391
21.3 Distribution of respondents by industry and legal structure, by city 391
21.4 Age of businesses, by city 392
21.5 Average hours worked per day, by legal structure 392
21.6 Sources of start-up capital, by city 394
21.7 Registered capital, by legal structure, Siying Qiye
21.8 Main barriers in starting up businesses, by city
21.9 Use for expansion capital in next 12 months, by city
21.10 Sources of expansion capital, by city
21.11 Difficulties expected in accessing expansion capital, by city
21.12 Business skills sought in next 12 months, by city
21.13 Preferred skills training delivery modes, by city
22.1 NRC, SC and LC combinations
22.2 Rankings of GDP growth, GVIO shares and changes in per capita GDP
22.3 Gini coefficients
22.4 NRCs, SCs and types for each province and sector
22.5 Summary of types
23.1 Composition of local government revenues by region, 2001
23.2 Coefficients of variation for per capita revenue and expenditure across provinces, 1982–92
23.3 Trends in the inter-regional distribution of fiscal resources, 1990–2001
23.4 Summary of simulations
23.5 Simulation results of increasing transfer payments to inland regions

FIGURES
2.1 Impacts on China of temporary versus permanent SARS shock
3.1 Credit conditions
3.2 Consumption and investment growth
4.1 Annual GDP growth, China, Hong Kong, Taiwan, Korea, Japan and India
4.2 Average shares of various components of GDP
4.3 Contributions to GDP growth of various components
4.4 High investment growth and rising investment–GDP ratio
4.5 Annual GDP growth and share of TFP in GDP growth, 1997–2002
4.7 Growth of inventories by industry, end April 2003
4.8 Retail sales, 1994–2003
4.10 Consumer Price Index and money supply (M2) growth 80
6.1 Growth of GDP, credit and investment in China 96
6.2 Credit and investment in GDP in China 96
6.3 EG responses to a ‘shock’ in TC, LAB, INV and TRADE 105
6.4 TC responses to a ‘shock’ in EG, LAB, INV and TRADE 106
10.1 China’s average tariff rate, 1986–2003 153
10.2 Major countries’ share in world trade, 2002 158
10.3 Destination of Chinese exports, 2003 158
10.4 Change of export markets, 1980–2001 159
10.5 Source of Chinese imports, 2003 159
10.6 Changes in import sources, 1980–2001 160
10.7 Trends in export composition, 1965–2000 161
10.8 Composition of exports, 2000 162
10.9 Composition of imports, 2000 163
10.11 Share of labour-intensive products in total exports, 1970–2000 165
10.12 China’s cumulative exports, 1965–2000 166
10.14 Changing share of some East Asian economies in total
labor-intensive manufactured exports, 1970–2000 168
12.1 Actual FDI inflows into China, 1979–2002 190
12.2 FDI inflows into China, by region, 1984–2002 197
12.3 FDI stocks in China, by region, 1983–2002 197
13.1 Relationship between rural industrialisation and rural income, 2000 223
13.2 Relationship between urbanisation and rural household income, 2000 226
14.1 Per capita annual income of urban and rural households 234
14.2 Gap between urban and rural incomes, 1978–2001 236
14.3 Employment by industry group, 1990–2001 238
14.4 Official growth rate of real GDP, 1990–2001 240
14.5 Official growth rate of the average real manufacturing wage, 1996–2001 241
14.6 The domestic capital market without capital controls 248
14.7 The domestic capital market with capital controls 248
14.8 Trade reform with capital controls 262
14.9 Trade reform without capital controls 263
15.1 Average hours online per week 292
15.2 Time users usually go online 294
15.3 Number of people using mobile devices and info home appliances to access internet 295
16.1 Output of chemical raw medicines and traditional Chinese medicines 301
16.2 Growth rates of net asset profits and output value, pharmaceutical and total industry 302
16.3 Imports and exports of Chinese medicines 304
16.4 Medicine patents in China: proportion granted to foreign applicants 310
17.1 Lorenz curves of wealth 321
17.2 Net wealth distribution by percentile of permanent income 326
17.3 Actual and predicted net total wealth by income percentile 326
18.1 Expenditure of major social security programs in China, 1999 334
18.2 World population aging, 1950–2050 340
18.3 The UN projected old-age dependency ratio and the PAYGO tax rate 342
18.4 Optimal payroll tax rate between 2001–50 to pay off historical pension debts up to 2000, but not beyond 344
19.1 Reporting structure of the National Social Security Fund 359
19.2 Funding of the National Social Security Fund 361
22.1 Pattern of agglomeration 408
23.1 Per capita GDP, 1978–2000 435
23.2 Composition of transfer payments by region, 2001 441
23.3 The relationship between regional income and transfer payments, 2000 443
23.4 Provincial average tax rate versus per capita GDP, 2001 449
23.5 Regional average tax rate, 2001 449
23.6 Structure of CERD 451
23.7 National migrant labour market 451

BOXES

19.1 Qualifying conditions to manage funds in the NSSF 363
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSRC</td>
<td>China Securities Regulatory Commission</td>
</tr>
<tr>
<td>DFN</td>
<td>Deutsche Forschungsnetz [German Research Network]</td>
</tr>
<tr>
<td>DPP</td>
<td>Democratic Progressive Party</td>
</tr>
<tr>
<td>EEFSU</td>
<td>Eastern Europe and the former Soviet Union</td>
</tr>
<tr>
<td>EEM</td>
<td>electronic equipment and machinery</td>
</tr>
<tr>
<td>ETE</td>
<td>electronic and telecommunications equipment</td>
</tr>
<tr>
<td>FDI</td>
<td>foreign direct investment</td>
</tr>
<tr>
<td>FPC</td>
<td>Funding the Poor Cooperation</td>
</tr>
<tr>
<td>FTA</td>
<td>Free Trade Agreement</td>
</tr>
<tr>
<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
</tr>
<tr>
<td>GDP</td>
<td>gross domestic product</td>
</tr>
<tr>
<td>GLS</td>
<td>generalised least squares</td>
</tr>
<tr>
<td>GTAP</td>
<td>Global Trade Analysis Project</td>
</tr>
<tr>
<td>HRS</td>
<td>Household Registration System</td>
</tr>
<tr>
<td>HSBC</td>
<td>Hong Kong and Shanghai Banking Corporation</td>
</tr>
<tr>
<td>ICBC</td>
<td>Industrial and Commercial Bank of China</td>
</tr>
<tr>
<td>LDC</td>
<td>less developed country</td>
</tr>
<tr>
<td>LIR</td>
<td>labour insurance regulations</td>
</tr>
<tr>
<td>MCA</td>
<td>Ministry of Civil Affairs</td>
</tr>
<tr>
<td>MFI</td>
<td>microfinance institution</td>
</tr>
<tr>
<td>MFN</td>
<td>most-favoured nation</td>
</tr>
<tr>
<td>MNE</td>
<td>multinational enterprise</td>
</tr>
<tr>
<td>MOF</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>MOFERT</td>
<td>Ministry of Foreign Economic Relations and Trade</td>
</tr>
<tr>
<td>MOFTEC</td>
<td>Ministry of Foreign Trade and Economic Cooperation</td>
</tr>
<tr>
<td>NBS</td>
<td>National Bureau of Statistics</td>
</tr>
<tr>
<td>NGO</td>
<td>non-governmental organisation</td>
</tr>
<tr>
<td>NATO</td>
<td>North Atlantic Treaty Organisation</td>
</tr>
<tr>
<td>NIE</td>
<td>newly industrialised economy</td>
</tr>
<tr>
<td>NPC</td>
<td>National People’s Congress</td>
</tr>
<tr>
<td>NPL</td>
<td>non-performing loans</td>
</tr>
<tr>
<td>NRC</td>
<td>net relative change</td>
</tr>
<tr>
<td>NSSF</td>
<td>National Social Security Fund</td>
</tr>
<tr>
<td>NYSE</td>
<td>New York Stock Exchange</td>
</tr>
</tbody>
</table>
SYMBOLS

..  not available
n.a. not applicable
-  zero
  . insignificant

ABBREVIATIONS

ABC  Agricultural Bank of China
ADB  Asian Development Bank
ADBC Agricultural Development Bank of China
AEC  ASEAN Economic Community
AMC  asset management corporation
APEC  Asia Pacific Economic Cooperation
ASEAN  Association of Southeast Asian Nations
BOC  Bank of China
BVAR  Bayesian vector autoregression
CANET  China Academic Network
CAR  capital adequacy ratio
CBC  Construction Bank of China
CBRC  China Banking Regulatory Commission
CERD  Chinese economy with regional details
CES  constant elasticity of substitution
CESG  cultural, educational and sports goods
CET  constant elasticity of transformation
CGAP  Consultative Group to Aid the Poorest
CIA  Central Intelligence Agency
CNY  Chinese yuan
CNNIC China Internet Network Information Centre
CPC  Communist Party of China
CPI  consumer price index
CRN  China Research Network
OECD  Organisation for Economic Cooperation and Development
PAYGO  pay-as-you-go
PBOC  People's Bank of China
PECC  Pacific Economic Cooperation Council
PEO  Pacific Economic Outlook
PPI  producer price index
PRC  People's Republic of China
RCA  revealed comparative advantage
RCC  rural credit cooperative
RCCU  Rural Credit Cooperative Union
RCF  rural credit foundation
RFI  rural financial institution
RIETI  Research Institute of Economy, Trade and Industry
RMB  Renminbi
RPI  retail price index
RPS  rural postal savings
SARS  Severe Acute Respiratory Syndrome
SASAC  State-Owned Asset Supervision and Administration Commission
SCO  Shanghai Cooperative Organisation
SCORES  China Society for Research on Economic Systems
SITC  Standard International Trade Classification
SME  small and medium enterprise
SEZ  special economic zone
SOB  state-owned bank
SOCB  state-owned commercial bank
SOE  state-owned enterprise
SSF  social security fund
TFP  total factor productivity
TIFA  Trade and Investment Framework Agreement
TRQ  tariff-rate quota
TVE  township and village enterprise
UHIDS  Urban Household Income Distribution Survey
UMLS  Urban Minimum Living Security Program
UNCTAD  United Nations Conference on Trade and Development
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAR</td>
<td>vector autoregression</td>
</tr>
<tr>
<td>VAT</td>
<td>value added tax</td>
</tr>
<tr>
<td>VECM</td>
<td>vector error correction model</td>
</tr>
<tr>
<td>WHO</td>
<td>World Health Organization</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
</tr>
<tr>
<td>XUAR</td>
<td>Xinjiang Uighur Autonomous Region</td>
</tr>
</tbody>
</table>