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East Asian Institute



# The 17th Politburo Standing Committee: New Faces and Future Leaders

The 17th Politburo Standing Committee is set up so that there would be a smooth transition from the fourth generation leadership to the fifth generation leadership in five years

#### **BO ZHIYUE**

he 17<sup>th</sup> Party Congress that was held from 15 to 21 October 2007 was a huge success for Hu Jintao. The Hu Jintao Theory—the scientific concept of development—has been written into the Constitution of the Chinese Communist Party (CCP) as the guideline for the Party along with Mao Zedong Thought, Deng Xiaoping Theory, and the "Three Represents," and he has installed a number of his allies in the Politburo and its Standing Committee.

#### **JOCKEYING FOR POWER BEFORE THE CONGRESS**

Long before the opening of the Congress, political elites maneuvered for positions in the new Politburo Standing Committee. Zeng Qinghong, a member of the 16<sup>th</sup> Politburo Standing Committee and vice president of China, was particularly noteworthy.

Zeng Qinghong should retire from the Politburo at the 17<sup>th</sup> Party Congress for two reasons. First, he reached the retirement age of 68. Born in July 1939, he was beyond 68 in October 2007 when the Congress opened. Second, he occupied a position—the position of vice president—that was reserved for the heir apparent. Yet he was apparently reluctant to step down. In January 2007, Zeng was rumored to be taking over the position of president from President Hu Jintao. In February, he was rumored to have actually replaced Jia Qinglin as chairman of the Chinese People's Political Consultative Conference (CPPCC). In May, he dropped a hint during his visit to Jinggangshan Cadre School that he would still be in charge of cadre training after the 17<sup>th</sup> Party Congress. Finally, on 14 October 2007, the eve of the opening of the 17<sup>th</sup> Party Congress, Zeng was again rumoured to be replacing Wu Bangguo as chairman of the National People's Congress (NPC) Standing Committee.

Zeng's attempts proved to be futile. The rule of age 68–a rule that was set at the 16th Party Congress by the example of Li Ruihuan–turned out to be harder to overturn than Zeng Qinghong would want to believe. Politburo members who reached the age of 68 in October 2007 all retired. These include standing members such as Luo Gan (72), Wu Guanzheng (69), and Zeng Qinghong (68) and Politburo members such as Cao Gangchuan (71), Wu Yi (68), Zeng Peiyan (68), and Zhang Lichang (68). Huang Ju, a standing member and executive vice premier, passed away in June 2007. Otherwise, he would also have retired from the Politburo because he was born in September 1938 and would be beyond the retirement age of 68 in October 2007.

#### THE 17TH POLITBURO STANDING COMMITTEE

Not surprisingly, President Hu Jintao (64), NPC Chairman Wu Bangguo (66), and Premier Wen Jiabao (65) all stayed on the new Politburo Standing Committee in their original pecking order. Jia Qinglin (67), chairman of the CPPCC, was retained, in spite of rumors on the contrary. Li Changchun (63), No. 8 in the 16<sup>th</sup> Politburo Standing

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## A Corporate Succession for China Inc

decade ago, East Asia was drawn into the spiral of the Asian Financial Crisis. Stock markets plummeted; companies were

forced into bankruptcy and once mighty countries were on their knees receiving bailouts from the International Monetary Fund.

The Asian Financial Crisis was also China's coming-out moment as a "responsible big country." By vowing not to devalue its currency and keeping its pledge, China's leaders won much gratitude from the region and the world.

Yet China was itself not in the best of condition. Its flag-ship companies such as CNPC (parent of PetroChina), buffeted by plummeting oil prices and rampant smuggling, were wallowing in mounting losses. The state-owned commercial banks had huge non-performing loans on and off their balance sheets and would have been insolvent if not for government backing. The Chinese government itself was in financial distress for not being able to do much for the millions of laid-off workers from the state sector.

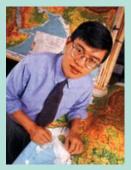
It was amid the Asian Financial Crisis that the Chinese government launched or accelerated much needed reforms, including the divestiture of enterprises owned by the armed forces, the restructuring of the central banking system, and the rationalisation of government structure. These and other subsequent reforms, notably the recapitalisation of state-owned commercial banks, have helped provide the institutional foundations for China's sustained growth.

Today, a decade after the Asian Financial Crisis, China is enveloped in euphoria. The Chinese stock markets, on a downward spiral until 2005, have shattered record after record and set its benchmark for exuberance. PetroChina, based on the share valuation accorded to it by China's domestic investors, is the world's first trillion dollar company.

Yet China's hyper-growth is accompanied by rising internal and external imbalances. Internally, there are growing concerns over rising income inequality and severe environmental degradation. Externally, China's leadership is looking at ways to manage its vast foreign exchange reserves

while major trading partners fret about China's ballooning trade surpluses. How to tackle these imbalances has become the foremost challenge for China's leaders. Handled well, the fortune of the Chinese Communist Party will rise along with those of the country. Mishandled, some of these issues could severely dent the Party's prestige and authority.

Confronted with these



Professor Yang Dali EAI Director

challenges, the Chinese leadership has placed much emphasis on protecting the corporate interests of the Chinese Communist Party. For any major organisation, good leadership succession is essential to the integrity and vitality of the organisation. In the 1980s, all three chiefs of the Communist Party-Hua Guofeng, Hu Yaobang, and Zhao Ziyang-ended up being demoted or sacked. In spite of reports of differences among them, the current leaders (and elders) appear determined to avoid a return to the succession uncertainties of the past. Instead, the induction of Xi Jinping and Li Keqiang into the Political Bureau Standing Committee at the Seventeenth Party Congress held in October points to a drive towards a smooth leadership transition, much as the finest corporation would seek (though often not achieve) and thus have a seasoned team of leaders at the helm to lead the Party and the country years down the road through existing or new storms. Given the challenges facing the Party, there is no guarantee that the best-laid plans for such succession will indeed occur, but one cannot fault the Chinese leadership for not trying.

The drive and determination of the Chinese leadership contrast with the paralysis that has gripped the Japanese polity. Yet, we cannot help but recall Japan Inc's prowess in its recent past and wonder whether Japan's recent history may help illumine China's future development. ■

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# Growth and Sustainable Development the Essential Goal

It is important to realise that there is probably no easy solution to the numerous problems in the economy

#### **SARAH TONG**

hile personnel transition has drawn much of the media's attention, there is a strong emphasis on China's future growth, in particular sustainable development, in the recently concluded 17th Party Congress, and rightly so. China's impressive economic achievement over the past nearly three decades has, almost single-handedly, invigorated and strengthened the CCP's position as an effective ruling party. Likewise, any future economic slowdown, especially if occurred suddenly and considerably, will be a serious threat to the top leadership as well as to the party in general.

Indeed, economic performance has been remarkable, if

not unprecedented. From 1978 and 2006, real GDP grew by 9.6 percent a year on average. In the same period, per capita GDP income rose by 8.5 percent a year as 400 million of people were pulled out of poverty. In recent years, since China joined the World Trade Organisation, China's economy has gained new momentum and grown by more than 10

China's recent
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of improvement in
energy efficiency

percent annually to become the world's fourth largest economy and the third largest trading nation.

However, along with the rapid expansion of the economy, there also arise growing imbalances in the economy, sending alarms to China's policy makers as well as observers within China and abroad. At the National People's Congress earlier this year, Premier Wen Jiabao cautioned, "the biggest problem with China's economy is that the growth is unstable, unbalanced, uncoordinated, and unsustainable." Clearly, these concerns underlie the Party's policy agenda for the short- and medium-term. In particular, in the Report delivered in the 17th Party Congress, Hu Jintao specified a number of challenges, including particularly environment, development gaps between rural and urban as well as across regions, stagnations in agriculture development and in rural income, and the lack of employment generation.

To address the increasing imbalances, the Hu-Wen leadership has in recent years campaigned for more balanced development strategies, the core of the "Scientific Development Concept". As stated in Hu's report at the 17th Party Congress, this concept "takes development as its essence, putting people first as its core, comprehensive, balanced and sustainable development as its basic requirement, and overall comprehensive consideration as its fundamental approach".

In another word, growth and development remain the Party's foremost objective. At the same time, the leadership will adjust its economic policies when necessary to ensure sustainability. This pragmatic approach has become evident from the transition from "Deng Xiaoping Theory", to Jiang's "Three Represents", and to Hu-Wen's "Scientific Development Concept".

While rising imbalance during economic expansion is not a unique phenomenon for China, the problem for China is much larger in scale and the potential damage more serious. The first pressing concern is the increasing income disparity. The ratio of urban to rural per capita disposable income increased from 2.5 in 1996 to 3.3 in 2006. Per capita GDP ratio between rich coastal regions and poor inland provinces also increased significantly, especially in the late 1990s and early 2000s. In addition to potential social and political consequences, growing income disparity may seriously impede the development of a strong domestic consumption, leaving the economy to depend heavily on export and capital spending. Continued investment expansion will no doubt put further strain on the supply of energy and other resources. Heavy dependence on export means China is vulnerable to potential shocks in external demand.

A related concern is China's increasing pollution problem. China's recent economic growth has been highly energy and resource intensive and there have been few signs of improvement in energy efficieny. Since 2000, energy and electricity consumption has increased significantly faster than GDP. In 2005, China accounted for 19 percent of the world's total Carbon Dioxide Emissions from the consumption and flaring of fossil fuels, up from 12 percent in 2000. Indeed, the dramatic increase in energy consumption is responsible for the high pollution in urban China.

There is little doubt that international trade has played a crucial role in China's economic growth in recent decades. This is particularly true in the last couple of years, when net export contributed to over 20 percent of GDP growth. Indeed, combined trade surplus for 2005 and 2006 reached US \$279 billion (US\$102 billion for 2005 and US\$177 billion for 2006, respectively), equivalent to the sum of trade surpluses of the previous 11 years from 1994 to 2004. In the first 10 months of 2007, trade surplus has reached a new high of US \$212 billion. More significantly, China's trade surplus is severely biased and concentrated primarily in the US and Europe.

It seems evident that China's leadership has recognised the potential adverse impact of these imbalances and has pushed for strategic changes in development priorities. One is to advance innovation and to increase China's overall technological capacity. In the long run, this may prove to be the most important element to shift China's growth from a reliance on expanding resource utilisation to technological upgrading and productivity improvement. For a relatively shorter

term, policy priorities are also given to increase domestic consumption, reduce export-promoting incentives, implement stricter environmental regulations and improve enforcement. For the important issue of income disparity, there are policies initiatives aimed at reducing income gaps and at increasing the public provision of basic services such as education, healthcare, and welfare. In addition to addressing the structural imbalances in the economy, the leadership is now also facing a more urgent threat of inflation, which is aggravated by the problem of income inequality.

It is important to realise that there is probably no easy solution to the numerous problems in the economy. There are indeed potential risks that threaten China's economic growth. However, it is hopeful that the Chinese government, having accumulated experiences and expanded capacity in macroeconomic management, is in a stronger position to tackle problems in its effort to become a strong and vibrant economy.

Dr Sarah Tong is a Research Fellow at EAI

### Counting Chen Shui Bian's Legacies

Chen himself is concerned and is trying hard to ensure a favourable view of both himself and his presidency by future generations, but it seems unlikely he will succeed.

#### JOHN COPPER

aiwan's President Chen Shui-bian will leave office on May 20 next year. He cannot run again because of a Constitutional limit of two terms.

Many in Taiwan and elsewhere ponder what his legacy will be. Chen himself is concerned and is trying hard to ensure a favourable view of both himself and his presidency by future generations. But it seems unlikely he will succeed.

Why will memories of President Chen be unfavourable?

He had a good start. He won with less than 40 percent of the popular vote, but once in office his poll ratings went to the high 70s. Most people felt he deserved the benefit of the doubt and supported him. Many saw his victory over the Nationalist Party, which had been in office for more than five decades, as refreshing. He was young, dynamic and charismatic.

Four things sullied his reputation and that of his presidency.

One, Chen governed by playing ethnic politics. He reckoned that, failing to engineer a coalition government (he tried briefly but showed little leadership ability in the effort), he would rule with support from his ethnic group, Fukien Taiwanese (Chinese who migrated to Taiwan centuries ago from Fukien Province and constitute 65 percent of the island's population). Promoting their history and culture increased their allegiance to him, but alienated the other ethnic groups.

Ruling this way meant that Chen was not the president of the people, but rather only part of them. His governing strategy was to divide, conquer and exploit ethnic ill will.

Two, President Chen also found that he could rally his base by provoking Chinese leaders in Beijing. China's hostility unified Chen's supporters. So Chen angered China at will. This had bad repercussions.

Three, Chen and his party badly mismanaged the economy and Taiwan fell into recession in Chen's second year in office. It never recovered to the level of performance of the years before Chen became president. Chen resorted to the blame game, saying the opposition was at fault for blocking his agenda. After a while few believe this.

Four, seeing his days as numbered, Chen and his

administration became corrupt. Chen and his party had originally won election with a reputation for being "poor and clean." But in office two years they were seen as more corrupt than the Nationalist Party or KMT had been. Then it was downhill from there and by 2006 a large number of Chen's appointees and associates, not to mention his wife and son-in-law were either under indictment or in jail.

Chen's playing the "race card" meanwhile alienated many in the Bush administration who did not like racial (ethnic in this case) politics. It had a compound effect because it undermined Taiwan's military and intelligence capabilities, both being headed or dominated by another ethnic group many of whom retired (including a large group of pilots) or defected to China. The U.S. thus found Taiwan to be a much less useful ally.

Washington did not like Chen provoking China either. After September 11, the Bush administration found China a good friend, and to some extent more than that, in the war on terrorism.

Chen's poor governance, the bad economy (especially by Taiwan's standards), and corruption caused his poll numbers to fall. Since mid-2006 his approval has been just over ten percent; some of them show it to be in single digits.

President Chen hopes to redeem himself by helping his party's candidate, Frank Hsieh, win the presidency. Hsieh needs Chen's support to win the election; Chen knows this and can to some extent set his agenda. If Hsieh wins Chen will take credit.

Much depends upon what happens in two coming elections. In January there is a legislative election; in March there is a presidential election.

Chen may improve his reputation if his party wins. Still he is likely to be seen as a failed president for the reasons mentioned above. His legacy is already to a large extent determined and it is not a good one.

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### "Conservation Culture" for a Well-Off Society

Heightened public complaints about pollution have led Chinese leaders to recognise the need to change course through adjusting the growth-first philosophy of the Deng Xiaoping era and embracing a new model of "Scientific Development" that includes environmental protection and other contents relating to balanced development.

#### **CHEN GANG**

The CPC has to

address

environmental

issues properly

and timely

ith mounting environmental problems across the country, the ruling Communist Party of China (CPC) included the notion of "Conservation Culture" in its political report for the first time as new content of "Building a Comprehensive Well-off Society." Environmental and resource cost to economic growth also topped all other problems and difficulties mentioned by CPC General Secretary Hu Jintao in his political report at the 17th Party Congress. Environmental issues, once marginalised in China's upmost decision-making process, have become new policy focuses and thus deserve more attention from China watchers.

#### MINDSET OF GROWTH-AT-ANY-COST IS CHANGING

Although the objective of building a comprehensive well-off society remains, the report of the 17th Party Congress has cited the "reduction of energy consumption and protection of the environment" alongside last report's "optimisation of structure and improvement of economic results" as the bases for economic development. This change means that "coordinated development" with focus on green issues will permeate future economic reform.

China's economic miracles of maintaining double-digit annual growth for years have led to serious ecological deterioration including air and water pollution, and land degradation. Due to its soaring energy consumption and heavy dependence upon coal, China is now the world's second largest greenhouse gas emitter, and probably will surpass the United States this year

to become the Earth's most crucial climate changers, according to estimation by the International Energy Agency (IEA).

The high concentration of sulphur dioxide and particulates in the air is endangering the health of millions of Chinese residents in cities. A World Bank study showed that outdoor air pollution was already causing 350,000 to 400,000 premature deaths a year in China. Water pollution is another big headache for the Chinese government. In May and June 2007, a severe algae outbreak in the Taihu Lake, China's third largest freshwater lake, rendered tap water foul-smelling and undrinkable over the course of a week for half of the 2.3 million residents in Wuxi, a wealthy city in eastern China's Jiangsu Province. This worst-ever water crisis in Wuxi immediately caused massive social panic with local residents scrambling for bottled water in supermarkets and even causing class suspension in some local colleges. Apart from Taihu Lake, similar water crisis caused by high levels of nitrogen and phosphorus in the water also happened in areas around eastern China's Chaohu Lake and southwestern Dianchi Lake this year. Reports revealed that some cities in the North China Plain are facing severe water shortage as the water table is sinking very fast. The aquifers in 90 percent of Chinese cities are polluted, and more than 75 percent of the river water flowing through China's urban areas is considered unsuitable for drinking or fishing.

If the CPC wants to consolidate its rule, it has to address environmental issues properly and timely. Examples from Eastern Europe and the Soviet Union show that growing environmental discontent often served as a catalyst for broader opposition to the communist regime. In May and June 2007, hundreds of people staged a peaceful demonstration against a planned chemical plant named Tenglong Aromatic PX Co. in southern China's Xiamen City. The work was suspended after residents sent about 1 million mobile phone short messages in protest against possible health dangers. The number of protests caused by environmental pollution in China has been growing at an annual rate of 30 percent. The Chinese leaders have been especially sensitive about the heightened public complaints about pollution, recognising that they must change course

> through adjusting the growth-first philosophy of the Deng Xiaoping era and embracing a new model of "Scientific Development" that includes environmental protection and other contents

relating to balanced development.

#### A LONG WAY TO GO GREEN

In China's 11th Five-Year Programme (2006-2010), the Chinese government set forth a number of ambitious green targets, including

cutting energy consumption per unit GDP by 20%, reducing major pollutants discharge by 10%, decreasing water consumption per unit industrial output by 30% and raising forestry coverage rate to 20%.

However, the country only managed to cut its energy intensity by 1.23% in 2006, far below the annual 4% target in the 11th Five-Year Programme. Reports from the State Environmental Protection Administration showed that in the first quarter of 2007, China's seven major water systems were slightly polluted, with no major change in water quality from the same period of 2006. The overall water quality of drinking water sources dropped, with only 69.3% of drinking water sources reaching national standards, down 5 percentage points year on year. With the 2008 Olympics around the corner, air quality in Beijing is not becoming any better with more than 1,000 new private cars hitting the roads every day in the capital.

China leaders have to enhance its environmental protection sectors to solve the pollution problem more effectively. They

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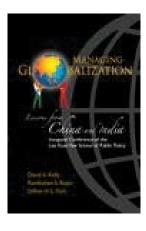
### **Recent Staff Publications**

### **Books**

Managing Globalization: Lessons from China and India

Editors: David A Kelly, Ramkishen S Raj and Gillian H L Goh Publisher: World Scientific Publishing

Year of Publication: 2006



The dynamics of a global economy is being reshaped by the economic emergence of two Asian giants, China and India. How the world's two most populous countries manage globalisation as they pursue economic reform and liberalisation will impact significantly their societies, the rest of Asia, and the world.

This book brings together articles by first rate scholars of China and India to share and discuss their research findings in four areas: Challenges, Opportunities and

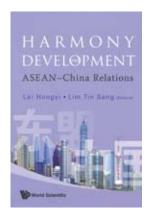
Responses to Globalisation; Social Security and Governance; National Security in the age of Globalisation; and Ethnicity and Identity in the New World.

The book includes an opening address by Singapore's Minister Mentor Lee Kuan Yew, from his speech on Managing Globalization: Lessons from China and India", delivered at the official opening of the Lee Kuan Yew School of Public Policy on 4 April 2005.

Harmony and Development ASEAN-China Relations

**Editors:** Lai Hongyi and Lim Tin Seng **Publisher:** World Scientific Publishing

Year of Publication: 2007



This book celebrates the 15th anniversary of China-ASEAN dialogue, which has captured the limelight as a key development in international relations in the Asia Pacific. The contributions discuss a wide range of complex and challenging issues concering ASEAN-China relations in a readable, informative, concise and comprehensive way.

In three parts, the volume begins with an introduction and three speeches. The second and third parts discuss the political, security and economic aspects of ASEAN-China relations.

China and Its Cultures: From the Periphery

Author: Wang Gungwu

Publisher: Institute of History and Philology

Year of Publication: 2007



Ethnic Chinese all over the world face the common problem of preserving the traditional Chinese culture while integrating themselves into the life of residence states. In modern history, Chinese immigrants were uncertain about whether to identify themselves with China as a nation state, a notion first imported from the western world, or with the Chinese culture that has a much vaguer boundary.

This book is compiled on the basis of Professor Wang Gungwu's speeches in the Institute of History

and Philology, Academia Sinica in Taipei in December 2005. The book includes Professor Wang's three lectures respectively on the interaction between orthodox and folk culture before the May 4th Movement, the development of China's nation state notion after the 1911 Revolution, and the Chinese history in the background of globalization. The author concludes that it is the Chinese culture centred on Confucianism, rather than the notion of nation state, that can help the Chinese all over the world to gain the respect from other ethnic groups.

Chuka bunmei to chukoku no yukuei [Chinese civilization and China's trajectory]

Editor: Wang Gungwu
Translator: Kato Mikio

Publisher: Tokyo: Iwanami shoten

Year of Publication: 2007



This book examines the sweeping changes of China's civilisation over the past 200 years and the challenge to construct a modern nation-state, civilisation and identity in a competitive international system.

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"The First Decade: Historical Perspectives". In The First Decade: the Hong Kong SAR in Retrospective and Introspective Perspectives. Edited by Yeung Yueman. Hong Kong: Chinese University Press, 2007, pp 3-21.

#### By Wang Gungwu

"Liuxue and yimin: From Study to Migranthood". In Beyond Chinatown: New Chinese Migration and the Global Expansion of China. Edited by Mette Thuno. Copenhagen: NIAS Press, 2007, pp. 165-181.

#### By Wang Gungwu

"The Pull of Southeast Asia". In Historians and Their Disciplines: the Call of Southeast Asian History. Edited by Nicholas Tarling. Kuala Lumpur: MBRAS Monograph No. 40, 2007, pp. 161-174.

#### By Wang Gungwu

"China: Economic Strength and Structural Weaknesses?" In 7th Asian-European Editors' Forum. Edited by Werner vom Busch and Tobias Rettig. Singapore: Konrad- Adenauer-Stiftung, 2007, pp. 17-27.

#### By Wang Gungwu

Productivity Spillovers from FDI: Detrimental of Beneficial? A Study of Chinese Manufacturing, in Belton M. Fleisher, Haizheng Li and Shunfeng Song (eds.), Market Development in China: Spillovers, Growth and Inequality, Cheltenham, UK and Northampton, MA, USA: Edward Elgar, July 2007.

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The 11th Five-Year Program, in Gungwu Wang and John Wong (eds.), Interpreting China's Development, Singapore: World Scientific, June 2007.

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Reforming State-Owned Enterprises, in Gungwu Wang and John Wong (eds.), Interpreting China's Development, Singapore: World Scientific, June 2007. By Tong, Sarah Y

Asian Renaissance and Enlightenment -- Problems and Prospects. In Akademika, Vol 71, July 2007, pp. 117 - 123.

#### By Heng Siam-Heng

Bureaucratic integration and regional specialization in China, China Economic Review, Article in Press 2007. By Tong, Sarah Y (with C Bai and Z Tao)

"The Nanhai Trade: A Study of the Early History of Chinese Trade in the South China Sea". In Southeast Asia-China Interactions: Reprint of Articles from Journal of the Malaysian Branch of the Royal Asiatic Society. Edited by Geoff Wade. Reprint no. 25. Kuala Lumpur: MBRAS, 2007, pp. 51-166.

#### By Wang Gungwu

"The First three Rulers of Malacca". In Southeast Asia-China Interactions: Reprint of Articles from Journal of the Malaysian Branch of the Royal Asiatic Society. Edited by Geoff Wade. Reprint no. 25. Kuala Lumpur: MBRAS, 2007, pp. 317-326.

#### By Wang Gungwu

"The Age of Paradigms", ISA E-Bulletin, no. 6, March 2007, pp. 80-100.

#### By Wang Gungwu

"Japan's Soft Power: Attraction and Limitation", East Asia: An International Quarterly, vol 24, no 4 (2007). **By Lam Peng Er** 

Review of Alexander Woodside, Lost Modernities: China, Vietnam, Korea, and the Hazards of World History. In Pacific Affairs, vol. 79, no. 4, pp. 657-658. *Reviewed by Wang Gungwu* 

# EAI's 10th Anniver







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# sary Celebrations











# Political Reform and China's Democratic Future

The Party is interested in introducing some kind of voting system in two areas. The first is in selecting the appointments to major positions, and another is in subjecting major policies to party committee votes as well.

#### **WANG ZHENGXU**

hose anticipating major initiatives in political changes were very likely disappointed by the recently concluded 17th Party Congress, as they have been in the past. In terms of policy agenda, the Congress was again a congress on economy. The emphasis was on aligning Hu Jintao's "Scientific Development" concept with a "Comprehensive Well-Off Society" as the overarching goal. This package promised "good and fast" economic development (with a goal to quadruple per capita GDP of 2000 by 2020) as well as a host of welfare offerings (such as universal access to education, healthcare and social security). Hoping such economic and welfare appeals are sufficient to keep itself in power, the Party is still excluding political liberalization from its policy options.

Yet Hu Jintao's report did dwell on the issue of political reform quite seriously, under the amorphous phrase of "building socialist democratic politics". It is of course faulty to register optimism simply because, as the Party propaganda was quick to point out, that Hu's report mentioned the word "democracy" more than 60 times (as what the Party calls "democracy" may indeed be what it deems as effective ways to strengthen its rule.) Nevertheless, at the moment, the Party has demonstrated clear interest in limited political reforms in three spheres.

The first is what the Party calls "People's Democracy" and "Grassroots Democracy". The Party seems ready to pursue this vein of democratic building through the expansion of political participation by the citizens through mostly the People's Congress system, and the expansion of civil society autonomy and self-governance at the grassroots level. The Party's concept of people's democracy includes democracy in election, democracy in decision making, democracy in management (of government and community affairs), and democracy in supervision (of government behaviours). All these, of course, are confined to local and grassroots level. Nevertheless, political participation by the citizens will likely expand in all these four areas.

The second area of political reform and institutional building is in the government. The Party is clearly interested in building a modern government system that is transparent, efficient, accountable, and responsive. In the last decade the Party has been looking at reforms that work towards a law-binding and service-oriented government. The Party also shows a clear interest in building a competent judicial system. In any case, such reforms and institutional building efforts will take years, even decades to accomplish. The food and drug safety regulation system in the U.S., for example, took more than 50 years to arrive at the necessary effectiveness. Given the urgent need for such institutions, China may be able to develop them in a comparatively shorter period of time, but in the coming ten to

20 years the struggle to build them will still be overwhelming.

The third area is intra-party democracy. In general, the Party is searching for institutional mechanisms of transparency, internal pluralism, and accountability.

Hu said in the report that the CCP will increase transparency in Party affairs and "opposing and preventing arbitrary decision-making by an individual or a minority of people." The Party will establish a system under which the Political Bureau regularly reports its work to plenary sessions of the Central Committee and accepts their oversight, and the standing committees of local Party committees at all levels will be ordered to do likewise to plenary sessions of local Party committees. Meanwhile, representatives to the party congresses at various levels are expected to receive tenure terms, so that they remain active in checking the work of party committee even when the congress is not in session. In selected locations (at the county and city level), the Party will experiment with standing party congresses, instead of they meeting only once in a few years.

Furthermore, the Party is interested in introducing some kind of voting system in two areas. The first is in selecting the appointments to major positions. Besides opening up to more input from the public and the party members, candidates are likely to be confirmed by a party committee vote. Another is in subjecting major policies to party committee votes as well. Hu also vowed to gradually extend the adoption of direct elections of leading members in grass-root Party organisations, and explore various ways to expand intra-Party democracy at the grass-roots level.

In the history of the advanced democracies such as the US and the UK, democratic institutions came into shape not in one shot, but in stages. At the moment, the Party aims to build a modern (effective, transparent, limited, and service-oriented) government, while at the same time bringing more pluralism into the political process. By pursuing intra-party democracy, democratic competition within the Party will be gradually institutionalised. By then, democratic institutions such as free and open competitions for representations will become legitimate choices for the country as well.

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# **Building Social Institutions: The Party's New Vision**

Hu foresees a larger role for the government in financing education in poor areas and ethnic minority regions, establishing a nationwide social security system on the basis of social insurance, public assistance and social welfare, and establishing a nationwide health care system with different schemes for urban and rural residents.

#### **ZHAO LITAO**

hina has built robust economic institutions under Deng Xiaoping and Jiang Zemin. It is now moving towards building robust social institutions under Hu Jintao. The 17th Party Congress of the Chinese Communist Party (CCP), held in Beijing in October 2007, endorsed Hu's scientific outlook on development, a platform for shifting the party's focus from an all-out pursuit of economic growth to a more balanced development that takes vulnerable groups into account.

With robust economic institutions in place, the CCP is now quite confident of managing the economy. In fact, the growth incentives are so strong and widespread in the system that often times Hu is more concerned with economic overheating than slowing down. In contrast to its confidence in the economic sphere, the CCP is less confident of managing the society, which is becoming more mobile, differentiated, affluent, and demanding. Building robust social institutions becomes imperative for the CCP in the new millennium, just as building robust economic institutions was imperative three decades ago.

Hu's scientific outlook on development, now written into the amended party constitution, is a partial response to the new imperative. It is a guideline calling for less income inequality, less regional disparity, more social justice, more protection of the vulnerable, more energy efficiency, and more environment friendly development. Particularly on the social front, Hu's scientific outlook on development envisions a "harmonious society" where the Chinese people enjoy their rights to education, employment, medical and old-age care, and housing.

In his report to the congress, Hu foresees a larger role for the government in financing education in poor areas and ethnic minority regions, establishing a nationwide social security system on the basis of social insurance, public assistance and social welfare, and establishing a nationwide health care system with different schemes for urban and rural residents. He also emphasizes the need to gradually raise the share of personal income in the national income, and increase that of labour income in primary distribution. He has vowed to raise the income of low-income groups and increase poverty-alleviation aid and the minimum wage. For the first time in the party history, the CCP is encouraging more citizens to have income from assets and properties.

Hu pays more heed to the rising social need for cultural products. His cultural policy is threefold: ensuring access to public cultural services for rural and urban poor, promoting elite culture as part of national pride-building and identity-forming, and nurturing globally competitive cultural industries.

For the most part, Hu's scientific outlook on development

involves building and expanding social institutions that offer better protection against poverty, unemployment, illness, and old-age. It is a significant departure from Deng's "getting rich first" and Jiang's "three represents", which seek to build progrowth economic institutions. With Hu's scientific development and social harmony written into the party constitution, the 17th Party Congress marks the first step in the transition from

The most difficult is to remove the bias inherent in the pro-growth institutions, and head towards a populist direction that appeals to non-elites at the cost of the much smaller elite.

building pro-growth economic institutions to building pro-people social institutions.

Hu has five more years to push for the transition. There are different paths of transition from pro-growth economic institutions to pro-people social institutions. The easiest for Hu is to keep the former intact and build the latter to deal with the negative consequences of the former. The system remains fundamentally biased favoring urbanites over rural residents, elites over non-elites, but various social programs are in place to look after the needy without pushing them into a desperate situation. The most difficult is to remove the bias inherent in the pro-growth institutions, and head towards a populist direction that appeals to non-elites at the cost of the much smaller elite. This latter path can remake the party image, but requires an overhaul of the system.

All the evidence suggests that Hu is taking the easiest path. Having consolidated his power, Hu does not need a populist approach to mobilize public support. Moreover, to make his scientific outlook on development operational, he has to work through, not against, the system party and government hierarchy that remains fundamentally biased. In China's decentralized financing system, there is often a large gap between central mandates and local financial capacity. Hu's scientific outlook on development, which requires substantial social expenditures by local governments, is not likely to be an exception to this general pattern.

Although Hu is not moving in a populist direction, his scientific outlook on development is nonetheless a first step in the transition from building robust economic institutions to building robust social institutions, a necessary move in an increasingly stratified society.

Dr Zhao Litao is Research Fellow at EAI

### Prime Minister Fukuda and his Challenges

While relations between Tokyo and Beijing are likely to be calm, Japanese domestic politics is likely to be very turbulent and unpredictable.

#### LAM PENG ER

ukuda Yasuo became President of Japan's ruling
Liberal Democratic Party (LDP) and Prime Minister
following Abe Shinzo's abrupt resignation in September
2007.

The new Prime Minister did not have the luxury of a political honeymoon: his party has earlier lost the Upper House to the Democratic Party of Japan (DPJ), the main opposition party, and the new administration is now staring at a legislative logjam. Legislations passed by the Lower House can now be vetoed by the opposition-controlled Upper House. Unable to extend the legislation which permitted the Japanese navy to refuel US ships in the Indian Ocean as Tokyo's contribution to the war on terror in Afghanistan, the Fukuda Administration had no choice but to withdraw its navy, much to the chagrin of its US ally.

Confronted with the unprecedented loss of the Upper

House and the fiasco in the Indian Ocean, Fukuda has the following choices. Option one is to override the veto of the Upper House since the LDP and its junior coalition partner, the Komeito (Clean Government Party) have a two-thirds majority in the Lower House. But this would be a Pyrrhic victory because the opposition parties can retaliate and forcibly disrupt parliamentary proceedings in the Lower House, and the general public would also blame the ruling party for not compromising with the opposition.

Option two is to compromise on specific issues to placate the opposition to ensure the smooth passage of legislation in both Houses. The problem for Fukuda is that the DPJ is stonewalling after its recent Upper House victory and its intransigence is a tactic to force the Prime Minister to

dissolve the Lower House. The LDP is expected to lose many seats and the DPJ is hoping to capture the reins of power for the first time.

Option three is a grand coalition between the LDP and the DPJ — an approach similar to the power sharing arrangement in Germany between the Christian Democratic Party and the Social Democratic Party. To the LDP, this option has certain advantages. Besides securing the passage of legislation and breaking the domestic political impasse, the ruling party can woo and seduce DPJ members with political offices and other benefits, and even induce them to eventually bolt from the DPJ. In so doing, the LDP remains the perennial party in power.

While Ozawa Ichiro, the DPJ President, believes that a grand coalition is a short-cut to power and permit his party to

implement the pledges made in the last Upper House Election, other DPJ leaders, rank and file, and party supporters are dead set against it. They are afraid that the DPJ will lose credibility with voters if it succumbs to the "deadly" embrace of the LDP.

There was a precedent to a grand coalition between the two largest parties and erstwhile enemies, the LDP and the Japan Socialist Party (JSP), in 1994. The LDP offered the Premiership to Murayama Tomiichi (the JSP President) and a few tempting cabinet posts to other JSP leaders, while the JSP agreed to jettison its hallmark of unarmed neutrality, accept the US-Japan Alliance and consider the SDF (Self Defense Forces) constitutional. Although the socialists had a lick of power, this coalition turned out to be a "kiss of death" to the JSP because its traditional supporters could not accept this "unholy alliance" and abandoned the party at the polls.

Ozawa has subsequently retracted his agreement to forge a coalition with Fukuda in the face of adamant opposition from his party members. As a result of the confusion and ensuing bad publicity, the DPJ has lost not only its momentum gained after the recent Upper House victory but also its credibility among supporters and voters. While this may appear to benefit the LDP if an early Lower House election is called by Fukuda, the basic problem remains: how to break the legislative gridlock in Japanese politics?

Assuming that the LDP can secure a victory in the forthcoming Lower House election, the LDP-Komeito ruling coalition is highly unlikely to retain the two-thirds majority achieved by the popular and charismatic Koizumi Junichiro, the Prime Minister before Abe. In this scenario, Japanese domestic politics will lurch from bad to worse. A LDP

victory short of a two-thirds majority in the Lower House means that it can no longer override the DPJ-controlled Upper House — something which it can still do today.

Japanese politics is in uncharted waters today. While relations between Tokyo and Beijing are likely to be calm, in part due to Fukuda's preference not to visit Yasukuni Shrine and his adoption of a conciliatory attitude towards China and Korea, Japanese domestic politics is likely to be very turbulent and unpredictable. Fukuda might well be presiding over the LDP in its twilight years. But tragically in Japanese politics today, there is no credible party to take over the reins of power.

Japanese politics is in unchartered waters today. While relations between Tokyo and Beijing are likely to be calm, Japanese domestic politics is likely to be turbulent.

Dr Lam Peng Er is a Senior Research Fellow at EAI

# Justice and Development in the 17th Party Congress: Paradigm Shift or Normal Ideology?

Shifts in emphasis in an economic and political system as large as China's are not to be dismissed lightly; adjustment at the margins may make big waves elsewhere

#### **DAVID KELLY**

By writing the doctrine of the "scientific concept of development" [kexue fazhan guan] into the party Constitution, the National Party Congress formally elevated Hu Jintao to the ranks of major ideological contributors in Chinese Communist history, taking his place alongside Mao Zedong, Deng Xiaoping and Jiang Zemin. This would be a hollow gesture, however, without some consensus as to the nature of the innovation that this doctrine represents. Due to the increasingly controlled nature of the public sphere in the latter years of the Hu-Wen administration, the extent of this consensus is difficult to assess. Did the boost to the scientific concept of development represent a genuine, inward shift, or just business as usual?

An earlier issue of the EAI Bulletin described the major rhetorical innovations of the Hu-Wen administration - social harmony, human centred approach, industry repaying agriculture, rural reconstruction and so on - as "marketing," pointing out that this represented an advance over the "hard sell" approach of previous ideological policy. Marketing of the scientific view of development has not let up. As noted elsewhere in this issue, it provides the overarching theme for the whole package, entails a number of tangible social arrangements (see Zhao Litao, "Building Social Institutions: The CCP's New Vision)." Much of this social programme is as yet untested. But it already seems clear that, important as these policy shifts are, there is no ideological change at the level of a paradigm shift. It is – to use the terminology of Thomas Kuhn's influential notion of "normal" and "revolutionary" science - what might be referred to as "normal ideology."

This is not to say that it is unimportant. Scientific development includes "building a harmonious society" as a key component (they are "integral to one another"). Social harmony makes a good target for satire by both domestic and international critics. What sort of harmony, they ask, does one really find in the PRC? Yet this is not a serious critique of a state programme which is clearly aspirational rather than descriptive. It may serve as a vehicle for really intensifying the reforms. Among the concrete interpretations of social harmony which help provide agencies with actual working targets is the concept of "social justice." The Report does offer harder targets than before, for instance, increasing the proportion of financial-type assets in ordinary people's wealth; increasing the equity (i.e., fairness) of "primary distribution", an expression that in the first place refers to salaries and wages. The Big Three social justice issues-health, housing and education-are dealt with concretely, along with some others.

But here is a serious problem. The report makes many references to Marxism, and its return to orthodox Marxism-

Leninism in fact helps to mark it off from the ideological settings of the Jiang Zemin era. Are the social justice elements of the Report package logical outcomes of a return to fundamental Marxist principles? The answer is, not quite. Classically, Marxism repudiated any notion of social justice as a delusion of bourgeois regimes—if it was not founded on class analysis. Mao was faithful to this position, and Deng Xiaoping's break with it after 1978 was a genuine paradigm shift. Deng stated that "primary distribution" should focus on efficiency, with equity (in the sense of fairness) to be attended to in "redistribution", that is, through back-up social welfare policies. Deng had in fact taken a major step towards the social democratic framework

Are the social justice elements of the Report package logical outcomes of a return to fundamental Marxist principles?

used in countries like Sweden. This is usually understood as "aiming to reform capitalism democratically through state regulation and the creation of state sponsored programmes and organisations which work to ameliorate or remove perceived injustices inflicted by the capitalist market system." The main difference was, the Swedish socialists very early abandoned the principle of dictatorship by one party, taking their chances in democratic elections (where they were generally quite successful).

The current Report confirms an important deviation from this first outlined in a Central Committee meeting in October 2005, namely, that Deng's formula of "efficiency first, with due attention to equity" had incurred serious political risks and needed adjustment. "Efficiency" meant letting an elite get rich first, on the grounds that there would be a trickle down of the dividends of growing the cake. Whatever the merits of the theory, it had become a formula for privilege, with a new "power aristocracy" [quangui] stratum increasingly cruising in the jet stream of high official and non-official incomes on the one hand, and the notional backup of redistributive mechanisms for ordinary people faltering and, in significant sectors, falling into disrepair. In the Report, Hu Jintao called for social equity to be observed in primary distribution:

"A proper balance will be struck between efficiency and equity in both primary distribution and redistribution, with particular emphasis on equity in redistribution."

This has been hailed as a breakthrough, and is undoubtedly

a significant shift in policy. But if one stands back a little, it amounts to an adjustment at the margins of the Deng formula. It is no core paradigm shift, but a shift in emphasis.

Shifts in emphasis in an economic and political system as large as China's are not to be dismissed lightly: adjustment at the margins may make big waves elsewhere. Increasing the share of personal income in national income, increasing people's access to financial resources, and ensuring equity in primary distribution may indeed help transform China's mode of economic development. But what does this spell out in ideological terms? On present indications, it is a further move towards social democracy. Apart from peasants' collective land, most of the economy will be capitalist. Redistribution, using social equity criteria, will begin when salary and wage levels

are struck. This means making sure people who are now on low incomes end up better off, entailing, of course, that major beneficiaries of the status quo will lose out in relative terms.

But once again this move is unaccompanied by convincing democratic reforms. "Socialism with Chinese characteristics," another slogan of the report, appears to amount to "social democracy minus the democracy." This makes sense verbally, but does little to create new sources of legitimacy, which is, after all, the main task of an ideological paradigm shift. Only a frank admission of the social democratic essence of the changes – and of the "democracy gap" that this would reveal – would count as such a shift.

Dr David Kelly is a Senior Research Fellow at EAI

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# "Conservation Culture" for a Well-Off Society

should introduce economic incentives and disincentives to curb pollution and ecological destruction instead of relying too much on short-term administrative orders such as closing polluted enterprises or blocking pollution sources. Institutional innovations such as the levy of reasonable discharge fees as well as resource, fuel and environmental taxes can do a better job than administrative orders as they are fair and have long-lasting effect. More public participation is also necessary for environmental protection. In China's state-centric society, the forces of environmental NGOs (non-governmental organizations) are still very weak and media's supervision is quite limited. The CPC's new concept of "Conservation Culture" only marks the beginning of the long-term effort to clean up the country's severely polluted environment. The world's most populous country certainly has a long way to go before the balance between economy and ecological systems can be regained.■

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#### The 17th Politburo Standing Committee: New Faces and Future Leaders

Committee, was also retained and moved up to become No. 5 in the 17<sup>th</sup> Politburo Standing Committee.

Xi Jinping (54), party secretary of Shanghai, was promoted to the Politburo Standing Committee as the No. 6 member. He is also the only standing member on the new Secretariat. He is likely to take over Zeng Qinghong's portfolios in the Party as well as in the state apparatus. He will replace Zeng as president of the Central Party School soon and will replace Zeng as vice president of China in March 2008. Li Keqiang (52),

party secretary of Liaoning, was also promoted to the Politburo Standing Committee. He is likely to fill the vacancy of executive vice premier left by Huang Ju. Xi and Li are frontrunners of the fifth generation leadership, and one of them will likely succeed Hu Jintao as general secretary of the Party at the 18<sup>th</sup> Party Congress in 2012.

He Guoqiang (64), a full member of the 16<sup>th</sup> Politburo and the 16<sup>th</sup> Secretariat as well as director of the Central Organization Department, was promoted to the 17<sup>th</sup> Politburo Standing Committee. He has also been elected secretary of the Central Disciplinary Inspection Commission. He will be in charge of party disciplinary matters instead of Wu Guanzheng.

Finally, Zhou Yongkang (64), a full member of the 16<sup>th</sup> Politburo and the 16<sup>th</sup> Secretariat as well as a state councilor and minister of Public Security, was also promoted to the 17<sup>th</sup> Politburo Standing Committee. He has replaced Luo Gan as secretary of the Political and Legal Affairs Commission.

Obviously, as the No. 1 leader on the 17<sup>th</sup> Politburo Standing Committee, General Secretary Hu Jintao is the most powerful person in China. All the other members of the Politburo Standing Committee are his subordinates by fiat. Moreover, Hu's institutional power is supplemented by his informal network of Youth League cadres. Among 10 new members of the 17<sup>th</sup> Politburo, four of them (Li Keqiang, Li Yuanchao (56), Liu Yandong (61), and Wang Yang (52)) are former youth league cadres and the former three are known to have been very close to Hu personally. Finally, Li Keqiang has been promoted to the 17<sup>th</sup> Politburo Standing Committee and is poised to take over as premier in five to six years.

### THE NEW PARTY LEADERSHIP AND THE FUTURE OF CHINA

The 17<sup>th</sup> Party Congress is a forward-looking congress. The 17<sup>th</sup> Politburo Standing Committee is set up so that there would be a smooth transition from the fourth generation leadership to the fifth generation leadership in five years. The institutionalized political succession will provide China with a sustainable political leadership in an era filled with turbulences and problems. ■

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## 给百姓以财富创造财富的权利

#### ——十七大报告首提让更多群众拥有财产性收入

财富能创造更大的财富,是现代市场经济的一大发明。现代的资本市场是与更多的私人投资共同发展起来的。当中国股市通过IPO所筹集的资金已占世界的首位;中国股市的市值已进入世界股市的前列;世界最大的十大市值企业中,中国已占五家;中国在股市,基金的开户数已过亿,并且继续以每月数百万户增加时;中国百姓的收入中,越来越多的部分会是来自投资的收入,已是不争的事实。

十七大报告中,首提"让更多群众拥有财产性收入"的首要意义,是确认了以财产投资所获得的收入的合法性。按马克思的劳动价值论和剩余价值论的理论体系,和"各尽所能,按劳分配"的政策设计,在正统的社会主义体制中是没有财产收入的地位的。改革开放后,从允许到鼓励私人企业的发展;从试行到繁荣股市;从只做不说,到把保护私有财产写入宪法,再到通过"物权法"。。。财产收入的合法性,照例应该说已经得到法律的肯定。

但是,在近些年来,因收入差距扩大而引起的社会冲突和理论争论中,私人财富一直是有争议的对象,"中国特色的社会主义"未来会向哪个方向走?是会给"中国特色"留更多空间?还是会回到传统的社会主义框架中去?在大多数人的心中都是有疑问的。今年年初,一些网民兼股民,对一些学者和官员建议的"股价已过高,政府应该干预"的激烈反应,掩盖着的潜在词是"政府让不让股市发展?","给不给我们挣钱的机会?"十七大的报告中这句从西方来看的"大白话",对中国的股市和股民来说,恰是翘首以待。

其次,强调"让更多群众拥有财产性收入",意味着未来的目标,是坚持让多数人富裕。作为一个人口大国,制造业大国,中国的股市和整个资本市场的发展,才只是开始。百年前,上海就是一个冒险家的乐园(即敢冒投资风险者的乐园)。在今天全球化的条件下,只要有个好的制度保障,一个好的资本市场平台,中国百姓的几千年的"商人"情结(华人在是唐人,汉人,秦人以前,都是商人),会形成一个财富创造财富的巨大洪流。

另外,任何一项制度安排,都会有它的负面。财富创造财富的负面,是会扩大富人和穷人间的收入差距。这是现代社会中的世界性问题。解决这一问题,不是需要又一次革命,推倒从来,回到改革的社会财富积累,是不是不会对的人,帮助穷人,帮助穷人,帮助弱力。近些年,中国在二次分配上,如取消农业税,实行全况低保等。十七大报告,进一步第一次在一次分配上提了若干可能的措施。其它进一步的制度创新,如实行奢侈消费税,累进消费税等,让富人拿出更多的钱来帮助穷人,都是有可能的。

一个和谐社会,应让每个百姓都可以有个 梦,都有可能实现这个梦,这个梦叫"中国 梦"。

杨沐是东亚研究所中国项目协调员

### Some Highlights at EAI



Goh Keng Swee Lecture on Modern China: Speaker, Professor Li Qiang (left) of Tsinghua University, Beijing, China.



EAI in partnership with the Embassy of France in Singapore and the Asia-Europe Foundation presented a talk on "A Literary Journey".



Panelists and participants of the 7th Country Coordinators Meeting and 5th Annual NEAT conference held at Meritus Mandarin Singapore from 20 to 22 August 2007





At the Conference (left) at RELC and Roundtable Discussion on the Fukuda Doctrine and its Significance (right and below) held at Shangri-La Hotel in November 2007



EAI International Conference

# CHINA AND INDIA

March 2008



EAI International Conference

CHINA'S
REGIONAL
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DEVELOPMENT:
COOPERATION,
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**April 2008** 

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