

# The 2020 Project

POLICY SUPPORT IN  
THE PEOPLE'S REPUBLIC OF CHINA

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# PREFACE

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The People's Republic of China (PRC) has been the fastest growing economy in the world during the past two decades. This rapid economic growth, and targeted poverty reduction programs, has resulted in the incidence of poverty being halved from the 1990 level. Per capita income has almost doubled during the last 15 years. Life expectancy and adult literacy are up significantly and infant and maternal mortality have been reduced. These are remarkable achievements by any standards.

However, not all regions have benefited equally from these developments. Substantial disparities in regional living standards have developed. The coastal region benefited more from economic liberalization and the opening up process and captured most of the foreign direct investment made. During the 1990s, GDP per capita grew more slowly in the western region than elsewhere in PRC. Per capita GDP in the western region is about two thirds of the national average and only 40% of that in the eastern coastal region. Regional disparities are also reflected in other socio-economic indicators. Poverty is more widespread in the western region than elsewhere and is particularly pronounced among minorities living in border areas. Many of the poor live on degraded land. Ecological issues such as land degradation, desertification, erosion and water resource management problems are more severe in western PRC than in the eastern region. People living in the western region, particularly the poor, have less access to health and education facilities and the educational attainments of the labor force in the western region are lower than elsewhere in PRC. There is also a wide gap in the development of physical infrastructure including roads, railway, power, telecommunications and water supply between the poor interior provinces and the eastern region. A recent survey found that 40% of the foreign companies operating in PRC would not consider expanding their operations in the interior provinces. Infrastructure constraints and the lack of a consumer markets were the most commonly cited reasons for not expanding into the poorer interior provinces.

The Government is aware of the need to accelerate development in the poorer interior provinces. In 2000, the National People's Congress endorsed the "go west" policy, a proactive strategy to promote growth and development in western PRC. The Tenth Five-Year Plan (2001 – 2005) also reflects this strategy.

The Asian Development Bank (ADB) provided a technical assistance grant to help the Government formulate a strategy for the long-term development of the western region. Monash International Pty Ltd, an Australian company owned by Monash University, associated with a team of domestic consultants to conduct the study under the supervision of the State Development Planning Commission (SDPC) and ADB.

Masaaki Nagata, Principal Programs Officer supervised this study on behalf of ADB. The guidance and support at various stages of the study provided by the SDPC

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Mr. Dong Furen, a Professor of Beijing University was the team leader of the domestic experts. The other domestic experts, each of who prepared independent research papers, were Gui Shiyong, Wei Ligun, Fang Weizhong, Shang Yong, Xie Ping, Liu Jun, Pan Shengzhou, Sun Jian, Wang Jian, Ju Songdong, Tang Renwu, Wu Xinmu, Liu Jianming, Wang Lusheng and Huang Shunjiang.

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Work began on the Study in January 2001 and the findings of the study are presented in this book. Part I summarizes the strategic directions, covering macroeconomic issues, the fiscal and financial systems, agriculture and natural resources and social conditions. Part II identifies ways of strengthening the competitiveness of the western region by examining transport policies, energy policies and strategies, technology policies and competition policy. Part III examines opportunities to create employment and covers industrial policies, human resource policies, women and minorities. Part IV discusses ways to enhance local capabilities by addressing issues related to cross-border cooperation, local government, water resources management, environmental conservation and pollution control, urban development and rural development. The report concludes with a summary of the major policy directions and recommendations.

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# ABBREVIATIONS

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ABC	Agricultural Bank of China
ACWF	All-China Women's Federation
ADB	Asian Development Bank
ADBC	Agricultural Development Bank of China
ASEAN	Association of Southeast Asian Nations
BOOT	build-own-operate-transfer
BOT	build-operate-transfer
B2B	business to business
CASS	Chinese Academy of Social Sciences
CAU	Central Asian Union
CCB	China Construction Bank
CCP	Chinese Communist Party
CDB	China Development Bank
CIF	cost, insurance, and freight
CMS	cooperative medical scheme
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Corporation
COE	collective-owned enterprise
DALYs	disability-adjusted life years
DPR	Department of Policy Research, State Development Planning Commission
ETDZ	Economic and Technological Development Zone
FDI	foreign direct investment
FFW	Food for Work
FIE	foreign investment enterprise
FOB	free on board
FYP	Five-Year Plan
GDP	gross domestic product
GIS	government insurance scheme
GL	gigaliter
GMS	Greater Mekong Subregion
GNP	gross national product
GW	gigawatt
GWD	Great Western Development
ha	hectare
HDI	Human Development Indicators
ICBC	Industrial and Commercial Bank of China
ICT	information and communication technology
IFC	International Finance Corporation
IFPRI	International Food Policy Research Institute
ILO	International Labor Organization

IPO	initial public offering
IWHR	Institute of Hydropower and Water Resources
kJ	kilojoule
km	kilometer
kV	kilovolt
kWh	kilowatt-hour
LGPR	Leading Group for Poverty Reduction
LIS	labor insurance scheme
MoFTEC	Ministry of Foreign Trade and Economic Cooperation
Mt	metric ton
Mw	megawatt
n.a.	not available
NPC	National People's Congress
OECD	Organization for Economic Cooperation and Development
PADO	Poverty Area Development Office
PBC	People's Bank of China
PPCC	People's Political Consultative Conference
PPP	purchasing power parity
PRC	People's Republic of China
PSP	private sector participation
R&D	research and development
RRC	rural credit cooperative
SAARC	South Asian Association for Regional Cooperation
SDPC	State Development Planning Commission
SEAC	State Ethnic Affairs Commission
SEPA	State Environmental Protection Agency
SHE	shareholding enterprise
Sinopec	China Petrochemical Corporation
SMEs	small and medium enterprises
SOE	state-owned enterprise
t	ton
TA	technical assistance
TEU	twenty-foot equivalent unit
TFP	total factor productivity
TOR	terms of reference
TTP	transitional transfer payment
TVEs	township and village enterprises
TWh	terawatt-hour
UNDP	United Nations Development Program
VAT	value-added tax
WFOE	wholly foreign-owned enterprise
WHO	World Health Organization
WTO	World Trade Organization
XPCC	Xinjiang Production and Construction Corps
YLDs	years lived with disability
YLLs	years of life lost

# *Final Report*



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# SUMMARY

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In February 2000, the Government of the People's Republic of China (PRC) adopted a long-term strategy for the development of the Western Region, which it defined as comprising five autonomous regions, six provinces, and one municipality with the status of a province. In 1999, this region contained 28.8 percent of the PRC's population but accounted for only 15.8 percent of its gross domestic product.

This report examines specific policies in the context of the State Council's long-term strategy. The policy areas fall into four main groups:

- Strategic or macro-level policies (Part I of the report)
- Policies to strengthen the competitiveness of the Western Region (Part II)
- Policies to increase employment (Part III)
- Policies to strengthen the capability of local governments (Part IV)

To reflect the social, economic, and environmental diversity of the region, it is divided in the report into two: the northwest (Xinjiang, Gansu, Inner Mongolia, Qinghai, Ningxia, and Shaanxi) and the southwest (Tibet, Sichuan, Yunnan, Guizhou, Guangxi, and Chongqing).

## **PART I: STRATEGIC DIRECTIONS**

### **The macroeconomy** (Chapter 1)

The Western Region cannot achieve the economic growth rates of the Eastern Region, even over a long period. The northwest is especially disadvantaged in factor endowment. But even if such economic growth could be achieved, its desirability has been deemed doubtful, in view of the likely effects on the natural environment. Hence, the economic planning objective for the Western Region should be to reduce the income differential with the Eastern Region. A combination of outward labor migration, investment, and increased total factor productivity can achieve this outcome. The Government also needs to progressively allow market forces to allocate resources in the best possible way.

### **The fiscal system** (Chapter 2)

Reforms in the fiscal system benefit the whole country. Fiscal and government finance policies should support the basic objectives of good public finance, and cover tax assignment, government transfer payments, and government bond financing. The tax system needs to be made more transparent and equitable in its application across firms and individuals, with fewer arbitrary interpretations of tax laws and regulations. A direct lump-sum subsidy, proportionate to the total investment volume, would be more effective in attracting investment than the preferential tax system.

A transparent and accountable lump-sum subsidy system for local government is desirable. To design an optimal system of intergovernment transfers, the roles and structures of national health and social assistance programs must first be defined. Instead of the present five channels of government transfer, there should be a *regular transfer payment* and a *special subsidy*. The regular transfer payment would balance regional fiscal capabilities, while the special subsidy would be for unusual items such as industry-specific measures to correct market failure and measures to alleviate the effects of major natural disasters. To improve the efficiency and effectiveness of its bond financing, the Government should strengthen control over the quality of each project and the management of funds.

### **The financial system (Chapter 3)**

The financial system has developed more slowly than the economy, particularly in the Western Region. The Government should continue to encourage commercial financial institutions, develop financial markets, and allow the entry of foreign financial institutions. Financial reforms will benefit the national economy as a whole, but measures that would be particularly helpful to the Western Region include establishing a comprehensive legal framework for banks and nonbank financial institutions, providing lending incentives to commercial banks, using the resources of the policy banks, reviving rural credit cooperatives, setting up a postal savings bank, promoting and regulating informal financial markets, optimizing international development assistance, and opening up markets to attract foreign direct investment.

### **Agriculture and natural resources (Chapter 4)**

The natural environment across the Western Region has undergone serious degradation because of inappropriate practices in agriculture, forestry, and industry. Productivity in agriculture is significantly lower than in the rest of the country. Such problems are commonly solved by radically improving techniques and reducing the economic dependence on the primary sector. The role of the State in agriculture and forestry must be redefined. The Government should invest less in commercial agriculture and forestry and give more emphasis to scientific research, extension, regulation, and environmental protection.

### **Social conditions and welfare policies (Chapter 5)**

Government health and welfare programs are not adequately targeted to the poorest sections of the community. Although most of the need is in the Western Region the allocation of funds does not reflect this. Health expenditures per capita in the southwest are now below the level in some African countries. Central Government funds for health welfare programs should work within strict criteria to ensure that they benefit the neediest sections of the community. The incidence of rural poverty (using the standard of \$1.08 a day in purchasing power parity) has fallen to 7.8 percent. Accordingly, the Government should now progressively move from targeting poor areas (poverty counties), a policy appropriate for dealing with mass poverty, to targeting poor households.

## **PART II: STRENGTHENING THE COMPETITIVENESS OF THE WESTERN REGION**

### **Transport policies (Chapter 6)**

An effective transport system is crucial to economic development. It provides access to resources and markets, facilitates trade, allows economies of scale, lowers costs and prices, and widens production choices. Above all, it enables regions to reap the gains from trade by specializing according to comparative advantage. Nowhere is transport more important than in the Western Region. Vast distances isolate it from major markets. Most exports and imports must reach overseas markets through the coastal provinces or through other countries. This dependence on other countries and provinces means that regional transport cooperation is an important determinant of future growth and development. Transport policies must pay more attention to opening up international trade routes.

### **Energy policies (Chapter 7)**

The PRC is the second-largest energy consumer after the United States. Production and consumption of coal, its dominant fuel, is the highest in the world. Rising demand for energy is a very significant factor in the economic development of the PRC, especially the Western Region with its very substantial energy resources. Any policy reforms in the energy sector will automatically benefit the region. Reforms are highly desirable in the areas of renewable energy, reduction of polluting energy practices, energy conservation, energy imports, and energy distribution.

### **Technology policy (Chapter 8)**

Adopting modern technology helped the Eastern Region outpace the Western Region in economic growth. Government efforts to support technological innovation that began in the Eastern Region will extend to the Western Region. The Government should increase its inputs into research and development and the spread of new technology. It should establish markets to facilitate the transfer of new technology into the Western Region, and set up a project-oriented research fund to support research that is most relevant to the region. Information and communications technology and biotechnology are of particular importance to the Western Region.

### **Competition policy (Chapter 9)**

In the European Union and the United States, competition policy is intended to limit the monopoly powers and collusive conduct of large firms. In the PRC, the central issue of competition policy is not how the Government should regulate the private sector but how it should progressively give up its own monopoly powers. The Government should use the Western Region as a kind of special economic zone in which it pilots various forms of withdrawal from exercising monopoly powers. A comprehensive competition law that provides for the phasing out of state monopolies should be a high priority in microeconomic reform. The breakup of regional protectionism should also receive special attention.

### **PART III: CREATING EMPLOYMENT OPPORTUNITIES**

#### **Industry policy (Chapter 10)**

Especially in the medium and long term, the Government should avoid high-intensity industry policies. The intent to optimize industrial structure is misleading and inefficient. A “light touch” approach is the most appropriate for creating markets, spreading information, and correcting market failures. Emerging markets in the Western Region include tourism and special agricultural products, particularly those relating to traditional medicine. Industrial policy in the Western Region should be aimed at creating employment by making it easier for enterprises to enter and exit from regional markets. In particular, local governments should promote the formation and growth of small and medium enterprises.

#### **Human resources policies (Chapter 11)**

The Government is progressively expanding the coverage of unemployment insurance. There is a need for a national unemployment insurance scheme to replace the present system of separate provincial funds. Separate provincial funds are not consistent with the objectives of a national labor market and the pooling of insurance risks; achieving these objectives will probably require the introduction of a social security tax.

Distinctions according to residential status remain important in discouraging rural–urban migration. Recent reforms have facilitated urban registration in towns at the prefecture level and below, but not in provincial cities. Insofar as migration has social costs, these would accrue mainly to the rich Eastern Region cities, while the Western Region would gain through higher remittances from migrant laborers and higher agricultural productivity. Moreover, determining social benefits according to residential status discriminates against the Western Region. The receiving cities get the benefit of low-cost labor while the areas of origin bear the social costs (when sickness or redundancy forces migrant workers to return home). Local regulations on residence registration that give advantages to migrants with educational, professional, or business qualifications over migrants without these advantages threaten to widen the urban–rural social divide. Rural–urban migration could greatly reduce the social and economic gaps between the urban and rural populations.

For the Government, the simplest path of reform would be to separate the registration system from the systems of entitlement to social security and other benefits. The Government should discourage discriminatory practices by the local governments of large cities toward rural migrants that violate their constitutional rights as citizens. A long-term strategy should be to progressively eliminate the separate status of rural and urban residents under various laws.

#### **Women (Chapter 12)**

As market forces grow and the role of government in the economy shrinks, women could become more vulnerable in the labor market and within the family. The diversification of types of enterprise and increasing social mobility are making it much harder for the All-China Women’s Federation to tackle the full range of women’s issues effectively. The Federation has tried to cope with the challenges by establishing new associations such as

the China Socialist Women's Entrepreneurs' Association, and by offering new services such as the Re-employment Guidance Centers. The Government should continue to promote the formation of women's groups so that there can be a better and faster response to the emerging needs of women. In the field of employment, women's rights under the Labor Law of 1994 must be better enforced.

### **Minorities (Chapter 13)**

In spite of the government's preferential policies for ethnic minorities, the minorities in the Western Region remain relatively poor and disadvantaged compared to their Han counterparts. It should be an integral part of development planning to reflect the needs and address the vulnerabilities of the ethnic minorities. A critical ingredient of the minority policies is measures to promote participation by minority leaders in the decision-making and planning process of the Government at all levels to enhance their ownership and support for the policies and priorities that evolve. Special attention also needs to be paid to the active evolution of minority culture as part of the rich and multicultural modern PRC. Improving the participation of minorities in the urban labour market required a combination of education, affirmative action, and participating interventions.

## **PART IV: ENHANCING LOCAL CAPABILITIES**

### **Cross-border cooperation (Chapter 14)**

To reduce the economic isolation of the Western Region, cross-border cooperation is vital. However, economic deregulation, especially in relation to transport, and industrial policy initiatives are more important to achieving this than agreements on tariff reductions or regional cooperation agreements with neighboring countries. Local government participation in external regional cooperation, while important, benefits only the local government in question. Opening up the entire Western Region to the benefits of trade requires a focus on the transport industry and economic deregulation.

As the cross-border cooperation groups (in which Yunnan and Xinjiang participate) progress toward formal agreements, the Government should consider setting up formal World Trade Organization (WTO) working groups. The WTO views regional integration initiatives (which it defines very broadly) as complements rather than alternatives in the pursuit of more open trade. For the Western Region, the pursuit of more open trade, not local economic integration, is the main objective.

### **Local government (Chapter 15)**

Functions must be distributed across the various levels of local governments and local governments must be given appropriate specific independent powers. In a market economy, local government can be effective only when there is a comprehensive legal framework setting out obligations and discretionary powers. In distributing functions to different levels of local government, the Government should seek to devolve powers to local decision makers, and move the implementation of development programs and projects closer to the beneficiaries.

### **Water resources management (Chapter 16)**

The southwest has abundant water resources but the northwest does not. In the northwest, urban development can proceed only at the expense of agricultural uses of water. In purely engineering terms, there is some potential for developing water resources to expand supply, especially in the southwest. However, the construction of reservoirs, pumping structures, and diversions should be subjected to more stringent economic, financial, social, and environmental analysis. Otherwise, it may not be possible to achieve efficient allocation of local government resources and matching of development targets with sustainable water resource development. There is plenty of scope for improving the management of demand through appropriate crop selection, water-saving techniques, efficient water delivery, increased consumer awareness, and higher tariffs. In the northwest, the migration of surplus rural labor to cities in the southeast of the PRC would also reduce the pressure on water resources.

### **Environmental conservation and pollution control (Chapter 17)**

Throughout the Western Region, land resources, forestry, and environmental protection bureaus are taking on new responsibilities and activities. In each case, local government bureau officials are taking on unfamiliar tasks. In all three fields significant technological changes are occurring, including changes in environmental monitoring and assessment, in the use of satellite imagery, and in the management of data and information. The training of staff at all levels must therefore improve.

### **Urban development (Chapter 18)**

The Western Region cities lack the revenue base to upgrade their infrastructure systems to match those of cities in the Eastern Region. They should invest in infrastructure (financed with higher user charges) rather than buildings, and ensure a steady supply of serviced sites for the real estate industry. The Government should continue reforming urban land markets, to create more vibrant property markets that will attract domestic and foreign investment. Reform of the City Planning Law is overdue, and should include measures to better control changes in land use, improve public participation, and better separate regulatory functions of local government from management and development functions.

### **Rural development (Chapter 19)**

Compared with their counterparts in the Eastern Region, Western Region villages have very inferior infrastructure. The infrastructure is worst in villages in remote or mountainous areas. The cost of serving some villages would be prohibitive. Local governments will have to assess which villages have a long-term future and which do not. It makes no sense to invest in villages inside nature reserves or in areas where economic activities can never be sufficiently developed to support the population. There is a need for resettlement programs that are carefully planned with significant beneficiary consultation to avoid adverse social impacts and to ensure that those resettled are better off after the resettlement than before. Apart from village infrastructure, rural development programs should give priority to agricultural research and extension, education, and health services. A much lower priority should be given to infrastructure investments in irrigation and transport (other than village connections).

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# GLOSSARY

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- accelerated depreciation.* The right to write off capital goods for tax purposes faster than the rate at which they would normally be depreciated. This is intended to encourage investment, as it enables a company to defer its taxes when it invests.
- agglomeration diseconomy.* Agglomeration economies are external economies available to firms in large concentrations of population and economic activity. Beyond some point, continued agglomeration gives rise to diseconomies because of factors such as congestion, pollution, and land prices.
- big push.* The argument that development can succeed only if the various sectors of an economy expand together, since each provides markets for the other. (From *Oxford Dictionary of Economics*)
- broad money.* A relatively broad definition of money. This applies to definitions such as M2, which includes building society deposits, or M3, which includes interest-bearing bank deposits. Broad money measures of the money supply tend to be less stable relative to gross domestic product than more narrow measures. (From *Oxford Dictionary of Economics*)
- chemical oxygen demand (COD).* An indicator of potential oxygen demand in milligrams per liter of a waste or polluted receiving water, derived from a chemical laboratory test. Two COD methods can be used depending on the strength of the waster. The test is particularly applicable to industrial wastes where the noncarbonation oxygen demand is significant.
- comparative advantage.* A country or region has a comparative advantage in producing a good, relative to another country or region, if the opportunity cost (relative cost of producing the good) in terms of other goods forgone is lower. The law of comparative advantages says that countries tend to export goods in which they have a comparative advantage and import goods in which they have a comparative disadvantage.
- computable general equilibrium model.* A model of the economy so specified that all equations in it can be solved numerically.
- contestable market.* A market that can be entered without sunk costs and left without loss. (From *Oxford Dictionary of Economics*)
- corporatization.* Conversion into a shareholding enterprise.
- cost, insurance, and freight (CIF).* CIF value is the value of goods when they reach the port of entry to their country of destination. It includes their purchase price in the country of origin, and the freight and insurance costs of shipping them to a foreign port. CIF does not include import duty or costs of transport within the country of destination.
- crowding in.* The possibility that an increase in one form of spending causes another to increase, for example, through the operation of the Keynesian multiplier or through an increase in investor confidence.

*crowding out.* The possibility that an increase in one form of spending causes another to fall.

For example, an increase in government investment might deter private sector investment.

*Disability Adjusted Life Years (DALYs).* The sum of Years of Life Lost (YLLs) and Years Lived with Disability adjusted for the severity of disability (YLDs). One DALY may be thought of as one lost year of “healthy” life. (From Murray and Lopez 1994)

*equilibrium price.* A price at which the quantity of a good supplied is equal to the quantity demanded. If the supply curve is sloping upward and the demand curve is sloping downward, this price is unique. (From *Oxford Dictionary of Economics*)

*externality.* A cost or benefit arising from any activity that does not accrue to the person or firm undertaking the activity. Pollution causes damage to the environment, a negative externality.

*factor endowment.* A country’s stock of factors of production:

- Land. The area and location of land and the minerals under it are given by nature. Irrigation or drainage can improve the quality of land, while deforestation and erosion can damage it. Known mineral resources reflect the effort put into discovering them.
- Labor. The labor force at any given time is given by history, but in the long run can be affected by education, health programs, migration, and social measures.
- Capital. The capital stock is predetermined at any moment by past investment, but savings and policy on capital movements affect its growth.

(From *Oxford Dictionary of Economics*)

*floating population.* People living outside their place of household registration.

*Food for Work Program (FFW).* A rural relief program for which the Department of Rural Economic Development of the State Development Planning Commission is responsible.

*foreign direct investment (FDI).* The acquisition by residents of a country of real assets abroad. This may be in the form of land, buildings, mines, machinery, or businesses.

*foreign investment enterprise (FIE).* PRC law does not define a FIE precisely (Lin 2000).

According to the current classification under PRC law, FIEs are of four types:

- PRC-foreign equity joint ventures (EJVs)
- PRC-foreign cooperative joint ventures (CJVs)
- wholly foreign-owned enterprises (WFOEs)
- foreign investment companies limited by shares (FICLBSs)

*free on board (FOB).* The value of exports when they are placed on a truck, ship, or plane en route to a foreign destination. FOB includes the costs of production and transport to the port, but does not include the costs of insurance and freight to the destination.

*Gini coefficient.* A statistical measure of inequality. If  $y_i$  is the income of individual  $i$ , for example, the Gini coefficient is half the expected absolute difference in the incomes of any two individuals  $i$  and  $j$  chosen at random, as a proportion of the mean income. In a Lorenz-curve graph, the Gini coefficient is the ratio of the area between the diagonal and the curve to the total area under the diagonal.

*gross domestic product (GDP).* Goods and services produced within a country by residents and nonresidents in a given period of time (normally a year).

*gross national product (GNP)*. A measure of national economic activity. “Gross” indicates that the measurement is made without subtracting any allowance for capital consumption; “national,” that the economic activity measured includes residents’ incomes from economic activities abroad as well as at home, and excludes incomes earned at home by nonresidents; “product,” that real output produced, rather than real output absorbed by residents, is measured. (From *Oxford Dictionary of Economics*)

*bui*. A collection of households that are willing to contribute a fixed amount of money to a common pool with either an implicit or an explicit contract. The money collected is used to finance projects undertaken by each household in an agreed order. A *bui* could be as small as two households, or as large as a thousand households. Most *bui* use houses or other fixed assets as collateral. The cost of default includes the confiscation of collateral, loss of face (reputation), permanent exile from the *bui*, and other financial punishments.

*bukou*. A household registration system, under which each citizen must register in one and only one place of regular residence.

*income elasticity of demand*. The ratio of proportional increase in quantity demanded to proportional increase in income, with all prices held constant. A necessity has an income elasticity of demand that is positive but less than 1.

*indivisibility*. A minimum scale at which further dividing will be either technically impossible or uneconomical.

*intellectual property rights (IPRs)*. Private property rights in ideas. IPRs may take the form of copyrights, which require the permission of the copyright owner for the copying of computer software, books, music, and other such materials; or patents, which require the permission of the patent holder (who can charge a license fee) for the use of processes or product designs.

*laissez-faire*. A policy of complete nonintervention by governments in the economy, leaving all decisions to the market.

*Lorenz curve*. A graphical representation of inequality. Personal incomes are arranged in ascending order and the cumulative share of total income is plotted against the cumulative share of the population. For complete equality of income the Lorenz curve should be a straight diagonal line.

*market failure*. A brief label for the view that the market does not provide a panacea for all economic problems. There are various ways in which an unregulated market may fail to produce an ideal state of affairs. The main sources of market failure are monopoly, externalities, and income distribution. (From *Oxford Dictionary of Economics*)

*moral hazard*. The danger that if a contract promises certain people payments on certain conditions, these people will change their conduct so as to make these conditions more likely to occur. For example, moral hazard suggests that if possessions are fully insured, their owners are likely to take less care of them than if they were uninsured, or even to connive at their theft or destruction. (From *Oxford Dictionary of Economics*)

*mu*. A traditional Chinese unit of area; 15 *mu* = 1 hectare.

*Multi-Fiber Agreement*. An international agreement restricting exports of textiles and clothing from less-developed countries to industrialized countries.

*multiplier*. A formula that relates an initial change in spending (for example, investment, government expenditure, or net export) to the total change in economic activity that results. The multiplier is applicable to an economy in which supply is elastic, so that activity is demand-determined.

*net enrollment rate*. The net enrollment rate is the total number of children in school whose age is within the prescribed age range for the type of school, expressed as a percentage of the total number of children in the age range. It is a net rate because it excludes children outside the age range.

*net present value*. The present value of a security or an investment project, calculated by discounting all present and future receipts and expenditure at an appropriate rate of interest.

*nongzhuanfei*. Converting *hukou* status from agricultural to nonagricultural.

*overheating*. A level of economic activity leading to excess demand.

*pH*. A logarithmic index for the hydrogen ion in an aqueous solution, used as a measure of the acidity or alkalinity of a substance. A pH below 7 indicates acidity and one above 7 indicates alkalinity (at 25°C).

*public goods*. Goods or services that, if provided at all, are open to use by all members of society. There is usually no rivalry among the members, and the goods or services are nonexclusive to each member of society. Defense, law and order, public parks, and monuments are examples of public goods. As nobody can be excluded from using them, public goods cannot be provided for private profit.

*purchasing power parity (PPP)*. The theory that exchange rates between currencies are determined in the long run by the amount of goods and services that each currency can buy. (From *Oxford Dictionary of Economics*)

*rent seeking*. Spending time and money not on the production of real goods and services, but rather on trying to get the government to change the rules so as to make one's business more profitable. (From *Oxford Dictionary of Economics*)

*shareholding enterprise (SHE)*. Economic unit registered in accordance with the Regulation of the People's Republic of China on the Management of Registration of Corporate Enterprises, with a total registered capital divided into equal shares and raised by issuing stock. Each investor has limited liability to the corporation depending on shareholding, and the corporation bears liability for its debts to the maximum of its total assets.

*soft budget constraint*. Concept popularized by J Kornai (in *The Economics of Shortage* [1980]). It is a limit on spending by some public body, which those supposed to be subject to it believe can be breached without serious consequences (unlike a hard budget constraint). For example, the managers of state-owned enterprises may believe that if they run at a loss or make smaller profits than they have been instructed to, the state will meet the enterprise's losses and not sack them. (From *Oxford Dictionary of Economics*)

*state-owned enterprise (SOE)*. Economic unit whose assets are owned by the state and have been registered in accordance with the Regulation of the People's Republic of China on the Management of Registration of Corporate Enterprises.

*Stolper-Samuelson theorem.* A theory concerning the income distribution effects of interindustry trade. It shows the effects of trade in a two-good, two-factor model with constant returns to scale and incomplete specialization. The theorem shows that trade raises the real income of a country's plentiful factor, which is used relatively heavily by the exportables industry, but lowers the real income of the country's scarce factor, which is used relatively heavily in the importables industry. (From *Oxford Dictionary of Economics*)

*total factor productivity (TFP).* Relates the value of output to total factor inputs, aggregated at some set of relative prices. It can change through changes in effort or managerial efficiency, through new techniques, or through scale effects when the level of output varies.

*township or village enterprise (TVE).* Defined by the Township Enterprises Law of 1996 as an enterprise established in a township or a village under the township's jurisdiction that has the bulk of its capital invested by rural economic collectives or farmers and that undertakes the obligation to support agriculture. The capital invested by the rural economic collective or farmers must be at least 50 percent of the total. However, the term "TVE" is often used in a broader sense.

*tradable.* Goods or services of a type that can be traded internationally, irrespective of whether or not they actually are.

*tragedy of the commons.* Refers to the dangers of overexploitation of resources due to the lack of property rights over them. Beyond a certain intensity of use, some form of rationing of the use of "commons" becomes necessary for efficiency. This may be done through quantitative allocation or through a charge levied for their use. (*Oxford Dictionary of Economics*)

*transitional transfer payment (TTP).* An intergovernmental payment designed to balance the regional disparities in the PRC. It is computed according to the following formula:

$$\text{TTP} = [(\text{standard expenditure} - \text{standard revenue}) \times (\text{objective TP parameter}) + (\text{policy TP amount})] \times (1 + \text{incentive factor parameter}).$$

*twenty-foot equivalent unit (TEU).* The standard ISO container of 20 ft x 8 ft x 8 ft.

*World Trade Organization (WTO).* An international body responsible for supervising and promoting world trade, set up after the Uruguay Round of trade talks in 1994. The PRC became a member in November 2001.

*youxu liudong.* A concept of orderly migration from rural areas to cities in the PRC. The concept lacks precise definition, but it has featured in government policy statements since the early 1990s. The Tenth FYP advocates it.

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