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Promoting China-ASEAN Economic Cooperation under CAFTA Framework

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National University of Singapore

Abstract

The implementation of China-ASEAN Free Trade Agreement in January 2010 marks an important milestone in their relations. CAFTA builds on and extends the growing economic relationships between the two sides. The agreement is expected to further promote China-ASEAN trade alongside intra-regional direct investment and extra-regional FDI. However, as a result of the 2008 financial crisis, global economic conditions have changed significantly from those prevailing at the time of drafting the agreement. This may represent new opportunities and challenges. Its future success depends on how its signatory members can work together to overcome the challenges and make good use of the opportunities. Further down the road, ASEAN and China can build on CAFTA to enhance their economic cooperation and integration through coordination in monetary and fiscal policies as well as industrial policies.

Keywords: regional integration, economic cooperation, free trade agreement

JEL classification: F15, F21, F36, F53

1. Introduction

With the advent of China's economic reform three decades ago, trade and investment between ASEAN and China have been increasing year by year. The Asian financial crisis of 1997 acted as a catalyst to widen and deepen the relationship. There was also a strong move at the highest official level on both side to speed up the process and degree of economic cooperation. The most significant of this is the initiative to set up the China-ASEAN Free Trade Agreement (CAFTA), which formally came into being on 1st January 2010. The Agreement gave birth to the largest FTA in terms of population (1.9 billion), with a combined GDP of US\$5.6 trillion and total trade volume of US\$4.5 trillion. It is the third largest trading block after the European Union and North American Free Trade Agreement region in terms of GDP. CAFTA

has not disappointed its well-wishers. The first seven months of this year saw China's export to ASEAN went up by 43.2 per cent while ASEAN's exports to China grew to 56.1 per cent when compared to the same period in the previous year.

Besides trade, CAFTA represents a set of huge opportunities for the members of this huge geographical region and economy to increase their cooperation in the areas of investment and infrastructure development. This point takes on extra significance in the aftermath of the 2008 financial crisis.

2. Rapid Growth of China-ASEAN Trade in CAFTA Preparatory Years

Ever since ASEAN as a group and China established official contact in 1991, the two sides have made remarkable progress in forging strategic partnership for peace and prosperity. This is manifested in their cooperation in trade, investment, and other issues of mutual interests ranging from maritime security to nontraditional security challenges. Trade and economic ties have enjoyed robust growth after the signing of the Framework Agreement on Comprehensive Economic Cooperation in November 2002 to establish the ASEAN-China Free Trade Area.¹

China and ASEAN adopted an incremental approach to the FTA. Both sides started to implement the CAFTA's Trade in Goods Agreement with import tariff reductions from July 2005, with the five-year tariff reduction schedule entirely phased in from January 2010. The average tariff on ASEAN exports to China is slashed to 0.1 per cent in 2010, while the average tariff on China exports to older ASEAN-6 members is slashed to 0.6 per cent. Currently, around 7,000 items traded between China and ASEAN are zero-rated. By 2015, the policy of zero-tariff rate for 90 per cent of traded goods is expected to apply between China and the remaining four ASEAN members.² Because of such tariff lowering measures, many tariffs were already very low before 2010.³ CAFTA may therefore be seen as a formalization of what has been going on for a decade.

CAFTA is an initiative to enhance economic regional integration, and like other such initiative, it has its economic and political background. The economic imperatives presented themselves in the form of the 1997 Asian financial crisis and the changes brought about by China's accession to the World Trade Organization. Relatively unaffected by the 1997 crisis, China was able to continue doing business with Southeast Asian countries badly affected by the crisis. What was more important, it kept its promise not to devalue the Chinese currency. Between them, these gave ASEAN countries a positive impression of China. It was a contrast to the bullying behaviours of the IMF which was widely believed to be a proxy of Washington (Lam, 2000). The political lesson was easy to learn.

Table 1 Major Activities Leading Up to CAFTA Implementation

1991	Chinese Foreign Minister Qian Qichen attended the opening session of the 24th ASEAN Ministerial Meeting in Kuala Lumpur. China expressed its keen interest to forge cooperation with ASEAN for mutual benefit.
1995	ASEAN and China established the ASEAN-China Joint Science and Technology to plan, approve, coordinate, monitor and evaluate joint cooperative programmes and activities. Since then, there have been many joint programmes and activities convened.
1996	China was accorded full Dialogue Partner status at the 29th ASEAN Ministerial Meeting in Jakarta, Indonesia.
1997	Chinese President Jiang Zemin and ASEAN leaders had their first informal summit and issued a joint statement to establish a partnership of good neighbourliness and mutual trust oriented towards the 21st century.
2000	Chinese Premier Zhu Rongji proposed setting up an FTA with ASEAN
2001	ASEAN and China formally agreed to set up an China-ASEAN Free Trade Agreement in 10 years' time
2002	Signing of the Framework Agreement on Comprehensive Economic Cooperation in November 2002 to establish the ASEAN-China Free Trade Area (ACFTA). Since then, trade and economic ties between ASEAN and China have been growing rapidly.
2003	Signing of Joint Declaration of the Heads of State/Government of the ASEAN Nations and China on Strategic Partnership for Peace and Prosperity at the 7th ASEAN-China Summit
2004	Adopted five-year (2005-2010) Plan of Action to implement the Joint Declaration at the 8th ASEAN-China Summit. The Plan has served as the master plan to broaden and deepen ASEAN-China dialogue relations in a comprehensive and mutually beneficial manner with the view to strengthen the strategic partnership for regional peace, development and prosperity.
2004-5	The Agreements on Trade in Goods and Dispute Settlement Mechanism between ASEAN and China were signed in November 2004, was implemented in July 2005.
2006	ASEAN and China celebrated 15 years of dialogue relations with the "Commemorative Summit Marking the 15th Anniversary of ASEAN-China Dialogue Relations" in Nanning, China. The Summit issued a Joint Statement to further strengthen ASEAN-China relations towards an enhanced strategic partnership.
2007	The Agreements on Trade in Goods and Dispute Settlement Mechanism between ASEAN and China was signed in January and came into force on 1st July.
2009	The ASEAN-China Investment Agreement was signed during the 41st ASEAN Economic Ministers Meeting. This completes the ASEAN-China negotiation processes on FTA as set in the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China.
2010	Implementation of CAFTA in January

Source: Official website of the Association of Southeast Asian Nations, <<http://www.aseansec.org/index2008.html>>, accessed 12th May 2010.

The 1997 Asian financial crisis prompted East Asian economies to increase their cooperation and they sought common grounds to guard against future crises. In 2000, ASEAN, China, Japan and South Korea launched a multilateral pact of currency swaps known as the Chiang Mai Initiative to pool their foreign reserves to help crisis-ridden East Asian countries.

With China joining the WTO in 2001, more transnational companies set up their production facilities in mainland China. Happening soon after the 1997 financial crisis, it made a lot of sense for Southeast Asian countries to broaden and deepen their trade with China. Besides being attracted to the economic potential of China's rapid growth and liberalization, they can become suppliers to feed the global production network centred in China. The final manufactured goods are then exported mainly to Europe and the USA from China. All these are happening in the context of globalization, with regional cooperation as part of the "game". Three crucial rationales are identified by Kevin Cai. First, CAFTA is a response to intensified regionalism elsewhere. Second, the FTA helps to cement the growing economic ties between ASEAN and China. Third, FTA helps to coordinate government policies – a point made very clear in the Asian financial crisis. (Cai, 2003)

From the Chinese side, there is an acute recognition that its economic well-being depends critically on a peaceful and stable global environment. Its embrace of globalization means the need to do more business with the outside world, especially its neighbours. It is also keen to ensure a reliable source of raw materials. The end of 2001 was a good time for China to broach the idea of FTA to ASEAN. "The timing is ideal, as the United States is distracted by the war on terror, Iraq, Iran, and North Korea, while Southeast Asia is still grappling with the aftermath of the 1997-8 Asian Financial Crisis." (Wang, 2007) With America distracted and Japan weakened by its long recession, China's pragmatic approach of increasing trade and investment has won much goodwill in the region (Kurlantzick, 2007). It may be added that by excluding Taiwan, CAFTA benefits China by isolating Taiwan, a bonus point for China's long-term project of reunification. This incidentally reveals the fact that economic and political matters are closely intertwined. This is true of CAFTA, as it is true of other free trade agreements. China needs the political goodwill of its Southeast Asian neighbours as much as the neighbours want to profit from strengthening economic ties with China.⁴

In August 2009, China and ASEAN ratified the China-ASEAN Investment Agreement during the 41st ASEAN Economic Ministers Meeting. This, together with the already-signed China-ASEAN agreements of trade in goods and services, completed the negotiation process of CAFTA. It paves the way for the implementation of CAFTA from January 2010 for China and the older ASEAN members (i.e. Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand). The FTA between China and the newer ASEAN

members (Cambodia, Laos, Myanmar and Vietnam) will only take effect from January 2015.

As a free trade agreement, CAFTA is pretty comprehensive as it covers trade in goods and services as well as investment. The new agreement has created the largest FTA in terms of population (1.9 billion), with a combined GDP of US\$5.6 trillion and total trade volume of US\$4.5 trillion. It is the third largest trading block after the European Union and North American Free Trade Agreement region in terms of GDP.⁵ CAFTA is expected to boost China-ASEAN trade alongside expanding intra-industry trade and increase investment flow between the two sides.⁶ Because of the enlarged market, it is likely to attract more FDI to the region.

Since 1991, China-ASEAN trade has experienced significant growth. From 1991 to 2000, China-ASEAN total trade volume grew at an annual rate of more than 15 per cent from US\$8 billion to US\$40 billion. After China joined the WTO in 2001, China-ASEAN total trade volume grew at an even faster pace. During the period from 2001 to 2008, China-ASEAN trade ballooned at an annual rate of over 20 per cent from US\$42 billion to over US\$230 billion (see Figure 1). China is now ASEAN’s third largest trading partner. To a certain extent, the rapid expansion of China-ASEAN trade since 2001 was contributed by the “early harvest” programme of CAFTA which liberalized China’s agricultural market to ASEAN countries.

While working towards CAFTA, ASEAN redoubled its efforts to create not only free trade amongst its members, but also an ASEAN Economic

Figure 1 China-ASEAN Trade, 1995-2008



Source: *China Statistical Yearbook 2009*.

Community by 2015 in which goods, skilled labour and capital can move freely. The 2008 financial crisis gave this another boost.⁷

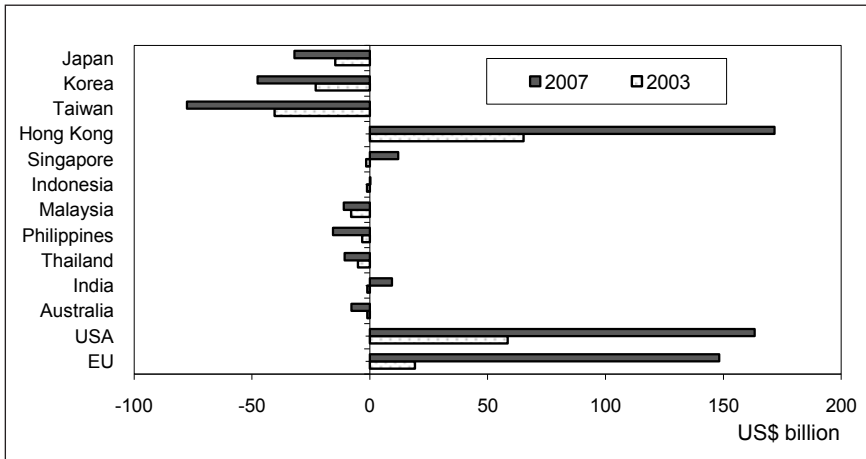
3. China-centric Regional Production Network

A strong factor behind the growth of China-ASEAN trade was due to the integration of ASEAN economies into the China-centric regional production network. The China-centric regional production network was formed towards the end of the 1990s when China began to assume the region's traditional position of a manufacturing and assembly hub (mostly for labour-intensive and lower value-added products). Some of the conditions that allowed China to take on this role include its limited exposure to the Asian financial crisis of 1997, its ability to attract FDI away from the ASEAN region, and its large pool of cheap labour. To regain its competitiveness, ASEAN economies leveraged on China's new found role by aligning themselves more closely to the processing phase of China's production. This is illustrated by the composition of ASEAN exports to China from the late 1990s onwards. On the one hand, raw materials and intermediate manufacture products remain the top commodities in ASEAN's exports to China over the years. On the other hand, ASEAN countries have upgraded export structure based on its evolving comparative advantage by shifting focus to high value-added intermediate products. Indeed, the share of resource-based commodities decreased from two-thirds of the total export value of ASEAN to China in the early 1990s to only 22 per cent in 1999, and has remained almost at the same level ever since. Meanwhile, the relative share of intermediate manufacture goods (machinery and transport equipment in Figure 3) – electrical machinery, computer chips and automobile parts particularly – went up drastically from 12 per cent in 1990 to 52 per cent in 2008. This economic arrangement between China and ASEAN complemented the export-oriented strategy of both sides. ASEAN economies are to supply the raw materials and intermediate products for China's manufacturing, while China will export the finished product to third countries. Based on the economic performance of ASEAN and China in recent years, it seems that this production network was able to usher in a period of strong growth for both sides.

However, this changed after the financial meltdown in September 2008. The global financial crisis has cut back Western demand for Chinese exports, which in turn reduces ASEAN export of processing materials to China. This has immediate impact on the economic growth of both ASEAN and China.

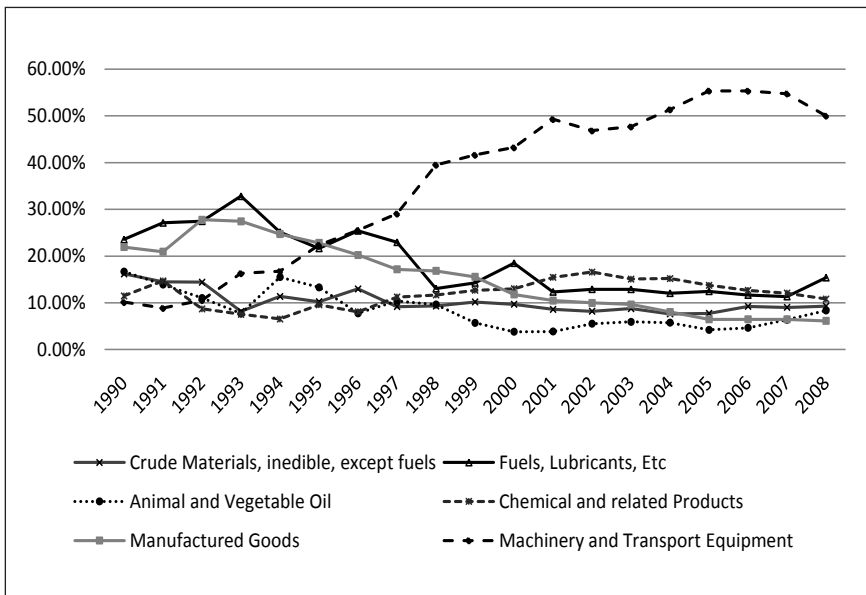
It is likely that global demand, especially from the Western economies, will remain weak despite improvement in the global economy. This is because the improvement was mainly due to aggressive government stimulus packages and a correction in private sector inventories. There has yet to be a firm or

Figure 2 China's Trade Balance with Selected Countries, 2003 and 2007



Source: *China Statistical Yearbook 2008*.

Figure 3 Percentage of Top 6 Commodities in ASEAN's Exports to China, 1995-2008



Source: The official website of the Association of Southeast Asian Nations.

sustainable rebound in private spending. This is not a surprising development as unemployment rate remains high and the credit market continues to remain tight in developed economies.

High spending consumers in the United States and developed European are now saving money and paying down debt, while banks are building reserves and hoarding cash. The change in consumer behaviour in the developed markets has in turn affected the global economy. Thriftiness on the part of western consumers has led to a collapse of the bottomless appetite for goods that are made from components and raw materials from Asian, African and Latin American countries and assembled in China. Facing this changing world order, it is necessary for China and ASEAN to revise its role in the global economy in order to ensure a continuation of their economic development.

The launching of CAFTA brought new hopes to this area. However, we could not neglect some challenges. On 21st April 2010 China's Vice-Minister of Commerce Yi Xiaozhun said China-ASEAN bilateral trade had grown rapidly in the first three months this year compared with the same period of last year. China's export to ASEAN went up 46.7 per cent while ASEAN's exports to China grew even higher to 76.6 per cent.⁸ It does not mean that the high growth of two-side trade is totally due to the launching of CAFTA at the beginning of this year. To illustrate this point, let us look at China's trade figures with non-CAFTA countries. China's imports from Australia increases by 64 per cent, Japan by 56 per cent and South Korea by 61 per cent in the same period.⁹ The numbers would have been smaller had it not been for the slump in previous trade due to the recent financial crisis. For example, ASEAN exported 8.8 per cent less to China in 2009.¹⁰

4. Some Challenges

Like any other FTA, CAFTA has its winners and losers, its opportunities and challenges. Success brings with it some problems, which need to be handled rationally and carefully. Concretely, CAFTA has revealed the following issues: trade deficits, pressures felt by some ASEAN industries, market size constrained by income, competition from other FTAs.

4.1. Trade Deficits in Asian Countries

From 2001 to 2006, at a time when the volume of ASEAN-China trade was booming, there was more or less trade balance, with ASEAN enjoying some surplus. The situation began to change in the last few years. Vietnam and Indonesia were showing trade deficits, and the gap seems to be increasing. According to data provided by ASEAN, the ASEAN side showed a trade

deficit of US\$21.5 billion in 2008. According to the Chinese Ministry of Commerce, China trade with ASEAN registered a decrease of deficits from more than US\$20 billion in 2004 to US\$2.8 billion in 2008. During the first three quarters of 2009, China had a surplus of US\$90 million in its trade with ASEAN.

As Figure 3 shows, almost half of ASEAN's export to China is resources and agricultural products. Compared to the manufacturing products ASEAN imports from China, its export to China has low value added content and less potential for future development.

Moreover, there is the issue of exchange rates. So far this year, the Malaysian Ringgit is up 7.5 per cent against the dollar and Indonesia Rupiah is up 4 per cent. As long as the yuan is pegged to the dollar, appreciation of ASEAN currencies makes their products more expensive for Chinese importers. Such exchange rate movements may accentuate the trade deficits. The dollar and yuan are now equally important in Asia. It could be expected that ASEAN countries would have more trade deficits with China if there is no drastic step taken to reverse the trend.

It must be added that most ASEAN countries do not have a big buffer of foreign reserves. Trade deficits, especially when they show sign of rapid increase, weaken their capacity to import. At the same time, it increases currency risks and lowers their ability to cope with the flow of hot money.

4.2. Pressures Experienced by Some ASEAN Industries

The economic structures of ASEAN countries and China have both complementary as well as competitive aspects. Having a huge population of 1.3 billion, China has the task of providing employment for its vast pool of labour force. At its existing level of modernization, its labour intensive industries will remain a mainstay of employment provider in the foreseeable future. Unlike Japan and South Korea, China cannot afford to relocate all its labour intensive industries like home appliances manufacturing to ASEAN countries.

In early January, soon after CAFTA came into force, its impacts were covered by newspapers in Indonesia, the Philippines, Malaysia, Thailand and Singapore. While reporting on the positive aspects, they expressed concern that cheap Chinese products like textile products, footwears, headgears, and bags might drive such industries in ASEAN to the wall.

There are voices in Indonesia and the Philippines which championed the cause of such industries, especially textiles.¹¹ The association of textile industry in Indonesia said that the past two years had witnessed the closure of 271 textile factories due to competition from China. The spokesperson of the Indonesian Ministry of Industry revealed that the Indonesian government had written to ASEAN to ask for a postponement to 2011 of zero tariff for

textile, steel, and chemicals to give Indonesian enterprises more time to adjust. The Indonesian Minister of Trade, while assuring that Indonesia would abide by CAFTA, would set up a government agency to follow closely the impacts of the FTA on Indonesian industries. The hint is that Indonesia may resort to non-tariff measures to safeguard its enterprises, such as complicated and time-consuming import procedures and quality control. In fact, Indonesia has imposed the requirement that China's products can only be imported via ten specified ports.

4.3. Market Size Constrained by Income

Though ASEAN has a vast population, their purchasing power is relatively weak. The average annual income is slightly above US\$2,000. The older ASEAN-6 fares better with an average annual income of US\$4,000-5,000. During its best years of economic development from 2004 to 2008, the GDP registered an annual growth of 5.8 per cent while the level of consumption increased more slowly.

The low rate of consumption increase is due to low rate of income growth which in turn is due to low productivity and employment opportunities. The traditional approach to boost employment was through export oriented industrialization. However, with the current recession, technological advances and production overcapacity worldwide, it has become much more difficult for late comers to rely on export oriented and labour intensive industries to provide employment.

To raise productivity, it is necessary to develop basic infrastructure and to speed up the transfer of technology and skills to ASEAN, especially to the new members. This means FDI from the advanced countries. Take the case of Indonesia with its workforce of 110 million and population of 230 million. The unemployment rate is 8.1 per cent, which in itself is not high. But of this employment, only 30 per cent are in government and corporate firms. The remaining 70 per cent work in agricultural sector, as taxi drivers, or self-employed as small business people. From 1995 to 2008, labour supply increase exceeded employment increase by 2 per cent. It is estimated that 17 per cent of the people are in absolute poverty, surviving on less than US\$1.5 per day.

In the Philippines, the situation is worse. According to official statistics, the unemployment rate in July 2009 is 7.6 per cent, under-employment 19.8 per cent. The total number of unemployed and under-employed is 12 million. The country suffered from export slump, reduced remittance from Filipinos working abroad, and a drop in FDI. At the same time, its population of 90 million increases at 2.4 per cent per year, the top in Asia and higher than the government target of 1.9 per cent.

4.4. Competition from Other FTAs

ASEAN has signed FTA with its various partners. All of them aim at tariff reduction. CAFTA is the first to come in force. The other FTAs are with Japan, South Korea, India, Australia and New Zealand. In its trade relations with ASEAN, China has to compete with these countries. In 2007 and 2008, China's trade volume with ASEAN exceeds Japan's with ASEAN but in 2009, Japan's trade volume with ASEAN overtakes China's. China's imports from Singapore, Malaysia, Indonesia and Vietnam are more than Japan's but its imports from the Philippines and Thailand are less than Japan's. The main items of both China's and Japan's exports to ASEAN are electronic/electrical goods and machineries, but Japanese goods are of higher quality. Japanese cars have captured a stable market in ASEAN region. Japanese corporations have a longer history of trade with and investment in ASEAN and enjoy much goodwill. Recently Japan initiated the Japan-Mekong Region Ministerial Meeting and convened the Japan-Mekong Summit. To counter China's influence in Southeast Asia, Japan proposed the ASEAN-Japan Comprehensive Economic Partnership. The agreement was signed by both sides in April 2008 and came into effect in December 2008.

While ASEAN countries want to gain from the rapid economic development in China and India, they are also cautious of the implications of rise of the new powers. They therefore see value in the institutions and mechanism of 10 + 8 (the 10 ASEAN members, China, Japan, South Korea, India, Australia, New Zealand, Russia and the USA) as check and balance and to reduce the adverse impacts of a deepening cooperation among China, Japan and South Korea in northeast Asia.

As part of this trend, Brunei, Chile, New Zealand and Singapore set up the Trans-Pacific Strategic Economic Partnership (TPP) in 2005.¹² Since then it has expanded to include the United States, Australia, Peru and Vietnam. TPP is now one of Obama administration's main trade policies with its five-year goal of doubling US exports. At the same time, America is intensely aware of China's dominance in East Asian trade and TPP provides a platform for the USA to respond to it.¹³

5. Make Use of New Opportunities

CAFTA features in many discussions on how China and ASEAN should respond to the 2008 financial crisis. Much of these revolve around the reality of shrinking Western markets and the need to increase the intra-regional trade. CAFTA means a bigger market, as producers have a larger and more integrated market, leading to better economies of scale, higher efficiency and economic growth. Product differentiation and economies of scale are expected to grow over time and the role of the region as an integrated production base

for the global supply chain will also be strengthened. If history can act as a guide, CAFTA will stimulate trade growth, and this is confirmed by data so far. For example, in the first seven months of this year China's export to ASEAN went up by 43.2 per cent while ASEAN's exports to China grew to 56.1 per cent compared to the same period in the previous year. While CAFTA members are naturally expected to benefit from trade creation, trade with non-members might decline. CAFTA's impact on individual non-member economies could likely vary drastically, depending on how well a non-member is linked individually to signatory members in terms of trade, supply chains and other business arrangements.¹⁴

CAFTA opens up new avenues for ASEAN and China's business community to expand their business. Prior to the global financial crisis, economic growth and development in the ASEAN and China region have benefited the MNCs more than the business community of ASEAN. In fact, intra-ASEAN investment only accounts for a small percentage of ASEAN's total FDI. Of the US\$63 billion of FDI coming into ASEAN in 2007, intra-ASEAN FDI only amounts to US\$10 billion or about 15 per cent of ASEAN's total FDI inflow. China's investment to ASEAN is even smaller. In 2007, China's investment in ASEAN only made up of around 1 per cent of ASEAN's total FDI inflow, while ASEAN's investment to China was around 10 per cent of total FDI inflow into China in the same year. In 2008, China's investment in ASEAN was US\$2.2 billion. In the first half of 2010 the amount of China's FDI into Asean countries is US\$1.2 billion, an increase of 125.7 per cent over the same period of the previous year.¹⁵

There is a need for China and ASEAN to encourage their SMEs or even State-owned enterprises (SOEs) to take advantage of the investment mechanisms in CAFTA to increase their investment across borders. For instance, China should take advantage of its growing overseas investment brought about by its "going global" strategy to not only increase its investment in the ASEAN region, but also to diversify the investment areas. Currently, the areas where China's enterprises are investing are mostly on energy, resource gathering and infrastructure. Other than facilitating greater integration between China and ASEAN, an increase of intra-regional investment can lead to growth of the business community in the CAFTA region as well as a better distribution of development. This will in turn contribute to the emergence of a broader based middle-class and the maintenance of a sustainable regional market.

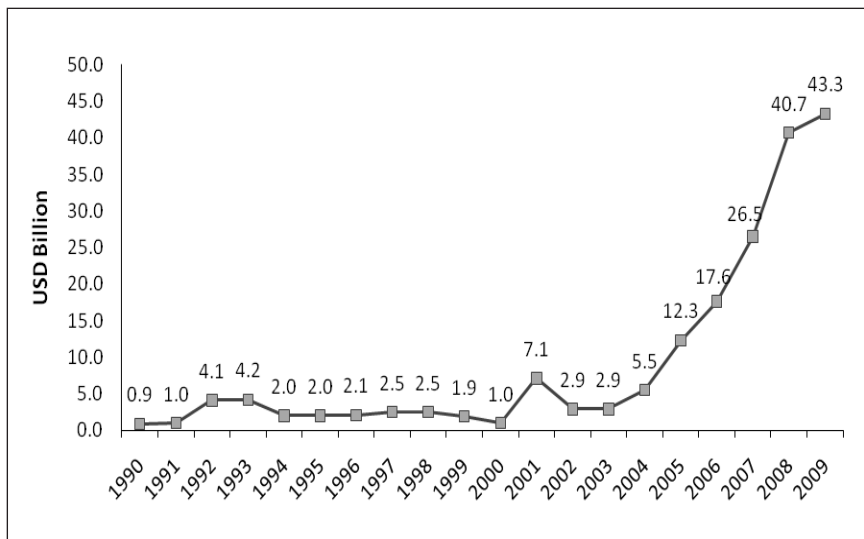
Between them China and ASEAN are a huge geographical area with a big economy with different levels of economic maturity, different resources and potentials as well as different infrastructure needs. They represent many opportunities for forward looking and bold cooperation. In most Asean countries, infrastructure is the first barrier to further development. There is

a huge demand for transportation facility for the Mekong River and other rivers, seaway, highway, railway, airway, bridges (such as Java-Sumatra bridge and others). It would cost US\$2 billion in 2007 prices to complete a railway across eight countries that will link Singapore to Kunming by 2015. An even bigger project is an initiative of the ADB, the GMS project which started in 1992. It involves China, Myanmar, Laos, Thailand, Cambodia and Vietnam. The total investment in GMS area is about 14 billion US dollars between 1992 and 2011. In the 81 construction projects involving transport, energy, economic corridor, tourism, communication, environment and trade facilities.

Another opportunity appears in the form of different labour costs in different regions or countries. For example, the average wage per month in Vietnam is about US\$60, less than two third of the wage level in China's coastline cities. In Cambodia, Laos and Myanmar the wage level is ever lower. The wage level, land cost and environment protection force the labour-intensive industries to move out from the Pearl River Delta, Yangtze River Delta and other coastline areas. Being attracted to such opportunities, companies have already relocated from China to the industrial parks set up in Vietnam, Cambodia, Lao and Myanmar.

The third opportunity comes from the differences in geographical conditions. The ASEAN nations are situated in tropical and sub-tropical

Figure 4 China's Outward FDI, 1999-2009



Sources: *China Statistical Yearbook 2009* and *China Statistical Abstract 2010*.

regions with an annual rainfall of 1500-2000mm, arable land of 153 million hectares but only 65 per cent of its resources utilized. Thailand, Vietnam and Myanmar are world-renowned rice-producing countries. ASEAN also produce tropical produce, fruits, timbers and sea products. Primary industry occupies 12 per cent of ASEAN's GDP, 13 per cent of its exports and 45 per cent of its labour. If efficient modern agriculture enterprises can be established, then productivity will be greatly increased and a portion of its labour can be transferred to manufacturing and service industries. China is rich with temperate produce and fruits but lack water resource (especially in the North) and arable land. China can help ASEAN establish stable markets by importing tropical produce while exporting temperate produce and fruits.

5.1. Beneficial Nature of Trade

Trade is by its very nature an economic activity that is voluntary and mutually beneficial. Where two sides have the same industries producing similar goods, then there is competition. Even though it may not be pleasant for the industries concerned, competition benefits consumers in terms of price and quality as well as choices. In the short term, governments are likely to be called upon to assist the weaker party to cope with the new situation.¹⁶ Though there are concerns about the short term difficulties, it is heartening to note that the prevalent attitude in ASEAN is to face up to the challenges and to emerge stronger in the long term. "Southeast Asian governments and firms have increasingly viewed China and its companies as formidable competitors for markets – in Southeast Asia itself and elsewhere – and for foreign direct investment ... Competition is basically good for economies and companies. In the face of fair Chinese competition, ASEAN countries have to strengthen the competitiveness of their own economies as well as their companies." (Severino, 2008)

Competition is the market mechanism favoured by those who believe strongly in the workings of free market. But unbridled competition can also lead to unnecessary waste and in adverse economic conditions, it may lead to frictions. This can happen if one side chooses to use loopholes or resort to non-tariff measures to protect its own industries. This is certainly not a distant possibility as it has already been suggested by Indonesia. The situation can lead to disputes, and it can severely test the dispute mechanism signed in 2004. This is an issue that should engage the attention of both ASEAN and China at the ministerial level.

It is therefore important for China that CAFTA can demonstrate positive results for its ASEAN partners. For example, China unilaterally lowered the import tariff of agricultural products and let its trading partners benefit the "early harvest".

5.2. Investment in Production and Infrastructure

It would be useful for the CAFTA members to identify areas of cooperation that will deliver benefits to all concerned. China must also address the concerns of trade deficits as experienced by some ASEAN members. It can increase imports of raw materials, agricultural produce (including seafood), increase its direct investment especially in the area of natural resources.

There are win-win situations in investment in critical infrastructures, value-adding activities based on local human and natural resources. If done well, these will lead to employment, income growth, export and import growth, and higher standard of living. One simple example is the Indonesia province of Gorontalo with its fertile soils, poor physical infrastructure, and potential fishery industries.¹⁷ There are no canneries to process the catch from the sea and no stable power supply. Lack of infrastructure can also be found in landlocked Laos where China would provide a long-term loan of US\$4 billion to finance a railway network.¹⁸

There are challenges faced by China in investing in ASEAN region. Because of historical reasons, ASEAN countries still hold some reservations about Chinese investment.¹⁹ Moreover, China has not accumulated vast experiences and built extensive business network there. As the service centre of Southeast Asia, Singapore can play a useful role. With more than a few centuries of experiences and accumulated skills of functioning as a financial centre and service centre, it can assist China with advice, networking and partnerships in creating win-win situations for all the parties involved.

Another point to note is that Chinese MNCs operating in ASEAN regions must not only abide by the best practices of their western counterparts, but must try to do even better. This is especially so in the area of exploitation of natural resources, which has negative impacts on the physical environment. The matter has to be handled well in order not to end up in a counter-productive situation. It has been observed that Chinese firms have been occasionally enmeshed in cases of corruption in some ASEAN countries (Severino, 2008).

5.3. Coordination in Industrial Policies, Fiscal and Monetary Policies

Trade is the most natural solution of wealth creation for two parties which have complementary products. Complementary economic activity can be a direct consequence of natural endowment, e.g. Malaysia and Indonesia exporting rubber and palm oil. But it can be also a result of history, technological capability, indigenous market size and FDI. This suggests that there is a role for industrial policy formulation, so that different countries and sub-region can develop different areas of comparative prowess and competitive advantage. Here we can see clearly the benefits for ASEAN and

China to strive towards coordination and mutual consultation in formulating their industrial policies. It is a kind of regionalism based on mutually beneficial division of “labour” without creating a situation favourable for monopolistic control of the market. Long-term wise, economic growth is driven by productivity. This is an important factor that should be considered in formulating their industrial policies.

If we think beyond trade and consider the broader picture of economic relations, CAFTA members may do well to explore the issue of coordinating their fiscal and monetary policies. Of the two, monetary policies coordination is more important for the obvious reason that exchange rate is often implicated in trade disputes.

Currently, Asian financial markets are more closely bound to global market than to each other.²⁰ This has its historical reason but the increasing volume of trade amongst the CAFTA members may provide the imperatives for them to move towards closer integration of their financial sectors. Given the growing volume of trade and investment among the CAFTA members, especially between ASEAN nations and China, it does make sense to do business with the Chinese yuan as the currency. This lowers transaction cost in the form of uncertainty in exchange rate.

Before concluding, one last point may be added. Unlike Europe which has seen a retreat of nationalism, Asia must still cope with nationalism as a very powerful political force. And since nationalism is not going to fade away soon, regionalism has to bear this in mind. By its sheer size, CAFTA is a phenomenon worth studying, all the more so now that economic power is shifting from West to East. It is likely to yield interesting insights into FTA performance, regional cooperation and globalization.

Notes

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Empirical Analysis on Revenues and Expenses of Taiwanese Higher Education

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Abstract

There is no doubt that higher education institutes (HEIs) in Taiwan have faced many unprecedented challenges in the past decade, such as international competitiveness; commercialization operations from marketization; and accountability with autonomy etc. Moreover, the factor of financial resources among institutes, which is integrated from the government funding or fundraising, and “self-funding” for university itself, has become the imperative issue, whereas there is corporate difference between the public and the private institutes. The government sees the public institutes as a part of the civil service system while considering the private institutes as legal persons. The aims of this chapter are to explore the financial issues of Taiwanese higher education by analyzing their financial reports which were provided by the Ministry of Education (MOE), the Department of Accounting (DoA), within 162 Higher Education institutes. As a whole, there are 31 public comprehensive universities or colleges (UoCs) and 36 private ones. Besides, there are 22 public universities of technology or institutes of technology (UToITs) compared with 73 private ones (MOE, 2010; MOE, 2009; MOE, 2008). The author attempts to carry out data diagnostic comparison based on the financial data from the 2007 to 2009 annual reports in order to interpret the fundraising issues in Taiwan. The conclusions in this paper are relevant either for the leaders or the policymakers regarding higher education in Taiwan in the coming stage, such as the concepts of fundraising accountability and skill for the leaders and administrative teams, the professional capacity of staffs who are responsible for financial planning and executing, and the upward spiraling changes for the Taiwanese HEIs.

Keywords: *Taiwanese higher education, funding and fundraising, revenue, expenditure*

JEL classification: *H52, I22, I23, I28*

1. Introduction: Background Review

In the 1980s, the HEIs in Taiwan, no matter public or private, are controlled by the Taiwanese government because of the semi-closure political situation and elite higher education at that moment. Hence, the leaders of these institutes did not have to worry about funding or fundraising. The civil-service budgeting system was one of the major accounting systems at that moment. As Teng (2002) shows, in the past, there was always the problem of implementation rate at state-run universities. If a school did not use up its budget, the school president could actually be punished. As a result, every year at the end of the fiscal year, schools rushed to buy new equipments and contract out new projects, and were often accused of wasting money. Another problem was that research programmes had to show short-term results. If the annual research budget was cut, the research plan would have to be terminated in mid-course. Such civil-service type budgeting methods hardly suited the operations of a university.

Since 1994, market mechanisms for education, in particular the higher education system, are introduced according to the consensus of the 1996 Education Reform Report. The University Act was also passed to reduce the power of the central government by granting more academic autonomy, institutional flexibility and self-reliance to universities. Meanwhile, as Chou (2008: 297) pointed out, Taiwan also experienced an unparalleled expansion in universities and student enrollments as a result of public elections and economic deregulation. Following this expansion, the private higher education institutions came to outnumber the public; the latter traditionally have enjoyed more resources and social prestige. Currently, there are 64 public HEIs and 109 private ones (MOE, 2010). The trends of individual institutions are to become more competitive and accountable by creating an overall market mechanism within the Taiwanese higher education system. As Tang (2008) shows, one of the steering factors to promote market mechanism is to empower the public institutes with the responsibility on fundraising ability by the endowment fund system. MOE also passed the Enforcement Rules of School Funds for National Universities/Colleges (ERSF) and Regulations Regarding the Management and Supervision of School Funds at National Universities/Colleges (RMS), and have those public HEIs divided into four groups to respond to the Enforcement Rules of School Funds (ERSF) year by year. The first group to respond to the ERSF in the year of 1996 had a total of five Institutes. They are the National Taiwan University (NTU), National Cheng Kung University (NCKU), National Tsing Hua University (NTHU), National Chiao Tung University (NCTU) and National Taiwan University of Science and Technology (NTUST). By the end of 1999, all public institutes have established their own foundations for School Funds.

As we mentioned, since 1996 an endowment fund system followed by the ERSF has been in place in Taiwan to help provide funding for public universities. The school fund system is a reform method which can solve problems of rigidity of civil service budgeting rules, lack of autonomy for schools, and lack of flexibility. One important difference is that allocated funds can be rolled over to future years, so that the school fund can increase over time, which will be helpful to the long-term development of HEIs. This means that while they are still mostly subsidized by the MOE, these universities must come up with 20 per cent of their own funding. The consequences of the changing way of funding in HEIs have been varied. Nevertheless, these results may provide valuable experiences about raising money for universities and colleges.

2. What Are the Initiating Factors in Taiwanese Higher Education?

First of all, commercialization operations under marketization of higher education in Taiwan has been obvious. Not only in terms of student recruitment and enrollment but also of research and education, the growing influence of marketization and commercialization are apparent for every institute in Taiwan, with either positive or negative impacts on the campuses. Bok (2003) attributes much of the growing influence of the marketplace on higher education to the following factors: growing demand for funding to fuel the quest for increased size, reputation and prestige; the growing use of business practices in the management of universities; and declining federal and state support in the 21st Century. Also, he suggests that educators in the academy must be prepared to take a realistic look at the positive and negative impact of these trends, and then make sound decisions in the context of their own institutions. In Taiwan, the corporatization issue for the public HEIs has been discussed for years in order to remove barriers between different institutional independencies, e.g. public vs. private funding/tuition and fees/tax-exemptions. However, it has no operation rules so far unless the amended University Act is passed by the Executive Yuan. On the other hand, it is evident that the aims of the amended Private School Law are required to strengthen the private sectors from the management to entrepreneurial aspects. The increasing competitive trend between them is highly appreciated and reveals the results of commercialization actions under marketization among HEIs in Taiwan.

Secondly, organizational accountability to society or even industry is the counterbalance to the need for more autonomy the institutes require. Meanwhile, it is essential to open up the university governance structures through the transparency of decision-making by way of bringing in people from outside the campus. There are also increasing concerns about the way to strengthen relationships between universities and society in order to increase

governance effectiveness. For example, since 2004, the Taiwan government has set up several programmes such as the “Promoting Academic Excellence and Developing World Class Research Centers” programme which is also called the “5 years 50 billion” (5Y50B) or “Excellence in Teaching and Learning” (ETL). Indeed, autonomy will be the main theme. Another issue of accountability has emerged from embarking on institutional evaluation and departmental evaluation for all HEIs since 2004, under the “Regulations Governing University Evaluation” (RGUE). It is expected that with this transformation, there will be significant improvements in the quality of the higher education institute in the form of a global research university. Part of the accountability measures is built into those programmes, and every granted institute or centre is required to submit an annual functional report and further review the benchmarking accountability they fixed previously. It is important to find the right balance between accountability and autonomy, although those two elements have difference aspects (Whitefield, Escalera and Peppers, 2002).

Thirdly, internationalization of Taiwan’s higher education has become a crucial challenge for all institutes. Since 2001, the Taiwan government has been one of the members of the World Trade Organization (WTO) and there have been increased relations between Taiwan and China or even ASEAN, not only economic but also academic particularly as a result of the ECFA. It is necessary to raise the standard of internationalization within Taiwan’s educational systems while being a member of the global village. We believe that student mobility can enrich the learning career for students. However, Taiwan’s international education has been a significant part of the MOE’s policies and people expect a deeper push towards showcasing Taiwan’s competitive advantage in particular as a result of the positive cross-Strait development. The MOE believes that international students, including students from China, can create a dynamic learning environment for local students. Also, many local students are striving to enhance their language abilities in order to differentiate themselves from each other and enable themselves to study abroad. W.J. Chen, the ex-president of NTU, shows that internationalization requires an understanding of one’s widespread advantages which means internationalization and localization are absolutely complementary to each other (Chen, 2003). As for development in science and engineering, because the competition among countries around the world is already white-hot, Taiwan cannot afford not to pursue this area as well. On 28th-29th August 2010, the Ministry of Education held the National Education Development Conference, at which the central topic for higher education was “Promoting the Quality of Higher Education to Raise International Competitiveness”. As Chen (2003) further shows, in order to strengthen competitiveness, talented people are most important. Furthermore, to nurture

such superior talents, one must provide them with excellent environment and incentives. If only international talented students and scholars can be mobilized according to the principle of “rising tide lifting all boats”, the HEIs competitiveness will follow suit.

3. Financial Framework of Taiwanese Higher Education

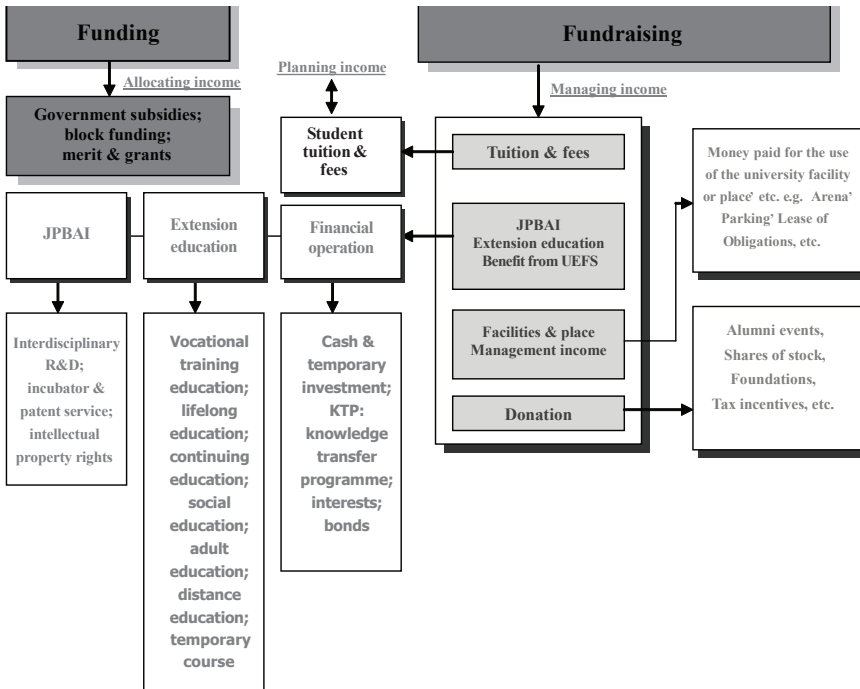
This section is to explore the financial framework including the institutes’ income and expenses. The financial income of higher education in Taiwan can normally be categorized into two aspects – funding and fundraising. The funding system – allocating income – is directly granted from the government in spite of the different backgrounds of public and private institutes. Generally, grants for the public HEIs from MOE whose subsidies are mainly based on the basic requirements and the previous conditions. However, the principles of funding the private HEIs are totally different from the public. The provision of grants for the private institutes is mainly based on the performance of their teaching merit and involvement. In recent years, the Taiwan government raises its block funding, which is also called competitive funding, for reaching some specific objectives such as the programmes of “Excellence in Teaching and Learning” (ETL).

As for the fundraising system, it is more complicated than government funding. In short, fundraising, which is also called self-funding, means that the incomes of HEIs are not subsidized by MOE, such as tuition and fees or endowment, etc. Thus, the core concept of fundraising system is more flexible on the implementation of budgeting and executing process, which means more flexible management and less supervision at their school funds. Even more important is that since the implementation of the endowment fund system, like the comments from Tang (2008) and Teng (2002), school incomes such as from tuition & fees, joint projects between academia and industry, continuing education, and intellectual property rights from R&D can all be freely used by the school, rather than being turned over to the national treasury as in the past.

The advantage of fundraising system is that the results of efforts to cut back waste and increase revenues will all end up in the school’s own pocket. The fundraising system, as Figure 1 shows, is divided into two: planning income and managing income. As for planning incomes, it refers to HEIs incomes from the tuition and fees. The managing incomes, referring to operating revenues, are money from the university management as listed below:

- Student tuition and fees (T&F): money paid by students;
- Extension education (EE): money from vocational training education, lifelong education, continuing education, social adult education or temporary course, etc.;

Figure 1 Financial Revenues of Higher Education in Taiwan



Notes: JPBAI – joint projects between academia and industry.

UEFS – University Endowment Fund System.

Source: Revised from Tang (2008).

- Joint programme between academia and industry (JPBAI): money from interdisciplinary R&D, incubator and patent service, intellectual property rights, etc.;
- Donation: money from alumni events, shares of stock, foundations, etc.;
- Financial operation (FO): cash and temporary investment, KTP programme or even interests and bonds, etc.;
- Facility and place management: money paid for the use of the university facility or place, etc., e.g., arena, parking, lease of obligations.

The spending on Taiwan’s higher education institutes is mainly examined in terms of four aspects according to the annual financial reports. They are:

- Teaching and learning cost (TLC): personnel costs, costs of library, apparatus and equipment, etc.;

- Student cost (SC): student scholarship, assistance payment, work-aided study payment, etc.;
- Management and general administration cost (MGAC): administration cost, etc.;
- Other costs: auxiliary expenses, etc.

Teaching and learning cost of institutes is also known as the educational and general expenses and calculated as the cost of instruction and department research needs with regards to expenditures on academic support. Student cost is mainly related to student services, such as scholarship and institutional support for student assistance or work-aided study. Management and general administration cost includes expenditures on the operation and maintenance of plant and the public service.

4. Messages from Empirical Data

How have HEIs done in the past three years, from 2007 to 2009, in seeking funding and fundraising? Who has been the most successful? As a whole, the total incomes of the four groups of institutes, which included the public UoC and the private UoC, the public UToIT and the private UToIT, are almost increasing slightly by the years: \$7.08b in revenues in 2007, \$7.31b in 2008 and \$7.22b in 2009. However, as Table 1 shows, there is a large gap between government funding for public institutes, as opposed to private institutes. Although roughly 60 per cent of the total money that goes to subsidize private HEIs (56.78 per cent in 2007, 56.55 per cent in 2008, 53.75 per cent in 2009), such public institutes in Taiwan numbered only 53 as compared to 109 private institutes in 2009.

Less than 50 per cent of the total income of public universities or colleges (UoC) is subsidized by the government in the past three years. More than half

Table 1 Differences in Total Income between Public and Private Institutes

Unit: thousand USD (\$)

	No. of HEIs; Total income		No. of HEIs; Public		No. of HEIs; Private	
2007	162	7,076,323 (100%)	54	3,058,065 (43.22%)	108	4,018,258 (56.78%)
2008	163	7,307,678 (100%)	54	3,174,968 (43.45%)	109	4,132,710 (56.55%)
2009	162	7,210,032 (100%)	53	3,334,613 (46.25%)	109	3,875,419 (53.75%)

Note: Taiwan HEIs include 31 public universities or colleges (UoC) (without counting the two Taipei city universities), 35 private UoC, 22 public universities of technology or Institutes of technology (UToIT), and 73 private UToIT.

Table 2 Taiwanese HEIs' income, 2007-2009

Unit: thousand USD (\$)

Category \ Year	2007		
	Total income	Funding	Fundraising
Public UoC (32)	2,412,452	1,117,065 (46.3%)	1,295,387 (53.7%)
Private UoC (35)	1,990,032	236,161 (11.9%)	1,753,871 (88.1%)
Public UToIT (22)	645,613	330,517 (51.2%)	315,098 (48.8%)
Private UToIT (73)	2,028,226	198,807 (9.8%)	1,829,419 (90.2%)
Total	7,076,323	1,882,550 (26.6%)	5,193,775 (73.4%)
Category \ Year	2008		
	Total income	Funding	Fundraising
Public UoC (32)	2,502,387	1,139,420 (45.5%)↓	1,362,968 (54.5%)↑
Private UoC (36)	2,029,355	242,419 (12.0%)↑	1,786,936 (88.0%)↓
Public UToIT (22)	672,581	344,291 (51.2%)↓	328,291 (48.8%)↓
Private UToIT (73)	2,103,355	223,839 (10.7%)↑	1,879,617 (89.3%)↓
Total	7,307,678	1,949,969 (26.7%)	5,357,812 (73.3%)
Category \ Year	2009		
	Total income	Funding	Fundraising
Public UoC (31)	2,632,419	1,191,484 (45.3%)↓	1,440,936 (54.7%)↑
Private UoC (36)	1,944,677	253,323 (13.0%)↑	1,691,355 (87.0%)↓
Public UToIT (22)	702,194	359,517 (51.3%)↑	342,678 (48.7%)↓
Private UToIT (73)	1,930,742	230,452 (11.9%)↑	1,700,291 (88.1%)↓
Total	7,210,032	2,034,776 (28.2%)	5,175,260 (71.8%)

Note: All income units are from the MOE, DoA (2007, 2008, 2009), and include the 5Y50B and ETL programmes.

of UoCs' income is from their self-funding (53.7 per cent in 2007, 54.5 per cent in 2008, 54.7 per cent in 2009), as shown in Table 2.

The private UoCs depend on their fundraising income – an estimated 88 per cent in the past years (88.1 per cent in 2007, 88.0 per cent in 2008, 87.0 per cent in 2009). While examining the private UToITs, we found the number of fundraising modestly higher than the private UoCs (90.2 per cent in 2007, 89.3 per cent in 2008, 88.1 per cent in 2009). Due to the fact that the funding sources of the private HEIs in Taiwan differ, each institute should find it hard

to hunt for more donors or students in its freedom to pursue its own academic ideals. The results show that the government should do more to encourage well-run private schools. While these private schools do not need funds to survive, they do need money to improve the quality of education.

Table 1 also shows that for the different “corporations”, as a whole, no matter the UoCs or UToITs, the government subsidizes the public and private institutes with well similar standards. Meanwhile, with the rapid increase in the costs associated with higher education, there has been an ever-increasing pressure placed upon HEIs to raise funds for institutional support. However, the author believes that the government will actively support the enhancement of academic quality at Taiwan’s universities. However, while public HEIs, especially those that are strong in engineering and the sciences, have the upper hand in fundraising, private HEIs, which must come up with all of their own incomes, on the other hand, have their own independent strategies.

Figure 2 shows the range of fundraising in the past three years for the four groups of institutes. The public universities and colleges (UoCs) have been well increasing while both the private UoCs and UToITs are slightly declining. The public UTITs have been having steady results.

Table 3 shows the patchy distribution of several income sources from 2007 to 2009 – fundraising or self-funding, except government funding. Six items constitute the main concerns for the fundraising objectives. They include tuition and fees (T&F), extension education (EE), joint programme between academia and industry (JPBAI), donation (Dona), financial operation (FO) and facility and place management (FPM). Obviously, the biggest issue at the private HEIs or even public UToIT is in financial structure. What this

Figure 2 Percentage of Fundraising of HEIs in Taiwan

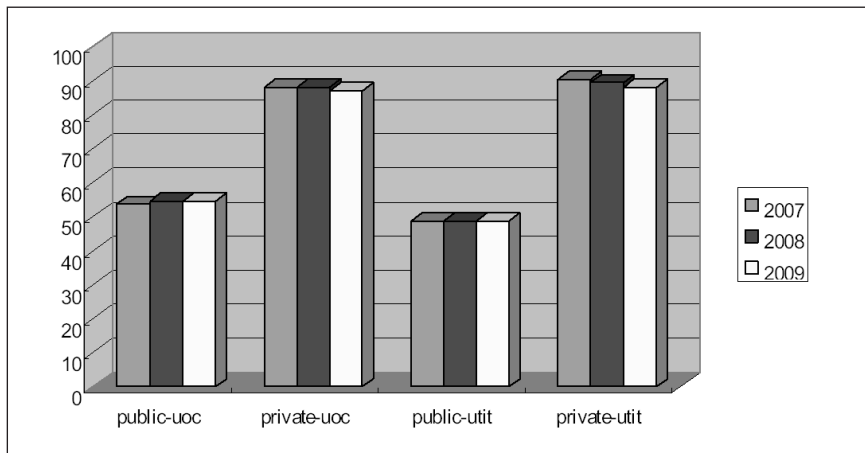


Table 3 Fundraising Income in Taiwanese HEIs, 2007-2009

		2007						2008									
		Total	T&F	EE	JPBAI	Dona	FO	FPM	Auxiliary	Total	T&F	EE	JPBAI	Dona	FO	FPM	Auxiliary
Public UoC	(32)	1,295,387 (100%)	445,161 (34.37%)	35,871 (2.77%)	611,936 (47.24%)	19,291 (1.49%)	37,323 (2.88%)	84,355 (6.51%)	61,452 (4.74%)	1,362,968 (100%)	456,162 (33.47%)	39,161 (2.87%)	655,291 (48.08%)	22,903 (1.68%)	43,452 (3.19%)	89,290 (6.55%)	56,710 (4.16%)
Private UoC	(35)	1,753,871 (100%)	1,098,000 (62.61%)	58,323 (3.33%)	173,162 (9.87%)	89,290 (5.09%)	131,613 (7.51%)	55,645 (3.17%)	147,839 (8.43%)	1,786,936 (100%)	1,105,291 (61.85%)	64,549 (3.61%)	182,000 (10.19%)	103,774 (5.81%)	126,258 (7.07%)	54,678 (3.06%)	150,387 (8.42%)
Public UToIT	(22)	315,098 (100%)	193,936 (61.55%)	5,935 (1.88%)	76,516 (24.28%)	2,194 (0.70%)	9,516 (3.02%)	15,742 (5.00%)	11,258 (3.57%)	328,291 (100%)	194,355 (59.20%)	5,290 (1.61%)	84,613 (25.77%)	2,839 (0.86%)	13,000 (3.96%)	17,581 (5.36%)	10,613 (3.23%)
Private UToIT	(73)	1,829,419 (100%)	1,344,581 (73.50%)	25,290 (1.38%)	74,419 (4.07%)	184,000 (10.06%)	90,645 (4.95%)	44,419 (2.43%)	66,065 (3.61%)								

Unit: thousand USD (\$)

Table 3 (continued)

	2009							Unit: thousand USD (\$)
	Total	T&F	EE	JPBAI	Dona	FO	FPM	
Private UToIT (73)	1,879,617 (100%)	1,347,871 (71.72%)	26,839 (1.43%)	81,839 (4.35%)	207,742 (11.05%)	104,452 (5.56%)	44,355 (2.36%)	66,419 (3.53%)
Public UoC (31)	1,440,936 (100%)	456,259 (31.66%)	38,291 (2.66%)	744,387 (51.66%)	25,096 (1.74%)	25,226 (1.75%)	94,258 (6.54%)	57,419 (3.99%)
Private UoC (36)	1,691,355 (100%)	1,127,226 (66.65%)	67,775 (4.01%)	200,774 (11.87%)	65,323 (3.86%)	48,936 (2.89%)	57,774 (3.42%)	123,548 (7.31%)
Public UToIT (22)	342,678 (100%)	196,129 (57.23%)	5,774 (1.69%)	96,774 (28.24%)	3,129 (0.91%)	8,355 (2.44%)	17,903 (5.23%)	14,613 (4.21%)
Private UToIT (73)	1,700,291 (100%)	1,377,323 (81.01%)	30,000 (1.76%)	97,226 (5.72%)	49,613 (2.92%)	49,387 (2.91%)	48,194 (2.83%)	48,548 (2.86%)

Note: Fundraising refers to HEIs' self-funding income, which includes in general tuition & fees (T&F), extension education (EE), joint programme between academia and industry (JPBAI), donation (Dona), financial operation (FO) and facility & place management (FPM).

means is that tuition and fees provide for more than 60 per cent of incomes. In comparison with universities overseas, this represents excessive reliance on tuition and fees. Public UoCs have been very involved in JPBAI, with nearly 50 per cent of their fundraising income (47.24 per cent in 2007, 48.08 per cent in 2008, 51.66 per cent in 2009), as shown in Table 2. Examining the public UToITs also reveals the relatively good performance of JPBAI (24.28 per cent in 2007, 25.77 per cent in 2008, 28.24 per cent in 2009). However, the fundraising income from JPBAI could be counted as buried treasury while institutes collect them only from the overhead returns which are estimated to be between 10-40 per cent. On the other hand, Table 2 shows that the private institutes should step up their efforts in JPBAI, funding for research, continuing education, and other areas in order to make up their financial deficit.

Ironically, the percentage of institutes' donations seems to be very low in the case of those four groups of institutes although the private is obviously higher in percentage than the public. Incomes from donations are mainly used in purchasing hardware and in construction because the MOE budget in this regard is very tight, and the school knows it cannot get full subsidization. Thus, the donations to institutes always play the key role on financial management. However, to conduct donation fundraising in Taiwan, one can rely only on the goodwill of contributors. People in Taiwan, however, are more eager to donate their money to religious organizations or even political groups instead of higher education institutes. Although the private institutes' capabilities are better, the public institutes have been under two lateral effects (two-peak curve phenomenon). Those with tradition advantage and in the fields of science and electrical engineering always receive big gifts from the high-tech leaders among their alumni. As small as it is and limited by the number of domestic companies, money raised from donations is only enough to fund a small portion of academic activities. As Teng (2002) shows, although alumni are the most important resource, one has to develop other sources of funding as well. It is especially difficult to do fundraising in Taiwan, and everybody uses the same old tactics. It is even more important to set down roots and broaden participation to create regular and long-lasting sources of funds.

Institutes in Taiwan will have to rely on themselves for most of their fundraising, and the timing of low tuition will be over. This is because public and private schools understand that fundraising income has played an important part of institutes' executors if they would like to compete in the global higher education market.

Extension education is always a key factor in fundraising income. In particular, schools in Taiwan are exploring new sources of income. One of the hottest new approaches is to offer Executive MBA programmes, with tuition fees of USD1,000 or more per credit. Currently, not only the business

departments do that, but also some departments of the social sciences or law. Some of them develop different but market-oriented interdisciplinary programmes for people to update their skills. Thus, extension education includes a variety of training courses and in the future, schools will offer more learning services to meet the needs of the market in terms of the era of lifelong learning. Both the public and the private are devoted to arrange their extension education service not only for beneficial returns but also for the whole job market.

Figure 3 Total Expenses of Taiwanese HEIs (USD)

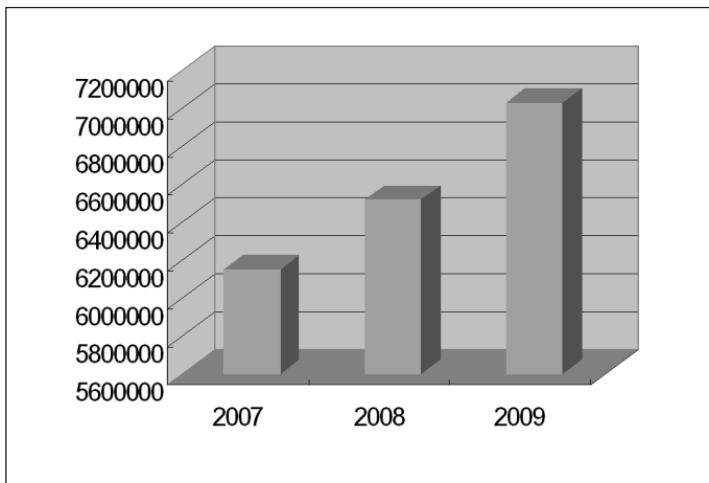
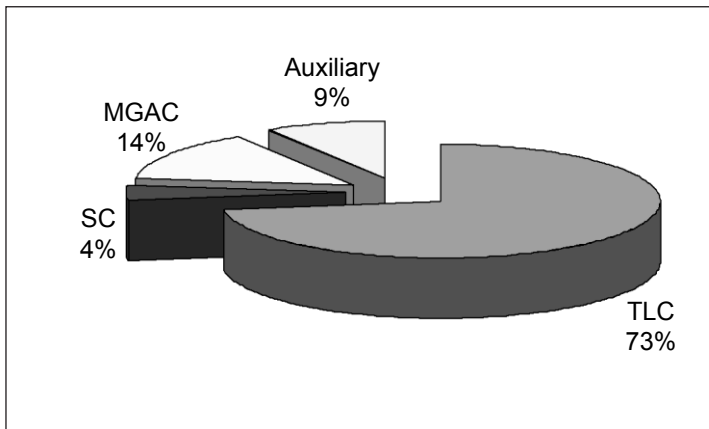


Figure 4 Percentage of Expenses of HEIs, 2009



The operating expenses of HEIs are shown in Table 4, which mainly include teaching and learning costs (TLCs), known as educational and general expenses. It is obvious that expenses have been growing for the past three years (\$6.15b in 2007, \$6.52b in 2008 and \$7.04b in 2009). The data also show that more than 70 per cent of the total expenses are on the public TLCs while less than 70 per cent are on the private. As we mentioned earlier, the majority of TLCs are the costs of personal expenses or equipment and library, etc. In other words, the government provides grant for most of the public institutes, but that is only enough to cover their personnel costs, and such is even far insufficient for the private institutes. If there are major projects, the school has to come up with funding somewhere else.

There are some regulations for the incomes of tuition and fees for every institute. For example, the institutes have to invest or facilitate students learning by using the sum of at least more than 5 per cent of the incomes of tuition and fees. As Table 3 shows, the calculation is based on the total expenses of the four groups of institutes and hence the percentages seem lower than the one we would expect. MGAC indicates the management and general affairs cost for each institutes. Normally, an estimated 15 per cent of the total expenses is put on that part of the schools' operation and management.

5. Some Important Implications

5.1. *Limitations of the Institutes*

As seen in the financial investigation results of this study, there exists a big gap between the public and the private. The different conditions of institutes in Taiwan from the perspectives of either traditional history or area of location may not have been included in the sample for analysis. These impacts from the diverse contexts of institutes would have influenced the results of the study. In particular, some of the public institutes would have attempted to transform themselves from civic-service bodies to more autonomous entities through the process of corporatization in Taiwan. Even though there are big gaps in resource-hunting ability or strategies among the public institutes, the private institutes in Taiwan, which are treated as legal persons, have been suffering from some inequities such as the tax-exemption system or tuition-adjustment policy. Therefore, their approaches of fundraising are facing constraints, hence jeopardizing their competitiveness.

The use of financial report data is an additional limitation of this study. The majority of the data used in this study were collected through MOE, DoA's document analysis. However, some of the data were self-reported annual financial information. Self-reported data may not be as accurate as data collected through alternate means. Therefore, some of the results may have

Table 4 Taiwanese HEIs' Expenses, 2007-2009

Unit: thousand USD (\$)

Year		2007				
Category	Total	TLC	Student C	MGAC	Auxiliary	
Public UoC (32)	2,493,645	1,963,742 78.75%	97,387 3.91%	294,710 11.82%	137,806 5.53%	
Private UoC (35)	1,482,033	897,291 60.55%	83,968 5.67%	278,710 18.81%	222,066 14.99%	
Public UToIT (22)	653,355	493,000 75.46%	20,645 3.16%	102,484 15.69%	37,226 5.70%	
Private UToIT (73)	1,523,065	1,082,161 71.06%	63,000 4.14%	260,807 17.12%	117,097 7.69%	
Total	6,152,098	4,436,194	265,000	936,711	514,195	
Year		2008				
Category	Total	TLC	Student C	MGAC	Auxiliary	
Public UoC (32)	2,614,516	2,079,742 79.55%	93,097 3.56%	292,678 11.20%	149,000 5.70%	
Private UoC (36)	1,587,033	984,065 62.01%	94,678 5.97%	268,065 16.89%	240,226 15.14%	
Public UToIT (22)	696,000	529,065 76.02%	22,871 3.29%	102,452 14.72%	41,613 5.98%	
Private UToIT (73)	1,624,065	1,136,355 69.97%	72,581 4.47%	286,516 17.64%	128,613 7.92%	
Total	6,521,614	4,729,227	283,227	949,711	559,452	
Year		2009				
Category	Total	TLC	Student C	MGAC	Auxiliary	
Public UoC (31)	2,785,516	2,227,226 79.96%	95,807 3.44%	294,968 10.59%	167,516 6.01%	
Private UoC (36)	1,766,291	1,097,936 62.16%	97,032 5.49%	298,936 16.93%	272,387 15.42%	
Public UToIT (22)	732,581	565,968 77.26%	25,742 3.51%	102,710 14.02%	38,161 5.21%	
Private UToIT (73)	1,749,645	1,221,742 69.83%	72,968 4.17%	311,904 17.83%	143,032 8.18%	
Total	7,034,033	5,112,872	291,549	1,008,518	621,096	

Notes: TLC – Teaching and Learning Cost.

MGAC – Management & General Affairs Cost.

been different if another method was used for that part of data collection. One more limitation is the lack of discussion to examine what they do, how they do it, and what impact their efforts have on the education of students through data analysis. Despite these limitations, the results of this study provided insight into the concerns of financial issues including incomes and expenses.

Finally, there is a limitation of the study related to data collection and analysis. When analyzed, some of the data produced inconclusive results, e.g., the background differences between the public and the private. Also, this finding did not provide an understanding of whether or not each individual institute has more efficiency or effectiveness. Findings with inconclusive evidence suggest that asking different or additional questions may have resulted in more conclusive results. If an alternate investigation would have returned different results, there may have been concerns of distinct budget items that were not revealed in this study.

5.2. Funding vs. Fundraising

Government funding in Taiwan has become more unpredictable and competitive. Fundraising issues and strategies play an important role within the individual institute's governance. In other words, an institute's ability in fundraising is the key factor for the institutes to trace their success in excellence. As Teng (2002) shows, fundraising after all is like a slow trickling stream. So long as a school can earn the respect and admiration of students, alumni and society, then one hundred streams will a great ocean make. Summarizing the experience of fundraising so far, besides the need for creativity in fundraising strategies, it is necessary to strengthen the consciousness regarding the importance of fundraising at universities. Leaders of Taiwan's higher education institutes still have not realized that they will have no choice but to raise funds for the future. For example, many schools have no one specifically responsible for fundraising and are passive about it; they lack any shop window, so that even people who want to donate money do not know where to send it.

Challenges exist in the era of fundraising and since the Ministry of Education's resources have diminished and been diluted, as Chen (2003) shows, many people say that one of the tasks of current university presidents is to raise outside funds. In term of the fundraising, which includes six main items as RMS shows, Taiwan schools will have to recognize that there is a change in the role played by the president. Lin (2002) noted that one of the main functions of university presidents in the US is fundraising, whereas in Taiwan in the past, people looked mainly at the personal character or academic ability of university presidents. Also, the main reason is that citizens in Taiwan are still not very familiar or comfortable with the idea of donating money to schools. Thus, while fundraising is a specialized field in itself, universities

should show better results simply by putting more efforts into getting the word out. However, it has been more than ten years that institutes have been trying to self-fund or to raise money from donations. Consequently, briefly speaking, the revolutionary task of institute fundraising has not yet been a success.

As showed previously, higher education in Taiwan has been facing the challenges of globalized competitiveness and commercialization. Even though suffering from the two-peak curve influence, they have to be very “self-sufficient” in their funding system if they would like to compete as one of the top-tier institutes in the higher education area.

The public institutes have to put in more efforts with regards to the ability of fundraising. This also means that the ability in terms of the institute’s fundraising has been the longstanding challenge for institute leaders and it could be one of the most demanding skills school leaders need to know in the future. In other words, financial management with a strong ability in self-funding is the main imperative solution to keep up with not only marketing commercialization but also international competitiveness.

5.3. Standard vs. Accountability

Both autonomy and accountability of institutes have also been emphasized by the leaders and staff within the institutes, in particular the public institutes. Meanwhile, the issue of institute autonomy has always been to demand their accountability on financial management and institutional development. From the results of this study, government funding is only a part of the institute’s incomes and its growth is always smooth but unexpected. It is important in the future that standards of accountability should be set by individual institutes. In an era where government funding is decreasing, demands for accountability in higher education are increasing (Alexander, 2000; Cohen, 1998; Wellman, 2001). Complying with standards of financial practice is one way of meeting calls for accountability. Given the increased calls for accountability, it is clear that standards of financial practice are needed for the government and taxpayers. Strictly speaking, the results of this study have not been impressive. However, they provide data about the characteristics of financial items either funding or fundraising that can be used as a basis for developing standards of financial practice for those who are concerned with higher education development.

6. Conclusion

In conclusion, there are some points this study emphasizes for the current development of Taiwan’s higher education. First of all, the institutes’ limitation between the public and the private is argued. The public HEIs are always

more funded by the Taiwan government than the private in the past decades. However, fairness in resource allocation is getting a critical concern amongst stakeholders. For example, how can they compete based on the fair basement of funding? Can each sector calculate the different costs per student in terms of providing the policymakers more accurate data for the tuition and fees policy? Is it possible that the funding mechanism has become more transparent and creditable than before? How does the funding formula reflect social justice and take into account the interests of the non-profit organizations?

Also, the ability in fundraising outcomes was a concern in the previous sections of our discussion. However, the strategies of university governance are always less focused on, hence that regards the funding income is limited from the numerous results. How do we motivate the chief executive officers, normally known as university presidents, to fundraise more resource in terms of accountability? Is it necessary to install the self-financial management system and enforce it among the staff following the internal auditing system? At least it includes budgeting system, internal control system and auditable accountability system with the coming stage of less government control. Then, those chief executive officers may be willing to hunt for more resources for higher education institutes.

Furthermore, it is a complication of institute governance in facing globalized competitiveness and commercialization. University autonomy is followed by the accountability of governance. However, what expertise or ability do the higher education leaders need in terms of financial management? How can we make sure that resource distribution and allocation are based on more appropriate mechanisms? The author raises these issues in order to remind the policymakers and taxpayers to look ahead as regards entrepreneurship for higher education officers.

Abbreviations

- 5Y50B: 5 Years 50 Billion Program
 ASEAN: Association of Southeast Asian Nations
 DoA: Department of Accounting
 ECFA: Economic Cooperation Framework Agenda
 EE: Extension Education
 ERSF: Enforcement Rules of School Funds for National Universities/
 Colleges
 ETL: Excellence in Teaching & Learning
 FO: Financial Operation
 FPM: Facility & Place Management
 HEIs: Higher Education Institutes
 JPBAI: Joint Projects between Academia and Industry

KTP:	Knowledge Transfer Program
MGAC:	Management & General Administration Cost
MOE:	Ministry of Education
NCKU:	National Cheng Kung University
NCTU:	National Chiao Tung University
NTU:	National Taiwan University
NTHU:	National Tsing Hua University
NTUST:	National Taiwan University of Science and Technology
R&D:	Research and Development
RGUE:	Regulations Governing University Evaluation
RMS:	Regulations regarding the Management and Supervision of School Funds at National Universities/Colleges
SC:	Student Cost
T&F:	Tuition & Fees
TLC:	Teaching & Learning Cost
UoCs:	Universities or Colleges
UToITs:	Universities of Technology or Institutes of Technology
WTO:	World Trade Organization

Note

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Crossing the Boundaries of East and West: Texts and Their Interpretation through Bourdieu's Theory and Social Philosophy⁺

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Abstract

Explanations of difference across East and West are often over-simplified, invoking unquestioned assumptions about traditional culture and about current global geo-politics. This paper seeks alternative explanations, based upon text analysis and upon the social theory of Pierre Bourdieu. Two texts, arising out the United Nations Copenhagen climate summit (7th-18th December 2009), are chosen representing two sides of an argument about summit outcomes. These texts are analyzed using a three-dimensional model, firstly at the level of text and secondly at the level of discursive practice, through extended meanings from the text itself and then through meanings from the literature on East-West analysis. Thirdly, it is analyzed at the level of social practice, through the theory and social philosophy of Pierre Bourdieu. This identifies "East" and "West" having distinct field-habitus arrangements, but explains how differences may be viewed as "misrecognitions" and how a common logic applies across both.

Keywords: *Pierre Bourdieu, text analysis, discourse analysis, East-West analysis, misrecognition, reflexivity*

JEL classification: *F51, N40, Z10, Z13*

1. Introduction

This paper focuses on a two news articles, from the United Kingdom and from the People's Republic of China, that emerged after the 2009 United Nations Copenhagen climate change summit (7th-18th December). Each describes the summit process and within each is a common description of events. Each differs quite markedly, however, in the interpretation of outcomes and underlying motives. The differences can be simply explained in terms of

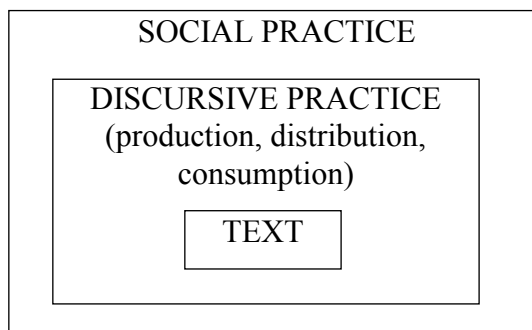
a global politics or in terms of differing East-West “cultures”. This paper chooses, however, to look more deeply for an explanation that incorporates these simple explanations, but also integrates and generalizes. In other words, it looks at differences, but in addition it universalizes through common logics and common origins, defying Kipling’s aphorism that “East is East, and West is West”.

It will do this by following Fairclough’s (1992) three-dimensional discourse analysis model leading to Pierre Bourdieu’s theory and social philosophy. In Fairclough’s model, text is at the core, consisting of language form (the signifier) and language meaning (the signified); surrounding that is discursive practice, that consists of text production and consumption; finally, around that is social practice, which is described in this paper through Bourdieu’s work (Figure 1).

Section 2 restricts itself to the text and to the immediate context, a major international conference that occupied global news headlines for many days. It assumes deep emotion as part of that context and therefore analyses the emotive words within those texts. Section 3 and 4 are about discursive practices, “reading in” elements of meaning that may not be directly obvious from the text. They go “beyond the information given” (Bruner, 1973), using prior knowledge and hypothesizing through context. Section 3 does this through the text itself; Section 4 does this by borrowing from existing literature of East-West analysis.

Section 5 describes social practice from the viewpoint of the theories and social philosophy of Pierre Bourdieu. It introduces terminology applicable across the full range of social practice, irrespective of origin from East or West; it reinforces reasons for particular interpretations of text from previous sections; it reveals common roots to divisions between East and West and the “misrecognitions” that apply. The core model is illustrated in Figure 3 and the overall structure of this paper is shown in Table 1.

Figure 1 Three-Dimensional Conception of Discourse (Fairclough, 1992)



Whilst grounded within the context of the Copenhagen summit, this paper avoids commentary about the geo-politics that surrounds climate issues in general and the summit in particular. It seeks distance from this highly controversial area, except in terms of the blunt commentary that has arisen from it. Each news article played a core role, from respective positions, each generating substantial “spin-off” media coverage. This degree of provocation (as opposed to the specifics of the Copenhagen summit) makes the choice of these two articles appropriate, generating evidence of underlying dispositions, visions and approaches that suggest realities are deep, individualized and close to home, rather than simplistic, general and globalized. The significance and relevance of that evidence, as opposed to specifics of climate issues and the summit, is discussed in terms of choices to academics, diplomats and journalists.

2. Text: Two News Articles

The United Nations Copenhagen (Denmark) summit took place between 7th and 18th December 2009. It followed the Bali (Indonesia) summit of 2007 that declared that the earth’s temperature is rising due to an increase in carbon dioxide in the atmosphere generated by human activity. Ultimately this would lead to melting of the polar ice caps, a rise in sea levels and physical disaster especially for low-lying nations. The work of the Copenhagen summit was in action planning, based upon a “roadmap” drawn up at the Bali summit. There was much media coverage and the two news articles chosen as the subject of this paper were published immediately afterwards (22nd December and 25th December respectively) as part of that.

The first article (Lynas, 2009a) was written by a British environmentalist reporting for the UK Guardian newspaper, who was also acting as advisor to the Republic of the Maldives. It expressed the view that People’s Republic of China continually and intentionally blocked agreements amongst nation states at the conference. It concurred with comments made by the UK climate minister who attended the conference (Milliband, 2009) and it attracted much attention within its readership, its online version drawing 928 reader comments (31st December 2009). The article and its author are referred to as the “protagonist” below.

The second article was written by reporters who accompanied Premier Wen Jiabao 温家宝 of the People’s Republic of China whilst leading the Chinese delegation at the Copenhagen summit (Zhao, Tian and Wei, 2009). It is largely a diary account of the Premier during the final three days at the summit, describing difficulties and achievements during that time. It was published after the first article and since it covers much of the same ground with an alternative point of view, it is possible that it was written as a response

to that article. However, it makes only general reference to specific criticisms and in rebuttal, it makes no specific reference to any article, allegation or critic. It is referred to as the “alternative view” in this paper.

Variants of each article were published (for example, Lynas, 2009b; Mu, 2009) and there was much peripheral news reporting, in particular as a result of the protagonist article (for example, Revkin, 2009). None disputed details; some take up a mediating position (Fallows, 2009a, 2009b). They confirmed the importance of the protagonist article and added weight to the supposition that the alternative view was a response.

Quotes from each news article contain words that are highlighted by this author in the examples below. They illustrate words that are *forceful*, *abrasive* and *pessimistic* within the protagonist article, and words which are *defusing*, *consensual* and *optimistic* within the alternative view article. Using an online concordance engine (http://www.lex tutor.ca/concordancers/text_concord/), “top 20” lists of words were drawn up, based upon perceived strength of meaning (Tables 2a and 2b).

2.1. The Protagonist Article (Lynas, 2009a)

The first paragraph of the protagonist article sets the tone:

“Copenhagen was a **disaster**. That much is agreed. But the truth about what actually happened is in **danger** of being lost amid the spin and inevitable mutual **recriminations**. The truth is this: China **wrecked** the talks, intentionally **humiliated** Barack Obama, and insisted on an **awful** ‘deal’ so western leaders would walk away carrying the **blame**. How do I know this? Because I was in the room and saw it happen.” (paragraph 1)

The article continues up to paragraph 8 with equally assertive comments, indicating an author who is heavily immersed in and with a track record in the issue of climate change (Lynas, 2007). For example:

“What I saw was profoundly **shocking**. The Chinese premier, Wen Jiabao, did not deign to attend the meetings personally, instead sending a second-tier official in the country’s foreign ministry to sit opposite Obama himself. The diplomatic **snub** was obvious and **brutal**, as was the practical implication: several times during the session, the world’s most powerful heads of state were forced to wait around as the Chinese delegate went off to make telephone calls to his ‘superiors.’” (paragraph 6)

The highlighted words are *forceful*, *abrasive* and *pessimistic*; they are present in most of the article and set the overall tone. The “top 20” of those words in terms of strength of meaning are given in Table 1 (a); none of these words appeared in the alternative view article.

Table 1 (a) Text Analysis: Top 20 Words for the Protagonist News Article

The Protagonist	Count
Words that were <i>forceful, abrasive and pessimistic</i>	Count
AGHAST	1
ANNOYED	1
ARGUE	1
AWFUL	1
BATTLE/BAITLES	2
BLAME/BLAMING	6
BRUTAL	1
BULLIED	1
CRASHED	1
DESPAIR/DESPERATE/DESPERATELY	3
DESPONDENT	1
DISASTER	1
FUMED	1
FURIOUS	1
HINDRANCE	1
HUMILIATED	1
SAVAGE	1
SNUB	1
SUICIDE	2
WRECKED	1

Table 1 (b) Text Analysis: Top 20 Words for the Alternative View News Article

The Alternative View	Count
Words that were <i>defusing, consensual and optimistic</i>	Count
ACCORD	1
ACHIEVE/ACHIEVEMENT/ACHIEVEMENTS/ACHIEVING	8
AFFIRM	1
AGREED/AGREEMENT	8
ASPIRATION	1
COMMITMENT/COMMITMENTS/COMMITTED	6
COMPROMISE	1
CONCERNED/CONCERNS	2
CONFIDENT	1
CONFIRMED	1
CONSENSUS	7
CONSTRUCTIVE	1
CONTRIBUTIONS	1
COOPERATE/COOPERATION	8
ENDEAVOUR/ENDEAVOURS	2
FRUIT	1
HOPE	5
PROGRESS	2
SAFEGUARD/SAFEGUARDS	2
TRANSPARENCY/TRANSPARENT	5

The tone shifts only on paragraph 9 where the question is asked: “So how did China manage to pull off this coup?”. In a similar vein, paragraph 12 starts: “All this raises the question: what is China’s game?”. Paragraphs 9 to 12 may be summarized as rationalising the behaviour and the motives behind China’s negotiation tactic. Paragraph 12 continues:

“Why did China, in the words of a UK-based analyst who also spent hours in heads of state meetings, ‘not only reject targets for itself, but also refuse to allow any other country to take on binding targets?’ The analyst, who has attended climate conferences for more than 15 years, concludes that China wants to weaken the climate regulation regime now ‘in order to avoid the risk that it might be called on to be more ambitious in a few years’ time’.”

Only on reaching paragraph 13 is there a conciliatory note, where it declares: “This does not mean China is not serious about global warming. It is strong in both wind and solar industries”. Rationalizations continue after that and after 1304 words, and 14 paragraphs, the article finishes with the sentence:

“After all the hope and all the hype, the mobilisation of thousands, a wave of optimism crashed against the rock of global power politics, fell back, and drained away.”

2.2. *The Alternative View Article (Zhao, Tian and Wei, 2009)*

The alternative view article is prefaced by an editor’s note:

“Xinhua correspondents Zhao Cheng and Tian Fan, who accompanied and covered Premier Wen Jiabao’s tour to the Copenhagen climate talks last week, recall in this following special report what they witnessed at the summit in the Danish capital. With close-in observations of Premier Wen’s tight schedule and meetings with world leaders, their account is expected to shed light on some queries concerning the conference.

- What did Premier Wen tell world leaders?
- Why was Premier Wen missing from a mysterious small group meeting called by the United States?
- How was Copenhagen Accord finally reached after long, tough negotiations?”

The “mysterious small group meeting” was clearly felt to be important; it may have had some connection to the strong words used by the protagonist on paragraph 6 of his article (see above) about that meeting. Oblique references to specific points such as this was part of the style of the article.

The alternative view comes in 2068 words broken down into 69 short paragraphs of one or only a few sentences. Thirty-three paragraphs were simple, uncontroversial statements. For example:

“Premier Wen’s schedule on Dec. 17 was almost fully occupied by meetings with world leaders.” (paragraph 4)

Most remaining paragraphs report the speech of Premier Wen Jiabao, either directly (8 paragraphs) or indirectly (16 paragraphs). An example of the former is:

“It will be a tough task. Now I can feel how heavy my **duty** is to attend the meeting on behalf of the Chinese government,’ Wen told reporters aboard his plane en route to Copenhagen.” (paragraph 2)

Of the latter, examples are:

“He (Wen) told the UN chief (Ban Ki-Moon) it was important to fix on the political **aspiration** to deliver **confidence** and **hope** to the world.

“The drafting of the final document must be **transparent** while **concerns** of different parties, especially developing countries, must be taken into consideration, Wen stressed.”

Occasionally, Wen is being told something by others (2 paragraphs) or is agreeing something (2). Only four times is someone else quoted. On five occasions, an inference is made, without direct evidence, for example:

“The three industrialized countries, though ambitious in leading international **cooperation** on climate change issues, lacked understanding of developing countries and had therefore raised some unrealistic and unfair requests.”

Highlights represent words that are *defusing*, *consensual* and *optimistic*. As with highlighted words from the protagonist article, a “top 20” list of words was drawn up (Table 2b). In only one instance did a word (“hope”) from the list appear in the protagonist article, where it was used with a negative context (i.e. the absence, rather than the presence of hope – paragraph 14).

3. Discursive Practice: Extension of Meanings

Section 1 of this paper is about the text. This section (Section 3) and the next section (Section 4) are about discursive practice which, according to Fairclough (1992) “involves processes of text production, distribution, and consumption” and whose nature “varies between different types of discourse according to social factors.” For example, a newspaper article is produced through “complex routines of a collective nature” that may vary considerably across different newspapers and across different topic areas covered. Similarly, text may also be consumed (or interpreted) in different ways, across different contexts.

This section looks at discourse relating to those two vocabulary sets (forceful, abrasive and pessimistic; defusing, consensual and optimistic)

and the next section looks at it from an East-West perspective. This section analyzes according to two hypotheses:

- Words that are *forceful*, *abrasive* and *pessimistic* signify (i) a disposition that is **immersed**, (ii) a vision that is **deliberate** and (iii) an approach that is **confrontational**.
- Words that are *defusing*, *consensual* and *optimistic* signify (i) a disposition that is **distanced**, (ii) a vision that is **emergent** and (iii) an approach that is **conciliatory**.

These hypotheses are illustrated diagrammatically in Table 2. Each of these terms is discussed and analyzed below.

3.1. Immersed and Distanced (Disposition)

Behind the text of the two news articles lies the drama of the Copenhagen summit. The copious commentary generated and the general global media coverage gives testament to this. The different vocabularies of each article, testify to two different interpretations of the nature of that drama. Within the forceful, abrasive, pessimistic vocabulary used by the protagonist, there is a disposition that is **immersed** within that drama (hypothesis 1). Within the consensual, defusing, optimistic vocabulary of the alternative view, there is a recognition of that drama, but also a disposition that is **distanced** from it (hypothesis 2). Through these dispositions, we may assume particular consumptions of the text have been intended (Fairclough, 1992).

There are particular background details to the two news articles which inform about those consumptions; these will be discussed below. First, we

Table 2 Four Levels of Discourse Analysis (Structure of the Paper)

DISCOURSE\TEXT	Protagonist	Alternative View
Text: two news articles (section 1)	Forceful, abrasive, pessimistic (1.1)	Defusing, consensual, optimistic (1.2)
Discursive Practice: extension of meanings (2)	Immersed (2.1) Deliberate (2.2) Confrontational (2.3)	Distanced (2.1) Emergent (2.2) Conciliatory (2.3)
Discursive Practice: east and west (3)	Disposition (immersion/distanced) (3.1) Vision (deliberate/emergent) (3.2) Approach (confrontational/conciliatory) (3.3)	
Social Practice: Pierre Bourdieu (4)	Habitus and Field (4.1) Conatus and Hysteresis (4.2) Misrecognition and Language (4.3) Reflexivity and Universality (4.4)	

analyze in terms of a related text, with a view to discovering the range of possible meanings (both intended and consumed), that might be “read in”, presuming similar logics apply.

That other text is an article by Michael Keith: “Public sociology? Between heroic immersion and critical distance: Personal reflections on academic engagement with political life” (2008). In it, the author offers an autobiographical account of how he became involved in politics in the East End of London, incorporating a view of the context he entered into. He describes getting involved in a street riot, which delayed him going to an important local government re-development meeting and his move:

“... from the street to the lofty height ... – a change of position, of dress code, of postcode, of view, of company, of subject matter. In one step from immersion in the flux of street politics to the self-indulgent bureaucratic deliberations of critical distance.”

The terms “heroic immersion” and “critical distance” express this personally-felt experience, of respectively being on the street, and then being in a skyscraper office, deliberating about that street. His story sets up these terms, but because they are part of a drama, meanings extend beyond the immediate experience, acquiring underlying axioms that generate further meaning. Hence, for example, he is able to make the suggestion that we might “... wish to reconsider the sorts of polarities that such axiomatic positionings offers ... to privilege neither but to see the problems of both”. Invoking a notion of balance, he critiques the view of survey bureaucracies as “unfit to probe and scrutinize the life of marginalized populations” and that aspiring to “carnal sociology” is “not quite so at odds with a simultaneous engagement with the bureaucratic rationalities ...”.

Hypotheses about immersion and distancing in the two news articles both constitute and generate similar extensions to meaning. They posit a drama; they raise questions about details, previously irrelevant; they enable a reasoning that goes beyond the information given. Hence, the previous work of the protagonist (referred to above as the background details) starts to become of interest. He has, for example, written a scientific text about the levels of disaster that are immanent, for each degree rise in global temperature up to six degrees Celsius (Lynas, 2007). He also wrote a series of articles for the Independent newspaper (Lynas, 2009c) leading up to that final day of the Summit. He has a high reputation as a committed and dedicated lobbyist (personal communication). This background starts to inform a particular consumption of not just his article, but the article of the alternative view as well.

The alternative view is extensible in a similar way. The protagonist himself introduces some of those extensions, not least by asserting that

“China wrecked the talks” (paragraph 1), such that the alternative view article automatically becomes a defense, using defusing, consensual, optimistic language. However, the alternative view article obviously goes further than those allegations, introducing its own extensions based around the intentions and achievements of the Premier and his country, not least with respect to the “soft rise” that is part of the diplomatic positioning of China as a rising power (Berkovsky, 2007; Bowring, 2007; Nye, 2005). As part of discursive practice, such extensions build upon existing knowledge, in particular about reputations and stereotypes. If the reader lacks knowledge of these at the initial reading, they become topics of interest and prompt questioning and investigation (at least amongst those who choose not to rely upon stereotype).

Centred around the hypotheses, through inferred dramas, there are the extended readings of discursive practice, drawing in information from beyond the text. There are questions about the choice of hypotheses and alternative hypotheses are possible. Following a scientific process (Kuhn, 1996; Popper, 2002), we provisionally persist with hypotheses, until better ones are found.

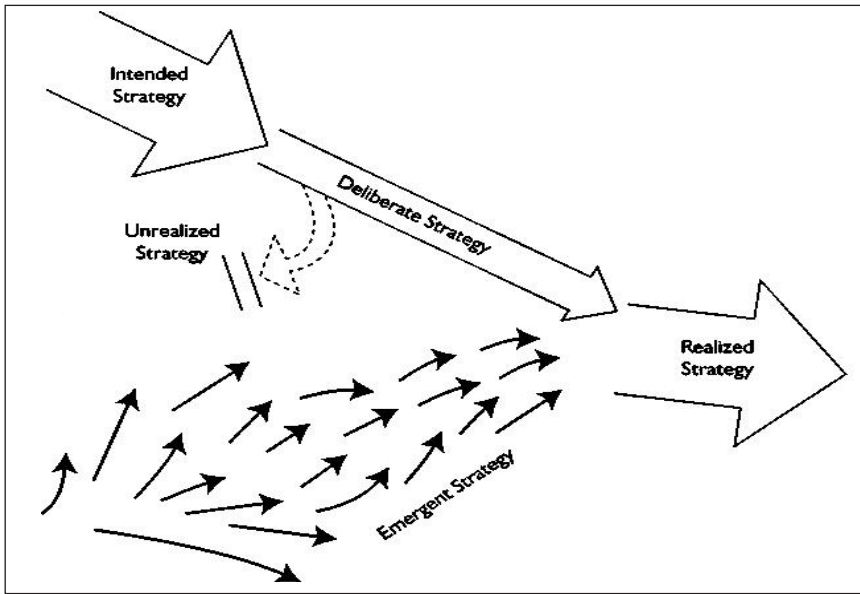
3.2. Deliberate and Emergent (Vision)

In addition to the drama latent within a text, we can also posit logics that key players within the text (not just authors) may use. Amongst the products of those logics are the visions that these key players adopt, which might be explicit but could equally be latent. Within the forceful, abrasive, pessimistic vocabulary used by the protagonist, we may posit a deliberate vision, largely explicit, of a legally binding agreement between nations. Within the consensual, defusing, optimistic vocabulary of the alternative view, we may posit an emergent vision, less explicit, based on a consensus as the primary concern and a binding agreement as secondary.

The differences between deliberate and emergent visions are illustrated by Mintzberg (1998, 2000) who writes about business strategy and his accumulated experience in the area, in terms of “deliberate strategy” and “emergent strategy” (Figure 2). He declares that:

... intentions that are fully realized can be called deliberate strategies. Those that are not realized at all can be called unrealized strategies. The planning school, for example, recognizes both, with an obvious preference for the former. But there is a third case, which we call emergent strategy – where a pattern realized was not expressly intended. Actions were taken, one by one, which converged over time to some sort of consistency or pattern. For example, rather than pursuing a strategy (read plan) of diversification, a company simply makes diversification decisions one at a time, in effect testing the market. First it buys an urban hotel, next a restaurant, then a resort hotel, then another urban hotel with a restaurant, then a third of these,

Figure 2 Mintzberg’s Deliberative and Emergent Strategies



and so on, until a strategy (pattern) of diversifying into urban hotels with restaurants has emerged.

(Mintzberg, 1998; 11)

By setting up such a logic, Mintzberg not only describes a range of strategies, he also establishes axioms that enable inference. Hence, he is able to comment about the realities of these strategies:

A few may claim that their intentions were realised perfectly. Suspect their honesty. A few others may claim that their realisation had nothing to do with their intentions. Suspect their behaviour. Most, we propose, will give an answer that falls between these two extremes.

(Mintzberg, 2000)

Hypotheses about deliberate and emergent vision in the two news articles lead to similar inferences. Following Mintzberg’s example, these may not be so much about the explicit logic exhibited by the protagonist and alternative views. Rather, they may be based upon a meta-logic, questioning whether the provisional hypotheses, of deliberate and emergent vision, are indeed valid. A new level of analysis is introduced, adopting a game theory (Simon, 1945) that seeks to discover what the “other” is thinking. Such a theory may be simple or sophisticated, accurate or misleading. A text consumption takes place involving both explicit and implicit logics, for example concerning

stereotypes about East and West. A new arena for struggle is introduced; questions about validity, previously unimportant, arise; broad policy, previously irrelevant, becomes significant; histories, previously of passing interest, become of great concern.

At this stage, there can no declaration of deliberate and emergent visions being anything more than hypotheses, replaceable if better ones can be found. They exist on the basis of assumed meta-logics and they await supporting evidence from other literature (for example, in Section 4) and statements of theory (Section 5).

3.3. Confrontation and Conciliation (Approach)

The confrontational approach of the protagonist article is evident, from the title of the piece onwards. The continued use of forceful, abrasive, pessimistic vocabulary throughout the article reinforces that. The editor's note in the alternative view article indicates a desire to take up the challenge of that confrontation, using a conciliatory approach, using defusing, consensual and optimistic vocabulary.

Tannen (1995) considers such approaches using accumulated experience, writing an observational, anecdotal account of conversational patterns within "typical" office working environments. She describes how those habituated to such environments can easily take for granted these conversational styles: "The reason ways of talking, like other ways of conducting our lives, come to seem natural is that the behaviours that make up our lives are ritualized". Her approach through a gender point of view enables phenomena like this (ritualized and habituated), otherwise invisible, to be brought into view.

For example, she describes how a woman in an engineering company had to be "willing to take her colleagues on in an animated argument, before being taken seriously". Through a gender perspective, the phenomenon is made manifest and so, also, is the reason for the phenomenon. "The logic behind ritual opposition", Tannen claims, "is that knowing that your ideas will be scrutinized by others should encourage you to think more rigorously in advance". Through a gender perspective, she identifies issues and extends her reading of events. Through consumptions of text across a social divide, she identifies a "logic of ritual opposition", universalizing a situation that was previously the domain of men only.

Within the confrontational and conciliatory approaches hypothesized in this paper, there is a perspective of East and West, which corresponds logically to the male-female gender perspective above. Within that perspective, there is a confrontational West and conciliatory East, but just as with the gender example above there may be a rationalization and an identification of a universal point of view. Based upon that the reasons for confrontation

and conciliation may be better understood in exactly the same way as the “logic of ritual opposition” is better understood. This is discussed further in Section 4.3.

As with disposition and vision, statements about approach remain hypotheses, open to falsification. The approaches might seem so exposed and blatant that these statements might be considered declarative and not hypothesis. Following the guidance of Bourdieu, the status of hypothesis should be maintained, resisting temptation towards commonsense certainty that Bourdieu calls “misrecognition” (Section 5).

3.4. Disposition, Vision and Approach

Section 3 has analyzed the discursive practice surrounding the text of the two news articles, through two hypotheses arising from the text. There is no special status to those hypotheses at present; like other hypotheses they can be replaced and it is worth a brief aside, at this stage, to comment upon the nature of that replacement.

They can be replaced, first of all, through challenge to the commonsense understandings adopted, in this case based upon the categories of disposition, vision and approach. Hypotheses may be contested, for example, in the kinds of terms used by the protagonist, who claims value in the statement “I was in the room” in the title of his article, claiming presence as a feature that justifies and validates. This type of challenge is provisionally rejected because a scientific approach, along the lines of Kuhn (1996) and Popper (2002) might be used, in which the terms and frameworks of a theory are laid out and hypotheses are both generated and tested within them. Within Bourdieu’s theory and social philosophy there is the concept of field-habitus and the concept of capital exchange – symbolic and financial – within and between those field habitus arrangements (Figure 3; Section 5). These terms and their frameworks offer alternatives to commonsense approaches and these need to be considered in generating and testing the hypotheses and any proposed alternatives.

4. Discursive Practice: East and West

Like Section 3, this section analyzes discursive practice, but seeks to extend meanings through perspectives from literature on the East-West divide. It does this not to maintain that divide, but question it and, as necessary, to break it down. The work of Arthur Henderson-Smith (1894) offers a useful starting point in this respect, whose book “Chinese Characteristics” consists of chapters each describing, anecdotally, a “characteristic” of the Chinese: for example, “face”, “economy”, “industry”, “politeness”. The book was written

from a perspective of race as an acceptable distinguishing feature. Such a perspective enabled a taxonomic approach, with an assumed, direct correlation between the race and characteristic.

Subsequent authors retain the ontological distinction of “East” and “West” but have adopted a more considered approach, with greater elaboration assigned to those characteristics. There is move away from an empirical, anecdotal approach towards a search for underlying structure with greater explanatory power. Although China and the Chinese remain the principal topics, the coupling between the characteristic and the group/nationality is loosened. The terminology starts to achieve independence from its direct context, but without denying the historical sources and significance of those original distinctions.

Disposition, vision and approach remain at the core of this section. Through these categories, the importance of the text of the two news articles is maintained and enhanced through the discussion that an elaborated East-West perspective brings. They lead towards a discussion of social practice, based upon Bourdieu’s philosophy and social theory (Section 5), that explains the differences and identify the commonalities across the East-West divide.

4.1. Disposition

Fei Xiaotong 费孝通 wrote the series of essays “From the Soil” (1992) shortly before the Communist party took power in 1949. It was written as a contribution towards an anticipated programme of national renewal and reconstruction, offering a template and a baseline. It described the condition of Chinese people in relation to the West, with an underlying theme of “modernization”.

He coined the term *chaxugeju* 差序格局 which translates to “differential mode of association” which his translator describes as “the patterning of Chinese society through nonequivalent, ranked categories of social relationship”. This is likened to multiple ripples in a pond so that “society is composed not of discrete organisations but of overlapping networks of people linked together through differentially categorised social relationships” (Fei, 1992). There are four principle features:

- These networks are discontinuous – they do not link people together in a systematic way;
- Each link in a person’s network is defined by a personal, normative, dyadic tie, known as *guanxi* 关系;
- There is no explicit boundary to each network – individuals do not “sign up”, ties are preset and there is an expectation to rise to the morality expected within those ties;

- The moral content of behaviour is situation specific – evaluation is embedded within the world of those ties, which in turn dialectically determines the value of those ties.

This mode of association contrasts with *tuantigeju* 团体格局 which translates to “organizational mode of association” in which:

- People create groups that have clear boundaries;
- Membership is unambiguous; everyone knows who is and who is not a member;
- Rights and duties of members are clearly delineated.

The terminology is rooted in a study of Chinese society but the definitions are sufficiently clear and elaborated to be applicable across other groups and societies that are not Chinese. There is progress with a methodology that moves away from a taxonomic description of assumed national and racial characteristics.

Such roots should not, however, be ignored and no terminology should be consider in isolation. Each of Henderson Smith’s categories could, for example, be elaborated and placed within such a broader structure. Similarly, observations about immersion and distance (above) could be interpreted in terms of modes of association. For example, with differential modes of association, with individuals and groups loosely coupled, the primary concern must be with “rules of engagement” and only after they are established, can meaningful conversation takes place. Hence, the alternative view news article might be rooted within this mode of association.

Within organizational modes of association, there is a group with a focused goal and objective. The rules of engagement may be presumed established, so that meaningful conversation can be assumed (even if in reality it is not) at the outset. There might be distance in terms of the dyad (e.g. within one-to-one conversations) but overall there is deep, immersed engagement backed up, often, by prepared arguments and evidence, and coordinated action from an identifiable lobby group. This mode of association might underpin the protagonist news article.

Within both modes, we might see field-habitus arrangements as described by Bourdieu (Figure 3; Section 5) historically determined according to social, political and economic conditions both between and within “East” and “West”. The dynamics within each arrangement may be subjected to analysis according to Bourdieu’s theory (Section 5).

4.2. Vision

There are two set of literature that relate to vision. They confront the commonly held view that vision has to be deliberate with a “long” projection, in

order to be successful. They describe how a vision that is emergent with a “short” projection can be equally successful.

4.2.1. Recent economic development in China

Zhou (1996) offers an account of the economic history of the People’s Republic of China over the last 30 years. It begins with the “feudalization” of Chinese farmers, bound to the land under a collectivized production system controlled by the Communist state ruled by Mao Zedong 毛泽东. It then describes how this system of economic production, of tightly controlled markets, was gradually broken down by enterprising individuals and family units who following a series of initiatives, sold surplus produce outside of the state system. Local administrators were initially opposed, but after hunger and famine in 1958 and after the Cultural Revolution, their adherence to national policy weakened, not least because produce became plentiful and cheap through family unit production. Eventually, the state controlled market was abandoned and what was previously the black market became the standard, conventional marketplace. Zhou states:

What is important is not the farmers’ cohesion but the millions acting largely as individuals. Since farmers could not organise as a tangible opposition group under the Communist regime, farmer’ actions were unorganised and unled. In seeking economic independence and family autonomy, the new farmers flow around the cadre fish, who wanted to keep the farmers trapped in the new feudal system. Those unorganised farmers moved China to new horizons.

(Zhou, 1996: 42)

She underpins her view using quotes from farmers themselves gathered during her field work in China between 1981 and 1986. For example:

When one family’s chicken catches the disease, the whole village catches it.
When one village has it, the whole country will be infected.

(*ibid.*: 56)

She coins the acronym SULNAM (spontaneous, unorganized, leaderless, non-ideological, apolitical movement) to describe the actions that these farmers took.

Zhu (2007) describes a similar process:

I posit that China’s reform could be characterised as one without a theory, rather than a deliberate approach, gradual or otherwise. China’s reform is not guided by any received theory, be it neoclassical market theory, the grand Marxist model, popular Washington consensus, or World Bank/IMF

development prescriptions. It is, instead, informed by an intensely pragmatic mindscape and facilitated by a set of historically situated structural factors.
(Zhu, 2007: 1054)

He goes beyond Zhou's anecdotal account, elaborating on an "intensely pragmatic mindscape" through a set of concepts: *wuli* 物理, *shili* 事理 and *renli* 人理. These reflect, respectively:

- the command economy legacy
- the mindscape
- utilitarianistic familism

Each is implicated in characteristics, such as:

- a "bias" against abstraction and codification (p.1508)
- a tendency toward "fief transactions" with uncoded information asymmetrically distributed through the personalized power relationships (p.1508)
- ambiguity as an important feature of the Chinese mindscape (p.1508)
- the maintenance of fuzziness, emptiness and chaos from which creativity can emerge (p.1508)
- acceptance of action without theory as a virtue, not incapability
- distrust of public institution and outsiders

Both Zhou and Zhu describe how Chinese farmers acted in response to an imposing, resistant, overbearing set of restrictions. They did this not through a far-sighted (long) projection, but rather through many short projections of limited scope, which each accumulated to achieve no less an effect. Reform took place, without a theory.

4.2.2. Science and civilization in China

As part of his comprehensive research into science and civilization in China, Joseph Needham gathered detail about how and why science in China had not developed in the same as in "West". Part of the difference, Needham pointed out, had been separation in China between the different modes of inquiry.

Science is cumulative in that every generation builds on the knowledge of Nature acquired by previous generation, but always it looks outward to Nature to see what can be added by empirical observation and new experiment. "Books and experiments", wrote Edward Bernard in 1671, "do well together, but separately they betray an imperfection, for the illiterate is anticipated unwillingly by the labours of the ancients, and the man of authors deceived by story instead of science".

(Needham, 1969: 281)

He goes on: “This theme of empiricism was extremely strong in Chinese tradition”, giving offering the quotes below to indicate that “books and experiments” were indeed separated in China:

“Those who can manage the dykes and rivers are the same in all ages; they did not learn their business from Yu the Great, they learnt it from the waters” (Shen Tzu, 3rd century AD)

“Those who are good at archery, learnt from the bow and not from Yi the archer ...Those who can think, learnt for themselves and not from the Sages.” (Kuan Yin Tzu, 8th century AD)

With respect to the use of hypothesis, he states that “Chinese achievements were invariably technical, rather than scientific” and “... the theories of the Chinese remained to the end of their autochthonous period characteristically medieval in type, for the Renaissance, with its mathematisation of hypotheses, did not happen among them.” (Needham, 1969: 62)

Through a methodology that was empirical, rather than theoretical, Chinese scientists and technicians achieved through an incremental approach, that parallels the recent approaches of Chinese farmers in achieving the kind of economic system that they felt best. In each case, the vision was short and narrow but the outcomes were nonetheless deep and sustained. There was achievement, without envisioning.

4.2.3. *Vision: deliberate and emergent*

Section 4.2 introduced the terms of deliberate vision and emergent vision. It illustrated these terms through Mintzberg’s notions of deliberate and emergent strategy. This section supports the use of these terms, suggesting that the bias towards emergent (accreted) vision has worked effectively in China during recent economic development and during past scientific and technological advance. Allowing for a field-habitus arrangement (Figure 3) that has over centuries successfully reproduced an “intensely pragmatic mindscape” (Zhou, 2007), an influence upon the handling of events like the Copenhagen summit becomes possible. Against the short-term pragmatic view of the alternative view, sits the long-term, projected view of the protagonist, each view consistent and coherent in terms of the respective field-habitus arrangements of the protagonist and alternative view, but conflicting across the wider “field of power”, constituted by the Copenhagen summit itself.

This perspective across an East-West divide may thus deliver an extended meaning to readings of the two news articles, if history and heritage become elements in the reading of the text. Through elaborated explanations, they may also facilitate a social analysis through a logic that matches a theory, for

example, that of Pierre Bourdieu (Section 5). Through that logic, the bindings to race and nation can be broken, types of vision can be universalized and misrecognitions manifested as stereotype may be avoided.

4.3. Approach

The 4th century neo-Confucian classic, the *Doctrine of the Mean* 中庸 compares the “moral man” and the “vulgar man” as respectively supporting and undermining the “moral order”. But at the same time, it quotes Confucius: “There is in the world now really no moral social order at all” (Lin, 1938). The apparent contradiction is unlocked through knowing the “mind of the moral man”:

For there is nothing so great but the mind of the moral man can conceive of something still greater which nothing in the world can hold. There is nothing so small but the mind of the moral man can conceive of something still smaller which nothing in the world can split.

(Lin, 1938: 108)

The “moral man” is therefore a future construct, an ideal; its absence in the present is the spur for its acquisition in the future. The dilemma of modern science and technology are foreseen within this Confucian insight, each major scientific synthesis or technological achievement generating problems in its wake (not least with respect to industrial expansion and the climate issue). In each case, there follows the need to “conceive of something still greater” and no major scientific or technological advance can neglect this. Unlike in the “West”, however, the Confucian insight does not call for an intervening theory (for example, climate theory), that in the “West” is conventionally agonized about and argued over; it is, simply, a doctrine.

Regardless, accepting the Confucian doctrine, the focus shifts to “the moral man” and how that term derives meaning without the support of the kind of argumentation that accompanies, for example, the establishment of scientific theory. The argumentation turns out to be a mixture of animism and appeal to traditional stories. For example:

Confucius remarked: “The power of spiritual forces in the Universe – how active it is everywhere! Invisible to eyes, and impalpable to the senses, it is inherent in all things, and nothing can escape its operation”.

(*ibid.*: 108)

Confucius remarked: “There was the Emperor Shun. He was perhaps what may be considered a truly great intellect. Shun had a natural curiosity of mind and he loved to inquire into ordinary conversation. He ignore the bad (words?) and broadcast the good. Taking two extreme counsels, he took the

mean between them and applied them in dealings with his people. This was the characteristic of Shun's great intellect."

(*ibid.*: 112)

The bias of choice, between confrontational and conciliatory approaches, may be conditioned historically by patterns of success and failure. Where hypothetical-deductive analysis is an available technique, confrontational approaches may be used frequently, because the ensuing argument is a key component in arriving at a solution. The protagonist bias towards such an approach might not be a surprise. In those societies and groups having traditionally relied upon emergent, accreted strategy, conciliatory approaches may be used more, because the paramount need for harmony and order are challenged by confrontation. Bias to this approach might be expected in the alternative view.

Such biases could be modeled within field-habitus arrangements in the theory of Bourdieu (Figure 3; Section 5) if the range of that modeling included historical doctrinal factors. Judgements about carrying that out, taking account of misrecognition and stereotyping, are discussed in Section 5.

5. Social Practice: The Theory and Philosophy of Pierre Bourdieu

This paper adopted the three-dimensional text analysis model suggested by Fairclough (1992) and using the text from the two news articles as a focal point, it worked "outwards" towards an elaborated understanding. As part of this process, elements of theory (in this case Bourdieu's) have inevitably been introduced because perception cannot exist without hypothesis (Gregory, 1998). From this point onwards, the paper moves in the "opposite" direction, taking the theory and social philosophy of Pierre Bourdieu, moving "inwards" towards an interpretation of the text of the two news articles. From this point on, a philosophical shift is proposed.

It moves with particularity regard to the terminology that Bourdieu introduces as his "thinking tools" to escape "slippery language" (Grenfell, 2009). These are allied to the warning that he makes of scholars mistaking "the things of logic for the logic of things" (Bourdieu, 1990), in other words arriving at the site of research with a preconceived ontology that "slippery language" allows, that biases the types of logic applied. The terminology described below (see Table 1) are by no means comprehensive, but they cover the main points that arise out the two news articles. Grenfell (2008) offers more comprehensive list of terms and key concepts.

Through this terminology, analysis of social discourse takes place, but equally, if not more important, it also brings a meta-analysis. Not only are the two news article texts under scrutiny, so are the hypotheses that have been

raised within Sections 3 and 4 by this paper. These may be considered through the same reflexive practice (Section 5.4) so that the same, coherent argument runs through from text to theory, as it does from theory to text. This methodology pays particular attention to the East-West boundary, its stereotypes and misrecognitions that divide, and its commonalities that unite.

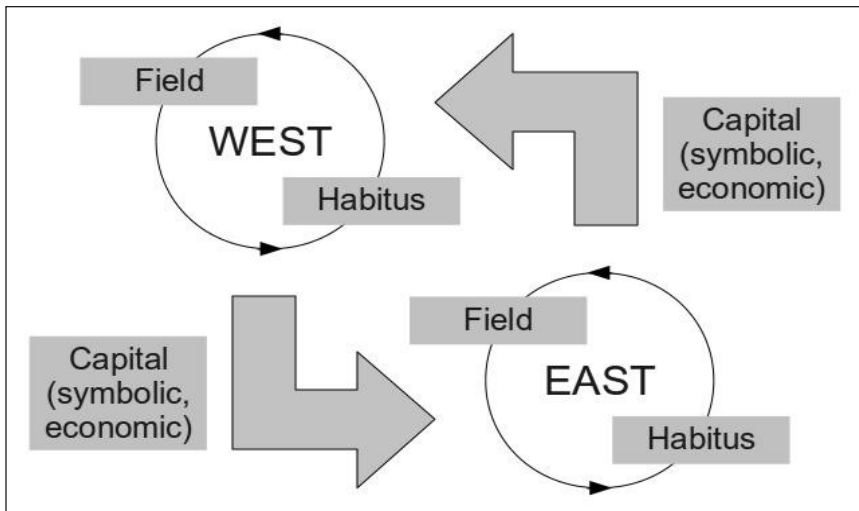
5.1. *Habitus and Field*

When Bourdieu studied the people in his native village in the south of France he noted there was regularity in the dispositions and physical actions of the people there. This was not just a behavioural “habit”. He noted that there were underlying structures to that behaviour, that was more than just rule-driven, that had social and historical elements to it. He therefore called these dispositions and behaviours, together with their historical and social roots, the “habitus” of his subjects. Within the context of the news articles that are the subject of this paper, those characteristics identified within protagonist and alternative views could be considered purely as habits. However, they could also be viewed in terms of social relationships and history, and deemed part of the habitus of those subjects.

This choice of terminology is particularly pertinent, because Bourdieu also introduced the notion of “field”, denoting the space surrounding the individual and his/her habitus, incorporating dimensions that are both social and historical. This might be understood purely as an imposition and a causal determinant upon the habitus. However, Bourdieu posited a close association between habitus and field, so that the two were “homologous” and “mutually constituting”. Thus each shares the same underlying logic and each is a component in the construction of the other. In terms of the protagonist view and the alternative view, this implies not just social relationships and histories, but an underlying structure to those relationships and histories as well. There is “ontological complicity” between habitus and field that is not just behavioural, but also structural. Particular behaviours can have a background to them that can be overplayed, or underplayed. So, for example, rationalization that is only behavioural (for example, in terms of individual actions), or indeed, only structural (for example, in terms of a political doctrine), may be inadequate. Behaviours are not just the result of surface structures, they are also a result of deep structures, including structures within structures. A schema for field-habitus arrangement across an East-West divide is shown in Figure 3 in which field-habitus of respectively East and West are not isolated, but interact. For the sake of simplicity, further elaboration, for example, sub-systems within each East and West system, are not shown.

Field-habitus arrangements exhibit variations across geography and across time; some of these stabilize, reproduce and become associated with

Figure 3 Field-habitus Arrangements across East and West: A Schema



social groups. The net result, over time, may be distinct areas of similarity (for example, within an “Eastern” context or within a “Western” context) as well as distinct areas of difference (for example, across an East-West divide). Those biases in disposition, vision and approach described in Section 3 and 4 may thus achieve the status of being *both* empirical statements *and* theoretical constructs, sometimes with an uneasy relationship between the two. Some statements might appear to be empirical statements, but equally might be misrecognized (Section 5.3). An example of where this might occur is given in Section 3.3, with respect to strongly correlating confrontational and conciliatory approaches to West and East respectively and denying that weak correlation and cross-correlation is possible.

5.2. *Conatus and Hysterisis*

Habitus and field can often be closely matched or “well formed”. A given object, with a given habitus might find comfort and relaxation within a given field, like a “fish in water”. Hence, the authors of the protagonist view and the alternative view might each feel comfortable within the company of their own colleagues and their own audiences, who help constitute the field within which each works. Habitus and field do not remain static, however. There can be homeostasis, but equally, there might be discontinuity if external overriding “fields of power” disrupt the internal field-habitus equilibrium. The habitus might generate behaviours inappropriate to the newly imposed “field of power”. The subject might start to feel like “a fish out of water”.

Bourdieu coins the term “hysteresis” to describe this state of affairs, where the complicity between habitus and field is out of balance, much like the situation of a compass needle when a artificial external magnetic field is suddenly applied. Just as equilibrium is sought in the physical analogy, so it is with the social situation where there is (i) a shift to a new equilibrium (ii) a time lag before it can be achieved. This is expressed through the concept of “conatus”, which describes the trajectory a given habitus might possess, determining readjustments following disruption by a “field of power”.

Especially at international events, we might see diverse elements of field-habitus arrangements clash, each having moved away from “well formed” conditions. Each news article represents influences, potentially across a wide range of historical, geographical, economic and political contexts but at the same time, *within* a given field-habitus arrangement. Viewed from *across* different arrangements, there may be discomfort and/or a need to adjust. Part of the stake in this is the new field of power that each adjusts to, which becomes an arena for struggle for new positionings within that field. Thus, the protagonist and the alternative view might represent “well formed” field-habitus arrangements before the Copenhagen summit took place, disrupted by the events at the summit itself. Adjustments were necessary within the space of a mere few days and the two news articles offer textual evidence for that. The process may continue to take place over ensuing weeks and months, and this may be both modeled and reviewed in terms of habitus, field, hysteresis and conatus.

5.3. *Misrecognition and Language*

Within those “well-formed” habitus/field relationships, particular relations acquire stability, to the extent that the subjects within that habitus/field no longer recognize the arbitrariness of those relations (akin to the ritualizations that Tannen, Section 3.3, identifies). For example, within a given field-habitus arrangement, there might be an absolute right for any individual to question and/or contest any statement or position regardless of that individual’s status; within another, there might be the need to confer about that statement, either within a group or with a supervisor. In both cases, such rules might be built in and unconscious (ritualized); the individual would conform through a built-in disposition that Bourdieu calls a *doxa*, rather than through an explicit rule coding. In unwittingly conforming, the subject may be carrying out a “misrecognition” of a situation, not realizing that the *doxa* was arbitrary and/or artificial (Grenfell, 2004: 166).

For Bourdieu, language is an important part of this misrecognition, in that particular words and phrases generate “schemes of thought” in particular through the connotations that are associated with them. For example, in

relation to his criticism of the neo-liberal agenda: “Market – freedom, open, flexible, dynamic, moving, future, new, growth, individual, individualism, diversity, authenticity, democracy; state – constraint, closed, rigid, fixed, past, passed, archaic, group, collective, uniform, artificial, autocratic, totalitarian” (Bourdieu, 2008). Such terms are used by groups and individuals with *interest* (in particular, of domination), who seek to accumulate *capital*, either economic or symbolic, through exchanges taking place within field-habitus arrangements.

In relation to Mintzberg’s strategies (Section 3.2), loose and “slippery” uses of the word “strategy” lead to misrecognitions about strategies “realized perfectly” and about realizations that “had nothing to do with their intentions”. Mintzberg refines the term, distinguishing deliberate and emergent strategies, thus adjusting “schemes of thought” and with them the interests and the capital involved possessed, for example, those who act, rather than those who plan.

In relation to the protagonist and alternative view news articles, we see words which are forceful, abrasive and pessimistic and words which defusing, consensual and optimistic. Each set of vocabulary both represents and generates schemes of thought, within a backdrop of further terms like “green”, “renewable” and “sustainable”. Within those schemes of thought sit misrecognitions about self and about the “other”, from the past, in the present and into the future. These may be represented as images, stereotypes and projections (Table 3). Each may be “read in” to the news article texts, alongside other misrecognitions, for example those stereotypes that accompany East-West discourse, historically reinforced (Benton, 2009; Said, 1978). Misrecognition may be applied directly to the object of the research, but also reflexively (Section 5.4), to the researcher and his/her relationship to his/her audience.

5.4. Reflexivity and Universalism

Bourdieu’s conception of society has been described as “comprising a series of overlapping social fields of activity or relatively ‘autonomous worlds’” (Maton, 2003). It is proposed, above, that the protagonist and the alternative view occupy such “worlds”, subjected to the wider “field of power” presented

Table 3 Categories of Misrecognition

misrecognition by “us”	of the past	of the present	of the future
directed at “us”	self-stereotype	self-image	self-projection
directed at “them”	stereotype	image	projection

by the Copenhagen climate summit. Within those worlds there may be misrecognitions but they exist within stable zones of “comfort”, within “well formed” field-habitus arrangements. Within the wider field of power those misrecognitions (for example, about the status of the scientific case for climate change) move out of those stable, well-formed arrangements and meet challenges from equivalent, alternative field-habitus arrangements. This raises the question about misrecognition: who decides?

Within arenas of struggle, there are forms of *symbolic violence* representing attempts to determine who decides. For Bourdieu, those terms coined by the neo-liberal agenda (Grenfell, 2004; Bourdieu, 2008; Section 5.3) illustrate this, constructing “schemes of thought” for the purposes of domination. They are examples of “euphemization and sublimation” that are subject to a wider field of power, that constrain and censor what can be spoken of. He identifies the philosophy of Heidegger as an example of this (Grenfell, 2004: 169) in which the terminology invented fitted well with the prevailing Nazi ideology of the time.

Avoiding symbolic violence, Bourdieu identified the “scientific” field, belonging mainly to the academic scholar, as the means to prevent misrecognition, including that which denies cultural, social and economic influence upon science. Compromised by these influences, science requires (i) a recognition of that compromise and (ii) the scholarly skill of “reflexivity” that adequately takes account. This is not merely an individual effort to overcome one’s own biases. Instead, it is firstly sociological in which “all knowledge producers should strive to recognise their own objective position within the intellectual and academic field” (Deer, 2008). It is secondly epistemic, in that it incorporates a collective epistemology, that of the academic, intellectual field.

For Bourdieu, that field involved the processes to “change social life by changing the representation of social life, and by putting a modicum of imagination into power” and the attempt to “chisel a science of social conditions of possibility of democracy”. He was opposed to “‘axiological neutrality’ that is wrongly equated with scientific objectivity”, instead wanting to “politicize things by subjecting them to science” and to “think politics without for that thinking politically” (Poupeau *et al.*, 2004). For Maton (2003), as part of critiquing and supplementing Bourdieu’s epistemic reflexivity, that field incorporates a postulated epistemic capital which is that intrinsic knowing distinctive within each separate habitus, that may be compared to that skill and knowledge that Wenger (1999) identifies within “communities of practice”.

Reflexivity can be brought to bear upon judgements about field-habitus arrangements and whether disposition is immersed/distanced, vision is deliberate/emergent and approach is confrontational/conciliatory. It can

look for misrecognition within self and “other”, and across past, present and future (Table 3). It can decide upon a “possibility of democracy”, or alternately, a means to commit symbolic violence. Within the field-habitus for the protagonist and the alternative view, it can apply to those correlations often applied across East and West that often manifest as stereotypes, which happened to be applied by Henderson Smith (1894).

Reflexivity can therefore lead to universalism that does not rely upon any absolute truth, nor upon any “rule of thumb”, but upon constant questioning of not just the science itself, but of the conditions that made that science possible. Having grasped that science, we can come back to the question of “who decides?”. The answer is: those who create the science and those who benefit from it through those “things politicized” that have been “subjected to” that science created; not those who create the politics and dominate others by it.

6. Concluding Comments

This paper has taken two news articles, expressing conflicting views about the Copenhagen climate summit. It has analyzed at the level of text, discursive practice and social practice (Figure 1). It firstly emphasized the text, taking meanings from it, with a view to a theory; it then took a theory (of Bourdieu) and validated those meanings, in terms of relevance to the theory. Using the news articles as an example, the paper presents a methodology that assigns a status to both text and theory, but also questions that status. The text offers sense data but through theory, it takes on extended meanings and a status beyond that sense data. The theory offers a mental framework, but only in relation to the text, that is interpreted not just by explicit theory, but implicit theory as well, for example, within dramas, within the perceived logics of players and across social perspectives (Section 3). Reliant upon such a co-dependency, what the paper offers is far from being a “silver bullet”, that reifies data and theory and that pretends predictive scenarios. It relies upon informed, localized judgement that must sensitively apply theory and method, that will construct further hypotheses and design further investigation as necessary. In the case of the two news articles, the paper constructs hypotheses and presents a theory, with those further hypotheses and further investigations in mind.

With this as a basis, the main points can be summarized. Firstly, on the basis of theory, difference and change in social relations can be explained. It does this from a core set of concepts, such that differences across East and West, for example, may be seen as field-habitus variants. It therefore universalizes through a common terminology that detaches characteristics from, and makes irrelevant, correspondence with a nation or ethnic group. It interprets the act of stereotyping as a misrecognition within a field-habitus

sub-variant and indicates how characteristics can be convergent or divergent, through conatus-hysterisis. *Within* the theory, the differences between East and West break down.

Secondly, through the status of “schemes of thought” and their relation to language, this breakdown within theory takes on significance in practice. By identifying those schemes and their associated language that leads to stereotyping and alienation, the *practice* of breaking down East-West differences become possible. Reflexivity is a part of this practice that ensures scientific judgement acts on misrecognitions, rather than the traditions and habits of the doxa. A part of this, in turn, is that the researcher, applying reflexive practice, occupies the same space as the research object, so that irrelevant data and/or ineffective theory can be avoided. To be separate, for example as some kind of “neutral observer”, breaks out of the logic of theory, discarding any of the advantages that the theory brings.

Finally, there are questions of scope and range, that the scheme elucidates, that can critically alter perceptions and therefore outcomes. On the one hand, there are the microscopic dyadic relations, typical of *guanxi* within a traditional Chinese context, that may apply in the West as well as in the East; on the other, there are the macroscopic institutional and organizational arrangements, led by deliberate, detailed, projected strategies (Section 4.1), that Fei saw in the West, but not the East, that in the modern age probably apply to both. Beyond that, there are macroscopic national histories and broad government policy themes that can have both microscopic and macroscopic impacts, for example memories of the Opium Wars (Schell, 2008; Ward, 1974) and policies of the “soft rise” of China (Berkovsky, 2007; Bowing, 2007; Nye, 2005), as an emerging world power. Within situations requiring negotiation and management, influences across a wide scope can become relevant. Usually, it is a matter of common-sense, or experience, which decides, for example, whether a particular dyadic relationship is significant, or whether a national policy needs to be taken into account, or both. Often, there can be conflict, when priorities are sensitive and where the meta-logic is latent. Decision-making, by academics, diplomats or journalists, can be difficult and the “thinking tools” suggested by Bourdieu can help.

Notes

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- * Dr Denis Wong 黃世雄 is the coordinator of the East-West Forum (consisting of former staff at the University of Southampton, United Kingdom). Dr Wong is a

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Liberalization and Interaction among China's Stock Markets: A Re-visit⁺

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Abstract

This paper studies the liberalization and interactions among five Chinese stock indices, i.e. A shares and B shares in both Shanghai and Shenzhen stock exchanges and H shares in Hong Kong Stock Exchange from 1992 to 2009. The changes of policies usually affect stock market's performance in some aspects and attract much attention. Correlation analysis among the indices and their returns has been conducted. It is found that liberalization has increased the degree of interaction among Chinese stock markets. Increase interaction between markets means that information transmission among the markets will be more active and in both directions. Hence, these activities will reduce the asymmetric information in a particular market and lead the Chinese stock markets towards market efficiency.

Keywords: *liberalization, interaction, China, stock markets*

JEL classification: *F36, G15, G18, O16*

1. Introduction

Under the planned economy in the 1960s and 1970s, the government controlled the entire financial system in China. The state-owned banks provided credit and payment services to the industries and businesses. There are retail banks to let the people put their savings in the bank. With the development of open economy, China's financial industry has also been improved immensely. A modern financial system was formed in China where commercial banks are the major players, with the central bank's policies as its core, and a variety of financial institutions co-exist.

The central bank of China, namely the People's Bank of China, set the monetary policies for the country. With the modernization, besides the government banks, there are also commercial banks, independent financial institutions and capital markets. However, the financial system is still

dominated by banking (Naughton, 2007). The banks as the intermediary are taking the savings from the people and investing them in the businesses. Meanwhile, the capital markets are still undeveloped relatively where the Chinese seldom invested directly in the firms. As a commitment to World Trade Organization (WTO), foreign banks are allowed to provide services to the people in China from December 2006.

Stock market as one of the key players in today's economics has brought immeasurable impact to the modern economy. The history of modern China's stock market is still young relatively. The establishment of modern China's securities market started in 1986. In August of 1986, the transfer of the enterprise bonds began to pilot in Shenyang. In September, Shanghai started the stock trading counter.

This paper attempts to review the liberalization in China's stock markets and revisit the interaction between these markets with more updated data. The rest of the paper is organized as follows. Section 2 overviews the stock markets of China, Section 3 reviews some literatures, Section 4 describes the data and methodologies. The empirical findings are discussed in Section 5 and Section 6 concludes the paper.

2. Overview of Chinese Stock Markets

The Shanghai Stock Exchange (SHSE) was opened on 19th December 1990, followed by the Shenzhen Stock Exchange (SZSE) on 3rd July 1991. At the early stage, the listed shares were mainly the Renminbi (RMB) common share which is known as A shares. Since the beginning of 1992, the RMB special share, called B shares, was listed in SHSE. As at December 2008, there are 864 companies listed in SHSE. These companies are likely state-owned companies, and many of them have monopoly powers in the domestic market. However, the number of the companies listed in SZSE has reached 740 in December 2008. Compared to the companies listed in SHSE, most of them are smaller, joint ventures and export-oriented (Kim and Shin, 2000).

With the accession to WTO, China is moving forward steadily as the stock markets are opened to international investors. At the end of April 2005, China started its equity division's reform, which means that the government authorized state-owned shares and other forms of shares that cannot be traded in the past to be listed in the stock markets. This reform set a basis of improving the stock market system and the operational mechanism. The equity division's reform not only resolves the historical issues of stock market, but also promotes the market's growth.

The changes of policies usually affect stock market's performance in some aspects and attract much attention. Since the end of 1970s, with the economic take-off and trades explosion, the Hong Kong stock market experienced great

development. The Hong Kong government has adopted a series of financial liberalization policies to attract foreign banks and large multinational financial institutions to invest in Hong Kong. Hong Kong's financial industry has entered a new era, developed rapidly and is moving towards modernization, diversification and internationalization. In March 2000, the Hong Kong Stock Exchange¹ (HKSE) was formed, which is a merging of the Stock Exchange of Hong Kong, Hong Kong Futures Exchange Ltd. (founded in 1976) and Hong Kong Securities Clearing Company Ltd. (founded in 1989). HKSE provides various services such as companies listing, stock trading, clearing and settlement, information services and market supervisions. In May 2000, there are seven NASDAQ shares listed and traded in HKSE, which is the first stock exchange which provides NASDAQ shares traded in Asia.

Table 1 provides some general information of SHSE, SZSE and HKSE as a comparison. It is noted that HKSE has the largest number of listed companies followed by SHSE and SZSE. This may be due to the fact that HKSE has the longest history and is more matured among the three. Furthermore, the trading volume and the index of HKSE are higher than the other two stock markets. However, HKSE has the lowest P/E ratio. The market capitalization and total value of share trading of SHSE are the highest; it is always being considered to be in a leading position in China's stock markets.

A unique feature of China's stock markets is that dual listing is not allowed but a listed company can issue two types of shares, i.e. A share and B share. China's stock markets are divided into A shares and B shares for the needs of different investors. The official name of A shares is "RMB common stock" while B shares is "RMB special stock". A shares are quoted

Table 1 Summary Statistics of Three Stock Exchanges
(as at 31st December 2008)

	SHSE	SZSE	HKSE
Number of listed companies	864	740	1261
Market capitalization (USD millions)	1,425,354.0	353,430.0	1,328,768.5
Total value of share trading (USD millions)	2,600,208.6	1,248,721.8	1,629,782.3
Trading volume (millions)	1,620,724	781,979.4	2,245,148.7
P/E ratio	14.9	15.0	7.3
Index	1820	553	14387

Source: Data from World Federation of Exchange.

in RMB and offered to Chinese citizens who live in mainland China. On the other hand, B shares are quoted in US dollars if it is listed in SHSE and HK dollars if it is listed in SZSE. They are mainly offered to overseas investors. Trading in A shares are restricted to domestic investors only while B shares are available to foreign investors. Kim and Shin (2000) argued that this A-B shares regime was established mainly to limit foreign ownership of local enterprises which are the former stated-owned enterprises.

On 19th February 2001, the China Securities Regulatory Commission (CSRC) announced to authorize domestic residents to hold B shares' accounts with legal foreign exchange to trade B shares. Starting from March 2001, mainland Chinese can trade B shares officially. Both A shares and B shares are listed in SHSE and SZSE; namely, Shanghai A shares (SHA), Shanghai B shares (SHB), Shenzhen A shares (SZA) and Shenzhen B shares (SZB). Since June 1993, HKSE can list Chinese companies and their shares are called H shares. The Hang Seng China Enterprise Index (henceforth HSCE) is the official stock index for them (Kim and Shin, 2000). After Hong Kong's reunification with mainland China, H shares have also become an important part of China's stock markets. H shares (HKH) are the local companies that registered in mainland China and listed in HKSE. It is denominated in Hong Kong dollars.

China's stock markets are policy-based markets. The central government plays a fundamental role in the stock markets. This is one of the main features in which China's stock markets are different from other major stock markets in the world. Although A shares and B shares have different target investors, they are affected by the same macroeconomic and political factors and policies, and both contribute to China's economy.

According to the efficient market hypothesis, any information regarding firm-specific will cause the same degree of price change for both A shares and B shares simultaneously. A shares' investors are mostly individual investors with less analysis ability than B shares' investors who are dominated by institutional investors. With the higher turnover rates and trading volumes, A shares markets are more active than B shares markets. Even though individual investors in A shares markets might be less capable of obtaining and analyzing new information than those in B shares markets, A shares prices might reflect more information collectively through the active trading of A shares investors (Kim and Shin, 2000, p. 99).

At the same time, due to Hong Kong's geographical proximity and its position as an international financial center, it is interesting to study the relationship among A shares, B shares and H shares. In addition, we examine the impact of some liberalization such as the return of Hong Kong to People Republic of China (PRC) and the permission of domestic investors' entrance into B shares on these relationships.

3. Literature Review

We know from the literature (e.g. Bailey, 1994; Chen and Su, 1998; Fernald and Rogers, 1998) that the prices of B shares are lower than the prices of A shares, which is contrary to the other segmented markets in the world. In other stock markets, the domestic investors spend less money to get the same shares than the foreign investors. But in China, there is a discount of approximate 40 per cent on the prices of B shares. Chakravarty *et al.* (1998) argued that it is due to the information asymmetry, which means that the foreign investors have less information on Chinese stocks than domestic investors. This information asymmetry is due to language barriers, different accounting standards, and lack of reliable information about the local economy and firms. Hence, B shares were underpriced relative to A shares when the foreign investors may not be able to make aggressive investment decision due to the information asymmetry.

Generally speaking, A and B shares do not have perfect integration. There are some evidences showing that informational asymmetry is positively related to the discount between A shares and B shares (Chen and Su, 1998). Similar to B shares, there is also discount of H shares to A shares. The possible explanation including information asymmetry between domestic and foreign investors, illiquid trading of H shares and diversification benefits from investing in H shares (Li *et al.*, 2004).

On the other hand, the lead-lag relationships between China's stock markets (A shares, B shares and H shares) have been investigated by several researchers. Kim and Shin (2000) found that lead-lag relationship among the five indices after 1996 are rather distinct from the counterparty before 1996. In addition, SZB have more power to impact other indices. Qiao *et al.* (2008a) showed that the causality relation among China's stock markets is quite complicated comparing with prior studies, which means there is strong nonlinear relationship among the five segmented markets in China.

Sjö and Zhang (2000) analyzed the information diffusion between A shares and B shares. They found a unique directional relationship from B shares to A shares in the short-run, but the results are different in the long-run. There is long-run information diffusion between A and B shares. In SHSE, there is long-run effect that B shares drive A shares while A shares drive B shares in SZSE.

Ahlgren *et al.* (2003) denoted A and B shares as being long-run cointegrated with each other in general. But cointegration is different for individual firms. It is found that after relaxing the restrictions of B shares purchase, A shares' price premiums have dropped off and become stationary. Tian and Wan (2004) showed that SHB and SZB cointegrated with each other for the period of 1993-1999. But A shares have no cointegration relation after

1996. HKH Granger causes SHB and SZB while SHB Granger causes all other indices for the post-1996 period.

On the contrary, Zhang *et al.* (2006) found no long-run relationship existed in A and B shares. However, the researchers deemed structural changes (the trading rules change of B shares and Asian financial crisis) cause the standard cointegration analysis to be biased. By employing sub-samples, dummy variables and error correction term in the model, they found evidence of long-run relationship existed between A and B shares. Shen *et al.* (2007) found that only SHA and SZA have cointegration for the whole period and first sub-period while SZA and SZB are cointegrated in the third sub-period only. They considered it as being due to the openness of B shares to Chinese citizens that made the markets more efficient.

Qiao *et al.* (2008b) showed that the six pairs of stock indices (HKH-SHA, SHB-SHA, SHB-HKH, HKH-SZA, SZB-SZA, and SZB-HKH) are fractionally integrated in the long-run. Furthermore, A shares in the two stock markets are the most powerful in whatever mean and volatility spillover effects. A shares have externalities of mean and variance upon B shares and H shares. The policy of opening B shares raised the correlation between A shares and B shares both in SHSE and SZSE, as well as accelerating the integration process of A shares and H shares.

As a summary, some studies showed that long-run relationship existed between A and B shares (Ahlgren *et al.*, 2003, Zhang *et al.*, 2006), but others considered Chinese stock indices as fractionally integrated (Qiao *et al.*, 2008b). However, many studies agreed that B shares became more influential relative to the other shares (Kim and Shin, 2000; Tian and Wan, 2004, and Qiao *et al.*, 2008a). The question of whether there is integration among China's stock markets remains controversial.

4. Data and Methodology

Daily stock indices of both A and B shares from the SHSE and SZSE respectively, as well as H shares from the HKSE are used in this study. All data are closing prices which range from 5th October 1992 to 30th June 2009. This starting date is believed to be the earliest date where data for the SZSE are available. The sources of SHA, SHB, SZA and SZB are from the websites of SHSE and SZSE respectively, while HKH is collected from the Yahoo Finance website <<http://finance.cn.yahoo.com/>>. Figure 1 presents the time movements of these indices.

From the figure, we can see that the flows of these five indices are quite similar. Several fluctuations happened at the same periods, such as the 1997 Asia financial crisis and the 2001 technology bubble. Especially from the end of 2006, these five indices began to boom, and reached the highest points

Figure 1 Closing Price of Five Indices from 1992 to 2009

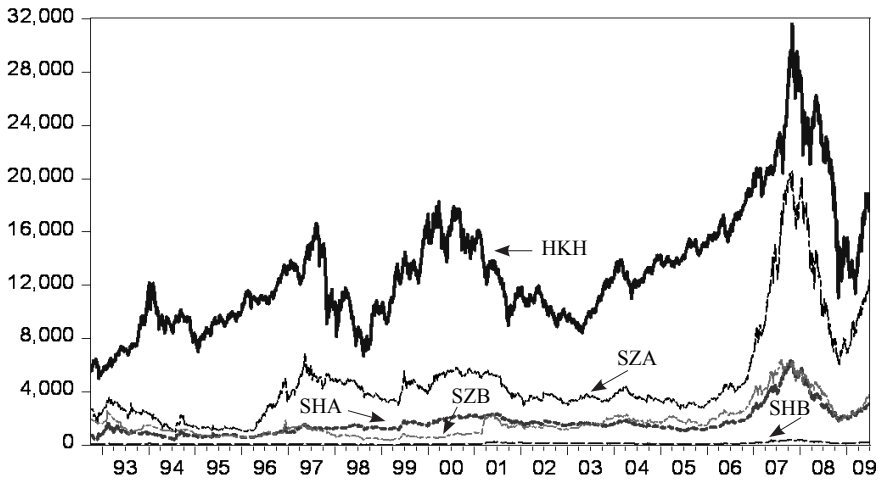


Table 2 Descriptive Statistics of the Five Indices

	HKH	SHA	SHB	SZA	SZB
Mean	13108.61	1668.95	102.60	4784.46	1684.24
Std. Dev.	4568.61	1016.03	70.25	3653.03	1247.90
Skewness	1.14	2.12	1.92	2.30	1.81
Kurtosis	4.47	8.19	6.78	8.47	6.06
Max	31638.22	6395.76	389.17	20587.72	6419.43
Min	4978.20	328.85	21.38	966.49	333.10

in the mid-2007. From the intuitive point of view, these indices show some relationships with each other.

Descriptive statistics of the five indices for the entire period are shown in Table 2. The starting points of SHA, SHB, SZA and SZB are 100 points while the datum point of HKH is 1000. Among the five indices, H shares have the highest mean and volatility while SHB has the lowest. What surprises us is that the means of SHA are just about 1669, which is lower than SZA and SZB even though between the years of 2006 and 2007, there was a big boom in China's stock markets. Furthermore, all indices have positive skewness and excess kurtosis. For the period of 13 years, SHB seems not to have moved much from its starting point of 100.

As the return of Hong Kong to PRC in July 1997 and the permission of domestic investors' entrance into B shares markets in February 2002 may affect the relationship among the stock exchanges, this study mainly focuses on investigating these two major events. The first sub-period is from 5th October 1992 to 30th June 1997; the second is from 1st July 1997 to 18th February 2001; and the third sub-period is from 19th February 2001 to 30th June 2009. All indices are transformed into natural logarithm before the analysis.

Investors are more concerned about the returns of their investment instead of the stock prices themselves. Hence, we also examine the relationship of the returns of these five Chinese indices. A summary of the descriptive statistics of the returns for the three sub-periods is reported in Table 3.

In the first period, all the four indices, except SZB, enjoyed the positive daily mean returns where HKH has the highest mean and SZB has the lowest. HKH also enjoyed the lowest standard deviation while SHA has the highest. Based on the modern portfolio theory, HKH outperformed the others in this period with the highest return and lowest risk.

Table 3 Descriptive Statistics of Stock Returns for Three Sub-periods

Period 1	HKH	SHA	SHB	SZA	SZB
Mean (%)	0.08	0.05	0.02	0.06	0.03
Std. Dev.	0.01	0.04	0.02	0.03	0.02
Skewness	-0.40	1.44	0.57	0.84	-0.65
Kurtosis	6.60	15.75	12.10	13.43	21.42
Period 2	HKH	SHA	SHB	SZA	SZB
Mean (%)	0.00	0.05	0.00	0.01	0.04
Std. Dev.	0.02	0.02	0.03	0.02	0.03
Skewness	0.24	-0.11	0.35	0.08	0.41
Kurtosis	10.37	8.44	5.36	7.64	6.10
Period 3	HKH	SHA	SHB	SZA	SZB
Mean (%)	0.01	0.02	0.04	0.04	0.07
Std. Dev.	0.02	0.02	0.02	0.02	0.02
Skewness	0.05	-0.04	0.01	-0.06	0.01
Kurtosis	12.65	7.41	7.51	6.69	6.80

Note: The first sample period is from 5th October 1992 to 30th June 1997; the second period is from 1st July 1997 to 18th February 2001; the third period is from 19th February 2001 to 30th June 2009.

In period 2, all returns decreased significantly mainly due to the impact of the Asian financial crisis. Both indices in SZSE and B shares in SHSE experienced negative mean returns. SHA is the only index that has been affected the least by the crisis or in other words its performance is quite stable.

In the third period, all indices have been recovered from the crisis and the mean returns become positive. Surprisingly, SZB has improved significantly with the highest mean returns. Both B shares are better performed than their counterparts, A shares in the respective market. Nevertheless, they also bear the higher risk. Furthermore, the negative skewness and excess kurtosis show that the returns are not normally distributed in average.

5. Correlation and Interaction

To reveal the correlation among the five Chinese stock indices, we conduct the correlation analysis among the indices and their returns. The results for three sub-periods are shown in Tables 4 and 5.

It is found that all correlation coefficients for the stock indices are significant in all three sub-periods. The correlation between HKH with other four indices has increased significantly from period 1 to period 2. In addition,

Table 4 Correlation Analysis of Stock Indices for Three Sub-periods

	HKH	SHA	SHB	SZA
Period 1				
SHA	0.15***	–		
SHB	-0.12***	0.47***	–	
SZA	0.23***	0.85***	0.41***	–
SZB	-0.30***	0.55***	0.77***	0.68***
Period 2				
SHA	0.63***	–		
SHB	0.52***	0.44***	–	
SZA	0.54***	0.68***	0.83***	–
SZB	0.46***	0.29***	0.96***	0.78***
Period 3				
SHA	0.74***	–		
SHB	0.50***	0.92***	–	
SZA	0.80***	0.97***	0.84***	–
SZB	0.91***	0.87***	0.67***	0.90***

Note: *** denotes significance at the 1% level.

Table 5 Correlation Analysis of Stock Returns for Three Sub-periods

	HKH	SHA	SHB	SZA
Period 1				
SHA	0.00	–		
SHB	0.14 ^{***}	0.24 ^{***}	–	
SZA	0.05 [*]	0.67 ^{***}	0.24 ^{***}	–
SZB	0.03	0.20 ^{***}	0.34 ^{***}	0.22 ^{***}
Period 2				
SHA	0.06 ^{**}	–		
SHB	0.27 ^{***}	0.45 ^{***}	–	
SZA	0.08 ^{**}	0.92 ^{***}	0.43 ^{***}	–
SZB	0.20 ^{***}	0.44 ^{***}	0.68 ^{***}	0.44 ^{***}
Period 3				
SHA	0.33 ^{***}	–		
SHB	0.28 ^{***}	0.74 ^{***}	–	
SZA	0.32 ^{***}	0.93 ^{***}	0.73 ^{***}	–
SZB	0.32 ^{***}	0.70 ^{***}	0.81 ^{***}	0.72 ^{***}

Note: * (**) (***) denotes significance at the 10% (5%) (1%) level.

they are all with positive direction in period 2. This result clearly infers that the interaction between Hong Kong stock market and the stock markets in mainland China has been improved significantly after the reunion on 1st July 1997.

We also found that the correlation between A shares and B shares have been improved significantly from period 2 to period 3. The coefficients are close to perfect correlation with positive direction for the two pairs (SHA-SHB and SZA-SZB). Hence, it is confirmed with statistical evidence that the liberalization policies such as the relaxed restriction of local investors to trade B shares have improved the interaction between stock markets.

Table 5 reports the correlation coefficients for stock returns. In period 1, stock returns of HKH do not show strong correlation with others. However, they are more correlated in period 2 especially with B shares. The correlation coefficients of stock returns between A shares and B shares also increased significantly from period 2 to period 3. This evidence again supports our hypothesis that liberalization improves the interaction between segmented markets.

Our result is consistent with the previous studies in the literature. Kim and Shin (2000) explained that liberalization in the Chinese stock markets brought a bulky number of investors, domestic as well as foreign; this increased the

trading activities and interaction among stock markets. On the other hand, Zhang *et al.* (2006) argued that allowing domestic investors to invest in B share may brought more noise traders to the B shares' market. Shen *et al.* (2007) also indicated that liberalization strengthens the relationship between A shares and B shares, as they found that A shares are led by B shares since B shares is opened up to the Chinese investors.

6. Conclusion

Same as its economy, China's stock markets have been developed rapidly for a decade. This study re-examines the interaction among five Chinese stock indices: both A shares and B shares in SHSE and SZSE and H shares in the HKSE.

We summarize our findings into following: (1) the interaction among stock markets in China was little in the early stage. Trading in SHSE and SZSE were not active and the two stock markets were less efficient. (2) After the return of Hong Kong to PRC, the relationship between HKSE and the stock markets in mainland China has become closer. During the Asian financial crisis, HKSE suffered a huge bearish downturn. As the stock markets in mainland China are relatively less opened, the impact of the crisis are not as great as in HKSE. (3) Since the government allowed the purchase of B shares by local investors, the interaction of A and B shares has tighten. It obviously concludes that the participation of Chinese citizens into B shares promotes information diffusion between A shares and B shares, as well as both the stock exchanges.

Increase interaction between markets means that information transmission among the markets will be more active and in both directions. These transmission activities will reduce the asymmetric information in a particular market and lead the Chinese stock markets towards market efficiency. On the other hand, improvement in market integration means diversification investment among these five markets may not be as effective as the pre-liberalization stage as the abnormal profit and risk hedging will be reduced. Nevertheless, China's stock markets are policy-based, where the central government plays a fundamental role in the stock markets. Therefore, investors must take serious account of the government policies when analyzing China's stock markets.

Notes

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Research Note

Fiscal Reform, Fiscal Decentralization and Poverty Reduction in China: Some Observations

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Abstract

China has been said to be one of the world's most economically decentralized countries. While the claim that decentralization had much to do with the success of China's reforms has been controversial and it has been argued that China's approach to administrative decentralization might over time threaten the success of the reform process, the highly remarkable extent of fiscal decentralization could have the potential to aid the effort at poverty alleviation, especially in the context of the ethnoregional dimension of the country's poverty problem. This research note presents various observations on the dimensions of decentralization in China and briefly explores its potential implications on poverty reduction.

Keywords: *fiscal decentralization, administrative decentralization, government expenditure, government revenue, poverty reduction*

JEL classification: *H52, H71, H77, I38*

1. Introduction

The analyses on spatial dimension of politics in terms of decentralization in China have so far invariably utilized the typology of administrative versus economic decentralization.¹ This preference is not difficult to understand given the fact that the core dimension of such decentralization – that of political power – has the problem of applicability in the light of the centralism of the present political power configuration.

The following comment by a former Chinese vice-premier, cited in Li (2003: 1), reflects the reformers' feeling towards the lessons of the multiple cycles of administrative decentralization and recentralization in China: "A [more] important and fundamental lesson of the [1958] attempt to improve the economic management system is: We only saw the vices of overcentralization

of power, and sought to remedy the situation by decentralizing powers to the lower levels. When we felt too much power had been decentralized, we recentralized them. We did not then recognize the inadequacies of putting sole emphasis on central planning (and in particular a system dominated by mandatory planning) and totally neglecting and denying the role of the market [...] As a result over a long period of time (after the 1958 decentralization) we were trapped within the planned economy model. Adjustments and improvements could only work around the cycles of decentralization and recentralization. Moreover the recipients of more powers are invariably the local governments, rather than enterprises.”²

Cai and Treisman (2006) noted that China’s administrative decentralization only increased considerably during the 1980s, while before that the country had been administratively and politically highly centralized, and

As for appointments, from the late 1980s village officials have been locally elected. In practice, all other subnational appointments have been made by higher authorities, with the center exercising ultimate control. If fiscal decentralization means the subnational share of budget spending, this increased from about 53 percent in 1978 to 73 percent in 1996, before falling back to 70 percent in 2003. The subnational share of revenues fell from 85 percent in 1978 to 62 percent in 1985, then rose to 78 percent in 1993, before falling to 45 percent in 2003. Tax system design has remained a prerogative of the central authorities.

(Cai and Treisman, 2006: 4)

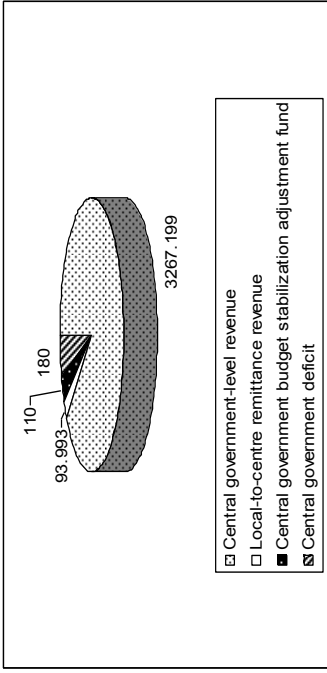
Political realities aside, the measurement of the degree of decentralization also suffers from the fact that it is very difficult to get complete information on government revenues and expenditures as the budget is incomplete and many government revenues and expenditures are not included in the budget and hence reliable figures for overall government revenues and expenditures are never available (Yeoh, 2009: 241).

2. The Administrative Dimension: Subnational Autonomy

The 2008 central and local budget implementation report and 2009 central and local budget draft³ presented on the 11th National People’s Congress, second meeting, on 5th March 2009 reported for year 2008 a national total revenue of 6.13169 trillion yuan⁴, comprising central revenue of 3.267199 trillion yuan and local revenue of 2.864491 trillion yuan. From the perspective of fiscal IGR (intergovernmental relations), for year 2008, central-to-local tax revenue rebate and transfers amounted to 2.294561 trillion yuan – with an increase of 26.5 per cent over the previous year – comprising central-to-local tax revenue rebate of 0.428219 trillion yuan (with an increase of 3.9 per cent over the previous year), financial (including general) transfers of 0.869649 trillion yuan

Figure 1 China: Central Government's Fiscal Balance, 2008 (billion yuan)

Central Government Revenue 3741.192 billion yuan and Deficit 180 billion yuan



Central Government Expenditure 3651.192 billion yuan

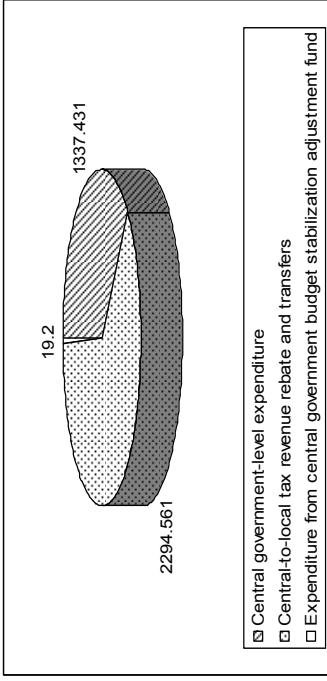
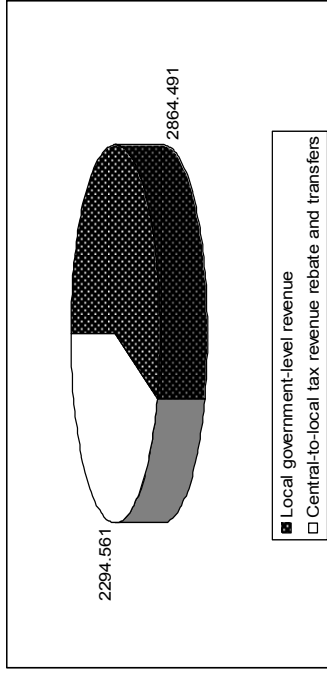
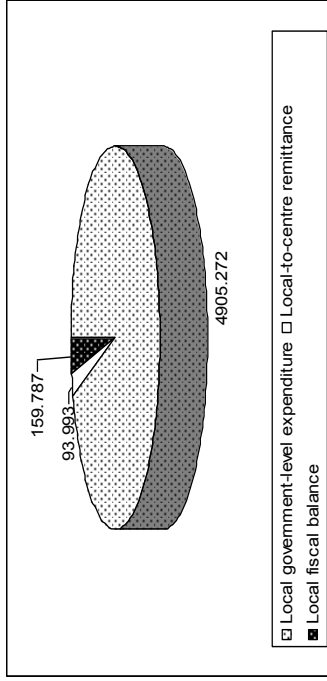


Figure 2 China: Local Governments' Fiscal Balance, 2008 (billion yuan)

Local Government Revenue 5159.052 billion yuan



Local Government Expenditure 4999.265 billion yuan and Fiscal Balance 159.787 billion yuan



Source: Data for Figures 1 and 2 from 关于 2008 年中央和地方预算执行情况与 2009 年中央和地方预算草案的报告.htm <http://www.mof.gov.cn/mof/zhengwuxinxi/caizhengxinwen/200903/t20090316_122544.html>.

Table 1 China: Central Government Expenditure, 2008 and 2009 (billion yuan)

Item	2008 (Actual)	2009 (Estimate)	2009 Estimate as % of 2008 Actual
<i>General Public Service</i>	121.665	131.361	108.0
including: Central government-level expenditure	106.015	101.386	95.6
Transfer payments to local governments	15.650	29.975	191.5
<i>Foreign Affairs</i>	23.924	26.893	112.4
including: Central government-level expenditure	23.916	26.893	112.4
Transfer payments to local governments	0.008		
<i>Defense</i>	410.141	472.867	115.3
including: Central government-level expenditure	410.093	472.251	115.2
Transfer payments to local governments	0.048	0.616	1283.3
<i>Public Security</i>	87.577	116.131	132.6
including: Central government-level expenditure	64.862	73.26	112.9
Transfer payments to local governments	22.715	42.871	188.7
<i>Education</i>	159.854	198.062	123.9
including: Central government-level expenditure	49.165	62.327	126.8
Transfer payments to local governments	110.689	135.735	122.6
<i>Science and Technology</i>	116.329	146.103	125.6
including: Central government-level expenditure	107.741	142.824	132.6
Transfer payments to local governments	8.588	3.279	38.2
<i>Culture, Sport and Media</i>	25.281	27.975	110.7
including: Central government-level expenditure	14.061	14.228	101.19
Transfer payments to local governments	11.22	13.747	122.5
<i>Social Security and Employment</i>	274.359	335.069	122.1
including: Central government-level expenditure	34.428	30.048	87.3
Transfer payments to local governments	239.931	305.021	127.1
<i>Low-income Housing</i>	18.19	49.301	271
including: Central government-level expenditure	0.711	3.138	441.4
Transfer payments to local governments	17.479	46.163	264.1
<i>Healthcare and Hygiene</i>	85.445	118.056	138.2
including: Central government-level expenditure	5.396	5.628	104.3
Transfer payments to local governments	80.049	112.428	140.4
<i>Environmental Protection</i>	104.03	123.662	118.9
including: Central government-level expenditure	6.621	3.735	56.4
Transfer payments to local governments	97.409	119.927	123.1
<i>Township and Village Community Affairs</i>	6.316	0.395	6.3
including: Central government-level expenditure	0.722	0.365	50.6
Transfer payments to local governments	5.594	0.03	0.5

Table 1 (continued)

Item	2008 (Actual)	2009 (Estimate)	2009 Estimate as % of 2008 Actual
<i>Agriculture, Forestry and Water</i>	270.22	344.659	127.5
including: Central government-level expenditure	31.439	30.34	96.5
Transfer payments to local governments	238.781	314.319	131.6
<i>Transport</i>	160.029	188.72	117.9
including: Central government-level expenditure	103.759	93.475	90.1
Transfer payments to local governments	56.27	95.245	169.3
<i>Extraction, Electricity and Information, etc.</i>	60.076	75.75	126.1
including: Central government-level expenditure	45.596	48.936	107.3
Transfer payments to local governments	14.48	26.814	185.2
<i>Food, Oil, Material Reserve, etc.</i>	110.51	178.045	161.1
including: Central government-level expenditure	60.063	83.843	139.6
Transfer payments to local governments	50.447	94.202	186.7
<i>Financial Affairs</i>	97.551	31.558	32.4
including: Central government-level expenditure	97.551	31.558	32.4
Transfer payments to local governments			
<i>Expenditure for Recovery and Reconstruction after Earthquake</i>	60	97	161.7
including: Central government-level expenditure	6.246	13.061	209.1
Transfer payments to local governments	53.754	83.939	156.2
<i>Expenditure for Interest Payment on National Debt</i>	127.869	137.185	107.3
including: Central government-level expenditure	127.869	137.185	107.3
Transfer payments to local governments			
<i>Contingency</i>	40		
<i>Other Expenditures</i>	56.694	168.839	297.8
including: Central government-level expenditure	41.177	83.119	201.9
Transfer payments to local governments	15.517	85.72	552.4
<i>Tax Revenue Rebate to Local Governments</i>	334.226	493.419	147.6
<i>General Transfer Payments to Local Governments</i>	827.713	885.45	107
Central Government Expenditure	3538	4386.5	124
Central Budget Stabilization Adjustment Fund	19.2		

Source: <http://www.mof.gov.cn/mof/zhengwuxinxi/caizhengshuju/200903/t20090319_124155.html>.

Table 2 China: Transfers from Central Government and Sub-total Revenue (i.e. Revenue which Are Not Transfers from Central Government) of Local Governments, 1999-2008, and General and Earmarked Transfers and Tax Revenue Rebate, 2008 (billion yuan)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
A) Central-to-Local Governments' Transfer Payments										1866.342
1) General Transfers										869.649
2) Earmarked Transfers										996.693
B) Central-to-Local Governments' Tax Revenue Rebate										428.219
Central-to-Local Governments' Tax Revenue Rebate and Transfers (A+B)	408.661	466.531	600.195	735.177	826.141	1040.796	1148.402	1350.145	1811.245	2294.561
Sub-total Revenue of Local Governments	559.487	640.606	780.33	851.5	984.998	1189.337	1510.076	1830.358	2356.504	2864.491
Total Revenue of Local Governments	968.148	1107.137	1380.525	1586.677	1811.139	2230.133	2658.478	3180.503	4167.749	5159.052

Sources: Zhongguo Caizheng Nianjian 中国财政年鉴, various years;

<http://www.mof.gov.cn/mof/hengwuxinxi/caizhengshujij/200807/t20080728_59019.html>;
<http://www.mof.gov.cn/mof/hengwuxinxi/caizhengxinwen/200903/t20090316_122544.html>.

(with an increase of 22 per cent), earmarked transfers of 0.996693 trillion yuan (with a substantial increase of 44.6 per cent mainly due to the increase in subsidizing local education, healthcare and other major development items). Central-to-local tax revenue rebate and transfers thus form local revenue and spent by local arrangement. An average 38 per cent of local government expenditure was funded by central government transfers, and in the case of the central and western regions an average 54.4 per cent of local government expenditure was funded by such central government transfers.

On the part of local government finance, revenue totaled 5.159052 trillion yuan – an increase of 23.7 per cent over the previous year – comprising a) local own revenue of 2.864491 trillion yuan and b) central-to-local tax revenue rebate and transfers totaling 2.294561 trillion yuan.

Placed within the framework of the trichotomy of fiscal, administrative and political dimensions of decentralization (see, for example, UNDP, 2002, and Schneider, 2003), the above figures could show the extent of decentralization, in particular in the administrative dimension.

Schneider (2003: 33) hypothesizes three core dimensions of the decentralization concept:

Fiscal decentralization refers to how much central governments cede fiscal impact to non-central government entities. Administrative decentralization refers to how much autonomy non-central government entities possess relative to central control. Finally, political decentralization refers to the degree to which central governments allow noncentral government entities to undertake the political functions of governance, such as representation.

One of the ways to gauge the degree of administrative decentralization or “local administrative autonomy” is by examining the control exercised over local revenue:

The percentage of local revenues from taxes provides an indicator of the degree of subnational control over resources. Taxes are different from the total amount of resources, which is more a measure of wealth rather than control [...] subnational revenues are a combination of taxes, transfers, grants, and loans. Taxes offer the greatest degree of autonomy, grants, and loans offer somewhat less, and discretionary transfers probably the least. Transfers, even supposedly automatic ones, can be withheld, and grants and loans generally arrive with conditions or with expenditures earmarked.

(*ibid.*: 38-39)

Besides this, according to Schneider, subnational autonomy can also be measured by looking at the percentage of total grants and revenues not accounted for by transfers, which

[...] could conceivably include taxes, loans, fees, sales of assets, or informal contributions. There are some drawbacks to excluding all transfers, which

do not distinguish for example between transfers over which lower levels of government have total control, such as block grants, and transfers that are tied to central government priorities, such as earmarked transfers, or transfers that require certain behaviors by subnational governments, such as matching or fiscal balance. Still, the treatment of all revenues aside from transfers gives an indication of the degree to which subnational governments raise their own funds through taxes, loans, fees, or sales of assets.

(*ibid.*: 39)

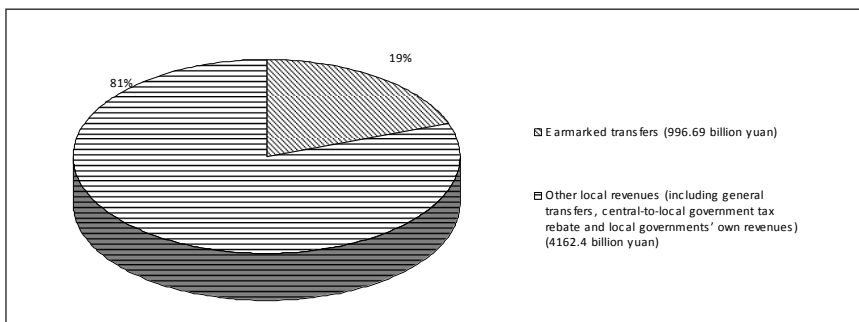
Figures from the above report for 2008 show a central-to-local tax revenue rebate to all transfer ratio of 0.428 : 1.866 or the former as about 23 per cent of the latter amount. On the other hand, non-earmarked transfers were 46.6 per cent of total transfers.

Figure 3 shows a comparison of earmarked transfers and other local revenues including general transfers, central-to-local tax revenue rebate and local governments' own revenue. It could be seen that for year 2008 local revenues which are not earmarked transfers constituted 81 per cent of total local revenues.

From the time-series perspective, it can be seen in Figures 4 and 5 that from 1999 to 2008 local government revenues which were not transfers from the central government always constituted slightly above half of the total local government revenues.

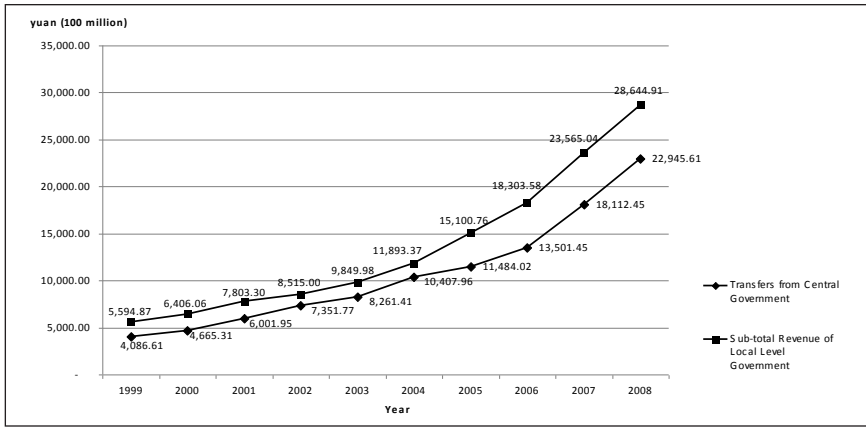
Figure 6 shows central-to-local transfers for year 2008 (actual) and 2009 (estimate). It can be seen that earmarked transfers are slightly larger than general transfers. Details of the general transfers by items in 2008 are shown in Figure 7, and details of earmarked transfers by item in 2008 are shown in Figure 8.

Figure 3 China: Central-to-Local Governments' Earmarked Transfers and Other Local Government Revenues, 2008



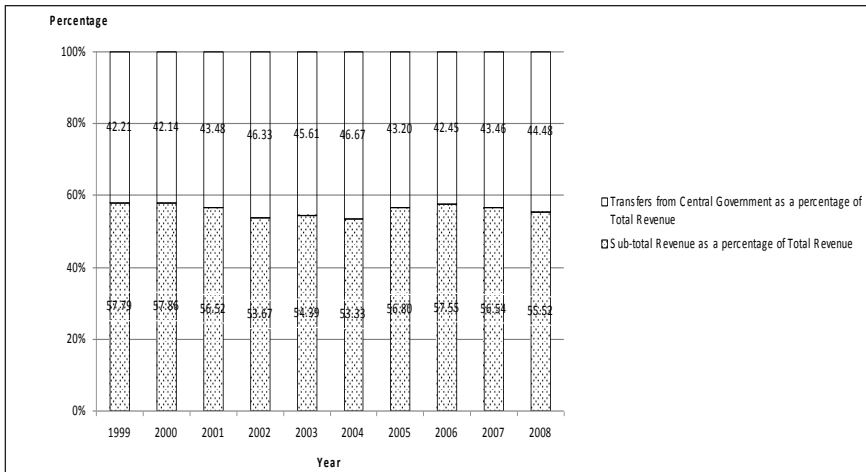
Source: Data from <http://www.mof.gov.cn/mof/zhengwuxinxi/caizhengxinwen/200903/t20090316_122544.html>.

Figure 4 China: Transfers from Central Government and Sub-total Revenue (i.e. Revenue which Are Not Transfers from Central Government) of Local Governments, 1999-2008



Sources: Data from Zhongguo Caizheng Nianjian 中国财政年鉴, various years; <http://www.mof.gov.cn/mof/zhengwuxinxi/caizhengshuju/200807/t20080728_59019.html>; <http://www.mof.gov.cn/mof/zhengwuxinxi/caizhengxinwen/200903/t20090316_122544.html>.

Figure 5 China: Transfers from Central Government and Sub-total Revenue (i.e. Revenue which Are Not Transfers from Central Government) as Percentages of Total Revenue of Local Governments, 1999-2008



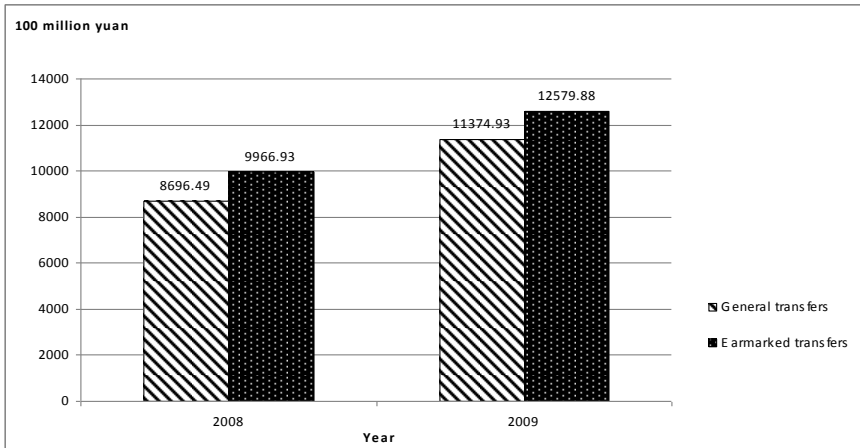
Sources: Data from Zhongguo Caizheng Nianjian 中国财政年鉴, various years; <http://www.mof.gov.cn/mof/zhengwuxinxi/caizhengshuju/200807/t20080728_59019.html>; <http://www.mof.gov.cn/mof/zhengwuxinxi/caizhengxinwen/200903/t20090316_122544.html>.

Table 3 China: Central-to-Local Governments' Transfer Payments and Tax Revenue Rebate, 2008-2009 (billion yuan)

Item	2008 (Actual)	2009 (Estimate)	2009 Estimate as % of 2008 Actual
I. Central-to-Local Governments' Transfer Payments	1866.342	2395.481	128.4
(1) <i>General Transfers</i>	869.649	1137.493	130.8
1. Equalization transfers	351.052	391.8	111.6
2. Nationality areas transfers	27.579	28	101.5
3. Basic fiscal security subsidy for counties and villages	43.818	55	125.5
4. Wage adjustment transfers	239.23	236.563	98.9
5. Transfers for rural tax and fee reform	76.254	77.022	101
6. Fiscal transfers for urban resource depletion	2.5	5	200
7. Fixed-amount subsidies (original institutional subsidies)	13.614	13.814	101.5
8. Enterprise unit subsidies	33.5	34.8	103.9
9. Fiscal balance subsidies	35.466	34.451	97.1
10. Transfers for industrial and commercial departments after abolition of "two fees"	4.7	8	170.2
11. Village-Level Social Welfare "One-Event-One-Suggestion" Award Fund		1	
12. General Public Service Transfers		4.5	
13. Public Security Transfers		33.29	
14. Education transfers	41.936	90.849	216.6
15. Social Security and Employment Transfers		123.404	
(2) <i>Earmarked Transfers</i>	996.693	1257.988	126.2
Including: Education	68.753	44.886	65.3
Science and technology	8.588	3.279	38.2
Social security and employment	239.931	181.617	75.7
Healthcare and hygiene	80.049	112.428	140.4
Environmental protection	97.409	119.927	123.1
Agriculture, forestry and water	238.781	314.319	131.6
II. Central-to-Local Governments' Tax Revenue Rebate	334.226	493.419	147.6
Rebate of "Two Taxes"	337.2	347.6	103.1
Income Tax Base Return	91.019	91.019	100
Product and Oil Price and Tax-Fee Reform Tax Revenue Rebate		153	
Revenue from submitting of local government	-93.993	-98.2	104.5
Central-to-Local Governments' Tax Revenue Rebate and Transfer Payments	2200.568	2888.9	131.3

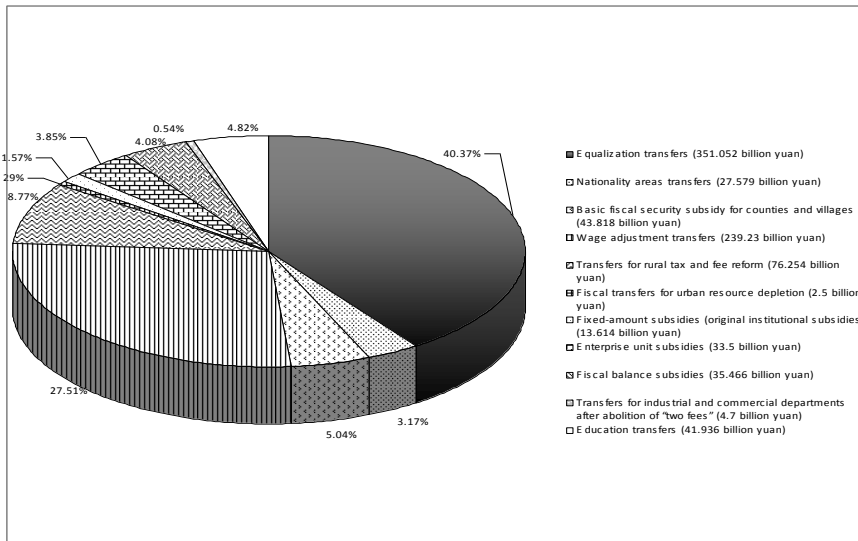
Source: <http://www.mof.gov.cn/mof/zhengwuxinxi/caizhengshuju/200903/t20090319_124155.html>.

Figure 6 China: Central-to Local Governments' Transfer Payments, 2008-2009



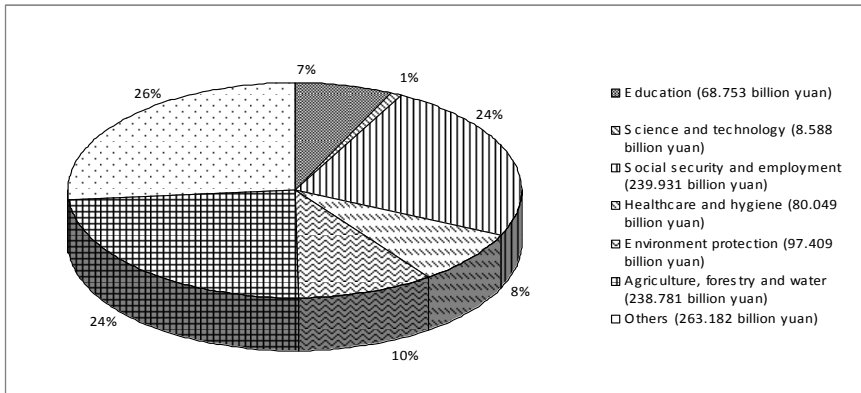
Source: Data from <http://www.mof.gov.cn/mof/zhengwuxinxi/caizhengshuju/200903/t20090319_124155.html>.

Figure 7 China: Central-to-Local Governments' General Transfers by Item, 2008 (Actual)



Source: Data from <http://www.mof.gov.cn/mof/zhengwuxinxi/caizhengshuju/200903/t20090319_124155.html>.

Figure 8 China: Central-to-Local Governments' Earmarked Transfers by Item, 2008 (Actual)



Source: Data from <http://www.mof.gov.cn/mof/zhengwuxinxi/caizhengshuju/200903/t20090319_124155.html>.

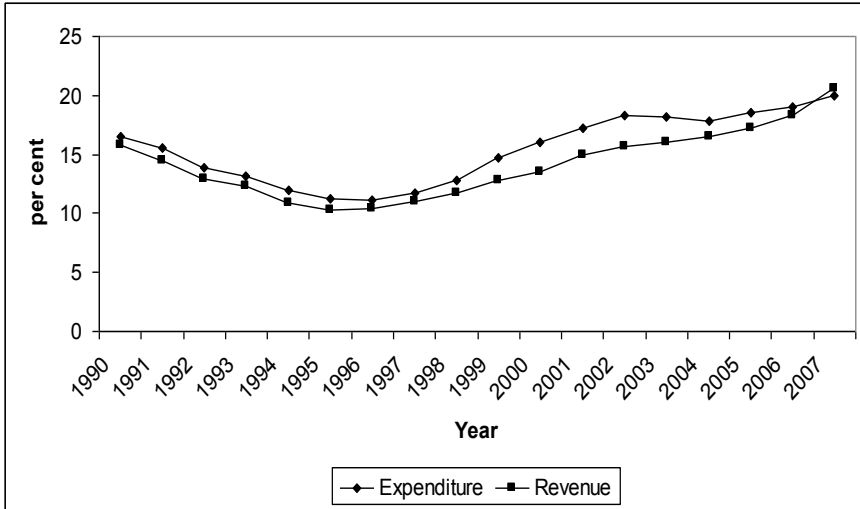
3. Fiscal Decentralization

Hypothesizing that the best indicator for the level of fiscal centralization or decentralization is the share of subnational expenditures and revenues, Schneider (2003: 36) explained that

The choice of focusing on fiscal instruments rather than regulatory or financial policies is partly methodological and partly substantive. Governments use various instruments to influence the amount and distribution of wealth in society. Because regulatory instruments are built into the formal and informal institutions that govern civil society and private sector, they are extremely complex and context-specific. Financial instruments are similarly difficult to measure with statistics, and their impact on distribution is not as direct as fiscal policy. Fiscal policy offers the best window into levels of fiscal decentralization. Decentralization of regulatory or financial mechanisms will thus have to be taken up in individual country studies.

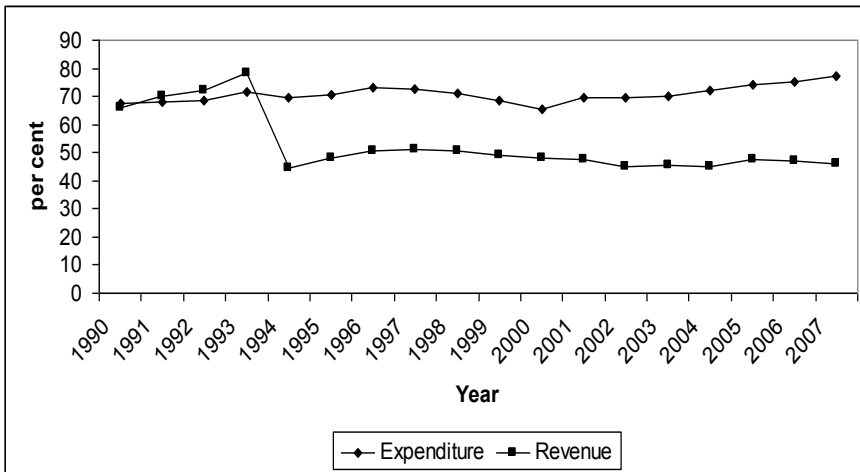
The degree of Chinese fiscal decentralization can be seen in Figures 9, 10 and 11. Figure 9 shows, among others, that revenue collection had been falling rapidly as the traditional tax base of the command economy eroded with the onslaught of market reform and this fiscal decline continued well into the early 1990. It was in this climate that the 1994 fiscal reform was introduced as an effort by the central government to regain control and recoup lost revenues via a new system of dual taxation (tax sharing) that redefined central government's and regional governments' revenues. The comprehensive reform in effect redefined the whole intergovernmental fiscal relations (fiscal IGR) by

Figure 9 China: Government Expenditure and Revenue as Percentages of GDP, 1990-2007



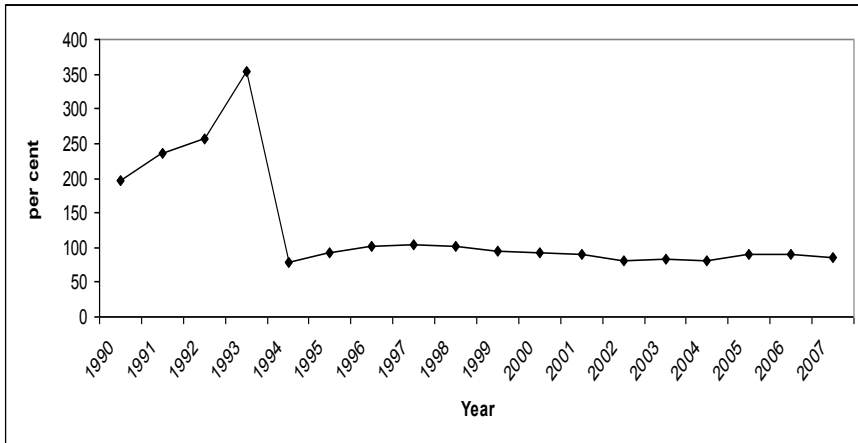
Source: Computed with data from *China Statistical Yearbook*, various years.

Figure 10 China: Local Government Expenditure and Revenue Respectively as Percentages of Total Government Expenditure and Revenue, 1990-2007



Source: Computed with data from *China Statistical Yearbook*, various years.

Figure 11 China: Ratio of Local to Central Government Revenue, 1990-2007



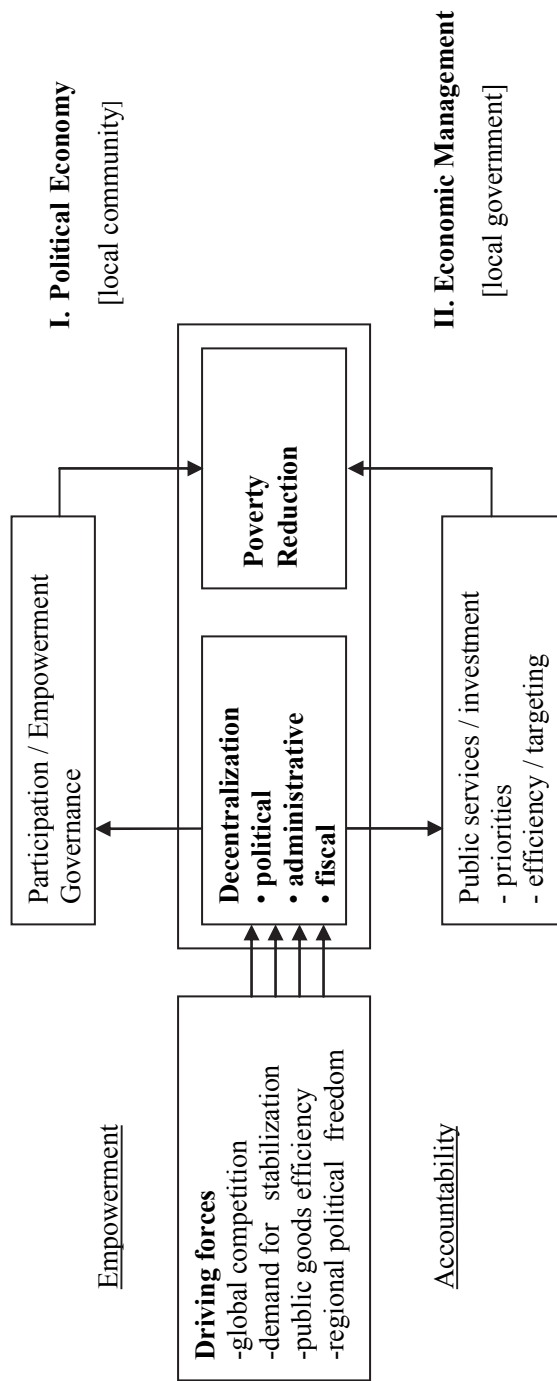
Source: Computed with data from *China Statistical Yearbook*, various years.

changing the structure of the main taxes, responsibilities in tax administration, revenue-sharing arrangements, and weakened the ability of the regional governments to employ surreptitious approaches for revenue mobilization. China's proportion of local public spending in total national public spending is actually much higher than those of the major federal countries in the world. China's local public spending has since the mid- and late 1980s been steady at about 70 per cent of her total national public spending (Figure 10), whereas in federal countries such as the US, Germany and Russia, the proportions of local public spending in total national public spending are only respectively 46 per cent, 40 per cent and 38 per cent (Yeoh, 2009: 246). Furthermore, the scope of China's economic decentralization goes far beyond decentralization in public finance, but even measured solely by the latter, China has been said to be one of the world's most economically decentralized countries.

4. Poverty and Decentralization

While Cai and Treisman challenged the claim that decentralization had much to do with the success of China's reforms and her subsequent economic miracle, von Braun and Grote (2000: 15) warned that China's approach to administrative decentralization which relies on negotiations rather than rules to define relations between the central government and the four sub-national tiers (provinces, prefectures/cities, counties and villages/townships) might over time threaten the success of the reform process.⁵

Figure 12 Von Braun and Grote's Conceptual Framework on Decentralization and Poverty Reduction



Source: von Braun and Grote (2000: 7), Figure 1.

Pursuing the second link outlined in their conceptual framework delineated in Figure 12 – whether public services for the poor are fostered by decentralization, and by fiscal decentralization in particular – von Braun and Grote (2000) commented that the 1994 tax reform seemed to have failed to arrest the trend towards worsening interregional inequality, as the loyalty of the local governments shifted away from the national government to the subnational level⁶ since taxes belonged to the central government unless specifically assigned to the localities. As the local rural governments began to impose a host of fees and levies since the higher-level governments were not able to subsidize existing services due to fiscal strain, the poorer regions hence might be victimized as they were less able to do the same (*ibid.*: 20). In fact, in order to end the wanton charging of fees by schools and to further regulate and strengthen the fee management system of schools to reduce the economic burden of families with school-age children especially the rural poor, the government began implementing the one-fee system (*yi fei zhi* 一费制) in the poor areas. One-fee reform was remarkably effective in stopping education cost from rising too fast and in reducing peasant families' liabilities, as well as to a certain extent increasing the rate of enrolment. However, *Zhongguo Fazhan Baogao 2007 – Zai Fazhan zhong Xiaochu Pinkun* [China Development Report 2007 – Eliminating Poverty through Development in China] warns that the fee reduction also has the tendency to compromise the quality of education, due to schools' financial difficulties and debts. On the other hand, as one of the seven prongs of the western regional 2004-2007 plan to achieve comprehensive nine-year education and basically eliminate youth and adult illiteracy in the western region by 2007⁷, the “two exempts and one subsidy” (*liang mian yi bu* 两免一补) scheme aims at solving the problem of children of poor families in backward areas attending school. Under this scheme, the central government provided free textbooks, while the various tiers of the local governments took up the responsibility of exempting poor students from sundry fees and subsidizing boarding expenses. *Liang mian yi bu* specifically targets compulsory education stage students living in rural areas (with main source of family income being agriculture), studying in rural (including village, township and county town) primary and secondary schools, who are unable to pay for textbooks, sundry fees and boarding expenses due to economic difficulties of their families (also including county-level students with disabilities). The report indicates that central government expenditure for this purpose in 2004 amounted to 1.17 billion yuan, with 32 per cent of students from poor families in the central and western regions provided with free textbooks. The number of primary and secondary students from poor families in the rural compulsory education stage benefiting from free textbooks in the central and western regions reached about 30 million people. Nationwide government expenditure for

rural compulsory education amounted to 184 billion yuan in 2006, exempting all 52 million students at rural compulsory education stage in the western region and part of the central region from school and sundry fees, providing free textbooks for 37.3 million students from poor families, and subsidizing living expenses for 7.8 million boarding students. To further strengthen the development of rural foundational education, The report notes that the central government has also decided to extend the *liang mian yi bu* scheme to all rural areas nationwide to provide educational opportunity for more children from poor families.

Besides such schemes targeting at education, whole-village development (*zheng cun tuijin* 整村推进) – one of the three foci⁸ of China's current rural developmental poverty assistance – on the other hand aims at using relatively large-scale capital and other resources to greatly enhance in a relatively short time the assisted village in terms of foundational and social services and amenities, living and production conditions as well as industrial development, leading to better coordination of various items to achieve greater integrated benefits, hence enabling the poor population to get out from poverty, and at the same time enhancing the integrated productive capability of the poverty community and population and their ability to withstand risks. *Zhongguo Fazhan Baogao 2007* cited government statistics on 70 thousand poverty villages in 16 provinces/zizhiqu (including Hebei, Jilin, Heilongjiang, Jiangxi, Anhui, Henan, Hubei, Hunan, Guangxi, Hainan, Sichuan, Yunnan, Shaanxi, Qinghai, Ningxia and Xinjiang) which gave the average poverty assistance fund for each poverty village at 2.28 million yuan. Of the 16 provinces/zizhiqu, 12 have average fund planned at between 1 million and 3 million yuan, only Guangxi and Heilongjiang have more than 3 million yuan planned, with Guangxi having more than 13 million yuan. On the other hand, two provinces i.e. Hunan and Yunnan, have lower than 1 million yuan. According to the statistics, till mid-2005, the average poverty assistance investment for each poverty village was 0.34 million yuan, which met only 15 per cent of the demand. The report emphasized that even with the assumption that all these investments were used on poverty villages that have already implemented the whole-village development programme (only 32 per cent of the poverty villages have implemented the whole-village development programme), the average fund for each of such villages was merely 960000 yuan. Hence, the actual poverty assistance investment and planned investment were seriously inadequate to meet the actual demand. Only Jilin, Jiangxi, Henan, Guangxi, Ningxia and Xinjiang have average poverty assistance investment exceeding 50 thousand yuan, while Hubei, Hunan, Hainan and Qinghai have average investment of each poverty village less than 20 thousand yuan. The findings also showed that except for a minority of poverty villages where the provincial/zizhiqu/zhixiashi units⁹ and leadership were directly responsible in

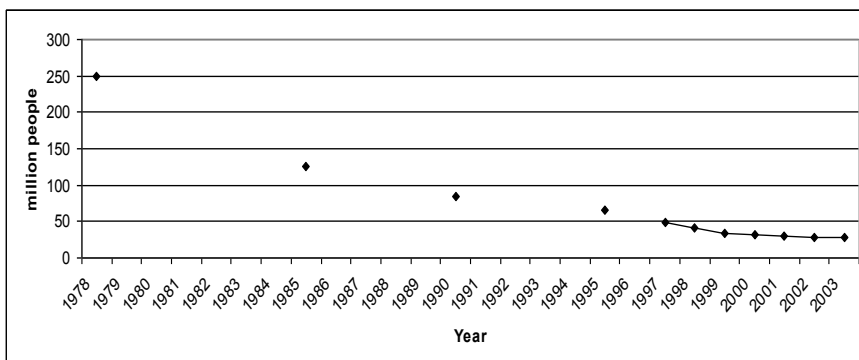
supporting the programme, most poverty villages were either not getting any poverty assistance investment at all or only very limited funds. Besides, the report's findings also showed great discrepancy in the income growth among different rural families in the same village under the programme, and the main beneficiaries from poverty assistance investment are the relatively richer rural families in the poverty villages, due mainly to the need for the rural families themselves to provide a part of the capital (matching fund) which is beyond the capability of those in absolute poverty.

5. Concluding Remarks

This research note has presented various observations on the dimensions of decentralization in China which has been said to exhibit the rather unusual combination of high political centralism and high fiscal/economic decentralization, and given the still grave situation of overall Chinese poverty even after the remarkable poverty reduction achievements over the last few decades (see Figures 13 and 14), it is indeed pertinent to include the implications on poverty reduction and interregional disparity in further research on fiscal reform and dimensions of decentralization.

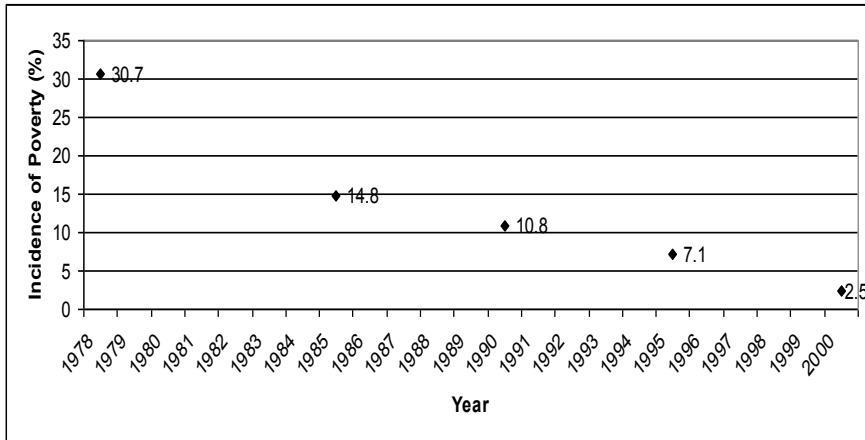
As poverty and inequality constitute one of the most, if not *the* most, critical challenges China faces in her next phase of politico-socioeconomic development, and poverty in China has the properties of being concentrated in the western region and in the ethnic minority areas, ethnoregionalization of poverty inevitably ensues (Yeoh, 2009: 269-272), presenting China not only with economic challenges but also long-term sociopolitical security risks. The solving of the remaining problems of poverty and inequality, still daunting despite the impressive achievements in the last few decades, in this vast nation

Figure 13 China: Rural Population in Poverty



Source: Chen (2006: 174), Figure 7-1.

Figure 14 China: Rural Incidence of Poverty



Source: *Zhongguo Diqu Jingji Fazhan Zhanlüe Yanjiu*, 2003, p. 47, Table 3-6.

has duly been the focus of researchers and policymakers, whether the policy suggestions, to give a few examples, be in the form of Woo's four points of implementing programmes that strengthen the three mechanisms of income convergence (i.e. free movement of goods, people and capital), that provide infrastructure, that focus on rural poverty and that mobilize the universities for growth (Woo, 2004), or Fan *et al.*'s seven points of increasing overall public investment in rural areas, increasing public investment in agricultural R&D, in rural education, in rural infrastructure, in improving the efficiency of existing public irrigation systems, as well as improving the targeting of funds to the poor and increasing fiscal transfers from the richer coastal region to the poorer western regions, in view of the country's decentralized fiscal system and the western region's small tax base (Fan *et al.*, 2002: 50-51), or *Zhongguo Fazhan Baogao 2007*'s nine points of establishing the "developmental poverty line" standard to readjust long-term poverty alleviation policy, establishing a poverty alleviation credit system and ways for private finance institutions to participate in poverty alleviation, establishing a sound social security system both urban and rural, advancing the progress of urbanization and the provision of social security and public services to rural-to-urban migrants, providing more equitable educational opportunity, expanding human resource development (including skill training and re-training) for rural labour, improving rural medical services, establishing a rational public finance system and strengthening public governance for poverty alleviation, and enhancing the role of non-governmental organizations in poverty alleviation (*Zhongguo Fazhan Baogao 2007*, pp. 174-182).

The highly remarkable extent of fiscal decentralization that exists in China should be further enhanced to aid the effort at poverty alleviation, especially in the context of the ethnoregional dimension of the poverty problem. In recent years, local and international organizations around the world are increasingly advocating decentralization to bring about more effective poverty reduction, with both the direct effects on the regional targeting of transfers and the indirect effects of overcoming the inefficiency in local public services and hampered economic growth related to sub-optimal decentralization (von Braun and Grote, 2000: 2). Although theoretically there may not be a clear-cut functioning relationship between decentralization and poverty reduction, most research findings in recent years definitely pointed to the positive. Von Braun and Grote (2000) pointed out that political, administrative and fiscal decentralizations need to be considered simultaneously, and the sequencing and pace of these three aspects of decentralization seem to play an important role in impacting poverty reduction. While fiscal decentralization shows ambivalent effects for poverty reduction and administrative decentralization alone does not add power and voice to the poor, “political decentralization often benefits the poor, because involving civil society in planning, monitoring and evaluating public programs and policies is crucial to ensure steady progress and that is facilitated in a decentralized system” (*ibid.*: 25-26), or, as Boex *et al.* pointed out in their research report “Fighting Poverty through Fiscal Decentralization” (January 2006: 2), “if the increasingly accepted wisdom that ‘all poverty is local’ is correct, then decentralization policy and poverty reduction strategies could be closely intertwined and have synergetic positive effects on each other”¹⁰. Kyei (2000), in his study on the case of Ghana, concluded that the rural poor in Ghana could only benefit with a much stronger commitment from the central government to decentralization, especially in terms of powersharing and financial provision. Vijayanand (2001), in his paper on the Kerala state of India, noted various advantages of decentralization in terms of poverty reduction including the greater reach of resources with earmarking of funds for the disadvantaged groups, less sectoralism in decentralized programmes with greater convergence contributing to the reduction in the ratchet effect of poverty, greater emphasis on locally appropriate and affordable solutions, greater realism in tackling problems of poverty, improved accountability, etc. while decentralization “affords opportunities to the poor to grow in strength by continuous participation (learning by doing), constant observation of the exercise of power (learning by seeing) and accessing more information (learning by knowing)” (p. 23). Hence, given the crucial ethnoregional dimension of China’s poverty problem, it is pertinent that the poverty alleviation effort of the country should benefit from any possible progress in decentralization – fiscal, administrative, and most importantly, political – since decentralized

governments, due to their closeness both institutionally (e.g. ethnically) and spatially to citizens in the regional/rural areas, could be more responsive to the needs of the poor than the central government and hence are more likely to successfully formulate and implement pro-poor policies and programmes in these regions and areas.

Notes

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1. See Li (2003) which cited the 1968 work of Franz Schurmann (who called these type 2 and type 1 decentralization) and that of James Townsend and Brantly Womack (1986).
 2. Bo Yibo 薄一波 (1993), *Ruogan Zhongda Juece yu Shijian de Huigu* 若干重大决策与事件的回顾 [Looking back at some important decisions and events], p. 804, cited in Li (2003).
 3. 关于2008年中央和地方预算执行情况与2009年中央和地方预算草案的报告.htm <http://www.mof.gov.cn/mof/zhengwuxinxi/caizhengxinwen/200903/t20090316_122544.html>.
 4. “Yuan 元” is the largest denomination of China’s currency “renminbi 人民币” (“people’s currency”, Rmb), equivalent to about US\$0.146. Following the US (rather than British) convention, billion = 1000,000,000 and trillion = 1000,000,000,000.

5. Braun and Grote (2000: 15) noted that in China “the allocation of responsibilities across tiers of government remains unclear, except for health and education which are controlled by the provinces [...] While administrative discretion has helped preserve the momentum for growth and reform, it has also created opportunities for corruption.”
6. As von Braun and Grote (2000: 20) noted, provincial tax officers, aiming to establish some tax autonomy, “entered into direct negotiations with enterprises for payments and transferred tax funds that would otherwise have been shared with the central government into local extra budgetary accounts.”
7. The seven prongs are 1) implementation of the rural boarding school system; 2) implementation of the “two exempts and one subsidy” system to assist schoolchildren of rural families with economic difficulties in the western region; 3) long-term modernization of the rural primary and secondary schools; 4) greatly strengthening the teaching team in the rural areas of the western region; 5) deepening the reform in teaching and learning, and enhancing quality of education; 6) expanding and strengthening direct assistance in education; 7) clear demarcation of the responsibilities of various levels of government in implementing this plan.
8. That also include labour retraining and loans. Poverty reduction through loans, including microcredits, has in general not met with much success.
9. Referring to the 31 *sheng* (i.e. provinces of Anhui 安徽, Fujian 福建, Gansu 甘肃, Guangdong 广东, Guizhou 贵州, Hainan 海南, Hebei 河北, Heilongjiang 黑龙江, Henan 河南, Hubei 湖北, Hunan 湖南, Jiangsu 江苏, Jiangxi 江西, Jilin 吉林, Liaoning 辽宁, Qinghai 青海, Shaanxi 陕西, Shandong 山东, Shanxi 山西, Sichuan 四川, Yunnan 云南 and Zhejiang 浙江), *zizhiqu* (i.e. “autonomous regions” – each a first-level administrative subdivision having its own local government, and a minority entity that has a higher population of a particular minority ethnic group – of Guangxi 广西 of the Zhuang, Nei Monggol/Inner Mongolia 内蒙古 of the Mongols, Ningxia 宁夏 of the Hui, Xizang/Tibet 西藏 of the Tibetans and Xinjiang 新疆 of the Uyghurs) and *zhixiashi* (municipalities under the central government – Beijing 北京, Chongqing 重庆, Shanghai 上海 and Tianjin 天津).
10. “Poverty is local and it can only be fought at the local level” (UNCHR, 1999).

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Book Review

Axel Harneit-Sievers, Stephen Marks and Sanusha Naidu (eds), *Chinese and African Perspectives on China in Africa*, Oxford: Pambazuka Press, 2010, 274 pp. + xvi.

This is a quality publication from Pambazuka Press on the state of relations between China and Africa, regarding Chinese activities on the African continent in contemporary times. Through the eyes of mainland Chinese and African scholars as well as members of civil society organizations (CSOs) from each side, *Chinese and African Perspectives on China in Africa* provides invaluable information to readers on how Chinese foreign assistance, investments and trade etc. activities in Africa are being perceived by both sides.

There have already been many books written about China and the Chinese in Africa and there will likely be a lot more to come in time. This book is however different from the rest in that it demonstrates the importance of allowing non-governmental organizations (NGOs) to express their respective opinions, in relation to the state of Chinese involvement in the political and economic developments of Africa, opinions which may otherwise remain unheard.

The book is comprised of five main portions the first of which provides an introduction into the mutual perceptions (or misperceptions perhaps) between China and Africa from a historical point of view and how little academic research on Africa from China, have taken place till date and how such research and engagement between the two sides could improve. Part two looks at the macro or big picture of Sino-African relations in contemporary times from the economic and trade perspectives and also discusses whether Chinese economic aid to Africa really qualifies as 'aid'? Part three of the book is actually the specific country studies of six African nations namely: Angola, Ethiopia, Kenya, Mozambique, Nigeria and the Democratic Republic of the Congo and their respective trade and investment relations with China. It is interesting to take note that China and Chinese companies in Africa are often viewed in a more benevolent manner by the African sides as far as the formers' investment and trade activities are concerned in Africa, in that the failure of the market and state sectors in Africa are recognized as the results of inefficiencies and ineffectiveness from respective African governments than otherwise. African NGOs and CSOs are being urged to play a bigger

role and advocate for change in Africa. Part four of the book touches on China's increasing role in peace and security building in Africa. In the case of Sudan, China's usual practice of "non-interference" in African nations' domestic affairs was being put to the debate by the African side; it is being argued that China should do more in Sudan and also in Africa, to advocate for improvement in governance. However, the Chinese side notes that China is already doing more to pressure the Sudanese government (in allowing a joint United Nations-African Union force into Sudan during the Darfur crisis) etc. Lastly, part five in the book pushes for further collaboration between Chinese and African CSOs and NGOs, including collectively advocating for changes in African governance and also increasing exchanges by the CSOs and NGOs from both sides. It is hoped that a shared Chinese-African vision of a civil society, one whereby joint efforts in the pursuit of mutual understanding and development directed towards greater responsibility of government policy-makers from both sides, will prevail.

Chinese and African Perspectives on China in Africa is a welcome addition to the literature in at least three respects. Firstly, this book is a good following up of two earlier volumes *African Perspectives on China in Africa* (2007) and *China's New Role in Africa* (2008) both of which provided an initial introduction to interested readers, the voices of civil society and especially the views of civil society organizations (CSOs) on China's numerous inroads into Africa in recent years. Secondly, several papers in this volume, while acknowledging and appreciating the benefits of China's investments into Africa, argue a similar point: China's usual practice of "non-interference" in the domestic affairs (especially on human rights related issues) of certain rogue elements within African nations' governments with whom business is conducted, cannot continue as it is indefinitely. While some efforts may have been put into the promotion of good governance on certain African governments by China, the Chinese government and Chinese corporations need to do more in this regard to help improve overall governance in partnering African nations. Thirdly, there is a convergence of views between both Chinese, African and non-African scholars and activists that greater collaboration between NGOs and CSOs from both sides ought to take place in the future; this would complement the existing structure of cooperation between the governments and business corporations from both sides.

However, it ought to be highlighted that in spite of the tremendous amount of effort that has been put into cooperation and confidence building between the various CSOs and NGOs as discussed above, it remains to be seen if the respective governments both in China and in African nations will change the status quo on the way things have been done in Africa i.e. without seeking consultation from the CSOs and NGOs!

In summary, the editors and contributors of this book must be congratulated on this very well-rounded and readable volume. Though the book is a compilation of essays from 2009, plus there will most certainly be more related works on China and on the Chinese in Africa in due course, this book is recommended reading for students, scholars, government policy makers and those whom are interested in the current Chinese-African relations subject matter.

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