

The Second Country Study for Japan's Official Development Assistance to the People's Republic of China

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February 1999

The Committee on the Second Country Study
for Japan's Official Development Assistance
to the People's Republic of China

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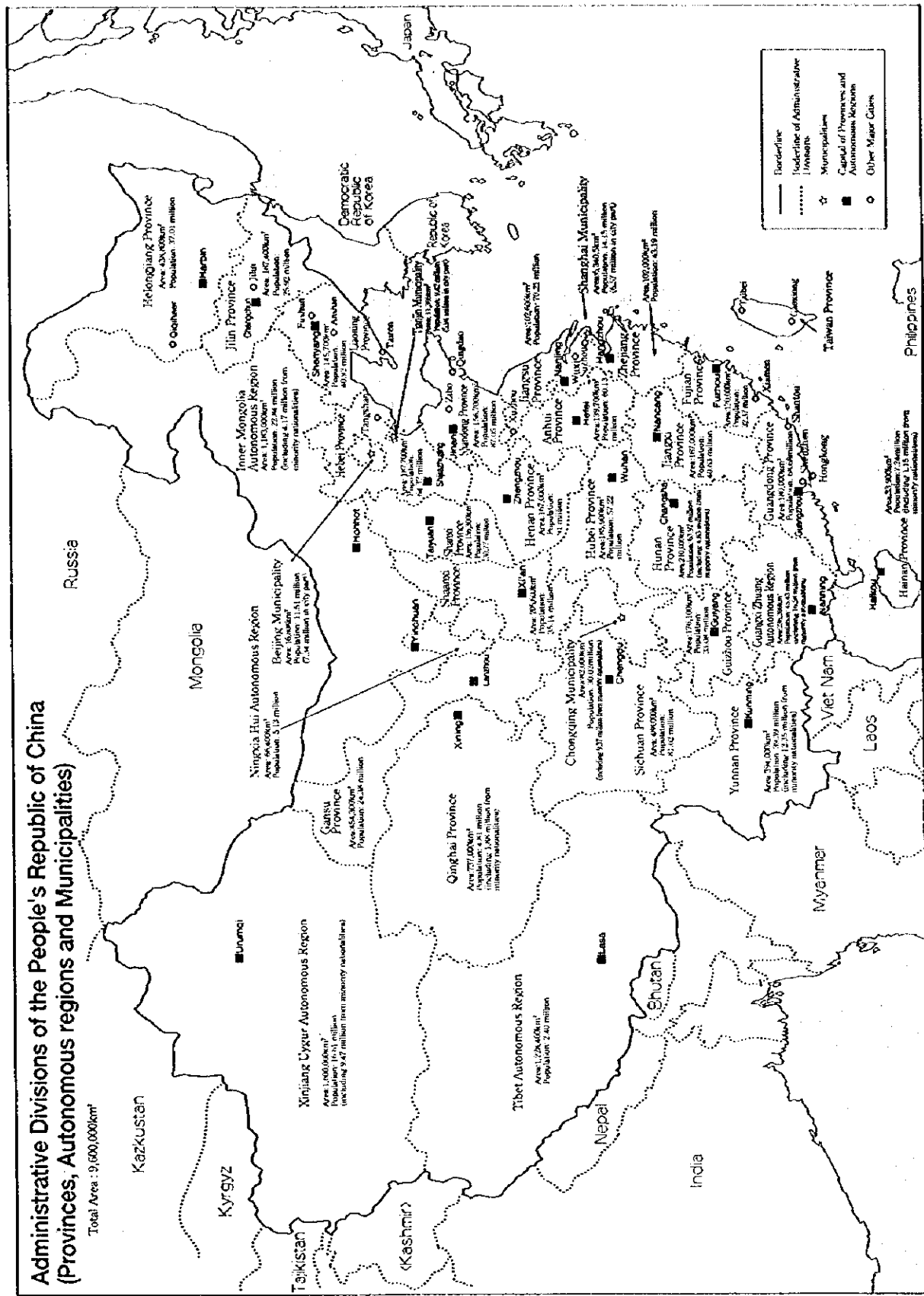
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Administrative Divisions of the People's Republic of China (Provinces, Autonomous regions and Municipalities)

Total Area: 9,600,000km²



Source: China Yearbook 1987

Preface

The Committee on the First Country Study for Japan's Official Development Assistance to the People's Republic of China was established in January 1989 and was chaired by the esteemed Dr. Saburo Okita. The Study Committee's final report was submitted to the president of Japan International Cooperation Agency in December 1991.

In June of 1989, the year the First Country Study Committee was established, the Tian'anmen Square incident occurred in Beijing. Many countries were greatly shocked by how the Chinese government reacted to the citizens and students involved; since that time, China inevitably incurred strict isolation internationally. Major restrictions were levied on the provision of official funds to China, and overseas enterprises rapidly cooled their investments in the country. The incident was a red light in China's policy of international openness.

Moreover, China's macroeconomy appeared highly unstable. The ultra-high growth that had been occurred up to that point caused bottlenecks in infrastructure, with the highest inflation been experienced since China's founding. At that time, the financial and monetary mechanisms to control China's inflation were highly insufficient, forcing administrative control of wages, prices, bank loans and other such direct means. Although they succeeded in curbing inflation, the growth rate itself declined at once. Under these circumstances, system reform also became sluggish.

The policy for ODA to China that the First Study Committee proposed, which focused on support for China's reform and open line, economic stability, curbed inflation, the resolution of bottlenecks in infrastructure, was highly relevant to China's circumstances at the time.

In fact, the situation with regard to the aforementioned adjustments more-or-less settled down by around 1990, and since Deng Xiao Ping's lecture tour of southern China in the spring of 1992, China has entered another phase of ultra-high growth. Although we were concerned for a time by another sudden rise in the inflation rate in the course of this growth, the appropriately tight finance-centered policy has succeeded, achieving noticeable results since 1996. On the macro level, it may be said that China is currently in a phase of comparatively stable high growth. Now that the international backlash China incurred following the Tiananmen Square incident has fully subsided, trade and the introduction of direct investment overseas have seen basically healthy expansion, although there have been a few fluctuations.

The correctness of the analysis of China's current situation made by the First Country Study Committee of the policies proposed based on this has been confirmed

by fact. To eliminate the bottlenecks to economic development that the proposals highlighted, Japan has allocated a huge amount of official development assistance (ODA) to China, primarily for infrastructure for industry and everyday living, and has achieved substantial results.

In the seven years since the proposals were made at the First Country Study Committee, China's macroeconomy has enjoyed major results, and Japan's contribution in the form of ODA cannot be overlooked. However, the past few years of high growth have given rise to substantial problems that must be handled through the adoption of suitable policies. Moreover, we believe that Japan must adopt an approach to ODA to China that is different to the approach that it has traditionally used in the past. In fact, the necessity to adopt such a new approach is emerging from within Japan itself.

With the Cabinet's June 1997 decision on financial structural reform, Japan's ODA budget will be reduced for the following three years. Fiscal year 1998, in particular, will see a reduction of at least 10%, constituting the greatest percent-wise reduction out of all the annual expenditures. This is a deeply regrettable situation. In view of the substantial difficulty at present of expanding the actual volume of ODA, we must consider ways in which Japan can boost the efficacy of its existing ODA. How can this be achieved?

Up to now, much of Japan's ODA to China has focused on the area of industrial infrastructure, for example in the energy supply sector (mainly electrical power) and the transport sector (railways, roads, ports, etc.). China's economic growth in the current period of reform and openness has greatly exceeded the rate of infrastructure increase, and it is apparent that this lack of infrastructure has become a severe bottleneck, hampering smooth economic development. Mind you, arguing in reverse, it has to be said that the bottlenecks in sectors such as energy and transport have occurred largely because China's rate of growth has been excessive. This being so, it will be necessary for China itself to curb its growth rate to match the level of infrastructure that it is capable of providing.

China's current ability to construct infrastructure pertaining to industry and daily life is by no means low. In fact, China procured nearly all of the technology and funding for the giant Sanxia Dam, which is currently under construction in the Changjiang valley, domestically. If China were to curb its economic growth slightly more, it is highly conceivable that the construction of things like roads, railways, ports and power plants using purely domestic resources would become possible.

In line with the above points, Japan should gradually withdraw ODA from the

areas that China can build up through its own efforts, and shift it to areas for which it would be difficult for China to rely solely on its own efforts, but which are nevertheless indispensable from both development and welfare perspectives.

In our Second Study Committee, four such areas were identified: reduction of poverty and interregional disparities, environmental conservation, agricultural development and food supply, and establishment of a systematized market economy.

1. Reduction of Poverty and Interregional Disparities

Despite the substantial rise in economic growth during the current period of reform and openness, an enormous number of poor people continue to reside in China, primarily in the central and western regions. In addition, China is originally a country of major interregional disparities in terms of both economic power and income level - disparities that have actually magnified during the current period of openness and reform. Although the Chinese government recognizes the importance of development in poor regions, the resources that it can put towards this are severely limited, since it is necessary at present to treat high growth as the number one issue. We thus believe that coping with poverty and interregional disparities should become a new frontier for Japan's ODA to China.

2. Environmental Conservation

China's environmental problems are cause for extreme concern. Up to now, there has been only a limited concept of environmental conservation in China. The level of environmental technology is thus low and both industry and citizens still have an insufficient awareness of the issue of environmental conservation. With income levels at an average of \$1,000 per person per year, it is not difficult to see why China, still far from becoming a developed nation, gives priority to development over environmental conservation. It is not surprising that only a very few companies are willing to bear, for example, the huge expense involved in installing desulfurization facilities at thermoelectric power plants. Japan, which excels in environmental conservation technology, must thus take a strong interest in China's environmental problems.

3. Agricultural Development and Food Supply

Owing to the adoption of reform and openness, China's food production is showing its greatest growth since the country's founding, to the extent in fact that the problem of food shortages may be deemed to have been fundamentally resolved. However, income levels in farming villages remain considerably lower than those in urban areas, encouraging a disorderly influx of farmers to the cities. It is thus necessary to further increase farmers' incomes. Japan's cooperation is required in many fields, for example in reducing production costs through the use

of technologies that require little monetary investment, in developing and spreading technologies related to the processing and utilization of agricultural products after harvesting, in providing infrastructure for the distribution of agricultural products, and in reducing transaction costs through the provision of market information.

4. Establishment of a Systematized Market Economy

Although China's transition to a market economy has delivered striking results, the changes have sometimes gone too far, giving rise to various kinds of social discord. There is a danger that this trend will become yet more serious in the future. We recognize the extreme urgency of improving China's market economy system, as China itself possesses little know-how in this regard. It is our conviction that Japan's full-scale response is necessary, as it is Japan that possesses the know-how necessary for providing macro control mechanisms, rectifying income differences, grappling with environmental issues, systematically forming competitive enterprises, forming social safety networks to provide the extra personnel crucial to the reform of state-owned enterprises, cultivating small- and medium-sized enterprises, and engaging in other forms of standard market economy formation.

Of course, with China being an enormous country, Japan does not have sufficient ODA resources for developing all of these diverse plans throughout the whole of the country. As we described earlier, it is conceivable that Japan's ODA will be reduced even further in the future. What is necessary is the small-scale local 'modeling' of important projects, the concentrated investment of ODA resources into these models, and the devising of mechanisms for spreading the effects of the resulting development beyond the boundaries of the models. To do this, it is important to gather the opinions of many different people.

One example is the environment. Numerous cities for which related measures must be devised exist throughout the vast expanse of China, and problems are highly diverse, including air pollution, water quality deterioration, solid waste. Even if Japan's ODA resources are allocated to these areas, the results would merely disappear like mist. Thus, the concept of model formation will be indispensable. Environmental models on which Japan should concentrate its ODA should be established, through which surrounding regions can be influenced by the demonstrated effect of the results in model regions. It will also be necessary to devise other such methods for effective utilization of limited ODA.

Concerning this point, when former prime minister Ryutaro Hashimoto visited China the autumn before last, China approved the concept he proposed, "Japan-China Joint Announcement on Environmental Cooperation toward the Twenty-first Century"

- a fact of major significance. This concept has at its core the formation of cities that serve as environmental models. Three cities - Chongging, Guiyang and Dalian - were selected as targets for cooperation in the area of air pollution. We believe it will also be necessary to develop the concept of model formation similarly for projects to develop impoverished regions, improve farmers' incomes and the like.

You will find that a leisurely reading of this report will reveal great diversity among other themes that warrant debate. We ardently hope that this report will be a valued reference for the Japanese government's planning of ODA to China.

Lastly, we wish to express our sincerest thanks to the members of the Committee on the Second Country Study for Japan's Official Development Assistance to the People's Republic of China, the task force members, and the secretariat's staff for their earnest efforts.

November 11, 1998

To Kimio Fujita
President
Japan International Cooperation Agency

from Toshio Watanabe
Chairman
The Committee on the Second Country Study for Japan's
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Abbreviations

ADB	Asian Development Bank
APEC	Asia Pasific Economic Cooperation
ATC	Agreement on Textiles and Clothing
AusAID	Australian Agency for International Development
BHN	Basic Human Needs
BOT	Build, Operate and Transfer
CICETE	China International Centre for Economic and Technical Exchanges
CIDA	Canadian International Development Agency
COFTEC	Commission for Foreign Trade and Economic Cooperation
DAC	Development Assistance Committee
DOFTEC	Department for Foreign Trade and Economic Cooperation
EU	European Union
F/S	Feasibility Study
FAO	The Food and Agriculture Organization
GATT	General Agreement on Tariff and Trade
GDI	Gender Development Index
GDP	Gross Domestic Product
GEM	Gender Empowerment Measurement
GNP	Gross National Product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit GmbH
HDI	Human Development Index
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFAD	International Fund for Agricultural Development
ILO	The International Labour Organizations
IMF	The International Monetary Fund
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau
LGPD	The State Council Leading Group Office of Poverty Alleviation and Development
MFA	Multi Fiber Arrangement
MOFTEC	Ministry of Foreign Trade and Economic Cooperation
NGO	Non Governmental Organization
ODA	Official Development Assistance
OECD	The Organization for Economic Cooperation and Development
OECF	The Overseas Economic Cooperation Fund
PADO	Poor Area Development Office
PHC	Primary Health Care
PLG	Project Leading Groups
PMO	Project Management Office
UNAIDS	The Joint United Nations Programme on HIV/AIDS
UNCED	United Nations Conference on Environment and Development
UNDP	The United Nations Development Programme
UNICEF	United Nations Children's Fund
UNV	United Nations Volunteer
WFP	World Food Programme
WHO	World Health Organization
WTO	World Trade Organization

1. China's Progress in Socioeconomic Development and Results of Japan's Aid to China

1-1. Progress in Socioeconomic Development

How has China's socioeconomic development progressed since the Committee on the Country Study for Japan's Development Assistance to the People's Republic of China?

The First Committee on the Country Study for Japan's Development Assistance to the People's Republic of China was established in 1989 and chaired by the late Dr. Saburo Okita. The Study Committee made its final report in December 1991 and submitted it to the president of the Japan International Cooperation Agency (JICA).

At the time the First Study Committee made its report, around 10 years had passed since China had initiated its reform and openness policy; at that time China's macroeconomy was unstable, and the possibility of delaying or reversing this policy existed. In this context, the First Study Committee's report supported reform and openness, and focused its proposal on stabilizing the economy, curbing inflation, and resolving bottlenecks in infrastructure.

About seven years after the First Committee made its recommendation, and the Second Study Committee (chaired by Professor Toshio Watanabe, Graduate School of Decision Science and Technology, Tokyo Institute of Technology) was established. What follows are the major points of progress made in China's socioeconomic development from 1991, when the First Study Committee made its recommendation, to the present, 1998.

China has maintained a high rate of macroeconomic growth and has continued to curb inflation, giving it a relatively stable base.

In terms of the macro economy, a high growth rate close to 10% has been achieved

in the over 20 years since the reform and openness policy has been in effect, and with the economy's internationalization and systematization progressing, China's economy has achieved a major qualitative turnabout that should be judged as an affirmation of the policy.

Since 1991, China's real GDP has grown at an average rate of nearly 11%. After Deng Xiao Ping's 1992 Spring Tour of the Southern Provinces, the economy overheated, with double-digit inflation between 1993 and 1995. However, with the adequate monetary tightening policy worked out thereafter, inflation fell to 6% in 1996 and to 3% in 1997, figures indicating that China's economic base is relatively stable.

In terms of fiscal reform, as a plan to dissolve the chronic deficit, a revenue sharing system was introduced in 1994. The revenue sharing system clarifies the division of responsibility between the central and local governments, with the aim of centralizing 60% of fiscal revenue in the central government. In order to simultaneously compensate for the deficit, loans from the Central Bank have been stopped since 1994 and a two-pronged financial budget consisting of an ordinary budget and a construction budget was established, with construction budget deficiency compensated for with national bonds.

Financial reform is also proceeding rapidly, with functional reinforcement of The People's Bank of China, (a necessity for furthering macro-level control) and the advancement of commercial banks by separating other national banks from policy operations proceeding.

The reform of state-owned enterprises is a mainstay in the transition to a market economy. At the 14th National Congress of the Communist Party of China, the goals of establishing a modern business system and strategically reorganizing state-owned enterprise (taking up the large and releasing the small) were set forth ; it was also clearly recognized that these goals should correspond with adjustment of the industrial structure. Concerning the related organization, integration and reform of government divisions, after the National People's Congress in March of last year (1998), China resolved to substantially reorganize the central government structure. (For details on administrative reform, see Box 7, "Structural Reform," and Appendix 6, "Distribution Diagram of State Council Structure Following Structural Reform.")

Fig. 1-1. Changes in Real GDP and the GDP Growth Rate

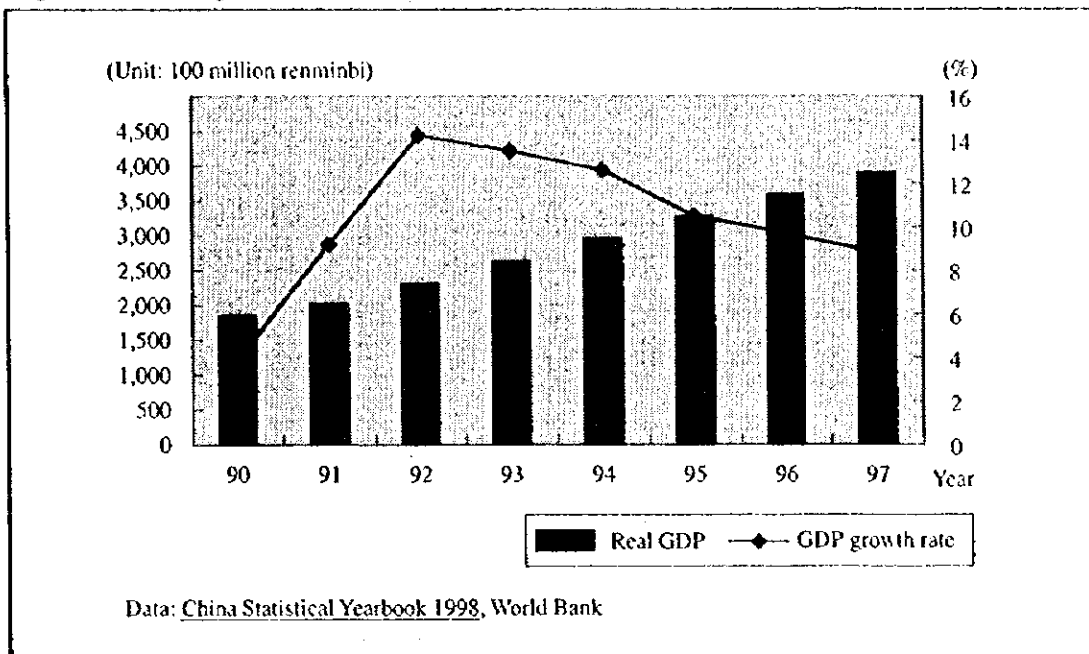


Fig. 1-2. Changes in Inflation

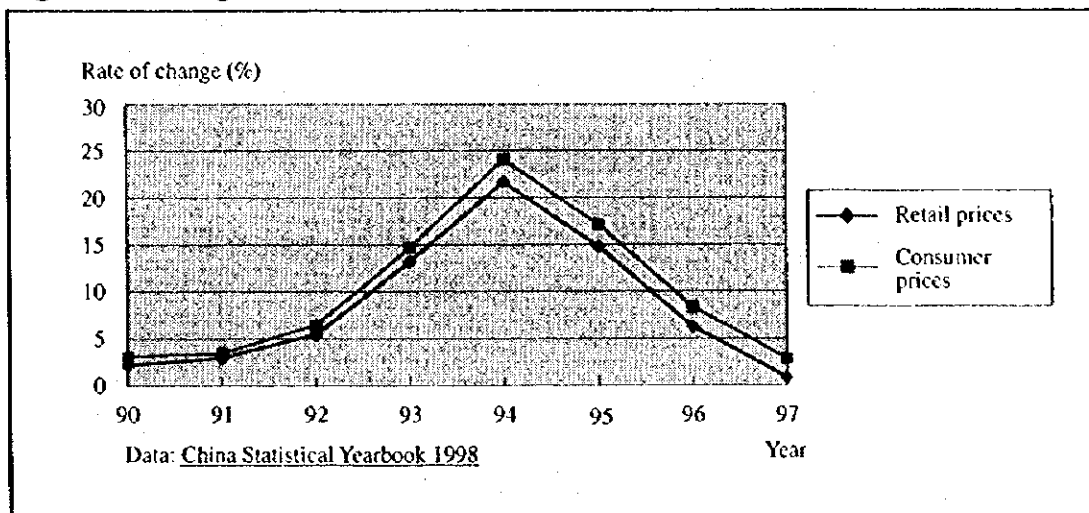


Table 1-1. Financial Revenue

(Unit: 100 million renminbi)

Year	1992	1993	1994	1995	1996	1997
Central government	979.51	957.51	2,906.5	3,256.62	3,661.07	4,226.9
Local government	2,503.86	3,391.44	2,311.6	2,985.58	3,746.92	4,424.2
Total	3,483.37	4,348.95	5,218.1	6,242.2	7,407.99	8,651.1

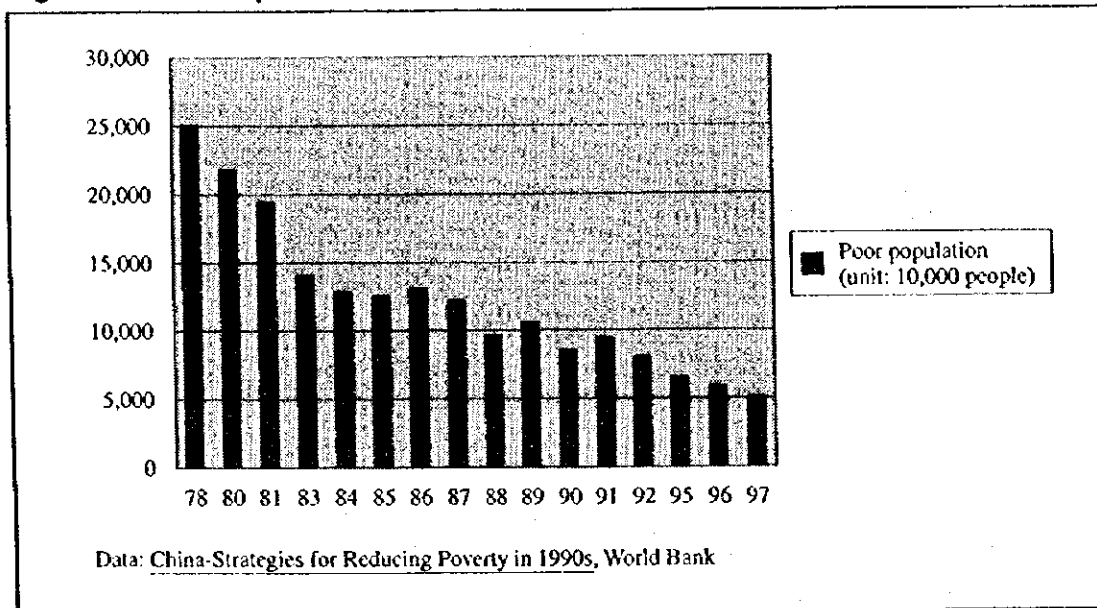
Data: China Statistical Yearbook 1998

On the social front, efforts are being made to eradicate poverty and regional disparities and to reform medical service and education.

China's poor population numbered around 250 million in 1979, 125 million in 1985, and was reported to have dropped to 50 million in 1997. (In 1985, the poverty line in China's agricultural sector stood at 206 renminbi, the per capita annual income. Adjusted against the inflation rate thereafter, the poverty line rose to 630 renminbi in 1997.)

Fig. 1-3. Poor Population

(unit: 10,000 people)



As a countermeasure to poverty in China, the Leading Group Office of Poverty Alleviation and Development was established in the State Council in 1986. In 1994, the National 8-7 Poverty Reduction Plan was established as a mid-term goal. With the goal of eliminating poverty by the year 2000, 592 poor prefectures were identified throughout China in which anti-poverty measures would be concentrated. Moreover, to resolve disparities between coastal and interior zones, investment stressing infrastructures (such as for railways, roads, irrigation and water supply facilities, and drinking water facilities for farming villages) in interior zones is underway.

In terms of China's educational reform, the document "General Plan for Educational Reform and Development in China" was released in 1993. Based on market and competitive theory and meritocracy, reform is being carried forth in pursuit of diversity, efficiency, flexibility and openness. Since the middle of the 90's, China Project Hope has been in force, collecting contributions from donors and various organizations to construct schools in order to promote education particularly in remote regions or poor agricultural and mountain villages. In addition, over a three-year period from 1997 to 1999, the State Education Commission and Ministry of Finance is utilizing special funds to support the enrichment of compulsory education in poor regions.

Table 1-2. Human Development-Related Indexes

Index	China	Thailand	Indonesia	Japan	Average of All Developing Countries
Human Development Index (HDI) ranking	108th	59th	99th	7th	175 countries of the world
Life expectancy (in years) at birth; 1994	68.9	69.5	63.5	79.8	61.8
Percentage (%) of population without access to health services; 1990-1995	12	10	7	-	20
Percentage (%) of population without access to safe water; 1990-1995	33	11	38	3	29
Infant mortality rate (‰); 1994	43	29	53	-	64
Underweight children under age 5 (%); 1994	16	26	35	-	32
Adult literacy rate (%)	80.9	93.5	83.2	99.0	69.7
Gross enrollment rate for the elementary, secondary, and higher education levels (%); 1994	58	53	62	78	56

Data: UNDP's Human Development Report 1997. etc.

A look at health and medical care in China reveals a rough mortality rate of 6.51‰ in 1997 - hardly inferior to the rate in Japan for this same period 7‰. The rate of population growth for the same year was 10.06‰, an improvement from the 14‰ seen during the second half of the 80's (total population in 1997: 123,626,000). Average life expectancy for 1997 was 69 years, higher than the average of 62 years among developing countries and on the level of middle advance nations. China's mortality rate began to drop at the beginning of 50's and currently fluctuates between 6 and 7‰ -- a figure that has remained relatively stable since the 70's. Thus, its efforts in primary health care (PHC, which is not merely about diagnosing and treating illness but about the necessary elements involves combining to improve health conditions at the regional level) with a socialistic tinge have been meritorious.

Efforts for improving the environment, securing food supply, and dissolving bottlenecks in energy infrastructure are continuing.

Although China's environmental problems are extremely serious, the government is well aware of this and continues to implement specific measures. Initiated in 1996, The National Ninth Five-year Plan and Long-term Targets for the Year 2010 for Environmental Protection is a basic plan that stipulates environmental protection targets; the government is currently striving to protect and improve the environment in line with this plan.

Concerning air pollution, the Law on the Prevention and Control of Air Pollution was revised in 1995 to implement new, additional measures to restrict the use of coal having a high sulfur content and other pollutants.

In the area of water pollution "Three Rivers, Three Lakes", has been given priority. Particularly in Huaihe, countermeasures are undertaken energetically such as to impose duty upon all factories in the basin to achieve emission standards by the end of 1997.

In addition, the Chinese government is attempting to establish clear a policy to address the problems it perceives with short- and mid-term market fluctuations in food supply and long-term supply and demand prospects. Other efforts are being made to achieve a balance in income between the agricultural and non-agricultural sectors, to provide infrastructure and advance technology to break through resource limitations, and to form wide-area markets distribution infrastructure.

The construction of energy infrastructure is advancing and the bottlenecks restricting economic development have been alleviated somewhat. The capacity of electricity-generating facilities grew an average of 9% between 1991 and 1995, reaching 210 million kw in 1995. During this same period, the railway's commercial distance increased 3,000km, making a total distance of 57,600km in 1997. Roads covering 92,000km were built or repaired, bringing total road length to 1,226,400km in 1997.¹

¹ See: *The 9th Five-year Plan for National Economic and Social Development and Long-term Targets for 2010* and *China Statistical Yearbook 1998*.

1-2. Contribution of Japan's Aid to China since the First Country Study for Development Assistance to the People's Republic of China

Japan's aid has contributed to China's modernization and progress in reform and openness.

1-2-1. Overview of the First Study Committee's Recommendations

The First Study Committee's December 1991 report recommended new basic principles for aid to China along with priority zones and areas. The content was as follows.

(1) New basic principles

Principle 1: Friendship with China for world peace

Principle 2: Support for economic reform and openness

Principle 3: Remedies for dislocations brought about by economic growth

Principle 4: Consideration for China's immense population and territory

(2) First Study Committee's priority areas of cooperation with China

a. Promotion of economic reform and development:

To support economic reform and resolve bottlenecks to economic development.

b. Promotion of balanced economic development:

To expand food production capacity, rectify interregional disparities, ameliorate urban problems.

c. Realization of sustainable development:

To protect the environment, prevent pollution, and promote woodland reforestation and afforestation.

- d. Promotion of Sino-Japanese cultural exchange:
To promote exchanges of young people, research in Japan, and the protection of cultural assets.

(3) Priority geographic zones for aid to China

- a. Coastal zones:
To support private sector activities and provide infrastructure, which has been bottlenecked, or engage in soft-style cooperation.
- b. Resource-endowed zones of the interior:
To enforce their role as resource supply bases to coastal zones while emphasizing internal development on their own.
- c. Poor zones of the interior:
From the perspective of rectifying differences between zones that arise from development, to provide for basic human needs (BHN).

1-2-2. Results in Priority Cooperation Areas

(1) ODA loans

Between 1979, when ODA loans started, and 1996, 210 loan disbursements were approved, amounting to over ¥1.85 trillion. The total provided in the twelve years from 1979 to 1990 was ¥990 billion, and the total from 1991 to 1996 was on the order of ¥850 billion. A look at the average sum provided on an annual basis reveals that the sum from 1991 to 1996 was about 1.7 times what it was prior to 1990, making it clear that the sum increased rapidly from 1991 on.

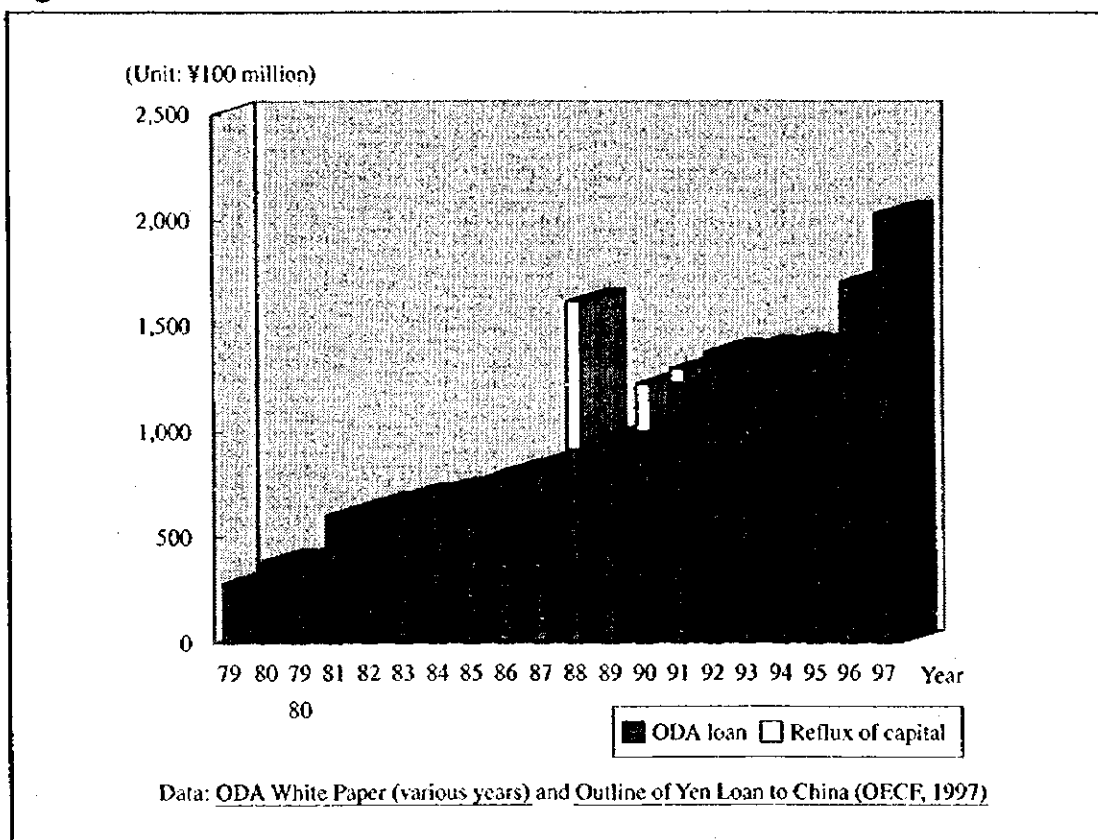
In the priority area of promoting economic reform and development, a large amount of aid has been extended toward the construction of basic infrastructure (railways, subways, roads, bridges, harbors, power plants, communications, etc.) in line with the efforts to resolve bottlenecks to economic development.

Moreover, in accordance with the priority area of promoting balanced

economic development, aid has been directed toward the construction of chemical fertilizer factories, grain processing bases, irrigation facilities and similar cooperation in the agricultural field, as well as toward the construction of filtration plants and other efforts to resolve urban problems.

Concerning the achievement of sustainable development, from 1990 to 1997 there were around 16 projects pertaining to environment, and the percentage of such projects will account for a larger of the whole henceforth. The 4th ODA loan, which began in FY1996, targets 40 projects in the three years between FY1996 and FY1998, and the intention to provide a total of ¥580 billion has been announced.

Fig. 1-4. ODA Loan Performance

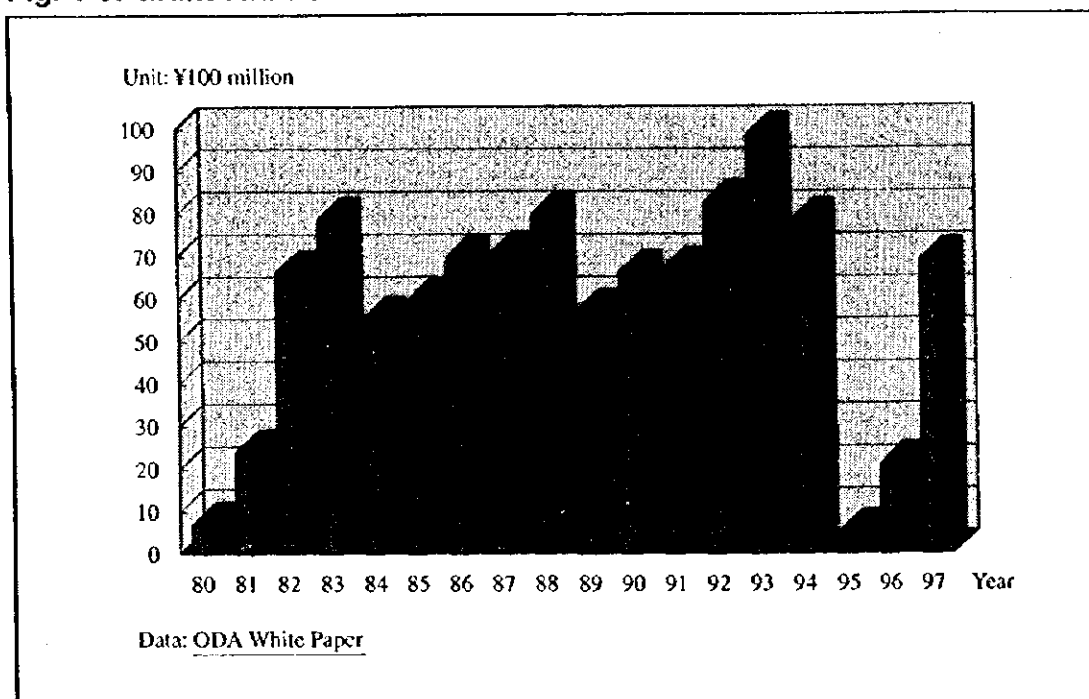


(2) Grant aid and technical cooperation

Among priority areas distribution is stable from year to year. Cooperation particularly for the promotion of economic reform and economic development, and for the promotion of balanced economic development, is increasing smoothly.

In line with the promotion of balanced economic development, cooperation in the area of health and medical care, grant aid cooperation and technical cooperation is being focused on Beijing, Shanghai, and other major cities. Cooperation in such forms as provision of advanced medical equipment and facilities and transfer of diagnostic and treatment technology are being implemented at medical facilities in these cities with consistent results. In recent years, the percentage of equipment granted to local hospitals has been increasing. Particularly for the prevention of polio and the like, the challenge of providing preventative medical care that has a firm regional basis is being taken up. China's anti-polio project, which is based on active support of the plans of both the Japanese and Chinese governments to eradicate polio, is involved in various types of investment and activity. Activities that are firmly rooted in the community are well reflected in government policy-making, and smooth collaboration between departments concerned with anti-polio activities at each level has been developed. In addition, a team of experts including project leaders, has continuously engaged in activities over the long term. These achievements have led to the foundation of solid relations among the related Japanese and Chinese parties, and the project will serve as a model for cooperation in the health and medical services fields targeting poor regions.

Fig. 1-5. Grant Aid Performance



As for cooperation for achieving sustainable development, emphasis was put on environmental protection, pollution prevention, forest regeneration and promotion of afforestation, and a definite direction for such cooperation became clear. With this as a turning point, full-scale cooperation was started off in the environmental field, such as exemplified by the Japan-China Friendship Environmental Protection Center project, mainly with the backing of grant aid and technical cooperation. In addition, cooperation has been proceeding in the fields of industrial anti-pollution technology, countermeasures to air and water pollution, environmental monitoring, afforestation, the prevention of desertification and the like. With ODA loans, the provision of water supply facilities, sewage drains and city gas businesses are being implemented as environment-related social infrastructure.

Between Japan and China, Japan-China Agreement on Cooperation in the Field of Environmental Protection² was concluded in March of 1994 and in May of 1995, the first Japan-China Comprehensive Forum on Environmental Cooperation was held in Beijing, with the participation of the central government, the local government, and civil organizations. The second Forum was held in Tokyo in November 1997. In addition, September 1997 marked the 25th anniversary of the normalization of relations between Japan and China, and then-Prime Minister Ryutaro Hashimoto and Premier Li Peng gave their mutual consent to The Japan-China Joint Announcement on Environmental Cooperation toward the Twenty-first Century, with the Environmental Development Model City Concept³ and the Environment Information Network⁴. The Japan-China Expert

² The March 1994 agreement between the related Japanese and Chinese government offices to cooperate on the monitoring of drainage handling and water pollution from the perspective of advancing level research cooperation. In December of the same year, the first joint committee participated in by the related Japanese and Chinese government offices was held, and cooperation on research focusing on nine projects pertaining to drainage handling, environmental monitoring, etc., was agreed to. (For Japan: Ministry of Foreign Affairs, Environment Agency, Ministry of International Trade and Industry and Ministry of Agriculture, Forestry and Fisheries. For China: State Environmental Protection Bureau, State Marine Bureau, etc.)

³ For establishing model cities within China and (1) creating countermeasures to air pollution (acid rain), (2) creating circulating industrial and social systems that focus on industrialized production of fertilizer handling the gypsum produced from sulfuric acid in the desulfurization process (3) creating successful examples of environmental countermeasures that will be a mainstay to prevent global greenhouse effect and spread throughout China.

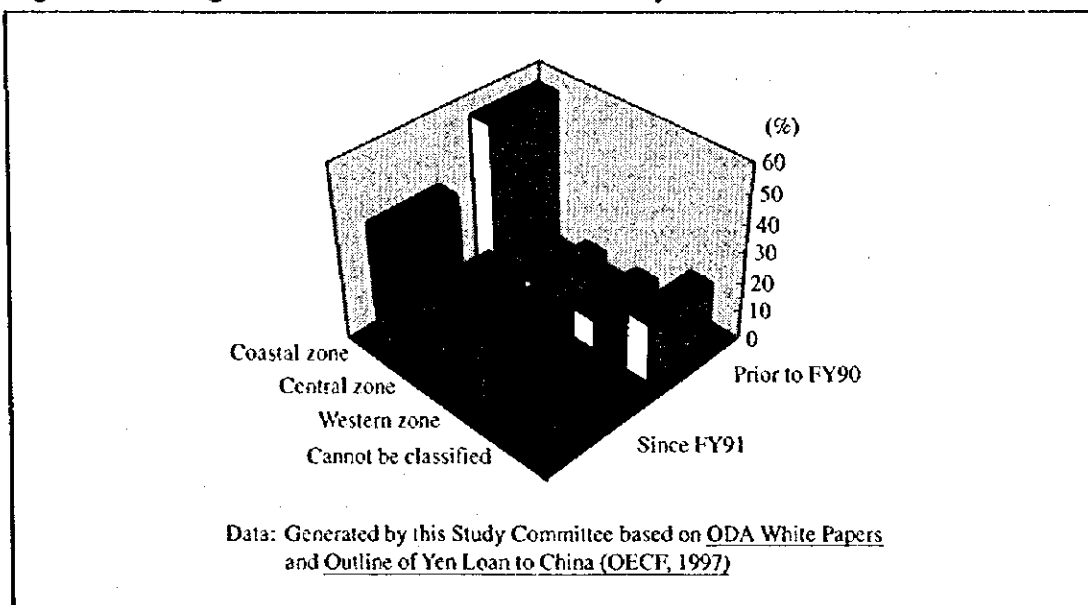
⁴ For constructing information networks on a national scale, in cooperation with World Bank, to further advance cooperation on development focusing on the Japan-China Friendship Environment Protection Center by installing computers for environment-related information processing in 100 major cities throughout China and then supporting human resource development.

Committee was established to study the definite content of cooperation for the Environmental Development Model City Concept, and in March 1998, Dairen, Chongqing, and Guiyang were selected as candidate cities.

1-2-3. Achievements of Allocation to Priority Zones

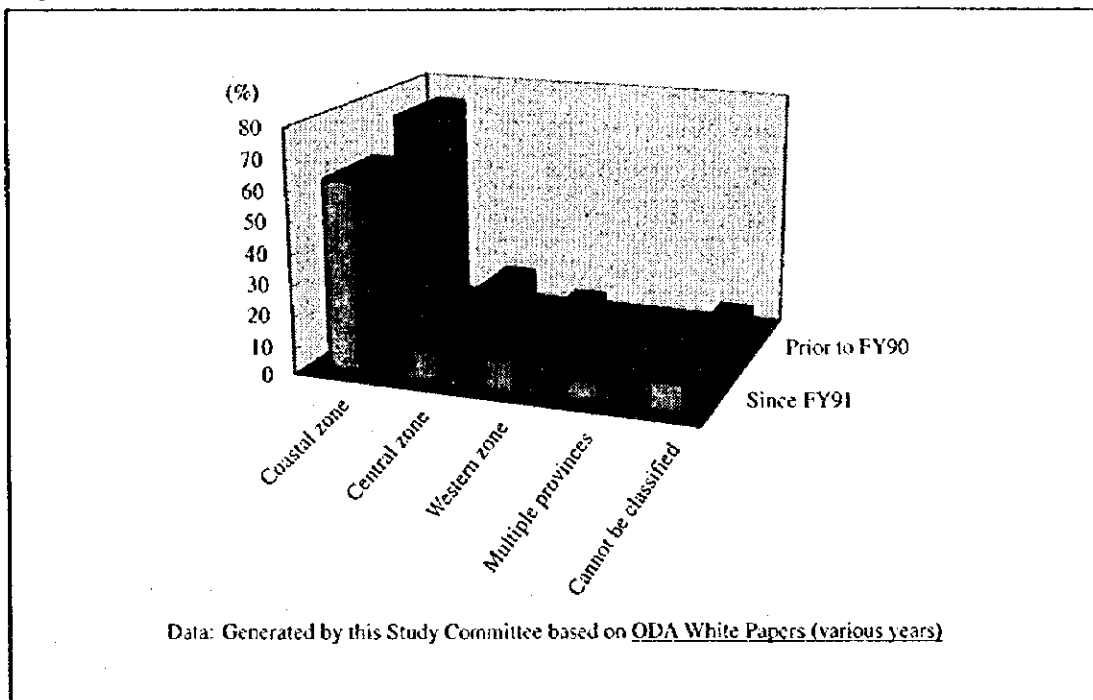
A look at allocation by zone reveals that concerning ODA loans, the performance in terms of sums received from 1979 to 1990, by province, reveal that Shandong Province was at the top (accounting for 13.5% of the total sum of ODA loans from 1979 to 1990), followed by Hebei Province (11.4%), Beijing (8.0%), Jiangsu Province (7.5%) and Guangdong Province (5.8%). Thus, provinces receiving the top sums were concentrated in the coastal zone. Moreover, in eleven provinces, even when ODA loans were provided, the percentage that the sum received occupied of the total sum of the ODA loans was not even 1%. However, the performance from 1991 to 1996 revealed that the number of such provinces had dropped to five, and a rising trend in the sum received per province could be discerned. In terms of the sites which loans are provided, there has been a shift from coastal zones to active development of central and western zones. Although the ratio for the sums provided to coastal, central and western zones between 1979 and 1990 was 58 : 11 : 11, between 1991 and 1996, this ratio was 40 : 27 : 28, indicating a marked increase in allocation to the central and western zones.

Fig. 1-6. Changes in ODA Loan Allocation by Zone



In terms of grant aid cooperation (including grassroots grant aid, disaster emergency relief aid, aid for increased food production, etc.), between 1979 and 1990, 69% of the grant aid provided was concentrated in Beijing, followed by Jilin Province (9% of the total grant aid between 1979 and 1990) and Shanghai (4%). However, the performance between 1991 and 1996 reveal that the percentage allocated to Beijing fell to 38%, and a tendency toward dispersion to other regions was visible. Moreover, although the performance until 1990 reveal that only 12 provinces were granted aid, from 1991 to 1996, grants were made evenly to all provinces. In addition, since 1991, the method of granting aid to several provinces at once (6%) has been adopted.

Fig. 1-7. Changes in Grant Aid Allocation by Zone



As for technical cooperation, taking into account the performance (constituting development studies, project-type technical cooperation, and provision of equipment for technical cooperation) by which each province receiving a grant can be identified, there was a 10% increase in grants received by the coastal zone since 1991, while there was a decrease in the same received by multiple provinces and the central zone during the same. Although the performance by each province is unknown, that for the acceptance of trainees has increased significantly since 1991 (1979 - 1990: 7.07 billion Yen; 1991 - 1996: 7.167 billion Yen).

1-2-4. Results of Aid Policy Consultation, Project Formulation Studies, and Surveys and Research

(1) Aid policy consultation

When the proposal of the First Committee on Country Study for Japan's Development Assistance to the People's Republic of China, the Japanese government's Economic Cooperation Consultative Mission (headed by Dr. Okita) was dispatched to China in March 1992 for policy discussions with the Chinese government. Consequently, an accord was reached between the Japanese and Chinese governments on policies covering 5 fields (a. economic infrastructure, b. agriculture, c. environment, d. health and medical services, and e. human resource development) as well as on 3 region-specific policies (1. planning and development of coastal zone infrastructure by cooperation funded by loans, 2. development of agriculture and farming villages to rectify inter-regional disparities, provision of BHN (Basic Human Needs) in impoverished regions, and development of inland regions making use of their abundant resources, and 3. cooperation with a high dissemination effect making full use of regional characteristics).

With the consent of the Economic Cooperation Consultative Mission, Japan's policy on aid to China was determined. The aforementioned areas and regional policies are explained here.

The Japanese and Chinese governments hold conferences about once a year, in either Beijing or Tokyo, to discuss ODA loans, grant aid, and technical cooperation. Grant aid and technical cooperation are either discussed separately or jointly. Dialogs on measures to be taken for priority areas of cooperation, as well as discussions on projects of proposals for each fiscal year, have taken place. The annual conference held in June of 1998 was the first trial joint conference on ODA loans, grant aid and technical cooperation.

(2) Project formulation studies

JICA's project formulation studies are particularly concerned with the environment. A survey on air pollution in regions in the southern zone was conducted in 1991, a general environment survey (focusing particularly on air

pollution) in 1992, and the first to third environmental area surveys in 1995 to 1997. On the agriculture sector, a survey was conducted and a report was made on themes in China's agriculture, focusing on food distribution in January of 1997.

(3) Surveys and research

In terms of the results attained by the Overseas Economic Cooperation Fund's Research Institute of Development Assistance, report on "Prospects for Grain Supply-Demand Balance and Agricultural Development Policy in China" in September 1995; report on "Fiscal and Financial Reforms and Regional Development in China" was announced in November 1995; on "The Major Issues of the Regional Development Strategies in China" in July 1997; and on "The Reforms of State-owned Enterprises in China" in February 1998.

1-3. China's Evaluations

Last year marks the twentieth year of Japan's aid to China (which began in 1979). Between 1979 and 1996, ODA loan disbursement amounted to around ¥1.85 trillion, and technical cooperation (development study, project-type technical cooperation, provision of equipment for technical cooperation, acceptance of technical participants for training, dispatch of experts, the youth invitation) is in excess of ¥100 billion. Grant aid on the level of ¥100 billion was provided. (From 1991 to 1996, the same figures were around ¥850 billion, ¥40 billion, and ¥41 billion.) The support provided was on the level of ¥20,000 per Japanese national. Such Japanese aid had been conducted for furthering an amicable relationship with China, also in hope that China's stable growth would contribute to world peace.

How has China evaluated the aid that Japan has provided? Although no questionnaire survey is currently being administered to the people of China concerning Japan's aid, when former prime minister Ryutaro Hashimoto met with former vice premier Zhu Rongji during his September 1997 visit to China, the vice premier expressed his gratitude, stating that ODA loans were highly significant to China's modernization. Moreover, in this (the Second) Study Committee's field research, agencies concerned to China made the following comments.

First, the State Science and Technology Commission (currently the Ministry of Science and Technology, responsible for technical cooperation), which is the aid liaison agency, and the Ministry of Foreign Trade and Economic Cooperation (responsible for ODA loans and grant aid) were unanimous in evaluating Japan's aid highly. The State Science and Technology Commission, for example, made comments like the following concerning Japan's technical cooperation.

- The efforts of the agencies concerned had achieved major results in China's scientific and technological development and promoting friendship between Japan and China.
- Even when the investment itself was not major, the effects were large, proving useful to the life of the people.
- Cooperative relations and personnel exchanges in a variety of areas were forged.
- Japan's aid also played a role in the building of a major base for China's economy and the promotion of trade between Japan and China.

Department of International Economic Relations and Trade, Ministry of Foreign Trade and Economic Cooperation (responsible for grant aid) made comments like the following concerning Japan's grant aid.

- It has contributed to China socioeconomically.
- It has earned high marks particularly in projects pertaining to social welfare.
- General grant aid contributed to improvements related to friendship between Japan and China and economic relations and trade.

Moreover, the Ministry mentioned that they implemented a press tour on Japan's grant aid projects and actively engaged in publicity to the mass media inside and outside China and in making press releases. It is not the case that the people of China do not know of Japan's economic cooperation; in Beijing and other major cities, hospitals constructed with Japan's aid (the Japan-China Friendship Hospital and the like) and the water treatment plant in Jilin Province's Changchun City and other projects are widely known by the public. The construction of schools and hospitals in the interior zone is also said to be well known.

Department for Foreign Loans, Ministry of Foreign Trade and Economic Cooperation, (responsible for ODA loans) made the following comments on Japan's ODA loans.

- They have contributed to China's economic development since 1979.
- ODA loans have been applied to priority projects in line with the policy of the Chinese government.
- JICA's development surveys play an important role in improving the effectiveness of ODA loan disbursements.

For Japan's grassroots grant aid, the total budget is around ¥300 million, with a per-project allocation of around ¥10 million. However, because its cost effectiveness is high, and the immediacy and flexibility present, direct aid to counteract regional poverty is possible. Japan's aid is known from regional provincial heads (governors) to the villagers, and the direct expression of gratitude has been reported.

On the other hand, some agencies involved in the execution of aid projects have expressed concern that cooperation between Japan and China should make full use of mutual expertise in specific fields, pointing out that there were fields in which China has accumulated specialized knowledge and technical know-how. In particular, these agencies have requested that a consideration be made to actively employ Chinese consultants to participate in feasibility studies (F/S) and environmental assessment.

1-4. Lessons learned from Implementing Aid

1-4-1. Lessons learned from Implementing ODA Loans

To the present, nearly all of the projects for which ODA loans have been granted have gone smoothly and been highly effective. However, there have been delays with some projects, for the following reasons.

- Projects have sometimes been delayed by tighter debt management within China.
- The currency exchange risk resulting from a strong yen has sometimes caused delays at the agencies responsible for final repayment.
- Difficulties with the raising domestic fund have sometimes delayed projects.
- Impoverished provinces are sometimes unable to shoulder the fund allowance that they are obligated to, greatly delaying projects.

In such examples, the necessity of some sort of fund support from the central

government can be said to emerge. Introduction of the "Long List and Rolling Plan" method⁵ applied by World Bank should also be investigated.

1-4-2. Lessons Learned from Implementing Grant Aid and Technical Cooperation

Although the problem of vertical splits in the agencies that serve as liaisons for accepting aid exists, communication within Chinese government agencies continues to improve, and information exchange with the Japanese aid-related agencies there is becoming refined. One reason for this is the jointly held annual conference on grant aid and technical cooperation. Moreover, this fiscal year (FY98), to heighten cooperation in the form of ODA loans, grant aid, technical cooperation, etc., a three-pronged joint annual conference was held.

In addition, in reviewing the content of individually requested projects one by one, cooperation on the creation of higher-priority plans based on sector surveys, comprehensive regional development plan surveys, etc., has also become important. Specifically, Japan's know-how in comprehensive regional development planning has been highly evaluated by the State Development and Planning Commission and heightening the participation of this Commission and of the regional government planning commissions in finding worthy projects will also be crucial to effective aid implementation.

In order to restore a "request basis principle" limitation, in policy discussions Japan has made active offers to China concerning areas for it considers necessary for China's development and for which cooperation is possible. To make such offered projects succeed, not only is Japan's enthusiasm necessary, but also China's budgetary measures, personnel assignment, and organizational and structural formation. Above all, it is necessary to make the Chinese side fully understand all concerned matters, as well as to put effort in creating an environment in which projects could be actively implemented.

⁵ This is a method for creating assistance plans that are elastic in terms of the socioeconomic situation and the financial status. Not only does it target the projects of assistance agreed upon at the annual conference and the like, but, based on the list of candidate projects for assistance, which includes projects of high priority in terms of the socioeconomic development of the country receiving assistance (the "Long List"), each term it reviews the plans for projects for assistance (the "Rolling Plan") and updates them.

Moreover, in order to further strengthen the project formulation and implementation capacities of China's aid-receiving liaison agencies and government offices, it is necessary to encourage China to engage in joint project formulation with Japan and to continue efforts to foster persons well-versed in aid for these purposes.

Although there have not been many requests for projects that directly target the reduction of interior disparities and poverty, the providing of education materials to impoverished provinces in the interior zone and the providing of medical equipment to regional medical agencies have been effective approaches to the present. In order to develop assistance to the interior zone, a combination of grassroots grant assistance and Japan Overseas Cooperation Volunteers and the cooperation and coordination with U.N.-related agencies, other bilateral aid agencies, NGOs, and other agencies working to directly benefit the impoverished stratum will be necessary.

2. Present Status of and Issues in China's Socioeconomic Development

2-1. Present State of Socioeconomic Development

Unstable factors exist in macro economic growth.

A look back over twenty years of reform and openness in China reveals that while cycles of high and low growth repeat themselves, an average growth rate of around 10% has been attained. Particularly since Deng Xiao Ping's Spring Tour of the Southern Provinces in 1992, the acceleration of growth had been extreme. Although the tight policy thereafter resulted in relative macro economic stability that was indicative of a "soft landing," unstable factors in defiance of it exist.

Macro control mechanisms are not functioning sufficiently.

Current macroeconomic stability is highly dependent on strict tight policy, especially total control of loan ceilings. Moreover, price stability is partially supported by a surplus in the supply produced, and latent inflation factors still exist. The eradication of such total control of loan ceiling in 1998 has made the function of macro control mechanisms increasingly important.

Looking at the public financial aspect, the ratio of the GDP that public finance occupies has decreased; recovery from fiscal deficit is difficult due to factors such as a dwindling financial performance in the people's economy, a slump in financial revenue due to sluggish reform of state-owned enterprises, as well as deficit compensation and price assistance.

Looking at it from a financial market point of view, state-owned enterprises are unable to shift away from their stance of depending on commercial banks. The financial market is now having to do the job of the public finance sector, i.e. it has to provide funds which are unavailable in the public finance sector. Consequently, bad assets are

accumulating inside financial institutions.

Thus, the current macroeconomy makes it difficult to effectively implement financial and monetary policy against economic fluctuations.

The reform of state-owned enterprises is thought not to be progressing much.

The second issue in the present state of China's socioeconomy is the extreme deterioration of the business conditions of state-owned enterprises, which support a major portion of China's economy. Moreover, the establishment of the three mainstays of state-owned enterprise reform, joint stock or limited liability companies, mechanisms for managing state-owned property and the administrative reform to support them, are not progressing much. (In the central government's reorganization and consolidation following the March 1998 National People's Congress, Ministry of Power Industry, Ministry of Coal Industry, Ministry of Machine Industry, Ministry of Metallurgy Industry and Ministry of Chemical Industry were abolished and consolidated as bureaus under the jurisdiction of the State Economic and Trade Commission. Moreover, the Ministry of Electronic Industry and Ministry of Posts and Telecommunications were consolidated into the new Ministry of Information Industry.)

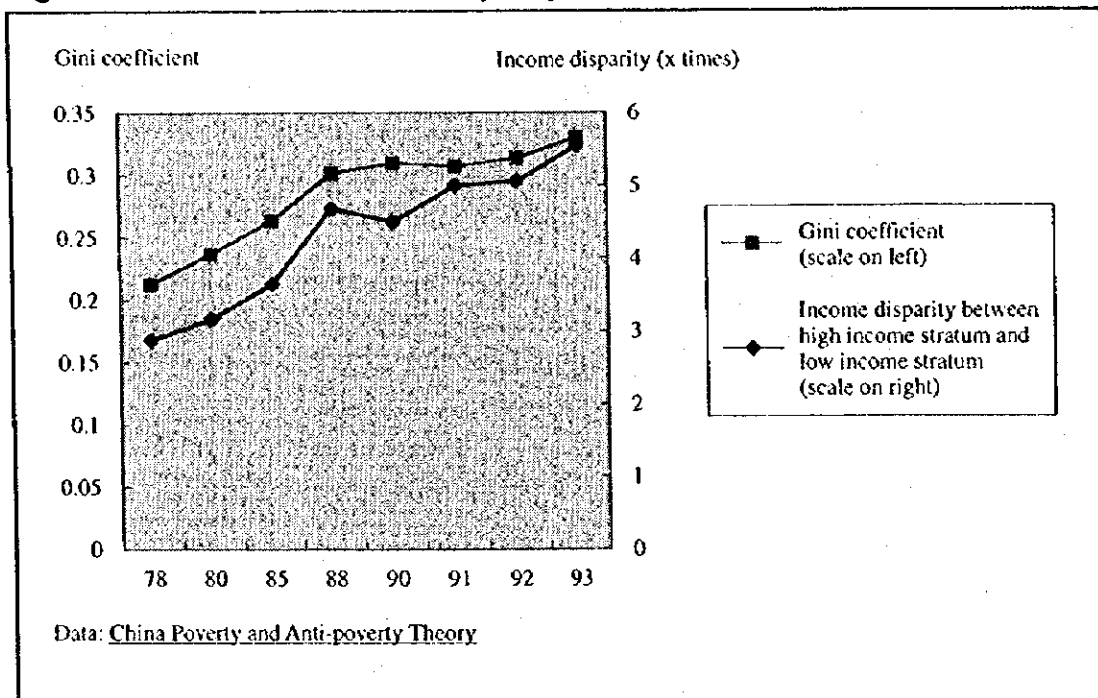
The factors which constitute such a setting are that the state economy naturally enacts the role of restraining and controlling the being of the people's economy, that there is no constitutional provision by which private property is protected, despite the fact that private economy is regarded as an important integral part of the Socialist Market Economy, therefore leading to a restriction in the progress of market economy. Some other factors are that state-owned enterprises are in heavy debt, that the number of excessive personnel has to be dealt with, that a social security system is behind in the making, that there is the long-term accumulated problem regarding vested rights, and that there are problems in regional protectionism.

The expansion of poverty and interregional disparities has been substantial.

The one of focal point of the First Study Committee's recommendation was the problem of substantial interregional disparities resulting from rapid progress in economic development. With the high economic growth, two types of income disparity emerged: the coastal zone versus the interior zone and cities versus farming villages.

Although there was once a period in which interregional disparities were reduced, they tended to increase thereafter, with no sign of reduction. Thus, the condition of heightened disparities has continued. Moreover, although China's official announcement numbered the absolutely impoverished segment of its population at 50 million in 1997, application of the World Bank's "dollar a day" poverty line standard would put this figure at around 28% (350 million) of China's total population. Additionally, the layoffs accompanying the reform of state-owned enterprises and the relative disparities resulting from increased unemployment in cities and farming villages have continued to expand, becoming possible factors in social instability.

Fig. 2-1. Increase in Income Disparity



Challenges in the social sector are not being adequately undertaken.

An issue closely related to the increase of poverty and interregional disparities concerns delays in the social sector, which includes problems with health and medical service, education, social security, and women's issues, the result of which has been an increase in interregional disparities.

Concerning health and medical care, over the past twenty years, total medical expenses have accounted for around 3% of the GDP¹, and considering the increase in the population, the absolute sum remains small. At government- and state-owned enterprise-type hospitals, which account for a major portion of medical expenses, the utilization of medical resources is not altogether effective. Moreover, the rigidity of the financing system prevents sufficient allocation of budgets for medical care to the interior zone, creating a trend in increasing disparity in health and medical care between the interior and coastal zones. Interregional differences can also be seen in the range of health standards. The infant mortality rate is not improving, while the maternal mortality rate is also at a high level.

There is insufficient education in nine northwest and southwest provinces, including autonomous regions (Xinjiang, Inner Mongolia, Ningxia, Qinghai, Gansu, Tibet, Guangxi, Yunnan, and Guizhou) and the level of education among the regions is different. Moreover, the implementation of market economy and the deregulation has led to differences in financial situations and tuition scales among schools, resulting in a decline of attendance of students categorized as coming from low-income families. A contradiction between quantitative expansion and efforts at maintaining quality is significant.

Unstable factors also exist in long-term agricultural product supply and demand.

Although from 1995 to 1996 China's food shortage problem was the subject of international debate, there has been a slight lull in the problem at present, with food production in 1997 on the level of 500 million tons secured. However, in China's agriculture, grain production and supply are unstable, and the problem of major

¹ Source: World Bank (1997) *China 2020 Financing Health Care: Issues and Options for China*

fluctuations in short- and mid-term production remains. Thus, the scale of China's food exports and imports also fluctuates greatly, having a large effect internationally, as well. Moreover, there are marked restrictions on land that can be used as farmland, with farmland diverted to foster industrially developed regions and the extensive use of land progressing.

In addition, the disparities in productivity between the agricultural and non-agricultural sectors continue to increase. Although the Chinese government aims to rectify the production disparity by raising agricultural prices, in consideration of the issue of future membership in World Trade Organization (WTO) and the like, China seems to have little margin remaining for a genuine venture into agricultural protection.

The deterioration of the environment and shortages of energy and infrastructure is a grave concern.

One major theme taken up by the First Study Committee was environmental problems. The marked economic growth occurring since 1985 has been accompanied by increased energy utilization. In 1995, China's coal production was the world's largest; 1.3 billion tons. Chinese coal, which accounts for 75% of its energy consumption, generally contains a high amount of sulfur. The use of this coal, as well as brown coal and peat, is leading to a significant emission of sulfur oxide and soot.

With factory facilities becoming obsolete and delays in the introduction of high-grade dust collection facilities, exhaust-type desulfurization equipment and other pollution-preventing facilities stemming from shortages of funds, the state of air pollution is grave. In addition, the pollution of rivers, lakes, marshes and the ocean, urban waste processing and other problems accompanying the advancement of the market economy and urbanization are becoming ever more serious.

The problem of bottlenecks in infrastructure and energy supply is evident, with constant shortages of roads, railways, electric power and the like. For example, with coal energy, the distance separating places that produce coal and places that consume it means that reinforcing transportation infrastructure continues to be an important theme, and in terms of petroleum energy, increasing the net quantity imported is

Box 1. The Issue of China's Membership in WTO

In 1986, China made a formal application for entry to General Agreement on Tariff and Trade (GATT), and in order to add its name to the list of countries that founded World Trade Organization in January 1995, China sought to accelerate in the 90's negotiations for its entry to GATT. Lowering its customs duties for three consecutive years (from 1992 to 1994), China also reduced the number of items for which import licenses were required and repealed its import regulation tax (in 1992). Besides standardizing the Renminbi rate in January 1994, China cut its average customs duties from 42.5% in 1991 to 35.9% by 1995. Moreover, in 1992 there were 1,247 taxable items subjected to quotas, licenses and other non-tariff import regulations; this number of items was reduced to 384 in 1997. In such ways, China's trade liberalization progressed gradually. However, with no agreement reached in negotiations with the United States on whether it would have standing as a developed nation or a developing nation, and with safeguards against the rapid import of Chinese products in various Western nations, Japan and other countries unresolved, China ultimately failed to enter GATT by the end of 1994.

Perhaps because progress in negotiations for entry to GATT stalled and the domestic regulatory costs of structural adjustment that would be entailed with the entry were high, around 1994 China became fairly passive concerning its entry to GATT. However, at the 1995 and 1996 APEC meetings, China also vowed to lower its average customs tariff to 15% by the year 2000. Its actual customs tariff reduction in 1996 and 1997 brought down its average customs tariff from 35.9% (its 1995 level) to 17%. By participating in APEC, China advanced its trade liberalization. However, concerning WTO membership, the

mentioned problem with various Western nations, Japan and other countries has not been resolved, meaning that China's actual membership will be delayed until 1999.

For China, the positive effects of WTO membership would be the ability to fully receive the advantages of trade liberalization that WTO bestows. Efficiency in domestic industry resulting from imports and direct foreign investment and increased exports with no discriminatory trade restrictions would become possible. In particular, the United States would automatically grant China most-favored-nation treatment. Moreover, the Agreement on Textiles and Clothing (ATC) at the GATT Uruguay Round would have the effect of liberalizing textile and apparel trade. Although China is the world's top exporter of textiles and apparel, in developed nations other than Japan, trade restrictions based on the Multi-fiber Arrangement (MFA) obstruct China's dominance. If MFA is repealed in stages under ATC, China ought to be able to greatly increase its textile exports to Europe and America. According to our trial calculations, China can increase its textile exports by 1.9 times the 1996 level, and in terms of overall export value, there are prospects for a 21% increase (about \$31 billion) from the 1996 level.

If to comply with WTO membership China further reduces its customs duties and moves firmly toward trade liberalization, the domestic price of imported goods will decline. Thus, while imports will increase, the price level will fall, making increased export competitiveness likely. Some people argue that the membership in WTO and trade liberalization will increase China's trade value by 50-60% in 2005.

However, as of 1998, "processing and assembling and other types of trade exempt from import duties constituted 71% of China's imports and 59% of exports; thus, liberalization stemming from WTO membership will likely not have an expansive effect in this area. Supposing that the lowering of customs duties will have an expansive effect, it will be in "general trade", which is subjected to customs duties. However, in our trial calculations, which were focused after 1992, when China began lowering its customs duties for GATT/WTO membership purposes, we could not clearly detect an expansive effect on "general trade" resulting from China lowering its customs duties.

The fact that the effect of lowering customs duties cannot be clearly seen can also be linked to the extremely high incidence of smuggling. Although the Chinese government has been instituting enforced control of smuggling since 1998, if smuggling is eradicated and all importing is done correctly, the lowering of customs duties ought to at least have a small expansive effect on imports.

Considering all of the above factors collectively, although a 20% increase in exports can be expected from increased textile exports from WTO membership, whether it will have an expansive effect on other imports and exports depends on China's ability to effectively eliminate smuggling.

The negative effect of WTO membership is that the competition with China's industry

set off by imported goods and the influx of foreign capital would force strict restructuring and reforms in China's industry. It is anticipated that liberalization would likely have a greater negative effect in service-related fields than in manufacturing. Although China's manufacturing enterprises have already experienced trial competition to a certain extent on the domestic and foreign fronts, because reform in the fields of banking, insurance, foreign trade, commerce and the like have been markedly delayed, leaving these sectors uncompetitive. As the problem of employment for vast numbers of workers is also upon, the adjustment costs will likely be large. However, making China's enterprises engage in competition with foreign forces ought to be of benefit to China's consumers. The nation's total economic cost, which is the adjustment cost required for rearranging employment and restructuring enterprises, must be shouldered in order for China's market economy to progress.

As an APEC member, China promised to lower its customs tariffs and did so in advance. There are lessons to be learned from this in considering China's WTO membership. Instead of raising the hurdles for WTO membership, it might be more effective to let China become a member first, and then appeal to its responsibility as a WTO member to advance with liberalization. It is time to conclude the GATT/WTO membership negotiations which took place for twelve years.

inevitable. Moreover, to combat the chronic shortages of electric power energy, increased demand for hydroelectric power generation and atomic energy generation in the future has been predicted. In relation to such developments, giving consideration to staying in balance with the environment and ecological systems is crucial, and improving the management capabilities of China's administrative mechanisms will become even more critical.

2-2. Development Challenges

Establishing a systematized market economy is crucial.

As is seen in present state of socioeconomic development, the most important current issue for maintaining stable growth, eliminating unstable macro economic factors is the establishment of a systematized market economy. In order to achieve this, it is crucial to create an environment in which the central government can exert macro control neutrally and objectively. Also important are promoting administrative reform that conforms to the transition to a market economy; providing market-based financial systems, telecommunications, traffic, transport and distribution mechanisms and other infrastructure and the necessary statistical mechanisms.

In terms of China's overall economic structural adjustment, central and local relations must be regulated, and the central government must play an active role in demonstrating macro control functions, establishing and implementing industrial policy, rectifying interregional disparities, providing local infrastructure, and the like. While China progresses with economic reform, it must convert its growth patterns and pursue market systems considering the environment and resource restrictions.

Important financial issues would be to devise effective tax collection, revise the current taxation system to center on value-added tax, to implement these effectively, and to establish a tax system (revenue sharing system) which fully considers regional factors and a reasonable relationship between central and rural regions.

Monetarily, conditions and environments must be organized from total regulatory

means to allow the People's Bank (which is the central bank) to demonstrate conventional monetary functions. In addition, as China aims to develop its money markets, another theme will be how it can advance its market economy by reinforcing its short-term capital market and foreign exchange market and making its commercial banks compete.

Box 2. The Influence of Asia's Currency and Monetary Crisis

Many people insisted that the currency and monetary crisis that began in Thailand in July 1997 and spread throughout Asia will also reach China and that a cause of the crisis was China's substantial devaluation of the renminbi exchange rate in January 1994. For China to recover the export markets lost through the drop in the exchanges of ASEAN countries after the crisis, many people argued, China would make further reductions, which would turn out into a devaluation competition among East Asian Nations.

However, already around 1990, real wages in China's coastal zone and in other ASEAN countries differed on the level of 2-4 times, and it was inevitable that production bases for labor-intensive industries would be moved to China. For ASEAN countries to recover from the blunting of exports other than through devaluation, they could have improved current accounts by restricting imports through strict macro policy; thus, it is not accurate to view the 1994 renminbi devaluation as the main cause of ASEAN's exchange crisis.

From August 1998 to the present, China has repeatedly declared that it will maintain its renminbi exchange rate. Moreover, the prediction that it would lose its export markets was also off: While being hit hard by recession in Japan and East Asia, China's

exports still recorded an increase of 0.5% in 1998. Considering the trade surplus of 4.5 billion US dollars recorded in 1998, there is little possibility that China will fall into a currency crisis.

Although China's foreign debt balance was around \$146.0 billion at the end of 1998, 88% was long-term debt. Its foreign currency reserve is around \$145 billion, which can fully cover its debt. Its debt service ratio (the ratio that the sum of debt payment occupies in foreign currency revenue in current accounts) is on the level of 10%, and a situation in which foreign funds simultaneously flee from China is unlikely to occur. It is a fact that China's exports have suffered relative disadvantage from the fall of currency in ASEAN countries and Korea. In addition, Asia's currency and monetary crisis and Japan's economic stagnation has likely blunted China's exports bound for the rest of Asia and Japan. Rather than China's devaluation and the currency crisis, the stagnation of China's domestic economy should be of concern. In 1998, its GDP growth rate had dropped to 7.8%; for smooth reform of state-owned enterprises, growth on the level of 8% is desirable. For this reason, the Chinese government adopted various measures including a massive public investment plan to stimulate domestic demand from 1998.

The reform of state-owned enterprises must be advanced.

The reform of China's state-owned enterprises concentrates state-owned assets on major state-owned enterprises responsible for critical industry and is progressing to create large-scale state-owned enterprises. The adjustment of industrial structure linked to the strategic reorganization of state-owned enterprises is important. Specifically, reinforcement of agriculture, basic industry, infrastructure, tertiary industry and other elements is necessary. The organizational structure of enterprises and adjustment of regional industrial structures are also important.

Issues accompanying the reform of state-owned enterprises include workers who will be laid off in reductions of employees, securing re-employment and vocational retraining for the unemployed, and establishing a social security system. Such systems must be immediately established as can reduce the various social burdens that state-owned enterprises have shouldered to the present and allow the central and regional governments to take them over.

Moreover, the handling of accrued debt, as well as possible new debt, by state-owned enterprises must be strictly monitored. In case of new investment, it is important to establish a framework in which the main party executing the investment is to always take charge of making the capital available. Another issue here would be to establish a business management foundation and educate owners and proprietors of businesses who exhibit a strong intent in terms of profit.

Poverty and interregional disparities must be alleviated and development in social sector promoted.

First of all, the issue of eradicating poverty was one of how much of a reduction could be achieved in the poor sector of the population. In the mid-80's, the Chinese government formed the Leading Group Office of Poverty Alleviation and Development in the State Council and began grappling specifically with absolute poverty. In the 90's, it also began dealing with relative poverty, and focusing on regional cooperation

Box 3. The Layoff Problem

"Unemployment" generally refers to a situation in which a person who intends to find a job unable to do so; in China, the word "layoff" generally refers to a situation in which because of a decline in production line operations or insolvency, the employee of a state-owned enterprises is retained at home on an allowance of some sort. However, in most cases, reinstatement of employees is impossible, leading them inevitably to search for new work. Thus, "layoff" is equivalent to "unemployment" in meaning. In China's urban regions that are home to state-owned enterprises, layoffs are a major problem. Although official numbers cannot be determined at present, according to the June 16, 1998 edition of China Economic Review, layoffs in 1997 numbered around 11.51 million, out of which 80% were from state-owned enterprises. In addition, the number of unemployed in urban areas in 1997, as listed in the social register, was 5.7 million, making the unemployment rate 3.1% by the register. Adding to this the 11.51 million people who are laid off brings the unemployment rate to 9%. In consideration of the fact that the actual unemployment rate in 1993 was 4.3%, the increase in the unemployed when layoffs are included is highly substantial. In addition to the fact that 10 mil-

lion new workers enter the work force each year, a potentially unemployed population of 130 million relocating from farming villages to cities in search of work continues to push the job-hunting pressure in cities to the limit. The sudden rise in the unemployment rate heightens the possibility of social instability, which in turn will inevitably shock China's reform and open policy. Thus, the appropriate reemployment of laid-off workers is an urgent social issue in China.

The Chinese government is supporting the reemployment of laid off workers by posting occupational assistance bureaus focusing on the reemployment process (known as the "Reemployment Program") in cities, enriching its programs to reeducate laid off workers, and systematically holding discussions with those who have been reemployed. With its goal of economic growth of 8% and government-initiated investment focusing on building infrastructure (railways, roads, and water supply and drainage), China is also promoting its Chinese version of The New Deal Policy. Moreover, owing to the need to prevent sudden relocation from rural areas to the cities, it plans to engage in the urbanization of small cities regionally.

Source: Ajiken World Trends, No. 38 (September 1998).

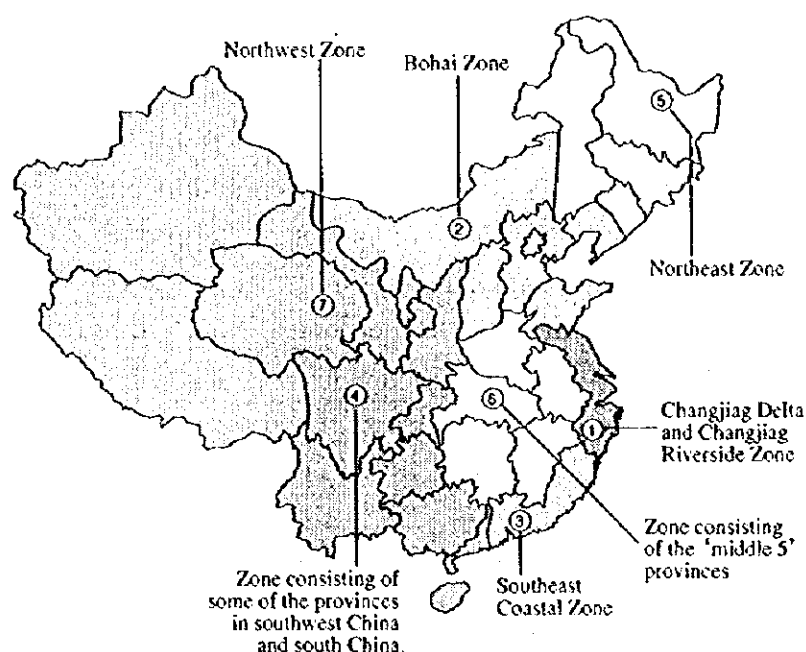
in The 9th Five-year Plan for National Economic and Social Development and the Long-term Targets for 2010 (referred to as the "9-5 Plan and Long-term Targets for 2010" hereafter). Particularly in the National 8-7 Poverty Reduction Plan, impoverished districts are specified and the investment of development funds concentrated there. However, the gap has been widening between some districts that have been extricating for themselves from poverty and others that have been in difficulty. In addition, as a new method of dealing with the alleviation of interregional disparities, China is forming multiple growth bases (in the Changjiang economic belt, the seven major economic zones² and nine major urban zones³) to allow economic development to permeate from the coastal zone to the inland zone. It is promoting township and village enterprise in the mid-west and is engaged in extending support and assistance from provinces and cities in the coastal zone to provinces and cities in the interior.

A primary issue in social development strongly related to poverty and interregional disparities is in the area of health and medical care: enriching primary health care (PHC); improving the abilities of those who engage in medical care, particularly in rural areas; and instituting medical insurance systems and the like. Moreover, in the area of education, both the enhancement of basic education and the rectification of interregional differences are important. The problem of unfair fee collection at primary schools, of educating the children of the people who are relocating to the cities and other new issues must also be addressed.

² In accordance with Deng Xiao Ping's directive toward accelerated reform and openness in his Spring Tour of the Southern Provinces in 1992, the Eighth Five-year Plan was thoroughly reconsidered and the concept of regional economic cooperation was decisively altered, with seven major economic regions supposed. This type of thinking continued into the 9-5 Plan and Long-term Targets for 2010, which presented the concept of immanent linkage of the economy to the rules of a market economy, in line with geographic and natural characteristics; doing away with the blocks imposed by administrative divisions; and gradually creating seven economic regions covering provinces, autonomous regions and directly connecting cities, using as bases central cities and major roads, based on existing economic distribution. The seven economic regions are as follows: the Changjiang delta and coastal region, the region around the Pohai Sea, the southeast coastal region, the region covering some of the provinces in the southwest and south of China, the northwest region, the five-province region in central China, and the northwest region. (See Figure 2-2 and Table 2-1.)

³ For details, see Figure 2-3 and Table 2-2.

Fig. 2-2. The seven major economic zones



Source: 'China Information Handbook 1998' edited by Mitsubishi Research Institute, Inc

Table 2-1. The seven major economic zones

Name of Economic Zone	Population (million)	Total area (thousand km ²)	Area covered by the Economic Zone	% of GDP
① Changjiang Delta and Changjiang Riverside Zone	168	330	From Shanghai in the east to Chongqing City in the west: the 14 cities on the Changjiang river delta (Shanghai; Nanjing, Zhenjiang, Yanzhou, Suzhou, Wuxi, Changzhou and Nantong in Jiangsu province; Hangzhou, Jiaxing, Huzhou, Ningbo, Shaoxing and Zhoushan in Zhejiang province), plus 14 cities and 8 areas along the Changjiang river.	About 20
② Bohai Zone	240	1,120	The four provinces of Hebei, Liaoning, Shandong and Shanxi, 7 mongs and cities of Inner Mongolia, and the two municipalities of Beijing and Tianjin. The most important areas in this zone are the Liaodong Peninsula, the Shandong Peninsula, Beijing, Tianjin and Hebi.	About 25
③ Southeast Coastal Zone	93	299.3	Includes Fujian Province and Guangdong Province. The most important areas in this zone are the Zhujiang river delta and the southeast part of Fujian.	About 13
④ Zone consisting of some of the provinces in Southwest China and South China.	243	1,420	The provinces of Sichuan, Guizhou, Yunnan, Guangxi, Hainan and Tibet, along with the Maoming region of western Guangdong Province.	About 15
⑤ North east Zone	113	1,240	The three provinces of Liaoning, Jilin and Heilongjiang, plus four mongs and cities of Inner Mongolia	About 12
⑥ Zone consisting of the 'middle 5' provinces	303	871.2	The five provinces of Henan, Hubei, Hunan, Anhui and Jiangxi.	About 19
⑦ Northwest Zone	80	4,270	The five provinces of Shaanxi, Gansu, Ningxia, Qinghai and Xinjiang, plus three Mongs and cities of Inner Mongolia.	About 5

Source: 'China Information Handbook 1998' edited by Mitsubishi Research institute, Inc.

Fig. 2-3. Conception of the 'Nine Major Urban Zones'

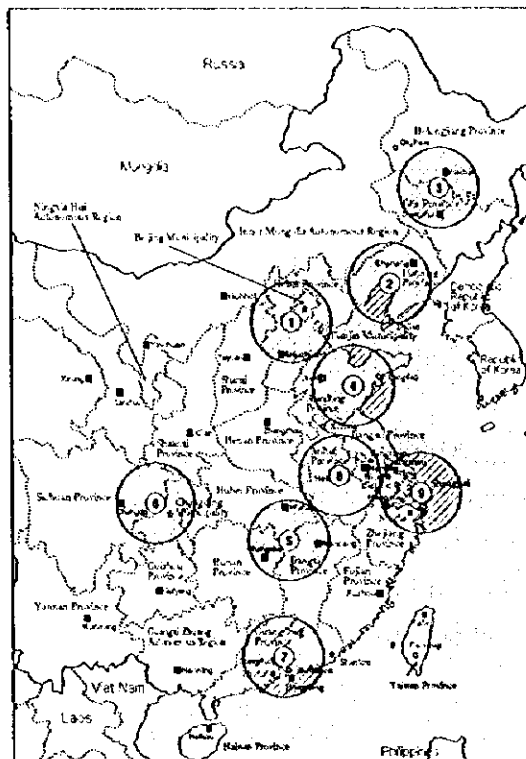


Table 2-2. Conception of the 'Nine Major Urban Zones'

Name of Urban Zone	Population (millions)	Area (thousand km ²)	Average area per capita (m ²)	Main cities	GDP	
					Total (billion dollars)	Per capita (dollars)
① Beijing, Tianjin & Hebei Zone	84.48	218	1,101	Beijing, Tianjin, Shijiazhuang	88.5	1048
② Shenyang & Dalian Zone	40.67	150	1,229	Shenyang, Dalian	57.8	1,421
③ Jilin & Heilongjiang Zone	62.46	640	3,734	Changchun, Harbin	57.9	927
④ Jinan Qingdao Zone	86.71	150	1,130	Jinan, Qingdao	86.6	999
⑤ Hunan, Hubei & Jiangxi Zone	152.57	550	931	Wuhan, Changsha, Nancang	103.0	675
⑥ Chengdu & Chongqing Zone	112.14	560	125	Chengdu, Chongqing	62.4	554
⑦ Zhujiang River Delta Zone	66.89	178	628	Guangzhou, Shenzhen, Zhuhai	94.9	1,418
⑧ Zone Covering middle and lower reaches of the Changjiang River	77.10	150	934	Nanjing, Yangzhou, Hefei	58.7	762
⑨ Big Shanghai Zone	109.16	184	1,007	Shanghai, Suzhou, Wuxi, Changzhou, Ningbo, Hangzhou	169.1	1,549
Others	406.05	6,820	728		228.7	563

Source: The Economic Research Institute Group of the State Planning Commission (1996)

Note: In The original material, in the names of Urban Zone abbreviated forms were used for the names of provinces, autonomous regions and cities. Here we have written them in full.

In the case that data on an urban zone was unavailable, data on the general administrative district was used instead.

Agricultural development must be actively pursued.

In terms of the "hard-oriented" aspects of the issue of agricultural development, for effective utilization of land and water resources to achieve sustainable agriculture, the creation of an agricultural framework based on land preservation, regional planning, land utilization planning and policy, provision of infrastructure for agriculture, and the spread of technology must be promoted and information infrastructure provided.

In terms of the "soft" aspects, aiming to counteract market fluctuations, appropriate policy measures supplementing market function such as proper pricing and regulatory measures, are necessary. Moreover, owing to the inevitability of a decline in the degree of land utilization, it is time to investigate expanding the scale on which agriculture operates and other structural policy.

Energy, and infrastructure must be developed in balance with environmental preservation.

Environmentally, countermeasures to the volume of coal consumed, motorization, and concentration of the population in the cities must be counteracted, and comprehensive development of urban environments and public transport are necessary. In terms of energy, efficiency per unit of energy must continue to be raised through concentrated thermoelectric supply, the use of city gas and the like.

The need for infrastructure to cope with the vast scale of China's land and population and its rapid development is tremendous. Here, the issue is one of how to assign priority to regions and various areas in central-regional relations. Moreover, with the entire country in a stringent financial condition, crucial is how funds for building infrastructure will be allocated; high dependency on foreign funds and private funds is predicted. Although projects with high economic efficiency tend to be given priority from the perspective of economic development, achieving balance to rectify interregional disparities, counteracting poverty, equal income distribution and welfare will be an important theme.

Henceforth, while efforts are promoted to hold environmental deterioration to a minimum, infrastructure must be provided in consideration of efficiency, energy savings, and recycling.

2-2-1 Socioeconomic Scenarios

Based on the current status of and issues in China's socioeconomic development that have been broached to this point, the Second Study Committee sets target year, and envisions some socioeconomic development scenarios in order to study basic directions for future aid to China. The target year is year 2005, six years from the present(1999). These seven years will cover the remaining two years in the present 9-5 Plan and the period of the 10th Five-year Plan, a draft of which is currently under review. How will China's socioeconomic development progress during this period? Based on the current 9-5 Plan and Long-term Targets for 2010 and World Bank's "China 2020" report and statistics, China's population will exceed 1.255 billion in 2000 and seems that achieving the goal of holding the population to under 1.3 billion as stated in the 9-5 Plan will be possible. However, in the target year of 2005, it seems that the population will exceed 1.3152 billion. Moreover, GDP estimates based on 1990 price are on the order of 4.8750 trillion yuan for 2000 and 6.9068 trillion yuan for 2005, which would amount to per capita GDP of around 3,844 yuan for 2000 and of about 5,307 yuan for 2005.

Table 2-3. Goals in the 9-5 Plan and Long-term Targets for 2010

	1995	2000	2010
GNP (unit: 100 million renminbi) (1995 price)	57,600	85,000	170,000 (2x the 2000 level)
Targeted growth rate (1995-2000)	8%		
Population (unit: 10,000)	121,121	Under 1.3 billion	Under 1.4 billion
Food production (unit: 100 million tons)	4.65	4.9 - 5.0	
Electricity generation (unit: 1 trillion kwh)	1.00	1.40	
Crude petroleum production (unit: 100 million tons)	1.49	1.55	
Unprocessed coal production (unit: 100 million tons)	12.98	14.00	

Data: The 9th Five-year Plan for National Economic and Social Development and the Long-term Targets for 2010.

Table 2-4. World Bank's "China 2020" Forecasts

Period	1985-1995	1996-2000	2001-2010	2011-2020
GDP growth rate (%)	8.5 (actual)	8.4 (forecast)	6.9 (forecast)	5.5 (forecast)
	1995		2020	
Population (unit: 10,000)	120,024		142,529	
Average life expectancy	69 years		73 years	
Food production (unit: 100 million tons)	4.16		High case: 6.67 Low case: 6.06	
Food consumption (unit: 100 million tons)	4.37		High case: 6.95 Low case: 6.95	
Food imports (unit: 100 million tons)	0.21		High case: 0.28 Low case: 0.89	

Data: World Bank's China 2020

Table 2-5. Actual Figures

Year	1990	1991	1992	1993	1994	1995	1996	1997
Total population (unit: 10,000)	114,333	115,823	117,171	118,517	119,850	121,121	122,389	123,626
Population growth (%)	14.39	12.98	11.60	11.45	11.21	10.55	10.42	10.06
GDP (unit: 1 billion renminbi; nominal)	1,854.8	2,161.8	2,663.8	3,463.8	4,662.2	5,826.1	6,859.4	7,477.2
GDP (unit: 1 billion renminbi; 1990 price)	1,854.8	2,025.4	2,313.0	2,625.3	2,956.1	3,266.5	3,583.3	3,898.6
Growth rate (%)	3.8	9.2	14.2	13.5	12.6	10.5	9.7	8.8
Poor population (unit: 10,000)	8,500	9,400	8,000	-	-	6,500	5,700	5,000
Japan's ODA provision (unit: \$1 million)	-	585.3	1,050.8	1,350.7	1,479.4	1,380.2	861.7	576.9

Sources: Prepared from China Statistical Yearbook (1998), World Bank's China 2020, ODA White Paper, etc.

Table 2-6. Supposed Indicators for Target Years

Year	2000	2005
Total population (unit: 10,000)	125,505	130,152
Population growth (%)	0.91	0.73
GDP (unit: 1 billion renminbi; 1990 price)	4,875.04	6,906.8
GDP average growth rate (%)	8.0	6.9
Per capita GDP (unit: renminbi; 1990 price)	3,844	5,307

Source: This Study Committee's calculations.

3. Framework for Future Assistance to China

3-1. Basic Direction of Assistance

As described in Chapters 1 and 2, since 1979 China has made striking progress in its reform and openness policy and transition to a market economy, indicative of some progress from a system for a planned, state-controlled economy toward deregulation and liberalization. However, the direction of creating a market economy over the past twenty years has been accompanied by unstable macro economic factors, increasing poverty and interregional disparities, and delay in social development, as well as rapid economic development. The overall deterioration of the environment, including the deforestation, soil erosion that were likely causes of the recent flooding, and related problems have become striking.

Henceforth, while China solves these problems one by one, it will be necessary to continue promoting the establishment of a systematized market economy. Here, "systematized market economy" refers to a new market economy system in which macro economic stability, fair income distribution, environmental preservation and the like are considered. This means creating a market economy system desirable for China. Such a system must be systematized and regulated to tackle issues such as developing and implementing macro control and mechanisms (not by order of political nature from channels above but including enactment of financial and monetary measures for supplementing feasible functions of the market economy mechanism), establishing a code for orderly competition among enterprises, establishing a safety network for handling excessive numbers of personnel (a requisite for the reform of state-owned enterprises), and education/training of medium- and small-sized enterprises.

The question looms: what type of market economy system will be best for China? This is an issue for the Chinese people themselves to decide, while referring to the systems of the West and Japan and detecting development possibilities that will be unique to China. Japan should systematically communicate to China its own experiences and those of other countries, including examples of both success and failure, and should maintain a position of "Thinking together; Finding the means of resolution together."

Moreover, in consideration of restrictions on Japan's ODA resources henceforth and the size of China's territory and population, assistance should be given focusing

on the most important themes in China's socioeconomic development. As stated above, the various problems accompanying the progress of the formation of China's market economy, such as increased poverty, interregional disparities and environmental deterioration, are urgent problems for China to solve. Although China's central and local governments are also grappling with these problems in various ways, there are restrictions in terms of finances, technology, human resources and the like; the fact is, sufficient results toward resolving them have not been achieved at present.

Concerning cooperation with developing countries, including China, in May 1996, the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) made its report "Toward the 21st Century: Contributing Through Development Assistance," advocating a reduction of the poor population, the promotion of socioeconomic development, and the sustainability and restoration of the environment. Since 1990, United Nations Development Programme (UNDP) has issued Human Development Reports annually, emphasizing the necessity of human development that includes eradicating poverty and preserving the environment.

Such movement has been accompanied by the reinforced cooperation of World Bank, Asian Development Bank, other international financial institutions, U.N.-related organizations, other bilateral aid organizations and private NGO, local government, etc., on reducing poverty and interregional disparities and improving the environment in China. (Concerning World Bank, the granting of IDA funds to China is expected to be terminated in 1999. To the present, the bulk of IDA funds has been directed toward the poverty alleviation, agricultural development, and the environment; for China, the termination of these funds will mean even more stringent fund restrictions for poverty and environmental issues.)

In Japan, the report by "The Council on ODA Reform for the 21st Century" was made in 1997 and raises countermeasures to poverty, socioeconomic development, and cooperation on the environment as crucial issues. It also states that the provision of infrastructure continues to be critical and that henceforth, importance should be given to areas difficult to handle with non-ODA funds.

Giving consideration to such activity, Japan, China's main and largest aid donor, must shift from hardware oriented-type cooperation on providing infrastructure to the reduction of poverty and interregional differences, social development (health and

medical care, education, human development, etc.), and environmental preservation and the like. Moreover, although cooperation in infrastructure development must be extended for establishing a Systematized Market Economy, a big shift needs to be made in the direction of giving prioritized assistance in infrastructure development fields where China tends to lack funds and technology, such as providing assistance in poverty stricken regions, solving the problem of inter-regional infrastructural gaps, and enforcing environmental protection measures.

Shifting assistance from expanding economic growth to creating a symbiotic environment.

As a basic direction that will penetrate this new type of aid to China in its entirety, shifting assistance from expanding economic growth to creating a symbiotic¹ environment should be emphasized. Henceforth, China must adjust its various interests (such as in the relationship between the central and regional governments, coastal and interior regions, urban and rural regions, the state and corporations, state and private sectors, development and environmental protection) for establishing a Systematized Market Economy. It must establish a globally-orientated relationship, Domestic versus Foreign, i.e. versus neighboring countries including Japan, versus advanced European countries and the U.S.A., and versus other developing countries.

Geographically and historically a variety of diverse traditions, cultures, societies and industries have developed in China, and rapid modernization has caused interregional differences to continue to expand, leaving many impoverished in the wake of its growth. At the same time, the exhaustion of woodland resources, desertification and the like have become urgent environmental preservation issues, demanding that ecological issues also be considered along with modernization. Moreover, to secure enough food to feed a population of over 1.2 billion, the preservation and development

¹ "Symbiosis" is an ecological term that describes the phenomenon of different species acting upon each other and living together maintaining physiologically close connections. In a socioeconomic context, it refers to sharing among bodies with diverse objectives based on the criteria for pursuing such objectives. It is the conscious act of those coexisting in tension resulting from differences in culture, values, and individuality creating rich relations in kind. When "conviviality" and "symbiosis" are used in relation to environmental issues, such as in "the symbiosis of humans and nature," it signifies that humans, who rely on nature for their existence, are working to preserve it in order to maintain this relationship of reliance. (Sources: Biology Dictionary, Philosophy and Concept Dictionary; Iwanami Books, etc.)

of traditional agriculture in farming villages along with the modernized sectors are of extreme importance.

"Assistance for creating a symbiotic environment" refers to providing conditions to facilitate a shift toward such development stages as compatible handling that not only includes smoothly regulated profit sharing of various socioeconomic bodies to achieve diverse values and objectives in expanding economic growth and giving priority to production capacity but that also includes progress in modernization and universality, in consideration of regional diversity, environments for securing food and like issues. Specific directions follow.

- a. Assistance that gives more importance to the social aspects of development (poverty, unemployment, education, medical care, women's issues, social security, etc.)
- b. Assistance to stimulate regional economic development, development of poor provinces and regions in the interior zone, and interregional cooperation
- c. Assistance to stimulate prevention of environmental deterioration, effective resource utilization, and energy saving
- d. Assistance to stimulate stable agricultural production and improved agricultural structure
- e. Assistance targeting the dissolution of bottlenecks in regional infrastructure
- f. Assistance supporting the initiatives of the private sector
- g. Assistance supporting South-South cooperation, respecting China's initiatives

3-2. Basic Stance of the Second Study Committee

In consideration of the restrictions on Japan's ODA resources henceforth and the size of China's vast territory and population, it will be of utmost importance to focus cooperation on the issues of highest priority, in terms of development need, that China cannot resolve solely through its own efforts, and models for spreading the results of cooperation will also be necessary. The Chinese proverb, "Use the good steel for the sword's blade" is highly relevant here.

Additionally, it is of utmost importance that cooperation with China furthers friendly relations between China and Japan and that the understanding and support of the peoples of both countries is elicited.

3-3. Objectives for Assistance to China

Contribute to stable development of China in the best way for the Asian region, including Japan and every country worldwide.

Over the past twenty years (since 1979), Japan has provided aid to support China's modernization, reform and openness with its hope for "Friendship with China for World Peace," the first new principle set forth by the First Study Committee. In future, as well, this principle shall likely remain effective and of utmost importance. In addition, to bring about a greater effect from cooperation between Japan and China, clearer objectives must be expressed, and understanding elicited to support both the Japanese and Chinese. Thus, the Second Study Committee has specified the objective of "contributing to stable development in China in the best way for the Asian region, including Japan, and every country worldwide." Having the world's largest population and its wealth of varied cultures and history, China is establishing a systematized market economy and securely advancing mid- and long-term socioeconomic development. However, for various Asian countries, including Japan and countries worldwide, this is the best thing, and contributing to this stable development should be the basic objective for Japan's assistance to China.

3-4. Current Understanding of the Principles of Assistance to China

Concerning the new, basic principles that the First Study Committee recommended, the Second Study Committee investigated the current state of China's development and ways to reach a new understanding of issues.

Principle 1. Friendship with China for world peace

Still valid today, this principle is considered to be the most important. In order to elicit further understanding and support of the peoples of both countries concerning Japan's cooperation with China, Japan's objectives for extending cooperation to China should be stated more clearly, as described previously.

Principle 2. Support for economic reform and openness

A clear difference between China's status at the time the First Study Committee made its report and China's current status, which is relevant to the Second Study Committee, lies in the various issues accompanying China's rapid modernization, reform and openness, such as poverty, interregional disparities, and environmental deterioration. In keeping, a clear move from expressing support of economic reform and global openness toward a position of supporting the establishment of a systematized market economy, is necessary. This will more strongly signify support of the policy necessary for socioeconomic development beneficial to China from the perspective of mid- and long-term growth.

Principle 3. Remedies for disparities brought about by economic growth

With the increase in poverty and interregional differences and the deterioration of the environment resulting from rapid economic growth striking, this principle has become more and more important. In relation, the areas of importance specified by the First Study Committee -- " b., promoting balanced socioeconomic development "and "c., achieving sustainable development" - should be expressed to clearly reflect the objectives of "reducing poverty and interregional disparities "and of "environmental preservation."

Principle 4. Consideration for China's immense population and territory

Although this principle has been partially understood to mean increasing cooperation quantitatively in consideration of the immensity of China's population and territory, with the restrictions in aid resources that Japan is under today, a switch from quantitative increase to qualitative improvement should be sought. In keeping, it would be more appropriate to have this principle understood today as one of focusing on priority points and extending thorough cooperation in consideration of the diversity of China's population and territory. In addition, having Japan's four ODA principles² further understood by China is a necessity.

² The principles of the ODA charter of the Cabinet decision of June 1992 specify, "At a country's request, comprehensively judge its economic and social situations, bilateral relations, etc.," and give consideration to four items: (1) compatibility of the environment and development, (2) avoiding military usage and use in international disputes, (3) taking sufficient consideration concerning military expenses, the development and manufacture of large quantities of destructive weapons and missiles, and the import and export of arms, etc., (4) giving sufficient attention to advancing democracy, striving to introduce a market-type economy and ensuring basic human rights and freedoms.

Box 4. The ODA Charter and Economic Assistance to China

Japan's economic assistance to China is based on the principles of the ODA charter. From the perspective of efforts to transit to a market economy, China's Constitution clearly presents policy for actively promoting economic reform and openness policy and establishing a socialist market economy, and activities to that end continue. Concerning the rising trend in national defense expense and intentions to import and export arms, Japan

has made use of various opportunities to ask for China's understanding of the philosophies of the ODA Charter, while also calling on China to heighten military transparency. In August 1995, Japan took measures to freeze grant aid to China for as long as China did not put a clear end to its nuclear testing; in July 1996, China declared a moratorium on nuclear testing, and Japan recommenced its grant aid in March 1997.

From a 1997 ODA White Paper, final volume.

3-5. Priority Areas and Regions for Assistance

Priority Areas	Priority Regions
<ol style="list-style-type: none">1. Reduction of poverty and interregional disparities2. Environmental preservation3. Agricultural development and food supply4. Establishment of a institutionalized market economy	Future aid should center on the central and western regions ³ , with particular emphasis on impoverished regions.

The important areas for assistance to China as proposed by this Second Study Committee are 1) the reduction of poverty and interregional disparities and 2) environmental preservation. Henceforth, Japan's aid resources need to be concentrated here. In close relation to these areas is 3) agricultural development and food supply, and as a field that combines elements of all three of the above fields, aid should be extended to 4) supporting the establishment of a systematized market economy.

³ The Second Study Committee has assumed nine provinces and regions in the central zone - Shanxi, Inner Mongolia, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei and Hunan, and ten provinces, regions and cities in the western zone - Chongqing, Sichuan, Guizhou, Yunnan, Tibet autonomous region, Shaanxi, Gansu, Qinghai, Ningxia Hui autonomous region and Xinjiang Uygur autonomous region.

3-5-1. Reduction of Poverty and Interregional Disparities

(1) Basic direction

The increased interregional disparities stemming from China's rapid economic development, rising unemployment accompanying the reform of state-owned enterprises and rural poverty are severe. The importance of regional development, particularly for impoverished regions, is evident. China is also aware that this issue is crucial and has proceeded to take steps in this area. However, funds have not been completely sufficient, making it difficult to resolve pressing problems.

For this reason, many international agencies, bilateral aid agencies and private NGO have been cooperating on the reduction of poverty and interregional disparities. Although poverty and interregional disparities are the most important issues for China to solve itself, from an overall humanitarian perspective international support is necessary to accelerate the resolution of these problems.

Although Japan is also cooperating in the hopes of supplementing BHN through grant aid and technical cooperation, in future, strategic aid must be given, with goals narrowed for the purposes of eradicating poverty and interregional disparities. In addition, providing infrastructure and industrial bases in impoverished regions through ODA loans is also important as another step toward supporting anti-poverty projects. Overall, Japan's future aid to China should be shifted from an emphasis on economic development to social development areas (health and medical services, education, human development, social security, etc.).

In extending aid for the purpose of reducing poverty and interregional disparities, China's marked regional diversities and differences in development stages and geographic conditions means that the special features of each province, region, city, district and the like should be taken into account. Sufficient awareness that aid methods will differ by region should be made. Additionally, aid should be developed that supports regional characteristic and independence, the decentralization of power pertaining to aid advanced, heightened policy capabilities of regional governments (such as on the provincial, regional, city and district levels), and regional development on a voluntary basis.

Moreover, in developing aid projects in impoverished regions, it is also necessary to confirm the status of investment funds and financial aid for the regions targeted. Generally, in China, even if a region attempts to raise funds on its own, it is difficult for it to operate those funds on its own. However, some opinions indicate that this has begun to change in recent years.

In terms of central and local financial relations, although introduction of the revenue-sharing system has established criteria for such relations, there are major gaps between the range of operation implemented by the local governments and local revenue. Excluding some more affluent regions, the condition of all finances remains stringent. In addition, experts are now debating whether the introduction of the revenue-sharing system has resulted in promotion of fiscal decentralization or has encouraged the centralization of power.

In keeping with the above, it is necessary to plan the form in which aid projects should be developed along with an understanding of the status of local financial status and policy-determining mechanisms.

In consideration of ODA resource restrictions and China's large territory and population, the Second Study Committee has, as its basic stance, emphasized the necessity of concentrated cooperation focusing on high-priority development issues and creating models to spread the achievements of cooperation.

In an aid approach that stresses socioeconomic development with the aim of reducing poverty and interregional differences, while large aid funds are not always necessary, it is important to develop aid that closely adheres to the special features of regions, and attention must be paid to the fact that even more aid-related human resources will be necessary. However, in general, the more aid is directed to socioeconomic and humanitarian assistance, the greater the concentration of labor necessary and the longer the period required to obtain results; improving aid efficiency engenders various contradictions. Moreover, the basic stance of engaging in concentrated aid priority to specific development issues or regions and advancing the adoption of an aid approach that considers regional diversity and differences in development stages and geographical conditions might be incompatible.

The Second Study Committee believes that even because of the difficulty of

handling all of China's problems, cooperation on the reduction of poverty and interregional disparities should mainly focus on the creation of models. Even when selecting approaches, cooperation methods in which results spill over other regions and have a demonstrated effect must be sufficiently scrutinized. Specifically, efforts to have Japan and China create new organizations that intersect and to consciously form cooperative systems at various stages that lead to the selection of regions, methods, implementation and publicity are necessary.

It is necessary to establish long-term follow-up systems for cooperation in the reduction of poverty and interregional disparities, and the result will hinge on whether or not systems can be established that follow these issues in specific regions and fields over the long term (5 to 10 years). On the regional level, both cultivating aid specialists in China on the regional level (persons knowledgeable of aid systems, procedures, etc., in both Japan and China) and careful aid development are necessary.

(2) Health and medical services

Japan's cooperation in the areas of health and medical service to the present has focused on grant aid and technical cooperation, the provision of high-level medical equipment and facilities, diagnosis, treatment technology and the like to medical agencies in Beijing, Shanghai, and other major cities and core regional cities, obtaining uniform results and solid evaluation. In recent years, the percentage of equipment granted to regional hospitals has been increasing. For polio prevention and the like, the undertaking of preventative medical service adhering to communities has also begun.

As for making progress in providing health- and medical-care, as part of solving problems of poverty and regional differences, it is necessary that medical facilities in urban centers are equipped with advanced medical equipment and technologies. Equally necessary would be to clarify the demarcation of cooperative activities for primary health care, especially for disease prevention and sanitation, in poverty-stricken regions.

In addition, in medical cooperation to China henceforth, placing emphasis particularly on primary health care for impoverished rural areas is necessary for

reducing poverty and interregional disparities. In rural areas, based on the planning indicators for achieving sanitation and health for rural residents in the year 2000, the provision of a primary sanitation and health care net is the most crucial issue. Although the Chinese government itself is schematically advancing these tasks, owing to shortages of resources, the provision standards are not being adequately met. There is a demand for assistance in upgrading the quality and standardizing medical care in county epidemic prevention facilities and hospitals (centers of the county medical care system), mother/child medical facilities, rural health centers and clinics in townships and villages (centers of regional medical care and epidemic prevention). Moreover, China lacks funds for adopting Japan's methods of treating tuberculosis and parasitic diseases, a medical field in which Japan is relatively advanced. Assistance in the prevention of epidemics which may become widespread must definitely be provided.

In targeting impoverished rural regions, consideration must be given to regional development stage, geographical conditions, culture, society, race, values and other diverse factors, and careful measures are required. In addition, not only Japan's specialists but also China's, community practitioners, NGO, and, most importantly, the understanding, volitional and active participation of the residents of the regions targeted are necessary.

In targeting a wide range of regions with limited aid resources, the centralization of cooperation, focusing on priorities, and creation of models are necessary. Moreover, also important is information exchange and cooperation with World Bank, U.N.-related agencies, bilateral aid agencies, private NGO and other organizations engaged in a variety of cooperative activities in impoverished regions.

As an example of the creation of models, some methods to stimulate community participation include instituting primary hygiene seminars that include mother-child health and family planning at each level regionally to maintain low birth rates in impoverished rural areas; engaging in education on awareness and prevention of specific diseases for the entire community, including poor families taking care of an ill person; adopting social analysis measures; providing correct information on the awareness of community members about specific illnesses-what actions to take, prevention, treatment, home care following treatment; and other actual surveys.

Particular consideration should be given to the shortages of doctors, nurses, and other medical personnel in medical agencies below the district level in impoverished regions and medical equipment also not adequate. Thus, cooperation to provide related education, training and basic medical materials would be extremely effective to improve the dedication of medical personnel. Since particularly in farming villages a medical insurance system has not offered complete coverage simultaneously and then the danger of impoverished families with ill members collapsing, Japan must communicate its experience with appropriate medical fee assistance systems and operation methods of mutual assistance.

Reports on UNICEF's experience regarding the medical situation in China indicate: a) Weakening of the provincial --> district --> county training system due to lack of funds, b) Inclination towards treatment than prevention, c) Negative effect due to an administrative stance wherein there is little cross-sectoral relationship and wherein orders are followed in a chain of command in a sectoral relationship (weak coordinating capabilities within the public health and related regional agencies), d) insufficient reliability of project information on design and monitoring of proceedings, and e) No precise feedback on information (sending/recovering, self-recovery). Attention must be directed to these points.

(3) Education and human development

Proceeding with cooperation on education and human development is the most important theme in the reduction of poverty and interregional disparities. Particularly for development in impoverished rural regions, changes in the awareness and thinking of the residents must be targeted. Some empirical research on the relationship between educational development and economic progress, which was conducted on a not-too-little scale, has revealed that as for developing countries, investment in basic and primary education is more effective than that in higher education.

From this perspective, basic and primary education are particularly important, and the spread of China's nine-year compulsory education and making a clean sweep of illiteracy among the young are positioned as critical goals. In consideration of achieving these goals, supporting education in impoverished districts in the central western region and concentrated cooperation and aid for these regions are critical.

A model approach to basic education includes, first, improving school facilities to do away with buildings that are in danger of collapse or other insufficient facilities. Tie-ups with China Project Hope, and active support of this project can be considered. Also, constructing multiple elementary schools with the "Japan-China Friendship" name in each region makes it possible to give form to aid from the Japanese people.

Along with the fortifying of facilities, the quality of teachers is an absolute necessity for improving the quality of education. Because the Chinese government is not, at present, sufficiently promoting the training of new qualified teachers and retraining of current teachers, related efforts must be supported, teaching methods and curriculum improved (particularly for science, math and foreign languages), textbooks and other books and materials enriched, vocational training implemented and other support conducted in parallel with basic education.

Owing to extreme insufficiencies pertaining to education budgets, school administration expenses, and the like, some kind of financial support must be investigated. However, to promote self-reliant efforts rather than depending outside assistance, one plan includes opening the road to generate income through school-run businesses (involving livestock, seedlings and the like).

Cooperation toward enhancing basic and primary education is not just a matter of providing general grant aid and technical cooperation but of both investigating the further utilization of grassroots grant aid and, cooperating and acting in collaboration with private NGOs activities or sister cities, are greater effect for obtaining the people's understanding and support.

(4) Support for impoverished rural areas

Extremely poor rural areas in China are located in such zones as those between mountains, dry zones, cold zones and zones of alkaline soil in plains that are difficult to inhabit. There is no access (roads, etc.) to these such rural areas, and electricity, water service, and means of communication are also limited. Water utilization conditions are poor and farmland productivity is extremely low. Although many farmers rely on rainwater and raise cattle, a single rice crop, potatoes, sob, beans and the like, their capacity in the face of natural disasters is extremely

limited. Moreover, issues of maintaining a livelihood remains unsolved, medical service and educational organizations are lacking, and handicapped children and endemic disease are frequent. The flourishes and arsenic poisoning occurring in Guise and Inner Mongolia are diseases linked to environmental pollution that have their roots in long-term living habits. Fluorosis is caused by the coal used for fuel in rural areas and the drinking water; improving living habits, which would include improving farmhouse furnaces and the like, is reportedly effective.

Although China is implementing concentrated measures to eradicate poverty in these extremely poor rural areas, fund payment is insufficient; thus, the support of international organizations and bilateral aid organizations is hoped for. (The central government's trial calculations put the required funds at 1,500 yuan per person, while the World Bank puts them at around 5,000 yuan.) Concerning cooperation for this type of poor rural region, methods to select model regions for development aiming at the reduction of poverty are being considered. Improving basic production conditions (soil, water utilization, agricultural production technology, etc.) in model regions and conserving land and water in regions between mountains are necessary. Simply making rice terraces doubles the yield per unit of measure. Constructing small-scale ponds for raising fish both helps to provide a valuable protein resource and to secure cash income; it is also said to be effective prevention against the deterioration of water quality. If improving cultivation using plastic and seedlings has the effect of increasing yield, it would basically solve food supply problems (as indicated by China's State Council's Leading Group Office of Poverty Alleviation and Development).

As for cooperation in this field, cooperation that would instigate a self-effort by farmers is effective and it is important to select regions and approaches that enable fund cooperation to have an external impact. Additionally, detailed surveys on the experiences other aid organizations (World Bank, Ford Foundation, GTZ, etc.) have had with their pilot projects and joint investigation (using researchers in Japan and China and mobilizing students) on the actual status of micro credit, agricultural fund committees, local volunteer activities are necessary. Relations with Japan and China's sister cities should be active and investigations made into how to dig up capable resources within the limited aid resources.

(5) Social security

In China, the social security system, which includes old age insurance, medical security, and unemployment insurance, is classified in terms of occupational categories: farmer, public servant, worker in enterprise, etc. However, because the social security system has a major impact on economic-system reform and socioeconomic development, the central government is actively confronting how to reconstruct the system.

Owing to changes in the economic environment stemming from economic-system reform and the increased necessity of mitigating the load shouldered by state-owned enterprises and the like, for employee insurance (for public servants and workers in enterprises), along with introducing a system for various social fee bearing system, the systematization of social security administration work is being tried out, and new systems are coexisting with the conventional ones.

For farmers, although the existing system has been designed on the principle of voluntary participation in the areas of old age insurance and medical security, the entry rate is extremely low, and social security has not been systematized. According to a Social Scientific Institute survey, until the end of 1996, a test run of rural social insurance had only been attempted by 14% of the districts and cities. Only 14.5% of farmers of eligible age have entered rural social insurance or old age insurance, and 17.6% of villages are trying out the Rural Cooperative Medical System, accounting for merely 10.1% of the farming population.

In future, the various trials currently under way will aim to establish basic social insurance law for social insurance based on the principles of unified systems, unified standards, unified administration and unified regulation and to provide regulations on old age insurance, medical insurance, workmen's accident compensation insurance, and social insurance funds, as well as social insurance fund administration methods and other criteria.

Administrative structural reform (the establishment of Ministry of Labor and Social Security, with the old age insurance system currently transferred from under the jurisdiction of several ministries) is also progressing. The first stage of the construction of the rural social insurance system, in particular, will be completed

in 2005, and in 2010, all its basic elements will be activated. In 2015, rural social insurance will be actualized and, lastly, coalesced with urban social insurance.

However, although with county guidance, rural social insurance is slated to be systematized primarily in townships, with villages as bases, because of the major regional differences in rural economic development status, different timetables and methods must be employed, based on the actual conditions of the relevant place. Moreover, owing to the severe status of government finances and residents' revenue, the environments will inevitably be those in which content is also insufficient. Thus, in rural poor regions, simultaneously grappling with factors external to the social insurance system, such as promoting the regional economy, improving residents' income, strengthening the financial power of the regional government, and providing tax systems to improve income distribution functions are absolutely necessary. Specifically, in spreading rural social and old age insurance in impoverished regions, basic provisions for extricating from poverty in the relevant regions will be sought.

The need for Japan's support in establishing this type of social insurance system is great. The Ministry of Labour and Ministry of Civil Affairs have expressed that they look forward to consultation and technological guidance based on Japan's experiences in regard to concrete issues generating during the executing of policies, i.e. rather than to proposals regarding a social insurance system. For example, the future issues are such as social insurance administration and control mechanisms, of establishing executing agencies and administrative mechanisms, and of research and inquiry on legislation pertaining to fund administration. In addition, to combat the shortage of know-how concerning systems for securing the minimum lifestyle, Japan's public welfare systems and the like could be introduced by holding related seminars in China, to which Japanese specialists would be dispatched. Furthermore, such inquiry activities and technological assistance are required for providing equipment for newly established agencies, for the education and training of public servants who will administer social security work, as well as for researchers (in writing papers on social security, stimulating leaders in each field, thus inducing them to enact guidance on policy implementation), for public relations activities, and for creating an information network.

(6) Women and development

Comparison of the status of women in China with what it is in other Asian countries reveals that on the political and economic fronts, Chinese women's participation in the determination of matters is on a high level; the Chinese government's policy to promote women's liberation and equality of the gender has been certainly effective in terms of women's social advancement.

The level of education and health and medical services is low in rural areas, particularly in low-income remote areas, and improving the situation is an issue. Reasons for this are the social norm of subjugating women (women given lower status) and the increased demand for labor in rural areas accompanying the adoption of the contracted production policy, as well as poverty⁴ in rural areas due to the progress of the socialist market economy.

Table 3-1. Gender Development Index⁵ (GDI; 1994)

Country	Gender development index (GDI)	Percentage of earning income occupied by women (%)	Average life expectancy (years)		Adult literacy rate (%)		Percentage of enrollment of primary, secondary or higher education (%)	
			Women	Men	Women	Men	Women	Men
Japan	0.901	33.9	82.8	76.6	99	99	77	79
Thailand	0.812	37.2	72.2	66.8	90.7	95.6	53	53
Malaysia	0.782	30.2	73.5	69.0	77.5	88.2	63	61
Philippines	0.650	30.7	68.9	65.2	93.9	94.8	80	75
Indonesia	0.642	32.9	65.3	61.8	77.1	89.4	59	65
China	0.617	38.1	71.1	66.9	70.9	89.6	55	61
India	0.419	25.7	61.4	61.1	36.1	64.5	47	63
Bangladesh	0.341	27.0	53.5	50.9	27.5	49.4	32	47

Data: UNDP Human Development Report 1997

- ⁴ Although China's number of poor has decreased from 125 million (1985) to 50 million (1997), 60% are female. The All-China Women's Federation is developing activities to extricate women from poverty as its continued, crucial theme following the Fourth World Conference on Women. The goal is to provide support for one million impoverished women by the year 2000 and to extricate them from poverty.
- ⁵ The gender development index (GDI) is computed as the average degree of attainment of basic human capabilities (in terms of life span, literacy, education and income) for both sexes and focuses on inequalities between men and women that emerge. These inequalities are viewed as negative. When the degree of attainment between the women and men of a certain country has declined or there are disparities in a rising degree of attainment, the GDI is lowered (UNDP).

Concerning the enrichment of the education of female children in rural regions and of literacy education for adult women, the training of teachers in impoverished regions and the enrichment of books and materials for the spread of the nine-year compulsory education system, are sought. Examples include establishing education development funds, providing support for school fees for children in impoverished regions, training teachers responsible for literacy education, securing literacy education fees and materials, and providing support for continued education after basic levels. In particular, the tradition being desirable for female children to learn from female teachers exists; thus, the fostering particularly female teachers in impoverished regions is being sought. In addition, support of Project Spring Buds, which is a scholarship fund to support female children in attending school, and the like is also conceivable.

Concerning the enrichment of health and medical services in rural areas, support to provide rural health and hygiene facilities, foster rural medical practitioners, hygiene facilitators and other primary hygiene technicians and improve their capabilities is being considered. Within these areas, rural midwives, who are engaged in midwifery and related activities in rural areas, are declining in numbers. As they are crucial health and medical service personnel, improving their technical level is necessary. However, fundamentally, the resolution to China's rural poverty problem must be undertaken comprehensively, within which keeping the benefit particularly to female children and women in mind is essential.

In China women are exposed to a negative effect being generated along the adoption of reform and openness policies, despite women in both urban and rural areas making significant contribution in economic activities. This is a social problem for which a solution has to be found. There is a significant tendency for corporations, in their pursuit of profits, to have a negative outlook on a female work force. A State Labor Union survey reveals that 60% of the workers retained at home are women. This "retaining" is actually a dismissal of state-owned enterprises which have a surplus of personnel. They continue to receive the minimum salary guaranteed (70-80% of the base salary they previously received), and a period of three years is slated as the period for finding other jobs. When they are dismissed from a state-owned enterprise, they no longer receive social security, such as health insurance and pensions. Even if they are re-employed, their status as women is a difficult one. The difficulty of employing female college