

**CARNEGIE ENDOWMENT
FOR INTERNATIONAL PEACE**

**CHINA'S "NEW VILLAGE" STRATEGY –
ACTUAL PROGRESS AND NATIONAL IMPACT**

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ALBERT KEIDEL: Good morning, everybody. I'm Albert Keidel, a senior associate here at the Carnegie Endowment for International Peace. And on behalf of Jessica Mathews, our president, I welcome you all. We have an interesting program this morning and I'm delighted to have Professor Binliang Hu from the Chinese Academy of Social Sciences.

He happens to be here in the States this year up at Harvard and has kindly come down to talk to us in Washington about a number of topics. And I have snagged him this morning to talk about something he's just been writing on for the Chinese government, a series of small pamphlets on the New Village Construction or we're calling it the New Village Strategy. Construction is kind of a funny word for English-speaking people to use for this kind of project, but that's what it is officially called. And they're calling it a countryside construction project.

Initially, Binliang asked me to introduce the movement or the strategy and make some introductory remarks and then he is going to give you the meat of the presentation. So we will then follow his presentation with a question and answer session. So I, because I don't see any way to control the slides from here, I'm going to go back to my seat and make my presentation seated and then Binliang and I will switch places and he will make his presentation. So let's begin.

The rural village movement is something that I ran into about a year and a half ago when I was doing field work for this study, "China's Economic Fluctuations and Its Implications for Its Rural Economy," which has just been printed in its final form. There were in central Hunan and in rural Henan (?), a number of new projects that they were talking about. And I said, well, what is this? What is this New Village Construction or New Village movement? And it turns out that, as I'll mention in a minute, it has been underway for several years.

What I want to do is provide a little bit of background and backdrop for the current situation in China's agriculture and China's rural economy by way of discussing what our long-term ups and downs in the terms of trade between urban and rural areas because we are right now in the thick of a – (in Chinese ?) – of a conclusion of a phase in the shifts in those terms of trade. A major event in the last few years, in my mind, and that highlights the importance of the village-construction strategy, the New Village Strategy, was an increase in grain prices in 2004.

This followed a period of very rapid decline in planting of grain by Chinese farmers. They left grain production very rapidly after 2000 because grain was so unprofitable. Alarms were raised when the harvest in 2003 was so bad. There was a special meeting in Beijing of all of the provincial governors that December and they

agreed to push, again, grain planting and grain production and they raised the price of grain, which itself was already going up because of shortages in inventories.

This is a repeat, in many ways, of high grain-price peaks when there were shortages when farmers weren't planting grain on their own. If you give farmers in China a chance not to plant grain, they will get out of grain and go into other crops, 1984, 1992 were both such periods. Now, what this represents, and we've seen – and this report also documents the shift in the rural-urban terms of trade beginning in 1978, starting out in favor of rural areas, then that becomes inflationary and pushes up prices in the cities. You get a reaction on the part of the urban population in Beijing to calm the cities. Grain is produced in larger volume; the price goes down then the central government can't afford the subsidies to procure the grain anymore so they relax it. Farmers stop producing grain; fall, they come back again.

And the cycle has now entered a situation where this conundrum that they face in New (?) Village construction, the goals are to improve agricultural output, to maintain grain production, and to raise rural incomes. A number of Chinese studies, written in Chinese, unfortunately, by the statistical bureau and its survey groups have pointed out that to raise incomes in grain-based areas is basically a contradiction because farmers don't make much money planting grain. The only way to get around that is to raise the price of grain quite a bit. That, however, triggers inflation in the urban areas.

Now, when price of grain was raised to keep it from becoming an urban inflationary threat, the planning commission, the NDRC, the National Development Reform Commission, beginning in '04 started to control prices of other products. Working against what they called gauging or monopolistic supplies, they kept the price of pork, milk, eggs, and other rural products that relied on grain low. We began to see the results of this last year in May and June when other events, in one case, a disease in pork triggered a shortage of pork and a suddenly exploding price of pork that has led into what is a major concern now for inflation in China.

Not only pork, we're finding that analysis is now coming out in the planning commission or in the Xinhua news press about the implications of those efforts to control prices in the rural areas last year and beginning in '04. Small farmers last year essentially began to move out of producing pork because they couldn't make money at it. And that – and the alternative, which is larger-scale pork-production farms, are not yet up to speed to handle the pork-supply problem. So when this blue-ear disease pushed them over the limit, pork prices exploded.

Similarly, last summer, farmers were – now, we're getting reports of farmers then killing their cows and dumping their milk because they couldn't make a profit selling at the price control, the controlled price of milk. Prices, now, for milk in Beijing are starting to surge, all over the country, actually. So the combination of this cycle up in grain prices and the efforts of the government and center to control those prices has worked for a couple of years, but has now reached a crisis point. And food-supply problems are causing price explosions.

An economic analyst on the planning commission published a piece last week saying that the real solution to this price-inflation threat is fundamental price reform – didn't say what that was. My feeling is that price reform is always inflationary. And it can mean either one of two things: that they make permanent the increase in prices for pork, grain, eggs, milk, many farm products. That would raise wage costs in the cities. So you would then have to adjust productivity with layoffs and other steps to deal with the increased cost of labor. That has been resisted every time this has come up in the past.

The alternative is to have a more general inflation in which non-farm products' prices raise and the price reforms and the terms of trade once again turn against the rural areas. I'm expecting, and I suspect, that many of these efforts at price control have been to keep criticism of the government to a minimum in preparation for last year's national Party Congress and next month's – or it's not next month's until tomorrow – March's national people's congress when the government will appoint all of the members of the new cabinet, the state council, except for the premier. So there's a political transition going on. The degree to which the government is handling the economy well, I think, is influencing the degree to which they want inflation to poke its head through. They are having trouble. They could hold on.

This snowstorm – I don't know if you've been following the news, but most of China is paralyzed by days and days of blizzards that have stopped, blocked all the north-south trunk lines. Highways in major provinces are all closed. People are stranded in railroad stations and supplies of food stuffs have been cut off because of the transport problem. This is clearly going to be inflationary in the short term. And my view is that now it's actually fortunate; now the government can perhaps blame an inflationary surge on the snow storm and get itself through the NPC period. And when the NPC is over, then I think we will see more expression of this underlying pressure that has been building for several years under the cover of price controls.

And if that general inflation increases the prices of everything that people buy. It will signal a reverse of the proved terms of trade in the rural areas because we've seen since that grain price increase, household incomes have surged as a share of GDP and it's been, finally, a reversal of the deterioration in household, rural household consumption that was so serious in the latter 1990s.

Hence, there is no near-term price solution to alleviate rural poverty. You run into this fundamental problem that price changes that help the rural areas create inflation in the cities. It seems to me – and Binliang and I have talked about this and agree – that the New Village Strategy is an alternative, transfer-based solution to the problem of rural welfare where you take – without changing prices, you take funds and transfer them into rural areas as a way of supporting a better standard of living. The major question is, how expensive will it be and will they put enough resources into it so that it will make a difference?

Very briefly, the New Village Strategy was proposed as part of the current five-year plan in 2005. There have been academics who have called for a New Village movement or for major improvements in village investments going back into the 1990s if not before. But this particular proposal got very specific and in a major meeting at the end of 2005, attended by both Hu Jintao and Wen Jiabao, the new project, the “construction of a new socialist countryside,” which is the way they translate what we’re calling the New Village Strategy was formally worked out in terms of its details.

There have been study teams going to Korea. When I was doing my Ph.D. dissertation on the Korean economy in the 1970s, I lived in Seoul for a year and a half and spent quite a bit of time in central South Korea. They had just launched what was called the – (in Korean) – in Korea at the time to replace thatched roofs with real roofs and to improve roads and transportation and schools. The Chinese have actually been talking with the South Koreans about the experience and the degree to which it was helpful so this is an interesting sort of translation or transfer of experiences. And my analysis of the Chinese economy is that it’s probably, in terms of its level of development, about where South Korea was in the early 1970s.

As I mentioned a year and a half ago, in Hunan and Henan, these investments were already starting to pour in. As projects were being proposed to the county, the county was getting funds for them, things like taking a village street and turning all of its structures into two-story cement houses and moving farmers in to live on the upper stories so that some members of the family could run a shop. And then they would travel the few hundred yards to their fields and then destroy the old house and use that for agricultural purposes. So it’s kind of a consolidation, improving housing conditions.

That was one project that I saw. Another was a large pig farm using new strains of genetically improved pork stock. These are the kinds of things that I witnessed and – but it was just beginning. And so, what we want to know is, how far has it gone? What does it mean? I just also told Binliang – we talked about this – that I want to say that there’s been some preparation for this in the first half of this decade. The tax-for-fee reform, the – (in Chinese) – consolidated financial matters in rural areas under the county. There had been a lot of finance management by the townships, below counties, until this happened. So the teachers weren’t getting paid, schools were not getting fully constructed.

But they’ve moved all of those responsibilities up to the county. The county now – and they’ve then consolidated villages and townships, reducing the number of cadre so that we’ve had a preparation in the rural areas that has turned the county into kind of a landing pad for transfers from outside that can handle the fiscal demands of this kind of program. And at the same time, the fee-for-tax reform was followed by the abolition of the agricultural tax. And so this made many poor rural areas really strapped for financial resources. So the question is, now, is this a new platform for fiscal transfers supported by the New Village Strategy? That is my hypothesis.

It's a major initiative. We're going to find out what it really is because there's a lot to it. What I don't know is, what are the scale of the resources that are actually going to be put into the New Village Strategy? And if it's not much, is this just one more superficial effort to talk the talk, but not provide the resources to make a difference in the rural areas. So, with that, I'm going to turn my seat over the Binliang and take it away.

BINLIANG HU: Thank you. Good morning. It's my pleasure to be here to have discussion about agriculture and rural farming issues, especially together with Bert Keidel. I think my – after his speech, I am thinking about that this is very near big challenge for China to – for Chinese government leaders – probably especially for top leaders to manage the transition in this period of time, very special time if you look at the inflation, which have been significantly increased, driven mainly by the pork, milk, and agricultural-related products' prices.

This is a big challenge and also, I think China needs another comments, you know, from all of you, especially from the experts like Bert. He did a very good job on both sides: agricultural and also relating to new countryside construction because he had experience relating to Korea. Chinese government, I think, has send a lot of delegations to Korea to learn how to build a new countryside.

But as I discussed with some of the Korean, you know, people, they don't think that's a good example to name, but I don't have idea. I never yield to this kind of stuff. I just try to follow that discussion. I will not focus on agriculture. Agriculture is mainly market-driven sector. It's kind of the economic sector mainly driven by market mechanism. But we clearly we need to get – (unintelligible). So markets and mechanism is not enough to solve all of the problems. But also we need to physical transfer – he just mentioned – we also need the government's support.

So these are the major intentions, policy intentions, from the central government to launch New Village program or what we call the New – some people also call – the New Countryside, Socialist Countryside Construction Program. So I tried to give some, you know, brief introduction about this problem. This is one of the very important policies in the next 20 years, before 2020. I think the first priority is to try to focus on this issue: how to build up new socialist village or new socialist countryside.

First of all, I tried to give you a brief, you know, background about that, the government, you know, proposed this program. So for some of the people, especially for the people on the other side of China, they say, you know, maybe they have puzzle, so why the government launching this program? Suddenly, so I just give some background for that.

MR. KEIDEL: Slides.

BINLIANG HU: Slides will come later so – (laughter) – so because this is just, you know, the idea, not relating to slides. I suddenly think it's important to give some background. My slides do not show the background. (Laughter.)

Three backgrounds – the first of all – (unintelligible) – can be a macro background. As you know that, 2002 in August, 16th Party Congress was held in Beijing. I don't know – as usual, there is a big report, but make people very confusing, especially easy to make people lose the focus. And the one focus I just try to point out, which is very important: 10 words in Chinese. I believe most of you know Chinese very well. (In Chinese): integrating urban rural economic social development. This is the first time proposed by the central government to integrate urban development and rural development together, integrate economic development and social development together. This is the first time.

If you look back to the policies since 1953 to 2003, exactly 50 years, what's the policy focus? The policy change, the policy focus is urban-biased policy, discriminating, all of the policy, I think, discrimination to rural development. Like, if you look at prices, policy, so there's a very typical – what do you call it – scissors (?) price system. So you couldn't – (unintelligible) – so the industry products priced much higher than the equilibrium point but agricultural products price is lower. So this is a price distortion, very serious distortion. The purpose is to try to get to the surplus from agriculture sector to support industrialization in urban areas and also to protecting the social welfare for the urban people by discrimination, discriminating rural people.

So the people's mobility have been forbidden, so this kind of policy, old policies focus on separating urban development from rural development. So this is, you know, is a second policy change achieved from separating these two areas, the urban areas and the rural areas, to integrating urban areas, social and economic – economic and social development. This is the first point. After 50 years proposed by the central government, this is one background, policy change, breaking through policy changes.

Second, just to follow this policy change, in 2004, President Hu Jintao proposed that another two – (in Chinese) – in Chinese – (in Chinese). I think it may be translated into – sometimes, it's difficult to translate Chinese terms, you know, special policy terms, into proper English terms. So maybe to supporting or too subsidizing – this is not correct either – (unintelligible).

MR. KEIDEL: (In Chinese.)

BINLIANG HU: (In Chinese.) Anyways. Yeah, so this is just – you simply understand is to supporting or subsidize – industry, industry supporting or subsidizing agriculture – urban supporting or subsidizing rural areas. So this is just the other way around. If you look back again, the policy is – (unintelligible) – in the progress of 50 years. This is not subsidized. They just get all the benefits from rural areas, agriculture to industry, to urban areas. So to supporting and subsidize is also another breakthrough policy change proposed by President Hu Jintao in 2004.

In the following year, 2005, just about to mention that, a group of people worked out a comprehensive general plan, a package which is called “Building a Socialist

Countryside.” So they tried to put social development, economic development, environmental protection, so everything, political reform, put together to build a new model, a new – you know, this is a kind of mentality. You know, as a communist, they always trying to put together to build a new model, what we call the new socialist countryside, which it what they use now, is compared with the older version because the policy is totally different. So this, I think, this is a background.

So when we talk about a New Village Strategy, New Countryside Construction Strategy, it’s not a sudden – (unintelligible). The central government has been working on it – because I’ve been working with one of the think tanks, a very important think tank, the Chinese Academy of Social Sciences, you know, there for more than 20 years. So I know all of these kinds of programs, I was a participant in some of the discussions. They have been thinking about 10 years and finally got this project out. So this is the first background relating to my presentation. This is a macro-view background.

Second background that is how to implement how the government, how much attention paid by the central government for this program. So a very good question – I just was about to mention that. December, talk again, just talk because, you know, agriculture and rural development always, every year, is always take the central government second-nation documents. Number one, which regard is the most important issue, always talk about that, everybody talk about that. But this new rural investment – no reaction have been done. So the problems are still there, always talking and talking, table and the talk and the speech. So this is what the people saw. So this is the same situation again. This is the worry from Bert that just mentioned that. So I just try to give you some, you know, information for your judgment.

I don’t whether it’s – (unintelligible) – again, but I give you some facts. In foreign policy 2005, the newer policy have been issued, you know, together with the 11th five-year plan. Eleventh five-year plan puts a building up in socialist countryside as the first. So after the general goes, the general goes in the next five years, this is first chapter and then building socialist countryside or socialist village as the second chapter. So that is very important, of course.

So just after this 11th five-year plan published in the end of 2005 through the 5th January meeting of the 16th Party Congress. And then, as soon as after the Chinese – (unintelligible) – bring festival, as I remember, that’s February 17th, Hu Jintao called all of the provincial governors, provincial-level leaders and the ministry-level leaders, all he called to the central party progress, the central party school. He – (unintelligible) – speech for four hours in – (unintelligible) – to 12:00. He had a four-hours’ talk about how to build a socialist countryside to all of the provincial and ministers in the Central Party School and in afternoon, a discussion.

The second day, the vice premier, Huang Ju (?), who is in charge of agriculture and rural issues and have another three and a half talk in the school, an afternoon talk. And the third day is the minister of finance – (in Chinese) – NDRC minister. In the third day, he talked, you know, for three hours and a discussion. And the fourth day is the

minister from – minister of finance to talk about how to support this kind of program. And the fifth day is minister of construction. The sixth day is minister of agriculture and the final day is Premier Wen Jiabao, you know, had the conclusion.

So the whole week, all of the leaders concentrated in the Central Party School discussing how to build the socialist country. So this is very high profile to show this time, they do admit, they don't intend to have – (in Chinese). You know? At least from the attitude, you know, to show to the people, it's – (unintelligible). Following this, this is what happened in February, in March, Hu Jintao called the central organization ministry to organize 40 experts from the think tanks of the government get together, stay in Central Party School for one week, for one month, one month to prepare textbook to training all of the county leaders because the provincial leaders trained by Hu Jintao – (unintelligible) – and the county leaders, more than 5,000: 5,300 county-level leaders including county magistrate, and also the county – the party secretary of the county.

And I was one of them asking to train the central where we wrote the textbook and then, after reading, after the writing, the textbook was sent to the central government, the Hu Jintao directory read that and assign that okay?

So because, you know, this textbook to get approved by the central government, you can say, what do you want to say? So one, you have lectures (?) and some central Chinese government observers, they are sitting there, so you kind of have to see. So – and we spent a whole year, 2006, to go all around the country to training these 5,300 county-level leaders to how to build a socialist rural countryside, the theory, and the practice, international experience, and the policy issues, all these kind of things.

So each program – same structure: seven days just – (unintelligible) – leaders. We have seven people as a group. We went around all over the country. We spent 48 weeks to finish this job in the whole of 2006. So I think this is one of the very – compared with before, this is very different. This is what are called – (unintelligible) – the training program in the history of the Communist Party since 1921. (Unintelligible) – so many people, you know, get the trend.

I attended the whole training process. I spent a lot of time with this program in that year. So this is a really – and after that, they come back, a day study it. And also, they learn from each other. All the leaders – the discussion, they share different models on this type of topic, you know, how to build a new village for a new countryside. So this is the second background I tried let you know. But now they are implementing, really implementing. I will give you more information maybe later on.

The third background is relating to my research. You know, this is also a very big challenge for me. I conducted rural research for more than 20 years. I know rural areas, but as an economist – (unintelligible) – more focus on ecological research. You can talk about a rural area where more – you know – (unintelligible) – really economic situation. What's the impact of, you know, grain price, what are the problems of foreign trade relating to agriculture products? Not much focused on democracy, but this time

democracy was very important, part of the important focus. Not much focus on this kind of issue, particular issue, not much focus on social development and education, healthcare for myself.

So at the same time, I spent a lot of time, 2005 to 2007 – actually I brought a book in your office, I did not – no, not this book. I prepared, I wrote the two – five booklets. I got one sample, but I didn't bring it with me back, and now – so, I wrote five booklets about how to build a new countryside relating to urbanization: first, urbanization and new countryside, industrialization and new countryside, these kinds of things. So – and I know Harvard was still working relating to new countryside construction, but from the public goods provision. How do you provide the public goods in more rural areas? What kind of governance do you need to fulfill (?) that?

So this is the third background I – some of the research I conducted relating to this research. So I tried to give this background for maybe, I hope, your understanding relating to the following discussion. Okay, so that's back to the slides.

Goals, yeah, so the government of course, they have a lot of policy intentions. This time they have multiple goals, multiple policy intentions, you can say that. So this is not on an economic program, also I just mentioned that it is an ecological program plus a political program and social development program. It's the overall program, try to give, you know, to make significant change, real change of the rural area situation, which people have been worried for many years. So try to get a final solution, this is the intention, try to get a final solution of rural issues. Some people say that if you go to China, if you go to cities, it looks just like Europe. But if you go to rural areas, it's just like Africa.

So urban-rural defines the fight (?) – is a serious issue. The central government leaders, they're getting more and more sense and understanding about this situation, so they're trying to get a solution from the roots, from the foundation. So these are the major goals this time for launching the program. I'll just show you some slides relating to some of the goals.

Why does the government worry so much? If a new kind of regiment is firmly – (unintelligible) – in this kind of a situation, especially Peter Botteneer (?) who is here, used to be director of the World Bank Beijing office. He is one of the experts who did a lot of research. He wasn't bad, but as I remember in 1995 and 1997, he presented a very good report in this area to the central government of China at that time.

So 10 years passed and it's still – you know, in a sense it has gotten worse. If you look now at Shanghai, this is – this is old data, up to I think 2004 because I made in this kind of preparation, 2005, for the county leaders. And the now – the latest information on Shanghai, per capita GDP – or GDP per capita is nearly about US\$10,000. But if you look at some of the provinces, it's just one-tenth. So that means that more than 10 times of Shanghai, these are the big cities, these cities compared with the poorest provinces as an average.

If you look on the situation between rural areas and urban in terms of income, used to reduce to less than two times in 1982 to 1984, so less than two times. But now, after that it increased again. Now, I think in terms of income, urban area was three times higher than in rural areas.

MR. KEIDEL: Gently, you can point to that.

BINLIANG HU: Okay, yeah. So – oops.

MR. KEIDEL: Too much, you'll want to go back up again.

BINLIANG HU: Yeah, but I think they get – they can either find it.

So and then, the government – what's the general principle? What's the major purpose? Their goal, what's the task? What's the task for this program? One job I mentioned, the 20 words in Chinese, 20 words, again, it's very difficult to translate into English, but anyway, I'll speak in Chinese and then maybe you'll translate –

MR. KEIDEL: Don't count on me.

BINLIANG HU: Much better translation for that, you know? What Wen Jiabao said, our target this time for building a new socialist countryside, or a new village, there are 20 words: (In Chinese).

MR. KEIDEL: (In Chinese) – is development of output.

BINLIANG HU: Okay. (In Chinese.)

MR. KEIDEL: Broaden the supply of goods.

BINLIANG HU: (In Chinese.)

MR. KEIDEL: (In Chinese) – is –

BINLIANG HU: (In Chinese.)

MR. KEIDEL: Double wind with cultural development or something like that?
(Laughter.)

BINLIANG HU: (In Chinese) – is – (in Chinese) – a township. (In Chinese) – is a kind of atmosphere, it's kind of a spirit. It's very difficult to translate. (In Chinese) – (chuckles) – this is a good test of Chinese. It's difficult translating already. (In Chinese.)

MR. KEIDEL: This is the spirit of the township culture. Let it blow.

BINLIANG HU: It's more relating to moral and spirit, you know, have a good spirit and spirit condition. (In Chinese) – is more relating to the environment, you know, a clean village maybe?

MR. KEIDEL: Sounds good. (Laughter.)

BINLIANG HU: Yeah. (In Chinese.)

MR. KEIDEL: That means manage democracy or develop democracy.

BINLIANG HU: Yeah. So this is 20 words what Premier Wen Jiabao proposes. This is the target, 20 words, and for five slogans, you know. So this is a major intention, policy intention, which I think is a good wish, the target from the premier. And if you look on the number one documentation from the central government of 2006, 2006 number one document is focused on how to build the socialist countryside. There are eight focuses; one is – (in Chinese), integration of rural and urban, urban and rural areas. (In Chinese.)

MR. KEIDEL: Modern agriculture.

BINLIANG HU: (In Chinese.)

MR. KEIDEL: To increase the incomes of farmers.

BINLIANG HU: (In Chinese.)

MR. KEIDEL: Develop society.

BINLIANG HU: (In Chinese.)

MR. KEIDEL: Infrastructure development.

BINLIANG HU: (In Chinese.)

MR. KEIDEL: And democratic developments.

BINLIANG HU: (In Chinese.) (Chuckles.)

MR. KEIDEL: And improve leadership quality.

BINLIANG HU: Okay, these are the major focuses mentioned in that number one document issued by the central government. So this is the – this is already a policy package from the central government if you get these kind of things. Sometimes for foreigners, it's difficult to understand that if you have low experience, therefore say about five years, and this is five years to 10 years, you can definitely get a sense. Most of them,

they are just like slogan. This maybe is kind of the culture of the communist party, but sometimes it makes sense, you know?

We understand where we are. Especially for the local leaders, they understand it even better than us, the researchers. They understand what it means, but I'm sorry if you totally understand that. I don't have a way to give that foundation for you. It's difficult.

MR. KEIDEL: We'll do it in the question period.

BINLIANG HU: Okay. I summarize because there's so many point and sometimes if you – too many points and it makes no point. You make people lose the point and if I summarize, there's really focus.

This program, we are focusing on three areas: one is economic development, so ability and modern agriculture. Agriculture is still the mainstream of economic activities in rural areas, but not only agriculture. If you look, go to rural areas, a lot of non-agricultural activities. And most of the rich areas, they base more on agricultural development. So continuing the development of the rural economy is the number one focus.

Second is relating to what I just mentioned, transfer, physical transfer, so increase the investment from the central government to rural areas relating to main major areas: one is fiscal infrastructure.

MR. KEIDEL: Physical infrastructure.

BINLIANG HU: Second is the social infrastructure, so you understand, your physical infrastructure, just like roads and electricity, all these kinds of physical things. And social infrastructure like education, healthcare, these kind of social development issues.

And the third focus is try to improve the policies because the policies, all the policies – some of the policies actually don't have rural development much. Some of the policies actually, they destroy, they play a negative impact to the rural development. So they try to clean these kind of policies to improve the policies. So I will follow this kind of the focus to give – there will be more explanation about that.

So talk about the Chinese economy. We have, I believe most of you, I just guess, most of you have a misunderstanding. What's the major state, major part of the economy of China? Many people say, the rise of China is because of urban – get very well developed. You look at Shanghai, Beijing; this is not true. The major base of the economy, economic development in China is still in rural areas. If you look at GDP now, first of all, we get a definition about rural – how rural defines, I give, otherwise it's difficult to understand. In China when we talk about rural areas, it normally includes three parts. County level, county is regarded as part of the rural areas, township, and village. So these three levels.

And then we look at the contribution from the country, which – (unintelligible) – discussion followed by – (unintelligible) – just mentioned that. So that includes county, township, and village. The contribution from these three levels to the nation aggregate is normally about 55 percent. Take the example 2005, that's 56.3 percent of the contribution from these three levels of GDP.

MR. KEIDEL: GDP?

BINLIANG HU: GDP, levels of GDP. So it's very hard.

If you look at the coastal areas, I will – maybe I will send them slides that show that. So according to my definition, I just mentioned that, the areas that belong to these three levels that I just mentioned, occupied 94 percent of the total territory of the country. Just 6 percent of the territory are purely urban areas. If you look at the population, and I did not show yet population, there's two definitions about – definition relating to rural agriculture. Rural area population now is 750 million people in China, which is 58 percent of the total of the country. This is an agricultural population. If you look at the aggregate rural area population, it's 950 million; this is 73 percent of the total population. Rural area population, which is below as I defined, the population of the county, of the township, and the village, rural area population normally relating to the village – you know, population along, so population is like that.

If you look at the labor force, the total labor force in China, let me see, is about 360 million total labor force, but total rural labor force is 500 million, so that's about 66 percent of the total population. So this is just a rough territory population, just basic information, if you don't have this kind of information. I think like Peter and Betty know very well, and some of you also know very well. Anyway, just that we get basic information.

If you look at county population here, I mentioned that, that average is much lower than this because most of the provinces are still agriculture and rural-based provinces. Relating to the national economy, I just mentioned that, the rural economy is still very important, even look at this chart, which shows – the red one shows the 100 strongest in terms of economic developments, the strongest counties in China. They – you can look at the distribution. 88 percent, 88 out of the 100 strong counties are located in the eastern part of China.

MR. KEIDEL: This is nationally designated strong counties, right?

BINLIANG HU: Yes, nation, yeah.

MR. KEIDEL: National, yeah.

BINLIANG HU: And there are five, you know, so coastal area in this area, 88, and five were in the northeast area, and four in the central part of China, and three in the

western part of china. You'll find that this is very much in line with the overall economic development. The eastern economy gets the best, and most are the best developed areas in China. If you look at the county, rural economies, it's the same. So rural economies is very strong. If you look at the – you know, if you look at the – (unintelligible) – I mean the provincial economy – (unintelligible) – provincial economy in China, number one is Guangdong, number two is Jiangsu, number three is Shandong, number four is Zhejiang, number five is Henan. If you look at like all these five provinces, except Guangdong – Guangdong is more based on export and import because most of the, I think, 30 percent of the nation's exports and imports are from Guangdong province alone. The totally economy of Guangdong province is much bigger than the whole Taiwan –

MR. KEIDEL: Oh yeah.

BINLIANG HU: Taiwan, Singapore, Hong Kong. So the four dragons – Guangdong is only a little bit less than South Korea, and higher than the rest of the three dragons, small dragons. It's very strong. So the economy – so except for Guangdong, the rest of the four provinces, most of the major contributions are not from the city; they're from rural areas, from the counties, the county economy, from the township economy, from the village economy. So once the county economy, rural economy get well developed, so the whole province will get rich. So this is maybe a little bit different from we've been thinking for quite a long time, I just guess for some of you.

Yeah, this is computing the index about the rural economy among different provinces, so this is very aligned with the distribution of the overall economic development, and not only rural development. Shanghai, Tianjin, Beijing, they are big cities, they rank in number one, but rural development is also ranked number one. This is rural economy development competitiveness, and as you see – (unintelligible) – Shanghai, she's, well, it's kind of was a weak economy. But if you look at the overall economy, it wasn't weak. They align to each other very well.

So this is the fiscal budget revenue, but it's a big difference among different provinces. Generally, the size is still very small, even looking at all the eastern part of china, so just 350 million. The average of the counting of the budget is quite small. So this is the first part of my presentation relating to economy, first the focus of the economy. And the second focus is on the increase in investment in the rural areas, so there are some areas, I just mentioned, their physical infrastructure, which includes water, electricity, roads, and gas. So these are basic needs and very important physical infrastructure. But in that has kind of suffered rural areas for quite a long time. If you look at water, so now there are still 300 million people in rural areas that don't have – they don't drink any water.

MR. KEIDEL: The next slide.

BINLIANG HU: Yeah, so you'll see in this now, this is distribution of the people that don't have a chance, they don't have access to any water, the safe water, and I think safe water is a bad term. Only 15 percent of rural people, they have tap water. They just

have tap water. So water is a big concern. Premier Wen Jiabao promised to try to, through this program, to make all rural people to use safe water in the next about 10 to 20 years. Each year they have a very detailed plan. This is the government plan, not from the researchers. We just think about the framework, not the very detail. They have a very detailed plan when they have solved the problem.

If you look at electricity, overall the whole country, there are still about 20 million people that don't have access to electricity. So they were going to solve this issue. Roads, there are 40,000 villages that don't have access to roads, but even they have roads now in rural areas, 70 percent of the roads that are just paved by sand, by the stone, you know, the grass stone, it's very simple.

And gas, like the fuel, the family fuel, so very – 40 percent of the people that use like the energy like coal, most of them use coal, and about 60 percent of people still use timber, use other agricultural products, side products as they feel. So this is bad for the environmental protection. So they try to use gas; through this program, they promised all the rural people they can use the gas as a clean fuel, energy. This is one area – this, actually I forgot one thing – it was related to physical infrastructure, which is agriculture, closely related to agriculture production, like irrigation. This was also regarded as a very important part of physical infrastructure. As you may know, that total farming area is now 1.8 – 1.9 billion acres is a little bit more than what, I think, one billion – 100 million –

MR. KEIDEL: Over 100 million hectares.

BINLIANG HU: One hundred million hectares, yes. And it will be more than that, only 40 percent of them are irrigated. 60 percent are not irrigated, and it wasn't – even these 40 percent of irrigated is – their equipment, their system is very old, built during the Mao era in the 1950s, 1960s. They're old enough, they have to renew. And only 30 percent of the farming land is guaranteed with high production – high-yield production. So the 70 percent of them are low-yield, they're very uncertain. That depends on the water, depends on the investment. So sometimes it's good, sometimes it's bad in terms of the year. So 70 percent of the farming land is like this, very uncertain. So through his program, the government tried to put more into agriculture as well and this is the physical infrastructure vicinities.

And then social infrastructure, which relates to rural education, public health, social security, I think this is relative to some point because all these social services will be provided by the central government. I think this is still a problem. While I'm conducting research joined with a professor in Harvard University, so we're trying to build up a governance, a better governance structure to solve the problem. But now the government tried to take over all these kind of things before they – (unintelligible) – distort it, who are discriminate rural development. But then, they try to pay all the costs, they try to direct the investment by the physical transfer by the government for rural education, health, and the social security.

I think this is impossible, even like the U.S. The universal healthcare system has not been set up; how can China do that? But the government have been promised to do it, but if you look at education, yeah sure. Education now is free, totally free. This year, expanded to urban areas. Now it's the other way around. We studied the free education in rural areas since 2006, but from 2008, from this year, urban education is going to be free as well. So 2006, 2007, all the rural education is free, but starting from this year, this is the other way around. This is good, of course, but I think education is okay. But this is the basic education, just nine years basic education, not for the high school, not for the university.

And popular health maybe is an issue, it's a big concern. It's very difficult to govern. Now, it's kind of a cooperation, it's another kind of cooperation. Each year, rural people pay 10 Yuan and the central government pays 10 Yuan initially, promised 10 Yuan from last year. They increased it to 20 Yuan. And the local government, depends on which area, if you are a rich province, you can pay more. Like many of the cities, you can pay more, normally no less than 30 Yuan for some cities, they are rich. They will need to pay 60 Yuan, even 100 Yuan, so that depends on you. And then they put all this money together to build up a fund, a cooperative fund, once people are getting sick, they get some refund. That depends on especially the big disease, and they get higher refunds.

Less than – yeah, the problem is that less than 20,000 Yuan, they will not get a refund. This is not good design. I don't think this is a good design. Most of the disease is less than 20,000 Yuan. That means most of the people would likely benefit from this kind of system, so anyway, the government tried – and this is the currency policy, current policy. Yeah, I'll just follow with some general ideas about general policies. I'll show some pictures and the kind of situation relating to the education, but you know, even look at the city situation, it's not as good as we thought, and the rural area situation is getting worse, you know, healthcare, the situation with cultural investment into the cultural sector between rural and urban areas.

Okay, this slide is part of the forecast of the policy of the strategy, that's increase the investment into the sectors. And the third part of this forecast of the strategy is improving policy. I just mentioned that. What kind of policies the government promised to improve? Actually, five policies, I knew this one: the other one is integration of rural areas, urban, rural integration policies. So you need to add that. Another policy, what's the forecast of the policy? How to improve the policy – (unintelligible) – the policy?

The – (unintelligible) – policy, I think the permanent policy, I guess most of you know that, wouldn't end – want better stakes in China, those in urban areas and rural areas, but through different ways. Urban lands are directly owned by the state through the city government. Rural area lands are indirectly owned by the state because collective organizations have a bigger say for this kind of ownership because the contract signed between the state and the individual family households by the village as the very important collective organization. So sometimes the village and their leaders, they can do something under the table without informing the government and this has been happening.

Many village leaders, even the mayor, the city leaders, they did a lot of under table deals with the housing developers, and the government did not benefit from this kind of deal, and of course the farmers get the bigger half from these kind of deals. So this is why you'll go to China, all the cities they are very rich and the infrastructure is – the vicinity is very new, everywhere it looks beautiful because I think they hide a lot of income from – (unintelligible) – their land to the housing developers, but they did not report it to the central government, neither to the farmers. The land, most of the land already comes from the farmers, so land policy – this is the kind of the situation. So a lot of cases have been happening, a lot of issue cases. This is a big issue anyway.

The future policies in this strategy relating to land, the farming land, there's three focuses. One is ownership; what's the ownership in the future? I think, I guess, it's a kind of de facto privatization, but you will never get confirmation from the government because we still are a socialist country. Land still has to be owned by the state. But as you remember in the 2003 press conference premier Wen Jiabao became premier, in the first press conference, he even promised that now the contract is for 30 years, since 1999, for another 30 years. Before 1999, it was a 15-year contract for farming land usage between the state and the farming households. Now it's another 30 years. Wen Jaibao, when the premier promised that I believe after this term, the 30 year term, we will continue to renew the contract for longer. How long, I don't know, maybe it will never be changed. This is the kind of de facto privatization of farming land, this is very clear.

Now, more and more scholars send their proposals to the central government to privatize the farming land. I think, and this is just the time issue and term issue, they will never use the term of privatization. They'll using other terms. But this is the difference for the farmers, you know? If I sell the land, I get paid, it's good. You have fair, this is kind of a change, right?

And the second, this is ownership, the second issue is related to scale farming, try to –

MR. KEIDEL: What kind of farming?

BINLIANG HU: Scale.

MR. KEIDEL: Scale farming.

BINLIANG HU: China wasn't trying to follow the commercial farming, of course, because in the WTO, because of globalization, if you want to make the agricultural sector competitive in the international market, you have to maintain a certain scale. With that scale, that will be – the economists will know very well, there were high costs and a low return; you have to rescale. But now they tried to do that gradually, initially starting from the state, from the state of farming. They still have some state farming, so try to scale the state of farming – (in Chinese) – state of farming first. And a lot of rural people go to urban areas. That will make it easy to scale the farming land.

MR. KEIDEL: Binliang, I'm going to ask you to summarize a little more tightly what you're doing because you want to have for the question period.

BINLIANG HU: Okay, to the forecast –

MR. KEIDEL: You can mention them, just I think, you know so much. We don't have time for all of your knowledge.

BINLIANG HU: Okay, for the security, it's very simple. Try to maintain more than 90 percent of the food that will be produced by China. And more input of course, the grain input will be increased. Now, I think about 2 to 3 percent of the total demand is imported. Maybe it will be gradually increased to about 10 percent, this is my guess, but not policy. The government policy may be increasing to five, from 2 to 5. That will be of good use for the international markets. If we increase it to 10 percent, even 5 percent, that's a big incentive for U.S., for Australia, and Canada to expand their production. So this a mutual benefit between U.S. and China, I think.

Most reform, tax reform policies focus on three areas: administrative reform because the tax of freight, there's not tax to fit in so many government authority officials, so they have to cut. So many people suggested the kind of township government.

MR. KEIDEL: Get rid of it.

BINLIANG HU: Yeah, get rid of it, but at least 50 percent of the stuff will be cut. So education reform because you don't have to pay by the county, never by the township or government, but directly the transfer from the central government for education. So this is the second and the third is subsidize. There are four different kind of subsidies for the farmers: subsidize for farmers to purchase tractors and other agriculture tools, and subsidize for farmers to buy hybrid, high-quality seeds to improve the production; subsidize for the farmers for purchasing pesticides, these kinds of things; subsidize, there's another comprehensive subsidize, the overall, directly subsidize for people's farming based upon the farming land that you have. Each acre of land, you will get a subsidy with, considering, regarding this, you plan this land a lot, you will get a direct subsidy from the government for directly subsidize to support agriculture.

Okay, relating to rural finance, just one thing I need to mention. Rural finance, I think, for the whole – the – (unintelligible) – rural financial market. This is the only way out of the trouble, but I don't think the government realizes very well about that, but some of the final program has been going on. The central bank already issued, delivered seven licenses for micro credit companies in some of the provinces. And Yin Jianhue (Bank Monitoring Advisory) is going to issue 36 licenses for the individuals to set up for a village bank, what are called village banks in rural areas. These private banking businesses have been gradually initiated –

MR. KEIDEL: By the bank regulatory commission.

BINLIANG HU: Yes. This final point I'll just mention the integration of the rural and urban market (?) – (unintelligible) – there's two policy issues to focus. One is to totally get rid of the control, get rid of the – (unintelligible)– as you know that region's system. So to encourage the free flow of, free mobility of people between rural and urban areas, this is one. And second one, unify the – utilize of the labor market between rural and urban areas. So there's a segmentation of the labor market. It's a second serious problem over the years, but now they tried to make it unify in light of the one unified labor market will be set up gradually.

So these are the – the impact you know very well, so I don't want to go into detail. It's good for political stability, that's why it would be very good for the nation's economic development. In a sense, most of the contribution is actually from rural areas; it's not from the cities. So and the social transformation because social transformation means the – China is kind of transforming from the kind of agricultural-based rural society to industry and non-agricultural based to urban society, plus the transformation from the planning to market, from industrialization and urbanization, all these kinds of transformations put together. And there was China's integration into the world, the community, this kind of was the transformation. This would be good – this support is good, supporting this kind of transformation.

So follow the conclusion, yeah, this is clearly, this program will give some positive support, positive – will have some positive impact relating to increase the farmer's income to mitigate the rural-urban divide, also the broad economic development and good for the China integrated in the world gradually. So these are the general introduction, brief introduction for your reference. Your comments and questions are most welcome. Thank you very much.

(Applause.)

MR. KEIDEL: All right. We're going to take some questions now. And I want to go back to your very last slide, if I can. Yeah, I want to go all the way down to here, to slide number 20. And there is something here about political reforms. I wonder if you could – because you also mentioned to strengthen democracy in one of the four character slogans that you mentioned, or to manage democracy I guess is the word that was used. Could you say something about what that means?

BINLIANG HU: I did not pay attention. I'm sorry.

MR. KEIDEL: Could you tell us about political reform. (Cross talk.) There's – (in Chinese) – there's political reform and then you also mentioned some – (in Chinese) – to manage democracy as part of the goals of this overall new village construction. Could you say what that is? Yeah.

Q: (Off mike.)

BINLIANG HU: Okay, I got it together. Okay, first, his question first – three policies, three focuses were coming from central government. Number one related to – (in Chinese) – democracy. Number one to get a whole coverage of villages in action – some of the village in action not implemented the law. But with the next five years, 100 percent of the villages have to be – (unintelligible) – enacted, directly enacted. Village election system will be covered all villages. This is number one.

Secondly, this coming election will be gradually up, you know, go up from the township. Some of the pilot programs have been rating, trying in Sichuan (?) province and in other provinces. They're trying to launch the direct election for the township leaders. This will be directly – it's a breakthrough policy change because the related – (unintelligible) – political reform because you know, township is regarded of the government, part of the government. It annoys the government. But village is different. Village is a kind of autonomy.

So village election, I don't think is relating to political reform. It is more relating, this is kind of authority. But township is different; township is government. Once the direct election can be implemented in the government – lower level – even the lower level and then more gradually up to township, the county level, province level, you know? So this is the second focus.

The third focus – in rural areas, all the financial reports – numbers need to be public. So if you go to villages, everywhere in the village, they have space. And they have a ward or whatever they – you know, ward numbers. They are calls and benefits and they import – (unintelligible) – they output. All of this financial numbers, they must be publicly issues, published. This is the idea relating to your question.

And relating to your question, I'm sorry? His question – because of time constraints, I didn't mention, this is – the army – this is very important. The tension between the central government and the local government get worsened, get intensified. The policy – and this policy is from the central government. The central government tried to serve the people. This is very clear. It needs to served the people, serve for the rural people. But if you look at the mentality of the local government leaders, I don't think some of them they have this kind of idea to subject people as well. But many people, they already changed. Along with more power, more independent – now this local government from the central government, they have their own resource of income like – (unintelligible). They gradually lose control, out of the control from the central government. So they may not happy to follow this kind of policy – simply they have to pay a lot of cost.

First, the transfer – just to mention – is not only means the fiscal transfer from the central budget. But also, the central government force the local government – (unintelligible) – some level of transfer to support the central government policy. Local government said, this is your policy; this is not my policy. I don't want to support you. (Unintelligible) – the development construction policy is prepared by Hu Jintao, Wen

Jiabao. And no, this is your policy. I don't support – because they need to spend a lot of money. This is the reason.

Now, it is clear. Some tensions have been –

MR. KEIDEL: Are you saying that some richer areas will be asked to provide resources to the center to be redistribute to poorer areas? Is it that redistribution process that is unpopular in the richer areas? (In Chinese.) Is that the issue?

BINLIANG HU: Yeah, both. I think the rich areas and the poor areas, all the different local governments – they have different levels – provincial, county, and township, now they all have their own interest. So regardless it's the rich areas and the poor areas, they don't want to lose their control of the resource. So they have same problem in both areas. But this is out in – because the problem just started – I just sense that because I talked with the leaders, I sense this kind of issue will maybe not happen, but may happen. This is my judgment. It's not – let's see.

MR. KEIDEL: All right. Let's open it up to the floor. I saw the hand over here. Michael Swaine wanted to ask a question and then anybody else want – all right, here, here, and here.

Q: Well, I wanted to follow up on this issue of cost. I mean, there's cost and enforcement. Where do you see – if localities have to increase funding to support a lot of this program, there will be some transfers from the center, but do you see it? What's the sense of the breakdown between central cost and local cost? And will localities have to increase taxes in order to pay for this, which could have a negative impact on the benefits that you're trying to produce for the rural countryside? You're going to be taxing people more to produce longer-term benefits, increases in infrastructure, et cetera, that won't be apparent for quite some time. And yet, the taxation would – if they're going to tax, would begin fairly early if they want to start developing enough adequate funding. So have they thought through how to solve the funding problem?

And my other related question, I guess, is how do you see this impacting the composition of product, of production in China? If you've got – if you're increasing the wealth of the countryside and the stability of the countryside and the level of – standard of living, presumably that will suppress rural-urban migration. Although you've said they're going to make the wage or the employment system uniform so people can move to the cities, but do you think on balance this will suppress rural-urban migration in China, make more people stay on the land and in the countryside? And if it does, will that change the product composition? Will people be – will you get more emphasis on agricultural product in China and less on production of consumer goods, or products that are used in the city or exported? Do you see this impacting the product makeup of the Chinese economy?

BINLIANG HU: I think that maybe the question not only for me, but a similar question may be even bad for you. I think the first question, according to my understanding, it's better for you because you're expert on fiscal.

MR. KEIDEL: Well, I think that's not true. You're the better expert.

BINLIANG HU: Not in this area.

MR. KEIDEL: Because you have traveled to all these villages and talked with all of the central authorities. China's central budgetary revenues have been increasing faster than GDP in nominal terms, so that there is quite a bit of tax revenue that is available. Their tax system has become increasingly efficient. The income tax is spreading. The value-added tax is producing more revenue – the corporate tax – so that they have what I would call a buoyant tax revenue system so there will be more central funds available.

At the local level, you also get a lot of activity that is in agriculture. And so, this actually also segues into the second question, but in revenue terms, you can tax lots of shops, restaurants, local manufacturing facilities. That tax hasn't been eliminated. They did get rid of the agricultural tax, the nom-yesh-way (ph). But they didn't get rid of all the other kinds of taxes on people because this county number includes the county seat, the county city. It includes some larger township towns. So you have quite a bit of urban or sort of small town activity that is included within the so-called county population. And there is a tax base there. And so, there will be revenues there as well. And in the wealthier suburban areas around the major urban areas, these are very rich little counties with a lot of money.

So part of what will happen – and it's a fight – is to extract revenues from those richer counties and transfer it to the poor counties. And I think Binliang is right, there will be a fight anywhere because even the poor counties, the leadership have their hands on a lot of local resources. And that is going to be weakened also. So it's a mixed situation, but you need to – there are various channels for mobilizing more revenues to get to the poor areas. And my question is still – I don't know – is that going to be really a significant increase or not.

But on the second question, does this mean that migration will be suppressed and does this mean that the product mix will change back in the favor of more agricultural products?

BINLIANG HU: If you have comment, you first. I will follow you. I'll take a little rest and relax.

MR. KEIDEL: Well, as I said, there is a lot of rural activity that is not agriculture. So you'll see hopefully this will increase the share of GDP that is in services rather than either in manufacturing or in agriculture. Agriculture has a share of output and GDP will continue to go down. This is an historic trend for any country that increases its GDP per capita, and China has been no exception. Where China has been an

exception is that it's been largely manufacturing growth, whereas if you go to India or Brazil, the service sector is quite large. Transportation and restaurants, a lot of personal services, life in urban areas – that in China hasn't grown. Or at least, if it's grown, we haven't measured it fully, which is also a statistical issue.

As for migration, I think migration to town areas – not just the big cities but also the town areas and counties will – if you're going to get rid of the hu-ko (ph) system at the same time that you're improving traditionally the area. Actually, to my mind, part of the secret of improving migration to the cities is to prepare rural people to be successful migrants. And if you're investing in information systems, investing in transport, investing in local education, that all prepares people to move. And that's – and they will move voluntarily to where they can have better income. I don't know; what do you think?

BINLIANG HU: Yeah, quickly relating to your first question, just one comment. Financial resources is another issue. You mentioned that. They have a lot of resources, central government budgets and local government budgets. More or less, they're almost the same. But local government, your reported revenue is not true because a lot of high demand incomes, you level up. But you just know they are very rich. You go through the – (unintelligible) – very rich. It's not an issue – (unintelligible) – they have a lot of resources, both central government and local government. I don't want to go detailed; you raised some. That's very interesting actually.

And related to your second question, I think you proposed a very good question, which before some of the reporters are asking me, what's the relationship between urbanization and new village construction? And once a society push forward an urbanization process, you try to make cities more beautiful. You try to attract more people migrating from rural areas. And on the other hand, you mention another program. They are building more beautiful villages and trying to maintain the people in rural areas. So they make contradiction to each other.

So many reporters ask me these questions. I try to answer this question, especially wrote a book. Actually, in your office, I brought it with me: Urbanization and New Country – New Village Strategy. So to understand this very good question, very good concern, which we have to understand the transformation of the – the transformation has been – we just mentioned this term – it has been happening overall. One of the very important transformations has been happening is that most of the industry bases have been gradually transferred from city to rural areas. If you look at the coastal areas in Dungao (ph), Dungao now is the largest, the biggest in electricity production base of the whole world – 90 percent of the factories are located in rural areas, not in urban areas.

So you know, a new countryside construction project is not solely related to rural area agriculture – (unintelligible) – but also relating to industrialization. FDI – most foreign investors, they invest into rural areas rather than urban areas because, you know, if you look at a highway and the transportation have been improved lots in these years,

and so this is no problem for transportation. So this is okay to understand this question. And of course, there is another many more points related to your question, but I think these points are important. And then I expect that they – that not much people will be – urban areas were getting less and less attractive for people to migrate in. This is good for – (unintelligible) – the distribution of a population among different places, between rural and urban areas in future in China.

Thank you.

MR. KEIDEL: Yes, sir, you were next. And then Neil is there, and then –

Q: Thank you. (Inaudible) – from India – (inaudible) – Asia Today. It was a great presentation. China is spending a lot of budget on the military. What you have described here, all of these problems, you think China is going to break politically or economically like Soviet Union did in 20 years ago? Or how can you compare China today and the Soviet Union then?

MR. KEIDEL: Well, I think this is a discussion of the rural economy. We're doing work here – my colleague, Michael Swaine, and others – on Chinese military modernization. But the share of the military in China's budgets is still very small. And I think the comparisons to the prior Soviet Union are totally in error because of this difference in scale and level of development, and the scale of the military complex. But I think we really don't want to go into those broader questions.

Q: (Inaudible.)

MR. KEIDEL: I'm not sure there is a rural connection except that many rural areas have to reabsorb soldiers after they leave their service, so that becomes a financial burden of some kind. And there are other links. The military does a lot of filling in if there is a local disaster right now. In these snowstorms, military forces are being mobilized. But in terms of military modernization, I don't want to speak for my colleagues but I think it's not something we want to do here. And I don't think there's really a close connection to what to do about the rural economy. There are budgetary demands. I don't think China's military budget is large enough to make a threat to funds becoming available for this program. That would be my rough answer.

Q: But what economic problems – economically, I mean, how China will be doing in the future as compared –

MR. KEIDEL: Well, predicting the future is always tricky as opposed to predicting anything else. So I don't think we want to go into projection of the Chinese economy here as well. We're saying this is a new initiative, but we don't know where it's going to lead.

I have as my second question all the way in the back there was hand. Has that been – that hand is – yeah, that gentleman right here with the white-striped arm? In the back, way in the back? Yes, sir, right there? Oh man, I'm sorry, it's a lady.

Q: Thank you very much. Thank you for your informative speech.

MR. KEIDEL: Could you identify yourself please, your name and your?

Q: Okay, Sun Yaqin from Tsinghua University in Beijing and now scholar in George Washington. I'm more interested in the land policy. Yeah, I have also been to Dongguang before, and it amazes me about the buildings in the rural area. It is said that the farmers there are no longer planting grains, they are planting buildings. They are becoming kind of capitalism. So – and I also know that there is a pilot program in Sichuan province which allows peasants to become shareholders of their land so that they can enjoy the development interest for their own land in the future.

So my question is, what's the comment from you about this kind of program and do you have any idea about the central government towards this development? Thank you.

BINLIANG HU: The answer to your question is very simple. The government now in terms of land policy is quite open – a lot of different trials has been going on in different places. Some of the companies, even corporations, they're even entering into rural areas. They set up the company and they collect all the land from farmers. This, I think, is genuinely the case, which will have happened in many places, even a government keeping silence. They set up a company to – but they take all the, of course, they collect all the land from farmers. There also take – trade the farmers as a shareholder, and then in the end of the year, every year, they get some return from the business. Even this kind of case, the government is not against.

So this is not the typical case. I think more cases are happening is rent. A couple of people rent more land from, or say borrow, land from other people and then one guy become big landlord, and the – (unintelligible) – land. I think this is what the government hopes to do. But how do you, to control the – the government worry, I think, is just about not damage the interest from farmers. If they can trade good benefits, balance the interest between the owners, the real owners, and the renters, and then that will be fine. So this, I think, is more popular.

The case in Dongguang, this is another case. This is – somebody is with this kind of land use into the process of urbanization, industrialization. Many farming lands have been converted into non-farming land use, non-agricultural use. This has been happening in most of the Dongguang and other – (unintelligible) – areas. This is, I think, is – yeah, it should be understandable and the government also is not against that. Many trials in the area have been going on. There's no – (unintelligible) – policies against or will support to this kind of trial from the central government.

MR. KEIDEL: There in the aisle with this? Did you have your hand up, sir? Yes? You were next. I'm just keeping track by number of where you are, so sure. Like this?

Q: Ross Terrill, Harvard University, presently at the Woodrow Wilson Center. Do the Chinese leaders have a plan or an expectation of just how far the agricultural sector of the Chinese economy will shrink and over what timeframe? Dr. Keidel mentioned briefly this point, but if you look at other countries, Japan for instance, the change is enormous as the country modernizes. And a lot of the problems you mentioned, and one you didn't say much about, the future employment of hundreds of millions of people who presently grow up in the rural area, do they think that these problems will either by goal or by indirection only occur when it's not so much beautiful villages but less villages?

BINLIANG HU: You go first, and then I –

MR. KEIDEL: Nice to see you, thank for coming by. This is something that happens in every country. You mentioned Japan. Since China, I think now, is close to the level of development both in South Korea and in Taiwan in the 1970s, I would go and look at that transformation rate and use that as a guide, but these are issues in modeling. Every country has its own idiosyncrasies. In some cases, if you subsidize people to stay on the land, as you do in many European countries, you have many smaller farmers and therefore a denser labor force in agriculture than you would have in a very extensively farmed agriculture.

And so I think there's a lot of wiggle room there, but I don't think we're in a position at this session to predict the share of Chinese agriculture, population, or labor force. Right now the labor force – about 45 percent of the labor force or a little less is in farming in China, and that's clearly going to drop, but the pace is I think a good modeling exercise and subject for much debate.

BINLIANG HU: I think this relates to two policies. One is relating to the agriculture – import and export policy relating to agricultural products, for example grain further security. Further security can be reached by itself is self-sufficient. It also can be middle targeted by imports because the bigger, much bigger potential for Australia and U.S. and Canada to –

MR. KEIDEL: And Vietnam and Thailand.

BINLIANG HU: To increase their production for supporting China's modernization and industrialization. But this depends on policy and it also depends on the mentality of the top leaders. They worry very much about the control of the food by other countries, by the U.S., by Russia, and this is because of the mentality from the Cold War. It's difficult for them to change. And this, I don't see any change from this problem. That means in the next about 10 to 20 years, the mentality will remain there, so

the government will continue to make all the efforts to continue to support agriculture production.

One factor is that even looking at the usage of the fertilizer in China now by average is 3.5 times higher than the average of the world. So in terms one, you know – (unintelligible) – of the fertilizer used, China is much higher. So this is not sustainable, but if the policy doesn't change, the – (unintelligible) – will have to support the food by ourselves, and then we'll continue using more and more fertilizer, pesticides, and the production will be higher. This is not a problem, but there's some negative impact around that. And this is very strongly relating to the policies, agriculture policies relating to the question.

The other question is relating to how long China's high growth will remain. If the growth is, you know, for the next 10 to 20 years, so we will have – even better for the – (unintelligible) – situation, the poor villages, poor rural areas – (unintelligible). For the rich, you don't need to care at all; they can care for themselves, for the central government they are capable to take care of that. After 20 years, high growth can be maintained, so there's no concern about your question as well.

MR. KEIDEL: Thank you. Yes, sir, you're next?

Q: I'm Mark Mohr, also from the Wilson Center. Dr. Keidel in his opening remarks mentioned that there are price controls on grain and that led farmers since 2000 to abandon grain production, and then the government increased the price and that perhaps is leading to inflation. So the question, my question is how does the MBS plan to – what's the policy toward price controls for grain?

MR. KEIDEL: Well, my guess is, but Binliang can really fill in the details, that they won't be able to raise the price of grain enough to improve the standard of living of the grain-based areas that are made to concentrate in grain and subsidized to do it. But the subsidies will be increased. So they will use transfers rather than price adjustments to try to raise the incomes of people while sustaining grain production.

Q: What does transfer?

MR. KEIDEL: A transfer payment in economic jargon is when you give a payment to somebody without requiring that they give you something back. In other words, it's not a price. A good example of a transfer is an unemployment compensation scheme or a subsidy to a farmer. You're not buying a product from the farmer, you're giving them money, or if they're purchasing fertilizer, you subsidize their fertilizer use, but it's not a payment going in that is linked to what the product costs, say, in the city.

So it's a way of – subsidies are transfer payments because they just – it's a transfer of money in from one source to the end user. So, what the MBS seems to me to be, if it's funded adequately, is a major transfer subsidy scheme, not just for agricultural output, but for the whole rural standard of living, in lieu of, instead of, allowing grain

prices to rise to where they would encourage farmers by price along to plant that much grain because that is unacceptable in terms of inflation and price levels in the urban areas.

BINLIANG HU: Increase farmer's income is one of the promises that have been made by the central government, especially by the premier. So one of the first last years, I remember in the middle of last year, when Premier Wen had proposed the price increase the very second – (unintelligible) – he was happy. Yeah, why not? Let's just go, you know? The farmer will benefit from the increase of the price. And gradually, he started to worry about that, so – because there are different to increase the farmers' income.

There's three ways at least. One is the increase of the price of the agriculture products, they include grain and poultry, all these kinds of things, and secondly is to encourage farmers to engage more in non-agricultural activities – (unintelligible) – place or by migrating to, working in cities. So this is – you know that more than 150 million people have been farmers working in cities. They make a lot of money from the outside of the agriculture sector, outside of rural areas.

And thirdly is what Bert mentioned, these transfers. The central budget or local budget will transfer to the people to support them, like subsidize the program for supporting, you know, I just mentioned some items, four, five items. They can also benefit from this kind of – and also there's a – the force actually, one that has come to my mind suddenly, which is government approving more public goods, like education, like healthcare if they – they don't collect on these kinds of fees and the taxes from farmers. That means, you know, the increase is increased. The income will be increased.

MR. KEIDEL: But negative – that's a reduction of transfers out is when you get rid of – and thank you, Binliang for clarifying that. I didn't say that they would control the grain price so much. They let the grain price rise in '04, then what they controlled was the implications of that grain price for other food prices. And the planning commission, which supervises the price bureau, has been sending out circulars for years to discipline gouging, discipline monopolistic pricing, all of which just translates into not allowing prices to go up. I have a long list. Mr. Ambassador, would you like to ask a question first?

Q: One of the problems is relating to these demonstrations in China which have been reported is the confiscation of land or the paying of cheap prices for land and the resentment against local cadre for doing this and turning it over into industrial development or urbanization of those areas. This has the negative effect of disturbing the rural population and also it pollutes the water supply. We found this particularly true in Gansu and Qinghai provinces that factories were coming in and taking over large sections of agricultural land, Lanzhou buildings, urbanization, and farmers being pushed off and becoming very resentful. Does your plan see that the central government can influence the local governments to do this in a more just and fair way to get the right price to the farmers for the land and to somehow control the water pollution problem?

BINLIANG HU: Okay, actually it's very simple. No. This is what I mentioned. The tensions will intensify between the local government and the central government. The policy is very clear. You cannot do that. The central government said this plan said very clear, you cannot get the land from farmers by cheaper price and then send it at a price for your benefit and the farmer's damage. You cannot do that. But the local government, they do not follow. So the tension will be increased.

It will be very difficult to get a solution of this problem because this is directly relating to the distribution of the interest rates to different groups. But the farmers that are poor, they don't have power, but there is a group of people, local government, especially local leaders, the cadres, they have power. And this is why, if you look on the – (unintelligible) – case, now the most – (unintelligible) – case is related to land, to land purchase, and by illegal land usage.

It's become that, number one, and also this is a core issue relating to democracy. And it's not only rural farming land, it's also relating to the – (unintelligible) – in urban areas. They local government, the mayor, the government – the city government – (unintelligible) – sell to the developers. The same situation, both happening in urban and rural areas, and this is a very big issue. Without democracy it can be very difficult because there is no auditor, no people who supervise, and no process to – against them. How can they do it? The government, only one premier, four vice premiers, and one president; how can you look after that? It's very difficult. You cannot solve this problem, very difficult without democracy. This is my comment anyway.

MR. KEIDEL: That's good, no. I've got three people waiting and a few more probably and then some, but there was – Neil, did you have a question? All right. Let's try to keep them short because we've only got about 17 minutes left.

Q: I'm Neil Hughes and like Peter and Bert, I spent a lot of time at the World Bank. And this program reminds me of a program the Bank was really pushing about two decades ago called integrated rural development. And what I'm getting at is that it looks to me, from what you've said, that it's basically started from a top-down kind of approach. The central government designed it and now is looking to implement it. My concern is that whether it shouldn't have been more of a bottom-up approach, and so my question is to what degree have the stakeholders who are going to benefit from it been involved in the whole process from planning to programming and so forth? Thank you.

BINLIANG HU: This is a very excellent question. This is what exactly I'm doing, as you know that. I told the Harvard professor, I said, I was initially told Peter, I said – so I try to do this kind of a thing. Why? This is the old mentality – it's a new bottom, but other one. (Unintelligible). New village, when you – (unintelligible) – the construction is new. But the mentalities of it – all the mentality is a top-down approach, which – (unintelligible) – top-down approach, it doesn't work very well in China. (Unintelligible) – for many years, from the Mao era to the Deng era. But you have to change the mentality to bottom-up.

Yeah, this is how – (unintelligible) – is doing, governance, try to set up a governance to work together and it needs the government and the society, the civil society, and the private and the resident citizens to work together to implement this problem. But the policies only focus on the central government. We are going to do this, we are going to do that, we give you money, education free, healthcare free, you cannot do it. One day they were fine. They were very difficult, you know, this is what I'm doing, now you have it. I tried to prepare – (unintelligible) – tried to building up a new governance to support the new village strategy. Without this kind of policy, I was after this research, I would provide, prepare some suggestions to the central government. Thank you very much. I agree with you, fully agree.

MR. KEIDEL: That's a two-finger question on this exact topic.

Q: When I hear you saying this, Binliang, it reminds me of the 1950s, and in the '50s and '60s in the socialist education movement and in other movements in China, you had reform – big changes like this were usually brought about by first establishing a key point, right, or a test point at some area in the country that was regarded as somewhat representative. And you tried it on an experimental basis and put in place all these different features that you've been talking about. And then you also sent down teams from the center or from the provincial level, investigation teams, that would look at how it was being implemented and they would examine local officials, and they would see if local officials were or were not behaving properly.

And of course, you had all kinds of problems with this but it was a way of trying to enforce implementation from a central policy and also, to move gradually from one area to expand it out into other areas.

Now, is all that gone? I mean, from what you're saying it sounds like the center has no enforcement mechanism, that they're going to leave this up to local officials to make sure it works, and you already said that's a very debatable problem. And then, you have the issue of will it be replicable over the whole country and is it going to be just – you said you spent a whole year training people across the whole country, which sounds like they've decided what the model's going to be at the top and they're just going to apply it across the country.

So has this older approach from the '50s and '60s just been discarded now?

BINLIANG HU: Yeah, this wasn't really – (unintelligible) – you know, when I was young, about less than teenage, I saw a lot of slogans with actually the same, you know, same words. (In Chinese.) I mean, everywhere in the world you're printing the – (inaudible). (In Chinese.) Pew's association is a new countryside. Exactly, doesn't know anywhere they're different; same in 1960s. At that time I was just a few years old

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KEIDEL: When in the 1960s?

BINLIANG HU: Oh, that's 1967, 1968, during the country's revolution.

So this was giving me a sense without a change of governance, it doesn't work. So was the governor very ambitious, but there's a difference. What's the difference? It's much better economic support, much better fiscal situation. This is the dialogue on both governments. Central government, if they tried to do it, even attain the ultimate, you know, mentality, they still can do something. They can still give us some of the problems, well part of the problems. You know, this is not bad because you know, this is a different. But if we tried to get out of the area, there are troubles, solve the whole problems and this mentality should be fully changed. I agree with you.

Yeah, thank you.

MR. KEIDEL: All right, this lady in the back, please, and then I'll come to you.

Q: Hi, my name's Ying Lao (ph) from small business administration.

A little while ago you talked about the half who the older stuff and put it in a new bottle. I just feel probably you talk about how you need the new governance. I think from my perspective, probably we should use market approach. This is a totally different approach from China's side. Just like, you know, I'm a woman; if I'm from China, when I cook the first thing I think about is soy sauce and if I'm Caucasian, you know, from probably this country the first thing I think about is butter. So it's a totally different way to deal with issues.

I think here, the most important issue when you talk about your need to resolve the water, the electricity, and so on and so forth and those kind of problems, in my eye there's a lot of opportunity, a lot of opportunity that the issue is that approach is you need to use a market approach and then, you think about government and policy. Where our government and policy will lead the market, and if you don't have market it won't work. I work for this small business administration and I'm doing a lot of research on different groups in this country, for instance I identified the different leader groups and all of those business density defined the business number for 1,000 people. And in this country it's so significant the business density is strongly associated with economic well-being.

MR. KEIDEL: Could you translate to your comment about the market solutions into a question because we've got a lot of people and it's very interesting, I just –

Q: Yeah, yeah. My question is why, just why I bring up this business density issue. China right now is look like it's booming economy, economy's booming, but the business number is still very low if you calculate per thousand – probably this is not really significant, but in this country we have average of 90 businesses.

So my question here is what is the barrier for the market in China, especially in the rural area?

BINLIANG HU: Yes, I fully agree with you. We will go with your very, very important point. This is actually – yeah, my message is new governance. New governance is collaboration; you know, a mild government, markets, civil societies, all will – you know, all the people work together. So the problem in China, I agree with you, the government is too strong. Democracy is still too weak but you know, this is during the transition period. So the government needs to manage the transition, you know, carefully and the market – (unintelligible) – there. So you don't need to worry about it; it takes time. I fully agree with you though, thank you; appreciate it.

MR. KEIDEL: Yes, this gentleman in the green sweater, and then I'll – trying to keep my borders straight here.

Q: Thank you. My name's Robert Cho (ph), I'm from the Asian Development Bank. And I just have one question on – China's opened up a lot to its neighboring and nearby countries in the last few years: Greater Mekong sub-region, Central Asia, Russia, Mongolia, you name it. My question is what impact has that had on the rural economy in China, and assuming that this continues, this pace of openness continues, what impact do you see in the future. Thank you.

MR. KEIDEL: (Off mike) – whole range of countries.

The royal economies are just getting themselves integrated into that system. If you go to a totally interior province like Henan, counties there are specializing in garlic, selling it to South Korea, getting it there by rail; exports become the prized product. So the transport is a barrier, although less and less as rail and highway, particularly highway access improves.

So I don't see – manufacturing obviously is in the coast, but it's the degree to which the whole process is moving to the interior, and it's not just Southeast Asia, it's global because shipping is global.

BINLIANG HU: Yeah, I agree.

So I think this is a mutual benefit to gain. Simply speaking, China benefits more from outsiders, from the opening, to the other sides in terms of technology, agriculture. Technology, we import a lot from Australia, Canada, U.S., you know, modern agriculture technologies and also know-how. You know, we got to tune in. And at the same time, it sending our expertise to Africa; as you know, there is agricultural in the – (unintelligible) – medical medicine. These are the two most important areas, China supported African countries or not. So we'll benefit from our side and also – and also the Taiwanese infused amounts into the agriculture sector and you know, of course, whether there was a benefit or not from China because Chinese agriculture products supported is back to Japan, like seafood and fish to South Korea, Japan, and these countries, big economies.

U.S., also, of course, is still on the debate and the economy, you know, there's a lot of problems. But anyway, U.S. was importing or not of agricultural products from

China. And China was importing orange, you know, California oranges to China. Very expensive, real big oranges; more than 200 yuan, you know. A lot of people were rushing to buy it. Now, Taiwanese agricultural products have been imported to China or not, you know, with very special terms, mutual benefit.

MR. KEIDEL: Let's try to get a couple more questions. This gentleman here on the aisle, please.

Q: I'm Han Kintun from South China University of Technology. Now, I'm a student in American University.

In your speech, you mentioned Wen Jiabao's – (unintelligible) – slogan, but I found that what you didn't mention is the rule of law in the village. But I believe with the rule of law implement, we'll play a very important role in this movement. For example, in – (unintelligible) – our labor law didn't protect our farmers' rights, but our farmers, villagers, most of the population of our labor. Fortunately, this year our country implemented the new labor contract law; this law will protect the rights of our farmers in the city.

So my question is what's your opinion about the relationship between the rule of law and this movement? Thank you.

BINLIANG HUG: Okay, thank you very much for a good point. I appreciate it very much.

So this is a big issue relating to the whole discussion about the whole country. We're ruled by law, ruled by men; we're ruled by virtue.

MR. KEIDEL: By what?

BINLIANG HU: Federal or moral –

MR. KEIDEL: Virtue?

BINLIANG HU: Virtue; virtue, okay.

MR. KEIDEL: Virtue.

BINLIANG HU: Yeah, pronunciation problems, sorry.

MR. KEIDEL: No, that's okay.

BINLIANG HU: Yeah.

So ruled by, you know, by men is clear through history, and you can see history. We're ruled by men; we're ruled by law; we're ruled by virtue, all right. So this is big

discussion. There's no – you know, rural development, I think, is just part of the story. So I cannot answer in this discussion. This is very big and this is an important issue. But yeah, I think I have answer – well, this is my answer. Not, you know, but you know, I agree with you. Yeah, I know it's very important, do you support the transition in rural development and the whole country's development as well. Thank you.

MR. KEIDEL: Is there one last question? Yes. Boy, I think your hand has been up quite a bit, sir, with the beard. Sorry.

Q: I'm John Bachman with AECOM International.

To go back to the infrastructure finance question some counties, quote unquote, "rural areas," counties and townships, in the east can afford to pay for their own infrastructure. A lot of other ones in the west and the north cannot. Is there going to be any specific earmark at the central government level to pay for the physical infrastructure that's in the program, or is going to be left up to the negotiations between townships and the next level up during the annual budget process, which is pretty random and often they end up with not enough money.

And my second question is what's the new village going to look like? Dr. Keidel said that he saw some two-story, you know, concrete-frame structures in the villages. Is that the model or are they going to use the one that's most commonly seen in the smallest settlements of China, where they simply raze, you know, destroy the existing party-wall masonry buildings and replace them with five-story walk-up housing projects? Any thoughts on that? What does the strategy say?

BINLIANG HU: Maybe you'd like to speak first?

Q: No, I don't think we have enough time for me to answer so – (laughter).

BINLIANG HU: Okay, it's better for me. (Chuckles.)

Q: The fiscal – no, for you, please. I'm saying I don't have time. You have to answer. How is the fiscal going to work for this infrastructure, and what are the villages going to look like?

BINLIANG HU: Yeah, I think the first question is simple to answer. I think the central government will take responsibility for, you know, for the poor, rural areas deferment. The coastal area and the eastern area, they don't need to care about that. They have a lot of models already there, so they will take responsibility by themselves. This new strategy is worked out for the whole country; they have different indicators, they have different, very specific requests. But we're taking implementation by – you know, from province to province. So I think richer provinces, they will do a very good job, you know, in terms of technologies, financial support they don't have, they have rich in area. I think – (unintelligible) – the backward areas, that the government will take responsibility before that.

Regarding to your second question –

Q: I'm sorry, is there an earmark? What's the budget?

BINLIANG HU: That, they have, but unfortunately this is very, you know – the increase (?) each year is about 10 percent, very small. For example, this year is about 14 million yuan, near about 14 million yuan, for supporting the whole rural development, you know, programs. It's far from enough, far from enough. So this is a very strong request from many poor, rural leaders from poor areas to the central government, but they are still reluctant. We're up to more gradually.

And relating to your second question, I think the government tried to avoid to building some modern villages but, if you can around at the people's mentality, you know, for leaders, how can they promote it. Once you talk about implementing it, they will set up some models and after people, to them. And then the whole area will follow one model. So same house pent in there and the same pictures, you know. That will still be a thing that will continue to happen, and so after two to three years you will see this kind of stupid things will happen. (Laughter.) A lot of stories, I'm sure, but there's no way – (unintelligible) – but the way they will make corrections gradually. Thank you very much.

MR. KEIDEL: All right. I want to again recommend his most recent book, "Informal Institutions in Rural Development in China." He kindly gave me a copy. It's interesting: He goes over particular villages, they have different religious backgrounds; the role of different religions, sects, in guiding or helping rural rotating credit schemes work, their long traditions going back thousands of years. So it points to rural development that draws on pre-communist roots in many rural areas. It's a fascinating, very densely researched book. I recommend it to you.

But let's all thank Be Leung for a wonderful presentation.

(Applause.)

MR. KEIDEL: Thank you, thank you. Thank you very much for your attendance. Thank you very much for the comments.

(END)

**CARNEGIE ENDOWMENT
FOR INTERNATIONAL PEACE**

**CHINA'S "NEW VILLAGE" STRATEGY –
ACTUAL PROGRESS AND NATIONAL IMPACT**

**WELCOME AND MODERATOR:
ALBERT KEIDEL,
SENIOR ASSOCIATE,
CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE**

**SPEAKER:
BINLIANG HU,
SENIOR RESEARCH FELLOW,
CHINESE ACADEMY OF SOCIAL SCIENCES**

THURSDAY, JANUARY 31, 2008

*Transcript by
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Washington, D.C.*

ALBERT KEIDEL: Good morning, everybody. I'm Albert Keidel, a senior associate here at the Carnegie Endowment for International Peace. And on behalf of Jessica Mathews, our president, I welcome you all. We have an interesting program this morning and I'm delighted to have Professor Binliang Hu from the Chinese Academy of Social Sciences.

He happens to be here in the States this year up at Harvard and has kindly come down to talk to us in Washington about a number of topics. And I have snagged him this morning to talk about something he's just been writing on for the Chinese government, a series of small pamphlets on the New Village Construction or we're calling it the New Village Strategy. Construction is kind of a funny word for English-speaking people to use for this kind of project, but that's what it is officially called. And they're calling it a countryside construction project.

Initially, Binliang asked me to introduce the movement or the strategy and make some introductory remarks and then he is going to give you the meat of the presentation. So we will then follow his presentation with a question and answer session. So I, because I don't see any way to control the slides from here, I'm going to go back to my seat and make my presentation seated and then Binliang and I will switch places and he will make his presentation. So let's begin.

The rural village movement is something that I ran into about a year and a half ago when I was doing field work for this study, "China's Economic Fluctuations and Its Implications for Its Rural Economy," which has just been printed in its final form. There were in central Hunan and in rural Henan (?), a number of new projects that they were talking about. And I said, well, what is this? What is this New Village Construction or New Village movement? And it turns out that, as I'll mention in a minute, it has been underway for several years.

What I want to do is provide a little bit of background and backdrop for the current situation in China's agriculture and China's rural economy by way of discussing what our long-term ups and downs in the terms of trade between urban and rural areas because we are right now in the thick of a – (in Chinese ?) – of a conclusion of a phase in the shifts in those terms of trade. A major event in the last few years, in my mind, and that highlights the importance of the village-construction strategy, the New Village Strategy, was an increase in grain prices in 2004.

This followed a period of very rapid decline in planting of grain by Chinese farmers. They left grain production very rapidly after 2000 because grain was so unprofitable. Alarms were raised when the harvest in 2003 was so bad. There was a special meeting in Beijing of all of the provincial governors that December and they

agreed to push, again, grain planting and grain production and they raised the price of grain, which itself was already going up because of shortages in inventories.

This is a repeat, in many ways, of high grain-price peaks when there were shortages when farmers weren't planting grain on their own. If you give farmers in China a chance not to plant grain, they will get out of grain and go into other crops, 1984, 1992 were both such periods. Now, what this represents, and we've seen – and this report also documents the shift in the rural-urban terms of trade beginning in 1978, starting out in favor of rural areas, then that becomes inflationary and pushes up prices in the cities. You get a reaction on the part of the urban population in Beijing to calm the cities. Grain is produced in larger volume; the price goes down then the central government can't afford the subsidies to procure the grain anymore so they relax it. Farmers stop producing grain; fall, they come back again.

And the cycle has now entered a situation where this conundrum that they face in New (?) Village construction, the goals are to improve agricultural output, to maintain grain production, and to raise rural incomes. A number of Chinese studies, written in Chinese, unfortunately, by the statistical bureau and its survey groups have pointed out that to raise incomes in grain-based areas is basically a contradiction because farmers don't make much money planting grain. The only way to get around that is to raise the price of grain quite a bit. That, however, triggers inflation in the urban areas.

Now, when price of grain was raised to keep it from becoming an urban inflationary threat, the planning commission, the NDRC, the National Development Reform Commission, beginning in '04 started to control prices of other products. Working against what they called gauging or monopolistic supplies, they kept the price of pork, milk, eggs, and other rural products that relied on grain low. We began to see the results of this last year in May and June when other events, in one case, a disease in pork triggered a shortage of pork and a suddenly exploding price of pork that has led into what is a major concern now for inflation in China.

Not only pork, we're finding that analysis is now coming out in the planning commission or in the Xinhua news press about the implications of those efforts to control prices in the rural areas last year and beginning in '04. Small farmers last year essentially began to move out of producing pork because they couldn't make money at it. And that – and the alternative, which is larger-scale pork-production farms, are not yet up to speed to handle the pork-supply problem. So when this blue-ear disease pushed them over the limit, pork prices exploded.

Similarly, last summer, farmers were – now, we're getting reports of farmers then killing their cows and dumping their milk because they couldn't make a profit selling at the price control, the controlled price of milk. Prices, now, for milk in Beijing are starting to surge, all over the country, actually. So the combination of this cycle up in grain prices and the efforts of the government and center to control those prices has worked for a couple of years, but has now reached a crisis point. And food-supply problems are causing price explosions.

An economic analyst on the planning commission published a piece last week saying that the real solution to this price-inflation threat is fundamental price reform – didn't say what that was. My feeling is that price reform is always inflationary. And it can mean either one of two things: that they make permanent the increase in prices for pork, grain, eggs, milk, many farm products. That would raise wage costs in the cities. So you would then have to adjust productivity with layoffs and other steps to deal with the increased cost of labor. That has been resisted every time this has come up in the past.

The alternative is to have a more general inflation in which non-farm products' prices raise and the price reforms and the terms of trade once again turn against the rural areas. I'm expecting, and I suspect, that many of these efforts at price control have been to keep criticism of the government to a minimum in preparation for last year's national Party Congress and next month's – or it's not next month's until tomorrow – March's national people's congress when the government will appoint all of the members of the new cabinet, the state council, except for the premier. So there's a political transition going on. The degree to which the government is handling the economy well, I think, is influencing the degree to which they want inflation to poke its head through. They are having trouble. They could hold on.

This snowstorm – I don't know if you've been following the news, but most of China is paralyzed by days and days of blizzards that have stopped, blocked all the north-south trunk lines. Highways in major provinces are all closed. People are stranded in railroad stations and supplies of food stuffs have been cut off because of the transport problem. This is clearly going to be inflationary in the short term. And my view is that now it's actually fortunate; now the government can perhaps blame an inflationary surge on the snow storm and get itself through the NPC period. And when the NPC is over, then I think we will see more expression of this underlying pressure that has been building for several years under the cover of price controls.

And if that general inflation increases the prices of everything that people buy. It will signal a reverse of the proved terms of trade in the rural areas because we've seen since that grain price increase, household incomes have surged as a share of GDP and it's been, finally, a reversal of the deterioration in household, rural household consumption that was so serious in the latter 1990s.

Hence, there is no near-term price solution to alleviate rural poverty. You run into this fundamental problem that price changes that help the rural areas create inflation in the cities. It seems to me – and Binliang and I have talked about this and agree – that the New Village Strategy is an alternative, transfer-based solution to the problem of rural welfare where you take – without changing prices, you take funds and transfer them into rural areas as a way of supporting a better standard of living. The major question is, how expensive will it be and will they put enough resources into it so that it will make a difference?

Very briefly, the New Village Strategy was proposed as part of the current five-year plan in 2005. There have been academics who have called for a New Village movement or for major improvements in village investments going back into the 1990s if not before. But this particular proposal got very specific and in a major meeting at the end of 2005, attended by both Hu Jintao and Wen Jiabao, the new project, the “construction of a new socialist countryside,” which is the way they translate what we’re calling the New Village Strategy was formally worked out in terms of its details.

There have been study teams going to Korea. When I was doing my Ph.D. dissertation on the Korean economy in the 1970s, I lived in Seoul for a year and a half and spent quite a bit of time in central South Korea. They had just launched what was called the – (in Korean) – in Korea at the time to replace thatched roofs with real roofs and to improve roads and transportation and schools. The Chinese have actually been talking with the South Koreans about the experience and the degree to which it was helpful so this is an interesting sort of translation or transfer of experiences. And my analysis of the Chinese economy is that it’s probably, in terms of its level of development, about where South Korea was in the early 1970s.

As I mentioned a year and a half ago, in Hunan and Henan, these investments were already starting to pour in. As projects were being proposed to the county, the county was getting funds for them, things like taking a village street and turning all of its structures into two-story cement houses and moving farmers in to live on the upper stories so that some members of the family could run a shop. And then they would travel the few hundred yards to their fields and then destroy the old house and use that for agricultural purposes. So it’s kind of a consolidation, improving housing conditions.

That was one project that I saw. Another was a large pig farm using new strains of genetically improved pork stock. These are the kinds of things that I witnessed and – but it was just beginning. And so, what we want to know is, how far has it gone? What does it mean? I just also told Binliang – we talked about this – that I want to say that there’s been some preparation for this in the first half of this decade. The tax-for-fee reform, the – (in Chinese) – consolidated financial matters in rural areas under the county. There had been a lot of finance management by the townships, below counties, until this happened. So the teachers weren’t getting paid, schools were not getting fully constructed.

But they’ve moved all of those responsibilities up to the county. The county now – and they’ve then consolidated villages and townships, reducing the number of cadre so that we’ve had a preparation in the rural areas that has turned the county into kind of a landing pad for transfers from outside that can handle the fiscal demands of this kind of program. And at the same time, the fee-for-tax reform was followed by the abolition of the agricultural tax. And so this made many poor rural areas really strapped for financial resources. So the question is, now, is this a new platform for fiscal transfers supported by the New Village Strategy? That is my hypothesis.

It's a major initiative. We're going to find out what it really is because there's a lot to it. What I don't know is the scale of the resources that are actually going to be put into the New Village Strategy. And if it's not much, is this just one more superficial effort to talk the talk, but not provide the resources to make a difference in the rural areas. So, with that, I'm going to turn my seat over to the Binliang and take it away.

BINLIANG HU: Thank you. Good morning. It's my pleasure to be here to have discussion about agriculture and rural farming issues, especially together with Bert Keidel. I think my – after his speech, I am thinking about that this is very near big challenge for China to – for Chinese government leaders – probably especially for top leaders to manage the transition in this period of time, very special time if you look at the inflation, which have been significantly increased, driven mainly by the pork, milk, and agricultural-related products' prices.

This is a big challenge and also, I think China needs another comments, you know, from all of you, especially from the experts like Bert. He did a very good job on both sides: agricultural and also relating to new countryside construction because he had experience relating to Korea. Chinese government, I think, has send a lot of delegations to Korea to learn how to build a new countryside.

But as I discussed with some of the Korean, you know, people, they don't think that's a good example to name, but I don't have idea. I never yield to this kind of stuff. I just try to follow that discussion. I will not focus on agriculture. Agriculture is mainly market-driven sector. It's kind of the economic sector mainly driven by market mechanism. But we clearly we need to get – (unintelligible). So markets and mechanism is not enough to solve all of the problems. But also we need to physical transfer – he just mentioned – we also need the government's support.

So these are the major intentions, policy intentions, from the central government to launch New Village program or what we call the New – some people also call – the New Countryside, Socialist Countryside Construction Program. So I tried to give some, you know, brief introduction about this problem. This is one of the very important policies in the next 20 years, before 2020. I think the first priority is to try to focus on this issue: how to build up new socialist village or new socialist countryside.

First of all, I tried to give you a brief, you know, background about that, the government, you know, proposed this program. So for some of the people, especially for the people on the other side of China, they say, you know, maybe they have puzzle, so why the government launching this program? Suddenly, so I just give some background for that.

MR. KEIDEL: Slides.

BINLIANG HU: Slides will come later so – (laughter) – so because this is just, you know, the idea, not relating to slides. I suddenly think it's important to give some background. My slides do not show the background. (Laughter.)

Three backgrounds – the first of all – (unintelligible) – can be a macro background. As you know that, 2002 in August, 16th Party Congress was held in Beijing. I don't know – as usual, there is a big report, but make people very confusing, especially easy to make people lose the focus. And the one focus I just try to point out, which is very important: 10 words in Chinese. I believe most of you know Chinese very well. (In Chinese): integrating urban rural economic social development. This is the first time proposed by the central government to integrate urban development and rural development together, integrate economic development and social development together. This is the first time.

If you look back to the policies since 1953 to 2003, exactly 50 years, what's the policy focus? The policy change, the policy focus is urban-biased policy, discriminating, all of the policy, I think, discrimination to rural development. Like, if you look at prices, policy, so there's a very typical – what do you call it – scissors (?) price system. So you couldn't – (unintelligible) – so the industry products priced much higher than the equilibrium point but agricultural products price is lower. So this is a price distortion, very serious distortion. The purpose is to try to get to the surplus from agriculture sector to support industrialization in urban areas and also to protecting the social welfare for the urban people by discrimination, discriminating rural people.

So the people's mobility have been forbidden, so this kind of policy, old policies focus on separating urban development from rural development. So this is, you know, is a second policy change achieved from separating these two areas, the urban areas and the rural areas, to integrating urban areas, social and economic – economic and social development. This is the first point. After 50 years proposed by the central government, this is one background, policy change, breaking through policy changes.

Second, just to follow this policy change, in 2004, President Hu Jintao proposed that another two – (in Chinese) – in Chinese – (in Chinese). I think it may be translated into – sometimes, it's difficult to translate Chinese terms, you know, special policy terms, into proper English terms. So maybe to supporting or too subsidizing – this is not correct either – (unintelligible).

MR. KEIDEL: (In Chinese.)

BINLIANG HU: (In Chinese.) Anyways. Yeah, so this is just – you simply understand is to supporting or subsidize – industry, industry supporting or subsidizing agriculture – urban supporting or subsidizing rural areas. So this is just the other way around. If you look back again, the policy is – (unintelligible) – in the progress of 50 years. This is not subsidized. They just get all the benefits from rural areas, agriculture to industry, to urban areas. So to supporting and subsidize is also another breakthrough policy change proposed by President Hu Jintao in 2004.

In the following year, 2005, just about to mention that, a group of people worked out a comprehensive general plan, a package which is called “Building a Socialist

Countryside.” So they tried to put social development, economic development, environmental protection, so everything, political reform, put together to build a new model, a new – you know, this is a kind of mentality. You know, as a communist, they always trying to put together to build a new model, what we call the new socialist countryside, which it what they use now, is compared with the older version because the policy is totally different. So this, I think, this is a background.

So when we talk about a New Village Strategy, New Countryside Construction Strategy, it’s not a sudden – (unintelligible). The central government has been working on it – because I’ve been working with one of the think tanks, a very important think tank, the Chinese Academy of Social Sciences, you know, there for more than 20 years. So I know all of these kinds of programs, I was a participant in some of the discussions. They have been thinking about 10 years and finally got this project out. So this is the first background relating to my presentation. This is a macro-view background.

Second background that is how to implement how the government, how much attention paid by the central government for this program. So a very good question – I just was about to mention that. December, talk again, just talk because, you know, agriculture and rural development always, every year, is always take the central government second-nation documents. Number one, which regard is the most important issue, always talk about that, everybody talk about that. But this new rural investment – no reaction have been done. So the problems are still there, always talking and talking, table and the talk and the speech. So this is what the people saw. So this is the same situation again. This is the worry from Bert that just mentioned that. So I just try to give you some, you know, information for your judgment.

I don’t whether it’s – (unintelligible) – again, but I give you some facts. In foreign policy 2005, the newer policy have been issued, you know, together with the 11th five-year plan. Eleventh five-year plan puts a building up in socialist countryside as the first. So after the general goes, the general goes in the next five years, this is first chapter and then building socialist countryside or socialist village as the second chapter. So that is very important, of course.

So just after this 11th five-year plan published in the end of 2005 through the 5th January meeting of the 16th Party Congress. And then, as soon as after the Chinese – (unintelligible) – bring festival, as I remember, that’s February 17th, Hu Jintao called all of the provincial governors, provincial-level leaders and the ministry-level leaders, all he called to the central party progress, the central party school. He – (unintelligible) – speech for four hours in – (unintelligible) – to 12:00. He had a four-hours’ talk about how to build a socialist countryside to all of the provincial and ministers in the Central Party School and in afternoon, a discussion.

The second day, the vice premier, Huang Ju (?), who is in charge of agriculture and rural issues and have another three and a half talk in the school, an afternoon talk. And the third day is the minister of finance – (in Chinese) – NDRC minister. In the third day, he talked, you know, for three hours and a discussion. And the fourth day is the

minister from – minister of finance to talk about how to support this kind of program. And the fifth day is minister of construction. The sixth day is minister of agriculture and the final day is Premier Wen Jiabao, you know, had the conclusion.

So the whole week, all of the leaders concentrated in the Central Party School discussing how to build the socialist country. So this is very high profile to show this time, they do admit, they don't intend to have – (in Chinese). You know? At least from the attitude, you know, to show to the people, it's – (unintelligible). Following this, this is what happened in February, in March, Hu Jintao called the central organization ministry to organize 40 experts from the think tanks of the government get together, stay in Central Party School for one week, for one month, one month to prepare textbook to training all of the county leaders because the provincial leaders trained by Hu Jintao – (unintelligible) – and the county leaders, more than 5,000: 5,300 county-level leaders including county magistrate, and also the county – the party secretary of the county.

And I was one of them asking to train the central where we wrote the textbook and then, after reading, after the writing, the textbook was sent to the central government, the Hu Jintao directory read that and assign that okay?

So because, you know, this textbook to get approved by the central government, you can say, what do you want to say? So one, you have lectures (?) and some central Chinese government observers, they are sitting there, so you kind of have to see. So – and we spent a whole year, 2006, to go all around the country to training these 5,300 county-level leaders to how to build a socialist rural countryside, the theory, and the practice, international experience, and the policy issues, all these kind of things.

So each program – same structure: seven days just – (unintelligible) – leaders. We have seven people as a group. We went around all over the country. We spent 48 weeks to finish this job in the whole of 2006. So I think this is one of the very – compared with before, this is very different. This is what are called – (unintelligible) – the training program in the history of the Communist Party since 1921. (Unintelligible) – so many people, you know, get the trend.

I attended the whole training process. I spent a lot of time with this program in that year. So this is a really – and after that, they come back, a day study it. And also, they learn from each other. All the leaders – the discussion, they share different models on this type of topic, you know, how to build a new village for a new countryside. So this is the second background I tried let you know. But now they are implementing, really implementing. I will give you more information maybe later on.

The third background is relating to my research. You know, this is also a very big challenge for me. I conducted rural research for more than 20 years. I know rural areas, but as an economist – (unintelligible) – more focus on ecological research. You can talk about a rural area where more – you know – (unintelligible) – really economic situation. What's the impact of, you know, grain price, what are the problems of foreign trade relating to agriculture products? Not much focused on democracy, but this time

democracy was very important, part of the important focus. Not much focus on this kind of issue, particular issue, not much focus on social development and education, healthcare for myself.

So at the same time, I spent a lot of time, 2005 to 2007 – actually I brought a book in your office, I did not – no, not this book. I prepared, I wrote the two – five booklets. I got one sample, but I didn't bring it with me back, and now – so, I wrote five booklets about how to build a new countryside relating to urbanization: first, urbanization and new countryside, industrialization and new countryside, these kinds of things. So – and I know Harvard was still working relating to new countryside construction, but from the public goods provision. How do you provide the public goods in more rural areas? What kind of governance do you need to fulfill (?) that?

So this is the third background I – some of the research I conducted relating to this research. So I tried to give this background for maybe, I hope, your understanding relating to the following discussion. Okay, so that's back to the slides.

Goals, yeah, so the government of course, they have a lot of policy intentions. This time they have multiple goals, multiple policy intentions, you can say that. So this is not on an economic program, also I just mentioned that it is an ecological program plus a political program and social development program. It's the overall program, try to give, you know, to make significant change, real change of the rural area situation, which people have been worried for many years. So try to get a final solution, this is the intention, try to get a final solution of rural issues. Some people say that if you go to China, if you go to cities, it looks just like Europe. But if you go to rural areas, it's just like Africa.

So urban-rural defines the fight (?) – is a serious issue. The central government leaders, they're getting more and more sense and understanding about this situation, so they're trying to get a solution from the roots, from the foundation. So these are the major goals this time for launching the program. I'll just show you some slides relating to some of the goals.

Why does the government worry so much? If a new kind of regiment is firmly – (unintelligible) – in this kind of a situation, especially Peter Botteneer (?) who is here, used to be director of the World Bank Beijing office. He is one of the experts who did a lot of research. He wasn't bad, but as I remember in 1995 and 1997, he presented a very good report in this area to the central government of China at that time.

So 10 years passed and it's still – you know, in a sense it has gotten worse. If you look now at Shanghai, this is – this is old data, up to I think 2004 because I made in this kind of preparation, 2005, for the county leaders. And the now – the latest information on Shanghai, per capita GDP – or GDP per capita is nearly about US\$10,000. But if you look at some of the provinces, it's just one-tenth. So that means that more than 10 times of Shanghai, these are the big cities, these cities compared with the poorest provinces as an average.

If you look on the situation between rural areas and urban in terms of income, used to reduce to less than two times in 1982 to 1984, so less than two times. But now, after that it increased again. Now, I think in terms of income, urban area was three times higher than in rural areas.

MR. KEIDEL: Gently, you can point to that.

BINLIANG HU: Okay, yeah. So – oops.

MR. KEIDEL: Too much, you'll want to go back up again.

BINLIANG HU: Yeah, but I think they get – they can either find it.

So and then, the government – what's the general principle? What's the major purpose? Their goal, what's the task? What's the task for this program? One job I mentioned, the 20 words in Chinese, 20 words, again, it's very difficult to translate into English, but anyway, I'll speak in Chinese and then maybe you'll translate –

MR. KEIDEL: Don't count on me.

BINLIANG HU: Much better translation for that, you know? What Wen Jiabao said, our target this time for building a new socialist countryside, or a new village, there are 20 words: (In Chinese).

MR. KEIDEL: (In Chinese) – is development of output.

BINLIANG HU: Okay. (In Chinese.)

MR. KEIDEL: Broaden the supply of goods.

BINLIANG HU: (In Chinese.)

MR. KEIDEL: (In Chinese) – is –

BINLIANG HU: (In Chinese.)

MR. KEIDEL: Double wind with cultural development or something like that?
(Laughter.)

BINLIANG HU: (In Chinese) – is – (in Chinese) – a township. (In Chinese) – is a kind of atmosphere, it's kind of a spirit. It's very difficult to translate. (In Chinese) – (chuckles) – this is a good test of Chinese. It's difficult translating already. (In Chinese.)

MR. KEIDEL: This is the spirit of the township culture. Let it blow.

BINLIANG HU: It's more relating to moral and spirit, you know, have a good spirit and spirit condition. (In Chinese) – is more relating to the environment, you know, a clean village maybe?

MR. KEIDEL: Sounds good. (Laughter.)

BINLIANG HU: Yeah. (In Chinese.)

MR. KEIDEL: That means manage democracy or develop democracy.

BINLIANG HU: Yeah. So this is 20 words what Premier Wen Jiabao proposes. This is the target, 20 words, and for five slogans, you know. So this is a major intention, policy intention, which I think is a good wish, the target from the premier. And if you look on the number one documentation from the central government of 2006, 2006 number one document is focused on how to build the socialist countryside. There are eight focuses; one is – (in Chinese), integration of rural and urban, urban and rural areas. (In Chinese.)

MR. KEIDEL: Modern agriculture.

BINLIANG HU: (In Chinese.)

MR. KEIDEL: To increase the incomes of farmers.

BINLIANG HU: (In Chinese.)

MR. KEIDEL: Develop society.

BINLIANG HU: (In Chinese.)

MR. KEIDEL: Infrastructure development.

BINLIANG HU: (In Chinese.)

MR. KEIDEL: And democratic developments.

BINLIANG HU: (In Chinese.) (Chuckles.)

MR. KEIDEL: And improve leadership quality.

BINLIANG HU: Okay, these are the major focuses mentioned in that number one document issued by the central government. So this is the – this is already a policy package from the central government if you get these kind of things. Sometimes for foreigners, it's difficult to understand that if you have low experience, therefore say about five years, and this is five years to 10 years, you can definitely get a sense. Most of them,

they are just like slogan. This maybe is kind of the culture of the communist party, but sometimes it makes sense, you know?

We understand where we are. Especially for the local leaders, they understand it even better than us, the researchers. They understand what it means, but I'm sorry if you totally understand that. I don't have a way to give that foundation for you. It's difficult.

MR. KEIDEL: We'll do it in the question period.

BINLIANG HU: Okay. I summarize because there's so many point and sometimes if you – too many points and it makes no point. You make people lose the point and if I summarize, there's really focus.

This program, we are focusing on three areas: one is economic development, so ability and modern agriculture. Agriculture is still the mainstream of economic activities in rural areas, but not only agriculture. If you look, go to rural areas, a lot of non-agricultural activities. And most of the rich areas, they base more on agricultural development. So continuing the development of the rural economy is the number one focus.

Second is relating to what I just mentioned, transfer, physical transfer, so increase the investment from the central government to rural areas relating to main major areas: one is fiscal infrastructure.

MR. KEIDEL: Physical infrastructure.

BINLIANG HU: Second is the social infrastructure, so you understand, your physical infrastructure, just like roads and electricity, all these kinds of physical things. And social infrastructure like education, healthcare, these kind of social development issues.

And the third focus is try to improve the policies because the policies, all the policies – some of the policies actually don't have rural development much. Some of the policies actually, they destroy, they play a negative impact to the rural development. So they try to clean these kind of policies to improve the policies. So I will follow this kind of the focus to give – there will be more explanation about that.

So talk about the Chinese economy. We have, I believe most of you, I just guess, most of you have a misunderstanding. What's the major state, major part of the economy of China? Many people say, the rise of China is because of urban – get very well developed. You look at Shanghai, Beijing; this is not true. The major base of the economy, economic development in China is still in rural areas. If you look at GDP now, first of all, we get a definition about rural – how rural defines, I give, otherwise it's difficult to understand. In China when we talk about rural areas, it normally includes three parts. County level, county is regarded as part of the rural areas, township, and village. So these three levels.

And then we look at the contribution from the country, which – (unintelligible) – discussion followed by – (unintelligible) – just mentioned that. So that includes county, township, and village. The contribution from these three levels to the nation aggregate is normally about 55 percent. Take the example 2005, that's 56.3 percent of the contribution from these three levels of GDP.

MR. KEIDEL: GDP?

BINLIANG HU: GDP, levels of GDP. So it's very hard.

If you look at the coastal areas, I will – maybe I will send them slides that show that. So according to my definition, I just mentioned that, the areas that belong to these three levels that I just mentioned, occupied 94 percent of the total territory of the country. Just 6 percent of the territory are purely urban areas. If you look at the population, and I did not show yet population, there's two definitions about – definition relating to rural agriculture. Rural area population now is 750 million people in China, which is 58 percent of the total of the country. This is an agricultural population. If you look at the aggregate rural area population, it's 950 million; this is 73 percent of the total population. Rural area population, which is below as I defined, the population of the county, of the township, and the village, rural area population normally relating to the village – you know, population along, so population is like that.

If you look at the labor force, the total labor force in China, let me see, is about 360 million total labor force, but total rural labor force is 500 million, so that's about 66 percent of the total population. So this is just a rough territory population, just basic information, if you don't have this kind of information. I think like Peter and Betty know very well, and some of you also know very well. Anyway, just that we get basic information.

If you look at county population here, I mentioned that, that average is much lower than this because most of the provinces are still agriculture and rural-based provinces. Relating to the national economy, I just mentioned that, the rural economy is still very important, even look at this chart, which shows – the red one shows the 100 strongest in terms of economic developments, the strongest counties in China. They – you can look at the distribution. 88 percent, 88 out of the 100 strong counties are located in the eastern part of China.

MR. KEIDEL: This is nationally designated strong counties, right?

BINLIANG HU: Yes, nation, yeah.

MR. KEIDEL: National, yeah.

BINLIANG HU: And there are five, you know, so coastal area in this area, 88, and five were in the northeast area, and four in the central part of China, and three in the

western part of china. You'll find that this is very much in line with the overall economic development. The eastern economy gets the best, and most are the best developed areas in China. If you look at the county, rural economies, it's the same. So rural economies is very strong. If you look at the – you know, if you look at the – (unintelligible) – I mean the provincial economy – (unintelligible) – provincial economy in China, number one is Guangdong, number two is Jiangsu, number three is Shandong, number four is Zhejiang, number five is Henan. If you look at like all these five provinces, except Guangdong – Guangdong is more based on export and import because most of the, I think, 30 percent of the nation's exports and imports are from Guangdong province alone. The totally economy of Guangdong province is much bigger than the whole Taiwan –

MR. KEIDEL: Oh yeah.

BINLIANG HU: Taiwan, Singapore, Hong Kong. So the four dragons – Guangdong is only a little bit less than South Korea, and higher than the rest of the three dragons, small dragons. It's very strong. So the economy – so except for Guangdong, the rest of the four provinces, most of the major contributions are not from the city; they're from rural areas, from the counties, the county economy, from the township economy, from the village economy. So once the county economy, rural economy get well developed, so the whole province will get rich. So this is maybe a little bit different from we've been thinking for quite a long time, I just guess for some of you.

Yeah, this is computing the index about the rural economy among different provinces, so this is very aligned with the distribution of the overall economic development, and not only rural development. Shanghai, Tianjin, Beijing, they are big cities, they rank in number one, but rural development is also ranked number one. This is rural economy development competitiveness, and as you see – (unintelligible) – Shanghai, she's, well, it's kind of was a weak economy. But if you look at the overall economy, it wasn't weak. They align to each other very well.

So this is the fiscal budget revenue, but it's a big difference among different provinces. Generally, the size is still very small, even looking at all the eastern part of china, so just 350 million. The average of the counting of the budget is quite small. So this is the first part of my presentation relating to economy, first the focus of the economy. And the second focus is on the increase in investment in the rural areas, so there are some areas, I just mentioned, their physical infrastructure, which includes water, electricity, roads, and gas. So these are basic needs and very important physical infrastructure. But in that has kind of suffered rural areas for quite a long time. If you look at water, so now there are still 300 million people in rural areas that don't have – they don't drink any water.

MR. KEIDEL: The next slide.

BINLIANG HU: Yeah, so you'll see in this now, this is distribution of the people that don't have a chance, they don't have access to any water, the safe water, and I think safe water is a bad term. Only 15 percent of rural people, they have tap water. They just

have tap water. So water is a big concern. Premier Wen Jiabao promised to try to, through this program, to make all rural people to use safe water in the next about 10 to 20 years. Each year they have a very detailed plan. This is the government plan, not from the researchers. We just think about the framework, not the very detail. They have a very detailed plan when they have solved the problem.

If you look at electricity, overall the whole country, there are still about 20 million people that don't have access to electricity. So they were going to solve this issue. Roads, there are 40,000 villages that don't have access to roads, but even they have roads now in rural areas, 70 percent of the roads that are just paved by sand, by the stone, you know, the grass stone, it's very simple.

And gas, like the fuel, the family fuel, so very – 40 percent of the people that use like the energy like coal, most of them use coal, and about 60 percent of people still use timber, use other agricultural products, side products as they feel. So this is bad for the environmental protection. So they try to use gas; through this program, they promised all the rural people they can use the gas as a clean fuel, energy. This is one area – this, actually I forgot one thing – it was related to physical infrastructure, which is agriculture, closely related to agriculture production, like irrigation. This was also regarded as a very important part of physical infrastructure. As you may know, that total farming area is now 1.8 – 1.9 billion acres is a little bit more than what, I think, one billion – 100 million –

MR. KEIDEL: Over 100 million hectares.

BINLIANG HU: One hundred million hectares, yes. And it will be more than that, only 40 percent of them are irrigated. 60 percent are not irrigated, and it wasn't – even these 40 percent of irrigated is – their equipment, their system is very old, built during the Mao era in the 1950s, 1960s. They're old enough, they have to renew. And only 30 percent of the farming land is guaranteed with high production – high-yield production. So the 70 percent of them are low-yield, they're very uncertain. That depends on the water, depends on the investment. So sometimes it's good, sometimes it's bad in terms of the year. So 70 percent of the farming land is like this, very uncertain. So through his program, the government tried to put more into agriculture as well and this is the physical infrastructure vicinities.

And then social infrastructure, which relates to rural education, public health, social security, I think this is relative to some point because all these social services will be provided by the central government. I think this is still a problem. While I'm conducting research joined with a professor in Harvard University, so we're trying to build up a governance, a better governance structure to solve the problem. But now the government tried to take over all these kind of things before they – (unintelligible) – distort it, who are discriminate rural development. But then, they try to pay all the costs, they try to direct the investment by the physical transfer by the government for rural education, health, and the social security.

I think this is impossible, even like the U.S. The universal healthcare system has not been set up; how can China do that? But the government have been promised to do it, but if you look at education, yeah sure. Education now is free, totally free. This year, expanded to urban areas. Now it's the other way around. We studied the free education in rural areas since 2006, but from 2008, from this year, urban education is going to be free as well. So 2006, 2007, all the rural education is free, but starting from this year, this is the other way around. This is good, of course, but I think education is okay. But this is the basic education, just nine years basic education, not for the high school, not for the university.

And popular health maybe is an issue, it's a big concern. It's very difficult to govern. Now, it's kind of a cooperation, it's another kind of cooperation. Each year, rural people pay 10 Yuan and the central government pays 10 Yuan initially, promised 10 Yuan from last year. They increased it to 20 Yuan. And the local government, depends on which area, if you are a rich province, you can pay more. Like many of the cities, you can pay more, normally no less than 30 Yuan for some cities, they are rich. They will need to pay 60 Yuan, even 100 Yuan, so that depends on you. And then they put all this money together to build up a fund, a cooperative fund, once people are getting sick, they get some refund. That depends on especially the big disease, and they get higher refunds.

Less than – yeah, the problem is that less than 20,000 Yuan, they will not get a refund. This is not good design. I don't think this is a good design. Most of the disease is less than 20,000 Yuan. That means most of the people would likely benefit from this kind of system, so anyway, the government tried – and this is the currency policy, current policy. Yeah, I'll just follow with some general ideas about general policies. I'll show some pictures and the kind of situation relating to the education, but you know, even look at the city situation, it's not as good as we thought, and the rural area situation is getting worse, you know, healthcare, the situation with cultural investment into the cultural sector between rural and urban areas.

Okay, this slide is part of the forecast of the policy of the strategy, that's increase the investment into the sectors. And the third part of this forecast of the strategy is improving policy. I just mentioned that. What kind of policies the government promised to improve? Actually, five policies, I knew this one: the other one is integration of rural areas, urban, rural integration policies. So you need to add that. Another policy, what's the forecast of the policy? How to improve the policy – (unintelligible) – the policy?

The – (unintelligible) – policy, I think the permanent policy, I guess most of you know that, wouldn't end – want better stakes in China, those in urban areas and rural areas, but through different ways. Urban lands are directly owned by the state through the city government. Rural area lands are indirectly owned by the state because collective organizations have a bigger say for this kind of ownership because the contract signed between the state and the individual family households by the village as the very important collective organization. So sometimes the village and their leaders, they can do something under the table without informing the government and this has been happening.

Many village leaders, even the mayor, the city leaders, they did a lot of under table deals with the housing developers, and the government did not benefit from this kind of deal, and of course the farmers get the bigger half from these kind of deals. So this is why you'll go to China, all the cities they are very rich and the infrastructure is – the vicinity is very new, everywhere it looks beautiful because I think they hide a lot of income from – (unintelligible) – their land to the housing developers, but they did not report it to the central government, neither to the farmers. The land, most of the land already comes from the farmers, so land policy – this is the kind of the situation. So a lot of cases have been happening, a lot of issue cases. This is a big issue anyway.

The future policies in this strategy relating to land, the farming land, there's three focuses. One is ownership; what's the ownership in the future? I think, I guess, it's a kind of de facto privatization, but you will never get confirmation from the government because we still are a socialist country. Land still has to be owned by the state. But as you remember in the 2003 press conference premier Wen Jiabao became premier, in the first press conference, he even promised that now the contract is for 30 years, since 1999, for another 30 years. Before 1999, it was a 15-year contract for farming land usage between the state and the farming households. Now it's another 30 years. Wen Jaibao, when the premier promised that I believe after this term, the 30 year term, we will continue to renew the contract for longer. How long, I don't know, maybe it will never be changed. This is the kind of de facto privatization of farming land, this is very clear.

Now, more and more scholars send their proposals to the central government to privatize the farming land. I think, and this is just the time issue and term issue, they will never use the term of privatization. They'll using other terms. But this is the difference for the farmers, you know? If I sell the land, I get paid, it's good. You have fair, this is kind of a change, right?

And the second, this is ownership, the second issue is related to scale farming, try to –

MR. KEIDEL: What kind of farming?

BINLIANG HU: Scale.

MR. KEIDEL: Scale farming.

BINLIANG HU: China wasn't trying to follow the commercial farming, of course, because in the WTO, because of globalization, if you want to make the agricultural sector competitive in the international market, you have to maintain a certain scale. With that scale, that will be – the economists will know very well, there were high costs and a low return; you have to rescale. But now they tried to do that gradually, initially starting from the state, from the state of farming. They still have some state farming, so try to scale the state of farming – (in Chinese) – state of farming first. And a lot of rural people go to urban areas. That will make it easy to scale the farming land.

MR. KEIDEL: Binliang, I'm going to ask you to summarize a little more tightly what you're doing because you want to have for the question period.

BINLIANG HU: Okay, to the forecast –

MR. KEIDEL: You can mention them, just I think, you know so much. We don't have time for all of your knowledge.

BINLIANG HU: Okay, for the security, it's very simple. Try to maintain more than 90 percent of the food that will be produced by China. And more input of course, the grain input will be increased. Now, I think about 2 to 3 percent of the total demand is imported. Maybe it will be gradually increased to about 10 percent, this is my guess, but not policy. The government policy may be increasing to five, from 2 to 5. That will be of good use for the international markets. If we increase it to 10 percent, even 5 percent, that's a big incentive for U.S., for Australia, and Canada to expand their production. So this a mutual benefit between U.S. and China, I think.

Most reform, tax reform policies focus on three areas: administrative reform because the tax of freight, there's not tax to fit in so many government authority officials, so they have to cut. So many people suggested the kind of township government.

MR. KEIDEL: Get rid of it.

BINLIANG HU: Yeah, get rid of it, but at least 50 percent of the stuff will be cut. So education reform because you don't have to pay by the county, never by the township or government, but directly the transfer from the central government for education. So this is the second and the third is subsidize. There are four different kind of subsidies for the farmers: subsidize for farmers to purchase tractors and other agriculture tools, and subsidize for farmers to buy hybrid, high-quality seeds to improve the production; subsidize for the farmers for purchasing pesticides, these kinds of things; subsidize, there's another comprehensive subsidize, the overall, directly subsidize for people's farming based upon the farming land that you have. Each acre of land, you will get a subsidy with, considering, regarding this, you plan this land a lot, you will get a direct subsidy from the government for directly subsidize to support agriculture.

Okay, relating to rural finance, just one thing I need to mention. Rural finance, I think, for the whole – the – (unintelligible) – rural financial market. This is the only way out of the trouble, but I don't think the government realizes very well about that, but some of the final program has been going on. The central bank already issued, delivered seven licenses for micro credit companies in some of the provinces. And Yin Jianhue (Bank Monitoring Advisory) is going to issue 36 licenses for the individuals to set up for a village bank, what are called village banks in rural areas. These private banking businesses have been gradually initiated –

MR. KEIDEL: By the bank regulatory commission.

BINLIANG HU: Yes. This final point I'll just mention the integration of the rural and urban market (?) – (unintelligible) – there's two policy issues to focus. One is to totally get rid of the control, get rid of the – (unintelligible)– as you know that region's system. So to encourage the free flow of, free mobility of people between rural and urban areas, this is one. And second one, unify the – utilize of the labor market between rural and urban areas. So there's a segmentation of the labor market. It's a second serious problem over the years, but now they tried to make it unify in light of the one unified labor market will be set up gradually.

So these are the – the impact you know very well, so I don't want to go into detail. It's good for political stability, that's why it would be very good for the nation's economic development. In a sense, most of the contribution is actually from rural areas; it's not from the cities. So and the social transformation because social transformation means the – China is kind of transforming from the kind of agricultural-based rural society to industry and non-agricultural based to urban society, plus the transformation from the planning to market, from industrialization and urbanization, all these kinds of transformations put together. And there was China's integration into the world, the community, this kind of was the transformation. This would be good – this support is good, supporting this kind of transformation.

So follow the conclusion, yeah, this is clearly, this program will give some positive support, positive – will have some positive impact relating to increase the farmer's income to mitigate the rural-urban divide, also the broad economic development and good for the China integrated in the world gradually. So these are the general introduction, brief introduction for your reference. Your comments and questions are most welcome. Thank you very much.

(Applause.)

MR. KEIDEL: All right. We're going to take some questions now. And I want to go back to your very last slide, if I can. Yeah, I want to go all the way down to here, to slide number 20. And there is something here about political reforms. I wonder if you could – because you also mentioned to strengthen democracy in one of the four character slogans that you mentioned, or to manage democracy I guess is the word that was used. Could you say something about what that means?

BINLIANG HU: I did not pay attention. I'm sorry.

MR. KEIDEL: Could you tell us about political reform. (Cross talk.) There's – (in Chinese) – there's political reform and then you also mentioned some – (in Chinese) – to manage democracy as part of the goals of this overall new village construction. Could you say what that is? Yeah.

Q: (Off mike.)

BINLIANG HU: Okay, I got it together. Okay, first, his question first – three policies, three focuses were coming from central government. Number one related to – (in Chinese) – democracy. Number one to get a whole coverage of villages in action – some of the village in action not implemented the law. But with the next five years, 100 percent of the villages have to be – (unintelligible) – enacted, directly enacted. Village election system will be covered all villages. This is number one.

Secondly, this coming election will be gradually up, you know, go up from the township. Some of the pilot programs have been rating, trying in Sichuan (?) province and in other provinces. They're trying to launch the direct election for the township leaders. This will be directly – it's a breakthrough policy change because the related – (unintelligible) – political reform because you know, township is regarded of the government, part of the government. It annoys the government. But village is different. Village is a kind of autonomy.

So village election, I don't think is relating to political reform. It is more relating, this is kind of authority. But township is different; township is government. Once the direct election can be implemented in the government – lower level – even the lower level and then more gradually up to township, the county level, province level, you know? So this is the second focus.

The third focus – in rural areas, all the financial reports – numbers need to be public. So if you go to villages, everywhere in the village, they have space. And they have a ward or whatever they – you know, ward numbers. They are calls and benefits and they import – (unintelligible) – they output. All of this financial numbers, they must be publicly issues, published. This is the idea relating to your question.

And relating to your question, I'm sorry? His question – because of time constraints, I didn't mention, this is – the army – this is very important. The tension between the central government and the local government get worsened, get intensified. The policy – and this policy is from the central government. The central government tried to serve the people. This is very clear. It needs to served the people, serve for the rural people. But if you look at the mentality of the local government leaders, I don't think some of them they have this kind of idea to subject people as well. But many people, they already changed. Along with more power, more independent – now this local government from the central government, they have their own resource of income like – (unintelligible). They gradually lose control, out of the control from the central government. So they may not happy to follow this kind of policy – simply they have to pay a lot of cost.

First, the transfer – just to mention – is not only means the fiscal transfer from the central budget. But also, the central government force the local government – (unintelligible) – some level of transfer to support the central government policy. Local government said, this is your policy; this is not my policy. I don't want to support you. (Unintelligible) – the development construction policy is prepared by Hu Jintao, Wen

Jiabao. And no, this is your policy. I don't support – because they need to spend a lot of money. This is the reason.

Now, it is clear. Some tensions have been –

MR. KEIDEL: Are you saying that some richer areas will be asked to provide resources to the center to be redistributed to poorer areas? Is it that redistribution process that is unpopular in the richer areas? (In Chinese.) Is that the issue?

BINLIANG HU: Yeah, both. I think the rich areas and the poor areas, all the different local governments – they have different levels – provincial, county, and township, now they all have their own interest. So regardless it's the rich areas and the poor areas, they don't want to lose their control of the resource. So they have same problem in both areas. But this is out in – because the problem just started – I just sense that because I talked with the leaders, I sense this kind of issue will maybe not happen, but may happen. This is my judgment. It's not – let's see.

MR. KEIDEL: All right. Let's open it up to the floor. I saw the hand over here. Michael Swaine wanted to ask a question and then anybody else want – all right, here, here, and here.

Q: Well, I wanted to follow up on this issue of cost. I mean, there's cost and enforcement. Where do you see – if localities have to increase funding to support a lot of this program, there will be some transfers from the center, but do you see it? What's the sense of the breakdown between central cost and local cost? And will localities have to increase taxes in order to pay for this, which could have a negative impact on the benefits that you're trying to produce for the rural countryside? You're going to be taxing people more to produce longer-term benefits, increases in infrastructure, et cetera, that won't be apparent for quite some time. And yet, the taxation would – if they're going to tax, would begin fairly early if they want to start developing enough adequate funding. So have they thought through how to solve the funding problem?

And my other related question, I guess, is how do you see this impacting the composition of product, of production in China? If you've got – if you're increasing the wealth of the countryside and the stability of the countryside and the level of – standard of living, presumably that will suppress rural-urban migration. Although you've said they're going to make the wage or the employment system uniform so people can move to the cities, but do you think on balance this will suppress rural-urban migration in China, make more people stay on the land and in the countryside? And if it does, will that change the product composition? Will people be – will you get more emphasis on agricultural product in China and less on production of consumer goods, or products that are used in the city or exported? Do you see this impacting the product makeup of the Chinese economy?

BINLIANG HU: I think that maybe the question not only for me, but a similar question may be even bad for you. I think the first question, according to my understanding, it's better for you because you're expert on fiscal.

MR. KEIDEL: Well, I think that's not true. You're the better expert.

BINLIANG HU: Not in this area.

MR. KEIDEL: Because you have traveled to all these villages and talked with all of the central authorities. China's central budgetary revenues have been increasing faster than GDP in nominal terms, so that there is quite a bit of tax revenue that is available. Their tax system has become increasingly efficient. The income tax is spreading. The value-added tax is producing more revenue – the corporate tax – so that they have what I would call a buoyant tax revenue system so there will be more central funds available.

At the local level, you also get a lot of activity that is in agriculture. And so, this actually also segues into the second question, but in revenue terms, you can tax lots of shops, restaurants, local manufacturing facilities. That tax hasn't been eliminated. They did get rid of the agricultural tax, the nom-yesh-way (ph). But they didn't get rid of all the other kinds of taxes on people because this county number includes the county seat, the county city. It includes some larger township towns. So you have quite a bit of urban or sort of small town activity that is included within the so-called county population. And there is a tax base there. And so, there will be revenues there as well. And in the wealthier suburban areas around the major urban areas, these are very rich little counties with a lot of money.

So part of what will happen – and it's a fight – is to extract revenues from those richer counties and transfer it to the poor counties. And I think Binliang is right, there will be a fight anywhere because even the poor counties, the leadership have their hands on a lot of local resources. And that is going to be weakened also. So it's a mixed situation, but you need to – there are various channels for mobilizing more revenues to get to the poor areas. And my question is still – I don't know – is that going to be really a significant increase or not.

But on the second question, does this mean that migration will be suppressed and does this mean that the product mix will change back in the favor of more agricultural products?

BINLIANG HU: If you have comment, you first. I will follow you. I'll take a little rest and relax.

MR. KEIDEL: Well, as I said, there is a lot of rural activity that is not agriculture. So you'll see hopefully this will increase the share of GDP that is in services rather than either in manufacturing or in agriculture. Agriculture has a share of output and GDP will continue to go down. This is an historic trend for any country that increases its GDP per capita, and China has been no exception. Where China has been an

exception is that it's been largely manufacturing growth, whereas if you go to India or Brazil, the service sector is quite large. Transportation and restaurants, a lot of personal services, life in urban areas – that in China hasn't grown. Or at least, if it's grown, we haven't measured it fully, which is also a statistical issue.

As for migration, I think migration to town areas – not just the big cities but also the town areas and counties will – if you're going to get rid of the hu-ko (ph) system at the same time that you're improving traditionally the area. Actually, to my mind, part of the secret of improving migration to the cities is to prepare rural people to be successful migrants. And if you're investing in information systems, investing in transport, investing in local education, that all prepares people to move. And that's – and they will move voluntarily to where they can have better income. I don't know; what do you think?

BINLIANG HU: Yeah, quickly relating to your first question, just one comment. Financial resources is another issue. You mentioned that. They have a lot of resources, central government budgets and local government budgets. More or less, they're almost the same. But local government, your reported revenue is not true because a lot of high demand incomes, you level up. But you just know they are very rich. You go through the – (unintelligible) – very rich. It's not an issue – (unintelligible) – they have a lot of resources, both central government and local government. I don't want to go detailed; you raised some. That's very interesting actually.

And related to your second question, I think you proposed a very good question, which before some of the reporters are asking me, what's the relationship between urbanization and new village construction? And once a society push forward an urbanization process, you try to make cities more beautiful. You try to attract more people migrating from rural areas. And on the other hand, you mention another program. They are building more beautiful villages and trying to maintain the people in rural areas. So they make contradiction to each other.

So many reporters ask me these questions. I try to answer this question, especially wrote a book. Actually, in your office, I brought it with me: Urbanization and New Country – New Village Strategy. So to understand this very good question, very good concern, which we have to understand the transformation has been – we just mentioned this term – it has been happening overall. One of the very important transformations has been happening is that most of the industry bases have been gradually transferred from city to rural areas. If you look at the coastal areas in Dungao (ph), Dungao now is the largest, the biggest in electricity production base of the whole world – 90 percent of the factories are located in rural areas, not in urban areas.

So you know, a new countryside construction project is not solely related to rural area agriculture – (unintelligible) – but also relating to industrialization. FDI – most foreign investors, they invest into rural areas rather than urban areas because, you know, if you look at a highway and the transportation has been improved lots in these years, and so this is no problem for transportation. So this is okay to understand this question. And

of course, there is another many more points related to your question, but I think these points are important. And then I expect that they – that not much people will be – urban areas were getting less and less attractive for people to migrate in. This is good for – (unintelligible) – the distribution of a population among different places, between rural and urban areas in future in China.

Thank you.

MR. KEIDEL: Yes, sir, you were next. And then Neil is there, and then –

Q: Thank you. (Inaudible) – from India – (inaudible) – Asia Today. It was a great presentation. China is spending a lot of budget on the military. What you have described here, all of these problems, you think China is going to break politically or economically like Soviet Union did in 20 years ago? Or how can you compare China today and the Soviet Union then?

MR. KEIDEL: Well, I think this is a discussion of the rural economy. We're doing work here – my colleague, Michael Swaine, and others – on Chinese military modernization. But the share of the military in China's budgets is still very small. And I think the comparisons to the prior Soviet Union are totally in error because of this difference in scale and level of development, and the scale of the military complex. But I think we really don't want to go into those broader questions.

Q: (Inaudible.)

MR. KEIDEL: I'm not sure there is a rural connection except that many rural areas have to reabsorb soldiers after they leave their service, so that becomes a financial burden of some kind. And there are other links. The military does a lot of filling in if there is a local disaster right now. In these snowstorms, military forces are being mobilized. But in terms of military modernization, I don't want to speak for my colleagues but I think it's not something we want to do here. And I don't think there's really a close connection to what to do about the rural economy. There are budgetary demands. I don't think China's military budget is large enough to make a threat to funds becoming available for this program. That would be my rough answer.

Q: But what economic problems – economically, I mean, how China will be doing in the future as compared –

MR. KEIDEL: Well, predicting the future is always tricky as opposed to predicting anything else. So I don't think we want to go into projection of the Chinese economy here as well. We're saying this is a new initiative, but we don't know where it's going to lead.

I have as my second question all the way in the back there was hand. Has that been – that hand is – yeah, that gentleman right here with the white-striped arm? In the back, way in the back? Yes, sir, right there? Oh man, I'm sorry, it's a lady.

Q: Thank you very much. Thank you for your informative speech.

MR. KEIDEL: Could you identify yourself please, your name and your?

Q: Okay, Sun Yaqin from Tsinghua University in Beijing and now scholar in George Washington. I'm more interested in the land policy. Yeah, I have also been to Dongguang before, and it amazes me about the buildings in the rural area. It is said that the farmers there are no longer planting grains, they are planting buildings. They are becoming kind of capitalism. So – and I also know that there is a pilot program in Sichuan province which allows peasants to become shareholders of their land so that they can enjoy the development interest for their own land in the future.

So my question is, what's the comment from you about this kind of program and do you have any idea about the central government towards this development? Thank you.

BINLIANG HU: The answer to your question is very simple. The government now in terms of land policy is quite open – a lot of different trials has been going on in different places. Some of the companies, even corporations, they're even entering into rural areas. They set up the company and they collect all the land from farmers. This, I think, is genuinely the case, which will have happened in many places, even a government keeping silence. They set up a company to – but they take all the, of course, they collect all the land from farmers. There also take – trade the farmers as a shareholder, and then in the end of the year, every year, they get some return from the business. Even this kind of case, the government is not against.

So this is not the typical case. I think more cases are happening is rent. A couple of people rent more land from, or say borrow, land from other people and then one guy become big landlord, and the – (unintelligible) – land. I think this is what the government hopes to do. But how do you, to control the – the government worry, I think, is just about not damage the interest from farmers. If they can trade good benefits, balance the interest between the owners, the real owners, and the renters, and then that will be fine. So this, I think, is more popular.

The case in Dongguang, this is another case. This is – somebody is with this kind of land use into the process of urbanization, industrialization. Many farming lands have been converted into non-farming land use, non-agricultural use. This has been happening in most of the Dongguang and other – (unintelligible) – areas. This is, I think, is – yeah, it should be understandable and the government also is not against that. Many trials in the area have been going on. There's no – (unintelligible) – policies against or will support to this kind of trial from the central government.

MR. KEIDEL: There in the aisle with this? Did you have your hand up, sir? Yes? You were next. I'm just keeping track by number of where you are, so sure. Like this?

Q: Ross Terrill, Harvard University, presently at the Woodrow Wilson Center. Do the Chinese leaders have a plan or an expectation of just how far the agricultural sector of the Chinese economy will shrink and over what timeframe? Dr. Keidel mentioned briefly this point, but if you look at other countries, Japan for instance, the change is enormous as the country modernizes. And a lot of the problems you mentioned, and one you didn't say much about, the future employment of hundreds of millions of people who presently grow up in the rural area, do they think that these problems will either by goal or by indirection only occur when it's not so much beautiful villages but less villages?

BINLIANG HU: You go first, and then I –

MR. KEIDEL: Nice to see you, thank for coming by. This is something that happens in every country. You mentioned Japan. Since China, I think now, is close to the level of development both in South Korea and in Taiwan in the 1970s, I would go and look at that transformation rate and use that as a guide, but these are issues in modeling. Every country has its own idiosyncrasies. In some cases, if you subsidize people to stay on the land, as you do in many European countries, you have many smaller farmers and therefore a denser labor force in agriculture than you would have in a very extensively farmed agriculture.

And so I think there's a lot of wiggle room there, but I don't think we're in a position at this session to predict the share of Chinese agriculture, population, or labor force. Right now the labor force – about 45 percent of the labor force or a little less is in farming in China, and that's clearly going to drop, but the pace is I think a good modeling exercise and subject for much debate.

BINLIANG HU: I think this relates to two policies. One is relating to the agriculture – import and export policy relating to agricultural products, for example grain further security. Further security can be reached by itself is self-sufficient. It also can be middle targeted by imports because the bigger, much bigger potential for Australia and U.S. and Canada to –

MR. KEIDEL: And Vietnam and Thailand.

BINLIANG HU: To increase their production for supporting China's modernization and industrialization. But this depends on policy and it also depends on the mentality of the top leaders. They worry very much about the control of the food by other countries, by the U.S., by Russia, and this is because of the mentality from the Cold War. It's difficult for them to change. And this, I don't see any change from this problem. That means in the next about 10 to 20 years, the mentality will remain there, so the government will continue to make all the efforts to continue to support agriculture production.

One factor is that even looking at the usage of the fertilizer in China now by average is 3.5 times higher than the average of the world. So in terms one, you know – (unintelligible) – of the fertilizer used, China is much higher. So this is not sustainable, but if the policy doesn't change, the – (unintelligible) – will have to support the food by ourselves, and then we'll continue using more and more fertilizer, pesticides, and the production will be higher. This is not a problem, but there's some negative impact around that. And this is very strongly relating to the policies, agriculture policies relating to the question.

The other question is relating to how long China's high growth will remain. If the growth is, you know, for the next 10 to 20 years, so we will have – even better for the – (unintelligible) – situation, the poor villages, poor rural areas – (unintelligible). For the rich, you don't need to care at all; they can care for themselves, for the central government they are capable to take care of that. After 20 years, high growth can be maintained, so there's no concern about your question as well.

MR. KEIDEL: Thank you. Yes, sir, you're next?

Q: I'm Mark Mohr, also from the Wilson Center. Dr. Keidel in his opening remarks mentioned that there are price controls on grain and that led farmers since 2000 to abandon grain production, and then the government increased the price and that perhaps is leading to inflation. So the question, my question is how does the MBS plan to – what's the policy toward price controls for grain?

MR. KEIDEL: Well, my guess is, but Binliang can really fill in the details, that they won't be able to raise the price of grain enough to improve the standard of living of the grain-based areas that are made to concentrate in grain and subsidized to do it. But the subsidies will be increased. So they will use transfers rather than price adjustments to try to raise the incomes of people while sustaining grain production.

Q: What does transfer?

MR. KEIDEL: A transfer payment in economic jargon is when you give a payment to somebody without requiring that they give you something back. In other words, it's not a price. A good example of a transfer is an unemployment compensation scheme or a subsidy to a farmer. You're not buying a product from the farmer, you're giving them money, or if they're purchasing fertilizer, you subsidize their fertilizer use, but it's not a payment going in that is linked to what the product costs, say, in the city.

So it's a way of – subsidies are transfer payments because they just – it's a transfer of money in from one source to the end user. So, what the MBS seems to me to be, if it's funded adequately, is a major transfer subsidy scheme, not just for agricultural output, but for the whole rural standard of living, in lieu of, instead of, allowing grain prices to rise to where they would encourage farmers by price along to plant that much grain because that is unacceptable in terms of inflation and price levels in the urban areas.

BINLIANG HU: Increase farmer's income is one of the promises that have been made by the central government, especially by the premier. So one of the first last years, I remember in the middle of last year, when Premier Wen had proposed the price increase the very second – (unintelligible) – he was happy. Yeah, why not? Let's just go, you know? The farmer will benefit from the increase of the price. And gradually, he started to worry about that, so – because there are different to increase the farmers' income.

There's three ways at least. One is the increase of the price of the agriculture products, they include grain and poultry, all these kinds of things, and secondly is to encourage farmers to engage more in non-agricultural activities – (unintelligible) – place or by migrating to, working in cities. So this is – you know that more than 150 million people have been farmers working in cities. They make a lot of money from the outside of the agriculture sector, outside of rural areas.

And thirdly is what Bert mentioned, these transfers. The central budget or local budget will transfer to the people to support them, like subsidize the program for supporting, you know, I just mentioned some items, four, five items. They can also benefit from this kind of – and also there's a – the force actually, one that has come to my mind suddenly, which is government approving more public goods, like education, like healthcare if they – they don't collect on these kinds of fees and the taxes from farmers. That means, you know, the increase is increased. The income will be increased.

MR. KEIDEL: But negative – that's a reduction of transfers out is when you get rid of – and thank you, Binliang for clarifying that. I didn't say that they would control the grain price so much. They let the grain price rise in '04, then what they controlled was the implications of that grain price for other food prices. And the planning commission, which supervises the price bureau, has been sending out circulars for years to discipline gouging, discipline monopolistic pricing, all of which just translates into not allowing prices to go up. I have a long list. Mr. Ambassador, would you like to ask a question first?

Q: One of the problems is relating to these demonstrations in China which have been reported is the confiscation of land or the paying of cheap prices for land and the resentment against local cadre for doing this and turning it over into industrial development or urbanization of those areas. This has the negative effect of disturbing the rural population and also it pollutes the water supply. We found this particularly true in Gansu and Qinghai provinces that factories were coming in and taking over large sections of agricultural land, Lanzhou buildings, urbanization, and farmers being pushed off and becoming very resentful. Does your plan see that the central government can influence the local governments to do this in a more just and fair way to get the right price to the farmers for the land and to somehow control the water pollution problem?

BINLIANG HU: Okay, actually it's very simple. No. This is what I mentioned. The tensions will intensify between the local government and the central government. The policy is very clear. You cannot do that. The central government said this plan said very clear, you cannot get the land from farmers by cheaper price and then send it at a

price for your benefit and the farmer's damage. You cannot do that. But the local government, they do not follow. So the tension will be increased.

It will be very difficult to get a solution of this problem because this is directly relating to the distribution of the interest rates to different groups. But the farmers that are poor, they don't have power, but there is a group of people, local government, especially local leaders, the cadres, they have power. And this is why, if you look on the – (unintelligible) – case, now the most – (unintelligible) – case is related to land, to land purchase, and by illegal land usage.

It's become that, number one, and also this is a core issue relating to democracy. And it's not only rural farming land, it's also relating to the – (unintelligible) – in urban areas. They local government, the mayor, the government – the city government – (unintelligible) – sell to the developers. The same situation, both happening in urban and rural areas, and this is a very big issue. Without democracy it can be very difficult because there is no auditor, no people who supervise, and no process to – against them. How can they do it? The government, only one premier, four vice premiers, and one president; how can you look after that? It's very difficult. You cannot solve this problem, very difficult without democracy. This is my comment anyway.

MR. KEIDEL: That's good, no. I've got three people waiting and a few more probably and then some, but there was – Neil, did you have a question? All right. Let's try to keep them short because we've only got about 17 minutes left.

Q: I'm Neil Hughes and like Peter and Bert, I spent a lot of time at the World Bank. And this program reminds me of a program the Bank was really pushing about two decades ago called integrated rural development. And what I'm getting at is that it looks to me, from what you've said, that it's basically started from a top-down kind of approach. The central government designed it and now is looking to implement it. My concern is that whether it shouldn't have been more of a bottom-up approach, and so my question is to what degree have the stakeholders who are going to benefit from it been involved in the whole process from planning to programming and so forth? Thank you.

BINLIANG HU: This is a very excellent question. This is what exactly I'm doing, as you know that. I told the Harvard professor, I said, I was initially told Peter, I said – so I try to do this kind of a thing. Why? This is the old mentality – it's a new bottom, but other one. (Unintelligible). New village, when you – (unintelligible) – the construction is new. But the mentalities of it – all the mentality is a top-down approach, which – (unintelligible) – top-down approach, it doesn't work very well in China. (Unintelligible) – for many years, from the Mao era to the Deng era. But you have to change the mentality to bottom-up.

Yeah, this is how – (unintelligible) – is doing, governance, try to set up a governance to work together and it needs the government and the society, the civil society, and the private and the resident citizens to work together to implement this problem. But the policies only focus on the central government. We are going to do this,

we are going to do that, we give you money, education free, healthcare free, you cannot do it. One day they were fine. They were very difficult, you know, this is what I'm doing, now you have it. I tried to prepare – (unintelligible) – tried to building up a new governance to support the new village strategy. Without this kind of policy, I was after this research, I would provide, prepare some suggestions to the central government. Thank you very much. I agree with you, fully agree.

MR. KEIDEL: That's a two-finger question on this exact topic.

Q: When I hear you saying this, Binliang, it reminds me of the 1950s, and in the '50s and '60s in the socialist education movement and in other movements in China, you had reform – big changes like this were usually brought about by first establishing a key point, right, or a test point at some area in the country that was regarded as somewhat representative. And you tried it on an experimental basis and put in place all these different features that you've been talking about. And then you also sent down teams from the center or from the provincial level, investigation teams, that would look at how it was being implemented and they would examine local officials, and they would see if local officials were or were not behaving properly.

And of course, you had all kinds of problems with this but it was a way of trying to enforce implementation from a central policy and also, to move gradually from one area to expand it out into other areas.

Now, is all that gone? I mean, from what you're saying it sounds like the center has no enforcement mechanism; they're going to leave this up to local officials to make sure it works, and you already said that's a very debatable problem. And then, you have the issue of will it be replicable over the whole country and is it going to be just – you said you spent a whole year training people across the whole country, which sounds like they've decided what the model's going to be at the top and they're just going to apply it across the country.

So has this older approach from the '50s and '60s just been discarded now?

BINLIANG HU: Yeah, this wasn't really – (unintelligible) – you know, when I was young, about less than teenage, I saw a lot of slogans with actually the same, you know, same words. (In Chinese.) I mean, everywhere in the world you're printing the – (inaudible). (In Chinese.) Pew's association is a new countryside. Exactly, doesn't know anywhere they're different; same in 1960s. At that time I was just a few years old –

KEIDEL: When in the 1960s?

BINLIANG HU: Oh, that's 1967, 1968, during the country's revolution.

So this was giving me a sense without a change of governance, it doesn't work. So was the governor very ambitious, but there's a difference. What's the difference? It's

much better economic support, much better fiscal situation. This is the dialogue on both governments. Central government, if they tried to do it, even attain the ultimate, you know, mentality, they still can do something. They can still give us some of the problems, well part of the problems. You know, this is not bad because you know, this is a different. But if we tried to get out of the area, there are troubles, solve the whole problems and this mentality should be fully changed. I agree with you.

Yeah, thank you.

MR. KEIDEL: All right, this lady in the back, please, and then I'll come to you.

Q: Hi, my name's Ying Lao (ph) from small business administration.

A little while ago you talked about the half who the older stuff and put it in a new bottle. I just feel probably you talk about how you need the new governance. I think from my perspective, probably we should use market approach. This is a totally different approach from China's side. Just like, you know, I'm a woman; if I'm from China, when I cook the first thing I think about is soy sauce and if I'm Caucasian, you know, from probably this country the first thing I think about is butter. So it's a totally different way to deal with issues.

I think here, the most important issue when you talk about your need to resolve the water, the electricity, and so on and so forth and those kind of problems, in my eye there's a lot of opportunity, a lot of opportunity that the issue is that approach is you need to use a market approach and then, you think about government and policy. Where our government and policy will lead the market, and if you don't have market it won't work. I work for this small business administration and I'm doing a lot of research on different groups in this country, for instance I identified the different leader groups and all of those business density defined the business number for 1,000 people. And in this country it's so significant the business density is strongly associated with economic well-being.

MR. KEIDEL: Could you translate to your comment about the market solutions into a question because we've got a lot of people and it's very interesting, I just –

Q: Yeah, yeah. My question is why, just why I bring up this business density issue. China right now is look like it's booming economy, economy's booming, but the business number is still very low if you calculate per thousand – probably this is not really significant, but in this country we have average of 90 businesses.

So my question here is what is the barrier for the market in China, especially in the rural area?

BINLIANG HU: Yes, I fully agree with you. We will go with your very, very important point. This is actually – yeah, my message is new governance. New governance is collaboration; you know, a mild government, markets, civil societies, all will – you know, all the people work together. So the problem in China, I agree with

you, the government is too strong. Democracy is still too weak but you know, this is during the transition period. So the government needs to manage the transition, you know, carefully and the market – (unintelligible) – there. So you don't need to worry about it; it takes time. I fully agree with you though, thank you; appreciate it.

MR. KEIDEL: Yes, this gentleman in the green sweater, and then I'll – trying to keep my borders straight here.

Q: Thank you. My name's Robert Cho (ph), I'm from the Asian Development Bank. And I just have one question on – China's opened up a lot to its neighboring and nearby countries in the last few years: Greater Mekong sub-region, Central Asia, Russia, Mongolia, you name it. My question is what impact has that had on the rural economy in China, and assuming that this continues, this pace of openness continues, what impact do you see in the future. Thank you.

MR. KEIDEL: (Off mike) – whole range of countries.

The royal economies are just getting themselves integrated into that system. If you go to a totally interior province like Henan, counties there are specializing in garlic, selling it to South Korea, getting it there by rail; exports become the prized product. So the transport is a barrier, although less and less as rail and highway, particularly highway access improves.

So I don't see – manufacturing obviously is in the coast, but it's the degree to which the whole process is moving to the interior, and it's not just Southeast Asia, it's global because shipping is global.

BINLIANG HU: Yeah, I agree.

So I think this is a mutual benefit to gain. Simply speaking, China benefits more from outsiders, from the opening, to the other sides in terms of technology, agriculture. Technology, we import a lot from Australia, Canada, U.S., you know, modern agriculture technologies and also know-how. You know, we got to tune in. And at the same time, it sending our expertise to Africa; as you know, there is agricultural in the – (unintelligible) – medical medicine. These are the two most important areas, China supported African countries or not. So we'll benefit from our side and also – and also the Taiwanese infused amounts into the agriculture sector and you know, of course, whether there was a benefit or not from China because Chinese agriculture products supported is back to Japan, like seafood and fish to South Korea, Japan, and these countries, big economies.

U.S., also, of course, is still on the debate and the economy, you know, there's a lot of problems. But anyway, U.S. was importing or not of agricultural products from China. And China was importing orange, you know, California oranges to China. Very expensive, real big oranges; more than 200 yuan, you know. A lot of people were rushing to buy it. Now, Taiwanese agricultural products have been imported to China or not, you know, with very special terms, mutual benefit.

MR. KEIDEL: Let's try to get a couple more questions. This gentleman here on the aisle, please.

Q: I'm Han Kintun from South China University of Technology. Now, I'm a student in American University.

In your speech, you mentioned Wen Jiabao's – (unintelligible) – slogan, but I found that what you didn't mention is the rule of law in the village. But I believe with the rule of law implement, we'll play a very important role in this movement. For example, in – (unintelligible) – our labor law didn't protect our farmers' rights, but our farmers, villagers, most of the population of our labor. Fortunately, this year our country implemented the new labor contract law; this law will protect the rights of our farmers in the city.

So my question is what's your opinion about the relationship between the rule of law and this movement? Thank you.

BINLIANG HUG: Okay, thank you very much for a good point. I appreciate it very much.

So this is a big issue relating to the whole discussion about the whole country. We're ruled by law, ruled by men; we're ruled by virtue.

MR. KEIDEL: By what?

BINLIANG HU: Federal or moral –

MR. KEIDEL: Virtue?

BINLIANG HU: Virtue; virtue, okay.

MR. KEIDEL: Virtue.

BINLIANG HU: Yeah, pronunciation problems, sorry.

MR. KEIDEL: No, that's okay.

BINLIANG HU: Yeah.

So ruled by, you know, by men is clear through history, and you can see history. We're ruled by men; we're ruled by law; we're ruled by virtue, all right. So this is big discussion. There's no – you know, rural development, I think, is just part of the story. So I cannot answer in this discussion. This is very big and this is an important issue. But yeah, I think I have answer – well, this is my answer. Not, you know, but you know, I

agree with you. Yeah, I know it's very important, do you support the transition in rural development and the whole country's development as well. Thank you.

MR. KEIDEL: Is there one last question? Yes. Boy, I think your hand has been up quite a bit, sir, with the beard. Sorry.

Q: I'm John Bachman with AECOM International.

To go back to the infrastructure finance question some counties, quote unquote, "rural areas," counties and townships, in the east can afford to pay for their own infrastructure. A lot of other ones in the west and the north cannot. Is there going to be any specific earmark at the central government level to pay for the physical infrastructure that's in the program, or is going to be left up to the negotiations between townships and the next level up during the annual budget process, which is pretty random and often they end up with not enough money.

And my second question is what's the new village going to look like? Dr. Keidel said that he saw some two-story, you know, concrete-frame structures in the villages. Is that the model or are they going to use the one that's most commonly seen in the smallest settlements of China, where they simply raze, you know, destroy the existing party-wall masonry buildings and replace them with five-story walk-up housing projects? Any thoughts on that? What does the strategy say?

BINLIANG HU: Maybe you'd like to speak first?

Q: No, I don't think we have enough time for me to answer so – (laughter).

BINLIANG HU: Okay, it's better for me. (Chuckles.)

Q: The fiscal – no, for you, please. I'm saying I don't have time. You have to answer. How is the fiscal going to work for this infrastructure, and what are the villages going to look like?

BINLIANG HU: Yeah, I think the first question is simple to answer. I think the central government will take responsibility for, you know, for the poor, rural areas deferment. The coastal area and the eastern area, they don't need to care about that. They have a lot of models already there, so they will take responsibility by themselves. This new strategy is worked out for the whole country; they have different indicators, they have different, very specific requests. But we're taking implementation by – you know, from province to province. So I think richer provinces, they will do a very good job, you know, in terms of technologies, financial support they don't have, they have rich in area. I think – (unintelligible) – the backward areas, that the government will take responsibility before that.

Regarding to your second question –

Q: I'm sorry, is there an earmark? What's the budget?

BINLIANG HU: That, they have, but unfortunately this is very, you know – the increase (?) each year is about 10 percent, very small. For example, this year is about 14 million yuan, near about 14 million yuan, for supporting the whole rural development, you know, programs. It's far from enough, far from enough. So this is a very strong request from many poor, rural leaders from poor areas to the central government, but they are still reluctant. We're up to more gradually.

And relating to your second question, I think the government tried to avoid to building some modern villages but, if you can around at the people's mentality, you know, for leaders, how can they promote it. Once you talk about implementing it, they will set up some models and after people, to them. And then the whole area will follow one model. So same house pent in there and the same pictures, you know. That will still be a thing that will continue to happen, and so after two to three years you will see this kind of stupid things will happen. (Laughter.) A lot of stories, I'm sure, but there's no way – (unintelligible) – but the way they will make corrections gradually. Thank you very much.

MR. KEIDEL: All right. I want to again recommend his most recent book, "Informal Institutions in Rural Development in China." He kindly gave me a copy. It's interesting: He goes over particular villages, they have different religious backgrounds; the role of different religions, sects, in guiding or helping rural rotating credit schemes work, their long traditions going back thousands of years. So it points to rural development that draws on pre-communist roots in many rural areas. It's a fascinating, very densely researched book. I recommend it to you.

But let's all thank Be Leung for a wonderful presentation.

(Applause.)

MR. KEIDEL: Thank you, thank you. Thank you very much for your attendance. Thank you very much for the comments.

(END)