

## Three-Dimensional Growth

*Remarks by C.B. Sung, Chairman of The 1990 Institute,  
at the Institute's 15th Anniversary Banquet, April 29, 2005, Burlingame, CA*

Over the past 15 years, especially in the last nine years, The 1990 Institute has been experiencing exciting and healthy growth, which may be known as “three-dimensional (3-D) growth.” The first dimension (i.e., adding action-oriented projects to the Institute’s traditional policy research projects, such as those



15<sup>th</sup> Annual Dinner Celebration. Left to right: Rosalyn Koo, Director; Beulah Sung; Rose and Milton Friedman; C.B. Sung, Chairman; Bob Scalapino, Honorary Co-Chair; Hang-Sheng Cheng, President; Billy Lee, Director

highlighted in the Major Milestones chart in front of you—and found on page 15 of the Newsletter) was formalized in 1997. After three years of hard work and in cooperation with the All China Women’s Federation, under the leadership of our Director, Roz Koo, the Dragon Fund–Spring Bud Project was established in 2001 to help educate girls and train women in poor regions of China. In 2002, in cooperation with the EPA of China and, again, the All China Women’s Federation, the Children’s Art and the Environment Project was launched in China and the U.S. under the leadership of our Director Bill Lee. Tonight, like two years ago, is their night to report on the further phenomenal progress of these two projects.

The second and third dimensions have evolved concurrently. The second dimension may be defined as: adding youth to the aging core group of the Institute with emphasis on youth who came from China and/or returned to China. In order to make it more consistent with the Institute’s mission, the third dimension has been to add research capabilities within China to complement the research expertise in the U.S.—expertise the Institute has utilized since its inception. As I reported in this very room two years ago, The 1990 Institute has courted for many years

*continued on page 13*

## Update on the Institute’s Collaboration with OYCF

*by Katherine Xu and Hao Zou*

The joint research program with Overseas Young Chinese Forum (OYCF) sponsored by The 1990 Institute has entered its third year. This year’s winner(s) were chosen and the award announced in mid-July (see page 4). In addition, Junling Ma and Hao Zou, both having served as OYCF president in the past, were elected to the Board of Directors of the Institute at the February board meeting (see Newsbriefs) earlier this year. These events mark a new stage in the developing relationship between the Institute and OYCF.

*continued on page 11*

## The 1990 Institute’s C2C–C2C Project: A Long-Term Vision

*by Billy Lee*

After a reciprocal dimension is added this coming August, Project C2C–C2C (Children to China–Connecting Two Countries) will indeed evolve and become Children to Children–Crossing Two Cultures.

In April and May 2004, The 1990 Institute arranged for two groups of middle school students from San Mateo County, California to visit China. One group of students painted an outdoor mural with their Chinese counterparts in a park belonging to the China National Children’s Center (CNCC) in Beijing. Another U.S. group participated for one week in a very special program hosted by Mme. Soong Ching Ling’s Children’s

*continued on page 10*

## Introducing the Editor



It's a pleasure to introduce myself as the most recent Newsletter Editor of The 1990 Institute. My long-standing interest in China and its relationship with the U.S., plus my years of experience and satisfaction in wielding a blue pencil, made my volunteering (with some help from my good friend and fellow Director, Billy Lee) for this position quite natural. In my capacities as Editor and a Director, it is a delight and a privilege to participate in and learn about the impressive breadth and depth of projects in which we are involved, both in the U.S. and in China, which you will read about on the pages that follow. Truly, the Institute is in a stimulating period of "3-D" growth, as our Chairman, C.B. Sung, terms it.

As you will notice, there have been several design changes in this issue, and we hope that you will like them. I enthusiastically invite you to provide feedback about the newsletter, submit newsworthy stories and/or scholarly, policy, or research papers of an appropriate length for publication, suggest ideas for articles or areas of focus, or let me know if there are other ways in which you would like to contribute. Please direct any or all of the above to my attention via the Institute using the contact information below.

I hope you will enjoy reading about the Institute's many contributions as much as I do.

—Charlie Schlangen

## Obituary

Dee Scalapino, 1920-2005 *by Marsha Vande Berg*

Dee Scalapino was a regular attendee at The 1990 Institute's events and was known to all of us as "Dee." Her compassion and passion for friends and causes was without peer. Her husband, Bob Scalapino, professor emeritus at the University of California, Berkeley and an Honorary Co-Chair of the Institute, was always by Dee's side.

*continued on page 4*

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The 1990 Institute Welcomes Five New Board Members

Alice Chiang

Alice was born in Shanghai and emigrated to the United States with her family in 1952. Her formal education includes a B.A. in History from Wellesley College, a Masters in Education from Harvard University, a Ph.D. in Educational Psychology from the City University of New York, and post-doctoral study in Psychology at Stanford University.

Alice has been a software engineer for IBM for about 26 years. Her work is focused on making IBM database products more useful and usable for customers, which includes designing easy-to-use interfaces and collecting customer feedback through surveys, interviews and focus sessions. Before that, she was an elementary school teacher for one year and an educational researcher for two years.

Alice is married with two college-age children.



Peter Liu

Born in Beijing and reared in Taipei, Peter was educated at the University of California, Berkeley. Peter is the co-founder and Chairman of WI Harper Group. Previously he was a general partner of Walden Group Asia that managed several Asian venture capital funds. During his tenure at Walden, he co-established joint ventures with governments and leading enterprises in China, Taiwan, Singapore, Malaysia, Japan, and France. He also served as the Executive Vice President and Director of Capital Investment Corporation, Walden's Taiwan-based fund. He is experienced in advising portfolio companies and international investors interested in high-tech investments. He has counseled over 200 major high-tech companies throughout the U.S. and Asia.

Peter is an active member in a number of business organizations in the U.S. and the Pacific Rim. He is a member of the Committee of 100, a director of the San Francisco and Shanghai Sister City Committee, and a director of the China AIDS Fund. He is also a founder of the Monte Jade Association and an Honorary Board Member of Hua Yuan Science and Technology Association. In Taiwan, he co-founded the Taipei Venture Capital Association. He also serves as

a director of the Korea Restructuring Fund and is the recipient of Asia Pacific Leadership Award presented by the University of San Francisco Center for the Pacific Rim.



Junling Ma

Junling was born and reared in mainland China. She studied English literature in her home province of Shanxi and pursued graduate studies in international law at the School of Foreign Affairs in Beijing in 1985. After teaching there for a year, she came to the United States in 1986. She first studied political science at Johns Hopkins University, then switched back to law and in 1993 obtained her J.D. (magna cum laude) from New York Law School, where she served as an articles

editor of its law review. From 1993 on, she practiced banking, corporate, and securities law in New York, New York with Schulte Roth & Zabel and Davis Polk & Wardwell and in Palo Alto, California with Wilson Sonsini Goodrich & Rosati. In October 2003, after ten years of private practice, she joined the U.S. Securities and Exchange

Commission and became an enforcement attorney in its Pacific Regional Office located in Los Angeles.

Junling has been actively involved in the Overseas Young Chinese Forum since 2001 and currently serves as its president. She worked closely with The 1990 Institute in 2003 to establish the Institute—OYCF Joint Research Fellowship Program.



Lee Ting

Lee is a former Corporate Vice President of Hewlett Packard Co. (HP) where he worked for more than thirty years. He started as an R&D engineer and was the founder and General Manager of HP Taiwan, General Manager of the Far East Region, Managing Director of Southeast Asia Operations, Director of Business Development, and Vice President and Managing Director of Asia Pacific. His last position was Corporate Vice President and Managing Director of




New 1990 Institute Directors: Lee Ting, Alice Chiang, and Hao Zou

## Obituary *continued from page 2*

Injured in a car accident in 1975 and thereafter confined to her wheelchair, Dee never let go of a zest for being part of our lives. Indomitable, she continued to travel, remained active in a number of Bay Area groups, and filled her home with friends and the music she cherished, for which, as her husband wrote recently, “we are all the richer.”

The Scalapinos moved to Berkeley in 1949, and music began to fill her life almost immediately. At Christmastime, friends crowded into the Scalapinos’ Berkeley home for a “Messiah Party” to participate in singing Handel’s beloved Christmas oratorio. She also founded and headed the Committee for African Students, which aided in the college training of 50 students from Africa. She and Bob reared three daughters and then were grandparents to five grandchildren.

Her travels were manifested in her collection of ethnic jewelry; her love of Bob in the fact they remained married to one another for 63 consecutive years! Her love of music benefited from her mezzo-soprano voice. When Dee passed away last February, “a bit of music went out of our lives,” friends wrote in a published notice of her death. Indeed, Dee’s very own “bit of music” may now be but a memory, but it remains a cherished piece of the memory. We are grateful for her participation with us over the years. 

## Research Fellowships Granted

The Overseas Young Chinese Forum (OYCF) and The 1990 Institute are pleased to announce the winners of the Joint OYCF – The 1990 Institute Research Fellowship for 2005. The 1990 Institute has granted a \$6,000 Research Fellowship to each of the following two projects:

- 1 Chinese Village Elections and Taxation  
Kay Shimizu and Jeremy Wallace, Ph.D. Candidates,  
Political Science, Stanford University
- 2 Labor Training Vouchers as a Way of Poverty Alleviation:  
A Pilot Study in Zhejiang Province, China  
Yiu Por Chen, Assistant Professor,

Public Services Graduate Program, DePaul University  
Initiated in 2001, the Joint Research Fellowship Program sponsors research projects by overseas scholars, professionals and graduate students that analyze economic and social issues facing China, and explore implications and solutions from a policy perspective. Preferential consideration is given to projects that involve fieldwork in China or collaboration with researchers in China.

## Five New Board Members *continued from page 3*

Worldwide Geographic Operations where he was responsible for HP’s customer facing organizations in all the countries in which the company had a business presence.

During a two-year absence from HP in the late eighties, Lee was a Senior Vice President of Hambrecht & Quist where he played a key role in the expansion of the firm’s venture capital business into Asia.

Lee is currently a Managing Director of WR Hambrecht + Co, a San Francisco-based investment bank. He is an independent Board Member of the Lenovo Group, the leading global IT company, and MTI, a leading supplier of satellite/microwave communications components and subsystems based in Taiwan. Lee is also an adviser to venture capital firms WK Technologies, ZeroStage Capital, and other private companies.

Lee is also a member of the Committee of 100, a board member of the Mills Peninsula Hospital Services, and a member of the Advisory Council to the Dean of Engineering at the University of California, Santa Cruz.

Lee received his BSEE from the Oregon State University and has completed the Stanford Executive Program. He is fluent in English, Chinese, and Portuguese.



## Hao Zou

Hao grew up in China, where he studied economics at Renmin University, graduating in 1993. He came to the U.S. in 1995 and got his MBA in 1997 from the University of Delaware. Hao started to work as risk analyst for the Bank of New York in 1996. Before moving to the west coast, he also worked in the risk management area for PNC Bank and FleetBoston Financial Corporation. In early 2003, he was made a Vice President at Provident Financial Corporation in San Francisco.

Hao has been involved with the Overseas Young Chinese Forum (OYCF) since its inception. He constructed the first version of the OYCF web site and has sat on the OYCF board since 1999, becoming an executive committee member in 2002. Hao was elected OYCF president in 2003 and served a one-year term. Currently, he works very closely with the president and other executive committee members, officers and board members to jointly carry out OYCF’s daily operations and key initiatives.



## The Importance of Motivation *Remarks by Billy Lee,*

*1990 Institute Director, at the Institute's 15th Anniversary Banquet, April 29, 2005, Burlingame, CA*

The slides flashing behind me are Chinese Children's Art on the Environment selected from a nation-wide competition in China in 2002. Nearly a million children participated from some 1,000 separate locations. A collection has been traveling around the United States. It was recently exhibited at the Zeum Museum in San Francisco and it will be shown at the Children's Museum in Houston, Texas in another week.

At your seat you'll find a summary of various environment-related projects sponsored by The 1990 Institute since 1997. They do not all qualify as milestones but represent a continuing process.

First of all, there was the Urban Planning Research Proposal to study Economic Development and Environmental Enhancements in Parallel: an idea initiated by our Institute's forward-looking president, Dr. Hang-Sheng Cheng. I of course suggested the city of Ningbo, my ancestral home, for this study. Yes, I am always pitching for Ningbo! And do you all know that Yo-Yo Ma's ancestors were from this resourceful place too?

Then we had the "Women, Leadership, and Sustainability" Forum at the University of San Francisco, which brought leaders from the All China Women's Federation to come and connect with women leaders in California. The Children's Art and the Environment Project (CAEP) followed, beginning with the nation-wide competition in China followed by touring exhibits in the U.S. Along with the exhibits, our multi-talented committee created a website: [www.eplanet.org](http://www.eplanet.org). It proudly shows the Chinese children's art and invites other children to participate and exchange comments. A special column was also designed for teachers to communicate and share information. We hope to make it bilingual in time.

Last year we decided to test real relationship-building and real connecting by starting the C2C-C2C explorations: bringing U.S. children to visit China for connecting the two countries. During April and May the Institute arranged for two groups of U.S. middle school students to visit China. The Hillview School from Menlo Park painted an outdoor mural together with the Chinese kids in Beijing, and the Odyssey School students from San Mateo brought U.S. children's artwork to show the Chinese. Their own Tree of Hope, a demountable sculpture with hanging collages which were made of newspaper and magazine clippings all about the environment, received a special award from the Shanghai Environmental Science and Art Exhibit held at the top floor of Shanghai's Pearl TV Tower.

Now we are expecting a delegation of 20 Children and five adults—led by Mme. Zhao, Director of the China National Children's Center (CNCC)—to come and "Paint California's Environment" this August. We plan to create a subsequent booklet illustrating "California's Environment Seen through Chinese Children's Eyes." One additional idea of ours is to ask the young Chinese artists to also provide a picture of a Chinese scene in contrast to the California one. For example: juxtaposing a drawing of the Golden Gate Bridge next to a drawing of a stone arch crossing a small village stream. They can also add some random thoughts and little poems. This will make the booklet even more interesting and simulating than the one we did in 2002.

With more experience and credibility, we hope eventually to win needed partners to establish a "mechanism" that will encourage and enable more of these cross-cultural exchanges to build friendship and public environmental awareness.

During these few years, I personally have learned a great deal more about people and about myself. I have become really interested in "the art of touching people's hearts and stirring their minds"—both children and adults. To find out what works and what endures. This evening, I like to share with you just a few lessons learned.

First Lesson: What I Call "Magic Moments"

Last April when the 15 Hillview students and 17 teachers and parents first arrived at the CNCC campus, the Chinese children were lined up waiting in a row with their parents and teachers standing behind them. Without any instructions, the American children lined up automatically opposite them, with their parents and teachers automatically behind them. CNCC's International Coordinator Ms. Chen Ying cheerfully said, "Welcome! I am going to match you students up in pairs to do the mural painting together, OK? Will you please close your eyes, and stretch out your hands in front? Okay, now you can move slowly forward, and the person's hands you touch will become your partner." You should have seen the facial expressions then on the children with their eyes closed. They moved slowly forward with joy and also some anxiety. But you should have seen the faces of the parents, both Chinese and American. They were so enthralled with hope and delight. I read recently that Adam Smith in his "Theory of Moral Sentiment" said that people's natural empathy undergirds all moral systems and make them want to reach out in trust to each other. Now, ought we not give more thought to capturing and building on such natural empathy?

*continued on page 12*

## Reflections on a Visit to Spring Bud Classes *by Lana Johnson Harkness*

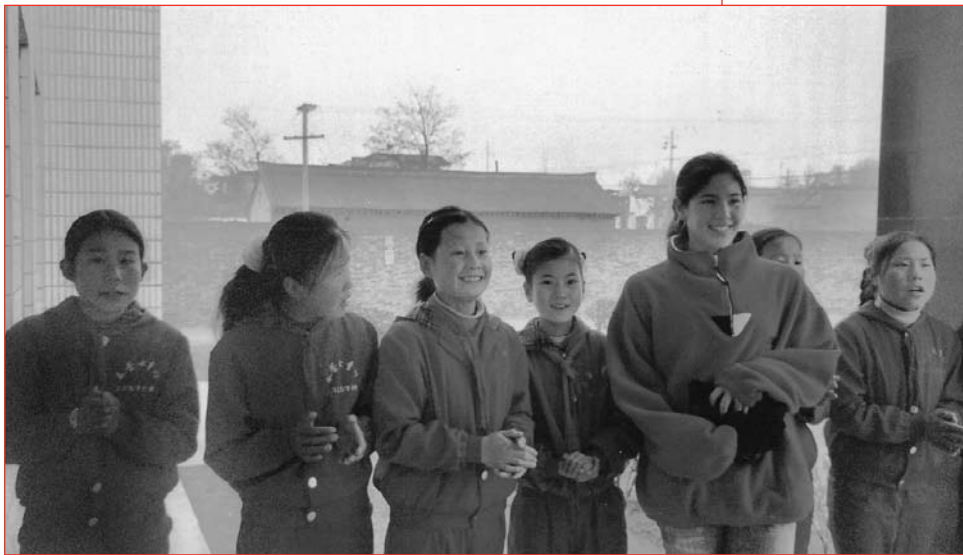
I have always been fascinated by and interested in China and its culture. It began when I was a child reading books and seeing pictures of beautiful Chinese art, clothing, and people. My interest broadened and grew along with my education. No other country or culture matches the uniqueness of China. I have been a teacher for many years and Chinese culture has been one of my favorite topics. When I was asked to visit some of the Spring Bud classes in China, I could hardly believe my good fortune. I accepted the invitation without hesitation and thought about the possibility of learning and understanding more about China, and especially about the Spring Bud program.

In preparation for my trip, I found out as much as I

“If you are thinking a year ahead, sow seeds; if you are thinking a decade ahead, plant trees; if you are thinking a century ahead, educate people”; and “By sowing seeds once, you will harvest once; by planting trees, you will harvest tenfold; by educating people, you will harvest forever”. These proverbs speak well to the philosophy that informs the basic educational system not only in China but in the U.S. as well. Both countries recognize the importance of educating the very young, regardless of their socioeconomic level. Young children have the same attributes no matter their racial or ethnic background. We know that they are born ready to learn and acquire skills. We also know that they will use the skills and ideas they acquire to first serve themselves

in the activities of daily living, and ultimately the communities in which they live. Having this knowledge, Chinese and American teachers would benefit in sharing our strategies and tools. It is in this spirit that I offer my observations about the similarities and differences between classes in my school in Menlo Park, California and in the Spring Bud classrooms we visited.

In rural communities in the U.S., one is still highly likely to find “one-room schoolhouses” that are designed around the basic resources available and needs of the particular community. I found myself comparing the Spring Bud classrooms to the



Lauren Schilling, a student from the Bay Area, visited 4th grade Spring Bud Girls at Ma Fand Elementary School

could about the education of girls, specifically in China. My research led me to several studies that detailed and documented the undereducation of girls in China and in other countries in the world; China has recently changed its focus and provided resources to remedy this problem. The Spring Bud program is an example of a successful program targeting the education and support for young girls and their families. I was impressed by what I saw happening in the classrooms we visited. In particular, the dedication of the girls and teachers was unmistakable. The Spring Bud program started by the All China Women’s Federation (ACWF) is having a positive impact on educating this underserved segment of the population.

China has historically been a culture that places great emphasis on education. Old Chinese proverbs speak to this:

“one-room schoolhouses” found in our own backyard. As a teacher familiar with different approaches to education, I know the costs and benefits of operating such a classroom. At one of the schools we visited, I noticed the age spectrum in this particular group of girls appeared to be anywhere from ages seven to fourteen, and our interpreters confirmed it. I began to wonder, then, about the challenges faced by both the teacher and the students. For the teacher, the challenge is to find a way to make instruction accessible to all the students, despite the age differences or, in some cases, lack of earlier education. For the students, the challenge is to be motivated to attend, to catch up, and to stay afloat. In both cases, the challenges are difficult but not insurmountable. It is well known that students learn from older peers who model application of concepts and ideas and as well

*continued on page 7*

## Reflections on a Visit to Spring Bud Classes *continued*

as respectable behavior. A popular phrase used in American classrooms is, “Each one teaches one.” It not only takes pressure off the teacher, but it gives older students opportunities to practice what they have learned. The challenge for the teacher is to monitor all students to ensure that they are benefiting from the available instruction and activities, whether they are educated in “one-room schoolhouses” in the U.S. or in Spring Bud classrooms in China. If all students are not progressing, then new strategies can be applied.

The philosophy of education in the U.S. is constantly evaluated and challenged both by internal and external forces. The positive aspect of this is that response to cultural change and demand is inevitable. The negative aspect is that we have lost some traditional values, especially where appropriate behavior is concerned. In classrooms in the U.S., we have learned that the most effective kind of instruction occurs when students are actively involved—that is, when a multi-sensory approach is used, especially for elementary school students. Teachers in the U.S. rely less than their counterparts in China on worksheets and fact memorization. During the short time we spent in the Spring Bud classroom, we were given the impression that memorization of facts and completing worksheets seemed to comprise the majority of classroom time. My research confirms that Chinese schools place a high premium on learning in this particular fashion. The benefits of learning by rote memorization are great, although I wonder if this will serve the students well in the world in which they need to function. In classrooms in this country, students are encouraged to be creative and to think critically and analytically. Even though this approach has worked well in America for producing entrepreneurial and enterprising individuals, an unfortunate side effect is that it has somewhat displaced decorum and respect.

Thinking creatively and critically might be valuable skills for the Spring Bud girls to acquire. Learning how to read, write, and understand will make a difference in how they approach living in their own communities and interacting within larger, more urban, communities. Memorization of facts and worksheets does not provide the kind of hands-on, experiential learning that leads to creativity. There is another Chinese proverb that captures this essential lesson quite well: “I hear and I forget; I see and I remember; I do and

I understand.” If Spring Bud girls are taught basic literacy concepts and skills and how to apply them to aspects of daily living, including nutrition, health, and home economics, they will become valued participants in any community. On the other hand, the value of behavioral conformity is so strong in China that these girls do not need to be taught how to behave appropriately, whereas in the U.S., many students would benefit from those sets of values which demand integrity and honor. In other words, Chinese educators and students could benefit from the introduction of more individualistic, creative methods of learning, but they should attempt to strike a balance that does not sacrifice the respectful and well-behaved classroom environment fostered by more conformist methods of instruction.

“If Spring Bud girls are taught basic literacy concepts and skills and how to apply them to aspects of daily living... they will become valued participants in any community.”

As an administrator in one of our schools, I and my colleagues are constantly evaluating and asking questions. And I find myself asking the following: Do the Spring Bud teachers also have the difficult job of meeting the girls where they are academically and emotionally? Are they equipped to differentiate instruction for girls who are more or less advanced than others? Do they have the resources to target these differentiated levels? Can and do they provide the support the girls and their families need to continue sending them to school? Does the community support them in their efforts? These questions aptly apply to many American classrooms as well. The teachers we met

in the program certainly had the dedication and desire to teach and provide an education for their students, which is a crucial element of success. The ACWF works tirelessly to monitor and support the program. The community seems to recognize and value opportunities for educating the girls. This support is invaluable to the Spring Bud girls, who are so fortunate to have been given an opportunity to learn.

Like many communities in the U.S., poverty seems to be the major hurdle faced by the Spring Bud girls and their families. These girls need to stay home to help with chores and provide care for younger siblings. In communities with families at a higher socioeconomic level, mothers promote education by making time for studies and by actively participating in schools. However, these Chinese mothers are faced with living conditions which force them to abandon

*continued on page 12*

## The Fiscal Mismatch Problem in Local Government Finance in China *by Hang-Sheng Cheng*

The 1990 Institute is exploring a research project on local government finance in China focusing on the alleged problem of the mismatch of revenue and expenditures in local finance, the mismatch's consequences, and proposed solutions. The purpose of this article is to provide background about the issue—and the project's likely contents in terms of the questions it seeks to answer—for this newsletter's readers and discussion with potential researchers.

The world is rightfully dazzled by China's spectacular economic growth and prosperity in the last decade. There have been frequent predictions by the world's top analysts of its surpassing Japan to become the second largest economy in the world, after the United States. While obviously enjoying the glow of success, its leaders and their advisors and scholars in China are fully aware that China is still a relatively low-income developing nation lacking many of the essential institutional structures required for a modern economy. Recently, in his report to the People's Congress in March 2004, Premier Wen Jiabao announced a bold shift in policy emphasis from the pursuit of rapid economic growth toward more balanced growth for a more equitable and caring society, the framework of which should be completed by the year 2020. Prominent among the initial programs was to tackle the problem of the rural fiscal system.

Instead of singling it out, the project would consider the rural fiscal system as a part of local finance.

### Background

Prior to the economic reform of 1979, public finance in China was relatively simple. The socialist planning economy was highly centralized, with the state owning all the means of production and receiving all the enterprise profits, out of which the state paid for cradle-to-grave public services. Local governments consisting of a hierarchy of levels—the provincial, prefectural, county, and village-township governments—provided virtually all the public services, either directly or through state-owned enterprises, including agricultural communes, under the direction of the central government. The governmental budget at each level was always balanced through annual planning, and any unexpected shortfalls were either made up by subsidies from the next-higher governmental level or by going without through belt-tightening. The simplicity of the system, however, could not conceal the

extreme poverty and economic inefficiency the nation suffered during the 25 years of the system's dominance in China.

In 1979, under Deng Xiaoping's leadership, the nation began to dismantle this planning system and introduce market incentives while retaining the Communist Party's political control. Throughout the 1980s, the abolishment of agricultural communes and price controls released a virtual explosion of long-suppressed productive power. In public finance, however, the only major change was the replacement of centralized profit expropriation by enterprise and personal taxation. In the new system, the local governments were responsible for tax collection and continued provision of public services, as under the old and weakening planning framework. Remarkably, by this simple change, in one stroke China was changed

“The 1994 tax reform fundamentally changed the structure of the nation's public finance on the revenue side,... [putting] the local governments in a lurch.”

from one of the most centralized to one of the most decentralized countries in the world, both economically and politically. As the local governments were authorized to be the sole agent of tax collection, they were able to retain the lion's share for themselves and the enterprises in their respective jurisdictions in the name of promoting regional economic development, transmitting only what was left over to the central government. As its share of the total revenue steadily declined, in 1988 the central government instituted a fiscal contract system, whereby with an annual

contract each province was obligated to transmit to the central government a certain lump-sum of tax collection, while retaining the rest for its own use. The scheme was cumbersome; moreover, it proved to be ineffective to stop the decline of tax revenues flowing to the central government's share of the nation's total government revenue. In 1994, it was abolished and replaced by a thorough reform of the nation's taxation system.

The 1994 tax reform introduced the first modern taxation system in China. It established a new tax-sharing scheme, clearly specifying which taxes were exclusively the central government's, which the local government's, and which to be shared by the two and in what percentages. Each was responsible for its own tax collection, with the shared taxes collected by the local governments and divided according to an agreed-upon formula. It also introduced a new and all-important value-added tax, with two-thirds of the resulting revenue assigned to the central government and the rest to

*continued on page 9*

## The Fiscal Mismatch Problem in Local Government Finance in China *continued*

the local governments. Under the new system, the central government's share of the total revenue jumped from 22 percent in 1993 to 56 percent in 1994 and has remained at approximately that level ever since.

The 1994 tax reform fundamentally changed the structure of the nation's public finance on the revenue side, but left untouched the expenditure side. It put the local governments in a lurch: while continuing to be responsible for providing virtually all the public services mandated by the central government—such as housing, roads, public safety, education, health care, social welfare, environment protection, enforcement of the one-child policy—they have been allowed inadequate revenues to do so. In 2003, local government expenditures accounted for 70 percent of the nation's total government expenditure—the highest in the world—while its revenues represented less than 45 percent of the national total government revenue. Given this apparent fiscal mismatch, the local governments have had either to resort to other means to supplement their tax revenue, such as illegal fees and user charges, indirect borrowings, making payments in arrears, or to reduce the quality and quantity of public services they provide.

Within each province, in budget allocation both the political and economic pressures are in favor of the urban areas—the municipalities and prefectural cities—over rural areas—the counties, townships, and villages—which tend to be poorer. The provision of public services is especially inadequate in the poverty-stricken regions in inland provinces. Although other factors—such as inefficient and overblown bureaucracies, corruption, lack of supervision by upper levels of government—are also at play, the root of the problem with the rural fiscal system lies in the apparent fiscal mismatch of revenues received by the local governments to the expenditures they are required to make. Without resolving this mismatch problem, there is little hope of improving the rural fiscal condition.

### Intergovernmental Fiscal Transfers

The designers of the 1994 tax reform probably foresaw the local governments' fiscal mismatch problem, but they relied on the intergovernmental fiscal transfers from the central government to local governments to help solve or ease it. To a large extent they succeeded, as the transfers nearly doubled from 34 percent of total central-government revenue in 1993 to 57 percent in 1994, rising to 64 percent in 2001. In terms of local government expenditures, transfers accounted for 42 percent of the total in 2001. It might appear, therefore, that the mismatch problem, if it exists at all, should be

minimal, because through the transfers the central government is already making up most, if not all, the shortfalls of the local governments' revenues. These data, however, are misleading, as they have failed to account for the composition and the regional distribution of the transfers. The transfers have aggravated regional income inequality and contributed little to the solution of the local-government fiscal mismatch problem.

Since 1994, the intergovernmental transfers have consisted of four parts:

1. Fixed subsidies were instituted in 1994 to ensure that each province would get no less than its 1993 revenue. Since they are fixed in absolute yuan amounts rather than as percentages of national revenue, as the total transfers grow, over time they have become a dwindling share of the total, declining to less than 2 percent in the early 2000s.

2. Returned revenues provided each province 30 percent of the increases in the value-added tax and excise tax collected in the province above the 1993 level. Though also falling, this category continues to account for about 40 percent of the total. It is still the largest part of the total transfers.

3. Specific-purpose grants contain hundreds of earmarked grants, all of which have been extended on a negotiated, ad hoc basis. This group has been gaining in importance, rising from 18 percent of the total in 1997 to 35 percent in 2001. They include transfers to local governments given upon application to the central government and granted on a case-by-case basis to help bail them out of budgetary shortfalls in providing mandated public services.

4. General-purpose grants help equalize the resources of the provinces, allocated according to the size of their population or land areas. These grants have increased from 8 percent of the total in 1997 to 25 percent in 2001.

The transfers fail to solve the local-government fiscal mismatch problem because of two weaknesses in its structure. The first is the large part played by the returned revenue, which is regressive in character, making the rich coastal provinces richer and the inland poor provinces poorer, thus making the latter even less able to cope with the expenditures mandated by the central government. The second is that both the general-purpose grants and the specific-purpose grants are extended by the central government on a negotiated, ad hoc basis, leaving the local governments without a dependable source of revenue for funding the expenditures mandated by the central government. From the viewpoint of the central government,

*continued on page 13*

The 1990 Institute's C2C-C2C Project: A Long-Term Vision *continued from cover page*

Palace centers in Shanghai and Beijing. One memorable experience was the Chinese brush-painting exercise of mischievous monkeys with two primary colors: black and red.



Monkeys painted by American students from the Odyssey School in San Mateo, California at a brush painting class at the Children's Palace Center in Shanghai (2004)

This August a CNCC delegation of approximately 20 student-artists (aged 8 to 17) and five teachers from Beijing will visit the U.S. as guests of The 1990 Institute for two weeks for the "Paint California's Environment" project. During the two weeks in California, members and associates of The 1990 Institute will accompany the CNCC delegation to travel first as far south as Santa Barbara and Los Angeles. After a brief rest in the Bay Area, they will travel again to visit Yosemite, Lake Tahoe, the Gold Country, Sacramento, and the Napa Valley's wine country. While around the Bay Area, they will tour the city of San Francisco, visit Muir Woods, and check out the Monterey Bay Aquarium. Although our focus is on the environment, we also aim to provide the Chinese visitors a feel of our California culture, lifestyle, and history. The young Chinese students will sketch freely, take photographs of scenes of interest, and do their final drawings after they return to China. The ultimate goal is to publish a booklet of their selected drawings with the title: "California's Environment Seen through Chinese Children's Eyes."

Mme. Zhao-Shun Yi, Director of CNCC, plans to lead the delegation personally. Ms. Chen-Ying, Head of CNCC's Foreign Affairs Office as well as the Programs Department, will accompany Mme. Zhao, together with Ms. Shi-Yun Zhu, Director of the Arts and Culture Department, and Mr. Yu-Chuan Sheng, CNCC's long-time, and most popular, art instructor.


Our local community members are enthusiastically looking

forward to hosting the Chinese visitors. Mr. Dick Sperisen of the San Mateo County Art Education Committee and Ms. Patty Larrick, Coordinator of Art Education for the Palo Alto Unified School District, are helping us plan the final "Great Celebration" where hosts and guests will engage in a "Grand Collaborative Art Experiment." Senator Dianne Feinstein, Congresswoman Anna Eshoo, and Congressman Tom Lantos all wrote wonderfully supportive letters on behalf of The 1990 Institute to facilitate CNCC's visa application process. Mayor Mickey Winkle of Menlo Park hopes to give a welcoming party for the CNCC delegation, since CNCC was so hospitable to Menlo Park's Hillview Middle School students, teachers, and parents in Beijing last April. We are all excited and energized.



Hillview Middle School students from Menlo Park with their Chinese friends at the China National Children's Center

In my role as Coordinator of The 1990 Institute's C2C-C2C projects, I actually conferred with Mme. Zhao as early as May 2004 about setting up a mechanism to encourage and enable more young students and their teachers and parents to visit each other across the Pacific and to promote art and the environment, thereby to connect and engage in what I call "magic moments" that will be remembered and treasured for a long, long time. Mme. Zhao whole-heartedly embraced the concept and offered to help realize this long-term vision by building concrete examples step by step.

Can you imagine, a few years from now, thousands of U.S. student groups visiting China during holidays, and not too long after that, a large number of Chinese students, their parents and teachers traveling in this direction? We can. This reciprocating (i.e., C2C-C2C) movement of people, art, and ideas is, indeed, our long-term vision. 

## Update on the Institute's Collaboration with OYCF *continued from cover page*

In the spring of 2002 the Institute's Executive Committee decided to explore establishing with OYCF a program for promoting common interests in policy-oriented research on social and economic issues in China's modernization process. Institute President Hang-Sheng Cheng, with assistance from directors Stephen Lee and Katherine Xu, spearheaded the process. Based on the enthusiastic response from then-OYCF president Junling Ma and her team, an agreement on the joint research fellowship program became effective September of 2002. The agreement called for OYCF to solicit and evaluate research proposals, and for the Institute to select winning proposals and fund the fellowships. In making selections, the Institute would also welcome input from the OYCF to aid in its deliberation. The Agreement also carefully outlined the criteria of selection, giving equal weight to: (1) the relevance of the proposal to the program's objective, (2) the quality of the research plan, (3) the qualification of the applicant(s), and (4) the reasonableness of the itemized budget, in addition to other guiding principles. At the Institute, the joint research program has been managed by President Hang-Sheng Cheng. The review committee has consisted of Directors Michael Keran, Charles McClain, and Hang-Sheng Cheng.


In April, 2003, the first fellowship in the amount of \$10,000 was awarded to Drs. Ran Tao and Mingxing Liu for their research project on rural taxation and local government in China. Dr. Tao was Associate Professor at the Center for Agricultural Policy, Chinese Academy of Sciences; and Dr. Liu was Assistant Professor at the School of Government, Beijing University. The researchers' proposal was to carry out an extensive field survey of selected villages and townships in Hunan, Anhui, Shaanxi, and Zhejiang provinces in China, and on the basis of the survey data analyze the role of rural taxation and local government in rural poverty and make related policy recommendations. The researchers submitted a paper entitled "Rural Taxation and Fees Burden in China" based on the theoretical thinking and planning for this project to the 25th International Conference in Durban, South Africa in August 2003 and received the "Best Paper" award. The survey was initiated in September, 2003; the delay of the start of the project was mainly due to the SARS epidemic in China that summer. In August 2004, they submitted to the Institute a final paper: "Bureaucratic Politics, State Mandates, and the Rural Tax Burden in China." The review committee discussed the paper and found it in general satisfactory and well written, but due to the need for a clearer focus on

specific topics it would require further work to qualify as a 1990 Institute publication.

In June, 2004, the second fellowship in the amount of \$10,000 was awarded to Dr. Bei Wu, Assistant Professor of Sociology at West Virginia University, for her proposal on "Long-term Care for Elders in Rural China." Professor Wu submitted her progress report detailing her field work in Beijing, Shanghai, and Hubei Province in January 2005 and is expected to deliver a final paper in the second half of this year.

The Institute's decision to pursue this joint program with OYCF was the result of recognizing OYCF as a quality organization representing the younger generation of western-educated Chinese researchers and professionals in the social, economic, political science, and legal arenas, and for having demonstrated impressive capability and success in holding annual conferences and running teaching programs at major universities in China. OYCF's on-line journal, "Perspectives," published in both English and Chinese, has scholarly, substantive articles on all aspects of social and economic reform in China. Most recently, at the end of May, OYCF held its seventh annual meeting, in Connecticut, focusing this year on "Chinese Peasants, Agriculture and Rural Society in the Reform Era." Approximately 70 people attended the meeting, including distinguished scholars, practitioners, and graduate student members. Past annual meeting topics include "Gender and Women's Issues in China," "Understanding Civil Society," "China in the 20th Century," "Liberalism and China," and "Sustainability of China's Development." A number of Institute directors have attended OYCF annual conferences over the years. To date, 21 short-term teaching trips have been completed at about 15 universities in China including Beijing University, Tsinghua University (Beijing), and People's University, as well as many other universities and colleges that are not located in major metropolitan areas. Finally, since its inaugural issue on August 31, 1999, the monthly "Perspectives" has garnered about 3,000 subscribers and expanded its influence. A large team of contributors and editorial staff from top universities and leading professional institutions have volunteered their time. The dedication, drive for excellence, and passion from the OYCF leadership team and its members have carried the organization to this day.

The Institute expects to expand collaboration with OYCF on other projects in the future.

*More information about OYCF can be found at its website, [www.oycf.org](http://www.oycf.org).* 

*The Importance of Motivation* continued from page 5

Another magic moment I observed was when the children lined up for their picnic lunch after a whole morning of painting together. One American girl examined a morsel of beef carefully but rather dubiously. She finally put it back into the tray. Her new Chinese partner standing just ahead of her in the queue was not aware of that. She picked up a morsel from the same tray and asked if her American partner would like to try it. The American partner unhesitatingly nodded and smiled. That tells us something about fear, fear of the unfamiliar, courage, courage boosted by trust, and trust based on relations built. It's fascinating!

Second Lesson: The Role of a Guide


I also witnessed a few incidents that sparked irritations due to differences of culture in habits, in manners, and in expectations. They could have become disasters if not quickly taken care of and diverted to something cheerful and positive. So, it is really essential to have good facilitators and guides who understand and know how to bridge the different cultures. Indeed, I think there is a real need to have programs that will recruit and train facilitators: people joyful in spirit and nimble in putting out little fires. Recently I found a book by Richard Nisbett entitled, "The Geography Of Thought: How Asians and Westerners Think Differently... and Why." Such differing viewpoints and experiences help to open our minds.

Third Lesson: The Importance of Motivation

I learned this lesson from a unique and personal experience, when I myself was motivated by several of my 1990 Institute colleagues. It was shortly after the "Women, Leadership and Sustainability Forum" at the University of San Francisco, when the working committee held a mini-celebration at a Shanghainese restaurant on Clement Street. We were having fun and, just before parting, Dr. Barbara Bundy, representing all the other women on the committee—besides me there were only women on that committee—put on her doctoral black cap, made a short speech, and presented me a plaque. They all clapped gently and quietly, for I was given the first-ever "Honorary Woman Degree." That was such a creative surprise! I was really touched, and I felt forever committed to serve with them.

They did that purely out of good spirit, but if you analyze it, it was truly a most effective motivating gesture. It embodied many significant ingredients: humor, real caring and affection, gentleness, sincerity, high quality of the plaque design and wording, and much love and labor. The element of surprise made it doubly effective. This kind of special impact, I know, will endure forever in me.

Tonight, I want to take this opportunity especially to thank these fellow sisters and fellow women: Dr. Barbara Bundy, Rosaline Koo, Eleanor Anderson, Jean Crehan, Jeannette Wei, Sheryl Drinkwater, and Krysten Alberts for having motivated me.


And I thank you all for supporting this event and the various 1990 Institute projects. Cheers and enjoy! 

*Reflections on a Visit to Spring Bud Classes*

continued from page 7

their own values. I was humbled by the parents of several of the girls we met. Clearly, their hope was to have their child escape the poverty that they themselves have endured. Bridging the gap between the need to remain at home to assist their families and being able to realize the dream of attending school is a problem that still requires more attention. Given opportunities to excel, I believe that the Spring Bud girls would thrive with an emphasis placed on learning practical skills and how to use those basic skills in industrious activities.

Life in China is rapidly changing. The country is becoming one of the most important in the world, economically as well as geopolitically after a hiatus of many years. It is essential, then, that old teachings be reviewed and new strategies be considered. My observations about such behaviors as respect and consideration demonstrated by students in the Spring Bud classrooms have led me to think of new ways to instill such behaviors in our own classrooms. I also learned the lesson that memorizing information can be a useful tool when one needs to think automatically. I wonder if the teachers in the Spring Bud classrooms might be open to learning strategies from us. Hands-on, creative learning has served the U.S. well as a country in many ways. One last Chinese proverb that seems appropriate for thinking about the potential the Spring Bud program offers is this: "Be not afraid of growing slowly; be afraid only of standing still." I hope that providing an education for the Spring Bud girls will allow them to become dynamic citizens who participate equally in the life of their country.

*Lana Johnson Harkness is Director of Studies at the Trinity School in Menlo Park, California.* 

### The Fiscal Mismatch Problem *continued from page 9*

it might appear desirable as an effective means to keep the local governments in line to carry out its policy directives; but from the point of view of the nation's provision of essential public services, the failure to ensure a dependable source of financing is a disaster. The former advantage is short-run and the latter failure is long run. This project is concerned only with the long-run future for China.

The purpose of the project is to achieve a deeper understanding of the local governments' alleged revenue-expenditure mismatch problem in China by answering the following questions:

— Whether and to what extent the alleged problem indeed exists? Note that the problem is defined as one of funding the public services: whether or not there are sufficient revenues for the provider to pay for the mandated services—not the transfer payments' equity between the rich coastal provinces and the poor inland provinces. The equity aspect concerns us only to the extent that the transfers do not help redress the regional disparity of the mismatch problem.

— What categories of public services are administered by the local governments in China? What are the advantages of their administration by the local governments instead of by the central government? What have been other countries' experiences? To what extent is it politically feasible for the Chinese government to reconsider the division of labor between the central government and the local governments in providing these services?

— What have been the consequences of the alleged fiscal mismatch in terms of failure to deliver adequate public services or meeting mandated targets and resorting to irregular means of financing? Is it true that these problems pertain more to the poor inland provinces than to the wealthy coastal provinces? To what extent have factors other than fiscal mismatch—for instance, bureaucratic inefficiency and corruption in local governments—contributed to the funding problems?

— To what extent is the fiscal-mismatch problem, if it exists, more serious for the rural areas than for the urban?

— If fiscal mismatch is a serious problem, what reforms have been proposed in the Chinese and international literature? What is the present Chinese official thinking on the subject? Are these proposed policy options politically feasible in China in the near future?

The list is tentative. It may be incomplete, and given the data limitations, perhaps not all these questions are answerable. It awaits consultation with potential researchers for the project. ❀

### Three-Dimensional Growth *continued from cover page*

an outstanding group known as Overseas Young Chinese Forum (OYCF), which was established with its headquarters in the U.S. six years ago. Most of the members are students or graduates from Stanford, UC Berkeley, Harvard, MIT, and the like. Many of them have already returned to China to become well-respected researchers, professors, professionals, entrepreneurs, and government officials. In 2003, our two organizations initiated a joint research project. In January of this year, under the leadership of our President, Hang-Sheng Cheng, The 1990 Institute signed a formal joint research agreement with OYCF. This Agreement will serve as a long-term platform for conducting policy research projects jointly managed by the two organizations, with The 1990 Institute responsible for the selection, funding and evaluation and the OYCF responsible for the solicitation of project proposals. It is conceivable that someday this joint platform may be expanded to include action-oriented projects as well!

In summary, our Institute's exciting and healthy 3-D Growth may be defined as: (1) adding action-oriented projects to policy research projects, (2) adding youth to the aging core group, and (3) adding research capabilities in China to the expertise in the U.S. It should be pointed out that although our growth may be three-dimensional, our direction is one and the same since the Institute's founding. For the coming years, our effort will be focused on helping China solve its extreme income disparity problems and enhancing sustainable development. ❀

### Empowering Girls in China *continued from back page*

are dead, lives with her grandparents. Their house has packed dirt floors and no plumbing. Their diet is simple: millet and vegetables, when they have it. The grandfather, now 60, still has to do hard manual labor to support his small family on about \$150 per year. The two old people wept with gratitude that their granddaughter has a chance to go to school, thanks to "our friends in America."

Another sponsored girl related how proud she was when she was able to help her father, a widower, by suggesting that they raise goats, an idea she learned at school. The project was a success, and her father now sees that girls—not only boys—can help their parents.

Valley Presbyterian Church is proud to be a continuing sponsor of The 1990 Institute's Spring Bud program and values the opportunity to provide these girls with education, experience, and a feeling of hope. ❀

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**2004** In May, a conference on state-owned enterprise governance reform in China held in Shanghai, co-sponsored by the Shanghai Academy of Social Sciences. The Institute contributed six papers to the conference.

As an extension of the Children's Art on the Environment Project, two C2C-C2C (Children to Children-Connecting Two Countries) trips were conducted to explore continuing cross-cultural visits for middle school students from the U.S. and China.

With the sponsorship of The Dragon Fund Spring Bud Project, 1,000 Chinese girls in Ankang and Shangluo, Shaanxi Province, started middle school education in September as planned.

**2003** Under a joint program with the Overseas Young Chinese Forum, a research fellowship awarded to two Chinese scholars to undertake a study on rural taxation and income disparity in China.

As part of the Chinese Children's Art on the Environment Project, the "Flying the Child's Hope" exhibit opened at Coyote Point Museum in San Mateo, California and started a two-year tour of major museums in the United States sponsored by The Institute.

The Dragon Fund Spring Bud Project launched a campaign to continue the education through middle school of 1,000 girls in rural China starting in 2004.

**2002** A policy paper on pension reform sent in February to the State Council in China.

A symposium on China's entry into the WTO held in February in San Francisco.

A nationwide contest in China of children's art on environmental protection was launched in May in cooperation with China's State Environmental Protection Agency and culminated in a gala award ceremony in October in Beijing.

**2001** The Dragon Fund established in April to help educate girls and train women in poor regions of China.

**2000** Conference held in San Francisco, co-sponsored by the All-China Women's Federation, on women's leadership in sustainable growth.

**1999** Publication of *Fiscal Policy in China*.

Presentation of a paper on banking reform in China at a World Bank conference in March in Washington, D.C.

**1997** Phase III launched to broaden The Institute's scope of activities to include direct-action projects.

**1996** The Institute was invited to assist the Joint Economic Committee of the U.S. Congress in organizing a study of China's economic future and the implications for U.S. policy, published in August.

A nationwide essay contest on social ethics in China culminated in a conference in Shanghai in December to confer awards to the top 10 winners.

Publication of *China's Ongoing Agricultural Reform*.

**1995** Publication of the Institute's second major book, *Foreign Business Law in China*, followed by conferences in San Francisco in March and Beijing in April.

**1994** Conference on Bank Supervision and Bank Management in Nanjing co-sponsored by The Institute with the People's Bank of China, the Federal Reserve Bank of San Francisco, and Bank of America.

**1993** Publication of *China's Economic Reform*. Institute Chairman C.B. Sung presents the research results to President Jiang Zemin at a conference in October in the People's Great Hall.

Launch of Phase II research on six areas of economic reform in China.

**1992** Conferences held in December in Shanghai and Beijing to present preliminary results of Phase I research.

**1991** The Institute publishes the first of its Issue Papers, a series of essays on economic and social policy issues in China.

**1990** Inauguration of the Institute in April. Conference in San Francisco in September to begin Phase I research by a team of 20 scholars on an overview of economic reform in China.

## Empowering Girls in China *by John Hurd*

As Meiying wakes, she can see her breath in the frigid air of the dormitory. The school can't afford to heat the room, but 10-year-old Meiying has been warm, snugly wrapped in her quilt on the floor. Soon all 50 girls in this fourth-grade class will be up, dressed, and eating their breakfast. As usual, it will be rice and pickled vegetables brought each week from home. Rice and pickles will also be their menu for lunch and again for dinner—no one's family can afford more. However, Meiying and the other girls feel excited, special. The girls in this Spring Bud class are among a fraction of girls from their poverty-stricken area who actually get to attend school.

It is no secret that in China, girls' education has not been—and is still not—a priority. Poor families invest whatever money they have in their sons; girls, they feel, are not worth educating. These attitudes are changing, family by family, as more girls are being supported by programs

that provide school fees for them in poverty-stricken areas such as Meiying's.

The program—in which a girl gets a year's room and tuition for a total of \$40—is a winning proposition. Not only does it help change a centuries-old custom in China, but it also invests in what economists call "human capital," enabling the potential of the female "other half" of Chinese society. And with China's growing ascendancy in the world, it forges links between our two countries.

This March, six members of Valley Presbyterian Church's Mission Committee (Robin and Gian Polastri, Ted Meeker and Anita Wotiz, and Alice Chiang and I) traveled to China

to meet the 50 girls who are being sponsored by the Church. Here is one of the many moving stories that came out of a visit to one girl's family: Chu Hua, whose mother and father



Happy to be here: Two sponsored students at the Hong Men He School in Shaanxi Province

*continued on page 13*