Quarterly Chronicle and Documentation

(January–March 2006)

Sources

The principal sources of information on which this chronicle is based are British Broadcasting Corporation, *Monitoring Global News line – Asia-Pacific Political* and British Broadcasting Corporation, *Monitoring Global News line – Asia-Pacific Economic*. These sources, only available electronically, do not have reference numbers and are only identifiable by date of publication of material. The inclusion of each of these dates would unnecessarily clutter the text and such dates have therefore been omitted, except, at many points, for the original sources from which the BBC reports themselves are taken.

Abbreviations

XHNA —Xinhua (New China) News Agency
CNA —Central News Agency (Taipei)
RTHK —Radio-Television Hong Kong
ZTS —*Zhongguo tongxun she (China Reporting Agency)*, Hong Kong
ZXS —*Zhongguo xinwen she (China News Agency)*, Beijing
RMRB —*Renmin ribao (People's Daily)*
SCMP —*South China Morning Post*

1. Internal developments

(a) *The 20th Session of the Tenth National People's Congress (NPC) Standing Committee*
(b) *The Fourth Session of the Tenth NPC*
(c) *Party and Political Affairs*
(d) *Statistical Communiqué on National Economic and Social Development during 2005*
(e) *Achievements of the Tenth Five-Year Plan*
(f) *Social and Legal Affairs*
(g) *Economic Affairs*
(h) *Education*
(i) *Military Affairs*
(j) *Obituary*
(k) *Hong Kong Special Administrative Region (HKSAR)*

2. Foreign Relations

(a) *Diplomatic Tours*
(b) *Countries, Territories and Regions*

1. Internal Developments

(a) *The 20th Session of the Tenth NPC Standing Committee (NPCSC)*

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The Standing Committee of the Tenth NPC held its 20th meeting in Beijing on 25–28 February. It examined various legislative documents, including the draft amendment to the Law on Compulsory Education, and the draft work report of the NPC Standing Committee (to be submitted to the parent NPC at its full meeting in March). NPCSC delegates also considered the draft agenda of the Fourth Session of the 10th NPC, due to open on 5 March.

The International Convention for the Suppression of the Financing of Terrorism (adopted by the UN General Assembly in December 1999), which sought to restrict sources of capital funding for terrorist activities, was also submitted to delegates. Vice-Foreign Minister Wu Dawei called for approval to be given to the legislation, pointing out that it was "conducive to stemming funds supplied by overseas anti-Chinese forces to China's domestic terrorists, and helping safeguard national security and social stability" (XHNA, 25 Feb.).

(b) *The Fourth Session of the Tenth NPC*

The Fourth Session of the Tenth NPC opened in Beijing on 5 March. As in previous years, the first day was dominated by the 'Report on the Work of the Government,' delivered by the Chinese Prime Minister (Wen Jiabao) (full text taken from live broadcast by Chinese Central Television, 5 Mar.).

Review of government work

Wen claimed that the achievement of "stable and fairly rapid development" in 2005 underlay "remarkable" progress towards socialist modernization and serving the cause of "building a well-off society in an all-round way." Central to this success was the implementation of a "scientific development concept" of sustainability. Noteworthy aspects of China's development progress during 2005 were the following:

- *Efforts to address "conspicuous problems in economic operations*:" appropriate use of fiscal and monetary policies, as well as measures to tighten control over land, had helped to reduce the excessive rise in fixed investment. As a result, price rises in real estate and housing were curbed. The government also directed greater attention towards "weak links" in the economy – agriculture, energy, transportation, and social undertakings – in an attempt to achieve a more balanced pattern of development. Stronger regulatory controls facilitated an easing of coal, power, oil, and transport shortages.
- *Readjustment of the economic structure and transformation of the economic growth mode*: abolition of the agricultural tax in 28 provincial-level units, as well as the removal of the animal husbandry tax, highlighted the government's efforts to address the "three rural issues" [*san nong*]. Increased subsidies to grain farmers, higher transfer payments to major grain-producing

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counties and counties facing financial difficulties, and a 13 per cent rise in central budgetary spending on the rural sector also demonstrated the government's prioritization of rural issues. Alongside these initiatives, other structural improvements were undertaken. These included the closure of "backward production capacities" involving excessive energy consumption and pollution, and the introduction of measures designed to improve energy and resource conservation, and environmental protection.

- *Intensification of structural reform and opening up to the outside world*: such reforms included progress towards strengthening shareholding practices in banking and listed companies, and improvements in the mechanism for adjusting the *yuan* exchange rate. China's commitment towards creating a modern corporate sector out of the former state-owned enterprises (SOEs) was demonstrated in the central government's allocation of 21.9 billion *yuan* in support of the closure and bankruptcy of 116 SOEs. Further progress was also made in separating the previously linked economic and social functions of enterprises.
- *Accelerated development of social programmes*: there was an 18.3 per cent increase in spending on education, health, science and technology, and "culture" in 2005. The system of compulsory education was further strengthened, especially in rural areas, and central and local authorities made available a special fund of more than 7 billion *yuan* to provide free textbooks, free tuition and subsidized living expenses for 17 million students from poor families in 592 designated impoverished counties. Spending on health – once again, with an emphasis on rural health facilities – was also raised, and a trial co-operative health care system was extended to 671 rural counties, to the benefit of 177 million peasants. Another priority focus was to put in place a more effective system to deal with major diseases, such as AIDS and avian influenza.
- *Increased employment and improvements in social security provision*: central government spending on providing basic living allowances and reemployment subsidies for laid-off SOE employees was increased by 16 per cent in 2005. By the end of 2005, 2,300 counties in 28 provincial-level units had put in place a basic framework for the provision of social assistance. Spending on poverty alleviation reached 16.2 billion *yuan*, and 2.45 million rural residents were lifted out of poverty.

Outstanding problems

Wen acknowledged that many "long-standing and deep-seated" economic and social problems persisted, in addition to which some new difficulties had emerged. Thus:

- *Increased difficulty in raising grain output and rural income*: in the wake of favourable farm conditions, there was significant

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downward pressure on grain prices, while farm input prices continued to rise – a combination of factors that inhibited growth of farm incomes and introduced a disincentive effect for grain farmers. Arable land contraction meanwhile continued, further undermining agricultural production capacity.

- *Excessive growth in fixed asset investment*: despite having fallen, fixed investment continued to rise too quickly, and too many new projects were launched. As a result, "the pattern of investment is irrational, and there is significant pressure for rebounds in investment." Excess production capacity was a further consequence of excessive investment, leading to higher stock inventories, downward pressure on prices, lower corporate profits and increased losses.
- *Social welfare difficulties*: there was widespread public concern about the difficulty and high cost of access to both education and medical treatment. The problem was exacerbated by illegal activities and policy violations in areas such as land expropriation, housing demolition and resident relocation, relocation of people from reservoir areas, corporate restructuring, and environmental pollution.
- *Lack of production safety*: this was especially serious in the mining industry, although traffic accidents were another serious source of death and injury.
- *Deficiencies and shortcomings in central and local government work*: Wen admitted that the task of transforming government functions was behind schedule. He drew attention to problems of "formalism," and unhealthy practices – deceit, fraud, extravagance, waste, venality and corruption – practised by some government employees.

Major domestic tasks for 2006

Wen highlighted the importance of 2006 as the first year of the 11th Five-Year Programme. He rehearsed the following economic and social development targets for 2006: 8 per cent growth in GDP; a decline of 4 per cent in energy consumption per unit of GDP; consumer price inflation at below 3 per cent; urban employment to rise by 9 million; the urban registered unemployment rate to be below 4.6 per cent; and the attainment of basic balance in the balance of payments equilibrium.

The Chinese Premier set out the following priority tasks for 2006:

- *Maintenance of "steady and relatively fast" economic growth*: continued implementation of stable fiscal and monetary policies – including an appropriate reduction in issues of long-term construction Treasury bonds and of fiscal deficits – was one of the keys to fulfilling this goal. Investment foci in 2006 would include agriculture, forestry, water conservation, science and

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technology education, culture, health care, ecological construction, environmental protection, and development in the western regions. Fiscal initiatives (e.g., stronger tax collection, more effective fiscal supervision) and monetary initiatives (e.g., proper control of credit, optimization of the credit structure, maintenance of exchange rate stability) would also assume high priority among policies in 2006.

- *Stimulating domestic demand through expanded consumption, rather than investment*: measures were needed to facilitate a greater role for consumption in generating increased domestic demand, whilst exerting greater control over investment. Thus,

  > [w]e should persistently ensure that we invest on certain fixed assets while reducing investments on others. Meanwhile, we should also optimize our investment structure to prevent excessive investments. We should continue to ensure a proper utilization of our land and credit: we should persistently ensure that the strictest system of land administration is enforced and that credit is supplied according to loan conditions and the requirements governing market access. We should strictly regulate new construction projects. Meanwhile, we should also further strengthen weak links adversely affecting economic and social development and the construction of key sectors. We should continue to resolve issues including excessive investments in certain urban real estate projects and sharp rises in housing prices.

- *Construction of "New Socialist Rural Areas:"* this most recent rural initiative – originally proposed by the Fifth Plenum of the 16th CCP Central Committee [CCPCC] – was described by Wen as "an important historic task … involving the overall situations of China's construction of a well-off society [*xiaokang shehui*] and modernization drive." Implicit in the initiative was the idea that the urban sector would henceforth support the rural sector, and that industry would support ("repay") agriculture – this in order to accelerate rural economic and social development.

  The most basic requirement for the construction of new socialist rural areas was to create a modern agricultural sector (including stable grain output growth) and facilitate increases in rural – especially farm – incomes. In turn, this demanded stabilizing and strengthening preferential policies towards farmers (via more direct subsidies for grain cultivation, and subsidies for the purchase of seeds, tools and machinery; greater transfer payments to grain-producing counties and areas facing financial hardship; appropriate pricing policies vis-à-vis grains and farm inputs; greater central government fiscal allocations to farmers; and land protection and conservation measures).

  At the same time, efforts would be made to diversify the agricultural economy, through further accelerated expansion of livestock husbandry. Noteworthy was Wen's emphasis on the need to "vigorously develop secondary and tertiary industries in rural areas, especially agricultural product-processing industries."

  Another related priority was to enhance the rural infrastructure by "[shifting] the government's focus on infrastructure investment to

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the rural areas'' – an adjustment which Wen described as a ''major change'' (and which won applause from his audience). In this regard, he highlighted the main points of emphasis as

> to strengthen the basic construction of farmland with a focus on small-scale water conservancy facilities; strengthen the building of the system for flood prevention, drought control, and disaster reduction; strengthen the construction of infrastructure projects and living environment including roads, drinking water supply, methane facilities, power grids, and communication systems, in the rural areas; and strengthen the building of rural public services including education, health, and culture.

- *Intensification of industrial restructuring, resource conservation, and environmental protection*: industrial modernization required accelerated expansion of ''advanced manufacturing industries, high-tech industries, and modern service industries,'' alongside the continued development of more basic industrial and infrastructural activities (e.g., provision of transport, energy and water). Wen emphasized the special importance of economic and social ''informatization,'' and of strengthening China's independent innovation capacity. Alongside such initiatives, economic, legal and administrative measures should be followed in order to enhance market mechanisms (not least, in order to address problems associated with over-production in some industries).

  Improvements in resource use would be achieved through a variety of policy instruments, including the implementation of appropriate pricing and taxation measures. Encouragement would be given to the development of key projects that saved energy and materials, and to more concentrated land use. Energy conservation and lower energy consumption would meanwhile be the basis of equipment renewal and technological transformation (''[t]here is a need to accelerate phasing out technologies, equipment, and products that require high energy consumption, that use too much water, and that consume too much raw materials'').
- *More co-ordinated regional development*: Wen reaffirmed the importance of its strategy to ''open up the West'' and said that more policy support would be given to accelerate development in China's western regions (e.g. through construction of the Qinghai–Tibet Railway and implementation of the third phase project of the Three Gorges Dam). At the same time, greater efforts would be made to revitalize the ''old revolutionary base'' in northeastern China and in other regions. In particular,

  > [e]mphasis should be placed on enhancing building large grain bases, and on the reform, reorganization, and transformation of key industrial sectors. We need to do a good job in helping economic transformation in cities that face the depletion of resources and in dealing with coal caving regions and in transforming squatter settlements. We should step up studying the establishment of a resource development compensation mechanism and a support system for sun-set industrial sectors.

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As for the central region, policies would seek to maximize its regional strengths in terms of "its geological position, resources, industries, and skilled human resources."

- *Maximizing the role of science and education*: future social and economic development must derive more from scientific and technological progress. Fulfilment of this goal demanded implementation of the "Guidelines of the National Programme for Long- and Medium-Term Scientific and Technological Development," in order to make China an "innovation-oriented" country. During 2006, various major scientific and technological projects and key projects would be unveiled. At the same time, efforts would be made to strengthen "basic research, research in frontier technology, and research in technologies for public welfare." The government's commitment to technological modernization was underlined in its planned allocation of almost 72 billion *yuan* for investment in science and technology – more than 19.2 per cent above the level of 2005. Local government and enterprises would be expected to supplement these central government initiatives.

  On education, Wen stressed the importance of consolidating compulsory nine-year education. To this end, he said that the government would – in the west during 2006, elsewhere in 2007 – abolish all tuition and miscellaneous fees for rural students in receipt of compulsory education. Free textbooks would be provided to students from poor households, and boarding students from the same background would receive living allowances. The goal for the future was to offer guaranteed funding for rural compulsory education from the budgets of central and local governments. In addition to compulsory education, the central government would allocate 10 billion *yuan* to vocational education during 2006–2010. By such means, the educational and skill levels of the labour force would be improved.

- *Intensified reform and opening up*: China's integration into the global community raised many serious challenges. In order to meet these, it was essential to maintain the momentum of SOE reform, and to "optimize the structure of property ownership [and] the corporate governance structure" (including the establishment of "large companies and large enterprise groups" that could compete internationally). Another urgent priority was to accelerate reform of the financial system, including improving share-holding arrangements in state-owned commercial banks, promoting the further development of China's capital market and intensifying rural financial reform.

  Wen noted that 2006 would see the end of China's transition period as a member of the World Trade Organization (WTO). He called for a renewed sense of urgency in responding to the demands of

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WTO membership, drawing attention to the need to further improve foreign trade-related economic management systems and mechanisms.

- *Addressing social and social welfare concerns*: in order to maximize employment, efforts were needed to address problems associated with lay-offs and bankruptcies. Reemployment support for laid-off SOE employees would be extended for a further three years, and such support would gradually be extended to embrace laid-off workers from collectively-owned enterprises.

  More generally, the Chinese government sought to accelerate the establishment of a comprehensive social security system in order to provide timely payment of social insurance funds, improve and extend pension arrangements for urban workers, and continue to implement pilot projects whereby individuals paid into insurance schemes. Provision needed to be made too for individual businesses and those who lacked fixed employment. Complementary arrangements were needed to ensure that basic medical care (including cover for the unemployed, those with work injuries and pregnant women) was available to all urban workers. Improvements in urban community health provision would be made through the establishment of a "new-type community-based urban medical health service system." Guaranteed care should also be provided to make available the "fiveguarantees" (food, clothing, medical care, housing and burial expenses) for destitute families.

  Health provision was an urgent priority for *rural* areas: hence, the importance of implementing the 'Plan for Building and Developing Rural Public Health Service Systems' and other measures to improve access to decent health facilities at county, township, and village levels. To this latter end, during 2006–2010 central government planned to direct over 20 billion *yuan* towards the renovation of buildings and equipment at such levels. The goal was to have in place a "new-type co-operative medical system and medical assistance system" in the countryside.

  Better safety at work was another important goal. Urgent efforts were needed to address "very glaring" problems, such as the failure by relevant safety bodies to take responsibility for safety provision for enterprise workers, serious violations of safety rules and open neglect of safety issues by leading local cadres and other personnel. A particular focus of policy in 2006 would be enhancement of safety in the coal industry through closures and mergers of small- and medium-scale mines.

- *Developing "democratic politics" and preserving social stability*: future political development should be premised on the establishment of "democracy, solidarity, vitality, stability, and harmony … [in order to] improve the democratic system, enrich the forms of democracy, expand the orderly participation of citizens in politics, and ensure that the people can exercise democratic elections,

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democratic decision-making, democratic management, and democratic oversight in accordance with the law.''

The 11th Five-Year Programme for Economic and Social Development

Wen reminded NPC delegates that the CCPCC's ''Proposal for Formulating the 11th Five-Year Programme for National Economic and Social Development'' [11FYProg] (2006–2010) had been adopted at the Fifth Plenum of the 16th National Party Congress (October 2005) and was now placed before the NPC for deliberation and approval. He made the following observations on the 11FYProg:

- *Formulation of the Programme*: preparatory work had begun in mid-2003 and the draft Outline under deliberation sought to highlight policy emphases and government responsibilities, set against the need of China's socialist market economic development. The goals set out in the Programme were of two kinds: first, ''forecasted goals (i.e., ''projected goals and the goals that we hope to achieve, mainly by guiding the behaviour of the market mainstays'') and ''compulsory'' targets (i.e., ''goals that must be achieved, mainly by strengthening management according to law and by providing services''). The content of the Programme was based on statistics gathered in the first National Economic Census (see below under (f)).
- *Outcome of the Tenth Five-Year Plan (2001–05)*: the period witnessed ''extraordinary'' progress in economic and social development, with GDP growing, on average, by 9.5 per cent p.a. The economic performance of agriculture (especially grain) showed especially significant improvement, although output of major industrial products (especially high-tech industry) also grew ''drastically.'' There were major improvements too in infrastructural development, with major projects completed or under way in water conservancy, energy, transport and communications. The pace of economic and social ''informatization'' also accelerated. Externally, there was dramatic trade expansion in the wake of China's WTO accession (import and export trade doubled in the five-year period), while realized foreign direct investment (FDI) reached US$274.08 billion.

The buoyant growth record was reflected in major improvements in living standards. Between 2001 and 2005, urban per capita disposable income rose by 58.3 per cent, while rural per capita net income increased by 29.2 per cent. Some 42 million new jobs were created in the urban sector. Consumption spending on housing, communications, cars and services also rose sharply.

But many ''contradictions'' also persisted or had newly emerged. These included

> [i]rrational economic structure; weak self-renovation capabilities; slow transformation of economic growth mode; excessive energy and resources

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consumption; deteriorating environmental pollution; conspicuous employment contradictions; lack of co-ordination between investment and consumption; development gaps between urban and rural areas and between regions, and continued widening gaps of incomes among some social members; and a lack of progress in the development of social undertakings.''

- *Guiding principles and major goals of the 11FYProg*: although both domestic and international conditions in the next five years were generally expected to be favourable to China's development, there were also unknown and uncertain factors that could undermine its plans. Central to the 11th Programme was the concept of ''scientific development,'' which embodied key principles set out by the CCPCC. These were

> ''[to] maintain stable, fast, and co-ordinated [economic] development …; accelerate changing the economic growth mode; … raise our autonomous renovation capabilities; … promote the co-ordinated development of urban and rural areas; … enhance harmonious society building; and … constantly deepen reforms and opening up.''

Major goals contained in the 11FYProg included the following (see also *RMRB*, 7 Mar.):

1. average annual GDP growth rate of 7.5 per cent;
2. per capita GDP in 2010 to be double that of 2000;
3. energy consumption per incremental unit of GDP to fall by 20 per cent.

- *Strategic emphases in the 11th Five-Year Programme*: Wen Jiabao drew attention to the following priority tasks during 2006-10:

1. construction of new socialist rural areas;
2. accelerated adjustment of the economic structure and change from an extensive to an intensive growth mode;
3. pursuit of co-ordinated regional development;
4. increase in China's capacity for independent innovation (''a unique feature of the draft Outline'');
5. intensification of reform and opening up;
6. creation of a ''harmonious society'' (the draft Outline ''calls for doing a good job in population-related work, creating more jobs, perfecting the social security system, constantly improving the people's living standard and health, strengthening public safety construction, strengthening social democratic political and cultural construction, and perfecting the social management system'').

Governance and development of a civil society

Central to the successful implementation of policies in 2006 and throughout the 11FYProg period was the need to improve governance through further administrative and related reforms. As in previous years, a core requirement was the continued separation of government administration from enterprise management, and a contraction in the scope of administrative examination and approval. Thus,

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[w]e will resolutely transfer the responsibility for matters that the government should not exercise management to the market, enterprises, civil organizations, and intermediary organizations. We will change the way the government manages the economy and improve its social management and public service functions. We will make the government more open, … and improve its work transparency and efficiency. We will establish and perfect the administrative accountability system and improve the government's ability to perform its public duties and strengthen its public trust.

Fulfilment of these goals would also require further efforts to combat corruption. A focus of such activities in 2006 would be business bribery and related "unhealthy practices in construction, land transfers, property transactions, the purchases and sales of medicine, and government procurement."

Hong Kong, Macau and Taiwan

The government work report endorsed the policies of "one country, two systems," and urged the authorities and peoples of Hong Kong and Macau to adhere to the relevant Basic Law in administering both Special Administrative Regions [SARs]. It also called for the continued implementation of the Closer Economic Partnership Arrangement [CEPA] between the mainland and, respectively, Hong Kong and Macau. On these foundations, Wen expressed confidence that both Hong Kong and Macau would achieve "long-term prosperity and stability."

As in previous recent work reports, Wen reaffirmed the Chinese government's commitment to respect the "basic principles of peaceful reunification, and one country two systems, and the eight-point proposal for developing cross-strait relations" in pursuit of the reunification of Taiwan with the mainland. He also reiterated China's uncompromising adherence to "the one-China principle," adding that

[w]e will never change the principle of placing our hopes on the people of Taiwan. We will uncompromisingly oppose separatist activities aimed at Taiwan independence.

Meanwhile, efforts would continue from the Mainland side to further strengthen cross-Strait personal, economic and cultural exchanges and co-operation. Further,

[w]e will diligently seek to resume cross-strait dialogues and negotiations on the premises of the one-China principle; push forward comprehensive, direct, and two-way process of the three links; support the economic development along the western coast of the Taiwan Strait and other areas with relatively concentrated Taiwan business investments; and safeguard the legitimate rights of Taiwan compatriots according to law, and wholeheartedly serve them.

Wen Jiabao concluded his report in characteristically rousing fashion:

Our country is standing at a new historical starting point, taking big strides and progressing towards the target of building a well-off society … We must unite even more closely around the Party Central Committee with Comrade Hu Jintao

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as general secretary, hold high the great banner of Deng Xiaoping Theory and the important thinking of the Three representations, bind the wisdom and strength of 1.3 billion people, firm our confidence, strive to be strong, work hard to transform the grand blueprint of the 11th Five-Year Programme into a glorious reality, and write a new chapter in the socialist modernization drive. No difficulties and obstacles can block our strides forward. Our targets must definitely be achieved! Our targets can definitely be achieved!

On 15 March Xinhua published the full text of the "Report on the Implementation of the Central and Local Budgets for 2005 and on the Draft Central and Local Budgets for 2006," submitted by Jin Renqing (Minister of Finance) to NPC delegates on 5 March.

Implementation of Central and Local Budgets for 2005

Jin provided the *preliminary* estimates of budgetary revenues and expenditures during 2005 (see Table 1). In his review of fiscal policy during 2005, Jin noted that improvements had been made in tax collection and tax management. He attributed the rise in national revenue mainly to buoyant economic growth, although he acknowledged that "non-regular factors" – for example, sharp increases in energy and raw material prices, rapid real estate growth, a big rise in corporate income tax revenue – had also contributed. He drew particular attention to the efforts of fiscal authorities to lend support to agricultural and rural problems, as shown in a 13.3 per cent increase in central government budgetary allocations to deal with *san nong* issues and other pro-farm fiscal initiatives. Social welfare programmes were another focus of fiscal work: in 2005, spending on employment and social security had expanded by 17.1 per cent, on education by 17.4 per cent, and on medical care and public health by 20.2 per cent. In an attempt to generate a more balanced regional pattern of social welfare support, preferential fiscal policies were implemented for western and northeastern China (e.g., Jin revealed that over 90 per cent of transfer payments were allocated to central and western regions).

The budgetary report noted that significant progress had been made towards reforming the tax system, strengthening the budget management system, and lending fiscal support to reform of the SOEs and the banking sector. For example, in 2005, 21.9 billion *yuan* had been made available through the central government budget to assist with the closure or bankruptcy of 116 SOEs, in which 550,000 workers had been laid off. Fiscal support was also made available in an effort to facilitate reform of China's housing system (including implementation of measures designed to combat speculation and generate greater price stability in the housing market).

Jin's speech also contained a review of fiscal achievements during the Tenth Five-Year Plan period (2001–05). During these five years, cumulative government revenue totalled 11.5 trillion *yuan* – 125 per cent more than in the Ninth FYP (with central government revenue up by 141.5 per cent, and local government revenue up by 111.3 per

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Table 1: **National and Central Budgetary Estimates (2005 actual) (figures in billion *yuan*)**

	National Consolidated Budget
Total revenue*	3,162.8
change over 2004 (actual)	+ 523.2 (+ 19.8%)
change over 2004 (plan)	(+ 8.1%)
Total expenditure	3,370.8
change over 2004 (actual)	+ 522.1 (+ 18.3%)
change over 2004 (plan)	(+ 4.5%)
National budget deficit	− 208.0
	Central Budget
Total revenue	1,724.9
change over 2004 (actual)	+ 258.1 (+ 17.6%)
change over 2004 (plan)	(+ 6.4%)
Total expenditure	2,024.9
change over 2004 (actual)	+ 238.9 (+ 13.4%)
change over 2004 (plan)	(+ 5.4%)
Central budget deficit	− 300.0 (1.6% of GDP)
	Local Budgets
Total revenue	2,656.6**
change over 2004 (actual)	+ 415.8 (+ 18.6%)
change over 2004 (plan)	(+ 7.2%)
Total expenditure	2,564.6***
change over 2004 (actual)	+ 434.0 (+ 20.4%)
change over 2004 (plan)	(+ 3.5%)
Local budget surplus	+ 118.8

*excluding revenue from generation of debt.
**Of this sum, 1,509.2 billion *yuan* were collected at the local level.
***Of this, 2,493.2 billion *yuan* were spent at the local level; 71.4 billion *yuan* were remitted to the central government.
Note
Total repayment through central government budget on principal due on domestic and foreign debts (2005) was 392.3 billion *yuan*. Treasury bonds worth 692.3 billion *yuan* were issued by the central government in 2005 to cover these payments plus the central budget deficit.

cent). Between 2000 and 2005, the revenue/GDP ratio rose from 13.5 to 17.3 per cent. Expenditures during the 10FYP rose cumulatively by 124 per cent (109.5 per cent for central government expenditures, 130.5 per cent for local governments). Revenue growth was also more stable and more balanced.

The Finance Minister conceded, however, that China still faced many problems relating to the operation of its public finance and the implementation of the budget. These included:

- the need to raise investment in developmental "weak links" – agriculture, rural economic and social development, education, public health and environmental protection – in order to generate

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"all-round, balanced and sustainable social and economic development;"
- the need for more funding in support of efforts to promote scientific and technological progress, improve the capacity for independent innovation, and transform China's economic growth mode;
- the need to achieve greater regional balance in the provision of basic public services;
- the heavy burden of debt obligations in some areas, which was making it "extremely difficult … to prevent and defuse financial risks;"
- the need to intensify reform of the budget system and the management system of public finance in the interests of making public finance management "more standardized, scientific and transparent."

Budgetary Plans for 2006

Jin Renqing outlined budgetary targets for 2006, as shown in Table 2. Priority areas for investment under the central budget in 2006 were as follows:

- *Macro regulatory support for rapid and sound economic development*: Planned capital construction investment was set at 115.4 billion *yuan* (of which 60 billion would be provided through bond issues) – this to be used in support of more rational fund utilization. At the same time, a more rational pattern of income distribution would be pursued through reform of salary systems for civil servants and public service employees. Finally, some 426.4 billion *yuan* would be provided through the central government budget for export rebates.

Table 2: **National and Central Budgetary Estimates (2006 plan) (figures in billion *yuan*)**

	National Consolidated Budget
Total revenue*	3,542.3
change over 2005 (actual)	+ 379.5 (+ 12.0%)
Total expenditure	3,837.3
change over 2005 (actual)	+ 466.5 (+ 13.8%)
National budget deficit	− 295.0
	Central Budget
Total revenue	1,927.2
change over 2005 (actual)	+ 202.2 (+ 11.7%)
Total expenditure	2,222.2
change over 2005 (actual)	+ 197.3 (+ 9.7%)
Central budget deficit	− 295 (1.5% of GDP)

*excluding revenue from generation of debt

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- *Policy support for the building of a "new socialist countryside*:" Appropriate government funding would be directed to agriculture and farmers on the basis of "giving more and taking less." To this end, investment in agriculture, rural areas and farmers would reach 339.7 billion *yuan* in 2006 – 14.2 per cent more than in 2005. Rural tax and fee reforms were expected to reduce the burden on rural residents by some 125 billion *yuan* p.a. The government was also committed to increasing direct subsidies to grain farmers from 11.5 to 12.5 billion *yuan*, and a further 600 million *yuan* would be provided as subsidies for farm tools and machinery (cf. 300 million *yuan* in 2005). An important rural initiative was the proposed trial of a "new type of rural co-operative medical care system" in 40 per cent of all counties, cities and districts, costed at 4.73 billion *yuan* from the central government budget. Rural education would similarly benefit from higher budgetary allocations – to the tune of 218.2 billion *yuan* during 2006–2010.
- *Support for employment (including reemployment) and social security provision*: Central government allocations for social security allowances and employment (including reemployment) were planned to reach 185.982 billion *yuan* in 2006 – 14.5 per cent more than in the previous year.
- *Support for independent innovation and the establishment of a new pattern of economic growth*: Central government spending on science and technology would increase by 19.2 per cent to 71.604 billion *yuan* in 2006 – and further support would also be made available through local government budgets. Fiscal policy measures would be used to encourage and facilitate greater spending on science and technology (including the development of key technologies) by enterprises. Further, "[w]e will improve import and export tax policies, encourage the import of energy-related and resource products, and high-tech equipment and corresponding parts, and limit the export of resource products, highly polluting products, and products that consume excessive quantities of energy. Preferential tax policies for imports will gradually be shifted from entire pieces of equipment to major materials and parts that Chinese enterprises need to develop products and equipment for which they own the intellectual property rights."
- *Transfer payment support in the interest of more balanced regional development*: in 2006 the central government would allocate 135.9 billion *yuan* in transfer payments to local governments (especially in central and western regions) – a rise of 21.2 per cent above the level of 2005 (but up 25.6 per cent for ethnic minority regions). Spending on poverty alleviation would rise by 700 million *yuan* to 13.7 billion *yuan*. Priority in the use of such funds would be given to infrastructural development in poor villages, as well as to support for agro-industrial development in poverty-stricken areas. Preferential fiscal and tax policies would also be implemented to

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the benefit of western and northeastern regions and "other old industrial bases."

- *Support for the development of a socialist market economy*: the central government undertook to provide 33.8 billion *yuan* in support of SOE closures and bankruptcies. Budgetary support would also be forthcoming for continued reform of the banking sector.

Jin's budget report concluded as follows:

> In accordance with the requirements set at this session for economic and financial work, we will … work hard to serve the overall interest of the country, enlarge the economic 'pie' and the scale of public finance, put people first, be innovative and take the initiative in offering a hand, and contribute to promotion of sustained, fast, balanced and sound development of the national economy and smooth attainment of the objectives set in the Eleventh Five-Year Plan!

Also on 5 March, Ma Kai (Minister in Charge of the National Development and Reform Commission) delivered his report on China's 2005 (realized) and 2006 (planned) economic and social development (text in XHNA, 15 Mar.). His overview of China's performance in 2005 echoed the findings of the National Bureau of Statistic's Communiqué on China's economic and social development (see (d) below). Alongside his rehearsal of China's continued buoyant performance, Ma acknowledged that many serious economic and social challenges faced Beijing:

> Some longstanding and deep-seated problems are hindering sound development of the economy, such as limited capacity for independent innovation, imbalanced economic structure, extensive pattern of economic growth, increasing restraints imposed by resources and the environment, notable disparity between urban and rural economies, imbalanced economic and social development, systems and mechanisms that need further improvement, and an inadequate legal system.

The specific problems to which Ma drew particular attention included the following:

- difficulties in raising grain production and promoting rural income growth;
- excessive rate of growth of fixed investment (notwithstanding a decline in fixed investment expansion, it was still rising too rapidly, with too many new projects being launched);
- downward pressure on prices and profits as a result of excessive inventory accumulation;
- increasing pressure on employment, lack of social security provision, inadequacy of health care, educational deficiencies and widening income differentials;
- "grim" production safety conditions.

Ma Kai outlined the major economic targets that had been set for 2006 (see Table 3). He set out ten priority developmental tasks for 2006:

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Table 3: **Economic Targets for 2006**

GDP	+ c. 8.0%
Fixed asset investment	+ 18.0%
Merchandise trade (exports + imports	+ 15.0%
Energy consumption per unit of GDP	− 4.0%
R&D expenditure	1.45% of GDP
Money supply:	
Narrow money (M1)	+ 16.0%
Broad money (M2)	+ 14.0%
Consumer price index	< 3.0%
New urban job creation	9,000,000
Urban unemployment rate	⩽ 4.6%
Per urban disposable income	+ 6.0%
Per capita rural income	+ 5.0%
Retail sales of consumer goods	+ 12.0%
Rate of natural increase of total population	< 7.5‰

1. *Maintaining stable macroeconomic policies in support of ''rapid yet steady'' economic development*: fulfilment of this macro goal was premised on pursuing prudent monetary and fiscal policies, including cutting the central government budget deficit, reducing long-term treasury bond issues, providing for appropriate money supply and credit growth, and maintaining stable prices. Control over fixed investment would be strengthened, with special attention given to controlling new project initiatives and land management (no more than 266,700 hectares of rural land to be used for construction in 2006). Tighter control over city planning would also be implemented. Efforts would be made to expand consumer demand by increasing urban and rural incomes (especially those of lower- and middle-income groups) and raising pensions, subsidies and minimum income allowances. Another priority focus was the achievement of balance between supply and demand in coal, electricity, oil and transport.
2. *Constructing a new socialist countryside, promoting agricultural development and increasing farmers' incomes*: fulfilling this imperative would be guided by the principle of ''giving more, taking less and lessening control'' and by institutionalizing the process whereby industry lent support to agriculture, and the cities sustained the countryside. Other important goals were to promote grain output growth, to pursue agricultural modernization, to undertake more rural infrastructural investment (especially for purposes of water conservation), and to expand rural public services.
3. *Strengthening China's capacity for independent innovation in order to build an ''innovation-oriented country:''* the guidelines for this were contained in the ''Outline of the National Long-and Medium-Term Programme for Scientific and Technological

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Development (2006-2020),'' [full text available in XHNA, 26 Feb.] the implementation of which would be supplemented by efforts to promote ''original innovation, integrated innovation and improvement of imported technologies through digestion and absorption.''

4. *Accelerating ''optimization and upgrading of the industrial structure in order to strengthen the technological underpinnings and competitiveness of industry*:'' key measures would include restructuring industries with surplus production capacities, and using ''economic, legal and necessary administrative measures and … market forces to help superior enterprises prosper and allow inferior ones to perish.'' Alongside revitalization of equipment manufacturing, policy emphasis would be directed to accelerating the development of high-tech industries and promoting rapid service sector growth.
5. *Strengthening resource conservation and environmental protection, and transforming China's growth pattern*: key measures here included more effective energy conservation and lower resource consumption.
6. *Seeking more balanced regional development in line with the dictates of regional comparative advantage*: fulfilment of this goal was premised on the development of ''key areas, cities and industries'' in western China, on creating major bases of grain production and undertaking industrial restructuring in the northeast, on formulating policies to ''energize'' central China, and letting eastern coastal provinces ''take the lead in increasing international competitiveness and capacity for independent innovation and sustainable development.'' More support would also be given to economic and social development in ''old revolutionary areas,'' ethnic minority regions, border areas and poor areas.
7. *Deepening reform and establishing an ''institutional environment for scientific development:''* foci of such reforms would include the rural sector, industrial enterprises (''we will transform large SOEs into joint stock companies, and improve the property ownership structure, corporate governance, and incentive and restraint mechanisms … accelerate formation of a number of large companies and enterprise groups that have their own intellectual property rights and famous brands and are internationally competitive … carry out policy-based closures and bankruptcies of enterprises, relieve enterprises from the burden of operating social programmes and spin off their auxiliary businesses from their main business …'').
8. *Implementing an ''open, win-win strategy to improve the quality and level of China's opening to the outside world*:'' meeting this goal would require further adjustments in the pattern of China's foreign trade, including the optimization of its import and export mix needs. Efforts would be made to reduce exports of ''highly

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polluting products, resource products and products that consume excessive quantities of energy,'' and increase imports ''mainly in the areas of advanced technologies, key equipment, and resources in short supply.'' More effective use would be made of foreign investment, with multinational corporations being encouraged to transfer processing and manufacturing operations with high value-added and high-tech content to China, as well as outsourcing services and to establishing R&D facilities in China.

9. *Prioritizing the strategic role of education and extending social welfare provision*: Key goals would be the consolidation of the nine-year compulsory education system, improvements in public health and basic medical care, and continued adherence to existing family planning policies.
10. *Addressing issues affecting people's ''vital interests'' and maintaining social stability*: Fulfilment of these goals required implementation of appropriate policies in respect to employment, expansion of the social security system, adjustment of patterns of income distribution, provision of greater help for needy urban and rural residents and the improvement of safety regulations for workers.

On 11 March NC delegates received the work reports of Xiao Yang, President of the Supreme People's Court (SPC) and Jia Chunwang (SPP Procurator-General) (XHNA, 11 Mar.).

Xiao Yang claimed further progress on behalf of the SPC in handling legal case in 2005. To this end, it had fully dealt with 3,196 cases during the year (9.34 per cent more than in 2004), while 7,940,549 cases ''of all natures'' (a rise of 0.85 per cent) reached local people's courts at various levels. In response to widespread public complaints against these local courts, the SPC had devoted much effort in 2005 to ''supervising and guiding'' their work.

In 2006, the primary focus of SPC work would be to maintain judicial supervision of local people's courts in support of the implementation of the new 11th Five-Year Programme, the construction of a ''new socialist countryside'' and the creation of a ''harmonious socialist society.''

Jia Chunwang's report revealed that in 2005, SPP organs had approved the arrest of 860,372 suspects of various crimes (6.1 per cent above the corresponding figure for 2004), and prosecuted 950,804 suspects (up 9.6 per cent). The SPP also prepared investigatory files on 41,447 state functionaries suspected of having engaged in corruption, bribery, malfeasance and infringement of rights, of whom 30,205 were actively investigated and prosecuted.

On 9 March, Wu Bangguo delivered the work report of the Tenth NPC (China Central TV-1, 9 Mar.; XHNA, 18 Mar.). In his review of the work of the NPCSC, he drew particular attention to the Standing Committee's ''Opinion on Further Promoting the Role of NPC Delegates and Strengthening the Building of the System of the NPC

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Standing Committee'' (subsequently approved by the CCPCC as 'Document No. 9'), which he described as a ''big event in NPC system building.'' Thus,

> It [Doc. No. 9] has great current significance and profound historical significance for improving the Party's ability to govern, guaranteeing the people as the masters of their own destiny, and implementing the fundamental plan the rule of law.

Wu spoke of continued improvements in the quality of legislation, and claimed that further progress had been made towards ''legislative democratization.'' In 2005, the NPC (including its Standing Committee) had deliberated 25 laws, legal explanations, and drafts on decisions of legal issues – of which 18 were subsequently adopted. One NPCSC legal decision of special historical significance was the decision, effective beginning in 2004, to abolish China's agricultural tax – a levy which had been in place in one guise or other for some 2,000 years. Other legislation to which Wu drew particular attention included the revised Personal Income Tax Law, the Company Law, and the Securities Law. The NPCSC's adoption of the Civil Servants Law also marked a significant development, highlighting the government's determination to improve China's governance. Finally, Wu referred to the NPCSC's enactment of the Public Order Administration and Punishment Law – a legislative initiative that reflected the imperative of maintaining public order.

In a reference to the Taiwan issue, Wu's report noted the adoption (March 2005) of a new Anti-Secession Law and commented:

> It [the Law] reflected our consistent stand of seeking peaceful reunification with greatest sincerity and utmost efforts … [and also] fully reflected the common will and determination of all the Chinese people in safeguarding national sovereignty and territorial integrity and never allowing the Taiwan independence forces to split Taiwan from China, in whatever name, or by any means.

Wu drew attention to the importance of the NPCSC's supervisory and inspection work. He pointed out that priority foci during 2005 in these regards included work relating to the 'three rural issues,' issues of resource conservation and environmental protection, the question of production safety (especially in the coal mining industry), and the administration of justice.

Overseas activities are an important dimension of the NPC's work, and Wu Bangguo told NPC delegates that in 2005 the NPC had received 86 delegations from 54 nations, sent 115 delegations of its own to 78 nations, and attended 29 international and regional conferences. It had institutionalized regular exchanges between the NPC and foreign congresses, and taken part in two ''formal conferences'' with the US Senate and House of Representatives. It had also participated in multilateral activities organized by a wide variety of international and regional parliamentary groups. In 2005 NPCSC approved 15 treaties, accords, agreements, and other international conventions.

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Looking ahead, the NPC report set out the following priority tasks for 2006:

- further improving the people's congress system in order to fully realize the responsibilities of NPC deputies;
- enact legislation in order to promote China's economic and social development (including the strengthening of the legal system);
- concentrate on key issues affecting China's "reform, development and stability", including fully implementing the NPCSC's supervisory and inspection tasks.

The Fourth Session of the Tenth NPC closed on 14 March.

(c) *Party and Political Affairs; Ideological Developments*

The Central Commission for Discipline Inspection (CCDI), Central Organization Department and Central Propaganda Department issued a joint notice calling for the careful study and implementation of Hu Jintao's important speech at the CCDI's sixth full meeting. It also urged the "earnest" study and implementation of the CCP constitution, as well as the "all-out promotion of the new and grand project in party building" in order to lend support to the implementation of "the scientific development concept, the building of a socialist, harmonious society, and the building of a well-off society in an all-round way" (XHNA, 25 Jan.).

Xinhua described Hu's speech, made in January 2006, as "a programmatic document guiding party construction," summarizing the current domestic and international situations, and setting out the tasks facing China in its efforts to strengthen the Party's work style, enhance clean government and combat corruption. The speech

> incisively explained the great importance of study and implementation of the party constitution under the new historical conditions, it explicitly said that always studying the party constitution, abiding by the party constitution, implementing the party constitution, and protecting the party constitution must always be an important mission for the entire party, and it put forth the specific requirement for thorough study and implementation of the party constitution.

On 13 February, Xinhua published the CCDI's work report, delivered by CCDI Secretary (Wu Guanzheng) on 5 January. His review of CCDI work in 2005 drew attention to continuing efforts to combat corruption and promote clean government by identifying the root causes of problems and meting out appropriate punishment to those who had violated laws and regulations. Intensified efforts were also made to "educate and supervise" leading Party cadres by inculcating the "important thinking of the 'Three Represents'," and to improve inner-Party supervision.

Wu claimed that "remarkable" results had been achieved in addressing the "five problems related to party conduct" [viz., leading cadres' acceptance or transmission of cash, negotiable securities, or payment instruments in contravention of rules and regulations; their

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organization of "lavish" weddings and funerals; their practice of canvassing official posts; their willingness to "indulge and condone their spouses, children, and aides taking advantage of the powers and influence of their positions to seek illicit gains"; and their participation in gambling]. Action was also taken against behaviour and activities that violated the interests of the people (e.g., requisitioning land, demolishing houses, leaving migrant workers' wages unpaid, selling fake or sub-standard medicines, collecting illegal fees, etc.).

Between December 2004 and November 2005, discipline inspection commissions at all levels put 147,539 cases on file for investigation and concluded 148,931 cases. Some 115,143 CCP members (0.17 per cent of total membership) faced disciplinary action. Of these, 77,125 were given disciplinary warnings or "serious" disciplinary warnings, 3,173 were stripped of their Party posts, 10,657 were put on probation, and 24,188 were expelled from the CCP. In addition, 15,177 CCP members were handed over to judicial organs on suspicion of having violated party discipline.

Main tasks for 2006 included the following:

- to strengthen Party discipline in order to facilitate the implementation of the "scientific development concept" and the creation of a "harmonious socialist society;"
- to improve Party and government conduct and further combat "ill practices that infringe upon the interests of the masses;"
- to use education in order to combat corruption and promote clean and honest administration by leading cadres;
- to adhere to existing guiding principles in running the Party strictly and dealing with alleged breaches of Party discipline
- to "strengthen checks and balances on, and tighten supervision over, the exercise of power to ensure the correct exercise of power."

(See also Wu Guanzheng in XHNA, 22 Feb.).

In a speech he made at a State Council conference (24 February), Wen Jiabao also took up the theme of the need to combat corruption and establish a clean government (full text in XHNA, 27 Feb.). He drew particular attention to the importance of dealing with serious problems of commercial bribery in engineering projects, land acquisition, property trading, medicine purchase and government procurement. The creation of a "special mechanism" was one way of addressing such problems; another was the institution of a "commercial ethics system to promote a healthy and sound commercial culture."

An unconfirmed report in a Hong Kong source reported that between January and June 2005, 370 Party and government cadres had "fled abroad" on the pretext of visiting family or friends, or undertaking travel for personal reasons. After the expiration of their leave of absence, they had failed to return to China. Of the 370, there were 47 cadres at bureau level, 14 at prefectural and departmental level, and two at sub-provincial level (*Cheng Ming* [*Zhengming*], 1 Dec. 2005).

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The CCPCC's Organizational Department urged greater efforts in supervising cadres. It called, in particular, for more effective supervision of "leading bodies and leading cadres," as well as of the selection and appointment of Party and government leading cadres (XHNA, 16 Feb.).

At the end of 2005, total membership of the Chinese Communist Party was 70.8 million. Some 2.47 million new members joined the Party in 2005, of whom 1.98 million were below 35 years of age. During the same year, 17.67 million people applied for CCP membership (XHNA,1 Mar.).

(d) *Statistical Communiqué on National Economic and Social Development during 2005*

[**Note**: The figures showing percentage changes in production over 2004 are taken verbatim from the National Bureau of Statistics [NBS] communiqué. They do not always coincide with the estimates that would be obtained from a comparison of the 2005 estimates with those for 2005 given in "Quarterly Chronicle" in *CQ*, No.182 (June 2005), pp. 480–89.
Data in square brackets show percentage increases for 2004 and are included for comparative purposes.]

The latest annual statistical communiqué issued by the National Bureau of Statistics (NBS), dated 28 February 2006, was published by Xinhua on 15 March.

The introductory remarks highlighted the role of the "scientific approach to development" in guiding China's social and economic development, and spoke of "remarkable" achievements having been made in 2005. Thus,

> The national economy kept stable and fairly fast growth; breakthrough was made in reforms in major fields and key sectors; employment and social security programmes were further enhanced; the living standard of urban and rural population improved; China was opening wider to the outside world; and various social undertakings were strengthened. Main targets set forth for the economic and social development at the beginning of the year had been achieved, and the major tasks of the 10th Five-year Plan had been fulfilled which had laid a solid foundation for the economic and social development for the 11th Five-year Programme.

At the same time, the report made a familiar remark about the persistence of serious problems of "irrational economic structure and extensive mode of economic growth."

The main features of China's economic performance in 2005 are summarized below:

Preliminary estimates indicated that in 2005, GDP rose by 9.9 [9.5] per cent in terms of comparable prices to reach 18,232.1 billion *yuan*. All three major sectors shared in this performance, although as in previous recent years, industrial value-added growth (11.4 [11.1] per cent) outstripped the growth of agricultural (5.2 [6.3] per cent) and

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tertiary (9.6 [8.3] per cent) sectors. Sectoral shares of GDP were 12.4 per cent (primary), 47.3 per cent (secondary) and 40.3 per cent (tertiary).

Agriculture: 2005 saw a further expansion of the grain sown area by 2.67 million hectares to 104.27 million ha.; there was also an increase in the area under vegetables to 17.74 million ha. (up by 4.5 per cent). The sown areas under oil-bearing crops, cotton and sugar all declined – to 14.31 million, 5.06 million and 1.56 million ha., respectively (down by 120,000, 630,000 and 10,000 ha.). The output of major farm crops is shown in Table 4.

Total meat output rose by 6.3 [4.7] per cent to 77 million tons, of which the output of beef and mutton increased by 5.6 per cent and 9.3 per cent. Total output of aquatic products was 51 million tons (4.0 [3.2] per cent above the 2004 level). Timber production totalled 47.46 cubic metres (down 8.7 per cent).

Effective irrigation was extended to more than 1.02 million ha. of arable land, in addition to which some 1.23 million ha. were brought under guaranteed water-saving irrigation facilities.

Industry: industrial value-added grew by 11.4 [11.5] per cent in 2005. Further details are given in Table 5. Production of important industrial products is shown in Table 6.

As the following figures show, industrial profitability continued to improve in 2005. The rate of increase in profits of differing enterprise ownership categories was as follows:

- SOEs + 17.4 [42.5] per cent
- collective enterprises + 32.0 [31.3] per cent
- share-holding enterprises + 28.7 [39.4] per cent
- private enterprises + 47.3 [40.1] per cent
- foreign (incl. Hong Kong, Macau & Taiwan) invested enterprises + 6.9 [25.5] per cent

Table 4: **Output of Major Farm Products**

	Total output (million tons)	*% change over 2004*
All food grains	484.01	3.1 [9.0]
Oil-bearing crops	30.78	0.4 [8.8]
Peanuts	14.34	0.0 [6.6]
Rapeseed	13.05	− 1.0 [14.2]
Cotton	5.70	− 9.8 [30.1]
Sugar crops	95.51	− 0.2 [−1.2]
Sugarcane	87.60	− 2.5 [−0.8]
Beetroot	7.91	35.2 [−6.1]
Cured tobacco	2.41	11.5 [6.2]
Tea	0.92	9.8 [8.7]
Fruits	160.76	4.8 [5.0]
Vegetables	562.84	2.2 [1.7]

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Table 5: **Rate of Growth of Industrial Value-added, 2005**

	Rate of increase over 2004 (%)
Industrial enterprises above designated size*	16.4 [16.7]
State-owned and state-controlled enterprises	10.7 [14.2]
Collective enterprises	12.4 [9.9]
Share-holding enterprises	17.8 [16.5]
Enterprises invested by foreigners or investors from Hong Kong, Macau and Taiwan	16.6 [18.8]
Private enterprises	25.3
Light industry	15.2 [14.7]
Heavy industry	17.0 [18.2]

Note
*i.e. all state-owned enterprises and those non-state-owned enterprises with an annual sales income over 5 million *yuan*.

The construction industry grew by 11.9 [8.1] per cent, and construction enterprises generated profits of 81.8 billion *yuan* (13.8 [19.5] per cent above the 2004 level).

Fixed investment: in 2005 growth of fixed asset investment was marginally slower – up by 25.7 per cent—than in 2004 [25.8]. Relevant disaggregated data are shown in Table 7.

Urban investment in the primary sector rose by 27.5 per cent in 2005; the corresponding figures for urban secondary and tertiary fixed investment were 38.4 [38.3] per cent, and 20.0 [21.6] per cent. Table 8 summarizes the net impact of capital construction investment on production capacity in 2005.

Transport and telecommunications: there was continued growth in both passenger and freight transport in 2005 (see Table 9)

The turnover of post and telecommunication services increased by 24.6 [34.9] per cent. There were 38.68 [49.7] million new fixed telephone subscribers, taking the total number of subscribers to 350.43 million (239.77 [210.85] million in cities, and 110.66 [101.59] million in the countryside). There were also 58.6 [64.87] million new mobile phone subscribers, taking the total number of users to 393.43 million at the end of 2005. Thus, the total number of telephone users reached 743.86 million, or 15 [21.5] per cent more than at the end of 2004.

China received 120.29 million international visitors in 2005 – 10.3 [19.0] per cent more than in 2004. Of these, 20.26 million were ''foreigners'' (a rise of 19.6 [48.5] per cent); and 100.03 million were ''Chinese compatriots'' from Hong Kong, Macau and Taiwan (up 8.6 [14.8] per cent). Foreign exchange earnings from international tourism totalled US$29.3 billion, or 13.8 [47.9] per cent above the level of 2004. Some 31.03 [28.85] million Chinese made overseas visits, of whom 25.14 million undertook private visits (up 55.2 per cent).

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Table 6: **Output of Major Industrial Products, 2005**

	Total output	*% change over 2004*
Light industry		
Yarn	14.40 m. tons	11.5 [13.9]
Cloth	47,000 m. metres	11.9 [18.8]
Chemical fibres	16.18 m. tons	13.6 [20.6]
Sugar	9.03 m. tons	− 12.6 [−6.1]
Cigarettes	1,956.0 b.	4.4 [6.5]
Colour TV sets	82.83 m. units	11.5 [12.0]
Household refrigerators	29.86 m. units	− 0.7 [35.3]
Room air conditioners	67.65 m. units	5.9 [37.9]
Mobile telephones	303.54 m. units	6.4 [28.1]
Micro-computers	80.84 m. units	35.3 [40.3]
Integrated circuits	26.60 b. units	12.9 [42.6]
Programme-controlled switchboards	77.21 m. lines	1.3 [14.7]
Heavy industry		
Total energy production (standard coal equivalent)	2.06 b. tons	9.5 [15.2]
Coal	2.19 b. tons	9.9 [17.3]
Crude oil	181.00 m. tons	2.8 [2.9]
Electricity	247.47 b. kWh	12.3 [14.5]
Steel	352.39 m. tons	24.6 [22.7]
Rolled steel	396.92 m. tons	24.1 [23.3]
Non-ferrous metals	16.35 m. tons	13.2 [16.4]
Cement	1,060.00 b. tons	10.0 [12.5]
Ethylene	7.56 m. tons	20.0 [2.4]
Chemical fertilizers (100 per cent equivalent)	52.20 m. tons	8.6 [15.2]
Power-generating equipment	92.00 m. kWs	28.9 [92.9]
Motor vehicles	5.70 m. units	12.1 [14.2]
of which, cars	2.77 m. units	19.7 [11.7]
Large and medium tractors	162,000 units	42.7 [101.4]

Table 7: **Fixed Investment Growth by Sector and Region**

	Value (billion yuan)	*% increase over 2003*
Investment in fixed assets	8,860.4	25.7
Of which:		
Urban fixed investment	7,509.6	27.2
Rural fixed investment	1,350.8	18.0

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Table 8: **New Increases in the Production Capacity of Selected Industries, 2001–2005 [of which, 2005]**

Newly increased power generating capacity	176.5 [63.26] m. kW
Power transformer equipment with a capacity of over 110,000 volts	4,066.6 [1,530.6] m. kilovolt-amperes
New trunk railways put into operation	7,063 [1,203] km.
Double-track railways put into operation	3,556 [486] km.
Electrified railways put into operation	5,494 [863] km.
New highways	351,173 [129,748] km.
(of which, expressways)	23,964 [6,457]
Newly increased cargo-handling capacity of 10000-ton berths at harbours	452.32 [189.89] m. tons
Newly installed capacity of telephone switchboards	232.54 [46.08] m. gates
Newly installed length of optical-fibre cables	2,140,000 [530,000] km.
Newly installed capacity of digital cellular mobile phone switchboards	351.48 [85.98] m. subscribers

Table 9: **Passenger and Freight Traffic, 2005**

	Unit	*Volume*	*% change over 2004 [2003]*
Freight turnover	billion ton-km	7,832.98	12.8 [23.8]
railways	billion ton-km	2,073.05	7.5 [10.2]
roads	billion ton-km	857.38	9.3 [3.4]
waterways	billion ton-km	4,805.76	16.0 [17.3]
civil aviation	billion ton-km	7.89	9.9 [12.3]
pipelines	billion ton-km	88.9	12.4
Passenger traffic	billion passenger-km.	1,747.30	7.1 [18.2]
railways	billion passenger-km.	606.18	6.1 [19.3]
roads	billion passenger-km.	929.91	6.3 [13.9]
waterways	billion passenger-km.	6.71	1.3 [3.3]
civil aviation	billion passenger-km.	204.49	14.7 [41.1]
Volume of cargo handled at coastal ports		4.90	17.7 [21.3]
(of which, cargo for foreign trade)	billion tons	(1.36)	18.0 [18.4]

Revenue from *domestic* tourism was 471.1 billion *yuan* (a rise of 36.9 per cent).

Domestic trade: in 2005, real growth in the value of retail sales of consumer goods was 12 per cent to reach 6,717.7 billion *yuan* (by 13.6 [14.7] per cent in cities, and 11.5 [10.7] per cent in rural areas). More disaggregated estimates of sales growth are shown in Table 10.

In 2005 the general consumer price index rose by 1.8 [3.9] per cent. Commodity retails prices increased by 3.3 [2.8] per cent; manufactured

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Table 10: **Estimates of Domestic Sales Growth, 2005**

	%
Wholesale and retail industry	12.6
motor vehicles	16.6
oil and related products	34.4
cultural'' and office goods	11.4
telecommunication equipment	19.9
household electrical and electronic equipment and audio-video-equipment	14.8
building and decorating materials	22.1
daily necessities	11.9
furniture	13.3
food, beverages, tobacco and liquor	13.6
clothing	19.6
cosmetics	19.1
gold, silver and jewellery	13.9
Catering industry	17.7
Other industries	0.4

goods producer prices, by 4.9 [6.1] per cent; and purchase prices for raw materials, fuels and power by 8.3 [11.4] per cent. The prices of fixed investment assets rose by 1.6 per cent; farm products producer prices, by 1.4 per cent; and sales prices for housing in 70 large and medium cities increased by 7.6 per cent.

Consumer price changes for specific goods, or categories of goods, are shown in Table 11.

Table 11: **Percentage Change in the Consumer Prices of Selected Goods, 2005 [2004]**

Item	*National Average*		
		Urban	*Rural*
General level of consumer prices	1.8 [3.9]	1.6 [3.3]	2.2 [4.8]
Food	2.9 [9.9]	3.1 [9.1]	2.5 [11.5]
(of which, grain)	1.4 [26.4]	1.5 [25.7]	1.3 [27.7]
Tobaccos and alcohols	0.4 [1.2]	0.3 [1.2]	0.5 [1.3]
Clothing	−1.7 [−1.5]	−2.0 [−1.5]	−0.9 [−1.6]
Household appliances and services	−0.1 [−1.4]	−0.3 [−1.9]	0.3 [−0.3]
Medical, health and personal articles	−0.1 [−0.3]	−0.4 [−0.8]	0.5 [0.5]
Transport and telecommunications	−1.0 [−1.5]	−1.6 [−2.1]	0.3 [−0.2]
Recreational, educational, cultural articles and services	2.2 [1.3]	1.3 [0.8]	3.8 [2.1]
Housing	5.4 [4.9]	5.6 [4.3]	5.2 [5.8]

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Foreign trade and external relations: the buoyant momentum of recent foreign trade growth was again maintained in 2005, although the rate of increase was not as spectacular as in 2004. The combined value of exports and imports in 2005 rose by 23.2 [35.7] per cent to reach US$1,422.1 billion (see Table 12). The value of China's exports was US$762.0 billion (up by 28.4 [35.4] per cent), while imports increased by 17.6 [36.0] per cent to US$660.4 billion. Foreign-funded enterprises generated exports worth $444.2 billion (up by 31.2 per cent); the value of their imports rose by 19.4 per cent to $387.5 billion. Overall, China enjoyed a merchandise trade surplus of US$101.9 billion [US$32 billion]. A geographical breakdown of China's exports is shown in Table 13.

Inflows of utilized foreign direct investment (FDI) fell by 0.5 per cent in 2005, compared with a rise of 33.4 per cent in the previous year. The NBS Communiqué provides a detailed breakdown of FDI inflows by sectoral and industrial destinations.

Table 12: **Levels of and Changes in Imports and Exports, 2005**

	Value (US$ billion)	*% increase over 2004 [2003]*
Total exports	762.0	28.4 [35.4]
general trade	315.1	29.3 [33.9]
processing trade	416.5	27.0 [35.7]
Exports of:		
mechanical and electronic products	426.7	42.3 [42.3]
Total imports	660.1	17.6 [36.0]
general trade	279.7	12.7 [32.3]
processing trade	274.0	23.6 [36.1]
Imports of		
mechanical and electrical products	350.4	16.0 [34.2]

Table 13: **Direction of China's Foreign Trade, 2005**

	Exports		*Imports*	
	Value (US$ billion)	*% increase over 2004*	*Value (US$ billion)*	*% increase over 2004*
Hong Kong SAR	124.9	23.4 [32.3]	12.2	3.6 [6.1]
Japan	84.0	14.3 [23.7]	100.5	6.5 [27.3]
South Korea	35.1	26.2 [38.4]	76.8	23.4 [44.3]
ASEAN	55.4	29.1 [38.7]	75.0	19.1 [33.1]
European Union	143.7	34.1 [36.9]	73.6	5.0 [28.8]
Russia	13.2	45.2 [51.0]	15.9	31.0 [24.7]
United States	162.9	30.4 [35.1]	48.7	9.1 [31.9]
Taiwan	16.5	22.2	74.7	15.3

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Banking and Insurance: the NBS Communiqué noted that at the end of 2005, savings deposits lodged in all kinds of financial institutions totalled some 30,020.9 [25,300] billion *yuan* (18.2 [15.3] per cent higher than at the end of 2004. Savings by enterprises reached 10,175.1 billion *yuan* – a rise of 13.8 [16.4] per cent. Savings by urban and rural residents totalled 14,705.4 billion *yuan* (up 16.5 [14] per cent).

The volume of cash in circulation (M_0) rose by 11.9 [8.7] per cent; the corresponding figures for narrow (M_1) and broad (M_2) money were 11.8 [13.6] per cent, and 17.6 [14.6] per cent.

Welfare, living standards and employment: per capita cash disposable income of urban residents reached 10,493 [9,422] *yuan* in 2005 [2004] (a real rise of 9.6 [7.7] per cent over 2004 [2003]). Rural residents' average per capita net income was 3,255 [2,936] *yuan*: this represented a real increase of 6.2 [6.7] per cent. Such figures implied a further widening in the urban-rural per capita income gap. The number of rural residents below the poverty line was 23.65 million – a reduction of 2.45 million compared with the previous year.

Social security provision for urban residents showed further improvements. By the end of 2005, 174.44 [163.42] million people (130.82 [122.142] million employees and 43.62 [41] million retirees) were enrolled in basic pension programmes. Some 106.48 [105.84] million people also participated in unemployment insurance programmes, while 137.09 [123.86] million people were covered by basic health insurance. The number of people who received unemployment insurance payments fell from 4.19 to 3.62 million. Finally, 22.33 [22.01] million urban residents were in receipt of minimum income relief from the government.

In 2005, the net increase in urban employment was 8.55 million, and total urban employment was 273.31 (36 per cent of total employment throughout the economy). The official rate of registered urban unemployment was 4.2 per cent – the same as in 2004.

Population: China's total population at the end of 2005 was 1,307.56 [1,299.88] million. Of this total, urban residents numbered 562.12 [542.83] million (43.0 [41.8] per cent of the total; rural residents totalled 745.44 [757.05] million, or 57.0 per cent of the total. Vital rates for 2005 are shown in Table 14 while the sex ratio and age structure of China's population are shown in Table 15.

Resources and Environment: as in 2004, so in 2005 there were signs of improvements in resource use and environmental protection.

Table 14: **Vital Population Rates, 2005 [2004]**

	Rate per thousand
Birth rate	12.40 [12.29]
Death rate	6.51 [6.20]
Rate of natural increase	5.89 [5.87]

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Table 15: **Sex Ratio and Age Structure of China's Population, 2005**

	Population at year end (million)	*%*
National total	1,307.56	100.0
Male	673.75	51.5
Female	633.81	48.5
0–14 years	265.04	20.3
15–64 years	941.97	72.0
65 years and above	100.55	7.7

However, resource waste and environmental degradation remained serious problems.

Land was again managed more effectively in 2005, with 139,000 hectares of arable land – 4.1 [37] per cent less than in 2004 – appropriated for construction purposes. Nevertheless, the arable area suffered a net reduction of 362,000 [800,000] ha. (in addition to the loss of land for construction, there was further contraction of arable land because of natural disasters (54,000 [63,000] ha. destroyed), ecological preservation (390,000 [733,000] ha. removed), structural farm adjustment (12,000 [205,000] ha. lost); against this, reclamation and redevelopment projects added 307,000 [346,000] ha. of cultivated land).

Per capita availability of water rose to 2,098 [2,040] cubic meters. At the end of 2005, water storage in China's 454 [422] large reservoirs was 222.7 billion cu. m. – 28.3 billion cu. m. more than a year previously. Total water consumption rose by 0.5 [3.4] per cent to 557.8 billion cu. m. Of this, consumption for municipal and industrial uses increased by 6.9 [2.2] and 6.3 [2.8] per cent, although agricultural consumption fell by 1.6 [+ 3.8] per cent, respectively. Per capita water consumption averaged 427 [423] cu. m.

On 411 sections of China's seven major water systems, 41 per cent satisfied the national quality standard of Grade III for surface water (1 per cent less than in 2004); 32 [30.5]; and 27 [27.9] per cent were below Grade V. Other indicators showed some improvement in the quality of marine water, although 139,000 sq. km. of seawater failed to meet the quality standard of clean seawater – almost 18 per cent less than in 2004. Of this, 29,000 [32,000] sq. km. were described as being seriously polluted.

The incidence of natural disasters is 2005 was significantly more serious than in the previous year. Direct economic losses occasioned by such disasters totalled 204.2 billion *yuan*, while natural disasters affected almost 39 million hectares. Man-made disasters continued to exact a heavy toll, and in 2005 there were 450,254 [568,000] traffic accidents, which killed 99,000 people – the same as in 2004 – injured a further 470,000 [452,000] and caused direct property losses amounting to 1.88 [2.77] billion *yuan*.

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Table 16: **Consumption of Energy, 2005**

	Consumption	*% increase over 2004*
Total energy	2,200 m. tons (SCE)	9.5
Coal	2,140 m. tons	10.6
Crude oil	300 m. tons	2.1
Natural gas	50 b. cu. m.	20.6
Hydro-electric power	401 b. kWh	13.4
Nuclear power	52.3 b. kWh	3.7

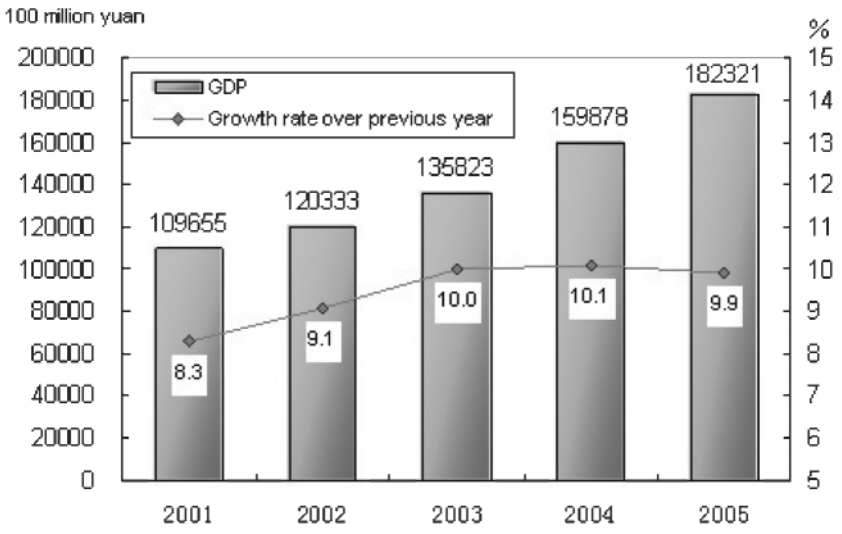
The latest survey of national forest resources (1999–2003) showed the total forest area to be 175 million hectares, with a forest coverage rate of 18.21 per cent. Newly discovered mineral resources included 1,098 million tons of crude oil, 380.2 billion cu. m. of natural gas, and 9,654 million tons of coal.

The NBS Communiqué provided preliminary estimates of energy consumption in 2005 (see Table 16). Energy consumption per 10,000 *yuan* of GDP was 1.43 tons of standard coal equivalent (SCE).

(e) *Achievements of the Tenth Five-Year Plan*

The graphs below are reproduced from the NBS communiqué on China's social and economic development in 2005, which also includes an overview of some of the major achievements of the 10FYP (2001–05) (see http://www.stats.gov.cn/english/newsandcomingevents/t20060302_402308116.htm). Figures 1–5 Relate to China's domestic development during this period.

Figure 1: **GDP and GDP Growth during the Tenth Five-Year Plan Period**



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Figure 2: **Grain Output and Grain Output Growth during the Tenth Five-Year Plan Period**

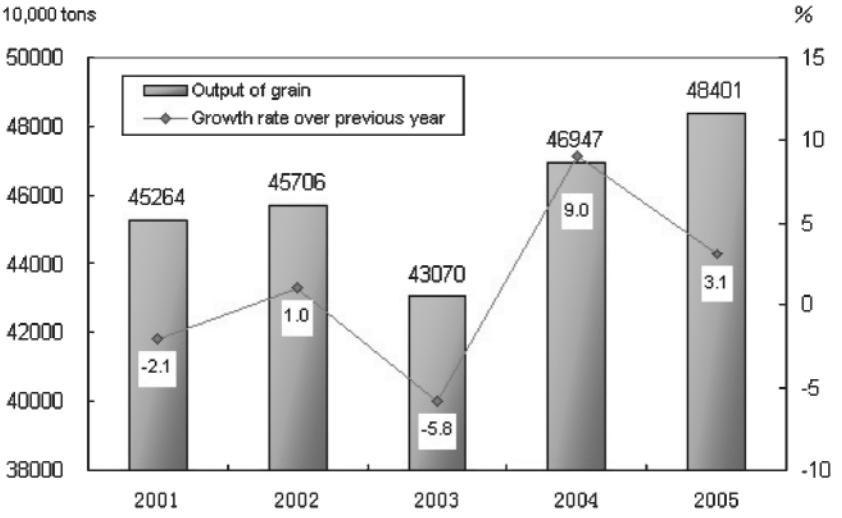
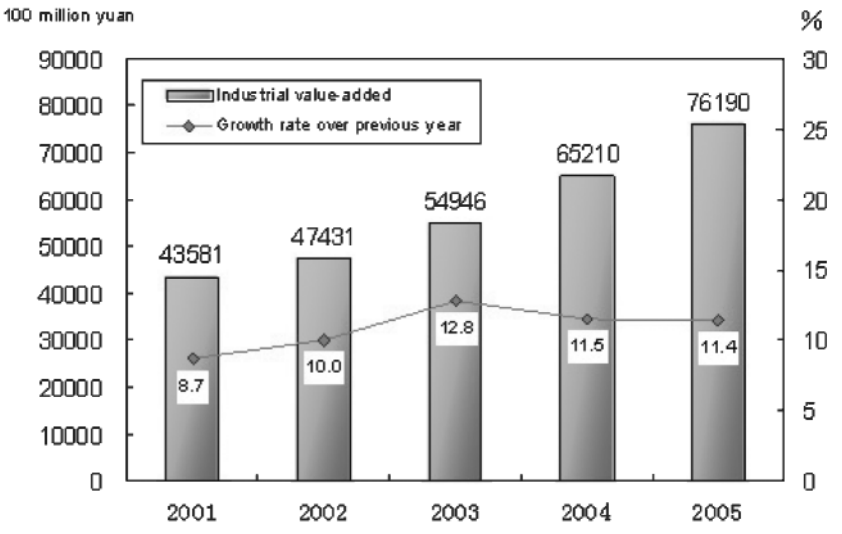


Figure 3: **Industrial Value-added and its Growth during the Tenth Five-Year Plan Period**



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Figure 4: **Fixed Assets Investment and its Growth during the Tenth Five-Year Plan Period**

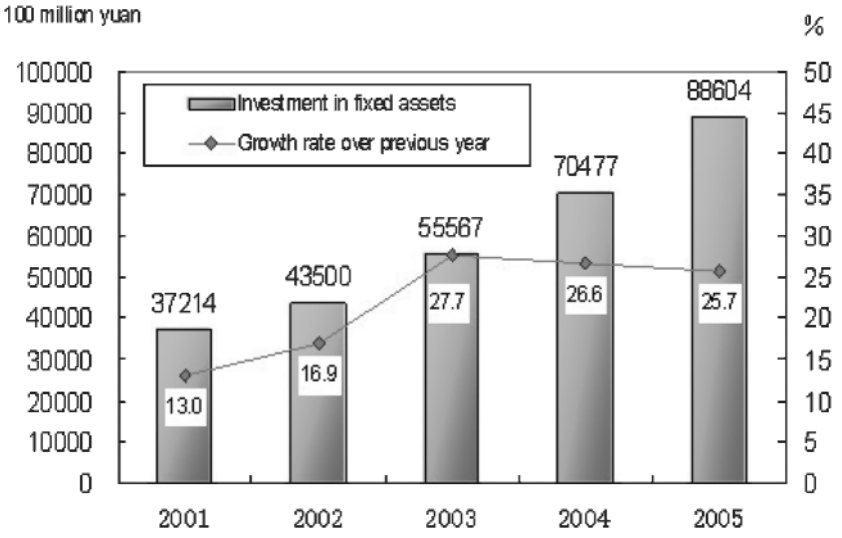
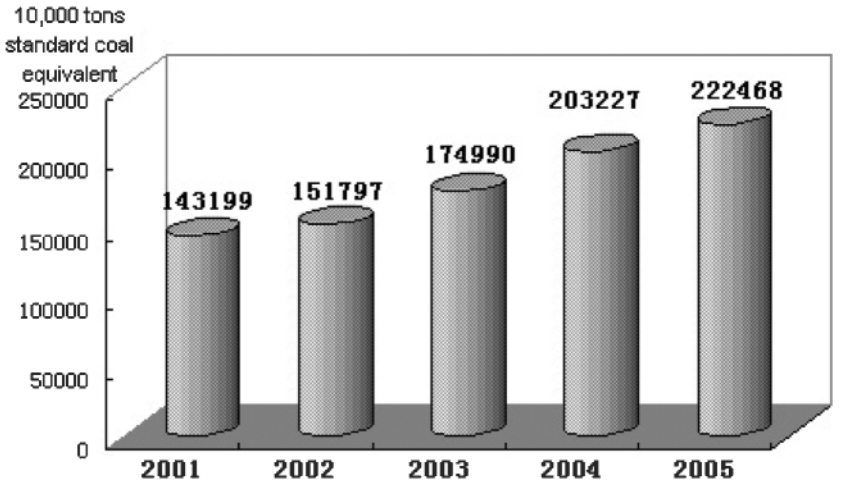


Figure 5: **Total Energy Consumption during the Tenth Five-Year Plan Period**



(f) *Social and Legal Affairs*

A spokesman for the Ministry of Public Security revealed that the number of disturbances to public order in China rose by 6.6 per cent in 2005 to 87,000 (the figures for 1994, 2003 and 2004 were 10,000, 58,000 and 74,000). More specifically, there was an 18.9 per cent increase in crimes "that interfered in government business," a 13 per cent rise in "mass gatherings that disturbed social order," and an 11.8

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per cent increase in cases of "provocation and stirring up trouble" (Hong Kong, *SCMP*, 20 Jan.). Major sources of social unrest included "disgruntled villagers dissatisfied with compensation for land requisitions, migrant workers petitioning for back pay, and laid-off workers at state-owned companies demanding welfare payments" (see also *SCMP*, 2 Mar.).

A Hong Kong source indicated that increased social unrest, combined with staff and funding shortages, had resulted in a major increase in police casualties during the last 15 years. As a result, more than one officer died and 20 were injured daily (*SCMP*, 24 Feb.). Between 1990 and 2005, 6,819 officers died – almost five times more than during 1981-89 and over six times more than in the three decades between 1949 and 1980 – and 120,783 were injured whilst carrying out their work. China has 1.7 million police officers – 0.12 per cent of total population, compared with 0.35 per cent in developed countries.

The results of China's Third One Per cent Sample Census revealed that on 1 November 2005, the total population reached 1,306 million – 3.2 per cent more than the corresponding figure shown in the Fifth National Population Census (1 November 2000). During 2001–05, the average annual rate of population growth was 0.63 per cent. The latest sample census indicated that people of 60 and above constituted over 11 per cent of total population (XHNA, 16 Mar.).

Zhang Weiqing (Minister in charge of the National Population and Family Planning Commission) stated that despite an expected surge in population growth in the second half of the decade – the result of the first single-child generation reaching reproductive age – China would seek to keep its total population below 1.37 billion by 2010. Zhang noted that in the absence of its previous family planning strategy, China's population would have exceeded the current level by almost 400 million. He also acknowledged the need to enact legislation in order to accommodate the unbalanced sex ratio at birth (government figures showed that the male-female sex ration was birth was 119:100 and that the number of Chinese bachelors might reach 40 million by 2020) (XHNA, 6 Jan.; and see *RMRB* website, 11 Feb., on the goal of keeping China's total population below 1.5 billion during the coming 15 years).

A report on ageing noted that after 2030, the burden of caring for the aged will rise sharply, and by 2051, almost one in three citizens would be above the age of 60. In the meantime, plans needed to be out in place to anticipate the ageing problem. One suggestion was that senior citizens should remain at home and be cared for within the community – an approach that was thought to be compatible with the typical family structure of "four parents, one couple and one child." This would obviate the burden of providing care homes for the elderly – a burden which China was unlikely to be able to meet, given its current availability of 8.6 care beds per 1,000 elderly people (cf. 50–70 beds in developed countries). The same report noted that about

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two-thirds of China's elderly rural population derived no benefit from existing social welfare, pensions and health systems (XHNA, 6 Mar.).

Xinhua published data to show the extent to which rural economic and social levels of development increasingly lagged behind that of the cities. Between 1978 and 2005, the urban-rural income gap had widened from 257:100 to 322:100 (in particular, the rate of widening had accelerated since 1997). In terms of educational and medical provision, standards in the countryside were far below those in the urban sector: in 2004, the ratio of "lecturer-level" teachers in rural primary schools was 35.9 per cent, compared with 44.8 per cent in cities; and 80 per cent of medical resources were still concentrated in cities, with less than a quarter of the rural population being covered by the rural co-operative medical care system. Half of all villages had no access to tap water; over 60 per cent had no access to flush toilets; 150 million rural households faced problems in securing fuel supplies (XHNA, 2 Mar.).

A report in *Zhongguo qingnian bao* (China Youth Daily, 12 Feb.) noted that *urban* poverty was continuing to increase and suggested that the *proportion* of the urban population living in poverty had overtaken that of rural residents. It put the urban poverty rate at between six and eight per cent. Unlike the past, when urban poverty disproportionately affected those who were incapable of working, most urban poor now mainly comprised urban unemployed – for example, rural migrants who had failed to find jobs, laid-off SOE workers, "residents in resource-exhausted cities and senior citizens relying only on pensions."

On 9 January, the Ministry of Health announced that an eighth person – a six-year-old boy living in Hunan province – had contracted H5N1 bird influenza. He had been hospitalized and his condition was described as stable. The previous seven human cases of bird flu (two of them fatal) were reported from Anhui, Fujian, Hunan, Jiangxi and Liaoning provinces, and Guangxi Zhuang Autonomous Region. Later the same month, it was reported that China had recorded 32 highly pathogenic avian flu outbreaks *in animals* in 13 provinces between January and December 2005, as a result of which 154,600 birds died and a further 22,571,200 were destroyed. The Chinese government had paid over 200 million *yuan* (US$12.2 million) to affected farmers – more than twice as much as in 2004.

On 18 January, it was reported that a 35-year-old woman in a village in Sichuan had died from bird flu on 11 January. A little under a week later, the tenth case of human bird flu was reported – again from Sichuan. The following month (25 February), a nine-year-old girl in Zhejiang Province and a 26-year-old woman in Anhui Province were confirmed as being infected with H5N1 bird flu.

In 2005 natural disasters in China caused the deaths of 2,475 people dead and left 15.7 million homeless. Almost 2.3 million houses were destroyed by the disasters, which caused direct economic losses of 204.21 billion *yuan* (higher than in any other year of the Tenth

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Five-Year Plan, 2001–05). Flooding was severe along the Yangtze and Yellow Rivers, major tributaries of the Pearl River and in the basins of the Huai and Liao Rivers. Henan and Yunnan suffered the worst droughts in recent memory. An earthquake also caused "huge" economic losses in Jiangxi Province. Some 8.7 billion *yuan* were allocated from the central budget to facilitate national disaster rescue and relief initiatives (XHNA, 5 Jan.).

(f) *Economic Affairs*

On 9 January, the National Bureau of Statistics (NBS) announced revised estimates of GDP growth rates, as revealed by China's first national Economic Survey. The revisions, as published by Xinhua, are shown in Table 17.

A subsequent Xinhua comment referred to some of the provincial implications of the revised figures. It noted, for example, that the GDP gap between Guangdong and Shandong provinces – ranked first and second – had widened as a result of the inclusion of revised higher estimates of the output of the former's large number of small and medium-sized enterprises. The heavy weighting of the service sector in Beijing's GDP similarly contributed most to the upward revision of the capital's GDP by 177.7 billion *yuan*. More generally, the XHNA article revealed that following the revisions, the GDP ranking of five of China's provincial-level units had risen, while that of seven others had fallen (XHNA, 12 Jan.).

A Xinhua report drew attention to some major targets contained in the Tenth Five-Year Plan (2001–05), which had not been fulfilled (XHNA, 3 Mar.) (See Table 18.)

On 8 March, *RMRB* set out the following targets contained in the 11th Five-Year Programme, as follows (see Table 19):

Table 17: **Annual Rate of Growth of GDP, 1993–2004**

	Previous estimate (%)	*Revised estimate (%)*
1993	13.5	14.0
1994	12.6	13.1
1995	10.5	10.9
1996	9.6	10.0
1997	8.8	9.3
1998	7.8	7.8
1999	7.1	7.6
2000	8.0	8.4
2001	7.5	8.3
2002	8.3	9.1
2003	9.5	10.0
2004	9.5	10.1
1997–2004	9.4	9.6

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Table 18: **Unfulfilled Tenth Five-Year Plan Targets**

	2005 target	*2005 actual*
Arable area	128 m. ha.	122.44 m. ha.
Spending on research and scientific development	1.5 % of GDP	1.3% of GDP
National energy consumption per 10,000 *yuan* of output value	1.22 tons of coal	1.55 tons of coal
High school enrolment rate	c. 60%	52%

Table 19: **Targets for 11th Five-Year Programme (2006–2010)**

Item	*Target*
GDP growth	7.5% p.a. (2006–2010)
Energy consumption per unit of GDP	To decline by 20% (2006–2010)
Water consumption per unit industrial value added	To decline by 30% (2006–2010)
Growth of urban per capita disposable income	5% p.a. (2006–2010)
Growth of rural per capita disposable income	5% p.a. (2006–2010)
Total population	Below 1.36 billion (2010)
Urban share of total population	47% (2010)
Increase in urban employment	45 million (cumulative, 2006–2010)
Increase in employment of migrant farm labour	45 million (cumulative, 2006–2010)
R & D expenditures as share of GDP	2% (2010)
Average length of education	9 years
Coverage of urban "basic endowment insurance"	223 million people (2010)
Coverage of "new rural Co-operative medical care"	80% of rural population (2010)
Arable area	120 million hectares (2010)
Forest cover	20% (2010)
Increase in railway track	17,000 km. (2006–2010)
Road length	2.3 million km. (2010)
Discharges of main pollutants	To decline by 10% (2006–2010)

It was reported that the State Council's State-Owned Assets Supervision and Administration Commission (SASAC) would seek to strengthen state-owned enterprise (SOE) reform during 2006. Measures would include accelerating adjustment of the structure of the SOE sector in order to improve resource distribution (e.g. through equity acquisitions, equity exchange, etc.); speeding up the establishment of a "modern enterprise system" through improvements in

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corporate governance; implementing more SOE closures and bankruptcies; assisting SOEs to separate their secondary businesses from their primary business activities; and intensifying efforts to increase the "self-innovation ability and core competitiveness" of SOEs (XHNA, 29 Jan.).

Xinhua published excerpts from an important speech on agriculture made by Wen Jiabao on 29 December 2005 during the National Rural Work Conference (XHNA, 19 Jan.). Wen's starting point was the strategic proposal adopted at the fifth plenary session of the 16th CCP Central Committee that China should create a "new socialist countryside." He noted that China had now reached the stage of development at which industry should assume the task of promoting agriculture, while the urban sector gave the lead to development in the countryside ("industry repaying agriculture and the towns supporting the countryside"). Only in this way would it be possible to achieve coordinated urban and rural economic and social development, and so fulfil "the grand goal of comprehensively building a well-off society [*xiaokang shehui*] and modernization." In short,

> building a new socialist countryside is related not only to agricultural and rural development and the peasants' enrichment, but also to the state's lasting political stability and the nation's great rejuvenation. We must stand at the level of the overall picture and regard the building of a new socialist countryside as a major historic mission in the modernization process, and turn it into the common understanding and action of the whole party and society.

The new initiative would embrace not only rural economic and social development, but also political and "cultural" construction, and Party building in the countryside. The essence of the new socialist countryside was captured in the emphasis on creating "developed production, affluent living standards, civilized rural style, clean and tidy villages, and democratic management." To these ends, it was essential to adhere to party guidelines and policies, especially in regard to meeting the demands of "giving more, taking less, and enlivening things."

Wen acknowledged that rural development had lagged well behind that of the urban sector for many years. More balanced growth was now needed, which in turn would require a major commitment to rural infrastructural construction. Accordingly, future fiscal allocations by the state would be deliberately biased towards the countryside in order to support rural construction. Such efforts would be supplemented by measures designed, in addition, to enhance fiscal support by large and medium-scale cities for rural economic and social development. At the same time, reforms at the level of towns and townships would be implemented in order to facilitate improvements in rural-orientated social management and public services offered by such units.

The Chinese Premier reaffirmed the central importance of the grain sector in facilitating economic development and the maintenance of

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social stability. On the one hand, he spoke of the success of recently implemented policies in improving the economic conditions of agriculture and the welfare conditions of grain farmers. On the other hand, he also conceded that "the present foundation of grain production is not sound." Land and water shortages, as well as demographic pressures, would make it increasingly difficult to achieve continued grain output growth at the requisite level. In addition, conditions for grain farmers were likely to become increasingly difficult in 2006, as rising farm input prices eroded farmers' profit margins. Thus, priority tasks for both the immediate and longer-term future were to kept the price of grain at a rational level, and to maintain the strictest possible protection over arable land in order to prevent illegal land seizures at minimal compensation.

Against the background of the existence of massive surplus farm labour, it was also important, said Wen, to facilitate labour mobility from farms into towns and cities. Some success had been achieved in this regard, although there was plentiful evidence that migrant labour was still susceptible to low wage exploitation and a lack of public and social security services. Such issues needed to be remedied as a matter of urgency. Meanwhile, recently-enacted legislation to improve access to education and health services within the rural sector itself must be fully implemented. (NOTE: The full text of the important document issued by the CCP Central Committee on 31 December 2005 – "Some Opinions … on Advancing the Building of a New Socialist Countryside" can be found in XHNA, 13 Feb. 2006; see also *RMRB*, 27 Feb.)

A Ministry of Finance official confirmed that throughout 2006, support for efforts to resolve the "three rural issues" [*sannong wenti*] would remain the focus of central financial spending, with particular emphasis on implementing policies designed to "give more, allow free rein" [*duo yu fang huo*] in order to facilitate the establishment of a new socialist countryside in China (XHNA, 4 Feb.). Priority tasks would include the following:

- complete abolition of the agricultural tax;
- improvements in the "three subsidies" policy (direct grain subsidies, subsidies for the purchase of farm tools and machinery, and a "comprehensive subsidy system by which farmers benefit by the growing of grain");
- support for the establishment of a comprehensive production capacity in agriculture through greater central investment allocations for purposes of agricultural and rural infrastructural construction;
- support for new "rural co-operative medical care systems" and promotion of rural education and other forms of social development.

A China Banking Regulatory Commission (CBRC) source revealed that at the end of 2005, the total value of assets housed in China's

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rural financial institutions – including rural credit co-operatives, rural co-operative banks and rural commercial banks – was 3.72 trillion *yuan* (c. US$460 billion). Their outstanding loans totalled some 2.2 trillion *yuan* – about 10.9 per cent of the national total of *all* financial institutions (XHNA, 24 Feb.).

The National Development and Reform Commission (NDRC) revealed that during 2001–05 – the period of the Tenth Five-Year Plan – employment was found for 43.68 million urban residents, while some 40 million rural inhabitants moved from the countryside into Chinese cities (XHNA, 30 Jan.). NDRC also reported that during 2005 5.1 million laid-off workers – 1.1 million of them between the ages of 40 and 50 – had found new jobs. At the end of 2005, around 610,000 former SOE workers had still not found fresh employment – 920,000 fewer than the corresponding figure at the end of the previous year. In 2005 108 million migrants left the countryside to seek jobs in cities and towns – some 5.64 million more than in 2004. Of these migrants, 57.8 per cent were described as having stable employment (XHNA, 14 Feb.).

According to the People's Bank of China, at the end of 2005, non-performing loans (NPLs) owed to Chinese commercial banks had fallen to a record low of 8.9 per cent (cf. 13.2 per cent a year earlier, and 17.9 per cent in 2003). Since 2003, 1,079.6 billion *yuan* (c. US$130 billion) of NPLs had either been transferred to asset management companies or simply written-off. In 2005 alone, NPLs worth 498.6 billion *yuan* were cancelled. As a result, three-quarters of China's commercial banks had now reached the statutory capital adequacy rate of 8 per cent (XHNA, 6 Mar.).

An article in *SCMP* quoted the Deputy-Director of China's National Energy Leading Group (Ma Fucai) as saying that with oil and natural gas reserves expected to increase by 4 and 10 per cent, respectively, during 2006–2010, energy self-reliance was attainable. Ma noted that domestic coal currently provided 77 per cent of China's power requirements, and said that the ratio would still be 60–70 per cent in 2030. He pointed out that despite China's enormous oil and natural gas reserves, per capita availability was a mere 8.3 and 4.1 per cent of global average levels. Another authoritative official source (the National Development and Reform Commission) revealed that under the 11th Five-Year Programme annual investment in the coal, oil and natural gas industries would reach 60–70 billion *yuan*, 40–50 billion *yuan* and 20–30 billion *yuan*. Overall energy investment during the next 15 years was expected to be 18 trillion *yuan* (*SCMP*, 14 Jan.).

China's State Intellectual Property Office (SIPO) revealed in January that a mere 0.03 per cent of Chinese enterprises owned key technologies of which they possessed intellectual property rights. It reported that 99 per cent of enterprises had never made a patent application, while 60 per cent did not have their own trademarks. Despite China ranking third in the world in terms of foreign trade, patented high technologies contributed only 2 per cent of total foreign

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trade volume. In 2004, half of the 130,000 applications for invention patents were made by multinationals based in developed countries (XHNA, 2 Jan.).

It was reported by the Ministry of Commerce that between 2002 and 2005, Chinese enterprises invested some US$18 billion overseas, recording an average increase of 36 per cent p.a. As of the end of 2005, cumulative FDI by Chinese enterprises had reached over $50 billion dollars. In 2005 alone, outward FDI increased by 130 per cent to $6.5 billion and was distributed among almost 200 countries and regions. The functional destinations of such investment included manufacturing, construction, transportation, electric communication and agriculture. In addition, during 2001–05, China dispatched over three million workers overseas and established 646 processing enterprises in 86 countries and regions (XHNA, 29 Jan.).

Xinhua reported that the Shanghai and Shenzhen Stock Exchanges both suffered major declines in the total volume of trading in 2005. Trading on the Shanghai Stock Exchange totalled 5 trillion *yuan*, or 35 per cent less than in 2004; the corresponding figure for the Shenzhen Stock Exchange was 1.24 trillion *yuan* (an annual decline of 21.5 per cent) (XHNA, 31 Dec. 2005).

The same source noted that China's total foreign debts (excluding those of Hong Kong and Macau) totalled US$ 267.5 billion, as of end-September 2005 – 8.07 per cent more than at the end of 2004. Mid- and long-term debts fell by $801 million to $123.5 billion, while short-term debts rose by $20.76 billion to $143.97 billion (*ibid.*).

Finally, it was reported that at the end of 2005, China's foreign exchange reserves totalled US$818.9 billion, or $208.9 billion (34.3 per cent) more than at the end of 2004 (XHNA, 15 Jan.; see also Xinhua commentary, 16 Jan.).

(g) *Education*

It was announced that as of 2006, primary and junior high school students in rural areas of western China would be exempted from having to pay tuition and other educational expenses during the nine years of their compulsory education. Similar policies would be introduced in other rural regions from 2007.

Table 20 shows enrolments in higher educational institutions in China both during the period of the 10FYP and in 2005 alone, as revealed by the NBS Communiqué on national economic and social development.

(h) *Military Affairs*

People's Daily published an article on China's army restructuring and the associated goal of putting in place a smaller, more technologically advanced and more efficient contingent of armed forces ("the aim of readjusting the army's establishment is to advance towards the goal of appropriate size, rational structure, crack organs, agile command, and improved combat strength, and to structurally

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Table 20: **New and Total Student Enrolments, 2001–05 and 2005 (millions)**

Item	*New enrolment in 2005*	*Total enrolment in 2005*	*Total number*	
			of graduates in 2001–2005	*of which in 2005*
Postgraduates	0.37	0.98	0.60	0.19
General tertiary education	5.05	15.62	9.71	3.07
Secondary vocational education	6.47	15.59	19.19	4.03
Senior secondary education	8.78	24.09	23.91	6.62
Junior secondary education	19.88	62.15	98.64	21.23
Primary education	16.72	108.64	111.71	20.20
Special education	0.049	0.36	0.23	0.043
Pre-school education	13.56	21.79	54.70	10.25

enhance capability in informatized warfare'') (*RMRB*, 10 Jan.). It noted that regional co-operation and joint tactical training had already facilitated improvements in tactical-level joint combat at divisional, brigade and regimental levels. A command training simulation system, an ''all-army academy and school (joint) laboratory training simulation system'' and a military training internet system linking the military regions had also been established.

A focal point of restructuring was the streamlining of cadres, and 170,000 of the 200,000 reduction in personnel were accounted for by cadres (so raising the cadre-soldier ratio throughout the army). NCOs had assumed a significant number of management, technical and other specialized posts formerly held by cadres, highlighting the role of NCOs – including female officers – as the ''main force in the army's soldier contingent.'' A further consequence of recent readjustments, which also embraced army academies and schools, was that the share of ground forces in all armed forces had fallen to its lowest-ever level. The shift towards military professionalization was shown in the fact that more than 90 per cent of leaders of combat divisions and regiments had received tertiary or higher education.

(i) *Obituary*

It was reported on 6 January that Yao Wenyuan – the last surviving member of the ''Gang of Four,'' which also included Mme Jiang Qing (d. 1991), Wang Hongwen (d. 1992) and Zhang Chunqiao (d. 2005) – had died of diabetes on 23 December 2005 at the age of 74. In 1976,

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following his arrest, Yao had been sentenced to 20 years in prison by a special tribunal of the Supreme People's Court. He was released from prison in October 1996 (XHNA).

(j) *Hong Kong Special Administrative Region (HKSAR)*

Addressing Legislative Council (LegCo) members on 12 January, the HKSAR Chief Executive (Donald Tsang) noted that in 2005 Hong Kong achieved its best economic performance since 1997, and was expected to maintain the momentum throughout 2006. GDP growth for 2005 was expected to be around 7 per cent (cf. 8.2 per cent in 2004). Employment too was at its highest level for four years, with the rate of unemployment down to 5 per cent (XHNA, 12 Jan.).

The HKSAR Financial Secretary, Mr Henry Tang, presented his 2006–07 budget to LegCo members on 22 February (full text available at the HKSAR website). In his review of Hong Kong's recent economic performance, Tang noted that robust GDP growth – 7.3 per cent in 2005 (cf. 8.6 per cent in 2004) – was accompanied by a "remarkable" expansion of exports of both goods and services, as well as higher fixed investment and consumer spending. During 2004 and 2005, 240,000 new jobs had been created, as a result of which employment had reached a record level of 3.43 million and the unemployment rate fallen to a four-year low of 5.2 per cent. Wages and incomes were also rising.

With nominal GDP having exceeded its previous 1997 peak in 2005, Tang argued that Hong Kong had fully recovered from the Asian financial crisis, and regained its strength and vitality. Domestic economic expansion was accelerating, and – despite problems associated with the United States' current account deficit and other difficulties – the external environment was expected to be "generally positive" during 2006. He admitted, however, that the full effect of higher oil prices and interest rate rises was yet to be felt.

Taking all these factors into account, Tang predicted that Hong Kong would experience "solid growth" – 4 to 5 per cent – in 2006. Employment would also continue to increase. Inflation would meanwhile remain "moderate," with the Composite Consumer Price Index (CCPI) rising by 2.3 per cent. Looking further ahead, he predicted real GDP growth at 4 per cent during 2007–2010 (6 per cent in nominal terms).

Tang noted that China was now the "economic engine" of the Asia-Pacific region. Hong Kong's task was to restructure its economy in such a way as to maximize the benefits of its close relationship, via the Closer Economic Partnership Arrangement (CEPA), with the Mainland. In this regard, Tang noted that Hong Kong's financial markets had, in recent years, become the "predominant fund-raising platform" for Chinese enterprises. Its external trade had meanwhile gradually shifted from re-exports to "supply chain management and high value-added logistics services," thereby facilitating rapid growth of offshore trade.

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Referring to CEPA, Tang noted that as of the second week in February, Hong Kong and the Chinese Mainland had reached agreement on rules of origin for a total of 1,370 products, and had issued over 10,800 certificates of origin for exports valued at US$ 3.7 billion. Within the first two years of CEPA's implementation, Hong Kong businesses had saved $240 million in tariffs. It was estimated that during the same period, CEPA had created 29,000 new jobs. Hong Kong's future co-operation with China would focus especially on the development of the Pan-Pearl River Delta (Pan-PRD) Region, for which a Framework Agreement was already in place.

The Article 45 Concern Group announced that it was to establish a new political party – to be called the Civic Party – under the leadership of Audrey Eu and the chairmanship of Prof Kwan Hsin-chin (*Radio TV Hong Kong*, 19 Mar.). The party's central policy platforms were demands for universal suffrage, democracy and "social justice" in Hong Kong.

2. Foreign Relations

(a) *Diplomatic Tours*

Li Zhaoxing's visits to Cape Verde, Senegal, Mali, Liberia, Nigeria and Libya

In Praia (11 January), Li Zhaoxing held talks with the Acting President (Aristides Lima), Prime Minister (Jose Maria Neves) and Foreign Minister (Victor Borge) of Cape Verde. The two sides signed an agreement on economic and technological co-operation.

The following day, Li travelled to Dakar, where he exchanged views with the Senegalese Prime Minister (Macky Sall). Against the background of Senegal having broken off diplomatic relations with Taiwan and resumed relations with China, he expressed his government's satisfaction with Senegal's one-China policy (the Chinese embassy in Dakar was reopened in the presence of the Chinese and Senegalese foreign ministers on 13 January). He hoped that the resumption of diplomatic ties would facilitate closer bilateral co-operation in areas such as agriculture, culture, education, health and human resource development. Sall endorsed Li's views and looked forward to the development of closer co-operative ties too in international relations (XHNA, 13 Jan.).

Following their talks in Bamako on 13 January, the Chinese and Malian foreign ministers (the latter being Moctar Ouane) signed an agreement on economic and technological co-operation. They also agreed to strengthen political dialogue and consultations on key issues in the United Nations and other international organizations (XHNA, 14 Jan.). Li Zhaoxing also met the President of Mali, Amadou Toumani Toure.

In Monrovia, the Chinese Foreign Minister held talks with the Liberian President-Elect (Ellen Johnson-Sirleaf) – the first woman to

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be elected President of an African country. Johnson-Sirleaf reaffirmed Liberia's adherence to the one-China principle and Chinese reunification (XHNA, 16 Jan.).

In the course of their discussions in Abuja, Li told his Nigerian counterpart (Oluyemi Adeniji) that in the wake of the visit to China by the Nigerian President (Olusegun Obasanjo) in 2005, bilateral relations had reached a new level. The two sides undertook to enhance both political and economic co-operation, as well as to promote more cultural and educational exchanges. They also signed a Memorandum of Understanding on the establishment of their strategic partnership, and an accord on bilateral economic and technical co-operation (XHNA, 17 Jan.).

The final leg of his tour took Li Zhaoxing to Libya, where on 19 January he exchanged views on bilateral relations, as well as regional and international issues, with Mu'ammar Qadhafi. Li expressed his appreciation of the Libyan government's support for the one-China principle and opposition to "Taiwan independence." Li also met Libya's Secretary of the General People's Committee (Prime Minister), Shukri Muhammad Ghanim, and the Secretary of Foreign Liaison and International Co-operation (Foreign Minister), Rahman Muhammad Shalqam.

(b) *Countries, Territories and Regions*

Africa (African Policy Paper; Togo)

On 12 January, Xinhua issued the Chinese government's first-ever "African Policy Paper." The Foreword to the document set China's African policy in the context of the complex political and economic changes taking place throughout the world. It described the African Continent as "an important force for world peace and development," and hoped that mutually beneficial relations between China and Africa would grow steadily in the coming years.

The content of China's "African Policy Paper" was as follows (on China's wish to establish a strategic partnership with Africa, see XHNA, 7 Mar.):

- Part I – Africa's position and role
- Part II – China's relations with Africa
- Part III – China's African policy
- Part IV – Enhancing all-round co-operation between China and Africa
  - IV. 1. The political field
  - IV. 2. The economic field
  - IV. 3. Education, science, culture, health and social aspects
  - IV. 4. Peace and security
- Part V – Forum on China-Africa co-operation and its follow-up actions

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- Part VI – China's relations with African regional organizations

The Togolese President, Faure Essozimna Gnassingbe, undertook a state visit to China in February. During his visit, he held talks in Beijing with senior Chinese officials, and travelled to Shaanxi Province and Shanghai

Caribbean (Dominica)

On 19 March, the President of the Commonwealth of Dominica (Nicholas Liverpool) arrived in Beijing. He met Vice-President Zeng Qinghong and other senior Chinese officials, with whom he discussed the development of bilateral relations and international issues of shared concern.

Central and Eastern Europe (Romania, Poland)

Between 27 and 29 March, the President of Romania, Traian Basescu, made a state visit to China. He held talks in Beijing with Hu Jintao, Wen Jiabao and Vice-Premier Wu Bangguo.

On 29 March Li Zhaoxing received his Polish counterpart (Stefan Meller) in Beijing. The two men discussed bilateral relations, as well as regional and international issues.

Central and Latin America (Bolivia, Mexico)

The Bolivian President-Elect, Juan Evo Morales Ayma, arrived in Beijing on 8 January for a two-day visit, during which he met Hu Jintao and other senior Chinese officials (see XHNA, 9 Jan. for an account of Ayma's meeting with Hu).

The following month saw the arrival in Beijing of the Mexican Secretary of Foreign Relations (Luis Ernesto Derbez Bautista) for talks with Li Zhaoxing that focused on bilateral relations. Both sides spoke with satisfaction of the "strategic partnership" between the two countries, and undertook to strengthen co-operation.

Commonwealth of Independent States (Russia)

On 21 March, the Russian President (Vladimir Putin) arrived in Beijing for a two-day state visit to China at the invitation of Chinese President Hu Jintao. Later the same day, the two leaders held talks on bilateral relations. Hu noted that in the ten years since the establishment of the "strategic partnership of co-ordination," ties between the two countries had become ever closer, not least thanks to the final settlement of "boundary issues left over by history." He made a proposal for improved bilateral "strategic co-ordination and substantial co-operation," whereby the two sides would "regard deepening substantial co-operation as a focus, push forward co-operation in trade, energy, hi-tech industry, infrastructure construction, utilization and preservation of cross-border water resources by improving trade structure, stimulating co-operation in large projects and promoting two-way investment."

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Putin noted China had become Russia's fourth largest trading partner (trade rose by 37 per cent in 2005 to reach US$29.1 billion), but said that there remained huge unrealized potential for a further expansion of economic ties that would take the value of two-way trade to US$60–80 billion by 2010. He called for accelerated co-operation in transport and banking in order to meet the demands of expanding bilateral trade (XHNA, 21 Mar., which also contains the full text of the two sides' subsequent joint statement).

Following their talks, Hu and Putin witnessed the signing of three agreements on oil and natural gas co-operation, as well as that of a further 12 co-operation documents. Later, they attended the opening ceremony of the "Year of Russia" in China.

On 22 March Putin and Wen Jiabao discussed bilateral relations and other issues. The Chinese Premier called on both sides to "place China-Russia relations in a more prominent position in each other's foreign relations" (XHNA, 22 Mar.).

Japan

On 21 February, the Japanese Minister of Trade (Toshihiro Nikai) arrived in Beijing for a three-day visit, during which he met Wen Jiabao. The meeting marked the two countries' highest-level dialogue for several months. Nikai's visit came against the background of acrimonious comments from official Chinese sources on the visit to the Yasukuni Shrine by Premier Junichiro Koizumi, and other differences. In advance of the visit, a Chinese Foreign Ministry spokesman urged Japan not to "cling to any fantasies, use any excuses or look for reasons to window-dress this [Yasukuni Shrine] issue, or worse yet, try to push the responsibilities onto China" (Kyodo, 21 Feb.). On his arrival, Nikai expressed the hope that he would have an opportunity for a "frank exchange of views" on the Yasukuni question, as well as on "various issues that Japan and China must overcome" (Kyodo, 21 Feb.).

Kyodo (22 February) reported that talks between Nikai and his Chinese counterpart (Bo Xilai) failed to resolve the principal political problem that divided the two sides. According to Nikai, although Bo did not explicitly say that Junichiro Koizumi should stop visiting the Yasukuni War Shrine, his comments nevertheless endorsed previous opposition to such visits. Nikai did, however, indicate that he and Bo had reached agreement on some issues, including the possibility of the Chinese Commerce Minister participating in a joint symposium on energy conservation and environmental protection, to be held in Tokyo during May. Nikai also gave an undertaking to consider China's request to be recognized by Japan as a full market economy. It appeared that the two men had not discussed the on-going dispute between Beijing and Tokyo on gas exploration in the East China Sea.

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Middle East (Saudi Arabia)

On 22 January, King Abdallah Bin-Abd-al-Aziz of Saudi Arabia arrived in Beijing for a three-day state visit at the invitation of Hu Jintao – the first ever undertaken by a Saudi Arabian king. The following day Abdallah held talks with President Hu. The two men agreed to strengthen bilateral relations. Hu noted that in the wake of the "remarkable" expansion of trade, economic and energy co-operation, Saudi Arabia had become China's biggest trade partner in West Asia and North Africa (see also below). In addition, the two countries had undertaken fruitful cultural, scientific, technological and security co-operation.

Hu made a four-point proposal on promoting closer bilateral relations. It included the enhancement of mutual trust in pushing forward bilateral political relations; the strengthening of energy co-operation to the two countries' mutual benefit; the further expansion of trade and economic co-operation in such a way as to realise the benefits of the two countries' economic complementarity; and the further development of cultural exchanges. The situation in the Middle East and Gulf Region was another focus of discussion. Following their talks, the two sides signed a protocol on bilateral co-operation in oil, natural gas and minerals, and several other co-operative documents (XHNA, 23 Jan.).

Shortly after the end of King Abdallah's visit, the Chinese Minister of Commerce (Bo Xilai) revealed that Saudi Arabia had become China's largest supplier of crude oil, as well as its biggest trading partner and second-biggest export market in West Asia and Africa. Between 1999 and 2005, bilateral trade increased from less than US$2 billion to $15 billion dollars, implying a rate of growth of 41 per cent p.a. By 2009–2010, the corresponding figure was expected to reach $40 billion (XHNA, 25 Jan.).

Northeast Asia (North Korea [Democratic People's Republic of Korea])

A South Korean source stated that the North Korean leader, Kim Jong-il, was visiting China in January for talks with Chinese officials, who were trying to revive the six-party talks on the DPRK's nuclear weapons programme (Yonhap, 10 Jan.). For some days, unconfirmed, reports spoke of Kim having been seen in Guangzhou, Shenzhen and Zhuhai (e.g., see Yonhap, Kyodo [Tokyo] and *ZTS*, all 11 Jan., *SCMP*, 14 Jan., Kyodo, 15 Jan. and ZTS, 17 Jan.). Finally, on 18 January, Xinhua acknowledged that Kim Jong-il had indeed made an unofficial visit to China from 10 to 18 January, during which he had travelled to Hubei and Guangdong, as well as Beijing.

In the Chinese capital, Kim held talks with Hu Jintao. The two men exchanged views on the further development of relations between China and North Korea, and on regional and international issues of common concern. They were said to have reached "important and

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broad consensus.'' On the Korean Peninsula nuclear question, Hu reaffirmed the Chinese government's view that the six-party talks offered ''an effective mechanism'' for peacefully resolving the issue, and expressed China's readiness to join the other relevant parties in facilitating further progress in the six-party talks process. Kim said that North Korea was similarly ready to work with China in an effort to overcome existing difficulties (XHNA, 18 Jan.).

Kim Jong-il also met Premier Wen Jiabao and Vice-Premier Wu Bangguo (Chairman of the NPC Standing Committee) in Beijing.

South Asia and the Indian Ocean (India, Pakistan)

On 8 January, the Indian Foreign Secretary (Shyam Saran) travelled to Beijing to attend the second round of the India–China strategic dialogue on bilateral, regional and international issues of common concern. The Chinese delegation at the talks was led by Wu Dawei (Vice-Foreign Minister in charge of Asian affairs). The talks were the first to take place since the Chinese and Indian governments agreed to upgrade their bilateral relations to strategic level in April 2005.

On 13 March the seventh round of special representative talks on the border issue between China and India was held in New Delhi. The Chinese Embassy in India said that Dai Bingguo (Vice-Foreign Minister and China's Special Representative at the talks) and M.K. Narayanan (India's Special Representative and National Security Adviser) had held ''constructive discussions on finding a framework for resolving the border issue,'' and had agreed that the next round of special representative talks should take place in China at a mutually-convenient time (XHNA, 13 Mar.).

On 19 February, the President of Pakistan (Pervez Musharraf) arrived in Beijing on a state visit. During their talks Musharraf and Hu Jintao committed themselves to further strengthening bilateral ties. Hu described the two countries' relationship as an ''all-weather friendship,'' which offered ''a paradigm of peaceful coexistence and sincere co-operation between countries of different social systems and cultures.'' Musharraf expressed his government's readiness to expand bilateral trade and co-operation in investment, energy and infra-structure. He also hoped that China would assist Pakistan in its efforts to combat the ''three forces'' – separatism, terrorism and extremism. Later, the two men witnessed the signing of a number of co-operation agreements on trade and economic co-operation (XHNA, 20 Feb.).

On 21 February, Musharraf met Wen Jiabao, who urged the consolidation and further development of China's strategic and co-operative partnership with Pakistan. He referred to the potential mutual benefit of a further expansion of trade ties and called for joint efforts by both governments to realize the advantages of the two countries' mutual trade complementarity.

At a Pakistan-China business forum, Musharraf called on Chinese enterprises to increase their investment in Pakistan. He referred to

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Pakistan's favourable strategic location as a regional energy corridor for China to access Southeast Asia, India and the Gulf region. He noted too that in 2005 bilateral trade between China and Pakistan had increased by 40 per cent. In response, Bo Xilai (Chinese Minister of Commerce) undertook to accelerate free trade area negotiations and to encourage more Chinese investment in Pakistan (XHNA, 21 Feb., which also carries the text of the two sides' joint statement).

Southeast Asia (Myanmar [Burma])

In February the Prime Minister of Myanmar (Soe Win) made a five-day official visit at the invitation of Wen Jiabao. In Beijing, he discussed the further development of bilateral relations with the Chinese Premier and other senior Chinese government officials. He also visited Shaanxi and Guangdong provinces (including Shenzhen) (XHNA, 18 Feb.).

Taiwan [Republic of China]

A joint statement issued by the CCPCC's Taiwan Work Office and the State Council's Taiwan Affairs Office of the State Council condemned President Chen Shui-bian's announcement that the National Unification Council [NUC] would "cease to function" and the "Guidelines for National Unification" [GNU] would "cease to apply." It added that the decision posed a "grave threat to peace and stability across the Taiwan Straits and in the Asia-Pacific region in general" (XHNA, 28 Feb.; and see XHNA, 1 Mar.). A Xinhua commentary picked up on Chen's use of word "cease to apply," instead of "scrap," and said that Chen was "playing with words in an attempt to deceive the Taiwan public and the international opinion." Despite claims that the proposed change would not affect the status quo, the Taiwanese President's clear intention, according to Xinhua, was to use the abolition of NUC and GNU in order to accelerate "Taiwan independence." The commentary highlighted the increasing risk associated with Chen's attempts to use constitutional reform in order to pursue "*de jure* independence" activities. On behalf of the Chinese government, a Foreign Ministry spokesman urged the United States to be aware of the seriousness and potential dangers of "Taiwan secessionist activities", and to adhere to its previous commitments on Taiwan by opposing Taiwan independence (*ibid.*; for Taiwanese reports on Chen's decision, see CNA, 28 Feb.).

A report issued in March by Taiwan's Ministry of National Defence (MND) acknowledged that China had established an "advantageous" foundation for invading the island. Delivering the report to the Legislative Yuan's National Defence Committee, the MND Director (Liang Kung-kai [Liang Gonggai]) said that the greatest military threat against Taiwan was the possibility of a "'blitzkrieg attack' involving tactical and cruise missiles targeted at Taiwan's political, economic and military installations." He noted that China had deployed over 800 tactical and cruise missiles against Taiwan, and

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was developing ten guided missiles and two surface-to-air cruise missiles. In addition, naval modernization – especially of its submarine fleet – meant that China had the potential to impose a blockade to sea traffic to and from Taiwan. Finally, the Chinese air force possessed over 400 new-generation fighter jets equipped with long-range and smart missiles that could attack air space over eastern Taiwan from a distance of 600 nautical miles. It was on the basis of such evidence of a military threat from China that MND argued for the necessity of obtaining P-3C anti-submarine aircraft and submarines (CNA, 20 Mar.).

Shortly after the MND's report had been presented to the Legislative Yuan, Taiwan's Vice-Minister of Defence stated that in half a day following a Chinese ballistic missile attack, over 20,000 members of the armed forces would be killed or wounded. In response to a question, he also said that MND estimates indicated that 42,000 replacement soldiers would have to be mobilized in the event of a full-scale military attack against Taiwan by the Chinese PLA (CNA, 29 Mar.).

A WTO report noted that in 2005 Taiwan was China's largest source of trade deficit, and that Taiwan's trade surplus vis-à-vis China – US$58 billion – was the largest in the world (South Korea and Japan ranked second and third, with surpluses with China of $42 billion and $16.5 billion) (CNA, 19 Mar.). The report added that the surplus reflected the shift of manufacturing operations from Taiwan to the mainland – this, in turn, indicating that Taiwan had "exported" its trade surplus with the USA and EU by "investing in, producing and exporting their products from China, the so-called 'world factory'."

A CNA reported that on 20 January, China Airlines (CAL) – Taiwan's largest air carrier – would inaugurate Lunar New Year cross-Strait charter flight services with a Taipei-Shanghai round-trip flight. The flight was said already to be fully booked, as also was CAL's Taipei-Beijing round-trip flight scheduled for 26 January. Five other Taiwan carriers – EVA Airways, Mandarin Airlines, TransAsia Airways, Far East Air Transport Corp. and UNI Airways – would make similar direct flights during the New Year season. Taiwan citizens with valid entry permits issued by the governments in Beijing and Taipei would be eligible to take any of the 72 special charter flights between Taipei and Kaohsiung in Taiwan and Beijing, Shanghai, Guangzhou and Xiamen in China (CNA, 18 Jan.).

United States of America

On 1 January, the Sino-US textile agreement came into force, providing for the imposition of quotas on 21 types of Chinese clothing and textile imports by 2008. The agreement allowed successive annual rises in imports – by 10–15 per cent (2006), 12.5–16 per cent (2007) and 15–17 per cent (2008). The agreement paralleled one reached in June 2005 between China and the European Union (EU). Negotiations with the United States and EU were prompted by the elimination, as of 1 January 2005, of the global textile quota and the

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allegedly disruptive impact on domestic American and European markets caused by the subsequent surge in textile imports from China (XHNA, 1 Jan.).

On 23 January, the US Deputy Secretary of State (Robert Zoellick) arrived in Beijing, where he held talks with Chinese leaders and senior officials, including Wen Jiabao, Li Zhaoxing and Vice-Foreign Minister Dai Bingguo.

On 9 March, the State Council's Information Office released a report on the "Human Rights Record of the United States in 2005." It made available statistical and other factual information, intended to demonstrate the "serious violations of human rights existing on the homeland of the United States" (XHNA 9 Mar.).

Western and Southern Europe (Greece, Germany, Spain)

Following his arrival in Beijing on 19 January, the Greek Prime Minister Costas Karamanlis and his Chinese counterpart signed a joint statement on the establishment of a bilateral all-round strategic partnership – the first such document to be signed since the two countries' establishment of diplomatic relations in 1972. In their talks, Wen spoke with satisfaction of the development of relations between China and Greece, and put forward a five-point proposal, embracing political, economic, cultural and sports co-operation (including enhanced co-operation in regard to the 2008 Beijing Olympic Games), in order to facilitate the future continued development of bilateral ties. Karamanlis reiterated the Greek position that the EU arms embargo against China should be lifted (XHNA, 19 Jan.).

In February, the German Foreign Minister (Frank Walter Steinmeier) held talks with Wen Jiabao in Beijing. They discussed bilateral relations and other issues of shared concern.

Steinmeier also met Li Zhaoxing, who spoke of the sound development of economic and political relations between China and Germany. Li spoke of the importance which the Chinese government attached to its relations with Germany and hoped that the two sides would make even greater efforts to strengthen their strategic partnership. The two men also discussed regional and international issues (including the Iran and North Korea nuclear issues, and reform of the United Nations) (XHNA, 22 Feb.).

On 20 March the Spanish Foreign Minister, Miguel Angel Moratinos, arrived in Shanghai to begin a four-day official visit to China. He attended the third meeting of China-Spain Forum in Shanghai, and then travelled to Beijing, where he discussed regional and international issues with his Chinese counterpart, Li Zhaoxing.

Moratinos spoke of the potential for a significant expansion of bilateral trade relations. In 2005 alone, trade had increased by 45.7 per cent to reach US$10.5 billion (XHNA, 21 Mar.). The Spanish Foreign Minister subsequently travelled from Shanghai to Beijing, where (22 March) he held talks with Wen Jiabao and other senior Chinese government and Party leaders.

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