Quarterly Chronicle and Documentation

(July–September 2001)

Sources

The principal sources of information on which this chronicle is based are British Broadcasting Corporation, *Monitoring Global Newsline – Asia-Pacific Political* and British Broadcasting Corporation, *Monitoring Global Newsline – Asia-Pacific Economic*. These sources are only available online and replace the former BBC *Summary of World Broadcasts* (*SWB*), which were previously available in hard copy. The current online versions no longer have reference numbers (as did each issue of *SWB*), 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 been omitted, except for the sources from which the BBC reports themselves are taken.

Abbreviations

XHNA—Xinhua (New China) News Agency
CNA —Central News Agency (Taipei)
ZTS —*Zhongguo tongxun she* (*China Reporting Agency*), Hong Kong
ZXS —*Zhongguo xinwen she* (*China News Agency*), Beijing
RMRB —*Renmin ribao* (*People's Daily*)

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1. Internal Developments

(a) *The 23rd Session of the Ninth NPC Standing Committee*

The 23rd Session of the NPC Standing Committee concluded in

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Beijing on 31 August, having adopted a variety of legislative and administrative resolutions and decisions. Among senior judicial and other appointments and removals announced at the meeting was the appointment of a new Minister of Agriculture, Du Qinglin, in place of Chen Yaobang. Du, aged 54, had been Secretary of the Hainan Provincial CCP Committee since 1998 (XHNA 31 August).

The Standing Committee also approved the Revised Criminal Law (II) of the PRC, which took effect from 31 August. Particular attention was drawn to three articles (228, 342 and 410) of the Revised Criminal Law, which sought to clarify the precise meaning of illegal acquisition and occupation of arable and forest land and grass pasture. Such clarification was thought necessary in order to combat the destruction of farmland and its transfer to non-farm uses. In addition to revisions of the Criminal Law, and in a parallel effort to improve China's ecological environment and enhance the sustainability of development, delegates adopted the Law on the Prevention and Treatment of Desertification (to take effect 1 January 2002). Finally, in an attempt to improve public awareness of the importance of national defence, Standing Committee delegates adopted a decision to designate the third Saturday of every September as the Day of National Defence Education.

It was subsequently revealed that Standing Committee members were engaged in drafting a property rights law, designed to protect the legitimate rights of enterprises and to enhance their ability to compete fairly with one another. Such legislation was thought especially important in the light of China's impending accession to the World Trade Organization (WTO).

(b) *The Sixth Plenary Session of the 15th Chinese Communist Party (CCP) Central Committee*

The Sixth Plenum of the 15th Central Committee of the CCP (CCPCC) took place in Beijing between 24 and 26 September. Its main task was to examine a CCPCC decision (Decision of the CCP Central Committee on Strengthening and Improving the Building of Party Style (hereafter Decision)), intended to strengthen and improve Party work style. The plenum also adopted a resolution on convening the 16th National Congress of the CCP in the second half of 2002 (XHNA, 26 September).

Jiang Zemin's imprint on the Decision was clear, particular reference being made both to the importance of his recent speech (that of 1 July – see below under (c)) and to the need for the Party to be guided by his "three representations" (*san ge daibiao*) (this referring to the modernizing role of the CCP through its representation of "advanced production forces, advanced Chinese culture, and the basic interests of the Chinese people"). The Decision stressed that the quality of its ideological and organizational work style would determine the extent of popular support for the Party and its very survival.

In the years since the Third Plenum of the 11th CCPCC (December 1978), major progress had been made towards improving the Party's

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work style. However, the challenges of China's pursuit of a socialist market economic system had not been fully met, especially in regard to the "material temptations … [of] … corrupt bourgeois ideology and the remnants of feudal thinking." The outcome was the persistence in some areas of lax discipline and an insufficient awareness of the importance of ideological and political development, as well as economic advancement. Thus, traditional Party values had been eroded, and some members had "developed an ideology of seeking ease and comfort and not wanting to forge ahead." Associated problems included the "spread of dogmatism … the rise of formalism and bureaucratism, serious cooking of the books and false and exaggerated reports … the spread of using power for private gain and indulging in pleasure."

Such was the background against which the CCPCC's Decision, designed to set out the guiding ideology for Party members and cadres, had been formulated. To this end, it defined the broad requirements, key issues and priority tasks necessary to bring about an improvement in Party work style–above all, highlighting the core issue of maintaining the "close flesh-and-blood relationship between the Party and the masses." Progress in this direction demanded that Party leaders and senior cadres should take the lead in being role models and exemplars for others ("we must not only talk the talk, more importantly we must walk the walk").

Central to fulfilling this task was that Party members should unite around the CCPCC and "with comrade Jiang Zemin at the core, [raise] high the great banner of Deng Xiaoping Theory, conscientiously implementing the important 'three representations' concept, pioneering and forging ahead, doing solid work, using a new spirit and look to create new glories in order to achieve greater victories in the undertaking of establishing socialism with Chinese characteristics" (XHNA, 26 September; see also *RMRB* (Editorial), 27 September and, for further comment, Hong Kong *Ta Kung Pao* [*Dagong bao*], 27 September).

The text of the communiqué of the Sixth Plenum was published by Xinhua on 26 September. It noted that in addition to 190 full members and 139 alternate members of the CCPCC, representatives of the Central Discipline Inspection Commission had attended the session as non-voting delegates. Jiang's speech at the meeting, intended to commemorate the 80th anniversary of the founding of the CCP, was described as having "comprehensively reviewed and systematically summed up the brilliant history and basic experience of the Party over the last 80 years," while also addressing the key issues that currently faced the Party as it sought to meet the demands of reform and opening up. The communiqué drew attention to the changed conditions at home and abroad under which the CCP now had to operate, but stressed the continued relevance of the guiding ideology of Marxism-Leninism-Mao Zedong Thought and Deng Xiaoping Theory, as well as the more recent ideological contribution contained in the concept of the "three representations." It conceded that improving the Party's work style would be a prolonged and difficult task, and urged that the work should follow a careful timetable, starting with efforts to address the most outstanding problems affecting "ideological

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style, study style, work style, leadership style, and cadres' lifestyle." To this end, the immediate task should be to implement "eight adherings and eight opposings," namely:

> adhering to the principle of emancipating the mind and seeking truth from facts, and opposing the habit of following the beaten track and a lack of enterprising spirit; adhering to the principle of combining theory with practice, and opposing bookishness; adhering to the principle of maintaining close links with the masses, and opposing formalism and bureaucratism; adhering to democratic centralism, and opposing making arbitrary decisions and laxity; adhering to Party discipline, opposing liberalism; adhering to justice and cleanness, and opposing the abuse of power; adhering to the principle of working hard, and opposing hedonism; adhering to the principle of promoting officials according to their ability, and opposing malpractice in promoting officials.

The communiqué was at pains to highlight the importance of ideological awareness. It called on Party members to bear in mind that socialism in China was still in an early ("initial") stage and, in the face of changing global conditions, to view their own efforts on behalf of the Party in the light of fulfilling the criteria of the "three beneficials" (i.e. ensuring the development of social productive forces, increasing China's socialist strength, and improving mass living standards). It also urged them to avoid too dogmatic an approach towards Marxism, to eliminate "subjectivism" and to be innovative in further developing Marxist theory.

Winning the struggle against inner-Party corruption was an essential condition of maintaining Party power and authority. If that struggle were to succeed, cadres must avoid all manifestations of waste and extravagance, opting instead for a "revolutionary" work style, embodying appropriate ideological and moral values. By the same token, advancement within the Party should be based on merit alone. Thus:

> We must comprehensively implement the policy of making our cadre contingents more revolutionary, younger, more knowledgeable, and more professional, as well as the principle of appointing people with both virtue and ability.

(c) *Party and Political Affairs; Public Order; Ideological and Legal Developments; The Olympics*

On 1 July, Jiang Zemin, CCP General Secretary, made an important speech on the 80th anniversary of the foundation of the Chinese Communist Party (available in XHNA, 1 July). His review of China's post-1840 history was grounded in the twin orthodoxies of "imperialism" and "feudalism" as principal contributory causes of China's failure to achieve economic and political development. Although acknowledging the major significance of the 1911 Revolution, Jiang noted that it had failed to change China's "semi-colonial and semi-feudal social nature," thereby perpetuating the impoverishment of its people. Only with the emergence in the 1920s of the CCP – and its application of Marxism-Leninism to the "Chinese workers' movement" – did conditions begin to change, as the Party fulfilled "the great historical mission of leading the anti-imperialist

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and anti-feudal revolutionary struggle, winning national independence and people's liberation, and invigorating the Chinese nation."

Jiang spoke of China's rapid economic and social development since 1949, but drew particular attention to the achievements of economic reforms and the open door policy in supporting an accelerated development momentum since 1978. Against the background of collapsing communist regimes elsewhere in the world, he was at pains to stress China's survival as a *socialist* nation that continued to uphold the guiding role of Marxism. He noted too with satisfaction the retrocession to China of Hong Kong and Macau, and expressed confidence in Taiwan's ultimate reunification with the mainland.

Jiang Zemin emphasized the central importance of maintaining the closest possible links between Party and people. To that end he urged his colleagues to intensify Party building and to use the notion of the "three representations" in order to overcome problems of work style that had arisen out of the new challenges of China in transition.

Jiang also stressed the need to develop further China's productive forces, represented by the CCP, in order to maintain the socialist thrust of development and ensure socialism's superiority over capitalism ("socialist modernization must be built on the basis of developed productive forces"). In this process, man would still play the most fundamental role, although modern scientific and technological progress promised to give added impetus to social and economic development. Nevertheless, as a country still in the "primary stage of socialism," China still faced many problems that made the fulfilment of socialist modernization a long-term and difficult task.

Jiang insisted that Marxism remained the "fundamental guiding principle for the consolidation of the Party and the development of the country." But he urged too that it should not be treated as a dogma, but should be developed to meet the emerging demands of new circumstances. The CCP remained the "vanguard of the working class." But at the same time, Chinese society itself had changed under the impact of post-1978 reforms, reflecting the emergence of new social strata – including private entrepreneurs and other technical and managerial staff working in the non-public sector, who had "contributed to the development of productive forces … [and who] together with workers, peasants, intellectuals, cadres, and officers and men of the PLA, … are also building socialism with Chinese characteristics." Given that the main criteria for admission to membership of the Party were a person's efforts on behalf of Party policy, Jiang went on to argue, in the most controversial part of his speech, that:

> The basic components and backbone of the Party are those from workers, peasants, intellectuals, servicemen, and cadres. At the same time, it is also necessary to accept those outstanding elements from other social sectors who have subscribed to the Party's programme and Constitution, who have self-consciously worked for the Party's line and programme, and who have proved to meet the requirements for Party membership through a long period of tests … With economic development, the broad masses of people are upgrading their living standards and gradually increasing their

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personal property. In view of this, it is not advisable to judge a person's political integrity simply by whether one owns property and how much he or she owns. But rather, we should judge him or her mainly by his or her ideological and political awareness and actual performance, by how he or she has acquired the property, and how it has been disposed of and used, and by his or her actual contribution to the cause of building socialism with Chinese characteristics.

In short, through this pragmatic approach, the way seemed open to admitting entrepreneurs and other previously regarded ideologically-suspect categories to membership of the Chinese Communist Party.

The impact of Jiang's speech reverberated throughout China during the entire quarter. Typical were remarks such as that it represented a "creative development of Marxism-Leninism-Mao Zedong Thought and Deng Xiaoping Theory," which would help to integrate Marxism's basic tenets with the new challenges of Chinese reforms (Vice-Premier Li Lanqing, quoted by XHNA, 9 July), and that it had made "a new contribution to Marxist party-building theory" (Wei Jianxing, *ibid.*). There were widespread calls to study the speech and to use its content to combat inner-Party corruption and strengthen Party work style. By the end of July, the Party's Central Organization Department had already organized four workshops focusing on how to implement the guidelines set out by Jiang.

Zeng Qinghong pointed to three main elements in Jiang's speech: first, its embodiment of the key notion of the "three representations;" secondly, its demonstration of innovative thinking in terms of the further development of Marxism; and thirdly, its formulation of a missionary statement on national rejuvenation. It was this combination of elements, said Zeng, which demanded careful study of Jiang's remarks (XHNA, 31 July; see also Zhong Xuan, "A Marxist programmatic document" in *RMRB*, 11 September, for further encomium; also useful are *RMRB* web site, 28 August and *Jingji ribao* (*Economic Daily*), 27 August).

Of all the issues raised in Jiang's speech, his implicit approval of entrepreneurial membership of the CCP elicited the greatest attention. On 18 July, one Xinhua report noted that for the first time ever, senior managers in foreign-funded and private enterprises would be allowed to compete for 39 leadership posts in Beijing's government departments, the only condition being that they should have served in their managerial positions for at least three years. The appointment of successful candidates, whose selection would begin on 26 July, would be subject a one-year probationary period (XHNA, 18 July).

On 27 August, Xinhua issued a long statement on Jiang's speech, including guidelines for the admission of entrepreneurs to the CCP. It argued that the recruitment of appropriate ("outstanding") elements into the Party would enhance the authority of the Party and underline its role as the embodiment of advanced productive forces. It also made the point that many "advanced elements" within new social classes that had emerged since 1978 had their origins in the families of peasants, workers, students, state-owned enterprise (SOE) white and blue-collar employees, Party and government cadres, academic personnel and returned students

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from overseas. Their backgrounds, as well as their expertise and the values they espoused, made them excellent candidates for Party membership. Not that the widening of Party membership would be without its limits; on the contrary, those unable to meet strict membership criteria would be excluded in order to ensure that the Party would remain the "vanguard of the working class." Such exclusion would extend to those whose claim to Party membership was economic strength rather than ideological commitment (XHNA, 27 August).

A more sceptical analysis of the implications of Jiang's speech was offered in an article by Lin Yanzhi (described as an "alleged Li Peng protégé") (see *Shehui kexue zhanxian,* 20 June: in Chinese, but here quoted in translation from BBC, *Monitoring Global Newsline – Asia-Pacific Political*). Lin acknowledged that one impact of post-1978 reforms in China had been to generate the emergence of "fully-fledged capitalists" and conceded that this development was an inevitable by-product of the reforms pursued by China. But he also quoted Deng Xiaoping to the effect that "reform is the self-perfection of socialism" and that "[I]f our policies lead to polarization, then we will have failed. If they create some sort of nascent capitalist class, then we will have truly fallen into evil ways." Even admitting that market economic development was necessarily premised on capitalism, Lin nevertheless argued that Deng's essential contribution had been to separate the practice of market economics from "the body of capitalism," whilst – through the concept of a "socialist market economy" – simultaneously integrating the market economy with socialism.

Lin further argued that Russia's experience demonstrated the deep social chaos and economic decline attendant upon the effort to rely on a "nascent capitalist class" in order to generate renewed growth. For China to follow the same path would be to prompt a similar pattern of social and economic dislocation. The moral of the Russian experience was clear: "China cannot ever again bank its valuable future on such an attempt, the price is too great." The further inference was that in its efforts to promote socialism with Chinese characteristics, it was essential to adhere to a fundamental principle: that the system of public ownership should continue to maintain its commanding position within the economy. China's nascent capitalists were admissible under current conditions, but only if they were controlled in such a way as to ensure that they served the ultimate purpose of creating a socialist market system. It followed, as Jiang himself had recognized in a speech made in 1989, that private entrepreneurs should not be permitted to join the Party. To ignore this injunction would be to invite "conceptual chaos within the Party, and destroy the unified foundation of political thought of the Party," thereby jeopardizing the ability to resolve inner-Party problems by peaceful means. In short:

> Allowing private entrepreneurs to join the Party would imply that we recognize exploitative thinking and the legality of exploitative behaviour within the Party. If Party members regard exploitation as the main source of life and regard it as the

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foundation point of departure for considering issues, then educating Party members in the need to steadfastly maintain the ideals of communism, to serve the people with all of their hearts and minds, and educating them in the concept that individual interests are subordinated to the interests of the group, and similar concepts are just so much empty talk. The Party name, the Party Constitution, and the Party platform all would have to be changed. Moreover, to require private entrepreneurs to live up to the standards of Communist Party members is completely divorced from reality. Doing all of this is the same as repudiating the class nature of the Party, as repudiating the class purity of the Party, and as repudiating the Party's advanced class nature."

More criticism of the speech was voiced in a Hong Kong source (*Hong Kong iMail* web site, 2 August), which referred to the publication of open letters from veteran Party cadres, urging the Party to reconsider the decision to allow private entrepreneurs to join the CCP on the grounds that revised membership rules would replace the workers-based Party with one that was capitalist-orientated. The letters allegedly highlighted the exploitative and potentially depolarizing impact of private enterprise, pointing out that in 1999 15.1 million private enterprises generated less than 13 per cent of potential tax revenue available from such firms. The Hong Kong source suggested that the response to Jiang's speech showed that the CCP had reached a crossroads, at which a choice now had to be made between the recruitment of new social forces (e.g. private enterprises) in order to broaden the Party's social base and enhance its legitimacy, and adherence to the more traditional view, which regarded capitalists as a source of "corruption" and consequent erosion of Party authority.

Issues of Party building during the quarter were mostly dominated by the repercussions of Jiang Zemin's 1 July speech and the CCPCC's Decision on Strengthening and Improving the Building of the Party Style, adopted at its Sixth Plenum. Inherent in both was the importance of inculcating the concept of the "three representations" amongst cadres and Party members.

In Beijing on 27 September, Jiang himself addressed a forum organized by the CCPCC and designed to solicit views from a wide range of constituencies on the CCPCC's Decision. He stressed yet again the critical importance of seeking to strengthen the Party's work style, not only in order to accommodate new domestic demands, but also those emanating from international and global developments. In the absence of a firm ideological core and strong organizational framework, the Party would, he said, be unable to meet such challenges, and might even atrophy and die. Other speakers echoed Jiang's views and comments (XHNA, 27 September).

The following month, Ding Guangen (a member of the CCPCC and head of its Propaganda Department) addressed a national work conference of propaganda department heads. He reiterated the urgent need to study, publicize and implement Jiang's 1 July speech in which (so he claimed) were enshrined "the glory of the basic principles of Marxism." Only by so doing would all those engaged in propaganda and ideological

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work reach a proper understanding of China's political situation and the Party's role in maintaining its leadership function.

Concerns about widespread corrupt practices, highlighted in both Jiang's 1 July speech and the Decision of the 15th CCPCC's Sixth Plenum, were voiced elsewhere throughout the quarter. Speaking in Harbin on 22 July, Wei Jianxing (Secretary of the Central Commission for Discipline Inspection, and a member of the CCPCC's Political Bureau) called for an intensification of the anti-corruption campaign throughout the Party in order to enhance national economic development. He urged CCP members to improve their values and world outlook, urging them in particular to resist the temptations of "power, money and sex." Wei warned that those found guilty of corrupt practices would face severe penalties, and gave an undertaking that the Party would do all in its power to promote grassroots democracy, safeguard the people's legitimate rights, and protect their economic, political and cultural rights (XHNA, 22 July; see also *RMRB*, 27 July, and *RMRB* web site, 29 August).

The extent of corruption among cadres and officials was indicated by the finding that between January and June 2001, Chinese prosecutors had uncovered 25,073 cases of white-collar crime, involving 27,793 Party and government employees (1,781 of these from above county level). The investigations were reported to have led to the recovery of 1.58 billion *yuan* in economic losses suffered by the state (XHNA, 13 July). Meanwhile, during the same period, it was reported that in Beijing alone, 434 local officials had been punished for their involvement in illegal economic activities, such as bribery and embezzlement (*ibid*). Over a much longer period – the past six years – discipline inspection and procuratorial organs in Shenyang had investigated more than 6,000 cases involving law violations. Of 5,800 officials implicated, 1,170 had been expelled from Party membership, and losses of some 30 million *yuan* recovered (XHNA, 28 July).

Among the most egregious cases of corruption was a massive smuggling racket, involving senior officials in the customs zone of Xiamen. Official investigations conducted by Party and judicial authorities revealed that the head of the smuggling gang, Lai Changxing, had successfully bribed leading cadres in Party, government and law enforcement organs, as well as senior representatives of a number of SOEs. Under the cover of Xiamen Yuanhua Group Ltd, during a three-year period (1996–99), Lai Changxing and his associates had succeeded in smuggling goods worth 53 billion *yuan* into China via Xiamen customs zone, thereby avoiding the payment of import duties of 30 billion *yuan*. Only with the assistance of more than 1,000 investigators from central and local levels throughout the country had the extent of the network been uncovered and arrests of some of the principal criminals made.

Meanwhile, the success of ongoing efforts to combat malpractices of this kind was highlighted by recent rises in tariff income. Whereas in the first half of 1998, tariff income was 36.45 billion *yuan*, by 1999 the corresponding figure had risen to 150 billion *yuan* (50 per cent above

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the annual planned quota); by 2001, it had further increased to 224.1 billion *yuan* – a record. In Xiamen alone, tariff income in 1999 had risen by 138 per cent (XHNA, 25 July).

Other individual cases of corruption came to light during the quarter. In August for example, Kong Zhe, former Secretary of Lanxi Municipal Party Committee, Zhejiang province, was sentenced to death with a two-year reprieve for the murder of a local reporter (XHNA, 2 August). The following month, the former Governor and Deputy Party Secretary of Yunnan Province (and an alternate member of the 15th CCPCC) was expelled from Party membership, having been found guilty of taking bribes and engaging in other forms of illegal behaviour. Shi Zhaobin (former Deputy Secretary of the Fujian Provincial CCP Committee and Secretary of the Xiamen City CCP Committee) was also expelled from the Party in September for accepting bribes and taking part in smuggling (both cases reported by XHNA, 26 September).

The weak state of public order in many parts of China was a source of serious concern throughout the quarter. In September, the Ministry of Public Security launched a new campaign, designed to "apprehend fugitives" and complement three other campaigns that were also under way (namely, to combat underworld activities, to collect guns and control explosives, and to regularize economic and market order). The importance of such campaigns was highlighted in a statement issued by the Minister of Public Security, Jia Chunwang, urging public security organizations throughout China to intensify their efforts – including using on-line methods of pursuit – in chasing and arresting fugitives from police custody (XHNA, 20 September).

Amidst all the favourable comment on Jiang Zemin's "three representations," a Xinhua commentary analysed the theoretical contribution of Deng Xiaoping Theory in guiding China towards the realization of socialist modernization on the basis of reform and opening up. It drew attention to the watershed significance of Deng's 1978 speech on "Emancipating minds, seeking truth from facts … " in leading China away from the constraints of Hua Guofeng's "two whatevers" and formulating a new theory on building socialism with Chinese characteristics. More than a decade later, against the background of domestic and international unrest, Deng had played a similar role during his southern tour when he reaffirmed the need for intensified reform and opening up in order to take China into a new, higher phase of development. By such means and through the medium of his 'Theory,' Deng had demonstrated how China could simultaneously maintain and accelerate the momentum of development, without losing its socialist identity and sacrificing the Marxist vision inherited from Mao Zedong and his ideological forebears. From such perspectives, it was possible to discern the integrated ideological canon of Marxism-Leninism, Mao Zedong Thought and Deng Xiaoping Theory (XHNA, 3 July).

In July, a number of Chinese economists met in Taiyuan in order to draft a green paper to review the post-1949 evolution of China's economic laws and to consider future trends in economic legislation. The

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intention was that, when completed, the document would offer useful guidance for the formulation of future economic laws and so facilitate the furtherance of reform and development. It was expected that the green paper would be ready for publication during 2002.

Later the same month, Xiao Yang, President of the Supreme People's Court, spoke of the importance of reforming China's court system in line with the priorities of the "three representations." He reaffirmed the three major tasks, which the Supreme People's Court sought to fulfil by the end of 2001. These were: to reform the system of supervision of judicial work (including the establishment of criteria and procedures for the re-trial of criminal cases); to further improve the evidential system vis-à-vis lawsuits; through co-operation with relevant departments, to expand the scope of simplified trial procedures for criminal cases and to simplify other judicial processes; to extend the experimental use of the single-duty system for court clerks; and to institute the experimental appointment of assistants to judges and to reconsider the number of judges in certain courts. Such measures would, Xiao Yang hoped, address a number of deeply rooted problems faced by Chinese courts, and facilitate the establishment of a court management system capable of resisting illegal interference and enabling the People's Court to exercise its judicial power fairly and independently in accordance with the law (XHNA, 29 July).

Towards the end of the quarter, Liu Jiachen, Vice-President of the Supreme People's Court, recommended that judicial executions should, in future, be carried out through the use of lethal injections. The initiative was designed to carry out capital punishment in what Liu described as a "more humane and scientific way." He urged all major cities to adopt the new practice by the end of 2001 (XHNA, 13 September).

Official statistics suggested that over 600,000 people in China had been infected by the HIV virus. It was against this background that, in August, the government announced that it would launch a new campaign intended to lower the annual rate of growth of HIV/AIDS and sexually transmitted diseases from 30 per cent to below 10 per cent, as well as to reduce the risk level of HIV infection resulting from unclean blood transfusion to one in 100,000 by 2005. HIV transmissions through blood (whether as a result of intravenous drug use or the use of unsafe blood supplies for transfusion purposes) were the source of over 70 per cent of HIV/AIDS cases in China. Accordingly, the new campaign would provide for testing procedures to ensure that blood supplies were uncontaminated by the HIV virus. In addition, by the end of 2002, three-quarters of medical institutions above county level were expected to be able to provide HIV/AIDS patients with standard diagnosis, treatment, counselling and health promotion services, as well as to treat other sexually transmitted diseases (XHNA, 2 August; see also Xinhua, 22 August, for a report on the closure of illegal blood banks in order to reduce the incidence of contaminated blood supplies).

The announcement by the International Olympics Committee (IOC) on 13 July that Beijing had been chosen as the venue for the 2008 Olympic

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Games was the occasion for official and public celebration. Vice-Premier Li Lanqing said that holding the games in the Chinese capital would facilitate and extend further linkages between China and the international community. The potential economic benefits were indicated in estimates that suggested that the games would add 0.3 per cent to China's annual GDP growth through infrastructural and other forms of investment (XHNA, 17 July; see also Fan Gang, quoted by Xinhua, 13 July).

On 28 August, Jiang Zemin met the President of the IOC, Jacques Rogge, in Beijing. He expressed his thanks to President Rogge and members of the IOC for their endorsement of Beijing as the venue for the 2008 Olympics.

(d) *Economic Affairs*

On 13 July, the 84th plenary meeting of the NPC Financial and Economic Committee took place in Beijing. Following the delivery of various reports on China's economic situation, Li Peng (XHNA, 13 July) addressed the meeting. He spoke of the maintenance of steady GDP growth during 2001 and expressed confidence in the ability of the government's current policies to promote continued economic and social development. But he also drew attention to a number of deep-seated problems in the economy. In the agricultural sector, for example, measures were urgently needed to raise stagnating farm incomes and to integrate the farm economy more firmly in the rural economy. Other manifestations of income disparity also needed to be addressed, as did the urgent need to accelerate the creation of a more effective social security system. Li also drew attention to the impact on China's economy of the slowdown in international economic and trade growth, and urged that appropriate measures be taken to reduce these adverse effects and to maximize favourable conditions in advance of China's accession to the World Trade Organization.

Economic results for the first half (H1) of 2001 attested to continued growth in many areas of economic activity, despite less than favourable external economic conditions. Between January and June, GDP growth was around 8 per cent, with industry having expanded by 11 per cent (12.7 per cent for heavy industry and 9.2 per cent for light industry). The principal sources of industrial growth were electronics, telecommunication and transport equipment, and metallurgy. The sales rate of industrial goods was 96.75 per cent (0.12 per cent above that of the same period in 2000), although industrial exports fell by 16.1 per cent (XHNA, 10 July). Evidence of improved efficiency was suggested in statistics that showed that H1 industrial enterprise profits had risen by 25.4 per cent year-on-year, while enterprise losses had declined by 7.9 per cent (XHNA, 24 July).

Significantly, China's 43 state-run economic and technological development zones (ETDZs) achieved the fastest growth, their H1 GDP having risen by 29.4 per cent year-on-year. A Ministry of Foreign Trade and Economic Co-operation (MOFTEC) source noted that realized foreign

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investment in the ETDZs during the January-June period had increased by 34 per cent (18 per cent of all national inflows). The value of foreign merchandise trade had meanwhile risen by 18.41 per cent – well ahead of the national average of 8.8 per cent (XHNA, 21 August).

Elsewhere, it was revealed that H1 fiscal revenue had grown by 26.2 per cent, while fiscal expenditure had risen by 20.7 per cent (by 17.0, 111.2, 16.2 and 18.2 per cent, respectively, for agricultural aid, social security, education, and public security). The Minister of Finance (Xiang Huaicheng) warned, however, that as external economic conditions continued to deteriorate, fiscal revenue growth would decline in the second half of 2001 (XHNA, 13 July).

Signs of an improving performance by the banking sector were suggested in statistics showing that, thanks mainly to improved management, the level of non-performing loans of China's four state-owned non-commercial banks had fallen by 2.1 per cent between January and June. Dai Xianglong noted that the declining trend had now been in evidence for nine consecutive months. It was also revealed that H1 profits of the Bank of China (BOC) had risen to 11.106 billion *yuan* (XHNA, 13 and 23 July).

Foreign direct investment (FDI) increased in both contractual and realized terms – contractual FDI having risen by 38.23 per cent during H1 and actual investment by 20.53 per cent. The strong upward trend was attributed to China's impending accession to WTO. Meanwhile, customs statistics showed that the volume of foreign trade had risen by 11.3 per cent to reach US$241.01 billion (exports up 8.8 per cent to US$124.57; imports up 14 percent to US$116.43 billion). The outcome was a merchandise trade surplus for China of US$8.14 billion. Noteworthy aspects of China's H1 foreign trade performance included a 16.9 per cent increase in exports by foreign-funded enterprises to US$62.26 billion. Among individual export categories, the value of exports of machinery and electronic products enjoyed the biggest rise (up by 16.7 per cent to constitute 26.4 per cent of China's total export value during the period) (XHNA, 12 July). As of the end of June, the value of China's foreign exchange reserves was US$134 billion – 17.9 per cent more than a year earlier.

Looking ahead for the rest of the year, the *People's Daily* web site (*RMRB*, 31 August) spoke of the urgent need to resolve "prominent contradictions" in order to maintain the momentum of China's strong economic growth. It highlighted two outstanding problems: the irrational economic structure, and poor efficiency and low productivity in the economy. Such difficulties would only intensify as decelerating international economic growth placed an even higher premium on every country's competitiveness in global markets. Structural contradictions in farming and rural economic activities were especially pronounced, threatening wider economic and social repercussions. The persistence of such problems highlighted the need to implement strictly recent policy initiatives announced by the CCPCC and State Council that were designed to relieve such pressures and facilitate more balanced regional and sectoral

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development. (For another authoritative comment on China's economic prospects, see Zeng Peiyan, Minister in charge of the State Development Planning Commission, quoted in XHNA, 30 August.)

Chinese sources suggested that annual GDP growth for 2001 would reach, or even exceed, 7 per cent. This was a view endorsed by a projection of the International Monetary Fund (IMF), which suggested that, the global economic downturn notwithstanding, China's economy would expand by 7.5 per cent during 2001 (*cf*. an IMF forecast of 7 per cent made in May) and by 7.1 per cent in 2002 (XHNA, 26 September).

The need to improve market economic order was an important theme during the quarter. On 24 July, Vice-Premier Li Lanqing addressed a meeting on the subject, in which he reviewed progress towards the rectification and regulation of market order and identified future priorities. He noted the crucial importance of such work in the attempt to create a socialist market economic system in China, as well as in facilitating short-term growth. To these ends, he called on all regions and departments to make urgent efforts to improve market order by combating counterfeiting, tax evasion and tax fraud. Li also demanded greater efforts in improving safety in production operations.

Later, Li Rongrong (Minister in charge of the State Economic and Trade Commission) revealed that in the previous two months, campaigns against counterfeiting had uncovered 115,000 cases of illegal operations, valued at over 1.8 billion *yuan*. Some 13,500 venues for the production and sale of fake goods had been eliminated, and 567 persons had been placed under judicial investigation (XHNA, 24 July).

The same month, Premier Zhu Rongji himself underlined the calls of Li Lanqing and his colleagues in demanding more efforts to be made to regulate market economic order. His remarks echoed those of Li, but also underlined the extent of the difficulties still facing the Chinese authorities. He conceded, for example, that the manufacture and sales of fake goods was still "very rampant" in some parts of the country, and noted that some areas had used a variety of pretexts for the intensification of local protectionism. Regional blockades and the imposition of local trade monopolies and unfair competition must, said Zhu, be strictly combated (XHNA, 29 July; see also Wu Yi on the need for tighter market control in XHNA, 7 August).

On 12 July, Xinhua reported that the State Development Planning Commission (SDPC) had recently published a revised catalogue of prices set by the central authorities, showing a further dramatic reduction – to just 13 items – in the number of commodities subject to state price control and approval. In a comment on price deregulation, Wang Yang (SDPC vice-minister) was reported as saying that "less control … [is] … better control. The purpose of reducing control is to achieve better control." It was revealed that the 13 items that remained subject to central control were all commodities regarded as "monopolistic in nature … closely related to the vital interests of the masses … [facing] price-related problems … and [for which] it is hard to institute price

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reform." Wang also noted that in 1992, some 141 commodities had been subject to price control. The effect of the most recent round of price de-controls would be to enable more than 90 per cent of retail products, agricultural and capital goods to be regulated by market forces.

It was announced that measures costing 770 billion *yuan* would be implemented over a five-year period in an attempt to transform the industrial face of Liaoning province (at one time, China's biggest industrial centre, but now lagging far behind the newer and more high-tech industrial centres in other coastal regions). The plan would embrace the construction of 177 large-scale industrial and infrastructural projects, embracing communications, telecommunications, energy, automobile and other high-tech production. It was revealed that consideration was also being given to the possible merger of Anshan Iron and Steel Company with three other iron and steel plants in the province in order to create a new national leader in iron and steel production, with a combined output capacity of ten million tonnes p.a. (XHNA, 28 June).

The importance of China's 8 million small and medium-sized enterprises (SMEs) – some 99 per cent of all enterprises – was highlighted in statistics that showed that they accounted for around 60 per cent of national industrial value-output, and 40 per cent of national revenue. In recent years, SMEs had also made great progress in terms of technological innovation and finance sourcing, so creating a solid environment for their further development – an environment that was enhanced by the establishment of a firm legal and regulatory framework. Meanwhile, new regulations were being formulated that would permit foreign investors to increase their involvement in SME activities (e.g. through share acquisitions or even outright purchase of individual firms). The reasoning behind such legislation lay in recognition that many SMEs were internationally uncompetitive and a willingness to enhance their efficiency through mergers and acquisitions.

Energy issues were again to the fore during the quarter. One source noted that in pursuit of a more balanced power supply, it was planned that China's total installed power-generating capacity should reach 390 million kw by 2005. This target reflected likely GDP growth rate and an assumption that national demand for power would grow on average by 5 per cent p.a. (2001–2005). Underlying such plans was the expectation of significant progress in linking national power networks, and achieving a 99.9 per cent reliability rate for urban power supplies. Plans also provided for the further development of hydropower, thermal power, natural gas and nuclear power facilities. It was revealed that at the end of 2000, installed generating capacity was over 319 million kw, and total electricity output 1.37 trillion kw/h, both ranking second in the world (*ibid*).

Elsewhere, it was revealed that an electricity network covering all of China, except for Tibet and Xinjiang, was expected to be in place by 2020. Three regional electricity networks in northern, central and southern China would also be established by 2010 (XHNA, 6 September).

Meanwhile, the State Economic and Trade Commission announced plans to accelerate the development of an oil reserve system capable of

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holding 8 million cubic metres of oil supplies by 2005. The system would embrace state reserves and enterprise storage facilities – the former under direct government control and designed to alleviate the adverse effects of unexpected price rises and suspended oil supplies; the latter to provide for storage oil in accordance with normal production needs. Official projections allowed for the continued import of oil in order to meet expected crude demand of 245 million tonnes by 2005 (XHNA, 28 June).

From Urumqi on 9 September, Xinhua reported that Chinese geologists had discovered an area containing estimated oil reserves of 1.37 billion tonnes, and natural gas reserves of 410 billion cubic metres (XHNA, 9 September). Another major oil initiative announced the previous month foresaw the construction of offshore oil platforms in the Bohai oilfield in order to help increase annual crude output in the Bohai Gulf to 20 million tonnes (also by 2005). There was a suggestion that the Bohai oilfield's ultimate annual production capacity could reach 35 million tonnes (*cf.* Daqing oilfield's proven oil reserves of 5 billion tonnes and realized output of 1.6 billion tonnes since 1959) (XHNA, 1 August; and see XHNA, 10 September for a report on the first phase of construction of the Penglai 19–3 oilfield – China's largest offshore oilfield).

The strategic goal of accelerating economic and social development in China's western regions was again a major theme throughout the quarter. A Xinhua report (27 July) referred to plans to accelerate the development of three key economic zones, which were expected to become the nodes of economic development in the region. The zones were centred on arterial railways, the upper reaches of the Chang [Yangtze] River, and the capital cities of Guangxi Zhuang Autonomous Region, and Guizhou and Yunnan provinces.

A plan formulated by the SDPC and published in the quarter provided for the accelerated development of science, technology, education, agriculture and industry in the western regions of China. Among the key projects listed in this plans were the construction of a railway linking Qinghai and Tibet, the improvement of urban infrastructural networks, the expansion of a wide-band digital transmission network, the creation of a system to transmit electricity and natural gas from western areas to the east, the promotion of primary, vocational and higher education, the establishment of new mining bases, and the protection of natural forests, grasslands and rivers (XHNA, 8 August).

Central to the successful implementation of development plans for western China was the need to secure large-scale foreign investment inflows, in addition to major capital allocations (e.g. through appropriations for infrastructural construction, long-term treasury bond issues, and bank loans for development projects) by the central authorities in Beijing. In pursuit of foreign capital, official sources also reaffirmed the government's determination to offer preferential policies to overseas investors. These would include a 15 per cent reduction below the national norm in income tax for selected foreign enterprises (those engaged in transportation, electric power generation, water conservation, postal and telecommunications being wholly exempt from income tax in the first two years

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of their operations). Imports of advanced equipment by those involved in key projects would also be exempted from tariffs and some other taxes. The intention to open banking and insurance, tourism, accounting, engineering and telecommunications to overseas investors was also reaffirmed (XHNA, 19 September; see also XHNA, 26 July).

Priority destinations for foreign investment included four major projects: the West–East Natural Gas Pipeline Project, running from Xinjiang to Shanghai; the West–East Electricity Transmission Project, designed to tap hydro-power resources in Guizhou, Yunnan and Sichuan provinces for use in eastern and southern China; the South-to-North Water Diversion Project; and the Qinghai–Tibet Railway line (Sun Zhenyu, Vice-Minister of MOFTEC – XHNA, 5 September).

Agricultural and rural policy issues were once more the focus of attention throughout the quarter. The need to halt recent declines and promote renewed growth in farm incomes was regarded as a top priority in order simultaneously to improve their material living standards and enhance incentives to promote sustained farm growth. At the same time, measures were needed that would allow the benefits of modern science and education to be applied to agricultural production and development. The problem of farm underemployment was also reflected in calls to accelerate the suburban expansion of secondary and tertiary activities in order to absorb larger numbers of surplus rural labourers. There were calls too for the more active implementation of measures to relieve peasants of the heavy and illegal fee burden, which they still carried (on farmers' levies, see also remarks by Zhu Rongji, quoted in XHNA, 22 July).

A Xinhua report (26 July) noted that the transfer of arable land to enterprises engaged in large-scale cultivation was accelerating in eastern and southern regions of China. Official sources indicated that farmers were increasingly transferring their contracted land to enterprises involved in industrialized agricultural operations. The process promised to benefit both farmers and enterprises, as well as facilitating a more efficient pattern of resource use. In Hainan, 40,000 hectares of arable land was reported to have been "rented out" in this way.

In July, the fourth plenum of the Joint National Committee on Comprehensive Agricultural Development took place in Beijing. It was addressed by Vice-Premier Wen Jiabao, who spoke of the continuing central importance of agriculture's economic and social developmental roles. Following a review of China's agricultural achievements under the Ninth Five-Year Plan (1996–2000), Wen reaffirmed the need to pursue comprehensive farm policies during the Tenth Plan period (2001–2005) in pursuit of strengthening agricultural infrastructural construction, promoting ecological and environmental construction, and raising farm production capabilities (especially through the application of modern scientific techniques). He stressed the importance of providing adequate and well managed financial support, whether funded by central or local governments (XHNA, 26 July).

Elsewhere (*China Daily*, 7 August), it was noted that the ratio of the

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value output of [agricultural] processing to that of agriculture was a mere 0.6:1 in China (*cf.* 3:1 in developed countries). Furthermore, China's agricultural processing facilities were frequently outmoded, with only 15 per cent of businesses having access to equipment dating from the 1990s (and only 5 per cent making use of the most recent advanced technologies). Against this background, there was a real need to upgrade existing facilities in order to promote more rapid development of this higher value-added dimension of agricultural activities (XHNA, 7 August).

In August, Li Peng made an important speech on the critical importance of water conservation. Even allowing for some progress in some areas (e.g. see XHNA for a report to the effect that for the first time in many years, the Huang [Yellow] River had not dried up at any section since 2000 – the first time that this had happened for ten years), many problems persisted. Thus, the quality of water resources was still deteriorating in many areas, while the general shortage of water remained quite serious. Li pointed out that China's per capita availability of water was less than 2,400 cubic metres – about a quarter of the world average – while the temporal and spatial distribution of water resources was also very uneven. As the population continued to rise, per capita availability was likely to fall further, affecting welfare and economic development. Nor were existing resources used efficiently, waste being a major problem (XHNA, 24 August). Elsewhere, SDPC statistics revealed that water shortages and water pollution remained serious obstacles to China's sustainable growth. Hence, the government's determination to exploit new water resources, to conserve existing resources and to introduce rational pricing policies for water (XHNA, 14 August; and see XHNA, 29 August on the increasing dangers of ground subsidence as a result of excessive exploitation of aquifers).

A senior official claimed environmental degradation in China had been brought basically under control. The discharge of waste had been significantly reduced, and some 84,000 polluting enterprises – most of them small and medium-sized units – had been closed. Around 90 per cent of the country's 238,000 industrial firms were now said to meet the waste discharge standards set by central and provincial governments. In addition, 36 of 46 major cities had met water quality standards, while 25 of them had passed the air quality test. Progress had also been made in pollution control in some sections of major rivers, rural and urban areas and sea areas (XHNA, 5 September).

Nevertheless, serious environmental problems remained, as shown by the fact that desertification (now affecting 1.7 million square kilometres, or 17.6 per cent of China's surface area) continued to generate economic losses of 54 billion *yuan* annually (XHNA, 31 August; see also Xinhua, 5 September, for critical comment on environmental conditions in China's western regions).

Township and village enterprises (TVEs) have long become a critically important dimension of rural economic activities in China. Against the background of a 14 per cent rise in export orders (to 321.4 billion *yuan*)

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between January and May, a senior MOFTEC official spoke of the considerable potential that still existed for further increases in TVE exports. Hence, formulation of new policies, including preferential financial and tax treatment, to encourage the export activities of such enterprises (XHNA, 9 July).

On 10 September, the Ministry of Agriculture issued a Development Plan for Township Enterprises in the Tenth Five-Year Plan Period (2001–2005). On the basis of anticipated average annual growth of 10 per cent, it called for such enterprises to achieve 4.3 trillion *yuan* in value-added output by 2005. The output structure would also be readjusted during the five-year period: with the share of primary production in total output unchanged at a mere 1 per cent, the share of secondary industry would fall from 77 to 74 per cent, in favour of a rise in tertiary activities from 21 to 25 per cent (*RMRB* web site, 10 September).

Employment pressures confronting China were reflected in the demand that during the Tenth Plan period efforts would be made to prevent registered urban unemployment from exceeding 5 per cent, whilst also providing for the re-direction of 40 million surplus rural labourers to urban areas. The ambitious nature of such targets was indicated by the revelations that during the coming five years, the number of new entrants into the labour force would peak at 46.5 million. Furthermore, post-WTO structural adjustments and ongoing enterprise reform would serve merely to exacerbate the problem of structural unemployment. Finally, with the surplus farm work force already in excess of 150 million people, new entrants into the agricultural labour force would increase by some five to six million p.a. under the Tenth Five-Year Plan, intensifying pressures on rural out-migration (*ZXS*, 6 August).

The SDPC made an important announcement associated with such pressures on 16 August to the effect that also in the next five years, China would abolish policies limiting the movement of labour between urban and rural areas. Implied was the reform of the residence registration system (*hukou*) in order to assist in the establishment of a unified labour market in both urban and rural areas, especially in coastal provinces. The initiative reflected the SDPC's intention to create an employment system based on market competition – a goal obstructed by the existing *hukou* rules which restrict labour flows to the detriment of distributing labour in accordance with the dictates of market demand. The new arrangements envisaged the establishment of an employment registration system, whereby every citizen would be given a single social security number, as well as his/her own wage account and social security account. Other flexible measures would also be adopted in order to increase employment (full-time and part-time), flexible working hours, self-employment and the provision of holidays with full pay. The state would even explore the employment opportunities offered by the international job market (XHNA, 16 August; see also *Hong Kong iMail* web site, 6 September, and *RMRB* web site, 24 September).

Statistics issued by the People's Bank of China were seen as proof of the efficacy of China's moderate fiscal and monetary policies in putting

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the country's finances on a solid basis on which further economic restructuring and growth might take place. During the first half of 2001, growth in broadly and narrowly defined money supply showed rises of 6.2 and 6.9 per cent, with cash balances 7.2 per cent above the level of H1 2000. Both individual and enterprise deposits meanwhile continued to grow steadily. Thus, as of end-June 2001, the balance of various deposits in financial institutions was some 13.5 trillion *yuan*, or 15.1 per cent more than a year earlier (but *cf*. rises of 17.7 and 10.8 per cent for enterprises and private individuals, taken separately). Foreign exchange deposits also maintained an upward trend, totalling 134 billion *yuan* by the end of June (an increase of 17.9 per cent year-on-year). The value of China's foreign exchange reserves was US$180 billion (XHNA, 16 July).

The issue of treasury bonds has been an important reflationary mechanism in recent years, and on 27 July it was reported that China was to issue a further 16 billion *yuan* in T-bonds between 31 July and 7 August. The bonds would be listed on the stock exchange and would earn an annual interest rate of between 4.25 and 5.25 per cent (*Beijing Morning Post*, as in XHNA, 27 July).

The issue of 330 million bank cards by 55 financial institutions (end-June 2001) offered evidence of increased sophistication in making financial transactions in China. In addition to the four state-owned commercial banks, ten shareholding commercial banks, one post office, 29 city commercial banks and 11 rural credit unions had also initiated bank card operations. The outstanding amount of bank card deposits hit 374.2 billion *yuan*, or 28.6 per cent above the level of end-December 2000. The trading volume of bank cards had risen by a remarkable 224 per cent to reach 4.85 trillion *yuan*. China currently has 129,000 outlets accepting bank cards and 49,000 automatic teller machines (XHNA, 7 September).

On 30 August, the People's Bank of China announced that it was to issue two new types of *renminbi* (*RMB*) *yuan* notes with face values of 50 and 10 *yuan*. The new notes would enter circulation on 1 September.

A MOFTEC official disclosed that China would shortly announce policy measures (including terms, procedures and operational methods to be followed by foreign venture capital companies) designed to standardize the development of foreign venture capital (*Jingji cankao bao*, quoted by XHNA, 30 August). Underlying this important initiative was the expectation that opening its venture capital market to foreign investment would enable China to attract modern business ideas and mature managerial expertise, which would, in turn, facilitate the further development of the venture capital market and high-tech industries in China.

One of the most rapidly-growing industries in China in recent years has been the telecommunications industry. Whereas 40 years ago it was a luxury item available to the few, a quarter of all Chinese households now have their own telephone. During H1 2001, telecommunications again grew rapidly, taking the number of telephone users to 281 million (164 million fixed telephone users and 117 million mobile phone users – the largest number of any country in the world). In Shanghai alone

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there were said to be more than 5 million phone users; even in China's western regions, there was a 14 per cent telephone ownership rate. Some 83 per cent of Chinese villages were said to have access to telephone services.

The production value of China's information industry enjoyed an average annual rate of expansion of 25 per cent over the past ten years, and in 2000 alone, it accounted for 4 per cent of China's GDP. Future growth under the Tenth Plan was expected to remain at over 20 per cent annually, resulting in a doubling of sales and export earnings during 2001–2005 (XHNA, 5 September). By the end of 2005, there would be 260 million mobile phone users in China.

The speed of growth of China's computer industry was suggested in the finding that as of the end of June, China had 26.5 million Internet users (56.8 per cent more than in June 2000). During the Tenth Five-Year Plan period, computer ownership was expected to increase by a further 25–30 per cent p.a. – this against the background of *shrinking* global PC sales during the previous 20 years. Indeed, with ownership rates of below 30 per cent even in major cities such as Beijing, Shanghai and Guangzhou – and no more than 10 per cent in the country as a whole – the Chinese market potential (for famous brand-names as well as domestic producers) in the foreseeable future was thought to be massive (XHNA, 27 July).

Official sources suggested that China's information industry was already the single most important source of growth in China, accounting for 4 per cent of GDP and, in terms of its business volume, ranking third in the world. During 1996–2000, the value of telecommunications business reached 472.5 billion *yuan* (US$57 billion), while the value-output of the electronics industry was over one trillion *yuan* (US$121 billion). In the same period, the IT industry as a whole undertook fixed investment worth 97.4 billion *yuan*, achieving average annual growth of 25 and 22 per cent, respectively, in the value of sales and pre-tax profits. By 2005, China's telecommunications and information network should have become the largest in the world (XHNA, 13 and 14 August).

From an official perspective, the downside of increasing access to computers was the opportunity it offered for uncontrolled and unsupervised transmission of news and messages by Internet. The extent of official anxieties was suggested in statistics, which showed that almost 57,000 Internet cafés had been investigated, of which 6,071 were closed down or prevented from connecting to the net, and a further 1,943 were "outlawed." A Ministry of Public Security source also spoke of the government's firm intention to combat criminal activities that threatened information network security (e.g. the invasion of computer information systems, the creation and dissemination of computer viruses, etc.) (XHNA, 12 June and 27 August).

In a comment on China's foreign trade performance, the point was made that since the beginning of 2001, the volume and growth rate of exports had fallen "markedly" (in June, a *negative* growth rate was recorded for the first time). Throughout H1, China's exports had risen by

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8.8 per cent year-on-year, but from March they had shown a declining trend. The contraction was attributable to a combination of domestic and international factors including unfavourable developments in the United States and Japan, the intensification of regional trade protectionism, and the lack of competitiveness of some export products. The seriousness of the situation was highlighted when set against China's foreign trade dependence, which was now in excess of 40 per cent (23 per cent for exports alone). Slowing trade meant slowing growth of employment, tax revenues and foreign exchange reserves. The pressure on the foreign trade sector was also set to increase in the wake of China's impending accession to the WTO. Hence, the urgent need to improve – both quantitatively and qualitatively – China's foreign trade (especially export) performance (XHNA, 6 August). Other trade data published during the quarter are shown in Table 1 and Table 2.

The major export categories were machinery, electrical equipment (up by 16.7 percent), high-tech goods (up 31.4 per cent), and garments and accessories (up 1.6 per cent). With the exception of toys and rolled steel (exports of which fell, respectively, by 13.8 and 16.7 per cent), all other categories experienced varying degrees of sales growth. On the import side, purchases of machinery and electrical appliances rose by 22.3 per cent, while those of high-tech products increased by 27.4 per cent (General Administration of Customs data, from XHNA, 11 August).

Further progress was made during the quarter towards China's full membership of the WTO. On 16 July, China and WTO negotiators began a new round of talks in Geneva in the hope of resolving all outstanding issues relating to China's WTO accession. In the event, not all such issues could be settled, necessitating a further session of talks due to take place on 15 September. On this occasion, despite the enforced postponement of the meeting as a result of the terrorist attack on the World Trade Center, the working party on China's WTO accession was able to complete its work successfully, thereby concluding the negotiations and setting the

Table 1: **Foreign Trade Conducted by Major Coastal Cities, H1 2001**

	Total foreign trade (US$ b.)	*% change over H1 2000*	*Exports (US$ b.)*	*% change over H1 2001*	*Imports (US$ b.)*	*% change over H1 2001*
Shanghai	29.706	+ 17.2	13.442	+ 17.3	16.264	+ 17.1
Guangzhou	10.485	+ 5.8	4.723	+ 1.7	5.762	+ 9.4
Tianjin	8.946	+ 22.9	4.246	+ 13.2	4.700	+ 10.8
Qingdao	6.378	+ 22.9	3.324	+ 11.5	3.054	+ 38.4
Dalian	5.844	+ 8.2	2.869	+ 3.9	2.975	+ 12.6
Ningbo	5.463	+ 18.8	3.057	+ 20.4	2.406	+ 16.8
Fuzhou	3.359	+ 9.8	2.044	+ 12.1	1.315	+ 6.5

Source: XHNA, 11 August 2001.

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Table 2: **Foreign Trade Conducted by Various Economic Zones, H1 2001**

	Total foreign trade (US$ b.)	*% change over H1 2000*	*Exports (US$ b.)*	*% change over H1 2001*	*Imports (US$ b.)*	*% change over H1 2001*
Coastal Open Cities	74.502	+ 13.2	39.149	+ 12.5	35.354	+ 14.1
Special Economic Zones	26.472	+ 7.6	12.696	+ 2.2	13.776	+ 13.1
Economic & Technological Development Zones	23.790	+ 17.3	10.372	+ 16.7	13.418	+ 17.8
High-tech and Industrial Development Zones	8.958	+ 29.3	4.205	+ 31.2	4.752	+ 27.6
Bonded Zones	8.851	+ 26.1	3.308	+ 42.0	5.544	+ 18.2

Source: XHNA, 11 August, citing General Customs Administration.

scene for the submission of the agreements for approval by the ministerial conference, due to be held in Doha in November (XHNA, 15 September).

Following the meeting, Mike Moore, Director General of the WTO, described the agreement as a "defining moment in the history of the multilateral trading system," adding that "[w]ith China's membership, the WTO will take a major step towards becoming a truly world organization. The near-universal acceptance of its rules-based system will serve a pivotal role in underpinning global economic co-operation" (XHNA, 17 September). For his part, China's chief negotiator, Long Yongtu, noted that the negotiations on China's WTO accession had been "the most complicated and technically most difficult negotiations in the history of the world trade body." He added that the successful outcome of the talks would now help accelerate the establishment of a market economy in China (*ZTS*, 18 September; see also the comments of Pascal Lamy, EU Trade Commissioner, in XHNA, 19 September).

Also during the quarter, Chinese and Mexican representatives held two further rounds of bilateral talks on China's accession to the WTO. Differences of views on addressing issues related to the textile, electronic, mechanical and other labour-intensive industries were duly resolved, and in Geneva on 13 September, the two sides finally reached agreement. Sha Zukang (Ambassador to the United Nations Office at Geneva) and Eduardo Perez Motta (Mexican Ambassador to the WTO) later signed the bilateral agreement.

Meanwhile, it was announced on 6 August that a document – the

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"Special scheme under the Tenth Five-Year Plan for national economic and social development for key areas in entering the WTO and enhancing international competitiveness" – had been published by the SDPC in anticipation of China gaining membership of the WTO. The scheme offered guidance on the "orientation, priorities and major policy measures of structural readjustment and reform in agriculture, industry and some … service trades," as China approached its accession to the international trading body. The "key areas" referred to in the document's title included communications, energy, ecological and environmental protection, science and technology, education, high-tech industries, population, regional development, water conservancy and urbanization (XHNA, 6 August).

(e) *Education*

In July, it was announced that the government had issued China's first law on pre-school education, due to take effect from 1 September. For the first time, the legislation provided for the starting age for such education to be lowered from three years to newborn infants, although it was stressed that parents would not be legally enjoined to send their infants to pre-school (XHNA, 30 July).

In September, an article in *China Youth Daily* reported that curricular reform in primary and middle schools would be completed by 2005. Some primary and middle schools had already started to use new textbooks, and new courses and examination systems were also being tried out on an experimental basis. In carrying out such initiatives, the emphasis was on the *comprehensiveness* of courses, and the strengthening of linkages between course content and students' lives (XHNA, 11 September).

It was reported that during the next five to ten years, the Chinese government would seek to promote IT education in primary and middle, vocational and technical schools. By 2005, IT education would have been made compulsory in all middle schools, as well as in primary schools in cities and other developed areas. As soon as possible thereafter, IT educational coverage would be expanded to embrace over 90 per cent of all Chinese schools. By 2010, 90 per cent of primary and middle schools would have access to the Internet and broadband net; in the remaining 10 per cent, multi-media teaching facilities and other resources would be made available (XHNA, 21 August).

In 2001, some 1,672 scholars would have received subsidies in order to enable them to study in 42 countries (regions) overseas. According to Ministry of Education statistics, 3,323 people from universities, research institutes, administrative institutions and industrial enterprises had applied for state-financed study abroad in 2001.

(f) *Military Affairs*

In September, Premier Zhu Rongji and President Jiang Zemin (in his capacity as Chairman of the Central Military Commission) approved the

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publication of the revised Regulations on Conscription Work, replacing the previous (1985) Regulations. The new document sought to address important issues arising out of more recent developments and were designed to clarify and offer guidance on conscription work (including the quality of new recruits), and legal questions associated with the punishment of units and individuals in respect to violations of laws and regulations on military service and conscription. It was also announced that revised regulations on recruitment affairs were to be published simultaneously in an attempt to clarify the division of responsibilities, to streamline relations between officials and recruitment work, and to improve the military registration system – all this in the interests of establishing a solid foundation on which to enhance future recruitment (XHNA, 9 September; and see *RMRB,* 10 September on the significance of the new legislation).

The need for members of the People's Liberation Army (PLA) to study Jiang Zemin's 1 July speech was a theme of several articles and speeches in the quarter. Jiang himself was at pains to reiterate the PLA's status as "a people's army under the Party's absolute leadership." This being so, it was incumbent on all military personnel to follow the Party's guidelines and policies, and always to maintain their fundamental loyalty to the CCP. Zhang Wannian echoed Jiang's sentiments, urging the armed forces to regard the study of the 1 July speech as a "long-term strategic task," designed to "arm the minds of officers and men with the thinking on 'three representations' … [and to make the speech] our army's powerful spiritual pillar and guide for action" (XHNA, 31 August).

Beijing sources reported that China had agreed to buy an unspecified number of Russian-made Su-30 MKK fighters in a contract worth approximately US$2 billion. The fighters would be delivered to China by 2003 (*ZTS*, 2 August). Elsewhere, Xinhua reported that significant improvements in the PLA's overall combat capability had been made, thanks to the introduction of high-tech training programmes. The same source noted that more than 90 per cent of senior and middle-ranking PLA commanders had received training at the National Defence University – some of them to the level of masters and doctoral degrees (XHNA, 31 July).

(g) *Minorities (Tibet)*

In a speech to the Fourth Tibet Work Forum, in Beijing on 29 June, Jiang Zemin stressed that the development of Tibet and the region's destiny had always been closely tied to China's national economic and political development. He noted that since the Third Tibet Work Forum in 1994, Tibet's "liberalized reforms" had generated a momentum of accelerated development in the region. Jiang said such reforms and accompanying development would continue into the future, as would the construction of "socialist spiritual civilization." Infrastructural and other projects that had been implemented with state funding support had laid a solid foundation for long-term development in Tibet.

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Jiang emphasized the strategic role that Tibet would play in the attempt to promote accelerated growth in China's western regions and drew attention to the consequent priority need to preserve and maintain stability in Tibet. In a speech at the same meeting, Zhu Rongji called for higher levels of funding in support of economic and infrastructural construction in Tibet. He noted that the state had already allocated 31.2 billion *yuan* in investment in support of 117 ongoing projects in the region, most of them focusing on farming and animal husbandry, infrastructure, scientific and technological education, and grass-roots political development. Ecological and environmental projects were, he added, another priority.

(h) *Hong Kong and Macau Special Administrative Regions (HKSAR; MacSAR)*

The detention in China of U.S.citizen, Li Shaomin, and other academics continued to be the source of concern. At his trial on 14 July, Li was convicted of espionage and ordered to be deported (XHNA, 14 July). Following his return to Hong Kong, he was allowed to resume his post at the City University. Hong Kong's Chief Executive, Tung Chee-hwa, insisted that HKSAR had exercised its autonomy under the principle of "one country, two systems" to facilitate Li's return, although he refused to be drawn on the question of the appropriateness of Li resuming his former academic post. (On the arrest of another Chinese-American scholar and writer, Wu Jianmin, see Radio-Television Hong Kong (RTHK), 1 August.)

It was reported that members of the Legislative Council (Legco) in Hong Kong had approved a bill setting out the procedures for selecting the next HKSAR Chief Executive in March 2002 (RTHK, 11 July). Controversy surrounded the bill because of its reference to Beijing's power to remove the Chief Executive from office for reasons of its own choosing.

Another bill passed by Legco provided for the restructuring of the Bank of China Group in Hong Kong, involving its merger with nine of its 11 'sister' banks in HKSAR.

On 10 July, Tung Chee-hwa arrived in Washington for talks with President George W. Bush, U.S. officials and members of the U.S. Congress. His discussions with the American President focused on Sino-U.S. relations, China's accession to the WTO, and Hong Kong's current situation and future prospects. Tung was at pains to reaffirm the success of the "one country, two systems" formula in preserving legal, religious and media freedom in Hong Kong, as well as to express his confidence in Hong Kong's ability to maintain a buoyant economy. The HKSAR Chief Executive also met the U.S. Secretary of State, Colin Powell (XHNA, 11–12 July).

Tung Chee Hwa expressed shock and concern at the terrorist attack on the Word Trade Center in New York on 11 September, as well as sending sympathy and condolences to the families of the victims. In his first visit to the U.S. as HKSAR Chief Secretary, Donald Tsang Yam-kuen echoed

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Tung's sentiments. Meanwhile, all flights from Hong Kong to the United States were cancelled, while the HKSAR government embarked on a review of its security measures and contingency plans.

The region's economic difficulties were underlined by the reduction of the HKSAR government's predicted annual growth for Hong Kong from 3 to 1 per cent. However, the recently-appointed Financial Secretary, Antony Leung, was said to have rejected calls for the government to use its reserves in order to create new jobs and stimulate the local economy. Tung Chee-hwa suggested that it could take longer than expected to secure economic recovery, pointing in particular to the deteriorating economic environment and the impact of the recent terrorist attacks in the United States. Antony Leung meanwhile described an Economist Intelligence Unit report predicting that Hong Kong would fall from third to tenth place as a global business centre as "unduly pessimistic."

In September, it was reported from Macau that ten out of 96 candidates running for direct election had been listed as members of the Second Legislative Assembly (LA) of MacSAR. In accordance with the Basic Law for Macau, the Second LA will comprise 27 seats, of which ten should be filled by direct election (ten others by indirect election, and the remaining seven appointed by the Chief Executive of MacSAR (see XHNA, 23 September)).

2. Foreign Relations

(a) *The Bombing of the World Trade Center (New York, 11 September)*

On 11 September, Xinhua reported the news that two planes had been deliberately crashed into the two towers of the World Trade Center in New York, and another into the Pentagon. Later the same day, it was reported that President Jiang Zemin had sent a message to President Bush expressing sympathy to the U.S. government and people for the attacks against the United States. A Chinese Foreign Ministry spokesman spoke with concern of the casualties resulting from the terrorist attacks, and reaffirmed the Chinese government's stand against all terrorist acts of violence. As of 12 September, all regular flights between China and the U.S. were cancelled.

Also on 12 September, China's Foreign Minister, Tang Jiaxuan, telephoned the U.S. Secretary of State, Colin Powell, in order to express his own sympathy for what had happened. Jiang Zemin also made a call to President Bush, in which he spoke of the government's willingness to join the U.S. in combating international terrorism – sentiments that were echoed in statements by other senior Chinese officials, including Zhu Rongji, Vice-Premier Qian Qichen and China's Permanent Representative at the UN. In a subsequent telephone conversation with the British Prime Minister, Tony Blair, Jiang spoke of the serious threat which terrorism posed to world peace and stability and China's opposition to all kinds of terrorist acts. He added, however, that in the fight against

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terrorism, it was essential to provide "conclusive evidence and specific targets" in order to ensure that any counter-action was directed against the proper targets (XHNA, 18 September; also see *ZXS*, 12 September).

In the wake of the attack, Chinese authorities made urgent enquiries on behalf of Chinese nationals who might have been in the World Trade Center, as well as Chinese passengers on the four planes that had been destroyed in the attacks (two in New York, one in Washington, D.C. and another that had crashed in Pennsylvania). In the immediate aftermath of the terrorist atrocity, some 30 Chinese were thought to have been in the World Trade Center, although this number was subsequently raised to more than 60 people. On 13 September, the Chinese Foreign Ministry confirmed that three Chinese nationals had been killed in the attacks in New York and Washington, with one more reported missing.

On 22 September, a Foreign Ministry spokesman denied a report in the London *Guardian* to the effect that the terrorist leader, Osama bin Laden, had taken refuge in China, describing the allegation as "totally ungrounded" (XHNA, 22 September). A few days later, the same source denied that China had any "selfish interests" in the Afghan issue and insisted that the government in Beijing had never established a formal relationship with the Taleban (XHNA, 15 September).

An article in *People's Daily* (12 September) reviewed major terrorist acts in recent years and commented on U.S. efforts to combat terrorism. It noted that new terrorist tactics had emerged and that their weapons now included assassination, bombing, kidnapping, poison attacks, the hijacking of planes and taking people hostage. It acknowledged that the United States had suffered the heaviest casualties and damage as a result of terrorist attacks, and described the various means used by the U.S. government to counter terrorist activities. The same source later likened the recent atrocities in New York and Washington to "launching a sudden attack in peacetime" and argued that it was bound to have a major effect on post-Cold War political and strategic thinking. In particular, the attacks had shown that terrorist activities had emerged as the "public enemy of the international community" – a phenomenon that demanded international co-operation in order to prevent further instances of "such totally inhuman behaviour." It was also clear that Washington's proposed national missile defence system offered no defence against sudden terrorist attacks and that the U.S. government would have to find other means to deal with international terrorism (the article conceded, however, that Washington was unlikely to abandon its NMD plans) (*RMRB*, web site, 14 September).

On 19 September, He Yafei (Minister and Deputy Chief of the Chinese Diplomatic Mission in Washington) reaffirmed that in accordance with the UN Charter and the recognized norms of international behaviour, China would cooperate with the United States and other countries in the fight against international terrorism. He confirmed that anti-terrorism would be a key topic in the discussions Tang Jiaxuan would hold with U.S. government officials during his forthcoming visit to Washington. He reiterated the need for anti-terrorist action to be based on "solid evidence

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and concrete targets … [minimizing] … collateral damage, especially the loss of the innocent lives." He added:

> We hope that the Afghan issue could be resolved peacefully as early as possible. We support the United Nations to take a leading role in resolving this issue peacefully. We support all efforts which will contribute to a peaceful solution of the Afghan issue (XHNA, 19 September).

Meanwhile, an unconfirmed report from a Hong Kong source stated that starting on 17 September, Chinese authorities had imposed an unofficial ban on travel to China by passport holders of 19 Middle Eastern countries and territories. These were Afghanistan, Algeria, Bahrain, Egypt, Iraq, Iran, Israel, Jordan, Kuwait, Lebanon, Libya, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, United Arab Emirates and Yemen. Travel agents in HKSAR were said to have confirmed that unofficial sources from the China Visa Office under the Office of the Ministry of Foreign Affairs of the SAR had let it be known that visas would no longer be issued to passport holders from any of these countries (*Hong Kong iMail* web site, 19 September).

(b) *Diplomatic Tours*

On 15 July, President Jiang Zemin left Beijing in order to undertake state visits to the Russian Federation, the Republic of Belarus, the Republic of Moldova, Ukraine and the Republic of Malta. (For reports of Vice-Premier Li Lanqing's visit to Moscow in preparation for Jiang's summit meeting with President Vladimir Putin, see XHNA, 11–12 July.)

In advance of his arrival in Moscow, Jiang noted that his forthcoming visit to Russia would be his first since Putin had become President. During his stay in the Russian capital, he would discuss with Putin and other Russian leaders long-term plans for the further development of Sino-Russian relations, as well as exchanging views on regional and international issues. He noted too that the two countries, as strategic partners, held similar or identical views on the development of bilateral relations and on the international situation. He expected that the two sides would reach agreement on a wide range of issues (XHNA, 10 July). The Russian Deputy Foreign Minister (Aleksandr Losyukov) meanwhile disclosed that a new treaty would be signed by the two sides during Jiang's visit.

Following his arrival in Moscow the previous day, on 16 July, Jiang Zemin held talks with President Putin. During their discussion of important bilateral and international issues, they reaffirmed their commitment to the principles of the 1972 Anti-Ballistic Missile Treaty, as the cornerstone of strategic stability and the basis on which a reduction in strategic offensive weapons should take place. They called on the international community to make even more active efforts to limit the spread of missiles and associated technologies, and looked forward to the creation of a global regime of missile non-proliferation on an equal non-discriminatory basis. They also agreed on the need to prevent the spread of nuclear weapons into space and spoke in favour of holding multilateral

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negotiations on this issue (Moscow, Interfax and ITAR-TASS, 16 July). President Putin accepted an invitation to visit China during 2002.

In a reference to bilateral trade and economic co-operation, Putin noted that the annual level of trade had now reached US$8 billion. In 2000, the value of such trade had risen by 40 per cent (*cf.* a mere 4.4 per cent rise in 1999) and in 2001, it was expected to increase by a further 43 per cent. As such figures showed, the potential for the expansion of trade between the two countries was enormous, as were the prospects for extended co-operation in the fields of high technology, machine building, petrochemicals, energy and aerospace.

A Russian source reported that China would purchase a batch of Tu-204 planes and was considering buying stakes in Russian civil aviation companies. Given China's need to replace its ageing Russian fleet of Il-86 and Tu-154 planes, there was potential for Chinese replacement purchases of newer models (e.g. Il-96.300s, Tu-204s and/or Tu-214s) (Interfax, 17 July).

It was also reported that Jiang and the Russian Prime Minister, Mikhail Kasyanov, had reached agreement on a feasibility study for the construction of a Russia–China oil pipeline. If confirmed, the proposed project would provide for the supply to China of Russian oil over a 25-year period. Meanwhile, it was revealed that during 2005–2010, Russia would supply China with 20 million tonnes of oil p.a. – a figure that would subsequently rise to 30 million tonnes (Interfax, 17 July).

The key event of Jiang Zemin's visit to Moscow was the signing, on 16 July, of a new Treaty of Friendship and Co-operation (described by both sides as a watershed document in the development of Sino-Russian relations). The Treaty embodied a legal formulation for the peaceful ideology of the two countries and peoples, summed up in the phrase "forever friends, never foes." It also confirmed the friendly nature of ties between the two countries as "new-type interstate relations, built on the basis of non-alignment, non-confrontation and not targeting at any third country." (The full text of the Treaty can be found in XHNA, 16 July.)

A joint statement issued by the two leaders reiterated the landmark nature of the Treaty which, it stated, had taken bilateral relations into a new stage of development. Putin, in particular, emphasized that the Treaty was not a basis for a bilateral military alliance, but rather was intended to provide a legal framework in which the development of political and economic co-operation might proceed. Both he and Jiang stressed the importance of maintaining a dialogue on key bilateral and international issues through the exchange of high-level visits and the mechanism of regular bilateral meetings. The statement noted too that co-operation in oil and gas, nuclear energy, machinery, telecommunications, information, space and environmental issues would be strengthened, as would economic and trade co-operation. There was also a reference to the two sides' commitment to resolve outstanding border issues, and to join one another in combating "rampant terrorism, separatism and extremism" (XHNA, 16 July).

During his stay in Moscow, Jiang met other Russian officials, including

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the Speaker of the Federal Council (Upper House), Yegor Stroyev. He also delivered a speech at Moscow University (text available from XHNA, 17 July).

Jiang Zemin then travelled to Volgograd, where (17 July) he held talks with the Governor of Volgograd Oblast, Nikolay Maksyuta.

On 18 July, Jiang Zemin left Moscow and flew to Minsk for a two-day state visit. His talks in the Belarussian capital with President Alyaksandr Lukashenko focused on bilateral issues – especially those relating to trade and economic co-operation. Lukashenko referred, with satisfaction, to the various agreements reached by the two sides during his recent visit in April to China. He noted that the value of bilateral trade was expected to rise to US$500 million (a 2.5-fold increase – *cf.* US$113 million in 2000) in "the near future" (ITAR-TASS, 18 July; also XHNA, 18 July).

Following his brief visit to Moldova, the Chinese President arrived in Kiev, the capital of Ukraine, on 20 July. In a banquet speech, Jiang spoke of the strong development of bilateral ties of various kinds that had occurred in the ten years since the two countries established diplomatic relations. He added that the purpose of his current visit was to discuss how such relations could be further expanded to their mutual benefit.

On 21 July, Jiang held talks with the Ukrainian Prime Minister, Anatoliy Kyrylovych. Both men spoke of the considerable untapped potential for expanding bilateral economic ties, and Jiang noted that in 2000, the value of two-way trade had risen by 40 per cent – and during the first five months of 2001, by a further 100 per cent (XHNA, 21 July). Jiang Zemin later met President Leonid Kuchma.

The same day, Xinhua published a joint statement, signed by the two presidents. It referred to the two men's in-depth exchange and the broad consensus, which they were reported to have reached on a number of bilateral and international questions. They reaffirmed their commitment to adhere to the basic principles set out in four joint communiqués (1992, 1994 and 1995) signed by the two countries. They also committed themselves to taking the level of bilateral co-operation to a new level.

The final leg of his tour took Jiang Zemin to Malta. In Valetta on 24 July, he held discussions with the Maltese Prime Minister, Dr Edward Fenech Adami, focusing on bilateral relations, and international and regional issues of mutual concern. Adami accepted Jiang's invitation to visit China. Both men looked forward to the further expansion of bilateral relations.

After his return to Beijing on 26 July, an editorial in *People's Daily* congratulated Jiang on the outstanding success of his European tour, which, it said, would assist in creating a "fair and rational" new international order

The Chinese Premier, Zhu Rongji, left Beijing on 2 September to begin a tour, which took him to the Republic of Ireland, Belgium, the Russian Federation and the Republic of Kazakhstan. Following his arrival in Dublin, Zhu held talks with the Irish Prime Minister, Bertie Ahern, on ways of strengthening bilateral relations and economic co-operation, as well as on international issues of common concern.

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Their economic discussion focused on the prospects for expanded trade. Official figures showed that during the previous year and a half, two-way trade had grown rapidly: in 2000, Irish exports to China had risen by 40 per cent, while imports were up 37 per cent; in total, the value of bilateral trade was US$713 million. China (including Hong Kong) had become Ireland's 13th biggest export market, and the eighth largest source of imports. Zhu expressed his government's wish to increase trade with Ireland, not least in order to take advantage of high-tech Irish products. He added that China was prepared to accept more trade deficits (XHNA, 4 September). In Dublin, Zhu Rongji also met President Mary McAleese.

The Chinese Premier travelled from Dublin to Brussels, where, on 6 September, he held talks with the Belgian Premier, Guy Verhofstadt. Both men expressed their satisfaction at the level of bilateral relations and hoped that they would be further strengthened. They committed themselves to intensifying their efforts to extend co-operation in economic, scientific and technological, cultural, educational, and other fields. Zhu specifically welcomed Belgian industrial and commercial involvement in the development of China's western regions (XHNA, 7 September). The Belgian Premier accepted an invitation to visit China in 2002 – an invitation that was also extended to King Albert II.

On 5 September, Zhu Rongji took part in the fourth summit meeting between the European Union (EU) and China. A Chinese Foreign Ministry spokesman described the meeting as "a great success," and suggested that it would facilitate the emergence of a truly comprehensive partnership between China and the EU in the 21st century. On the basis of the summit discussions, a solid political foundation had been established, on which China–EU co-operation could be strengthened. The two sides agreed to expand exchanges and co-operation in many fields including trade, communications, culture, science and technology (XHNA, 6 September; and see *ibid* for the full text of the joint press statement of the fourth China–EU summit).

On 9 September, Zhu took part in the sixth regular prime ministerial meeting between China and Russia in St. Petersburg. Both he and Premier Mikhail Kasyanov spoke with great satisfaction of the new Treaty of Friendship, recently signed in Moscow by Jiang Zemin and Vladimir Putin. Earlier, a Russian source had reported that the two premiers would sign an agreement providing for China's purchases of Tu-204 civilian aircraft, as well as another agreement on the mutual recognition of air readiness, allowing for the possibility of using Russian aircraft on Chinese territory.

In a meeting with Russian business leaders in Moscow, Zhu Rongji noted that the increasing trade imbalance between China and Russia had become an increasing problem, which both sides should seek to resolve (hence, his advocacy of the establishment in Moscow of a trade centre for Chinese goods). He also looked forward to the formulation of preferential policies in order to facilitate inter-enterprise co-operation (XHNA, 10 September).

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During his stay in the Russian capital, Zhu held talks with President Vladimir Putin and other senior Russian government officials. The Russian President spoke of his desire to have the Treaty of Friendship ratified by the Russian Parliament at the earliest possible opportunity in order to maximize its benefits for both countries. He drew particular attention to ongoing co-operation between China and Russia in trade, economic and military-technical (especially aviation) fields (ITAR-TASS and XHNA, 11 September). Also in Moscow, Zhu renewed his discussions with his Russian counterpart, Premier Kasyanov. (For the texts of the joint communiqué, issued following the sixth regular prime ministerial meeting of China and Russia see XHNA, 11 September.)

The Chinese Premier arrived in Astana on 12 September for discussions with the President of Kazakhstan, Nursultan Abish-uly Nazarbayev, Prime Minister Kasymzhomart Kemel-uly Tokayev and other senior officials. Zhu's talks with Nazarbayev focused on bilateral relations and regional and international issues of mutual interest. The two sides agreed to seek closer co-operation in border issues and trade, as well as in regional and international affairs. The two sides also reaffirmed their commitment to resolving outstanding border questions, and agreed to establish a joint committee on cross-border rivers in order to facilitate co-operation in cross-border utilization of water resources. They also signed an agreement on the avoidance of double income taxation, on co-operation in seismic studies, and on health co-operation. (For the text of the joint communiqué issued during Zhu's visit to Kazakhstan, see XHNA, 14 September.)

It was revealed during Zhu's visit that between January and July 2001 the value of two-way trade between China and Kazakhstan had reached US$778 million. If this trend were maintained, cumulative trade for the entire year would exceed the record high of the previous year (US$1.55 billion – itself 36.7 per cent higher than in 1999) (XHNA, 10 September).

Zhu Rongji's visit to Kazakhstan coincided with the first prime ministerial meeting, in Almaty on 14 September, of the Shanghai Co-operation Organization (SCO), whose members are China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. Also attending the meeting were premiers Tokayev (Republic of Kazakhstan), Bakiyev (Republic of Kyrgyzstan), Kasyanov (Russian Federation), Oqilov (Republic of Tajikistan) and Sultonov (Republic of Uzbekistan). A press communiqué issued after the meeting stated that the six member countries of SCO had discussed the prospects for extending trade and economic co-operation between them, as well as other issues of common interest. They agreed that the most appropriate starting point for SCO work was the implementation of a "trade and investment facilitation process," designed to enhance regional economic co-operation between members. To this end, the six prime ministers signed a memorandum on the basic objectives and direction of carrying out regional economic co-operation between the governments of the member countries of the Shanghai Co-operation Organization and on initiating the trade and investment facilitation process. They also issued a statement of condemnation of the terrorist

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acts recently perpetrated in New York and Washington (XHNA and Interfax, 14 September).

Zhu took advantage of the SCO meeting to hold separate talks with the prime ministers of Kyrgyzstan and Tajikistan.

(c) *Countries, Territories and Regions*

Africa (Republic of Guinea, Nigeria, Mozambique, South Africa, Zambia)

On 28 August, Hadja Mahawa Bangoura Camara (Minister for Foreign Affairs and Co-operation in the Republic of Guinea) held talks in Beijing with Vice-President Hu Jintao. Bangoura spoke with satisfaction of the excellent cooperative relationship that existed between her country and China, and hoped that, through consultation and further co-operation, bilateral relations would be taken to a new, higher level. The Guinean Foreign Minister also had an exchange of views on bilateral relations and other issues with her Chinese counterpart, Tang Jiaxuan.

Also in August, the President of Nigeria, Olusegun Obasanjo, made a state visit to China, where he met and held talks with Jiang Zemin, Zhu Rongji and Chi Haotian (Chinese Minister of Defence). The Chinese Premier spoke of the productive economic, political and cultural relations that China and Nigeria had enjoyed during the 30 years since they had established diplomatic relations. He also expressed his government's gratitude to Nigeria for its endorsement of the one-China principle and its support on human rights. Both men noted existing co-operation in the development of railways, ports and electric power; they looked forward to an extension of such co-operation into new fields, such as the development of petroleum and telecommunications (XHNA, 28 August). Obasanjo noted that economic liberalization in Nigeria had opened up new opportunities for foreign investors, in which he hoped Chinese entrepreneurs would participate through the establishment of joint ventures. He drew special attention to investment opportunities in upstream and downstream oil and natural gas projects.

Obasanjo later travelled from Beijing to Shenzhen, where his discussions with Vice-Mayor Li Decheng focused on the prospects for expanded trade between the city and Nigeria. He returned to Nigeria on 29 August. (For a report on the subsequent visit to Nigeria by Chi Haotian, see XHNA, 13 September.)

Statistics issued by China's General Administration of Customs revealed that between January and June 2001, China's exports to South Africa had fallen by 4.9 per cent to US$472.5 million.

From Maputo, it was reported that China had decided to write off US$22 million of Mozambique's debt. According to Sun Zhenyu (MOFTEC Vice-Minister), as of November 1999, this sum represented 69 per cent of Mozambique's debt to China. Meanwhile, also in Maputo, Sun and the Mozambican Minister of Planning and Finance (Luisa [Dias] Diogo) signed an agreement on the promotion and reciprocal protection of investment (XHNA, 11 July).

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Later the same month, China also undertook to cancel part of the debt owed to it by Zambia. The decision exempted Zambia from a debt of US$30 million. In addition, China agreed to extend to Zambia free aid worth 20 million *yuan* in order to make up for the lack of investment funds needed to complete a number of projects sponsored by China (XHNA, 24 July).

Commonwealth of Independent States (Georgia; Russian Federation)

In Beijing on 20 September, the Chinese Premier met Gia Arsenishvili (Georgian State Minister). Zhu Rongji spoke of his government's wish to extend co-operation with Georgia on the basis of the joint statement signed by Jiang Zemin and President Eduard Amvrosiyevich Shevardnadze. Arsenishvili conveyed regards from Shevardnadze to Zhu, insisting that the further development of bilateral relations was a priority of his country's foreign policy agenda. The expansion of economic co-operation with China would, he said, be facilitated by the consensus he had reached in his discussions with Vice-Premier Li Lanqing (XHNA, 20 September).

Later the same month, Xinhua reported that in Harbin on 27 September, China and Russia had signed their first ever agreement for the joint exploration and development of oil resources in the Irkutsk–Sakha [Yakutia–Sakha] region of Eastern Siberia. The work would be undertaken through co-operation between Daqing (for China) and Rosneft and Yukos (for Russia). In a related development, China National Petroleum Corporation (Daqing's parent company) was negotiating with the government of the Republic of Sakha in the Russian Federation about the possibility of jointly developing two further oil fields in the same region. The importance of such cooperative projects was suggested in the statement by Zhu Xingshan (Deputy-Director of the Research Institute of the Economic Centre of Energy, under the SDPC) to the effect that by 2020, China might have to import up to 250 million tonnes of oil (i.e. half of its annual requirements) (XHNA, 27 September)

Japan

Familiar tensions associated with the legacy of the Sino-Japanese War were in evidence during the quarter. Thus, on separate occasions in July and August, the Chinese Foreign Minister, Tang Jiaxuan, expressed regret and strong displeasure at the then Prime Minister Junichiro Koizumi's plan to visit the Yasukuni Shrine for Japan's war dead. Tang said that such a visit was wholly unacceptable to the Chinese people and would jeopardize Sino-Japanese relations (Tokyo, Kyodo, 2 August). On 7 August, Kyodo reported that China had requested a statement of reassurance from Junichiro Koizumi, while Xinhua later interpreted the planned visit as proof of the failure of the Japanese government to "self-examine Japan's past aggressive wars … [and] … to curry favour with Japan's ultra-nationalists by visiting the shrine and [regenerating] the 'prestige of imperial state' " (XHNA, 13 August).

In the wake of Koizumi's visit to the Yasukuni Shrine on 13 August,

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an article in *People's Daily* the following day declared that the event would have a serious adverse effect on Japan's relations with Asian neighbouring countries. It described the shrine as a "tool for fooling the Japanese people, trying to win their sentiments, and inciting militarist emotions … the spiritual pillar that supports Japan's external aggressor and expansion in modern Japanese history" (*RMRB*, 14 August; and see the remarks of Vice-President Hu Jintao, as reported by Kyodo, 4 September).

The refusal of the Japanese government to revise a controversial history textbook was also the source of considerable resentment in China. A Chinese Foreign Ministry spokesman reiterated the official Chinese view that the textbook, allegedly compiled by "Japanese right-wing forces," was an attempt to "gloss over and deny the facts of the invasions launched by Japanese militarists" (XHNA, 10 July). A Ministry of Education spokesman described the Japanese government's action as offering a refuge to "[Japanese] right-wing forces," and said that its decision had "negated and beautified its history of aggression, and departed from the position it has held on historical issues up to now" (XHNA, 9 July). In the face of what China regarded as Japanese intransigence, a new series of textbooks on the Japanese invasion of China were published in September, providing the Chinese version of wartime Sino-Japanese history.

One result of such strains was that in September it was made known that Tang Jiaxuan was unwilling to consider a possible visit to Japan because of difficulties affecting bilateral relations. Even stronger was the remark, made by the new Chinese Ambassador to Japan (Wu Dawei) in Tokyo on 31 August, to the effect that Sino-Japanese relations were facing their "toughest situation" since the normalization of relations 30 years earlier. Meanwhile, in Tokyo the same day, Junichiro Koizumi repeated his wish to meet Jiang Zemin in an effort to repair the damage in bilateral relations caused by his earlier visit to the Yasukuni Shrine (Kyodo and XHNA, 31 August).

In July, China rejected Japanese concerns about rising military expenditure (allegedly evidenced by a 17 per cent increase in defence spending in 2001), describing them as "irrational." A Chinese spokeswoman defended China's military budget, insisting that "China's limited military capacity is purely defensive, and poses no threat to any other country" (Kyodo, 12 July).

Such difficulties notwithstanding, statistics published in August by the Japan External Trade Organization indicated that during the first half of 2001, two-way trade between China and Japan had reached US$43.65 billion – 12.7 per cent more than a year earlier and a record high. Japanese exports had risen by 15.3 per cent to US$15.54 billion, and imports by 11.3 per cent to reach US$28.1 billion. The outcome was for the first time to make China Japan's second biggest export market for Japan, after the United States (it was already Japan's second-largest source of imports, also after the United States) (Kyodo, 9 August).

On 27 September, it was announced from Tokyo that the Japanese

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Foreign Ministry had submitted a proposal to cut official development assistance (ODA) to China. The suggested reduction in aid reflected the impact of Japan's own fiscal difficulties, but also contained the suggestion that China now had sufficient capability of its own to undertake road and railway construction in coastal regions (the purpose for which the ODA was intended). By the same token, the proposal called for the focus of ODA to be redirected from coastal infrastructural development to environmental conservation and welfare improvements in inland regions of China (Kyodo, 27 September; see also Kyodo, 13 and 16 July).

Middle East (Israel)

In an interview with Xinhua (8 July), the Israeli Foreign Minister, Shimon Peres, noted the strong development of relations between Israel and China since the establishment of diplomatic relations almost a decade earlier. He hoped that the economic, cultural, scientific and technological exchanges between the two countries would be expanded (XHNA, 9 July).

Later the same month, however, a Chinese Foreign Ministry spokesman issued a statement of condemnation against Israel, following the assassination of Abu-Ali Mustafa [Mustafa al-Zibri], (General Secretary of the Popular Front for the Liberation of Palestine). The spokesman reaffirmed China's stand against all forms of terrorism, as well as its opposition to Israel's "cleansing policy" *vis-à-vis* Palestine. He called on Israel and Palestine to rely on dialogue and the mediation of the international community in order to facilitate a peaceful settlement of their conflict (XHNA, 28 August; and for further criticism of Israel, *RMRB* web site, 30 August).

North-East Asia (North Korea [Democratic People's Republic of Korea]; South Korea [Republic of Korea])

On 3 September, Jiang Zemin arrived in Pyongyang for a three-day official goodwill visit to DPRK. His written statement, made available on his arrival, spoke highly of the achievements of North Korea and the Korean Workers' Party under its General Secretary, Kim Jong-il. Subsequent talks between the two leaders focused on ways of further developing Sino-DPRK relations, and important regional and international issues of common concern. Jiang also recalled his 1990 visit to Pyongyang, when he had met President Kim Il-sung. He spoke of the Chinese government's willingness to help advance the dialogue between North and South Korea, and to facilitate the peaceful settlement of outstanding issues in the interests of stability on the Korean Peninsula. He hoped too that the DPRK government would succeed in its effort to improve its relations with the United States, Japan and the European Union (XHNA, 3 September). A CCP official was later to refer to the "complete success" of Jiang's visit.

Earlier in the quarter, senior officials of the DPRK and CCP made reciprocal visits to Pyongyang and Beijing. In the Chinese capital, Kim

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Yun-hyok (Secretary General of the DPRK's Presidium of the Supreme People's Assembly) exchanged views with Jiang Zemin and Vice-Premier Qian Qichen on bilateral relations, while in Pyongyang, Jiang Chunyun (Vice-Chairman of the NPC Standing Committee) held talks with Kim Jong-il and Kim Yong-nam (President of the Supreme People's Assembly of the Presidium of the DPRK).

Meanwhile, it was announced from Seoul that China and South Korea had agreed to upgrade their trade relationship and to extend co-operation in a number of key areas (including the building of information networks and regional industrial development) (Seoul, Yonhap, 6 September).

The Pacific (Republic of Fiji)

On 11 July, Kaliopate Tavola (Foreign Minister of Fiji) attended a ceremony to celebrate the opening of the Fijian embassy in Beijing. During his visit, Tavola met Vice-Premier Qian Qichen, who noted that Fiji had been one of the first countries in the South Pacific to establish diplomatic ties with China.

South Asia (India, Pakistan, Bhutan)

The former President of the Confederation of Indian Industry, Arun Bharat Ram, was at pains to play down allegations that China had dumped cheap consumer goods on to the Indian market. Indeed, he denied that Chinese exports to India had risen sharply following India's cancellation of quantitative restrictions on foreign goods (April 2001). Statistics showing that the rise in Indian exports to China between January and May 2001 (up by 50.9 per cent) had significantly outstripped the corresponding figure for Chinese imports (up by 34.3 per cent) appeared to lend support to Ram's thesis (Press Trust of India (PTI), 8 July) (China's General Administration of Customs later revealed that in the first half of 2001 Chinese exports to India had risen by 29.3 per cent.)

The Indian and Chinese delegations to the 13th India–China Joint Working Group meeting on the boundary issue (Beijing, 31 July–1 August) were headed by Foreign Secretary Chokila Iyer, and Vice-Foreign Minister Wang Yi. During her visit to the Chinese capital, Chokila Iyer also held separate talks with Tang Jiaxuan, with whom she exchanged views on bilateral relations, and regional and international issues of common concern. Little progress appeared to have been made in the border talks, although the two sides agreed that a second meeting of the working group should take place later in 2001 in order to accelerate work on clarifying and confirming the line of actual control between China and India (PTI, 1 August).

In August, two Pakistani ministers – of Finance (Shaukat Aziz) and of Communications (Javed Ashraf) – travelled to China, where they held talks with Premier Zhu Rongji. The Chinese Premier spoke of his government's wish to further extend bilateral relations in a wide variety of fields. Reference was made during the discussions to the recent signing by Shaziz and Shi Guangsheng (Chinese MOFTEC Minister) of a formal

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agreement, whereby the Chinese government would extend US$200 million in support of the first phase construction of the Gwadar Sea Port and the Makran Coastal Highway (see XHNA, 10 August).

The Foreign Secretary of Bhutan (Dasho Ugyen Tshering) visited China during 18–25 July and held talks with his counterpart, Tang Jiaxuan and Vice-Foreign Minister Wang Yi. Border issues were a principal focus of their discussions (*Kuensel* web site, Thimphu, 27 July 01).

South-East Asia (Association of Southeast Asian Nations [ASEAN]; Singapore, Thailand)

The Eighth ASEAN Regional Forum (ARF) opened in Hanoi on 25 July and was attended by representatives of the ten full members of ASEAN, as well as ten further ASEAN dialogue partners including China, Papua New Guinea and Mongolia. Addressing the ARF on 25 July, Tang Jiaxuan praised ASEAN's contribution to increasing trust and co-operation and urged the ARF to maintain the momentum of its political and diplomatic efforts. Admitting that there remained sources of economic and political instability in East Asia, but denying that China would ever pose a threat to the region, he reaffirmed the Chinese government's strong wish to assist in the work of the ARF. He warned, however, against trying to impose a single political or economic model on the region (XHNA, 25 July).

The following day, Tang addressed a China–ASEAN dialogue meeting. He noted ongoing progress in the development of China–ASEAN cooperative relations and hoped that the momentum would be maintained. In particular, trade and economic co-operation had reached a new level, with the value of China–ASEAN trade reaching a new peak of US$39.5 billion in 2000 (twice the level of 1996, when China became a full dialogue partner of ASEAN). Looking ahead, Tang hoped that mutual trust and co-operation between China and ASEAN could be further increased, while co-ordination and co-operation in international and regional affairs were also further improved. He added that China's impending accession to the WTO would facilitate all these processes (XHNA, 26 July).

Tang Jiaxuan was later quoted as saying that the Eighth ASEAN ARF had made significant progress. In particular, he spoke with satisfaction of the consensus that had been reached on three major documents, designed to enhance preventive diplomacy and mutual trust.

During his visit to Hanoi, Tang held separate talks with the U.S. Secretary of State, Colin Powell. It was their first meeting since George W. Bush had become U.S. President and afforded Tang the opportunity to speak of the great significance that China attached to the forthcoming summit meeting between Bush and Jiang Zemin during their participation in the Asia-Pacific Economic Co-operation (APEC) meeting, due to be held in Shanghai in October.

On 12 September, also in Hanoi, the fourth consultation meeting

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between ASEAN and its dialogue partners (China, Japan and South Korea) took place. Its main purpose was to promote and facilitate technical co-operation in IT between participating parties. China was represented at the meeting by Sun Zhenyu (Deputy MOFTEC Minister).

Between 27 and 29 August, the Thai Premier (Thaksin Shinawatra) visited China, where he held talks with Chinese government leaders, including Jiang Zemin, Zhu Rongji and Li Peng. A communiqué issued after the visit referred to the two sides having "held in-depth exchanges of views and reached wide ranging consensus on relations between the two countries and international and regional issues of common concern." They signed an agreement on cultural co-operation and a memorandum of understanding on establishing a Sino-Thai commercial council. Both sides were said to have expressed satisfaction with the development of bilateral relations (for full text, see XHNA, 29 August).

On 12 September, S.R. Nathan arrived in Beijing – his first visit to China as President of Singapore. During his visit, he held talks with President Jiang Zemin and Vice-President Hu Jintao. Both Chinese leaders reaffirmed the Chinese government's determination to strengthen its friendly ties with Singapore and, in the wake of the 11th September terrorist attack on the World Trade Center, spoke of the urgent need for the international community to cooperate more closely in fighting terrorism. Jiang also spoke of the excellent progress made in developing bilateral relations during the previous decade, drawing special attention to the "remarkable results of bilateral co-operation in trade, investment and human resources" (XHNA, 13 September). In Beijing, Nathan also met Li Peng and Li Ruihuan.

Taiwan [Republic of China]

A Chinese Foreign Ministry spokesperson rejected a suggestion made by Lien Chan (Chairman of the Kuomintang) that the idea of a "federation" might best facilitate reunification of Taiwan with the mainland, arguing that the concept of "one country, two systems" remained the best basis for political integration (*ZXS*, 10 July).

In a comment on China's unqualified insistence that Taiwan recognize the 'one China' principle, Tsai Ing-wen (Chair of Taiwan's Mainland Affairs Council) urged China to put aside such "abstract" principles in favour of facilitating a resumption of the talks between the Straits Exchange Foundation and its mainland counterpart, the Association for Relations Across the Taiwan Strait in the interests of the citizens of China and Taiwan (CAN, 28 July). However, despite warning that the Taiwan question could not be "postponed indefinitely," a spokesman for Beijing's Taiwan Affairs Office added that "we can wait patiently as long as the Taiwan authorities agree to resolve the Taiwan issue under the one China principle" (XHNA, 26 September; see also XHNA, 31 August).

On 10 September, in an address to an international forum (China and the World in the 21st Century), Vice-Premier Qian Qichen described the completion of Chinese reunification as one of the three major tasks facing

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China in the 21st century. He insisted that the concept of "one country, two systems" was still the best basis for cross-strait reunification, though adding that more flexible policies (including allowing Taiwan to retain its own currency, to keep its own troops, to maintain its status as an independent tariff territory, etc.) could be followed in respect to Taiwan than had been extended to Hong Kong and Macau. But once again, Qian insisted on recognition of the one China principle as a necessary condition for the resumption of the cross-strait dialogue (XHNA, 10 September).

In July, a committee of Taiwan's Executive Yuan agreed that restrictions on direct travel and trade between Kinmen [Quemoy or Jinmen] and Matsu [Mazu] islands, and selected mainland cities should be eased (CNA, 9 July). Accordingly, on 2 August, a small delegation from Mawei Special Economic Zone became the first mainland visitors to travel directly from Taiwan-controlled Matsu Island. Even more dramatically, on 31 July, 115 elderly Kinmen-born people who had been "stranded" in Xiamen (Fujian Province) since the late 1940s were able to make a direct voyage back to their homes. Such voyages were signs of the progress made in implementing the "mini three links" – a process that was further extended on 6 August, when a Cambodian-registered freight vessel directly transported construction materials from Mawei to Matsu (CNA, 6 August; on 4 September, the Executive Yuan took further administrative action to extend "mini links," including the establishment of Penghu Island as another experimental base in furthering direct cross-strait freight and passenger transport (see *RMRB*, 7 September)).

On 16 August, direct cross-strait sea–air trans-shipment services were initiated, when freight from the mainland was airlifted to Europe via Taiwan. It was reported that Taipei's decision to allow the services of Kaohsiung's cross-strait transhipment centre to embrace transhipment by air had been welcomed by mainland enterprises (CNA, 16 August).

It was reported that as of 31 August, vessels had already undertaken some 105 cross-strait voyages between Kinmen and Xiamen, and Matsu and Fuzhou. Of these, 85 had been carried out by vessels owned by Taiwanese shipping companies and 20 by PRC vessels. Some 7,474 Taiwanese citizens had visited Xiamen and Fuzhou, while 490 mainland Chinese had travelled to Kinmen and Matsu (CNA, 7 September).

In July, a delegation comprising eight members of the New Party of Taiwan travelled to Beijing in order to hold party-to-party talks with the CCP representatives on cross-strait ties and the prospects for reunification. Qian Qichen told the delegation that his government's attitude towards the Taiwan question was summed up in the "one-two-three insistence" (insisting on "one China, two side [cross-strait] negotiations and three direct … links"). He also rehearsed the familiar argument that Taiwan would be accorded more flexible conditions in any reunification agreement (CNA, 12 July). Meanwhile, it was reported that the two sides had reached a consensus on several points relating to cross-strait relations and reunification.

A CCP source noted that since the beginning of economic rapprochement between the mainland and Taiwan, cumulative indirect trade had

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reached almost US$200 billion, while the PRC authorities had approved the establishment of around 50,000 Taiwan-funded enterprises, with a contractual investment of US$46 billion. The same source spoke encouragingly of progress towards implementing the "three direct links," but added that they were still far from meeting the needs of the two sides (XHNA, 8 August).

In September, echoing earlier remarks by President Chen Shui-bian, Tsai Ing-wen revealed that Taiwan was in the process of formulating a new mechanism for its economic and investment relations with the PRC. She said that the intention was to replace the "no haste, be patient" policy with a new strategy of "active opening, effective management" that would set an annual ceiling on aggregate corporate investment in China. She added that microeconomic control measures would also be replaced by macro measures, designed to provide a protective shield that would ensure that capital outflows from Taiwan to the mainland were not so excessive as to exacerbate any hollowing out of Taiwanese industry (CNA, 20 September; also CNA, 8 August, which reported that Chinese-made goods were replacing Taiwanese products in the Japanese market; and see CNA, 28 September on the Ministry of Finance (Taipei) decision to allow eight banks to open offices in China).

It was reported that bilateral trade across the Taiwan Strait during January–May 2001 had declined, year-on-year, by 4.2 per cent to US$11.94 billion. Taiwan's trade surplus during this period was US$7.1 billion (CNA, 27 July).

The rebuttal of Taiwanese efforts to join the United Nations has become something of an annual ritual, albeit one that still has great importance for the government in Taipei. On 14 September, the rejection by the General Committee of the 56th Session of the UN General Assembly (UNGA) of a motion calling the for question of Taiwan's "participation" in the UN to be tabled on the UNGA agenda was reported by Xinhua, which noted that this was the ninth time that an "attempt by the Taiwan authorities to create 'two Chinas' " had failed (XHNA, 15 September; also see CNA, 15 September).

United States of America

In July, Joseph Biden (Chairman of the U.S. Senate Foreign Relations Committee) headed a delegation to China. Biden held talks with senior Chinese government and Party officials, including Jiang Zemin, Zhu Rongji, Qian Qichen, Tang Jiaxuan and Chi Haotian.

By far the most important visitor to China during the quarter was, however, the U.S. Secretary of State, Colin Powell, who, during his stay in Beijing (28–29 July), met and talked to Jiang Zemin, Zhu Rongji, Tang Jixuan and other senior officials.

Powell's discussions with Foreign Minister Tang Jiaxuan, which focused on bilateral relations and other issues of common concern (including China's WTO accession, human rights and environmental questions), were described by both sides as having been "very positive

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and constructive." They generated a number of agreements on future meetings and exchanges (XHNA, 28 July).

Also on 28 July, Powell held talks with Premier Zhu Rongji on a variety of issues, including Sino-U.S. economic and trade co-operation. Zhu noted that the development of relations between China and the U.S. had progressed unevenly over the years, but hoped that those relations might grow stronger in the future. For his part, Powell reaffirmed the importance that Washington attached to Sino-U.S. relations and also expressed the hope that the two countries could strengthen their co-operation to their mutual advantage (*ibid*).

That same day again, Jiang Zemin received the U.S. Secretary of State. The Chinese President suggested that there were real signs of an improvement in bilateral relations, adding that he looked forward to President Bush's visit to China during October. He urged that both countries should adopt a long-term perspective to their relations in order to help promote world peace and assist in global development. He also reiterated his government's position on the Taiwan issue (*ibid*).

Later, Powell described his meetings with Chinese leaders as "productive" and reaffirmed President Bush's desire to build a "productive and forward-looking relationship" with China. He added that the U.S. supported China in its bid to join the WTO and looked forward to working with China in its efforts to enhance the process of its global economic integration. He echoed Chinese leaders in his stated belief that existing differences between the two countries would not necessarily impede the continuing process of dialogue and co-operation (*ibid*).

On 19 September, the Chinese Foreign Minister, Tang Jiaxuan, arrived in Washington in order to discuss bilateral relations and also to address other issues of common interest, including how to combat terrorism. On 21 September, Tang held separate talks with President Bush and U.S. National Security Adviser, Dr Condoleeza Rice. Bush spoke of the significance of his forthcoming visit to China and his meeting with Jiang Zemin, to whom he expressed his thanks for the sympathy that had been extended to the American government and people in the wake of the recent terrorist atrocities in New York and Washington. Meanwhile, Dr Rice hoped that further progress would be made towards establishing a strong and fruitful relationship between China and the United States. (XHNA, 22 September). Tang also held a meeting with Vice-President Cheney.

On 11 September, the China–U.S. Joint Economic Committee (JEC) held its 14th session in Beijing, attended by Minister of Finance Xiang Huaicheng and U.S. Treasury Secretary Paul O'Neill. The two sides were reported to have reached consensus on a wide range of issues. The next JEC meeting will be held in Washington in 2002 (XHNA, 11 September). During his stay in Beijing, O'Neill met Jiang Zemin and Vice-Premier Wen Jiabao.

Western Europe (United Kingdom [UK])

It was reported that China Petroleum and Chemical Corporation

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(Sinopec) and BP Chemicals had agreed to build a petrochemicals complex which, on completion in 2005, was expected to be the largest of its kind in Asia. The venture would be established in Shanghai later in September and would seek to develop an ethylene production capacity 900,000 tonnes p.a. (*China Daily*, 1 September). The value of the deal was put at US$2.7 billion, with BP controlling 50 per cent of the joint venture and the remaining 50 per cent being controlled by Sinopec (30 per cent) and its subsidiary, Shanghai Petrochemicals Co., (20 per cent).

Also in September, it was announced from Xiamen that China and the UK had formally established the China-Britain Organization for Promotion of Investment, designed to be a forum for the discussion of investment issues and a mechanism for facilitating investment by UK firms in the opening up and development of China's western regions (XHNA, 8 September).

(d) *International Organizations (United Nations [UN], Asia Pacific Economic Co-operation [APEC], Asian Development Bank [ADB])*

In Geneva on 17 July, in an address to a meeting of the Economic and Social Council, Qiao Zonghuai (head of the Chinese delegation) pledged his government's support to African countries in their efforts to achieve sustainable development. He urged developed countries to do likewise. China's intention, he said, was to give Africa every possible assistance, including monetary and institutional. He also referred to both the establishment by China of a fund for the human resources development of Africa, designed to offer professional training to Africans, and to the allocation of funds to encourage Chinese firms to invest in Africa (XHNA, 18 July).

In Durban on 3 September, Wang Guangya (head of the Chinese delegation to a UN meeting on anti-racism) called on all countries in the world to formulate effective measures to combat and eliminate racism (described by Wang as a "tumour in human society"). On behalf of his government, he put forward a three point proposal that sought to bring about a "fair and rational new international political and economic order, so that all countries in the world will benefit from the process of multipolarization and globalization, and ultimately promote the peace, development, and prosperity of the whole of mankind" (XHNA, 3 September).

On 8 September, the Eighth APEC Finance Ministers Meeting was held in Suzhou. All 21 APEC members, including Taiwan (in the person of the Finance Minister, Yen Ching-chang) sent delegations to attend the meeting. There was agreement among the participants that joint action was needed to reverse the global economic downturn, including the implementation of appropriate policy measures, as well as financial and corporate structural reforms. Despite optimism by some participants about longer term economic prospects for APEC, the joint communiqué was also at pains to highlight the challenge inherent in the difficult conditions which member countries now faced (see XHNA, 9 September

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for the text of the communiqué). (For reports on the Third Senior Officials Meeting of the 13th APEC Ministerial Meeting, held in Dalian on 23–24 August, see XHNA, 23 and 24 August. For reports on the Eighth APEC Small and Medium-sized Enterprises Ministerial Meeting, held in Shanghai on 29–30 August, see XHNA, 29 and 30 August.)

On 5 September, the Asian Development Bank (ADB) announced its decision to extend US$2 billion in loans for environmental projects, to be implemented between 2001 and 2003. This figure compared with ADB loans of US$2.3 billion, made available during the previous two decades. It was also revealed that ADB planned to offer China environmental technological assistance grants worth US$16 million. These decisions reflected the high priority accorded to environmental issues by the Bank.

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