Quarterly Chronicle and Documentation

(October—December 2003)

Sources

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

Abbreviations

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

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Perfecting the Socialist Market Economic System" (approved by the Third Plenum of the 16th CCPCC on 14 October 2003).

1. Internal Developments

(a) *The Third Plenum of the 16th Chinese Communist Party Central Committee (CCPCC)*

The third plenary session of the 16th CCPCC took place in Beijing on 11–14 October. Members discussed a work report from Hu Jintao on behalf of the Central Committee. It approved two documents: "Decision of the CCPCC on Several Issues Related to Perfecting the Socialist Market Economic System" and "Draft Proposal of the CCP Central Committee on Revising Part of the Constitution." It was agreed that both documents should be submitted to the Standing Committee of the Tenth NPC.

A *People's Daily* editorial placed the outcome of the latest CCPCC plenary session firmly in the context of what it referred to as a "new upsurge" in the study and implementation of the "three represents" (*san ge daibiao*). It highlighted the "great practical significance and far-reaching historical importance" of the Central Committee's deliberations in further promoting reform and opening up, and in implementing and realizing the "great cause of socialism with Chinese characteristics" (see *RMRB*, 14 October).

A communiqué issued at the end of the plenary session (text in XHNA, 14 October) outlined the main tasks facing the government in its efforts to improve China's socialist market economic system as follows: to maintain public ownership as the "mainstay" of the economy, while facilitating the simultaneous development of other diverse forms of ownership; to reduce rural–urban differentials and promote co-ordinated regional development; to put in place a "unified, open and orderly modern market system;" to enhance welfare through improvements in employment, income distribution and social security arrangements; and to promote sustainable social and economic development. The communiqué also stated that the "major theoretical opinions and policies," set out at the 16th National Congress of the CCP, would be formally endorsed by being written into the Chinese Constitution, thereby meeting the demands of China's economic and social development.

The CCPCC's "Decision on Several Issues Regarding the Improvement of the Socialist Market Economic System" (hereafter 'Decision': for complete text, see XHNA, 21 October: reproduced below in *Documentation*; and for comment, see *Qiushi* [*Seeking Truth*], 16 November) reiterated the ideological underpinnings of ongoing economic reforms contained in 'Deng Xiaoping Theory' and the "important thinking of the 'three represents.' " It called on central and local governments to undertake innovative system reform in their efforts to integrate reform, development, and stability. Significantly, it also spoke of the need to "properly handle all conflicts of interest among various groups" in implementing

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economic reforms. The 'Decision' reaffirmed the fundamental role of market forces in allocating resources, enhancing macro-regulation and control, improving industrial competitiveness, and strengthening social administration (including the provision of public services). To such ends, major tasks included the following: to maintain the public sector as the mainstay alongside the emergence of other ownership forms; to improve *integrated* rural and urban economic development, as well as integrated regional growth; to upgrade macroeconomic regulatory and control mechanisms; to address problems of employment, income distribution, and social security; and to promote sustainable economic and social development.

(b) *The Fifth and Sixth Sessions of the Tenth National People's Congress Standing Committee (NPCSC)*

The Fifth Session of the Tenth NPCSC took place in Beijing between 18 and 23 October. Members reviewed and discussed a variety of legislation relating to banking, administrative licences, and road and transportation safety.

Hu Guangbao and Wang Yiming (Vice-Chairmen of the NPC Law Committee) explained the nature of draft legislation on, respectively, road and traffic safety (examined at the 29th Session of the Ninth NPCSC and Third Session of the Tenth NPCSC), and securities and investment funds. Wang noted that the new law sought to improve both the quality and stability of securities management companies and their executives ("the law bears great significance in standardizing the investment of securities and funds, safeguarding the investors' legitimate rights and interests and ensuring the healthy growth of the securities market").

Xinhua pointed out that the securities investment fund was "an advanced financial innovative product," whose rapid and successful development in recent years had facilitated the development and perfecting of the securities market and financial system. As of end-September, 32 fund management companies were in operation, eight commercial banks had qualified for fund trusteeship, and 87 securities investment funds had been established. It was against this background that many had come to believe in the need for the early promulgation of a securities investment funds law in order to promote and safeguard the normalization and development of securities investment funds and the securities market (XHNA, 24 October).

The draft law for banking regulation, the draft revised law for the People's Bank of China, and the draft revised law for commercial banks were also brought before the Fifth Session for further consideration.

As instructed by the State Council, Li Xueju (Civil Affairs Minister) delivered a report on safeguarding Chinese senior citizens' rights and interests. He pointed out that the number of senior citizens in China was greater than in any other country in the world, and that as the population's age structure became increasingly "geriatric," so the problem of old age was emerging as a serious social problem. At the same time, economic and other social factors (including senior citizens' often poor educational

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level) continued to generate many problems. Particular attention was drawn to the need to address medical and nursing care.

Meanwhile, also on behalf of the State Council, Wang Chunzheng (Vice-Minister in charge of the State Commission for Development and Reform) reported on the construction of small towns and the transfer of surplus rural labour. He revealed that as of end-2002, there were 19,811 "organic towns" (*jianzhi zhen*) – that is, more than the total number of townships. He spoke of fresh progress in building small towns and transferring surplus workers, but admitted that problems persisted (including inadequate urban planning, an unhealthy emphasis on "big and foreign" construction projects, a lack of financial resources for infrastructure projects, the failure to protect rural migrants' legitimate rights and interests, and a shortage of job services for "peasants-turned-workers").

Wang noted that over 94 million peasants in China had become migrant labourers, the movement out of the countryside into the urban sector having become especially pronounced since the 1990s. He interpreted such transfers optimistically, arguing that they were essential to revitalizing the rural economy and raising farm incomes. He estimated the number of surplus rural labourers to be around 150 million.

Finally, Zheng Silin (Minister of Labour and Social Security) reported on employment and re-employment. He revealed that all 31 of China's provincial-level units had formulated specific re-employment plans, almost all of which had been fulfilled. For example, between January and September 2003, 6.5 million people had found new jobs in China, while a further 1.6 million others had been re-employed. There were, however, a number of problems that remained unresolved, including the disqualification of some laid-off workers and unemployed from receiving assistance, and their inability to obtain "support cards" on time. (XHNA, 25 October).

The NPCSC duly passed the laws on road transport safety (effective from 1 May 2004) and security investment funds (effective as of 1 June 2004), as well as approving a decision to make government loans, borrowed from the People's Bank of China (PBOC) before 1995, tradeable treasury bonds. It also appointed Sun Wensheng as Minister of Land and Resources in place of Tian Fengshan. (For further details, see XHNA, 28 October).

The Sixth Session of the NPCSC took place during 22–27 December. At the opening session, the Standing Committee's 2003–2007 legislative plan was unveiled, revealing that 59 scheduled draft laws (embracing constitutional amendments, administration, civil affairs, commercial and economic affairs, social affairs, bills for revising the criminal code, procedural laws and non-procedural laws) and 17 optional draft laws (including legislation on government information release, immovable asset registration, western regions development strategy, money laundering and drugs) would be submitted to delegates during the five-year period (XHNA, 17 December).

The CCP Central Committee submitted its proposal on constitutional amendments to NPCSC members. The first part of the proposal was to

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enshrine the "three represents" into the constitution; the second part sought to ensure that "the legitimate private property of citizens should not be violated" (XHNA, which contains the full text of the CCPCC proposal).

Draft amendments to the Foreign Trade Law were also brought before the NPCSC. They provided, unprecedentedly and *inter alia*, for "natural persons within Chinese territory" to secure the right to engage in foreign trade (including trade in cargo and technology).

A panel discussion revealed apparent unanimity among NPCSC members about the desirability of the constitutional amendments and of submitting their views for further discussion at the Second Session of the Tenth NPC. Their common stance was that the ideology of the "three represents" should, alongside Marxism-Leninism, Mao Zedong Thought, and Deng Xiaoping Theory, guide the Party for many years to come. The current proposal represented a "crystallization of the collective wisdom" of both the CCP and the Chinese people and was the "embodiment of a sound integration between the Party's stand and the will of the people." Accordingly, it promised to make a significant contribution in "strengthening and improving the leadership of the party … bringing into play the advantages of the socialist system … arousing the enthusiasm of the vast masses of the people … maintaining state unification, national unity, and social stability … [and] boosting the country's economic growth and comprehensive social progress" (XHNA, 23 December).

Three important bank laws were presented to the Sixth Session of the NPCSC – viz., the draft law on banking supervision, the draft amendment of the Law on the People's Bank of China (PBOC), and the draft amendment of the Law on Commercial Banks.

The draft amendment of Law on the PBOC provided for the State Council to set up a co-ordination mechanism to improve supervision – currently undertaken by the China Banking Regulatory Commission (CBRC), the China Securities Regulatory Commission (CSRC) and the China Insurance Regulatory Commission (CIRC) – of the financial sector.

The amended Law on Commercial Banks sought to prevent commercial banks from engaging in trust and securities businesses, or investing in non-banking financial institutions or enterprises (XHNA, 22 December).

Vice-minister of commerce Yu Guangzhou reported to the NPCSC members on the emerging challenges arising out of China's membership of the World Trade Organization (WTO). He highlighted four problems: the inability of the government fully to accommodate new conditions; the threat posed to exports as a result of intensified international trade protectionism; the structural impact of WTO membership; and pressure to open up even further China's markets to outside competition (XHNA, 25 December).

The draft law on banking supervision, as well as the draft amendments to the Law on the PBOC (full text in XHNA, 27 December) and to the Law on Commercial Banks were duly passed by the NPCSC. They also adopted the proposed constitutional amendment, which would be submit-

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ted for deliberation at the forthcoming Second Session of the Tenth NPC (scheduled to begin on 5 March 2004).

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

On 16 October, *Qiushi* (*Seeking Truth*) published an article by Wu Guanzheng on problems of discipline and corruption within the CCP. He quoted Mao Zedong, Deng Xiaoping and Jiang Zemin on the critical importance of discipline as an essential condition of maintaining Party unity. Although the great majority of Party members and organizations adhered to the principle of strict Party discipline, Wu said, some members (including leading cadres) showed a much more lax attitude, even to the extent of violating the law. Such traits threatened to damage the CCP's "fighting capacity" and to make it a "heap of loose sand." Hence, the need for all CCP members to strengthen self-discipline (especially political discipline). Thus,

> what is most important is to abide by the party constitution and the guiding principles for inner-party political life to the letter, to adhere unswervingly to the party's basic theory, line, programme, and experiences, and to conscientiously maintain a high degree of unity with the party central committee. It is essential to resolutely maintain the unity and solidarity of the party, to firmly safeguard the authority of the Party Central Committee with Comrade Hu Jintao as its general secretary, and to resolutely keep the good image of the party and government among the masses of the people. Under the guidance of the important thinking of the 'Three Represents' leading cadres should cultivate their party spirit, increase their ability to distinguish between right and wrong, be good at observing and handle problems politically, and always keep a firm political conviction and a clear political head. They should fully understand the serious harm of various political rumours fabricated by hostile forces at home and abroad, and they should refuse to hear and believe such rumours and not be confused or swayed by them.

In support of such guidelines, Wu called on Party members (especially leading cadres) to follow the principle of "democratic centralism." Personnel appointments and removals, major policy decisions, large-scale funding allocations were all to be decided collectively in accordance with clearly specified objective criteria. Analogous principles should govern discipline in *economic* work – an area in which recent years had witnessed serious dereliction of duty, even extending to bribery and embezzlement. Thus,

> some leading cadres have taken advantage of their positions to embezzle money and accept bribes, abused their powers to seek personal gains, or traded power for money. Such cases also have a distinguishing feature that the spouses or children of leading cadres or people working at their side take advantage of their positions, powers, and influence to seek illicit gains.

Against this background, virtues of honesty and self-discipline must be inculcated in order to combat violations of economic-work discipline. In particular, Wu warned against CCP cadres interfering in, or bidding for construction projects, involving themselves in the transfer of land-use rights or other real estate activities. Nor should they use their authority to

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accept cash, negotiable securities or other forms of payment from units or individuals.

Finally, Wu emphasized the importance of maintaining and strengthening ties between Party members and the masses, such relations constituting the Party's "biggest political advantage." Efforts must always be made to combat "formalism" and "bureaucratism;" Party members and cadres should avoid competing with the general population for cash profit, should be economical in their use of labour, financial and material resources, and should "resolutely check unhealthy trends of resorting to deception, falsifying reports and boasting, hoodwinking those above and deluding those below, and seeking fame and gain."

An article in *Qiushi* (16 November) stressed the importance of ideology and theory through the study of Marxism and its integration with Chinese reality (the "Sinicization of Marxism"). Nor had the reformist thrust of policy of recent years diminished the relevance of theoretical study. Rather,

> Only when we persistently take Marxism as the guide can we continuously promote the Party's ideological and theoretical building and make sure that the research on Marxist basic theory develops along a correct direction. Upholding Marxism means to uphold Marxism-Leninism, Mao Zedong Thought, Deng Xiaoping Theory, and the scientific system of the important thinking of the 'Three Represents' that comes down in one continuous line and yet advances with the times, to uphold the world outlook and methodology of dialectical materialism and historical materialism, and to uphold the fundamental tenets and fundamental viewpoints that reflect the law governing human social development.

Adherence to basic Marxist theory was not to be confused with a "dogmatic understanding of Marxism," but demanded clarification of "erroneous ideas added under the name of Marxism." Hence, the need for theoretical innovation (as Jiang Zemin put it, "to prevent the undertakings of the party and the state from stopping, …theories must never stop"). Hence, in turn, the need for theoretical workers to summarize Marxism's historical theoretical contribution and promote the "Sinicization of Marxism" in order to enrich and further develop its theoretical canon.

(For the text of a speech by Hu Jintao to a National Propaganda and Ideological Work Conference (Beijing: 5–7 December), see XHNA, 7 December.)

(d) *Social and Legal Affairs*

On 1 October, new marriage registration regulations, allowing couples to marry without having to undergo a health check or obtain a letter from their employers confirming their unmarried status, took effect throughout China. In anticipation of tens of thousands of couples wishing to take advantage of the new rules, marriage registration offices were ordered to remain open throughout the week-long holiday in celebration of China's National Day. It was meanwhile reported that while the number of marriages registered had fallen from 8.92 million p.a. (1998) to 7.86 million p.a. (2002), that of divorces had remained stable at around 1.2 million p.a.

A senior Chinese health official quoted a joint epidemiological survey, undertaken by China, the World Health Organization and UNAIDS,

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which showed that there were currently 840,000 HIV carriers and 80,000 AIDS patients in China. He revealed that China had formulated plans to provide free treatment to HIV carriers and AIDS patients throughout rural areas, as well as among urban AIDS-infected citizens facing financial difficulties. He added that some 5,000 HIV carriers and AIDS patients in poverty would receive free treatment during 2003, and that free treatment would be available for all poor HIV carriers and AIDS patients in 2004. Meanwhile, the Chinese government was treating HIV/AIDS as a strategic issue that impinged on the country's social stability, economic development, national prosperity and security. Thus, central and local governments had allocated 6.8 billion *yuan* to establish and improve disease prevention and control mechanisms throughout the country. In addition, over 200 million *yuan* was being spent annually on HIV/AIDS prevention, care and treatment; and a further 2.25 billion *yuan* were to be made available by central and local authorities, mainly in order to improve the work of blood testing stations in central and western China (XHNA, 6 November; see also reports in XHNA, 11 and 19 November; for a report on Wen Jiabao's meeting with three AIDS patients in a Beijing hospital, see China Central TV-1, Beijing, 1 December; and see XHNA, 1 December for an interview with Gao Qiang (Executive Vice-Minister of Public Health)).

Senior Party and government officials attended the 20th National Public Security Meeting, held in Beijing in November, and the CCPCC issued a new decision on further improving public security work. Both Hu Jintao and Luo Gan addressed the forum. Luo stressed the importance of maintaining a "stable social environment and a stable and united political situation" in order to facilitate improvements in living standards and the "coordinated development of socialist material, political and spiritual civilizations." He urged vigilance by Party committees, public security authorities, and central and local government bodies in order to preserve social stability.

To the same end, efforts were needed to combat criminals of all kinds, as well as the activities of "hostile forces, national separatist forces, religious radical forces, and the violent and terrorist forces inside and outside the country." In pursuit of fulfilling these goals, Luo also emphasized the importance of improving the quality of China's public security personnel, through the establishment of an efficient accountability system. Thus,

> To create a good environment for public security authorities to discharge their responsibilities, party committees and governments at all levels must earnestly act on the basic policy of managing the country according to law; support and help the public security authorities to enforce the law without regard to local protectionism and departmentalism; and lawfully protect the legitimate rights of public security personnel and the police in enforcing the law (XHNA, 22 November).

(e) *Economic Affairs*

Addressing the '2003 China Economic Growth Forum,' the deputy

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director of the National Bureau of Statistics (NBS), Qiu Xiaohua, claimed that China's economy had entered a new era (*RMRB* website, 12 November). In support of his statement, he highlighted six major changes that had taken place:

- Easier market access, reduced government controls, improved investment and fund-raising conditions and a strengthened legal framework – all reflected improvements in the institutional mechanisms supporting China's economic growth.
- The industrial underpinning of economic growth had shifted from labour-intensive sectors towards more capital- and technology-intensive industries.
- International, as well as domestic markets, had become a major force sustaining China's economic growth.
- *Mixed* forms of ownership now characterized enterprise groups driving economic development.
- A new *regional* structure of economic growth was emerging, exemplified by a shift from the primary role of the Zhu (Pearl) River Delta as a growth node in the 1980s, to the Chang (Yangtze) River Delta (1990s), towards an even more diffused pattern of diverse economic development at the beginning of the 21st century.
- Simple pursuit of GDP growth was giving way to a more comprehensive pattern of co-ordinated and sustainable development.

A central economic work conference convened by the CCPCC (Beijing, 27–29 November) was attended by senior government officials, including Hu Jintao, Wu Bangguo, Wen Jiabao, Zeng Qinghong, Huang Ju, Wu Guanzheng, Li Changchun, and Luo Gan. Hu and Wen made important speeches, in which they reviewed domestic and international conditions facing China and outlined the major economic tasks for 2004. The tenor of the meeting was that "multi-polarization" and economic globalization remained the two main international trends. Global economic recovery and restructuring had worked to the benefit of China's economic development, although new challenges (one of them was SARS) had also emerged.

Delegates at the conference recognized the critical importance of developments during 2004 in the context of fulfilling the targets set out in the current (tenth) Five Year Plan. Particular attention was drawn to the need to address several major tasks (XHNA, 29 November; see also Zeng Peiyan in XHNA, 2 December).

One was the need to maintain continuity and stability in macroeconomic policy, by giving more emphasis to "regulation … control and structural optimization." Special efforts were needed to expand domestic demand, and to improve proactive fiscal and stable monetary policies. State bonds and new treasury funds should be directed towards specific targets (viz., the 'three rural' issues [*san nong*: supporting agriculture, peasants and rural areas], social development, western development and the transformation of old industrial bases in the northeast and elsewhere, ecological construction and environmental protection, employment ex-

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pansion, improvements in the social security system, and raising living standards among the poorest members of the community). The funding requirements of key state construction projects must also be guaranteed.

Another requirement was to give top priority within Party work to solving the 'three rural' issues. Agriculture remained the foundation of the economy and it was vital to preserve the arable land base, whilst also enhancing China's grain production capacity and meeting the needs of its grain farmers. More government resources should be directed towards strengthening the rural infrastructure, especially in main grain-producing regions. Scientific and technological support for farming must be strengthened; reforms of grain circulation must be intensified; and fiscal measures (e.g. the rural tax-for-fee reform) must be introduced in order to lighten the burden on peasants.

Third was the need to focus even more firmly on restructuring, including strengthening manufacturing industry through the accelerated development of hi-tech (especially information technology) industries and the application of applied technology in order to upgrade traditional industrial activities. Making better use of energy, raw materials and water was another priority. Meanwhile, accelerated tertiary sector expansion offered opportunities for expanding employment and ensuring co-ordinated economic and social development, while placing more emphasis on central and western regions would help promote more co-ordinated *regional* development.

The fourth focus was to deepen economic system reform in accordance with the guidelines set out in the CCP's "Central Committee decision on several issues related to perfecting the social market economy [sic] system," adopted by the third plenum of the 16th CCPCC. Associated measures embraced, on the one hand, the strategic re-adjustment of state-owned economy, stronger supervision and management of state assets, and consolidation of the publicly-owned economy; and, on the other hand, the development of the "non-public ownership economy."

Fifth, full use should be made of both domestic and international resources and markets. Further opening up to the outside world would facilitate technology imports and foreign direct investment (FDI) inflows, and help promote the development of indigenous creative ability. In pursuit of greater global competitiveness, efforts were needed to improve product quality, to diversify markets, and to help realize greater regional economic integration.

On 1 October, an important document – the "2003–2010 Plan on training farmer-transformed-workers" – was issued by six ministries, including the ministry of agriculture and the ministry of labour and social security. The plan, which focused on the urgent need to improve the quality of migrant workers, provided for the basic training of 60 million rural labourers in advance of their transfer to urban employment, as well as for "professional training" for over 200 million rural workers who had already found jobs in cities. A Xinhua report noted that there existed around 150 million surplus rural labourers in China, to which 6 million were added every year. With a mere 9.1 per cent of the rural labour force

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(*cf*. 18.6 per cent for those who had already moved to cities) having received professional training, it was difficult for them to find stable employment in the urban sector. Targets contained in the Plan included the transfer of 10 million farmers to non-agricultural work in towns and cities by 2005, all of whom would receive pre-employment training; and on-the-job training for 50 million of those who had already found non-farm employment. During 2006–10, a further 50 million new migrant workers would receive "guidance training," while further on-the-job training would be provided for those already working in the urban sector (XHNA, 1 October).

In October, the rural tax-for-fee reform was reported to have been "basically" initiated throughout China, central financial authorities having allocated 35 billion *yuan* in transfer payments in support of the initiative. It was reported too that the tax on special farm products had been abolished in most areas to the benefit of many peasants. Meanwhile, a "co-operative medical care system" and further improvements in education were being promoted throughout the countryside on the basis of increased allocations to educational, public health, and cultural funds. Finally, rural credit and other financial reforms were under way, the state having chosen eight provinces and municipalities to implement the pilot reform of rural credit co-operatives in order to serve agriculture, rural areas and peasants (XHNA, 7 October).

The ministry of civil affairs revealed that natural disasters had affected an average of 200 million people and cost 100 billion *yuan* p.a. during the previous decade – evidence of the "snowballing" incidence of such problems. In 2003 alone, disasters had resulted in 1,911 deaths and caused losses of 151.4 billion *yuan* (XHNA, 8 October). Elsewhere, it was reported that since 1999, China had invested US$834.3 million in an effort to address rural water shortages affecting more than 34 million residents and constraining economic growth and improvements in living standards, especially in central and western regions (XHNA, 5 October, which also noted the finding of a recent survey undertaken by the state forestry administration that some 13.4 million hectares of hilly land had been transformed into forest to the benefit of 60 million rural families).

Following a decision (in September) to transform obsolescent industrial bases throughout China into new growth poles of the economy, initiatives were announced that would assist in the further reform of state-owned enterprises (SOEs) – the "last stronghold of the planned economy" – in the northeast. The path to success lay in the wholesale elimination of planning and other "system obstacles" in the region's industrial sector, whose demise was evidenced by its share of national gross value of industrial output having fallen by 9.7 percentage points during the previous 20 years. Thus, Xu Chuanzhan (director of the China Centre for Study of the State-owned Economy, Jilin University):

> The fundamental approach to revitalizing the old industrial base of the northeast is to completely shake off reliance on planned-economy ways in terms of ideas and action, to accelerate marketization reform, and to make sure that such factors of

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production as property rights, funds, technologies, human resources and production materials are governed mainly by market allocation and can flow freely.

In support of Xu, it was revealed that among China's 31 provincial-level units, the ranking of northeastern provinces in terms of their levels of marketization in 2000 was tenth (Liaoning), 18th (Jilin) and 21st (Heilongjiang). With state-owned capital accounting for almost 70 per cent of the region's total, government interference in its industrial economy remained widespread. Hence, the need for intensified efforts to separate enterprises from government, to reorganize SOEs through the establishment of a market-orientated corporate management structure, encouragement of private investment and improvements in the social security system. Foreign capital would also be encouraged to participate in the strategic reorganization of key industries in the region, such as steel, petrochemicals, automobile production and heavy machinery manufacturing. In addition, the government would make available preferential fiscal policies (XHNA, 11 October).

During an inspection tour of Heilongjiang Province, Li Changchun (member of the CCPCC political bureau) underlined the strategic importance of invigorating the old industrial bases, and called for fresh ideas in resolving the outstanding problems facing SOEs in the northeast region. Central to reviving their industrial health was the need to imbibe a reformist awareness, including a commitment to market competition and the promotion of "system-related and mechanism-related innovations." In particular, Li highlighted the critical importance of the equipment industry as the "backbone of the national economy," and urged the application of new, high and advanced technologies in order to upgrade the industry and improve its competitive edge (XHNA, 8 October).

Meanwhile, the goal for Liaoning was to fully revive its outdated traditional industries between 2010 and 2020. Central to the fulfilment of this goal was to modernize existing SOEs, promote private business and develop competitive high-tech "pillar" industries, while improving the social security system and job creation arrangements. On the basis of such reforms, it was hoped that Liaoning would become one of China's leading industrial centres, contributing ten per cent of national GNP (XHNA, 10 October).

Later in the quarter, Li Rongrong (minister in charge of the state-owned assets supervision and administration commission) was quoted as saying that there were some 2,500 large and medium-sized SOEs in China that were effectively bankrupt, but had yet to be closed down. The work force of these SOEs totalled 5.1 million, and their liabilities were 240 billion *yuan* (almost US$30 billion). The banking sector's inability to write off non-performing loans (NPLs), as well as the limited fiscal resources available to the government and inadequate social security arrangements, made it impossible to close down the SOEs. Li revealed that between 1994 and 2002, 3,080 SOEs had been closed down or gone bankrupt in China, with 199.54 billion *yuan* of NPLs written off and 5.3 million laid-off workers relocated (XHNA, 19 November).

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China's continuing energy constraint was highlighted in a report to the effect that the share of imports in total crude oil supplies would rise from 31 per cent (2002) to 50 per cent by 2007. Projections made by the Ministry of Communications indicated that imports of crude oil would rise from 100 million tons (2010), and would reach 250–300 million tons by 2020. Implied in such figures was the emergence of China as the world's second-largest oil consumer after the United States, and third-biggest oil importer after the US and Japan (XHNA, 11 December).

Speaking at the APEC 2003 Forum on Finance and Development (Shanghai, 15 October), Jing Xuecheng, deputy director of the PBOC Research Institute, unveiled seven measures that the central bank would adopt in order to maintain China's financial stability. They were: to enhance financial conditions in China through continued adherence to a "prudent" monetary system and stabilization of the RMB exchange rate; to maintain the momentum of financial reform, especially in state-owned commercial banks, rural credit co-operatives and other financial institutions; to establish an early-warning system against financial unrest by "properly bringing into play the role of the lender of last resort;" to improve the payment clearing system in order to provide a favourable technical environment that would help resolve financial risks and maintain financial stability; also in the interests of financial stability, to establish a credit information system for banks, enterprises and individuals; to further improve China's financial information reporting and disclosure system; and to strengthen "information exchange and policy co-ordination" between PBOC and various regulatory bodies (XHNA, 15 October).

On the basis of a supposedly authoritative source in Beijing, a report from Hong Kong (*Ta Kung Pao* [*Dagong bao*], 7 October) described a Japanese report that the People's Bank of China [PBOC] was considering revaluing the *yuan* by 30 per cent within five years as groundless. Despite widespread rumours of an appreciation and associated inflows of 'hot money,' Chinese monetary authorities would set no timetable for exchange rate reform unless and until such rumours had ceased. The current policy focus was to maintain RMB exchange rate stability.

In October, Xinhua reported that during January–August 2003, Jiangsu Province had overtaken Guangdong as the top recipient of both contracted and utilized foreign investment. During this period, Jiangsu used US$9.48 billion (a rise of 68.3 per cent year-on-year), while the corresponding contractual figure increased by 43.2 per cent to reach US$18.12 billion. The main sources of capital inflows were Hong Kong, Taiwan, Japan, South Korea, the US and Australia (XHNA, 7 October).

It was reported that annual water shortages in China totalled over 30 billion cu.m. and caused losses of 230 billion *yuan* in industrial output. Such deficiencies had constrained balanced and sustainable economic and social development in China. At present, more than 400 cities and 20 million people in China faced water shortages, and the per capita fresh water supplies were a mere 2,200 cu.m., giving China a ranking of 121st in the world (XHNA, 11 December).

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Finally, the first-ever auction of land-use rights to a planned housing project took place in Beijing on 8 December. Bidding for the land (covering some 444,000 sq. m. in Daxing District of the Chinese capital) began at a price of 430 *yuan*, and was finally closed when it had reached 905 *yuan* (XHNA, 8 December).

(f) *Military Affairs*

The deputy secretary-general of the Commission of Science, Technology and Industry for National Defence (Wang Shuquan) spoke of the favourable prospects for future space exploration by China and revealed that tests on lunar-landing flights would be undertaken. He was insistent in his claim that China would become the third country to carry out manned space flight (*ZXS*, 4 October). Some days later, a foreign ministry spokeswoman stated that China's development of space technology was designed for peaceful purposes and would never be used in order to participate in an arms race in outer space.

A report published in Hong Kong stated on 5 October that China's first manned spaceship ("Shenzhou-5") would be launched at Jiuquan Satellite Launch Base (Gansu) in mid-October. The recovery site was reported to be Siziwang Banner of Ulanqab League in central Inner Mongolia, where the wreckage of three earlier flights had been collected (*Ta Kung Pao* [*Dagong bao*], 6 October).

On 15 October, it was reported that, watched by Hu Jintao, Shenzhou-5 (piloted by Yang Liwei, a 38-year-old lieutenant-colonel of the People's Liberation Army) had been launched by a Long March II F rocket from Jiuquan at 0900 that day. Hu hailed the event as "the glory of our great motherland and a mark for the initial victory of the country's first manned space flight and for the significant, historic step of the Chinese people in the advance of climbing over the peak of the world's science and technology" (XHNA, 15 October). The following day, the Chinese spacecraft, re-entered the country's territorial air space and safely landed at Siziwang. The craft had circled the earth 14 times in 21 hours of flight.

A short time after the successful flight, Premier Wen Jiabao read out a message, which stated:

> The success of China's first manned spaceflight proves that China has become one of the countries having developed, on their own, manned space flight technology in its entirety. This is of a practical and far-reaching historical significance for China in its endeavour to promote the development of its high-tech industries, to enhance the national economic, technological and defence capabilities, and to increase the cohesiveness of the Chinese nation. It will inspire the party, China's armed forces and the Chinese people of all ethnic groups to work harder in striving to build a well-off society in an all-round way. (XHNA, 16 October; for comments by Hu Jintao, see XHNA, 7 November.)

Meanwhile, the director of the China Manned Space Engineering Office (Xie Mingbao) stated that China would launch its next – Shenzhou-6 – spacecraft within one or two years (see Hong Kong, *South China Morning Post*, 29 October, quoting Xu Dazhe (vice-president of China Aerospace Science and Technology Corporation) to the effect that

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China's next manned space mission would send three astronauts into orbit for seven days). Xie added that China was willing to co-operate with other countries in space exploration In the wake of the successful manned space flight, the designer of the spacecraft system also indicated that a Shenzhou spacecraft would be used to commute between earth and outer space, thereby facilitating transport to a Chinese space lab or space station (see also *RMRB*, 16 October).

It was revealed that the government had allocated some 18 billion *yuan* to China's manned space programme, since its inauguration 11 years ago. (On China's moon exploration programme, see XHNA, 5 November. Also see the statement by Sun Laiyan (deputy director of the China National Space Administration (NSA)) that China planned to begin its unmanned lunar landing programme in 2004, with a lunar satellite in orbit by 2007 (XHNA, 31 December); earlier (28 November), China Central TV-1 had quoted a NSA official to the effect that China planned to launch a spacecraft with a Long March III rocket from Xichang to probe the moon by 2007, with the further intention of making a moon landing by 2010.)

The information office of the State Council issued a 'White Paper,' entitled "China's non-proliferation policy and measures" (full text in XHNA, 3 December; and see XHNA, 4 December, for comment). It was arranged in five main parts, as follows:

Foreword
I. China's Basic Stand on Non-Proliferation
II. Actively Participating in International Non-Proliferation Efforts
III. Non-Proliferation Export Control System
IV. Concrete Measures for Non-Proliferation Export Control
V. Strictly Implementing the Laws and Regulations on Non-Proliferation Export Control Conclusion

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

In Bangkok, where he was attending the 11th APEC economic leaders' meeting, HKSAR Chief Executive Tung Chee Hwa met Hu Jintao, who reaffirmed the Chinese central government's "firm" support for Hong Kong in addressing its "temporary" difficulties. Hu also "expressed satisfaction" with Hong Kong's economic recovery and improvements in welfare (XHNA, 20 October).

In the course of a European tour, designed to brief the British and French governments on Hong Kong's economic, political and social development, Tung Chee Hwa held talks in London and Paris with senior officials (including the British Prime Minister, Tony Blair, and the French President, Jacques Chirac). He insisted that Hong Kong had overcome the problems precipitated by the outbreak of severe acute respiratory syndrome (SARS) earlier in the year, and forecast that the HKSAR economy would grow by 3 per cent in 2003.

The financial secretary (Henry Tang) offered "cautious" economic

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encouragement in a statement that Hong Kong's GDP had grown by 4 per cent in the third quarter (Q3), compared with a 0.5 per cent decline in Q2 (XHNA, 28 November; but see RTHK, 29 December, which indicated positive GDP growth in Q2 and Q3 – viz., 0.6 per cent and 4.7 per cent). Tang suggested that on the basis of this performance, annual GDP growth should reach 3 per cent. He noted that after seasonal adjustments, the improvement was even more striking, Q3 real growth having risen by 6.4 per cent. The upswing was attributed to expansions in tourism, offshore trade and export services, as well as the first increase in personal consumption for two years. Even allowing the decline in the rate of price contraction from -4 per cent (Q2) to -3 per cent (Q3), deflation remained a problem, and the official expectation was that Hong Kong would only emerge from its deflationary period within 12–18 months. There was also an improvement in the investment climate, with spending falling only marginally (by 0.4 per cent) in Q3, compared with the more pronounced contraction (by 5.7 per cent) during the previous quarter (XHNA, 28 November).

On 31 October, the HKSAR government announced that during April–September expenditure (HK$120.2 billion) had exceeded revenue (HK$45.9 billion) by HK$74.3 billion. Hong Kong's fiscal reserves, as of 30 September, were HK$241.1 billion (XHNA, 31 October).

Reports indicated a continuing decline in the unemployment rate in Hong Kong, to 8.3 per cent during July–September (RTHK, 20 October), and to 8 per cent (August–October) (RTHK, 17 November). The rate of youth (15–19) unemployment was also in decline, although during August–October, it was still 32.5 per cent (XHNA, 4 December).

2. Foreign Relations

(a) *Diplomatic Tours*

Wen Jiabao's visits to the United States, Canada, Mexico and Ethiopia

Following his visit to the US (see below under "United States"), on 10 December Wen Jiabao arrived in Ottawa at the start of a four-day official visit to Canada. In talks the next day, Wen and the Canadian Prime Minister (Jean Chrétien) committed their governments to further strengthening bilateral ties. To this end, Wen proposed the establishment of a ministerial co-ordinating mechanism to discuss strategic issues (including political and economic relations). He also called for enhanced co-operation in energy, environment protection, telecommunications and finance as the basis on which to create "long-term stable and mutually-beneficial economic cooperation." He added the hope that the Canadian government would recognize China as a market economy at an early date. Chrétien gave his full blessing to these proposals. Later, the two men attended a signing ceremony for seven contracts (XHNA, 11 December; and for other reports on Wen's visit to Canada, see XHNA, 12 December).

On 12 December, Wen left Canada for Mexico, where he was wel-

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comed by Vice Foreign Minister Enrique Berruga. Following talks between President Vicente Fox and the Chinese Premier, the two sides announced the establishment of a "strategic partnership" between their two countries. The decision reflected the strong growth of bilateral relations and the expectation that such ties would be taken to a new level in the future. The two men attended a signing ceremony for agreements on telecommunications, health and cultural co-operation, and the protection of intellectual property rights (XHNA, 13 December).

On 14 December, Wen Jiabao arrived in Addis Ababa on the final leg of his four-nation tour. The following day, he attended the opening ceremony of the Second Ministerial Conference of the China–Africa Cooperation Forum–the first ministerial conference of the forum to be held anywhere in Africa. In his speech to the Forum, he noted the strong recent growth of relations and co-operations between China and African nations. Trade was rising by more than 20 per cent p.a., while the previous three years had witnessed Chinese investment in 117 new African enterprises. A recent new development was the beginning of co-operation in energy and high-tech industrial development. Wen also noted that his government had fulfilled, ahead of schedule, its debt exemption commitments, cancelling debts totalling 10.5 billion *yuan* vis-à-vis 31 African countries.

Wen revealed that the Chinese government would gradually increase its aid to Africa under the framework of the China–Africa Cooperation Forum. It would also further open its market and offer duty-free access to some commodities produced in the least developed countries of Africa. In addition, China would increase its capital investment to the African Human Resources Development Fund by 33 per cent, as well as providing professional training to 10,000 African personnel over the next three years (the full text of Wen's speech is in XHNA, 15 December).

On 15 December, the Chinese Premier also held talks with his Ethiopian counterpart, Meles Zenawi, during which he put forward three proposals to further strengthen bilateral co-operation. He also met President Girma Woldegiorgis.

Wen Jiabao returned to China on 17 December.

(b) *Countries, Territories and Regions*

Africa (Liberia, Lesotho, Zambia, Gabon)

On 12 October, Xinhua reported that China and Liberia had signed a joint comuniqué on the resumption of diplomatic relations at an ambassadorial level between the two countries, effective as of the previous day.

On 4 November, the Foreign Minister of Lesotho (Mohlabi Tsekoa) arrived in Beijing at the start of a seven-day official visit to China. In later talks, Li Zhaoxing noted the strong development of ties between China and Lesotho, and expressed his government's willingness to enhance exchanges and co-operation in the interests of even stronger bilateral relations. The two ministers also signed an inter-governmental extradition treaty (XHNA, 6 November).

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On 5 November, the Zambian President (Levy Mwanawasa) began a state visit to China. In a meeting the next day, Mwanawasa and Hu Jintao reached a broad consensus on bilateral and other issues. Hu promised a more active stance by China in seeking to promote trade and economic co-operation with Zambia, and he hoped that the two countries would step up their consultation and co-ordination in international issues. Mwanawasa reaffirmed his country's 'one China' policy and echoed Hu's hopes for intensified co-operation between Zambia and China, especially in tourism, manufacturing, agriculture and resource development. Following their talks, the two sides signed an agreement on economic and technological cooperation. Mwanawasa also held talks with Wen Jiabao, who stated that China would continue to invest in Zambia's agriculture, mining, textile and telecommunication development (XHNA, 6 and 7 November).

Later the same month, Gabon's Minister of State and Minister of Foreign Affairs, Cooperation and Francophone [Affairs] (Jean Ping) travelled to Beijing, where he discussed bilateral relations and issues of common interest with Li Zhaoxing. The two men signed an agreement to establish a political consultation mechanism between their countries' two foreign ministries. Other co-operative documents, including an agreement whereby the Chinese government would provide interest-free loans to Gabon, were also signed.

Australasia and the Pacific (Australia, New Zealand, Fiji, Kiribati)

On 22 October, Hu Jintao arrived in Sydney on a state visit to Australia. In a speech to the Federal Parliament of Australia (Canberra, 24 October), he reviewed the development of bilateral diplomatic relations and hoped that ties between the two countries would continue to expand. He drew special attention to the increasing uncertainties that threatened global peace and development, including "traditional and non-traditional" threats to security. China, he said, advocated a new security concept, based on "mutual trust, mutual benefit, equality and cooperation and strives to resolve disputes peacefully through dialogue and cooperation." He added, "We believe in democracy in international relations. The affairs of the world should be handled through consultation on the equal footing by all counties" (XHNA, 24 October). Hu also revealed that the two sides had signed a framework agreement on trade and economic ties, providing for formal negotiations on a free trade agreement to begin. The agreement, said the Chinese President, marked the start of a new phase in the two countries' relations.

During his visit, the Chinese President also paid a courtesy call on Australian Governor General Michael Jeffery (see XHNA, 22 October).

In New Zealand, Hu Jintao held talks with Prime Minister Helen Elizabeth Clark (Auckland, 26 October). Their "frank, sincere and friendly" exchange focused on ways of further developing bilateral relations, but also embraced other regional and international issues of common concern. They were said to have reached consensus on many of

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these issues. Hu called for both sides to maintain the momentum of existing exchanges, whilst also seeking ways of strengthening trade and economic co-operation. Ms. Clark endorsed these and other proposals. The two leaders later attended a ceremony to sign three agreements (including one on consular relations, and another on scientific and technological co-operation) (XHNA, 26 October).

The following month, the Fijian Minister for Foreign Affairs and External Trade, Kaliopate Tavola, held talks in Beijing with his Chinese counterpart, Li Zhaoxing. Li noted the strong development of bilateral relations and spoke enthusiastically of the role of the consultation mechanism established by the two countries' foreign ministries in further advancing ties (XHNA, 11 November).

On 29 November, the Chinese ambassador to Kiribati made "solemn representations" in Tarawa with the government of Kiribati on its establishment of "so-called 'diplomatic ties' with Taiwan authorities." Such action was interpreted as contrary to the principles of the communiqué signed by China and Kiribati on the establishment of diplomatic ties. Hence, the Chinese government's decision to suspend diplomatic ties with Kiribati, and to cease implementation of all agreements between the two governments, with immediate effect as of 29 November (XHNA, 29 November).

Commonwealth of Independent States (Russia)

On 17 December in Moscow, the Russian and Chinese defence ministers (Sergey Ivanov and Cao Gangchuan) signed a working protocol on bilateral military-technical co-operation for 2004. It was expected that the level of military-technical co-operation would remain roughly at the level of 2003 – namely, around US$2 billion (ITAR-TASS, 17 December). The report noted that at present, the export of military technologies constituted some 30 per cent of Russia's trade with China, although the Chinese government were seeking to raise this to 70 per cent [as reported].

Eastern Europe (Serbia, Slovenia)

The Prime Minister of Serbia (Zoran Zivkovic) visited China in November and held talks with the Chinese Foreign Minister, Li Zhaoxing. Both men held that the pace of bilateral economic co-operation was less than satisfactory and that efforts were needed to strengthen ties (especially in areas of in trade and investment). The two sides reached agreement on resolving the problem of Serbia's debt and its rescheduling (Tanjug news agency, Belgrade, 7 November; another source in Belgrade reported that 70 per cent of the debt on oil imports from China to Serbia had been written off and arrangements made for the rest to be paid over eight years).

On 3 December, Anton Rop (Slovenian Prime Minister) arrived in Beijing, where he held talks with government leaders. The vice-chairman of the China Council for the Promotion of International Trade (CCPIT)

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noted that China and Slovenia faced new trade opportunities, and hoped that more Chinese enterprises would invest in Slovenia. He also welcomed Slovenia's forthcoming (May 2004) accession to membership of the European Union (EU).

The following day, Rop met Hu Jintao. The Chinese President expressed his government's willingness to expand relations with Slovenia.

Latin America (Argentina)

On 1 December, Li Zhaoxing held talks in Beijing with the visiting Foreign Minister of Argentina (Rafael Bielsa). Li referred to the two countries' good co-operation in regional and international affairs, while Bielsa expressed the hope that co-operation with China (especially in the development of agricultural and biological technology) would be expanded. At a subsequent press conference, Bielsa announced that by no later than March 2004, Argentina would set up an office in Beijing in order to handle issues relating to bilateral agricultural co-operation. The two sides had also agreed to initiate a joint workshop on agricultural affairs. (For an important subsequent official statement on Argentina's policy towards China, see Buenos Aires Ambito Financiero website, 5 December.)

Middle East and North Africa (Iran, Oman, Iraq, Israel)

On 13 November, Iranian Foreign Minister Kamal Kharrazi arrived in Beijing for talks on bilateral ties, and important regional and international issues.

The following month, Li Zhaoxing held talks in Beijing with Yusuf Bin-Alawi Bin-Abdallah (Minister of State for Foreign Affairs of Oman). Their discussions focused on bilateral relations and other issues of common concern.

On 14 December, a Chinese foreign ministry spokesman expressed the hope that the capture of former Iraqi President Saddam Husayn would help facilitate a swift realization of peace and stability in Iraq (XHNA, 14 December).

On 16 December, the Israeli President (Moshe Qatzav) arrived for a state visit to China. During a visit to a dairy farm the following day, he gave an undertaking that Israel would strengthen its agricultural co-operation with China.

Two days later, Qatsav held talks with Hu Jintao. Hu gave a positive review of the recent development of Sino-Israeli relations, which he said benefited regional and global peace, stability and development. Both men agreed on the desirability of expanding ties. Hu expressed the Chinese government's view that outstanding problems in the Middle East must be solved through peaceful dialogue and co-operation, and he hoped that Israel and Palestine would reinstate peace talks at the earliest opportunity (XHNA, 18 December).

In a subsequent meeting, Premier Wen Jiabao noted that two-way trade had increased 13-fold since China and Israel established diplomatic

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relations. He suggested that conditions were favourable for trade and economic co-operation (e.g., in the development of water resources, biology, and nano-technology) to rise to even higher levels (XHNA, 19 December).

North America (United States of America, Canada)

On 19 October, Hu Jintao met President George W. Bush in Bangkok, where both men were attending the 11th APEC Economic Leaders' Meeting. They discussed bilateral, regional and international issues of common concern. Xinhua (19 October) described the "friendly … very constructive" meeting – their second during 2003 – as evidence of the favourable momentum of developing bilateral relations. Both agreed that trade and economic co-operation had benefited their two countries, and expressed their willingness to resolve outstanding economic and trade difficulties through dialogue. Bush was reported to have thanked Hu for his efforts on the recent Security Council resolution on Iraq.

Following his arrival from China in New York (for reports, see XHNA, 8 December), Wen Jiabao travelled to Washington, where, on 8 December, he held talks with the US Secretary of State (Colin Powell) on bilateral relations and other issues. Wen spoke of the great progress that, in the face of many difficulties, had been made in the development of the Sino-US relations – not least, in terms of trade and economic co-operation – during the previous three decades. The two countries shared many common interests, said Wen, in addition to which the continued strengthening of ties between them was conducive to global peace and stability. He reaffirmed his government's position on Taiwan and made clear its refusal ever to tolerate any attempt to separate it from the mainland (e.g., through "holding the so-called 'referendums,' using democracy only as a cover"). He urged the United States to adhere to the 'one China' policy, oppose Taiwan independence and abide by the three joint communiqués signed by Beijing and Washington.

Powell recognized the importance which China attached to the Taiwan question and expressed concern about "some messages" that had recently come from Taiwan. In general, he echoed Wen's view of the positive trend in the development of bilateral relations, and he stressed the importance of the Chinese Premier's visit to the US, suggesting that it would have a major impact on future relations between the two countries.

The two men also exchanged views on the nuclear issue on the Korean Peninsula. Powell expressed his gratitude to the Chinese government for facilitating the six-party talks, which, he said, had helped close the gaps between the main parties to the dispute (XHNA, 9 December).

The following day (9 December) Wen met US President George W. Bush. The American President was reported to have expressed US opposition to the "efforts made by the leader of Taiwan to seek independence." As he was quoted as saying to reporters after his meeting with the Chinese Premier,

Let me tell you what I just told the premier on this issue. The United States

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government's policy is one China … We oppose any unilateral decision by either China or Taiwan to change the status quo, and the comments and actions made by the leader of Taiwan indicate that he may be willing to make decisions unilaterally to change the status quo, which we oppose (for Chen Shui-bian's reaction to Wen's talks with Bush, see Taipei, ET Today website, 10 December; also see *ZXS*, 10 December).

Meanwhile, Wen stressed China's commitment to resolving the Taiwan issue on the basis of seeking "peaceful reunification through peaceful means [in accordance with the principle of] one country, two systems" (XHNA, 9 December).

After his talks in Washington, Wen travelled to Boston and Cambridge, where he gave a wide-ranging speech to 800 teaching staff and student at Harvard University. He spoke of China's ancient civilization, and of the philosophical contributions of Confucius and Mencius, of Laozi and Zhuangzi, as well as of many others. He emphasized traditional Chinese cultural virtues of "benevolence, group interaction, harmony with differences, and [viewing] the whole world as one community" – values which had captured the attention of Western scholars and thinkers, such as Descartes, Leibnitz, Montesquieu, Voltaire, Goethe, Kant and Emerson. Wen reviewed the achievements of China's post-1978 reforms and drew special attention to welfare improvements – not least, the guaranteed provision of adequate food and clothing – which they had brought to the Chinese people. He reaffirmed the Chinese government's commitment to protecting labourers' basic rights and to safeguarding property rights. He insisted too that on-going reforms were intended to promote human rights in China, adding

I do not think China's current human rights conditions are perfect. The Chinese government has been working conscientiously to overcome shortcomings and negative phenomena in the human rights area. In China it is extremely important yet difficult to link together development, reform, and stability (XHNA, 10 December).

On 10 December, Wen Jiabao left Boston and flew to Canada (see above under "Diplomatic Tours").

On 21 October, the Canadian Prime Minister, Jean Chrétien, arrived in Beijing at the start of a four-day official visit to China. At a press briefing, Chrétien noted the buoyant state of bilateral relations, drawing attention to a tripling of two-way trade during the previous decade and revealing that the two sides had agreed to seeking a further doubling by 2010. He said that they had also agreed to seek to reduce the Canadian trade deficit.

During his talks with the Canadian leader, Premier Wen Jiabao put forward a three-point proposal on strengthening friendly co-operation. The proposal embraced the maintenance of the momentum of high-level exchanges side by side with the enhancement of existing political, economic and other consultation mechanisms; the strengthening of co-operation in energy, environmental protection, telecommunications, insurance and agriculture; and improved consultation and co-ordination in international and regional organizations. Chrétien endorsed the proposal. Following their talks, the two men attended a signing ceremony for

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co-operation agreements on environmental protection, academic exchanges, maternity and child care, and sustainable agricultural development (XHNA, 22 October). Chretien's visit to China ended on 24 October.

North-east Asia (South Korea [Republic of Korea], North Korea [Democratic People's Republic of Korea])

From Pyongyang, it was reported on 31 October by Xinhua that Wu Bangguo (Chairman of NPCSC) had completed a visit to North Korea. Wu's senior governmental official status and that of other members of his delegation were said to reflect the importance attached by China to its relations with DPRK. Wang Yi (Vice-Foreign Minister and another member of the delegation) reaffirmed his government's determination to strengthen co-operation and further promote the two countries' "good neighbourliness and friendship." The two sides exchanged information on their respective domestic situations (especially economic conditions) and agreed on the desirability of strengthening trade and economic co-operation. Their discussions with Kim Jong Il and other DPRK leaders on the nuclear issue on the Korean Peninsula allowed the Chinese side to rehearse its "principled stance" and to stress its view that the issue should be resolved peacefully through dialogue. It was reported that the DPRK had agreed, in principle, to continue the six-party talks (XHNA, 31 October).

South Asia (India, Pakistan)

On 23 October, Indian and Chinese officials (Principal Secretary to the Prime Minister and National Security Adviser, Brajesh Mishra, and Vice-Foreign Minister Dai Bingguo) held the first round of talks, designed to facilitate an early solution to the boundary problem. The discussions took place against the background of "painfully slow" progress in the 14 rounds of the India–China Joint Working Group on the boundary question that had already taken place (Press Trust of India (PTI), 23 October).

The following month, Indian and Chinese navies held an unprecedented joint naval exercise, involving "search and rescue" operations off the coast of Shanghai. The exercise, which was only the second ever to take place between the PLA Navy and a foreign navy, was intended to help both sides strengthen their capabilities in defending sea frontiers and safeguarding maritime interests (see XHNA, 10 and 14 November; also *RMRB*, 14 November. For a report on a high-level Indian army delegation visit to Tibet, see PTI, 16 November).

A PTI report noted that the value of trade between India and China had for the first time ever exceeded US$5 billion. During January–September 2003, the value of bilateral trade was US$5.33 billion (54.8 per cent more than in the same period of 2002), with Indian exports – especially iron and steel, but also plastics and machinery – rising by 85.3 per cent to US$2.95 billion, and its imports from China up 28.4 per cent to US$2.37 billion. As a result, India's trade deficit of January–September

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2002 (US$452 million) had been transformed into a surplus of US$584 million (PTI, New Delhi, 26 November).

Following his participation in the Boao Forum in Hainan, on 3 November the President of Pakistan (Gen. Pervez Musharraf) flew to Beijing to begin a three-day visit to China. His "extremely cordial" talks with Hu Jintao focused on bilateral relations, as well as regional and international issues. In separate talks, Premier Wen Jiabao told Musharraf that he hoped that China and Pakistan would make every effort to increase bilateral trade. The two sides signed eight agreements and memoranda of understanding in various fields (XHNA, 3 November; the text of the two sides' 'Joint Declaration on Bilateral Cooperation' can be found in XHNA, 4 November).

Southeast Asia (Thailand)

In October, Hu Jintao made a state visit – his first to any country since becoming Chinese President – to Thailand. In his talks with Premier Thaksin Shinawatra, Hu spoke of the importance which the Chinese government attached to its relations with Thailand and put forward proposals, designed to further enhance these ties. These included an increase in high-level exchanges (including reciprocal visits) on important issues; the expansion of trade and economic co-operation; promotion of cultural, educational and security co-operation; a strengthening of links in regional and international affairs; and more exchanges between the two countries' legislatures, political parties and non-governmental organizations. Thaksin endorsed these proposals and hoped that their adoption would boost co-operation. The two men attended a signing ceremony of five documents on bilateral co-operation, including an agreement on establishing a joint committee on trade, investment and economic co-operation between China and Thailand (XHNA, 18 October).

In Bangkok, Hu delivered a speech at the Chinese Chamber of Commerce, in which he reviewed China's relations with ASEAN and reaffirmed the Chinese government's policy of strengthening "long-term and stable relations of good-neighbourliness, friendship and co-operation" with member states.

During a visit to China in November, the Singaporean Prime Minister (Goh Chok Tong) expressed his government's satisfaction with the state of bilateral relations. Wen Jiabao told his counterpart that the installation (in October) in Singapore of a Chinese high technology incubator demonstrated that scientific and technological co-operation between the two countries had entered a new state. Wen added his hopes that more Singaporean businessmen would assist in the economic and social development of western inland China (especially in the fields of science and technology, environmental protection and infrastructure). Goh's remarks echoed those of the Chinese Premier. Following their talks, the two sides signed four memoranda of understanding (XHNA, 18 November).

Goh also met Hu Jintao, who also looked forward to an expansion of comprehensive co-operation with Singapore. He spoke of the

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"remarkable" results of trade and economic co-operation between the two countries, and praised their fruitful consultations and co-ordination in regional and international affairs.

Taiwan [Republic of China]

A spokesman for the State Council's Taiwan Affairs Office (Li Weiyi) alleged that President Chen Shui-bian was moving steadily closer to " 'Taiwan independence' splittism." Li condemned Chen's decision to hold a referendum, which would "challenge the one-China principle and … [further the] … activities of splitting the country." Such "perverse" acts, he said, threatened to "bring huge disaster to the Taiwan compatriots."

Li reiterated the Chinese government's opposition to Chen Shui-bian's proposal that the two sides should discuss cross-strait transport links in accordance with the principle of "each side of the Taiwan Strait a separate country." Direct cross-strait transport links could not be regarded as links between two separate countries, since to do so would be to "internationalize" such links (*ZXS*, 12 November).

At a forum on cross-strait relations, Luo Yuan (Director of the Research Centre of the Academy of Military Sciences) noted that ranking military officers of the PLA had frequently made it clear that "the day when 'Taiwan independence' is declared is the day of declaration of war." Luo condemned Chen Shui-bian's "recent efforts to peddle 'referendum' and 'creation of a new constitution,' " arguing that if the wording "the territory of the ROC covers the mainland, Taiwan, Penghu, Kinmen [Jinmen or Quemoy], and Matsu [Mazu]" were changed into "the territory of the ROC covers Taiwan, Penghu, Kinmen, and Matsu," the constitution would effectively become a blueprint for Taiwan independence. He added,

> Separation and peace are not compatible with each other. In the event of war, 'Taiwan independence' advocates, who stir up the flames of war, are war criminals who will go down in history as sinners of the nation and will definitely be punished severely. Chen Shui-bian and his ilk are urged to think twice before taking action (*ZXS*, 18 November; see also the remarks at the same forum by Wang Zaixi, Deputy Director of the State Council Taiwan Affairs Office, in XHNA, 18 November).

On 28 November, a spokesman of the Taiwan Affairs Office of the State Council expressed the Chinese government's "grave concern" about " 'legislation on referendum' in the Taiwan region." He stated:

> Our position on this issue is very clear. There is only one China in the world, and Taiwan is an inseparable part of the sacred territory of China. China's sovereignty and territorial integrity cannot be divided. We resolutely oppose anyone who takes the opportunity of 'legislation on referendum' to launch 'pro-Taiwan independence' separatist activities. We will absolutely not tolerate any attempts to separate Taiwan from China (XHNA, 28 November).

A CNA report (30 December) reported that Executive Yuan had extended the "mini three links" – already in existence for three years – between

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the islands of Kinmen [Jinmen or Quemoy] and Matzu [Mazu] and Xiamen and Mawei in mainland China a further year. (For the complete text of the Taiwan Affairs Office's policy document on direct mail, transport and trade links across the Taiwan Straits ("Actively and realistically promote 'three direct links' across the Taiwan Straits by reliance on the people and in the interests of the people"), see XHNA, 17 December.)

A Xinhua report predicted that the value of trade between China and Taiwan would exceed US$50 billion during 2003, 25 per cent more than in 2002. Data already available for January–October showed Taiwanese exports to the mainland to have reached US$39.59 billion (up 28.7 per cent year-on-year), and imports at US$7.04 billion (a 33.5 per cent rise). As a result, Taiwan recorded a trade surplus of US$32.558 billion (XHNA, 20 December).

Xinhua (24 October) initially quoted, without comment, Taiwanese reports that Madame Chiang Kai-shek (1897–2003, a.k.a. Soong Mei-ling) had died the previous night in New York at the age of 106. Later, the same source noted that Jia Qinglin (Chairman of the National Committee of the Chinese People's Political Consultative Conference (CPPCC)) had sent a message to the relatives of Madame Soong Mei-ling to express condolences over her death. Elsewhere, Jia described Soong as a "noted and influential person in the modern era of Chinese history, who had been dedicated to the Chinese people's War of Resistance Against Japanese Aggression, opposed to separating the nation, and [who] hoped for the peaceful reunification across the Taiwan Straits and the flourishing of the Chinese nation" (XHNA, 24 October).

Western Europe (Ireland, Italy, Austria, Switzerland, Germany, Spain, European Union (EU))

On 8 October, the Irish President (Mary McAleese) arrived in Beijing from Hong Kong on the second leg of her state visit to China. During talks the following day, Ms. McAleese and President Hu Jintao discussed bilateral relations and other issues of mutual concern. Hu noted the steady development of ties between China and Ireland since the establishment of diplomatic relations, including a rise in bilateral trade – sevenfold in five years – and other forms of co-operation. He hoped that relations between the two countries would be further strengthened in all areas: political, economic and trade, scientific and technological, cultural and educational. Ms. McAleese broadly endorsed Hu's suggestions and gave an undertaking that she and her government would intensify their efforts to promote a further expansion of bilateral relations (XHNA, 9 October). In subsequent talks with the Irish President, Premier Wen Jiabao urged the participation of Irish enterprises in China's economic development.

On 4 November, Wen Jiabao had talks in Beijing with the Austrian Minister of Foreign Affairs (Benita Ferrero-Waldner). The focus of their discussion was bilateral relations and other issues of common concern.

On 31 October, Wen Jiabao held talks in Beijing with the Italian Prime Minister, Silvio Berlusconi. He noted the positive impact of both coun-

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tries' efforts during recent years on bilateral political relations, but spoke too of the continuing expansion of trade and economic ties (the value of two-way trade expected to exceed US$12 billion during 2003, confirming Italy's position as China's fourth-largest trading partner in the EU). The two men also discussed international issues of shared concern. Following their discussions, Wen and Berlusconi attended a signing ceremony of the "Memorandum on Establishing Culture Centres between the Government of the PRC and the Government of the Italian Republic." (XHNA, 31 October).

The following month, the President of the Swiss Confederation (Pascal Couchepin) arrived in Beijing for talks with senior Chinese officials (including Hu Jintao and Wen Jiabao) on bilateral relations and other issues. In support of expanded ties between China and Switzerland, Hu put forward a four-point proposal, designed to strengthen political relations, enhance trade and economic co-operation, extend educational, scientific and other exchanges, and promote "understanding, common ground and friendship." Couchepin endorsed the proposal (XHNA, 20 November; for a report of Couchepin's discussions with Wen, see XHNA, 21 November).

Following his arrival in Beijing, the German Federal Chancellor, Gerhard Schroeder, held talks with Hu Jintao. They both expressed satisfaction with the "fine" level of economic co-operation between the two countries, and Schroeder welcomed the trend whereby in addition to major, large-scale corporations, more and more *medium-sized* German companies were now also investing in China. Hu noted that further rapid growth in bilateral trade had taken place in the first ten months of 2003, confirming Germany's position as China's largest trading partner in Europe. The two countries had also achieved new progress in exchanges and co-operation in many areas, including science and technology, culture, education, public health and law. The two leaders also exchanged views on regional and global economic and trade issues (XHNA, 1 December).

Schroeder held separate discussions with Premier Wen Jiabao, who noted that the further development of Sino-German relations was the common aspiration of both countries' peoples. He hoped that the two governments would maintain the momentum of high-level exchange visits, as well as co-operating more closely in international organizations (e.g., the United Nations) and strengthening consultations and co-ordination in security policy and other strategic areas. On trade and economic co-operation, Wen urged Schroeder to encourage more German businesses to invest in the economic development of China's western regions, as well as to assist in the refurbishment of old industrial bases in the northeast. Following their talks, the two premiers attended a signing ceremony for 11 bilateral co-operation documents (including an "Agreement on Increasing the Number of Consulates in Each Country") (XHNA, 1 December).

The Spanish Foreign Minister (Ana Palacio) visited China in December and held talks with senior Chinese government officials.

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On 13 October, the Chinese government issued a EU Policy Paper [EPP] – its first since the establishment of diplomatic relations in 1975 – setting out the plans and goals of its EU policy, as well as measures on bilateral co-operation in the coming five years (full text available in XHNA, 13 October and reproduced below in Part 3 "Documentation"). In addition to a foreword, the document contained three parts: "Status and Role of the European Union;" "China's EU policy;" and "Strengthen China-EU cooperation in all fields."

The EPP spoke of the important role of China–EU relations in China's foreign policy and reaffirmed the Chinese government's commitment to a "long-term, stable and full partnership with the EU." It outlined three principal policy goals: in the interests of global peace and security, to promote the steady development of China–EU political relations in accordance with the principles of "mutual respect, mutual trust and seeking common ground while reserving differences;" to extend bilateral trade and economic co-operation, and to promote common development; and to expand cultural and "people-to-people" exchanges.

Upholding the EU's role and influence in regional and international affairs, the EPP noted that despite some earlier differences, China-EU relations had matured and grown stronger. It spoke of the two sides' support for "democracy in international relations," as well as for an enhanced UN role in international affairs. Both were committed to combating international terrorism and to the promotion of sustainable development through poverty alleviation and elimination, and environmental protection.

Having highlighted the economic complementarity between the two sides, the Paper urged the EU to "properly address irrational restrictions and technical barriers, and ease restrictions on high-tech exports in line with the WTO rules," and to accord China full market economy status as soon as possible. It hoped that EU anti-dumping and other discriminatory policies and practices against China would be eliminated. It noted that each party had become the other's third-largest trading partner, with the value of such trade having reached US$86.76 billion in 2002.

(b) *International Organizations (Association for South-East Asian Nations (ASEAN); Boao Forum; United Nations (UN))*

In advance of the seventh meeting of leaders of the ten members of ASEAN and China, Japan, and South Korea ('ten plus three'), Vice-Minister of Foreign Affairs Wang Yi reaffirmed the importance attached by his government to the forthcoming meeting. He stated that Wen Jiabao's participation in the summit presaged a new stage of development between China and ASEAN, and he revealed that the Chinese Premier would put forward proposals on the expansion of co-operation, embracing trade, public health, education, culture and political security. Wang also noted that China's formal inclusion in the ASEAN Treaty of Amity and Cooperation (TAC) would help strengthen the official basis of China-ASEAN relations (XHNA, 4 October).

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Addressing the ASEAN-China summit on 7 October, Wen Jiabao described the establishment and development of the 'ten plus three' as an "important pioneering undertaking" that would further serve economic globalization and regional economic, financial and trade development. The ten members had put in place effective mechanisms for enhancing East Asian co-operation and integration on the basis of "equality in consultations, mutual benefit and gain, gradual advancement, and openness and magnanimity." A current priority, said Wen, was to define the longer-term goals of the 'ten plus three,' to which end he put forward four proposals: namely, to study the feasibility of establishing an East Asia free trade zone; to promote regional fiscal and financial co-operation (including seeking the "multilateralization of bilateral currency exchange networks"); to strengthen political and security-related dialogue; and to develop "social co-operation" (XHNA, 7 October, and see also XHNA, 8 October; for the text of the Joint Declaration, signed by ASEAN and Chinese representatives in Bali, see ASEAN Secretariat website, 8 October).

Addressing the first ASEAN Business and Investment Summit (Bali: 7 October), Wen Jiabao spoke of the Chinese government's consistent adherence to a "prudent and responsible attitude" towards the RMB exchange rate. He reminded his listeners that the previous government's determination not to devalue the RMB in the late 1990s had helped defuse the Asian financial crisis. He rejected the suggestion that deliberate suppression of the value of the RMB had been used to expand exports, arguing that China's competitiveness in international markets reflected the abundance and cheapness of its labour. He also denied that the existing exchange rate mechanism had generated deflationary pressures in other countries, pointing out that China's exports constituted a mere 5 per cent of global exports. Finally, Wen expressed his confidence in the existing "unified and managed floating exchange rate system based on market supply and demand" (*ZXS*, 7 October).

During his stay in Bali, Wen Jiabao held separate meetings with President Gloria Macapagal Arroyo of the Philippines, and the Prime Ministers of Malaysia, Thailand and India (Datuk Mahathir, Thaksin Shinawatra and Atal Behari Vajpayee), with whom he exchanged views on bilateral relations and other issues of common concern.

Later the same month, Hu Jintao and senior Chinese officials, including Foreign Minister Li Zhaoxing, attended the 15th APEC Ministerial Meeting in Bangkok. In a speech to participants in the APEC 2003 CEO Summit (19 October), Hu spoke of the many uncertainties that still confronted the global economy and drew attention to the urgent need to adopt effective policy measures to facilitate sustained economic growth. He said that despite problems associated with atypical pneumonia (SARS), the momentum of GDP growth in China was being maintained and was likely to fulfil the planned target. In the face of speculation surrounding a possible RMB revaluation, he stated that China's exchange rate would be kept "basically stable at a rational and balanced level, while further exploring and perfecting the mechanism for the formation of the

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renminbi exchange rate in the course of intensifying the financial reform."

Hu urged APEC to intensify its efforts to economic structural adjustment – a task which he viewed urgently against the background of existing regional and global economic conditions. Successful structural adjustments had been undertaken in recent years by some countries in the region, including China, to the broader benefit of regional growth and development, and intensified efforts of a similar kind promised to generate further benefits. He urged APEC members to further promote trade and investment liberalization, to remove trade barriers, and thereby to create a "fair and rational competitive environment … [and] an open, rule-based multilateral trade system [in] the common interests of all members." APEC also had an important role to play in helping to bring the ongoing Doha round on track, to which end it should "strive towards the Bogor Goals, keep bilateral and regional free trade arrangements in line with the World Trade Organization rules and the APEC rules, actively promote trade and investment in this region, accelerate the economic development in this region, and enhance the capacity for joint resistance against economic risks" (XHNA, 19 October, which contains the full text of Hu's speech).

During his stay in Bangkok, Hu Jintao held separate meetings with the Presidents of the United States (see above), Russia, Canada, South Korea, Mexico, Peru and Papua New Guinea, and with the Prime Ministers of Japan (Junichiro Koizumi) and Vietnam.

On 1 November, Wen Jiabao flew to Hainan to participate in the 2003 Boao Forum for Asia Annual Conference. In Boao, members approved the Charter of the Boao Forum for Asia (BFA), which stated the Forum's goal as follows:

> to promote and strengthen economic exchanges, interaction and cooperation within the region as well as between the region and other parts of the world, and to provide a high-level venue of dialogue for governments, enterprises and academe to discuss economic, social, environment and other related issues (XHNA, 1 November).

BFA's 2003 Annual Conference 2003 opened in Hainan on 2 November. In his speech to the meeting, Wen Jiabao called for closer co-operation in order to bring about Asia's "renewal." He spoke of the many internal and external factors that favoured Asian development, although he also acknowledged that many Asian countries still faced "tough fights at home in terms of economic structure, financial system, environment and international competitiveness." He noted the recent expansion of co-operation, within Asia, through multilateral organizations, including the Shanghai Cooperation Organization, ASEAN plus China ('ten plus one'), ASEAN plus China, Japan and South Korea ('ASEAN plus three'), etc., and said that such developments offered Asia "a gratifying situation of sound, mutually beneficial and open cooperation" (XHNA, 2 November).

In Hainan, Wen had separate meetings with the Presidents of Tajikistan

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(Emomali Sharipovich Rahmonov), as well as the Premier of Singapore (Goh Chok Tong).

Following his arrival in New York, on 7 December Premier Wen Jiabao held talks with the UN Secretary-General (Kofi Annan) on a range of issues, including recent international developments and the role of the United Nations. Wen spoke of the "rigorous" challenges – for example, security issues, terrorism, AIDS, drugs, cross-border crimes – facing the international community and stressed the need for co-operation in resolving such problems. He reaffirmed the Chinese government's view that the UN Charter remained the "foundation stone" of international relations, and called for its role to be given full play (XHNA, 8 December).

3. Documentation

(1) Text of *China's EU Policy Paper* (issued on 13 October 2003) (reproduced from *BBC Monitoring Global Newsline — Asia-Pacific Economic*, 14 October 2003)

Foreword

The international situation has been undergoing profound changes since the advent of the new century. The trend towards world multipolarity and economic globalization is developing amid twists and turns. Peace and development remain the themes of our era. The world is hardly a tranquil place and mankind is still confronted with many serious challenges. However, preserving world peace, promoting development and strengthening cooperation, which is vital to the well-being of all nations, represents the common aspiration of all peoples and is an irreversible trend of history.

China is committed to turning herself into a well-off society in an all-round way and aspires for a favourable international climate. China will continue to pursue its independent foreign policy of peace and work closely with other countries for the establishment of a new international political and economic order that is fair and equitable, and based on the Five Principles of Peaceful Co-existence [Mutual respect for territorial sovereignty, mutual nonaggression, mutual non-interference in internal affairs, equal benefit and peaceful co-existence]. China will, as always, respect diversity in the world and promote democracy in international relations in the interest of world peace and common development.

The European Union (EU) is a major force in the world. The Chinese government appreciates the importance the EU and its members attach to developing relations with China.

The present EU Policy Paper of the Chinese Government is the first of its kind and aims to highlight the objectives of China's EU policy, and outline the areas and plans of cooperation and related measures in the next five years so as to enhance China-EU all-round cooperation and promote a long-term and stable development of China-EU relations.

Part One: Status and role of the European Union

The creation and development of the European Union is an event of far-reaching significance following World War II. Since the launch of the European Coal and Steel Community in 1952, the EU has become what it is today through the stages of the

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tax and customs union, the single market and the economic and monetary union. Its integration in the foreign policy, defence and social fields has made headway. The euro has been put to circulation successfully and a single area of justice is taking shape. The EU is now a strong and the most integrated community in the world, taking up 25 and 35 per cent of the world's economy and trade respectively and ranking high on the world's list of per capita income and foreign investment.

In 2004, the EU will be enlarged to a total membership of 25. The new European Union would then cover much of Eastern and Western Europe with an area of four million square kilometres, a population of 450 million and a GDP of over 10 trillion US Dollars.

Despite its difficulties and challenges ahead, the European integration process is irreversible and the EU will play an increasingly important role in both regional and international affairs.

Part Two: China's EU Policy

China attaches importance to the role and influence of the EU in regional and international affairs. History proves that the establishment of diplomatic relations between China and the European Economic Community in 1975 has served the interests of both sides. Despite their twists and turns, China-EU relations as a whole have been growing stronger and more mature and are now on the track of a comprehensive and sound development. In 1998 China and the EU launched their annual summit mechanism. In 2001, the two sides established a full partnership. China and the EU have developed an ever closer consultation and fruitful cooperation in the political, economic, trade, scientific, cultural and educational fields. China-EU relations now are better than any time in history.

There is no fundamental conflict of interest between China and the EU and neither side poses a threat to the other. However, given their differences in historical background, cultural heritage, political system and economic development level, it is natural that the two sides have different views or even disagree on some issues. Nevertheless China-EU relations of mutual trust and mutual benefit cannot and will not be affected if the two sides address their disagreements in a spirit of equality and mutual respect.

The common ground between China and the EU far outweighs their disagreements. Both China and the EU stand for democracy in international relations and an enhanced role of the UN. Both are committed to combating international terrorism and promoting sustainable development through poverty elimination and environmental protection endeavours. China and the EU are highly complementary economically thanks to their respective advantages. The EU has a developed economy, advanced technologies and strong financial resources while China boasts steady economic growth, a huge market and abundant labour force. There is a broad prospect for bilateral trade and economic and technological cooperation. Both China and the EU member states have a long history and splendid culture each and stand for more cultural exchanges and mutual emulation. The political, economic and cultural common understanding and interaction between China and the EU offer a solid foundation for the continued growth of China-EU relations.

To strengthen and enhance China-EU relations is an important component of China's foreign policy. China is committed to a long-term, stable and full partnership with the EU.

China's EU policy objectives are:

- To promote a sound and steady development of China-EU political relations under the principles of mutual respect, mutual trust and seeking common ground while reserving differences, and contribute to world peace and stability;

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- To deepen China-EU economic cooperation and trade under the principles of mutual benefit, reciprocity and consultation on an equal basis, and promote common development;
- To expand China-EU cultural and people-to-people exchanges under the principle of mutual emulation, common prosperity and complementarity, and promote cultural harmony and progress between the East and the West.

Part Three: Strengthen China-EU cooperation in all fields

I. The Political Aspect

1. Strengthen the exchange of high-level visits and political dialogue.

- Maintain close contacts and timely communication between the two sides at high levels through various means.
- Give full play to the functions of the China-EU annual summit by substantiating its content, stressing its practical results and strengthening bilateral coordination.
- Implement in real earnest China-EU agreement on political dialogue and constantly improve and strengthen mechanisms of regular and irregular consultations at all levels.
- Deepen relations with all EU members, including its new ones so as to maintain stability and continuity in the overall relationship between China and EU.

2. Strictly abide by the one-China principle.

The one-China principle is an important political cornerstone underpinning China-EU relations. The proper handling of the Taiwan question is essential for a steady growth of China-EU relations. China appreciates EU and its members' commitment to the one-China principle and hopes that the EU will continue to respect China's major concerns over the Taiwan question, guard against Taiwan authorities' attempt to create "two Chinas" or "one China, one Taiwan" and prudently handle Taiwan-related issues. In this connection, it is important that the EU

- Prohibit any visit by any Taiwan political figures to the EU or its member countries under whatever name or pretext; not to engage in any contact or exchange of an official or governmental nature with Taiwan authorities.
- Not to support Taiwan's accession to or participation in any international organization whose membership requires statehood. Taiwan's entry into the WTO in the name of "separate customs territory of Taiwan, Penghu, Jinmen, Mazu" (or Chinese Taipei for short) does not mean any change in Taiwan's status as part of China. EU exchanges with Taiwan must be strictly unofficial and non-governmental.
- Not to sell to Taiwan any weapon, equipment, goods, materials or technology that can be used for military purposes.

3. Encourage Hong Kong and Macao's cooperation with EU.

The Central Government of China supports and encourages the Hong Kong and Macao Special Administrative Regions in developing friendly relations and cooperation with the EU in accordance with the principle of "one country, two systems" and the provisions of the two Basic Laws and on the basis of equality and mutual benefit.

4. Promote the EU's understanding of Tibet.

China encourages personages of various circles in the EU to visit Tibet and welcomes

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the support of the EU and its members to Tibet's economic, cultural, educational and social development and their cooperation with the autonomous region subject to full respect of China's laws and regulations. The Chinese side requests the EU side not to have any contact with the "Tibetan government in exile" or provide facilities to the separatist activities of the Dalai clique.

5. Continue the human rights dialogue.

There are both consensus and disagreements between China and the EU on the question of human rights. The Chinese side appreciates the EU's persistent position for dialogue and against confrontation and stands ready to continue dialogue, exchange and cooperation on human rights with the EU on the basis of equality and mutual respect so as to share information, enhance mutual understanding and deepen cooperation in protecting, inter alia, citizens' social and cultural rights and the rights of the disadvantaged.

6. Strengthen international cooperation.

Enhance China-EU consultation and coordination on major international and regional hotspot issues.

- Strengthen China-EU cooperation at the UN and work together to uphold the UN's authority, promote its leading role in safeguarding world peace and facilitating economic and social development, particularly in helping developing countries eliminate poverty, improving global environment and drug control, and support UN's reform.
- Advance the process of Asia-Europe cooperation. China and the EU should work together to make ASEM [Asia-Europe Meeting] a role model for inter-continental cooperation on the basis of equality, a channel for exchange between the oriental and occidental civilizations and a driving force behind the establishment of a new international political and economic order.
- Jointly combat terrorism. Both China and the EU are victims of terrorism and are strongly opposed to all forms of terrorism. Both sides are also opposed to any linkage between terrorism and any particular country, nation, ethnic group or religion. China and the EU should keep in close touch and cooperation on counter-terrorism.
- Jointly safeguard the international arms control, disarmament and non-proliferation regimes and step up consultation and coordination on the basis of mutual respect; strengthen exchange and cooperation on non-proliferation and export control and the prevention of weaponization of and arms race in outer space; jointly contribute to the resolution of the issue of anti-personnel landmines and explosive remnants of war; and enhance cooperation in implementing the international arms control treaties.

7. Enhance mutual understanding between Chinese and European legislative organs.

The relations between the National People's Congress of China and the parliaments of EU member countries and the European Parliament are an important link in China-EU ties. The Chinese government welcomes and supports the enhancement of exchange and dialogue between Chinese and European legislatures on the basis of mutual respect, deeper understanding, seeking common ground while shelving differences and developing cooperation.

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8. Increase exchanges between political parties in China and the EU.

The Chinese government wishes to see an increase of exchange and cooperation between the Chinese Communist Party and all major EU political parties, parliamentary party groups and regional organizations of political parties on the basis of independence, complete equality, mutual respect and non-interference in each other's internal affairs.

II. The Economic Aspect

1. Economic Cooperation and Trade.

China is committed to developing dynamic, long-term and stable economic cooperation and trade with the EU and expects the latter to become China's largest trading and investment partner.

To this end, it is important to:

- Give play to the mechanism of the economic and trade joint committee and step up economic and trade regulatory policy dialogue; give attention to updating the Trade and Economic Cooperation Agreement Between China and the European Union at an appropriate time; properly address irrational restrictions and technical barriers, ease restrictions on high-tech exports and tap the enormous potential of technological cooperation and trade in line with the WTO rules; grant China a full market economy status at an early date, reduce and abolish anti-dumping and other discriminatory policies and practices against China, and apply the Transitional Product-Specific Safeguard Mechanism (TPSSM) prudently; and compensate the Chinese side for its economic and trade losses which may arise due to the EU enlargement.
- Boost China-EU coordination and cooperation in the new round of WTO negotiations and work together for the success of the negotiations.
- Strengthen dialogue on investment, promote the establishment of bilateral investment-promotion institutions, energetically encourage and guide mutual investments between enterprises of the two sides, and expand cooperation between their small-and medium-sized enterprises; develop processing trade, contractual projects and labour cooperation of various kinds and encourage transnational business operation and internationalised production.
- China welcomes more EU development aid, especially in such fields as the environmental protection, poverty-alleviation, public health and hygiene and education. China also welcomes a stronger and more active role of the EU in human resources development, in particular, personnel training for China's central and western regions and build-up of China's capacity of participating in multilateral trading regime.
- Step up cooperation in the area of quality supervision, inspection and quarantine, establish appropriate consultation mechanisms and, subject to the principle of ensuring safety, security, hygiene, health and environmental protection, promptly address and resolve issues which may adversely affect market access of each other's products.
- Boost the customs cooperation and conclude a China-EU Customs Agreement in due course.

2. Financial Cooperation.

China and the EU should launch a high-level financial dialogue mechanism, expand exchanges between their central banks on policies and deepen cooperation in

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preventing and managing financial crises and combating the financing of terrorism and money laundering. The Chinese side welcomes an expansion of China-related business by banks of the EU countries and hopes to see an appropriate settlement of the issue of Chinese financial institutions' access to the EU market.

The Chinese side will positively examine and consider applications of EU insurance institutions for business operation in China and improve its supervisory and regulatory regime in line with the Chinese insurance laws, regulations and statutes and China's WTO commitments.

Cooperation in securities legislation, market supervision and regulation, and investment operation will be strengthened and more EU securities institutions, fund management institutions and other institutional investors will be encouraged to enter into China's market. Chinese securities institutions will be encouraged to enter into the EU's securities market when conditions are ripe. In the meantime, Chinese enterprises will be strongly supported to raise funds in the EU's securities market.

3. Agricultural Cooperation.

Exchanges between China and the EU in such fields as agricultural production, processing technology of agricultural produce and sustainable development will be intensified. The mechanism of the agricultural working group should be given a role to play. Bilateral cooperation between agricultural research institutes, universities and colleges as well as enterprises should be pushed forward. EU Enterprises are encouraged to take an active part in agricultural development in China's central and western regions and invest in such fields as agricultural high and new technologies, intensive processing of agricultural produce and development of agricultural infrastructure.

4. Environmental Cooperation.

China-EU communication and cooperation in environmental protection should be stimulated and a mechanism of dialogue between the Chinese and EU environmental ministers launched. Framework documents on environmental cooperation should be formulated, and discussions held on the establishment of information network on environmental cooperation. Bilateral cooperation should be strengthened on such issues as environmental legislation and management, climate change, bio-diversity protection, bio-safety management, and trade and environment. Efforts should be made to jointly promote the implementation of the follow-up actions of the World Summit on Sustainable Development in Johannesburg. Non-governmental environmental protection organizations are encouraged to develop mutual exchanges. EU enterprises are encouraged to gain more access to Chinese environmental protection market through fair competition.

5. IT Cooperation.

The Chinese side would like to see the EU participation in China's IT promotion. The mechanism of the EU-China working group on information society will be strengthened. Exchanges and dialogue will be conducted on strategies, policies, rules and regulations of information society. Trade in IT products and industrial and technological cooperation will be actively boosted. Greater exchanges in intellectual property rights and technical standards will be encouraged. Cooperation in the field of "Digital Olympics" will be promoted.

6. Energy Cooperation.

China-EU cooperation will be expanded in such fields as energy structure, clean

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energy, renewable energy, and energy efficiency and saving. Exchanges on energy development policies will be promoted. Efforts will be made to ensure a successful EU-China Energy Conference. The energy working group mechanism will be strengthened. Training on energy technology and cooperation in demonstration projects will be boosted to promote application and transfer of technology.

7. Transport Cooperation.

A mechanism of China-EU regular meeting will be set up within the framework of the China-EU Agreement on Maritime Transport. Cooperation in maritime transport and other maritime fields will be developed and coordination and cooperation in international organizations such as the International Maritime Organization (IMO) will be strengthened. Bilateral exchanges will be deepened and broadened in respect of policies of inland river transport, navigation safety and shipping standardization. Cooperation and exchanges in highway technology and management will be expanded. Dialogue and exchanges on highway transport legislation will be strengthened.

China-EU exchanges in civil aviation will be deepened. Chinese and EU enterprises are encouraged to strengthen their cooperation on production, technology, management and training.

III. The Education, Science-Technology, Culture, Health and other Aspects

1. Cooperation in Science and Technology.

It is essential to promote China-EU scientific and technological cooperation on the basis of the principles of mutual benefit and reciprocity, sharing of results and protection of intellectual property rights. Joint development and cooperation on generic technologies and major technical equipment should be stepped up and Chinese institutions are encouraged to participate in the EU Framework Programme for Research and Technological Development. China will, on the premise of equality and mutual benefit and a balance between interests and obligations, participate in the Galileo Programme and enhance cooperation in international "big science" projects. Full play should be given to the role of the Scientific and Technologic Cooperation Steering Committee and efforts should be made to ensure a successful China-Europe Science and Technology and Innovation Policy Forum. Cooperation between scientific and technological intermediary agencies of the two sides as well as the interflow and training of scientific and technological human resources should be encouraged. Support should be given to Chinese and EU enterprises in their involvement in scientific and technological cooperation.

2. Cultural Exchange.

China will be more open in cementing and deepening its exchange and cooperation with EU members in the cultural field and work towards a multi-level and all-dimensional framework of cultural exchanges between China and the European Union, EU members and their respective local governments, and between their peoples and business communities so as to make it easier for the people of China and the EU to get to know each other's fine cultures.

China will establish Chinese cultural centres in capitals of EU members and the EU headquarters – Brussels. On the basis of reciprocity and mutual benefit, China welcomes the set-up of cultural centres in Beijing by the EU side. China will encourage high quality cultural exchange activities and explore new modalities of cooperation in culture-related industries. Discussions will be held on the formation of a China-EU cultural cooperation consultation mechanism and the idea of jointly holding a China-EU cultural forum.

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3. Cooperation in Education.

Exchanges at all levels will be enhanced and expanded. It is necessary to establish a China-EU education cooperation consultation mechanism as appropriate and strengthen cooperation in areas including mutual recognition of academic credentials and degrees, exchange of students, language teaching, exchange of scholarships and teacher training. Work should be done to make a success of the China-Europe International Business School and bring forth more top professionals. The teaching of each other's languages should be encouraged and supported.

4. Cooperation in Health and Medical Care.

Cooperation in the health sector should be strengthened, particularly in sharing experience of prevention and control of SARS [severe acute respiratory syndrome], HIV/AIDS and other serious diseases. Efforts should be made to develop exchanges in clinical diagnosis and treatment, epidemiological investigation, analysis and surveillance, laboratory testing, R&D for medicines and vaccines, and training of medical personnel. Exploratory endeavour should be made for the establishment of a mechanism to keep each other informed and provide technical support in case of emergent public health hazards.

5. Press Exchange.

Exchanges and cooperation will be boosted between the press and media communities of the two sides. Chinese and EU media agencies should be encouraged to enhance mutual understanding and give comprehensive and unbiased reports of each other. Relevant government departments or agencies of the two sides should enhance mutual contact and communication and share practices and experience in respect of government press release and the handling of government-media relations.

6. Personnel Exchange.

People-to-people exchanges and those between non-governmental organizations of China and the EU should be encouraged. China is ready to conclude as early as possible agreement on designating EU countries as tourism destinations for outbound Chinese citizens in compliance with the principles of equality, reciprocity and mutual benefit.

China-EU consular cooperation should be strengthened and expanded. An early solution should be found through consultations to the problem of difficult access to entry visas by Chinese citizens and their impeded entry into EU countries. The legitimate rights and interests of travellers should be protected. Normal people-to-people exchanges between China and the EU should be ensured.

It is imperative to combat illegal migration and human trafficking, strictly enforce laws and crack down on illegal activities and crimes. The two sides should increase consultations and coordination and appropriately handle the question of repatriation and other issues arising therefrom.

IV. The social, judicial and administrative aspects

1. Cooperation in Labour and Social Security.

China and the EU should strengthen cooperation on employment of legal immigrants and protection of the rights and interests of migrant workers and enhance coordination in international labour affairs. The two sides will negotiate and conclude a bilateral social security agreement and implement their joint social security cooperation programme as well as broaden exchanges in social insurance of various kinds.

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2. Exchange in Judicial Field.

It is necessary to continue with the China-EU cooperation programme in the legal and judicial fields based on equality and mutual respect, broaden related areas of cooperation, enhance exchanges in judicial reform and other key areas and explore cooperation with respect to administration of justice in combating cross border crimes. The two sides should do more in sharing experience of legal supervision and explore the possibility of establishing a mechanism of annual meeting between their high-level judicial officials.

3. Cooperation in Police Affairs.

The Chinese side will establish and strengthen exchanges with relevant EU agencies and EUROPOL, broaden substantial cooperation with law-enforcement organs of EU members and step up coordination in case handling and information sharing within their respective legal framework. The two sides should support and actively participate in UN peacekeeping and other activities.

4. Cooperation in Public Administration.

China and the EU should share experience in transforming government functions and deepening personnel management reform, discuss the establishment of a China-EU cooperation mechanism on personnel and administrative management and conduct exchanges in civil service system building and human resources development.

V. The military aspect

China and the EU will maintain high-level military-to-military exchanges, develop and improve, step by step, a strategic security consultation mechanism, exchange more missions of military experts, and expand exchanges in respect of military officers' training and defence studies.

The EU should lift its ban on arms sales to China at an early date so as to remove barriers to greater bilateral cooperation on defence industry and technologies.

Source: XHNA, 13 October 2003

(2) *"CCP Central Committee Decision on Several Issues Related to Perfecting the Socialist Market Economic System."*

(Approved at the third plenum of the 16th Central Committee of the Chinese Communist Party on 14 October 2003 and published by XHNA, 21October; reproduced from BBC Monitoring Global Online, 25 October 2003).

The third plenum of the 16th Central Committee of the Chinese Communist Party discussed a number of important issues concerning the perfecting of the socialist market economic system, and made the following decision so as to implement in full the strategic arrangements proposed by the 16th Party Congress on building a perfected socialist market economic system and an economic system which is more vigorous and more open, so as to deepen reform of the economic system, and so as to promote all-round economic and social development.

A. The situation and mission which reform of the economic system in China faces

1. The importance and urgency of deepening reform of the economic system. Major

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progress has been made in both theory and practice in the reform of the economic system since the third plenum of the 11th Central Committee initiated reform and opening up [in December 1978], since the 14th Party Congress [in 1992] specified the objective of reforming the socialist market economic system, and since the third plenum of the 14th Central Committee [in 1993] made relevant decisions in this regard. The socialist market economic system has been initially established, a fundamental economic system with public ownership as the primary form of ownership but also with other forms of ownership developing in common has been established, and a pattern of openness to the outside which extends in all directions, includes a broad range of fields and exists at many levels, has taken basic shape. The continual deepening of reform has greatly promoted improvements in social productive forces, comprehensive national power and the people's standard of living. It has enabled our country to withstand the severe tests of international financial turbulence, serious domestic natural disasters and a major epidemic. But at the same time problems still exist such as irrationality in the economic structure, allocation relationships which have not yet been straightened out, the slow growth of farmers' incomes, prominent contradictions regarding employment, increased pressure on resources and the environment, and overall economic competitiveness which is not strong. The main reason for these problems is that China is in the primary stage of socialism, its economic system is not yet perfect, and the development of productive forces still faces numerous systemic obstacles. So as to cope with an international environment of economic globalization and accelerating scientific and technological advancement, and to adapt to the new situation of the all-out building of a well-off society, it is essential to step up the promotion of reform and further liberate and develop productive forces in order to inject a great driving force into economic development and all-round social advancement.

2. The objective and mission in perfecting the socialist market economic system. In accordance with the requirements to have an overall plan for urban and rural development, an overall plan for regional development, an overall plan for economic and social development, an overall plan for harmonious development between humans and nature, and an overall plan for domestic development and openness to the outside, bring into play more fully the fundamental role of the market in the allocation of resources, strengthen the vitality and competitiveness of enterprises, establish sound measures for national macro-regulation and control, and improve the government's functions regarding social control and public services, so as to provide strong and powerful systemic support to the all-out building of a well-off society. [The aforementioned plans are also referred to as the five overall plans (*wu ge tongchou*).] The main missions are: improve the fundamental economic system with public ownership as the primary form of ownership but also with other forms of ownership developing in common; establish a system which facilitates gradual reform of the dual, urban-rural economic structure; create mechanisms which promote the development of regional economic cooperation; establish a modern market system with unity, openness and orderly competition; perfect a system of macro-regulation and control, a system of administrative management, and a system of economic law; establish sound systems for finding employment, income allocation, and social supports; and establish mechanisms which promote sustainable economic and social development.

3. The guiding ideology and principles of deepening reform of the economic system. Take Deng Xiaoping Theory and the important thinking of the "Three Represents" as the guide, carry out the party's basic line, basic programme, and basic experience, implement in full the spirit of the 16th Party Congress, emancipate the mind, seek truth from facts, and advance with the times. Keep moving in the direction

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of reform of the socialist market economy, and emphasize the building and innovation of systems. Uphold the spirit of respecting the creativity of the masses, and bring into full play the initiative of both the centre and localities. Correctly handle the relationship between reform, development and stability, and promote reform in a focused and step-by-step manner. Make overall plans which take all factors into consideration, and coordinate well the various interest relationships involved in the reform process. Take people as the main thing, establish a concept of all-round, coordinated, sustainable development, and promote all-round economic, social and human development.

B. Further consolidate and develop a publicly owned economy, and encourage, support and guide the development of the non-publicly owned economy

4. Promote the achievement of various effective forms of public ownership. Uphold public ownership as the primary [form of ownership], and bring into play the guiding role of the state-owned economy. Actively promote the achievement of various effective forms of public ownership, and accelerate the adjustment of the arrangement and structure of the state-owned economy. Adapt to the trend of the continuing development of economic marketization, further strengthen the vitality of the publicly owned economy, exert great efforts on the development of an economy with mixed forms of ownership and shareholder participation by state-owned capital, collectively owned capital, and non-publicly owned capital, achieve diversity in the main elements of investment, and make the shareholder system become an important form of public ownership. Enterprises in which it is essential that shares be controlled by state-owned capital should differentiate between situations of absolute and relative control of the shares. Perfect a mechanism by which state-owned capital advances and retreats and circulates in rational manner, direct more state-owned capital towards important sectors and key areas which affect national security and the lifeline of the national economy, and strengthen the ability to control the state-owned economy. State-owned enterprises in other sectors and areas must face survival of the fittest in fair competition in the market, through asset reorganization and structural adjustments. Develop large corporations and large enterprise groups having international competitiveness. Continue to free and invigorate small and medium-sized state-owned enterprises. Deepen reform of collective enterprises by focusing on clarifying property rights, and develop the collective economy in various forms.

5. Exert great efforts on developing the non-publicly owned economy, and actively guide it. Individually owned, privately operated, and other elements of the non-publicly owned economy are important in promoting the development of social productive forces in China. Sort out and revise laws, regulations and policies which constrain the development of the non-publicly owned economy, and eliminate systemic barriers. Ease entry into the marketplace, and allow non-publicly owned capital into sectors and areas such as infrastructure and public utilities where this is not prohibited by laws or regulations. Non-publicly owned enterprises are to enjoy equal treatment with other enterprises with regard to investment financing, taxation, land use and foreign trade. Support the development of small and medium-sized non-publicly owned enterprises, and encourage enterprises which have the right conditions to grow big and strong. Non-publicly owned enterprises must operate according to the law, pay taxes as required, and protect the legitimate rights and interests of their staff and workers. Improve services to and supervision of non-publicly owned enterprises.

6. Establish a sound system of modern property rights. Property rights are a core and important element of a system of ownership. Property rights involve rights over assets including interests, creditor's rights, shareholder's rights and intellectual

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property rights. Establishing a modern system of property rights which makes ownership clear, which specifies rights and obligations, which provides strict protection, and in which transfers can be accomplished smoothly, facilitates the protection of ownership rights over public property and the consolidation of the primary status of the publicly owned economy. It will facilitate the protection of ownership rights over private property, and the development of the non-publicly owned economy. It will facilitate the circulation and reorganization of various types of capital, and it will promote the development of an economy with a mixture of different systems of ownership. And it will facilitate the mobilization of the initiative of enterprises and the public to start businesses, and the formation of an excellent foundation of credit and market order. This is an intrinsic requirement for the protection of a basic economic system, and it is an important foundation on which to construct a modern enterprise system. Property rights in various forms must be protected according to law. Establish a sound system of regulations and supervision over the transfer of property rights. Promote the orderly transfer of property rights, and ensure the equal legal status and right to develop on the part of all the main elements in the marketplace.

C. Perfect a system for managing state-owned assets, and deepen reform of state-owned enterprises

7. Establish a sound system for managing and supervising state-owned assets. Uphold openness in government public management functions and in state-owned asset contributor functions. The state-owned asset management apparatus carries out asset contributor functions according to law for state-owned capital which it is authorized to manage. It protects the owner's rights and interests, it protects the legitimate rights of enterprises as the main elements of the market, it supervises and encourages enterprises to maintain and increase the value of state-owned capital, and it prevents the loss of state-owned assets. Establish an operating budget system for state-owned capital and a system for assessing the achievements of enterprise operations. Actively explore effective methods of state-owned asset supervision and operations, and perfect the system of authorized operations. Establish a sound supervisory system for state-owned financial assets, non-operating assets, natural resource assets, etc.

8. Perfect the control structure for corporate legal entities. In accordance with the requirements of a modern enterprise system, standardize the rights and responsibilities of company shareholders, boards of directors, boards of supervisors and operations managers, and perfect the system by which enterprise leaders are employed. Meetings of shareholders are to decide the membership of boards of directors and boards of supervisors, boards of directors are to select operations managers, and operations managers are to exercise the right of choosing people for jobs. Form up a system of checks and balances among the power structure, among the decision-making structure, the supervisory structure, and among the operations managers. An enterprise's party organization plays the role of a political core, and it adapts to the control structure for corporate legal entities. Improve the methods by which the party organization plays its role. The party organization supports the exercise of functions and rights according to law by the shareholders' association, board of directors, board of supervisors and operations managers, and it participates in the enterprise's decisions on major issues. The principle of the party managing cadres must be upheld, and combined with a system by which managers operating enterprises are selected and employed according to the marketplace. Central and local party committees must strengthen and improve their management of the leadership teams of key state-owned backbone enterprises. Rely wholeheartedly upon the masses of staff and

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workers, explore effective ways of democratic management by staff and workers under the modern enterprise system, and protect the legitimate rights and interests of staff and workers. Continue to promote a transformation in the operating mechanisms of enterprises. Deepen reform of the systems for employing and managing personnel and for allocating income. Divert and outsource excess personnel. Separate out enterprise-run social functions. Create an excellent environment in which enterprise reform can develop.

9. Accelerate the promotion and improvement of the reform of monopoly sectors. Market entry must be broadened in monopoly sectors, and a mechanism for competition introduced. Enterprises which meet the requirements must actively promote diversification of the main elements of investment. Continue to promote and improve the reform and restructuring of the telecommunications, electricity and civil aviation sectors. Accelerate reform of the railways, postal services and urban utilities, accomplish a separation between the government and enterprises, between the government and investment, and between the government and operations. Sectors which are natural monopolies must be under effective supervision.

D. Deepen rural reform, perfect the rural economic system

10. Perfect the rural land system. Household contracted land operations are the core of the basic operating system in rural areas. There must be long-term stability and continual improvement of the two-tier operating system with household contracting as the foundation and a combination of unified and separate two-tiered operating system as the core, relying on the law to protect all the rights of farming households which are contracted to operate on the land. Within the contracted period, a farming household may transfer the right to operate on the contracted land in accordance with the law, willingly and for compensation. Perfect the method by which this transfer is accomplished, and gradually develop operations which are standardized to an appropriate degree. Create the most rigorous arable land protection system, and ensure the security of the nation's grain supply. Act in accordance with the principle of protecting the rights and interests of farmers and controlling the scope of land requisition, and reform the land requisition system and perfect the for operations. When land is requisitioned, it must be in accordance with an overall plan for land usage and subject to supervision and control of that use. Give farmers reasonable compensation promptly.

11. Establish a sound system of socialized [*shehuihua*] services for agriculture, markets for agricultural products, and support and protection for agriculture. Collective rural economic organizations must promote systemic innovation, and strengthen their service functions. Uphold the principle of farmers acting willingly and democratically, and develop rural specialized cooperative organizations in various forms. Encourage factories, businesses and other enterprises to invest in the development of agricultural product processing and marketing. Actively promote industrialized operations in agriculture. Form up an integrated industrial chain of scientific research, production, processing and marketing. Deepen the system by which agricultural science and technology is popularized, and reform supply and marketing cooperatives. Form up a system of socialized services for agriculture with widespread participation by social forces. Perfect the system of markets for agricultural products. Open up the markets for purchasing grain. Convert indirect subsidies which have passed through the circulation link into direct subsidies to farmers. Truly protect the interests of farmers who grow grain. Strengthen state support and protection to agriculture. Step up investment in agriculture and rural areas from public funds at all levels. Strengthen the overall ability to produce grain. Improve the mechanisms for aid to the poor. New expenditure from the state on education, health, culture and

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other public activities is to go mainly to rural areas. Explore and set up a policy-type agricultural insurance system.

12. Deepen reform of rural taxation and fees. Rural tax and fee reform is an important measure to reduce the burden on farmers and deepen reform in rural areas. Perfect each item of policy, and pilot projects for rural tax and fee reform. Abolish taxes on agricultural specialty products. Accelerate the comprehensive set of reforms of the township and village structure and the system of rural compulsory education. With the completion of the pilot project effort as a foundation, gradually reduce the rate of taxation on agriculture and truly reduce the burden on farmers.

13. Improve the environment in which surplus labour in rural areas shifts elsewhere to find jobs. Excess rural labour flowing back and forth between urban and rural areas in search of work is an important way to increase farmers' income and promote urbanization. Establish a sound mechanism for training the rural labour force, promote the reform and adjustment of rural township enterprises, exert great efforts on developing the economy of township areas, actively expand the space in which rural people can find jobs, abolish restrictive regulations against farmers coming to cities to find jobs, and thereby create more employment opportunities for farmers. Gradually unify the urban and rural markets for labour, strengthen guidance and management, and form up a system of equality between urban and rural workers in finding jobs. Strengthen reform of the household registration system, improve the management of the floating population, and guide surplus rural labour to move in a smooth and orderly fashion. Step up the pace of urbanization. In cities where there is an agricultural population which is stable, employed and housed, these people may be registered as households either where they work or where they live in accordance with local regulations, to enjoy the same rights and interests as the local residents in accordance with the law, but also assume the same obligations as far as possible.

E. Perfect the market system, and standardize order in the market

14. Accelerate the construction of a unified, nationwide market. Strengthening the unified nature of the market is an important mission in building a modern market system. Exert great efforts in promoting internal and external openness in the market, accelerate the marketization *[shichanghua]* of key factors and prices, develop modern methods of circulation such as electronic commerce, chain operations, and distribution and delivery, and promote the free flow and full competition of products and various kinds of factors on a nationwide scale. Abolish regulations of various kinds which divide the marketplace by setting up obstacles to fair competition, administrative barriers or the exclusion of products and services from outside. Break down sector monopolies and regional blockades. Actively develop a structure of professional, marketized middleman services which are independent and fair and which operate in a standardized manner. Standardize and develop various kinds of trade associations, chambers of commerce and other self-regulating organizations, in accordance with the principles of marketization. Perfect a system of market supervision including administration and law enforcement, sector self-regulation, supervision by public opinion, and mass participation. Establish sound mechanisms for monitoring product quality. Strike hard against the manufacture and sale of counterfeit products, deceptive trade and other illegal behaviour, and establish and protect a sound order in the marketplace.

15. Exert great efforts in the development of the market for capital and other key factors. Actively promote reform, openness and the steady development of the market for capital, and expand direct financing and investment. Establish a multi-tiered capital market system, perfect the structure of the capital market, and enrich the products offered by the capital market. Standardize and develop the main board of the

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market [*zhuban shichang*], and promote the markets for risk investment and start-up capital. Actively develop the bond market, perfect and standardize procedures for issuance, and expand the scale on which corporate bonds are issued. Put great effort into developing institutional investors, and broaden the channels by which to get legitimate funds [*hegui zijin*] into the market. Establish a unified, interconnected securities market, and perfect the systems for trading, registration and settlement. Accelerate the development of markets for key factors such as land, technology and labour. Standardize the development of trading in property rights. Actively develop the markets for asset insurance, personal insurance, and reinsurance. Steadily develop the futures market.

16. Establish a sound system of social credit. Forming up a social credit system with morality as its support, property rights as its foundation, and the law as its guarantor is an essential condition for the building of a modern market economy system. It is also a fundamental way to standardize order in a market economy. Strengthen the understanding of credit throughout society. Governments, enterprises and individuals must all take honesty and keeping one's promises as a basic rule of behaviour. Accelerate the building of a system of credit services for enterprises and individuals, in line with the orientation of perfected laws and regulations, special permission for operations, commercial operations, and professional services. Establish a system for credit supervision and penalties for breaking promises. Gradually open up the market for credit services.

F. Continue to improve macro-regulation and control, accelerate the transformation of government functions

17. Perfect a system of macro-regulation and control by the state. Establish a more sound system of macro-regulation and control with mutually coordinated nationwide planning and fiscal and monetary policy. Macro-regulation and control objectives and overall requirements specified by national plans are the main basis on which to formulate fiscal and monetary policy. Fiscal policy has an important role to play in promoting economic growth, optimizing the structure and regulating income. Perfect effective ways and means for fiscal policy. Monetary policy has an important role to play in holding monetary value steady and in overall balance. Establish a sound mechanism by which monetary policy can be conveyed. Pay attention to the influence of the trend of an ageing population and other factors on social supply and demand. Perfect the statistical system, establish a sound system by which to monitor the workings of the economy, strengthen complementary functioning and information-sharing among the various macroeconomic regulation and control organizations, and improve the level of macro-regulation and control.

18. Transform the government's economic management functions. Deepen reform of the administrative review and approval system, and truly shift the government's economic management functions towards becoming primarily services for the main elements of the market and towards the creation of an excellent environment for development. Step up the research and formulation of mid-and long-term plans for the national economy and for social development. Propose major strategies, basic missions and an industrial policy for development. Promote all-round economic and social development. Achieve mutual coordination between economic expansion and population, resources, and the environment. Strengthen the coordination and guidance of regional development, actively promote the great development of western China, effectively bring into play the overall superiorities of the central region, support accelerated reform and development in the central and western regions, revitalize the northeast and other old industrial bases, and encourage areas of the east which meet the requirements to move ahead and basically achieve modernization. Improve the

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government's scientific, democratic and standardized decision-making procedures for major economic and social issues. Exploit the intellectual resources of society and modern information technology to the full, and increase transparency and public participation.

19. Deepen reform of the investment system. Further establish the position of the enterprise as the main element in investment, and implement the idea that whoever invests is the one who makes the decisions, the one who reaps the benefits and the one who bears the risk. The government should only review and approve major projects which affect economic security, which influence the environment and natural resources, or which concern the overall situation, as well as government-invested projects and restricted projects [*xian zhi lei xiang mu*]. Other projects should shift from the review and approval system to the kept-on-file system, with decisions made by the main investors on their own, and procedures for permits for such things as land use, resources, the environment and safety handled in accordance with the law. With projects where review and approval is necessary, there must be a rational demarcation of authority between the centre and local officials. There must be a perfected system of consultation and evaluation [*zixun lunzheng zhidu*] for expanding the decision-making authority for investment by large enterprise groups, a reduction in the number of links, and increased efficiency. Establish a sound mechanism for the constraint of government investment decision-making and for persons legally responsible for projects. The state steers the direction of investment by the public mainly by way of planning and policy guidance, the distribution of information, and standardizing entry into the marketplace. The state restrains disorderly competition and blind, duplicative construction.

G. Perfect the finance and taxation system, deepen financial reform

20. Implement reform of the taxation system in a step-by-step manner. Steadily promote reform of the taxation system in accordance with the principle of simplifying the tax system, broadening the tax base, lowering the tax rate, and strict control over taxation. Reform the system of export tax rebates. Unify the various kinds of enterprise taxation systems. Value-added tax is to shift from the production model [*shengchan xing*] to the consumption model [*xiaofei xing*], and equipment investment is to be incorporated into the scope of value-added tax deductions. Perfect the consumption tax, and expand the tax base appropriately. Improve individual income tax, and implement a combined comprehensive and categorical personal income tax system. Carry out the reform of urban construction taxes and fees. When conditions allow, levy a unified and standardized property tax on real estate, while correspondingly abolishing the collection of fees. With the prerequisite of unified tax administration, bestow on local authorities the appropriate taxation management power. Create the conditions for the gradual establishment of a unified urban-rural taxation system.

21. Promote reform of the public finance management system. Establish a sound system for public finances, and clarify the responsibility for expenditure of public finances at each level of government. Further improve the transfer payment system, and increase support from public finances for central and western areas and ethnic minority areas. Deepen reform of organization budgets, centralized revenue and expenditure at the national treasury, government procurement, and the management of the two lines of revenue and expenditure. Straighten out and standardize the collection of administrative fees. Anything which can be incorporated into a budget should be brought within the scope of budgetary management. Reform the system by which budgets are compiled, improve the checks and balances mechanism by which budgets are compiled and executed, and strengthen supervision through audits.

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Establish a system for appraising the effectiveness of budgets. Establish full budgetary management and supervision and control over those responsible for them. Strengthen the examination and supervision of government budgets by the people's congresses at every level.

22. Deepen the reform of financial enterprises. Commercial banks, securities companies, insurance companies, and trust and investment companies must become modern financial enterprises with ample capital, strict internal controls, safe operations, and excellent services and efficiency. Select state-owned commercial banks with the right conditions for restructuring under the shareholder system, accelerate the disposal of their bad assets, beef up their capital, and create the conditions for them to go public. Deepen the reform of policy-type banks. Perfect the mechanisms by which financial asset management companies operate. Encourage social funds to participate in the reorganization and restructuring of small and medium-sized financial organizations. With the prerequisite of strengthened supervision and maintaining ample funds, gradually develop financial enterprises with various forms of ownership. Perfect the system of financial services in rural areas, with the state providing appropriate policy support. Gain experience by way of pilot projects, and restructure rural credit associations into local rural community service financial enterprises.

23. Establish a sound mechanism for financial regulation and control. Steadily promote the marketization of interest rates, and establish a sound mechanism by which market supply and demand determines interest rates, with the central bank using monetary policy as a tool to guide interest rates in the marketplace. Perfect the mechanism by which the renminbi exchange rate takes shape, and maintain the renminbi exchange rate basically steady at a level which is reasonable and balanced. With the prerequisite of the effective prevention of risk, selectively relax restrictions in a step-by-step manner on cross-border capital transactions, and gradually achieve the convertibility of capital items. Establish and perfect a payments settlement system which is unified, highly effective and safe. Improve financial regulation and control by the central bank, and establish sound, integrated and coordinated development mechanisms for the currency exchange market, the capital market and the insurance market. Protect the overall stability of financial operations and the financial markets, and prevent systemic risk.

24. Perfect the financial supervision system. Maintain open, fair and orderly competition in financial markets in accordance with the law. Effectively prevent or alleviate financial risk, and protect the legal rights and interests of depositors, investors and the insured. Establish sound mechanisms for monitoring, early warning and handling financial risk. Implement in strict accordance with the law a system for withdrawing from the market. Strengthen financial supervision and control measures, and prevent and punish financial crime. Increase the transparency of supervision and control information, and accept supervision by the public. Handle well the relationship between supervision and support for financial innovation. Encourage financial enterprises to explore effective methods of financial operations. Establish a sound, coordinated mechanism between banks, securities, and insurance supervisory organizations and between central banks and public finance organizations, and improve the level of financial supervision and control.

H. Deepen reform of the external economic system, make overall improvements in the level of openness to the outside

25. Perfect systemic support for openness to the outside. In accordance with the requirements of the market economy and the regulations of the World Trade Organization [WTO], accelerate the process of integration of internal and external

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trade. Form up a transparent management system for the external economy, create a fair and predictable legal system environment, and ensure that enterprises of all types have autonomy and equal status in foreign trade and economic activity. Manage externally-related economic activity in accordance with the law. Strengthen services and management and control functions. Further increase the degree of freedom and ease in trade and investment. Establish a sound supervision and control system for foreign trade operations and a sound early warning mechanism for international revenue and expenditure, and protect national economic security.

26. Make better use of foreign investment. Grasp major opportunities in the new round of global optimization and reorganization of the key factors of production and the shift of industry, expand the scale on which foreign investment is used, and make better use of foreign investment. Tie this in with the adjustment and upgrade of the domestic industrial structure, import more advanced technology, management experience and high-quality, talented people, and emphasize the absorption of advanced, imported technology and the improvement of innovation. Continue to develop a processing trade, exert efforts in attracting multinational corporations to shift processing and manufacturing links and research and development organizations with a higher level of technology and greater value-added content to China, and guide the transformation and upgrading of the processing trade. Make further improvements in the investment environment, expand the areas of investment, attract foreign investment to accelerate expansion in areas which meet the requirements and which conform to national industrial policy. Strive to create a number of economic growth belts having a concentration of foreign investment, which combine the internal and external, and which have a strong ability to lead.

27. Strengthen the ability to participate in international cooperation and competition. Encourage domestic enterprises to make full use of favourable opportunities to increase their openness, and strengthen their ability to develop markets, to be technically innovative, and to develop autonomous brands. Improve the quality, grade and added-value of exported products. Expand the export of new and high-tech products. Develop the trade in services. Achieve an overall increase in export competitiveness. Continue to implement the strategy of "going out," improve the system for services to those investing overseas, grant greater operational and management autonomy to enterprises operating overseas, establish a sound supervisory mechanism for enterprises investing overseas, and promote the development of Chinese multinational corporations. Participate actively in and promote regional economic cooperation.

I. Promote the reform of the employment and allocation systems, improve the system of social support

28. Deepen reform of the labour employment system. Give expanding employment a more prominent place in economic and social development. Implement an active employment policy, and work hard to improve the environment in which businesses are started and people find jobs. Uphold the policy that workers can choose jobs on their own, employment is regulated by the marketplace, and the government promotes employment. Encourage enterprises to create more jobs. Reform, development and structural adjustments must be closely tied in with expanding employment. Start out with an acknowledgment of the requirement to expand employment and re-employment, and in terms of the categories of industry, emphasize the development of labour-intensive industries. In terms of enterprise scale, emphasize support to small and medium-sized enterprises. In terms of economic categories, emphasize the development of the non-publicly owned economy. And in terms of the ways in which people find jobs, emphasize the adoption of flexible and varied ways. Perfect the

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system of employment services. Strengthen vocational education and skills training. Assist groups which are in especially difficult circumstances for finding jobs. Standardize the actions of enterprises in employing personnel, and protect the legal rights and interests of workers.

29. Promote the reform of income allocation. Perfect a system of allocation with labour allocation as the main body but also with other forms of allocation. Uphold giving priority to efficiency while also considering fairness, and include the contributions made by various key productive factors in the allocation. Rectify and standardize the allocation order, increase the effort put into regulating income allocation, and emphasize the resolution of the problem of the excessively large disparity in incomes of some members of society. Take prosperity in common as the objective, expand the proportion of middle-income earners, increase the income level of low-income earners, adjust [*tiaojie*] incomes which are excessively high, and outlaw illegal earnings. Strengthen supervision and control over the allocation of income in monopolistic sectors. Establish sound methods of monitoring and measuring personal income, and strengthen the management of personal income tax collection. Perfect and standardize the system of wages for state employees, and promote the reform of allocation systems in operational units. Standardize the expenses of job positions, and accelerate the conversion of fringe benefits to cash.

30. Accelerate the establishment of a system of social support commensurate with the level of economic development. Perfect the system of basic old-age insurance for the staff and workers of enterprises. Uphold the idea of a combination of overall social planning and individual accounts, and gradually establish individual accounts. Incorporate those employed in cities and towns within the basic old-age insurance system. Establish a sound old-age insurance regulation fund at provincial level, and with the perfecting of city-level overall planning as a foundation, gradually implement overall planning at a provincial level, and when conditions permit implement partial national overall planning of the foundation of basic old-age funds. Establish a sound system of unemployment insurance, and move the basic subsistence support for laid off staff and workers of state-owned enterprises onto the track of unemployment insurance. Continue to synchronize the reform of basic medical insurance for urban staff and workers and the medical treatment and pharmaceutical production and distribution systems. Expand the scope of coverage of basic medical insurance, and establish a sound system of social medical treatment assistance and multilevel medical treatment support. Continue to promote insurance against injury at work and maternity insurance. Actively explore the reform of social support systems in staff and operational units. Perfect the system of minimum subsistence support for urban residents, and specify support standards and methods rationally. Adopt various methods to include the transfer of some state-owned assets in accordance with the law to beef up social support funds. Strengthen the collection of social insurance fund contributions, broaden the scope of collection, standardize fund supervision and management, and ensure the safety of the funds. Encourage enterprises which meet the requirements to establish supplementary insurance, and actively develop commercial old-age and medical insurance. Support to the aged in rural areas is provided primarily by the family, but in combination with community support and assistance from the state. In areas where the conditions exist, explore the establishment of a system of minimum subsistence support in rural areas.

J. Deepen reform of the systems of science and technology, education, culture and health, increase the nation's creativity and the overall quality of the people

31. Create and implement an environment for the strategy of talented people strengthening the nation. Innovate mechanisms by which talented people can work.

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Develop, attract and make good use of talented people of various kinds. Taking talented people in the party and the government, talented people in enterprise operations and management, and talented specialized technical personnel as the main body, build up a core of talented people on a massive scale, with a rational organization, and with high quality. Train talented people at many levels, using many channels, and on a large scale. Focus on the development of a number of senior and highly skilled personnel. Strengthen the development of talented people in western China and in ethnic minority areas. Establish a mechanism to encourage outstandingly talented people to go and work in western China, at the grassroots level and in areas where life is hard. Respect knowledge, encourage innovation, implement fair competition, perfect a system of encouragement and form up an excellent environment in which outstandingly talented personnel will stand out and display their talents to the full. Establish and perfect a system of markets for talented people, and further promote the flow of talent. Actively import talented people of all kinds who are urgently needed for the modernization effort.

32. Deepen reform of the science and technology system. Reform the system for the management of science and technology, accelerate the building of a system for national innovation, promote the highly effective allocation and comprehensive integration of the scientific and technological resources of the whole of society, improve scientific and technological creativity, and achieve unity between science and technology and economic and social development. Establish the primary place of enterprise technological innovation and scientific and technological investment, and provide the conditions for equal competition in the creative activities of enterprises of various kinds. The research structure of creative activities in fundamental research, strategic high technology, and areas of research important to the public interest for which state support is required must have a system of modern research institutes, a system which follows the principles of clear duties and responsibilities, scientific appraisal, openness and orderliness, and standardized management. With regard to the research and development apparatus for the application of technology in the market, uphold the conversion to enterprise-ization [*qiyehua*], and accelerate the establishment of a modern enterprise system. Actively promote a close tie-in between higher education and scientific and technological innovation. Establish a mechanism for innovation which is a combination of military and civilian [innovation] and embodies the concept of the army being part of the people. Achieve the mutual advancement and coordinated development in national defence science and technology and in science and technology for civilian use. Establish systems of innovation for philosophy and social sciences theory, and promote the coordinated development of social sciences and natural sciences.

33. Deepen reform of the education system. Construct a modern national education system and a system of life-long learning. Establish a learned society, go all-out to promote education which develops qualities, increase the ability of people to find jobs, to be innovative and to start businesses, and work hard to convert population pressure into an advantage in human resources. Promote innovation in education, optimize the structure of education, reform development patterns, improve the quality of education, and form up an educational system which meets the requirements of economic and social development. Consolidate and perfect the system for managing compulsory education in rural areas, with management by the county-level government as the main element. Implement a system by which all personnel are employed and teachers are qualified. Perfect and standardize a system of education investment in which government investment is the main element, but funds are also raised through various channels. Form up an arrangement in which there is development in common of both publicly and privately operated schools. Perfect a system of state and community assistance to students from families in economic difficulty.

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34. Deepen reform of the cultural system. In accordance with the characteristics and rules of the building of a socialist spiritual civilization, respond to the demands of the development of the socialist market economy and gradually establish a system for cultural management led by party committees, managed by the government, which is professionally autonomous, and with enterprises and other organizations operating in accordance with the law. Transform the functions of cultural administrative management departments, and promote the coordinated development of cultural endeavours and the cultural industry. Maintain social benefits as a matter of primary importance, and work hard to achieve unity between social benefits and economic benefits. Public-benefit type cultural units must deepen reform of their personnel system, income allocation system and social benefit system. Increase state investment, strengthen vitality and improve services. Commercial type units of the cultural industry must update their systems, transform mechanisms, be oriented towards the market, and increase their strength. Establish a sound cultural marketplace system, and establish an operating system for producing cultural products which is full of vitality. Perfect policies for the cultural industry, encourage financial investment from several channels, promote the common development of cultural industries of various types, form up a number of large cultural enterprise groups, and strengthen the overall power and international competitiveness of the cultural industry. Regulate order in the cultural market in accordance with the law. Deepen the reform of physical fitness, construct a system of services for group sports, establish a sound system of athletic sports, promote the healthy development of the sports industry, and strengthen the physical quality of all people.

35. Deepen reform of the public health system. Strengthen the government's management functions regarding public health, and establish a medical care system which corresponds to the socialist market economic system. Strengthen the build-up of public health facilities, make full use of all existing resources, establish a sound system of disease information networks, a sound system for disease prevention and control, and a sound system for medical treatment, and improve the level of public health services and the ability to respond to sudden public health incidents. Accelerate reform of the urban medical treatment and health care system. Improve health and medical treatment conditions in rural areas, actively establish new types of rural cooperative medical treatment systems, and provide medical treatment assistance to impoverished people in rural areas. Bring into play the combined superiorities of Chinese and Western medicine. Do well in environmental health, and establish concepts of health among all of the people. Establish a sound system of health monitoring, and ensure the safety of food, pharmaceuticals, and medical treatment of the masses.

K. Deepen reform of the administrative management system

36. Continue to reform the administrative management system. Accelerate the formation of an administrative management system with standardized behaviour, coordinated operations, fairness and transparency, and honesty and high efficiency. Further adjust the set-up of government organizations at various levels, straighten out the division of effort among their functions, and achieve a statutory basis for government duties and responsibilities, structure, and organization. Perfect the government officials system. Promote a government according to the law, and exercise authority and carry out duties and responsibilities in strict accordance with legally stipulated limitations on power. Develop electronic government affairs, and improve the level of services and management. Establish sound mechanisms for various types of early warning and emergency responses, and improve the govern-

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ment's ability to cope with sudden incidents and dangers. Perfect the system for monitoring production safety. Deepen the reform of local administrative management systems, and exert great efforts in downsizing structures and personnel. Continue to promote reform in functional units. Perfect grassroots-level mass-type self-government organizations, and bring into play the functions of urban and rural community self-management and self-services.

37. Make a rational demarcation of central and local authority and responsibilities for managing economic and social affairs. In accordance with the principle of unified central leadership and making full use of local initiative, clearly specify central and local management authority and responsibilities regarding economic regulation, supervision of the marketplace, the management of society, and public services. Matters which are national in scope or which cut across the boundaries of provinces, autonomous regions, or directly subordinate municipalities are to be managed centrally so as to ensure national uniformity in legal systems, in government directives, and in the markets. Local matters which concern a particular administrative area are to be managed locally so as to increase the efficiency of the undertaking, lower the cost of management and increase administrative vitality. Matters which should be jointly managed by central and local authorities require a clear demarcation of different circumstances, a clearly specified scope of management by central and local authorities respectively, and clarity in primary and secondary responsibility. Based on the division of management responsibilities for economic and social matters, gradually straighten out the division of central and local efforts, duties and responsibilities in areas such as taxation, finance, investment and social support.

38. Go all-out to promote the building of a system of economic law. In accordance with the fundamental policy of governing the country according to law, focus on the establishment of systems, standardizing authority and responsibility, and ensuring rights and interests, and step up economic legislation. Perfect a legal system for the main elements of the marketplace and for middleman organizations, so that the main elements of every type in the marketplace possess the full ability to act and take responsibility. Perfect a system of laws on property rights, standardize and straighten out property rights relationships, and protect property rights and interests of all types. Perfect a system of laws for marketplace transactions, ensure the freedom to contract and the safety of transactions, and protect fair competition. Perfect a system of laws and regulations on budgeting, taxation, financing and investment, and standardize economic regulation and supervision of the marketplace. Perfect the systems of laws and regulations for labour, employment and social support, and truly protect the legal rights and interests of workers and the public. Perfect a system of laws and regulations for aspects of the social realm and sustainable development, and promote all-round economic and social advancement.

39. Strengthen law enforcement and supervision. Step up efforts to explain laws and regulations, put more effort into law enforcement, improve the ability and level of administrative law enforcement, judicial action and inspections, ensure the effective implementation of laws and regulations, and protect the integrity and prestige of the legal system. In accordance with the requirement for a link between power and responsibility and the separation between power and interests, establish a law enforcement system with clear authority and responsibilities, standardized actions, effective supervision and powerful support. Prevent and rectify local protectionism and selfish departmentalism. Reform the administrative law enforcement system, have relatively centralized authority for administrative penalties, and promote pilot projects for comprehensive law enforcement. Promote reform of the judicial system, and ensure fairness in the judicial system. Implement a responsibility system for law enforcement and a system to pursue responsibility for law enforcement mistakes. Make it the case that the law is enforced strictly, fairly and in a civilized manner.

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L. Strengthen and improve the party's leadership, struggle to improve the socialist market economic system

40. The party's leadership is a fundamental guarantor of the smooth promotion of reform. Establishing a perfected socialist market economic system is a policy decision of great practical importance and far-reaching historical significance which our party has made in the new century and the new phase. It is also a new, major test for the whole party. All of the party's comrades must have a full understanding of the historic responsibility which they bear, continually learn new knowledge, research new situations, resolve new problems, and continue to probe for ways and means to achieve organic unity between the socialist system and the market economy. Comrades must conscientiously adapt to the new situation of the development of a socialist market economy, reform and perfect the party's leadership methods and the way it governs, uphold the planning of the overall situation, grasping the direction and managing major matters, further improve the ability to make scientific judgments about situations, the ability to drive the market economy, the ability to cope with complex situations, the ability to govern in accordance with the law, and the ability to assume responsibility for the entire situation. Uphold the principle of the party's management of talented people, develop and foster a large number of talented people of all sorts who can adapt to the demands of modernization, strengthen the build-up of leadership teams at all levels and of grassroots-level party organizations, and thereby provide a strong and effective organization guarantee for reform and development. It is essential to focus on the basic national conditions in our country, uphold the practice of starting out with an understanding of the actual situation, suit methods to local conditions, combine the degree of effort in reform and the speed of development with what society can withstand, promptly alleviate contradictions of all sorts, and ensure social stability and orderly work. There must be overall planning to promote each item of reform. Work hard to achieve coordination between macroeconomic reform and microeconomic reform, coordination between reform in the economic sphere and reform in the social sphere, coordination between urban and rural reform, and coordination between reform of the economic system and reform of the political system.

41. Strengthen and advance the build-up of a party working style and a clean government. Strengthening the build-up of a party working style and a clean government, and opposing and preventing corruption, are important guarantees in the build-up and perfecting of the socialist market economic system. It is essential that this effort runs through the entire process of reform, opening up and modernization. It is necessary to have a better grasp of the honesty and self-control among those who work for party and government organizations, and especially among leading cadres. Resolutely investigate and deal with all sorts of violations of discipline and laws, and truly rectify unhealthy tendencies which harm the interests of the masses. Uphold the idea of treating both principal and secondary aspects of problems and of comprehensive control [*zhili*]. Stress ideological and moral education, strengthen the build-up of a legal system of clean government, perfect mechanisms for supervisory constraints, and establish a sound system to prevent and punish corruption, a system which corresponds to the socialist market economic system and which emphasizes education, procedures and supervision. Uphold the idea of building a party that serves the interests of the public and governs for the people. Continue to maintain without fail a working style which is modest and sincere, not arrogant or rash. Continue to maintain without fail a working style of arduous struggle. Resolutely resist corruption by unhealthy influences of all sorts. In this way, create an excellent social atmosphere in which to perfect a socialist market economic system.

42. Uphold the coordinated development of socialist material civilization, political

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civilization, and spiritual civilization. Socialism with Chinese characteristics is a grand undertaking with the coordinated development of the socialist market economy, socialist democratic politics and a socialist advanced civilization. It is necessary to have an active and steady promotion of reform of the political system, expand socialist democracy, establish a sound socialist legal system, consolidate and strengthen the patriotic united front and strengthen ideological and political work, so as to provide a strong and effective political guarantee for the development of the socialist market economy. Put great effort into strengthening the build-up of socialist civilization. Exert efforts in the establishment of a system of socialist ideology and morality which corresponds to the socialist market economy, which is coordinated with socialist laws and regulations, and which carries forward the traditional virtues of the Chinese people. Carry forward and develop the spirit of nationalism, and continually improve the ideological and moral quality and the scientific and cultural quality of all of the people, so as to provide a strong spiritual motivation and intellectual support for reform and development.

All of the party's comrades and all of the people of every nationality of this country, guided by Marxism-Leninism, Mao Zedong Thought, and Deng Xiaoping Theory, and the important thinking of the "Three Represents," are implementing in full the spirit of the 16th Party Congress, uniting closely around the Party Central Committee with Comrade Hu Jintao as its general secretary, developing and advancing, doing solid work, and working hard and struggling towards the grand objective of constructing a perfected socialist market economic system and achieving the all-out building of a well-off society!

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