Quarterly chronicle and documentation

(January–March 2007)

Sources

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

Abbreviations

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

1. Internal developments

a *The 26th Session of the Tenth National People's Congress (NPC) Standing Committee*
b *The Fifth Session of the Tenth NPC*
c *Party and Political Affairs*
d *Statistical Communiqué on National Economic and Social Development during 2006*
e *Social and Legal Affairs*
f *Economic Affairs*
g *Education*
h *Military Affairs*
i *Obituary*
j *Hong Kong Special Administrative Region (HKSAR)*

2. Foreign Relations

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

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1. Internal Developments

a *The 26th Session of the Tenth NPC Standing Committee (NPCSC)*

The Standing Committee of the Tenth NPC began its 26th meeting in Beijing on 26 February. It examined various legislative documents, including the draft version of an employment promotion law, and the draft work report of the NPC Standing Committee (to be submitted to the parent NPC at its full meeting in March).

By way of introducing the new employment legislation, Tian Chengping (Minister of Labour and Social Security) stressed the role of employment as the foundation of people's livelihood and of the stability of the state (XHNA, 26 Feb.). He noted that at the end of 2005, China's employed work force totalled 760 million people, of whom 270 million worked in urban areas (over 100 million more than in 1990). The rate of registered urban unemployment was below 4.3 per cent. Tian also revealed that during the Tenth Five-Year Plan period (2001–05), there had been 42 million new job openings, while "jobs were created for 40 million surplus labour force in rural areas."

Despite such achievements, China's employment challenge remained "quite daunting" for five main reasons:

- the existence of a "sharp contradiction" between aggregate labour supply and demand;
- the existence of a "pronounced contradiction" in terms of the structure of the labour force;
- the absence of "standardization of talented people and the labour force market;"
- "backwardness" in educational and training work;
- difficulties for laid-off employees in finding new jobs.

Tian also highlighted the importance of establishing clear legal regulations to address infringements of labourers' legitimate employment rights and interests.

Such was the background – one which Tian acknowledged was not "optimistic" – against which at least 13 million new jobs needed to be created in the urban sector each year in order to provide employment for laid-off workers, university graduates, demobilized servicemen, and migrant workers.

The proposed new employment legislation sought to provide equal employment opportunities throughout the urban and rural sectors for all members of China's labour force. Accordingly, it explicitly prohibited discrimination against job seekers on grounds of ethnicity, race, gender, religious belief, age or physical disability. It also called on governments above the county level to "establish an early warning system to prevent, regulate and control possible cases of large-scale unemployment" and enjoined government-operated employment service agencies to provide free services to members of the labour force.

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Because of deficiencies affecting "professional training" for the labour force, the draft law contained special provisions for improvements in such training, whereby governments above the county level would be required to support vocational schools, other professional training organizations and employers in order to enhance pre-employment, on-the-job and re-employment training.

The 26th meeting of the 10th NPCSC closed on 28 February (see XHNA, 28 Feb. for the speech by Wu Bangguo, NPCSC Chairman).

b *The Fifth Session of the Tenth NPC*

The opening session of the Fifth Session of the Tenth NPC, chaired by Wu Bangguo (Chairman of the NPC Standing Committee), took place on 5 March. A *People's Daily* editorial (*RMRB*, 4 March) described the session as "a major event in China's political life … of great significance to mobilizing the whole party and the entire nation to successfully complete this year's work in all aspects of reform, development and stability, and to speed up the building of a socialist harmonious society." It drew particular attention to two legislative initiatives, to be debated at the NPC Session: the draft Property Right Law and the draft Corporate Income Law ("[t]he formulation of these two laws is not only an important task in giving shape to a socialist legal system with Chinese characteristics, but is all the more a natural requirement of China's economic and social development").

As in previous years, the first day was dominated by the 'Report on the Work of the Government,' delivered by the Chinese Prime Minister Wen Jiabao (full text taken from live broadcast by Chinese Central Television, TV-1, 5 Mar.).

Review of government work

Wen claimed that "major achievements" had been made in 2006 – the first year of China's 11th Five-Year Development Programme. These included the attainment of rapid growth (GDP up by 10.7 per cent), accompanied by modest inflation (consumer price index [CPI] up by 1.5 per cent) and improvements in economic efficiency. Central to this success was the continued implementation of "reform and opening up." Noteworthy aspects of China's development progress during 2005 were the following:

- *Better macroeconomic regulation:* effective measures were implemented in order to address "glaring problems" of excessive growth of investment, excessive monetary and credit expansion and a burgeoning foreign trade surplus. Other measures sought to introduce tighter control of land and through the regulation of construction activity (including punishment of those involved in illegal land seizures). Supervision of real estate was strengthened, not least in order to rationalize the supply of housing. As a result of these and other policies, the rate of growth of fixed asset investment, as well as of credit and loan expansion, were reduced, thereby preventing economic over-heating.

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- *Intensified efforts to address the "three rural issues"* [*san nong*, the problems faced by agriculture, peasants and the rural areas]: central government investment in the rural sector rose by 14.2 per cent in 2006. In addition, the government abolished the 2,600-year-old agricultural tax, as well as taxes on special farm products, whilst also extending direct subsidies to grain farmers, implementing a minimum purchase price policy for key grains in major producing areas and increasing transfer payments to "financially strapped counties and villages" in these same regions. There were improvements too in rural infrastructure and other services (including the provision of safe drinking water for an additional 29 million rural residents).
- *Further rationalization of the economic structure*: structural adjustments took place in 11 major industries (including steel, coal and cement), as a result of which investment was brought under tighter control and growth reduced in some industries with surplus production capacity. The government sought to introduce new policies as part of its efforts to prioritize energy conservation and environmental protection work. Further attention was also given to rationalizing the *regional* structure of economic development. Finally, measures were taken to maintain the momentum of technological upgrading throughout the economy.
- *Implementation of reform initiatives*: the momentum of economic reform was maintained, including the formulation of "full plans for comprehensive rural reform." Other areas in which new initiatives were taken included the power sector, the postal system, banking and other financial institutions, fiscal policy and foreign trade.
- *Accelerated development of "social undertakings:"* Wen Jiabao drew attention to significant increases in central government investment in science and technology (up by 29.2 per cent over 2005), education (up 39.4 per cent), health care (up 65.4 per cent) and "cultural" undertakings (up 23.9 per cent). As the figures suggest, education and health care were a particular priority, with attention focusing especially on the rural sector. Thus, the report noted that 317 out of 420 targeted rural counties had now fulfilled the goals of introducing a nine-year compulsory educational system and eliminating illiteracy among young and middle-aged adults. It also highlighted the extension of a new form of co-operative medical care to more than 400 million rural residents. Meanwhile, continued progress was made in scientific and technological innovation, including significant improvements in extending China's capacity for independent innovation.
- *Improvements in employment and social security*: in 2006 the central government allocated 23.4 billion yuan to support employment and re-employment work. In addition to job creation, the government intensified its efforts to improve vocational and technical training, as well as offering increased support to "zero-employment households" and others who were experiencing difficulties in finding jobs. The goal of reimbursing unpaid wages to rural migrant workers in the construction industry was basically fulfilled – some 33 billion yuan in overdue wages being paid out. Social security provision was also extended through a variety of initiatives (including an extension of a pilot project to establish "individual basic old-age insurance accounts" for enterprise employees, increases in pension benefits for retirees

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and the introduction in over 2,000 counties, cities and districts of basic cost-of-living benefits for rural residents).

- *Strengthening of democracy and the legal system*: in addition to adopting important new legislation, the government report claimed that steady progress had been made in addressing sources of civil discontent, combating corruption and enhancing the quality of governance. Thus,

> We have improved our work in dealing with petitions and complaints. We have continually upgraded the systems to prevent crime and maintain social order, and extensively launched peace-enhancing activities. We have attained remarkable accomplishments in intensively rectifying social order in unruly areas and in resolving outstanding social order-related problems. We have further advanced our campaigns to build an honest government and to fight corruption …''

Outstanding problems

Alongside the considerable progress reportedly made in 2006, Wen acknowledged that China still faced many ''contradictions and problems.'' A number of these problems are noted below:

- *Irrationality of China's economic structure*: ''contradictions'' were apparent in terms of imbalances between industries (i.e. primary, secondary and tertiary activities), sectors (urban and rural areas) and regions. The relationship between investment and consumption was too heavily skewed in favour of the former. China's increasing trade surplus and imbalances in international payments were the source of increasing problems. The Chinese Premier drew special attention to the weak foundations of agriculture and, in particular, to the continued difficulties China faced in generating sustained increases in grain output and improvements in farmers' incomes.
- *Reliance on an extensive mode of economic growth*: high levels of energy consumption and the serious impact of environmental degradation (above all, pollution) offered the clearest evidence of problems in this area. Despite some progress, reductions in energy consumption and in pollutant discharges called for at the beginning of 2006 had not been fulfilled. Such failure was largely attributable to the slow pace of industrial restructuring, the rapid growth of energy-intensive and polluting heavy industries, the continued operation of ''backward'' production facilities, and the failure to observe energy conservation norms. Wen was at pains to stress the importance of fulfilling energy and environmental goals (''[t]he targets cannot be changed, and we must resolutely work to materialize them'') and he announced that the State Council would henceforth be required to report annually to the NPC on progress made in these areas.
- *The persistence of ''prominent issues affecting the interests of the masses:''* these included problems associated with poor food and medicine safety, inadequacies of health care, excessive education costs, widening inequalities of income distribution (''[m]any low-income masses are having a relatively difficult life''), public security deficiencies, and poor production safety.

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Wen concluded this section of his report by acknowledging that some looked-for adjustments to government functions had been delayed to the detriment of achieving the separation of government administration from enterprise management. He admitted too that the standard of public service left much to be desired (''... there still exist the problems of bureaucracy, formalism, deviation from the masses, dereliction of duty, malfeasance, and even the abuse of power and corruption'').

Major tasks for 2007

Wen pointed out that 2007 was the final year of the current term of the government. He listed the main macroeconomic targets for the year as follows: GDP growth of ''around 8 per cent'' (this ''anticipatory and guiding objective'' to be achieved through ''optimizing structures, raising efficiency, lowering resource consumption, and protecting the environment''); CPI to rise by no more than 3 per cent; urban unemployment to be increased by at least 9 million; and the rate of registered urban unemployment to be kept at or below 4.6 per cent.

Among the priority tasks for 2007 were the following:

- *To adhere to ''stabilizing'' policies*: efforts would again be made to pursue sound and stable fiscal and monetary policies. Fulfilling this goal would require the implementation of effective measures to address ''glaring contradictions and problems.'' It was significant that Wen suggested that this would also be more readily achieved through enhancement of the ''executive power'' of the central government.
- *To strengthen macroeconomic regulation and control*: the need to control the scale of fixed investment and credit was a continuing imperative. More effective regulation implied a readiness to encourage growth in some industries and sectors, whilst discouraging it in others. It should also be premised on the use of ''economic levers and legal means,'' as well as on defining a more harmonious relationship between central and local governments.
- *To improve the quality and efficiency of economic growth*: fulfillment of these goals required that even greater efforts be directed towards improving energy conservation, environmental protection and land use. Other key objectives were to improve product quality and to enhance China's economic competitiveness and sustainable development capability.
- *To prioritize social development*: the 2007 government work report stressed the importance of ''people-centered practice'' as the basis on which to realize more rapid and effective social development (''[w]e must safeguard social justice and fairness to let all the people enjoy the fruits of reform and development'').
- *To follow a ''prudent'' fiscal policy* (including improving financial management by increasing revenue and reducing spending).
- *To maintain a ''stable'' monetary policy* (including reform of the ''marketization'' of interest rates).

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- *To strengthen foreign exchange management* (including improving the "formation mechanism of the renminbi exchange rate" and making rational use of foreign exchange reserves).
- *To readjust the relationship between consumption and investment*: efforts would be made to enhance the role of consumption (this, in turn, to be facilitated by adopting measures to increase incomes, especially among low and medium-income earners).

The work report focused on a number of key areas of economic and social development, which were designated as being of special concern in 2007. Six of these are highlighted below:

Real estate

Given the pressure of a huge population on scarce land resources, Wen recognized the importance of formulating plans to generate a "housing construction and consumption model with Chinese characteristics." Implicit in this was the need to fulfil two goals: the first, to provide "reasonably priced commercial housing for ordinary people" (especially those with low incomes); the second, to make available buildings that were "environmentally friendly" and that conserved energy and land. In order to help meet these objectives, the government would prioritize low-rent housing, as well as offering tax support. In general, real estate development would be guided by policies that made use of government regulation and market mechanisms.

The rural economy

Agricultural modernization, based on the development and application of advanced technology and equipment, would be the focus of government efforts in the countryside during 2007. The grain sector would be a particular priority, with efforts made to stabilize the grain sown areas, increase per hectare yields and rationalize the structure of grain production. Agricultural investment would be increased and various forms of financial support would continue to be extended to farmers (especially grain farmers).

Energy conservation and environmental protection

In seeking to save energy and improve environmental conditions, government efforts would be concentrated in the following areas:

- improving energy consumption and environmental protection standards (new projects to be approved only if they met energy consumption and environmental norms; existing enterprises that failed to meet such norms to be closed down);
- closing "backward" production facilities (the focus of such efforts in 2007 being to close down iron and steel mills with production capacities of 30 and 35 million tons, respectively, and power plants with production capacities of 10 million kiloW);

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- focusing on energy conservation and the reduction of pollutants in "key" industries and enterprises, such as steel, nonferrous metals, coal, chemicals, building materials, construction and other enterprises using over 10,000 tons of coal annually;
- improving energy conservation and environmental protection policies (e.g., through the use of pricing, public finance and tax measures;
- accelerating technological advances in energy-saving and environmental protection;
- intensifying pollution management and environmental protection;
- intensifying law enforcement, supervision, and management;
- implementing an "objective responsibility system" ("[t]he government will … establish and improve the scientific, complete, and uniform target index system, monitoring system, and appraising system for energy-saving and reduction in gas exhaustion").

Land use

In order to ensure that China's farm area did not fall below 120 million hectares, strict land management policies would continue to be implemented. This implied the implementation of stringent, legally-enforced controls on construction activities to ensure that the development of farmland – in particular, "development of villas for housing development, golf courses, and building of new training centres by party and government organizations and state-owned enterprises" – did not take place without official approval.

Innovation and technological upgrading

The report acknowledged the low technological levels that characterized industrial operations in China. Hence, the importance of enhancing China's capacity for independent innovation in accordance with the precepts of China's "National Medium- and Long-Term Scientific and Technological Development Programme."

Regional development

China should seek to promote a more rational and co-ordinated geographical pattern and structure of development that maximized the resource and economic strengths of eastern, central and western regions. In the west, efforts should be concentrated on strengthening infrastructural construction and developing the "ecological environment" (e.g., through the continued restoration of reclaimed land to forest and pasture). The focus of efforts in the northeast should be the reinvigoration of the old-established industrial bases through economic restructuring. In central China, the major thrust should be on building up the production and processing capacities of grain, strengthening the construction of energy and raw material bases, developing transport networks, and enhancing the development of "advanced manufacturing industries and new high-tech industries." Finally, eastern regions should focus their efforts on "optimizing

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and upgrading the industrial structure, strengthening independent innovation capabilities and international competitiveness, and taking the lead in reform and opening up and scientific development'' (especially in Shanghai's Pudong and Tianjin's Binhai ''New Areas'').

Constructing a ''Socialist Harmonious Society''

Wen Jiabao stressed the importance of the government's core strategy of the ''harmonious construction of society, with the people living in peace and enjoying their work.'' To this end, he reaffirmed the government's commitment to its educational and health policies.

Thus, he announced that 2007 would see the abolition of all ''tuition fees and miscellaneous fees'' for those involved in the nine-year system of compulsory education in rural areas. The families of some 150 million primary and middle school students were expected to benefit from this initiative. Meanwhile, the government would continue to provide free textbooks to students from poor rural households, and to subsidize their school accommodation and living costs. An increase of 21 per cent in budgetary spending on rural compulsory education would also be forthcoming in 2007.

The report also drew attention to the importance of *vocational* education as a means of meeting social needs. In particular, it stressed the potential major contribution of secondary vocational education and noted that a vocational and training network embracing both the urban and rural sectors would be set up. On health, Wen highlighted four major tasks to be carried out in 2007:

- promotion of the ''new-type of rural co-operative medical care system'' (this was already under way on a trial basis and would be extended to embrace rural residents in more than 80 per cent of all counties, county-level cities and city districts). The government's goal was to put in place a ''three-tier'' rural health service network – the three tiers were county, township, and village – and set up a ''health centre'' in every town and township in the country;
- accelerated development of a ''new-type of community-based *urban* health service system'' [emphasis added];
- inauguration, on an experimental basis, of a basic medical insurance system for urban residents (described as one that would ''mainly cover major illnesses with the government providing necessary subsidy for masses in straitened circumstances'');
- intensification of efforts to prevent and treat four major infectious diseases (including hepatitis A, epidemic cerebrospinal meningitis, AIDS and schistosomiasis).

The Chinese Premier reaffirmed the government's determination to address problems associated with unemployment, especially among those who had lost their jobs through retrenchment and corporate bankruptcy and who were from zero employment families. Career guidance would be offered to high school graduates and retired servicemen. Noteworthy too were Wen's comments on the

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need for "harmonious" labour relations and the protection of the legal rights and benefits of members of the Chinese work force.

In his remarks on the importance of extending social security provision, Wen Jiabao not only called for improvements in basic health, unemployment, workplace injury and childbearing insurance for registered urban employees, but also highlighted the need to establish appropriate social security arrangements for migrant workers – in particular, arrangements that would enhance "workplace injury insurance and major diseases medical insurance" for them.

The work report was at pains to stress that government staff should fulfil their duties strictly in accordance with the law and the Constitution. Thus,

> They must consciously accept the supervision of the National People's Congress and its Standing Committee, accept the democratic supervision of the Chinese People's Political Consultative Conference, and earnestly listen to the opinions of the democratic parties, industry and commerce unions, personages without party affiliation, and all civic organizations. They must accept the supervision of the news media and the general public, and support the supervision and audit departments independently carrying out their supervisory duties in accordance with the law, thereby strengthening the checks and supervision over the exercise of power, and ensuring that the power invested by the people is used in the public interest.

Deepening Reform and Expanding Opening Up

The work report highlighted priorities for reform during 2007. These included the following:

- enterprise adjustments in order to help concentrate state-owned capital in "important industries and key areas involving national security and national economic lifelines;"
- reform of major state-owned enterprises (SOEs) in order to enhance their status as corporate legal entities;
- improvements in the supervision and management of state assets;
- continued restructuring of SOEs in order to address the legacy of problems inherited from their past ("[w]e should continue to close up and declare bankruptcy [sic] the enterprises that have been losing money for a long time and whose debts are greater than their assets, and coal mines with depleted energy resources. … We should … separate an enterprise with primary and secondary operations, to restructure its secondary operations, and to split enterprises conducting other social functions into separate entities");
- reform of monopolistic industries in order to enhance competitiveness and extend market access;
- encouragement, support and guidance for the development of the non-public economic sector (including individual private enterprises);
- reform of the fiscal and financial systems (an important legislative initiative would be the submission to the NPC of the draft PRC Law on Enterprise Income Tax).

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Government work

Wen Jiabao stated that the key to the government's effective fulfilment of its role lay in adhering to the three key norms of "practising the scientific and democratic decision-making process, promoting administration according to the law, and enhancing administrative supervision." He added that in seeking to further improve government work, the starting-point should be the overall aim of serving the people ("we must insist on the people-first principle, on administration for the sake of people, and make the excellent realization, maintenance, and development of the fundamental interests of the broad mass of the people as the starting point and goal of our endeavours").

Wen was also explicit in setting out the aims of government reform – namely to build a government that is standard in its behaviour, that is fair and transparent, that is hardworking, that is highly efficient, and that is clean. And we want to build a government to the masses' satisfaction.

National defence

At the heart of China's defence plans was the need to effect a transformation "from military training under mechanized conditions to military training under informatized conditions" in order to enhance the defence and combat capabilities of its troops to meet contemporary military challenges. Wen also highlighted the importance of strengthening the capabilities of the people's armed police in order to increase its effectiveness in dealing with terrorism and threats to social order.

Hong Kong, Macau and Taiwan

The government work report once more endorsed the principle of "one country, two systems" as a means of facilitating the administration of Hong Kong and Macau by their own peoples on the basis of a significant degree of autonomy. Accordingly, the Chinese government in Beijing would continue to lend its support to the chief executives and governments of the Hong Kong and Macau Special Administrative Regions. It was China's wish to deepen exchanges and co-operation with both SARs over a wide range of activities, including the economy, trade, science and technology, health, education and culture, and sports.

Wen also reaffirmed his government's determination to pursue policies that would eventually make possible the peaceful reunification of China and Taiwan. He was at pains to reiterate the government's opposition to any permanent separation of the two countries ("[w]e will unite with the vast numbers of Taiwan compatriots to resolutely oppose all forms of separatist activities, such as de jure Taiwan independence").

On 16 March, Wen's government work report was approved by 2,862 out of 2,889 NPC deputies who attended the closing meeting of the NPC session. It was noted that 33 modifications, "including 12 major ones," had been made to the original draft version (XHNA, 16 Mar.).

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National Development and Reform Commission (NDRC) Report on Social and Economic Development in 2006 and 2007

On 6 March, Ma Kai (NDRC Minister) delivered his report on China's 2006 (realized) and 2007 (planned) economic and social development (see XHNA, 6 Mar.). His overview of China's performance in 2006 echoed the findings of the National Bureau of Statistic's Communiqué on China's economic and social development (see (d) below). His remarks highlighted progress in six main areas:

- The achievement of "relatively fast growth, relatively good economic returns, and relatively low prices."
- Solid progress towards the building of a "new socialist countryside," facilitated by the implementation of pro-agriculture fiscal and investment policies.
- Further progress in economic restructuring, captured in the expansion of hi-tech industry, advances in manufacturing industry and rationalization of sectors with surplus production capacity.
- Intensification of efforts to extend social security provision and raise incomes.
- Intensification of efforts to improve energy conservation and enhance environmental protection.
- The launching of new initiatives in reform and opening up.

Ma Kai outlined the major economic targets that had been set for 2007 (see Table 1).

Ma set out eight priority developmental tasks for 2007:

- *To strengthen macroeconomic regulation and control policies in support of "steady" economic growth*. Fulfilment of this macro goal was premised on pursuing prudent monetary and fiscal policies, including cutting the central government budget deficit by 25 per cent and maintaining tight control over fixed investment. Investment priorities for 2007 included the rural economy, basic education, public health and development of China's western regions. More attention would be given to increasing consumer demand, mainly

Table 1: **Economic Targets for 2007**

GDP	c. 8%
Energy consumption per unit of GDP	− 4.0%
Central fiscal deficit	245 billion yuan
R&D expenditure	1.56% of GDP
Money supply:	
Narrow money (M1)	+ 16.0%
Broad money (M2)	+ 14.0%
Consumer price index	< 3.0%
New urban job creation	9,000,000
Urban unemployment rate	⩽ 4.6%
Per urban disposable income	+ 6.0%
Per capita rural income	+ 6.0%
Retail sales of consumer goods	+ 12.0%
Rate of natural increase of total population	7.5‰

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through "enhancing the income level and consumption capacity of peasants and low-income urban dwellers." Ma cited energy conservation, environmental protection and "self-determined innovation" as other important foci of attention.

- *To prioritize rural economic development in the context of establishing a "new socialist countryside."* Contained within this overarching objective were important subsidiary goals, such as the development of the grain sector (including the establishment of large-scale commodity grain bases), agricultural modernization, more effective support for those living in the countryside (e.g., through the provision of better education and health care), and higher investment in rural infrastructural services.
- *To intensify efforts in support of energy conservation and emission reduction, and to strengthen environmental protection and "intensive land use."* Ma's remarks recognized the heavy burden associated with fulfilling the 10FYP goals of reducing energy consumption per unit of GDP by 20 per cent and cutting pollutant emissions by 10 per cent by 2010.
- *To strengthen China's "self-determined innovation capability" and to rationalize its industrial structure*. Central to fulfilling these goals was the need to formulate appropriate institutional and other policies that would facilitate scientific and technological research and application. Ma's report also stressed the importance of maximizing the use of advanced information and other technologies in order to "revamp traditional industries" (e.g., iron and steel, building materials, coal, electric power, oil and petrochemicals, and construction industries).
- *To pursue balanced and co-ordinated regional development.*
- *To deepen reform and "enhance the quality and level" of opening up the Chinese economy to the outside world*. Reform priorities included the rural sector, the ownership structure of enterprises, and the fiscal, financial and investment systems. Ma also drew attention to the importance of improving the effectiveness with which foreign capital inflows were used.
- *To accelerate the development of education and public health*. A sub-text here was the need to shift the emphasis of educational policies towards poor rural areas, especially in central and western regions and among ethnic minorities.
- *To "resolve conspicuous problems involving the masses' vital interests, and spur the building of harmonious society."*

Implementation of Central and Local Budgets for 2006

Jin Renqing presented the Ministry of Finance's budgetary report on 6 March (full text in XHNA, 18 Mar.). Table 2 shows the *preliminary* estimates of budgetary revenues and expenditures during 2007 provided by Jin.

The report highlighted salient features of the 2006 central budget, including the following:

- Thanks to tighter control of revenue collection and management, financial revenues grew fairly quickly in 2006.
- Implementation of financial and tax measures facilitated rapid GDP growth.

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

	National Consolidated Budget
Total revenue*	**3,873.1**
change over 2005 (actual)	+ 708.1 (+ 22.4%)
change over 2005 (plan)	+ 330.7 (+ 9.3%)
Total expenditure	**4,021.3**
change over 2005 (actual)	+ 628.3 (+ 18.5%)
change over 2005 (plan)	(+ 4.8%)
National budget deficit	− **148.2**
	Central Budget
Total revenue	**2,123.2**
change over 2005 (actual)	+ 397.2 (+ 23.0%)
change over 2005 (plan)	+ 196.0 (+ 10.2%)
Total expenditure	**2,348.2**
change over 2005 (actual)	+ 322.3 (+ 15.9%)
change over 2005 (plan)	(+ 5.7%)
Central budget deficit	− **225.0 (1.3% of GDP)**
	Local Budgets
Total revenue	**3,177.2****
change over 2005 (actual)	+ 518.7 (+ 19.5%)
change over 2005 (plan)	(+ 7.3%)
Total expenditure	**3,100.4**
change over 2005 (actual)	+ 513.8 (+ 19.9%)
change over 2005 (plan)	(+ 4.7%)
Local budget surplus	+ **76.8**

Note
* excluding revenue from generation of debt, both here and below – ditto below; also excluding export rebates (61.3 billion yuan).
** Of this sum, 1,828.1 billion yuan were collected at the local level.
*** Of this, 3,022.2 billion yuan were spent at the local level.

- Increased financial support to the rural sector helped establish a firm foundation for the strategic policy initiative designed to create a "socialist new countryside."
- Priority allocation of expenditure to employment, education and health facilitated generated accelerated social development. Especially noteworthy in this respect were increases in spending on employment and re-employment (up by 17.3 per cent in 2006), on education (up by 19.6 per cent), and on health (up by 26.5 per cent).
- Higher spending was also directed towards science and technology (expenditure on science and technology projects increased by 26.2 per cent in 2006).
- Budgetary initiatives helped address financial difficulties experienced by counties and townships and made it possible to "equalize opportunities of enjoying basic public services."

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Table 3: **National and Central Budgetary Estimates (2007 plan) (figures in billion yuan)**

	National Consolidated Budget
Total revenue*	4,406.5
change over 2006 (actual)	+ 533.4 (+ 13.8%)
Total expenditure	4,651.5
change over 2006 (actual)	+ 630.2 (+ 15.7%)
	Central Budget
Total revenue	2,442.1
change over 2006 (actual)	+ 318.9 (+ 15.0%)
Total expenditure	2,687.1
change over 2006 (actual)	+ 338.9 (+ 14.4%)
Central budget deficit	− 245.0 (1.1% of GDP [est.])

Budgetary plans for 2007

Jin Renqing made available the budgetary targets for 2006, shown in Table 3. Priority areas of planned investment to be allocated through the central treasury in 2007 are shown in Table 4.

On 13 March Xiao Yang, President of the Supreme People's Court, delivered the work report of the Supreme People's Court (SPC) (XHNA, 13 Mar.). He noted that in 2006 some 3,668 criminal cases had been handled by the Supreme Court −14.77 per cent more than in the previous year. In the same period, local courts heard and concluded 8,105,007 cases – a rise of 2.07 per cent above the level of 2005. Of these, 798,572 (9.85 per cent of the total) were criminal cases, 4,831,043 (59.61 per cent) were civil cases, and 125,976 (1.55 per cent) were administrative cases. The local courts passed sentence on 889,042 convicted criminals.

Table 4: **Central Budgetary Investment Allocations (2007 plan)**

Item	Total investment (billion yuan)	% change over 2006
"Three rural issues" [*san nong*]	391.7	+ 15.3
Education	85.854	+ 41.7
Medical and health services	31.276	+ 86.8
Social support and job creation	201.927	+ 13.9
Scientific and technological development	88.121	+ 20.1
Transfer payments to central and western regions (Transfer payments to nationality minority areas)	192.4 (21.0)	+ 26.0 (34.6)
Awards and subsidies	33.5	+ 42.6
Defence	347.232	+ 17.8
Foreign affairs (international exchanges and co-operation)	23.066	+ 37.3

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Meanwhile, courts throughout the country tried and concluded 245,254 criminal cases, involving offences such as explosions, murder, robbery, rape and kidnapping, and sentenced 340,715 criminals. They also heard 23,733 cases of embezzlement, bribery and dereliction of duty, sentencing 825 convicted government officials above the county level (nine of whom were personnel employed at provincial or ministerial level). Courts tried and concluded 31,582 cases involving the manufacture, trafficking and sale of drugs, and passed sentence on 37,256 convicted criminals. Finally, there were 17,769 cases involving violations of intellectual property rights.

The report revealed that in 2006 153,724 convicted criminals received sentences of at least five years imprisonment (up to life imprisonment and the death penalty) (see XHNA, 15 Mar., citing a former Vice-President of the Supreme People's Court to the effect that the number of death sentences passed in 2006 was at its lowest point for more than a decade). As of 1 January 2007, the power to review and ratify all cases in which the death penalty had been passed reverted to the Supreme Court (for the previous 26 years, such decisions had been taken by courts at lower levels).

Also on 13 March, Jia Chunwang (Procurator-General) delivered the annual report of the Supreme People's Procuratorate (XHNA, 13 Mar.). He noted that in 2006 Chinese procuratorial organs had approved the arrests of 891,620 suspects and had prosecuted 999,086 people. Those same organs had issued 18,446 arrest warrants to people suspected of involvement in ''mafia-like criminal cliques,'' 8,343 of whom were subsequently prosecuted. They approved the arrests of 3,729 people suspected of violating intellectual property rights (16.7 per cent more than in 2005), and prosecuted 3,634 people (up by 12.6 per cent). The corresponding figures for those involved in ''damaging the environment and resources'' were 7,974 (up 15.4 per cent) and 12,240 (up 24.8 per cent).

Jia stated that 40,041 government employees were investigated by prosecutors in 2006 for corruption, bribery and dereliction of duty (29,966 of these were brought to court). They included 2,736 government officials working above the country level, 202 at prefectural level, and six at provincial or ministerial level. Some 9,582 commercial bribery cases involving government employees were pursued, involving over 1.5 billion yuan. Jia also revealed that procuratorial organs had investigated 18,241 ''key job-related'' criminal cases, of which 623 had involved graft and bribery of 1 million yuan of more.

On 11 March, Wu Bangguo presented a report on the work of the Standing Committee of the Tenth National People's Congress (NPC). He noted that in 2006 NPCSC delegates had examined 24 draft laws or decisions on legal issues, two of which – the Law on Oversight and the draft Law on Property Rights (currently under consideration by the parent NPC) – had generated considerable controversy. Such difficulties notwithstanding, through exhaustive discussion and the incorporation of revisions and amendments, acceptable versions of both laws had eventually been forthcoming. The Enterprise Bankruptcy Law and the

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revised Law on Compulsory Education – two legislative initiatives that promised to have important implications for China's social and economic development – were also endorsed, and a third law – the draft Law on Corporate Income Tax – was submitted for endorsement by the current NPC.

Wu highlighted two important aspects of the NPCSC's work in fulfilling its "oversight" responsibilities. The first was the deliberate focus of such activities on issues that "have a bearing on the overall interests of reform, development and stability, elicit widespread concern in society, or affect social harmony." The second was the Standing Committee's recourse to work reports and investigations of compliance with the law in order to facilitate its oversight work. Of particular significance in this regard was the NPCSC's examination of compliance with the Agriculture Law, the Land Administration Law and the Law on Rural Land Contracts – three areas of legislation that had an important bearing on progress in addressing the "three rural issues" [*san nong*] and creating a "new socialist countryside." These investigations had generated useful advice for future agricultural and rural policies. Other parallel investigations undertaken by NPCSC as part of its oversight work also generated valuable ideas for incorporation into policies on the development of an independent innovation capacity, the development of China's human resources and the promotion of a "conservation-minded and environmentally friendly society."

An important part of the NPC's work was to facilitate exchanges with institutions overseas, and Wu noted that in 2006 the Standing Committee had received 90 delegations from 56 countries and had itself undertaken visits to 30 countries and regions. It also established mechanisms for regular exchanges with the Japanese Diet, as well as with parliaments and congresses in Australia, Brazil, Chile, Egypt, India, South Africa and South Korea. The NPC also participated in multilateral activities of a number of international and regional parliamentary organizations, including the Inter-Parliamentary Union, the Asian Parliament Assembly, the Asia Pacific Parliamentary Forum, the Latin American Parliament, the ASEAN Inter-Parliamentary Organization, and the Parliamentary Assembly of the Pacific Islands Forum. In 2006, NPCSC ratified 18 treaties and agreements, which China had reached with overseas countries, and approved China's accession to three international conventions.

Looking ahead to the coming year, Wu called for even greater efforts to strengthen social legislation. He highlighted 12 laws, which were expected to be adopted in 2007 (the Law on Labour Contracts, the Employment Promotion Law, the Social Security Law, the Law on Mediation and Arbitration of Labour Disputes, the Law on Administrative Decrees, the Law on Response to Emergencies, the Antitrust Law, the Law on State-Owned Assets, the Law to Combat Illegal Drugs, the Law to Curb Illegal Activities, the Law on Urban and Rural Planning, and the Circular Economy Law). He also drew attention to six laws, which would be brought before the NPCSC in revised form: the Law on Scientific and Technological Progress, the Civil Procedure Law, the Criminal

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Procedure Law, the Law on Food Hygiene, the Law on Energy Conservation and the Law on Attorneys.

Wu Bangguo was also at pain to emphasize the importance of further improving the effectiveness of the NPC's oversight work. He pointed out that 2007 was the first year in which the Oversight Law had been implemented and that intensified efforts were needed to enhance the NPC's oversight work in order to raise standards of governance and the judiciary, and safeguard people's legal rights.

On 8 March NPC delegates began their examination of two important items of legislation: the draft Property Law, which had undergone an unprecedented seven readings by the NPC Standing Committee, and the draft enterprise income tax law (XHNA, 8 Mar.).

Wang Zhaoguo (Vice-Chairman of the NPC Standing Committee) introduced the draft Property Law. He argued that its enactment was necessitated by three factors: the need to uphold and enshrine the "basic socialist economic system;" the need to "regulate the order" of that system; and the need to safeguard the interests of the Chinese people. The proposed legislation sought to fulfil these aims through its application of the principle whereby equal protection was accorded the property of the state, the collective and the individual in accordance with the provisions of the State Constitution. Wang added that the law would also serve to "strengthen the protection of state-owned property" through its explicit prohibition of illegal possession, looting, illegal sharing, withholding or destruction of such property.

Wang was at pains too to insist that the draft law fully reflected the current policies of the Party in respect to the rural sector. In particular, it stipulated that in accordance with farmers' wishes that they be given guaranteed long-term land use rights, land contracts must be renewed on expiry, if the contractors so wished (for a comment on the controversy engendered by the proposed property legislation, see Hong Kong, *Wen Wei Po* [*Wenhui bao*], 10 Mar.).

On 16 March the National People's Congress adopted the Property Law. 2,799 delegates voted in favour of the law, and 52 against. There were 37 abstentions and one person failed to cast a vote. The 247-article law was due to take effect as of 1 October 2007 (XHNA, 16 Mar.).

Jin Renqing (Minister of Finance) introduced the draft Enterprise Income Tax Law, which sought to impose a unified income tax rate – at 25 per cent – for both domestic and foreign-funded companies (XHNA, 8 and 9 Mar.). Its rationale, said Jin, was to "establish a scientific and standardized enterprise income tax system uniformly applicable to various type of enterprises and [to] create an environment for fair competition".

Jin highlighted the complexity of existing tax arrangements. On the one hand, income tax was levied on domestic and foreign-funded enterprises [FFEs] at the same rate (33 per cent). On the other hand, foreign-funded enterprises located in certain "special regions" benefited from a preferential rate of 24 or 15 per cent, while domestic *low-profit* enterprises similarly benefited from special rates of 27

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and 18 per cent. The outcome of this complex system was to generate wide disparities between nominal and effective income tax rates, giving rise to a highly differentiated tax burden among enterprises (e.g. survey data indicated that the average enterprise income tax burden on FFEs was 15 per cent, compared with 25 per cent for domestic firms). Hence the need to unify the income tax rate.

The introduction of a flat rate of 25 per cent was designed to ease the tax burden on domestic enterprises, said Jin. He pointed out that the proposed rate was quite low by international standards, including those of 18 countries neighbouring China. He added, however, that exemptions would remain in place for some industries: for example, a rate of 15 per cent would apply to hi-tech industries, and one of 20 per cent would apply to "eligible small low-profit enterprises."

As for the impact of the new law, it was estimated that following its implementation, the income tax proceeds of domestic enterprises would decline by 134 billion yuan. This fall would be partly offset by a rise of 41 billion yuan in tax proceeds accruing from FFEs. In short, the outcome would be to reduce total fiscal revenue by 93 billion yuan (a level that would be "acceptable to Government finance"). The Enterprise Income Tax Law was duly adopted by the NPC (XHNA, 16 Mar.).

The Fifth Session of the Tenth NPC closed on 16 March. The closing session, which was addressed by Wu Bangguo (text of speech in XHNA, 17 Mar), was attended by Hu Jintao.

c *Party and Political Affairs; Ideological Developments*

On 9 January Hu Jintao addressed the Seventh Plenum of the Central Discipline Inspection Commission [CDIC] and called for even greater efforts towards improving the work style of leading cadres. He spoke of considerable progress having been made in the previous year, but acknowledged that "the tasks remain arduous in improving party style, promoting clean government, and fighting corruption." Hence the need for the Party and government at all levels to maintain its struggle against corruption in the interests of achieving clean government.

Hu drew particular attention to the following four priority areas of such work:

- education and supervision in order to enhance the honesty and self-discipline of leading cadres;
- investigation and punishment of serious cases of dereliction of duty, including indiscipline and illegal behaviour;
- correction of "unhealthy practices" by cadres which threatened to undermine the interests of the masses;
- introduction of more effective rules and procedures in order to facilitate anti-corruption efforts.

Hu Jintao was at pains to highlight the "strategic" significance of improving leading cadres' work style in order to facilitate the implementation of "scientific

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development'' and the creation of a ''socialist harmonious society.'' Central to the fulfilment of these goals were the need to strengthen the integration of Marxist theory with practice, to focus on meeting the needs of the people, to work hard and honestly in a pragmatic fashion, to follow Party guidelines, to develop ''democracy'' whilst upholding the tenets of democratic centralism, and to maintain ''personal integrity and morality'' (XHNA, 9 Jan.).

Subsequently, CCDI issued a circular, demanding the careful study of the principles and guidelines contained in Hu Jintao's speech (XHNA, 11 Jan.). It described Hu's remarks as the embodiment of ''Deng Xiaoping Theory and the important thinking of the 'three represents','' and urged their implementation as an important means of fulfilling the goal of creating a ''harmonious socialist society,'' as well as ''further improving the party's governing capability and maintaining and developing the party's advanced nature, and … ensuring a good job in the work of fighting corruption and advocating honesty in office under the new situation.''

In February Gan Yisheng (Vice-Secretary of CCDI) revealed that the anti-corruption campaign of 2006 had resulted in the punishment of 97,260 CCP members. More than 3,500 of these (including seven officials at or above governor or ministerial level) had been passed to prosecuting officials for further legal action. 80 per cent of those punished had been found guilty of ''disturbing public affairs administration, taking bribes, violating the Party's financial and economic rules, and dereliction of duty.'' Some 1,269 Party officials had been involved in taking bribes, securities and payment certificates worth almost 55 million yuan, and a further 5,754 cadres had been engaged in gambling (45 of them in foreign casinos). Gan also reported that 21,120 people had been expelled from membership of the CCP in 2006 – most of them because of their involvement in corruption scandals; 8,777 other CCP members were put on probation (XHNA, 13 and 14 Feb.).

In Hong Kong, *Ta Kung Pao* [*Dagong bao*] cited an unnamed source to the effect that local CCP committees at all levels were in the process of putting into place a ''joint conference system,'' intended to enhance cadre supervision. The new system, which was said to be already operating in many cities and counties throughout China, provided convening of meetings on a regular basis, as well as ad hoc in response to ''major incidents.'' Various departments were represented at these meetings, including those involved in discipline inspection, supervision, organization, personnel, audit, receipt of public complaints, public security, and procuratorial affairs. By such means, it was hoped that the new framework would offer ''end-to-end supervision'' (*Ta Kung Pao*, 19 Jan.).

Xinhua reported that as of December 2006, 14 out of China's 31 provinces, autonomous regions and municipalities had reshuffled local party committees, following internal elections – held every five years – to party official posts. The 14 provinces in which elections had been completed were: Tibet, Xinjiang, Inner Mongolia, Liaoning, Henan, Anhui, Shanxi, Jiangsu, Hunan, Hebei, Yunnan, Guangxi, Fujian and Jiangxi. The Chinese news agency quoted an official of the

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CCP Central Committee's Organization department to the effect that as part of the reorganization and in an attempt to improve efficiency, the number of deputy party secretaries in local party committees had been cut from 71 to 33 (positions in the standing committees of local party committees were also slightly reduced). Against this trend, however, the number of posts in CCP discipline inspection commissions had been increased by a quarter (XHNA, 15 Jan.).

It was reported that at the end of 2006 membership of the Communist Youth League of China (CYLC) stood at 72 million (49 per cent of these being students). Between 2000 and 2005, annual recruitment to CYLC was in excess of 800,000, making it the "main political participation channel" for young people (XHNA, 11 Jan.).

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

[**Note:** The figures showing percentage changes in production over 2005 are taken verbatim from the National Bureau of Statistics [NBS] communiqué. They do not always coincide with the estimates that would be obtained from a comparison of the 2006 estimates with those for 2005 given in "Quarterly Chronicle" in *CQ*, No.186 (June 2006), pp. 539–48.
Data in square brackets show percentage increases in 2005 over 2004 and are included for comparative purposes.]

The latest annual statistical communiqué was issued by the National Bureau of Statistics (NBS) on 28 February 2006 (see www.stats.gov.cn/english/newsandcomingevents/t20070301_402388091.htm; also XHNA, 28 Feb.). The brief introductory remarks once more highlighted the role of the "scientific approach" in guiding China's social and economic development under the aegis of "Deng Xiaoping Theory and the important thought of 'three represents'," and referred, as in the 2006 Communiqué, to "remarkable" achievements having been made in 2006. The counterpoint to such positive developments was, however the persistence of "major problems" captured in "the extensive mode of economic growth and outstanding irrational relationships within the economic structure."

The main features of China's economic performance in 2004 are summarised below:

Overview

Preliminary estimates indicated that in 2006, GDP rose by 10.7 [10.4] per cent in terms of comparable prices to reach 20,940.7 billion yuan. All three major sectors shared in this performance, although as in previous recent years, industrial value-added growth (12.5 per cent) outstripped the growth of agricultural (5.2 per cent) and tertiary (10.3 per cent) sectors. Sectoral shares of GDP were 11.8 per cent (primary), 48.7 per cent (secondary) and 39.5 per cent (tertiary).

Agriculture

2006 saw a further expansion of the grain sown area by 1.1 million hectares to 104.27 million ha.; there was also an increase in the area under cotton (by 5.4

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Table 5: **Output of Major Farm Products, 2006**

	Total output (million tons)	% change over 2005 [2004]
All food grains	497.46	2.8 [3.1]
Oil-bearing crops	30.62	− 0.5 [0.4]
peanuts	14.61	1.8 [0.0]
rapeseed	12.70	− 2.7 [− 1.0]
Cotton	6.73	17.8 [− 9.8]
Sugar crops	109.87	16.2 [− 0.2]
sugarcane	99.25	14.6 [− 2.5]
sugar beet	10.62	34.8 [− 6.1]
Cured tobacco	2.47	1.3 [11.5]
Tea	1.02	9.0 [9.8]
Fruits	170.50	5.8 [4.8]
Vegetables	582.33	3.2 [2.2]

million ha.), vegetables (by 0.46 million ha.) and sugar crops (by 0.22 million ha.). However, the sown area under oil-bearing crops contracted by 0.52 million ha. The output of major farm crops is shown in Table 5.

Total meat output rose by 4.6 [6.3] per cent to 81 million tons, of which the output of pork, beef and mutton increased by 4.3, 5.3 and 7.8 per cent, respectively. Total output of aquatic products was 52.5 million tons (2.8 [4.0] per cent above the 2005 level). Timber production increased by a remarkable 40.3 per cent to 78 million cubic metres[3].

Effective irrigation was extended to an additional 1.08 [1.02] million ha. of arable land, in addition to which an extra 1.28 [1.23] million ha. were brought under guaranteed water-saving irrigation facilities.

Industry

Industrial value-added grew by 12.5 [11.6] per cent in 2006. Further details are given in Table 6. Table 7 shows production of important industrial products.

Table 6: **Rate of Growth of Industrial Value-added, 2006**

	% change over 2005 [2004]
Industrial enterprises above designated size*	16.6 [16.4]
State-owned and state-controlled enterprises	12.6 [10.7]
Collective enterprises	11.6 [12.4]
Share-holding enterprises	17.8 [17.8]
Enterprises invested by foreigners or investors from Hong Kong, Macau and Taiwan	16.9 [16.6]
Private enterprises	24.4 [25.3]
Light industry	13.8 [15.2]
Heavy industry	17.9 [17.0]

Note

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

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Table 7: **Output of Major Industrial Products**

	Total output	% change over 2005 [2004]
Light industry		
Yarn	17.40 m. tons	20.0 [11.5]
Cloth	55,000 m. metres	13.5 [11.9]
Chemical fibers	20.26 m. tons	21.7 [13.6]
Sugar	9.49 m. tons	4.0 [− 12.6]
Cigarettes	2,021.8 b. units	4.3 [4.4]
Colour TV sets	83.75 m. units	1.1 [11.5]
Household refrigerators	35.31 m. units	18.2 [− 0.7]
Room air conditioners	68.49 m. units	1.3 [5.9]
Mobile telephones	480.14 m. units	58.2 [6.4]
Micro-computers	93.36 m. units	15.5 [35.3]
Integrated circuits	33.58 b. units	26.2 [12.9]
Programme-controlled switchboards	74.05 m. lines	− 4.1 [1.3]
Heavy industry		
Total energy production (standard coal equivalent)	2.21 b. tons	7.3 [9.5]
Coal	2.38 m. tons	8.0 [9.9]
Crude oil	184.00 m. tons	1.7 [2.8]
Electricity	283.44 kWh	13.4 [12.3]
Steel	422.66 m. tons	19.7 [24.6]
Rolled steel	473.40 m. tons	25.3 [24.1]
Non-ferrous metals	19.17 m. tons	17.2 [13.2]
Cement	1,240.00 m. tons	15.5 [10.0]
Ethylene	9.41 m. tons	24.5 [20.0]
Chemical fertilizers (100 per cent equivalent)	55.93 m. tons	8.0 [8.6]
Power-generating equipment	110.00 m. kWs	19.6 [28.9]
Motor vehicles	7.28 m. units	27.6 [12.1]
of which, cars	3.87 m. units.	39.7 [19.7]
Large and medium tractors	199,000 units	22.0 [42.7]

As the following figures show, industrial profitability continued to improve in 2006. The overall rate of increase in profits in enterprises of above-designated size was 31 per cent. Concealed in this figure were the following rises in profitability by different enterprise ownership category:

• SOEs	+ 27.0 [17.4] per cent
• collective enterprises	+ 29.5 [32.0] per cent
• share-holding enterprises	+ 32.3 [28.7] per cent
• private enterprises	+ 43.6 [47.3] per cent
• foreign (incl. Hong Kong, Macau and Taiwan) invested enterprises	+ 26.7 [25.5] per cent

The construction industry grew by 12.4 [11.9] per cent, and construction enterprises generated profits of 107.1 billion *yuan* (18.1 [13.8] per cent above the 2005 level).

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Table 8: **Fixed Investment Growth by Sector and Region**

	Value (billion yuan)	% change over 2005 [2004]
Investment in fixed assets	10,987.0	24.0 [25.7]
Of which:		
Urban fixed investment:	9,347.2	24.5 [27.2]
Rural fixed investment:	1,639.7	21.3 [18.0]

Fixed investment

In 2006 the rate of expansion of fixed asset investment once again showed a slight slowing, falling from 25.7 per cent to 24 per cent. The decline followed a trend that had been evidence since 2003, when the fixed investment rate surged from 16.9 to 27.7 per cent. Relevant disaggregated data are shown in Table 8.

Urban investment in the primary sector rose by 30.7 [27.5] per cent in 2006; the corresponding figures for urban secondary and tertiary fixed investment were 25.9 [38.4] per cent, and 23.3 [20.0] per cent. Levels and rates of fixed investment rates by region in 2006 were as follows:

- eastern regions: 5,454.6 billion yuan (up 19.3 per cent)
- eastern regions: 2,090.5 billion yuan (up 30.6 per cent)
- eastern regions: 2,191.6 billion yuan (up 36.2 per cent)

Table 9 summarizes the net impact of capital construction investment on production capacity in 2005.

Transport and telecommunications

There was continued growth in both passenger and freight transport in 2006, as the figures in Table 10 show.

The turnover of post and telecommunication services increased by 25.6 [24.6] per cent. There were 17.37 [38.68] million new fixed telephone subscribers, taking the total number of subscribers to 367.81 million (251.39 [239.77] million

Table 9: **New Increases in the Production Capacity of Selected Industries, 2006**

Newly increased power generating capacity	101.17 m. kW
Power transformer equipment with a capacity of over 220 kilovolts	0.155.31 m. kilovolt amperes
New trunk railways put into operation	1,605 km.
Double-track railways put into operation	705 km.
Electrified railways put into operation	3,960 km.
New highways	93,720 km.
of which, expressways	4,325 km.
Newly increased cargo-handling capacity of 10000-ton berths at harbours	457.26 m. tons
Newly installed capacity of telephone switchboards	30,670 m. lines
Newly installed length of optical-fibre cables	190,000 km.
Newly installed capacity of digital cellular mobile phone switchboards	128.18 m. subscribers

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Table 10: **Passenger and Freight Traffic, 2006**

	Volume	% change over 2005 [2004]
Total freight turnover	8,692.12 b. ton-km.	8.7 [12.8]
railways	2,195.40 b. ton-km.	5.9 [7.5]
roads	964.70 b. ton-km.	11.0 [9.3]
waterways	5,390.78 b. ton-km.	8.5 [16.0]
civil aviation	9.43 b. ton-km.	19.5 [9.9]
pipelines	131.82 b. ton-km.	29.5 [12.4]
Total passenger traffic	1,920.27 b. passenger-km.	9.9 [7.1]
railways	662.2 b. passenger-km.	9.2 [6.1]
roads	1,0135.9 b. passenger-km.	9.1 [6.3]
waterways	7.49 b. passenger-km.	10.5 [1.3]
civil aviation	236.99 b. passenger-km.	15.9 [14.7]
Volume of cargo handled at coastal ports	4.56 b. tons	15.6 [17.7]
(of which, cargo for foreign trade)	1.57 b. tons	16.8 [18.0]

in cities, and 116.42 [110.66] million in the countryside). There were also 67.68 [58.6] million new mobile phone subscribers, taking the total number of users to 461.08 [393.43] million at the end of 2006. Thus, the total number of telephone users reached 828.89 [743.86] million. On average, phone coverage reached 63 for every 100 members of the Chinese population.

China received 124.94 million international visitors in 2006 – 3.9 [10.3] per cent more than in 2005. Of these, 22.21 million were "foreigners" (a rise of 9.7 [19.6] per cent); and 102.73 million were "Chinese compatriots" from Hong Kong, Macau and Taiwan (up 2.7 [8.6] per cent). Foreign exchange earnings from international tourism totalled US$33.95 billion, or 15.9 [13.8] per cent above the level of 2005. Some 34.52 [31.03] million Chinese made overseas visits, of whom 28.8 [25.14] million undertook private visits (up 14.6 [55.2] per cent). Revenue from *domestic* tourism was 623 billion yuan (a rise of 17.9 [36.9] per cent).

Domestic trade

In 2006, real growth in the value of retail sales of consumer goods was 13.7 [12] per cent to reach 7,641 billion yuan (up by 14.3 [13.6] per cent in cities, and 12.6 [11.5] per cent in rural areas). More disaggregated estimates of sales growth are shown below (all figures in percentages):

Wholesale and retail industry	13.7 [12.6]
- motor vehicles	26.3 [16.6]
- oil and related products	36.2 [34.4]
- "cultural" and office goods	14.5 [11.4]
- telecommunications equipment	22.0 [19.9]
- household electrical and electronic equipment and audio-video-equipment	19.2 [14.8]

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- building and decorating materials	24.0 [22.1]
- daily necessities	15.7 [11.9]
- furniture	21.3 [13.3]
- food, beverages, tobacco and liquor	15.5 [13.6]
- clothing	19.2 [19.6]
- cosmetics	18.6 [19.1]
- gold, silver and jewellery	28.5 [13.9]
Accommodation and catering industry	16.4 [17.7]
Other industries	2.3 [0.4]

In 2006 the general consumer price index rose by 1.5 [1.8] per cent. Commodity retail prices increased by 1.0 [3.3] per cent; manufactured goods producer prices, by 3.0 [4.9] per cent; and purchase prices for raw materials, fuels and power by 6.0 [8.3] per cent. The prices of fixed investment assets rose by 1.5 [1.6] per cent; farm products producer prices, by 1.2 [1.4] per cent; and sales prices for housing in 70 large and medium cities increased by 5.5 [7.6] per cent.

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

Foreign trade and external relations

The buoyant momentum of recent foreign trade growth was again maintained in 2006, although at a lower rate of increase than in 2005. The combined value of exports and imports in 2006 rose by 23.8 [23.2] per cent to reach US$1,760.7 billion. The value of China's exports was US$969.1 billion (up by 27.2 [28.4] per cent), while imports increased by 20 [17.6] per cent to US$791.6 billion (see Table 12). Foreign-funded enterprises generated exports worth US$563.8 billion (up by 26.9 [31.2] per cent); the value of their imports rose by 22 per cent to US $472.6 billion. Overall, China enjoyed a merchandise trade surplus of US$177.5 billion, or US$75.5 billion more than in the previous year.

A geographical breakdown of China's exports is shown in Table 13.

Table 11: **Percentage Change in the Consumer Prices of Selected Goods, 2006 [2005]**

Item	National Average	Urban	Rural
General level of consumer prices	1.5 [1.8]	1.5 [1.6]	1.5 [2.2]
Food	2.3 [2.9]	2.5 [3.1]	2.1 [2.5]
of which, grain	2.7 [1.4]	2.7 [1.5]	2.9 [1.3]
Tobaccos and alcohols	0.6 [0.4]	0.8 [0.3]	0.3 [0.5]
Clothing	− 0.6 [− 1.7]	− 0.6 [− 2.0]	− 0.4 [− 0.9]
Household appliances and services	1.2 [− 0.1]	1.3 [− 0.3]	1.0 [− 0.3]
Medical, health and personal articles	1.1 [− 0.1]	0.9 [− 0.4]	1.5 [0.5]
Transport and telecommunications	− 0.1 [− 1.0]	− 0.7 [− 1.6]	1.3 [0.3]
Recreational, educational, cultural articles and services	− 0.5 [2.2]	0.0 [1.3]	− 1.4 [3.8]
Housing	4.6 [5.4]	4.7 [5.6]	4.6 [5.2]

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Table 12: **Levels of and Changes in Imports and Exports, 2006**

	Value (US$ billion)	% increase over 2005 [2004]
Total exports	969.1	27.2 [28.4]
general trade	416.3	32.1 [29.3]
processing trade	510.4	22.5 [27.0]
Exports of:		
mechanical and electronic products	549.4	28.8 [42.3]
high and new-tech products	281.5	29.0
Total imports	791.6	19.1 [17.6]
general trade	333.2	19.1 [12.7]
processing trade	321.5	17.3 [23.6]
Imports of		
mechanical and electrical products	427.7	22.1 [16.0]
high and new-tech products	247.3	25.1

Table 13: **The Direction of China's Foreign Trade, 2006**

	Exports		Imports	
	Value (US$ billion)	Increase over 2005 (%)	Value (US$ billion)	Increase over 2005 (%)
Hong Kong SAR	155.4	24.8 [23.4]	10.8	−11.8 [3.6]
Japan	91.6	9.1 [14.3]	115.7	15.2 [6.5]
South Korea	35.1	26.2 [26.2]	76.8	23.4 [23.4]
ASEAN	71.3	28.8 [29.1]	89.8	16.9 [19.1]
European Union	143.7	34.1 [34.1]	89.5	19.4 [5.0]
Russia	15.8	19.8 [45.2]	17.6	10.5 [31.0]
United States	203.5	24.9 [30.4]	59.2	21.8 [9.1]
Taiwan	20.7	25.3 [22.2]	87.1	10.5 [15.3]

Inflows of utilized foreign direct investment (FDI) fell by 4.1 [−0.5] to US$69.47 billion. The NBS Communiqué provides a detailed breakdown of FDI inflows by sectoral and industrial destinations.

At the end of 2006, China's foreign exchange reserves totalled US$1,066.3 billion – an increase of US$247.5 billion. The exchange rate appreciated by 3.35 per cent to RMB 7.8087 to US$1.

Banking and Insurance

The NBS Communiqué noted that at the end of 2006, savings deposits lodged in all kinds of financial institutions totalled some 34,806.5 [30,020.9] billion yuan (16 [18.2] per cent higher than at the end of 2005. Savings by enterprises reached 11,888.1 billion yuan – a rise of 16.8 [13.8] per cent. Savings by urban and rural residents totalled 16,661.7 billion yuan (up 13.3 [16.5] per cent).

The volume of cash in circulation (M_0) rose by 16.9 [11.9] per cent; the corresponding figures for narrow (M_1) and broad (M_2) money were 17.5 [11.8] per cent, and 16.9 [17.6] per cent.

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Welfare, living standards and employment

Per capita cash disposable income of urban residents reached 11,759 [10,493] yuan in 2006 [2005] (a real rise of 10.4 [9.6] per cent over 2005 [2004]). Rural residents' average per capita net income was 3,587 [3,255] yuan: this represented a real increase of 7.4 [6.2] per cent. Such figures implied a further widening in the urban-rural per capita income gap. The number of rural residents below the poverty line was 21.48 million – a reduction of 2.17 million compared with the previous year.

Social security provision for urban residents showed further improvements. By the end of 2006, 186.49 [174.44] million people (140.28 [130.82] million employees and 46.21 [43.62] million retirees) were enrolled in basic pension programmes. Some 111.87 [106.48] million urban residents also participated in unemployment insurance programmes, while 157.37 [137.09] million were covered by basic health insurance. Work accident insurance was provided for 102.35 million people, including 25.38 million migrant workers. 64.46 million were enrolled in maternity insurance programmes (10.38 million more than in 2005). The number of people who received unemployment insurance payments fell from 3.62 to 3.27 millions (in 2004 the corresponding figure was 4.19 million). Finally, 22.41 [22.33] million urban residents were in receipt of minimum income relief from the government, while the corresponding figure for rural residents was 15.09 million (6.84 million more than in 2005).

In 2006, the net increase in urban employment was 9.79 [8.55] million, and total urban employment was 283.10 million (37 [36] per cent of total employment throughout the economy). The official rate of registered urban unemployment was 4.1 per cent − 0.1 per cent below the 2005 level.

Population

China's total population at the end of 2006 was 1,314.48 [1,307.56] million. Of this total, urban residents numbered 577.06 [562.12] million (43.9 [43.0] per cent of the total; rural residents totalled 737.42 [745.44] million, or 56.1 [57.00 per cent of the total. Vital rates for 2006 are shown in Table 14:

The sex ratio and age structure of China's population are shown in Table 15:

Resources and Environment

2006 saw some evidence of improvements in resource use and environmental protection. However, resource waste and environmental degradation remained serious problems.

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

	Rate per thousand
Birth rate	12.09 [12.40]
Death rate	6.81 [6.51]
Rate of natural increase	5.28 [5.89]

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Table 15: **Sex Ratio and Age Structure of China's Population (2006)**

	Population at year end (million)	Percentage [2005]
National total	1,314.48	100.0
Male	677.28	51.5
Female	637.20	48.5
0–14 years	259.61	19.8 [20.3]
15–64 years	905.86	68.9 [72.0]
65 years and above	104.19	7.9 [7.7]

Land was again managed more effectively in 2006, with 167,000 [139,000] hectares of arable land – a rise of 20 per cent appropriated for construction purposes (in 2005 appropriations had *fallen* by 4.1 per cent. Taking into account land losses occasioned by natural disasters, conversion for purposes of ecological conservation and structural adjustments within the farming sector, as well as land reclamation, China's arable area suffered a net reduction of 306,000 ha.

Per capita availability of water having risen between 2004 and 2005, once more declined in 2006 to 1,945 [2,098] cubic meters. At the end of 2006, water storage in China's large reservoirs was 180.6 billion cu. m. − 24.5 billion cu. m. less than a year previously. Total water consumption rose by 0.7 [0.5] per cent to 567 billion cu. m. Of this, consumption for living purposes increased by 0.7 per cent; for industrial use, by 1.9 per cent; and for farm use, by 0.2 per cent. Per capita water consumption averaged 432 cu. m. – about the same as in 2005. Water consumption per 10,000 yuan of GDP and per 10,000 yuan of industrial value-added declined by 8.8 and 9.0 per cent, respectively.

On 408 [411] sections of China's seven major water systems, 46 [41] per cent satisfied the national quality standard of Grade III for surface water; 28 [32] per cent met the norm for Grade IV or V; and 26 [27] per cent were below Grade V. Other indicators showed a small improvement in the quality of marine water, although 149,000 [139,000] sq. km. of seawater failed to meet the quality standard of clean seawater – almost 7 per cent less than in 2005 (which in turn showed a deterioration, compared with 2004). Of this, 29,000 sq. km. were described as being seriously polluted – the same as in 2005.

The incidence of natural disasters is 2006 was significantly more serious than in the previous year. Direct economic losses occasioned by such disasters totalled 252.8 billion yuan (23.8 per cent more than in 2005), while natural disasters affected over 41 [39] million hectares. Man-made disasters continued to exact a heavy toll, although the number of traffic accidents in 2006 – 378,781 – for the second year running showed a significant decline (since 2004 the number of accidents had reportedly fallen by one-third). Some 89,455 people were killed in such accidents, compared with 99,000 people in 2005 (the number of injured parties meanwhile falling from 470,000 to 431,000). Traffic accidents caused direct property losses estimated at 1.49 billion yuan. The number of *work accidents* meanwhile declined by 11.2 per cent.

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Table 16: **Consumption of Energy, 2006**

	Consumption	% Increase over 2005 [2004]
Total energy	2,456.69 m. tons (SCE)	9.3 [9.5]
Coal	2,370 m. tons	9.6 [10.6]
Crude oil	320 m. tons	7.1 [2.1]
Natural gas	55.6 b. cu. m.	19.9 [20.6]
Hydro-electric power	416.7 b. kWh	5.0 [13.4]
Nuclear power	54.3 b. kWh	2.4 [3.7]

Newly discovered mineral resources included 944 million tons of crude oil, 538.1 billion cu. m. of natural gas, and 36,700 million tons of coal.

The NBS Communiqué provided the following preliminary estimates of energy consumption in 2006 (see Table 16):

Energy consumption per 10,000 yuan of GDP was 1.21 [1.43] tons of standard coal equivalent (SCE).

e *Social and Legal Affairs*

A report published by the Chinese Academy of Social Sciences (CASS) showed that government efforts notwithstanding, income gaps in China were continuing to widen (see XHNA, 7 Jan.2007). CASS data showed that the richest 10 per cent of Chinese households commanded over 40 per cent of all private assets, while the poorest 10 per cent controlled less than two per cent of wealth. Some sources indicated that China's Gini coefficient had reached 0.496, suggesting that income inequality in China was now approaching Latin American levels and was well in excess of that of India. According to the CASS report, rising medical costs posed the greatest financial challenge, recent data showing that, on average, 11.8 per cent of total household spending was allocated to health care – more than the expenditure share of education (but see also XHNA, 12 Jan., reporting a 25-fold increase in university tuition fees since 1989).

In January the Minister of Health, Gao Qiang, spoke of the need to reform China's medical care system. He said that new measures would be introduced in 2007, which would provide for greater government investment in health and reduced medical costs for patients in both urban and rural areas. The urgent need for improvements in the health system were highlighted in a 2006 survey, which revealed that the high costs of treatment deterred 49.6 per cent of Chinese from visiting a doctor when they were ill. The same source noted that 29.6 per cent of those who were advised by doctors to seek in-hospital care failed to do so also on grounds of cost (XHNA, 2 Jan.; on progress towards the establishment of a universal rural co-operative health care system, see XHNA, 9 Jan.).

A report published by the State Population and Family Planning Commission (SPFPC) predicted that China's population would rise by 200 million during the coming three decades. On the assumption that the birth rate remained at 1.8 per cent, total population would reach 1.36 billion in 2010, 1.45 billion in 2020 and –

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at its peak – 1.5 billion in 2033. During this period, tensions caused by a large population pressing on limited resources would become the source of increasing difficulties. By 2016, for example, China's labour force would reach 1.01 billion – far more than the total number of workers in all developed countries. Such numbers showed clearly enough that China would face no labour shortage. However, they concealed serious *qualitative* deficiencies, highlighted in the fact that because of low educational and health standards, China's labour force would find it difficult to face international competitive pressures. SPFPC also predicted that during the coming 20 years, over 300 million Chinese farmers would leave the countryside and move into urban areas. This tide of migration reflected the existence of a surplus rural labour force of 150–170 million people (XHNA, 11 Jan.).

According to a researcher at the CASS Rural Development Institute, the rural share of China's total population was likely to fall to 20 per cent by 2027, with a mere 5 per cent or less of GDP coming from agriculture. Dang Guoying noted that China's rural population had experienced negative growth of -1.6 per cent in recent years, and suggested that the rate of decline would accelerate as pro-urbanisation policies intensified. Elsewhere, it was authoritatively predicted that by 2010 half of China's population would already live in urban areas (XHNA, 8 Jan.).

A circular jointly issued by the CCP Central Committee and State Council (22 January) reaffirmed the government's determination to intensify efforts to control foetus gender testing and sex-selective abortions in an attempt to counter the rising sex ratio imbalance of China's population. It demanded that those who conducted such tests and abortions should face serious punishment. It also called for improved protection of baby girls and the punishment of anyone found guilty of female infanticide, injuring infant girls or ill-treating girls' mothers. Meanwhile, there would be stricter supervision of medical institutions that used ultra-sound technology and abortion medicines. In 2005, China's gender ratio for new born babies was 118 boys per 100 girls – in some regions, 130:100 – compared with 110:100 in 2000 (XHNA, 22 Jan.).

f *Economic Affairs*

On 24 January, the National Bureau of Statistics (NBS) issued revised figures, showing that China's GDP growth in 2005 was 10.4 per cent, not 9.9 per cent as originally published. Sectoral growth rates were: agriculture, 5.2 per cent; industry, 11.7 per cent; and services, 10.5 per cent. Sectoral shares of GDP were: agriculture, 12.5 per cent; industry (including construction), 47.5 per cent; and services, 40 per cent (XHNA, 24 Jan.).

The CCP's 'Document No. 1' for 2007 focused once again on agricultural development. Its main theme was the priority need to promote agricultural modernization in order to raise farmers' incomes and help fulfil the goal of creating a "new socialist countryside" in China. A new emphasis contained in the policy document was that of adjusting the "growth mode" of agriculture in

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order to accommodate twin pressures on natural farm resources and the environment.

In addition to calling for increased central and local government funding for the agricultural sector, the document also stressed the importance of providing better educating and training for farmers, not least in order to enable them to increase their competitiveness vis-à-vis other rural economic groups (see *RMRB* website, 31 Jan.; see also Vice-Premier Hui Liangyu's important speech to the Central Rural Work Conference at ibid.).

Elsewhere, Chen Xiwen reiterated that China would, and constitutionally could, not privatize land ("[t]his is not a policy issue that can be decided by the central government or by departments"). He pointed out that rural land remained collectively owned, and that farmers who enjoyed land use rights were permitted neither to sell their land nor use it as collateral for raising loans. Since September 2006, leasing land from farmers for construction purposes had been made illegal, such transfers only being possible where they accorded with "local land use projects" that had been included in the annual land use plan. Chen further commented,

> The issue of rural land rights is a thorny problem for China. Without secure land rights, more and more Chinese farmers have been cleared from their land to make way for roads, factories and residential areas as China's economy sizzles.

This was the background against which Wen Jiabao had recently warned that uncompensated illegal land seizures had become a "key source of instability in rural areas … [sparking] mass incidents in the countryside" (XHNA, 30 Jan.).

The head of NBS (Xie Fuzhan) analysed the factors that had caused grain prices to rise in China. He acknowledged the "tense" balance that existed between grain demand and supply, and admitted that excess demand characterised some cereals. He pointed out that although 2006 had seen total grain output increase for the third consecutive year, the rise – a mere 1 per cent – had been insufficient to prevent upwards pressure on prices. In November 2006 grain prices rose, on average, by 4.7 per cent; for the whole of 2006, the projected figure was 6 per cent (XHNA, 25 Jan.; but see also XHNA, 29 Jan.). In another Xinhua report, it was revealed that in 2006 China had sold through public auctions 13.5 million tons of rice and wheat in an effort to stabilize rising grain prices.

China's deficit on its agricultural trade account fell by 41.3 per cent in 2006 to US$670 million. The reduction was attributed mainly to the growth in China's surplus in agricultural products in which it had a comparative advantage (e.g., aquatic products, fruit and vegetables). Since acceding to WTO membership, China has become the world's fifth-largest exporter, and fourth-largest importer, of farm products (XHNA, 15 Feb.).

An important fiscal initiative came into effect on 1 January, as a result of which joint ventures and wholly foreign-owned firms were no longer exempted from paying land-use tax. The elimination of privileged treatment for foreign

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firms was seen as a significant step in ending discrimination against domestic firms. It anticipated other fiscal reforms, which were expected to result in the introduction of a new corporate income tax structure that would tax domestic and foreign firms at the same rate (XHNA, 2 Jan.).

On 17 March the People's Bank of China announced that benchmark deposit and lending interest rates in financial institutions would be raised by 0.27 per cent, to take effect as of 18 March. The announcement was made on the day on which Wen Jiabao's government work report to the Fifth NPC was made public – a report which highlighted high levels of fixed investment and problems of excess bank liquidity (XHNA, 17 Mar.)

The Vice-Chairman of the All-China Federation of Trade Unions (ACFTU), Xu Deming, revealed that "at least 10 million" migrant workers would be absorbed into trade unions by the end of 2007 (XHNA, 11 March). This was the first stage in a process that was expected to result in the trade union registration of *all* migrant workers within a three-year period. Xu called for trade unions to be set up in the home towns of migrant workers in order to facilitate their registration and make it easier for them to transfer their membership to unions of the companies in which they subsequently found jobs. He noted that at present 41 million migrant workers were members of a trade union, 8.5 million of them having registered in 2006 (XHNA, 11 Mar.).

In January a report of the State Environmental Protection Administration (SEPA) noted that 600,000 environmental complaints were filed during 2006 – 30 per cent more than in the previous year. Evidence that environmental degradation remained the most serious obstacle to China's economic and social development was contained in the revelation that 161 pollution accidents were reported throughout the year – on average, one every other day. In addition, it was reported that in 2006 SEPA suspended 163 projects – many of them energy-intensive and in all worth US$770 billion in investment – because of the environmental threat they posed. SEPA had also exposed 82 projects in 22 provinces that had "seriously violated" environmental appraisal norms. Pan Yue (Director of SEPA) revealed that construction projects in four highly polluted cities – Tangshan (Hebei), Luliang (Shanxi), Liupanshui (Guizhou) and Laiwu (Shandong) – had been made subject to more stringent approval procedures (11 Jan.).

An article in a Hong Kong newspaper cited a study, published by the Chinese Academy for Environmental Planning, which suggested that estimates of annual environmental investment in China were grossly exaggerated. The study suggested that around 60 per cent of the 488.8bn yuan said to have been invested in urban areas between 2001 and 2005 had been allocated to uses that "contributed more to urban beautification and the economy than to pollution reduction." It added that some provincial figures even included construction of petrol stations, natural gas power plants, factory relocations and taxi upgrades as part of environmental investment. The outcome was that claims that China spends the equivalent of more than 1.3 per cent of GDP on environmental

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protection needed to be adjusted downwards to about 0.6 per cent of GDP (*SCMP* website, 16 Feb.).

A CASS report indicated that between 1997 and 2005, China's service trade deficit had increased by two-thirds from US$5.6 billion to US$9.39 billion. In 2005 the value of service trade reached US$157.08 billion (XHNA, 19 Feb.).

Statistics published by Xinhua attested to the continuing buoyancy of Guangdong's economy. In 2006 the value of provincial foreign trade reached US $500 billion – US$100 billion more than in 2005. The development of high and new technologies contributed greatly to this performance, their share in total exports being 34.5 per cent (Jan–Nov 2006). Also important was the role of the private sector, whose exports during the same period were valued at US$42 billion (up 58 per cent). It was expected that Guangdong's GDP would rise by 14 per cent in 2006 (XHNA, 7 Jan.).

g *Education*

It was announced that as of 2006, primary and junior high school students in rural areas of western China would be exempted from having to pay tuition and other educational expenses (excluding textbooks, work books and accommodation) during the nine years of their compulsory education. Similar policies would be introduced in other rural regions from 2007. The initiative was expected to facilitate the full implementation of nine-year compulsory education system in the countryside (XHNA, 16 Jan.).

Table 17 shows enrolments in higher educational institutions in China in 2006, as revealed by the NBS Communiqué on national economic and social development:

h *Military Affairs*

News that China had successfully conducted an anti-satellite weapons test, using a ballistic missile to destroy a satellite in space, elicited widespread overseas concern. Japan's Chief Cabinet Secretary (Yasuhisa Shiozaki) said that the Japanese government had sought an explanation of the test from the Chinese

Table 17: **New and Total Student Enrolments, 2006 and [2005] (millions)**

Item	New enrolments in 2006	Total enrolments in 2006	Number of graduating students in 2006
Postgraduates	0.40 [0.37]	1.10 [0.98]	0.26
General tertiary education	5.40 [5.05]	17.39 [15.62]	3.77
Secondary vocational education	7.41 [6.47]	18.09 [15.59]	4.76
Senior secondary education	8.71 [8.78]	25.15 [24.09]	7.27
Junior secondary education	19.30 [19.88]	59.58 [62.15]	20.72
Primary education	17.29 [16.72]	107.12 [108.64]	19.28
Special education	0.05 [0.049]	0.36 [0.36]	–
Pre-school education	–	22.64 [21.79]	–

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authorities. He also called on China to make its military capabilities more transparent (Kyodo, 19 Jan.). Similar concerns were expressed from Washington on behalf of the US Administration (but see also a more cautionary editorial in Hong Kong, *Wen Wei Po* [*Wenhui bao*], 24 Jan.).

A Hong Kong source (*Wen Wei Po* [*Wenhui bao*], 7 Mar.) cited an admiral of the People's Liberation Army as stating that on the basis of the current pace of research and development, it was possible that China might construct its own aircraft carrier by 2010. The unconfirmed report appeared to contradict the statement of General Zhou Shenren (previously, Political Commissar of the Chinese Navy) that "currently, aircraft carriers are not visible on China's coastline or in its ports and [speculation] that China's having an aircraft carrier is a myth," although it was consonant with that of Admiral Zhang Xusan, made in August 2005, to the effect that China "soon would have one [an aircraft carrier]." The Hong Kong source also cited an unattributed source(s), which claimed that "American military satellites have already discovered that on the Chinese coast, there is an image of a Chinese ship in which there can clearly be seen a wide flight deck as well as a number of fighter craft."

i *Obituary*

Xinhua announced the death, on 15 January, of "senior politician … [and] veteran revolutionary" Bo Yibo. He was 99.

Bo Yibo's remains were subsequently cremated at the Babaoshan Revolutionary Cemetery (Beijing) in a ceremony attended by President Hu Jintao, former president Jiang Zemin, Vice-President Zeng Qinghong, Premier Wen Jiabao, Vice-Premier Wu Bangguo and other senior Party and government officials.

An official obituary described Bo as "an excellent CCP member, a great Communist warrior, a great proletarian revolutionary and a prominent leader in the party's economic work." Born in Shanxi province in 1908, he had held many senior positions, including those of vice-premier and minister of finance. He was also a member of the seventh, eighth and 11th CCP Central Committees, and deputy head of the former CCP Central Advisory Committee (see XHNA, 21 Jan.).

j *Hong Kong Special Administrative Region (HKSAR)*

On 1 February, Henry Tang (HKSAR Financial Secretary) presided over the official opening on the permanent office of the Hong Kong Economic and Trade Office in Shanghai (Shanghai ETO). The ETO's geographical remit was the Shanghai Municipality and four neighbouring provinces (Jiangsu, Zhejiang, Anhui and Hubei). Its main role was to promote economic relations and co-operation between Hong Kong and the Yangtze River Delta region. In a speech at the opening ceremony, Tang drew special attention to the contribution which the Shanghai ETO promised to make towards fulfilling Hong Kong's economic

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goals, as set out in the most recent Chinese Five-Year Programme (2006–2010) (HKSAR Government website, 1 Feb).

It was announced on 16 February that having secured 641 nominations from the 796 members of the Election Committee, Donald Tsang Yam-kuen (current HKSAR Chief Executive) would stand for another term as Hong Kong leader. The election would take place by secret ballot on 25 March under the aegis of the HKSAR Electoral Affairs Commission (XHNA, 14 Feb.).

On 26 March, Xinhua reported Donald Tsang's "overwhelming victory" in the election of Chief Executive of HKSAR. Tsang won 649 votes, compared with the 123 received by his only opponent, Alan Leon. The report noted that Tsang's term of office would run from 1 July 2007 to 30 June 2012.

2. Foreign Relations

a *Diplomatic Tours*

Hu Jintao's visits to eight African countries (Cameroon, Sudan, Liberia, Zambia, Namibia, South Africa, Mozambique, and Seychelles)

En route to Cameroon at the start of his eight-nation tour, on 30 January Hu Jintao made a stopover in Dubai, where he held talks with General Shaykh Muhammad Bin-Rashid Bin-Sa'id Al Maktum (concurrently Vice-President and Prime Minister of the United Arab Emirates). The two men exchanged views on bilateral relations and international and regional issues of mutual concern.

In Yaounde the Chinese President held talks on 31 January with the President of Cameroon (Paul Biya), focusing on bilateral relations and international issues of shared concern. Hu called on the two sides to strengthen efforts to enhance mutual trust and co-operation, especially in agriculture, processing of primary products procession, and the development of infrastructure and telecommunications. The two sides signed eight agreements, embracing economic and technological co-operation, health, education and telecommunications (XHNA, 31 Jan.).

From Yaounde Hu Jintao flew to Monrovia, where (1 Feb.) he met the President of Liberia (Ellen Johnson-Sirleaf). A Xinhua report noted the significant improvement in bilateral relations that had taken place since the resumption of diplomatic relations in 2003. Following presidential talks, the two sides signed a number of co-operation agreements (XHNA, 1 Feb.). A Liberian source reported that China had agreed to cancel a "huge part" of Liberia's US$15 million debt to China (Liberian Star Radio, 2 Feb.).

In Khartoum, where he arrived on 2 February, the Chinese President Hu Jintao held talks with the Sudanese President, Omar Hassan Ahmed al-Bashir. Against the background of a rapid rise in bilateral trade in recent years (in January-November 2006, the value of such trade was US$2.9 billion), the two men expressed the hope for the continued strong development of trade and economic relations, especially in agriculture, construction, health and education.

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President Bashir drew particular attention to China's support in promoting the development of the Sudanese oil sector.

On 3 February, Hu Jintao arrived in Lusaka, where he held talks with the Zambian President, Levy Patrick Mwanawasa. In a written statement issued on his arrival, Hu noted that Zambia had been the first southern African country to establish diplomatic relations with China, since when the two sides had undertaken extensive co-operation in a wide variety of fields. In a preliminary statement, President Mwanawasa echoed the Chinese President's words and rejected recent allegations against China's recent involvement in Africa that suggested that it was engaging in "another type of colonialism. Elsewhere, former Zambian President Kenneth Kaunda described China as an "all-weather friend" of Zambia (XHNA, 3 Feb.).

In their talks (3 February), Presidents Hu and Mwanawasa exchanged views on bilateral relations. Hu spoke of the "remarkable success" of recent initiatives in trade and economic co-operation, and noted that China was now the third-largest investor in Zambia. He spoke too of the two countries' mutual support and co-ordination in international affairs. The Chinese President told Mwanawasa that the Chinese government was willing to provide further development assistance to Zambia, including expanding the number of tariff-free Zambian imports.

Following their talks, the two leaders attended a signing ceremony of eight bilateral co-operation documents. It was also reported that the Chinese government had cancelled Zambia's debt of 60.3 million yuan and US$3 million (XHNA, 3 Feb.).

The Chinese President travelled from Lusaka to Windhoek, where he met the President of Namibia, Hifikepunye Pohamba. In the course of the two men's discussions, Hu Jintao put forward a four-point proposal on the development of bilateral relations (XHNA, Feb.; for text of the two sides' joint Communiqué, see XHNA, 6 Feb.). In January–November 2006, the value of trade between China and Namibia was US$240 million.

In the course of his visit to Namibia, Hu also met Sam Nujoma (Head of Namibia's ruling South West African People's Organization (SWAPO) and former Namibian President).

On 6 February, Hu arrived in Pretoria, where he met President Thabo Mbeki and other senior government officials. The two presidents discussed bilateral relations, as well as "important" international and regional issues. During the talks, Hu made a five-point proposal, designed to enhance bilateral ties, which Mbeki subsequently endorsed. The two sides were reported to have reached a broad consensus of agreement, including on the importance of strengthening the development of their two countries' "strategic partnership based on equality, mutual benefit and common development." Following their talks, the two men attended a signing ceremony of five bilateral co-operation documents. It was reported that during January–November 2006, China–South Africa trade totalled US$8.83 billion (34.5 per cent higher than in the same period of

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2005). China is South Africa's second-largest source of imports and its eighth-largest export destination (XHNA, 6 Feb. and Johannesburg, SAPA, 6 Feb.).

The Chinese President arrived in Maputo, capital of Mozambique, on 8 February. On the same day, he exchanged views with President Armando Guebuza on bilateral relations and other important issues. Both sides agreed to intensify efforts to enhance China–Mozambique ties. Hu pledged government support to help promote Chinese investment in Mozambique, and Guebuza hoped that co-operation in agriculture, resource exploitation, infrastructural construction, education and tourism would be strengthened. The two sides signed eight co-operation documents (XHNA, 8 Feb.).

The final leg of his tour took Hu Jintao to Seychelles, where he arrived on 9 February. His talks with President James Michel produced agreement that the two sides would seek to promote "pragmatic co-operation" in a variety of spheres, including tourism, fisheries and human resources. Hu reaffirmed the Chinese government's commitment to fulfilling the consensus between China and Seychelles, agreed in the 2006 summit of the Forum of China–Africa Co-operation (FOCAC), held in Beijing (XHNA, 10 Feb.). The two sides later signed five agreements.

b *Countries, Territories and Regions*

Africa (Niger)

On 29 March Li Zhaoxing held talks in Beijing with the Minister of Foreign Affairs of Niger (Aichatou Mindaoudou). They exchanged views on bilateral relations, as well as regional and international issues of common concern.

Central and Eastern Europe and the Baltic (Estonia, Slovakia)

On 24 January the Foreign Minister of Estonia (Urmas Paet) held talks with Li Zhaoxing in Beijing. They exchanged views on international and regional issues of shared concern. Paet also met Vice-President Zeng Qinghong.

Following his arrival in Beijing, on 5 February the Slovakian Prime Minister (Robert Fico) held talks with Wen Jiabao. The Chinese Premier described Slovakia as China's "important partner of co-operation" in Eastern Europe. He hoped that the two countries would strengthen such co-operation and expressed the Chinese government's wish to enhance investment, trade and economic relations. Wen also took the opportunity of his discussions with Fico to reaffirm China's determination to promote closer relations with the European Union (EU). Fico admitted to being disappointed that Chinese investment in Slovakia was lower than in the Czech Republic and hoped that this would be remedied. Following their discussions, the two men attended a ceremony to sign documents on co-operation in agriculture, education and other areas (XHNA, 5 Feb.).

Commonwealth of Independent States (Tajikistan, Russia)

On 15 January the Tajik President, Emomali Rakhmanov, arrived in Beijing on a seven-day state visit to China that also took him to Hubei and Hainan

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provinces. ITAR-TASS (15 Jan.) noted that the value of trade between Tajikistan and China had reached US$261 million dollars during January–October 2006, while Chinese investments in Tajikistan totalled US$720 million.

In his talks with Rakhmanov Hu Jintao spoke of the Chinese government's wish to promote long-term friendly and co-operative relations with Tajikistan. To this end, he hoped that the momentum of bilateral high-level exchanges and other contacts could be maintained in order to strengthen political ties. He also called for an expansion of co-operation in trade, economic, security, cultural and educational spheres, as well as closer co-ordination on regional and international issues (for example, within the United Nations and the Shanghai Co-operation Organization). Rakhmanov's remarks echoed those of Hu and also included a reaffirmation of the Tajik government's commitment to support China's national sovereignty and territorial integrity. Following their talks, the two men signed a treaty on good neighbourliness, friendship and co-operation (full text available in XHNA, 16 Jan.). The two sides also signed a number of agreements on trade, economic and educational co-operation, as well as on the launch of direct air services between the two countries (XHNA, 15 Jan.).

On 26 March Hu Jintao arrived in Moscow at the start of a three-day state visit to Russia at the invitation of President Vladimir Putin. In a written statement issued on his arrival, Hu spoke of "important progress" having been made in the development of bilateral relations during 2006. He looked forward to the establishment of even closer relations between China and Russia. His statement also referred to the opening ceremony of the "Year of China in Russia," which he and President Putin would attend during his visit (XHNA, 26 Mar.).

Following his arrival in Moscow, Hu and Putin held talks in which they exchanged views of the further development of "the China-Russia strategic partnership of co-operation." Noting that both China and Russia faced a "crucial period" in their development during the coming decade, Hu told the Russian President of China's willingness to upgrade bilateral relations to a higher level. To this end, he proposed that the two sides should enhance their political and economic co-operation, including the full implementation of a bilateral trade and economic co-operation five-year development programme (2006–2010). He called for closer co-operation in infrastructural construction, energy, science and technology, nuclear power, and raw material processing. He suggested that the two sides should become "partners of scientific co-operation aimed at innovation and expand co-operation in space, bio-engineering and information technology." He also pledged the assistance and support of the Chinese government in facilitating Russia's early accession to the World Trade Organization. Partnership between China and Russia should extend too to co-operating in security – especially in the framework of the Shanghai Co-operation Organization – in order to combat the "three evil forces" of terrorism, separatism and extremism (XHNA, 26 Mar.).

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Following their talks, Hu and Putin signed a joint statement (full text in XHNA, 26 Mar.), which spoke of the two sides having reached "common ground" on major international issues – cf. "the two countries have a common stance on key principled issues in international politics, and have similar views on major regional and international issues" – including the Iranian and North Korean nuclear issues, the Arab-Israel conflict and Afghanistan. They also shared a common view on the need to reform the United Nations on the basis of the broadest possible consensus among UN member states.

The Chinese Ministry of Commerce reported that the value of trade between China and Russia reached a new peak level of US$33.4 billion in 2006 – 15 per cent above that of 2005. Russia was China's eighth-largest trading partner; China was Russia's fourth-largest. The same source revealed that Chinese investment in Russia (but excluding investment in the financial sector) totalled US$470 million in 2006, or 131.5 per cent above the level of 2005. The value of border trade in 2006 was US$7 billion (25 per cent more than in 2005) (XHNA, 15 Feb.).

Japan

Japan's Trade Minister (Akira Amari) was quoted as saying that since the appointment of Shinzo Abe as Prime Minister, Sino-Japanese relations had undergone a "dramatic" improvement (Kyodo, 23 Jan.). Evidence to support such optimism seemed to be forthcoming from reports of progress made during the seventh round of bilateral strategic dialogue, which took place in Beijing on 25 January. During their discussions, the two countries' vice-foreign ministers agreed to work towards a second visit to China by Prime Minister Abe (Kyodo, 25 Jan.).

In March Premier Wen Jiabao told Fujio Mitarai (Chairman of the Japan Business Federation), who was visiting Beijing, that he looked forward to his visit to Japan in April and that he hoped that it would help improve relations between China and Japan. Earlier, Wen described his forthcoming visit as an "ice-melting" trip (XHNA, 19 Mar.).

Middle East (Israel)

On 9 January Ehud Olmert began his first visit to China as Prime Minister of Israel. The following day, he held talks with Wen Jiabao. The Chinese Premier said that the Palestinian question was at the heart of the Middle East issue, and called on Israel, Syria and Lebanon to find ways of strengthening mutual trust as a preliminary to the resumption of peace talks. Olmert responded by confirming Israel's willingness to use peaceful negotiations as a means of resolving outstanding problems in the region. He also expressed his government's gratitude to China for its efforts to promote peace in the Middle East.

The two men also discussed the Iranian nuclear issue. Wen reaffirmed China's commitment to international non-proliferation and hoped that relevant parties to

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the dispute could find a way forward towards its resolution in accordance with the spirit of the recent UN Security Council Resolution 1737 (XHNA, 10 Jan).

According to an Israeli source, Olmert described his meeting with Wen Jiabao as "surprising and encouraging." In particular, he spoke of the Chinese government's positive response to political issues (especially Iran) (Jerusalem, Voice of Israel, 11 Jan.).

Northeast Asia (South Korea [Republic of Korea])

On 25 January, the ROK Foreign Minister, Song Min-soon, arrived in Beijing at the start of a three-day official visit to China as the guest of his Chinese counterpart, Li Zhaoxing. During their talks, Song and Li both referred to some progress having been made towards reopening the six-party talks on North Korea's nuclear policy before the Lunar New Year holiday (XHNA, 25 Jan.; on Sino-Japanese relations, see also Hong Kong, *ZTS*, 25 Jan.).

South Asia (India, Sri Lanka)

On 18 January representatives of India and China ended their latest – the ninth – round of high-level talks, held in New Delhi, on the border issue. The Press Trust of India (PTI) quoted an official of the Indian External Affairs Ministry to the effect that the discussions, focusing on a framework for a settlement in accordance with the Agreement on Political Parameters and Guiding Principles, had taken place in "an open, friendly, co-operative and constructive atmosphere." Both sides hoped that an early settlement might be reached (PTI, 18 Jan.).

On 13 February in New Delhi, Li Zhaoxing met the Indian Minister of External Affairs (Pranab Mukherjee) for talks on strengthening the two countries' strategic partnership. Li commented on the positive momentum of development of bilateral relations since Hu Jintao's visit to India in November 2006. Mukherjee noted that the continued development of bilateral relations was not only in the interests on the two countries themselves, but also those of regional and global peace and stability. The two men announced that in accordance with agreements made in November 2006, a hotline between the two foreign ministers had been formally established (XHNA, 13 Nov.; see also India, Doorsdarshan DDTV, 14 Feb. for a report on a meeting in New Delhi of the foreign ministers of China, India and Russia).

The Sri Lankan President, Mahinda Rajapakse, arrived in Beijing on 26 February at the start of a seven-day state visit to China. In a meeting with Rajapakse, Wen Jiabao said that relations between China and Sri Lanka had entered a new stage of "comprehensive co-operation." He called for more reciprocal investments and drew particular attention to opportunities for co-operation in agriculture and fisheries, infrastructural construction, energy and tourism. Following his talks with Hu Jintao, Rajapakse and the Chinese President attended a signing ceremony of eight economic co-operation agreements. Xinhua noted that in 2006 the value of two-way trade reached US$1.44 billion (16.9 per cent more than in 2005). Concealed in this figure were Chinese exports worth US$1.11 billion, and imports from Sri Lanka of US

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$34.83 million, giving rise to a bilateral surplus of US$758.16 million in favour of China (XHNA, 28 Feb.; and see XHNA, 3 March for text of Joint Communiqué). Rajapakse also visited Shanghai and Guangdong.

In January Wen Jiabao attended the 10th ASEAN–China Summit and the Second East Asia Summit, both held in Cebu (The Philippines). He was one of 11 leaders to witness the signing of the Agreement on Trade in Services of China–ASEAN Free Trade Area (15 January) – an event, which Xinhua described as a "key step forward in the building of the China–ASEAN FTA." In accordance with the provisions of the Agreement, reductions in access restrictions on domestic service industries would take effect from July 2007. In his speech to the ASEAN summit, the Chinese Premier stated that China would consider the establishment of economic and trade zones in a number of ASEAN Member States. He also highlighted the regional economic significance of the construction of the China–ASEAN rail link and revealed that work on the Chinese section of the Kunming–Singapore rail route would be speeded up. China and ASEAN also signed documents to extend co-operation in agriculture and information technology.

In his subsequent speech to the Second East Asia Summit, Wen called for stronger regional co-operation in order to enhance "common development and prosperity" in the region. Thus,

> We should start such co-operation in areas in which the parties have extensive common interests and consensus. Priority should be given to sharing development practice and advanced information and other technologies to enable the participating countries to benefit from co-operation and thus build up confidence in and momentum of co-operation (XHNA, 15 Jan.).

He also highlighted the importance of putting in place an effective regional security framework.

Wen Jiabao travelled from Cebu to Manila, where he held talks with President Gloria Macapagal Arroyo and reached a wide range of consensus with her on the future development of relations between China and the Philippines. They agreed that such relations should be based on a programme of strategic co-operation, to be worked out by the two sides. In particular, they looked forward to increased Chinese financial involvement in the development of railways, electric power and telecommunications in the Philippines. They also agreed to promote closer financial co-operation, "including gradual realization of free exchange of currencies of the two countries." Following their talks, the two leaders attended a signing ceremony of various co-operation agreements. These included a framework agreement on bilateral economic and trade co-operation, an agreement on economic and technical co-operation, and a framework agreement on the provision of a concessional loan by China to the Philippines (XHNA, 15 Jan. and see XHNA, 16 Jan. for the full text of the two sides' joint statement).

Taiwan [Republic of China]

In a comment on the New Year message of Taiwan's President Chen Shui-bian, a spokesman of the State Council's Taiwan Affairs Office accused Chen of

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seeking to undermine the momentum of "peaceful and stable development" across the Taiwan Straits by advocating "secessionist ideas of 'Taiwan independence'." He described Chen's intention as being to

> … unreasonably restrict cross-Strait exchanges and co-operation, worsen the atmosphere of cross-Strait relations, ruin the peaceful and stable development of cross-Strait ties, and tear Taiwan society to pieces while creating conflicts" (XHNA, 1 Jan., which also quotes Hu Jintao's New Year comments on cross-Strait relations).

In January, China's General Administration of Civil Aviation announced the schedule for charter flights across the Taiwan Straits during the Lunar New Year period. It provided for six airlines each from China and Taiwan to make 96 round trips between 13 and 26 February. The main airports of origin and destination would be Beijing, Shanghai, Guangzhou and Xiamen (on the Mainland), and Taipei and Kaohsiung in Taiwan.

The Taiwan Affairs Office reported that trade between Taiwan and the Chinese Mainland reached a record level – US$107.8 billion – in 2006. It was the first time that cross-Strait trade had exceeded US$100 billion. Concealed in the figure were Taiwanese exports to China of US$87.11 billion (a rise of 16.6 per cent on 2005), and imports from the Mainland of US$20.74 billion (up 25.3 per cent). Contractual investment in China from Taiwan totalled US$11.34 billion in 2006, although the utilized figure was only US$2.14 billion (XHNA, 17 Jan). The report noted that major foci of cross-Strait economic relations in 2006 had been agriculture and information industries.

Meanwhile, the value of trade between Taiwan and Shanghai rose by 20 per cent in 2006 to reach US$25.8 billion, according to the Shanghai Customs. Concealed in this figure were exports to Taiwan worth US$7.7 billion and imports of US$18.1 billion. Also in 2006, some 517 Taiwanese-funded projects worth US$2.2 billion, were approved by the Shanghai municipal government. As of end-2006, cumulative contractual investment in Shanghai from Taiwan stood at US$16.4 billion (XHNA, 19 Feb.).

United States of America

On 7 March the US Treasury Secretary (Henry Paulson) arrived in Beijing on a two-day visit – his third within seven months. The main purpose of the visit was to discuss preparations for the second Sino-US Strategic Economic Dialogue, scheduled to be held in Washington D.C. in May (for reports of Paulson's speech n Shanghai, see XHNA, 8 Mar.).

Later the same month, the US Deputy Assistant Treasury Secretary (Daniel Glaser) arrived in Beijing on the eve of a new round of six-party talks on the Korean situation.

On 8 March Xinhua released the text of China's report on "The Human Rights Record of the United States in 2006," prepared by the Information Office of the State Council (full text available in XHNA, 8 Mar.). The contents of the report were as follows:

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I. On Life, Property and Security of Person
II. On Human Rights Violations by Law Enforcement and Judicial Departments
III. On Civil and Political Rights
IV. On Economic, Social and Cultural Rights
V. On Racial Discrimination
VI. On the Rights of Women, Children, the Elderly and the Disabled
VII. On the United States' Violation of Human Rights in Other Countries

Western and Southern Europe (Portugal, France, Norway)

On 30 January the Prime Minister of Portugal (Jose Socrates) arrived in Beijing for talks with Wen Jiabao and other senior Chinese Party and government officials. It was Socrates' first prime ministerial visit to China. The Chinese Premier hailed progress in further developing bilateral relations since the two countries' establishment, in 2005, of an "all-around strategic partnership" and hoped that the momentum would be maintained into the future. In 2006, the value of two-way trade reached US$1.7 billion – an annual increase of 29 per cent (XHNA, 31 Jan.).

During a two-day visit to China (28 February–1 March), the French Foreign Minister, Philippe Douste-Blazy, held talks with Wen Jiabao, Li Zhaoxing and other senior government officials.

On 25 March the Prime Minister of Norway, Jens Stoltenberg, arrived in Beijing for a four-day official visit to China. In the course of talks between Stoltenberg and Wen Jiabao (26 March), the two sides agreed to explore the possibility of signing a free-trade agreement and to establish a co-operation framework on environmental protection as part of their efforts to promote longer-term collaboration. They also signed a memorandum of understanding, in which Norway formally recognized China as a full market economy – the 69th country to do so (XHNA, 26 Mar.).

In Beijing, Stoltenberg attended a seminar on energy management and efficiency, climate changes and its related technologies. He also delivered a speech at Qinghua University.

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