Quarterly Chronicle and Documentation

(October–December 2002)

Sources

The principal sources of information on which this chronicle is based are British Broadcasting Corporation, *Monitoring Global Newsline – Asia-Pacific Political* and British Broadcasting Corporation, *Monitoring Global Newsline – Asia-Pacific Economic*. These sources 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 for the original sources from which the BBC reports themselves are taken.

Abbreviations

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

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1. Internal Developments

(a) *The 30th and 31st Session of the Ninth NPC Standing Committee*

The 30th session of the NPC Standing Committee was held in Beijing on 28 October. It passed three laws: the Revised Law on the Protection of Cultural Relics, the Law on Environmental Impact Assessment (effective from 1 September 2003), and the Amendment to the Insurance Law.

NPC delegates removed Huang Zhendong as Minister of Communications, replacing him with Zhang Chunxian (XHNA, 28 October).

The 31st Session of the Ninth NPC Standing Committee opened in Beijing on 23 December (XHNA, 23 December). The most important document submitted for consideration by delegates was the draft civil code, described as "the longest draft with the largest number of articles in the history of China's legal system." Other legislation considered at this session included the decision on managing judicial evaluations (submitted for review), and three draft laws (on promoting civilian-run education, on amendments to the agriculture law, and the grassland law). Qiao Xiaoyang and Hu Guangbao (vice-chairmen of the NPC Law Committee) also reported on the revision of the draft administrative licensing law and the draft law for ID cards for citizens.

In an explanation of the draft amendment to the Criminal Law, Hu Kangsheng (vice-chairman of the NPC Standing Committee Legislative Affairs Commission) noted that it had become necessary to include a separate chapter on how to handle the dereliction of duties – this in order to address "new situations" that had emerged in recent years. The essential thrust of the relevant amendment was to make civil servants who had "neglected their duties, abused their authority, or practised favouritism" accountable for their actions in accordance with the Criminal Law.

Hu also explained that in the light of revision of the Customs Law and the Law for Pharmaceutical Control, following the revision of the Criminal Law in 1997, some Criminal revisions had had to be revised.

The 31st Session of the NPC Standing Committee passed the PRC Law on the Promotion of Privately-Run Educational Institutions of the People's Republic of China (to take effect from 1 September 2003), the PRC Agriculture Law (effective as of 1 March 2003) and the Fourth Amendment to the Criminal Law of the People's Republic of China.

Among appointments approved by the NPC Standing Committee were those of Zhou Xiaochuan (aged 54 and formerly chairman of the China Securities Regulatory Commission) as governor of the People's Bank of China in place of Dai Xianglong, who was appointed as acting mayor of Tianjin Municipality; and of Zhou Yongkang (60 years of age, a member of the CCPCC Politburo and formerly Party chief in Sichuan) as Minister of Public Security in place of Jia Chunwang. It was revealed that Jia had been appointed as deputy procurator-general of the Supreme People's Procuratorate (SPP) and member of the Procuratorial Committee (XHNA, 28 December, which includes details of other removals and appointments).

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Finally, the NPC Standing Committee decided that the first session of the Tenth NPC of the People's Republic of China would be held in Beijing on 5 March 2003.

(b) *The 16th National Congress of the Chinese Communist Party (CCP)*

In advance of the 16th CCP Congress, the Seventh Plenum of the 15th Central Committee of the Chinese Communist Party (CCPCC) took place in Beijing from 3 to 5 November. It was announced in the Plenum's communiqué that the 16th National Party Congress should be convened in Beijing from 8 November. Jiang Zemin addressed the Plenary session.

The plenary session also discussed and approved two documents: a report, to be presented by the 15th CCPCC to the 16th CCP National Congress; and the "Constitution of the CCP (Amendment)." Both documents would be submitted to the 16th National Party Congress for deliberation.

The 16th National Party Congress took place in Beijing from 8 to 14 November. At a preparatory meeting, a 236-member Congress Presidium was elected under the secretary-generalship of Hu Jintao. In advance of the meeting, a congress spokesman stressed the importance of the occasion, which would provide an opportunity not only to review Party work during the past five years (i.e. since the 15th National Party Congress), but also to look ahead and formulate strategies for the future advancement of China's reform, opening up and socialist modernization, and of the "grand project of Party building in the new century and the new development stage" (XHNA, 7 November; for some details of background preparatory work for the congress, see also *ZXS*, 7 November).

Following the opening of the congress, Jiang Zemin delivered a long report on behalf of the 15th CCPCC (reported live on China Central TV, 8 November). Highlighting the strategic importance of the current meeting taking place, as it did, just when the CCP was embarking on the "third step of the strategic plan of socialist modernization," Jiang outlined that its central theme was:

> to hold high the great banner of Deng Xiaoping Theory, comprehensively implement the important thinking of the "three represents," carry forward our cause and forge ahead into the future, advance with the times, and build a well-off society in an all-round manner, accelerate socialist modernization, and work hard to create a new phase in building socialism with Chinese characteristics.

He drew attention to the profound economic (especially scientific and technological) and political changes taking place throughout the world, and the increasing competition for national power that characterized the new situation. Such considerations underlined the core task and role of the Party in giving a lead to the Chinese people in its efforts to promote further modernization, to achieve national reunification, to safeguard world peace, and to promote common development. Such tasks, said Jiang, defined the CCP's "solemn mission."

In the five years since the previous congress, China had achieved many

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successes, including accelerated reform and economic and social development (including the attainment of higher living standards) at home, foreign policy successes abroad, and the enhancement of China's defence capabilities. Thanks to the inculcation of Deng Xiaoping Theory and the "three represents," major improvements had been made in the Party's work style, as well as in its ideological and organizational work. But such major progress notwithstanding, Jiang admitted that many problems and difficulties persisted, which demanded urgent attention.

He suggested that the experience of recent years pointed to nine major lessons: first, that intensification of theoretical work in accordance with Deng Xiaoping Theory was a necessary condition of further progress; second, that economic construction must remain the core national task – this to be based on further reform and perfection of the "socialist market economic system;" third, that it was essential to adhere to the four cardinal principles and the pursuit of "socialist democratic politics;" fourth, that attention must be directed towards both material and cultural civilization, as well as towards a system of rule based on law (Jiang referred to the virtue of "ruling the country by virtue"); fifth, that the maintenance of stability must ultimately take priority over every other consideration; sixth, that absolute Party leadership over the military be maintained; seventh, that the government and people pursue a policy of national unification and cohesiveness, embracing "all forces that can be united;" eighth, that China should adhere to its independent foreign policy in pursuit of world peace and the common development of all nations; and finally, that all subscribe to the task of "strengthening and improving the Party's leadership and comprehensively [pushing] forward the new great undertaking in Party building."

As well as strongly endorsing the continuing and fundamental relevance of Deng Xiaoping Theory, Jiang spoke at some length about what he described as the "important thinking of the 'three represents.'" He summed up the essence and contribution of the "three represents" in the following words:

> It reflects new demands imposed on Party work and state work as a result of developments and changes in the contemporary world and in China. It is a powerful theoretical weapon that strengthens and improves Party building and propels self-perfection and development of our country's socialism. It is the product of the collective wisdom of the entire Party. It is the guiding principle that the Party must uphold for a long period of time. Always practising the 'three represents' is the basis whereupon our Party is built, the foundation whereupon the country is ruled, and the source where our strength comes from.

He also spoke of the relationship between the ideological foundations of economic work:

> [I]n implementing … the "three represents," we must take development as the task of prime importance for governing and rejuvenating the country, and unceasingly create a new situation in the modernization drive. The Marxist ruling Party must pay great attention to liberating and developing productive forces. If we deviate from development, it will be impossible for us to talk about upholding the Party's advanced nature

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and its steadfastness, giving play to the superiority of the socialist system, and realizing prosperity among the people and a strong country. … It is necessary to uphold the Party's advanced nature and give play to the superiority of the socialist system and implement it in the course of developing the advanced productive forces and culture, realizing the fundamental interest of the majority of the people, promoting all-around social development, and promoting the overall development of mankind. … In the course of development, we must persist in taking economic construction as the central task, base ourselves on China's reality, cope with the trend of the times, and unceasingly develop new ways for promoting the development of advanced productive forces and culture. In the course of development, we must uphold and deeply reform all ideologies and concepts that hinder development, resolutely reform all practices and rules and customs that shackle development, and eliminate all systems and malpractice that affect development.

Jiang also stressed the need to secure the involvement in national economic construction of "all positive factors." He reaffirmed the historical role of the working class ("including the intellectuals, and the vast numbers of peasants") in promoting China's economic and social development. But he added:

social strata such as entrepreneurs and technical personnel employed by private scientific and technological enterprises, managerial and technical personnel employed by foreign-funded enterprises, the self-employed, private entrepreneurs, employees in intermediaries, and freelancers are all builders of the cause of socialism with Chinese characteristics.

Looking ahead, Jiang described the Party's ultimate goal as the establishment, by the middle of the century, of an "affluent, strong, democratic, and civilized socialist modern country." Fulfilment of this broad objective would require not just further economic development, but also "improved democracy, advanced science and education, enriched culture, … [better] social harmony, and … [enhancement of] the texture of life for the people."

In pursuit of further economic growth, Jiang called for efforts to be made in major areas. They included:

- industrialization, based on the application of science and education and sustainable development policies;
- accelerated rural economic development alongside more rapid urbanization (as he later put it, "urbanization with Chinese characteristics," involving the co-ordinated development of large, medium and small cities and small towns);
- the priority development of western China in the context of co-ordinated regional economic development;
- intensified reform of the state-owned sector (including the restructuring of its assets);
- improvement in the market system (including stronger macroeconomic control and reform of the distribution system) and enhancement of social security arrangements;
- the further opening up of China to the outside world, not least in order to attract even more capital inflows from overseas;
- the creation of more jobs and the raising of mass living standards.

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Jiang recognized the special role of IT development in China's modern industrialization programme. Thus:

> It is necessary to persist in using IT to propel industrialization, which will, in turn, stimulate IT application, blazing a new trail to industrialization featuring high scientific and technological content, good economic returns, low resource consumption, little environmental pollution, and a full display of advantages in human resources. China should press ahead to bring about an industrial pattern with high and new technology industries as the leader, basic and manufacturing industries as the kingpin, and the service industry developing in all areas.

Nor did he ignore the demands of agriculture, which, in familiar terms, he described as the "foundation of the economy." Farmers should give priority to "protect[ing] and rais[ing] the comprehensive grain production capacity," while also improving farming's market competitiveness. Another familiar call made by Jiang was for the more effective integration of agriculture 'proper' and industrial farming operations.

Referring to China's entry into the World Trade Organization (WTO), Jiang also said that China would seek to intensify its participation in international economic and technological co-operation and competition.

Turning to political development, Jiang Zemin reaffirmed the goal of developing "socialist democracy" and establishing a "socialist political civilization" as prerequisites for "building a well-off society in an all-round way." The key to fulfilling this goal was to maintain the absolute leadership of the CCP, whilst also ensuring that the people remained "masters of the country" under the role of law. Thus:

> The CCP is the core of leadership for the cause of socialism with Chinese characteristics. … The CCP leads and supports the people to be the masters of China, most extensively mobilizes and organizes the masses of people to administer state and social affairs according to law, to be in charge of economic and cultural undertakings, and to safeguard and materialize their own fundamental interests. The Constitution and other laws embody the unity of the Party's views and the people's will. We must operate strictly in accordance with the law. No organizations or individuals are allowed to have the privilege to overstep the Constitution and other laws.

In line with the maintenance of such principles, it was essential to uphold and improve mechanisms of "socialist democracy, …the socialist legal system, the Party's style of leadership and governance, … the judicial system, [and] … the cadre and personnel system." More diverse forms of democracy should be explored in order to expand popular participation in political affairs, and multi-Party co-operation and political consultation should be strengthened, albeit under the absolute leadership of the CCP.

Jiang stressed the strategic importance of further consolidating China's national defence. To fulfil this need required further progress in the direction of army modernization in order to generate a military establishment with "fewer but better troops with Chinese characteristics."

With Hong Kong and Macau returned to China, complete national reunification now merely required a resolution of the Taiwan issue. Jiang

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insisted that adherence to the "one China principle" was the fundamental basis of the development of cross-strait relations and the realization of peaceful reunification between the two sides of the Taiwan Strait. "We firmly oppose," he said, "all words and deeds aimed at creating 'Taiwan independence,' 'two Chinas,' or 'one China, one Taiwan."' On the contrary, the principle of "one country, two systems" remained the best way forward for both sides. Moreover, once reunification had been achieved, Jiang insisted that Taiwan could retain its existing social system unchanged and would enjoy a high degree of autonomy.

Looking further afield, he noted that although recent trends towards multipolarization and economic globalization offered new opportunities for world peace and development, many aspects of the traditional "unfair and irrational" international political and economic order remained. Meanwhile, new threats to peace and development had emerged. In the face of such contradictory forces, China would maintain its efforts to promote and safeguard the "common interests of mankind" in pursuit of the creation of a "new international political and economic order that is fair and rational."

In the concluding part of his speech, Jiang returned to the question of Party building. He stressed the importance of ideological and theoretical building, and the need to inculcate the principles of Marxism, Leninism, Mao Zedong Thought, and Deng Xiaoping Theory into all CCP members, while also encouraging them to intensify their study of the "three represents." He also urged their adherence to the principle of democratic centralism in order to ensure that all Party members would "resolutely safeguard the authority of the Central Committee, strictly abide by Party discipline, and ensure that all decisions of the Central Committee are carried out without fail." He was at pains too to urge the continued implementation of efforts to combat corruption ("the major political task of the whole Party").

Many of the comments on Jiang's speech by senior Party officials focused on the important – even "historic" – contribution inherent in the "three represents" (e.g. see comments by Ding Guan'gen, Wu Bangguo, Wu Guanzheng, Luo Gan, Jia Qinglin, Qian Qichen, Huang Ju and Wu Yi, as reported by Xinhua on 9 November, and Wen Jiabao and Tian Jiyun in XHNA, 11 November; see also reports in XHNA, 10–11 November for views on other aspects of Jiang's speech).

People's Daily suggested that one outcome of the congress would be to establish two cornerstones of a "mature market-oriented economy" – namely, encouragement of private entrepreneurship and protection of private property (*RMRB*, 12 November). The former was underlined by the political, as well as economic security now afforded to the private business sector – a sharp contrast to official views during the Mao era, which regarded private entrepreneurs as "capitalist exploiters."

On 14 November, Xinhua published the full text of the Resolution of the 16th National Party Congress on the Amendment to the CCP Constitution (adopted by congress delegates that day). The amended version of the constitution sought to make clear that the ideological basis of the

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actions of the CCP was to be found in "Marxism-Leninism, Mao Zedong Thought, Deng Xiaoping Theory *and the Important Thought of 'Three Represents*.'" It also clearly set out that "any Chinese worker, farmer, member of the armed forces, intellectual or *any advanced element of other social strata* who has reached the age of 18 and who accepts the Party's programme and constitution and is willing to join and work actively in one of the Party organizations, carry out the Party's decisions and pay membership dues regularly may apply for membership in the CCP" [emphases added] (see XHNA, 18 November for the full text of the CCP Constitution).

The full text of the Resolution of the 16th National CCP Congress on the Report of the 15th CCP Central Committee, adopted by congress delegates on 14 November 2002, was also published in full by Xinhua (XHNA, 14 November). It approved Jiang's report, which it hailed as a "political declaration and a programme of action for the Party to unite with and lead the people of all ethnic groups throughout the country in forging ahead at the new stage in the new century." It endorsed the "Important Thought of the 'Three Represents,'" which it described in the following terms:

> As a continuation and development of Marxism-Leninism, Mao Zedong Thought and Deng Xiaoping Theory, the Important Thought of "Three Represents" reflects new requirements for the work of the Party and state arising from the changes in China and other parts of the world today. It is a powerful theoretical weapon for strengthening and improving Party building and promoting self-improvement and development of socialism in China. Persistent implementation of the "three represents" is the foundation for building our Party, the cornerstone for its governance and the source of its strength. The implementation of the Important Thought of "Three Represents" is, in essence, to keep pace with the times, maintain the Party's progressiveness and exercise the state power in the interest of the people. All Party members must be keenly aware of this basic requirement and become more conscious of and determined in implementing this important thought.

The 'Resolution' also endorsed the major decisions taken by the CCPCC since the 15th National Party Congress, as well as the arrangements for China's economic, political and cultural development and reform included in Jiang's report. Thus:

> The Congress agrees … that development is our Party's top priority in governing and rejuvenating the country and that it is imperative to take economic development as the central task, keep releasing and developing the productive forces, improve the socialist market economy, implement the strategy of rejuvenating the country through science and education and that of sustainable development, promote strategic adjustment of the economic structure, basically accomplish industrialization, energetically apply IT, accelerate modernization, maintain a sustained, rapid and sound development of the national economy and steadily uplift the people's living standards. Adhering to the Four Cardinal Principles [keeping to the socialist road; upholding the dictatorship of the proletariat; upholding the leadership of the Communist Party; upholding Marxism-Leninism-Mao Zedong Thought], we must go on steadily and surely with political restructuring, extend socialist democracy and build socialist

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political civilization in order to build a socialist country under the rule of law and consolidate and develop the political situation characterized by democracy, solidarity, liveliness, stability and harmony. It is necessary to make major efforts to develop socialist culture and spiritual civilization, continue to carry forward and cultivate the national spirit, promote ideological and ethical progress, develop education and science, make cultural innovation and enhance the attraction and appeal of socialist culture with Chinese characteristics.

In its concluding remarks, the 'Resolution' referred to the task of Party building:

The congress stresses that we must spare no efforts to strengthen and improve the Party's leadership and fully advance the great new undertaking of Party building in building a well-off society in an all-round way and speeding up the socialist modernization drive. It is necessary to adhere to the principle that the Party exercises self-discipline and is strict with its members, build up the Party ideologically, organizationally and in its style of work, raise all Party members' level of the Marxist theory, build up the Party's governing capacity, reinforce its class foundation and expand its mass base, and keep the flesh-and-blood ties between the Party and the people. It is essential to take a clear-cut stand and never waver in carrying on the fight against corruption in depth.

On 13 November, at its third meeting the presidium of the 16th National Congress of the CCP approved, by a show of hands, the lists of candidates for members and alternate members of a new CCP Central Committee, and of a new Central Discipline Inspection Commission (CDIC). These preliminary elections were reported to have been conducted under the supervision of scrutineers in accordance with prescribed election methods (XHNA, 13 November).

The following day, Xinhua reported that Jiang Zemin and five other senior figures (Li Peng, Zhu Rongji, Li Ruihuan, Wei Jianxing and Li Lanqing) were not included in the newly-elected CCPCC. Indeed, only one member of the 15th CCPCC – Hu Jintao – had been elected to the 16th Central Committee (XHNA, 14 November). Xinhua revealed that the average age of members of the new committee was 55.4 years (but over 20 per cent were under 50), while 98.6 per cent had enjoyed a junior college education or higher. In all, 180 out of the 356 members and alternate members of the new CCPCC were new. For a full namelist of the 198 full members of the CCPCC, see *ZXS*, 14 November; for that of the alternate members, see XHNA, 14 November (which also carries the list of names of all 121 members of the new CCP Central Commission for Discipline Inspection).

ZXS drew attention to three features of the new CCPCC: first, the youth of the committee, reflected in the fact that the entire membership – alternate as well as full members – were "young cadres who began work after the founding of New China"; secondly, the high proportion – 98.6 per cent of all members – of those with an above-college educational level (cf. 92.4 per cent in the former CCPCC, and 83.4 per cent in the 14th CCPCC); thirdly, the broad representation – a "galaxy of talent" –

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of the new committee (including members from the Central Committee and state organs, financial institutions, key state-owned enterprises, from provinces and autonomous regions, and from the military) (*ZXS*, 14 November).

On 15 November, Hu Jintao in his capacity as newly-appointed general secretary of the CCPCC, introduced his colleagues in the Politburo of the 16th CCPCC Standing Committee: viz. Wu Bangguo, Wen Jiabao, Jia Qinglin, Zeng Qinghong, Huang Ju, Wu Guanzheng, Li Changchun and Luo Gan. In a meeting with press representatives, Hu affirmed the new Party leadership's determination to "unswervingly implement the Important Thought of the 'Three Represents,"' which he described as the Party's "long-term guiding ideology, on a par with Marxism-Leninism, Mao Zedong Thought and Deng Xiaoping Theory" (XHNA, 15 November).

The same day, it was announced that Jiang Zemin had been re-elected as chairman of the Central Military Commission (with Hu Jintao, Guo Boxiong, and Cao Gangchuan as its vice-chairmen). Wu Guanzheng was elected as secretary of the new CCPCC's Central Discipline Inspection Commission.

Also on 15 November, the first plenary session of the 16th CCPCC took place. It elected members and alternate members of the CCPCC Political Bureau (and its Standing Committee); the general secretary of the CCPCC; the CCPCC Secretariat; and the Central Military Commission. It also approved the candidates for the secretary, deputy-secretaries, and Standing Committee members of the Central Discipline Inspection Commission. Some details, taken from XHNA, 15 November, follow:

General secretary of the Central Committee: Hu Jintao

Members of the CCPCC Political Bureau: Wang Lequan, Wang Zhaoguo, Hui Liangyu (Hui nationality), Liu Qi, Liu Yunshan, Li Changchun, Wu Yi (f.), Wu Bangguo, Wu Guanzheng, Zhang Lichang, Zhang Dejiang, Chen Liangyu, Luo Gan, Zhou Yongkang, Hu Jintao, Yu Zhengsheng, He Guoqiang, Jia Qinglin, Guo Boxiong, Huang Ju, Cao Gangchuan, Zeng Qinghong, Zeng Peiyan, Wen Jiabao

Alternate member of the CCPCC Political Bureau: Wang Gang

Members of the CCPCC Political Bureau Standing Committee: Hu Jintao, Wu Bangguo, Wen Jiabao, Jia Qinglin, Zeng Qinghong, Huang Ju, Wu Guanzheng, Li Changchun, Luo Gan

Members of the CCPCC Secretariat: Zeng Qinghong, Liu Yunshan, Zhou Yongkang, He Guoqiang, Wang Gang, Xu Caihou, He Yong

Chairman of the Central Military Commission: Jiang Zemin

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Vice-chairmen of the Central Military Commission: Hu Jintao, Guo Boxiong, Cao Gangchuan

Members of the Central Military Commission: Xu Caihou, Liang Guanglie, Liao Xilong, Li Jinai

Secretary of the Central Discipline Inspection Commission: Wu Guanzheng

Deputy secretaries of the Central Discipline Inspection Commission: He Yong, Xia Zanzhong, Li Zhilun, Zhang Shutian, Liu Xirong, Zhang Huixin, Liu Fengyan

Members of the Standing Committee of the Central Discipline Inspection Commission: Yu Yisheng, Ma Wen (f.), Ma Zhipeng, Wang Zhenchuan, Liu Fengyan, Liu Jiayi, Liu Xirong, Li Zhilun, Wu Guanzheng, Wu Yuping (f.), He Yong, Shen Deyong, Zhang Shutian, Zhang Huixin, Zhao Hongzhu, Xia Zanzhong, Huang Shuxian, and Xie Houquan

Congratulatory messages to Hu Jintao and his colleagues in the new leadership were received from various countries. Vice-president Annette Lu was the most senior of a number of Taiwanese political figures who extended the congratulations to the Chinese Communist Party on the successful conclusion of its 16th National Party Congress and the peaceful transfer of power to the new leadership (CNA, 15 November).

On 30 November, a Hong Kong source (*Ta Kung Pao* [*Dagong bao*]) published an article by Hu Jintao, entitled "A programmatic document of Marxism" and originally included in a book under the imprint of the People's Publishing House and Xuexi Publishing House. It was said to be the first article written by Hu since his election as general secretary of the CCPCC.

Hu described the 16th National Party Congress as an event with profound significance for the future development of the Party and for China. In particular, he highlighted the significance of Jiang Zemin's report and its core theme of the "three represents." He revealed that drafting work on the report had begun in October 2001 under the general guidance of the CCPCC Standing Committee and the personal leadership of Jiang, who had addressed the drafting group in January and September 2002. To give support to these preparations, 14 research groups had initially been set up from among relevant departments of the CCPCC to undertake investigations into a variety of issues embracing political and economic development and Party work. Later, a further eight research teams had been sent to 16 provinces, autonomous region and municipalities in order to pursue further investigations. Only after this – in late August – was the draft congress report circulated to departments and localities for comment (more than 3,000 people took part in these discussions).

Hu summarized the essential content of the congress report as follows: first, it unambiguously provided an answer to the question of "what

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banner to hold, what road to take, and what goal to fulfil by our Party in the new century and the new phase;" secondly, it highlighted the importance of "innovation in theory as guidance for innovation in practice" by focusing on the core role of inculcating the "three represents;" thirdly, it offered a review and summing up of the remarkable progress made by China since the initiation of economic reform in December 1978; finally, it provided a "political manifesto" for the CCP in its efforts to maintain and strengthen the momentum of development in pursuit of "building a well-off society in an all-round way and expediting the socialist modernization drive" (for the official Taiwanese government's view of the 16th National Party Congress, see Taipei, Government Information Office, 16 December; and for a dissident's interpretation of the same event, see Hong Kong, *Cheng Ming* [*Zhengming*], 1 December).

(c) *The First Plenary Session of the 16th CCP Central Committee (CCPCC) Political Bureau*

The first plenary session of the Political Bureau of the 16th CCPCC took place in Beijing on 16 November. It endorsed Jiang Zemin's report to the 16th National Party Congress, describing it as the CCP's "political manifesto and programme of action for uniting and leading the people of all nationalities throughout the country to continue forging ahead bravely in the new century and the new stage." In particular, Politburo members highlighted the "historical contribution" made by the congress in adopting the "three represents" as the Party's guiding ideology (along with the contributions of Mao Zedong Thought and Deng Xiaoping Theory).

Politburo members called for further efforts to improve the ideological quality of CCP cadres – especially those at and above county level – in order to "emancipate their ideological understanding from the fetters of outdated concepts, ways of doing things, … from the erroneous and dogmatic understanding of Marxism, from the shackles of subjectivism and metaphysics." In such ways, cadres would gain a better understanding of China's new economic and legal environment, as well as of their own role in it (XHNA, 16 November).

(d) *Party and Political Affairs*

A Hong Kong source (*Zheng Ming*, 1 October) cited an internal report issued jointly by the Central Discipline Inspection Commission (CDIC) and Central Financial Work Commission which reportedly stated that during 2001, cadres had illegally transferred 453 billion *yuan* (c. US$ 54 billion) abroad. The same source revealed that as of end-July 2002, over 6,500 Party and government cadres had fled abroad. Following demands from the CDIC and the CCP Central Committee's (CCPCC) Organization Department, senior cadres were said to have handed over 7,500 foreign passports and residence permits from 32 countries (but mostly from the USA, Canada, Australia, France, Italy and Spain), which had been

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obtained through "irregular channels." It was thought that a further 7,500–12,500 passports remained illegally in the hands of Party members and a deadline of 7 October had been set by which these should be handed in.

In a review of Party work since the Fourth Plenary Session of the CCPCC, Zhang Bailin (executive deputy director of the Central Organization Department) spoke of major progress having been made in the organizational work of the CCP. In particular, he drew attention to achievements in the following areas: improvements in the quality of leading Party bodies and their cadres; reform of the cadre personnel system (including cadre education and training); the training of "talented people;" construction of grassroots Party organizations; and the "building up [of] the systems of the Party's organizational work, focused on democratic centralism." Underlining all these achievements, said Zhang, was the inculcation of "Deng Xiaoping Theory and the important thinking of "three represents" (XHNA, 28 October).

Statistics made available by the Central Organization Committee showed that during the previous five years, the administrative staffs of Party, government and mass organizations at all levels throughout China had been reduced by 1.15 million people, while cities, counties and townships had used organizational reform to remove some 430,000 surplus personnel ("surplus" in the sense that they exceeded the legal limit). State Council ministries had been reduced from 40 to 29; departments and bureaus within those ministries had been cut by more than 200. On average, the number of provincial-level government organizations had fallen from 55 to 40 – from 45 to 35 in city and prefectural-level governments, and from 28 to 18 in those at a county level. There had also been a 20 per cent cut-back in staffing in departments under the CCPCC, a 47.5 per cent drop in that of provincial-level Party committees, a 48.2 per cent fall in that of provincial-level government, and a 19.4 per cent decline in that of Party, government and mass organizations at city, county, and township levels.

Complementing these changes were improvements in the quality of cadres. Thus, the proportion of civil servants below the age of 40 had risen from 53 to 59.6 per cent; the age of mid-level cadres in provincial governments had fallen, on average, by five years; and the proportion of section heads and deputy heads who achieved their positions competitively had reached 94.3 per cent (XHNA, 25 October).

Xinhua spoke enthusiastically about increased grassroots democracy in China in a report that noted that over 700 million Chinese voters were participating in elections to appoint village leaders, and deputies to town and county people's congresses. The report stated that so far in 2002, 300,000 village committees and nearly 400 million farmers in 16 provinces (or provincial-level units) had already taken part in direct elections for new village leaders (XHNA, 18 October).

Among personnel changes announced during the quarter were the appointment of He Guoqiang as head of the Organization Department of the CCP Central Committee (CCPCC), in place of Zeng Qinghong; and

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of Liu Yunshan as head of the CCPCC Propaganda Department, to replace Ding Guan'gen (XHNA, 24 October).

In October, He Yong (deputy secretary of the Central Disciplinary Inspection Commission and minister of the Supervisory Ministry) delivered an important report on progress in improving Party work style. He claimed that significant improvements had been made towards strengthening the Party and enhancing the quality of its cadre contingent – not least, as a result of intensified efforts in recent years to accelerate the momentum of ideological and political education and study. Discipline inspection and supervisory bodies had investigated alleged violations of law and discipline (including major cases of corruption and bribery, seeking to make illegal personal gains, buying or selling official titles, and job negligence and malfeasance). Statistics showed that between October 1992 and September 2002, almost 16,350,000 such cases were investigated, of which 1,550,408 cases were concluded (and 1,555,481 people punished). The investigations had also resulted in the recovery of 48.35 billion *yuan* of economic losses. In pursuit of the establishment of cleaner government, over 26,000 leading cadres had been investigated for negligence in pursuing anti-corruption campaigns since 1999 (XHNA, 25 October).

A *ZTS* report from Hong Kong (12 November) revealed that during the previous five years, over 10,000 "incompetent or inadequate leading cadres" in jobs above the county level had been dismissed, demoted, or reassigned to non-leading positions.

(e) *Social and Legal Affairs*

An article in a Hong Kong source (*Hong Kong Economic Journal*, 6 December) warned against the real possibility of social unrest in the countryside as a result of the growing impoverishment of so many farmers (a problem to some extent inherent in the reality of China still being a mainly agricultural society). Between 1997 and 2000, farm incomes had fallen "dramatically," constraining domestic demand and encouraging out-migration from the countryside on such a scale as to threaten social stability.

The huge farming population was a major constraint on wealth creation. Farm wages were, the article suggested, much lower than average prices, in addition to which the farm labour force was characterized by "massive idleness." Conservative estimates pointed to the existence of 150 million rural "unemployed" – a figure that was likely to be much higher when seasonal workers, the partial and underemployed were included. Moreover, the quality of the farm labour force was low, making it difficult for them to adapt to the technological demands and structural requirements of modern agriculture, and providing them with the only outlet of manual labour.

An immediate way of alleviating farm poverty was to implement the State Council's demand to abolish the various unfair fees imposed on both workers working on public projects and farmers. Such efforts must

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be complemented by measures designed to limit and prevent peasant indebtedness. The extent of such problems was revealed in estimates that showed that the average debt service of each of China's 3,000 counties and rural cities was 200–300 million *yuan* – totalling 600–900 billion *yuan* nationally (or 667–1,000 *yuan* per head of China's 900 million rural population). The article observed that "70 per cent of the creditors are county and village cadres and their relatives, so the creditors have turned into "landlords" who do not pay taxes. If this situation continues, what will become of the countryside?"

Earlier in the quarter, the deputy director of the National Bureau of Statistics (NBS) (Qiu Xiaohua) let it be known that the urban–rural income gap was "much greater" than the 3:1 ratio indicated in official statistical publications. He suggested that the real gap was "5:1 or even 6:1."

Qiu noted that payments in kind required that the official estimate of average per capita peasant income (2,366 *yuan* in 2001) be reduced by 40 per cent, so allowing a potential purchasing power of about 150 *yuan* per month [figures as reported]. After a further reduction of 20 per cent to cover the cost of farm working capital (seeds, chemicals, diesel fuel, etc.), a mere 120 *yuan* was left for spending on consumption goods. By contrast, an average urban citizen's monthly income was almost 600 *yuan* a month – in real terms, even more, if allowance were made for "special treatment advantages" in terms of access to housing, education, health, electricity consumption, etc. (*ZXS*, 21 October).

Poverty was not, however, a problem only for the rural sector, and a report issued by the State Council's Development Research Centre noted that while the use of per capita income criteria pointed to the existence of some 14.7 million *urban* poor, on the basis of per capita *spending*, the corresponding figure rose to 37.1 million. Even this higher figure underestimated reality by excluding members of the floating ("shifting") population and those living in city suburbs, who were captured in official statistics as "farmers", but who in fact earned a living through non-farm activities. The report admitted that poverty was most severe for members of the floating population (numbered at 30 million in 1999). For immigrants, the poverty ratio was generally around 15 per cent, although in some areas it was as high as 20 per cent. The lack of adequate social security provision was a major contributory factor: as of 2000, the ratio of all jobless workers covered by unemployment insurance was only 48.9 per cent, self-employed and immigrant labourers being uncovered by such insurance.

The report also conceded that the minimum living standard supposedly guaranteed by the state did not, in reality, offer adequate poverty relief. Procedures for identifying those qualified to receive poverty relief remained "very imperfect," and less than 25 per cent of urban poor families received such support. Not least, the relief that was made available was insufficient to "substantially relieve … poverty" (*RMRB*, 20 October).

A senior representative of China's Family Planning Association was

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insistent that family planning policies must be maintained in the long run. His remarks reflected that China continued to face a demographic problem associated with the co-existence of a low birth rate with "still high population growth" – a situation that was expected to continue for some time. In support of this, he noted that although China's birth and natural increase rates in 200 were only 15 and 9 per thousand – well below the world averages of 22 and 13 per thousand – the absolute increment in total population (some 11 million) was still higher than the corresponding figure (10.3 million) for 1950. Moreover, projections suggested that China's total population would rise from the current level (1.3 billion) to 1.6 billion by about 2050 (XHNA, 16 October).

In a comment on ongoing "aggressive but prudent" reforms of the household registration (*hukou*) system, Xinhua noted that since June 1997, experimental changes had been introduced throughout China, as a result of which over half a million people – all of them having a permanent occupation and stable income – had been registered as permanent residents of small cities and towns (in December 2001, the total number of registered permanent residents was 1.386 million). According to a State Council report, the *hukou* reforms had not only assisted in directing surplus labour from the countryside to nearby cities and towns, but had also facilitated the development of the secondary and tertiary industries there. Meanwhile, since 1998, the State Council had further relaxed residence regulations by enabling those who met certain economic and residence requirements – and, in some cases, their families too – to be awarded permanent urban residence registration. In Heilongjiang, Jilin, Anhui and Tibet, previous limitations on numbers of people changing from rural to non-rural residence registration had been abolished, and restrictions lifted on the number of in-migrants from the countryside. Special residential registration regulations were also being put into place in Sichuan, Guizhou, Yunnan, Tibet and Xinjiang in order to facilitate implementation of the western region development strategy (XHNA, 4 October).

Zheng Xinli (deputy director of the CCPCC Policy Research Office) was quoted as saying that China should be able to increase the urbanization rate by 2 per cent p.a. and thereby reach a 50 per cent rate by 2050 (cf. 37 per cent in 2002 – some 10 per cent below its industrialization ratio and so significantly below the average levels of both more developed countries (MDCs) and less developed countries (LDCs)) (*RMRB*, 6 December). Zeng viewed accelerated urbanization as one way of addressing the problem of rural (especially farm) poverty and market constraints associated with low rural incomes. As he put it, "The per capita less-than-1 *mu* (0.06 ha) farming land, the rocketing farming cost, the declining grain prices and the mutually-separated rural and urban economies have rendered it not only nearly impossible for farmers to increase their income through ploughing their meagre plot of land, but also very hard to benefit, together with their urban counterparts, from China's rapid economic growth."

In a different report (the "China Urban Development Report (2001–

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2002)," published on 19 December), the need for accelerated urbanization was also emphasized. It argued that urbanization and wealth creation were closely related, and highlighted China's low urbanization rate (36 per cent) with the much higher figures for the US and Japan (80 per cent and 65 per cent respectively) (XHNA, 19 December).

Meanwhile, NBS data revealed that China's floating population – defined as those people who "change their residence beyond regional limits within a certain timeframe" – now exceeded 120 million, of whom 35 per cent (42.4 million) constituted the "transprovincial" floating population. Statistics also showed that of these 42.4 million people, the most important provincial origins were Sichuan (16.4 per cent), Anhui and Hunan (10.2 per cent each), Jiangxi (8.7 per cent), Henan (7.2 per cent) and Hubei (6.6 per cent). Taken together, the outflow population of these six provinces accounted for 59.3 per cent of the national transprovincial floating population. The chief provincial-level destinations were Guangdong (35.5 per cent), Zhejiang (8.7 per cent), Shanghai (7.4 per cent), Jiangsu (6 per cent), Beijing (5.8 per cent) and Fujian (5.1 per cent) – these six regions accounting for 68.5 per cent of the national total. Also revealed was the fact that urban out-migrants constituted 27 per cent of the national floating population, compared with 73 per cent for the rural sector. The other side of the coin was that migrants into the urban sector made up 74.4 per cent of total 'floaters', and rural in-migrants, 25.6 per cent. Ongoing economic and social reforms were expected to result in further rises in the floating population (XHNA, 6 October).

On 16 October, the State Council promulgated regulations, forbidding the employment of child labour. Thus, from 1 December 2002, no government departments, institutions, private enterprises or other businesses would be permitted to employ children under the age of 16. In support of the new legislation, employers were enjoined to check the identity cards of all job applicants, while parents (including children's legitimate guardians) would be made responsible for protecting their children from being illegally employed.

A Xinhua report stated that the Chinese Ministry of Culture (MOC) was to implement new rules, designed to strengthen controls on Internet cafés. The measures would include the introduction of training schemes for café managers, as well as the establishment of "an infringement mailbox and hotlines" that would help combat illegal operations. A MOC spokesman stated that Internet café managers who violated Chinese laws by allowing people under 18 to enter their premises would have their operating licences withdrawn. These measures were part of ongoing efforts to regulate China's 200,000 Internet cafés (XHNA, 15 October; also on the Internet, see XHNA, 19 October). Later in the quarter, Xinhua noted that as of end-September, China had 54.35 million Internet users and 81,907 www websites; some 20.6 million computers were said to be connected to the Internet (XHNA, 25 November).

Officially, as of end-2001, the number of HIV carriers in China was 30,736 – a figure that contrasts with other 'expert' estimates, which put

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the true level at least 850,000 (of whom 100,000–120,000 were thought to have already died). There were thought to be about 100 internationally-funded programmes on AIDS control operating in China, with a total budget of 1 billion *yuan* (XHNA, 9 October; see also XHNA, 12 October for a report on plans by domestic pharmaceutical firms to produce cheap, generic anti-HIV medicines that would be made available to most Chinese AIDS patients).

A report noted that a million Chinese had been infected by HIV since the detection of the first case in China in 1985 and that cases were now to be found in all 31 provinces, autonomous regions and municipalities of the country. Although the number of HIV/AIDS-positive patients registered between January and June [2002] had risen by 16.7 per cent, the rate of increase had slowed down. Drug abuse was said to be responsible for the infection of around 70 per cent of the HIV/AIDS patients, although cases caused by sexual contact was continuing to increase (XHNA, 19 November, quoting *Beijing Youth Daily*).

(f) *Economic Affairs*

On 1 October, the National Bureau of Statistics (NBS) released information on China's economic performance during the first half (H1) of 2002 (XHNA, 1 October). It revealed that GDP had risen by 7.8 per cent (2.6 per cent for agriculture, 9.6 per cent for industry (including construction), and 6.6 per cent for services). Fixed investment rose by 24.4 per cent. Rural per capita cash income averaged 1,122.6 *yuan*, compared with 3,942.4 *yuan* (disposable income) for urban residents – a 3.5-fold gap. Statistics issued later suggested that between January and the end of September, GDP growth had accelerated slightly to 7.9 per cent, while industrial output growth had risen to 13.8 per cent (12.2 per cent in terms of value added) – the acceleration in growth in the third quarter due to the buoyant performance of electronics, telecommunications equipment and car production. By contrast, fixed investment growth showed a decline in the third quarter, the January–September figure being 21.8 per cent. Retail sales of consumer goods rose by 8.7 per cent in the first three quarters of the year (the sales of telecommunications equipment, cars and housing increasing by 62.4, 58 and 31.9 per cent (XHNA, 15 October). The consumer price index was down 0.8 per cent.

H1 total government revenue increased by 9.2 per cent to 859.96 billion *yuan*, while expenditure was 829.74 billion *yuan* (up by 17.8 per cent). The biggest rises in spending were recorded in capital construction (+46.4 per cent to 99.94 billion *yuan*), education, science and health (+27.4 per cent to 161.7 billion *yuan*) and government administration (+25.6 per cent to 62.53 billion *yuan*). There were falls in spending on debt (down 18.9 per cent to 105.73 billion *yuan*), and on price subsidies (down 29.3 per cent to 18.13 billion *yuan*).

It was reported that the combined value of GDP of 15 cities in the Chang (Yangtze) River Delta was 1,686 billion *yuan* in 2001 – 17.6 per cent of national GDP. The value of their merchandise trade (imports plus

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exports) accounted for almost 30 per cent of the national trade total. The largest of the 15 cities was Shanghai (GDP = 495 billion *yuan*), and the next three largest were Suzhou, Hangzhou and Wuxi. The contractual value of foreign investment in the area of the 15 cities was almost US$150 billion (XHNA, 23 October).

It was revealed during the 16th National Party Congress that during the previous three years, the central government had invested 260 billion *yuan* for the purposes of opening up and developing western regions of China. Of this, some 200 billion *yuan* had been allocated to infrastructural construction, 50 billion *yuan* to environmental protection, and more than 10 billion *yuan* to "social undertakings" (these figures excluded the 160 billion *yuan* of state treasury bond financing that had been used for western development) (XHNA, 12 November).

The National Administration for Industry and Commerce Shenzhen revealed that 27.14 million people were now employed by 2.03 million private businesses, having a capitalization of over 1.8 billion *yuan*, in China. Individual savings were estimated to be in excess of 7 trillion *yuan* (XHNA, 14 November).

It was reported in December that China's output of around 100 manufactured goods was the highest in the world. The products included electronic home appliances, communications items, textiles, medicine, machines and chemicals. China was also responsible for producing 70 per cent of global output of silk.

The rapid growth of China's information technology (IT) industry was highlighted in statistics that showed domestic IT production to have increased by 20 per cent p.a. during the previous decade – some three times faster than GDP growth (as officially recorded). The outcome was that China's IT industry was now one of the three largest in the world, while China has the largest global player in terms of the production of mobile phones, DVD players, colour TV sets, programme controlled switches, and other electronics equipment. The IT workforce now numbered 6.2 million (cf. 1.5 million in 1997) – but as many as 16 million (i.e. 6.7 per cent of the urban labour force), if employment in related fields were included. The value of IT exports rose by 33.3 per cent in H1 2002 to reach US$38.59 billion (XHNA, 19 October).

The following month, a senior official in the Ministry of Information Industry (MII) predicted that China's IT industry would grow by 30 per cent p.a. between 2002 and 2005. By 2005, he said, the sales revenue from software and information services industries would exceed 300 billion *yuan*, with the software industry having secured 3 per cent of the international market and 60 per cent of the domestic market (cf. current levels of 1.2 and 33 per cent). Also by 2005, he expected that the value of telecommunications operations and electronic information products manufacturing would constitute 7 per cent of Chinese GDP. Finally, the official noted that China had already become the world's largest producer of programme-controlled switchboards, mobile phones, colour TV sets, laser disc players and record players (XHNA, 28 November).

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China's installed nuclear power capacity from its three nuclear power "bases" (in Jiangsu, Zhejiang and Guangdong) was expected to rise to 8.7m kW by 2005. It was also reported that China now had the capability to design 1m-kW-class nuclear power stations, as well as to manufacture large-scale nuclear power equipment (XHNA 23 October).

In December, it was reported that geologists had identified an area in southern Hebei (in and around Ningjin county and Nangong city), thought to contain one billion tons of oil reserves and 17 billion tons of coal reserves. Rich and exploitable gas reserves were also thought to be accessible (XHNA, 5 December).

Zhang Xiaoshan (director of the Rural Development Institute at the Chinese Academy of Social Sciences) argued that three "agriculture-related issues" were among the most pressing economic issues facing the Chinese government at the present time. The issues in question were: structural unemployment among the rural labour force; deficiencies in the rural land system; and difficulties faced by rural workers in "integrating itself with capital" (*ZXS*, 6 November).

In October, NBS data were made available that showed that between 1979 and 2001, the number of people employed in agriculture had fallen by over 20 per cent. Concealed in this figure was the finding that in absolute terms, farm employment had risen by 160 million less than in industry and services combined. As a result, the agricultural share of total employed fell from 70.5 to 50.1 per cent between 1978 and 2001, while the corresponding figures for the tertiary sector rose from 12.2 to 27.7 per cent (an increase of 140 million new employees). Although the GDP share of the farm sector had fallen by 10.1 per cent during the same period, agricultural labour productivity had risen by 11 per cent. Such changes highlighted China's success in having escaped from a position characterized by a "weak agricultural foundation, lopsided industrial development, and low level of service trades."

The main thrusts of future structural adjustments would be as follows: first, an acceleration in the rate of growth of "non-public" economic activities (whose current share of GDP was only about 25 per cent); secondly, continuing accelerated growth of services (its share of GDP remained quite low at 33.6 per cent – cf. 35 per cent for most LDCs); thirdly, an increase in the rate of consumption at the expense of a lower accumulation ratio (China's current accumulation rate – 37.3 per cent – being far higher than the international average); and fourthly, a narrowing of the gap between coastal, central and western regions (their shares of GDP currently standing at 57.8, 27.9 and 14.3 per cent, respectively) (Hong Kong XHNA, 7 October).

Zhang Zuoji (minister of Labour and Social Security) revealed that as of mid-2002, almost two-thirds (17.26 million) of the 26.11 million workers laid off from state-owned enterprises (SOEs) since 1998 had been re-employed. Many of these had found new jobs in the service and/or private sectors. During the same period, 84.7 billion *yuan* had been paid out as living allowances and a further 710 billion *yuan* in pensions. Zhang noted that 140 million workers were now covered by pension

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insurance, over 100 million by unemployment insurance, and 82 million by medical insurance. Such statistics notwithstanding, he added that China faced a "very grim" employment challenge, not least because new entrants to the labour force were expected to peak between 2001 and 2005 (XHNA, 26 October).

Xinhua announced that 22.4 billion *yuan* of five-year treasury bonds would be offered for sale at the Shanghai and Shenzhen security markets during 24–29 October. The bonds would attract an interest rate of 2.65 per cent p.a. (see also XHNA, 5 December for comments by Zhu Rongji on the economic contribution of treasury bond issues in China). In December, the Chinese Ministry of Finance announced that treasury bonds worth 36.8 billion *yuan* – the final series of registered bonds planned for 2002 – would be issued on 13 December at an annual interest rate of 2.3 per cent. The issue would take the cumulative value of T-bond issues for 2002 to 592.9 billion *yuan* (XHNA, 13 December).

A Hong Kong source interpreted the appointment of Dai Xianglong (governor of the Bank of China) as head of a high-level task force intended to expedite the reform of China's four commercial banks – the Bank of China, Industrial and Commercial Bank of China, China Construction Bank, and Agricultural Bank of China – as evidence of the government's determination to accelerate banking reforms. Evidence of the urgent need for such reform was clear from serious problems of non-performing loans (officially estimated at 30 per cent), undercapitalization, and loss of market share to foreign financial institutions. Such problems were expected to worsen in the face of increased foreign competition associated with Chinese entry into the WTO (*South China Morning Post*, 19 October).

An official of the Ministry of Foreign Trade and Economic Co-operation (MOFTEC) noted that more and more overseas companies were directing their investment in China towards services and high-technology industries. As of the end of September, some 20 foreign-funded insurance companies had already received licences to begin services in China, and over 100 more were awaiting licensing. In the high-tech sector, favoured destinations included electronic information, bio-engineering, aviation and space flight, and "new-technology agriculture." The official noted that in 2001, foreign investment (contractual) in electronics and telecommunication equipment manufacturing rose by 54.4 per cent. Foreign investors were also shown to be increasingly attracted towards the establishment of wholly foreign-owned enterprises, rather than engaging in joint ventures (XHNA, 30 September).

Xinhua noted that between January and September, utilized FDI had risen year on year by 22.6 per cent to reach US$39.56 billion. In the same period, contractual investment was up 33.4 per cent to US$68.38 billion. As of end-September, the cumulative contractual value of all 415,000 foreign-funded enterprises approved by the Chinese government was US$813.67 billion (XHNA, 14 October).

In 17 December, the director of MOFTEC's China World Trade Organization (WTO) Research Society (Tong Zhiguang) noted that dur-

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ing January–August 2002, China had absorbed a *daily* average of US$142 million. On this basis, it had become the most popular investment destination in the world, overtaking the US for the first time (*ZXS*, 17 December).

The director of the NBS (Zhu Zhixin) stated that within three to five years – i.e. starting in 2003 – China would begin to calculate and publish the total value of its economy on the basis of universally-practised norms (XHNA, 18 December). He revealed that experiments in this direction were already under way, as evidenced in trials to calculate GDP and industrial output growth by new methods. Zhu also made it known that the NBS had established a data-gathering network, designed to prevent interference by local authorities in China.

Within the period of three to five years, said Zhu, China would be in a position to release GDP figures that are fully compatible with indices used in other market economies in the world, including fixed price-based GDP, quarterly GDP and the GDP of investment, consumption and net exports.

China joined the general data distribution system (GDDS), sponsored by the International Monetary Fund (IMF), in April 2002.

It was announced at the end of the quarter that China had dismantled the State Power Corporation in favour of the establishment of 11 smaller companies in an attempt to end the corporation's previous monopoly of the power industry (it had owned 46 per cent of China's electricity generation assets and 90 per cent of its electricity supply assets). The new and smaller companies included two power grid operators, five electricity generation companies (each owning under 20 per cent of the national market) and four "relevant business companies" (XHNA, 29 December). A regulatory commission would also be established in order to supervise China's power industry (including making proposals on power price adjustments, and issuing and managing power service licenses).

(g) *Military Affairs*

On 9 October, military attachés and assistant military attachés from over 50 countries attended a briefing in Beijing on the political work of the Chinese People's Liberation Army (PLA) and the functions of the PLA General Political Department (XHNA, 9 October).

An article in the Hong Kong *South China Morning Post* quoted Xinhua to the effect that the entire general staff of the PLA had unprecedentedly been replaced in a single reshuffle. The report suggested that the move would improve China's ability to address domestic terrorism, as well as deal more effectively with a potential military conflict with Taiwan. New appointees included: General Liang Guanglie (chief of general staff); General Xu Caihou (director of the General Political Department); and General Liao Xilong (director of the General Logistics Department).

On 9 December, the Information Office of the State Council issued a White Paper on "China's National Defence in 2002" – the fourth to be made available by the Chinese government since 1995. It reaffirmed the

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government's determination to strengthen its defence capabilities, not least in order to address the increased threat posed by terrorist activities. The document insisted that defence spending had increased "at a fairly low level" that was mainly "of a compensatory nature." The share of defence spending in GDP had risen from 1.09 to 1.5 per cent between 1995 and 2001 (as a share of state financial expenditure, the share had fallen from 17.37 to 7.65 per cent during 1979–2001) (full text available in XHNA, 9 December).

(h) *Minorities (Tibet)*

On returning from a visit to China and Tibet, Lodi Gyari (special envoy of Dalai Lama and head of the two-member delegation to China) said that talks in Beijing had revealed "much greater flexibility" in the Chinese leadership's attitude towards the Tibet issue (Press Trust of India, 30 September). He revealed that the Dalai Lama had welcomed "the positive gesture" of the Chinese leadership in having received the delegation and had expressed his pleasure on the renewal of contact with Beijing.

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

Radio-Television Hong Kong (RTHK) quoted a senior researcher at Hong Kong University to the effect that economic growth in Hong Kong would reach 1.4 per cent in 2002 (cf. 0.6 per cent in 2001) (RTHK, 30 September). The following day, RTHK also quoted the HKSAR Financial Secretary (Antony Leung) as saying that he expected to eliminate Hong Kong's budget deficit by 2006 – this notwithstanding a rise in the deficit to HK$56 billion during the first five months of 2002. At the end of November, the same source reported that the budget deficit had, in fact, risen at an accelerated pace to $72.4 billion by the end of July – a figure that was already 60 per cent higher than the targeted figure (RTHK, 30 November). The following month, it was revealed that Antony Leung had raised his forecast for the 2002 budget deficit from 3.6 per cent to over 5 per cent of HKSAR GDP – i.e. between $65 and $70 billion.

In the face of the growing budget difficulties and wider economic problems, Tung Chee-hwa stated that he would take strong measures in order to control spending and raise revenue. He said that deflation has seriously affected public revenue, adding ominously that "[I]f we do not strictly control public expenditure, the worsening deficit will damage the foundation of our economy, cause instability to our monetary system and increase unemployment." Tung revealed that in support of efforts to control expenditure, a goal had been set to reduce operational expenditure to HK$200 billion by the end of 2006–07 fiscal year. This implied an estimated reduction of HK$20 billion. These measures, complemented by attempts to increase revenue, were intended to restore fiscal balance – also by 2006–07 (XHNA, 7 December; and see also RTHK, 7 December).

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Later in the quarter, the Hong Kong General Chamber of Commerce (HKGCC) projected that real GDP would rise by 2.1 per cent in 2003, and 2.8 per cent in 2004.

On 25 October, HKSAR Chief Executive Tung Chee-hwa flew to Los Cabos, Mexico, to attend the Tenth Asia-Pacific Economic Co-operation (APEC) Economic Leaders Meetings.

Following a meeting with the financial secretary, the chairman of the Democratic Alliance for the Betterment of Hong Kong (Tsang Yok-sing) revealed that he had put forward a proposal that the HKSAR civil service should be cut by 10 per cent during the next three years. If implemented, the plan would reduce the HKSAR government's budget deficit by over $2 billion p.a. (RTHK, 11 November).

It was reported that the rate of unemployment had fallen to 7.2 per cent in the third quarter, even though the rate of under-employment had marginally risen (from 2.9 to 3 per cent). The change in circumstances was attributed to improved employment in the decorating industry, and wholesale and retail sectors, offsetting further contractions in real estate and financing (RTHK, 18 November).

During a visit to Hong Kong in November in order to attend the World Congress of Accountants, Premier Zhu Rongji spoke of the unique role played by Hong Kong in supporting China's modernization. He expressed confidence that current economic difficulties in the region would be overcome, and reaffirmed Beijing's support in Hong Kong's development (RTHK, 19 November; the full text of Zhu's speech to the World Congress of Accountants is in XHNA, 19 November).

In November, HKSAR Financial Secretary Antony Leung undertook a nine-day tour of the Netherlands, the UK and Ireland.

The following month, Tung Chee-hwa travelled to Beijing, where (9 December) he held talks with Premier Zhu Rongji. Zhu expressed his government's satisfaction with the work of Tung and the HKSAR government during the previous year. He spoke with satisfaction of Hong Kong's continuing economic and social stability and reaffirmed the Chinese government's determination to promote its continuing stability and prosperity. RTHK (also 9 December) quoted Premier Zhu as saying that in the event of a pay cut for Hong Kong's civil servants, those at senior levels should accept a bigger reduction.

In Beijing, Tung Chee-hwa also met Jiang Zemin, who reiterated China's long-term commitment to the policy of "one country, two systems." Like Zhu, Jiang expressed optimism about Hong Kong's prospects.

2. Foreign Relations

(a) *Diplomatic Tours*

Tang Jiaxuan's tour of Latin America (Argentina, Colombia and Mexico)

On the first leg of his Latin American tour (17–19 October), Tang Jiaxuan visited Argentina, where he held talks with senior officials and

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signed an agreement on educational, academic, economic and scientific co-operation. At the end of the visit, a communiqué signed by the two sides made clear China's continuing support for Argentina's claim to sovereignty over the Falkland Islands (a position reciprocated in Argentina's endorsement of China's official position vis-à-vis Taiwan) (Buenos Aires, Telam News Agency, 18 October).

Subsequently, Tang travelled to Bogota (Colombia), where he discussed issues of common concern with the Colombian foreign minister, Carolina Barco.

Also in Bogota, Tang was joined by the foreign ministers of Bolivia, Ecuador, Peru and Venezuela, all of whom participated in the first Andean Community–China Political and Co-operation Consultation Mechanism meeting.

Finally, Tang went to Mexico, where, in addition to holding talks with Mexican government officials, he attended the 14th ministerial meeting of the Asia-Pacific Economic Co-operation (APEC) forum.

Tang Jiaxuan's visits to Russia, Spain and Germany

On 22 November, Tang Jiaxuan left Beijing for Moscow in order to attend the foreign ministers' meeting of the Shanghai Co-operation Organization (SCO). During the meeting members of the SCO adopted an interim document, which sought to regulate the relations between the organization's member-states and other countries and international organizations. It was also revealed that SCO foreign ministers had urged the UN to adopt a comprehensive convention for the eradication of international terrorism, as drafted by India, as well as the convention for the prevention of nuclear terrorism (Moscow, Interfax, 23 November).

Meanwhile, in separate talks with the Chinese foreign minister, Russian President Vladimir Putin suggested that his own forthcoming visit to China (see below) would facilitate a further enhancement of Sino-Russian relations.

Following his arrival in Madrid, Tang held separate talks with the Spanish foreign minister (Ana Palacio) and prime minister (Jose Maria Aznar). Ms. Palacio spoke positively of the development of bilateral relations and hoped for a further expansion of economic and cultural co-operation. She noted that in 2003, Spain would be a non-permanent member of the UN Security Council and looked forward to closer ties with China within the UN framework..

In his discussions with Premier Aznar, Tang spoke of the importance which China attached to its relations with Spain, and expressed his government's willingness to take those relations to a higher level through expanded trade and economic co-operation, and other means. Premier Aznar echoed both Tang's sentiments and those of Ms. Palacio in his hopes for closer contact between the two countries during the coming two years in which Spain would be a non-permanent member of the UN Security Council.

The Chinese foreign minister was also received by King Juan Carlos I,

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with whom he had what were described as "friendly talks" on the further development of Spanish–Chinese relations (XHNA, 25 November).

Following his arrival in Berlin, Tang met the German President, Johannes Rau. Tang expressed the hope that Germany would play an increasingly important role in international affairs, as well as strengthening its ties with China in their common desire to establish a "friendly and co-operative partnership."

The same day (28 November), Tang held talks with Chancellor Schroeder. He noted that despite slowing global economic growth, Sino-German trade had consistently increased in recent years. He also suggested that success in the construction of a magnetic levitation railroad in Shanghai, which was currently undergoing final testing, would lay a firm foundation for expanded high-technology co-operation between the two countries. In the wake of China's accession to the WTO, Tang expressed the hope that improvements in the domestic trade and investment environment would encourage more German enterprises – including small and medium-scale enterprises – to invest in China. Schroeder endorsed Tang's comments on bilateral trade and economic co-operation, adding that Germany and China also had extensive common interests, as evidenced, for example, in their desire to enhance the role of the UN in addressing world problems. (For a report on Tang's meeting with his German counterpart, Joschka Fischer (including a four-point proposal for the continued development of bilateral relations), see XHNA, 28 November.)

(b) *Countries, Territories and Regions*

Africa (Republic of Mozambique, Republic of Ghana, Guinea-Bissau)

On 9 October, Pascoal Manuel Mocumbi (prime minister of Mozambique) arrived in Beijing. The following day he held talks with his Chinese counterpart (Zhu Rongji), who expressed his government's appreciation of Mocumbi's contribution to bilateral friendship and co-operation, and Mozambique's adherence to the "one China" policy. Speaking of the complementarity of the two countries' economies, Zhu looked forward to the further development of bilateral trade and economic co-operation. The two sides later signed an agreement on economic and technological co-operation, as well as a memorandum of understanding on agricultural co-operation.

Speaking at a business seminar, Mocumbi called for expanded co-operation between Chinese and Mozambican enterprises in infrastructural construction (roads, railways and telecommunications), mining and fishing. It was reported that the level of bilateral merchandise trade had reached US$33 million in 2001 (XHNA, 10 October).

Mocumbi also met Li Peng. He left China from Shanghai on 16 October.

On 31 October, President John Agyekum Kufuor of Ghana arrived in Beijing at the invitation of Jiang Zemin. In their talks, Jiang spoke

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enthusiastically about progress in the development of bilateral relations and noted the potential that existed to further strengthen such relations. The two countries signed four documents, including an agreement whereby China would provide loans to Ghana.

On 16 December, Jiang Zemin held discussions in Beijing with President Kumba Yala of Guinea-Bissau. Jiang noted that bilateral co-operation had developed smoothly since the resumption of diplomatic relations in 1998. The two men later attended a ceremony at which the two governments signed an agreement on bilateral economic and technological co-operation.

The next day, Yala met Zhu Rongji in Shanghai. The Chinese premier spoke of the smooth development of relations between China and Guinea Bissau, drawing particular attention to their effective co-operation in agriculture, fisheries, and the machinery and construction industries, as well as in culture, education and health care.

Commonwealth of Independent States (Russian Federation, Ukraine, Kyrgyzstan, Kazakhstan)

In October, the Russian president's envoy (Georgiy Poltavchenko) headed an economic and trade delegation to China. In meetings with Jiang Zemin and Zhu Rongji, he spoke enthusiastically about the role of the bilateral "strategic co-operative partnership" in facilitating the further development of bilateral relations.

Shi Guangsheng (MOFTEC minister) revealed that Sino-Russian trade had risen by 17 per cent between January and September (XHNA, 16 October). Elsewhere, it was reported that arms shipments to the PLA air force accounted for a large part of Sino-Russian trade (Moscow, *Kommersant,* 6 November). The report noted that following the resumption of trade between the two countries in the early 1990s, the first major contract had been an agreement to sell 20 Su-27SK fighters and six Su-27UBK's to China. This was the first of a number of arms deals, later supplemented by similar deals to supply vessels to the Chinese navy, anti-aircraft missiles, and other kinds of weaponry.

It was announced in October that Sevmashpredpriyatiye (a machine-building corporation based in Severodvinsk, Arkhangelsk Region) had begun construction of two Kilo class diesel submarines for the Chinese navy. Russian sources revealed that earlier in the year, an order had been placed for the Chinese purchase of eight submarines: five to be produced in a St. Petersburg shipyard, two in Amur, and one in Novgorod.

The following month (13 November), it was reported from Irkutsk that the Irkut aircraft manufacturer had completed delivery over a three-year period of 28 Sukhoi-27UB combat trainer jets worth US$1 billion (Moscow, Prime-TASS, 13 November).

Finally, Interfax-AVN military news agency reported on 16 December that Russia had that day supplied 10 Su-30MKK multifunctional fighters to China for use by the navy in accordance with the provisions of a

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bilateral contract. The aircraft had been manufactured by the Komsomolsk-na-Amure

On the eve of President Vladimir Putin's arrival in Beijing, Xinhua reviewed the state of Sino-Russian economic relations. It noted that between January and the end of October, two-way trade had risen by 18.1 per cent (year on year) to US$9.84 billion (cf. 2001, in which the trade volume had exceeded US$10 billion for the first time ever). The value of Chinese exports to Russia was US$2.83 billion (up 38.2 per cent), while that of the reverse flow was US$7.01 billion (up 11.5 per cent). China was Russia's sixth-largest trade partner, and Russia was China's eighth-largest. As for foreign investment, some 474 Chinese-funded companies were operating in Russia, worth US$303 million, while Russia had 1,383 investment projects in China, worth US$706 million (XHNA, 30 November).

On 1 December, President Putin arrived in Beijing, prior to talks the following day with Jiang Zemin and Zhu Rongji. It was revealed that Putin would also meet the new CCP secretary general (Hu Jintao) and the NPC chairman (Li Peng).

Jiang insisted that even closer friendly co-operation was the only possible road for China and Russia to follow. To this end, he called on both sides to adhere to the principles of the 2001 bilateral treaty of friendship and co-operation, and gave an undertaking that China would strengthen its efforts to extend co-operation and other exchanges with Russia (XHNA, 2 December).

Later the same day, Zhu's talks with Putin focused mainly on how to expand further bilateral co-operation. The Chinese premier suggested that the strong economic complementarity that existed between China and Russia was an obvious basis on which to pursue wider trade and economic co-operation. The Chinese government was determined, he said, to find ways of promoting strategic co-operation, raising mutual investment and regulating trading in order to create "fair and transparent co-operative conditions" that met international and WTO norms. For his part, Putin echoed many of Zhu's remarks and spoke of the potential co-operation in new and high-technology fields that remained untapped (*ZXS*, 2 December).

Xinhua subsequently published the text of a joint statement, signed by the presidents of China and the Russian Federation (available in XHNA, 2 December). The document endorsed the "strategic partnership of co-operation" between China and Russia as "the only correct historic choice" for meeting the long-term interests of the two countries. It reviewed the steady progress in bilateral relations during the previous decade, and expressed a determination to take those relations to an even higher level. To this end, exchanges and other forms of co-operation (not least, in trade and economic matters – especially energy – but also in law enforcement and combating terrorism) would be maintained and strengthened. Beijing would also lend its support to Russia's accession to the WTO. (See also XHNA, 3 December, for a report on the speeches made by presidents Jiang and Putin at Beijing University.)

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ITAR-TASS quoted the Russian atomic energy minister (Aleksandr Rumyantsev) to the effect that Russian planned significantly to extend its role in China's nuclear market (Moscow, 2 December). Rumyantsev said that his ministry expected to sign contracts worth over US$1 billion for the construction of three power units for nuclear power plants in China – one of them using fast neutron technology. At the present time, Russia was already engaged in building two power units of a nuclear power plant in China worth US$1.8 billion (the first to be operational in December 2004, the second by mid-2006).

The sixth round of Sino-Russian military consultations was held in Beijing on 16 December. It was attended by Xiong Guangkai (deputy chief of the General Staff of the PLA) and Yuriy Baluyevskiy (the Russian first deputy CGS). The two sides exchanged views on regional and international security (including the campaign against terrorism), co-operation between the two countries' armed forces, and major international and other issues of common concern. They were reported to have reached a broad consensus (XHNA, 16 December; see also ITAR-Tass, 17 December).

In November, the Ukrainian president (Leonid Kuchma) visited China, where he held talks with senior Chinese government officials. Jiang Zemin reaffirmed an earlier Chinese pledge to guarantee Ukraine's security (the undertaking having been given in the wake of Ukraine's abandonment of nuclear weapons) (Kiev, *UNIAN*, 18 November). Following their talks, Jiang and Kuchma signed four agreements, including a co-operation agreement to protect intellectual property rights and a protocol on aircraft construction (in Moscow, ITAR-Tass reported that Ukraine planned to sell a consignment of Antonov-140 planes to China). In a separate meeting with defence minister Chi Hao-tian, Kuchma expressed the hope that exchanges and co-operation between the two countries' armed forces would be further strengthened (XHNA, 18 November).

President Kuchma also met Li Peng before departing from China on 20 November.

Following his arrival in Beijing the previous day, on 11 December, Askar Aytmatov (foreign minister of Kyrgyzstan) held talks with his Chinese counterpart, Tang Jiaxuan. The two men signed an agreement on co-operation against terrorism, separatism and extremism, whereby the two sides undertook to lend mutual support and strengthen co-ordination in their efforts to maintain national security and regional peace and stability. Tang drew particular attention to the positive contribution to regional and international affairs made by the Shanghai Co-operation Organization (SCO) (XHNA, 11 December). The two sides later issued a joint press communiqué (XHNA, 12 December).

On 22 December, President Nursultan Nazarbayev of the Republic of Kazakhstan arrived in Beijing for a four-day state visit. The following day, he held talks with Jiang Zemin on bilateral relations and other issues (XHNA, 23 December). Jiang Zemin put forward a four-point proposal, designed to promote the further development of ties between

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China and Kazakhstan. He also expressed China's gratitude to Kazakhstan for supporting Chinese actions against the "'East Turkestan' terrorist forces." Nazarbayev also expressed his satisfaction with the development of political and economic co-operation, and responded positively to Jiang's proposals for promoting bilateral co-operation. He also endorsed co-operation against terrorism.

Following the talks, the two presidents signed the "PRC-Kazakhstan Treaty of Good Neighbourliness and Friendly Co-operation," and attended a ceremony for signing various other agreements.

Zhu Rongji told Nazarbayev that even allowing for the expansion of co-operation in trade, transportation and energy, the full potential for such co-operation (especially in energy) between China and Kazakhstan remained unfulfilled. Nazarbayev gave a positive response to the idea of closer energy co-operation, and it was later announced that China had confirmed its consent to build an oil and gas pipeline from Kazakhstan to western China.

During his visit to China, Nazarbayev also met vice-president Hu Jintao and Li Peng.

Japan

Kyodo reported the arrival in Beijing (1 October) of the former Japanese prime minister, Yoshiro Mori, in order to participate in events commemorating the 30th anniversary of the establishment of diplomatic relations between Japan and China.

Vice-ministerial-level economic talks began in Beijing on 15 October between Chinese and Japanese representatives in an attempt to obviate a bilateral trade conflict and enhance economic co-operation. The talks took place through the mechanism of the newly-established Japan–China Economic and Trade Partnership framework. In anticipation of its first meeting, Kyodo reported the intention of the Japanese side to submit a proposal to establish permanent committees to deal with matters affecting farm and light manufacturing products, intellectual property rights and quarantine issues. The two sides were also expected to discuss ways of co-operating within the WTO (Kyodo, 15 October). Xinhua noted that Japan was China's largest trade partner and revealed that bilateral trade during January–August had totalled US$62.9 billion; as of September 2002, Japanese utilized investment in China was US$35.35 billion (XHNA, 15 October).

On 18 October, Shi Guangsheng met his Japanese counterpart in Tokyo, with whom he discussed a number of outstanding bilateral trade issues. Kyodo reported, however, that the two men's talks had failed to generate any solution. One of the delicate issues discussed had been Japan's economic relations with Taiwan. On this, the Japanese side maintained its previous view that such relations should be pursued through non-governmental, business channels, and admitted that Japanese and Taiwan business groups were studying the prospects for setting up a Free Trade Area (something to which Shi Guangsheng expressed strong

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opposition: "we are concerned about negative effects [of any FTA] on Japan–China relations"). Shi tried to allay Japanese concern about Chinese import restrictions on steel products, continuing evidence of patent piracy, and allegedly unfair tariffs on films (Kyodo, 18 October).

Latin America (Uruguay, Venezuela)

The president of Uruguay (Jorge Batlle Ibanez) arrived in Beijing on 13 October for a six-day state visit to China, designed to enhance political ties and strengthen economic co-operation. Zhu spoke of the success of Batlle's visit and indicated the Chinese government's willingness to expand its political and economic relations with Uruguay.

In December, the Venezuelan foreign minister (Roy Chaderton Matos) visited China and held talks with senior Chinese government officials, including Zhu Rongji.

Middle East and North Africa (Iraq, Republic of Yemen)

People's Daily (*RMRB*, 13 November) argued that Iraqi president Saddam Hussein's unconditional acceptance of the terms of the UN Security Council Resolution 1441 on weapons inspection in Iraq had not only defended the dignity of Iraq, but also – if temporarily – avoided a war. The following month, a Chinese Foreign Ministry spokesman called for the continued smooth operation of UN weapons inspections in Iraq, expressing the hope that they would produce a formal settlement of the issue within the UN framework.

On 24 December, the Yemeni foreign minister (Abu-Bakr Abdallah al-Qirbi) arrived in the Chinese capital at the invitation of Chinese foreign minister Tang Jiaxuan.

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

Yang Hyong-sop (vice-president of the Presidium of the DPRK Supreme People's Assembly) led a North Korean delegation to China during October. During its visit, talks took place between the North Korean representatives and Chinese government officials, including Tang Jiaxuan and Jiang Chunyun (vice-chairman of the NPC Standing Committee). Both sides reaffirmed the importance of maintaining friendly ties and strengthening co-operation (XHNA, 15 October).

From Seoul, Yonhap reported that between January and September, China had for the first time ever overtaken the US as South Korea's most important export destination. During this period, China accounted for 20.3 per cent of Korean export revenue, compared with 20.2 per cent for the United States (Yonhap, 13 November).

At their first meeting in Seoul (22 November), Chinese, Japanese and South Korean business representatives adopted the "Seoul Declaration" –

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a joint statement calling for the establishment of an East Asian free trade agreement (Yonhap, 22 November).

Pacific Ocean (Micronesia)

On 9 October, the vice-president of the Federated States of Micronesia, Redley Killion, arrived in the Chinese capital on a six-day working visit as the guest of Vice-President Hu Jintao. Following their talks, Killion and Hu attended a signing ceremony of an economic and technological co-operation pact between the two countries. Killion's visit also took him to Shanghai and Hainan.

South Asia (Bhutan, Afghanistan, India, Bangladesh)

On 14 October, Zhu Rongji met the Bhutanese foreign minister (Lyonpo Jigmi Yozer Thinley), with whom he held discussions on the issues relating to their common border. Linley was in Beijing to attend the 16th round of China–Bhutan boundary talks. His talks with Zhu followed a meeting with the Chinese foreign minister, Tang Jiaxuan. A PTI report from New Delhi (15 October) quoted Chinese sources to the effect that the boundary talks had been "successful."

On 18 November, Tang Jiaxuan held discussions with Abdullah Abdullah (foreign minister of the Transitional Islamic Government of Afghanistan), who had arrived in Beijing the previous day. He told Abdollah that China would exempt Afghanistan from its outstanding debts and expressed the Chinese government's support for efforts to rebuild a peaceful Afghanistan. The two men also exchanged views of regional and discussed international issues of common concern, reportedly reaching a wide-ranging consensus. Following their talks, they signed an exchange note on the Chinese government's offer of aid to Afghanistan (XHNA, 18 November).

An Indian source stated that following a new round (the 13th) of talks by the Joint Working Group (New Delhi, 21 November), India and China had reached a "reasonable understanding" on how to address the ongoing and protracted boundary dispute. According to the Indian foreign secretary (Kanwal Sibal), "we have reached a reasonable understanding on how to deal with this matter and on how to move forward" (PTI, 21 November). Xinhua's version of the talks was that they had enabled a "frank and friendly" exchange of views on international and bilateral relations, including the border issue, to take place in a way that had enhanced mutual understanding. The two sides had agreed that the 14th meeting of the Experts Group on the Sino-Indian border issue should take place in Beijing in January 2003 (XHNA, 22 November).

The Bangladeshi prime minister (Khaleda Zia) travelled to Beijing, where (23 December) she held talks with Zhu Rongji. Zhu insisted that no problems existed to impede bilateral relations and hoped that China and Bangladesh would forge even closer ties. Zia noted that the two countries shared common interests and she spoke with satisfaction of

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their co-operation in international affairs. She also endorsed her government's adherence to the "one China" policy. Following their talks, Zhu and Zia attended the signing ceremony of three documents (including an agreement on economic and technical bilateral co-operation) (XHNA, 24 December).

South-East Asia (Indonesia, Thailand, Republic of East Timor, Association of South-East Asian Nations (ASEAN))

A Foreign Ministry spokeswoman issued a strong condemnation of bomb explosions in a tourist area of Bali (Indonesia) on 14 October. Her statement reiterated the Chinese government's opposition to terrorism in whatever form. Elsewhere, it was reported that two Hong Kong citizens had been killed in the explosions. (XHNA and RTHK, 14 October).

Xinhua (6 December) reported that Thai exports to China had risen from US$2.78 billion to US$4.71 billion (1999–2001); the reverse flow had meanwhile increased from US$1.44 to US$2.34 billion. The outcome was almost a doubling of the Thai trade surplus vis-à-vis China from US$1.34 billion to US$2.37 billion.

In Beijing on 16 December, Tang Jiaxuan met the minister for foreign affairs and international co-operation of the Democratic Republic of East Timor, Jose Ramos Horta. Their talks focused on ways of developing bilateral relations. Horta spoke of the importance his government attached to relations with China. He looked forward to co-operation with China in infrastructural construction, health care, natural oil and gas exploration, and agriculture (XHNA, 16 December). The following day, Horta held discussions with Zhu Rongji in Shanghai. Zhu said that China would do as much as it could to assist East Timor.

The first Macro-economic Forum on China and ASEAN opened in Kunming on 26 October. A report on the meeting noted that since 1995, the value of trade between China and ASEAN member states had risen, on average, by more than15 per cent. Even in the face of difficult global economic difficulties and political volatility, 2001 had seen bilateral trade rise by 5.3 per cent to reach US$41.6 billion. Concealed in such figures was the finding that ASEAN had become China's fifth-largest trading partner, while China was ASEAN's sixth-biggest. By the end of 2001, cumulative ASEAN investment in China was valued at US$53.5 billion (7.2 per cent of the value of all foreign capital inflows) (XHNA, 26 October).

Taiwan [Republic of China]

In an article on cross-strait ties, *People's Daily* was critical of parts of the amended draft of the Taiwanese government's "Regulations Governing Relations between People of the Taiwan and Mainland Areas," as recently published. It suggested that the amendments failed to fulfil claims that the new regulations would help facilitate cross-strait relations, arguing that, to the contrary, they served merely to exacerbate

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existing difficulties. Above all, the document had failed to address the pressing issue of the "three links." Personal criticism was reserved for President Chen Shui-bian, who, said the article, had "turned a deaf ear" to demands to open the three links. Indeed, it attacked Chen for allegedly encouraging "Taiwan independence" and collaborating with the vice-president, Annette Lu Hsiu-lien, in implementing a "new 'go south policy.'" It suggested that Chen's "malicious" intention was to "cut the roots of Taiwan compatriots from the mother mainland" (*RMRB*, Overseas Edition, 23 October).

A senior representative of the People's Bank of China (PBOC) expressed the hope that mainland commercial banks would be allowed to establish offices in Taiwan in the near future. He noted that since 2001, eight Taiwanese banks had applied to the PBOC to set up representative offices in Beijing and Shanghai. Four of these applications had already been approved.

At the end of the quarter, the Ministry of Economic Affairs' Board of Foreign Trade (BOFT) in Taipei reported that the value of cross-strait trade had reached US$33 billion during January–October – a rise of 34.5 per cent year on year. The value of Taiwanese exports was US$26.67 billion (up 35.4 per cent), while imports from the mainland were valued at US$6.37 billion (a rise of 31 per cent). The resultant Taiwanese trade surplus was US$20.3 billion (up 36.8 per cent). Shipments of Taiwanese goods to China accounted for 24.9 per cent of its global exports (5.7 per cent more than in the previous year), while two-way trade accounted for 16.5 per cent of Taiwan's global foreign trade (up 3.8 per cent) (CNA, 27 December).

United States of America

Between January and August, bilateral China–US trade totalled US$60.2 billion (14.6 per cent more than in the same period of 2001). Chinese exports to the United States rose by 22.7 per cent, while imports of US goods fell by 1.7 per cent, generating a Chinese trade surplus of US$25.8 billion (XHNA, 1 October). Extrapolations of the trend pointed to an annual trade turnover of US$92 billion. The United States was now China's second-largest trading partner (after Japan).

On the eve of Jiang Zemin's arrival in the United States, China and 13 US companies signed five contracts in the fields of petrochemicals, telecommunications and energy valued at US$4.7 billion. The signing ceremony was attended by Zeng Peiyan (minister of the PRC State Development Planning Commission).

On 22 October, Jiang arrived in Chicago at the beginning of a working visit to the USA, at the invitation of President George W. Bush. Jiang's visit would also take him to the Tenth Informal Leaders' Meeting of APEC in Los Cabos (Mexico) (see under (c) below). In a written statement issued on his arrival, Jiang expressed the hope that his forthcoming meetings with Bush and other American leaders would help "deepen mutual understanding and trust, expand exchange and

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co-operation between the two countries, and bring about further development of Sino-US constructive and co-operative relations through the joint efforts of both sides" (XHNA, 22 October).

The following day, Jiang flew to Houston (Texas), where he met former president George Bush and visited the Johnson Space Centre. Jiang praised the contribution which the former president had made to Sino-US relations. At a dinner hosted by the mayor of Houston, Jiang gave an up-beat speech on the state of bilateral relations and the prospects for the further development of ties.

Also on 25 October, President George W, Bush held talks with Jiang at his ranch in Crawford (Texas). Both men spoke of their willingness to strengthen co-operation in all fields in line with their commitment to promote a "constructive bilateral relationship." Jiang later described the meeting as "constructive and productive," and revealed that he and Bush had had a "frank exchange of views" on Taiwan, in the course of which he (Jiang) had "elaborated on my government's basic policy of peaceful unification and the policy of 'one country, two systems' for the settlement of the Taiwan question." He added that Bush had reaffirmed the US government's commitment to the "one China" policy. Human rights, religion and the situation in North Korea were among the issues discussed by the two men. For his part, President Bush revealed that the two sides had agreed to begin a new dialogue on security matters (XHNA, 26 October).

On 25 October, Jiang left the US for Mexico in order to attend the Tenth Informal Leaders' Meeting of the APEC. A Xinhua report (25 October) spoke of the consensus that he and President Bush had reached during their "in-depth exchanges" on bilateral, regional and international issues of common concern.

The Fifth Sino-US Vice-Ministerial Defence Consultation was held at the Pentagon (Washington, DC) on 10 December. It was attended by General Xiong Guangkai (deputy chief of General Staff of the PLA) and Douglas Feith (US undersecretary of defence). The two sides discussed a range of bilateral, regional and international issues "frankly, sincerely, and thoroughly." Xiong Guangkai said that China would continue to undertake exchanges with US armed forces in order to further improve the overall development of bilateral relations. Feith stressed the role of bilateral consultations in helping reduce "misjudgments and misunderstandings" between the armed forces of China and the US. In Washington, Xiong Guangkai also met Condoleezza Rice (the US president's national security adviser) and Paul Wolfowitz (US acting secretary of defence) (XHNA, 11 December).

Western and Southern Europe (Germany, Malta, Finland, European Union [EU])

The German Industry and Trade Council suggested that in 2003, China would overtake Japan to become Germany's largest Asian export market. The projection was based on export growth of 27.5 per cent in 2001 and

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expected export growth of 10 per cent and 5 per cent in 2002 and 2003 (XHNA, 1 October).

On 29 December, the German chancellor, Gerhard Schroeder, began his fourth visit to China, where he held talks with senior Chinese officials on bilateral relations and major international issues of common interest. His visit was made at the invitation of Premier Zhu Rongji.

Zhu told Schroeder that China sought to strengthen further its friendly and co-operative ties with Germany. He noted Germany was China's biggest European partner in Europe in terms of trade and technological co-operation, with bilateral trade expected to reach a new high in 2002. He also spoke with satisfaction of the increasing scale of German investment in China. Meanwhile, the two countries shared identical or similar views on major international issues (including Iraq, the Korean Peninsula and Afghanistan). Schroeder echoed Zhu's remarks. The atmosphere in which the talks were conducted was described as "cordial and friendly" (XHNA, 29 December).

The following day, Schroeder met President Jiang Zemin. Jiang noted that 2002 marked the 30th anniversary of the establishment of diplomatic relations between China and Germany and spoke with satisfaction of the development of closer ties during the previous three decades, resulting in the establishment of a "solid friendship." He hoped that the two countries would continue to strengthen bilateral relations and co-operation (including within the framework of the UN) (XHNA, 30 December).

Chancellor Schroeder also met Hu Jintao.

On 30 October, the prime minister of Malta (Edward Fenech Adami of Malta) arrived in Beijing, where he held talks with Chinese leaders, including Jiang Zemin and Zhu Rongji. Zhu noted that bilateral trade and economic co-operation had already achieved much, and pointed out that in 2001, the value of two-way trade had risen by 60 per cent to reach US$150 million. In the first eight months of 2002, the corresponding figure was already US$186 million. Zhu and Adami later attended a signing ceremony for inter-governmental agreements on bilateral scientific and technological co-operation and educational co-operation (XHNA, 31 October).

Premier Adami ended his visit to China in Shanghai on 5 November.

President Tarja Halonen of Finland held talks in Beijing with Jiang Zemin and other Chinese leaders during a visit to China between 26 and 28 November. Jiang called for expanded co-operation in telecommunications, forestry, paper-making and environmental protection, as well as urging both sides to strengthen cultural exchanges. He noted that the two countries were in broad agreement on major international issues, and had already achieved much through their co-operation in trade and economic relations, science, technology, law enforcement, culture and education. Ms. Halonen echoed Jiang's remarks and congratulated him on the success of the recent National Party Congress (XHNA, 26 November).

The following day, Ms. Halonen met Vice-President Hu Jintao. She congratulated him on his election as CCPCC general secretary. She spoke

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too of the smooth progress in the development of Sino-Finnish relations during the previous decade and expressed her personal pleasure at having received an honorary degree from the Chinese Academy of Forestry the previous day. She also met Li Peng.

On 17 October, the Chinese minister of foreign trade and economic co-operation (Shi Guangsheng) held talks in Beijing with the trade member of the EU Commission (Pascal Lamy). Shi hoped that the shared views on many international trade issues of China and the EU would facilitate progress in the new round of trade negotiations. He also stressed the importance of not departing from the trade agenda established during the previous Doha meeting on international trade. Lamy spoke of the EU's willingness to strengthen co-operation and co-ordination with China, and urged that the two sides seek the timely solution of multilateral trade disputes in accordance with the timetable set for the new round of talks (XHNA, 17 October).

(c) *International Organizations (World Summit on Sustainable Development [WSSD], United Nations [UN], Asia-Pacific Economic Co-operation [APEC])*

On 14 October, the UN secretary-general, Kofi Annan, arrived in Beijing for a short visit. In a meeting with him the same day, Jiang Zemin reaffirmed the Chinese government's support for the role of the UN in Iraq and expressed the hope that a peaceful political settlement in line with relevant UN and UN Security Council resolutions could be found to deal with ongoing difficulties. The two men also discussed ways of preventing AIDS and combating terrorism. Annan also met Tang Jiaxuan, with whom it was reported he had reached a broad consensus on a range of international and regional issues, including reform of the UN and matters affecting Iraq, the Middle East and Afghanistan (XHNA, 14 October).

The following day, Annan held talks with Vice-President Hu Jintao, who spoke of China's commitment to the goals and principles enshrined in the UN Charter and its determination to support the UN in the entire range of its activities.

At the UN Headquarters in New York, the Chinese deputy permanent representative (Zhang Yishan) spoke on the Iraqi issue during an open debate session. Whilst calling on Iraq to abide "unconditionally and strictly" with UN resolutions, he urged the international community to continue its efforts to find a political solution to the problem. He also gave his support to the 'oil-for-food' plan as a means of alleviating the hardship faced by the Iraqi people (XHNA, 17 September).

Both Jiang Zemin and Tang Jiaxuan attended the Tenth Annual Informal Leaders' Meeting of the APEC forum in Los Cabos (Mexico) in October. In his speech to the APEC meeting, as well as drawing attention to serious sources of instability throughout the world, Jiang was critical of trade protectionism and urged fellow APEC members to combat such restrictions in the overall, longer-term interests of regional economic co-operation and global economic development. He urged his APEC

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fellow members to realise their collective potential and to maintain their co-operative relations. He warned against the temptation by any one country to pursue development through autarchy, instead arguing that current conditions demanded even stronger mutual co-operation. In particular, it was important to formulate common and realistic fiscal and monetary policies, and to stabilize markets in order to enhance investor and consumer confidence, and promote economic growth. APEC itself, said Jiang, should realize its own potential by accelerating trade and investment liberalization, and accelerating economic and technical co-operation.

Jiang also called for APEC support in consolidating and further developing the global multilateral trade system, including the facilitation of a new round of WTO negotiations. He insisted that only by perfecting the multilateral trading system and putting into place "fair" trade conditions would it be possible to guarantee the sustained and stable development of trade throughout the world. Hence, the need for APEC to combat any manifestation of trade protectionism.

Finally, Jiang reiterated the importance of maintaining a strong and common stand against international terrorism. In this area too, APEC had a significant role to play, not least by strengthening security co-operation in areas such as financial, customs, transportation and communications (see XHNA, 27 October for the full text of Jiang Zemin's speech).

During his stay in Mexico, Jiang held meetings with President Megawati of Indonesia and President Kim of South Korea, as well as with the prime ministers of Russia and Japan. He also met President Vicente Fox of Mexico. CNA (Taipei) reported that Lee Yuan-tseh, who was in Los Cabos to represent Chen Shui-bian at the APEC meeting, had shaken hands and exchanged greeting with Jiang Zemin.

In a speech to the APEC meeting (24 October), Tang Jiaxuan drew attention to key global issues of ensuring global economic recovery, promoting free and fair trade and investment, and strengthening co-operation against international terrorism. He called on APEC colleagues to enhance their own co-operation in search of greater regional prosperity. Part of their task, he suggested, was to press for a new round of WTO talks and to implement the APEC Shanghai Accord. He reaffirmed the Chinese government's support for APEC, especially in its efforts to strengthen economic and technical co-operation, and noted that in 2003, China would be host to the APEC Medium and Small Enterprises Technology Conference and Fair (XHNA, 25 October; and see *ibid.* for Shi Guangsheng's APEC speech).

In Los Cabos, Tang held separate discussions with the foreign ministers of the US, Russia, New Zealand, Mexico, Indonesia.

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