Quarterly Chronicle and Documentation

(July–September 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 are only available online and replace the former BBC *Summary of World Broadcasts* (*SWB*), which were previously available in hard copy. The current online versions no longer have reference numbers (as did each issue of *SWB*), and are only identifiable by date of publication of material. The inclusion of each of these dates would unnecessarily clutter the text and such dates have 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 29th Session of the Ninth NPC Standing Committee*

The 29th meeting of the NPC Standing Committee was held in Beijing from 23 to 29 August. It reviewed 12 draft laws. These embraced initial consideration of securities investment, supervision, administrative licences, an explanation of the Criminal Law, and an amendment to the Grassland Law; and continuing debate of existing draft laws on rural land contracts, water, surveying and mapping, environmental impacts assessment, traffic safety, promotion of private educational institutions and insurance.

The draft law on securities investment funds was regarded as critically important to the development of China's stock markets. The new legislation set out rules on the organizational and operational patterns of funds, the protection of individual investors' legal rights and interests, and foreign investment in Chinese fund management institutions. As Li Yining (Vice-Chairman of the NPC Financial and Economic Committee) put it, the law aimed "to safeguard investors' legitimate rights and interests, boost investors' confidence, and regulate the development of China's investment funds" (XHNA, 23 August).

Draft legislation on administrative licensing addressed the important question of the rights of government bodies to "decide what a person can and cannot do in their lives." It sought to curb the widespread misuse of government power – something which, according to Yang Jingyu (Director of the State Council's Legislative Affairs Office), had become a "major source of corruption and … great inconvenience to the people." Accordingly, the new law stated that only the State Council (excluding its ministries and commissions), the NPC (including its Standing Committee), provincial legislatures and governments should have the right to decide "whether government permission is needed by citizens to start a business, drive a car or do other things that may affect the interests of the public" (*ibid.*).

NPC Standing Committee delegates adopted the Law on Rural Land Contracting (to take effect on 1 March 2003), two revised laws (on Water Resources, to take effect on 1 October 2002; and on Surveying and Mapping, to take effect on 1 December 2002), as well as an explanation of Article 313 of the Criminal Law. The delegates also ratified a protocol on curbing child trafficking, prostitution and pornography; the charter of the Shanghai Co-operation Organization; and a treaty on extradition between China and Laos (XHNA, 29 August).

(b) *Party and Political Affairs; Legal Developments; Public Order*

A *People's Daily* editorial marked the 81st anniversary of the founding of the CCP. The article focused on a familiar theme – the strengthening of Party building – and spoke of the importance of the continued implementation of the "three representations" in implementing this task. In particular, it drew attention to the speech made by Jiang Zemin at a

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graduation ceremony at the Central Party School on 31 May 2002, which contained "a further scientific analysis of the new situation, new tasks, and new challenges facing us at present," not least, in the run-up to the forthcoming 16th CCP National Congress. It urged CCP members at all levels to study Jiang's remarks carefully and highlighted Jiang's theoretical contribution, as embodied in the "three representations" as being worthy of standing alongside the ideological canon of "Marxism-Leninism, Mao Zedong Thought, and Deng Xiaoping Theory." Thus,

> it [the "three representations"] reflects the new demands that the development and change in the world as well as China in the present day have made on the work of the party and the state. It is the basis on which our party establishes itself, the foundation on which to administer the country, and the source of its strength. It is a powerful theoretical weapon for strengthening and improving party building and promoting the self-perfection and self-development of China's socialist system (*RMRB*, 1 July; on the "three representations," see also *RMRB*, 30 July; and XHNA, 3 September, for excerpts from a circular of the CCP Central Committee's General Office (issued 27 August) "On studying 'Jiang Zemin on socialism with Chinese characteristics' ").

In a speech delivered in Beijing on 22 July, Vice-President Hu Jintao (Secretary of the Central Secretariat of the CCP Central Committee (CCPCC)) stressed the importance of implementing the recently-promulgated Regulations on the Selection and Appointment of Leading Party and Government Cadres in order to enhance cadre selection and appointment work and thereby strengthen the development of "socialism with Chinese characteristics." Hu particularly emphasized the need to give proper attention to cadres' ideological and political quality (e.g. whether, at key moments, they can "withstand the tests of fame, profit, power and sex" in the interests of maintaining their integrity on behalf of both Party and people), as well as their work style. Cadres' achievements constituted another important criterion for advancement, as did the extent to which "the masses acknowledge the cadres" (XHNA, 22 July; see also XHNA, 30 July).

The CCPCC's Organization Department revealed that CCP membership totalled 66.355 million (June 2002) – 5.938 million more than in 1997. Of these, 14.8 million (22.3 per cent of the total) were below the age of 35, while female members and those from ethnic minority groups numbered 11.598 million (17.5 per cent) and 4.146 million (6.2 per cent), respectively. Members in receipt of a high school education and above constituted 52.5 per cent of the total; and those who had graduated from universities, 23.2 per cent. Some 124,000 persons had been dismissed from the CCP since 1997. Meanwhile, membership applications continued to rise (in 2001, there were 14.447 million applicants) (XHNA, 1 September).

It was reported that since the early 1980s, the number of lawyers practising in China had risen from 200 to 110,000. In addition, there were almost 10,000 law offices in China, some of them specializing in securities, financial and real estate legislation. The rising trend in the number

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of lawyers was expected to continue as the economy became increasingly knowledge-based. Legal services were not only a necessary adjunct to domestic economic reform; they also served to strengthen foreign confidence in China's investment environment. Since the beginning of 2001, China had also allowed 104 foreign law firms and 28 Hong Kong law offices to open branches on the mainland.

The same source noted, however, that in the interests of raising professional standards, the number of judges was to be reduced. Quoting Xiao Yang (President of the Supreme People's Court), it acknowledged that many of China's 30,000 senior judges and 180,000 judges were incompetent and lacked a law degree. Xiao also commented that "[c]ourts have often been taken as branches of the government, and judges viewed as civil servants who have to follow orders from superiors, which prevents them from exercising mandated legal duties like other members of the judiciary." Increased professionalization would, said Xiao Yang, help combat widespread judicial inequity (XHNA, 7 July; and see XHNA, 28 July).

Luo Gan (Member of the CCPCC Political Bureau and Chairman of the Central Law and Order Committee (CLOC)) stressed the importance of maintaining the momentum of the "strike-hard" campaign, designed to strengthen social stability. On the basis of CLOC reports and information provided by inspection teams, he acknowledged that despite progress having been made in improving law and order, the foundation of such work remained "fragile." Hence the need to commit even greater efforts to the ongoing campaign and to inculcate the principles contained in Jiang Zemin's speech to provincial cadres at the Central Party School on 31 May. Luo also urged relevant authorities to take swift action to resolve outstanding problems, especially in medium and large-scale state-owned enterprises (SOEs), schools and campuses, "large shopping centres, and cultural and entertainment premises." He added that:

> [w]e must insist on curing the symptoms and the cause of the disease, with the emphasis on the cause. Cure and prevention are both important. We have to find and set up a long-lasting and effective mechanism to safeguard law and order…. We have to start launching creative security activities for the grass-roots level, such as having better control of migrant populations, those released after serving their sentences and those dismissed from their jobs, rehabilitation of cult members or gangsters, prevention of law-breaking and crimes committed by youths and teenagers, and other foundation work. We have to work harder on the mediation and settlement of grass-roots-level contradictions and disputes. We have to do a better job on collective prevention and security and expedite putting in place a better form of organization, a working system and a protective mechanism under this new development of collective prevention and security (XHNA, 8 July).

A *ZXS* report (Beijing, 11 July) reported the promulgation by the Ministry of Public Security of a Decision concerning the Work of Reform and Enhancement of Police Substations. The legislation was intended to address the "current intricate and grave situation of public security" in rural areas of China by upgrading and improving facilities at rural police sub-stations. Thus,

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> … the work of police substations can only be strengthened and cannot be reduced… [W]e must further enhance the work and management of public security with resident management as its core, fully explore and utilize all sources of community, strengthen the building of the public security force through people's participation, and develop an all-round, multilayer, and all-weather security network so as to do a good job in prevention and control of community safety. Police substations in rural areas must popularize the duty of people's police stationing, patrolling, and inspecting in rural areas.

All police substations must meet the Standards regarding Equipment of Police Substations so that "necessary arms, means of transport, communications, protective equipment, and computers can be provided to the people's police, thus upgrading their fighting capacity and individual protection. It is important to assure the safety of local police so that they can effectively carry out their duty in accordance with the law."

(c) *Economic Affairs*

Preliminary estimates pointed to GDP growth of 7.5 per cent in the first half (H1) of 2002 – above the targeted 7 per cent and also higher than 2001 H1 growth (7.3 per cent). Fixed investment during the same period increased by 21.5 per cent, or 6.4 per cent above that of the same period of 2001 (XHNA, 11 July). The buoyant performance was attributed to rises in consumption (especially in housing, cars and tourism), investment and exports. The production of cars grew by 46.8 per cent, and of personal computers by almost 300 per cent (*sic*). Noteworthy too was a 36.7 per cent rise in investment in real estate development between January and May. Summer grain production fell by 2.9 per cent to 98.75 million tons.

H1 merchandise trade rose by 12.3 per cent to reach US$270.71 billion. Disaggregated data showed exports having increased by 14.1 per cent (to US$142.06 billion), and imports having risen by 10.4 per cent to US$128.65 billion. China's trade surplus reached US$13.41 billion. Exports to the US (China's largest export market) increased by 19.3 per cent to US$29.87 billion (accounting for 21 per cent of the value of all Chinese exports).

China's merchandise trade with Japan (China's largest overall trading partner) grew by only 5.6 per cent during H1 (US$44.78 billion) (exports to Japan rose even more slowly – by a mere 1.1 per cent). Trade with EU member states increased even more slowly (by 4.2 per cent), although at 6.1 per cent, export expansion was significantly faster. Much more impressive was the rate of increase in Chinese exports to ASEAN (Association of South-East Asian Nations) – 22 per cent, although even this could not match the 26 per cent growth in exports to Russia.

Foreign direct investment (FDI) – much of it directed towards high-tech enterprises, infrastructural construction and environmental protection – also increased by 18.7 per cent to US$24.6 billion. As of the end of June, China's foreign exchange reserves were US$242.76 billion (34.2 per cent more than at end-June 2001).

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In September, Qiu Xiaohua (Deputy Director of the National Bureau of Statistics) provided the following statistical overview of China's recent medium-term economic and welfare development (XHNA, 15 September; see also XHNA, 16 September for statistical and other indicators of improved living standards in China during the same period):

- *Gross domestic product*: between 1990 and 2001, China's GDP increased almost twofold, to reach US$1.16 trillion. On this most aggregate basis, China's economy ranked sixth in the world (in 1990, it was tenth).
- *Living standards, as measured by per capita GDP*: with an average per capita GDP of over US$900 (2001), Chinese people had secured a "fairly comfortable" (*xiaokang*) living standard.
- *Market balance*: by 1998, the Chinese market had started to shift from being a seller's to a buyer's market. A recent survey indicated that not one product was currently in short supply, while the availability of 86 per cent of goods exceeded demand. Annual output of iron and steel, coal, chemical fertilizers, television sets, programme-controlled telephone switchboards, grain, meat, cotton, aquatic products and fruits were the highest in the world.
- *Economic restructuring*: since 1989, China had made the transition from a planned economy to a market system ("a socialist market economic system"). Only five industrial products were now subject to mandatory controls; the prices of 90 per cent of goods and services were determined by the market.
- *Foreign trade*: China has become the sixth-largest trading nation in the world. The value of its total foreign trade in 2001 was US$509.8 billion (3.4 times that of 1990, when China ranked 16th as a global trading power). Its foreign exchange reserves were now over US$250 billion (cf. US$5.55 billion in 1989). The value of inflows of utilized foreign capital during 1990–2001 totalled US$510.8 billion, of which US$378 billion were in FDI.
- *Fiscal revenue*: between 1990 and 2001, fiscal resources available to the government rose from 293.7 billion *yuan* to 1.637 trillion *yuan*.
- *Economic structure*: China's growth is now driven by the manufacturing and service sectors, not agriculture. In particular, the tertiary sector has become the most buoyant sector of the economy, responsible for the creation of more jobs than in any other area of economic activity.
- *Regional dimension of economic development*: economic growth in the vast, but still poor regions of central and western China has been prioritized since the launch of a major initiative (1999) designed to balance the previous disproportionate emphasis on coastal and eastern regions. During 1999–2001, over 30 large-scale projects worth more than 600 billion *yuan* in investment were begun in western China.
- *Sustainable development*: falling population growth (from 15.04 to 6.95 per thousand between 1989 and 2001) and increased investment

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in resource protection (especially of land, water and mineral resources), and environmental protection highlight the government's concern that development should follow a sustainable path.
- *Science and education*: China has basically fulfilled its target of putting in place a nine-year system of compulsory education, and has eliminated adult illiteracy. In addition, the proportion of senior high school graduates entering tertiary education has risen from 3.4 per cent (1990) to 12 per cent (2001).

A Xinhua commentary (17 July) severely criticized the failure by some grassroots cadres to implement the CCP's rural policies. For example, notwithstanding the core role of household-based contractual work, cadres in some areas "… act under the pretext of 'operations of scale' and 'developing modern agriculture' in forcing the peasants to pass on their land to others and forcibly taking back their contract land from them without carrying out second-round contracting." In so doing, farmers' faith in the permanence of household contracting was being undermined, thereby affecting their incentive to make long-term investment in land.

Again, despite directions from Beijing to the contrary, some cadres at grassroots levels paid no attention to lightening peasants' burdens. Instead, "they continue to indiscriminately collect fees, impose fines, raise funds, and deliberately increase the peasants' burdens, to the extent that the peasants in some places are endlessly applying for an audience with higher authority to appeal for help, cadre–masses relations are tense, and contradictions are sharply conspicuous." Nor did cadres always allow farmers the freedom to which they were entitled, instead forcing them to "grow this or that crop" and creating artificial gluts of unshakeable and rotting crops.

Concern continued to be expressed about the "three agricultural problems" (*san nong*) – *viz.* agriculture, farmers and the rural sector. A Xinhua commentary (21 July) noted that with 61 per cent of the population still living in the countryside, resolving outstanding difficulties within the agricultural and rural sectors was crucial to the overall success of China's reform and development processes. Thus,

> Agriculture serves as the foundation of the national economic and social development, the farmers constitute an important force driving the productive forces, and the rural area is an important area of society characteristically quite different from the urban area. The country … will not be stable if the rural area is unstable, the whole nation cannot become well-to-do if the farmers do not enjoy a well-to-do life, and the modernization of the entire national economy cannot be achieved without the modernization of agriculture.

Despite the success of post-1978 rural reforms, the emergence of new "structural contradictions and … problems" (e.g. farmers having to face a "trial of strength" against international competition in the wake of China's WTO accession) had generated major challenges – this against the background of many unresolved problems of rural instability. The solution of such difficulties lay in restructuring the agricultural and rural

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economies, modernizing farming, promoting agricultural industrialization, narrowing urban–rural differentials and accelerating urbanization.

According to Hu Angang, China should implement "a third structural reform, embracing agricultural investment, labour transfers and raising farm incomes, to 'liberate the peasants' in order to put an end … to the inequality and unfairness that have isolated and divided the urban and rural areas as well as pitting them against each other" (*ZXS*, 8 August). Hu pointed out that although the peasantry had also been central to China's development, differentials – educational, fiscal, employment, etc. – had generated an "unequal and unfair system [that had] seriously undermined capital investments in human resources related to the peasants and blocked the mobility and transfer of the peasant labour force." He concluded that such problems constituted "the biggest structural obstacle to the development of the forces of production in Chinese society."

Two "liberations of the peasants" had already taken place in China since 1949 – in the land reform of the early 1950s and in the institution of household-based contractual systems associated with decollectivization in the early 1980s. What was now needed, said Hu, was a third "liberation" that would "emancipate the peasants from the land and the countryside forever, so that the peasants can be transformed quickly into non-agricultural population" and thereby be given access to the improved economic and welfare rights enjoyed in cities. Meanwhile, the central government should also:

> establish a regularized fiscal transfer system in the countryside in order to provide basic public services such as basic education, public health, basic medical care and others for the rural population; invest in rural infrastructure … in order to improve rural production and living conditions and create more employment opportunities for the peasants.

Addressing an international rice congress in Beijing (16 September), Sheng Guofang (Vice-President of the Chinese Academy of Engineering) claimed that China was not only the world's biggest rice producer and consumer, but also led the world in rice research. He noted that during 1996–2000, the sown area of rice accounted for 20 per cent of the global acreage – second only to India; but its annual average output exceeded that of India, accounting for 35.26 per cent of the global total. Especially noteworthy were China's high-yielding semi-dwarf rice varieties, the per hectare output of which was some 30 per cent higher than traditional varieties. China was also the first country to grow hybrid rice on a large-scale basis – "a fundamental innovation in rice planting." Finally, Chinese scientists had made major breakthroughs in bio-technology, having constructed the rice genome map and mapped the Indica rice genomic working frame sequence chart. Such advances promised significantly to facilitate molecular-biological research into rice and other crops (XHNA, 16 September).

In Shenzhen (Guangdong) on 2 July, Li Peng (member of the Political Bureau of the CCP Central Committee and Chairman of the NPC

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Standing Committee) officiated at the opening of the first generating unit of the Lingao Nuclear Power Plant – the second large-scale commercial nuclear power station in Guangdong (the first being the Daya Bay Nuclear Power Plant) (XHNA, 2 July).

In Beijing on 4 July, an international consortium, headed by Russia's Gazprom, Shell and ExxonMobil, signed an agreement with the PetroChina company on the establishment of a joint venture worth an estimated US$5.3 billion to build the West–East gas pipeline project. The project would involve the development of gas deposits in the Tarim Basin, the construction and operation of a 4,000-km gas pipeline from Xinjiang to Shanghai, and the establishment of a company to sell the gas to consumers in eastern China. When completed, the pipeline was expected to carry 12 billion cubic metres of gas p.a. (ITAR-TASS, 4 July; see also statements by Jiang Zemin and Zhu Rongji in XHNA, 4 July).

In the face of criticism of China's supposedly too conservative monetary policy, the Director of the Monetary Policy Department of the People's Bank of China (Dai Genyou) argued that monetary prudence was designed simultaneously to counter both deflationary and inflationary tendencies and insisted that continued adherence to existing policies would "not necessarily impede the flexible adoption of measures to relax or tighten money supply in accordance with the changes of economic situations." He noted that monetary policies in recent years had, in fact, been quite expansionary (since 1998, interest rates had fallen on five occasions, deposit reserves had been reduced twice by 7 percentage points, and controls on loans had been relaxed). Hence, Dai's statement that "in view of the steady and rapid growth of the national economy with low deflation, and particularly the sustained and steady growth of both monetary credit and the economy side by side in these years, the merits of the prudent monetary policy cannot be obliterated" (*ZXS*, 19 July).

Between 16 and 22 August, the Ministry of Finance issued treasury bonds valued at 20 billion *yuan*. The interest-bearing bonds carried a set interest rate of 2.39 per cent p.a. and a time limit of seven years.

A Xinhua commentary noted that the publication of the first national family planning law (the Population and Family Planning Law, effective from 1 September) would mark the formalization of China's family planning and population control policies, and put in place a legal framework in which national population and birth control policies could be implemented. The new legislation would, said Zhang Weiqing (Minister in charge of the State Family Planning Commission (SFPC)), effectively eliminate "localized rules and regulations governing population and family planning efforts." He added that:

> [t]he human-oriented law ordains that family planning is a duty of Chinese citizens, but they also enjoy legal rights and interests, for which they are entitled to legal protection. It especially stresses that no abuse of official power, obtrusion or infringement on public rights are allowed in the performance of family planning tasks. People are to be fully informed of their rights of reproductive health care, choice of contraception, social welfare, and education, which is considered a major feature of the law. The government will offer benefits to couples abiding by the law,

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while "social alimony," instead of the once prevailing fine, will be charged to those who break it.

Not least intriguing, the new law would clearly specify that:

… couples meeting special provisions within the law are allowed a second child. Many local governments already had laws to that effect and Anhui province recently passed regulations allowing 13 categories of couples to apply to have a second child, while some can have a third or more (XHNA, 31 August).

But in the face of rumours of a relaxation of government population control policies, Xu Yulin (Deputy Director of the State Council's Legislative Affairs Office) was at pains to point out that:

… it is a misconception to think that China will relax its family planning policy, a change that would permit its citizens to have as many children as they would like as long as they are able to pay the fine imposed for an extra-policy birth … China will persist with its policy of "one couple, one child," and the new law will not allow people to legitimize extra-policy births with money … [T]hose who have an extra-policy birth must pay for the extra burden they impose on society because they will use more public resources…. But we attach equal importance to measures other than imposing fines such as promoting the law and providing contraception services.

In addition, Zhao Bingli (Vice-Minister in charge of the SFPC) insisted that "[t]he mentality of 'money for children' goes against the core principle of the family planning legislation…. From the date that the law took effect, those who have an extra-policy birth must face the music" (XHNA, 1 September).

Guangming Daily commented on the accelerated rate of urbanization taking place in China, and quoted experts to the effect that by 2050, 70 per cent of the total population would live in cities (*cf.* the current official rate of 36 per cent). Implied in this statistic was the transfer of over 600 million people from rural to urban areas. By 2050, 80 per cent of China's 19,000 towns were expected to have become small or medium-sized cities (*GMRB*, 19 July).

A senior official of the National Bureau of Statistics (NBS) revealed that the number of laid-off SOE workers was 4.64 million as of end-June 2002. This was 510,000 fewer than at the end of 2001 – a fall of 11 per cent (XHNA, 15 July). The number of registered urban unemployed was said to be 7 million (i.e. below 4 per cent).

Xinhua (21 July) reported that in addition to conventional re-employment schemes, new measures (e.g. access to low-interest, long-term loans) were being used in order to assist laid-off workers to find new jobs. Between 1998 and 2001, some 25.5 million people were laid off, of whom 16.8 million (65.9 per cent) were subsequently re-employed. Officially, the current number of registered unemployed totalled about 6.8 million, but this figure was a serious underestimate by virtue of not including many laid-off workers (let alone the 150 million redundant rural labourers, and 12–13 million annual new entrants to the labour force). For example, during January–March 2002, some 220,000 laid-off

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workers were re-employed, but a further 4.9 million became redundant from SOEs.

In the face of this serious challenge, Vice-Premier Wu Bangguo was quoted as saying that China would seek to re-employ laid-off workers within three years, while job assistance would exceed the previous basic livelihood guarantee in order to ensure that workers were also provided with appropriate qualifications to enable them to compete in future job markets. Implicit in this policy thrust was an understanding that:

> … [w]ith the development of China's social welfare system, especially unemployment insurance, all those nominal employment contracts [i.e. employment contracts that allowed redundant or laid-off workers to remain legally attached to unprofitable enterprises] will be abolished in the end and laid-off workers will have to compete on job market as plain jobless.

A further corollary was that re-employment centres set up by large and medium-scale SOEs for their laid-off workers would gradually be closed.

A national conference on the re-employment of laid-off SOE workers, convened by Zhu Rongji, was held in Beijing on 11–12 September. Its main general finding was that "the problem of resolving the problem of laid-off state enterprise workers within three years remains grim, and the 'fulfilment' will be delayed" (Hong Kong, *Ta-kung pao* [*Dagong bao*], 11 September).

Jiang Zemin addressed the opening session of the conference (XHNA, 12 September). He stressed the central role of job-creation work, pointing out that its success would be a major determinant of China's economic development and reform programme, its social and political stability, and the extent to which people's living standards could be improved. Thus, "[t]he party committees and government at all levels must fully understand the extreme importance of employment and re-employment work, consistently regard this work as a major matter related to reform, development, and stability, and get a really good and tight grip on it."

Jiang called for even greater efforts towards implementing re-employment policies for laid-off workers from state enterprises. He acknowledged not only that China's employment situation was "extremely grim," but that it would persist for a long time. He summed up that situation as follows:

> [a]t present it is mainly expressed in the parallel existence of the contradictions in the volume of the labour force and the employment structural contradictions, the simultaneous emergence of urban employment pressure and the increased speed of the shift of surplus rural labour from agricultural to non-agricultural work, and the interweaving of employment for the newly growing labour force with the re-employment of the unemployed. The crux is concentrated in the re-employment of laid-off workers, and this problem has already become a major economic and social problem with an impact on the overall situation.

Jiang Zemin called for the implementation of the following measures: first, to maximize employment opportunities and launch "targeted job introduction and guidance" for laid-off and unemployed urban workers; secondly, to emphasize the importance of *training* in order to promote

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re-employment; thirdly, to make available appropriate levels of funding for re-employment schemes; and finally, to ensure that proper provision for the "two guarantees" and the "three security lines" (basic subsistence security, unemployment insurance for laid-off workers, and the minimum subsistence security for urban residents) was guaranteed.

One economist (Xiao Zhuoji), who attended the conference, suggested between 15 and 20 per cent of the SOE labour force was surplus, in addition to which a "potential unemployment figure" of about 200 million existed in rural areas. Xiao indicated that the official rate of registered urban unemployed (3.5 per cent) belied the reality that unemployment in China was "more serious than in most countries." A senior official working in the Labour Science Studies Centre of the Ministry of Labour and Social Security (Guo Yue) agreed with Xiao that the current excess labour supply was huge compared with the much more limited number of new jobs being created. Moreover, in addition to the existing reservoir of 30 million laid-off workers from SOEs, a further 20 million were expected to be made redundant. And although job opportunities outside the public sector were rising fast, Guo commented that "it is very difficult for labourers discharged from state enterprises and traditional industries to get into the non-public economy and newly emerging industries." This structural dimension of the unemployment problem was likely to worsen in the wake of China's accession to the WTO (for Zhu Rongji's speech at the conference, see XHNA, 13 September; and Zhang Zuoyi (Minister of Labour and Security) in XHNA, 14 September; also relevant is *RMRB*, 18 September).

A Xinhua commentary (11 September) also highlighted China's "conspicuous" employment contradiction and endorsed the government's proactive employment policy. The core task was to provide re-employment for laid-off SOE workers:

> structural readjustment is the readjustment of the employment structure. Without readjusting the employment structure, it is impossible to really readjust the economic structure. Without solving the problem of the re-employment of workers who have stepped down from their posts, it is very difficult to reform enterprises, and the development of enterprises will eventually be affected, endangering the survival of enterprises and causing more workers to step down from their posts and lose their jobs. Making great efforts to promote the re-employment of workers who have stepped down from their posts and unemployed workers can fundamentally ensure their livelihood, and is also conducive to increasing social security funds and improving the social security system.

Another Xinhua report noted that progress towards providing guaranteed living allowances for laid-off SOE workers and guaranteeing old-age pensions to retired workers continued to be made. But it also acknowledged that some areas still faced problems in proving these "two guarantees." For some, the problem lay in financial constraints, which prevented local governments from directing sufficient funds to cover basic livelihood allowances; in others, the problem lay with enterprises that had failed to implement relevant central government policies (some units

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even diverted budgetary funds without authorization or engaged in fraud) (XHNA, 19 July).

Xinhua (11 July) reported that contracted FDI had risen by 31.47 per cent to reach US$43.99 billion during the first half of 2002; the corresponding figures for utilized FDI were US$24.58 billion (up 18.69 per cent). The number of foreign-funded enterprises (FFEs) established in the same period was 15,155 (a rise of 26.39 per cent year-on-year). As of end-June 2002, 405,180 FFEs were operating in China: they embodied US$789.28 billion of contracted investment funds, and US$419.8 billion of utilized funds (XHNA, 11 July). (See XHNA, 8 September, for a report that over 400 of the world's top 500 companies had launched operations in China and that more than 200 of them had established research and development organizations there.)

Economic corruption has long been a serious problem in China. "Inside sources" were quoted as saying that money laundering in China totalled some 200 billion *yuan* p.a. (about 2 per cent of GDP, or sufficient to reduce the 2002 central budget deficit by 64 per cent). The annual loss of 200 billion *yuan* derived from smuggling (worth 70 billion *yuan*), embezzlement (30 billion *yuan*) and tax evasion transfers through foreign-funded enterprises. From a different perspective, the report argued that the growth in foreign exchange reserves of only US$10.97 billion in 2000, alongside a trade balance of US$24.1 billion and FDI inflows of almost US$40 billion, proved that "a yearly US$30 billion had evaporated because of rampant money laundering" (*RMRB*, 9 July).

Information from the State Administration of Foreign Exchange revealed that as of end-June 2002, China's foreign debt, excluding Hong Kong, Macau and Taiwan, was US$169.11 billion (US$1 billion – 0.6 per cent – below the corresponding figure a year earlier). Disaggregated data showed that medium- and long-term debt was US$117.31 billion (69.4 per cent of the total) – down by US$2.22 billion year-on-year; short-term foreign debt was US$51.8 billion (30.6 per cent of the total) – up by US$1.22 billion. During the first half of 2002, China acquired new foreign debt of US$24.76 billion, but repaid principals of US$32.38 billion (XHNA, 28 September).

(d) *Military Affairs*

It was reported from Moscow that on 19 August, China had taken delivery of ten new Su-30 MKK fighters. The aircraft were provided under a contract, which provided for the eventual supply of 28 Su-30 MKK fighters, to be commissioned by the Chinese air force (Interfax-AVN, 19 August).

On 25 August, Xinhua made public the Regulations of the People's Republic of China on Export Control of Missiles and Missile-related Items and Technologies, signed by Zhu Rongji on 22 August.

(e) *Education*

A Xinhua report (7 July) referred to the 5.27 million students who were

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about to sit university entrance examinations throughout China. It revealed that 52 per cent of candidates were likely to gain admittance to a university in 2002, compared with a minuscule 2.4 per cent in 1981. It also noted that between 1996 and 2000, 387 Chinese colleges and universities in China had merged into 212. Meanwhile, as salaries and better working conditions attracted more teachers into tertiary education, so the average staff–student ratio had reached 1:14, or close to the global average. Statistics also showed that as of 2000, 1,280 non-governmental (i.e. private) higher educational institutes existed in China, with a total enrollment of 981,700 students.

(For a report of Zhu Rongji's speech at a national vocational education work conference (Beijing, 30 July), see XHNA, 30 July.)

Xinhua reported that under the 211 Educational Project, the Ministry of Education planned to invest 6 billion *yuan* into tertiary education and academic research between 2001 and 2005. The core of the project, initiated in 1996, was the transformation of around 100 Chinese colleges and universities into centres of research into economic, technological and social issues. Since 1996, some 18 billion *yuan* had already been invested in the project, facilitating major improvements in university teaching and research (XHNA, 16 September).

(f) *Minorities (Tibet)*

On 9 September, at the invitation of the Chinese government, a delegation headed by the Dalai Lama's Special Envoy (Lodi Gyaltsen Gyari [Gyari Rinpoche]) arrived in China in order to visit Tibet. A representative of the Dalai Lama issued a statement from the Tibet Office in Nepal in which he expressed scepticism about the outcome of the visit. In particular, he cited Beijing's insistence that any dialogue be conditional on recognition by the Dalai Lama of Tibet and Taiwan as integral parts of China as a major obstacle to any rapprochement. Nevertheless, the visit – the first formal contact between the Dalai Lama and Beijing since 1993 – was regarded as a significant event (*Kathmandu Post* via *Nepalnews*, 16 September).

Meanwhile, however, an Indian source quoted Ye Xiaowen (Director of the State Administration of Religious Affairs) as calling on the Dalai Lama to renounce his quest for Tibetan "independence" (Press Trust of India (PTI), 17 September). A PTI report stated that the emissaries of the Dalai Lama returned to New Delhi on 21 September.

(g) *Hong Kong Special Administrative Region (HKSAR) and Macau Special Administrative Region (MacSAR)*

On 30 June, President Jiang Zemin arrived in Hong Kong to take part in celebrations marking the fifth anniversary of the retrocession of

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sovereignty over Hong Kong to China. Later the same day, Jiang met HKSAR Chief Executive, Tung Chee-hwa, and spoke with satisfaction of the success with which the "one country, two systems" principle had been implemented in Hong Kong since 1997. He reaffirmed the Chinese government's support for Hong Kong in its efforts to maintain prosperity and stability in accordance with the principle (XHNA, 30 June).

In a speech on 1 July, Jiang was optimistic about Hong Kong's economic future. He stated that with its rich administrative and legal talents, the region's high competitiveness, and economic strength and openness would guarantee its ability to maintain a positive development momentum. China's economic growth and integration into the global economy would also, he said, benefit Hong Kong. (XHNA, 1 July). Remarks made by Tung Chee-hwa were more cautious. He acknowledged HKSAR's economic difficulties, primarily caused by "the bursting of the bubble economy which was formed prior to the handover and was led by the property sector." He argued that the key to resolving current difficulties lay in making full use of Hong Kong's strategic geographical location and favourable business environment, as well as its rich human resource base and fiscal reserves. He agreed that accelerated growth in China attendant on its accession to the WTO would also benefit Hong Kong. In short:

> [w]e must build on the competitive edge of our gateway position to the mainland, deepen our ties with the world, further entrench our position as an international financial centre and a centre for business services, communications, logistics and tourism, embrace fully the application of new knowledge and new technology, move up the services value chain and develop new spheres of growth (XHNA, 1 July).

During his visit to Hong Kong, Jiang Zemin also met Edmund Ho Hau Wah (Chief Executive of the MacSAR).

On 11 July, the Legislative Council endorsed a controversial bill, which provided for civil service pay to be cut by 4.4 per cent, from October 2002. The bill met fierce opposition from staff unions, and the joint committee of the Disciplined Services Staff Union subsequently applied for a court ruling on whether the bill was in breach of the Basic Law (Radio Television Hong Kong (RTHK), 15 July).

Xinhua (6 July) quoted a report by the Bank of China Hong Kong Limited to the effect that real GDP having fallen by 0.9 per cent year-on-year in the first quarter (Q1) of 2002 (*cf.* a fall of 1.4 per cent in Q4, 2001), it expected definite economic recovery to take place in the second half of 2002. It also pointed out that but for growth-enhancing contributions from the "Chinese mainland factor," the Q1 decline would have been by 2.4 per cent.

According to the Official Receiver's Office, the number of bankruptcies in Hong Kong during the first half of 2002 reached a record level close to 10,200 – more than the total for the whole of the previous year (9,151) (RTHK, 15 July). Elsewhere, the same source reported that with 264,000 people without jobs, the rate of unemployment in HKSAR had risen to a new high of 7.7 per cent (RTHK, 16 July).

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A study made by the Division of Social Studies at Hong Kong's City University indicated that 449,000 families in HKSAR – 28 per cent of all local households – were living in poverty. The figure compared with 15.5 per cent in 1997. Rising unemployment and low salaries were blamed for the increase in poverty. In the face of their findings, the authors of the study recommended that the government should set a minimum wage in order to help Hong Kong's poorest families (RTHK, 11 July).

On 29–39 July, the Russian Foreign Minister (Igor Ivanov) visited the Special Administrative Regions of Hong Kong and Macau. His talks with Chief Executives Tung Chee-hwa and Edmund Ho focused on trade, economic co-operation and tourist exchanges (Moscow, Interfax, 31 July).

2. Foreign Relations

(a) *Diplomatic Tours*

Tang Jiaxuan's tour of France, Romania and Austria

On 30 June, the Chinese Foreign Minister, Tang Jiaxuan, left Beijing to visit France, Romania and Austria, and to attend a plenary session of the International Expositions Bureau (IEB) in Paris.

At a press conference in Paris, Tang spoke of the positive momentum of Sino-French and Sino-European relations. He noted that economic trade between China and France had further progressed (bilateral trade had reached US$8 billion in 2001) and spoke too of major progress in the development of cultural, scientific and technological, and educational exchanges. He suggested that in the wake of the "11 September" incident, bilateral relations were moving in the direction of the establishment of a "comprehensive and co-operative partnership."

As for Sino-European relations, Tang noted the importance attached by the European Union (EU) to its relations with China, the EU having become "a very important co-operative partner of China" (*ZXS*, 2 July).

On 4 July, the Chinese Foreign Minister held discussions with his French counterpart (M. Dominique de Villepin) on bilateral relations and international issues of common concern. Tang spoke positively of the development of Sino-French relations, drawing special attention to the "partnership in all fields oriented towards the 21st century," agreed on by Presidents Jiang Zemin and Jacques Chirac in 1997. China, said Tang, attached considerable importance to both the European and wider international roles played by France. He hoped that the relationship between the two countries would strengthen, thereby serving the interests of "world peace, stability and development." These sentiments were echoed by de Villepin, who looked forward to closer co-operation with China in the United Nations and other international organizations, as well as in the promotion of purely bilateral economic, scientific, technological, educational and cultural co-operation (XHNA, 4 July).

The following day, Tang Jiaxuan met the French Prime Minister, Jean-Pierre Raffarin, who reaffirmed the French government's wish to

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strengthen the "partnership" with China. He also urged the development of closer economic and trade links in the interests of exploiting the "great untapped potential." It was later revealed that Premier Jean-Pierre Raffarin would make an official visit to China during 2003.

Following his arrival in Bucharest on 8 July, Tang and the Romanian Foreign Minister (Mircea Geoana) signed a protocol of co-operation between the two countries' foreign ministries. Tang described his talks with Geoana as a success. During his Romanian visit, he also met President Ion Iliescu, with whom he discussed international issues and the potential for expanding bilateral relations.

In Vienna (10 July), the Chinese Foreign Minister had separate meetings with the Austrian President, Thomas Klestil, Chancellor Schuessel and Foreign Minister Waldner. Tang noted that high-level bilateral contacts had become more frequent in recent years and that economic co-operation had also developed rapidly. He spoke of the closeness of the two countries' views on many important international issues (XHNA, 10 July).

Zhu Rongji's tour of Algeria, Morocco, Cameroon and South Africa [but see also under (c) below for reports on Zhu's participation in the World Summit on Sustainable Development]

Premier Zhu Rongji arrived in Algiers on 25 August for a three-day official visit and talks with Algerian leaders on bilateral relations, and international and regional issues of common concern. The following day, Zhu met Prime Minister Ali Benflis, with whom he discussed bilateral relations (especially trade and economic ties). The two leaders subsequently attended a ceremony for signing four bilateral co-operation documents (XHNA, 26 August). In a separate meeting, Zhu told President Abdelaziz Bouteflika that his visit would serve to strengthen understanding, reinforce mutual trust and bolster co-operation between China and Algeria (Algerian TV, 26 August).

On 27 August, Zhu arrived in Rabat for three days of discussions with Moroccan leaders. The Prime Minister of Morocco, Abderrahmane Youssoufi, reaffirmed his government's support for the "one China" policy, and expressed hopes for further bilateral co-operation between China and Morocco. Zhu echoed many of Youssoufi's remarks and following their talks, the two sides signed five documents on co-operation in economics, technology and culture (XHNA, 28 August). It was revealed that two-way trade between China and Morocco was US$384 million in 2001 (up 14.3 per cent on 2000), of which Chinese exports constituted about US$300 million.

The Chinese Premier was also received by King Mohammed VI of Morocco.

On 29 August, Zhu arrived in Yaounde, where (30 August) he held talks with the Cameroonian Prime Minister, Peter Mafany Musonge. Zhu noted that China and Cameroon had maintained close political, economic, cultural and educational ties and exchanges, as well as sharing the same

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or similar views on major international issues. The two sides signed five agreements and documents on economic, trade and technological co-operation (XHNA, 30 August). Zhu Rongji also met the Cameroonian President, Paul Biya.

The final leg of his tour took Zhu Rongji to Cape Town where, on 31 August, he began a working visit to South Africa. In addition to meeting South African leaders (including President Thabo Mbeki), Zhu attended the World Summit on Sustainable Development in Johannesburg. Zhu met Thabo Mbeki in Johannesburg on 5 September to discuss international and regional issues of common concern (including some arising from the recent World Summit on Sustainable Development). They also talked about bilateral trade, the level of which had reached US$2.22 billion, and had risen by a further 10 per cent during the first half of 2002. The Chinese Premier congratulated Mbeki on his recent appointment as Chairman of the African Union (AU) and expressed the Chinese government's support for African countries in their pursuit of regional integration and self-reliance (XHNA, 5 September). Zhu also met the South African Deputy President, Jacob Zuma.

Zhu Rongji's tour of Austria, Denmark and France (see (c) below for Zhu's participation in the Fourth Asia–Europe Meeting (ASEM) summit).

On 19 September, Zhu Rongji arrived in Vienna for a four-day official visit to Austria. The following day, he discussed bilateral relations with the Federal Chancellor, Wolfgang Schuessel. Zhu hoped that China and Austria would continue to strengthen political relations, and expand economic and trade co-operation. He noted that no conflicts of fundamental interests nor any unresolved historical problems existed between the two countries.

On 22 September, Zhu travelled to Copenhagen, where he held talks with the Danish Prime Minister (Anders Fogh Rasmussen).

The final leg of his tour took him to Paris (26–28 September), where he exchanged views on bilateral relations and international issues of common concern with President Jacques Chirac and Premier Jean-Pierre Raffarin. Zhu noted that the two sides held common views on many international and regional issues, and both men agreed on the desirability of further expanding Sino-French co-operation (XHNA, 26 September). A French source reported that during his talks with President Chirac, Zhu Rongji urged the lifting of the EU embargo on weapons shipments to China. He also urged that French companies should not be allowed to sell arms to Taiwan (AFP, Paris, 27 September).

In his talks with Jean-Pierre Raffarin, Zhu spoke of the importance that the Chinese government attached to its relations with France. He noted that bilateral relations had developed smoothly in recent years and hoped that the momentum would be maintained and strengthened. Raffarin spoke of the French desire to expand co-operation in the fields of nuclear power, environmental protection and aviation, and of its intention to transfer relevant technologies and offer associated personnel training.

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The two men subsequently signed an agreement on cultural co-operation between France and China (XHNA, 27 September). (For Tang Jiaxuan's comments on Zhu Rongji's European visits, see XHNA, 29 September.)

(b) *Countries, Territories and Regions*

Africa (Zanzibar (United Republic of Tanzania))

President Amani Abeid Karume of Zanzibar of the United Republic of Tanzania visited China between 21 and 25 August at the invitation of Vice-President Hu Jintao. Hu told Karume of the importance that China attached to bilateral trade and economic co-operation and of its encouragement to Chinese entrepreneurs to set up business in Tanzania. He also expressed the Chinese government's appreciation of Tanzania's efforts to safeguard African unity and promote regional economic co-operation. The two men subsequently attended a signing ceremony of an agreement on economic and technology co-operation between the two countries (XHNA, 21 August).

In a later meeting, Jiang Zemin told Karume that China would continue to work with Tanzania in order to "consolidate and promote long-term unity and co-operation based on equality and mutual benefit" (XHNA, 22 August).

Commonwealth of Independent States (Russian Federation)

The Russian Prime Minister, Mikhail Kasyanov, arrived in Shanghai on 21 August for talks with Zhu Rongji. In advance of their discussions, Zhu noted the dynamic growth of bilateral trade during the previous four years and expected such trade to reach a new record level in 2002. He also drew attention to the successful development of technical and economic co-operation between Russia and China. Kasyanov too was upbeat in preliminary remarks, pointing out that Russia was China's eighth-largest trading partner (and China, Russia's sixth-largest) and that Russian investment in China had exceeded US$600 million. The two men later signed a joint communiqué (full text in XHNA, 23 August), in which they pledged to expand economic and trade co-operation and address a number of outstanding problems.

On 22 August, Zhu and Kasyanov held the seventh regular prime ministerial meeting between China and Russia, during which they reviewed the development of bilateral relations since the previous meeting. They also exchanged views on major global and regional issues. A report by Interfax (Moscow, 22 August) quoted Kasyanov after the meeting to the effect that Russia was prepared to meet "a fair share" of China's oil and natural gas requirements, as well as assisting in the construction of infrastructure and energy facilities. Zhu meanwhile was reported as stating that an oil pipeline between Russia and China would provide China with 20–30 million tons of oil p.a., the value of which would

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exceed half of the value of current bilateral trade. Kasyanov told reporters that he expected Russian trade turnover with China to increase to over US$30 billion dollars in the next decade.

At another meeting, Jiang Zemin spoke of the relationship of "solid trust and co-operation" that had grown up between China and Russia. He exchanged views on bilateral relations and issues of common concern with Kasyanov, and asked him to send his "cordial greetings and good wishes" to Russian President Vladimir Putin.

Indian Ocean (Mauritius)

On 1 July, the Prime Minister of Mauritius, Anerood Jugnauth, arrived in Beijing for a six-day official visit to China that also took him to Shanghai and Guilin. Following talks in the Chinese capital, Jugnauth and Zhu Rongji signed three bilateral co-operative documents (economic and technological co-operation, legal matters, and education). They agreed on the importance of expanding co-operation between their two countries.

Japan

Against the background of a recent deterioration in Sino-Japanese relations (not least because of Premier Junichiro Koizumi's 21 April visit to the Yasukuni Shrine), on 8 September, the Japanese Foreign Minister (Yoriko Kawaguchi) travelled from Tokyo to Beijing for talks with senior Chinese officials. The same day, she held discussions with Tang Jiaxuan, who, apropos the Japanese Premier's forthcoming visit to Pyongyang, said that he expected Japan and North Korea to normalize relations.

Tang spoke of the importance of Kawaguchi's visit in the year that marked the 30th anniversary of the normalization of Sino-Japanese relations. Both agreed that important progress in the development of bilateral relations had taken place during these years, although Tang also drew attention to the threat to such relations posed by the mishandling of "historical issues," saying "We hope the Japanese side will genuinely show courage and sincerity and take real action to fulfil the commitment made so far and the consensus reached between our two sides, so that Sino-Japanese relations can overcome and transcend these barriers as soon as possible" (Kyodo, 8 September; see also Kyodo, 20 September, for a report that Zeng Qinghong (Head of the CCPCC Organization Department) had demanded the removal of war criminals from Yasukuni Shrine as a condition of Prime Minister Koizumi honouring the Japanese war dead).

In response, Yoriko Kawaguchi agreed with Tang's remarks and gave an undertaking that Japan would "make 'referring to history as a mirror and facing the future' a core idea in the development of Japanese–Chinese relations." She insisted that the Japanese government's position on historical issues remained one of the desire to express "profound introspection and condolences over the damage and suffering that Japan caused to the Asian people in the past" (XHNA, 8 September).

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Later, Jiang Zemin met Kawaguchi. He told her that he too supported Koizumi's planned visit to North Korea and hoped that the visit would produce positive results. On the sensitive historical dimension of relations between China and Japan, he stated that "[p]ast experience, if not forgotten, is a guide for the future. Learning lessons from history would benefit both our peoples; not doing so, on the other hand, would be harmful" (*ibid.*).

Middle East and North Africa (Iraq)

The Foreign Minister of Iraq, Naji Sabri [Ahmad al-Hadithi], began an official visit to China on 26 August. An Iraqi source reported that Sabri would hand Jiang Zemin a message from President Saddam Husayn on bilateral relations and various issues of mutual concern.

In a meeting with Sabri on 27 August, Tang Jiaxuan stated that the use of force (or threats of force) was "unhelpful" in resolving the Iraq issue and would serve merely to increase regional instability and tensions. Accordingly, China would seek to play a positive role in the UN in seeking an early and peaceful resolution of current difficulties. He added, however, that Iraq should "completely and effectively" implement relevant UN Security Council resolutions, and co-operate with the UN. The two men also exchanged views on bilateral relations and other issues of common concern (XHNA, 26 August). The following day, Sabri met Vice-Premier Qian Qichen, who underlined Tang Jiaxuan's remarks of the previous day.

North-East Asia (South Korea [Republic of Korea])

On 2 August, Tang Jiaxuan arrived in Inchon, before travelling on to Seoul for talks with his South Korean counterpart, Choi Sung-hong on bilateral relations and the situation in the Korean Peninsula. During a courtesy call by Tang, President Kim Dae-jung urged both sides to strengthen co-operation in all areas, including security, and to celebrate the tenth anniversary of the establishment of diplomatic relations (24 August) by raising the level of bilateral exchanges. Kim also praised recent efforts by China and South Korea to promote regional co-operation in international affairs (especially during the ASEAN plus three (South Korea, China and Japan) and Asia-Pacific Economic Co-operation summits) (Yonhap, 3 August).

Pacific Ocean (Kiribati, Nauru)

Following his arrival in Shanghai on 2 July, the President of Kiribati (Teburoro Tito) travelled to Beijing, where, the following day, he held talks with Jiang Zemin. Their discussions focused on bilateral relations and international and regional issues of common concern. Jiang stated China's wish to expand friendly and co-operative relations with Kiribati. The two men later attended a ceremony for the signing of agreements on

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bilateral economic co-operation. Teburoro Tito also held talks with other senior Chinese officials, including Zhu Rongji and Li Peng.

On 21 July, the governments of China and the Republic of Nauru signed a joint communiqué on the establishment of diplomatic relations. The new diplomatic alignment followed Nauru's decision to break off official relations with Taiwan (XHNA, 21 July; and see *RMRB*, 22 July) (for Taiwan's reaction, including a threat to take Nauru to court if it failed to repay a US$12.1 million debt, see CNA, 23 July).

South Asia (Nepal, Pakistan, Bangladesh)

On 9 July, the King of Nepal, Gyanendra Bir Bikram Shah Dev, arrived in Beijing for his first state visit to China since ascending the Nepalese throne in June 2001. During his talks with Jiang Zemin the following day, King Gyanendra reaffirmed his country's adherence to the "one China" principle and expressed his determination to strengthen relations between Nepal and China. Jiang noted that no disputes existed between the two sides and looked forward to the strengthening of bilateral relations. He expressed China's support of Nepalese efforts to combat anti-government rebels (XHNA, 10 July). China and Nepal agreed in Beijing on Wednesday (10 July) to promote bilateral co-operation in such areas as border trade, tourism and transportation. It was reported that the two sides had agreed to promote bilateral co-operation in border trade, tourism and transportation. After their meeting, Jiang and King Gyanendra attended the signing ceremonies for two co-operation agreements.

The King also held talks with Vice-President Hu Jintao, Premier Zhu Rongji and Li Peng. He visited Dalian, Shanghai and Yichang.

On 2 August, the President of Pakistan, Pervez Musharraf, arrived in Beijing, where he held talks with Jiang Zemin. Jiang spoke of China's hopes for a peaceful settlement of the dispute between Pakistan and India and undertook to support efforts to alleviate the tension between the two sides. Musharraf insisted that Pakistan wanted to avoid war and said that its interests lay in securing regional peace and stability (XHNA, 2 August).

On 1 September, Morshed Khan (Foreign Minister of Bangladesh) arrived in Beijing, where he was to meet senior Chinese officials in order to review "the entire gamut of the bilateral relations, issues of mutual concerns and exchange views on developments of regional and international importance" (XHNA, 1 September). Tang told Khan that the relationship between China and Bangladesh was a model of friendly co-operation between developing countries. He said that China was grateful for Bangladesh's support for China on Taiwan, Tibet and human rights issues. The two men were said to have reached a consensus on a wide range of international and regional issues of common concern (XHNA, 2 September). Morshed Khan also met Vice-President Hu Jintao.

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South-East Asia (Vietnam, Cambodia, Myanmar [Burma], Thailand Malaysia and Singapore; Association of South-East Asian Nations [ASEAN])

It was announced that China, Vietnam, Cambodia, Myanmar, Thailand, Malaysia and Singapore had formulated plans to construct a railway linking southwest China (Kunming) and Singapore. The China Railway Engineering Company would assume responsibility for building the first section of the railway, linking Kuala Lumpur (in Malaysia) and Singapore. Construction would be expected to begin in 2003.

On 29 July, a Chinese delegation under Tang Jiaxuan left Beijing for Brunei in order to attend ASEAN foreign ministerial and dialogue meetings. In a speech (30 July), the Chinese Foreign Minister noted the accelerated pace of regional co-operation in the Asia-Pacific region, as more and more Asian countries sought "development and peace through co-operation" (XHNA, 30 July). He reaffirmed the Chinese government's support for such efforts and said that China had taken practical measures – most recently, for example, in support of the Chiang Mai Initiative – in order to implement the consensus reached among regional leaders at previous ASEAN (10 plus 3) summits. Thus:

> [t]he annual 10 plus 3 summit has become one of the grandest gatherings of the region and the establishment of six relevant ministerial meeting mechanisms of foreign affairs, finance, economy, agriculture and forestry, tourism and labour has given a strong boost to the co-operation in relevant fields.

During his visit to Bandar Seri Begawan, Tang met US Secretary of State Colin Powell, with whom he discussed bilateral and international issues and the prospects for bilateral co-operation in anti-terrorism, trade, education, energy and environmental protection. The two men were reported to have reached consensus on several issues, as well as having expressed satisfaction with recent developments in relations between China and the US. Tang also held separate talks with the foreign ministers of Japan, Vietnam, India, North Korea and Russia

In Kunming on 22–23 August, China's Vice-Foreign Minister, Wang Yi, and his Vietnam counterpart, Le Cong Phung, held the ninth round of government-level talks on the two countries' boundary issues. The two sides agreed to begin work on all-round land demarcation in September 2002. They also called for accelerated follow-up discussions of the joint Fishery Co-operation Treaty in the Beibu Gulf [Gulf of Tonkin], signed by the two countries (XHNA, 24 August).

Taiwan [Republic of China]

An article in the Overseas Edition of the *People's Daily* suggested that remarks made by Chen Shui-bian showed that he had unmasked his previous "smiling face" and, through his declaration that Taiwan should "follow its own path," displayed his "ferocious features of being an

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advocate of 'Taiwan independence' and the 'two-state theory.' " The article reaffirmed that China would

> … continue to follow through the basic policy of "peaceful reunification;" and "one country, two systems," and President Jiang Zemin's eight propositions for developing cross-strait relations and pushing forward the peaceful reunification process of the motherland at the current stage; and we will do our utmost to achieve peaceful reunification, but will never commit ourselves to renouncing the use of force (*RMRB*, 5 August; also *ZXS*, 6 August).

In her response to Chinese criticism, Tsai Ing-wen (Chair of the Mainland Affairs Council (MAC)) insisted that Chen Shui-bian's remarks to the effect that Taiwan and China were "two countries on either side of the Taiwan Strait" merely sought to reaffirm the status quo, while the reference to Taiwan following "its own road … a road of democracy, a road of freedom and a road of human rights" was intended to highlight China's status as an undemocratic society, "where there is no freedom and where human rights are infringed upon" (CNA, 5 August; see also Tsai's clarification of Chen's remarks, as reported by CNA, 7 August).

Tsai's remarks notwithstanding, an official of the Association for Relations Across the Taiwan Strait (ARATS) reiterated the view that Chen Shui-bian's remarks had "thoroughly laid bare his true colour of stubbornly sticking to the 'Taiwan independence' position," merely underlining the fact that since assuming power, the Taiwanese President had "completely followed the same line of Lee Teng-hui's 'two state' theory." The ARATS official warned that Chen's most recent statement would "inevitably … bring cross-strait relations into a tense confrontation." Thus,

> Chen Shui-bian's deeds just show he has never had any sincerity for holding talks and is just bent on keeping the confrontation. He has no interest in easing up the tension and is just bent on division. Chen Shui-bian's undisguised "Taiwan independence" separatist acts showed that the separatist activities of the "Taiwan independence" force pose the greatest threats to peace and stability in cross-strait relations, and also constitute a destructive factor for peace and stability in the Asia-Pacific region (XHNA, 7 August; see also XHNA, 19 August).

A survey revealed that most of the 50,000 Taiwan-invested companies in China were profitable. For example, 60 per cent of 35,000 such firms in Guangdong, Fujian, Jiangsu and Shanghai municipality were in profit, while a further 10–20 per cent were breaking even. Unfamiliarity with local market conditions and policies were said to be a major reason for those Taiwanese investors whose ventures had failed (XHNA, 30 June).

In July it was reported that new legislation, to be presented to the Legislative Yuan in September, would provide for fines of between NT$50,000 and NT$25 million, for those found guilty of illegal investment in mainland China (CNA, 12 July). Company owners who refused to withdraw their investment from China would face jail terms of up to two years.

The following month it was reported that in the interests of attracting multinational companies (MNCs) to set up regional operational offices in

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Taiwan, the MAC would ease restrictions on mainland Chinese employees of MNCs seeking to place such employees in work or training in Taiwan. The only major condition was that the Chinese employees ("responsible persons, senior managers or specialists") should have worked for the relevant MNC for more than one year. Successful applicants would be given an initial maximum visa for three years, which, however, could be extended for additional one-year periods. Should any employee change his/her job, s/he would be required to leave Taiwan (CNA, 20 August).

A CNA report (22 July) from Taipei reported that the value of Taiwanese investment in mainland China between January and June 2002 was US$1.53 billion (13 per cent above that of the same period in 2001). Some 88 per cent of investment was directed to the Chang (Yangtze) River delta region (58 per cent in Jiangsu province alone). Half of all investment was in electronics and electrical appliances; other important destinations were basic metal manufacturing (9 per cent), chemical and precision instruments (5 per cent), and plastic manufactures (4 per cent).

In September, the Central News Agency in Taipei quoted XHNA in Beijing to the effect that in the first half of 2002, mainland China had for the first time replaced the United States as Taiwan's largest export market. Two-way trade reached US$19.64 billion (up 31 per cent year-on-year), generating a surplus for Taiwan of US$14.02 billion (up 11 per cent). The value of Taiwan's exports to China was US$16.83 billion; its imports valued a mere US$2.81 billion. Electronic and information-technology products were easily the most important cross-strait trading items, accounting for 71.5 per cent of China's Taiwan-bound exports, and 51.3 per cent of its imports (CNA, 15 September).

A report in the *People's Daily* stated that the prohibition of *direct* investment from Taiwan to the mainland would, as of 2 August, be rescinded. It also reported that the first *financial* sector to be opened to China would be insurance services (*RMRB*, 30 July). In Taipei, CNA reported that Taipei would simplify the Statute Governing the Relations between the People of the Taiwan Area and the Mainland Area, and would no longer require Taiwanese visitors to China to apply in advance for government approval. More relaxed controls, which relied on random checks, would be put in place.

United States of America

On 26 August, Tang Jiaxuan held talks with the US Executive Undersecretary of State, Richard Lee Armitage. Tang spoke of some progress having been made in Sino-US relations, but urged that further progress was contingent on Washington "cautiously" handling the Taiwan issue. He was unequivocal in stating that " 'Taiwan independence' means disaster" and urged the US government to "do something practical for the stability in the Taiwan Strait … instead of selling advanced weapons to Taiwan, upgrading relations with Taiwan, and sending a wrong signal to the 'Taiwan independence' forces." Tang expressed appreciation of the

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US decision to include the "East Turkestan" organization into its list of terrorist organizations.

For his part, Armitage agreed on the fruitfulness of bilateral consultations and co-operation in addressing bilateral, regional and international issues. He reaffirmed Washington's commitment to the "one China" policy and undertook that the government would not support " 'Taiwan independence.'" He praised China's anti-terrorist stand and spoke with satisfaction of the two countries' co-operation in associated activities (XHNA, 26 August).

Armitage also met Vice-Premier Qian Qichen.

Western and Southern Europe (UK)

On 14 July, the British Foreign Secretary (Jack Straw) arrived in Beijing for a three-day official visit to China at the invitation of Tang Jiaxuan. The following day, he held talks with Jiang Zemin, who reviewed the erratic course of the two countries' 30 years of diplomatic relations, but emphasized their recent "comprehensive improvement and development" since the resolution of the Hong Kong issue. He expressed satisfaction that "Chinese–British relations are [today] better than those in any previous periods in terms of breadth and depth." Straw spoke of further "significant progress" in the development of bilateral relations having occurred since Jiang's most recent state visit to the UK (XHNA, 15 July).

Tang Jiaxuan told Straw of the Chinese government's willingness to seek the further development of bilateral ties. He noted that trade between China and the UK had exceeded US$10 billion in 2001, making the UK China's largest trading partner within the European Union. Straw reaffirmed the British government's position on Taiwan and stated that no official exchanges would be permitted between the UK and Taiwan. Straw also signed a memorandum concerning the reciprocal establishment by China and the UK of cultural centres

Following his departure from Beijing, Jack Straw made a brief visit to Hong Kong.

(c) *International Organizations (World Summit on Sustainable Development [WSSD], United Nations [UN], Asia Development Bank [ADB], Fourth Asia–Europe Meeting (ASEM))*

In Johannesburg on 3 September, Zhu Rongji announced to the World Summit on Sustainable Development (WSSD) that China had approved the Kyoto Protocol to the United Nations' Framework Convention on Climate Change. He cited the decision as evidence of China's "positive stance" towards international environmental co-operation and global sustainable development (XHNA, 3 September).

Addressing the final session of WSSD, Zhu was at pains to emphasize China's domestic policy commitment to sustainable development. The government had passed and/or improved more than 120 environment-

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related laws. Since 1998, some 580 billion *yuan* (1.29 per cent of GDP, or 1.8 times the corresponding level of investment between 1950 and 1997) had been invested in environmental protection and preservation of the eco-system (XHNA, 3 September).

During his stay in Johannesburg, Zhu Rongji met the UK Prime Minister (Tony Blair), and the Director-General of the WTO (Supachai Panitchpakdi).

Following his arrival in New York to attend the 57th United Nations General Assembly (UNGA), Tang Jiaxuan exchanged views with European Union (EU) representatives on Sino-EU ties and other issues. Tang spoke favourably of the development trend of Sino-EU relations and urged that in the wake of the "11 September" incident, the two sides should enhance their dialogue and other exchanges. The EU officials hoped that the forthcoming EU–Chinese summit in Copenhagen would help further strengthen political and economic ties with China, as well as expanding co-operation in areas such as environmental protection and combating illegal immigrants.

On the Iraq issue, Tang reiterated his government's view that outstanding problems should be resolved within the UN framework and in accordance with the relevant UN Security Council (UNSC) resolutions (XHNA, 13 September).

Addressing the UNGA, Tang put forward a five-point proposal on accelerating common development throughout the world in order to combat widening economic differentials. He called for increased financial risks and socio-economic volatility – both attendant on globalization trends – to be redressed, and also urged a greater emphasis on the pursuit of sustainable development policies. His five-point proposal included the creation of a "global partnership geared to development," the promotion of a "balanced and steady" development of economic globalization, the enhancement of developing countries' capacities for self-development, and the pursuit of sustainable development, and enhancing an all-round development of the people (XHNA, 13 September; full text in XHNA, 14 September).

On 15 September, Tang joined the foreign ministers of India and Russia in an effort to formulate measures to defuse the crisis over Iraq caused by US President George W. Bush's threat to take military action against Baghdad.

During his stay in New York, Tang Jiaxuan also held separate talks with the US Secretary of State (Colin Powell), the British Foreign Secretary (Jack Straw) and the foreign ministers of France (Dominique de Villepin), Germany (Joschka Fischer) and Russia (Igor Ivanov). In New York, Tang also held collective consultations with the foreign ministers of eight Caribbean countries (Antigua and Barbuda, the Bahamas, Barbados, the Co-operative Republic of Guyana, St Lucia, the Republic of Surinam, the Republic of Trinidad and Tobago and Jamaica) on ways of further developing relations between China and the Caribbean countries, and on international and regional issues of common interest.

It was announced (17 September) that during 2003–2005, the ADB

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would raise its lending in China from the current level of some US$1 billion p.a. to US$1.5 billion. It was hoped that the increase in funding would facilitate economic restructuring and poverty reduction through the promotion of sustainable and "pro-poor" economic growth. To these ends, about three-quarters of ADB funds would be used to finance projects – mainly social and infrastructural – in central and western regions of China. Complementary technical assistance, valued at some US$14 million p.a., would also be made available (XHNA, 17 September).

On 22 September, Premier Zhu Rongji met other Asian leaders attending the fourth Asia–Europe Meeting (ASEM) summit and called for stronger co-operation between Asia and Europe in the light of the recent emergence of political and economic uncertainties throughout the world. He drew particular attention to the need for a closer political consensus and deeper economic and trade co-operation in the interests of securing global stability and prosperity.

During his visit to Copenhagen, Zhu held separate talks with the Japanese Prime Minister (Junichiro Koizumi), who briefed him on his recent talks with the North Korean leader, Kim Jong-il, in Pyongyang. Zhu took the opportunity of the exchange to urge the Japanese government to be cautious in its attitude towards historical problems between the two countries.

(For reports on the Fourth Economic Minister's Conference ASEM, see XHNA, 19 September.)

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