Quarterly Chronicle and Documentation

(October–December 2004)

Sources

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

Abbreviations

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

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1. Internal Developments

(a) *The 12th and 13th Sessions of the Tenth NPC Standing Committee (NPCSC)*

The 12th session of the tenth NPCSC opened in Beijing on 22 October. Members considered the draft of a property law (considered, in its

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original form, in December 2002 and regarded as an important component of China's Civil Law) and of a bankruptcy law. The latter – also submitted to NPCSC for the second time – was intended to assist in regulating the conduct of enterprises that applied for bankruptcy and in establishing a legal foundation for courts to hold "just and fair" trials on bankruptcy cases. Other legislation discussed by delegates included draft amendments to the Electoral Law and the Solid Waste Pollution Prevention Law, as well as the draft law on offences against public order (based on existing "Regulations governing offences against public order," passed in 1986) (XHNA, 22 October). The last mentioned was designed to "enhance security control, safeguard public order, ensure public security, and protect legitimate rights and interests of citizens, legal persons and other organizations."

Hu Guangbao (vice-chairman of the NPC Law Committee) reported on the outcome of deliberations of draft amendments to the Electoral Law for the National People's Congress and the Local People's Congresses and the Organic Law of the Local People's Congresses and Governments at Various Levels. On behalf of the Law Committee, he urged NPCSC delegates to approve the draft amendments.

In the face of "new and serious" law violations that had recently emerged and in order to provide for the punishment of such transgressions, it had been necessary to appropriately amend and supplement the Criminal Law. Hu Kangsheng (chairman of the NPC Legislative Affairs Commission) explained the rational of the draft amendment to the Criminal Law (5), which was now being deliberated for the first time.

The 12th session of the tenth NPCSC closed on 27 October.

The 13th session of the tenth NPCSC was held in Beijing during 25–29 December. It considered a variety of newly-drafted legislation, including an anti-secession law – a matter of considerable concern in Hong Kong – a law on civil Servants, a law on notarization, and a law on renewable energy sources, as well as a draft interpretation of the Criminal Code's provisions on credit cards.

The draft of a law against secession was duly submitted for its first deliberation by NPCSC delegates. NPCSC members described the proposed legislation as "extremely necessary" and "very timely." They unanimously expressed the view that Taiwan was an "indispensable" part of China, and they highlighted the sustained efforts made by China to work towards its peaceful reunification with China. Such efforts notwithstanding, recent years had witnessed increasing activity by "secessionists" seeking to promote Taiwan's independence. Hence, the need for a new law to "oppose and check the Taiwan secessionists, promote the peaceful reunification of China, safeguard China's sovereignty and territorial integrity and maintain the fundamental interests of the Chinese nation" (XHNA, 26 December).

Implementation of an anti-secession law would demonstrate the legalization of policies on Taiwan. More generally, it would help "mobilize all … Chinese citizens, including Taiwan patriots to jointly push forward

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the motherland's peaceful reunification cause, and … help maintain peace and stability across the Taiwan Straits and even the whole Asia-Pacific region."

There was unanimous agreement that the draft law should be submitted to the third annual session of the 10th National People's Congress for further deliberation.

The draft law on notarization sought to establish notarial departments as independent units – not, as was presently the case, public departments possessing full civil responsibility. The draft law on renewable energy set out policies for the development of China's renewable energy industry, the importance of which was highlighted by the emergence of serious energy shortages and heavy pollution from more conventional primary energy sources.

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

The "Decision" adopted by the fourth plenary session of the 16th CCP Central Committee (see "Quarterly chronicle and documentation" in *The China Quarterly*, No.180 (December 2004)) was the subject of analysis and comment in a number of reports that appeared in the quarter. Typical of these – and of the message conveyed by them – was the following, taken from an article of *People's Daily*:

> The 'Decision' … unequivocally sets forth the general objective of strengthening the building of the party's ability to govern. … [It] sets forth … scientific governance, democratic governance, and governance according to law as one of the objectives of building the ruling party. This is unprecedented. We should realize that persisting in scientific governance, democratic governance, and governance according to law is … an essential requirement for better governance by our party under the new circumstances. Scientific governance means that the party should govern according to scientific thinking and theory and scientific systems and methods; further understand and grasp the patterns of governance by the communist party, of social construction, and of the development of human society; and base the strengthening of the building of the party's ability to govern on more conscious application of objective laws. Democratic governance means that the party should persist in governing for the people and by relying on the people; support and guarantee the people's status as masters of their own country; uphold and perfect the people's democratic dictatorship; uphold and perfect democratic centralism; give impetus to people's democracy by developing inner-party democracy; and consolidate and expand the most extensive patriotic united front. Governance according to law means that the party should remain seized of systemic building as an important link that is stable and long-term and has fundamental and overall implications; persist in governing the country according to law; lead legislative work, take the lead in abiding by the law, and guarantee law enforcement; constantly promote the legislation and regulation of the country's economic, political, cultural, and social life; and ensure the implementation and execution of the party's lines, guidelines, and policies at the levels of systems and laws, so that these systems and laws do not change when leaders are changed or when the views and attention of leaders change. Whether or not our party can achieve these "three governances" is critical to enhancing the party's ability to govern and

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consolidating the party's status as ruling party (*RMRB* website, 18 October). (On the CCP's ruling capability, see also *RMRB*, 21 October.)

On 24 October, Xinhua published the text of the "Circular of the CCP Central Committee on the distribution of 'Regulations on the protection of the rights of CCP members' " (dated 22 October). The circular described the regulations as "a very important inner-party law of our party concerning the protection of the rights of party members." Furthermore, its promulgation and implementation was

> an important measure for developing inner-party democracy, improving and perfecting the inner-party life, and strengthening the party's governing ability; … of great significance to bringing into better play the enthusiasm, the initiative, and the creativity of party members and to enhancing the creative ability, the unifying power, and the combat effectiveness of the party. (For the full text of the "Regulations," see XHNA, 24 October; see also *RMRB*, 25 October.)

A Xinhua commentary (14 October) highlighted the importance of the "Opinions on further strengthening and improving ideological and political education of university students," issued jointly by the CCP Central Committee and State Council. The document sought to give direction to university students in order to guarantee their fulfilment of the onerous responsibility they carried in building socialism with Chinese characteristics. It insisted that the ideological and political attitudes of China's student body were broadly "positive, healthy, and upward," although it also acknowledged that there were "many weak links." Hence, the need to improve their ideological and political education in conformity with the principles of Marxism- Leninism, Mao Zedong Thought, Deng Xiaoping Theory, and "the important thinking of the 'three represents.' " To this end, core educational tasks included the following: to foster a "correct world outlook, life philosophy, and values;" to use education to strengthen students' patriotism; and to educate them in civic virtues, based on "essential moral standards." The document highlighted the role of the Community Youth League and student organizations in helping fulfil these goals.

A report in *South China Morning Post* (Hong Kong, 17 November) noted that as part of its ongoing campaign to "trim bloated grass-roots bureaucracies" the Ministry of Civil Affairs had merged 864 towns and villages between January and September, as a result of which 56,400 cadres had been made redundant. Since the beginning of the campaign in 1998, dissolutions and mergers had reduced the total number of Chinese townships 46,400 to 38,136. In this way, government was being streamlined, its efficiency enhanced and the financial burden on farmers was being reduced.

(c) *Social and Religious Affairs*

The illegal expropriation of farmland has become a matter of serious concern to the Chinese government. A Hong Kong source (*Ping Kuo Jih Pao [Pingguo ribao – Apple Daily*], 8 October) reported that following

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long-standing grievances by the inhabitants of a village (Sanchawan) in Shaanxi province, on 4 October 1600 riot police were mobilized to deal with a violent protest – the sixth to take place in the village within a year – against local government land expropriation. More than 50 villagers were said to have been wounded (27 of them seriously), when the police opened fire on the demonstrators. The report stated that over 18,000 villagers had subsequently signed an open letter to Hu Jintao urging a thorough investigation of the incident. The origins of the troubles were said to have been an unexpected announcement, in March 2002, designating over 1,300 hectares of forest land collectively owned by Sanchawan and neighbouring villages as an "economic development zone." In exchange for labour services demanded of farmers, compensation was fixed at 7,500 *yuan* per ha., although the price charged to potential investors was set at 5.25 million *yuan*/ha. Some 80 per cent of the forest land was said to have has been transferred to development agencies, and 40 per cent of it destroyed. (See also Hong Kong, *Ming Pao* [*Mingbao*], 14 November for reports of alleged restrictions on reporting social unrest in China, and *RMRB* website, 23 November.)

An important speech by Wen Jiabao highlighted the importance of land management and, to this end, of the State Council's "Decision on in-depth reform of strict land management" (text of speech in XHNA, 14 December). He insisted that the decision (April 2004) to impose a six-month moratorium on all requests to convert arable land to construction sites had been prudent.

Wen highlighted the importance of properly managing land resources – the "foundation for the people's livelihood and development" – not least, in order to "[carry out] the scientific development concept and [ensure] sustainable economic and social development." Strict land management was dictated by China's high man–land ratio and its pursuit of food security. It was also central to the implementation of "a new type of industrialization and urbanization" – one that avoided the illegal occupation and misuse of farmland, the "blind" construction of development zones and the deliberate manipulation of land prices. Indeed, failure to provide for proper land management would even endanger social and national stability: land was, after all, the "most basic guarantee for the peasants' livelihood," and its requisition resulted in the creation of a category of "three-no peasants" [*sanwu nongmin*], who were left with no land, no jobs and no income support. Finally, land management was also a necessary condition of the successful implementation of macroeconomic regulation and control, since a relaxation of land management would lead to a revival of indiscriminate encroachment on farmland for construction and a revival of "blind investment."

It was in the face of such dangers that the recent State Council "Decision" set out the following requirements:

- to provide for effective protection of arable land (especially "basic farmland");
- to enforce land management laws and regulations;

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- to strengthen land management planning and land use;
- to make full and effective use of price mechanisms in order to regulate and control land use;
- to protect the interests of farmers whose land has been requisitioned;
- to promote the use of land "in an economical and intensive manner."

(On how to deal with those who violate land regulations, see XHNA, 19 December; also see *Qiushi* [*Seeking Truth*], 16 November, for an analysis of land problems caused by urbanization and industrialization.)

A senior official in the Health Ministry spoke of China's determination to take appropriate educational and other measures in order to reverse the increasing incidence of "mental problems" among Chinese children and teenagers so that the prevalence rate was no more than 12 per cent by 2010. Statistics suggested that 30 million out of 340 million Chinese people under the age of 17 currently suffered from mental or behavioural difficulties. A survey conducted in 22 provinces further revealed that 12.97 per cent of children and teenagers had behavioural problems, while 16 per cent of college students suffered from anxiety, fear, neuraesthenia or depression (XHNA, 10 October).

A report in *Fazhi ribao* ([*Law Daily*], 19 October) noted growing structural contradictions within China's population. It acknowledged that the adoption and strict implementation of the one-child policy in the 1970s and 1980s had reduced the number of newborn babies by 300 million. At the same time, as childbirths had fallen, so other demographic problems – notably, skewed gender ratio and population ageing – had increased. For example, the ratio of boys to girls at birth had risen from 108.47:100 to 116.92:100 between 1980 and 2000, compared with a "normal" range of between 103 and107. As for ageing, statistics showed that the share of "senile" [as given] persons above the age of 65 in China's total population would rise from the current level of 7 per cent to 11.8 per cent (2020) to 25 per cent (mid-21st century).

The emergence of these structural contradictions had impacted on childbirth policies in some regions. Thus, the Shanghai municipal government was reported to have abolished the double material rewards offered to couples who had no children, as well as relaxing the rules for those who wanted a second child. However, Yu Xuejun (director of the Policy and Regulations Department, National Population and Family Planning Commission) was at pains to emphasize the local applicability of such policy adjustments, insisting that it did not "overrun the national principle, the basic 'one-child policy' for family planning" and pointing out that if a 'two-children' norm were introduced, China's population peak would arrive a full ten years earlier than was currently being predicted.

Statistics released by the Ministry of Health revealed that in 2003 the death rate of rural women during childbirth was 2.4 times that of their urban counterparts. The maternal mortality rate for rural Chinese women was 65.4 deaths per 100,000 mothers, compared with 27.6 for urban

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women. For babies, the rural mortality rate was 2.5 times that in the urban sector (XHNA, 26 November).

A Hong Kong source (*SCMP*, 16 November) reported that the State Council had issued a regulation, effective as of 1 December, requiring companies that missed an official deadline for repayment of wages to workers to pay an extra 50 to 100 per cent of the amount owed. Government authorities would also be allowed to inspect state and private companies in order to help protect workers' rights "in an oversupplied labour market." A Chinese academic source noted that the new regulations were prompted, in part, by the increasing number of outstanding wage debts to migrant workers – especially in the construction industry. According to the China Federation of Trade Unions, 100 billion *yuan* in pay was owed to 100 million migrant workers. Firms also risked being penalized if they were shown to have overworked employees, failed to sign employment contracts and/or contributed to employees' social security funds, and/or provide for health checks. (See also XHNA, 23 November.)

Xinhua subsequently reported on behalf of the Ministry of Labour and Social Security (MoLSS) that as of 3 December, outstanding payments of 32.2 billion *yuan* (96 per cent of the total amount owed) had been disbursed to migrant workers from rural areas. Minister Zheng Silin revealed that between December and February 2005, an investigation would seek to show the extent to which migrant construction workers in cities were paid on time. Zheng acknowledged the difficulties facing migrant workers who were employed in high-risk occupations, such as construction, coal mining and chemical engineering, and said that efforts were being made to enhance social security provision for them (XHNA, 17 December).

A report issued by the Ministry of Public Security and the Ministry of Civil Affairs revealed that there were over 30 million drug addicts in China. Guangdong and Guangxi on their own were said to house 12 million addicts (Hong Kong, *Cheng Ming* [*Zhengming*], 1 December).

On 18 December, Xinhua carried the full text of China's "Religious affairs regulations" (for a response to the regulations, see XHNA, 22 December).

(d) *Economic Affairs*

A meeting of the CCP Central Committee's Political Bureau [Politburo] (1 December) outlined China's economic tasks for 2005. They included the following:

- implementing economic structural adjustments in order to improve China's competitiveness and accommodate domestic and international market conditions;
- exercising control over fixed investment assets, through appropriate management of land and credit;
- intensifying economic reform and opening up;

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- raising "conservation consciousness" in regard to energy and other resources, and promoting the more rapid growth of the "recycled economy;"
- promoting employment and re-employment of unemployed, underemployed and laid-off workers, improving social security arrangements, and further stimulating consumption;
- formulating plans for comprehensive economic and social development.

Politburo members acknowledged the persistence of a number or urgent problems, including the absence of a firm foundation for grain production, inadequate farm incomes, and a tendency towards excessive investment (XHNA, 1 December).

An editorial in *People's Daily* (*RMRB*, 5 December) hailed the conclusion of the annual central economic conference, convened the CCP Central Committee and State Council and held in Beijing on 5 December. It described 2004 as a year in which China had made further significant progress in pursuing its economic reforms, whilst also using macroeconomic regulatory measures in order to address emerging problems, such as excessive fixed investment, excessive credit and money supplies, and demand–supply imbalances in the grain sector.

2005 would see continuing global economic and trade growth, offering a favourable external environment for China's own development programme. But at home, conditions were likely to continue to demand economic prudence in the face of "quite noticeable … deeply lodged … contradictions and problems in our economic operations." An overriding need was to seek "fully coordinated and sustained economic and social development," based on a "scientific development concept" (described as "an important guiding thought … in building an all-round comparatively well-off society and in expediting our modernization drive").

Meanwhile, a "blue paper" on China's social conditions, published by the Chinese Academy of Social Sciences, highlighted major factors that continued to impede China's development (see *RMRB* website, 7 December). They included the following:

- the existence of large numbers of farmers whose per capita incomes were significantly below the national average;
- the persistence of wide income differentials;
- the persistence, despite rising national per capita GDP, of excess labour supply;
- the emergence of an ageing population in a context of what was, in general, still a low-income country;
- the existence of over 100 million people living, according to international poverty norms (defined in terms of purchasing power of under US$1 per day), in poverty.

The National Bureau of Statistics issued a revised estimate of China's GDP growth in 2003, raising the original 9.1 per cent rate of expansion

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to 9.3 per cent (*RMRB* website, 15 October). Revised sectoral GDP figures were as follows:

- Primary sector: 1,709.2 billion *yuan*
- Secondary sector: 6,127.4 billion *yuan*
- Tertiary sector: 3,888.6 billion *yuan*.

In addition, it was reported that the value of fixed investment in 2003 was 5,556.7 billion *yuan* (44.9 billion above the original estimate). National revenue and expenditure were, respectively, 2,171.7 and 2,465.0 billion *yuan.*

In Qingdao on 2 November, He Guoqiang (head of the Central Organization Department of the CCP Central Committee) addressed a national forum on the ideological and political building of the leading groups of state-owned enterprises (SOEs). He stressed the role of SOEs as an "important pillar" of China's economy and the related need to strengthen the ideological and political foundation of SOE leading groups through the inculcation of the tenets of Deng Xiaoping Theory and the "three represents" (XHNA, 2 November).

Li Rongrong (director of the State Council's recently-established State-owned Assets Supervision and Administration Commission (SASAC)) urged state-owned industrial enterprises (SOEs) to extend their influence in the economy. In support of such advocacy, Li pointed out that between January and September 2004, SOEs (including state-controlled enterprises) had contributed half of all fiscal revenue. In addition, in 2003 they had accounted for 97.5 per cent of national oil production, 40.8 per cent of electric power, 20.4 per cent of steel, and 16 per cent of coal production (XHNA, 24 October).

The implicitly positive thrust of these remarks contrasted with comments made by Li Rongrong towards the end of quarter. These latter comments highlighted problems, such as "systematic barriers, irrational structures and weak creativity," which continued to impede the sustainable growth of SOEs, making the task of reforming them "a tall order." In support of his comments, Li pointed out that the recent rise in SOE profits derived from the activities of a small number of "giant" firms: just seven enterprises – China National Petroleum Corporation, China Mobile, Sinopec, China Telecom, China Offshore Oil, Bao Steel and China Ocean Shipping Company – were responsible for two-thirds of SOE profits. By contrast, other state enterprises faced persistent difficulties: during January–October, for example, almost 11 per cent of all SOEs remained in deficit, with losses totalling 2.02 billion *yuan*. In addition, some 35 per cent of all state enterprises reported that during the same period the growth of costs had outpaced that of revenue (*RMRB* website, 14 December).

Later still in December, another senior SASAC official stated that over half of all SOEs – 1,464 out of 2,903 – had completed their transformation into stock companies. More than 1,000 SOEs were now listed overseas and had accumulated more than one trillion *yuan* from the stock market. The SASAC official revealed that SOE reforms had resulted in

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the closure of 3,377 ailing enterprises, with bad debts of 223.8 billion *yuan* (XHNA, 19 December).

An article in *Qiushi* [*Seeking truth*] (1 November) addressed the grain issue. In it, the minister of agriculture (Du Qinglin) highlighted the scale of the challenge of seeking to feed China's population – 21 per cent of global population – on less than 9 per cent of the world's arable area. He stressed the difficulties still facing grain farmers, pointing out that "the foundation of China's grain production is not stable, input is relatively small, and the capacity to resist natural disasters is weak." If anything, such difficulties would intensify, as grain demand continued to rise against the background of increasing constraints of production capacity (including a contracting arable land base and worsening water shortages). "Tension in the operation of grain supply and demand," he said, "will be the normal state of affairs in China's economic life."

Du noted that a degree of output recovery had taken place in 2004. But shortages persisted and were unlikely to disappear in the foreseeable future. Hence, the key task of "building [a] comprehensive grain production capacity and establishing an enduringly effective mechanism for the steady development of grain production." Fulfilment of this task demanded successfully addressing three relationships: first, between the use of land for construction and for farming; secondly, between the cultivation of grain and of cash crops; and thirdly, between using and nurturing the land. Du was at great pains too to stress the role of agricultural science and technology in generating sustained output growth, as well as of construction in order to provide for an effective farm infrastructure – above all, in the main grain production areas. (See also XHNA, 26 November for a report that the State Council had reaffirmed the role of agriculture as top priority in economic work during 2005.)

Jin Renqing (minister of finance) revealed in October that some 11.6 billion *yuan* had been paid to grain farmers in China during January–September 2004 – most of it (10.28 billion *yuan*) going to cultivators in 13 major grain-producing provinces. In all, almost 600 million farmers had benefited from new direct grain subsidy programme – in the 13 main recipient provinces to the extent of raising net income by 74 *yuan*. Elsewhere it was reported that the average income of grain farmers in the first half of the year had reached 1,371 *yuan*, representing a year-on-year increase of 13 per cent – the highest half-yearly rate of growth since 1997 (XHNA, 13 October).

Meanwhile, an article from *People's Daily* website (*RMRB*, 18 December) urged that even greater efforts be made to support the agricultural and rural economies. It acknowledged that economic conditions in the countryside had improved during 2004 – "farmers' incomes have increased relatively fast, various social undertakings in rural areas have further developed, and agricultural macro-control has been strengthened." But it also warned not to exaggerate such success:

"[t]hough grain production has increased by a big margin, problems in variety and regional balance are still very conspicuous; the agricultural production capacity,

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especially the comprehensive grain production capacity, has not notably increased, deep-seated problems restricting agricultural and rural development have yet to be eliminated, and there are also many uncertainties in next year's climatic and market conditions. The task of continuing to maintain the favourable momentum of rural economic development is very arduous.

Hence, the need for redoubled efforts in 2005 in order to raise grain output further, improve farm efficiency and increase farmers' incomes. There was a particular need to direct more investment funds to agriculture in order to strengthen its "weak foundation and … lack of staying power." As for the broader rural economy and society:

We should more conscientiously adjust the pattern for the distribution of national income and give full play to the role of cities in stimulating and bringing along rural areas; we should gradually expand the scope and fields covered by public finance in rural areas and promote overall planning for the development of the labour market, compulsory education, and public health in the countryside.

At the end of the quarter (28–29 December), the annual central rural work conference was held in Beijing, where it considered a draft document ("Views of the CCP Central Committee and the State Council on policies to further strengthen the rural work and increase the comprehensive agricultural-production capacity"). Conference participants warned against complacency resulting from improvements in farm and farmers' conditions during 2004, and urged for continued attention to agricultural and rural work ("we must not waver in our determination to step up our efforts to solve the 'three rural issues' [*san nong*], nor must we reduce our support for agriculture, peasants, and rural areas or slacken our work in these regards"). They cited the experience of industrialized countries in order to show that "when industrialization reached a considerable degree, it was … a universal trend in which industry supported agriculture in return and cities supported rural areas in order to bring about coordinated industrial and agricultural development and coordinated urban and rural development." With this in mind, it was essential that more attention was given to improve agricultural conditions and support the rural economy (XHNA, 29 December).

On 25 November, the director of the National Development and Reform Commission's Department of Environment Resources Conservation (Zhao Jiarong) unveiled a major energy saving plan, effective with immediate force until 2020. The plan was described as "the biggest and most ambitious … of its kind in China's history" (XHNA, 25 November). It included a target of reducing consumption of standard coal per 10,000 *yuan* of GDP from 2.68 tons (2002) to 2.25 tons (2010) to 1.54 tons (2020). In addition, all buildings constructed after 2006 would be required to embrace major energy-saving new technology and methods. The introduction of central heating systems in residential and public buildings, charged at an appropriate tariff, would also reduce energy consumption – such work to be well advanced by 2010. Zhao suggested that China should seek to save 300 million tons of standard coal in

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consumption annually. (See also XHNA, 25 November; and *RMRB* website, 26 November, for an analysis of the impact of heavy industrial growth on China's energy shortages.)

Xinhua reported that China imported 76 million tons of crude oil – 40 per cent of domestic demand – during January–November 2004. This represented a 6 per cent rise over imports during the same period of the previous year. Oil imports for the whole of 2004 were expected to reach 100 million tons. Looking further ahead, demand for 2020 was projected at 400 million tons – twice the current annual level of domestic production. The XHNA report attributed China's increasing reliance on imported oil to low efficiency in energy use (XHNA, 1 November).

A *ZXS* report (9 October) revealed that 2005 would see the implementation of a strategic oil reserve programme. The construction of an oil reserve base in Zhenhai (Zhejiang province) was already under way. When the programme's first phase was completed (2005), the oil reserve capacity would be more than 5 million cu.m. In addition to Zhenhai – believed to be the largest – three other locations had been chosen by the National Development and Reform Commission as state strategic oil reserve bases: viz., Daishan (also in Zhejiang), Huangdao (Shandong) and Dalian (Liaoning). The entire programme was expected to be completed between 2006 and 2008, by which time the four bases would provide the equivalent of ten or more days of natural crude oil imports. When added to *commercial* usage reserve capacity, China's total oil reserve capacity would exceed 30 days of natural crude oil imports.

From Urumqi came a report that Xinjiang now contained six oilfields, each with an annual output of 1 million tons. Located in the Tarim and Junggar basins, these oilfields had made possible a rise in Xinjiang's annual oil production from 7 million tons (1990) to 21.4 million tons (2003). Projections indicated that Xinjiang would replace north-east China as the new national energy base. By 2010, the combination of local oil production – expected to be 35 million tons p.a. – and imports from Kazakhstan (10 million tons of crude) would enable Xinjiang to supply more than 20 per cent of national oil supplies (XHNA, 26 October).

Xinhua cited Boeing's latest market report, showing that China's airlines would require almost 2,300 new aircraft by 2023, thereby making it the biggest commercial aviation market outside the US. The cost of new aircraft purchases on this scale would be around US$183 billion. The same report predicted that China's air traffic market would grow by 7.3 per cent p.a. during the coming two decades – 8.1 per cent in the domestic market alone. The fastest-growing international air market was expected to be that between China and Europe (up by 7.4 per cent p.a.), followed by China–Northeast Asia (6.7 per cent p.a.) and China–North America (6.5 per cent p.a.) (XHNA, 21 October).

On 28 October, China's central bank – the People's Bank of China – announced its decision to raise both lending and deposit interest rates by 0.27 of a percentage point, effective as of 29 October. The consequence would be to increase the one-year deposit interest rate from 1.98 to 2.25 per cent, and the one-year loan interest rate from 5.31 to 5.58 per cent.

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Other associated monetary adjustments were also announced. Such initiatives were designed to reinforce macro-economic control measures that had already been adopted by the central government, and thereby to maintain China's economic development momentum (XHNA, 28 October; see also *RMRB,* 28 October and *RMRB* website, 3 November for reactions to the interest rate change).

On 5 November, an executive meeting of the State Council, chaired by Wen Jiabao, analysed fiscal revenue and expenditure in 2004 and made preparations for fiscal work during 2005. The meeting also considered the draft "Regulations on punishments and penalties for unlawful fiscal behaviour." The consensus of the meeting was that macro regulatory – especially fiscal – measures adopted in 2004 had been effective and that the momentum of steady growth had been maintained. Such success left, however, no room for complacency, and it was emphasized that there should be no relaxation of ongoing fiscal management (XHNA, 5 November).

The continued and continuous widening of urban–rural differentials was reflected in the finding that in 2003, the share of the urban sector in total retail sales of consumer goods (measured in terms of valued added) reached 73.16 per cent. In absolute terms, urban consumer retail sales rose by 6.8 per cent; the corresponding figure for the rural sector was *minus* 0.75 per cent (XHNA, 20 October).

Xinhua announced that between 15 and 20 December, the Ministry of Finance would float a treasury bond issue worth 25.66 billion *yuan*. Starting on 24 December, they would be quoted on the interbank bond market, and the Shanghai and Shenzhen stock exchanges for trading in cash and repurchase. The two-year bonds would carry a fixed annual interest rate of 2.98 per cent (XHNA, 14 December).

It was reported that, in line with its commitments as a member of the World Trade Organization (WTO), China would reduce its tariff to an average 10.1 per cent in 2005 (tariffs for industrial products to be cut to 9.3 per cent, and for farm products to 15.6 per cent). All non-tariff barriers would be eliminated. All major service sectors (including banking, securities, insurance and distribution) would have to face up to the consequences of the transitional period coming to an end (see *RMRB* website, 1 December, for further details).

Statistics published in the quarter showed that in "recent" years, nearly 60,000 foreigners – excluding those from Hong Kong, Macau and Taiwan – had secured permission to work in Shanghai (of whom some 32,000 were currently employed there). In 2002 alone, the number of foreign employees had doubled, rising by a further 28 per cent in 2003. Such increases had important fiscal implications. For example, in the first half of 2004, Shanghai benefited to the extent of 1.6 billion *yuan* in personal income tax revenue from foreign employees [note, however, that this figure appears to include receipts from "Chinese compatriot" employees in Shanghai], or 14.5 per cent of total municipal tax revenue. Employees from 102 countries were currently represented in Shanghai, the most important of which were Japan (33.7 per cent of all foreign employees),

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the United States (11.5 per cent), the Republic of Korea (8.7 per cent), Singapore, Germany, Malaysia, Canada, France, Australia and the United Kingdom (*RMRB* website, 18 October).

(e) *Military Affairs*

On 27 December, a "white paper" on national defence, entitled "China's national defence in 2004," was issued by the Information Office of the State Council (full text available in XHNA, 27 December). It was the fifth such document to appear since 1995. It set out China's national defence policies and reviewed related progress during the previous two years.

The document argued that peace and development were the "dominating themes of the times." But even allowing for such positive developments, global security had come under threat from other – and increasing – "factors of uncertainty, instability and insecurity." Not least,

> [t]he separatist activities of the 'Taiwan independence' forces have increasingly become the biggest immediate threat to China's sovereignty and territorial integrity as well as [to] peace and stability on both sides of the Taiwan Straits and the Asia-Pacific region as a whole.

Although the Chinese government sought to achieve peaceful reunification of Taiwan with the mainland, it remained determined to prevent Taiwan from becoming an independent nation:

> We will never allow anyone to split Taiwan from China through whatever means … Should the Taiwan authorities go so far as to make a reckless attempt that constitutes a major incident of 'Taiwan independence', the Chinese people and armed forces will resolutely and thoroughly crush it at any cost.

The white paper insisted that preoccupied as it was with seeking to build a prosperous economy and society, China posed "no obstacle or threat" to any other country. On the questions of arms control, disarmament and non-proliferation, it noted that proliferation of weapons of mass destruction and associated methods of delivery had become a major threat to international security. China's view was that "the international community should safeguard the international regime of arms control, disarmament and non-proliferation treaties … and persist in multilateralism" (XHNA, 27 December).

China's basic goals in terms of maintaining national security were outlined as follows:

- to prevent separation and promote reunification, to prevent and resist aggression, and to defend national sovereignty, territorial integrity and maritime rights and interests;
- to "safeguard the interests of national development, promote economic and social development in an all-round, coordinated and sustainable way and steadily increase the overall national strength;"
- to strengthen national defence modernization in order to accommodate

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China's own conditions, as well as international military trends, and to "improve the operational capabilities of self-defence under the conditions of informationalization;"
- to safeguard the Chinese people's "political, economic and cultural rights and interests" and to combat all forms of criminal activity in order to maintain public order and social stability;
- to "pursue an independent foreign policy of peace and adhere to the new security concept featuring mutual trust, mutual benefit, equality and coordination with a view to securing a long-term and favourable international and surrounding environment."

The white paper comprised ten chapters covering: the security situation; national defence policy; "revolution in military affairs with Chinese characteristics;" defence expenditure and defence assets; the military service system; national defence mobilization and reserve force building; science, technology and industry for national defence; the armed forces and the people; international security co-operation; and finally, arms control, disarmament and non-proliferation

An official in the Ministry of National Defence spoke of the more "practical" orientation of China's military diplomacy during 2004, characterized as it was by wider co-operation with foreign military personnel. Military visits to China included those of the chairman of the US joint chiefs of staff (Richard Myers), the Russian defence minister (Sergey Ivanov), and a delegation of high-ranking French military officers – described as "the first exchange of China's armed forces with their counterparts from one developed country." In addition, more than a hundred military exchange programmes had been implemented in 2004, involving military contacts with Australia, Belgium, Brazil, Cuba, Egypt, France, India, Mexico, Pakistan, Russia, South Africa, Switzerland, Thailand, the UK and the US. As a dialogue partner of the Association of South-East Asian Nations (ASEAN), China had made an active contribution to the ASEAN regional security forum. Finally, China had undertaken 19 rounds of strategic consultations and security dialogues with 13 countries, including the United States, Russia, Germany, France and Britain; it had also established a strategic consultation mechanism with Canada (XHNA, 20 December).

(f) *Hong Kong and Macau Special Administrative Regions*

Chief secretary of the Hong Kong Special Administrative Region (HKSAR), Donald Tsang Yam-kuen, stated in October that the regional government would issue a "mainstream proposal" on constitutional reform by the middle of 2005. In the same statement, he dismissed calls for a referendum on whether universal suffrage should be introduced into Hong Kong by 2007 as "a waste of time" (*SCMP*, 19 October). Tsang's statement came against the background of the September Legislative Council (Legco) election in which over 60 per cent of votes had gone to the pro-democracy camp.

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Radio-Television Hong Kong (RTHK) reported on 18 November that the HKSAR rate of unemployment had fallen to 6.7 per cent – the lowest level for 32 months.

On 1 January 2005, RTHK reported that 109 people from Hong Kong – 65 fewer than previously thought – had died in the tsunami disaster.

On 19 December, Hu Jintao arrived in Macau to join in celebrations marking the fifth anniversary of Macau's return to China and of the inauguration of the second-term government of the Macau Special Administrative Region. It was Hu's first visit to Macau. At a dinner given in his honour, Hu reaffirmed the Chinese government's determination to uphold the principle of "one country, two systems" – the guarantee, as he put it, of Macau's future sustained development, long-term prosperity and stability (XHNA, 19 December). During Hu's visit, Edmund Ho Hau Wah was sworn in for a second term as Macau's chief executive.

2. Foreign Relations

(a) *Diplomatic Tours*

Hu Jintao's visits to Brazil, Argentina Chile, and Cuba

En route to Latin America, on 10 November Hu Jintao stopped in Porto, where he met the Portuguese prime minister, Pedro Santana Lopes. The two men discussed bilateral relations, and regional and international issues (including prospects for the development of a "strategic partnership" between China and the EU (XHNA, 10 November)).

The following day, Hu flew to the Brazilian capital, Brasilia, on the first leg of his Latin American tour. Xinhua noted that Brazil was China's largest trading partner in the region, with the value of two-way trade reaching US$7.98 billion in 2003 (78 per cent more than in 2002) – a figure that had already been exceeded during January–August 2004 (XHNA, 11 November).

In his talks with Hu, the Brazilian president, Luis Inacio Lula da Silva, spoke of the steady growth of bilateral ties in recent years, not only in trade and economic relations, but also in political, cultural and international affairs. He reaffirmed the Brazilian government's adherence to the one-China policy. Hu's remarks also referred to years of fruitful co-operation between the two countries and contained a four-point proposal to strengthen relations further. He hoped that the value of two-way trade would reach US$20 billion by the end of 2007 (XHNA, 12 November). Meanwhile, the Chinese minister of commerce (Bo Xilai) and the Brazilian foreign minister (Celso Amorim) signed a memorandum, in which Brazil recognized China's full market economy status.

Hu Jintao arrived in Buenos Aires on 16 November. In a statement on his arrival, he spoke of the importance which the Chinese government attached to its relations with Argentina and its hope for closer co-operation over a wide range of activities. Argentina was China's fourth-largest trading partner among Latin American nations, with the value of two-way trade reaching US$3.176 billion in 2003 – more than twice the

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level of the previous year – and rising by a further 21 per cent (year-on-year) in the first nine months of 2004.

Following their talks, President Hu Jintao and his Argentinian counterpart, Nestor Kirchner, announced the two sides' intention to establish a "strategic partnership" in order to facilitate the further development of relations between their two countries. The two sides also signed five agreements on expanding co-operation in space technology, education, tourism, railways and trade (XHNA, 16–17 November).

On 18 November, Hu travelled to Santiago, where he met his Chilean counterpart, Ricardo Lagos Escobar. Chile was the first South American country to establish full diplomatic relations with China (1970). It was currently China's third-largest trading partner in South America: bilateral trade was US$3.529 billion in 2003 (37.6 per cent more than in 2002).

The two presidents' talks focused on bilateral co-operation. They both expressed the hope that the "all-round cooperative partnership" between their two countries would be further strengthened. Hu called for the existing programme of high-level exchanges to be intensified and for new trade growth points to be identified. He hoped too that co-operation between China and Chile in multilateral organizations, such as the United Nations, the World Trade Organization, Asia-Pacific Economic Co-operation (APEC) and the Organization of American States (OAS) could be strengthened. Not least, the two sides agreed to start talks on a free trade agreement (FTA).

Following their talks, Hu and Escobar attended a ceremony at which a series of Sino-Chilean co-operation documents were signed. They included a memorandum of understanding on strengthening bilateral economic and trade co-operation; a memorandum of understanding on joint exploitation of Chile's copper resources by Chinese and Chilean enterprises; and a framework agreement on co-operation in public health and medical studies (XHNA, 19 November).

In Santiago, Hu Jintao also attended the 12th Economic Leaders' Meeting of Asia-Pacific Economic Co-operation (APEC) (see below under "International Organizations").

The last leg of Hu's tour was to Cuba, where he arrived on a state visit on 22 November. In a written statement on his arrival in Havana, Hu spoke of the long history of relations between China and Cuba ("during the past 44 years, our bilateral ties have withstood the tests of volatile international situations"). He looked forward to his talks with President Fidel Castro Ruz and hoped that they would lead to even closer ties.

During their subsequent meeting, Hu and Castro agreed to expand bilateral economic, political and other forms of co-operation. Hu drew particular attention to the desirability of increasing exchanges between the two countries' government and parliamentary leaders, and officials of political parties and non-governmental institutions. He noted that bilateral trade between China and Cuba had averaged around US$400 million during the previous three years, and had risen (year-on-year) by almost 37 per cent between January and September 2004. Castro endorsed Hu's proposals. Following the talks, the two sides signed a number of

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co-operation agreements (XHNA, 23 November; see also XHNA 24 November).

(b) *Countries, Territories and Regions*

Africa (Ethiopia, Guinea, Democratic Republic of Congo)

On 31 October, the prime minister of the Federal Democratic Republic of Ethiopia (Meles Zenawi) arrived in Xi'an at the start of an official visit to China. On 2 November, he travelled to Beijing, where he held talks with Wen Jiabao. The Chinese premier called for an expansion of bilateral trade and economic co-operation, especially in agriculture, textiles, resource development, infrastructural construction and tourism. He also referred to Sino-Ethiopian relations as a model for those between China and other African countries. Meles' remarks echoed those of Wen. Following their talks, the two leaders attended the signing ceremony of two bilateral agreements – on economic and technological co-operation, and educational exchanges and co-operation (XHNA, 2 November). Meles later met President Hu Jintao.

The foreign ministers of Guinea (Mamady Conde) and the Democratic Republic of Congo made separate visits to China during the quarter. Their discussions with Li Zhaoxing and other senior Chinese government officials focused on bilateral relations, regional and international issues.

Caribbean (Antigua and Barbuda)

On 17 November, the prime minister of Antigua and Barbuda (Baldwin Spencer) began a six-day official visit to China at the invitation of Wen Jiabao. In talks in Beijing, Spencer and Wen Jiabao reached a consensus on "strengthening bilateral friendship" and "reciprocal cooperation" (Chinese Foreign Ministry sources). Wen expressed the Chinese government's appreciation to the government of Antigua and Barbuda for its adherence to the one-China policy and recognition of China's full market economy status. He also put forward proposals for the development of a long-term, stable co-operative relationship between the two countries. Later, the two men attended the signing ceremony of two inter-governmental agreements, including one on bilateral economic and technological co-operation (XHNA, 17 November). Spencer also visited Shanghai.

Commonwealth of Independent States (Russia)

President Vladimir Putin arrived in Beijing on 14 October for a three-day state to China, in part prompted by the 55th anniversary of the establishment of diplomatic ties between China and Russia [the former Soviet Union].

Later the same day Putin met Hu Jintao, with whom he discussed bilateral relations, and regional and international issues of shared concern. Hu called on the Russian government to strengthen progress

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towards the establishment of a "strategic partnership of cooperation" on the basis of four principles, as follows:

- to maintain "mutual respect, equal treatment and mutual support" and reinforce "political mutual trust;"
- to "insist on complementarity and mutual benefit and seek for common development from a long-term perspective;"
- to "insist on coordination, cooperation and mutual trust to jointly create a sound international environment with further cooperation;"
- to strengthen bilateral exchanges (especially of a social and cultural nature) in order to enhance future friendship and mutual understanding.

Both men reaffirmed their commitment to the principles of the Sino-Russian Good-Neighbourly Treaty of Friendship and Co-operation, as the basis on which they would seek to advance their strategic partnership. They endorsed their ongoing efforts to counter international terrorism and to reduce the "serious threat posed by the proliferation of weapons of massive destruction (WMD), their delivery systems and related materials." They also gave their support to the establishment of nuclear-free zones (especially in central Asia, but also on the Korean Peninsula).

These and other sentiments were enshrined in a joint statement, signed by the Chinese and Russian leaders after their talks (full text published by XHNA on 14 October). In it, China extended its strong support to Russian efforts to join the World Trade Organization (WTO) at an early date. Meanwhile, the two sides expressed their common wish to strengthen co-operation on the basis of mutual respect, equality and mutual benefit. The joint statement drew particular attention to the potential for expanded trade and economic co-operation, especially in energy. It noted the rapid development of bilateral economic relations in recent years and endorsed the realistic target of reaching annual trade valued at US$20 billion by the end of 2004. It also affirmed the two countries' determination to expand trade in electronic and machinery products, to improve the "forms and methods" of economic and trade co-operation and investment, to focus on large co-operation projects and seek further significant progress in energy co-operation. Among the agreements signed by the two sides was one which completed the delimitation of their common 4,300-kilometre boundary line.

Japan

A Xinhua commentary retuned to the vexed Yasukuni [War] Shrine issue. It pointed out that following a statement by the Japanese prime minister (Junichiro Koizumi) expressing his intention to continue to visit the Yasukuni Shrine, 79 members of the "Diet members association for everyone to visit the Yasukuni shrine" (comprising Diet members from the Liberal Democratic Party (LDP) and Democratic Party of Japan (DPJ)) themselves visited the shrine. Such visits, argued Xinhua, were hurtful to the feelings of Chinese and other Asian countries' populations that had suffered from Japanese military aggression to the extent that

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"their [official Japanese visitors] stubborn attitude with regard to the issue of visiting the Yasukuni shrine has not only made the historical burdens they are bearing heavier, it has also lost the trust of the people of various countries of Asia." Such visits demonstrated that Japanese politicians still showed themselves unable to "deal correctly with that phase of history in which Japanese militarists launched a war of aggression" in a way in which, for example, successive German government administrations had done in parallel circumstances.

The moral was clear:

> [T]he Yasukuni Shrine problem has now gone beyond the scope of domestic Japanese politics and is a serious diplomatic problem that involves right and wrong and international justice. Only by facing the future with history as a mirror and respecting the feelings of the people of the countries who suffered will the important politicians in Japan be able to win the trust of the people of the various countries of Asia and the world" (XHNA, 21 October).

During his participation in the APEC informal ministerial meeting in Santiago, Hu Jintao met the Japanese prime minister, Junichiro Koizumi – their first meeting since October 2003. Their discussions focused once more on an attempt to ease tensions caused by Koizumi's visits to the Yasukuni Shrine and by a Chinese nuclear-powered submarine's intrusion into Japanese territorial waters. Hu urged Koizumi to stop his visits, which the Japanese premier was reported to have explained as a way of expressing his sympathy for Japanese killed in the war, as well as of demonstrating his determination "to never fight a war again." Koizumi called on Hu to take measures to prevent a recurrence of China's recent naval intrusion into Japanese waters (Tokyo, Kyodo, 21–22 November; and see XHNA, 22 November).

Another source of unhappiness to the Chinese side was the Japanese government's decision to terminate aid to China under its programme of yen loans. Since 1979, such loans – made available at low interest and repayable over a long time period – had totalled some US$30 billion, making a significant contribution to China's infrastructural and economic development. According to Japan – but not according to Chinese sources – China had never expressed its thanks for such assistance. Indeed, Xinhua pointed out that the loans, the precise use of which was in any case dictated by Japan, had benefited Japanese companies, many of which were on the verge of bankruptcy, by offering them new outlets. The outcome was that "a worrisome situation characterized by 'hot economy and cold politics' has appeared in the two countries' relations over the last few years" (XHNA, 4 December).

Latin America (Venezuela, Peru)

On 23 December, the president of the Bolivarian Republic of Venezuela (Hugo Rafael Chavez Frias) arrived in Beijing at the start of a five-day state visit – his third to China. In a speech to businessmen,

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Chavez drew particular attention to good prospects for energy co-operation between the two countries.

On 24 December, Chavez held talks with Wen Jiabao. Wen said that relations between the two countries had entered a new stage since their endorsement in 2001 of a "strategic partnership of common prosperity. He pointed to the economic complementarities between China and Venezuela and noted the great potential for expanded co-operation in developing energy resources, mining and infrastructural construction. Chavez echoed Wen's remarks, but also called for greater co-operation in agriculture and telecommunications (XHNA, 24 December).

The Peruvian foreign minister, Manuel Rodriguez Cuadros, visited China in December and held talks with senior government officials, including Vice-President Zeng Qinghong and Li Zhaoxing.

Middle East and North Africa (Palestinian Entity, Iraq)

On 11 November, Hu Jintao sent a letter of condolences to Rawhi Fattuh (speaker of the Palestine Legislative Council), following the death of the Palestinian president, Yasir Arafat. The message referred to Arafat as a "great friend" of China and praised his life-long efforts on behalf of the Palestinian people and reaffirmed the Chinese government's willingness to work towards closer Sino-Palestinian relations. Vice Premier Hui Liangyu later travelled to Cairo to attend President Arafat's funeral (XHNA, 11–12 November).

The following month, the foreign minister of the Iraqi Interim Government (Hoshyar Zebari [Al Zibari]) made a four-day visit to China at the invitation of Li Zhaoxing. They exchanged views of bilateral relations, the situation in Iraq and other issues of shared concern. Zebari urged Chinese companies to explore investment opportunities offered by Iraq's reconstruction plans, pointing out that there was a "desperate" need for all kinds of products in all sectors (including transport and communications, energy, water resources, sanitation systems and education. Li Zhaoxing expressed the Chinese government's concern about the situation in Iraq, and reaffirmed its support for Iraq's sovereignty, independence and territorial integrity. He hoped that the coming elections would generate a broad-based government that would "continuously push forward the Iraqi political reconstruction process." The two sides subsequently reached agreement on the provision of material aid from China to Iraq in support of the latter's elections (XHNA, 23–24 December).

Zebari also met Wen Jiabao.

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

The South Korean news agency, Yonhap, reported that at the end of 2003 almost half of South Korea's 41,421 trading companies were engaged in business with China. The high degree of involvement was causing increasing concern in that South Korea was becoming excessively trade dependent on China. China had become Korea's single most

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important export market, accounting for nearly 20 per cent of its overseas merchandise sales (Yonhap 12 October).

South Asia (India, Pakistan, Sri Lanka)

In Beijing on 17–18 November, the fourth round of "special representative-level" talks on the boundary question between China and India took place between the Indian national security adviser (J.N. Dixit) and China's executive vice-foreign minister (Dai Bingguo). A Chinese Foreign Ministry spokesman stated that discussions would focus on "guiding principles" for resolving the boundary issue (Press Trust of India (PTI), 17 November).

On 14 December, the prime minister of Pakistan (Shaukat Aziz) travelled to Beijing, where he exchanged views with Chinese government officials on expanding bilateral co-operation. His talks with Wen Jiabao (15 December) focused primarily on issues relating to bilateral relations. Wen noted the steady rise in two-way trade and co-operation in infrastructural construction that had taken place in recent years. He urged further co-operation, especially in agriculture, energy and natural resources, and called for investigations into the possibility of establishing a free trade area (FTA) to be speeded up. Aziz responded positively to the latter suggestion, noting that his government's recognition of China's full market economy status would help in setting up a FTA.

Wen pointed out that the security of both China and Pakistan had become endangered by the forces of extremism and terrorism, and he hoped that the two countries would strengthen their co-operation in combating both. He reaffirmed the Chinese government's willingness to play an "active role" in helping to promote peace, stability and development in South Asia.

Following the talks, the two sides signed seven documents, including a protocol on issues concerning arrangements for preferential trade and the establishment of a FTA, and an agreement on economic and technical co-operation (XHNA, 15 December).

Aziz later travelled to Shanghai, where he addressed the Pakistan–China Business Forum. He noted the rapid growth of trade between China and Pakistan: it was expected to exceed US$2 billion in 2004, marking a 30 per cent rise of the level of the previous year. In addition, Pakistan was the destination for increasing levels of Chinese investment (the cumulative contractual value of such flows had already reached $4 billion). Aziz confirmed that his discussions with Wen Jiabao and other senior government officials had been "very successful" (Islamabad, PTV World, 17 December; and see XHNA, 17 December).

On 27 December the Sri Lankan foreign minister, Lakshman Kadirgamar, arrived in Beijing for a five-day official visit. Talks with Vice-President Zeng Qinghong and Li Zhaoxing focused on bilateral relations, regional and bilateral issues. The two sides agreed to seek ways of strengthening co-operation in order to "inject fresh vigour and vitality to their bilateral relations" (XHNA, 29 December, which also has the

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full text of the two sides' joint communiqué). Because of the tsunami disaster, Kadirgamar cut short his visit and returned to Sri Lanka on 29 December.

South-East Asia (Vietnam)

On 6 October, Wen Jiabao arrived in Hanoi at the start of an official visit to Vietnam (where he would also attend the summit of the fifth Asia–Europe Meeting (ASEM) – see below under (c)). He was accompanied by Li Zhaoxing, Jin Renqing (minister of finance), Bo Xilai (minister of commerce) and other senior Chinese government officials.

The following day, Wen held talks with his Vietnamese counterpart, Phan Van Khai. The Chinese premier noted that bilateral relations had developed well, facilitating political trust and economic co-operation. He was confident that two-way trade would rise from US$4.64 billion (2003) to more than $6 billion in 2004. He urged the Vietnamese government to address remaining differences between the two countries – for example, on the border issue - through consultation and dialogue. Khai endorsed many of Wen's remarks and reaffirmed Vietnam's continued adherence to the one-China policy (XHNA, 7 October; see also a *ZXS* report, 8 October, which stated that Wen's visit had opened a new chapter in bilateral relations).

Following their talks, the two prime ministers attended a ceremony at which eight agreements on economic, trade and technical co-operation were signed. During his visit, Wen also met President Tran Duc Luong.

Taiwan [Republic of China]

In October the chairman of the Mainland Affairs Council (MAC), Joseph Wu, renewed an invitation to Wang Daohan (chairman of the Association for Relations Across the Taiwan Strait (ARATS)) to visit Taiwan in order to facilitate the resumption of cross-strait talks between ARATS and its Taiwanese counterpart, the Straits Exchange Foundation (SEF). Wu spoke of the progress that had been made by ARATS and SEF during the 1990s, when their discussions had been based on a tacit agreement to "[shelve] disputes on sovereignty and pragmatically [engage] in consultations." He also enlarged on President Chen Shui-bian's proposal, made in his recent National Day speech, that the two sides should establish a "'code of conduct' across the Taiwan Strait" in order to prevent accidental conflicts. According to Wu:

> such a code could include exchanges of military personnel and information, the establishment of an emergency hotline and notification mechanism, joint presence in international security seminars, cooperation to combat crime, no use or threats of the use of force, not taking the initiative to attack, mutual notification of military exercises, military aircraft not flying over the 'midpoint' of the Taiwan Strait, and no use of radar to lock onto aircraft or ships (CNA, 14 October).

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The following month, President Chen Shui-bian outlined a proposal whereby China and Taiwan would agree to recognise a military buffer zone in the Taiwan Strait and set up a "failsafe" channel of communications in order to minimise military miscalculations by either side. The proposed buffer zone should be off-limits to warships and aircraft from both sides of the strait, unless prior information had been given. Chen also suggested that mainland China establish a consultation mechanism with Taiwan to ensure stable relations. This could be patterned on the 1972 US–Soviet Maritime Event Consultative Agreement and the 1998 US–China Military Maritime Consultative Agreement. Chen also revealed that in addition to reducing the level of national armed forces by 100,000, compulsory military conscription in Taiwan would be reduced from 20 to 18 months (effective as of July 2005). He reaffirmed his earlier suggestion that Beijing and Taipei should resume their stalled discussions on cross-strait issues (CNA, 10 November; for China's negative response to Chen's initiative, see XHNA, 14 November).

Li Weiyi (spokesman for the State Council's Taiwan Affairs Office) held a new conference, following Taiwan's Legislative Elections. After making an initial statement, in which he condemned the allegedly "splittist" and pro-independence stance of President Chen Shui-bian – e.g. "Chen Shui-bian's words and deeds for Taiwan independence have exposed his pretence allegedly for promoting peace on both sides of the strait and easing cross-strait ties. … He is the biggest source of chaos undermining stability and prosperity in the Asia-Pacific region" – he answered questions from reporters. He avoided direct comment on the election outcome, preferring to reiterate China's position on the cross-strait political impasse (Beijing, CCTV, 15 December).

Chinese scholars and other experts on Taiwan held a meeting to analyse the Legislative Elections and their implications. They suggested that the election outcome marked the "greatest setback" yet suffered by Chen Shui-bian, the effect of which would be to exacerbate "antagonism between the blue and the green camps and the political unrest in the island." Some interpreted the result as evidence of the Taiwanese people's desire to maintain the status quo and oppose Taiwan independence, and of their rejection of the pan-green camp's efforts to promote the "hot sale of 'Taiwan Independence.' " Others made the point that the pan-blue camps success in winning over half the seats in the Legislative Yuan would impact positively on cross-strait relations. Thus,

> The pan-blue camp will continue to play a supervisory and controlling role in the 'Legislative Yuan' over Chen Shui-bian's authority, forcing it to make some temporary adjustment in the handling of the relations across the strait and so it may be possible to make appear a short-time detente for the relations on the two sides of the Taiwan Strait.

But not everyone endorsed this view, and there was a feeling by some that pan-blues' election success would be insufficient to "make the Chen Shui-bian authority to draw in its horns" (*RMRB* website, 15 December).

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United States of America

In Washington, DC on 30 September, the Chinese foreign minister (Li Zhaoxing) exchanged views with US secretary of state, Colin Powell, on bilateral relations and regional and international issues of shared concern. Li spoke positively of recent developments in relations between China and US, and hoped that shared interests and tact in addressing differences between the two countries would enable ties to be further strengthened, to the benefit of the entire world. In response to Li's emphatic expression of opposition to Taiwan independence, Powell noted the sensitivity of the Taiwan issue and reaffirmed the US government's endorsement of the one-China policy. The two men also discussed the situations on the Korean Peninsula and Darfur, as well as arms proliferation and the need for effective international co-operation against terrorism (XHNA, 1 October).

Also on 30 September, US and Chinese representatives a issued a joint statement on economic and financial issues, following the latest meeting of their Joint Economic Committee (JEC) in Washington. China made clear its continuing commitment to market-orientated reforms and the eventual introduction of a market-based flexible exchange rate; from the US came support for China's efforts to join the Inter-American Development Bank. Both sides gave undertakings to maintain co-operation in combating international terrorism and money laundering, and to bring the WTO's Doha round of multilateral negotiations back on track (XHNA, 1 October; for the full text of the JEC Joint Statement, see *RMRB* website, 7 October).

Following his arrival in Beijing the previous day, on 25 October the US secretary of state (Colin Powell) exchanged views with Premier Wen Jiabao on bilateral, regional and global issues. In a separate meeting, attended by Li Zhaoxing, Hu Jintao referred to the positive momentum of the developing bilateral relationship and expressed the hope that it would be maintained. Again, he drew Powell's attention to dangers inherent in cross-strait political tensions between China and Taiwan:

> The current situation across the Taiwan Strait is still very complicated and sensitive. The 'Taiwan independence' forces' separatist activities are the root of the cross-strait tension and the greatest threat to peace and stability in the Taiwan Strait region. Opposing 'Taiwan independence' and curbing risky activities of 'Taiwan independence' forces are in the common interests of China, the United States, and the Asian-Pacific countries.

In response, Powell agreed that relations between China and the United States had made "enormous progress" in recent years. He affirmed Washington's determination "continually and unwaveringly" to uphold the one-China policy and to oppose "any actions that aim for 'Taiwan independence' " (XHNA, 25 October). Powell later had a separate meeting with Li Zhaoxing. (For a comment on Powell's visit from Taiwan, see *Taipei Times*, 23 October.)

A *ZTS* report (26 October) noted that in two separate media interviews the previous day, Powell had not only expressed Washington's hope that

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neither China nor Taiwan would take unilateral action to "prejudice a final outcome, the unification which both sides seek," but had also asserted that "Taiwan is not independent, it does not enjoy national sovereignty, that remains our [US] policy, our firm policy." *ZTS* likened Powell's words to the explosion of a "stun grenade" within Taiwanese political circles. It suggested that his choice of words was partly designed as a warning against moves "in the direction of 'Taiwan independence' " by the Chen Shui-bian administration in Taipei and as clarification to that administration of US cross-strait policy, and partly as an acknowledgement that "China's enormous power is gradually making the United States recognize that only the path of co-operation between China and the United States conforms to US interests."

The reaction to Powell's remarks in Taipei was one of surprise and anger. The minister of foreign affairs (Mark Chen [Chen Tang-shan]) was critical of Powell's statement, which he called a "breach of the 'mutual trust' … between Taiwan and the US" (*Taipei Times*, 27 October; see also CNA, 27 October).

Following the results of US presidential election, on 3 November Hu Jintao sent a message to George W. Bush, congratulating him on his re-election as US president. It included the following words (XHNA, November):

> … since you became president, China and the United States have achieved major progress in many areas of cooperation, which brings real benefits for the two peoples and also plays a positive role in promoting peace and development in Asia-Pacific region and in the world. Both China and the United States are great countries with extensive common interests and a cooperative basis. I expect to continue to work with you to promote the further forward development of Sino-US constructive cooperative relations, so as to bring even more benefits to the people of China and the United States and to the people of the world.

During his presence in Santiago (Chile), where he addressed the APEC ministerial meeting (see below), Hu Jintao discussed bilateral and other issues with President George W. Bush. He spoke enthusiastically of the progress that had been made in further developing China–US relations during the first Bush presidency, citing effective co-operation in trade and economic affairs, the struggle against terrorism law-enforcement, and the reconstruction of Iraq. In the coming four years, he hoped for progress in four key areas: the maintenance of momentum of bilateral high-level exchanges; the strengthening of the two countries strategic dialogue; the realization of the full potential of the role of important bilateral bodies – the China–US Joint Commission on Commerce and Trade, the China–US Joint Economic Committee and the China–US Joint Committee on Science and Technology – in order to facilitate closer co-operation; and the intensification of joint efforts in law-enforcement, health, environmental protection, anti-terrorism and the resolution of tension in 'flashpoint' regions of the world, such as Iraq and the Korean Peninsula. Hu was also at pains to remind Bush of the sensitivities and complexities of the

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"Taiwan question." Bush responded positively to Hu's remarks (XHNA, 20 November).

Western Europe (France, Luxembourg, Italy, Germany; European Union (EU))

On 8 October, President Jacques Chirac travelled from Hanoi, where he had attended the fifth ASEM summit, to Chengdu where he began a five-day state visit to China as the guest of Hu Jintao. The following day, two men held formal talks in Beijing, where they discussed bilateral relations, as well as regional and international issues. Hu praised Chirac's contribution towards establishing a "comprehensive strategic partnership" between the two countries.

On 10 October, Chirac met Wen Jiabao, who spoke enthusiastically of Sino-French relations, saying that they were "the most stable politically, the most in-depth economically, and the closest in cooperation in international affairs." He noted that the two countries' governments shared the same or similar views of many major international issues and spoke of the widespread approval that had greeted the "Declaration on dialogue among cultures and civilizations," jointly proposed by Franc and China during the recent ASEM-5 meeting in Hanoi. He added that there remained huge unfulfilled potential for the further development of bilateral trade and economic co-operation (including in small and medium-sized enterprises, new and high-tech industries, energy, communications, agriculture, and environmental protection). Chirac agreed with Wen on the significance of the ASEM-5 Sino-French "Declaration" and looked forward to strengthening co-operation in nuclear energy, aviation, railways, agriculture and environmental protection (XHNA, 10 October, which includes a full list of the signed documents).

Agence-France Presse (9 October) reported that 20 agreements and contracts, including six inter-governmental agreements, had been signed by the two sides. The French transport and energy corporation, 'Alstom,' secured the biggest contract, worth 1.4 billion euros, for the sale of freight and passenger locomotive trains (1 billion euros), as well as the supply of hydroelectric equipment (357 million euros). Alstom also revealed that it had signed a partnership agreement with the Chinese company, Dong Fang, in support of Phase II of the Ling Ao nuclear power station. There was, however, French disappointment that Airbus failed to sell any A380 aircraft, although agreement was reached to deliver six A319 aircraft to Air China, and 20 A330-200 planes to China Eastern Airlines. Airbus also signed an industrial co-operation document, promising a doubling in the level of business passed on to Chinese sub-contractors during the period 2007–2010.

Following his stay in Beijing, Chirac visited Shanghai, from where he returned to France on 12 October. For the text of the Joint Communiqué signed by the two sides, see XHNA, 10 October.

Data published in October revealed that two-way trade between China and the EU had risen by 36.6 per cent during January–October to reach

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US$111.64 billion (cf. $125.22 billion during the whole of 2003). In the same period Chinese exports to EU member states rose by 39 per cent to $65.47 billion, while the value of the reverse flow was $46.17 billion (up 33.4 per cent). Such figures suggested that significant progress had been made towards fulfilling the strategic goal of making the EU China's largest trade and investment partner. Xinhua noted that most of China's exports comprised machinery, electronic and high-tech products, although textiles, garments, toys, shoes, bags and plastic goods remained important sources of foreign exchange earnings. China's European imports mainly comprised industrial raw materials and capital-intensive goods (e.g. steel, machinery equipment, aircraft and other transport equipment) (XHNA, 5 October).

The prime minister of Luxembourg, Jean-Claude Juncker, paid an official visit to China (Shanghai and Beijing) between 8 and 13 November. In talks with Juncker, Wen Jiabao noted that there existed no fundamental conflict between the two sides, and called for continuing high-level contacts between them in order to enhance dialogue and co-operation on major bilateral and international issues (including financial and technological co-operation) (XHNA, 12 November). Shortly after his return home, Juncker received the Chinese vice-premier, Huang Ju, in Luxembourg. The two men discussed bilateral, regional and international issues, and agreed to strengthen co-operation in the steel industry and financial sector (XHNA, 15 November).

On 4 December, the Italian president (Carlo Azeglio Ciampi) began a six-day state visit to China. In talks (6 December), Wen made a three-point proposal, embracing enhanced mutual political trust, increased trade and economic co-operation and intensified cultural, educational and other kinds of exchange, for the further development of Sino-Italian relations. Ciampi spoke of his government's wish to strengthen ties with China and endorsed Wen's proposals. A Xinhua reported noted that Italy was currently Europe's third largest exporter to China (XHNA, 4 and 6 December).

On 6 December – the day of his arrival in Beijing - the visiting German chancellor (Gerhard Schroeder) also held talks with Wen Jiabao. The Chinese premier looked forward to even closer economic co-operation, especially in science and technology, and environmental protection and energy, in pursuit of doubling the value of two-way trade by 2010. Wen spoke enthusiastically of the recent development of bilateral ties, and as in his discussions with President Ciampi, put forward ideas of how relations might be further strengthened. Schroeder fully endorsed Wen's remarks and made clear the importance with which the German government regarded its relations with China. Following their talks, the two men attended the signing ceremony of a number of bilateral co-operation documents, including the establishment of a telephone hot-line between their governments. Areas designated for future co-operation included rail transport, aviation, financial and fiscal affairs, personnel training and the chemical industry. Later still, Schroeder laid the foundation stone for

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the construction of a new Mercedes-Benz production plant in Beijing (XHNA, 6 December).

Chinese and EU leaders met in the Hague on 8 December and held their seventh summit meeting. A joint statement was subsequently issued by the two sides (full text in XHNA, 8 December). On the same day, Xinhua also published the text of the "China-EU joint declaration on non-proliferation and arms control." Premier Wen Jiabao addressed the summit meeting. He noted that since the establishment (2003) of a "comprehensive strategic partnership" between China and EU member states, significant new progress had been made towards strengthening the two sides' "strategic consensus" on major international issues at present (as embodied in the signing of the "Joint declaration on non-proliferation and arms control"). Trade and economic co-operation between China and the EU had also maintained a strong momentum, with the value of bilateral trade expected to exceed US$150 billion in 2004 (thereby fulfilling the four-year target proposed in 2003 three years ahead of schedule). Progress in implementing the Galileo plan of co-operation, agreement on co-operation in the peaceful use of nuclear energy and space, as well as in other high-tech areas, cultural and educational exchanges – all testified to the unprecedented dynamism of relations between China and the EU. The Chinese premier expressed his government's appreciation of the EU's adherence to the one-China policy and hoped it would lift the ban on arms sales to China in the near future (see also Hong Kong, *Ta Kung Pao* [*Dagongbao*], 9 December), as well as recognizing China's full market economy status.

Following talks between Wen Jiabao and EU officials (notably, the president of the European Council and prime minister of the Netherlands (Jan Peter Balkenende) and the president of the European Commission (Jose Manuel Barroso)), the two sides signed a variety of documents on China–EU co-operation. These included not only the "China–EU joint declaration on non-proliferation and arms control," but also agreements on research and development co-operation in the peaceful use of nuclear energy, on renewing the existing agreement on science and technology co-operation, on customs co-operation, and on financial matters (XHNA, 8 December).

(b) *International Organizations (Group of 7 (G7); International Monetary Fund (IMF) and World Bank; Asia–Europe Meeting (ASEM); Asia-Pacific Economic Co-operation (APEC); Association for South-East Asian Nations (ASEAN); United Nations (UN))*

In Washington on 1 October, informal talks took place between Jin Renqing (the Chinese finance minister), Zhou Xiaochuan (governor of the People's Bank – China's central bank) and their counterparts of the G7 industrial countries. It was the first time that talks involving China had been held. They discussed a range of global economic issues and exchanged views on macroeconomic policies currently pursued in major developed countries and on the economic situation in China. Both sides

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looked forward to regular meetings being held between senior financial officials of China and G7 member countries (XHNA, 2 October; see also Kyodo, 3 October).

Two days later, Zhou Xiaochuan addressed the annual meeting of the IMF and World Bank (XHNA, 3 October). He warned that geopolitics and economic forces, such as the rise in world oil prices, had made financial markets volatile and exchange rates unstable to the detriment of global sustained economic development. The capacity of emerging market economies to withstand and counter external shocks was, he said, still weak, while low-income developing countries faced major difficulties in implementing structural reform in order to reinvigorate their economies. Such problems were exacerbated by the unfairness of the international trade system and the inadequacy of external financial assistance. Zhou called on the IMF to strengthen its surveillance of major developed countries in order to facilitate more effective co-operation between them and their less developed counterparts (XHNA, 3 October).

Wen Jiabao attended the fifth ASEM summit (ASEM-5), which took place in Hanoi on 8–9 October. Representatives of the enlarged ASEM – 13 new countries had joined since the previous summit meeting, bringing total membership to 25, comprising 10 members of the Association of South-East Asian Nations, 25 members of the European Union, and China, South Korea, and Japan – exchanged views on a wide range of issues, including political relations and economic and financial co-operation.

In a speech to ASEM-5 (9 October), the Chinese premier made a four-point proposal, designed to strengthen further Asia–Europe co-operation in order to enhance global peace, development and progress (XHNA, 9 October). His proposals were:

- to strengthen mutual political trust through dialogue and consultation;
- to increase economic exchanges, and to promote regional economic growth and prosperity;
- to seek new areas of co-operation in the interests of co-ordinated economic and social development amongst member countries;
- to use dialogue and cultural exchanges in order to promote understanding of difference cultures and to preserve cultural diversity.

Wen also used his speech to highlight the dangers inherent in threats of "Taiwan independence" and to reaffirm the Chinese government's commitment to achieving peaceful reunification, whilst reserving the right to intervene in the face of any attempted separation of Taiwan from the mainland.

On economic matters, Wen noted ASEAN countries' recent formal recognition of China's full market economic status, and gave an undertaking that his government would intensify its economic reform efforts and fully meet its WTO commitments. He noted that China's trade with other ASEM members accounted for 47 per cent of its global trade amount. The EU (including its recent new members) had meanwhile become China's most important trading partner (*ZXS*, 9 October).

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During his participation in ASEM-5, Wen Jiabao held separate meetings with many heads of state and ministers from other ASEM member countries.

On 19 November, the Chinese president, Hu Jintao, attended the annual ministerial-level meeting of APEC in Santiago (the Chilean capital). In his speech at the conference (full text in XHNA, 20 November), he put forward a four-point proposal designed to "advance win-win cooperation for sustainable development." The core themes of his speech were threefold: first, that developed countries should pay much more attention to the needs of poor countries and seek to facilitate their accelerated development in order to narrow the North-South gap; secondly, that all countries should seek to pursue 'people-centered' "comprehensive, balanced and sustainable development" and that, in particular, development should embrace "high technology content, good economic returns, low resource consumption level, minimum pollution of the environment and fullest play of human potential;" and thirdly, that all countries should share the fruits of economic development "in a just, fair and reasonable manner."

The Taiwanese minister of economic affairs (Ho Mei-yueh) and minister of finance (Lin Chuan) also headed a delegation at the 2004 APEC ministerial-level meeting.

On 28 November, Wen Jiabao arrived in Vientiane on his first official visit to Laos, where he was also to attend three ASEAN-related summit meetings – namely, the China–Japan–South Korea summit, China–ASEAN summit and ASEAN + 3 summit.

A Malaysian source (Bernama News Agency, Kuala Lumpur, 28 November) reported from Vientiane that on 27 November, ASEAN and China signed a memorandum of understanding (MoU) on transport co-operation as a further step towards the eventual establishment of an ASEAN–China Free Trade Area (FTA). The report noted that on its establishment in 2010, the FTA would be the largest, in terms of population, in the world and would have a potential trade volume of US$1,200 billion.

During their two-day ASEAN Summit, the foreign ministers of ASEAN and China discussed the significance of the "Declaration on strategic partnership for peace and prosperity"and its "Plan of action," due to be adopted at the ASEAN-plus-three summit.

At the summit meeting itself, Wen Jiabao reviewed the situation in Asia, suggesting that peace, development and co-operation had increasingly become the main trends in the region, enabling it to remain one of the most dynamic parts of the world economy ("Asian cooperation has become an irresistible trend of the times"). As such co-operation became stronger, it was essential, said Wen, to adhere to basic principles, including the pursuit of consensus building, the recognition of ASEAN's role as the driving force towards the fulfilment of clearly identified objectives, the search for synergies among the relevant players, and the implementation of "openness, transparency and inclusiveness."

Wen put forward proposals for increased co-operation within East Asia

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including: maintenance of a momentum towards the establishment of the East Asia FTA; deepening of financial and investment co-operation; expansion of security dialogue and co-operation; promotion of social, cultural, scientific and technological co-operation; the pooling of "intellectual resources" within ASEM + 3; formulation of plans for future East Asia co-operation; and support for the "10 + 3 Unit." He also reviewed China's economic situation and highlighted the Chinese government's wish to strengthen its co-operation with other Asian countries (XHNA, 29 November).

Also on 29 November, Xinhua reported that ASEAN had recognized China as a full market economy – the first such declaration to be made by the 10-member organization.

On 9 October, Kofi Annan arrived in Beijing for a five-day official visit to China – his sixth in his capacity as UN secretary-general. On 11 October, he met the Chinese foreign minister (Li Zhaoxing), with whom he exchanged views on issues relating to global peace and regional security, including the situations in Iraq, Sudan, Afghanistan and the Korean Peninsula.

(d) *The Tsunami Disaster*

On 26 December President Hu Jintao sent messages of condolence to leaders of seven Asian countries – Bangladesh, India, Indonesia, Malaysia, The Maldives, Sri Lanka and Thailand – affected by the tsunami disaster. The same day, the Chinese government announced that it would make available 21.63 million *yuan* – later increased by a further 500 million *yuan* – of emergency humanitarian aid to India, Indonesia, Sri Lanka, Maldives and Thailand. The Ministry of Commerce meanwhile put into place an emergency aid mechanism and held discussions with relevant departments about ways of delivering the aid at the earliest opportunity.

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