Quarterly Chronicle and Documentation

(January–March 2005)

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

1. Internal developments

(a) *The 14th Session of the Tenth National People's Congress (NPC) Standing Committee*
(b) *The Third Session of the Tenth NPC*
(c) *Party and Political Affairs*
(d) *Statistical Communiqué on National Economic and Social Development during 2004*
(e) *Social and Legal Affairs*
(f) *Economic Affairs*
(g) *Education*
(h) *Military Affairs*
(i) *Obituary*
(j) *Hong Kong Special Administrative Region (HKSAR)*

2. Foreign Relations

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

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1. Internal Developments

(a) *The 14th Session of the Tenth NPC Standing Committee* (*NPCSC*)

A draft amendment to the Corporation Law was submitted to NPCSC members at the 14th meeting of the Tenth NPCSC (Beijing, 25–28 February) for initial discussion. The new legislation was intended to reduce capital requirements for new businesses, as well as improve supervision over listed companies. Other legislation considered at the meeting included provisions for a swift response to public health emergencies, measures to prevent major coal mining accidents, and reports presented by officials in the Foreign Ministry and the Civil Aviation Administration of China. Not least, NPCSC delegates also considered the agenda of the forthcoming Third NPC Session, the name list of its Presidium and Secretary–General, and the NPCSC's own draft report to be presented to the meeting of its parent body.

NPSCS members passed a Renewable Energy Law, designed to mitigate energy strains, improve energy security and protect China's ecological environment. The intention was to increase the share of renewable energy sources – hydroelectricity, wind power, solar energy, geothermal energy and marine energy – in total energy supplies from the current level (3 per cent) to 10 per cent by 2020.

(b) *The Third Session of the Tenth NPC*

The Third Session of the Tenth NPC opened in Beijing on 5 March. As usual, the first day was dominated by the 'Report on the Work of the Government,' delivered by the Chinese Prime Minister (Wen Jiabao) (full text in www.chinaview.cn).

Review of government work

Wen reviewed the background to developments in 2004 in the form of the emergence of a number of "new" economic difficulties – viz.: grain supply shortages, excessively high rates of fixed investment, money and credit supply growth, and shortages of coal, electricity, oil and transport. Such problems, which threatened the momentum of overall economic advance, had necessitated the successful introduction of macroeconomic control measures. These, in turn, achieved considerable success in 2004 ("[d]estabilising, unsound factors threatening economic performance were contained, weak links were strengthened, and large economic fluctuations were avoided").

The Chinese Premier's rehearsal of the quantitative dimensions of the economic achievements of 2004 echoed the findings of the National Bureau of Statistics' official communiqué (see under (d) below). Among the areas of policy success to which he drew particular attention were the following:

- *Formulation and implementation of policies to raise grain output and farm incomes*: fiscal and farm price initiatives, increased investment

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and agricultural restructuring had a major positive impact on output and incomes in the grain sector to the benefit of overall economic stability.

- *Restricting fixed investment and strengthening weak links*: through stricter controls on land use – for example, by freezing land transfers from agricultural to non-agricultural uses for six months (especially the creation of development zones) – and credit, investment demand was curbed. A rise in commercial banks' reserve requirements and in interest rates served the same basic purpose. Meanwhile, investment was directed towards priority areas, such as agriculture, water conservancy, energy, transport, environmental protection and "social undertakings."
- *Economic restructuring and opening wider to the outside world*: initiatives embraced farm tax reductions, VAT and export tax rebate reforms, improvements in grain distribution, SOE operations and the working of rural credit co-operatives. Progress was also made towards transforming China's state-owned commercial banks into stock companies. In accordance with World Trade Organisation (WTO) requirements, tariffs were lowered and more sectors opened to foreign competition. A revised Foreign Trade Law was enacted and 'Closer Economic Partnership Arrangements' between China and Hong Kong, and China and Macau, were implemented.
- *Increased government spending and enhanced policy support for social development*: in 2004 spending on science and technology, education, culture, health and sports rose to 113.4 billion *yuan*. Progress was made towards the universal implementation of nine-year compulsory education, as well as the elimination of illiteracy among young and middle-aged adults in western China. Other initiatives were directed towards vocational and higher education. There were significant improvements in public health provision (not least, the prompt introduction of measures to prevent the spread of highly pathogenic avian flu).
- *Employment and poverty alleviation*: efforts continued to provide the "two guarantees" [a basic living allowance for workers laid off from state-owned enterprises, and the timely payment in full of retirees' pensions] and make available subsistence allowances to needy urban residents. Benefits and subsistence allowances for enterprise retirees were also raised. Overall, spending on social security provision through the central budget rose by 18.1 per cent to 146.5 billion *yuan*. Some 12.2 billion *yuan* was spent on poverty alleviation and disaster relief extended to 68 million victims of natural disasters. Overdue payments to farmers to compensate them for the loss of expropriated land, as well as unpaid wages to construction workers and rural migrants were met.

Wen Jiabao suggested that the experience of 2004 defined six important requirements:

- the need to pursue a "scientific," people-centred and balanced strategy of development in the interests of securing economic, social and environmental harmony;

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- the need to strengthen macroeconomic regulation ("both macroregulation and market forces are integral components of the socialist market economy");
- the need to maintain the momentum of reform and opening up to the outside world;
- the need to balance overall and local interests (the national economy is "an organic whole … [in which] different regions [should] fully exploit their own advantages and mobilise the initiatives of both central and local governments in line with the strategic concept of 'co-ordinating all the activities of the nation like moves in a chess game' ");
- the need to act according to "objective laws" ("we must not ignore reality, recklessly expand the scale of development and only pursue rapid economic growth");
- the need always to put the interests of the people first.

Outstanding problems

Wen drew attention to serious difficulties, which still confronted the Chinese government and which would take a long time to overcome. They included:

- the absence of a firm foundation for agricultural development (most notably captured in the challenge of raising grain production and increasing farm incomes);
- dangers of a resurgence of excessive fixed investment;
- shortages of coal, electricity, oil and transport;
- deficiencies in education and health, especially in the countryside;
- the existence of excessive regional and sectoral gaps in terms of development level and incomes;
- employment pressures;
- structural irrationalities within the economy (captured, for example, in the slow growth of the service sector);
- the low level of industrial technology.

Major domestic developmental tasks for 2005

2005 was the final year of the Tenth Five-Year Plan (2001–2005) and therefore essential both for the fulfilment of that Plan's goals, as well as for establishing a firm foundation for development during the Eleventh Five-Year Plan (2006–2010). The basic principles underlining government work in 2005 were summarized as follows:

> to take Deng Xiaoping Theory and the important thought of "three represents" as our guide; to conscientiously put into practice the guidelines of the 16th National Congress of the Party and the Third and Fourth Plenary Sessions of the 16th CCP Central Committee [CCPCC]; to continue to guide overall economic and social development by a scientific outlook on development; to strengthen and improve macroregulation; to make reform and opening up the driving force for all our work;

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to build a harmonious socialist society; and to promote the simultaneous progress of socialist material, political and spiritual civilization.

To these ends, special attention would be directed to the threefold task of maintaining the underlying thrust of macroeconomic regulation, continuing with reform and opening up, and seeking to create a harmonious society. Fulfilling these goals would, in turn, further require the implementation of a judicious policy package, embracing:

- "prudent" fiscal and monetary policies in support of controlling fixed investment, stabilising prices and promoting the expansion of consumer demand;
- efforts to resolve problems faced by agriculture, farmers and the rural economy (the so-called *san nong*);
- measures designed to accelerate economic restructuring and generate more *sustainable* growth;

Implicit in the Chinese government's search for development sustainability was the urgent need to make further significant progress in several key areas. Some of these are highlighted below:

- *Rural reform*: Wen highlighted the fundamental importance of improving rural fiscal arrangements by carrying out further tax cuts and exemptions, and eliminating illegal and "unreasonable" levies on China's farmers. Other on-going changes would seek to enhance grain distribution, improve rural education, strengthen county and township-level finances, address land management anomalies and provide support to town and township government.
- *SOE reform*: state enterprise reform remained the "central link" in the government's economic restructuring programme. Urgent priorities were to "strategically readjust the distribution and structure of the state-owned sector of the economy and … [rationalise the] distribution of state funds by increasing investment in some areas and pulling it out of others." Wen reiterated the government's intention to develop large-scale companies and enterprise groups that "own intellectual property rights, have name brand products and are internationally competitive," and to accelerate the transformation of large SOEs into stock companies. In support of the creation of a modern enterprise system, arrangements would be made to establish clear lines of responsibility for the performance of an enterprise, to institute appropriate reward mechanisms for managers, and to divest enterprises of their previous obligation to operate "social programmes." Policy-based closures and bankruptcy proceedings will continue.
- *Development of non-public sectors of the economy* (see also under (f)): a major priority was to "create a legal, policy and market environment that ensures fair competition for all non-public enterprises." The move towards a more diversified economy was made clear in the statement that "[m]ore industries and fields will be opened to non-public capital, and financing channels for non-public enterprises will be

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widened … and their private property … rights and interests … protected in accordance with the law."

- *Accelerated reform of the financial system*: central to fulfilling this goal was the transformation of state-owned commercial banks into stock companies, and the reform of policy and other commercial banks. Parallel to developments in the enterprise sector, financial institutions with different forms of ownership would be promoted. Important too was the task of improving capital market infrastructure, including the formulation of effective regulations to protect investors' legitimate rights and interests. The Chinese Premier reaffirmed the government's commitment to deregulating interest rates and to "[reforming] the mechanism for setting the exchange rate for the renminbi and [keeping] it basically stable at a proper and balanced level."
- *Reform of the fiscal and investment systems*: measures were needed to strengthen public finances, standardize the system of transfer payments from the central government, and initiate fiscal and tax changes at and below the provincial level. Against the background of difficulties that had emerged in recent years, the government would introduce policies designed more effectively to examine, monitor and regulate investment projects.

Pursuit of social development and social harmony

Central to the attainment of social harmony was the twin need to pursue sustainable development, and prioritize education and science. Hence, Wen's emphasis on education as a "strategic priority." As he put it,

> Focusing on improving compulsory education in rural areas, we will improve the mechanism to ensure funding for education, with government investment as the mainstay. We will continue to implement the plan to make nine-year compulsory education basically universal and basically eliminate illiteracy among young and middle-aged adults in the western region. Starting this year, students from poor farmers' families receiving compulsory education in key counties included in the national plan for poverty alleviation through development will be provided with free textbooks and exempted from paying miscellaneous fees, and those staying on campus will receive living allowances. We will extend this policy throughout the country's rural areas by 2007 to ensure that all students from poor families can go to school and receive compulsory education. We will work hard to provide schooling to the children of migrant workers in cities. We will strive to improve the quality of higher education. Great efforts will be put into developing vocational education of all types.

Wen also emphasised the importance of "moral … [and] competence-oriented education." He was explicit in allowing the further development of private schools.

A "proactive" employment policy was essential to stable social development. In support of this, some 10.9 billion yuan – 31 per cent more than in 2004 – would be allocated to re-employment work through the central budget; local budgetary allocations too would be increased.

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Measures would also be introduced to improve employment guidance, training and associated services, and to assist first-time entrants into the urban labour force, college graduates, demobilized servicemen and surplus rural labourers to find employment.

Further development of social security arrangements – old-age pensions, unemployment insurance, subsistence allowances for laid-off workers, health care insurance and so on – remained a high and urgent priority. So did the need to guarantee the payment of minimum wages, improve income distribution, and provide for the needs of urban and rural residents in financial difficulties.

The Chinese premier stressed the importance of strengthening "democracy" and the legal system in order to safeguard social stability. His comments on the need to combat crime were unequivocal:

> We will improve all facets of public security and vigorously carry forward the development of a crime prevention and control system. We will severely crack down on all kinds of crime in accordance with the law, in particular, crimes threatening state security, violent crimes, crimes committed by Mafia-like gangs, drug-related crimes and frequently occurring crimes against property to give people a stronger sense of security.

Government work and administration

Central to improving the efficiency of government administration was the fulfilment of the following key tasks:

- deepening the restructuring of government bodies in order to make them more "streamlined, unified and efficient;"
- accelerating the reform of government functions by separating them from those of "enterprises, state assets management authorities and institutions;"
- improving methods of economic management (in particular, "governments at all levels must concentrate on serving market players … creating an environment favourable to their [market players'] development");
- working towards the establishment of a "service-oriented" government;
- enhancing the government's fulfilment of its duties in accordance with the law;
- improving the government's work style ("we will adhere to the principle of 'people first and government for the people' … oppose formalism and the practices of falsifying reports, [undertaking wasteful] 'image projects' or 'vanity projects' … reduce the number of meetings and documents and improve their style …").

Hong Kong, Macau and Taiwan

Wen's work report reaffirmed the Chinese government's determination to uphold the principle of 'one country, two systems' and to follow the

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precepts of the relevant basic laws in administering Hong Kong and Macau.

On Taiwan, the report referred in familiar fashion to the Chinese government's desire for peaceful reunification and a cross-Straits settlement reached on the basis of the "one-China principle and … equality." What was new in the 2005 report was Wen's reference to the draft Anti-Secession Law, which was to be considered at the current NPC plenary session. Thus,

> The Anti-Secession Law … provides a full expression of our unvarying position, which is that we are working most sincerely and energetically to bring about peaceful reunification. This law represents the common will and strong determination of the entire Chinese people to safeguard the sovereignty and territorial integrity of the country and never allow secessionist forces working for 'Taiwan independence' to separate Taiwan from China under any name or by any means.

Foreign policy

Wen Jiabao insisted that amidst "complex and profound" changes in the international environment, peace and development remained the main themes in global international relations. Peaceful development also defined China's socialist modernization strategy, which sought to take advantage of favourable global conditions and an active part in associated processes of economic globalization and regional co-operation. Wen insisted that China's intentions were peaceful, and that it would "never seek hegemony [but] … always remain a staunch force safeguarding world peace and promoting common development."

Implementation of the Central and Local Budgets for 2004

Also on 5 March, Jin Renqing (Minister of Finance) presented a report on the implementation of the central and local budgets for 2004, and on the draft central and local budgets for 2005 (www.chinaview.cn). Jin reported that both central and local budgets had been implemented "well" during 2004 (see Table 1). Jin drew attention to the large rise in national revenue associated with above-expected GDP growth. He revealed the following sources of increases in revenue:

- domestic VAT + 178.1 billion *yuan*
- consumption tax + 31.9 billion *yuan*
- business tax + 73.6 billion *yuan*
- import duties + 90.1 billion *yuan*
- corporate income tax + 103.1 billion *yuan*
- personal income tax + 31.8 billion *yuan*

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Table 1: **National and Central Budgetary Estimates (2004 actual) (figures in billion *yuan*)**

	National Consolidated Budget
Total revenue*	2,635.6
change over 2003 (actual)	+ 464.1 (+ 21.4%)
change over 2003 (plan)	(+ 11.8%)
Total expenditure	2,836.1
change over 2003 (actual)	+ 371.1 (+ 15.1%)
change over 2003 (plan)	(+ 5.9%)
National budget deficit	− 200.5
	Central Budget
Total revenue	1,508.2
change over 2003 (actual)	+ 215.1 (+ 16.6%)
change over 2003 (plan)	(+ 9.1%)
Total expenditure	1,827.4
change over 2003 (actual)	+ 214.6 (+ 13.3%)
change over 2003 (plan)	(+ 7.4%)
Central budget deficit	− 319.2
	Local Budgets
Total revenue	2,225.9
change over 2003 (actual)	+ 414.7 (+ 22.9%)
change over 2003 (plan)	(+ 12.6%)
Total expenditure	2,107.1
change over 2003 (actual)	+ 322.2 (+ 18.1%)
change over 2003 (plan)	(+ 6.6%)
Local budget surplus	+ 118.8

*excluding revenue from generation of debt, both here and below.

Budgetary plans for 2004

The Finance Minister outlined budgetary plans for 2004, as shown in Table 2. Priority areas for investment under the central budget in 2005 were as follows:

- *Agriculture and the rural sector*: further financial and policy-related support would be made available, through reductions in taxes and levies, the further extension of farm subsidies, and the allocation of central government funds to facilitate the purchase of improved crop strains and agricultural machinery. Special funds had also been earmarked to support major grain-producing counties. Investment in agricultural science and technology, agricultural and rural infrastructural development, ecological conservation, and poverty alleviation would also be increased. Finally, the government would help promote the transfer of rural workers to non-agricultural jobs, including the provision of technical training.
- *Investment for weak links in social development*: some 130 billion *yuan* would be made available through the central budget for education;

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Table 2: **National and Central Budgetary Estimates (2005 plan) (figures in billion *yuan*)**

	National Consolidated Budget
Total revenue*	2,925.5
change over 2004	+ 289.9 (+ 11.0%)
Total expenditure	3,225.5
change over 2004 (actual)	+ 389.4 (+ 13.7%)
National budget deficit	− 300.0
	Central Budget
Total revenue	1,666.2
change over 2004	+ 158.1 (+ 10.5%)
Total expenditure	1,966.2
change over 2004	+ 138.8 (+ 7.6%)
Central budget deficit	− 300.0
change over 2004	0

*excluding revenue from generation of debt.

science and technology; health; culture, sports and radio; family planning; and courts, public security, procuratorial and judicial organs. This would represent a rise of almost 18 billion *yuan*, or 16 per cent, above the corresponding figure for 2004. Increased educational investment would primarily be directed towards rural areas. Other initiatives would seek to support the provision of more and better health care (including the control of AIDS, snail fever, endemic and other major diseases), and to reward and support rural families that had previously fulfilled family planning policy injunctions.

- *Employment and social security*: preferential fiscal and tax policies would again facilitate an increase in investment for re-employment work. Social security priorities included: providing basic living allowances for urban laid-off SOE workers; improving the system of allocating subsistence allowances to urban residents; addressing difficulties experienced by demobilized servicemen working as enterprise cadres and fully implementing preferential job placement policies for them; providing the 'five guarantees' – food, clothing, medical care, housing and burial expenses – for childless and infirm elderly rural residents; and improving medical assistance services in urban and rural areas.
- *Transfer payments to local governments*: transfer payments made by the central government to local governments (especially those in central and western regions) would be increased to 672.5 billion *yuan* in 2005 in order to achieve a more equal distribution of "basic public services." An additional 449.9 billion *yuan* would be made available to local government through tax rebates and "structural subsidies."

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Ma Kai (Minister in Charge of the National Development and Reform Commission) delivered his report on China's 2004 (realized) and 2005 (planned) economic and social development. His overview of China's performance in 2004 echoed the findings of the National Bureau of Statistic's Communiqué on China's economic and social development (see (d) below). His summing-up usefully captured official perceptions of the serious difficulties still faced by the government:

> While fully affirming our achievements, we realize that we have only partially achieved our goals in strengthening and improving macroregulation and that although outstanding conflicts and problems in our economic activities have been alleviated, they have yet to be fundamentally resolved and there are still numerous obstacles to maintaining steady and rapid economic development. First, the agricultural infrastructure remains weak, which severely restricts our ability to increase the acreage sown to grain and the yield per unit area, and climatic conditions are unpredictable … [making] it very difficult to continue to increase grain production and rural income. Second, there are too many fixed asset investment projects under construction, and too many new ones are being started. The driving force behind investment growth is strong, and investment demand could return to excessive levels. Third, there are tight constraints on resources and the environment, and coal, electricity, petroleum and transportation are still in short supply. There is significant inflationary pressure. Environmental pollution remains serious in some areas. Fourth, rural education, health, culture and other social undertakings fall far short of what is needed for development and improved living standards in rural areas. Fifth, the employment situation is gloomy. The income gap between some members of society is too wide, and some low-income people lead difficult lives. Sixth, deep-seated conflicts in economic and social development have yet to be fundamentally eliminated. The economic system is unsound, the economic structure is irrational and the pattern of economic growth is too crude. We all need to adopt proactive measures to solve these problems.

Ma outlined the major economic targets that had been set for 2005 (see Table 3)

Table 3: **Economic Targets for 2005**

GDP	+ c. 8.0%
Merchandise trade (exports + imports)	+ 15.0%
Fixed asset investment	+ 16.0%
R&D expenditure	1.5% of GDP
Money supply:	
Narrow money (M1)	+ 15.0%
Broad money (M2)	+ 15.0%
Consumer price index	< 4.0%
New urban job creation	9,000,000
Urban unemployment rate	≤ 4.6%
Per urban disposable income	+ 6.0%
Per capita rural income	+ 5.0%
Rate of natural increase of total population	+ 7.0‰

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On 8 March, Xiao Yang (President of the Supreme People's Court) presented his annual report (available in XHNA, 17 Mar.). He revealed that in 2004, the Supreme People's Court had handled 2,923 cases (including final verdicts, trials of second instance, death penalty reviews, retrials, and implementation). Under the Court's supervision, local people's courts at all levels handled 7,873,745 cases (including final verdicts, trials of first and second instance, retrials, and implementation).

People's courts at all levels issued final first-instance rulings in 644,248 criminal cases (1.5 per cent more than in 2003) and passed sentence on 767,951 offenders (up 2.8 per cent). Of these offenders, 19.04 per cent received death sentences or life imprisonment, or were imprisoned for five years or more. Severe punishment was meted out for "crimes which harmed social order" (final verdicts were issued in 228,174 cases of bombings, intentional homicide, robbery, rape, kidnapping, and organized crime, with sentences handed down to 298,574 offenders). The Court issued final verdicts in 13,955 criminal cases and sentenced 18,220 offenders for their involvement in smuggling, harming financial management, and the making and selling of counterfeit and shoddy goods. Some 24,184 cases – 5.21 per cent more than in 2003 – of corruption, accepting bribes, misappropriation of public funds, and dereliction of duty were also brought before the Court. Of 772 offenders at county or office level and above, on whom sentence was passed, six worked at a ministerial level, and 98 at prefecture or "province-subordinate department" level.

In 2004 the Supreme People's Court issued final verdicts in 611 major second-instance civil cases of various kinds, involving 15.31 billion renminbi. In accordance with the demands of WTO membership, it made further progress in strengthening judicial protection for intellectual property rights and shareholders' rights and interests. It issued final verdicts in 78 such cases (up 16.4 per cent). Meanwhile, local people's courts at all levels issued final verdicts in 4,303,744 first-instance civil cases (including marriage and the family, inheritance, contracts, and infringement of rights), involving 639 billion renminbi in litigation.

The Supreme People's Court issued verdicts of 106 cases of administrative rulings and rulings on state compensation. Local people's courts at all levels issued verdicts in 92,192 administrative first-instance cases.

The Chief Procurator, Jia Chunwang, delivered the annual work report on behalf of the Supreme People's Procuratorate (SPP) (XHNA, 17 Mar.). Central to SPP's work in 2004 were efforts to "strengthen legal supervision and uphold fairness and justice" in the face of the "high incidence of criminal offences and the grim situation in public order." During the year, procuratorial organs approved the arrest of 811,102 criminal suspects investigated by public security and state security agencies and prosecuted 867,186 people – increases, respectively, of 8.3 per cent and 9.3 per cent, above 2003. They also handled 20,306 petitions related to law enforcement and the administration of justice.

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Procuratorial organs also took the lead in combating economic crimes and helping to regulate market order. In 2004 they approved the arrest of 20,425 criminal suspects (up 6.3 per cent) and prosecuted 22,179 people (up 3.4 per cent). Severe punishment was handed down to those engaged in "crimes that seriously endangered people's lives, health, and property" – the production and sale of substandard powdered milk and fake liquors, medicines, chemical fertilizers, and pesticides. The number of arrests in such cases rose sharply (by 56.9 per cent) to 2,505, of whom 2,124 were prosecuted.

As part of the struggle against corruption, procuratorial organs at all levels investigated 43,757 state employees – 0.6 per cent more than in 2003 – suspected of committing "on-the-job" crimes, such as bribery (35,031 investigations), and malfeasance and rights violations (8,726). Of these, 30,788 people were prosecuted, and 4.56 billion *yuan* of economic losses were recovered and returned to the state. Some 1,275 cases of corruption, bribery, and misappropriation of public funds involving one million *yuan* or more were put on file.

On 9 March, Wu Bangguo (Chairman of the NPCSC) delivered the NPCSC's annual work report (text in XHNA, 16 Mar.). He revealed that during 2004, NPCSC delegates had examined the drafts of 33 laws, legal interpretations and legally-related decisions, of which 25 were passed. He underlined the importance of constitutional amendments and revisions, sanctioning the "guiding role that the important thinking of the "three represents" plays in the country's political life and social life … [and] … the important theoretical views and important general and specific policies [of] … the 16th National Party Congress." He defended the NPCSC's endorsement and explanation of the Anti-Secession Law, and also drew attention to its interpretations of two Articles of the HKSAR Basic Law. Wu noted progress in strengthening the NPCSC's supervisory work, as well as in improving its management of deputy-related matters. Finally, he noted that in 2004 the Standing Committee received 60 parliamentary delegations from 42 countries, while its own members had headed delegations to some 23 countries.

Wu Bangguo listed the following priorities for NPCSC work in 2005:

- to strengthen the people's congress system;
- to improve "legislative affairs," especially through the formulation of legislation "relevant to [national] … economic and social development." In 2005, the NPCSC was expected to review the State of Emergency Law, Supervision Law, Property Rights Law, Enterprise Bankruptcy Law, Civil Functionary Law, Law for Controlling and Punishing Public Offences, Notarization Law, the Law for Correcting Lawless Conduct, Law for Mandatory Administrative Measures, Anti-Monopoly Law, and Labour Contract Law; it would also revise the Corporation Law, Law for Partnership Business, Securities Law, Per-

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sonal Income Tax Law, Auditing Law, Compulsory Education Law, and the Law for Protecting Women's Rights and Interests.
- to improve supervision.

The former State President and General-Secretary of the CCPCC, Jiang Zemin, submitted a request to be allowed to resign his last remaining leading official position as Chairman of the State Central Military Commission (CMC). He had held the position since 1990. (Jiang resigned from the chairmanship of the *CCP* CMC in September 2005, when he was succeeded by Hu Jintao.) On 8 March, NPC delegates accepted Jiang's resignation. On 13 March, Hu Jintao was elected as Chairman of the State CMC, receiving 2,886 out of 2,901 votes cast by NPC deputies.

Also on 8 March, Wang Zhaoguo (Vice-Chairman of the NPCSC) introduced and explained the draft Anti-Secession Law (www.chinaview.cn; see also XHNA, 8 Mar.). He justified the new legislation in terms of the alleged resistance by the government in Taipei to China's efforts to effect reunification across the Taiwan Straits:

> In recent years … the Taiwan authorities have intensified their 'Taiwan independence' activities aimed at separating Taiwan from China. Among their escalating secessionist activities of various types … the Taiwan authorities are trying to use so-called 'constitutional' or 'legal' means through 'referendum' or 'constitutional reengineering' to back up their secessionist attempt with so-called 'legality' and change the fact that both the mainland and Taiwan belong to one and the same China by separating Taiwan from China. … [T]he secessionist activities of the 'Taiwan independence' forces gravely threaten China's sovereignty and territorial integrity, seriously endanger the prospects for a peaceful reunification and severely undermine the fundamental interests of the Chinese nation. They have posed a serious threat to peace and stability in the Taiwan Straits and the Asia-Pacific region as a whole. Formulating this Anti-Secession Law, therefore, is both necessary and timely.

According to Wang, China's Constitution provided a clear constitutional basis for the proposed legislation. The Anti-Secession Law (Draft) was guided by policy guidelines that sought to check the "secessionist activities of the 'Taiwan independence' forces" in the interests of safeguarding China's sovereignty and territorial integrity, and bringing about peaceful reunification. It also embodied views, comments and proposals from official and unofficial sources at home and abroad.

Wang outlined the main content of the draft legislation. He defined the legislative purpose and scope of the Law in terms of

> opposing and checking Taiwan's secession from China by secessionists in the name of 'Taiwan independence,' promoting peaceful national reunification, maintaining peace and stability in the Taiwan Straits, preserving China's sovereignty and territorial integrity, and safeguarding the fundamental interests of the Chinese nation.

Furthermore, the Law was grounded in the view, articulated at the 16th National Congress of the CCP that

> [t]here is but one China in the world, and both the mainland and Taiwan belong to one China. China's sovereignty and territorial integrity brook no division.

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The Chinese government was still committed, said Wang, to a peaceful settlement of the Taiwan question on the basis of the principle of 'one country, two systems' – an outcome that would best serve the interests of the peoples of China and Taiwan. To this end, the proposed Law provided for closer relations across the Taiwan Straits through a variety of mechanisms, such as the 'three links' and closer personnel, economic, scientific and technological, educational and cultural exchanges. Wang insisted that subject only to adherence to the 'one-China principle,' the Chinese government was prepared to consider any issue for discussion. In particular, the draft legislation was explicit in its support, on behalf of the Chinese government, for the achievement of "peaceful reunification through consultations and negotiations on an equal footing between the two sides of the Taiwan Straits … conducted in steps and phases and with flexible and varied modalities." It also allowed for the two sides to negotiate on "officially ending the state of hostility between the two sides, mapping out the development of cross-Straits relations, steps and arrangements for a peaceful reunification, the political status of the Taiwan authorities, the Taiwan region's room of international operation that is compatible with its status, and other matters concerning the achievement of peaceful reunification."

Wang reminded NPC delegates that the Chinese government had never abandoned the right to use force in order to achieve reunification of Taiwan with China ("[n]o sovereign state can tolerate secession and every sovereign state has the right to use necessary means to defend its sovereignty and territorial integrity"). Thus, the Anti-Secession Law provided that

> in the event that the 'Taiwan independence' forces should act under any name or by any means to cause the fact of Taiwan's secession from China, or that major incidents entailing Taiwan's secession from China should occur, or that possibilities for a peaceful reunification should be completely exhausted, the state shall employ non-peaceful means and other necessary measures to protect China's sovereignty and territorial integrity.

In accordance with the proposed legislation, the State Council and Central Military Commission were authorized to decide and execute such "non-peaceful means and other necessary measures." Wang added that in such extreme circumstances, armed force would be "completely targeted against the 'Taiwan independence' forces rather [than] in any way against our Taiwan compatriots … [in order to] protect the lives, property and other legitimate rights and interests of Taiwan civilians and foreign nationals in Taiwan, and to minimize losses."

Reports indicated widespread and strong support for the proposed legislation, which was subsequently adopted by NPC members. On 14 March, Hu Jintao issued a presidential order on the promulgation of the Anti-Secession Law, with immediate effect. The full text of the Anti-Secession Law can be found in www.chinaview.cn and XHNA, 14 March (see also comments by Li Zhaoxing in Hong Kong, *Ta-kung pao* [*Dagong bao*], 9 Mar.; and *RMRB* website, 9 Mar.).

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The Third Session of the Tenth NPC closed on 14 March.

[NOTE: On 3–12 March, the Tenth National Committee of the Chinese People's Political Consultative Conference (CPPCC), China's top advisory body, also held its Third Session. Senior CCP and government officials, including Hu Jintao, Wen Jiabao and Wu Bangguo, attended the concluding session, at which the main theme was the need to support peaceful reunification and build a "harmonious society." Support was also given to proposed Anti-Secession law. Three new CPPCC Vice-Chairpersons – Tung Chee Hwa, Zhang Meiying and Zhang Rongming (f) – were elected. For the closing speech of Jia Qinglin (Chairman of the CPPCC National Committee), see XHNA, 12 March.]

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

On 11 January, in his capacity General Secretary of the CCP Central Committee (CCPCC), Hu Jintao addressed the fifth plenary session of the Central Discipline Inspection Commission (CDIC) on the struggle against corruption. He pointed out that the CCP's political authority rested on the support of the Chinese people ("the people's embrace and support are the strongest political basis on which the party governs, and they are the source of the party's profoundest strength"). Hence, the essential need for honest and clean administration – and, by extension, for effective legal and educational measures to combat and punish corruption. Thus,

> Dealing with both the root causes and symptoms is the two aspects that supplement each other and promote each other in our work to fight corruption and build an honest and clean administration. Only when we tighten up our efforts to deal with the symptoms by strictly punishing all types of corrupt behaviours and by effectively deterring corrupt elements' rampant behaviours can we create the conditions essential for dealing with the root causes. Only when we can deal with the root causes and remove from the source the soil that spawns corruption and facilitates its spread can we consolidate and develop the results achieved from fighting corruption and completely resolve the corruption problem. We must educate the … party members and cadres through acting firmly in investigating and prosecuting cases of indiscipline and lawlessness, in punishing the corrupt elements, and in tightening up party discipline. Moreover, … we must act promptly to draw up rules to stop the loopholes so that the prosecution of corruption cases can play a constructive role in dealing with the root causes (XHNA, 11 Jan.; for the full text of the CCPCC's anti-corruption programme and CDIC's work report, see XHNA, 16 Jan. and 15 Feb.)

(See also XHNA, 2 February, on a major reshuffle of 108 senior officials in eight departments of the CDIC; XHNA, 7 Feb. for a report of a symbolic decision by the State Development and Reform Commission to ban visitors bearing Spring Festival gifts from entering the building; and Wen Jiabao's important speeches on the need for honest and clean governance in XHNA, 16 and 23 Feb.)

Wu Guanzheng (CDIC Secretary) revealed in February that 164,831 party cadres, 15 of whom were ministerial-level officials, had been disciplined by the CCP between December 2003 and November 2004. The cases of some 4,775 "serious offenders" had been passed to judiciary departments. Wu reaffirmed the government's determination to combat corruption ("we chase every rotten cadre we can find. No one can walk

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away with corruption") and noted that the main thrust of the 2004 campaign had been directed towards "leading officials who took bribes or allowed their spouses or children to take advantage of public resources in their private businesses." It was reported that the CDIC had uncovered 2.5 billion *yuan* of public funds that had been misused by party officials. A further 1.46 billion *yuan* were discovered to have been used for illegally purchasing commercial insurance for staff members. The level of continuing problems associated with corruption was underlined in Wu's remarks that "[d]espite the achievements, our anti-graft campaign failed to effectively cover certain localities where corruption was rampant, and local people were dissatisfied because their interests were not properly protected" (XHNA, 15 Feb.).

On 23 January, Xinhua published the text of 'Opinions of the CCPCC Organization Department and the Party Committee of the State Council's State-owned Assets Supervision and Administration Commission (ASAC) on Strengthening and Improving Party Building in Central Enterprises,' issued by the General Office of the CCPCC and designed to set out the guiding principles, objectives tasks and means for strengthening and improving party building in central enterprises.

The 'Opinions' highlighted the role of state-owned enterprises (SOEs) as a "pillar" of the national economy and the core of the state-owned, socialist sector of the socialist market economy. Accordingly, it was critically important that the CCP's leadership over such enterprises be upheld in order to facilitate structural, technological and managerial innovations that were needed to enhance SOEs' competitiveness – and thereby strengthen "the party's class foundation and increase [its] ability to govern."

Fulfilment of the CCP's role in SOEs demanded strict adherence to the tenets of Marxism, Mao Zedong Thought, Deng Xiaoping Theory and the "three represents" in order to promote enterprise reform and development. In this regard, there were five main tasks:

- to create enterprise leading bodies that were "of good political quality;"
- to generate a contingent of CCP members to play an "exemplary vanguard role" in enterprise reform development;
- to create an educated and disciplined workforce imbued with the correct ideals and moral ethics, and a mastery of "relevant science and technology knowledge and labour skills;"
- to put in place working mechanisms that would simultaneously accommodate Chinese conditions, fulfil the needs of a "modern enterprise system" and enable party organizations to play their "political core role;"
- to develop effective ways of promoting ideological, political and 'cultural' work in order to strengthen the building of party organizations.

(See also XHNA, 18 Jan. on the need to relieve SOEs of their social burdens.)

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On 9 January, Xinhua published the full text of the CCP Central Committee's 'Opinions on Conducting Educational Activities to Maintain the Advanced Nature Members in the Whole Party With Practising the Important Thinking of the "Three Represents" as the Main Content' (dated 7 November 2004). (See also Hu Jintao on the need to maintain the CCP's "progressiveness" in XHNA, 14 Jan.; and XHNA, 16 Jan.)

Xinhua (20 Feb.) published the revised 'Working Regulations of the State Council,' designed to improve the administrative capability and managerial standards of the government. The ten chapters of the document set out the "guiding thought, overall requirements [and] … objectives of the State Council work [as well as] requirements on State Council personnel and departments." In particular, the document called for measures that would enable the State Council more effectively to

- improve macroeconomic regulation and control;
- enhance the role of law and the market in order to establish "a unified, open, competitive, and orderly modern economic order;"
- "conscientiously perform the function of social management [and] … strengthen the function of public services."

On 28 February, the State Council's Information Office released a 'White Paper,' entitled 'Regional Autonomy for Ethnic Minorities in China' (full text in XHNA, 28 Feb; and see: http://www.china. org.cn). The contents are as follows: Preface; A unified multi-ethnic state, and regional autonomy for ethnic minorities; The political status of regional autonomy for ethnic minorities and the establishment of ethnic autonomous areas; The right of self-government of ethnic autonomous areas; The central government's support and assistance for ethnic autonomous areas; Historical development of various undertakings in ethnic autonomous areas; Conclusion.

(d) *Statistical Communiqué on National Economic and Social Development during 2004*

[The figures showing percentage changes in production over 2003 are taken verbatim from the National Bureau of Statistics [NBS] communiqué. They do not always coincide with the estimates that would be obtained from data shown in the NBS 2003 Communiqué, presented in "Quarterly Chronicle" in *CQ*, No.178 (June 2004), pp. 567–74. Data in square brackets show percentage increases for 2003 and are included for comparative purposes.]

Details of the National Bureau of Statistic's (NBS) most recent communiqué were made available on 28 February (see www.stats.gov.cn). The preamble drew stressed the positive impact of the new development strategy, based on a "scientific concept," which had already generated "remarkable" success:

Unstable and unhealthy factors in the economic performance were put under control. Those weak links existing in agriculture, infrastructure construction and social undertakings had been strengthened. Favourable turn was seen in agricultural production. The excessive investment growth in some industries had been curbed

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initially. Reform in various fields progressed steadily and China is opening wider to the outside world. New headways were made in employment, re-employment and social security programs. The living standard of urban and rural population continued to improve. National economy kept steady and rapid growth with accelerated development of various social undertakings. The main targets set forth for the economic and social development had been achieved.

The NBS communiqué listed the main problems facing China as follows:

- agricultural instability (including "difficulties in keeping the growth of grain production and rural household income");
- excessive construction activity, and "high impulse of blind or over-spread investment;"
- major rises in the prices of energy and raw materials;
- a "tight" relationship between energy and transport supply and demand;
- a high incidence of "severe accidents in production;"
- excessive resource waste and environmental pollution.

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

Overview: preliminary estimates indicated that in 2004, GDP rose by 9.5 [9.1] per cent in terms of comparable prices to reach 13,651.5 trillion *yuan*. All three major sectors shared in this performance. But as in previous recent years, industrial value-added growth (11.1 [12.5] per cent) outstripped the growth of agricultural (6.3 [2.5] per cent) and tertiary (8.3 [6.7] per cent) sectors.

Agriculture: the previous contraction of the grain sown area was reversed, as a result of which the area under grain rose by 2.2 million hectares to 101.61 million ha; the cotton sown area of cotton also expanded by 580,000 ha. to reach 5.69 million ha. By contrast, the areas sown under oil bearing crops, sugar and vegetables all declined – to 14.52 million ha., 1.57 million ha. and 17.67 million ha., respectively. The output of major farm crops is shown in Table 4.

Total meat output rose by 4.7 [5.1] per cent to 72.6 million tons, of which the output of beef and mutton increased by 7.9 per cent and 10.6 per cent. Total output of aquatic products was 48.55 million tons (3.2 per cent above the 2003 level). Effective irrigation was extended to more than 980,000 ha. of arable land, in addition to which some 1.3 million ha. were brought under guaranteed water-saving irrigation facilities.

Industry: industrial value-added grew by 11.5 [12.6] per cent in 2004. Further details are given in Table 5. Once again, there was a buoyant performance of high-tech activities – up 23.1 per cent above the level of 2003 – with telecommunication equipment, computers and other electronic goods showing especially rapid growth.

Production of important industrial products is shown in Table 6. As the following figures show, industrial profitability continued to improve in

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Table 4: **Output of Major Farm Products, 2004**

	Total output (million tons)	*% change over 2003*
All food grains	469.47	9.0
Oil-bearing crops	30.57	8.8
Peanuts	14.31	6.6
Rapeseed	13.04	14.2
Cotton	6.32	30.1
Sugar crops	95.28	− 1.2
Sugarcane	89.48	− 0.8
Beetroot	5.80	− 6.1
Cured tobacco	2.14	6.2
Tea	0.84	8.7
Fruits	152.43	5.0
Vegetables	549.27	1.7

Table 5: **Rate of Growth of Industrial Value-added, 2004**

	% increase over 2003
Industrial enterprises above designated size*	16.7
State-owned and state-controlled enterprises	14.2
Collective enterprises	9.9
Share-holding enterprises	16.5
Enterprises invested by foreigners or investors from Hong Kong, Macau and Taiwan	18.8
Light industry	14.7
Heavy industry	18.2

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

2004. The rate of increase in profits of differing enterprise ownership categories was as follows:

- SOEs + 42.5 [45.2] per cent
- collective enterprises + 31.3 [31.4] per cent
- share-holding enterprises + 39.4 [46.0] per cent
- private enterprises + 40.1 per cent
- foreign (incl. Hong Kong, Macau and Taiwan) invested enterprises + 25.5 [40.5] per cent

The construction industry grew by 8.1 [11.9] per cent, and construction enterprises generated profits of 62.1 billion *yuan* (19.5 [23.8] per cent above the 2003 level).

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Table 6: **Output of Major Industrial Products, 2004**

	Total output	*% change over 2003*
Light industry		
Yarn	11.20 m. tons	13.9 [15.7]
Cloth	42,000 m. metres	18.8 [16.2]
Chemical fibers	14.25 m. tons	20.6 [19.2]
Sugar	10.18 m. tons	− 6.1 [47.1]
Cigarettes	1,874.41 billion	6.5
Colour TV sets	73.29 m. units	12.0 [26.9]
Household refrigerators	30.34 m. units	35.3 [40.3]
Room air conditioners	66.46 m. units	37.9 [59.3]
Mobile telephones	233.45 m. units	28.1 [50.1]
Fax machines	13.8 m. units	84.9 [151.1]
Micro-computers	45.12 m. units	40.3 [119.8]
Integrated circuits	21.15 b. units	42.6 [54.0]
Programme-controlled switchboards	84.65 m. lines	14.7 [25.9]
Optical telecommunications facilities	139,600 sets	28.0 [34.1]
Heavy industry		
Total energy production (standard coal equivalent)	1.846 b. tons	15.2 [11.0]
Coal	1.96 b. tons	17.3 [15.0]
Crude oil	175.0 m. tons	2.9 [1.8]
Electricity	218.70 b. kWh	14.5 [15.5]
Steel	272.80 m. tons	22.7 [21.9]
Rolled steel	297.23 m. tons	23.3 [25.3]
Non-ferrous metals	14.30 m. tons	16.4 [19.1]
Cement	970.00 b. tons	12.5 [18.9]
Ethylene	6.27 m. tons	2.4 [12.7]
Chemical fertilizers (100 per cent equivalent)	44.69 m. tons	15.2 [10.8]
Power-generating equipment	71.38 m. kWs	92.9 [74.5]
Motor vehicles	5.074 m. units	14.2 [36.7]
Cars	2.314 m. units	11.7 [85.0]
Large and medium tractors	98,300 units	101.4 [7.5]

Fixed investment: in 2004, growth of fixed asset investment was marginally slower – up by 25.8 per cent – than in 2003 [26.7 per cent]. Relevant disaggregated data are shown in Table 7. Urban investment in the primary sector rose by 20.3 per cent in 2004, reversing a substantial decline (by 19.6 per cent) in 2003. The corresponding figures for urban secondary and tertiary fixed investment were 38.3 [46.3] per cent, and 21.6 [22.1] per cent. Table 8 summarizes the net impact of capital construction investment on production capacity in 2003:

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Table 7: **Fixed Investment Growth by Sector and Region, 2004**

	Value (billion yuan)	*% increase over 2003*
Investment in fixed assets	7,007.3	25.8
Of which:		
Urban fixed investment	5,862.0	27.6
(Urban fixed investment by state-owned and state-controlled enterprises)	(3,371.3)	(14.5)
Rural fixed investment	1,145.2	17.4
Investment by region:		
East	4,024.2	24.8
Centre	1,512.6	30.2
West	1,374.9	26.6

Table 8: **Changes in Production Capacity of Selected Industries, 2004 [2003]**

Power generating capacity of large and medium-sized generators	50.55 [30.00] m. kW
Power transformer equipment of over 110,000 kilovolts capacity	149.96 [83.00] m. kilovolt-amperes
New trunk railways	1,433 [1,164] km.
Double-track railways	352 [583] km.
Electrified railways	409 [615] km.
Newly constructed highways	46,411 [36,444] km.
(of which, express highways)	(4,476 [4,639] km.)
Newly increased harbour cargo-handling capacity of 10000-ton berths	119.58 [82.20] m. tons
Newly installed capacity of telephone switchboards	70.20 [67.44] m. gates
Newly increased length of optical-fibre cables	650,000 [450,000] km.
Newly increased capacity of digital cellular mobile 'phone switchboards	60.49 [62.32] m. units

Transport and telecommunications: there was continued growth in transport and telecommunications in 2004, as the figures in Table 9 show. Posts and telecommunications experienced accelerated growth, with the value of associated business transactions rising by 34.9 [27.8] per cent. There were 49.7 million new fixed telephone subscribers, taking the total number of subscribers to 312.44 million (210.85 million in cities, and 101.59 million in rural areas). There were also 64.87 million new mobile phone subscribers, taking the total number of users to 334.83 million.

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Table 9: **Passenger and Freight Traffic in 2004**

	Unit	*Volume*	*% change over 2003 [2002]*
Freight traffic	billion ton-km	6,669.8	23.8 [13.1]
Railways	billion ton-km	1,928.9	11.8 [10.2]
Highways	billion ton-km	759.6	7.0 [3.4]
Waterways	billion ton-km	3,897.3	35.7 [17.3]
Civil aviation	billion ton-km	7.2	24.0 [12.3]
Passenger traffic	billion passenger-km	1,632.4	18.2 [− 2.3]
Railways	billion passenger-km	571.2	19.3 [− 3.6]
Highways	billion passenger-km	876.5	13.9 [− 1.6]
Waterways	billion passenger-km	6.5	3.3 [− 21.1]
Civil aviation	billion passenger-km	178.2	41.1 [− 0.4]
Volume of cargo handled at coastal ports		4.00	21.3 [17.9]
(of which, cargo for foreign trade)	billion tons	(1.15)	18.4 [19.8]

Thus, the total number of telephone users – including mobile telephone subscribers – reached 647.27 million (21.5 [27] per cent more than in 2003).

China received 109.04 million international visitors in 2004 (19 per cent more than in 2003). Of these, 16.93 million were "foreigners" (up 48.5 per cent), and 92.11 million were "Chinese compatriots" from Hong Kong, Macau and Taiwan (a rise of 14.8 per cent). Foreign exchange earnings from international tourism exceeded US$25.7 billion (up 47.9 per cent). Some 28.85 million Chinese made overseas visits (up 42.7 per cent), of whom 22.98 undertook private visits (up 55.2 per cent). Meanwhile, revenue from *domestic* tourism was 471.1 billion *yuan* (a rise of 36.9 per cent).

Domestic trade: in 2004, real growth in the value of retail sales of consumer goods rose from 9.1 to 13.3 per cent (14.7 [10.3] per cent in cities, and 10.7 [6.8] per cent in rural areas).

In 2004, the consumer price index rose by 3.9 [1.2] per cent. Commodity retail prices rose by 2.8 per cent; manufactured goods producer prices, by 6.1 per cent; and purchasing prices for raw materials, fuel and power, 11.4 per cent. Consumer price changes for specific goods, or categories of goods, were as shown in Table 10.

Foreign trade and external relation: the buoyant momentum of China's foreign trade growth was maintained in 2004. The combined value of exports and imports rose by 35.7 [37.1] per cent to reach US$1,154.8 billion. The value of China's exports was US$593.4 billion (up by 35.4

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Table 10: **Percentage Change in the Consumer Prices of Selected Goods, 2004 [2003]**

	National average	*Urban*	*Rural*
General level of consumer prices	3.9 [1.2]	3.3 [0.9]	4.8 [1.6]
Food	9.9 [3.4]	9.1 [3.4]	11.5 [3.4]
of which, grain	26.4 [2.3]	25.7 [2.3]	27.7 [2.2]
Tobaccos and alcohols	1.2 [−0.2]	1.2 [−0.2]	1.3 [−0.1]
Clothing	−1.5 [−2.2]	−1.5 [−2.6]	−1.6 [−1.4]
Household appliances and services	−1.4 [−2.6]	−1.9 [−3.0]	−0.3 [−1.7]
Medical, health and personal articles	−0.3 [0.9]	−0.8 [−0.2]	0.5 [2.5]
Transportation and telecommunications	−1.5 [−2.2]	−2.1 [−2.6]	−0.2 [−1.4]
Recreational, educational, cultural articles and services	1.3 [1.3]	0.8 [0.5]	2.1 [2.8]
Housing	4.9 [2.1]	4.3 [2.8]	5.8 [1.0]

[34.6] per cent), while imports increased by 36 [39.9] per cent to US$561.4 billion. The net outcome was to generate a merchandise trade surplus of US$32 billion [US$25.6 billion] (see Table 11). A geographical breakdown of China's exports is shown in Table 12.

Inflows of both contracted and utilized foreign direct investment both increased in 2004 – by 33.4 [1.4] per cent to US$153.5 billion; and by 13.3 [39] per cent to US$60.6 billion, respectively. The NBS

Table 11: **Levels of and Changes in Imports and Exports, 2004**

	Value (US$ billion)	*% increase over 2003 [2002]*
Total exports	593.4	35.4 [37.1]
general trade	243.6	33.9 [34.6]
processing trade	328.0	35.7 [34.4]
Exports of:		
mechanical and electronic products	323.4	42.3 [44.8]
high and new-tech products	165.5	50.2 [62.6]
Total imports	561.4	36.0 [39.9]
general trade	248.2	32.3 [45.4]
processing trade	221.7	36.1 [33.3]
Imports of		
mechanical and electrical products	301.9	34.2 [44.6]
high and new-tech products	161.4	35.3 [44.0]

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Table 12: **Direction of Foreign Trade, 2004**

	Exports		*Imports*	
	Value (US$ billion)	*% increase over 2003*	*Value (US$ billon)*	*% increase over 2003*
Hong Kong SAR	100.9	32.3	11.8	6.1
Japan	73.5	23.7	94.4	27.3
South Korea	27.8	38.4	62.2	44.3
ASEAN	42.9	38.7	63.0	33.1
European Union	107.2	36.9	70.1	28.8
Russia	9.1	51.0	12.1	24.7
United States	124.9	35.1	44.7	31.9

Communiqué provides a detailed breakdown of FDI inflows by sectoral and industrial destinations.

At the end of 2004, China's foreign exchange reserves totalled US$609.9 [403.3] billion, registering an annual rise of 51.2 per cent.

Banking and Insurance: The NBS Communiqué noted that at the end of 2004, savings deposits lodged in all kinds of financial institutions totalled some 25,300 [22,036.4] billion *yuan* (15.3 [20.2] per cent higher than at the end of 2003). Savings by enterprises reached 8,943.8 billion *yuan* – a rise of 16.4 [19.4] per cent. Savings by urban and rural residents totalled 12,619.6 billion *yuan* (up 14 per cent). The total level of loans was 18,856.6 billion *yuan* (14.4 [21.4] per cent more than in 2003 [2002]). Of these short-term loans totalled 9,080.8 billion *yuan* (up 7.4 [13.8] per cent); medium and long-term loans totalled 8,101 billion (up 22.1 [30] per cent).

The volume of cash in circulation (M_0) rose by 8.7 [14.3] per cent; the corresponding figures for narrow (M_1) and broad (M_2) money were 13.6 [18.7] per cent, and 14.6 [19.6] per cent.

Welfare, living standards and employment: per capita cash disposable income of urban residents reached 9,422 [8,472] *yuan* in 2004 [2003] (a real rise of 7.7 [9.0] per cent over 2003 [2002]). Rural residents' average per capita net income was 2,936 [2,622] *yuan*: this represented a real increase of 6.7 [4.3] per cent – the highest annual rate of growth since 1997. Such figures implied a further widening in the urban–rural per capita income gap. The number of rural residents below the poverty line was 26.1 million – a reduction of 2.9 million compared with the previous year.

Social security arrangements for urban residents showed further improvements. By the end of 2004, 163.42 [154.9] million people (122.42 [116.38] million employees and 41 [38.52] million retirees) were enrolled in basic pension programmes. Some 105.84 [103.73] million people also

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participated in unemployment insurance programmes, while 123.86 [108.95] million people were covered by basic health insurance. The number of people who received unemployment insurance payments rose from 4.15 to 4.19 million. Finally, 22.01 [22.53] million urban residents were in receipt of minimum income relief from the government.

In 2004, some 9.8 million new jobs were found in the urban sector – 800,000 more than planned. In addition, 5.1 million laid-off workers were re-employed. The official rate of registered urban unemployment was 4.2 per cent [sic] – 0.1 per cent below the corresponding figure for 2003.

Population: China's total population at the end of 2004 was 1,299.88 [1,292.27] million. Of this total, urban residents numbered 542.83 [523.76] million (41.8 [40.53 {2003}, 39.1 {2002}, 37.7 {2001}] per cent of the total); rural residents totalled 757.05 [768.51 {2003}, 782.41 {2002}] million, or 58.2 per cent of the total. Vital rates for 2003 are shown in Table 13, while the sex ratio and age structure of China's population are shown in Table 14.

Resources and Environment: improvements in resource use and environmental protection characterized China's economic and social development in 2004, although resource waste and environmental degradation remained serious problems.

Land was managed more effectively in 2004, with 145,000 hectares of arable land – 37 per cent less than in 2003 – appropriated for construction purposes. Nevertheless, the arable area suffered a net reduction of

Table 13: **Vital Population Rates, 2004 [2003]**

	Rate per thousand
Birth rate	12.29 [12.41]
Death rate	6.20 [6.40]
Rate of natural increase	5.87 [6.01]

Table 14: **Sex Ratio and Age Structure of China's Population (2003)**

	Population at year end (million)	*%*
National total	1,299.88	100.0
Male	669.76	51.5
Female	630.12	48.5
0–14 years	279.47	21.5
15–64 years	921.84	70.9
65 years and above	98.57	7.6

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800,000 ha. (in addition to the loss of land for construction, there was further contraction of arable land because of natural disasters (63,000 ha. destroyed), ecological preservation (733,000 ha. removed), structural farm adjustment (205,000 ha. lost); against this, reclamation and redevelopment projects added 346,000 ha. of cultivated land).

Per capita availability of water fell by 4 per cent to 2,040 cubic metres. At the end of 2004, water storage in China's 422 large reservoirs was 175.8 billion cu. m., or just over 4 per cent more than a year previously. Total water consumption rose by 3.4 per cent to 550 billion cu. m. Of this, consumption for municipal, industrial and agricultural uses increased by 2.2, 2.8 and 3.8 per cent, respectively. Per capita water consumption averaged 423 cu. m. (a rise of 3 per cent). Some 79 cities faced water shortages; 23.4 million people and 13 million large domestic animals experienced temporary difficulty resulting from the shortage of drinking water. On 413 sections of China's seven major water systems, 41.6 per cent satisfied the national quality standard of Grade III for surface water (3.5 per cent more than in 2003); 30.5 per cent met the quality of Grade IV or V (down by 1.7 per cent); and 27.9 per cent were below Grade V (down by 1.8 per cent). The water quality in the Zhu [Pearl] and Chang [Yangtze] rivers was described as "good;" in the Haihe, Liaohe, Huaihe, Huang [Yellow] and Songhuajiang rivers it was "relatively poor." Other indicators showed some improvement in the quality of marine water, although 169,000 sq. km. of seawater failed to meet the quality standard of clean seawater – 19 per cent more than in 2003. Of this, 32,000 sq. km. were described as being seriously polluted.

The incidence of natural disasters in 2004 was less serious than in the previous year. Even so, direct economic losses occasioned by floods, water-logging and droughts totalled 97.5 billion *yuan*, while natural disasters affected over 37 million hectares (of which 4.4 million ha. of crops were destroyed). Man-made disasters also exacted a heavy toll, and in 2004 there were 568,000 traffic accidents, which killed 99,000 people, injured a further 452,000 and caused direct property losses amounting to 2.77 billion *yuan*.

The latest survey of national forest resources (1999–2003) showed the total forest area to be 175 million hectares, with a forest coverage rate of 18.21 per cent. Newly-discovered mineral resources included 1,098 million tons of crude oil, 380.2 billion cu. m. of natural gas, and 9,654 million tons of coal.

The preliminary estimates of energy consumption in 2004 in the NBS Communiqué are shown in Table 15. Energy consumption per 10,000 *yuan* of GDP was 1.58 tons of standard coal equivalent (SCE) – a rise of 5.3 per cent on 2003.

(e) *Social and Legal Affairs*

Chinese media source reported the birth, on 5 January, of China's 1.3 billionth citizen – a baby boy, born at a Beijing hospital. A Xinhua commentary noted that but for the implementation of population control

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Table 15: **Consumption of Energy, 2004**

	Consumption	*% increase over 2003*
Total energy	1,970 m. tons (SCE)	15.2
Coal	1,870 m. tons	14.4
Crude oil	290 m. tons	16.8
Natural gas	41.5 b. cu. m.	18.5
Hydro-electric power	328 b. kWh	15.6
Nuclear power	50.1 b. kWh	15.6

measures, the event would have happened up to four years previously. It quoted a Chinese demographer to the effect that since the early 1970s, the average number of children born to a Chinese couple had fallen from 5.8 to a mere 1.8. Even so, China still faced a formidable population challenge, and one projection estimated that by about 2030, its total population would have risen to 1.47 billion. Meanwhile, a Chinese Academy of Sciences report indicated that the "ideal" population size for China was 700 million, and that the maximum population that could be accommodated was 1.6 billion.

Other demographic-related challenges included further rises in China's working age and ageing populations. Data from the National Bureau of Statistics (NBS) suggested that the number of people of working age would continue to rise for up to a decade, peaking at 930 million around 2015. Providing productive employment for such a huge number would be an immense task. At the same time, China was becoming an ageing society, with the proportion of those above 65 expected to rise from the current level of 7 per cent now to 11.8 per cent by 2020. By the middle of the century, the number of people in this age category would exceed 400 million (XHNA, 6 Jan.; see also XHNA, 22 Feb.).

It was reported that 3 million Chinese rural citizens were removed from absolute poverty in 2004 – more than in any year since 2001. But 26 million people still lived beneath the poverty line, lacking adequate food and clothing, in the rural sector, and poverty reduction remained a high government priority (XHNA, 31 Jan.). Subsequently (9 Feb.), the same source revealed that in 2004 the Chinese government spent 17.29 billion *yuan* to assist more than 22 million urban residents living below the minimum living standard.

Speaking in Tianjin on 6 January, Vice-Premier Zeng Peiyan spoke of the importance of clearing all outstanding debts owed to rural construction workers in China. In 2004, major progress had been made, as a result of which some 33.1 billion *yuan* of outstanding debts dating from before 2003 – 98.4 per cent of the total – had been cleared. As a result, the remaining outstanding balance of money owed was relatively small, although Zeng admitted that "the reasons for the arrears are complex and

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it is quite difficult to clear them." He urged officials to clear this balance (including debts owed to rural construction workers for 2004) and to ensure that no new accounts were in arrears (XHNA, 6 Jan.).

A Ministry of Labour and Social Security official revealed that at the end of 2004, 105.8 million people were covered by unemployment insurance – 2.1 million more than at the end of the previous year. The number of people who received unemployment insurance payment rose by 40,000 year-on-year to reach 4.19 million. The same source noted that the numbers of people covered by social security, medical insurance, industrial injury insurance and maternity insurance reached 163.4 million, 123.9 million, 68.2 million and 43.7 million in 2004 (XHNA, 1 Feb.).

It was reported that the number of people suffering from illness had risen by 16.5 per cent during the past decade. During the same period, the number of people having no social medical insurance increased from 900 million to one billion (over 80 per cent of China's total population). In 2003 alone, it was estimated that economic losses caused by "health poverty" was more than 800 billion *yuan*, or some 7 per cent of that year's GDP. According to Hu Angang, despite rapid GDP growth, the morbidity rate and the number of people suffering from illness in both the urban and rural sector was rising, as were the rate and number of those who failed to seek medical advice or receive treatment for their illnesses (*ZXS*, 7 Jan.).

A report by the Chinese Academy of Science (3 March) suggested that by the time China's urban population reached 1.1 billion in 2050, the long-run urbanization process would have cost 15–16 trillion *yuan*, or twice the level of China's 2000 GDP. It estimated that the cost of making a farmer into an urban resident was about 25,000 *yuan* (including an individual payment of 14,500 *yuan* and a public cost of 10,500 *yuan*) (XHNA, 3 Mar.).

(f) *Economic Affairs*

On 1 January, *Qiushi* (*Seeking Truth*) published the text of an important speech on sustainable development in China, made by Hu Jintao in May 2004. The central theme of his remarks was that the attainment of average per capita GDP in excess of US$1,000 had brought China to a critical point in its economic and social development. This defining moment of China's experience was reflected in a variety of factors and phenomena. These included:

- the increasingly fierce economic competition to which it was being exposed externally;
- the increasing degree of foreign dependence of the Chinese economy;
- the rising complexity of domestic industrialization, urbanization and economic structural adjustment, accompanied by the large-scale transfer of surplus labour from agricultural to non-farm activities;
- the increasing marketization of the economy;

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- the emergence of deep-seated contradictions and difficulties out of reforms;
- the differentiated regional pattern of economic and social development within China, alongside the increasing diversity of people's material and "cultural" needs;
- increasing popular enthusiasm for political participation in line with a greater consciousness of democracy and law.

The emergence of these conditions dictated the urgent need for China to pursue a "scientific concept" of development – a notion described by Hu as "an important strategic idea put forward … under the guidance of Deng Xiaoping Theory and the important thinking of the 'three represents'."

Among the most important features of the new strategy of development sustainability was the need to give proper attention to core rural issues in order to resolve outstanding agricultural, rural, and peasant problems. In particular, Hu Jintao called for the formulation and implementation of appropriate measures to handle four key relationships, as follows:

- the relationship between agricultural structural adjustment and the development of grain production;
- the relationship between exploiting the potential for higher farm incomes and the development of alternative channels for raising non-agricultural incomes;
- the relationship between market mechanisms and the role of government ("we should … oppose any blind command and mandatory orders in violation of objective laws; [but we should also] follow the approach of coordinated development characterized by urban–rural interactions and mutual stimulation between industry and agriculture on the basis of meeting requirements of urban and rural development");
- the relationship between "increasing government input and attracting societal investment."

Development sustainability also required a radical change in the economic growth model from one characterized by "high input, high consumption, high pollution, and low efficiency" to a new approach, based on "high science and technology contents, good economic benefit, low resource consumption, less environmental pollution, and full exploitation of human resource advantages." If this were to be achieved, "prominent contradictions" would have to be addressed, the single most serious of which was the excessive scale and speed of fixed-asset investment. The failure to address such problems would lead to the excessive expansion of credit, the worsening of existing resource shortages (e.g., of coal, electricity, oil, and transport), and an increase in inflationary pressure. In short,

> we should both do a good job of protecting and exploiting enthusiasm of all sectors for accelerating development and guide such enthusiasm to deepening reforms, structural optimization, and efficiency improvement, so as to maintain steady, co-ordinated, and rather rapid economic development.

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Hu insisted that intensification of reform was essential to the successful fulfillment of development sustainability. Future reforms were directed to realizing three main goals. The first was to enhance the diversified nature of the economy ("to improve the basic economic system based on the dominant position of public ownership and joint development of economies based on different ownership systems and to further work to create a new situation of joint development of economies based on different ownership systems"). Secondly, in order to meet the requirements of a "fully-developed socialist market economic system" and to improve administrative efficiency, it was necessary to further reform the system of administrative management, including the transformation of government functions. The final goal was to accelerate the process of opening to the outside world.

Hu was at pains to stress that sustainability meant putting people's interests at the heart of China's development strategy ("governing the country for the people, using power for the sake of the people, having sentiments tied to the people, and pursuing the interests of the people"). In turn, this dictated giving priority attention to maximizing employment opportunities, and putting in place an effective social security provision system in order to provide universal access to the "five guarantees" (viz., food, clothing, housing, medical care and burial expenses). It was important too to uphold the broader economic, political, cultural, and social rights of the population, and to "overcome the phenomena of encroaching upon rights and interests of the masses of the people in real life."

Maintaining a harmonious relationship between society and environment was another cornerstone of sustainability. In China's case, a particular priority was the need to conserve critical natural and economic resources, such as water and mineral resources. Hence, the need to develop a "circulating economy … [in order] to achieve a benign circle in terms of the natural ecological system and the social economic system." Another continuing priority was population control, which must be pursued "persistently and tirelessly" (see also *RMRB* website, 17 and 18 Jan.; on the need for 'people-centred' development, see *RMRB* website, 7 Jan.)

It was reported in February that provincial-level governments had adjusted their economic growth projections for 2005 downward in an attempt to accommodate central government efforts to achieve more efficient and environmentally-friendly growth. In Beijing, targeted GDP growth for 2005 had been sent at 9 per cent – 4.2 per cent below that of 2003. Similar, adjustments had been made by Tianjin (down by 3.7 per cent to 12 per cent), Guangdong (down 4.2 per cent to 10 per cent), Shenzhen Special Economic Zone (down by 4.3 per cent to 13 per cent), Shanghai (down 2.5 per cent to 11 per cent) and Shandong (down 5 per cent to 10 per cent).

In a comment on problems of statistical reporting, Li Deshui (Director of NBS) revealed that on the basis of reports from local governments, China's GDP growth in 2004 would have been inflated to 13.4 or even 15.5 per cent (cf. the actual figure of 9.5 per cent). He added that a

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discrepancy of around six percentage points had existed between central and county-level governments for some years – and "the more rapidly the economy grows, the wider the gap will be" (XHNA, 8 Mar.).

People's Daily celebrated the publication of an "important policy-oriented" document, issued by the State Council under the title 'Several Opinions on Encouraging, Supporting and Guiding the Development of Individual, Private and Other Non-public Economic Sectors' (see *RMRB* website, 25 Feb.). It reaffirmed the government's basic principle that

> it is essential to uphold and perfect the basic economic system that embraces the common development of diverse economic sectors with public ownership as the mainstay, and [to] … give rein to the guiding role of the state-owned economy … and to encourage, support and guide … the development of individual, private and other non-public economic sectors, so that the two will promote each other and develop together in the course of socialist modernization.

Constitutional amendments, introduced in 1999 and 2004, had already defined the legal status and role of the non-public economy, which had undergone rapid growth under the impact of post-1978 reforms. Statistics showed that the share in GDP of individual and private economic activities had risen from under 1 per cent (1979) to one-third. Since the 1990s, these same activities had generated 5–6 million new jobs each year, or about three-quarters of all the new jobs created in the urban sector.

But the development of the non-public economy still faced serious difficulties, partly as a result of the persistent influence of the old planning system and "traditional concepts." In particular, China lacked the legal, policy and market conditions that would allow equal competition with the state-owned and foreign-invested economic activities. Hence, this most recent State Council document, which sought implement important policy measures that would facilitate the more effective development of the non-public economy. These measures included:

- the implementation of the principle of equal access and fair treatment;
- an expansion of fund-raising channels and improvements in financial services;
- improvements in the environment for non-public sector development (including safeguarding the lawful rights and interests of enterprises and their employees);
- changes in government functions and the introduction of better methods of guidance and co-ordination.

By such means, it was hoped to

> help eliminate … restrictions on market access for the non-public economy, relieve the bottleneck of 'difficulties in obtaining loans and raising funds' in the development of the non-public economy, change the current situation in which the system of social services is relatively weak for the non-public economy and for small and medium enterprises, protect the lawful rights and interests of non-public enterprises and their employees, further improve the quality of non-public enterprises, improve the supervision and management of non-public enterprises and foster a good environment

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in which the whole nation encourages, supports and guides the development of the non-public economy.

People's Daily (30 December 2004) spoke of China's favourable agricultural situation, following upturns in production and incomes, especially for grain farmers, in 2004. It quoted Vice-Premier Hui Liangyu's speech to the recent Central Rural Work Conference (full text in XHNA, 27 Feb.), in which he referred to the achievement of "six 'firsts' " during 2004 – viz.,

- the decision to abolish national farm taxes;
- relaxation of grain prices, purchases and sales;
- formulation and initial implementation of a national "superior grain industry" project;
- application of land transfer fees in respect to the development of agricultural land for non-farm purposes;
- payment of wages owed to temporary workers from the countryside;
- payment of monetary compensation for land expropriation.

Such favourable developments notwithstanding, provincial-level officials attending the Rural Work Conference warned that maintaining the momentum of grain output and income growth through 2005 would be difficult. In particular, China's grain production capacity remained weak, not least because of infrastructural deficiencies (especially in regard to irrigation facilities). Nor was there any guarantee that further rises in grain prices would be forthcoming to have any significant impact on the still widening urban–rural income gap. With farm credit and funds in short supply, agricultural investment posed another major problem.

This was the background against which the Chinese government had committed itself to stabilizing and improving existing farm support policies in 2005. These would include intensification of agricultural tax reductions and exemptions, increases in direct subsidies (especially to grain farmers), accelerated agricultural infrastructural construction, and the extension of even greater support for major grain-producing counties (RMRB, website, 30 Dec. 2004).

For the second year running, the CCPCC and State Council issued an important policy document on agriculture, entitled 'Opinions on a Number of Policies in Further Strengthening Rural Work and Enhancing Overall Agricultural Production Capacity.' It reiterated the urgent and strategic need to improve infrastructural construction in the farm sector, to accelerate agricultural scientific and technological work, and to enhance China's overall farm production capacity. Notwithstanding significant progress in 2004, agricultural development still faced many constraints ("the foundation of agriculture is very weak and overall agricultural production capacity is insufficient"). Inadequate water conservancy construction and difficulties in dealing with natural disasters were two examples of infrastructural weaknesses. Meanwhile, the low "contribution rate" of science and technology to China's agricultural production – 40 per cent, compared with 70 per cent in developed

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countries – highlighted the need to strengthen the application of science and technology to farm production. There were structural problems too, such as the shortness of the "agricultural industrial chain" and low level of value added in farming.

Such concerns defined the thrust of farm policies for 2005:

> [T]he central authorities are regarding the enhancement of overall agricultural production capacity as the main theme in rural work this year. Enhancing overall agricultural production capacity is the core of ensuring national grain security … In order to nourish a larger population from a smaller area of farmland and satisfy the ever-increasing consumption requirements, it is essential to lay a sound foundation for steady increase in grain; at the same time, in order to continually increase peasant incomes, we must continually tap the potential within agriculture, improve the comprehensive returns in agriculture and enhance land productivity; in addition, in promoting industrialization and urbanization, it is also essential to simultaneously promote agricultural modernization and comprehensively raise the level of agricultural modernization.

To these ends, the Document identified the following policy priorities for 2005:

- to protect and conserve land, and raise its productivity;
- to provide greater support for agricultural scientific research and application;
- to accelerate the process of farm mechanization and develop "high-quality, high-efficiency, low-priced and safe agricultural production materials;"
- to promote restructuring in order to integrate agricultural production, processing and sales;
- to increase agricultural investment and its efficiency;
- to enhance "peasants' self-development capacity" through the provision of more and better education and training to raise their skill level (XHNA, 1 Feb.; see also a Xinhua commentary. 30 Jan., and *RMRB* website, 1 Feb.).

Subsequently, Zhu Zhigang (Vice Finance Minister) revealed that China would extend subsidies worth 5.5 billion *yuan* to major agricultural regions in 2005 in order to encourage higher grain production. Counties that produced 200,000 tons and sold 5,000 tons of grain p.a. between 1998 and 2002, as well as some counties with a lower grain output, but which helped sustain regional food supplies, would be eligible to receive subsidies. Zhu noted that almost 800 major agricultural counties generated 60 per cent of national grain output. Many of these made little profit from farming and faced serious financial problems. Zhu also warned local officials not to use the subsidies to "buy cars, … build offices or training centres or to spend on useless projects …" (XHNA, 3 March).

A senior Chinese official noted that China's grain production had failed to meet domestic demand in each year since 2000 – by almost 35 million tons in 2004 – and admitted that the shortfall would persist through 2005.

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Having been a net cereal exporter between 1997 and 2003, in 2004 China had been forced to import 4 million tons of cereals (XHNA, 31 Jan.).

An official of the State-owned Assets Supervision and Administration Commission (SASAC) stated that output and sales of major state-owned enterprises (SOEs) reached new peak levels in 2004. SASAC data showed that the sale revenue of these SOEs reached over 5.55 trillion *yuan* (up 25.8 per cent on 2003), generating profits of 478.46 billion *yuan* (a rise of 57.6 per cent). (See XHNA, 1 Feb.; the full text of the Document, dated 31 December 2004, can be found in XHNA, 31 Jan.).

Following a State Council meeting (2 February), it was stated that "when the condition is ripe," the fate of bankrupt SOEs would be determined by laws and the market – the implication being that the government would cease to subsidize bankrupt SOEs (something that had already happened in Beijing, Shanghai, Jiangsu, Zhejiang and Fujian). Xinhua reported that as of April 2004, the Chinese government had used administrative intervention to close 3,377 insolvent SOEs, and had resettled 6.2 million employees. To achieve this, 49.3 billion *yuan* had been allocated in bankruptcy subsidies, and state-owned banks had been allowed to write off some 223.8 billion *yuan* of bad loans caused by the bankruptcies. Li Rongrong (Minister in charge of SASAC) was meanwhile quoted as saying that it would take about four years to achieve the transition from "policy-aided bankruptcy" to "bankruptcy according to law" (XHNA, 2 Feb.)

Xinhua reported that of 16 construction projects initiated by China National Offshore Oil Corporation (CNOOC) in 2005, nine would come into operation by the end of the year. The remaining seven projects would start up in 2006. CNOOC's net offshore oil production was expected to reach 141–146 barrels of oil equivalent (BOE) in 2005 – 19 per cent more than in 2003 (XHNA, 3 Feb.). Elsewhere, it was reported that in 2004, China National Petroleum Corp (CNPC) discovered 520 million tons of new oil reserves and 243.6 billion cu.m. of natural gas reserves; Sinopec found 328 million tons of new oil reserves and 177.9 billion cu.m. of natural gas reserves last year (XHNA, 10 Feb).

A researcher (Chen Yao) working in the Institute of Industrial Economy of the Chinese Academy of Social Sciences (CASS) called for a reduction in the use of coal and improvements in coal consumption efficiency. He pointed out that despite a 15 per cent increase in total coal output to more than 1.9 billion tons in 2004, supplies were still insufficient to meet the needs of the power, metallurgical, construction and chemical sectors. He highlighted the anomalously high share of coal – 67 per cent, compared with a global average of 25 per cent – in China's primary energy supplies, and noted that coal-fired power plants accounted for 60 per cent of its total coal consumption. Projections indicated that the situation would worsen in 2005.

The environmental consequences of such a high degree of reliance on coal were also severe. Chen revealed that mining operations resulted in annual losses of 45 million tons of waste rock and 40 million tons of

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waste water. They also caused land subsidence amounting to 70 sq. km. p.a.

In the face of such economic and environmental difficulties, Chen proposed that existing policy guidelines, which sought to ameliorate China's energy shortages by expanding coal mining, should be reconsidered. It would, he said, make better sense to control such expansion and to explore ways of using other energy sources, such as nuclear energy, natural gas, and solar and wind energy. He also called for a reform of coal pricing via a greater reliance on market mechanisms in price setting. By these and other efficiency-enhancing means, China might save up to 500 million tons of coal a year and reduce its coal consumption for power generation by half (XHNA, 31 Jan.).

In February, the State Environmental Protection Administration (SEPA) confirmed that in accordance with its earlier instructions, construction work on 30 multi-billion dollar projects – mostly hydropower stations, thermal power plants and other power projects, including the Xiluodu Hydropower Station on the upper Chang [Yangtze] River (the second-largest such project after the Three Gorges hydropower station), the underground power station at the Three Gorges Dam and the Three Gorges project power supply station operated by the Three Gorges Project Corporation – had been suspended to comply with environmental protection efforts (see XHNA, 2 Feb.). The move was seen as a major victory for SEPA in its attempt to combat major environmental law violators (not least, the ministerial-level Three Gorges Project Corp.). The suspension of construction work was justified by the failure of all 30 projects to have secured an environmental impact assessment, as demanded according to Chinese law. Subsequently, following positive environmental impact assessments, work on 26 of the 30 projects was allowed to resume.

A NBS report revealed that China's research and development (R&D) expenditure reached a record 184.3 billion *yuan* in 2004 (1.35 per cent of GDP), having risen by 19.7 per cent above the 2003 level. R&D spending on basic scientific research was 10.2 billion *yuan*, and those professionally engaged in scientific research in state-owned research institutions and enterprises was 27.2 million. In 2004, China launched 824 key scientific projects, 1,071 state high-tech projects and 333 high-tech industrialization projects. It also set up 10 new state engineering research centres and rebuilt 40 state key laboratories.

(g) *Education*

Table 16 shows enrolments in higher educational institutions in China in 2004, as revealed by the NBS Communiqué on national economic and social development: School enrolments are shown in Table 17.

(h) *Military Affairs*

A spokesman for the Commission of Science Technology reported rapid growth by China's defence industry in 2004. The industry's annual

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Table 16: **New Entrants and Graduates, 2004 (millions)**

Total Graduates	
Postgraduates	0.820
Undergraduates	13.335
New Entrants	
Postgraduates	0.326
Undergraduates	4.473
Graduands	
Postgraduates	0.151
Undergraduates	2.391

Table 17: **School Enrolments, 2004 (millions)**

	New entrants	*Total enrolment*
Kindergartens	–	20.844
Primary schools	17.470	112.462
Junior secondary schools	20.782	64.750
General senior secondary schools	8.215	22.204
Vocational secondary schools	5.481	13.679
Special education schools	0.051	0.372

turnover, industrial value-added and product revenue rose, respectively, by 21.7 per cent, 26.8 per cent and 26.4 per cent above the levels of 2003. The output-value of products for civilian use was 165.6 billion *yuan* (XHNA, 24 Jan.).

A Moscow source reported in February that Russia and China have agreed that they would conduct a bilateral military exercise, the first ever to take place between the two countries. The exercise – based on an anti-terrorist scenario and involving 200 personnel (100 from each side) – would be held on the Liaodong Peninsula at a date between August and October. It would involve amphibious landing forces, marines, airborne forces and paratroopers (RIA News Agency, 14 Feb.).

On 4 March, the State Council submitted a proposal to the National People's Congress for a national defence budget of 247.7 billion *yuan* in 2005. A NPC spokesman noted that the sum was quite small, in terms of its share of total financial spending and of GNP, compared with that of major countries (XHNA, 4 Mar.).

(i) *Obituary*

A Xinhua statement reported the death, on 17 January, of the former Chinese Premier, Zhao Ziyang. He was 85. The statement read:

Comrade Zhao had long suffered from multiple diseases affecting his respiratory and cardiovascular systems, and had been hospitalized for medical treatment for several

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times. His conditions worsened recently, and he passed away Monday [17 January] after failing to respond to all emergency treatment.

In Beijing, some 400–500 people gathered at Zhao's house to mourn his death. Police allowed mourners to lay wreaths and express their sorrow. In Shanghai, however, it was reported that over 100 out of a total of 700–800 people were detained, following demonstrations prompted, in part, by Zhao's death (Kyodo, 19 Jan.).

A Hong Kong source (*Hong Kong Economic Journal*, 18 Jan.) quoted Zhao Ziyang's former aide, Bao Tong, to the effect that Zhao had been the first person to propose the expansion of peasant autonomy and elimination of the rural people's communes. He was also the earliest proponent of greater enterprise autonomy. According to Bao, Zhao was an advocate of political structural reform, designed to "legalize and systematize democracy and establish in China democratic politics that supports the market economy."

On the events leading up to the 1989 'Tiananmen massacre,' Bao noted Zhao's opposition to a military confrontation with demonstrators in Tiananmen Square and spoke of his subsequent "illegal" house arrest for his advocacy of democracy and a strengthened legal system. According to a report in *South China Morning Post* (Hong Kong, 19 Jan.), Bao was prevented from paying his respects to Zhao in Beijing.

It was later reported that Zhao Ziyang was cremated at the Babaoshan Revolutionary Cemetery in Beijing on 29 January. On behalf of the leaders of the central authorities, Jia Qinglin and other senior officials were said to have attended the ceremony. In a terse statement, Xinhua rehearsed the outline of Zhao's life, referring to the "important leading positions of the CCP Central Committee and the State" that he had held after 1978. It noted that "[i]n the political turbulence which took place in the late spring and early summer of 1989, Comrade Zhao committed serious mistakes" (XHNA, 29 Jan.).

Kyodo (Tokyo, 29 Jan.) reported that "at least several hundred people" had attended Zhao's funeral, which took place under "tight security."

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

On 12 January, Tung Chee Hwa (Chief Executive of HKSAR) delivered his Policy Address for 2005 to the Legislative Council (XHNA, 12 Jan.). He stated that Hong Kong's economic performance in 2004 had been better than in any year since the Asian financial crisis in 1997, and predicted that favourable external factors would enable it to achieve "post-recovery consolidation and growth" in 2005. In support of this statement, he noted that GDP expansion had reached 7.5 per cent, while other economic indicators had registered double-digit growth. Employment had risen to a record level of 3.3. million; property values had shown significant recovery; and consumer markets had gradually improved. All three factors had brought more than five years of deflationary pressures to an end. Tung also noted that Hong Kong's role as an

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international financial centre and regional logistics hub had strengthened, with producer services accounting for 40 per cent of GDP (cf. 20 per cent in 1980).

Tung spoke of the major benefits to Hong Kong of its close economic relations with Mainland China, especially following the implementation of the Closer Economic Partnership Arrangement (CEPA). He revealed that as of the end of 2004, HKSAR-manufactured products valued at around HK$1.15 trillion had been imported into the mainland tariff free. He reiterated the intention of the HKSAR government not only to promote further co-operation with Guangdong, but also to actively participate in the development of the 'Pan-Pearl River Delta' and to seek closer bilateral co-operation with other Chinese cities and provinces. He noted that as of mid-2004, the number of mainland enterprises having their regional headquarters in Hong Kong was 20 per cent higher than a year earlier.

Tung reaffirmed the government's priority concern to further promote employment. To this end, the HKSAR government would continue to allocate an average HK$29 billion p.a. to capital works in order to provide work to some 4,200 professionals and technicians, as well as 41,000 construction workers. Municipal projects, urban renewal, "greening" and environmental initiatives were other means whereby new jobs would be created.

The Policy Address also stressed the importance of maintaining social harmony and stability, as the basis on which the accelerated development of Hong Kong's "democratic constitutional system" might take place. Tung reaffirmed the HKSAR government's commitment to improving "people-based" governance in line with the provisions of the principle of "one country, two systems" and the Basic Law. He also unveiled a programme designed to improve social security provision for low-income families and the elderly (including the allocation of HK$180 million to convert residential care homes into long-term care facilities). Projections indicated that by 2033 people aged 65 and above would account for over a quarter of HKSAR's total population.

Tung Chee Hwa said that "substantial" educational investment would be made available to facilitate the transformation and up-grading of Hong Kong into a knowledge-based economy. Between 2005 and 2007, the number of second and third year places in local universities would be expanded in order to improve learning qualifications for those who had completed their associate degree programmes. He noted that overall, the participation rate of senior secondary school graduates in tertiary education had already risen from 30 per cent (2000) to 53 per cent, and he predicted that the target of raising this to 60 per cent by 2010 would be fulfilled ahead of schedule. Meanwhile, primary and secondary educational reforms were beginning to bear fruit.

Tung's Policy Address was delayed for almost a quarter of an hour as a result of a protest by a member of the Legislative Council (Leung Kwok-hung), who interrupted the proceedings in order to assert that Tung was not qualified to speak in the chamber. After an adjournment of the

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meeting, Leung walked out. In Beijing a spokesman with the Hong Kong and Macao Affairs Office described the Policy Address as "prudent and practical."

In January, the Canadian and Irish prime ministers travelled to Hong Kong, as did the British foreign secretary. All three officials had previously visited China.

From Beijing, Xinhua reported that at the end of 2004, Hong Kong's total resident population was 6.89 million – 0.7 per cent more than a year earlier. The report noted that "births and inflow of one-way permit holders were important constituents of the overall population increase." The ratio of the number of births to the overall population increase was 96 per cent (XHNA, 15 Feb.). Later the same month, RTHK quoted HKSAR Chief Secretary (Donald Tsang) as urging young couples in Hong Kong to have three children each.

On his arrival in Beijing to attend the latest NPC plenary session, Tung Chee Hwa declined to comment on reports that he had resigned as HKSAR Chief Executive. He told journalists that he would explain his position at an appropriate time. Meanwhile, he expressed pleasure at having been appointed a member of the CPPCC. A CPPCC spokesman also refused to comment on the reports of Tung's resignation.

Speaking in Beijing on 10 March Tung Chee Hwa announced that he had tendered his resignation as Chief Executive of the Hong Kong Special Administrative Region. He attributed the decision to resign to recent signs that his health was showing "a steady decline … due to long working hours in recent years." He added that he had been nominated as a candidate for CPPCC Vice-Chairman (RTHK, 10 Mar.; and see XHNA, 10 Mar.) – a post to which he was subsequently elected. A plenary meeting of the State Council (12 March) later approved Tung's resignation as HKSAR Chief Executive.

Following Tung's resignation, in accordance with Article 53 of the Basic Law, the HKSAR Chief Secretary for Administration (Donald Tsang) became Acting Chief Executive.

2. Foreign Relations

(a) *Diplomatic Tours*

Li Zhaoxing's visits to Seychelles, Madagascar and Mauritius Lesotho (6–14 January)

On 8 January, Li Zhaoxing held talks in Victoria with the Foreign Minister of Seychelles, Jeremie Bonnelame, on bilateral relations and the provision of Chinese aid in the wake of the Indian Ocean tsunami. Bonnelame expressed his government's support for China's proposal – to be presented at the forthcoming United Nations World Conference on Disaster Reduction in Tokyo – to set up a regional surveillance, early warning and assessment system on major natural disasters.

Li travelled from Seychelles to Madagascar, where he met President Marc Ravalomanana. The Chinese Foreign Minister reaffirmed China's

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commitment to fulfil agreements reached by the two sides during Ravalomanana's visit to China in 2003. These included the construction of an international conference centre and a cement factory, and the exploitation of mineral resources.

From Seychelles, Li flew to Port Louis, where on 12 January he met the Prime Minister of Mauritius, Paul Raymond Berenger. The final leg of his tour took Li to Maseru, where, on 15 January, he met Lesotho King Motlotiehi Letsie III and Prime Minister Pakalitha Mosisili.

Li Zhaoxing's European tour

On 16 March, Li Zhaoxing held talks in Brussels with the Belgian Minister of Foreign Affairs, Karel de Gucht. Li referred to Wen Jiabao's visit to Belgium during 2004 and the two sides' agreement to strengthen their political dialogue. He spoke of the positive development of bilateral relations and looked forward to further progress in strengthening ties between the two countries.

The following day, Li travelled to Luxembourg, where he met Prime Minister Jean-Claude Juncker and Foreign Minister Jean Asselborn. The Chinese foreign minister called for both sides to make concerted efforts to strengthen co-operation in order to give further impetus to the "all-around strategic partnership between China and the EU" (XHNA, 17 Mar.).

Earlier the same day, Li exchanged views with EU leaders in Brussels. The President of the European Commission (EC), Jose Manuel Barroso, reaffirmed the EU's commitment to the one-China policy and, in a reference to the discussions surrounding the possibility of lifting the EU's arms embargo against China, spoke of its willingness to handle "sensitive issues." Li urged the EU to lift the embargo and to recognise China's full market economy status (XHNA, 17 Mar.).

(b) *Countries, Territories and Regions*

Africa (Eritrea, Democratic Republic of Congo, Nigeria)

The Eritrean President, Isayas Afewerki, arrived in Beijing on 17 February for a state visit. Hu Jintao told Afewerki that China sought to enhance bilateral exchange and co-operation with Eritrea – especially in infrastructural construction, mining, fisheries and agriculture – on the basis of the two countries' "traditional friendship." Isayas said that the positive momentum of bilateral relations was a model of co-operation between big and small countries. He thanked Hu for the "valuable aid" that China had already extended to Eritrea in support of infrastructural construction and sanitation (XHNA, 17 Feb.).

Subsequently, Isayas visited Xi'an, Nanjing and Shenzhen.

On 20 March, Joseph Kabila (President of the Democratic Republic of Congo), arrived in Shanghai, from where he travelled to Beijing for talks with Chinese leaders.

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Later the same month, the Nigerian Foreign Minister, Oluyemi Adeniji, also visited China, where he exchanged views with senior Chinese officials on bilateral relations and other issues of shared concern.

Australasia and the Pacific Islands (Vanuatu, New Zealand)

Hu Jintao told the visiting Prime Minister of Vanuatu, Ham Lini, of China's wish to "summarize experiences, strengthen exchanges and further co-operation" with Vanuatu in order to promote the "sound, steady, lasting and further progress of bilateral relations" (XHNA, 25 Feb.). The two men later signed a joint statement formally that reaffirmed the status of their diplomatic ties and looked forward to extended trade and economic co-operation.

Also in February, the New Zealand Minister of Foreign Affairs and Trade (Phil Goff) held talks in Beijing with Chinese officials, including Li Zhaoxing. He reaffirmed his government's long-term commitment to the one-China policy and its opposition to Taiwan's independence. Li noted the smooth development of relations between China and New Zealand, and looked forward to the further strengthening of bilateral ties. The two men also exchanged views on the nuclear issue on the Korean Peninsula, as well as other regional and global issues of common concern (XHNA, 28 Feb.).

Canada

On 20 January, the Canadian Prime Minister (Paul Martin) arrived in Beijing on an official visit. The same day, he exchanged views with Wen Jiabao on bilateral, regional and international issues. Wen put forward a four-point proposal on improving bilateral relations and expressed the hope that the Chinese and Canadian governments would strengthen trade, economic and political co-operation. A joint statement issued at the conclusion of Martin's visit spoke of the two sides' agreement to strengthen co-operation in international affairs (including the Korean Peninsula nuclear issue, regional peace and the prevention of communicable diseases). It also noted that the two sides had exchanged views on human rights and affirmed the importance of respecting and protecting such rights. The two sides also issued a 'Statement on Energy Co-operation in the 21st Century,' intended to demonstrate, through expanded co-operation over a range of energy issues (e.g., sources of supply, energy efficiency and new technologies), their commitment to increasing energy security and promoting environmental sustainability in the energy sector (XHNA and *ZXS*, 20 Jan.).

Central and Eastern Europe (Serbia)

Between 20 and 24 February, the President of the Republic of Serbia (Boris Tadic) visited China. He held separate meetings with Hu Jintao, Vice-President Zeng Qinghong, Wu Bangguo (Chairman of the NPC

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Standing Committee), Li Zhaoxing, Bo Xilai (Minister of Commerce) and Cao Gangchuan (Minister of Defence).

Commonwealth of Independent States (Kyrgyzstan, Russia, Kazakhstan, Belarus; Shanghai Cooperation Organization (SCO))

In January, the Kyrgyz Prime Minister (Nikolay Tanayev) made an official visit to China's Xinjiang Uighur Autonomous Region. He held talks there with the Chairman of the XUAR people's government (Ismail Tiliwaldi) and the Secretary of the Xinjiang regional party committee (Wang Lequan). He also met Kyrgyz and Chinese business representatives.

Wang Lequan spoke enthusiastically of a railway construction project that would link China with Kyrgyzstan and Uzbekistan, and extend to Europe, Eastern and Persian Gulf countries. He also expressed support for the idea of undertaking geological research into deposits of minerals along the proposed rail route, as well as for the construction of a hydro-electric power station on the Aksu river and the reconstruction of the Irkeshtam–Osh road [in South Kyrgyzstan] (Kyrgyz Television, 16 Jan.).

It was reported from Moscow that the supply, on 4 February, of oil to China by the Russian company, Rosneft, marked the first delivery of an agreed 4 million tons of oil, to be dispatched during 2005. During 2006–2010, annual oil deliveries would be increased to 8.9 million tons (ITAR-TASS, 4 Feb.).

In late February, Li Zhaoxing travelled to Astana (Kazakhstan) in order to participate in a meeting of the council of foreign ministers of SCO member states. Prior to the meeting, he exchanged views with the Kazakh Foreign Minister (Kasymzhomart Tokayev) on bilateral relations and the scope for further bilateral co-operation in security, "power engineering," trade and the economy.

In March, the Foreign Minister of Belarus (Syarhey Martynaw) visited China and exchanged views on bilateral and international issues with senior Chinese officials, including Li Zhaoxing. Martynaw spoke of his government's wish to expand trade, economic and technological co-operation with China.

The President of Azerbaijan (Ilham Aliyev) arrived in Beijing on 17 March. In talks with Wen Jiabao, he spoke of his country's wish to expand trade and economic co-operation with China, and to attract investment by Chinese companies. In 2004, the value of bilateral trade was US$1.84 billion.

In his speech to the SCO foreign ministerial meeting in Astana (25 February), Li Zhaoxing reaffirmed the Chinese government's strong support for the SCO. He described the SCO's main tasks as being to seek solidarity, promote stability and work for the common development of its members. To these ends, he called for closer consultation and coordination between SCO member states, especially in the fight against the "three forces" (terrorism, separatism, and extremism) and transnational

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organized crime. Other key objectives were to promote multilateral economic co-operation and strengthen SCO participation in regional and international affairs (XHNA, 25 Feb.).

In Astana, Li Zhaoxing also had separate meetings with the foreign ministers of Russia and Kygyzstan.

Japan

An article in *People's Daily* (*RMRB* website, 1 Mar.) argued that a joint statement, issued on 19 February by Japan and the United States governments, highlighted the US administration's success in persuading Japan to clarify its attitude towards the Taiwan issue. It noted that the joint statement described "encouraging the peaceful resolution of issues concerning the Taiwan Straits through dialogue" as one of the two sides' common objectives. This marked a break with previous diplomatic and political precedents:

> In the past Japan said the war across the Taiwan Straits would have an impact on the East Asian security. Now it says China's use of force to solve the Taiwan question will 'threaten' Japan directly. … In the past Japan did not state explicitly it would involve the issue of Taiwan. Now, the present [Feb. 2005] statement is equal to saying that the Japanese government will join hands with US to cope with the Taiwan Straits situation militarily. … [T]he statement shows new readjustment in Japanese China policy. On the issue of Taiwan the traditional Japanese way of making ambiguous stand between US and China is out. On the issue of the East Asia security involving the Taiwan question there are two sides: one is the US and Japan and another is China.

Latin America (Argentina)

In March the Argentine Foreign Minister (Rafael Bielsa) visited China, where he discussed bilateral and regional issues with senior Chinese government officials.

Northeast Asia (North Korea [Democratic People's Republic of Korea])

Kyodo reported a visit to China, in March, by the North Korean Prime Minister, Pak Pong-ju. On 24 March, a Chinese Foreign Ministry spokesman said that Pak and Chinese officials had discussed the Korean Peninsula nuclear issue "in depth," although he acknowledged that no breakthrough had been made on the re-start of the six-party talks between North Korea, South Korea, Japan, Russia, China and the US. He also revealed that Pak had extended an invitation to Hu Jintao, on behalf of Kim Jong-Il, to visit North Korea (XHNA, 24 Mar.).

South Asia and the Indian Ocean (Mauritius, India)

The Prime Minister of Mauritius (Paul Raymond Berenger) visited China in January (see XHNA reports, 23 Jan.). In their subsequent discussions, Berenger and Wen Jiabao agreed that the two countries

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should seek to strengthen bilateral relations (especially trade and economic co-operation). The two sides signed a number of agreements on economic and trade co-operation.

An Indian source noted that bilateral trade between China and India reached a record level of US$13.6 billion in 2004 (79 per cent above the 2003 level and 353 per cent above that of 2000). With India exports rising by 80.5 per cent to $7.68 billion, India enjoyed a trade surplus of $1.75 billion (New Delhi, Press Trust of India, 6 Feb.).

South-East Asia (Indonesia, Singapore, Malaysia, The Philippines; Association of South-East Asian Nations (ASEAN))

On 5 January, Wen Jiabao flew to Jakarta at the invitation of Indonesian President Susilo Bambang Yudhoyono in order to attend an international tsunami summit, organized by the Association of South-East Asian Nations (ASEAN). He was one of more than twenty heads of state or government and representatives of international organizations who discussed regional co-operation on disaster prevention and ways in which the international community could provide aid to the tsunami-hit countries. On his arrival, Wen revealed that the Chinese government would increase its aid to the tsunami-hit countries and reaffirmed the government's commitment to mobilize further financial assistance through Chinese non-governmental organizations, such as the Red Cross, as well as through donations by the Chinese public. On the day of his arrival, the Chinese Premier held separate meetings with the Presidents of Indonesia (Susilo Yudhoyono) and the Maldives (Maumoon Abdul Gayoom), and the Foreign Ministers of Thailand (Surakiat Sathirathai) and Sri Lanka (Lakshman Kadirgamar) (XHNA, 5 Jan., and for Wen's speech to the summit, see XHNA, 6 Jan.; see also *RMRB* website, 4 Jan.).

During his visit to Jakarta, Wen Jiabao also met UN Secretary-General, Kofi Annan.

On 1 February. the Chinese Foreign Minister held talks in Beijing with visiting Singaporean Foreign Minister (George Yeo Yong-boon). Both referred with satisfaction to the positive momentum of the development of bilateral foreign relations and expressed a willingness to strengthen such relations. They exchanged views on Sino–ASEAN relations and East Asian co-operation, as well as relations between China and Singapore. Yeo also met Wen Jiabao.

Malaysia's Supreme Head of State, King Tuanku Syed Sirajuddin, arrived in Beijing on 28 February for a state visit to China. In talks the following day, Wen Jiabao called for China and Malaysia to strengthen co-operation, especially in economic fields, such as agriculture, high-tech and resource development, and tourism. Sirajuddin reaffirmed the Malaysian government's commitment to the one-China policy. He echoed Wen's wish for closer trade and economic co-operation and expressed confidence that the goal of raising the value of bilateral trade to US$50 billion by 2010 could be realized (XHNA, 1 Mar.).

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On 1 March, the Philippine Secretary of Foreign Affairs (Alberto Romulo) held talks in Beijing with Wen Jiabao, who expressed the hope that China and the Philippines would work towards even closer co-operation and the further development of bilateral relations.

Taiwan [Republic of China]

In a review of Strait relations during 2004, a spokesman (Li Weiyi) of the State Council's Taiwan Affairs Office referred to the continued expansion of non-governmental exchanges alongside the intensification of "separatist activities for 'Taiwan independence' " (XHNA, 26 Jan.). He noted that 3.686 million Taiwanese nationals had visited China during the year – 34.9 per cent more than in 2003 – while reciprocal visits to Taiwan were undertaken by 145,000 mainland Chinese (a rise of 14.2 per cent). Meanwhile, Chinese Customs statistics indicated that the value of indirect trade across the Taiwan Straits had for the first time exceeded US$70 billion (up 34.2 per cent). In the same period, contractual FDI by Taiwanese businessmen rose by 8.74 per cent to $9.306 billion.

Li accused the government in Taipei of having further promoted "separatist activities" and described the state of cross-Strait relations as "grim." As he put it,

> They viciously distorted the popular will of the Taiwan people, wilfully incited their hatred for the mainland, did their utmost to provoke the status quo where the mainland and Taiwan both belong to one China, and continuously attempted to push cross-Strait relations to the brink of danger by carrying out separatist activities for 'Taiwan independence' through 'constitutional reform' and other means. The provocative acts of "Taiwan independence" of the Taiwan authorities have seriously threatened peace and stability over the Taiwan Strait and in the Asia-Pacific region, aroused resolute opposition from 1.3 billion Chinese people, including the vast numbers of Taiwan compatriots, and met with strong condemnation from an increasing number of countries.

In Beijing on 28 January, Jia Qinglin (Chairman of the CPPCC National Committee) made an important speech on cross-Straits relations. He spoke of China's national destiny and insisted that "[r]ealizing the great rejuvenation of the Chinese nation is a common wish of all the sons and daughters of the Chinese nation" (including "Taiwan compatriots"). At the same time, however, he argued that by "[f]launting such banners as 'Taiwan identity,' 'democracy,' and 'reform,' … [and through their] … activities of 'gradual Taiwan independence,' such as 'de-Sinicization,' 'cultural Taiwan independence,' and 'rectification of Taiwan's name' … 'Taiwan independence' separatist forces [continued to] go against the historical trend." Such activities sought to change the status quo, according to which "the mainland and Taiwan belong to one China," by using constitutional and legal means to "separate Taiwan from China" – thereby posing a threat to peace and stability in the Taiwan Strait region and the entire Asia-Pacific region.

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Jia reaffirmed the Chinese government's determination to contain 'Taiwan independence,' and to safeguard China's national sovereignty and territorial integrity. To these ends, "we shall categorically not tolerate 'Taiwan independence' and categorically not allow anyone to separate Taiwan from China by any means." To the same ends, the forthcoming enactment of an "Anti-Secession Law" would codify the principles on the basis of which the Chinese government and CCP would continue to seek to resolve the cross-Strait issue:

> The 'Anti-Secession Law' will be a law that promotes the development of cross-Strait relations and facilitates peaceful reunification of the two sides; a law that safeguards national sovereignty and territorial integrity, opposes and contains 'Taiwan independence' separatist forces' attempt to separate the country, and safeguards peace and stability in the Taiwan Strait region; and a law that caters to the fundamental interests of the Chinese nation (XHNA, 28 Jan.).

Against the background of widespread condemnation of the Anti-Secession Law in Taiwan (including rallies organized by the Democratic Progressive Party and Taiwan Solidarity Union, an article in *People's Daily* referred to " 'Taiwan independence' elements' " efforts to "vilify the law." It rejected distortions, such as that the legislation constituted a " 'war law' … a 'law for using force against Taiwan' … a 'war mobilization law' … a law meant for 'changing the status quo between the two sides of the strait unilaterally and undermining the development of cross-strait relations' … a law meant for 'reining in Taiwan businesspeople on the mainland' … [and] a law that will 'affect these business people's legitimate rights and interests'."

The *RMRB* article rejected such charges and accusations as being wholly untenable, and insisted that it was the activities of the " 'Taiwan independence' elements" that constituted the most serious threat to cross-Strait peace and stability. Indeed, the Anti-Secession Law embodied the Chinese government's determination to "display maximum sincerity and make maximum efforts to achieve peaceful reunification" (*RMRB*, Overseas Edition, 1 Mar.).

Later the same month, Chen Tang-shan (Taiwan's Minister of Foreign Affairs) noted the US House of Representatives' recent approval of a resolution urging the US Administration to express its concern about China's "provocative action" and suggested that the enactment of the Anti-Secession Law might benefit Taiwan. He added that the US Senate was expected to pass a similar resolution, and even suggested that Washington might now show more favour to an earlier Taiwanese proposal to amend the Taiwan Relations Act (TRA) in order to strengthen Taiwan's security in the wake of the Chinese legislation (CNA, 17 Mar.).

On 30 January, a charter plane carrying 242 Taiwan business representatives and their families flew directly from the Chinese mainland to Taipei – the first time this had happened in the 56 years since 1949. On 4 February, a charter plane owned by Taiwan's TransAsia Airways and carrying 13 people landed in Guangzhou, marking the first arrival of a civil jet from Taiwan in Guangzhou. On 5 February, a charter plane

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belonging to Taiwan's China Airlines landed at Pudong International Airport in Shanghai. These flights were part of a package of 34 such flights agreed to by China and Taiwan to enable people to celebrate the traditional Spring Festival on 9 February.

The Investment Commission of Taiwan's Ministry of Economic Affairs reported in January that cumulative investment in China undertaken by Taiwan's private sector between January 1991 and November 2004 totalled US$40.47 billion ($75.44 billion in contractual terms). Since January 2002, investment in China accounted for over half of all Taiwan's overseas investment. During January–November 2004, the value of government-approved investment projects in China was $6.16 billion. The principal destinations for such investment were Jiangsu (including Shanghai), Guangdong, Zhejiang, Fujian and Hebei. The main sectoral destinations were electronic and electrical goods, basic metal, chemicals, plastics and precision instrument manufacturing (CNA, 10 Jan.).

A CNA report (1 Mar.) stated that trade between China and Taiwan totalled US$61.63 billion in 2004 – 33.1 per cent more than in 2003. The value of Taiwan's exports rose by 27.2 per cent to $44.96 billion, and accounted for 25.8 per cent of its global exports. Imports soared to $16.67 billion – a rise of 52.2 per cent – to account for 9.9 per cent of Taiwan's global imports. Overall, in 2004 Taiwan's trade with China constituted 18 per cent of its global merchandise trade (up 0.9 per cent on 2003). Taiwan's bilateral trade surplus was $28.28 billion, or 15.9 per cent below that of 2003.

In Taipei, the Mainland Affairs Council (MAC) strongly protested against "China's attempt to use an 'anti-secession law' to unilaterally change the status quo across the Taiwan Strait" (see also under (b) above) (CNA, 8 March):

> The government [of Taiwan] hereby expresses its strongest protest at the vicious attempt and brutal means of China to sabotage peace in East Asia and stability across the Taiwan Strait, ignore the will of the Taiwan people, and interfere with the freedom of choice of the Taiwan people.

According to the MAC, the legislation made clear the Chinese government's intention of taking Taiwan by force.

United States of America

The US Secretary of Commerce (Donald Louis Evans) visited Beijing in January in order to attend a Sino-US roundtable meeting on intellectual property rights (IPR) (see XHNA, 13 Jan.).

On 20 March, the US Secretary of State, Condoleezza Rice, arrived in Beijing for her first visit to China since taking office in January. Later the same day, she held talks with Wen Jiabao, who spoke of his "successful" visit to the USA in December 2003, and hoped that Rice's current visit would "help plant new seeds for China–US friendship." Rice said that she would work towards building a "very strong relationship" between the US and China ("[i]t is good for the world if we continue to have a

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constructive and good relationship"). She reaffirmed Washington's adherence to the one-China policy.

At another meeting, also on 20 March, Hu Jintao suggested that Rice's early visit to China would assist in strengthening co-ordination on "some issues of common concern" between China and the United States, as well as promoting their "constructive and co-operative relations." He reiterated that the Taiwan issue was central to the further development of Sino-US relations, and insisted that the recently-promulgated Anti-Secession Law sought to help promote "the development of cross-strait relations and … peaceful reunification … [in support of] peace and stability in the Taiwan Strait." There was some discussion of the nuclear issue on the Korean Peninsula (XHNA, 20 Mar.).

Western and Southern Europe (Portugal, United Kingdom, Turkey, Norway; European Union (EU))

The Portuguese President, Jorge Sampaio, arrived in Beijing on 11 January for a seven-day state visit to China. The following day, he held talks with Hu Jintao, as a result of which the two sides agreed that they would seek ways of further promoting bilateral co-operation and exchanges. Both men spoke with satisfaction of the smooth retrocession of Macau's sovereignty to China. In particular, Hu Jintao urged that the 'Forum for Economic Co-operation and Trade Between China and Portuguese-Speaking Countries (Macao)' should be used as a basis on which to strengthen bilateral economic co-operation and trade. The two men later attended a signing ceremony for the 'Economic Co-operation Agreement of the Government of the People's Republic of China and the Government of the Portuguese Republic' and other bilateral co-operation documents (XHNA, 12 Jan.; and for details of the two sides' joint communiqué, see XHNA, 13 Jan.).

President Sampaio later travelled to Macau.

On 17 January, the Irish Prime Minister, Bertie Ahern, started a six-day official visit to China. The following day, he met Wen Jiabao, who looked forward to closer ties between China and Ireland. Following their meeting, the two men attended a signing ceremony of four bilateral co-operation agreements (XHNA, 18 Jan.). During Ahern's visit to China, Irish companies secured contracts worth more than 125 million euros.

On 20–21 January, the British Foreign Secretary (Jack Straw) visited Beijing. In the course of subsequent talks, Wen Jiabao described relations between China and Britain as having entered a "mature period" – a view endorsed by Straw, who spoke of the British government's willingness to expand both political and economic co-operation with China (XHNA, 21 Jan.).

The following month, the British Chancellor of the Exchequer (Gordon Brown) travelled to Beijing, where on 21 February he held talks in Beijing with Wen Jiabao. The two men exchanged views on bilateral relations, relations between China and European Union, international

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finance co-operation and poverty eradication. Earlier the same day, Brown and the Chinese Minister of Finance (Jin Renqing) agreed to strengthen financial, trade and investment co-operation (XHNA, 21 Feb.). Brown also visited Shanghai, Shenzhen and Hong Kong.

The Turkish Deputy Prime Minister and Foreign Minister, Abdullah Gul, arrived in Beijing on 1 February. Gul also met Vice-Premier Huang Ju. Xinhua reported that the value of bilateral trade in 2004 exceeded US$3.4 billion – a year-on-year rise of some 30 per cent. In the course of his meeting with the Chinese Minister of Commerce (Bo Xilai), Gul had drawn attention to the "very serious" imbalance in Turkey's trade with China. Bo expressed the Chinese government's concern about Turkish quota measures against imports of Chinese textiles (XHNA, 2 Feb.).

On 27 March, the Norwegian Foreign Minister (Jan Petersen) arrived in China on a five-day official visit. Vice-President Zeng Qinghong told him of the Chinese government's wish, against the background of rapidly expanding bilateral co-operation, to achieve even closer ties with Norway. Petersen echoed Zeng's remarks. He said that the Norwegian government attached great importance to its relations with China, and hoped for closer co-operation in trade, environmental protection and tourism.

Petersen later travelled to Hong Kong.

During a press conference (Beijing, 6 March), Li Zhaoxing described the European Union's arms embargo on China as "obsolete, useless and harmful" and said that it failed to conform with the "all-round strategic co-operative partnership" between China and the EU. He added that as a developing country, China lacked the financial resources to buy "expensive and useless weapons" from the EU (XHNA, 6 Mar.).

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