Quarterly Chronicle and Documentation

(January—March 2004)

Sources

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

Abbreviations

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

1. Internal developments

(a) *The Seventh Session of the Tenth National People's Congress (NPC) Standing Committee*
(b) *The Second Session of the Tenth NPC*
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1. Internal Developments

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

At the Seventh Meeting of the Tenth NPCSC (Beijing, 26–29 February), delegates debating the draft Law for Promoting Agricultural Mechanization argued that such legislation was necessary against the background of an emerging market economy in China. Many NPCSC members acknowledged that the low existing level of farm mechanization symbolized the country's lack of agricultural modernization. They noted that mechanized farming was not only the current practice in agriculturally developed countries, but also accorded with "relevant regulations of the World Trade Organization (WTO)." It was argued too that farm mechanization promised to help resolve the "three rural issues" (*san nong*: agriculture, peasants, and rural areas), not least through its ability to raise both agricultural productivity and farmers' incomes (XHNA, 28 Feb.). NPCSC members also examined the draft revision of the Law on Foreign Trade (ibid).

A major task of the NPCSC was to consider a draft work report of the Standing Committee for submission to the forthcoming full meeting of the parent body (see next section). Members also passed a draft agenda for the NPC session, and adopted draft lists of its Presidium and Secretary Generals. Following the resignation, on grounds of ill health, of Lu Fuyuan, Bo Xilai was appointed to replace him as Minister of Commerce (XHNA, 27–29 Feb.).

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

The most recent session of the full NPC was held in Beijing between 5 and 14 March. An editorial in *People's Daily* on the eve of the session outlined the meeting's agenda and reviewed some of the most important events that had taken place in China since the previous meeting of the NPC (March 2003). It praised the work of the government under Hu Jintao and laid particular emphasis on further progress in inculcating the "important thinking of the 'three represents' " (*san ge daibiao*) throughout the Party in order to consolidate the country's ideological foundation. It also emphasized the importance of maintaining the momentum of economic and social development during 2004 in order to fulfil the "great cause of building a well-off society in an all-round way" (*RMRB*, 4 March).

On 5 March, Premier Wen Jiabao delivered his government work report (full text in www.chinaview.cn), a summary of which is given below:

Review of government work

Against the background of "complex and volatile" international conditions, as well as of difficulties at home (not least, those associated with

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the outbreak of severe acute respiratory syndrome (SARS)), Wen described 2003 as a "very significant and unusual" year for China's development. He spoke of important new progress having been achieved in areas of reform, opening up and modernization. GDP growth accelerated, generating an average per capita income in excess of US$1,000 for the first time. Fiscal conditions remained sound, and foreign trade showed a significant expansion (China's ranking as a trading nation rose from fourth to fifth place). In the urban sector, 8.59 million people found jobs and 4.4 million laid-off workers were re-employed. Overall, material living standards improved for both urban and rural residents, even though per capita income growth of the former (9 per cent) was more than twice as high as that of the latter (4.3 per cent). Not the least of China's achievements was to successfully launch its first manned spacecraft.

Wen noted that government work during 2003 had focused on six major areas:

- *The campaign to combat SARS*: in the face of a critical situation, the swift implementation of appropriate legislation (e.g., the implementation of the Law on the Prevention and Treatment of Infectious Diseases, and formulation of 'Regulations on Dealing With Public Health Emergencies'), side by side with practical measures taken by central and local governments, succeeded in containing the outbreak.
- *Pursuit of rapid, stable economic development within a framework of appropriate macro control*: the government continued to use "proactive" fiscal and "prudent" monetary policies in support of expanding domestic demand. Where necessary, appropriate macro-control measures, such as tax reductions and the extension of low-interest loans, were adopted in order to ensure orderly growth, especially in areas badly hit by SARS. Against the background of "disorderly and unauthorized" acquisition of arable land, efforts were made to regulate the land market and improve the screening of development zones. Financial institutions' deposit-reserve ratio was raised in order to check excessive credit growth. The "three rural issues" were a focus of attention, with special efforts directed towards improving the social and economic conditions of grain farmers. Major infrastructural initiatives – in energy, water conservancy and transportation – were also undertaken.
- *Accelerated and comprehensive social development*: concern about disparities in economic and social development was reflected in the adjustment of financial investment undertaken by the government. Central government spending on education, health, science and technology, culture and sports rose by 12.4 per cent in 2003. In addition, Treasury Bonds worth 16.3 billion *yuan* were issued in support of social development. Advances in public health focused on epidemic prevention and control, especially in rural areas (where pilot projects

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for a new co-operative medical care system and a medical assistance system were initiated). There were improvements too in rural education, while more schooling opportunities were made available to the children of rural migrant workers in cities.

There was major progress in basic and strategic hi-tech research, as well as in the industrial application of new and high technologies. Under the aegis of the State Council, a national medium to long-range programme for scientific and technological development was initiated.

- *Employment and social security*: the central government allocated an extra 4.7 billion *yuan* of special subsidies for employment creation and provided improved employment guidance for tertiary sector graduates seeking jobs (as a result of which 83 per cent of graduates – 600,000 more than in 2002 – found jobs). More funds were also made available to provide for the "two guarantees" (subsistence allowances for laid-off workers from state-owned enterprises (SOEs) and basic pensions for retirees) and the "three guarantee lines" (meeting the subsistence needs of SOE lay-offs, providing for unemployment insurance and guaranteeing minimum subsistence for urban residents). Financial provision for ex-servicemen, disabled "revolutionary servicemen" and other special care categories was also improved. Meanwhile, rural poverty alleviation efforts, especially in underdeveloped areas, were strengthened.
- *Institutional restructuring, reform and opening up*: institutional restructuring of the State Council was completed and good progress made in putting in place mechanisms for restructuring the management of state assets, and for oversight and management of the banking sector. The administration of domestic and foreign trade was unified. The institutional restructuring of local (provincial) governments was also completed. Progress continued to be made towards the corporatization of SOEs, and associated reforms affecting the electricity, telecommunications and civil aviation industries, as well as banking, securities and insurance, proceeded. A pilot project to reform rural credit co-operatives got under way in eight provinces (and municipalities), and the experimental reform of rural taxes and administrative charges was extended to the entire country. There were significant improvements in market order, including success in combating the manufacturing and marketing of counterfeit and substandard goods, smuggling and similar illegal activities. Commitments to the World Trade Organization (WTO) were fulfilled.
- *Improving the legal system and maintaining social stability*: the State Council submitted five bills in 2003 and enacted 28 administrative regulations. Measures were introduced to deal with vagrants and beggars in cities. Legislation was introduced to help people whose financial problems make it difficult to bring lawsuits. Strict measures were taken against criminal activity (especially violent crime) in order to maintain and improve public order.

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Outstanding problems

Wen drew attention to the "many" difficulties that continued to face the Chinese government. These included:

- slow growth of farm incomes;
- employment creation and the provision of adequate social security
- unbalanced inter-regional economic development, and widening income disparities between social groups;
- pressure upon resources and the environment;
- the excessive scale, without adequate planning, of some investment projects, and the implementation of "sub-standard and redundant" construction projects;
- excess demand of some resources, transport, and raw and semi-finished materials;
- serious illegal requisition of arable land (elsewhere XHNA reported that of 176 golf courses in 26 provinces (regions), only one had received central government approval!);
- insufficient investment in social capital;
- inadequate educational and health facilities;
- impoverishment of many low-income urban and rural residents;
- high accident rate;
- pursuit of a "subjective, formalistic, and bureaucratic" work style by government personnel, accompanied by "extravagant, wasteful, dishonest, and even corrupt" behaviour.

Wen emphasized the government's commitment to addressing these difficulties, but he acknowledged that resolving them would be a long-term task.

The main domestic developmental tasks during 2004

Wen spoke of the "crucial" importance of 2004 for China's reform and development. He drew special attention to the need to adhere to the new concept of "scientific development" (*kexue fazhan guan*) (see below) and to fulfil the requirements of the "five balanced aspects" (*wu ge tongchou*: viz., maintaining a proper balance between development in urban and rural sectors, between regions, between man and nature, between economic and social goals, and between the pursuit of development at home and overseas). He stressed the need to give a higher priority to macro regulation and control in order to meet the interests of all sections of the community ("putting people first"), and called for accelerated reform and innovation.

The following are some of the priorities listed by Wen:

- *Better macro control, the maintenance of rapid, sustained economic growth, and rationalization of the economic structure*: planned GDP growth for 2004 was around 7 per cent – a figure that, according to Wen, took into consideration "both the need for continuity in macro-control and the relationship between the economic growth rate and the

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actual conditions for its attainment, including supply and demand in energy, important raw materials, and transport capacity, also taking into account the need to alleviate the pressure on resources and the environment." Effective macro control must be premised on policy consistence and stability, and an ability to adjust the "intensity and focus of policy implementation at the proper time and to an appropriate degree in response to developments and changes in the economic situation."

Efforts would continue to expand domestic demand on the basis of the implementation of proactive fiscal and prudent monetary policies. The reduction in Treasury Bond issues from 140 to 110 billion *yuan* reflected the government's belief that such issues should only be used as an interim measure in conditions of insufficient demand when non-government investment was lacking. Funds from the sale of new Treasury Bonds would be used for rural development, social undertakings, ecological improvement, environmental protection, and the economic development of western and north-eastern China and "other old industrial bases." Meanwhile, the government would strive to balance international payments and stabilize the renminbi exchange rate at a "rational and balanced level." Special efforts would be made to control the scale of fixed investment and to halt "haphazard investment and low-level, redundant construction."

By such means, both the scale and structure of investment would be rationalized, as well as its efficiency. Wen also called for intensified IT development in accordance with the requirement of "following the path of new-type industrialisation."

A priority task was to alleviate existing disparities between supply and demand in energy, important raw and processed materials, and transport capacity. This would require increased production of coal, electricity and processed oil, improvements in the regulation of economic activity, the elimination of waste and the practice of economy in resource use.

Wen acknowledged that consumption remained too low (and investment too high). Hence, the need to raise urban and rural incomes and purchasing power. Measures were also needed to improve income distribution to the benefit of higher consumption by "low-and middle-income residents."

- *Consolidating agriculture's role as the foundation of the economy, and raising farm output and income*: the Chinese Premier said that addressing the "three rural issues" had become the "top priority" of government work. To this end, further measures would be taken to "strengthen, support and protect agriculture, and earnestly increase peasants' incomes." This would be achieved through a policy package that would include: protecting and increasing China's grain output capacity; strategically restructuring both the farm and rural economies; reforming the rural tax system ("all taxes on special agricultural products will be repealed except for tobacco … [and] … the agricultural tax rate will be gradually reduced on average by more than one

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percentage point per year [with a view to rescinding] agricultural taxes within five years"); deepening grain distribution reform (including extending grain purchase and sales markets, strengthening grain market management and subsidising grain production); raising agricultural and rural investment, and improving rural financial services; and accelerating the development of agro-science.

- *Co-ordinating regional economic development, promoting development of western and north-eastern China, and revitalizing old industrial bases*: the overall aim was to facilitate interactions and complementary development between eastern, central, and western regions of China. Areas with the most favourable conditions should take the lead in modernization. In general, "the eastern, central and western regions should increase co-operation … and gradually achieve common prosperity through balanced development."
- *Seeking sustainable development through science and education*: Wen noted that 2004 would see the initiation of new measures designed to "reinvigorate education with the focus on compulsory education, particularly in rural areas." Nine-year compulsory education would be made available throughout western China, with the aim of eliminating adult illiteracy by 2007. Meanwhile, responsibility for managing compulsory rural education would be shifted to county-level government; and transfer payments from central and local (provincial, and city) governments for compulsory education in poverty-stricken areas would be increased. Central and local governments would also allocate more investment to distance education in rural primary and secondary schools.

  A medium and long-term state plan would be formulated in order to strengthen the development of science and technology.

  In terms of human resource management, the government remained committed to raising the skill levels of the Chinese population. Not least, the new ethos of development, with its emphasis on "harmonious development between man and nature," required the formulation of a package of policies that optimized the balance between population, natural resources and environmental protection. To this end, family planning efforts should be maintained in order to stabilize the birth rate at a low level and to "improve the quality of new-born population." Special efforts should be directed towards strengthening family planning within the floating population, as well as looking after the increasing number of old persons.
- *Accelerated development of the public health system*: the government's aim was to establish, within a three-year period, a "fully functioning system for disease prevention and control [especially in respect to SARS, AIDS, schistosomiasis and other serious contagious diseases], and emergency medical aid that covers both urban and rural areas." No less a priority was to improve rural medical and sanitation conditions in rural areas and initiate a pilot project, designed to introduce rural co-operative medical care (described by Wen as a "medical mutual aid and common relief system that focuses on overall planning for major

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diseases … organized, guided, and supported by the government"). Meanwhile, reform of *urban* health care would continue.

- *Economic restructuring*: 2004 would see reform initiatives affecting both SOEs and the state asset management system. The intention was to transform SOEs into "standard stock companies," optimizing the structure of property ownership and improving corporate governance. Ultimately, China sought to establish a mixed ownership economy, in which shareholding would become the main form of public ownership. The reorganization of telecommunications, power, and civil aviation industries would continue, as would the reform of postal services and railway transport, and the commercialization of urban public utilities. Wen looked forward to the emergence of "large and … competitive companies or conglomerates [with] proprietary intellectual property rights and brand names." Impediments to the development of the *non-public* sector would be removed and market access made easier. In the financial sector, a priority task was to accelerate reform of the wholly state-owned commercial banks (a central objective was to implement a pilot project that would make the Bank of China and the China Construction Bank joint-stock enterprises), as well as that of other commercial and policy banks. Other reform initiatives would embrace rural credit co-operatives, and capital and insurance markets, as well as national fiscal and taxation systems (including the move from a production value-added tax (VAT) to a consumption VAT).

China's external economic relations

Wen reaffirmed China's determination to make use of overseas, as well as domestic markets, and to participate as fully as possible in international co-operation and competition. Realizing this goal required the pursuit of a trade strategy, based on market diversification, optimization of export mix, competition driven by *quality*, and the transformation and upgrading of processing trade. In addition, it was incumbent on the government to improve co-ordination among foreign trade enterprises (FTEs), overcome trade barriers and minimize trade friction. At the same time, the government would seek to improve its own investment environment in order to encourage the inflow of more overseas capital (especially foreign direct investment (FDI)).

Strengthening the legal system, and safeguarding national security and social stability

Wen Jiabao undertook to make "vigorous and prudent efforts … to promote political structural reform (*zhengzhi tizhi gaige*), develop socialist democracy, … improve the socialist legal system … [and] …. further expand democracy at the grass-roots level, improve self-governance by villagers and urban residents, and respect the democratic rights of the grass-roots units and the masses."

Official policies towards ethnic minorities, religious groups, and over-

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seas Chinese would continue to be implemented. In particular, efforts would be intensified in order to "consolidate and develop socialist ethnic relations based on equality, solidarity, and mutual assistance." Wen also reaffirmed the right to freedom of religious belief.

The twin focus of the government's legislative work in the coming year would be social management and public service. Legislation would be especially directed towards providing an appropriate framework in which to protect the rights and interests of farmers, women, children and the handicapped, safeguard employment and social security, and address "all kinds of emergencies." New measures would be introduced to prevent public order disturbances and combat crime (especially "crimes committed by Mafia-like and criminal forces, violent crimes, frequent property-related crimes, and drug-related crimes"). Other priorities included combating terrorism, opposing "cult" activities, and handling "internal contradictions among the people."

Meanwhile, modernization of national defence and China's armed forces would continue. Thus, all military army units must be qualified politically and competent militarily, must have a fine style of work, maintain strict discipline, and be assured of adequate logistical support. … As part of the strategy of using science and technology to build strong armed forces, China would focus on developing new and high technology weaponry and equipment, foster a new type of highly competent military personnel, and promote modernization of the armed forces with information technology application as the main content and mechanization as the basis in order to enhance their overall defence and combat capabilities under hi-tech conditions.

Wen stated that it remained China's goal to reduce its armed forces by a further 200,000 men.

'Government self-improvement'

It was incumbent on all levels of government and cadres to improve their administrative and management abilities. To this end, priorities in 2004 would include:

- transformation of government functions (with particular emphasis on separating government functions and enterprise operations, and fulfilling the responsibilities of social administration and the provision of public services);
- adherence to "scientific and democratic" policies, through public participation and the use of effective supervisory mechanisms (including acceptance of "the people's supervision");
- fulfilment of administrative duties in accordance with the law;
- improvements in government style of work and in the quality of public servants (government employees should "adopt a realistic and pragmatic approach, … maintain a scientific development concept, and a correct attitude towards their own performance").

Reflected in all these was the determination to create a body of

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"politically reliable, professionally competent, … clean and honest" civil servants, whose behaviour was governed by the law and by the Constitution.

Hong Kong and Macau

The Premier's government work report reiterated as an "unshakable goal" the determination to maintain the long-term stability and prosperity of Hong Kong and Macau. Central government policies for both regions were based on the principle of "one country, two systems" and the provisions of the Basic Laws, which accorded the governments of both Special Administrative Regions a high degree of autonomy in policy formulation and decision-making.

Taiwan

Wen advocated recourse to the "basic principle of 'one country, two systems' " and to Jiang Zemin's eight-point proposal as the basis on which to take forward the development of cross-strait relations and promote the reunification of China and Taiwan on the basis of 'one China.' In the immediate term, the Chinese government would seek to accelerate economic and cultural exchanges, as well as the exchange of personnel, and bring about the "three links." The Chinese Premier was at pains to express China's opposition to "all forms of separatist activities by Taiwan independence forces."

International relations

Wen Jiabao spoke of the "complex and profound changes" that had been brought to bear on the international situation. He insisted that multipolarization and economic globalization had become an "irreversible historic trend." But he also conceded that "unilateralism, regional conflicts … frequent international terrorist activities" posed major difficulties that challenged the international community. He also deplored the widening gap between the North and South.

On the basis of its "independent foreign policy of peace," China had made major progress in its international relations in 2003. Its status and influence throughout the world had both risen, and it had come to enjoy greater "understanding, trust, respect, and support" from the international community. In the coming year, the Chinese government would continue to follow an unchanged foreign policy in accordance with the "five principles of peaceful coexistence." As Wen put it,

> We will continue to promote a multi-polar world, advocate democracy in international relations and diversity in development models, and promote the progress of economic globalization in a direction that benefits the common prosperity of all nations. We adhere to a new concept of security based on mutual trust, mutual benefit, equality, and co-operation, and we oppose hegemonism, power politics, and terrorism in all forms. We will continue to work for a new international political and economic order that is fair and equitable.

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Table 1: **National and Central Budgetary Estimates (2003 actual) (figures in billion *yuan*)**

	National consolidated budget
Total revenue*	2,169.1
change over 2002 (actual)	+ 278.7 (+ 14.7%)
change over 2002 (plan)	(+ 5.8%)
Total expenditure	2,460.7
change over 2002 (actual)	+ 255.4 (+ 11.6%)
change over 2001 (plan)	(+ 3.8%)
National budget deficit	– 291.6
	Central budget
Total revenue	1,246.5
change over 2002 (actual)	+ 109.3 (+ 9.6%)
change over 2002 (plan)	(+ 4.4%)
Total expenditure	1,566.3
change over 2002 (actual)	+ 119.5 (+ 8.3%)
change over 2002 (plan)	(+ 3.5%)
Central budget deficit	– 319.8
	Local budgets
Total revenue	1,808.2
change over 2002 (actual)	+ 221.5 (+ 14.0%)
change over 2002 (plan)	(+ 5.7%)
Total expenditure	1,780.0
change over 2002 (actual)	+ 188.0 (+ 11.8%)
change over 2002 (plan)	(+ 4.1%)
Local budget surplus	+ 28.2

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

Implementation of the Central and Local Budgets for 2003

On 6 March, Jin Renqing (Minister of Finance) presented a report on the implementation of the central and local budgets for 2003 (see Table 1), and on the draft central and local budgets for 2004 (www.chinaview.cn).

Jin insisted that despite difficult international conditions and unexpected domestic problems (notably, the outbreak of SARS), both central and local budgets were implemented "fairly well."

Jin Renqing noted that thanks to the rapid recovery from SARS and the maintenance of a buoyant growth momentum, national revenue increased rapidly. Jin noted the increases in revenue from the following sources:

- domestic VAT + 105.4 billion *yuan* (up 17.1 per cent)

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- consumption tax + 13.4 billion *yuan* (up 12.8 per cent)
- business tax + 39.2 billion *yuan* (up 16.0 per cent)
- import duties + 111.1 billion *yuan* (up 42.9 per cent)
- corporate income tax + 39.9 billion *yuan* (up 15.9 per cent)
- individual income tax + 20.5 billion *yuan* (up 16.9 per cent)
- vehicle purchase tax + 11.9 billion *yuan* (up 34.2 per cent)

The government continued to pursue a proactive fiscal policy in 2003. The use of Treasury Bonds (issues of which were worth 140 billion *yuan*) was improved through preference in their allocation being given to economic restructuring, rural areas, central and western regions, science and technology, education, improvement of the ecological environment and public health services. A greater volume of transfer payments facilitated more balanced inter-regional development. In addition, the central budget made "special" transfer payments to local governments, worth 257.7 billion *yuan* (7.3 per cent more than in 2002), which were directed to social security, agriculture, science and technology, education, health and poverty alleviation.

In response to the SARS outbreak, central and local financial authorities allocated 13.6 billion *yuan* for prevention and treatment. In addition, various preferential fiscal and tax measures were introduced to help industries (e.g. tourism, food and beverage service, civil aviation, railways, hotels and taxis) that had been especially badly hit by the outbreak.

In support of the agricultural and rural sectors, further progress was made in trial reforms of rural taxes and administrative charges. These were extended throughout the entire country and had the effect of reducing the burden on farmers by over 30 per cent. The central government made available 30.5 billion *yuan* to fund the initiative, and further support was forthcoming from provincial financial authorities. Other parallel initiatives included the trial repeal of the tax on special farm products in a dozen provinces and municipalities (including Beijing, Tianjin, Shanghai, Fujian, Guangdong, Jiangsu, Zhejiang, Anhui, Sichuan and Henan); the experimental provision of direct subsidies to grain producers in nine provinces (Anhui, Jilin, Hunan, Hubei, Henan, Liaoning, Hebei, Jiangxi and Inner Mongolia); and the allocation of 10.8 billion *yuan* in disaster relief.

More support was also extended to employment (including the creation of a 4.7 billion *yuan* fund for re-employment) and social security work. The central government made available 60.8 billion *yuan* (13.1 per cent above the 2002 level) for living allowances and old-age pensions, thereby guaranteeing that SOE laid-off workers and retirees received their allowances or pensions on time and in full, and enabling 22.35 million low-income urban residents to receive subsistence payments. Some 85.5 billion *yuan* (12.4 per cent more than in 2002) were forthcoming from the central budget to fund education, health, science and technology, culture and sports.

Jin Renqing also outlined on-going measures to address the problem of

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Table 2: **National and Central Budgetary Estimates (2004 plan) (figures in billion *yuan*)**

	National consolidated budget
Total revenue*	2,355.7
… change over 2003	+ 187.9 (+ 8.7%)
Total expenditure	2,676.8
… change over 2003 (actual)	+ 216.1 (+ 8.8%)
National budget deficit	– 321.1
	Central budget
Total revenue	1,381.9
change over 2003	+ 90.7 (+ 7.0%)
Total expenditure	1,701.7
change over 2003	+ 90.7 (+ 5.6%)
Central budget deficit	– 319.8
change over 2003	0

Note:
* excluding revenue from generation of debt.

the problem of unpaid export tax rebates, and progress in reforming the budget management system.

Budgetary plans for 2004

The Finance Minister outlined budgetary plans for 2004, as laid out in Table 2. Priority areas for investment under the central budget in 2004 are as follows:

Agriculture, rural areas and farmers: Jin said that allocations to be used to address the "three rural issues" would rise by some 30 billion *yuan* (up 20 per cent). Except for tobacco, the tax on special agricultural products would be rescinded, while the general rate of agricultural tax would be cut by more than 1 percentage point (but by even more in major grain producing areas and for grain producers) – the latter initiative expected to reduce farmers' burdens by up to 11.8 billion *yuan*. Transfer payments of 39.6 billion *yuan* – 30 per cent more than in 2003 – would be used in support of the reform of taxes and administrative charges in rural areas. Subsidies worth 10 billion *yuan* would also be *directly* given to grain producers in the major grain producing areas, this replacing the previous practice of extending indirect subsidies via grain distribution links. Finally, more funds would be made available for agriculture-support investment.

Employment and social security: "reemployment assistance funds" would be increased by 76.6 per cent in 2004. The financing of living allowances, subsistence allowances and pensions would also be strengthened in order to ensure that payments were made in full and on time. Efforts would be made to release enterprises from having to fund social

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programmes, and 17 billion *yuan* of subsidies would be provided for enterprise closures and bankruptcies.

Education, health, science and technology, culture and sports: under 2004 central budget plans, 95.5 billion *yuan* (ten billion more than in 2003) would be made available for education, health, science and technology, culture and sports – the main beneficiary being rural areas.

Transfer payments to local governments: these would be further raised, especially to the benefit of central and western regions of China. In addition to 427.7 billion *yuan* in tax rebates and "structural subsidies," the central government would give local governments 513.3 billion *yuan* – a rise of 14 per cent – in transfer payments.

Fiscal and tax reform: a priority in this area would be to improve the means of export tax rebates (the target for which was set at 210.8 billion *yuan*). A major source of funding of such rebates would be revenue received from increased VAT payment and from the consumption tax on imported goods. Other priorities included changing from a "production VAT" to a "consumption VAT;" unifying the corporate income tax Chinese and foreign enterprises; implementing measures to reduce and prevent financial risks; and enhancing reforms of the investment system and of power, telecommunications, civil aviation, railways, postal service and urban public utilities.

Also on 6 March, Ma Kai (Minister in Charge of the National Development and Reform Commission) delivered his report on China's 2002 (realized) and 2003 (planned) economic and social development. His overview of China's performance in 2003 echoed the findings of the National Bureau's *Statistical Communiqué on China's Economic and Social Development* (see (d) below), his message captured in his statement that in 2003

> We won a great victory in the fight against the severe acute respiratory syndrome (SARS), and we overcame natural disasters and other difficulties. Our national economy had rapid growth, good performance and strong vitality, and we successfully attained our main targets for economic and social development.

Looking ahead to 2004, Ma echoed Wen Jiabao's government work report in emphasizing the need for balanced regional, sectoral, resource-based, social and economic, and domestic and foreign economic development. He called for the focus of economic construction to be shifted towards restructuring the economy, changing the "mode" of economic growth, and improving its quality and efficiency. Table 3 shows the targets he set out for 2004.

Ma's accompanying explanatory remarks drew special attention to the need for raise rural incomes – by "giving more, taking less and loosening control" – and increase China's grain output capacity (see also Wen Jiabao's work report). He also stressed the importance of rationalizing the industrial structure and maintaining stable economic growth.

On 8 March Wang Zhaoguo (Vice-Chairman of the NPCSC) explained a "Draft Amendment to the Constitution of the PRC" (XHNA,

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Table 3: **Economic Targets for 2004**

GDP	+ c. 7.0%
Merchandise trade (exports + imports)	+ 8.0%
Fixed asset investment	+ 12.0%
Total grain output	455 m. tonnes
Money supply:	
Narrow money (M1)	+ 17.0%
Broad money (M2)	+ 17.0%
Consumer price index	+ 3.0%
New urban job creation	9,000,000
Urban unemployment rate	≤ 4.7%
Per capita rural income	+ 5.0%
Rate of natural increase of total population	+ 7.0‰

8 March). He noted that the present Constitution had been adopted by the Fifth NPC in December 1982, since when constitutional amendments had been added on three occasions (1988, 1993 and 1999). The latest proposal, now brought before NPC delegates, sought to enshrine in the Constitution the major "theoretical viewpoints and major guiding principles and policies established at the 16th NPC" by adding the "important thinking of the 'three represents' " to the existing theoretical canon, represented by "Marxism-Leninism, Mao Zedong Thought and Deng Xiaoping Theory."

The proposed amendments were as follows:

(Paragraph 7 of the preamble to the constitution)
To change "under the guidance of Marxism-Leninism, Mao Zedong Thought, Deng Xiaoping Theory" to "under the guidance of Marxism-Leninism, Mao Zedong Thought, Deng Xiaoping Theory, and the important thinking of the 'Three Represents.' " To change "following the road of building socialism with Chinese characteristics" to "following the road of building Chinese-characteristics socialism (*yanzhe jianshe Zhongguo tese shehui zhuyi daolu*)."

Wang explained the proposed changes in terms of the status of the "three represents" as the "the latest product of Marxism's development in China … the Sinicized Marxism for the 21st century … the basic pointer that guides the whole party and the people … in their effort to realise their development goal and their grand blueprint for the new century and the new phase."

In addition, it was proposed:

To add "… and to promote the coordinated development of material civilisation, political civilisation, and spiritual civilisation change" after the existing "to modernize industry, agriculture, national defence and science and technology step by step."

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Further:

(Sentence 1 of Para. 10 of preamble)

To change "In building socialism it is imperative to rely on the workers, peasants and intellectuals, and unite with all the forces that can be united" to "In the long years of revolution and construction, there has been formed under the leadership of the CCP a broad patriotic united front that is composed of democratic parties and people's organizations and embraces all socialist working people, all builders of the socialist cause, all patriots who support socialism and all patriots who stand for reunification of the motherland. This united front will continue to be consolidated and developed."

(Section 3 of Article 10)

To change "The state may in the public interest take over land for its use in accordance with the law" to "The state may in the public interest expropriate or requisition land, by paying compensation, in accordance with the law."

Here, the intention is to capture the distinction between "expropriation" (implying an ownership change) and "requisition" (implying a change in usage right).

In order to clarify the principle underlying the development of non-public economic activity:

(Section 2 of Article 11)

To change "The state protects the lawful rights and interests of individual and private economies; guides, supervises and administers individual and private economies" to "The state protects the lawful rights and interests of non-public economies, such as individual economy and private economy; encourages, supports and guides the development of non-public economies, and supervises and administers non-public economies in accordance with the law."

Wang noted that this change more accurately reflected the "reality of the basic economic system of our country in the initial stage of socialism," as well as fulfilling the "objective requirements of the development of productive forces."

(Article 13)

To change "The state protects the right of citizens to own lawfully earned income, savings, houses, and other lawful property … The state protects by law the right of citizens to inherit private property" to read "The lawful private property of citizens shall not be encroached upon … The state protects by law the private property rights and the right of inheritance of citizens … The state may in the public interest expropriate or requisition the private property of citizens, by paying compensation, in accordance with the law."

Through this amendment, said Wang, the status of private property – in particular, its protection by the state – would be clarified, as would the relationship between the "protection of private property and what is required by public interests." In addition, replacing the "right to own" by "property rights" offered a more accurate and comprehensive meaning to the concept of rights.

In order to highlight the importance of social security provision, the following proposal was made:

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(Article 14)

To add "The state shall establish and improve a social security system that suits the level of economic development."

Further:

(Article 33)

To add "The state shall respect and safeguard human rights."

This addition was intended to reflect the important guiding principle that sought to respect and safeguard the human rights of the Chinese people.

The remaining amendments were as follows:

(Section 1 of Article 59)

To add "special administrative regions" so that the appropriate sentence in Article 59 reads "The National People's Congress is composed of deputies elected by the provinces, autonomous regions, municipalities directly under the Central Government, *special administrative regions*, and the armed forces. All the minority nationalities are entitled to appropriate representation" [emphasis added].

(Para. 20 of Article 67)

To change "To decide on the enforcement of martial law throughout the country or in particular provinces, autonomous regions, or municipalities directly under the Central Government" to "To decide that the whole country or particular provinces, autonomous regions, or municipalities directly under the Central Government enter a state of emergency."

By accepting this amendment, China's Constitution would be brought in line with those of many other countries in legislating for the broader notion of a "state of emergency," as opposed to the narrower "martial law."

In order to better capture the functions, responsibilities and powers of the State President (especially the presidential role of diplomatic interaction with other heads of state):

(Article 81)

To change "The President of the People's Republic of China receives foreign diplomatic representatives on behalf of the People's Republic of China" to "The President of the People's Republic of China conducts state activities and receives foreign diplomatic representatives on behalf of the People's Republic of China."

(Article 98)

To change "The term of office of the people's congresses of provinces, municipalities directly under the Central Government, cities, and municipal districts is five years. The term of office of the people's congresses of townships, nationality townships, and towns is three years" to "The term of office of the local people's congresses at all levels is five years."

— thereby ensuring consistency between the terms of office of people's congresses at all levels to the benefit of the "harmonization of

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programmes, plans, and personnel arrangements for economic and social development at all levels."

Finally,

(Title, Chapter IV)

To change the title from "The National Flag, the National Emblem, and the Capital" to "The National Flag, the National Anthem, the National Emblem, and the Capital."

And

(Section 2, Article 136, Ch. IV)

To add "The national anthem of the People's Republic of China is 'March of the Volunteers.' "

On 10 March, Xiao Yang (President of the Supreme People's Court (SPC)) delivered his annual work report on behalf of the SPC. He revealed that in 2003, local Chinese courts had reached verdicts on some 5,687,905 cases (0.78 per cent more than in 2002), involving 768.5 billion *yuan* (a rise of 8.33 per cent). Among those found guilty were six ministerial public servants – three former provincial governors or deputy governors, a former president of a provincial higher court, a former vice chairman of a CPPCC provincial committee, and the former president of the China Construction Bank – 73 prefectural-level officials and 458 county-level officials. In all, Chinese courts handled 22,986 cases involving government workers' job-related crime.

Of 735,535 criminal cases (933,967 convicted individuals) brought before local courts, 238,949 (308,183 individuals) were associated with "arson, blast, murder, kidnapping, robbery, mafia-like organized crimes and other offences." Xiao also noted that 40,820 people were found guilty of violation of the rights of minors and women. The SPC passed verdicts on 300 cases of "death penalty examination and retrials of criminal cases" – 16.28 per cent more than in 2002 – and ruled on 372 civil cases of appeals and business disputes involving foreign firms or citizens.

Local courts delivered verdicts on 114,896 lawsuits against government departments and institutions, involving urban housing resettlement, expropriation of rural farmland and social security. They also gave judgements on 3,124 State compensation cases – 18.24 per cent more than in the previous year.

Courts throughout the country were reported to have rescinded rulings on 5,805 verdicts on the grounds of inaccurate evidence having been used, trial proceedings having violated due procedures and/or "unfair" verdicts having been reached (XHNA, 10 March).

In his procuratorial report (XHNA, 10 March), Procurator-General Jia Chunwang noted that in 2003, procuratorial organs at all levels throughout China approved the arrest of 764,776 people suspected of having committed criminal acts, and instituted on behalf of the state proceedings against 819,216 people. The same organs brought prosecutions in 39,562 job-related cases against 43,490 suspects, and recovered economic losses worth 4.3 billion *yuan*. In the continuing fight against corruption, 720

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law-enforcement and judicial workers were investigated as "suspects who took bribes and bent the law to serve friends or relatives," and 18,515 major cases of corruption, bribery and misappropriation of public funds – 123 of them involving over 10 million *yuan* each – were filed for investigation. Of 2,728 leading cadres at and above county and section levels, who were suspected of having been involved in criminal behaviour, 167 were from prefectural and departmental levels, and four from provincial-level offices.

Wu Bangguo (Chairman of the NPCSC) spoke of the Standing Committee's achievements during 2003 in support of economic construction and in developing socialist democracy and the socialist legal system, implementing the basic principle of administering the country by law, upholding and perfecting the NPC system. His report on behalf of the NPCSC revealed that Standing Committee members had debated proposed amendments to the Chinese Constitution; had formulated a five-year legislative programme, embracing 76 items; had examined 12 draft laws and decisions on law-related issues (of which ten were approved).

An editorial in *People's Daily* hailed the success of the most recent session of the full NPC (*RMRB*, 14 March). It praised Wen Jiabao's government work report and stressed the significance of the approval by delegates of the constitutional amendments. It summed up the achievements of the meeting as follows:

> The 16th CCP National Congress has comprehensively analysed the new situation and tasks facing the party and state in the new stage of the new century, scientifically summed up the party's basic experience in leading the people to build socialism with Chinese characteristics, … established the important thinking of the "Three Represents" together with Marxism-Leninism, Mao Zedong Thought and Deng Xiaoping Theory, as the guiding thought our party must uphold for a long time, and explicitly set forth the objectives … and the major principles and policies for the first two decades of this century. To meet the requirements of the new situation, the conference has amended the Constitution in accordance with legal procedure, established in the constitution the guiding position of the important thinking of the "Three Represents" in the country's political and social life, incorporated into the constitution the need to promote the coordinated development of material, political and spiritual civilizations, and explicitly stipulated that the state protects the legitimate rights and interests of the non-public sectors of the economy, that the legitimate private property of the citizens is inviolable, that the state respects and ensures human rights … The [amendments] … have major and far-reaching significance in China's reform, opening up and modernization drive. The Constitution is the fundamental law of the country, a general charter for administering state affairs well and ensuring national security, and a legal system guarantee for the CCP to unite with and lead the people of all ethnic groups in building socialism with Chinese characteristics. It is necessary to conduct propaganda and education on the Constitution in a thoroughgoing and down-to-earth manner to enhance the awareness of the society as a whole on the importance of the constitution as well as its legal concept, establish the authority of the Constitution and ensure the implementation of the Constitution.

Xinhua released the full text of the revised Chinese Constitution on 15 March.

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[NOTE: Between 2 and 12 March, the Tenth National Committee of the Chinese People's Political Consultative Conference (CPPCC), China's top advisory body, also held its Second Session. At the closing session, presided over by CPPCC Chairman (Jia Qinglin), members adopted a political resolution, a resolution on a draft amendment to the CPPCC charter, and a decision on the report on handling of proposals launched since the First Session of the Tenth CPPCC National Committee. They accepted the report on the work of the Standing Committee of the Tenth CPPCC National Committee, as well as a report by the Proposals Sub-committee (XHNA, 12 March). (See XHNA, 12 March for the full text of the amended Charter of the CPPCC, approved by the Second Session of the Tenth CPPCC National Committee.)]

(c) Party and Political Affairs; Ideological Developments

An important article in *People's Daily* rehearsed important ideas, the implementation of which was central to the work of the Chinese Communist Party. These included notions of:

- "comprehensive, co-ordinated and sustainable" development;
- "political achievement," defined in terms of officials' hard work and its practical impact;
- the capacity of anyone to join the ranks of "qualified personnel;"
- belief in the masses and in the CCP's commitment to exercising power on behalf of the people and their interests.

These four notions (or "concepts"), derived from the "basic theory, basic line, basic programme and basic experience of building socialism with Chinese characteristics," were integral to the Party's governance and development policy. Thus,

> The concept of development, the concept of political achievements, the concept of qualified personnel and the concept of the masses are distinct and profound … and form a synergy. They are the crystallization of deep thinking; a summary of practical experience; and a powerful weapon that enables us to work in a way that reflects the zeitgeist, to grasp the laws and patterns and to become more creative. They are set to push China's economic and social development into an entirely new stage where it is more scientific, more rational and of a greater inclusive and long-term nature … These "four concepts" are an important part of the agenda to strengthen the building of the party's competence of governance and raise the party's art of leadership and art of governance … [They] have one basic notion that consistently runs through all of them, namely, the focus on people … [They] are imbued with and embody the important thinking of the "Three Represents" … By holding high the great banners of Deng Xiaoping Theory and the important thinking of the "Three Represents" and firmly adopting and practising the … [four concepts] … we will certainly be able to realize the grand goal of building a well-off society in an all-round way through the all-round economic and social progress and the all-round development of man; the glorious cause of socialism with Chinese characteristics will certainly be able to succeed through the unremitting struggle of the party and the people; and the great rejuvenation of the Chinese nation will certainly be able to become a magnificent reality … (*RMRB*, 12 Jan.).

Citing Jiang Zemin, the same source (*RMRB*, 6 Jan.) warned CCP

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members against believing in any religion (including "theism and superstitious activities … superstitions and pseudoscience"), and called on them to propagate "atheism and the scientific world view." It spoke of the importance of inculcating "Marxist materialism and atheism," especially among CCP members, in order to fulfil Marxist ideological imperatives. At the same time and alongside advocacy of "Marxist materialism and atheism [and] the methodology of dialectical materialism and historical materialism," it was at pains to insist on the need to uphold the freedom of religious belief. Indeed, it argued that the "struggle" between atheism and theism would be a protracted one.

On 17 February, Xinhua published the "(Trial) Regulations of the CCCP on Inner-Party Supervision" (full text in XHNA, 17 Feb.). Article 4 of the document outlined the major components of inner-Party supervision under the rubric of seven conditions, defined as

> [1] observing the party's constitution and other inner-party rules and regulations; … safeguarding the Central Committee's authority; … implementing the party's line, principles and policies as well as the resolutions, decisions and working plans of party organizations at higher levels; [2] … abiding by the Constitution and laws and of persisting in exercising administration according to laws; [3] … implementing the system of democratic centralism; [4] … guaranteeing party members' rights; [5] … implementing the relevant regulations of the party and the state in selecting and appointing cadres; [6] … forging close ties with the masses and of achieving, protecting and developing the fundamental interests of the masses of people; [7]. … of performing one's duty with honesty and self-discipline and of improving party work style and promoting clean government.

On the day of their promulgation, an article in *People's Daily* hailed the new rules as an important initiative towards stronger Party management and supervision that would enable the three million Party organizations and 66 million members to better fulfil the goal of government on behalf of the interests of the entire Chinese population. It acknowledged that in the new circumstances that China faced,

> inner-party supervision now faces many unprecedented new situations and new problems. The missions it now faces have never been so heavy and Herculean. Thus, tightening up inner-party supervision is an important move for addressing the two historical issues – improving the party's leading and ruling competency; and enhancing its ability to repel the corrupting influence, preventing degeneration, and resist risks – so that the party can always preserve its progressiveness.

Strong inner-party supervision was an essential condition of Party building. To this end, all CCP members must become familiar with the new rules, and "voluntarily abide by and strictly follow" them. Through their implementation, existing ideological, organizational and disciplinary problems of indiscipline would be overcome. Leading Party bodies and leading cadres – "especially the principal responsible persons of all leading groups" – should take the lead in such work (*RMRB*, 17 Feb.; see also XHNA, 19 Feb.).

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(d) Social and Legal Affairs

On 5 January, the Chinese Ministry of Health (MOH) confirmed that a single case of severe acute respiratory syndrome (SARS) had been confirmed in Guangdong Province. An additional 42 people who had had close contact with the patient had been isolated, although 25 of them had subsequently been released from observation. Subsequently, health authorities in Guangdong announced a ban on the breeding and sale of civet cats, thought to be a carrier of the SARS virus, to prevent the spread of the disease. The ban was extended to a cull of civet cats and the closure of wildlife markets in the province (XHNA, 5 Jan.). It was later revealed that as early as 29 December, the World Health Organization (WHO) and MOH had sent a joint team of experts to Guangdong to investigate the case.

The patient was released from hospital on 8 January. However, the same day, a waitress – also working in Guangdong – was confirmed as a second case of SARS and was admitted to hospital in Guangzhou. On 8 January, in order to help local health authorities in their efforts to identify the origin of the SARS virus (XHNA, 8 Jan.). A small number of further diagnosed cases, again in Guangdong, were subsequently confirmed, but all the patients were later discharged from hospital.

Another source of major health concern was the outbreak of "avian flu" – a highly infectious poultry-sourced disease. Early suspected cases were reported from Guangxi Zhuang Autonomous Region, and Hunan and Hubei provinces. But there was confusion about the number of people infected. On 3 February, for example, a Chinese Foreign Ministry spokeswoman insisted that reports that Chinese people had been with the illness were "groundless," although on the same day the Ministry of Agriculture confirmed a previously suspected outbreak of the H5-N1 strain of avian influenza in Guangdong. In any case, the official response to the emerging crisis was swift: in Shandong, for example, which accounted for over half of China's poultry exports, all poultry farms were placed under closed-door operation, with all staff and equipment required to be disinfected. A 24-hour monitoring system was also introduced. Meanwhile, South Korea, Japan and Hong Kong imposed bans on imports of Chinese poultry products. The Chinese government meanwhile itself ordered the killing of millions of birds and suspended exports of poultry and associated products from avian flu-hit areas. Xinhua reported the establishment by the State Council of a National Headquarters for the Prevention and Control of Highly Pathogenic Avian Flu, designed to oversee and direct national efforts to prevent and control any epidemic (XHNA, 1 Feb.). Cases of avian flu were confirmed in Zhejiang, Hubei, Hunan, Henan, Anhui, Shanghai, Guangdong, Guangxi, Yunnan and Xinjiang.

The Secretary-General of the China Poultry Association noted that poultry rearing earned more in exports than any other branch of animal husbandry. He spoke of incalculable losses to the industry as a result of

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the crisis. One source suggested that as demand fell, poultry stocks might decline by 10 per cent within a three-month period.

Du Qinglin (Minister of Agriculture) insisted that as of 4 February, the avian flu situation in China had been brought under control. His remarks were directed to representatives of the China offices of World Health Organization (WHO) and Food and Agriculture Organization (FAO) of the United Nations, and diplomats in Beijing. But a Hong Kong source noted that there had been six new outbreaks of bird flu in regions of China that were previously suspected of harbouring the H5-N1 viral strain. It noted that there were suspected or confirmed 34 cases in 13 of China's 31 provinces (RTHK, 8 Feb.). In the face of growing numbers of infected persons, on 11 February, Premier Wen Jiabao chaired a State Council executive meeting on the issue.

Xinhua reported that between August and November 2003, almost 34,000 unqualified policemen and 11,000 "sub-standard" public security personnel had been dismissed from their jobs. The action was in response to law enforcement and policing problems (including the imposition of illegal fines and collection of illegal fees, and even criminal activities by police), which had emerged from an investigation undertaken by the Ministry of Public Security. Official statistics show that China has 1.7 million policemen – far fewer than in developed countries — and that nearly 5,000 had died on duty since 1998. Difficulties faced policing in rural areas, where local governments enlisted police help in work that was outside their areas of formal jurisdiction, such as levying taxes and promoting family planning. There were similar problems in cities, where police were called on to assist in debt retrieval or other tasks that impeded their work of combating crime (XHNA, 7 Jan.; see also XHNA, 9 Feb. on "officials," such as hotel guards, fee collectors, etc., wearing imitation police uniforms).

Statistics made available by the Ministry of Public Security revealed that as of end-2003, 1.053 million illegal drugs users had been registered by law enforcement departments, 220,000 of whom were being treated in compulsory rehabilitation programmes. In 2003 alone, some 60,000 drug abusers were sent to reform-through-labour institutions to receive "narcotics rehabilitation." During the same period, 93,900 drugs-related cases had been uncovered, and 9,535 kg of heroin, 905 kg of opium, and 5,827 kg of "ice" (methamphetamine) seized (XHNA, 8 Feb.; also see XHNA, 12 Feb. on proposed legislation to prohibit narcotics).

Wang Dongjin (Vice-Minister of Labour and Social Security) stated that as of end-2003, 108.95 million Chinese had purchased medical insurance. An additional 5 million people, classified as "flexible employees" (i.e. self-employed) had bought medical insurance in 81 per cent of prefecture-level cities throughout China. Some 45.73 million employees – 1.67 million more than in 2002 – were reported by Wang to have bought insurance policies for workshop injuries. Finally, 36.48 million workers in 29 provinces had purchased "insurance policies for giving birth" (XHNA, 26 Feb.).

Xinhua reported that Guangdong Province was home to 21.3 million

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"transients," or one-third of the national total. Over 40 per cent of these lived in rented accommodation (XHNA, 7 March).

(e) Statistical Communiqué on National Economic and Social Development during 2003

[The figures showing percentage changes in production over 2002 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 State Statistical Bureau *2002* communiqué, cited in "Quarterly Chronicle" in *CQ*, No. 174 (June 2003), pp. 581–88. Data in square brackets show percentage increases for 2002 and are included for comparative purposes.]

Details of the National Bureau of Statistic's (NBS) most recent communiqué were made available on 26 February (see www.china.org.cn). The preamble to the communiqué spoke of rapid economic growth having been achieved in 2003, as well as of "significant progress" in terms of structural adjustment and "steady development" in reform and opening up. Following a period of deflation, the general price index rose marginally (see below for details). Preliminary statistics indicated a rise in GDP of 9.1 [8.0] per cent in 2003 to reach 11.6694 trillion *yuan*. As in previous recent years, all three major sectors shared in this performance, although industrial value-added growth (12.5 [9.9] per cent) once more outstripped the growth of agriculture (2.5 per cent – down on the 2002 level [2.9]) and services (6.7 per cent – also down [7.3]).

Alongside the generally buoyant economic performance, the NBS report acknowledged the existence or persistence of economic difficulties. Special attention was drawn to the still lagging growth of farm incomes; excessively high fixed investment growth; "blind investment … and … low quality expansion" in some industries; widening income gaps and "relatively difficult" living conditions for low-income groups; and heavy pressures on economic resources and the environment.

The main features of China's economic performance in 2003 are summarized below:

Agriculture: the continuing contraction in the sown area under grain from 104 to 99.41 million ha. was one of the factors reflected in a further decline in total grain output. But except for sugar, other sown areas – of cotton, oil-bearing crops, and vegetables – all rose. The output of major farm crops is shown in Table 4.

The animal husbandry and fishery sectors continued to grow. Total meat output rose by 5.1 per cent to reach 69.20 million tons, while that of aquatic products increased by 2.8 per cent to 46.9 million tons. Effective irrigation was extended to a further 780,000 ha. of arable land.

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Table 4: **Output of Major Farm Products, 2003**

	Total output (million tons)	*% change over 2002*
All food grains	430.67	– 5.8
Oil-bearing crops	28.05	– 3.2
Peanuts	13.37	– 9.8
Rapeseed	11.41	8.1
Cotton	4.87	– 0.9
Sugar crops	96.70	– 6.1
Sugarcane	90.51	0.4
Beetroot	6.19	– 51.8 (sic)
Cured tobacco	2.01	– 5.7
Tea	0.78	4.5
Fruits	144.7	0.3
Vegetables	539.6	2.1

Industry: industrial value-added grew by 12.6 [10.2] per cent in 2003 (see Table 5 for details). The output of high-tech products grew rapidly, and the share of associated activities in the value-added of all industrial enterprises above designated size rose 20.6 per cent. Energy production growth accelerated and there was also a rapid expansion of output of major raw materials. Especially noteworthy was the very rapid growth of production of cars and microcomputers. Production of important industrial products is shown in Table 6.

Industrial efficiency and profitability continued to improve in 2003. Total industrial profits increased by 42.7 per cent to reach 815 billion

Table 5: **Rate of Growth of Industrial Value-added, 2003**

	% increase over 2002
Industrial enterprises above designated size*	17.0
state-owned and state-controlled enterprises	14.3
collective enterprises	11.5
share-holding enterprises	18.3
enterprises invested by foreigners or investors from Hong Kong, Macau and Taiwan	20.0
light industry	14.6
heavy industry	18.6

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

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Table 6: **Output of Major Industrial Products, 2003**

	Total output	*% change over 2002*
Light industry		
Yarn	9.84 m. tons	15.7
Cloth	37,464 m. metres	16.2
Chemical fibres	11.81 m. tons	19.2
Sugar	10.84 m. tons	47.1
Cigarettes	35.83 m. packs	3.4
Colour TV sets	65.41 m. units	26.9
Household refrigerators	22.43 m. units	40.3
Room air conditioners	49.93 m. units	59.3
Mobile telephones	182.31 m. units	50.1
Heavy industry		
Total energy production (standard coal equivalent)	1.603 b. tons	11.0
Coal	1.67 b. tons	15.0
Crude oil	170.0 m. tons	1.8
Electricity	191.08 b. kWh	15.5
Steel	222.34 m. tons	21.9
Rolled steel	241.20 m. tons	25.3
Non-ferrous metals	12.05 m. tons	19.1
Cement	862.00 billion tons	18.9
Timber	49.50 m. cu.metres	11.59
Ethylene	6.12 m. tons	12.7
Chemical fertilizers (100 per cent equivalent)	42.01 m. tons	10.8
Power-generating equipment	37.01 m. kWs	74.5
Motor vehicles	4.444 m. units	36.7
cars	2.020 m. units	85.0
Large and medium tractors	488,000 units	7.5
Integrated circuits	148.31 b.units	54.0
Programme-controlled switchboards	73.80 m. lines	25.9
Fax machines	7.47 m. units	151.1
Micro-computers	32.17 m. units	119.8
Optical telecommunications facilities	865,000 sets	34.1

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

- SOEs + 45.2 per cent
- collective enterprises + 31.4 per cent
- share-holding enterprises + 46.0 per cent
- foreign (incl. Hong Kong, Macau and Taiwan) invested enterprises + 40.5 per cent

The construction industry grew by 11.9 per cent, and construction enterprises generated profits of 45.9 billion *yuan* (23.8 per cent above the 2002 level).

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Table 7: **Change in Production Capacity of Selected Industries, 2003**

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

Fixed investment: in 2003, growth of fixed asset investment again accelerated, rising to 26.7 [16.1] per cent to reach a record 5.5 trillion *yuan*. Disaggregate data showed that the corresponding figure for state-owned units was 28.2 per cent – well above the 17 per cent of the previous year. Capital construction investment meanwhile increased by 28.7 [16.4] per cent. Investment in secondary economic activities (manufacturing and construction) rose by 39.1 per cent, compared with 24.2 per cent in the service sector. Table 7 summarizes the net impact of capital construction investment on production capacity in 2003.

Transport and telecommunications: there was continued growth in transport and telecommunications in 2003, as Table 8 shows. Posts and telecommunications were again a major growth area, with the value of associated business transactions rising by 27.8 [21.7] per cent. There were 49.08 million new fixed telephone subscribers, taking the total number of subscribers to 263 million (171 million in cities, and 92 million in rural areas). There were 62.69 million new mobile phone subscribers, taking the total number of users to 268.69 million. Thus, the total number of telephone – including mobile telephone – subscribers reached 532 million (27 per cent more than in 2002).

Domestic trade: in 2003, the growth in the value of retail sales of consumer goods accelerated from 8.8 per cent to 9.1 per cent (10.3 [10]

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Table 8: **Passenger and Freight Traffic in 2003**

	Unit	*Volume*	*% change over 2002 [2001]*
Freight traffic	100 million ton-km	57,152	13.1 [3.8]
Railways	100 million ton-km	17,092	10.2 [6.2]
Highways	100 million ton-km	7,010	3.4 [5.9]
Waterways	100 million ton-km	32,275	17.3 [1.9]
Civil aviation	100 million ton-km	58.0	12.3 [17.9]
Passenger traffic	100 million person-km	13,795	– 2.3 [6.2]
Railways	100 million person-km	4,789	– 3.6 [4.2]
Highways	100 million person-km	7,679	– 1.6 [6.0]
Waterways	100 million person-km	64	– 21.1 [– 5.6]
Civil aviation	100 million person-km	1,263	– 0.4 [16.2]
Volume of cargo handled at coastal ports	100 million tons	33.0	17.9 [11.6]
Cargo for foreign trade	100 million tons	9.4	19.8 [17.0]

per cent in cities and 6.8 [6.8] per cent in rural areas). Sectors in which retails sales expanded most rapidly included motor vehicles (up 68.5 [73] per cent), telecommunications equipment (70.9 [69.2] per cent), and electrical and electronic appliances for household use (18.3 [14.6] per cent).

The previous deflationary trend was reversed, and the consumer price index rose by 1.2 [− 0.8] per cent (up by 0.9 [− 1.0] per cent in the urban sector, and by 1.6 [− 0.4] per cent in the rural sector). Price changes for specific goods, or categories of goods, are shown in Table 9.

Table 9: **Change in the Consumer Prices of Selected Goods, 2003 (%)**

	National average	*Urban*	*Rural*
General level of consumer prices	1.2	0.9	1.6
Food	3.4	3.4	3.4
of which, grain	2.3	2.3	2.2
Tobaccos and alcohols	– 0.2	– 0.2	– 0.1
Clothing	– 2.2	– 2.6	– 1.4
Household appliances and services	– 2.6	– 3.0	– 1.7
Medical, health and personal articles	0.9	– 0.2	2.5
Transportation and telecommunications	– 2.2	– 2.6	– 1.4
Recreational, educational, cultural articles and services	1.3	0.5	2.8
Housing	2.1	2.8	1.0

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Foreign trade and external relations: the rate of growth of China's foreign trade again accelerated sharply in 2003. The combined value of exports and imports rose by a remarkable 37.1 [21.8] per cent to reach US$851.2 billion. The value of China's exports was US$438.4 billion (up by 34.6 [22.3] per cent), while imports increased by 39.9 [21.2] per cent to US$412.8 billion. The net outcome was to generate a merchandise trade surplus of US$25.6 billion [US$30.4 billion]. (See Table 10). A geographical breakdown of China's exports is shown in Table 11

There were further increases, albeit to very different degrees, in inflows of both contracted and utilized foreign direct investment in 2003 – by 1.4 [19.6] per cent to US$53.5 billion; and by 39 [12.5] per cent to US$115.7 billion, respectively. The NBS Communiqué provides a breakdown of FDI inflows by sectoral and industrial destinations.

At the end of 2003, China's foreign exchange reserves totalled US$403.3 billion (US$116.8 billion above the level a year earlier).

Banking and Insurance: the NBS Communiqué noted that at the end of 2003, savings deposits lodged in all kinds of financial institutions totalled 22,036.4 [18,338] billion *yuan* (20.2 [18.0] per cent higher than at the end of 2002). Savings by enterprises reached 7,678.5 billion *yuan* – a rise of 19.4 [15.3] per cent. The total level of loans was 16,977.1 billion *yuan* (21.4 per cent more than in 2002). Of these short-term loans totalled 8,739.8 billion *yuan* (up 13.8 per cent); medium and long-term loans totalled 6,752.5 billion (up 30 per cent).

The volume of cash in circulation (M0) rose by 14.3 [10.1] per cent; the corresponding figures for narrow (M1) and broad (M2) money were 18.7 [16.8] per cent, and 19.6 [16.8] per cent.

Table 10: **Levels of and Changes in Imports and Exports, 2003**

	Volume (US$ billion)	*% change over 2002*
Total exports	438.4	37.1
General trade	182.0	34.6
Processing trade	241.8	34.4
Mechanical and electrical products	227.5	44.8
High and new-tech products	110.3	62.6
Total imports	412.8	39.9
General trade	187.7	45.4
Processing trade	162.9	33.3
Mechanical and electrical products	225.0	44.6
High and new-tech products	119.3	44.0

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Table 11: **Foreign Trade Performance (by Region), 2003**

Country or region	*Value of Chinese exports (US$ billion)*	*% change over 2002*
USA	92.5	32.2 [28.9]
Hong Kong SAR	76.3	30.5 [25.6]
Japan	59.4	22.7 [7.8]
European Union	72.2	49.7 [17.9]
ASEAN	30.9	31.1 [28.3]
South Korea	20.1	29.4 [23.8]
Russia	6.0	71.4 [29.9]

Welfare, living standards and employment: per capita cash disposable income of urban residents reached 8,472 [7,703] *yuan* in 2003 (a real rise of 9.0 [13.4] per cent over 2002 [2001]). Rural residents' average per capita net income was 2,622 [2,476] *yuan* – just 4.3 [4.8] per cent more, in real terms, than in the previous year. Such figures implied a further widening in the urban–rural per capita income gap. The number of rural residents below the poverty line was 29 million or 800,000 *more* than in 2002.

Social security arrangements for urban residents showed further improvements. By the end of 2003, 154.9 [147.31] million people (116.38 [111.28] million employees and 38.52 [36.03] million retirees) were enrolled in basic pension programmes. Some 103.73 [101.82] million people also participated in unemployment insurance programmes, while 108.95 [94.0] million people were covered by basic health insurance. The number of people who received unemployment insurance payments fell from 4.4 to 4.15 millions. Finally, 22.53 [20.54] million urban residents were in receipt of minimum income relief from the government.

In 2003, China's total workforce rose by 6.92 [7.15 {2002}, 9.4 {2001}] million to reach 744.32 million. Of these, 256.39 [247.8] million were employed in cities – 8.59 [8.40] million more than at the end of 2002. During 2003, 4.4 million previously laid-off SOE workers were re-employed. The official rate of registered urban unemployment was 4.3 [4.0 {2002}, 3.6 {2001}] per cent at the end of 2003.

Population: China's total population at the end of 2003 was 1,292.27 [1,284.53] million. Of this total, urban residents numbered 523.76 [502.12] million (40.53 [39.1 {2002}, 37.7 {2001}] per cent of the total per cent); rural residents totalled 768.51 [782.41] million (59.47 per cent). Vital rates for 2003 are shown in Table 12, while Table 13 shows the sex ratio and age structure of China's population.

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Table 12: **Vital Population Rates, 2003**

	Rate per thousand
Birth rate	12.41 [12.86]
Death rate	6.40 [6.41]
Rate of natural increase	6.01 [6.45]

Table 13: **Sex Ratio and Age Structure of China's Population, 2003**

	Population at end of year (million)	*%*
National Total	1,292.27	100.0
Male	665.56	51.5
Female	626.71	48.5
0–14 years	285.59	22.1
15–64 years	909.76	70.4
65 years and over	96.92	7.5

(f) Economic Affairs

Xinhua reported that in the face of widening socio-economic differentials and growing environmental problems, the Chinese government had decided to abandon its "blind pursuit" of GDP growth. It noted that the high growth of the previous 25 years had been achieved at the costs of major sacrifices in terms of medical care, education, culture and environmental protection. As Niu Wenyuan (a member of the Chinese Academy of Sciences), put it, "A large part of China's GDP growth [has been] achieved by exploiting resources and interests that should have belonged to our children." According to Niu, proper consideration of social and ecological factors would have reduced GDP growth from 8.7 per cent p.a. (1985–2000) to 6.5 per cent.

Thus, in the face of continued development imbalance and further deterioration in the exploitation of resources, the government had proposed a "scientific concept" of development, which accorded a higher priority to rural and social development, and environmental protection. Inherent in the new concept was an emphasis on the co-ordination and sustainability of economic and social development between different regions and sectors of the economy. Xinhua quoted Ma Kai (Minister of the State Development and Reform Commission) to the effect that the government was considering reducing planned growth to 7 per cent in 2004 in line with the more "scientific" approach to development. Guang-

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dong had already lowered its provincial GDP growth target to 9 per cent – well below the 13.6 per cent attained in 2003 (XHNA, 4 March).

The importance of agricultural and rural development in generating a prosperous society was a recurring theme during the quarter, and attention focused on the serious difficulties that the government faced in the countryside, where "economic growth, technology, education and public health are far behind those in urban areas." For the first time since 1986, agricultural and rural issues were the subject of a "Central Document No.1" ("Opinions of the CCP Central Committee and the State Council on some policies for promoting an increase in peasants' income"). The document highlighted the determination to address the "three rural issues" (*san nong*: see above under (a)) as a matter of top priority on the Party's work agenda. To this end, it put forward policy measures, designed to resolve some of the outstanding problems facing the farm and rural sectors (above all, that of lagging farm income growth). In particular, it highlighted the need to support China's main grain-producing areas in order simultaneously to promote grain production and grain farmers' incomes. It revealed that starting in 2004, the government would initiate a "quality grain industrial project," whereby urgent attention would be directed to building a number of "state high-quality special grain bases."

The Central No. 1 Document also demanded accelerated reform of the land requisition system, including using some of the funds from the sale of state-owned land in order to "support the development of agricultural land, build high-standard basic farmland, and improve grain comprehensive production capability." Meanwhile, in an attempt to enhance the grain circulation system, the state had decided to allocate money from the grain risk fund to directly subsidize grain cultivators working in the main production regions.

Another important decision was to gradually reduce the general rate of agricultural tax by one percentage point, while immediately eliminating the tax on "special" farm products (including tobacco leaf). As for rural finance, small unsecured loans and co-insured credits for peasant households would be expanded (XHNA, 8 Feb.; see also *RMRB*, 9 Feb.).

A Xinhua comment on the Central Document No. 1 Central Document stressed the political, as well as economic significance of efforts to raise farmers' incomes. It drew attention to the significance of the changing terminology that had been used to characterise agriculture and rural work: from a "foundation position" to a "primary position" in economic work, and subsequently from "primary position" to becoming (as it was now designated) the CCP's "most important work." It also noted that between 1997 and 2003, the average growth rate of peasants' income had been a mere 4 per cent p.a. – about half of the corresponding figure for urban residents. It argued that

> the heaviest and most arduous tasks are in rural areas and the most crucial and difficult thing is to increase peasants' income. If the peasants cannot increase their income and the rural areas are unstable, the development of the national economy and

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social stability will lose their essential meaning and motive force. Therefore, we must understand the issue from a high political level, strive to help peasants increase their income at a relatively fast pace, and turn around the trend of an increasingly large gap of income between urban and rural residents. This is a necessary requirement to maintain a sustained, rapid, co-ordinated and healthy development of the national economy, a necessary requirement to reach the goal of building a well-off society in an all-round way, and also a necessary requirement to maintain social stability and a lasting good order of our country" (XHNA, 10 Feb.).

Following the annual Central Conference on Rural Work, the Minister of Agriculture (Du Qinglin) demanded that the grain sown area be no less than 100 million hectares in 2004, and that the average grain yield be raised from 292 to at least 303 kg./ha. (XHNA, 5 Jan.; see also Du in XHNA, 12 Jan.).

In January, Ma Xiaohe (Director of the State Development and Reform Commission's Institute of Industrial Development) noted that between September and November 2003, grain prices had risen – on average, by 10–20 per cent – for the first time in six years. Ma insisted that the increase did not imply the onset of a crisis, but suggested that it did indicate the need for a change in China's grain-security policy. In particular, he called for urgent measures to improve the "reserve capacity" of grain production. With total grain output at the lowest level for over a decade – insufficient, by over 55 million tonnes, to meet current levels of demand – there was a danger that further reductions would precipitate a grain security problem.

In the face of a downward trend in grain output, the view was gaining ground that China should adjust its grain security policy as follows: first, by seeking to maintain a grain reserve equivalent to 20 per cent of annual consumption demand; second, and much more radically, by redefining basis grain self-sufficiency in terms of a 90 per cent, instead of 95 per cent, criterion (in other words, to import up to 10 per cent of domestic grain demand). (See *RMRB*, 18 Feb. on the signing of a deal to purchase 1 million tonnes of US wheat.)

In February, the Chinese government unveiled plans – to be implemented during 2003–2010 – to provide professional skills training to over 200 million migrant rural workers. Xinhua noted an existing rural-urban migrant population of over 100 million, most of whom had jobs in "housekeeping, catering, hotels, construction and manufacturing industries." But it also acknowledged that only 9.1 per cent of labourers in rural areas had received formal occupational training, as a result of which they were debarred from many jobs that needed professional skills. The point was also made that 90 per cent of construction accidents involved migrant workers, 70 per cent of which were caused by substandard operations due to low educational levels and poor professional skills (XHNA, 13 Feb.).

It was reported from Harbin that in accordance with plans for adjustment formulated by the China National Petroleum and Gas Group Company, Daqing Oilfield (Heilongjiang) would to reduce its oil pro-

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duction by 2,000,000 tons in 2004. Given that Daqing contributed around a third of the province's GDP and two-thirds of its revenue, there were fears that the reduction would impact negatively on Heilongjiang's economic growth. The planned output contraction followed a reduction in oil output by 1.74 million tons during 2003 (XHNA, 6 Feb.).

China's imports of oil reached 91.12 million tons (crude) and 28.24 million tons (refined) in 2003, registering rises of 31.3 and 38.8 per cent and 38.8. The cost of oil imports was US$16.5 billion – 50 per cent more than in 2002. The increases were attributed to China's buoyant economic growth, with special attention being drawn to the rapid rise in oil demand resulting from housing and the expansion of motor vehicle use (in 2003, 96.5 million vehicles were on the road, and 2.04 out of 2.07 million cars produced were sold). By 2020, it was predicted that China would need to import over 500 million tons of oil and 100 billion cu.m. of natural gas (XHNA, 8 Feb.).

Meanwhile, the Ministry of Commerce revealed that planned crude oil consumption in 2004 was 270 million tons and that net oil imports would exceed 100 million tons (XHNA, 26 March).

An unconfirmed report stated that China planned to raise its energy production by 20 per cent by 2005. Specific targets included: oil, 173 million tons; natural gas, 50 billion cu.m.; electricity, 2.1 trillion kWh; and coal, 1.9 billion tons. Fulfilment of these targets would not, however, result in a reduction in oil imports, which were expected to account for 40 per cent of domestic oil consumption in the foreseeable future (XHNA, 9 Feb.).

It was reported from Beijing that the China Construction Bank (CCB) – one of the four major Chinese state-owned banks – had disposed of non-performing assets valued at 120.1 billion *yuan* (US$14.5 billion) in 2003. CCB was also said to have recovered a record 49.4 billion *yuan* (US$6 billion) in cash (XHNA, 4 Feb. See also XHNA, 5 Feb. for Wen Jiabao's remarks on the work of the State-Owned Assets Supervision and Administration Commission (SASAC)).

It was reported that at the end of 2003, China's foreign exchange reserves stood at US$403.3 billion – US$116.8 billion (40.8 per cent) more than at the end of the previous year (XHNA, 15 Jan.).

(g) Education

Table 14 shows enrolments in various educational institutions in China in 2003, as revealed by the NBS Communiqué on national economic and social development: Overall, there were 651,000 graduate students enrolled in universities and research institutes, of whom 269,000 were newly-enrolled. In addition, there were 11.086 million undergraduates studying at Chinese universities. Primary and junior secondary school enrolments are shown in Table 15. In addition, 371,000 students were enrolled in special education schools – 53,000 of them, new entrants. Finally, kindergartens accommodated 20.36 million young children.

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Table 14: **New Entrants and Graduates, 2003 (millions)**

New entrants	
Postgraduates	0.269
General Universities	3.822
Adult Education	10.00
Secondary Vocational Schools	50.41
General Senior Secondary Schools	75.21
New graduates	
Postgraduates	1.11
General Universities	18.78
Adult Education	-
General Senior Secondary Schools	45.81

Table 15: **School Enrolments, 2003 (millions)**

	New entrants	*Total enrolment*
Primary schools	18.294	116.897
Junior secondary schools	22.201	66.906

(h) Military Affairs

An article in *People's Daily* noted the concern – especially in foreign media – that was expressed, following the announcement by Jin Renqing (Minister of Finance) at the recent NPC meeting, that China's national defence expenditure would rise by 11.6 per cent in 2004. It suggested that the reaction was both misguided and exaggerated. The stated increase in military spending was designed to meet payments associated with staff salaries, pensions "activity maintenance" and equipment purchases. Reports, such as that of Kyodo and Associated Press, suggesting that the higher level of spending would be used to buy offensive weapons (e.g., submarine and missiles) to develop "asymmetrical method of operation" and/or to raise China's military posture vis-à-vis Taiwan, were ill-judged. The reality was that, compared with those of other countries (e.g. the United States, Japan and even Taiwan), China's military budget was modest. Moreover, China's defence modernization plans were essentially no different that those of other countries that were engaged in military restructuring needed to accommodate "modern high-tech warfare."

In short, the article rejected foreign media's accusations against China. Thus,

> The Chinese government has always adhered to the principle of strict control, administration and supervision over its defence expenditures, and has set up a complete management system and regulatory system. In operational procedures, the defence budget and its final account are examined and approved by the NPC … The Chinese army is confidently marching on a correct road of openness and transparency (*RMRB*, 15 March).

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(i) Hong Kong Special Administrative Region (HKSAR) and Macau Special Administrative Region (MacSAR)

In his Policy Address for 2004, delivered to the Legislative Council on 7 January (see XHNA, 7 Jan.), the HKSAR Chief Executive (Tung Chee Hwa) spoke of the HKSAR government's determination to "get close to the people, to improve governance and to properly plan political arrangements for the future" in order to gain the further support of the local community. In a reference to the outbreak of SARS, he referred to the "severe trial" that Hong Kong citizens had experienced during the previous year, which had provided a "painful lesson" for the government. But he insisted that economic recovery from the impact of SARS and other earlier difficulties was under way.

The Chief Executive told Legislative Council members that his government would seek to promote constitutional development in Hong Kong on the basis of the 'one country, two systems' formula and in accordance with the provisions of the Basic Law. To this end, the choice of methods for selecting and appointing the Chief Executive and the Legislative Council after 2007 was central to the evolution of Hong Kong's political institutional framework and structure, not least because of the implications for the implementation of the Basic Law, and the nature of relations between HKSAR and Beijing. Tung was at pains to insist not only of the great importance which the HKSAR government attached to such matters, but also to reaffirm its strict adherence to the Basic Law in handling them. He added,

> When I was on my duty visit in Beijing recently, President Hu pointed out to me the serious concern and principled stance of the central people's government towards the development of Hong Kong's political structure. Thereafter, some mainland legal experts and certain individuals in Hong Kong have also expressed their views on the matter … We definitely need to understand the full implications of these important issues, before making appropriate arrangements for the review of constitutional development."

This was the background against which it had been decided to set up a task force to examine these issues ("particularly those concerning the understanding of the relevant provisions of the Basic Law") and to continue to consult Chinese government representatives in Beijing (see also below).

Tung acknowledged the continuing strengths of Hong Kong's business environment, but warned against complacency. In particular, he urged the business community to respond to the demands of globalization, as well as to increasing inter-regional and "inter-city" competition. He drew attention to excessively high business costs in HKSAR and of the inadequate response of its human resources to meet the specific needs of technology – and knowledge-intensive, high value-added industries. Hence, the need to nurture and attract appropriate talents to the region, to strengthen its infrastructure, and to enhance technological innovation.

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Tung was optimistic about the prospects for continuing economic growth and declining unemployment in and beyond 2004. The core issues in the immediate future were those of deflation and the fiscal deficit. On the first, he insisted that against the background of five years of falling prices, rents and asset values, deflation was beginning to ease, thanks to the positive effects on consumption and investment resulting from government measures to stabilize the property market, attract more tourists and stimulate consumption. The official view was that deflation would disappear within 12–18 months. Meanwhile, the decline in asset prices and wages had increased Hong Kong's competitiveness, laying a strong foundation for future economic recovery.

Tung Chee Hwa noted that because of increased government spending needed to combat SARS, the target date for restoring fiscal balance had been postponed until the fiscal year 2008–9. In order to eliminate the fiscal deficit, a policy package was needed, embracing tax and fee reductions, a contraction in public spending, and the promotion of vigorous economic growth. At the same time, the government remained committed to achieving a proper balance between reducing the fiscal deficit and safeguarding people's livelihoods.

He was bullish about the favourable development and co-operation prospects offered by the China–Hong Kong Closer Economic Partnership Arrangement (CEPA), and noted that Beijing's agreement that Hong Kong banks should conduct personal renminbi business and provide clearing arrangements had strengthened the region's role as an international financial centre. He spoke with satisfaction of the relocation of the international treasury and foreign exchange activities of the Bank of China and four major Chinese state-owned commercial banks to Hong Kong, and predicted that CEPA would facilitate similar moves by Chinese shareholding banks. He drew special attention to Hong Kong's role in China's foreign trade, and stressed that the comprehensive producer services that it offered made the region "the best operating platform for linking markets abroad and at home." Strengthening such co-operation was one means whereby Hong Kong's position as "region's logistics hub" could be further enhanced. Not least, liberalization of air services promised to help Hong Kong maintain its core role as an air transport hub, while the realization of the full potential of Container Terminal 9 during 2004–5 would underline its maritime transport role.

Despite pressures to reduce the region's fiscal deficit, some HK$1.2 billion would be directed towards the implementation of employment measures. These would include the creation of more temporary jobs, the extension of the "Youth Work Experience and Training Scheme" by two years in order to generate employment for 10,000 people between the ages of 15 and 24, and the introduction of a one-year experimental scheme to help young people to become self-employed. Tung added that strict measures would be implemented in order to combat problems associated with the employment of illegal workers.

Education was again a priority issue in the 2004 Policy Address.

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Educational investment, especially in tertiary institutions, was seen as a key element in raising Hong Kong's competitiveness, and Tung urged that the proportion of secondary school graduates going on to further education should be further raised from the current 48 per cent level. He reaffirmed the intention of implementing educational reforms in order to create an academic structure of three-year junior secondary schooling, three-year senior secondary schooling and four-year university training. It was revealed that education absorbed about a quarter of HKSAR government spending.

On 1 January, some 100,000 pro-democracy protesters marched to HKSAR government headquarters, where they called for direct elections for the appointment of Chief Executive and all members of the Legislative Council. A representative of the HKSAR government acknowledged the demands of the protesters and reaffirmed that "democratic advancement" would be pursued in accordance with the Basic Law (RTHK, 1 January).

Constitutional reform in Hong Kong was the subject of heated debate in the quarter. A significant event was the re-publication, in February, of Deng Xiaoping's July 1984 speech on 'one country, two systems,' in which he set out the principles underlining the patriotism of Hong Kong residents (viz. the notion that "two systems" should be based on "one country," support for reunification by HKSAR government officials, recognition that Hong Kong's autonomy lay within the authorization of Beijing, acceptance of the executive-led government, and the balanced participation of all sectors of society in local government). Tung Chee Hwa stressed the importance of these principles and urged local citizens to "reflect carefully… [in a] forward-looking, calm and rational manner" on them. Tung's remarks followed the publication of an editorial in *China Daily*, stating that patriotism required that "those who ruled Hong Kong must love the motherland and Hong Kong and must safeguard the fundamental interests of the country and the stability and prosperity of Hong Kong" (see *South China Morning Post* (*SCMP*) 21 Feb.) and adding,

> judging with [sic] this criterion, some people in the SAR who are currently in positions of power do not meet this prerequisite to be rulers of Hong Kong … They are not willing to live under 'one country'. They keep on hassling the SAR government and the central authorities. They are opposed to legislation for national security, organise or participate in activities against the central government, invite foreign intervention in Hong Kong affairs, and lend open support to Taiwan independence. Such behaviour has worried Hong Kong people and the central government" (quoted in *SCMP*, 21 Feb.)

Later, the Secretary for Constitutional Affairs (Stephen Lam Sui-lung) announced that a campaign to promote the Basic Law would be launched in April to coincide with the 15th anniversary of its inauguration. He also

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suggested that HKSAR officials should consider including references to "one country" in the promotional material in order to convey to Hong Kong citizens "a deeper understanding of the origin of the Basic Law" (*SCMP*, 26 Feb.).

On 26 March, Donald Tsang (Chief Secretary for Administration) commented on the inclusion of "the legislative process relating to Hong Kong's constitutional development" on the agenda of the forthcoming (2 April) meeting of the NSPCC in Beijing. He insisted on the propriety and need to discuss such constitutional issues with the Chinese central authorities and noted that the NPCSC was charged with interpreting national laws, including the Basic Law. From this perspective, the NPCSC discussions promised to "officially clarify the legislative issues concerning constitutional development in Hong Kong, so that we could get a clear picture of how we are to proceed, in full accordance with the Basic Law, in search of a proposal which would best address Hong Kong's interests" (HKSAR Government website, 26 March).

A HKSAR government spokesman announced that Hong Kong's third election to choose 60 Legislative Council members would take place on 12 September 2004. Functional and geographical constituencies would meanwhile each elect 30 members.

It was reported on 19 January that in the final quarter (Q4) of 2003, the unemployment rate in Hong Kong fell to 7.3 per cent (cf. 7.5 per cent in Q3). Much of the rise in employment was concentrated in decoration and maintenance, restaurants and hotels, wholesale and retail trades, communications, business services and education. The underemployment rate meanwhile fell from 3.4 to 3.3 per cent. During the same period, the total labour force increased from 3,481,700 to 3,489,000 (XHJNA, 19 Jan.).

2. Foreign Relations

(a) Diplomatic Tours

Li Zhaoxing's visits to Sudan, Comoros, Djibouti and Uganda (4–10 January)

Following his arrival in Khartoum, Li Zhaoxing held talks with the Sudanese Foreign Minister (Mustafa Uthman Isma'il) and other government officials. The foci of their discussions were bilateral, regional and international issues. They agreed on the need for regional and international co-operation in fighting terrorism, but drew a distinction between "terrorism and people's right to defend their usurped rights." It was revealed that China had become Sudan's most important trading partner. In separate discussions with the Sudanese Minister of Energy and Mining (Awad Ahmad al-Jaz), Li discussed Chinese-funded energy and oil projects in Sudan (XHNA, 6 January).

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Following his three-day visit to Sudan, Li Zhaoxing flew to Moroni, where he held talks with the President of Comoros (Azali Assoumani). Li spoke of China's willingness to extend bilateral exchanges and other forms of co-operation with Comoros. The two sides signed an agreement on economic and technological co-operation (XHNA, 7 Jan.).

On 8 January, the Chinese Foreign Minister held talks in Djibouti with President Ismail Omar Guelleh. Li spoke of the importance which the new Chinese government attached to its relations with Djibouti and other African countries. He hoped that bilateral co-operation with Djibouti would be strengthened. Li also held discussions with Premier Dileita Mohamed Dileita and the Foreign Minister of Djibouti (Ali Abdi Farah) (XHNA, 8 January).

Hu Jintao's visits to France, Egypt, Gabon and Algeria

Hu Jintao, with an entourage that included Li Zhaoxing and State Councillor (and former Foreign Minister) Tang Jiaxuan, left Beijing for France on 26 January. In advance of his arrival in Paris, Xinhua provided the following statistical evidence of progress in Sino-French relations:

> Bilateral trade: the value of two-way trade in 2003 was US$13.39 billion (60.9 per cent above the 2002 level).
> Financial co-operation: as of end-2002, China and France had signed 23 financial protocols and two grant agreements. The French government had pledged loans to China of 2.57 billion euros.
> French foreign direct investment (FDI): as of end-2001, the value of contractual FDI in China was US$6.26 billion (US$5.03 billion in utilized terms), making France the third-largest source of such capital among EU member states.
> Education: at the end of 2001, some 2,776 Chinese students were studying in France; and 1,057 French students studying in China.

In a written statement, issued on his arrival in Paris (26 January), Hu Jintao referred to the friendship between China and France, and noted that since the establishment of their "comprehensive partnership" in 1997, bilateral relations had developed rapidly, facilitating major progress in economic, trade, technological and cultural co-operation, as well as in international affairs. Hu expressed the hope that his current visit would serve to strengthen such ties.

In talks that lasted three hours, President Jacques Chirac reaffirmed France's commitment to the "one China principle." He hoped that Hu's visit would mark the beginning of a new stage in the two countries' "partnership" and, in particular, that economic relations would be further strengthened. According to a French presidential spokeswoman, the two men discussed three areas in which co-operation might be readily extended: aviation, rail transport and the non-military nuclear sector. They

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also exchanged views on international issues, including the situations in Iraq, Iran, the Middle East, Afghanistan and North Korea. It was revealed that human rights had not been one of the items on the President Chirac's discussion agenda, although he was expected to address the subject during the state dinner that evening (Agence-France Presse (AFP), 26 Jan.).

Xinhua reported that the two men had reached a broad consensus in the course of their talks. It cited Hu as warning against "unknown elements" in Iraq and other parts of the Middle East and urging more use to be made of the UN in resolving global problems. He noted that China and France shared identical or similar views on many major international issues and spoke of the Chinese government's willingness to "strengthen consultation, co-ordination and co-operation with France to better safeguard world peace and development" (XHNA, 26 Jan.).

On 27 January, Presidents Hu and Chirac signed a joint declaration in which they undertook to deepen the two countries' "comprehensive strategic partnership" and work together towards creating a "safer, more diverse and united" world. They agreed on joint efforts to strengthen the multilateral system, whose advocacy both men reaffirmed, and to safeguard collective security. They also pledged co-operation within the UN Security Council and UN General Assembly in accordance with the principles of the UN Charter, and referred to the importance which they both attached to compliance with the nuclear Non-Proliferation and Comprehensive Nuclear Test Ban Treaties. The joint declaration noted that during Hu Jintao's visit, the two sides had reaffirmed their friendship and expressed their determination to "consolidate, develop and enrich" their partnership. In particular, they had reached a threefold consensus on "making joint efforts to strengthen the multilateral system and safeguard collective security; promoting solutions to global concerns; and deepening Sino-French ties as a significant part of Sino-European relations" (full text in XHNA, 27 Jan.; see also XHNBA, 27 Jan. for details of the discussions between Li Zhaoxing and his French counterpart, Dominique de Villepin).

On 29 January, when he met the French Prime Minister (Jean-Pierre Raffarin), Hu referred to Raffarin's visit to China in April 2003, at a time when China was urgently seeking to overcome the effects of the SARS crisis. He cited the visit as evidence of the great importance which the French government evidently attached to Sino-French ties. For his part, Raffarin stated that the successful presidential discussions two days earlier and the joint declaration which it had generated would facilitate the further development of bilateral co-operation. Hu noted that in addition to energy, transport and aviation, agriculture was another area in which fruitful co-operation was promised (XHNA, 29 Jan.).

Later the same day, Hu and his entourage flew from Paris to Cairo, where he began a four-day state visit to Egypt. Following his arrival, he held talks on bilateral, regional and international issues with President Husni Mubarak. Both men agreed on the need to strengthen political exchanges and to extend economic and trade co-operation. Mubarak

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expressed his belief that Hu's visit would mark the start of a new phase in bilateral political and economic relations. Hu meanwhile praised Egypt's role in regional and international affairs and suggested a number of ways (including reciprocal official visits, educational exchanges and economic co-operation) in which the two countries might move more closely together. Mubarak endorsed these suggestions (XHNA, 30 Jan.).

On 30 January, Li Zhaoxing and Amr Mahmud Musa (Secretary-General of the League of Arab States (LAS)) announced the establishment, in Cairo, of a China–Arab States Co-operation Forum. The announcement followed a meeting between Hu Jintao, and Musa and other representatives of Arab states. (The full text of the communiqué on the Sino-Arab Co-operation Forum can be found in XHNA, 31 Jan.)

Xinhua noted that Sino-Egyptian trade exceeded US$1 billion in 2003 – some 15 per cent above the 2002 level. During the same period, Egyptian exports to China rose by 75 per cent.

On 1 February, Hu Jintao left Egypt for Gabon, where he exchanged views on bilateral and other issues with President El Hadj Omar Bongo Ondimba and other government leaders. Following their talks, during which Hu pledged increased Chinese aid to African countries, the two men attended a signing ceremony of three bilateral co-operation agreements (see XHNA, 2 February for Hu's three-point proposal on strengthening relations between China and Africa).

The last leg of Hu's journey took him to Algeria. In Algiers, the Chinese President held talks with his counterpart, Abdelaziz Bouteflika, on bilateral relations, and international and regional issues of common concern. The two subsequently attended a signing ceremony of agreements on economic, technological and educational co-operation (XHNA, 3 Feb., which also contains a review of Sino-Algerian relations). Hu also had an exchange of views with Premier Ahmed Ouyahia. (For the full text of the joint communiqué issued by the two sides, see XHNA, 4 Feb.).

Algerian Radio reported (4 Feb.) that during Hu's visit Sonatrach (the Algerian state oil and gas company) and the China National Petroleum Corporation signed a partnership agreement designed to facilitate expanded energy co-operation. The agreement included plans to expand co-operation in exploitation, production and treatment of oil and natural gas, and pipeline transportation.

(b) Countries, Territories and Regions

The Caribbean (Jamaica, Suriname [Surinam], Dominica)

Following his arrival in Beijing, on 18 February the Jamaican Minister of Foreign Affairs and Foreign Trade (Keith Desmond Knight) discussed bilateral ties, and regional and international issues of common concern with his Chinese counterpart, Li Zhaoxing. The two men were reported to have reached a broad consensus.

On 24 February, President Runaldo Ronald Venetiaan of the Republic of Suriname arrived in Beijing, where he met Hu Jintao. Hu hoped that

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the momentum of high-level scientific, educational, cultural and health exchanges could be maintained and that economic co-operation could be strengthened. He also called for greater co-ordination in international affairs. Venetiaan endorsed Hu's suggestions. Xinhua reported that the two men had reached consensus in their discussions of bilateral regional and international issues The two sides signed three documents, including an agreement on economic and technological co-operation (XHNA, 24 Feb.; see also XHNA, 25 Feb.).

Xinhua (30 March) released the text of the joint communiqué between the China and the Commonwealth of Dominica, signed in Beijing on 23 March on the establishment of diplomatic relations between the two countries.

Commonwealth of Independent States (Uzbekistan, Russia; Shanghai Cooperation Organization)

On 13 January, the Uzbek Foreign Minister (Sodiq Safoyev) arrived in Beijing for talks with Chinese government officials, as well as to attend the foreign ministerial meeting of the Shanghai Cooperation Organization (SCO). Safoyev's discussions with Li Zhaoxing focused on bilateral, regional and international affairs of shared concern, the Chinese Foreign Minister noting the close co-operation of the two sides in combating the "three forces" (terrorism, extremism and separatism), as well as their co-ordinated stance in regional and international affairs within the SCO framework. The two men later signed an agreement on bilateral foreign ministerial co-operation and consultation (XHNA, 14 Jan.).

Also in Beijing to attend the SCO meeting, the Russian Foreign Minister (Igor Ivanov) met Li Zhaoxing in order to discuss preparations President Putin's visit to China, scheduled to take place in October 2004. Ivanov described current Russian-Chinese relations as "the best in the entire history of relations … one of the major factors of not only regional, but also global security and stability." The two sides signed a number of co-operation documents (Moscow, Interfax and ITAR-TASS, 14 Jan.)

ITAR-TASS (Moscow, 13 Jan.) revealed that the value of trade between Russia and China in 2003 was US$15.7 billion. Russian exports rose by 15.5 per cent to reach US$9.7 billion, while the value of the reverse flow was US$6 billion (a rise of 71.4 per cent). As a result, Russia's trade surplus fell by almost 25 per cent to US$3.7 billion.

The SCO Foreign Ministers' Meeting opened in Beijing on 15 January, the opening address being made by Li Zhaoxing. In addition to Li, the foreign ministers of Russia (Igor Ivanov), Kazakhstan (Kasymzhomart Tokayev), Kyrgyzstan (Askar Aytmatov), Tajikistan (Talbak Nazarov) and Uzbekistan (Sodiq Safoyev) took part in the meeting. The same day saw the inauguration of the SCO Secretariat and the appointment of Zhang Deguang – former Chinese vice foreign minister and former ambassador to Russia – as the first SCO Secretary-General. The responsibilities of the Secretariat would embrace political, economic and anti-

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terrorist activities (XHNA, 15 Jan.). A propos of Mongolia's interest in joining the SCO, Ivanov noted that in the absence of an appropriate legal framework admission of new members was premature, but insisted that existing mechanisms offered a sufficient basis for co-operation between SCO members and non-members.

Also on 15 January, President Hu Jintao addressed the SCO foreign ministers. He praised the positive image that SCO had projected and urged all SCO members, in accordance with the consensus reached at the organization's previous summit meeting, to act against terrorism and in defence of "security, trade [and] economic co-operation" in order to promote regional and global peace, stability and development.

Following their meeting, the SCO ministers issued a communiqué. It made clear the SCO's core task of promoting economic co-operation within SCO, noted the completion of a draft agreement on banning illegal trafficking of narcotic medicines, and referred to plans to legislate for the admission of new members, as well as for the granting of observer and partner status. The document also expressed support for the inauguration of a "SCO anti-terrorism centre" in Tashkent, Uzbekistan, and noted that the next SCO summit would take place in June 2004 (XHNA, 15 Jan.).

Eastern Europe (Romania)

The Romanian Prime Minister (Adrian Nastase) visited China between 13 and 19 February. He was accompanied by his Trade Minister-designate (Eugen Dijmarescu), who met Chinese Deputy Minister of Commerce, Chen Jian, with whom he discussed a number of co-operation projects. It was revealed that bilateral trade had risen by 27 per cent in 2003, to reach US$1 billion.

Macedonia Radio reported that in Beijing on 17 February, its Defence Minister (Vlado Buckovski) and his Chinese counterpart (Cao Gangchuan) signed an agreement on military-technical co-operation and a protocol for a military donation of computer equipment for the Macedonian Army.

Japan

On 1 January, the Chinese Vice-Foreign Minister (Wang Yi) personally lodged a strong protest to the Japanese chargé d'affaires in Beijing (Chikahito Harada) against the visit to the Yasukuni Shrine in Tokyo by Japan's Prime Minister, Junichiro Koizumi. Wang was reported as saying that the Shrine "enshrines Class-A war criminals with both hands bloodied by the blood of the peoples of China and Asia" and accused Koizumi of having "broken faith" in making the visit (Kyodo, 1 Jan.). Xinhua later described the visit as a "perfidious act" which had "undermined the political basis for Sino-Japanese ties" (XHNA, 2 Jan.).

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Latin America (Brazil)

On 21 March, at the invitation of Li Zhaoxing, the Brazilian Foreign Minister (Celso Amorim) arrived in Beijing for a four-day visit. The following day, Amorim held talks on bilateral relations and issues of common concern with Premier Wen Jiabao. He also met Tang Jiaxuan.

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

On 10 February, a Foreign Ministry spokeswoman noted that Chinese mission members would shortly arrive in Iraq in order to prepare for the re-opening of the Chinese embassy in Baghdad. The mission, currently in Jordan, was headed by the Chinese interim chargé d'affaires to Iraq (Sun Bigan) and a staff of seven, as well as six security guards. The diplomatic mission duly arrived in Baghdad on 16 February.

At the end of March, the Yemeni Prime Minister (Abd-al-Qadir Abd-al-Rahman Ba-Jammal) arrived in Beijing on a four-day official visit to China. On 29 March, he held talks with Wen Jiabao, who gave an undertaking to seek to expand trade and economic co-operation. During the visit, the two sides signed seven agreements embracing the economy, energy and education (XHNA 29 March).

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

On 28 March, Ban Ki-moon (South Korean Minister of Foreign Affairs and Trade) arrived in Beijing. In talks between Ban and Li Zhaoxing, the two men spoke positively of the development of bilateral relations and expressed the hope that the consensus previously reached by Chinese and South Korean leaders would be implemented in the interests of advancing the two countries' "comprehensive partnership of co-operation." They discussed maritime issues and agreed on concerted efforts to start third round of the "Beijing six-party talks" (on North Korea) as soon as possible (XHNA, 29 March). Ban also met Wen Jiabao, with whom he discussed bilateral relations and other issues of common concern.

Pacific Islands (Papua New Guinea, Federated States of Micronesia)

The Prime Minister of the Independent State of Papua New Guinea (PNG), Sir Michael Somare, made an official visit to China between 9 and 12 February. Following his visit the two sides signed a joint communiqué (full text in XHNA, 12 Feb.). During his visit Somare held discussions with Wen Jiabao and other government officials, and five documents on economic, educational, agricultural and mining co-operation were signed.

On 19 March, Joseph J. Urusemal (President of Micronesia) arrived in Shanghai.

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South Asia (India, Bangladesh, Afghanistan)

In Beijing in January, representatives of China (Dai Bingguo, Vice-Foreign Minister) and India (Brajesh Mishra, Indian National Security Adviser and Principal Secretary to the Prime Minister) held their second ministerial-level meeting on border issues. A Chinese Foreign Ministry source described the discussions as "friendly and constructive." The first ministerial meeting was held in October 2003, and it was agreed that a third round of talks would take place in New Delhi (XHNA, 13 Jan.).

A report by the Press Trust of India (PTI) reported that the fourth meeting of the India-China Eminent Persons Group (EPG) had been held in New Delhi and noted predictions that two-way trade between China and India would reach a record level of US$10 billion in 2004. The value of merchandise trade had already reached a historical peak of US$7.598 billion in 2003, with Indian exports of US£4.253 billion and imports of US$3.345 billion. These figures compared with trade of only US$338.5 million in 1992 (PTI, 19 Feb.).

On 25 March, PTI revealed that formal talks had begun in Beijing to consider signing a bilateral Free Trade Agreement (FTA) and a Comprehensive Economic Cooperation Agreement (CECA) between China and India.

On 20 January, Li Zhaoxing held talks in Beijing with his Bangladeshi counterpart (Shamsur Mobin Chowdhury). Both hoped that their two countries would work to strengthen both bilateral and regional co-operation.

On 10 March, Tang Jiaxuan (State Councillor and former Foreign Minister) held talks in Beijing with the Afghan Foreign Minister, Abdollah Abdollah.

South-East Asia (Association of South-East Asian Nations (ASEAN)).

It was reported that the value of bilateral trade between China and ASEAN reached a record level of US$78.25 billion in 2003 – a year on year rise of 42.8 per cent. Concealed within this figure was a 51.7 per cent rise in Chinese imports (to US$47.33 billion), and a 31.1 per cent increase in exports (US$30.93 billion). The result was a Chinese trade deficit of US$16.4 billion (XHNA, 8 Feb.).

Taiwan [Republic of China]

A spokesman of the State Council's Taiwan Affairs Office revealed that two-way trade between China and Taiwan during 2003 had reached a record US$58.37 billion. It was said to be the first time that trade had exceeded US$50 billion. In addition, China had approved 4,495 projects funded by Taiwanese investors, worth US$8.56 billion of contractual capital (XHNA, 14 Jan.; see XHNA, 25 Feb. for a report that utilised FDI from Taiwan totalled US$3.4 billion in 2003).

CNA reported on 1 March that China had overtaken Japan and the USA to become Taiwan's single most important trading partner. Accord-

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ing to the Bureau of Foreign Trade (BOFT) in Taipei, the value of two-way trade in 2003 was US$46.32 billion (exports to China, NT$35.358 billion – up 20 per cent; imports from China, NT$10.962 billion – up 37.9 per cent). China's share of Taiwan's global exports was 24.5 per cent.

Xinhua quoted media reports from Taiwan that President Chen Shui-bian and Vice-President Annette Lü had been wounded by gunshots during election activities in Tainan City. A spokesman from the State Council's Taiwan Affairs Office (TAO) stated "We've taken note of the shooting at Chen Shui-bian and Annette Lu [and] we'll continue to follow the developments" (XHNA, 19 March).

Xinhua reported, without comment, that voting for the election of "Taiwan authorities' leaders" had taken place on 20 March. It noted the marginal victory for Democratic Progressive Party candidates (Chen and Lü), with 50.11 per cent of the vote, over the coalition Kuomintang and People First Party candidates (Lien Chan and James Soong), with 49.89 per cent. It also quoted the "strong announcements" made by Lien and Soong immediately after the election and their questioning of the result. In answer to a reporter's question about the election dispute, a TAO spokesman merely repeated reports from the Taiwan media, adding that "[w]e are closely following the development of the situation."

From the same source came a more outspoken comment on the referendum called by the DPP administration:

> On 20 March, the Taiwan authorities obstinately (*zhiyi*) held the so-called 'peace referendum' in a provocative attempt to undermine cross-strait relations and separate the country. The referendum turned out to be invalid. Facts have proved that this illegal act goes against the will of the people. Any attempt to separate Taiwan from China is doomed to failure" (XHNA, 20 March; see also Hong Kong, *Ta Kung Pao* [*Dagong bao*], 21 March).

Subsequently, Xinhua reported – again, without comment – demonstrations in Taipei by 500,000 Taiwan "common people" against the "unfair and unjust" outcome of the election.

United States of America

In Beijing on 30 January, visiting US Deputy Secretary of State (Richard Armitage) exchanged views with Premier Wen Jiabao on bilateral relations and other issues of mutual interest. Both spoke positively of recent developments in Sino-US ties and drew particular attention to the outcome of during separate meetings which President Bush had held with Hu Jintao and Wen Jiabao. They recited the familiar litany that a strong China–US relationship served both sides' interests, as well as those of the rest of the world. Wen was at pains to reaffirm its commitment to Taiwan's peaceful reunification with the mainland in accordance with the formula of 'one country, two systems.' Armitage acknowledged the importance and sensitivity of the Taiwan issue, and made clear US adherence to the one-China policy and the three Sino-US joint communiqués. He added that the US administration would offer no support to

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Taiwan independence and was opposed to "any rhetoric or actions that will unilaterally change the status of Taiwan." Armitage also held separate meetings Chinese Vice-foreign Ministers Dai Bingguo and Zhou Wenzhong (XHNA, 30 Jan.).

In February, US Trade Representative Robert Zoellick travelled to Beijing and had talks with senior Chinese officials. Vice-Premier Wu Yi spoke of the rapid development of Sino-US trade ties in recent years. He told Zoellick that China favoured new WTO members – including China – receiving "special status" and "special and differential treatment" in the new round of multilateral trade negotiations. He insisted that the core issue in the new talks was that of agriculture, and added that the Chinese government believed that "the early conclusion of a package of win-win negotiation results accords with the interests of both developed and developing." He welcomed the US side's "constructive" proposals on a time limit for eliminating agricultural export subsidies (XHNA, 12 Feb., which also reported comments made by Zoellick).

On 1 March, the State Council issued a "Human Rights Record of the United States in 2003." Intended as a response to the US's "Country Reports on Human Rights Practices" from six perspectives – life, freedom and safety; political rights and freedom; living conditions of US labourers; racial discrimination; conditions of women, children and elderly people; and infringement upon human rights of other nations – it listed cases designed to demonstrate serious violations of human rights that had supposedly occurred on American soil. In its support, the State Council report noted,

> As in any previous year, the United States once again acted as 'the world human rights police' by distorting and censuring in the 'reports' the human rights situation in more than 190 countries and regions across the world, including China. And just as usual, the United States once again 'omitted' its own long-standing malpractices and problems of human rights in the 'reports'. Therefore, we have to, as before, help the United States keep its human rights record" (full text in XHNA, 1 March).

Western and Southern Europe (United Kingdom, Denmark, Portugal, Spain; European Union (EU))

Xinhua reported the death of at least 19 Chinese cockle pickers after they were trapped by a rapidly rising tide in Morecambe Bay (Lancashire, UK) on the night of 15 February. The report quoted Beverley Hughes (UK Minister at the Home Office) to the effect that "people-trafficking" was thought to be the origin of the tragedy. The Chinese Consul-General in Manchester (Deng Boqing) was also reported as having conveyed Li Zhaoxing's concern about the incident (XHNA, 6 Feb.).

On 24 February, the Danish Prime Minister (Anders Fogh Rasmussen) arrived in Shanghai at the start of a five-day working visit to China. He told Vice-Mayor Yang Xiaodu that Denmark was willing to co-operate with Shanghai in fields such as environmental protection and energy.

Following his arrival in the Chinese capital, Rasmussen met Wen

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Jiabao. The Chinese Premier expressed the hope for expanded trade, as well as further co-operation in various fields, including high and energy technologies, environmental protection, farming and animal husbandry. He suggested that increased co-operation might be usefully embedded in small and medium-sized businesses. In the political sphere, Wen sought to raise high-level exchanges between the Chinese and Danish government in order to enhance their co-ordination in international affairs. Rasmussen undertook to strengthen bilateral economic and commercial ties. The two men later attended a ceremony for the signing of five documents (including a memorandum on tourist visas and two agreements on shipbuilding) between the two countries (XHNA, 26–27 Feb.). Rasmussen also met Hu Jintao.

On 2 March, the visiting Portuguese Foreign Minister (Ms. Teresa Patricio Gouveia) held talks with Wen Jiabao.

On 12 March, a Chinese Foreign Ministry spokesman expressed the government's strong condemnation of the terrorist bombings, which happened earlier the same day in Madrid, causing almost 200 deaths and over 1,400 injuries. Premier Wen Jiabao was reported to have sent a message of condolence to the Spanish Prime Minister, Jose Maria Aznar. The spokesman reiterated China's opposition to terrorism and its willingness to co-operate with the international community to eliminate it (XHNA, 12 March).

On 14 March, the EU Trade Commissioner (Pascal Lamy) and Javier Solana (Secretary-General of the EU Council) arrived in Beijing on a two-day visit, designed to strengthen Sino-EU trade and co-operation within the WTO framework. In advance of his arrival, Lamy noted that China's position as the EU's second-largest trading partner made it important to maintain regular contact in order both to expand bilateral trade and also to strengthen their co-operation within the framework of the Doha Development Agenda" (XHNA, 14 March; see also *RMRB*, 17 March).

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