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# A Political and Economic Introduction to China

*"If the 20<sup>th</sup> century ended in 1989, the 21<sup>st</sup> began in 1978"*

*Martin Jacques, The Guardian, 25 May 2006*

China's political and economic rise and what it means for the world is now a central preoccupation of analysts and policy-makers. Public awareness of China is likely to increase as the 2008 Olympics in Beijing draw near. This Research Paper is intended to act as a resource that Members of Parliament and their staff can draw upon when engaging with China's remarkable transformation.

Part I provides key facts and figures about China. Parts II and III review recent developments and future prospects by addressing four key questions. Is political authoritarianism sustainable? Can China's development be peaceful? What are the main domestic economic challenges facing China? What is China's impact on the world economy? Part IV summarises key aspects of UK and EU relations with China. The Paper ends with a select bibliography of key sources. The Research Paper is intended to act as a platform for a series of Library Standard Notes that will address in more depth specific issues about China that there is space here only to discuss briefly.

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## Summary of main points

China's political and economic rise and what it means for the rest of the world is now a central preoccupation of analysts and policy-makers. Public awareness of China is likely to increase as the 2008 Olympics draw near. This Research Paper is intended to act as a resource that Members of Parliament and their staff can draw upon when engaging with China's remarkable transformation.

Part I provides key facts and figures about China, drawing together information regarding its history, economic indicators, political system, treaty obligations, membership of international and regional organisations and the role of the Chinese overseas. For example:

- China's dramatic economic growth means that today it is responsible for 10% of the world's total value of goods exports and 8% of the world's total value of goods imports;
- Communist Party membership stands at nearly 70 million;
- The next ("fifth") generation of party leaders looks likely to come from amongst the ranks of current party chiefs at provincial level;
- China has signed the International Covenant on Civil and Political Rights but not yet ratified it;
- By the early 1990s the so-called 'overseas Chinese economy' was estimated to be the fourth largest in the world.

Parts II and III review recent developments and future prospects by asking four key questions:

- *Is political authoritarianism sustainable?*

While most analysts argue that it is not, few believe that dramatic political change is likely in the short-term. If they are right, the next five years could involve 'muddling through', while seeking to improve the quality of public institutions and the legal system.

- *Can China's development be peaceful?*

Noting the growth of nationalism, many analysts identify Taiwan as the issue most likely to lead to violent conflict, potentially drawing in the US. Relations with Japan are also fragile and there could yet be turbulence within China – for example in Xinjiang Province.

- *What are the main domestic economic challenges facing China?*

Some analysts are worried about problems within the state-owned banking system, growing income gaps between the urban and rural areas, heavy reliance on investment as an engine of growth and currency issues.

- *What is China's impact on the world economy?*

European and US policy-makers alike are apprehensive about the potential of disputes with China to undermine processes of globalisation. Some partly blame the valuation of the Chinese renminbi for the US-China trade deficit. Not all analysts are convinced by this diagnosis.

Part III summarises key aspects of UK and EU relations with China. For example, it reviews the UK-China Human Rights Dialogue, which the Foreign Affairs Select Committee describes as having made "glacial progress". It also looks at bilateral trade issues. A five-year strategy is due to be published by the British Government in summer 2006 designed to increase UK trade with China. Finally, it also briefly surveys the EU-China arms embargo, which – following the controversy during 2004-05 over whether it should be scrapped – is now subject to "ongoing review" by the EU.

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# I Key Facts and Figures

## A. Historical Chronology

Pre-1900	1500 BC	Earliest written records.
	1100-221 BC	Zhou dynasty.
	206 BC-221 AD	Han Dynasty established. Civil service developed. Expansion of the Empire to Caspian Sea. Paper and ink invented. Contact with the Romans.
	221	Collapse of Han Dynasty. "Age of confusion". North invaded by Tartars and China divided. Buddhism introduced. Tartar invaders gradually absorbed. Population 53 million.
	618	Tang Dynasty established. Reunited Empire.
	1127	Song Dynasty loses North China to nomad invasion.
	1280	Song conquered by Mongols. Destruction and depopulation, especially in the North.
	1368	Expulsion of the Mongols, start of Ming Dynasty.
	1644	Ming Dynasty falls and Manzhous establish Qing dynasty.
	1842	Opium war (with Britain) lost. Treaty of Nanjing cedes Hong Kong to Britain. Russia moves into Chinese territories in the North.
	1858	War with Britain and France. Occupation of Beijing.
	1894-5	War with Japan.
	1900	Failed Boxer Rebellion against foreign involvement in China.
	Civil war & revolution	1911
1919		The student-based "May 4 <sup>th</sup> Movement" leads protests against foreign control over Chinese affairs.
1921		The Communist Party of China (CCP) is formed.
1923		With help from the Soviet Union, Sun Yat Sen sets up Kuomintang (or KMT, Nationalist) government in Guangzhou.
1925		Student protests in Shanghai. Protesters killed by international police.
1927		KMT army under Chiang Kai-Shek sets up KMT government in Nanjing. Communist-inspired rural revolts across southern China.
1929 - 1935		Extermination campaigns by Chiang against Communists. Blockade of Jianxi Soviet (Mao's Communist stronghold). "Long March" to break out of blockade.
1937		Japan invades China. KMT and Communists retreat into interior in the face of Japanese superiority of arms, control of sea and air. CCP guerrilla resistance prompts brutal retaliation by Japanese. Increasing areas under CCP control.
1945		Japanese surrender. China left divided between KMT in the South and East and Communists in the North.
1946		Civil war breaks out.
The People's Republic under Mao	1949	Despite superior numbers and equipment and large-scale US support, the KMT is defeated in less than three years. The People's Republic of China is proclaimed. It is not recognised by the US. The KMT still holds Taiwan and continues to claim legitimacy as the government of all China.
	1950	Chinese communist forces occupy Tibet.
	1950 - 1953	The Korean War.
	1957	The "Hundred Flowers" movement allows limited criticism of the government. The first problems emerge in the relationship between Russia and China.
	1958	The "Great Leap Forward". As peasants neglect their fields and try to produce steel in small-scale furnaces, agricultural production slumps and at least 23 million people die in the ensuing famine.
	1959	An uprising by Tibetans against Chinese rule is suppressed and the Dalai Lama flees to northern India with 10,000 supporters.
	1960	The Russians withdraw their technical advisers and aid. This is a heavy blow to China's efforts to industrialise.
	1962	Border war with India.
	1965	Tibet is formally made an Autonomous Region of China.
	1966 - 1969	The "Great Proletarian Cultural Revolution". Mao is concerned about the increase in capitalist tendencies in China. The Red Guards, composed mostly of students and secondary school pupils and controlled by the new "Cultural Revolution Group" of the Central Committee, set out to weed any capitalist sympathisers from among teachers and Communist Party leaders in schools and universities. Deng Xiaoping is disgraced, and even Liu Shaoqi, the Head of State, is imprisoned in 1968, dying a year later in jail. 1969: Border clashes with the USSR, leading to negotiations in Beijing to settle disputes.
	1971	China is admitted to the UN in place of the KMT regime in Taiwan. An attempted coup takes place, led by the Defence Minister, Lin Biao.
1975	A new constitution is adopted. The position of Head of State is abolished.	

The Deng Xiaoping era & reform	1976	Mao dies and his widow, along with 3 radical members of the Politburo (the "Gang of Four") attempts to gain power. Hua Guofeng succeeds Mao as Party Chairman and Premier. Death of Zhou Enlai.
	1977	Deng Xiaoping wrests power from Hua Guofeng and is restored to his former posts.
	1978	Deng introduces the "Open Door" policy, encouraging economic reform and overseas investment in the Chinese economy.
	1980	Hua Guofeng resigns as Premier and is replaced by Zhao Ziyang, confirming the ascendancy of Deng's moderate supporters. Deng takes over as Chairman of the Central Military Commission and continues his campaign to rid the Politburo of leftist members.
	1982	The post of Party Chairman is abolished.
	1983	The CCP is purged of Maoists and those who oppose Deng's pragmatic policies.
	1986	The Central Committee approves a resolution on the "guiding principles for building a socialist society", redefining the ideology of the party and providing a basis for liberalising economic reforms. The "hundred flowers" movement is re-started.
	1987	Deng resigns from the Central Committee but retains other influential posts.
Tiananmen Square & its aftermath	1989	Former Party General Secretary Hu Yaobang dies in April, leading to a wave of protests against corruption in the government and calls for political liberalisation. Tiananmen Square becomes the focus and at one stage a million people assemble there. In May a hunger strike is started by students in the Square. Martial law is declared in Beijing on 20 May. After unsuccessful attempts to disperse the demonstration, the People's Liberation Army attacks the protesters, leaving at least 1,000 civilians dead. Thousands more are arrested and some executed. Zhao Ziyang, considered sympathetic to the protesters, is dismissed from his post as Party General Secretary and placed under house arrest. Jiang Zemin takes over as General Secretary.
	1990	Martial law is lifted. Jiang Zemin succeeds Deng as Chairman of the Central Military Commission.
	1993	Jiang Zemin is elected the country's President. The constitution is changed to confirm the State's aim of running a "socialist market economy". An anti-corruption campaign is launched, and hundreds of thousands of people are expelled from the CCP.
	1996	The "Strike Hard" crime crackdown is instigated. Hundreds of people are executed.
Post-Deng: Continuity & change	1997	Deng Xiaoping dies in February and Jiang Zemin and Li Peng both announce that his economic policies will be maintained. Hong Kong is transferred to Chinese sovereignty
	1998	China signs (but does not ratify) the International Covenant on Civil and Political Rights. Dissidents attempt unsuccessfully to set up an opposition party, the China Democracy Party. A new Legislative Council is elected in Hong Kong.
	1999	The Falun Gong cult is banned as a threat to society. Macao is transferred from Portuguese to Chinese sovereignty. The Chinese embassy in Belgrade is bombed by NATO.
	2000	The government publishes new rules allowing it to control material on the Internet. A People's Liberation Army document is released, adding two pretexts for invading Taiwan: declaration of independence or occupation by a third country. A census records the population at 1,242,612,226.
	2001	There is a political crackdown against churches, internet users, separatists and newspaper editors. The International Olympic Committee, despite international concerns about human rights violations, awards the 2008 Games to Beijing. The Shanghai Cooperation Organisation is established. A US spy plane is forced to land on Hainan island after colliding with a Chinese fighter aircraft. The crew is detained for almost two weeks and the aircraft is retained for a study of its technology. The USA announces a \$4bn arms deal with Taiwan. China joins the World Trade Organisation (WTO).
	2002	China is by now the world's third largest Internet user, with a growth of 72% over the previous year. Falun Gong supporters jam Chinese State television, hijacking programmes and broadcasting their own messages. China signs contracts to buy billions of dollars' worth of Russian missiles, warships and submarines.
	2003	The Three Gorges Dam project leads to the forced relocation of 1.5m former residents of the area. In district elections in Beijing, two independent candidates take seats in the District People's Congress. The constitution is amended to enshrine the right to private property. Mass demonstrations in Hong Kong take place against anti-subversion laws, which are seen as an attempt to increase control by the mainland. China strongly opposes the US-led invasion of Iraq. China records a trade surplus of \$44.6bn despite the outbreak of Severe Acute Respiratory Syndrome (SARS).
	2004	Foreign investment in Chinese media companies is allowed, provided that content rules are adhered to. France and Germany call unsuccessfully for an end to the EU ban on arms sales to China. China becomes the biggest trade partner of Japan, surpassing the US. An official at the State Environment Protection Administration warns that the country's environmental problems have reached crisis point.
	2005	The National People's Congress passes the anti-secession law on Taiwan. There are violent demonstrations across China against the Japanese bid for a permanent seat on the UN Security Council and the publication of new Japanese history textbooks that are viewed as glossing over Japanese atrocities in China during World War II.

## B. Economic Indicators

Statistics on the Chinese economy are covered in greater detail in the Library Standard Note *The Rise of the Chinese Economy*.<sup>1</sup>

### 1. Population and Size

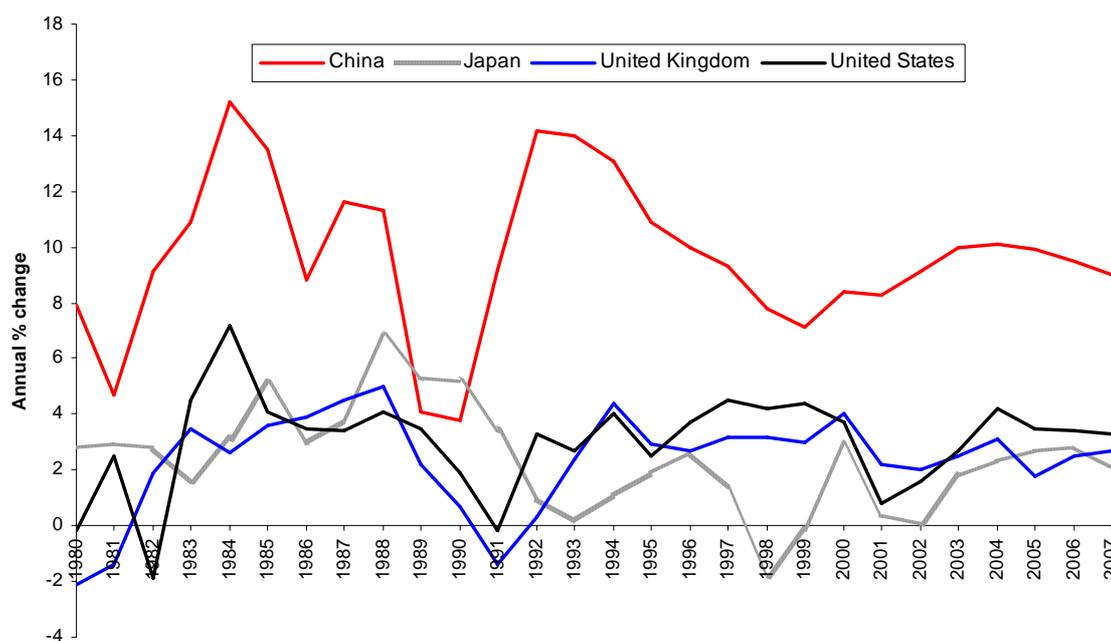
The total Chinese population is 1,300 million, with the population increasing by 0.6% in 2004. China covers 9.6 million square kilometres; 1.3 million square kilometres is used as agricultural land, while 1.7 million square kilometres is forest.<sup>2</sup>

Major cities in China include Shanghai (10 million inhabitants), Beijing (7.9 million), Tianjin (5.1 million), Guangzhou (4.7 million), Wuhan (4.6 million) and Chongqing (4.2 million).<sup>3</sup>

### 2. Gross Domestic Product

China has enjoyed strong economic growth for a number of years, growing more quickly than major G7 economies such as the UK, US and Japan since 1990.

Chart 1 - Real GDP Growth 1980-2007



Source: IMF

There is considerable debate about the size of China's economy relative to that of other economies. Table 1 shows the rank of China and other major economies under a number of measures of Gross Domestic Product (GDP). It shows clearly that when considering total levels of GDP, (whether using purchasing power parities (PPPs) or current exchange rates) China is one of the world's largest economies.<sup>4</sup> However, the measure of GDP per capita

<sup>1</sup> House of Commons Library Standard Note SN/EP/3331, *The Rise of the Chinese Economy*

<sup>2</sup> *China Statistical Yearbook 2005*

<sup>3</sup> OECD Economic Surveys, *China*, September 2005

<sup>4</sup> Measuring GDP at PPP adjusts the values to take account of the price differences for goods in each economy

shows that China still lags behind developed economies significantly, regardless of the method of comparison.

53% of Chinese GDP is accounted for by manufacturing, mining, utilities and construction; services make up 32% of GDP, while agriculture represents 15% of the economy.<sup>5</sup>

Other indicators show rapid growth in the economy. Between 1990 and 2003, per capita household consumption expenditure rose by an annual average of 7.4%. Investment, measured by gross capital formation, grew by an average of 10.9% over the period. Consumer prices rose by an average of 6.0% over the period.<sup>6</sup>

An April 2006 report from the UN Industrial Development Organisation found that between 1995 and 2005 the US maintained its real share of global value-added in manufacturing at just over 20%, and while Japan's share fell, China's increased from 4.2% to 8.0% (the UK's share fell from 3.8% to 3.0%).<sup>7</sup>

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<sup>5</sup> OECD Economic Surveys, *China*, September 2005

<sup>6</sup> The World Bank, *2005 World Development Indicators*

<sup>7</sup> "Share of world production falls as China surges", *Financial Times*, 22 May 2006, p3

Table 1 - China and GDP statistics

	GDP, current prices, US\$						GDP, PPPs, US\$				
	1980 <i>Rank</i>	1990 <i>Rank</i>	2000 <i>Rank</i>	2004 <i>Rank</i>	2004 <i>Value (billions)</i>		1980 <i>Rank</i>	1990 <i>Rank</i>	2000 <i>Rank</i>	2004 <i>Rank</i>	2004 <i>Value (billions)</i>
United States	1	1	1	1	11,734	United States	1	1	1	1	13,678
Japan	2	2	2	2	4,587	China	3	2	2	2	11,694
Germany	3	3	3	3	2,755	Japan	2	3	3	3	4,215
United Kingdom	5	6	4	4	2,133	India	5	4	4	4	4,282
France	4	4	5	5	2,046	Germany	4	5	5	5	2,699
China	7	10	6	6	1,932	France	6	6	6	6	1,988
Italy	6	5	7	7	1,725	United Kingdom	8	7	7	7	2,004
Spain	9	8	10	8	1,041	Italy	7	8	8	8	1,791
Canada	8	7	8	9	993	Brazil	9	9	9	9	1,758
Mexico	11	15	11	10	683	Russia	..	10	10	10	1,812
	GDP per capita, current prices, US\$						GDP per capita, PPPs, US\$				
	1980 <i>Rank</i>	1990 <i>Rank</i>	2000 <i>Rank</i>	2004 <i>Rank</i>	2004 <i>Value</i>		1980 <i>Rank</i>	1990 <i>Rank</i>	2000 <i>Rank</i>	2004 <i>Rank</i>	2004 <i>Value</i>
Luxembourg	8	2	1	1	70,654	Luxembourg	3	1	1	1	66,546
Norway	7	5	2	2	55,500	Norway	8	5	2	2	40,177
Switzerland	5	1	5	3	49,448	United States	6	2	3	3	39,377
Ireland	30	21	10	4	45,675	Ireland	30	23	4	4	38,547
Denmark	10	6	7	5	45,419	Denmark	11	6	5	5	33,239
Iceland	9	7	6	6	44,567	Iceland	9	7	6	6	33,072
United States	14	9	4	7	39,938	Canada	10	8	9	7	32,798
Sweden	6	3	9	8	38,913	Austria	12	10	7	8	32,232
Qatar	1	20	8	9	37,610	Switzerland	4	4	8	9	31,583
Netherlands	12	14	16	10	37,326	Hong Kong SAR	34	20	14	10	30,970
China	134	131	115	108	1,486	China	141	112	98	90	6,425

Source: IMF, World Economic Outlook database, April 2006

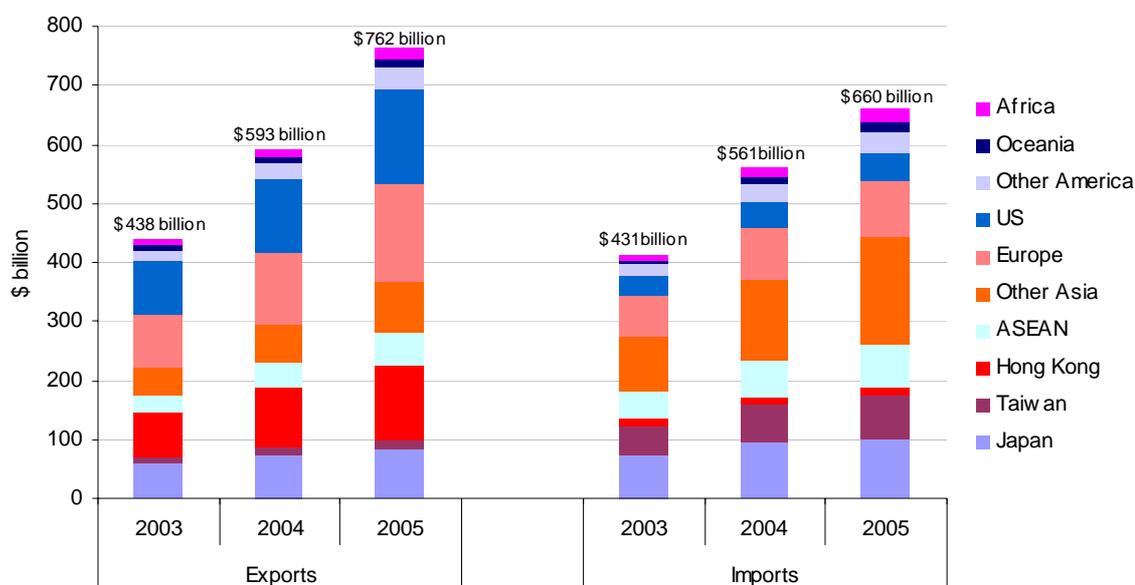
### 3. Trade Data

The value of Chinese exports has increased rapidly in recent years, and it is now the world's third largest goods exporter after the US and the EU.<sup>8</sup>

The total value of China's goods exports in 2005 was \$762 billion, nearly 10% of the world total, compared with \$593 billion in 2004, an increase of 28.4%. It has also become the world's largest importer, with goods imports valued at \$660 billion, or 8.2% of the world total. China's trade in goods surplus was \$102 billion for the whole of 2005 (4.6% of GDP), more than triple the previous year's surplus of \$32 billion (1.7% of GDP).<sup>9</sup>

Chart 1 displays trends in goods exports and imports between China and the rest of the World over the last three years, while chart 2 summarises China's largest trading partners in 2005.

Chart 1: China-World trade in goods

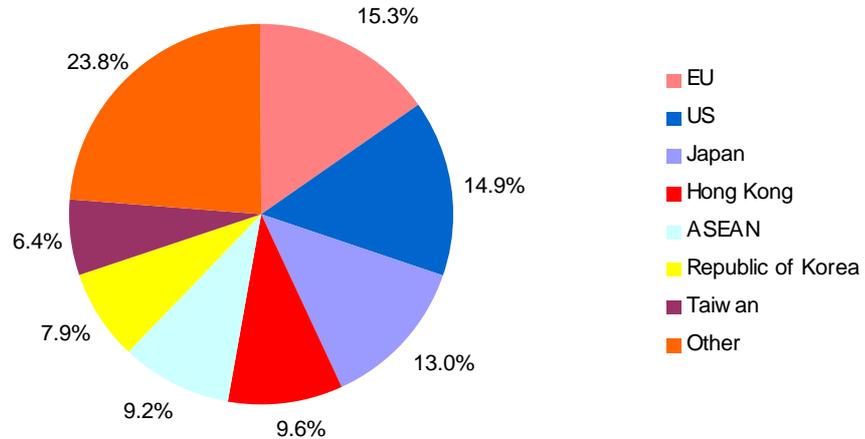


[Source: MOFCOM, Import and Export Indicators]

<sup>8</sup> Excluding intra-EU trade. This figure excludes Hong Kong SAR with exports of \$292 billion (of which 93% were re-exports). [Source: "Trade picks up in mid-2005, but 2006 picture is uncertain", *WTO press release*, 11 April 2006, appendix, table 4]

<sup>9</sup> Chinese Ministry of Commerce, *Main indicators of foreign trade and economy in total*, 16 March 2006

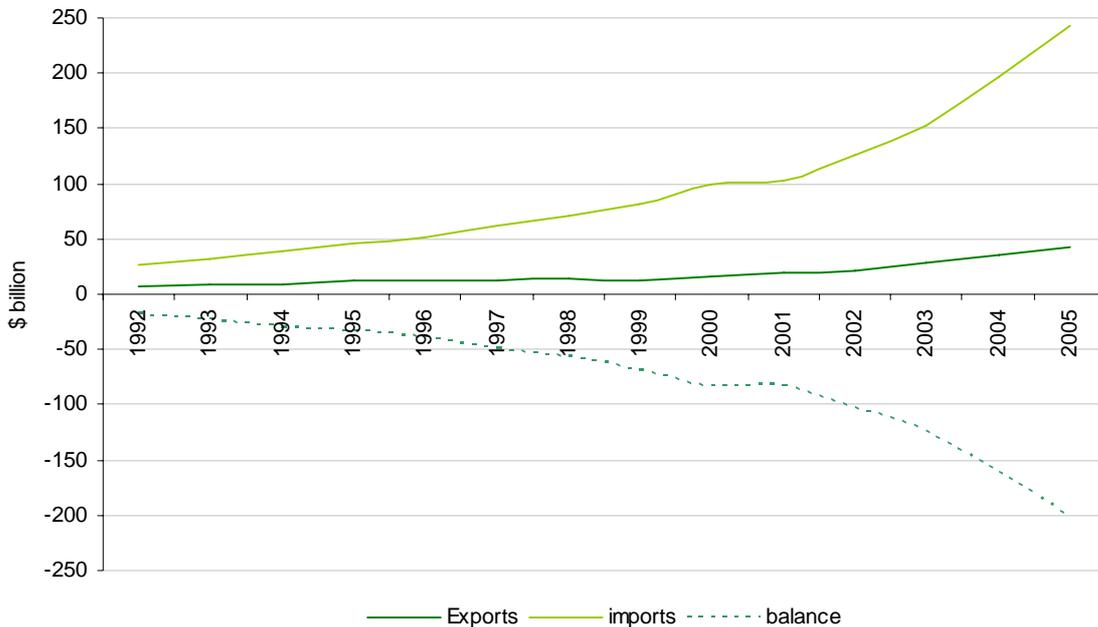
Chart 2: China's largest trading partners in 2005; % share of total value of Chinese external trade in goods (exports and imports)



[Source: MOFCOM, Import and Export Indicators]

Chart 3 shows that the US trade deficit on goods with China has grown in recent years. In 2005 the total deficit was \$201.6 billion, compared with \$161.9 billion in 2004, \$83.8 billion in 2000, and \$18.3 billion in 1992.

Chart 3: US-China annual trade in goods, 1992-2005



[Source: US Census Bureau, Foreign Trade Statistics]

The US-China deficit on goods of \$201.6 billion was equivalent to 26.3% of the value of the total US trade in goods deficit in 2005. In contrast, the US trade deficit on goods with EU member states was \$122.4 billion (16.0% of the total US trade in goods deficit).

**Table 2 - US trade in goods**

% of total US-World trade

	China			EU25		
	Exports	Imports	Deficit ratio(a)	Exports	Imports	Deficit ratio(a)
1997	1.9%	7.2%	27.5%	20.9%	18.5%	9.4%
1998	2.1%	7.8%	24.8%	22.3%	19.8%	12.4%
1999	1.9%	8.0%	20.9%	22.3%	19.5%	13.8%
2000	2.1%	8.2%	19.2%	21.5%	18.6%	13.5%
2001	2.6%	9.0%	20.2%	22.2%	19.9%	15.7%
2002	3.2%	10.8%	22.0%	21.2%	20.0%	18.3%
2003	3.9%	12.1%	23.3%	21.4%	20.1%	18.4%
2004	4.2%	13.4%	24.9%	21.1%	19.2%	16.8%
2005	4.6%	14.6%	26.3%	20.6%	18.5%	16.0%

Note: (a) Country/region deficit as a proportion of total US-World deficit.

Source: US Census Bureau, Foreign Trade Statistics

China's overall current account surplus, which also includes services trade, income and transfers, was \$161 billion in 2005, more than double its \$69 million 2004 surplus.<sup>10</sup>

## C. Political System

### 1. The State

China's current constitution, first adopted by the National People's Congress (NPC) in 1982 and subsequently amended, is the country's fourth and restored the office of President and Head of State. The current President and Head of State is Hu Jintao (since 15 March 2003). The Vice President is Zeng Qinghong (also since 15 March 2003).<sup>11</sup>

#### a. The State Council

The State Council is the official government of China. It initiates legislation and controls the civil service.

Its leadership comprises:

Premier: Wen Jiabao  
 Vice-Premiers: Huang Ju, Wu Yi, Zeng Peiyan, Hui Liangyu  
 State Councillors: Zhou Yongkang, Cao Gangchuan, Tang Jia Xuan, Hua Jianmin, Chen Zhili  
 Secretary General: Hua Jianmin

Heads of Ministries, the Governor of the People's Bank of China and the Auditor-General of the National Audit Office are also members of the State Council.<sup>12</sup>

<sup>10</sup> IMF data cited in *The Economist*, 6 May 2006, p. 110

<sup>11</sup> *CIA World Factbook*. Available at: <http://www.cia.gov/cia/publications/factbook/geos/ch.html>

<sup>12</sup> *People's Daily Online*. Available at: <http://english.people.com.cn/data/organs/statecouncil.shtml>

### **b. The National People's Congress**

The State Council is indirectly elected by the National People's Congress (NPC), which assembles in plenary every year to scrutinise and ratify its decisions. The approximately 3,000 Deputies that attend the NPC are elected indirectly every five years by the People's Congresses of Provinces, Autonomous Regions, Municipalities under Central Government and by the People's Liberation Army.

In addition to indirectly electing the State Council, the NPC can also dismiss the holders of the top offices of state. The Standing Committee of the NPC has 175 members and is empowered to modify legislation between plenary sessions of the NPC. It also has quasi-judicial functions in interpreting law.

The Chairman of the Standing Committee of the NPC is Wu Bangguo.

In practice, although its scrutiny role has been enhanced in recent years and unanimous votes have become less frequent, the independent power of the NPC remains limited. For example, the Tenth National People's Congress of March 2003 elected Hu Jintao as President with a total of 2,937 votes. Just four delegates voted against him, four abstained, and 38 did not vote.<sup>13</sup>

### **c. Regional and Local Government**

Regional government comprises 22 Provinces, five Autonomous Regions, four Municipalities under Central Government (Beijing, Chongqing, Shanghai and Tianjin) and two Special Administrative Regions – Hong Kong and Macao – which returned to China in 1997 and 1999. It was agreed on handover that the existing political and economic systems that prevailed prior to these dates will be maintained for 50 years. Governments at this level (with the exception of the Special Administrative Regions) are indirectly elected for five years at plenaries of their respective People's Congresses. Standing Committees carry out the work of the Congresses on a more permanent basis.

Although China is a unitary State, power within the political system inevitably reflects economic weight. For example, Guangdong Province's Gross Domestic Product in 2001 was over 80 times that of Tibet.<sup>14</sup>

Local government comprises a "three-level administrative network of Prefectures, Counties and Cities, Townships and Districts".<sup>15</sup> Their governments are indirectly elected for three years by their respective People's Congresses.

It is important to note that there are also systems of governance that operate beneath the various levels of state administration described above. These are the village committees and the urban resident committees. In contrast to their attitude with regard to levels of government that are considered part of the state, the authorities have shown some willingness over the past two decades to countenance direct elections to these

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<sup>13</sup> CIA *World Factbook*. Available at: <http://www.cia.gov/cia/publications/factbook/geos/ch.html>

<sup>14</sup> Tony Saich, *Governance and politics of China* (Basingstoke, 2004), p. 158

<sup>15</sup> *Ibid*, p. 156

committees.<sup>16</sup> The village committees deal with all administrative matters, including tax collection, budgets, public services, order, welfare and dispute resolution. There have been attempts since 1987 to introduce direct elections to village committees. These innovations were part of wider efforts to restore some form of governance at village level after the dismantling of the commune system. The practice in terms of genuine competitive elections has varied enormously. The Committees are overseen by a village representative assembly (involving all residents over 18). Interference from above by officials is common. The leadership of the party remains unchallenged.<sup>17</sup> Nonetheless, "[F]or some, at least, the politics is real and deliberations are meaningful".<sup>18</sup>

Reformers have also suggested that urban electoral reform should begin with direct elections to urban residents committees, which cover anywhere between 100 and 1,000 households. Their past role has been to monitor behaviour and ensure compliance with policies rather than promote political participation. Through the 1990s there were some trial direct elections. In 2000 Beijing Municipality announced it would sanction "open and fair" elections for the 5,000 residents committees in the city. 200 committees tried it. Others cities are also experimenting.<sup>19</sup>

## 2. The Communist Party

Although there are other political organisations in China that accept the system, the only one that matters is the Communist Party. It holds real political power in China's *de facto* one party state. Party organisations run in parallel to those of the Government at all levels. The overwhelming majority of delegates to the NPC are party members. Party membership remains essential for a successful career, particularly in the public sector. Many successful entrepreneurs are also party members. Party membership has continued to increase. It now stands at nearly 70 million.<sup>20</sup> The party's statutes forbid "all forms of personality cult", but "democratic centralism" tends to concentrate power in the hands of the Standing Committee of the Politburo and particularly the General Secretary of the Central Committee (Hu Jintao, also President and Head of State).<sup>21</sup>

The party's structure is characterised by "democratic centralism", a system whereby the individual party member is subordinate to the organisation, and where minority groups or opinions are subordinate to the wishes of the majority, embodied by the Central Committee. At the bottom of this pyramid are 3.5 million "Primary Party Organisations": cells of at least 3 party members in workplaces and villages. Over 60 million party members elect 2,114 delegates to the National Congress of the Communist Party, which is held every five years. The National Congress elects the 198 members and 158

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<sup>16</sup> Some reformers have also proposed direct elections at Township level. Townships are the lowest level of state administration and its officials are state cadres. It is the key interface between state and society. There has been a limited degree of experimentation with direct elections at this level, for example in Buyun, Sichuan Province. However, in 2001 there was a clamp down on such experimentation on the orders of Central Committee. Since then, innovation at Township level appears to have been confined to encouraging more open selection processes. Ibid, pp 201-2

<sup>17</sup> Saich, p. 195-201

<sup>18</sup> Ibid, p. 200

<sup>19</sup> Saich, p. 195

<sup>20</sup> *People's Daily Online*. Available at: <http://english.people.com.cn/data/organs/cpc/html>

<sup>21</sup> Politburo is short for Political Bureau

alternates of the Central Committee, which normally sits once a year. The size and infrequency of meetings of the Central Committee inhibit its ability to influence policy but it indirectly elects members of the 25-person Politburo and its Standing Committee of nine. The Politburo and particularly the smaller Standing Committee of the Politburo are where the overall policy of the Chinese Government is really decided.

The members of the Standing Committee of the Politburo of the Communist Party are:<sup>22</sup>

<b>Hu Jintao</b>	President and General Secretary of the Party
<b>Wu Bangguo</b>	Chairman of the Standing Committee of the NPC
<b>Wen Jiabao</b>	Premier of the State Council
<b>Jia Qinglin</b>	Chairman of the People's Political Consultative Conference
<b>Zeng Qinghong</b>	Vice President
<b>Huang Ju</b>	Vice Premier, State Council
<b>Wu Guanzheng</b>	Secretary of the Central Commission for Discipline Inspection
<b>Li Changchun</b>	No other positions, but known to many as the propaganda chief
<b>Luo Gan</b>	Political and Legislative Affairs Committee secretary

### 3. The Military

The political system in China has one final pillar: the People's Liberation Army. At the head of the PLA is the Central Military Commission (CMC). The Chairmanship of the CMC is held by the President, presently Hu Jintao. The CMC is technically composed of two different committees, one indirectly elected by the NPC and the other by the Central Committee of the Communist Party. The two committees have the same membership, differing only in that their respective elections do not occur at the same time.

## D. Selected Profiles of Political Leaders

The "fourth generation" of Chinese leadership, with Hu Jintao at its head, took over relatively smoothly from Jiang Zemin's cohort. Most come from the eastern provinces of China, many with backgrounds in science, technology, manufacturing and agriculture.

<b>Hu Jintao</b>	General Secretary of the Communist Party President of the People's Republic of China Chairman of the Central Military Commission
<p>Hu Jintao has spent many years in remote areas of China. He has a low-key and cautious style. One of his key phrases has been "yi ren wei ben", or "putting people first". He has been described as a builder of consensus, bridging different viewpoints at the top of the party.</p> <p>He was born in 1942 into a comfortable family in Jiangsu Province, one of the most prosperous provinces in China which grew strongly as a result of the reforms of the Deng Xiaoping era. He was involved in the Communist Youth League at school. He studied hydraulic engineering at Beijing's Tsinghua University, one of the most prestigious in China, and it was here that he joined the Communist Party. In 1968, under Mao's programme "Youth Going to the Mountains and Rural</p>	

<sup>22</sup> *The Far East and Australasia 2006*, Europa Regional Survey (Basingstoke and London, 2005), p. 228. See also:

[http://en.wikipedia.org/wiki/Communist\\_Party\\_of\\_China#Current\\_members\\_of\\_the\\_Central\\_Committee](http://en.wikipedia.org/wiki/Communist_Party_of_China#Current_members_of_the_Central_Committee)

Areas", he was sent to work in Gansu, one of China's poorest provinces in the northwest of the country. In Gansu, he made a favourable impression on party leaders. By 1982 he had been promoted to head of Gansu's Communist Youth organisation. One of his mentors, Song Ping, moved to Beijing to take charge of senior cadres' promotion and in 1984 he was promoted to Communist Youth League Central Committee Secretary in Beijing.

In 1985, Hu was transferred to Guizhou Province as Secretary of the Guizhou Branch of the party and Provincial Governor. As Party Secretary of the Tibetan Autonomous Region from 1988 to 1992, Hu was responsible for a political crackdown in early 1989 that led to the deaths of several Tibetan activists. When in 1992 Hu was selected by Deng to return to Beijing as a member of the Politburo's seven-man Standing Committee, he took over key tasks such as handling personnel matters and supervising the ideological training of top officials.<sup>23</sup>

**Zeng Qinghong** Vice President  
Member of the Standing Committee of the Politburo  
President of the People's Republic of China  
Chairman of the Central Military Commission

Of Han nationality and a native of Ji'an in Jiangxi Province, he was born in July 1939. He joined the Party in April 1960. He graduated from the Automatic Control Department, Beijing Institute of Technology. He is a university graduate and engineer.<sup>24</sup>

**Wen Jiabao** Premier of the State Council  
Member of the Standing Committee of the Politburo

As Chairman of the State Council, head of China's Government and enormous bureaucracy, and the leader of the economic reform process, Wen Jiabao has the reputation of being a very competent administrator whose consensual and uncharismatic style have perhaps masked the skills of an effective politician. Wen began his career in the Gansu geology bureau (1968-82), having studied geomechanics in Beijing. Unlike Hu Jintao, who spent many years in China's more remote provinces, Wen spent 18 years before becoming Premier working in *Zhongnanhai*, the sheltered compound in central Beijing where China's leaders live and work. In 1985 Wen became a Deputy Director of the general office of the party's central committee, thus beginning a steady climb up the leadership ladder. He cultivated a strong network of supporters including Hu Yaobang and Zhao Ziyang. In 1989, when Wen was the head assistant to the then General Secretary Zhao Ziyang, he accompanied Zhao to Tiananmen Square to talk to the demonstrators. As hardliners took control, Zhao was purged from the party for "grave insubordination" and has lived under house arrest in Beijing ever since. Wen Jiabao survived his political association with Zhao. Wen has a reputation for being interested in agriculture and regions left behind by China's economic transformation.<sup>25</sup>

**Wu Banguo** Chairman of the Standing Committee of the NPC  
Member of the Standing Committee of the Politburo

Born in 1941 in Anhui Province (adjacent to the President's home province of Jiangsu), from 1960-1967 he studied electron tube engineering at the Department of Radio Electronics of Tsinghua University. After a successful career in the electrical components industry, his political career took off rapidly around 1991, when he was made Secretary of the Shanghai Communist Party's Municipal Committee. A year later he joined the Politburo and by 1995 he was Vice Premier of the State Council. It is widely believed that he might have become Premier but for his

<sup>23</sup> *People's Daily Online*. Available at: <http://www.china.org.cn/english/PP-e/48915.htm>

<sup>24</sup> *China Vitae*. Available at: [http://www.chinavitae.com/biography\\_display.php?id=23](http://www.chinavitae.com/biography_display.php?id=23)

<sup>25</sup> *Ibid*. Available at: [http://www.chinavitae.com/biography\\_display.php?id=21](http://www.chinavitae.com/biography_display.php?id=21)

poor relationship with the then Premier Zhu Rongji. In 2003 he gave up his role as Vice Premier to become chairman of the Standing Committee of the National People's Congress, a position generally recognized as the third-highest in the Chinese government power structure.<sup>26</sup>

**Li Zhaoxing** Minister of Foreign Affairs  
Member of the State Council

He was born in Shandong Province in the east of China in October 1940. He graduated from Peking University in 1964. He served for a period as a diplomat in Africa before moving back to Beijing to work in the Ministry of Foreign Affairs in the mid 1980s. Between 1993 and 1995 he was China's Permanent Representative at the United Nations. Between 1998 and 2001 he was Ambassador to the United States. He became Minister of Foreign Affairs in 2003.<sup>27</sup>

**Chen Liangyu** Head of the Shanghai Municipal Committee of the Communist Party

Mr Chen, 56, is a native of Ningbo, in the eastern Zhejiang Province. He studied in the Chinese People's Liberation Army's Logistic Engineering Institute from 1963 to 1968. He also took positions in factories and government bodies. Chen studied at Birmingham University in 1992. As a member of the "Shanghai Clique", he is a rival to Premier Wen Jiabao, and may be involved in the next generation of Chinese leadership.<sup>28</sup>

**The Honourable Sir Donald Tsang Yam Kuen** Chief Executive of Hong Kong

Donald Tsang was born in Hong Kong in 1944, the son of a policeman. He joined the Hong Kong civil service in 1967 and served in a variety of positions before leaving to study at Harvard, where he obtained a Master's degree in Public Administration. From 1985-9 he worked on Hong Kong's handover from Britain to China. In 1995 he was made Financial Secretary, the first ethnic Chinese to hold the position. He was praised for his actions during the Asian financial crisis, and in 1997 he was knighted, although he does not use the title. In 2001 he was appointed Chief Secretary, the number two position in the Hong Kong Government, and since 2005 has been the Chief Executive. He is a devout Catholic.<sup>29</sup>

### "The Fifth Generation"

The International Institute for Strategic Studies has identified a number of "fifth generation" leaders that could be in line to succeed Hu Jintao and Wen Jiabao when they stand down in or around 2013. They are:<sup>30</sup>

- **Li Keqiang**, 50, party chief of Liaoning Province
- **Li Yuanchao**, 55, party chief of Jiangsu Province
- **Li Jinping**, 52, party chief of Zhejiang Province

<sup>26</sup> Ibid. Available at: [http://www.chinavivae.com/biography\\_display.php?id=20](http://www.chinavivae.com/biography_display.php?id=20)

<sup>27</sup> *Chinatoday.com*. Available at: <http://www.chinatoday.com/gov/a.htm>

<sup>28</sup> *CCTV.com News*, 27 February 2002

Available at: <http://www.cctv.com/english/news/20020227/84119.html>

<sup>29</sup> *BBC News Online*, 16 June 2005. Available at: <http://news.bbc.co.uk/1/hi/world/asia-pacific/4335331.stm>

<sup>30</sup> "China's domestic politics: consolidation and succession", International Institute for Strategic Studies, *Strategic Comments*, Vol. 12, Issue 3, April 2006

## E. Selected Treaty Ratifications<sup>31</sup>

<i>Treaty</i>	<i>Signed</i>	<i>Ratification, Acceptance, Approval, Accession</i>
<b>Geneva Conventions</b>		
Convention (I) for the Amelioration of the Condition of the Wounded and Sick in Armed Forces in the Field. <i>Geneva, 12 August 1949</i>	10/12/1949	Ratified 28/12/1956
Convention (II) for the Amelioration of the Condition of Wounded, Sick and Shipwrecked Members of Armed Forces at Sea. <i>Geneva, 12 August 1949.</i>	10/12/1949	Ratified 28/12/1956
Convention (III) relative to the Treatment of Prisoners of War. <i>Geneva, 12 August 1949</i>	10/12/1949	Ratified 28/12/1956
Convention (IV) relative to the Protection of Civilian Persons in Time of War. <i>Geneva, 12 August 1949</i>	10/12/1949	Ratified 28/12/1956
Protocol Additional to the Geneva Conventions of 12 August 1949, and relating to the Protection of Victims of International Armed Conflicts (Protocol I), <i>8 June 1977</i>	..	Acceded 14/09/1983
Protocol Additional to the Geneva Conventions of 12 August 1949, and relating to the Protection of Victims of Non-International Armed Conflicts (Protocol II), <i>8 June 1977</i>	..	Acceded 14/09/1983
Protocol additional to the Geneva Conventions of 12 August 1949, and relating to the Adoption of an Additional Distinctive Emblem (Protocol III), <i>2005</i>	..	..
<b>Human Rights</b>		
Convention on the Prevention and Punishment of the Crime of Genocide. <i>New York, 9 December 1948</i>	20/07/1949	Ratified April 1983
International Convention on the Elimination of All Forms of Racial Discrimination. <i>New York, 7 March 1966</i>	..	Acceded 29/12/1981
Amendment to article 8 of the International Convention on the Elimination of All Forms of Racial Discrimination. <i>New York, 15 January 1996</i>	..	Accepted 10/07/2002
International Covenant on Economic, Social and Cultural Rights, <i>New York 16 December 1966</i>	27/10/1997	Ratified 27/03/2001
International Covenant on Civil and Political Rights, <i>New York, 16 December 1966</i>	05/10/1998 (a)	..
Optional Protocol to the International Covenant on Civil and Political Rights, <i>New York, 16 December 1966</i>	..	..
Second Optional Protocol to the International Covenant on Civil and Political Rights, aiming at the abolition of the death penalty. <i>New York, 15 December 1989</i>	..	..
Convention on the Elimination of All Forms of Discrimination against Women (CEDAW Convention). <i>New York, 18 December 1979</i>	17/07/1980	Ratified 04/11/80
Optional Protocol to the Convention on the Elimination of All Forms of Discrimination against Women. <i>New York, 6 October 1999</i>	..	..
Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment. <i>New York, 10 December 1984</i>	12/12/1986	Ratified 04/10/1988
Optional Protocol to the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment. <i>New York, 18 December 2002</i>	..	..
<b>Major WTO Agreements</b>		
The General Agreement on Tariffs and Trade (GATT) (b)	10/11/2001	..
General Agreement on Trade in Services (GATS)	10/11/2001	..

(a) The Republic of China – otherwise known as Taiwan – signed the International Covenant on Civil and Political Rights and the Optional Protocol on 5 October 1967. However, not all states recognised this signature on the grounds that they considered the People's Republic of China (PRC) to be the rightful representative of China in the UN. In 1971 (under General Assembly Resolution 2758) the PRC was admitted to the UN, in place of Taiwan, as the representative of China

(b) China was an original GATT signatory in 1948, but the government in Taiwan announced it withdraw; the PRC did not recognise this, but applied to resume its status in 1986 (see [http://www.wto.org/english/news\\_e/pres01\\_e/pr243\\_e.htm](http://www.wto.org/english/news_e/pres01_e/pr243_e.htm)).

<sup>31</sup> Sources used for this table: Multilateral Treaties deposited with the UN Secretary-General - <http://untreaty.un.org/ENGLISH/bible/englishinternetbible/bible.asp>, University of Minnesota Human Rights Library - <http://www1.umn.edu/humanrts/instree/ainstls2.htm>, International Committee of the Red Cross - [http://www.icrc.org/Web/Eng/siteeng0.nsf/htmlall/section\\_ihl\\_treaties\\_and\\_customary\\_law?OpenDocument](http://www.icrc.org/Web/Eng/siteeng0.nsf/htmlall/section_ihl_treaties_and_customary_law?OpenDocument). Where used, double dots (..) means that the People's Republic of China has either not signed or has not ratified, accepted, approved or acceded to a Treaty

<b>Treaty</b>	<b>Signed</b>	<b>Ratification, Acceptance, Approval, Accession</b>
<b>Disarmament</b>		
Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction (BWC). <i>Opened for Signature at London, Moscow and Washington. 10 April 1972</i>	..	Acceded 15/11/1984
Convention on the prohibition of military or any other hostile use of environmental modification techniques. <i>New York, 10 December 1976</i>	..	Acceded 08/06/2005
Convention on Prohibitions or Restrictions on the Use of Certain Conventional Weapons which may be deemed to be Excessively Injurious or to have Indiscriminate Effects (with Protocols I, II and III) (CCWC). <i>Geneva, 10 October 1980</i>	14/09/1981	Ratified 07/04/1982
Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction (CWC). <i>Geneva, 3 September 1992</i>	13/01/1993	Ratified 25/04/1997
Comprehensive Nuclear-Test-Ban Treaty (CTBT). <i>New York, 10 September 1996</i>	24/09/1996	..
Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction (Ottawa Treaty). <i>Oslo, 18 September 1997</i>	..	..
Treaty on the Non-Proliferation of Nuclear Weapons (NPT). <i>Opened for signature at London, Moscow and Washington on 1 July 1968</i>	..	Acceded 09/03/1992
<b>Refugees and Stateless Persons</b>		
Convention relating to the Status of Refugees. <i>Geneva, 28 July 1951</i>	..	Acceded 24/09/1982
Protocol relating to the Status of Refugees. <i>New York, 31 January 1967</i>	..	Acceded 24/09/1982
Convention relating to the Status of Stateless Persons. <i>New York, 28 September 1954</i>	..	..
<b>Environment</b>		
Convention on Long-range Transboundary Air Pollution. <i>Geneva, 13 November 1979</i>	..	..
Vienna Convention for the Protection of the Ozone Layer. <i>Vienna, 22 March 1985</i>	..	Acceded 11/09/1989
Montreal Protocol on Substances that Deplete the Ozone Layer. <i>Montreal, 16 September 1987</i>	..	Acceded 14/06/1991
Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal. <i>Basel, 22 March 1989</i>	22/03/1990	Ratified 17/12/1991
United Nations Framework Convention on Climate Change. <i>New York, 9 May 1992</i>	11/06/1992	Ratified 05/01/1993
Kyoto Protocol to the United Nations Framework Convention on Climate Change. <i>Kyoto, 11 December 1997</i>	29/05/1998	Approved 30/08/2002
<b>Penal Matters</b>		
Slavery Convention, signed at Geneva on 25 September 1926 and amended by the Protocol. <i>New York, 7 December 1953 (c)</i>	..	..
Supplementary Convention on the Abolition of Slavery, the Slave Trade, and Institutions and Practices Similar to Slavery. <i>Geneva, 7 September 1956 (d)</i>	..	..
International Convention Against the Taking of Hostages. <i>New York, 17 December 1979</i>	..	Acceded 26/01/1993
International Convention for the Suppression of Terrorist Bombings. <i>New York, 15 December 1997</i>	..	Acceded 13/11/2001
Rome Statute of the International Criminal Court. <i>17 July 1998</i>	..	..
International Convention for the Suppression of the Financing of Terrorism. <i>New York, 9 December 1999</i>	13/11/2001	..
International Convention for the Suppression of Acts of Nuclear Terrorism. <i>New York, 13 April 2005</i>	14/09/2005	..
<b>Law of the Sea</b>		
United Nations Convention on the Law of the Sea. <i>Montego Bay, 10 December 1982</i>	10/12/1982	Ratified 07/06/1996

(c) Signed by the Republic of China (Taiwan) on 14/12/1955

(d) Signed by the Republic of China (Taiwan) on 23/05/1957 and ratified on 28/05/1959

## F. Membership of Selected International and Regional Organisations

**The United Nations (UN)** – The Republic of China (ROC) was one of the founding members of the UN and a member of the Security Council at its creation in 1945. The People's Republic of China (PRC) was proclaimed in October 1949 following the victory of Communist forces over the Kuomintang Government. The Kuomintang Government was pushed off the mainland, leaving only the island of Taiwan under its control. From 1949 the Republic of China effectively comprised Taiwan. The PRC received wide international recognition. However, it was not until 1971 (under General Assembly Resolution 2758) that the PRC was admitted to the UN, in place of Taiwan, as the representative of China.

**The Association of Southeast Asian Nations Regional Forum (ARF)** was established in 1994 by the Association of South East Asian Nations (ASEAN) and has two principal objectives: to foster constructive dialogue and consultation on political and security issues of common interest and concern; and to make significant contributions to efforts towards confidence-building and preventive diplomacy in the Asia-Pacific region. All new participants are expected to accept the rules and decisions already made by the ARF. The PRC has been a member since 1994.<sup>32</sup>

**The Asia-Pacific Economic Cooperation Forum (APEC)** was established in 1989 when 12 Foreign and Trade Ministers from Asia-Pacific economies<sup>33</sup> met in Canberra, Australia, to discuss ways to increase cooperation in the region. Initially, APEC adopted a modest programme of trade negotiations aimed at promoting economic growth. APEC now comprises 21 member economies: Australia, Brunei Darussalam, Canada, Chile, the PRC, Hong Kong, Indonesia, Japan, Republic of South Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Republic of the Philippines, Russia, Singapore, Taiwan, Thailand, the US and Vietnam. According to APEC, its members collectively account for more than a third of the world's population, around 60% of world GDP and about 47% of world trade.<sup>34</sup> Since 1989, the organisation has sought to minimise the development of a bureaucracy. APEC is the only multilateral organisation committed to trade and investment liberalisation that does not require its members to enter into legally binding agreements. The organisation operates by consultation and consensus. APEC's goal is to achieve free and open trade and investment in the Asia-Pacific region by 2010 in its industrialised economies and by 2020 in its developing economies. The PRC joined in November 1991 (Hong Kong and Taiwan joined at the same time).

**The Asian Development Bank (ADB)**, a multilateral development financial institution, was founded in November 1966 by 31 member governments to reduce poverty and to promote social and economic progress in Asia and the Pacific. The Bank's principal functions are to provide loans and equity investments for the economic and social

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<sup>32</sup> Europa Regional Survey, *The Far East and Australasia 2006*, (London and New York, 2005), p. 1342

<sup>33</sup> This is the official term for members, rather than the more political term, given the inclusion of Taiwan and Hong Kong.

<sup>34</sup> "About APEC", taken from the website of the New Zealand Ministry of Foreign Affairs and Trade Available at: <http://www.mfat.govt.nz/foreign/eco/apec/apecswork.html>

development of its member countries; to give technical assistance for the preparation and execution of development projects and advisory services; to promote and facilitate investment of public and private capital for development purposes; and to respond to requests from the developing member countries for assistance in coordinating their development policies. The PRC joined in 1986. The PRC is the third largest shareholder in the ADB. In 2005 China was the largest borrower.<sup>35</sup>

**The Shanghai Cooperation Organisation (SCO)** was founded in Shanghai on 15 June 2001 by six countries: the PRC, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. The SCO's predecessor, the Shanghai Five mechanism, was formed in 1996 when Russia, the PRC, Kazakhstan, Kyrgyzstan and Tajikistan signed a *Treaty on Deepening Military Trust in Border Regions*. The early goals of the organisation were security-related. Since then, the SCO has evolved into a much broader organisation. Political interaction among its members is extensive with annual summit meetings, frequent meetings of defence and foreign ministers and various working groups. The Organisation's Charter, adopted in June 2002, covers economic and trade issues, cooperation in science and technology areas, environmental protection and other fields.<sup>36</sup> By 2005 Mongolia, Afghanistan, India, Pakistan and Iran had joined as observers. They are due to gain full membership in 2006.

**The World Trade Organisation (WTO)** is the successor to the General Agreement on Tariffs and Trade (GATT) which governed the rules of international trade until the establishment of the WTO in 1995. After 14 years of negotiations, the PRC was admitted to the WTO on 11 December 2001. It has been allowed a five-year transition period before it has to fully meet WTO standards. Hong Kong and Macao have been members since January 1995 and continue to have separate representation. Taiwan has been a member of the WTO since 1 January 2002.<sup>37</sup>

## G. The Chinese Overseas

It has been estimated that there are approximately 33 million Chinese overseas (excluding Hong Kong, Macao and Taiwan). Of that total, 25.5 million (or 78%), reside in South East Asia. Of the rest, 3.6 million (11.0%) live in North America; 2 million (6.0%) live in Europe; 820,000 (2.5%) live in South America; 530,000 (1.6%) live in Oceania. Small Chinese communities also can be found in Africa and Central America.<sup>38</sup>

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<sup>35</sup> Europa Regional Survey, *The Far East and Australasia 2006* (London and New York, 2005), pp. 1335-8

<sup>36</sup> House of Commons Library Standard Note SN/IA/3908, *Russia, China and the SCO*

<sup>37</sup> In the economic sphere, there is also increasing talk about China joining the G7 group of finance ministers and perhaps even the G8. See S. Desai, "G8 - Governing the Global Economy", *The World Today*, Vol. 62, No. 6. China is a member of the International Monetary Fund (IMF), where it currently has 2.94% of the total voting power. It is a member of the World Bank and affiliated institutions, where it currently has 2.78% of the total voting power. By contrast, each member has equal voting power in the WTO.

For more details, see: <http://www.imf.org/external/np/sec/memdir/members.htm> and; <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/ORGANIZATION/BODEXT/0,,contentMDK:20124831~menuPK:64020025~pagePK:64020054~piPK:64020408~theSitePK:278036,00.html>

<sup>38</sup> L. Ma, "Space, place, and transnationalism in the Chinese diaspora", in *The Chinese Diaspora: Space, Place, Mobility, and Identity*, edited by L. Ma and C. Cartier (Oxford, 2003), p. 12

According to one analyst, by the early 1990s the so-called 'overseas Chinese economy' – stateless, network-based and non-official – ranked fourth in the world in terms of economic size and amounted to 125% of mainland China's GDP at the time.<sup>39</sup>

There are many words in mandarin Chinese to describe ethnic Chinese living outside mainland China, Taiwan, Hong Kong or Macao. The word *huáqiáo* (Chinese Sojourners or Overseas Chinese) was used by the Chinese Government from the 19<sup>th</sup> Century onwards to describe Chinese citizens living or working abroad. In the past it was widely used to describe all people of Chinese descent, irrespective of their citizenship. In some countries with large Chinese minorities the word encouraged suspicions that these minorities had little loyalty towards their host nations. Today *huáqiáo* no longer includes Chinese people with foreign passports and is being replaced by various words like *huaren* (ethnic Chinese or Chinese overseas who adopted local citizenship and placed their political alliances with the residing nations) or *huayi*, which refers to anyone with Chinese ancestry.<sup>40</sup>

There is also no universally accepted word in English today to describe Chinese people living abroad. The term 'Chinese diaspora' is sometimes used but it has been criticised for lumping very different groups together. Wang has argued: "[...] the Chinese, wherever they go, are easily influenced by their environment, they adapt to new circumstances and thus become very different from other groups living elsewhere."<sup>41</sup> The least controversial term appears to be 'Chinese overseas', the equivalent of *haiwai huaren* in mandarin Chinese.

The first wave of Chinese migration was into South East Asia. In the 19<sup>th</sup> Century the Chinese began arriving there in large numbers. Population growth and chronic political instability led well over two million Chinese people to leaving the country in search of opportunities elsewhere. Booming Western colonies also "presented abundant opportunities for wage labour; especially to impoverished young men whose employment chances in their home regions were often bleak."<sup>42</sup> The Chinese went to Cuba, to work on sugar plantations; to mine for gold in Australia and California; to work in coal mines in South Africa; or to be domestic servants in Peru. More educated Chinese also found well-paid employment in government and private sectors, and as merchants, shopkeepers and professionals. Many Chinese, mostly men, who went overseas had no intention of staying there. But often they remained too poor to make it back. The 1911 revolution was heavily backed financially by the Chinese overseas. The second revolution of 1949, which brought the Communists to power, meant that many felt they could not now go back home.<sup>43</sup> Indeed, although hundreds of thousands of Chinese did return to rebuild their country, many more left for Taiwan and Hong Kong and from there

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<sup>39</sup> T. Shiraishi, "Chinese networks", *Japan Spotlight Bimonthly*, 1 March 2005 (No pagination. See [http://www.jef.or.jp/journal/jef\\_journal\\_top.asp](http://www.jef.or.jp/journal/jef_journal_top.asp) for more information about this journal. This article is available on request)

<sup>40</sup> L. Ma, "Space, place and transnationalism", p. 40

<sup>41</sup> L. Malvezin, "Diaspora, a much abused word: Interview with Wang Gungwu", *Asian Affairs*, October 2005. Available at: <http://www.asian-affairs.com/Frameleft/asianaffairsondi.html> at 5 April 2006

<sup>42</sup> A. Booth, "Linking, de-linking and re-linking: Southeast Asia in the global economy in the 20th Century", *Australian Economic History Review*, Vol. 44, No. 1, March 2004, p. 45

<sup>43</sup> H. Baker, "The myth of the travelling wok: the overseas Chinese", *Asian Affairs*, March 1997, p. 30

sought to emigrate to any country that would accept them.<sup>44</sup> Many of those already residing in South East Asia were unsympathetic to the Communists and preferred to stay where they were, even when many post-colonial governments began to take an anti-Chinese stance.<sup>45</sup>

The economic power of the Chinese in South East Asia grew rapidly in the early part of the 20<sup>th</sup> Century but the real expansion came after World War II. Chinese funds have been key factors in making Singapore and Hong Kong the principal financial markets in South East Asia. When South East Asian countries began to industrialise, large quantities of ethnic Chinese capital moved from the commercial sector into manufacturing industries.<sup>46</sup>

Excluding Singapore, the Chinese constitute an ethnic minority in South East Asia. However, they own about 80% of Thai private stocks, 60% of Malaysia's, 75% of Indonesia's and 50% of Philippines'.<sup>47</sup> Of the five billionaires in Indonesia and Thailand in the late 20<sup>th</sup> Century, all were ethnic Chinese.<sup>48</sup> This does not mean, however, that South East Asian economies are controlled by the ethnic Chinese, as some have claimed. Among the thirty largest firms in South East Asia, 51.7% of the capital was state-owned in the late 1990s, while ethnic Chinese controlled 28.3%.<sup>49</sup> There are also still many poor Chinese farmers in the countries of the region. Nonetheless, perceptions of their economic success and continuing ties with China mean that they continue to be viewed by some with suspicion. However, there is little evidence "of the Chinese overseas acting either as agents of Chinese expansionism or as active promoters of change back in China."<sup>50</sup> On the contrary, ethnic Chinese in Southeast Asia have helped open economic and political doors with China for their adopted countries.

A significant proportion of China's current high economic growth can be attributed to the investment of overseas Chinese. From 1979 to 1996, overseas Chinese capital accounted for 69% of the Foreign Direct Investment (FDI) in China, including 54% from Hong Kong, 9% from Taiwan and 6% from overseas Chinese outside 'Greater China'.<sup>51</sup>

Since the 1960s a large number of Chinese migrants have arrived in the US, Canada, Australia and New Zealand as a result of new immigration policies. In recent decades, industrialised nations have become the chief destinations of Chinese migrants. These new arrivals have been better educated and more mobile than those who migrated in previous generations, who were mainly poor farmers from China's southern provinces. So while individual Chinese communities around the world do indeed display communal solidarity, they are also divided by language, origin, political persuasion, class and legal status.<sup>52</sup>

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<sup>44</sup> G. Wang, "Greater China and the Chinese overseas", *China Quarterly*, No. 136, December 1993, p. 927

<sup>45</sup> Booth, "Linking, de-linking and re-linking", p. 45

<sup>46</sup> D. Peng, "Ethnic Chinese business networks and the Asia-Pacific Economic Integration", *Journal of Asian and African Studies*, Vol. 35, Issue 2, May 2000 (No pagination – taken from *Factiva.com*)

<sup>47</sup> Ibid

<sup>48</sup> K. Davis et al, "Ethnically homogenous commercial elites in developing countries", *Law and Policy in International Business*, Vo. 32, Issue 2, January 2001

<sup>49</sup> D. Peng, "Ethnic Chinese business networks"

<sup>50</sup> R. Skeldon, "The Chinese diaspora or the migration of Chinese peoples?", in *The Chinese Diaspora: Space, Place, Mobility, and Identity*, edited by L. Ma and C. Cartier (Oxford, 2003), p. 55

<sup>51</sup> D. Peng, "Ethnic Chinese business networks"

<sup>52</sup> Skeldon, "The Chinese diaspora", p. 61

Chinese immigrants first arrived in Britain in the 19<sup>th</sup> Century as sailors, settling in Liverpool and London's Limehouse district. In the 1950s and 1960s there was a large influx of Chinese farmers from Hong Kong, and Chinese migrants from all over South East Asia. The 2001 Census showed that there were 250,000 Chinese people in Britain. The proportion of Chinese rose from 0.3% in 1991 to 0.4% in 2001. Today, they are among the highest earners in Britain and are comparatively successful at school.<sup>53</sup>

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<sup>53</sup> Office for National Statistics, *Census 2001. Ethnicity and Religion in England and Wales*, 13 February 2003. Available at: <http://www.statistics.gov.uk/pdfdir/ethnicity0203.pdf>

## II Key Political Questions

### A. Is Political Authoritarianism Sustainable?

*“Depriving the public of freedom of expression so nobody dares speak out will sow the seeds of disaster for political and social transition”<sup>54</sup>*

#### 1. The Chinese Tradition

China has a history of alternation between periods of political and social turbulence – sometimes involving violence and civil war – and longer periods of highly centralised authoritarian rule. In this respect, the Communist era has shown considerable continuity with previous epochs in China’s history. For example, under Chairman Mao, the ‘cultural revolution’ in the 1960s almost tore the country apart. With the rise of Deng Xiao Ping in 1979, China experienced a decade of relative calm and an opening up of the space for debate before again being thrown into a crisis that ended with the Tiananmen Square massacre in 1989. Since then, the story has been one of dramatic economic advance but limited political change.

The political crisis in 1989, which occurred as much within the Communist Party as within wider society, and the repression with which it was – after some initial equivocation – met, did weaken its domestic political legitimacy at the time. Certainly, it undermined its credibility amongst urban populations and intellectuals. It does not appear as if it resonated as strongly in the countryside. With the fate of Gorbachev and the Soviet Union very much in mind, the party leadership pursued a strategy of economic development while seeking to retain tight political control throughout the 1990s. Renewed legitimacy was to be achieved by delivering economic growth to the people. When an ideological dimension was needed in policy-making, the Communist Party was increasingly likely to draw upon economic and political nationalism rather than communist values.

Tony Saich has characterised the Chinese polity (in so far as one can generalise about such a vast and complex country) as one that combines a strong tradition of centralisation with weak “political institutionalisation”.<sup>55</sup> Systems of checks and balances remain poorly developed and the ‘rules of the game’ – whether you are a foreign investor, a rural labourer or a local journalist – remain opaque and subject to arbitrary change. While promoting greater institutionalisation has been an important component of recent reform efforts, power is still strongly personalised. Since 2002-3, that personal power has been located above all in Hu Jintao, the current President, and Wen Jiabao, the Premier. However, reforms designed to build a “socialist market economy” have unavoidably promoted political and economic decentralisation (for example, to the provinces), so reducing the ability of the Party simply to impose institutional changes ‘from above’. Personal power in China, while still mediated through Party structures, has

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<sup>54</sup> Quoted in “War of the words”, *The Guardian*, 20 February 2006

<sup>55</sup> T. Saich, *Governance and Politics of China* (Basingstoke, 2004), p. 95

become more widely spread around. This has, amongst other things, created a highly permissive environment for corruption to flourish.<sup>56</sup>

While the Party has clearly accepted that political change is inevitable where it will assist processes of economic reform, this does not mean that it has yet accepted that political change should extend as far as full-blown *liberalisation*. The Communist Party's 'right to rule' remains non-negotiable. Recent political reforms illustrate that the party leadership continues to hope that it can keep up this complex balancing act. Improving China's human rights performance is not a particularly high priority for the Party, although there appears to be some recognition that doing so may strengthen its domestic political legitimacy. It is also conscious of the value of promoting reforms that neutralise international critics.<sup>57</sup>

The strategy of Hu's predecessor as General Secretary and President, Jiang Zemin, was to address public dissatisfaction with the Party by improving its performance (for example, by reducing corruption, avoiding unnecessary interference in the economy and society and reducing the size of the government bureaucracy) and to broaden its membership to include private entrepreneurs and other sectors of society previously excluded. Jiang also elaborated the 'Three Represents' to back up his strategy. They stipulate that the Party will represent the advanced social productive forces, the most advanced culture and the fundamental interests of all the people.<sup>58</sup> At the same time, when genuinely autonomous political organisations emerged – for example, the China Democracy Party or the *Falungong* – they were ruthlessly dealt with.<sup>59</sup>

## 2. Portents of Change?

Hu Jintao and Wen Jiabao have not yet gone beyond the political course charted by Jiang. It may be that they are still preoccupied with consolidating their power, although there is no guarantee of a dramatic change of direction if and when they do. Over the last four years freedom of expression and the lack of official openness have again become frontline issues in the debate over the parameters of political reform. In addition, there has been a wave of rural unrest against rising corruption and inequality. Taken together, some commentators have wondered whether they are a sign that a major new crisis could be gestating within the Chinese body politic.

Concerns over lack of official openness stirred once more following the outbreak of Severe Acute Respiratory Syndrome (SARS) in late 2002. For several months, the authorities simply tried to cover up the outbreak. It was not until April 2003 that Hu and

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<sup>56</sup> Saich, p. 118. One author has argued that, with the costs of political and economic decentralisation rising, the Party has recently been pursuing a "soft" form of (re)centralisation from local to provincial level. Paradoxically, however, this may be contributing towards increased provincial power and "a sort of perverse federalism". See A.C. Mertha, "China's 'Soft' Centralization: Shifting Tiao/Kuai Authority Relations", *China Quarterly*, No. 184, December 2005, p. 791

<sup>57</sup> For a recent report on China's human rights record with regard to torture, see the interim report of the UN Special Rapporteur on Torture, 2 December 2005. Available at:

<http://www.unhcr.ch/hurricane/hurricane.nsf/0/677C1943FAA14D67C12570CB0034966D?opendocument>

<sup>58</sup> Saich, p. 81-5. Another fairly nebulous phrase that is sometimes used to define what the Communist Party is striving for in the political sphere is "socialist political civilisation". Ibid, p. 344

<sup>59</sup> Ibid, p. 83. An important survey of the struggle for political rights in China can be found in M. Goldman, *From Comrade to Citizen: The Struggle for Political Rights in China* (Cambridge MA and London, 2005)

Wen, with the world looking on, called for honest reporting about SARS. Yet, at the same time, steps were taken to ensure that this did not lead to a general expansion of media freedom.<sup>60</sup> The authorities have also sought to insulate China from the politically polluting effects of the Internet by building – with the alleged acquiescence, according to critics, of Yahoo, Google and Microsoft – what is known as the ‘Great Firewall of China’.<sup>61</sup>

In January 2006 there was a downturn in relations between the authorities and the media. After a weekly supplement to the *China Youth Daily*, called *Freezing Point*, was closed down and three editors removed from their positions, their supporters were quick to utilise the Internet to publicise the situation. Then, in a joint letter, 13 senior retired officials, academics and lawyers, called upon the authorities to open up the media and reinstate *Freezing Point*, arguing that freedom of expression was essential to China’s future economic and political development.<sup>62</sup>

Some analysts believe that a moment must come when the Chinese authorities decisively lose control over access to information. That moment has been pivotal in promoting democratic transitions elsewhere. A government official responsible for Internet surveillance was recently quoted as saying: “The Internet is now the main influence on public opinion... The people who get their information from the web are the most active sector of society – 80 per cent of web users are under 35.... We cannot ignore public opinion, especially when it is allied to technological change”.<sup>63</sup>

*Freezing Point* has subsequently reopened, although only after it was required to engage in ‘self-criticism’.<sup>64</sup> Two of the editors that were sacked have been moved to another publication.

There is another factor to consider. Increased access to information is being accompanied by a dramatic expansion of higher education in China. The East German dissident Rudolf Bahro once wrote of East Germany that the fate of the Communist Party there would be sealed when social discontent combined with a sufficient “surplus consciousness”.<sup>65</sup>

The current wave of rural unrest, which has been building in intensity for several years, poses another challenge to the authority of the Communist Party. Political and economic decentralisation has involved reduced financial support to the provinces by central

<sup>60</sup> Saich, p. 89

<sup>61</sup> “Pirates and bloggers beat China’s great wall of propaganda”, *Guardian*, 14 February 2006. See also the campaign against Internet censorship launched by Amnesty International UK and *The Observer* in May 2006 at: <http://irrepressible.info/>. In early June, Google gave indications that it was reconsidering its agreement to allow politically sensitive information to be filtered from web searches in China. See, “We may pull plug on our censored Chinese website, says Google”, *Daily Telegraph*, 8 June 2006

<sup>62</sup> See also the quotation at the start of this section

<sup>63</sup> “War of the words”, *Guardian*, 20 February 2006. That this is not yet the view of the authorities was shown when, on 16 May 2006, Yang Tianshui was jailed for 12 years for “subversion of state power” after posting articles on the Internet endorsing the idea of free elections. “Chinese internet writer jailed”, *Financial Times*, 17 May 2006

<sup>64</sup> “War of the words, *Guardian*, 20 February 2006

<sup>65</sup> It is worth noting, however, that Bahro (wrongly) believed that this situation would produce a pure Communist society, rather than a transition to democratic capitalism. See R. Bahro, *The Alternative in Eastern Europe* (London, 1981), p. 256-7

government. Provincial and local leaders have been encouraged to use their autonomy to extract a greater share of resources from their own populations. This has sometimes led to unbalanced development plans that emphasise short-term financial needs. In addition, the decollectivisation of agriculture has removed one important source of income for provincial and local governments. The result has often been reduced service provision. Many local governments apparently struggle to pay their wage-bills.

At township and village level, a range of fees have been imposed on local people to raise revenue:

They are often referred to as the arbitraries (*sanluan*): arbitrary taxation (*luan shoufei*), arbitrary fines (*luan fakuan*) and arbitrary expropriation (*luan tanpai*) [...] These extra fees and levies have been the source of considerable unrest in the countryside, and the centre has tried continually to clamp down on their use [...] so long as local administrations have bloated staffs and are cash-strapped the problem will not be resolved.<sup>66</sup>

Once revenue has been raised in this way it is all too often misappropriated or diverted to purposes other than that for which it was originally earmarked. Unrest has also regularly been triggered by cases of high-handed official action at township and village level. The southern province of Guandong has recently been particularly turbulent.<sup>67</sup>

However, we should be cautious about reading too much into this increased rural unrest. Most protests appear driven by economic concerns and lack a broader political dimension. There are also examples of creative approaches to local problems and 'success stories' to report. It is also worth noting that the village is the only political unit at which direct elections are permitted, so the degree of accountability at this level of governance is, on the face of it, superior to that at higher levels.<sup>68</sup> Saich writes: "Much experimentation is taking place with basic level organisations and institutions, which all makes for a very messy kind of China and one that defies simple categorisation."<sup>69</sup> One example of this experimentation has been Wenling City Government's introduction of township-level "democratic open consultations", which have reportedly gone so far as to influence financial decision-making.<sup>70</sup>

In October 2005 the Chinese Government sought to respond to rural discontent and concerns about growing inequality by announcing an initiative to build "a new socialist countryside". Part of the 11<sup>th</sup> five-year plan, it is expected to involve increased support to farmers (including improved compensation for rural residents whose land is seized for commercial use), improved education and healthcare provision for rural populations and an end to discrimination against rural migrants to the cities. School fees are to be eliminated in the underdeveloped west of the country. Chen Xiwen, office director of the

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<sup>66</sup> Saich, pp. 173-5

<sup>67</sup> "Peasants are promised a crop of reforms to buy off rural unrest", *Times*, 23 February 2006

<sup>68</sup> Village level elections were introduced in 1987. It has been reported that growing numbers of independent candidates are being elected. "The big steal: Violent protest is breaking out across China", *Guardian*, 27 May 2006. There have also been experiments with direct elections in urban residents' committees. See Saich, pp. 159, 195, 203

<sup>69</sup> Saich, p. 179

<sup>70</sup> L. Ong, "China's Village Voices", *Far Eastern Economic Review*, March 2006

Communist Party's 'leading group' on rural policy acknowledged that closing the gap between town and country would be a "long process, but the gravity of the problem has attracted serious attention from all sides."<sup>71</sup> Over US \$40 billion is due to be spent on the rural areas this year.<sup>72</sup> How much difference even this amount of money can make to rural conditions remains open to question. In addition, it is uncertain how far the Centre will be able to enforce the policy at provincial and local level. Previous initiatives have foundered on these grounds.<sup>73</sup> But there is no doubt that it is a very important policy shift.<sup>74</sup> The new five-year plan has also prioritised tackling the growing environmental crisis. It has been reported that 300 million people regularly drink polluted water in China, many of them in what are known as "cancer villages" downstream from major cities.<sup>75</sup> The Government has set targets of a 20% cut in energy consumption per unit of GDP, a 10% cut in major pollutants and measures to reverse the decline in forest coverage across the country. However, Wen Jiabao has admitted that many previous environmental targets have not been met.<sup>76</sup> In March 2006, the National People's Congress endorsed the new five-year plan.<sup>77</sup>

More generally, while there is an unwillingness to adopt policies of full-blown political liberalisation, it is important to recognise that there has been a slow but nonetheless significant opening up of space for relatively autonomous thinking and action over the past 30 years. The emergence of Non-Governmental Organisations (NGOs) since the early 1990s illustrates this fact. The authorities have moved from a conception of state-society relations in which the two were seen as totally unified and inseparable to an acceptance of the idea of a distinct 'civil society' – albeit one led by the state: "This civil society is created by the state to help it govern, co-opt and socialise potentially active elements in the population".<sup>78</sup> Tough regulations operate that give state bodies extensive powers over NGOs. This does not mean that all NGOs should simply be seen as creatures of the government, although some undoubtedly are. One well-known example of an NGO which operates with a degree of relative freedom is Friends of Nature, which operates in the sphere of environmental education.<sup>79</sup> So, while the state remains highly suspicious of 'spontaneous movements', particularly those that might have a mass base, it has long ceded its earlier absolute ideological right to suppress them. The Chinese Government now accepts that while state and society are fundamentally unified, in practice there are justifications for a degree of separation. This may not match western conceptions of state-society relations but it is nonetheless a significant shift. Saich

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<sup>71</sup> "Peasants are promised a crop of reforms to buy off rural unrest", *Times*, 23 February 2006

<sup>72</sup> "Chinese Premier warns Taiwan against pursuit of independence; during his annual meeting with the press, Wen Jiabao also vows to aid his nation's peasants", *Los Angeles Times*, 14 March 2006

<sup>73</sup> D. Wall, "China: the plan and the party", *OpenDemocracy.net*, 29 March 2006

<sup>74</sup> *Ibid*

<sup>75</sup> "Villages doomed by China's cancer rivers", *Daily Telegraph*, 31 May 2006

<sup>76</sup> "China admits green failures", *Daily Telegraph*, 20 April 2006. In May the construction of the controversial Three Gorges dam on the Yangtse river was completed. It is the biggest dam in the world. Critics claim that its environmental impact will be disastrous. "Triumph or folly, great dam of China is completed", *Times*, 20 May 2006

<sup>77</sup> For the full text of the Five-Year Plan, see *BBC Monitoring Online Asia-Pacific*, 22 October 2005 [available via Lexis Nexis]

<sup>78</sup> Saich, p. 228

<sup>79</sup> For an interesting discussion of environmental civil society, see Yiyi Lu, "Environmental civil society and governance in China", Asia Programme Briefing Paper 05/04, Royal Institute of International Affairs, August 2005

believes that “over time, the political consequences of this are liable to be considerable.”<sup>80</sup>

So while Hu Jintao has not yet ushered in a new era of political reform, as some had hoped, this does not mean that it is permanently off the agenda. There is certainly recognition amongst reformers that excessive authoritarianism is a ‘bottleneck’ that could damage economic and social development and that innovation is required.<sup>81</sup> In recent months there have been reports of passionate intra-party debates about future direction, with some proposing that the party establish two factions – progressive and conservative.<sup>82</sup> But Saich, writing in 2004, cautions against expecting dramatic change in the near term:

Bold initiatives are unlikely and the politics of muddling through, which has served well in the economic realm, will probably persist for the next five years. An essentially technocratic approach will prevail while the leadership tries to maintain an authoritarian political structure combined with growing economic liberalisation. Minimal reform is likely in the political system with a continued focus on strengthening the legal system and building capacity and skills within public administration.<sup>83</sup>

### 3. Is Full-Blown Political Liberalisation Inevitable in the Long Run?

Some analysts view China as one of the latest variations on the East Asian theme of the ‘developmental state’. According to them, the East Asian model involves a strong state that leads the development process, coordinating productive activities, protecting key industries and mobilising resources – all the while retaining control over society.<sup>84</sup> The state embodies the nation as a kind of ‘family’. According to this school of thought, premature political liberalisation may jeopardise economic success. Only once a certain level of development has been achieved and a cohesive capitalist class has emerged can political liberalisation take root successfully.<sup>85</sup> They point to sub-Saharan Africa and other parts of the world, where weak economies are usually accompanied by weak states and weak democracies.

Supporters of this thesis point to the post-1945 trajectories of Japan, Taiwan and South Korea, where versions of liberal democracy are now established, as evidence of how China’s political system may evolve over time. The Chinese Government has often appeared to subscribe to this view of its own trajectory. However, other analysts have expressed scepticism that China can really be understood as a ‘developmental state’. They have argued that the Party and state in China have followed a different route,

<sup>80</sup> Saich, p. 223.

<sup>81</sup> Saich, p. 345

<sup>82</sup> “Reform debate in China intensifies”, *USA Today*, 17 April 2006

<sup>83</sup> Saich, p. 347

<sup>84</sup> For a study that is relatively optimistic about the capacities of the Chinese state, see B.J. Naughton and D.L. Yang, *Holding China Together: Diversity and National Integration in the Post-Deng Era* (Cambridge, 2004) It argues that the Chinese state has “succeeded in remaking institutions and reshaping policies in ways that enhance institutional integrity and strengthen national unity” (p. 6)

<sup>85</sup> For example, see R. Wade, *Governing the Market: Economic Theory and the Role of the Government in East Asian Industrialisation* (Princeton, 1990) and D. Rueschemeyer, E. Stephens and J. Stephens, *Capitalist Development and Democracy* (Polity, 1992)

opening up much earlier to Foreign Direct Investment and ‘riding the tiger of globalisation’. They go on to claim that the state is not really playing the same strategic role it did in these neighbouring countries and that China’s large firms are unlikely to be able to compete internationally with the world’s leading businesses, making it highly doubtful that China will be able over time to move up the manufacturing and technology value-chain.<sup>86</sup> They also argue that China’s industrialisation process is highly uneven and patchy in character, involving growing inequality rather than the relatively broad-based equitable growth witnessed in earlier East Asian developers.<sup>87</sup> The mounting environmental crisis arising from breakneck development is also cited as a further cause for pessimism.

All this, it follows, could damage the prospects for continued economic growth, which in turn could hold back the emergence of a cohesive capitalist class that many believe is so important to durable liberal democracy. The Communist Party’s continued adherence to Communism, however notional in theory, still also raises doubts about how far such class formation will be tolerated, even if it is the *nomenklatura* (bureaucratic class) and those linked to it who are best placed to transform themselves into a capitalist elite. In addition, non-Han sections of the population are increasingly frustrated by their economic and political marginalisation.<sup>88</sup> In this context, some wonder whether China can afford to postpone political liberalisation for much longer. This leads some analysts to conclude that, even if the conditions are not perfect and despite the transitional risks, the emerging capitalist class and its allies need to push for more dramatic political change in the near future if China’s unity and long-term economic growth are to be safeguarded.<sup>89</sup> This is certainly the view of many Chinese reformers and ‘dissidents’. But just because such change may be needed does not mean that it must inevitably take place.<sup>90</sup> If dramatic political change did occur, the result would not necessarily closely reflect Western ideas of liberal democracy. For example, it has been observed that Japan’s democracy after 1945 has involved *de facto* one-party rule and parties that are an assemblage of personalised factions rather than bodies organised around distinct political manifestos.<sup>91</sup>

So while lessons can usefully be drawn from the way economics and politics have interacted historically in other countries that have undergone development, we should not be mesmerised by them. Under globalisation, some (if not all) of the ‘rules of the

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<sup>86</sup> For example, see P. Nolan, “China and the Global Business Revolution”, *Cambridge Journal of Economics*, Vol. 26, No. 1, January 2002, pp. 119-137

<sup>87</sup> An Chinese think-tank claimed in a 2005 report that half of all income generated in China now goes to the top 20% of the population, while the poorest 20% receives 4.7%. “Peasants are promised a crop of reforms to buy off rural unrest”, *Times*, 23 February 2006

<sup>88</sup> The Han Chinese make up approximately 91.5% of the population. The remaining 8.5% belong to minority groups. *The Far East and Australasia 2006*, Europa Regional Survey (London and New York, 2005), p. 180

<sup>89</sup> Not everybody subscribes to the view that a growing middle class will increase pressures for democratisation in China. See, for example, J. Unger, “China’s Conservative Middle Class”, *Far Eastern Economic Review*, April 2006. Unger writes: “Many members of the educated middle class are vaguely pro-democratic just so long as democracy can be put off to a future time.” (p. 29)

<sup>90</sup> Some authors believe that the party, like its counterparts elsewhere, is fundamentally unreformable. See M. Pei, *China’s Trapped Transition: The Limits of Developmental Autocracy* (Harvard, 2005)

<sup>91</sup> An American journalist wrote of Japan in 1969: “The Liberal Democratic Party is neither liberal nor democratic nor a party but is a conservative, authoritarian alliance of *haibatsu* [factions].” Richard Halloran, *Japan: Images and Realities* (New York, 1969), p. 116

game' do appear to have changed, although the Communist leadership continues to try to insulate China from pressures for political reform. We cannot know what the future holds – but it can safely be assumed that China will follow its own distinct path.

## **B. Can China's Development be Peaceful?**

*“China's road of peaceful development is a brand-new one for mankind in pursuit of civilisation and an inevitable way for China to achieve modernisation, and a serious choice and solemn promise made by the Chinese Government and the Chinese people”<sup>92</sup>*

The Chinese Government assures the world that its objective is “peaceful development” both at home and internationally. In January 2006 it produced a White Paper that set out the reasons why, claiming that it is a “peace-loving” nation. It promised that China “would never seek hegemony” and is fully committed to multilateralism.<sup>93</sup>

In what follows, the main flashpoints that could undermine the pacific, non-hegemonic claims of the Chinese Government are examined.

### **1. Internal Dimensions**

The dangers inherent in political and economic decentralisation have already been discussed. Might this, perhaps in combination with a growth in political separatism in the western provinces of Tibet and Xinjiang (China's ‘internal empire’) lead to a break-up of China? This has been much debated by scholars. Saich writes:

The increasing provincial control over vast resources, the decline in the moral authority of the centre, and China's previous history of fragmentation and warlordism have lead some writers to surmise about a possible break-up of China. Despite the economic growth of provinces such as Guandong and the reorientation of a province such as Yunnan towards Thailand and Southeast Asia for foreign direct investment and trade, this has been no more than wishful thinking. To date, when the centre has really wanted to impose its will on a significant issue it can, and the provinces have been willing to go along with this.<sup>94</sup>

Saich does entirely not rule out the possibility of a breakaway in Tibet or Xinjiang. He continues:

Here the relationship with the centre is qualitatively different and it has had to resort to violence on a number of occasions to exert control. Despite the process of moving in Han Chinese to dominate the political and economic apparatus of these two provinces, considerable opposition has remained to Beijing's

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<sup>92</sup> “Peaceful Development is the Inevitable Way for China's Modernisation”, English Version of the Chinese Government's White Paper, January 2006

Available at: <http://www.china.com.cn/english/features/book/152768.htm>

<sup>93</sup> Ibid

<sup>94</sup> Saich, p. 159

dominance. In both cases this is aided by a history, language and culture that provides an alternative point of reference to Beijing's official story of unity [...] It is also helped by Tibetan loyalty to the exiled Dalai Lama and in Xinjiang by the various Muslim groups in the newly formed independent states that emerged from the break-up of the former Soviet Union.<sup>95</sup>

Most analysts believe that, were China's unity to come under serious threat, the response of the state would certainly include a fair measure of violence and repression.<sup>96</sup> There is a very strong fear of the 'death of the state' in China, rooted in memories of the first half of the 20<sup>th</sup> Century. Indeed, there is already violence and repression on China's self-proclaimed front in the 'war on terror' – Xinjiang.<sup>97</sup> Development is certainly not peaceful there at present, for all of the official rhetoric about 'developing the west'.<sup>98</sup>

By itself, an escalation of unrest in Xinjiang and Tibet is unlikely to threaten the unity of the state in China.<sup>99</sup> And on the broader relationship between centre and provinces, Saich concludes:

The relationship between the centre and the localities is not necessarily one of a zero-sum game, and most may feel that they have more to gain by remaining within a collaborative framework with Beijing than suffering the cost of trying to wriggle free, something that would be impossible in any case unless CCP rule were to collapse.<sup>100</sup>

Other scholars are also relatively sceptical about predictions of China's imminent demise. Fitzgerald, writing over a decade ago, argued that contemporary tensions might better be understood as "a crisis afflicting a particular form of the unitary state in China's 'long history'".<sup>101</sup> But he warned that it is the Communist Party itself that:

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<sup>95</sup> Saich, p. 159

<sup>96</sup> In recent years, the Chinese authorities have been conducting a 'Strike Hard' policy in Xinjiang as part of their own 'war on terror'. Where ethnic minorities are not perceived as a threat to unity, the party sometimes allows them greater freedom. See S. Davis, "China's Contested Ethnic Borders", *Far Eastern Economic Review*, November 2005

<sup>97</sup> Separatists are struggling to establish an independent state called East Turkestan in Xinjiang. Many scholars believe that China is taking advantage of the international 'war on terror' to respond forcefully to what is essentially a domestic issue. For example, see D. Gladney, "Ethnic Conflict Prevention in the Xinjiang Uygur Autonomous Region: New Models for China's New Region", INCORE Discussion Paper, July 2002, p. 4. She writes: "The Istanbul-based groups have existed since the 1950s, the Central Asian Uygurs under Soviet rule received tremendous support in their anti-China rhetoric regarding policies in Xinjiang, and the Uygurs have been increasingly vocal since the independence of the Central Asian Republics in 1991."

<sup>98</sup> For a study of development in Tibet, see A. Fischer, *State Growth and Social Exclusion in Tibet* (Copenhagen, 2005). The Chinese Government has been trying to persuade companies such as BP and Shell to undertake oil exploration in Tibet. So far they have declined to do so. "China invites oil firms to join invasion of Tibet", *Guardian*, 30 May 2006

<sup>99</sup> The exiled Dalai Lama, the spiritual leader of Tibet, has been pursuing a conciliatory approach towards Beijing in recent years, stressing that he seeks genuine autonomy rather than independence. There have been several rounds of talks between his representatives and Chinese officials, although these have produced no tangible results to date. "Tibet's spiritual leader urges patience in dealing with China", *Financial Times*, 1 June 2006

<sup>100</sup> Saich, p. 159

<sup>101</sup> J. Fitzgerald, "The History of the Death of China", in D. Goodman and G. Segal (eds) *China Deconstructs. Politics, Trade and Regionalism* (London, 1994), p. 23

[...] may well present the gravest danger to the unity of the state, to a far greater degree than other 'traditional' sources of fracture in the geography, culture, language, local society and regional economies of China. The People's Republic is not just a centralist state but a single-party state, and the effectiveness of the central government is heavily dependent on the vitality and discipline of the Communist Party.<sup>102</sup>

The Communist Party of the Soviet Union suffered a calamitous collapse of its vitality and discipline between 1989 and 1991. This was brought on by a combination of internal and external 'shocks'. While this may seem impossible to imagine today as the Chinese economy grows rapidly, this scenario should not be entirely ruled out. An economic crisis would seem the most likely trigger.<sup>103</sup>

## 2. External Dimensions

There are many possible external dimensions to be considered when seeking to judge whether China's development can be peaceful. There is not space to consider them all in this Paper.<sup>104</sup> We have chosen to focus here on four important thematic areas (the War on Terror; Militarism; Multilateralism; Regionalism) and three pivotal country relationships (Taiwan; Japan; the US).

### a. *China's Front in the War on Terror*

One possible trigger for military action beyond its borders by China might be a growth in the threat to Chinese rule in Xinjiang Province from Uygur insurgents based in the states of Central Asia. This threat could be fuelled by state failure in the region. If it took on a strongly *jihadist* flavour, this would be likely to mute international criticism of such military action. By itself, it seems doubtful that this scenario would be allowed to dramatically raise tensions between China and the international community, unless cross border military action metamorphosed into permanent bases or even a form of occupation. But the emergence of the Shanghai Cooperation Organisation (SCO) is a potentially important development in this context. Some observers are beginning to wonder if the SCO is evolving into a China-Russia security body designed to counter the influence of the US and the European Union (EU) in Central Asia. If this perception hardens, Chinese action in Central Asia could be viewed more suspiciously by those outside the SCO.<sup>105</sup>

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<sup>102</sup> Fitzgerald, p. 48

<sup>103</sup> China was hit hard by the Asian Financial Crisis in 1997 and only narrowly avoided a major economic downturn

<sup>104</sup> We hope to address the theme of energy politics in a separate paper in future. For an excellent introduction to the issue, see Z. Daojiong, "China's Energy Security: Domestic and International Issues", *Survival*, Vol. 48, No. 1, Spring 2006. He states that managing domestic demand is an even greater security challenge for China than securing foreign supplies and points out that China lacks a ministerial level agency to oversee its energy development. He argues that international collaboration should focus on improving China's energy efficiency (pp. 185-88)

<sup>105</sup> For an introduction to the SCO, see House of Commons Library Standard Note SN/IA/3908, *Russia, China and the SCO*. The SCO may be as much about energy security as military security. In May 2006 the first oil from a new pipeline connecting China and Kazakhstan arrived in China. See "Kazakh oil arrives in China", *Financial Times*, 26 May 2006. While they are the leading partners in the SCO, relations between Russia and China are not entirely devoid of tensions. 30% of East Asian energy supplies are due to come from Siberia within the next 10-15 years, according to one analyst. He states that the pipelines will all go through parts of the border which are "disputed between China and Russia at

## **b. Militarism**

The partial abandonment of communist ideology has created greater space for nationalism and, by extension, increased celebration of China's growing military power. In addition to its longstanding influence within the Communist Party, the Chinese military has always been an important economic actor in its own right, generating its own 'in-house' resources, and has benefited from over a decade of high growth with regular increases in defence expenditure. Although reliable figures are hard to come by, the International Institute for Strategic Studies estimates that actual (as opposed to admitted) levels of defence expenditure stood at US \$84.3 billion in 2004, rising to \$99.5 billion in 2005. The Chinese army, navy and air force are currently 2,225,000 strong, with a further 3,969,000 organised in paramilitary forces. Its Reserve numbers 800,000. Its arms industry is increasingly self-sufficient.<sup>106</sup> A 15% increase in the annual budget for military spending was announced at the March 2006 session of the National People's Congress.<sup>107</sup>

An enormous, highly-funded and increasingly well-equipped military is not by itself an indicator of likely bellicosity. However, it would be naïve not to recognise that China today has a strong 'military-industrial complex' whose interests will usually lie in emphasising threats, rather than downplaying them. By far its most important prop when arguing for resources is Taiwan and China's determination that there should once again be 'One China'. The US has identified as a concern China's growing capability to project force beyond its borders, particularly through the use of ballistic missiles. It believes that China's military build up threatens stability in the Asia-Pacific Region.<sup>108</sup>

While China's military build up is undoubtedly causing alarm in some quarters, some commentators take a more measured approach. According to one author:

The Chinese accept [...] that they are functioning in a world dominated by a United States that in a globalised era is especially privileged [...] Moreover, while China has been increasing its military spending over the past several years, it is not about to exhaust itself in an unproductive arms race with the United States.<sup>109</sup>

A related concern about China is its role in the proliferation of weapons of mass destruction and the arms trade. China is believed to have supported the nuclear weapons programmes of Pakistan and North Korea in the past. Chinese companies have also assisted the ballistic missile programmes of Pakistan, North Korea and Iran. Between 1998 and 2003 China was the eighth largest supplier of arms in the world.<sup>110</sup> Its main customers were Egypt, Pakistan, Bangladesh, Myanmar and Kuwait. It is an important supplier of small arms, many of which are known subsequently to leak into the

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the local level". Foreign Affairs Select Committee, *East Asia*, Oral Evidence by Professor David Wall, 1 February 2006, Q34-5.

<sup>106</sup> All figures taken from the International Institute for Strategic Studies, *The Military Balance 2006* (London, 2006), p. 264

<sup>107</sup> "China to pour more money into defence", *Straits Times*, 5 March 2006. A Chinese official claimed that China's defence budget constitutes 7.4% of its total fiscal spending, as compared with 17.8% by the US

<sup>108</sup> Ibid, p. 259. See also the US Department of Defense, *Annual Report to Congress: Military Power of the People's Republic of China*, May 2006. Available at: <http://222.defenselink.mil/pubs/china.html>. China has condemned criticisms of its military build-up in the report.

<sup>109</sup> R. Foot, "Chinese Strategies in a US-Hegemonic Global Order", *International Affairs*, 82, 1, 2006, p. 83

<sup>110</sup> L. Yanik, "Guns and Human Rights: Major Powers, Global Arms Transfers and Human Rights Violations", *Human Rights Quarterly*, Vol. 28, No. 2, May 2006, p. 362-6

illicit arms trade. China was the top recipient of arms between 1999 and 2003, standing at 13.4% of global deliveries.<sup>111</sup> China is a signatory to none of the international agreements that regulate the arms trade and critics argue that it also lacks an adequate national framework of regulation.<sup>112</sup> Under export control regulations updated in 2002, there is no requirement to publish information about arms transfers. Nor is there a requirement that the human rights records of recipient countries be considered. In a June 2006 report, Amnesty International claimed: “In a bid to continue economic expansion and grab a slice of the lucrative global weapons market, China has shipped weapons into conflict zones and to countries that torture and repress their people.”<sup>113</sup>

In 1989 the US and the EU imposed an arms embargo on China in the aftermath of the Tiananmen Square massacre. How effective these arms embargoes have been is a matter of debate. Russia has become the major supplier to China over the past 17 years. Although it looked briefly as if the EU might abandon its post-1989 arms embargo during 2005, US pressure and renewed tension between China and Taiwan meant that this did not in the end happen.<sup>114</sup>

### **c. Regionalism**

China has expended much effort over the past decade in trying to appear a constructive and reliable regional partner in East and South East Asia. For example, a number of border disputes have been amicably resolved. It has sought to engage with – and, when appropriate, join – existing regional intergovernmental organisations. It is part of the Association of South East Asian Nations (ASEAN) Plus 3 (known as APT) dialogues between ASEAN states and China, Japan and South Korea. It was also involved in the inaugural East Asian Summit of APT states in 2005. China supports the idea of a regional East Asian Community, although it is not a top priority.<sup>115</sup> In 2003 China took the important step of formally acceding to ASEAN’s Treaty of Amity and Cooperation, becoming the first non-ASEAN state to do so. In the same year, ASEAN and China signed the Joint Declaration on Strategic Partnership for Peace and Prosperity. It is a strong supporter of the planned China-ASEAN Free Trade Area, which is due to come into existence in 2010 (see Part III B).<sup>116</sup> In 1991 China joined the Asia Pacific Economic Cooperation (APEC) group, which was originally established explicitly as a US led, pro-western alliance of Asian Pacific states. Its members include Taiwan. Some observers have questioned whether APEC has a long-term future.<sup>117</sup> China is also a member of the

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<sup>111</sup> Yanik, p. 364

<sup>112</sup> Ibid

<sup>113</sup> Amnesty International, *China: Sustaining Conflict and Human Rights Abuses*, 12 June 2006  
Available at: <http://web.amnesty.org/library/index/ENGASA170302006>

<sup>114</sup> The EU Arms Embargo is discussed in more detail in Part IV of this Paper

<sup>115</sup> “The East Asia Summit: Towards a Community – or a Cul-de-Sac?”, *IJSS Strategic Comments*, Vol. 11 Issue 10, December 2005

<sup>116</sup> E. Economy, “China’s Rise in Southeast Asia: Implications for the United States”, *Journal of Contemporary China*, 14 (44), August 2005, p. 414

<sup>117</sup> Foreign Affairs Select Committee, *East Asia*, Oral Evidence by Professor David Wall, 1 February 2006, Q46

annual Shangri-La Dialogue, at which ministers and officials from 22 countries across Asia, plus the US, UK and France, meet to discuss defence issues.<sup>118</sup>

While fears that China has hegemonic ambitions in East and South East Asia have receded overall in recent years, poor relations with Taiwan and Japan (see below) and China's territorial claims in the South China sea, where there are major gas reserves, mean that some nervousness remains. Although Vietnam controls most of the Spratly Islands, in 1987 China set up an observation station there. In 1992 the National People's Congress passed a law declaring sovereignty over the entire South China Sea.<sup>119</sup> In recent years, China has spoken of 'joint development' of the South China Sea, but this has not stopped tensions flaring up periodically.

#### **d. Multilateralism**

The Chinese Government today portrays itself as committed to multilateralism. However, some observers worry that it tends to measure this commitment quantitatively rather than qualitatively. For example, in its January 2006 White Paper, the Chinese Government states that it has joined 130 intergovernmental organisations and signed 267 multilateral treaties.<sup>120</sup> One author has claimed that China's increased interest in strategies of multilateralism emerged in the late 1990s in the aftermath of the 'Asian crisis' and is more strongly driven by economic interests than by a change in political thinking.<sup>121</sup>

The International Institute for Strategic Studies (IISS) wrote in its *Strategic Survey 2004-5*:

China cannot yet be considered a truly global power. Daunting problems at home exert the primary pull on the attention of the Chinese leadership and are a drain on the country's stretched resources. Though increasing, China's conventional military power cannot yet be projected to any great effect beyond its own vicinity. While China's economic magnetism is compelling, the country lacks the kind of political appeal that would rally others to it en masse, or create the affinities on which broader and more durable strategic relationships could be built. While China has not yet arrived as a global power, that prospect seems at least to be coming into closer focus.<sup>122</sup>

China is keener on some types of multilateralism than others. It is highly sceptical about the virtue or efficacy of sanctions as a means of achieving political or security objectives. It resisted the imposition of UN sanctions against Sudanese leaders in the context of the conflict in Darfur for as long as it could.<sup>123</sup> In the end, China allowed sanctions to be

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<sup>118</sup> "The IISS Shangri-La Dialogue", IISS website. Available at: <http://www.iiss.org/conferences/the-shangri-la-dialogue>

<sup>119</sup> Economy, "China's Rise in Southeast Asia", p. 418

<sup>120</sup> "Peaceful Development is the Inevitable Way for China's Modernisation", English Version of the Chinese Government's White Paper, January 2006.

<sup>121</sup> K. Moller, "The Beijing Bluff: Review Essay", *Survival*, Vol. 48 No. 2, Summer 2006

<sup>122</sup> IISS, *Strategic Survey 2004-5* (London, 2005), p. 296. For an interesting discussion of China's use of 'soft power', see B. Gill and Y. Huang, "Sources and Limits of Chinese 'Soft Power'", *Survival*, Vol. 48, No. 2, Summer 2006

<sup>123</sup> Foreign Affairs Select Committee, *East Asia*, Oral Evidence by Professor David Wall, 1 February 2006, Q4

imposed in April 2006, abstaining when it came to the vote in the Security Council. By this stage, the number of individuals targeted had been reduced to four, only two of whom were government figures.<sup>124</sup> China has also shown itself to be highly reluctant to countenance the idea of UN sanctions against another important ally, Iran, over its nuclear programme. It supports a diplomatic approach based on negotiations. It has backed the US offer in May 2006 to engage (along with the EU) in talks with Iran on the issue provided that the latter verifiably suspends uranium enrichment.

In the view of critics, threats to international peace and security still tend to come second to considerations of national interest for China. This, they argue, affects the credibility of its claims to be a strong supporter of multilateralism. Drawing on its own historical experience, it is also a strong advocate of the principle of non-interference in the internal affairs of other states. It retains cordial relationships with ‘pariah states’ with which the EU and the US have broken ties, such as Myanmar or Zimbabwe. However, it has at times offered itself as a broker or mediator between such states and the international community – as in the case of North Korea. The value and purpose of multilateralism is an issue that continues to be keenly debated within Chinese foreign policy circles. This may be an area where, as one author has argued, “nothing is preordained”.<sup>125</sup>

#### **e. Taiwan**

Reunification with Taiwan remains the key driver of Chinese foreign policy. Indeed, it is “at the core of Chinese politics and legitimacy.”<sup>126</sup>

From 2000 to 2005, pro-independence forces led by the ruling Democratic Progressive Party (DPP) held the political initiative in Taiwan. This led to tense relations at times between China and Taiwan. The most recent major flashpoint came in March 2005, when the National People’s Congress passed an anti-secession law that provided for the use of force to compel Taiwan to unify with the mainland. This step met with international condemnation, although many argued that the new law simply codified China’s long-standing position. However, since then, opposition politicians have been wooed by Beijing and visits by them to the mainland have brought ‘rewards’ to Taiwan. For example, during 2005 Beijing agreed to waive tariffs on fruit imports from Taiwan, reduced fees for Taiwanese students studying at universities on the mainland, gave Taiwanese airlines permission to fly over its airspace and provided loans to Taiwanese businessmen operating on the mainland. In April 2006 it proposed a relaxation of arrangements for cross-straits tourism.<sup>127</sup> All this suggests that Beijing has decided for now to emphasize its growing ‘soft power’ in its relations with Taiwan – while continuing to strengthen its military capacity in case of a renewed crisis.<sup>128</sup>

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<sup>124</sup> UN Security Council Resolution 1672, 25 April 2006.

Available at: <http://daccess-ods.un.org/TMP/6321806.html>

<sup>125</sup> Foot, “Chinese Strategies in a US-Hegemonic Global Order”, p. 78

<sup>126</sup> Foreign Affairs Select Committee, *East Asia*, Oral Evidence by Dr Christopher Hughes, 1 February 2006, Q6

<sup>127</sup> “China and Taiwan edge closer to deal on cross-straits tourism”, *Financial Times*, 17 April 2006

<sup>128</sup> *South China Morning Post*, 7 December 2005

In November 2005 US President George W. Bush visited China. Following the visit, it was confirmed that round-table discussions at senior official level between the US, Taiwan and China to improve 'cross-strait relations' were resuming at the end of the month. These discussions had been initiated in 1999 but were suspended the following year after a downturn in US-China relations and the election in Taiwan of President Chen.

However, with the opposition Kuomintang Party (KMT) doing well in local elections in December 2005, the DPP's stance on relations with China – as it seeks to recover support ahead of the next presidential election in 2008 – has hardened considerably since the turn of the year. In February 2006 a beleaguered President Chen announced that he was scrapping the National Unification Council, a body in charge of working towards unification with China, and again suggested that independence may be the best option for Taiwan.<sup>129</sup>

One analyst has argued that China's strategy over the past year reflects a decision to make "the hard tactics harder and the soft tactics softer" – in other words, make its threat credible and its incentives more attractive.<sup>130</sup> Economically, Taiwan needs good relations with China. It has a large trade surplus with the mainland.<sup>131</sup> But exactly how Taiwan responds as the DPP fights for political survival is not within China's (or, for that matter, the US's) control. Past experience suggests that tensions between China and Taiwan could rise markedly in the run up to the presidential elections in 2008.<sup>132</sup>

#### **f. Japan**

China and Japan normalised their relations in 1972. However, in recent years, relations have deteriorated markedly – to the point where the Chinese Government has been refusing to hold high-level meetings with its Japanese counterpart unless Prime Minister Koizumi stops visiting the Yasukuni Shrine, which commemorates Japan's war dead. China objects to the fact that those commemorated there include 14 leaders who were convicted of being 'Class A' war criminals by the International Military Tribunal for the Far East after World War II and subsequently executed. There were anti-Japanese demonstrations in a number of Chinese cities in April 2005. While there are a host of specific reasons why relations have deteriorated – in addition to the dispute over the Yasukuni shrine, there is also a dispute about the version of history taught in Japanese school textbooks and competition over gas reserves in the East China sea – just beneath the surface are deeper factors. The rise of China poses a threat to a Japan which until recently – with US support – was by far the biggest regional player in Asia. It certainly feels threatened by China's military build up and has moved even closer to the US. However, the economic relationship between Japan and China is strong and has so far acted as a restraint upon both sides when there are political and diplomatic tensions. With Koizumi due to stand down as Prime Minister in September 2006, there are also

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<sup>129</sup> "Taiwan to defy US and scrap China pledges", *Financial Times*, 26 February 2006

<sup>130</sup> Yiyi Lu, "Evidence submitted to the Foreign Affairs Committee Inquiry into East Asia", n.d., p. 1

<sup>131</sup> "Taiwan's leader sees 'evil' China intentions", *International Herald Tribune*, 15 April 2006

<sup>132</sup> At least one commentator fears that President Chen may seek to salvage his legacy by declaring independence. However, he also doubts that the mainland would necessarily react strongly. H. Restall, "Chen Shui-bian's Last Hurrah", *Far Eastern Economic Review*, January/February 2006

hopes that relations may improve after his departure. In May 2006 the Chinese Foreign Minister, Li Zhaoxing, met his counterpart, Taro Aso, at an international economic conference in Qatar, which commentators viewed as a mildly positive sign.<sup>133</sup> But China has reiterated that the Yasukuni issue cannot be bypassed.<sup>134</sup>

#### **g. The United States**

China's relationship with the US is its most important international relationship. The Chinese Government insists that, although it supports the idea of a multi-polar world rather than one of US pre-eminence, its goal is peaceful coexistence. However, there are a significant number of issues on which neither the interests nor the perspectives of the US and China appear to coincide. For its part, the US moves between efforts to cooperate and measures apparently designed to contain China. As one commentator has put it:

This relationship embodies many shared interests and areas of cooperation but also bases for existing and potential discord, including the status of Taiwan, the North Korean nuclear issue and US–China economic relations. While dialogue is extensive, there is a lack of trust and confidence between the two countries as well as a spread of opinions internally (particularly in the US) on how best relations may be defined and pursued. China–US relations could easily be subject to 'zero sum' approaches, rather than the 'positive sum' outlook which can facilitate balancing of interests while avoiding conflict.<sup>135</sup>

On Taiwan, while supporting the idea of 'One China', the US position is that there should be no unilateral changes by either side to the existing *status quo*. China has claimed that its military build up is largely a response to the fact that the US has guaranteed to come to the support of Taiwan in the event of a conflict across the Straits. The US has declared that the military build up cannot be justified, given that no country wishes to attack China. Its moves to consolidate its security alliance with Japan should be understood partly in this light. The level of the stakes still makes Taiwan the most likely source of conflict between the US and China, although it is as likely to arise through 'cock up' as through conspiracy.<sup>136</sup>

On North Korea, the US has allowed China to play a key brokering role in the current Six-Party Talks about its nuclear programme.<sup>137</sup> However, it is reasonable to question just how long the US will go along with the talks if they do not begin to deliver results.

<sup>133</sup> "China, Japan in high-level talks", *BBC News Online*, 23 May 2006

Available at: <http://news.bbc.co.uk/go/pr/fr/-/1/hi/world/asia-pacific/5008470.stm>

<sup>134</sup> "Still bickering in the shadow of a shrine", *New Straits Times*, 1 June 2006

<sup>135</sup> F. Frost, *Directions in China's Foreign Relations – Implications for East Asia and Australia*, Australian Parliamentary Library Research Brief No. 9, 2005-6, December 2005, p. 68

Available at: <http://www.aph.gov.au/library/pubs/rb/2005-06/executive#executive>

<sup>136</sup> For an interesting discussion of the US Taiwan Policy, see P.C. Saunders, "Long-Term Trends in China-Taiwan Relations", *Asian Survey*, November/December 2005. Saunders questions whether the US policy of seeking to preserve the status quo is sustainable in the medium- to long-term. There are indications of growing US impatience with current Taiwanese policies towards China. US business leaders in Taiwan are keen to see economic ties with China deepen. See "US warns Taiwan on China barriers", *Financial Times*, 27 May 2006

<sup>137</sup> See House of Commons Library Standard Note SN/IA/3814, *North Korea: The Nuclear Issue and Prospects for Change*

Some analysts have argued that China is less concerned about a successful outcome to the talks than about ensuring that North Korea does not collapse and using its role as leverage on other issues.<sup>138</sup> It may be the case that the US too has an interest in avoiding a crisis with North Korea while it wrestles with challenges in the Middle East. If this is so, it may not view a long-winded, inconclusive ‘talks process’ as a disaster. However, there are also concerns in US policy circles that China is having success in ‘detaching’ South Korea from the US through the issue of North Korea.

There are other points of potential conflict. While not opposed in principle, the US could turn against proposals for an East Asian Community if it appears part of a move to reduce its regional influence. But Japan is unlikely to support an initiative that is designed to do this. This makes it unlikely that China will seek to push matters too far on this issue. In South East Asia, while its credibility has indeed been damaged in the eyes of some states in the region by its conduct of the ‘war on terror’ and the occupation of Iraq, on balance the US is still seen as a valuable counterweight to growing Chinese influence. For its part, China is unlikely to challenge US influence in South East Asia.

The US may also have concerns about China’s increasingly close relations with Russia, demonstrated by their partnership in the SCO and by the fact that the two countries have conducted joint military exercises. The US asked for an invitation to attend the SCO summit in July 2005 but did not receive one. As discussed earlier, fears have been expressed that the SCO is becoming a vehicle for marginalising the US in Central Asia in military, security and energy terms.<sup>139</sup>

As we saw earlier, there are also tensions between the US and China over missile defence. US plans to develop a national missile defence system are seen as justification for China to increase its military spending. China believes that the proposed US system is designed to contain China and, should conflict break out, defend Taiwan.<sup>140</sup> For its part, the US is uneasy about China’s lack of transparency over levels of defence spending, its growing naval assertiveness in the Pacific and its increased offensive capabilities. There are also disagreements about uncontrolled arms sales. For example, China North Industries Corporation (NORINCO) is one of a reported 33 Chinese companies that have been subject to US sanctions on the grounds that they are contributing to weapons proliferation. In NORINCO’s case, its alleged assistance to Iran’s ballistic missile programme has led to the imposition of sanctions.<sup>141</sup> China’s poor domestic human rights record also impedes warmer relations. The US Congress is a consistent source of pressure on the Administration to take firm positions on human rights issues, including Tibet. Finally, China’s dash to secure access to energy supplies around the world has been a source of US disquiet.

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<sup>138</sup> International Crisis Group, *China and North Korea: Comrades Forever?*, Asia Report No. 112, 1 February 2006, pp. i-ii  
Available at:

[http://www.crisisgroup.org/library/documents/asia/north\\_korea/112\\_china\\_and\\_north\\_korea\\_comrades\\_forever.pdf](http://www.crisisgroup.org/library/documents/asia/north_korea/112_china_and_north_korea_comrades_forever.pdf)

<sup>139</sup> There was speculation that Iran, India, Pakistan and Mongolia, which have observer status at the SCO, might be given full membership at the next summit of the SCO in June 2006. However, this did not happen. See “China, Russia welcome Iran into the fold”, *Asia Times*, 18 April 2006

<sup>140</sup> Saich, pp. 314-5. See also K. Urayama, “China Debates Missile Defence”, *Survival*, Vol. 46, No. 2, 2004

<sup>141</sup> “Hu’s US visit highlights China-Iran ties”, *Financial Times*, 19 April 2006

There has been some US-China cooperation in the 'war on terror'. In 2002, both governments agreed that the East Turkestan Islamic Movement in Xinjiang Province was a terrorist organisation.<sup>142</sup> The US also held five ethnic Uygurs of Chinese nationality at Guantanamo Bay in connection with their possible involvement in terrorism. They were eventually released without charge in May 2006 and resettled in Albania, despite Chinese calls for their extradition.<sup>143</sup>

#### ***h. India and Pakistan***

China is a longstanding ally of Pakistan. It has greatly assisted Pakistan in the development of its nuclear weapons programme and has generally taken its side in disputes with India. Defence cooperation continues. For example, China is assisting in the building of a major naval base and deep-sea port at Gwadar. In return it will be allowed berthing rights there for its ships and submarines. Gwadar will also afford China a sea-land alternative passage for energy imports should its access to the Arabian sea or the Strait of Malacca be disrupted in the future.<sup>144</sup> Since 1959, China and India have periodically clashed over the eastern and western sections of their border. In 1962, they came close to all-out war. The economic advance of India over the last decade has come close to matching that of China, which has led some analysts to speculate that the two countries could increasingly become competitors for markets and energy supplies (they are the two fastest growing energy consumers in the world). However, it has been argued by some that, because the two countries are pursuing very different strategies for economic development, fierce competition is not inevitable.<sup>145</sup> While there have been periods of tension, Sino-Indian relations at the diplomatic level have been fairly stable in recent decades. Neither country wants a return to tense relations. While China is wary of the US-Indian rapprochement that has occurred since the mid 1990s – which some claim is partly motivated on both sides by the desire to mitigate Chinese power and influence – it chooses, for now at least, not to make too much of it.<sup>146</sup> India, at the behest of Russia, has observer status in the SCO. China agreed to this in return for Pakistan and Iran having the same status.

Both China and India have an insatiable hunger for energy supplies to sustain economic growth. In January 2006, they signed a cooperation agreement in relation to securing crude oil overseas. India's Petroleum Minister, Shankar Aiyar, said at the time of the signing: "Unbridled rivalry only benefits those who are selling assets, no matter which country wins."<sup>147</sup> Some analysts are sceptical that the agreement is anything more than window dressing on the Chinese side. To date, China has won on most of the occasions

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<sup>142</sup> Saich, p. 313

<sup>143</sup> "Future uncertain for Chinese held at Guantanamo", *National Public Radio* [transcript], 30 May 2006

<sup>144</sup> "Gwadar port – a Pakistani 'pearl' but a Chinese Gibraltar", *Indo-Asian News Service*, 26 March 2006. China also has access to Burmese ports and is seeking access to the Sri Lankan port of Hambantota

<sup>145</sup> For example, see A. Panagariya, "A Passage to Prosperity", *Far Eastern Economic Review*, July 2005. See also the transcript of a Chatham House debate, "India will overtake China in the next 25 years", 2 March 2006 (available from Jon Lunn on request)

<sup>146</sup> Not all agree with the idea that the US sees India as a counterweight to China. Foreign Affairs Select Committee, *East Asia*, Oral Evidence by Professor David Wall, 1 February 2006, Q53

<sup>147</sup> "China and India forge alliance on oil with aim of ending 'mindless rivalry'", *Financial Times*, 13 January 2006

when the two countries have gone head-to-head in pursuit of a stake in new oil fields. India is more dependent on oil imports than China. However, India and China did recently make a successful joint bid for a stake in a Syrian oil field.<sup>148</sup> There have also been reports of cooperation between private Indian and Chinese oil companies in West Africa.<sup>149</sup>

Speaking before the Foreign Affairs Select Committee, Christopher Hughes commented:

[...] there is still this concern over what China's future intentions will be. At the moment they are engaging in more economic cooperation. This consortium they are setting up to bid for energy resources on world markets is a new development which should be in both of their interests [...] So they are beginning to see they have shared interests as rising powers where they may be able to cooperate. That is still at a very early stage and I think underneath it there are still these tensions and the border issues are still there. There is also the issue of Tibet which has a resonance in Indian politics and is still a very emotional issue in India [...]<sup>150</sup>

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<sup>148</sup> "China and India forge alliance on oil with aim of ending 'mindless rivalry'", *Financial Times*, 13 January 2006

<sup>149</sup> "CNOOC moves into Africa with Reliance", *The Business*, 18 December 2005

<sup>150</sup> Foreign Affairs Select Committee, *East Asia*, Oral Evidence by Dr Christopher Hughes, 1 February 2006, Q52

### III Key Economic Questions

#### A. What are the Main Domestic Challenges facing China?

##### 1. Factors behind China's Growth Rate

According to IMF data, China was the sixth largest economy in the world in 2004, already larger than Canada, Italy and Spain.<sup>151</sup> China was the second largest economy behind the US, measured by Gross Domestic Product (GDP) at purchasing power parity (PPP). However, while it is a major economy in terms of total size, measured on a per capita basis it is much poorer. It ranked 90<sup>th</sup> in GDP per head measured at PPP in 2004. Its GDP per head was estimated to be \$6,425 in 2004 compared to \$29,294 for the UK.<sup>152</sup> GDP growth statistics were recently revised by China following an economic census which showed the services sector had higher levels of output than previously estimated. Growth rates were revised over the period 1993-2004 resulting in 2004 nominal GDP 16.8% higher than previously estimated.<sup>153</sup>

China's rapid economic growth is shown in the table below. In each of the last three years, China's GDP has grown by around 10%. Recent press reports indicate that this level of rapid growth is continuing. GDP grew by 10.2% in the first quarter of 2006, compared with the first quarter of 2005.<sup>154</sup> The high rate of growth is forecast to continue with the IMF projecting real growth of 9.5% this year and 9% in 2007. China's economic plan aims for GDP per capita to double between 2000 and 2010 and average economic growth of 7.5% over the next few years.<sup>155</sup>

##### China: Real GDP growth

1988-97	1998	1999	2000	2001	2002	2003	2004	2005	2006 forecast	2007 forecast
9.9	7.8	7.1	8.4	8.3	9.1	10.0	10.1	9.9	9.5	9.0

Source: IMF

This rapid growth means that China has become a major player in the world economy. China has accounted for a greater share of world GDP growth than the US since 2000 and more than half as much again as Brazil, India and Russia combined.<sup>156</sup> China uses more steel, copper and iron ore than any other country. It is also the largest market in the world for mobile phones.<sup>157</sup>

<sup>151</sup> See table 1 in Part I B covering economic indicators

<sup>152</sup> IMF data

<sup>153</sup> See Box 1.6, IMF, *World Economic Outlook*, Spring 2006

<sup>154</sup> "Exports and lending push China's GDP growth to 10%", *Financial Times*, 17 April 2006

<sup>155</sup> "Keep growing" [A survey of China], *The Economist*, 25 March 2006, p. 13

<sup>156</sup> "Coming out" [A survey of China], *The Economist*, 25 March 2006, p. 3

<sup>157</sup> HM Treasury, *Long-term global economic challenges and opportunities for the UK*, December 2004, p. 17. Available at: [http://www.hm-treasury.gov.uk/media/8F5/77/pbr04global\\_421.pdf](http://www.hm-treasury.gov.uk/media/8F5/77/pbr04global_421.pdf)

According to a recent OECD survey, China's growth "represents one of the most sustained and rapid economic transformations seen in the world economy in the last 50 years".<sup>158</sup> It goes on to note that China could be the largest exporter in the world by the start of the next decade.

The process of economic reform in China started in the late 1970s. In 1978, the 'open door' policy was introduced permitting foreign trade and investment. In the 1990s, the Chinese economy became more integrated into the world economy, with China joining the WTO in 2001.

Other changes to economic policy include:

- Abolition of price regulation
- Changes to company law allowing private ownership of limited liability companies
- Permitting foreign direct investment
- Abolition of the state export trading monopoly
- Abolition in 2005 of rules preventing the private sector being involved in various sectors of the economy such as infrastructure, public utilities and financial services.

In addition, the fast growth of physical and human capital and inflows of Foreign Direct Investment (FDI) have contributed to China's recent economic performance. Employment increased from around 420 million in 1980 to 740 million in 2003. Urban employment in particular has increased very rapidly from 105 million to 260 million over the same period.<sup>159</sup>

FDI to China has grown strongly since 1990. In 2004 FDI inflows to China represented 8.7% of total world inflows. Whilst in financial terms flows continue to grow, their contribution to the Chinese economy is slowing. In 1994 FDI inflows represented 17.3% of Gross Fixed Capital Formation (Investment) but by 2004 this had fallen to 8.2% despite flows being at an all time high in financial terms. The stock of inward FDI as a proportion of GDP hit a high in 1999, when it amounted to 18.8% of GDP. By 2004 this had fallen to 14.9%.<sup>160</sup> It is difficult to be sure of the geographic origin of these inflows. Official figures show a significant proportion originating from Hong Kong but much of this is likely to come from third countries.<sup>161</sup>

The state-owned sector has seen significant reform and the private sector is the main source of new jobs. There is less direct government control of state enterprises and some state controlled companies have been divested. The OECD describes the change in the ownership structure as "substantial".<sup>162</sup> It is difficult to make precise estimates of the size of the private sector in China as there is a wide range of ownership categories. Nevertheless, OECD estimates indicate that the private sector accounted for 59% of

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<sup>158</sup> OECD Economic Surveys, *China*, September 2005, p. 16

<sup>159</sup> Eswar Prasad (ed), *China's Growth and Integration into the World Economy*, IMF Occasional Paper 232, 2004, p. 52. Available at: <http://www.imf.org/external/pubs/ft/op/232/op232.pdf>

<sup>160</sup> UNCTAD, *World Investment Report 2005*, Statistical Annex

<sup>161</sup> OECD Economic Surveys, *China*, p. 36

<sup>162</sup> *Ibid*, p. 34

value added (a measure of total output) in 2003, an increase of 9 percentage points compared with 1998.<sup>163</sup> Employment in the public sector has fallen both in absolute terms and as a percentage of non-farm business sector employment. The private sector has seen its share increase from around two thirds to three quarters between 1998 and 2003.<sup>164</sup>

## 2. The Future

In 2003 Goldman Sachs published a paper, *Dreaming With BRICs: The Path to 2050*. This examined the prospects for the four 'BRICs' economies: Brazil, Russia, India and China.<sup>165</sup>

Goldman Sachs predicted that China has the potential to become a bigger economy than the US by 2041, provided it follows economic policies conducive to growth.<sup>166</sup> Such policies include sound macroeconomic policies, stable political institutions, openness to trade and investment and high levels of education. Part of the increase in the size of China's economy is due to appreciation of its currency and part to economic growth. China's real GDP is projected to grow at an average rate of 7.2% between 2005 and 2010 before falling to an average of 5.9% between 2010 and 2015. By the end of the period covered by these projections, China's growth rate is predicted to have fallen to 2.9%. Despite China's rapid growth, its income per head would remain significantly lower than the developed countries. By 2050, according to these predictions, its GDP per head could be around half of the level projected for the UK. Nevertheless, this represents a very large catch-up compared to China's current income relative to the UK.

Goldman Sachs updated these forecasts in a 2005 paper.<sup>167</sup> The new forecasts are broadly similar to those given above and, if anything, suggest the BRICs may grow slightly faster.

The OECD and *The Economist* have suggested that further reform is required if high levels of growth are to be maintained. They suggest measures including:

- an improved framework for the private sector
- reform of the banking sector
- reduction of the state sector
- improvements to the social security system<sup>168</sup>

<sup>163</sup> OECD Economic Surveys, *China*, p. 81

<sup>164</sup> Ibid, p. 89. Proportion of non-farm business employment. These figures are based on administrative returns which are significantly different to those in the sample census.

<sup>165</sup> Goldman Sachs, *Dreaming With BRICs: The Path to 2050*, 1 October 2003, Global Economics Paper No. 99. Available at: <http://www.gs.com/insight/research/reports/99.pdf>

<sup>166</sup> These calculations value economies at market exchange rates rather than PPPs

<sup>167</sup> Goldman Sachs, *How solid are the BRICs*, Global Economics Paper No. 134, December 2005. Available at: [http://www.gs.com/hkchina/insight/research/pdf/BRICs\\_3\\_12-1-05.pdf](http://www.gs.com/hkchina/insight/research/pdf/BRICs_3_12-1-05.pdf)

<sup>168</sup> "Keep growing" [A survey of China], *The Economist*, 25 March 2006, p. 9; OECD Economic Surveys, *China*, p. 27

The OECD also highlights the high levels of pollution in China. The IMF commented that China's prospects over the medium term are "generally favourable" as long as short term risks are well managed and further structural reforms take place. The IMF has, however, identified a number of risks facing China over the medium term. These include:

- Danger of relying too heavily on investment as an engine of economic growth, especially if this leads to overcapacity in some sectors
- Insufficient reform of the domestic financial sector
- Lack of adjustment of the exchange rate which could lead to problems which would in turn have a serious effect on output
- Social problems, if for example, income gaps between urban and rural areas become greater<sup>169</sup>

### 3. Currency Issues

A key issue in the recent economic development of China has been the value of its currency, especially in relation to the large trade surplus with the US. China has built up significant foreign reserves over recent years to support the value of the renminbi.<sup>170</sup> Until July 2005, the renminbi was pegged to the dollar.

In July 2005 a new system was announced under which the renminbi is pegged against a basket of currencies and will be allowed to fluctuate by 0.3% a day.<sup>171</sup> At the same time, a revaluation of 2.1% against the dollar was announced. Since revaluation, the renminbi has appreciated by a further 1.2% against the dollar.<sup>172</sup>

Some commentators expressed doubts about the economic significance of this revaluation. For example, Stephen King (HSBC) said:

The renminbi might end up stronger over time. But China will remain super-competitive: its workers are willing to work for wages a lot lower than we, in the rich ... West are prepared to accept. The US might be able to forestall protectionist pressures for a while. But it's unlikely that China's reform, on its own, will make any difference to the persistently large US current account deficit: eventually, therefore, protectionist pressures may well return. All in all, then, last week's changes may have been good for the politicians but, economically, it's not obvious that a lot has changed. The debate on China's role in the world economy and, more specifically, the role of its currency, has not ended: it's merely moved on to the next stage.<sup>173</sup>

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<sup>169</sup> IMF, *People's Republic of China*, Staff Report for the 2005 Article IV Consultation, July 2005 Available at: <http://www.imf.org/external/pubs/ft/scr/2005/cr05411.pdf>

<sup>170</sup> The Chinese currency is also known as the yuan.

<sup>171</sup> The four main currencies in the basket are the US dollar, the euro, the yen and the Korean won. These are the currencies of China's largest trading partners. Other currencies in the basket include the pound, the Canadian, Singapore and Australian dollars, the Thai baht and the Malaysian ringgit. The precise weights in the currency basket have not been published by the People's Bank of China although various independent estimates have been made.

<sup>172</sup> [Bank of England exchange rate data](#), using daily exchange rate data, last date used 15 May 2006

<sup>173</sup> "Beijing's currency gesture fails to defuse threat of US protectionism", *The Independent*, 25 July 2005

Others have commented that the revaluation would have little effect on Chinese exports and its current account surplus. A *Financial Times* article also commented that:

[...] But the main reason for China's surplus is its savings rate. At more than 40 per cent of GDP, and 25 per cent of household income, it is among the world's highest and vastly exceeds existing investment needs. While that imbalance remains, so will the current account surplus.<sup>174</sup>

The article went on to argue that effective reforms would need to tackle the causes of the high savings rate. Establishing a social security system and reform of the financial system were suggested as two possible options.

In an interview with the *Financial Times*, Zhou Xiaochuan, governor of the People's Bank of China, said in August 2005 that recent reforms to China's currency system should not be viewed as a one-off adjustment.<sup>175</sup>

In September 2005 China doubled the renminbi's daily trading bands against non-US dollar currencies, with a new band of +/- 3% against the yen and the euro, but a band of +/- 0.3% remained for the US dollar.<sup>176</sup> Since the revaluation China has worked on building a functioning foreign exchange market, with indications that any further revaluations or adjustments will be made on a gradual basis.<sup>177</sup>

Many have blamed the US trade deficit with China on an overvalued renminbi. Two US Senators have co-sponsored legislation that would impose a 27.5% tariff on all Chinese imports unless the renminbi is significantly re-valued. The senators have said that the currency is between 15% and 40% undervalued against the dollar. The trigger for the tariff would be a declaration by the US Treasury that China was a currency manipulator.<sup>178</sup> The Senators later said they would delay the legislation until September 2006 to see if China makes progress. Two other Senators have proposed further legislation making it easier to force the US administration to take action against China regarding the level of its currency.<sup>179</sup>

A biannual report published in May 2006 by the US Treasury did not name China as a 'currency manipulator', but did note that China had to move faster to introduce further exchange rate flexibility.<sup>180</sup> The report also praised China for positive steps it had taken in currency reforms. The *Financial Times* noted that, unlike other recent reports, it made no threat to name China as a currency manipulator:

[...] The most surprising element of yesterday's report was the lack of any threat to cite China in the future. John Snow, the US Treasury secretary, has repeatedly

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<sup>174</sup> "The real work of reform lies ahead for China's distorted economy", *Financial Times*, 25 July 2005

<sup>175</sup> "China's bank chief seeks to allay renminbi fears", *Financial Times*, 29 August 2005

<sup>176</sup> "China doubles renminbi trading range", *Financial Times*, 24 September 2005

<sup>177</sup> "China focuses on reforming foreign exchange market" *Financial Times*, 15 October 2005

<sup>178</sup> "Senators urge China for action to revalue renminbi", *Financial Times*, 24 March 2006

<sup>179</sup> "Renminbi weakness tests US patience", *Financial Times*, 29 March 2006.

<sup>180</sup> See Statement by John Snow and associated report.

Available at: <http://www.treasury.gov/press/releases/js4250.htm>

made clear his preference for negotiation and persuasion in dealing with the Chinese leaders, rather than resorting to threats.

In the past he had been constrained by threats from Congress to pass legislation that would impose tariffs on all Chinese imports if the renminbi did not rise rapidly. But the authors of that legislation, Senators Lindsey Graham and Charles Schumer, have taken a softer line since they visited China in March and came away impressed with the efforts being made by the Beijing government and China's central bank.<sup>181</sup>

However, others, such as the *Economist*, argue that the renminbi is not to blame for the large US trade deficit with China (this is discussed further in a later section of this paper on trade).<sup>182</sup> The *Economist* also argued that a 10% revaluation would only reduce the dollar's trade weighted value by 1% while most economists believe a renminbi correction of around 10-15%, rather than the larger corrections that have been suggested by some in the US, is needed.<sup>183</sup>

The IMF argued in their spring 2006 economic forecast that China had an opportunity to embark on further exchange rate reform, and that:

Greater exchange rate flexibility would allow monetary policy to be geared toward the needs of the domestic economy, and would aid in the development of the foreign exchange market. Exchange rate appreciation would also bolster households' purchasing power, which together with reforms to the pension, health, and education systems, and the financial sector, would boost consumption.<sup>184</sup>

## B. What is China's Impact on the World Economy?

China has seen its trade expand rapidly in recent years and is now the world's third largest goods exporter after the US and the EU, and its largest importer (see trade statistics in Part [IB.3](#)).

As a WTO member, China has become increasingly involved in multilateral trade negotiations. It has also developed bilateral relationships with developing economies in Asia, Africa and Latin America, increasing its shares of trade with these and developed countries alike. This section looks at these multilateral and bilateral trade relationships, in particular the key US-China bilateral relationship, and summarises recent trade disputes involving China.

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<sup>181</sup> "US rebukes Beijing for lack of progress on renminbi", *Financial Times*, 11 May 2006

<sup>182</sup> For example "China's exchange rate: Yuan step from the edge", *The Economist*, 1 April 2006 – this is discussed in Part [IIIB.4.b](#).

<sup>183</sup> Ibid.

<sup>184</sup> IMF, [World Economic Outlook April 2006](#)

## 1. China in the WTO

China acceded to the WTO in December 2001 after nearly fifteen years of negotiations, having applied for membership of the General Agreement on Tariffs and Trade (GATT, the WTO's predecessor) in 1986.<sup>185</sup> This was seen as “an historic moment for the WTO, for China and for international economic cooperation”,<sup>186</sup> and “one of the most significant recent developments in world trade”.<sup>187</sup> The EU Trade Commissioner Peter Mandelson has identified China as one of the WTO's “four or five most important members”.<sup>188</sup>

Accession ensured non-discriminatory (Most Favoured Nation) access to potentially lucrative domestic Chinese markets for WTO members, and also guaranteed Chinese access to WTO members' markets, providing an export boost and making China a more attractive investment opportunity.

China's protocol of accession included a range of commitments.<sup>189</sup> On tariffs, agricultural and industrial goods tariffs would be reduced and all tariffs bound – that is, have maximum levels set – by 2010. After implementation average bound tariff levels would fall to the comparatively low level of 10% (15% for agricultural goods, and 8.9% for industrial goods).<sup>190</sup> China also committed to removing non-tariff barriers, removing import quotas by 2005, limiting agricultural subsidies and increasing access to services markets. Exclusive state trading would continue for certain goods, including cereals, fuels and minerals.<sup>191</sup>

A 2004 IMF Working Paper found that greater international economic integration has benefited China's trade growth.<sup>192</sup> A World Bank report estimated that WTO accession and related liberalisation and reform have benefited China's economy by \$40 billion a year (with global real incomes gaining by around \$7 billion a year). However, it also found that China's gains have not been evenly distributed between urban and rural areas.<sup>193</sup>

<sup>185</sup> Hong Kong & Macao Special Administrative Regions are WTO Members in their own right. Taiwan (as “Chinese Taipei”) is also a WTO Member. China was an original 1948 GATT signatory, but post-revolution the government in Taiwan announced its withdrawal. Though the PRC did not recognise this, it applied to resume GATT status in 1986 (“WTO successfully concludes negotiations on China's entry”, *WTO Press Release*, 17 September 2001; [www.wto.org/english/news\\_e/pres01\\_e/pr243\\_e.htm](http://www.wto.org/english/news_e/pres01_e/pr243_e.htm)).

<sup>186</sup> Then WTO Director-General Mike Moore, in “WTO Ministerial Conference approves China's accession”, *WTO Press Release*, 10 November 2001; [www.wto.org/english/news\\_e/pres01\\_e/pr252\\_e.htm](http://www.wto.org/english/news_e/pres01_e/pr252_e.htm).

<sup>187</sup> Valerie Cerra, Sandra A. Rivera, & Sweta Chaman Saxena, “Crouching Tiger, Hidden Dragon: What are the Consequences of China's WTO Entry for India's Trade”, *IMF Working Paper* 05/101, May 2005 Available at: [www.imf.org/external/pubs/ft/wp/2005/wp05101.pdf](http://www.imf.org/external/pubs/ft/wp/2005/wp05101.pdf)

<sup>188</sup> “The EU-China relationship”, *Speech at the EU-China Business Summit, The Hague*, 9 December 2004; [europa.eu.int/comm/commission\\_barroso/mandelson/speeches\\_articles/temp\\_icentre.cfm?temp=sppm008\\_en](http://europa.eu.int/comm/commission_barroso/mandelson/speeches_articles/temp_icentre.cfm?temp=sppm008_en)

<sup>189</sup> See [China's WTO Member page](#) (with accession details)

<sup>190</sup> WTO, [China trade profile](#), March 2006

<sup>191</sup> For a summary of commitments, see “WTO Successfully Concludes Negotiations on China's Entry”, *WTO Press Release*, 17 September 2001. [www.wto.org/english/news\\_e/pres01\\_e/pr243\\_e.htm](http://www.wto.org/english/news_e/pres01_e/pr243_e.htm)

<sup>192</sup> Rumbaugh, T. & Blancher, N. “China: International Trade & WTO Accession”, *IMF Working Paper* 04/36, 2004; [www.imf.org/external/pubs/ft/wp/2004/wp0436.pdf](http://www.imf.org/external/pubs/ft/wp/2004/wp0436.pdf) (commitment summary in Box 2, p. 8)

<sup>193</sup> Will Martin, Deepak Bhattasali & Shantong Li (eds), *China & the WTO: Accession, Policy Reform, and Poverty Reduction Strategies*, World Bank, February 2005. Available at: [www.worldbank.org.cn/English/Content/747j63205722.shtml](http://www.worldbank.org.cn/English/Content/747j63205722.shtml)

The accession agreement included a special Transitional Review Mechanism through which WTO members would monitor China's progress towards its commitments. There would be eight annual post-accession reviews and a final review after ten years. The reviews form part of the work of the WTO's General Council. The WTO also carries out periodic reviews of Members' trade policies. The first review of China in April 2006 found that:

Ongoing trade and structural reforms, given added impetus by China's membership of the WTO since 2001, have made it the world's third largest trader and one of the largest FDI recipients. These reforms have also reduced the proportion of China's population living in poverty from 73% in 1990 to 32% in 2003. At the same time, however, income disparity has increased, especially between the coastal and inland regions and between urban and rural areas. Trade and investment barriers have declined considerably, in part due to WTO commitments. Nevertheless, the report notes that the Government continues to intervene to "manage" trade, including for domestic supply considerations.<sup>194</sup>

It also noted continuing distortionary practices and suggested greater exchange rate flexibility.<sup>195</sup>

As a 'newly acceded' member, with an accession agreement regarded as going beyond the commitments of existing members, China is generally expected to have to concede less in the current Doha Round of multilateral trade liberalisation negotiations at the WTO than comparable countries, like Brazil and India. However, the US has called on China to make further commitments under the Doha Round.<sup>196</sup>

China is nevertheless an active member of the G20 coalition of developing countries which emerged at the Cancún Ministerial in 2003 and has continued to play an active role since. China hosted an informal 'mini-ministerial' gathering of WTO members in July 2005, while Hong Kong (a WTO Member in its own right) hosted the WTO's sixth Ministerial Conference in December 2005.

As was widely expected, China was a significant beneficiary from the abolition of global textiles and clothing quotas in 2005 through the 1995 WTO Agreement on Textiles and Clothing. Quota removal saw a 'surge' of Chinese imports of some products into the EU and the US in early 2005, and after bilateral negotiations both the EU and US implemented safeguard measures as permitted in China's accession protocol (see Part [IIIB.3.a](#)). Similar measures were later adopted by Brazil and South Africa.

## 2. China's Bilateral Trade Relationships

Like the US, China has pursued multilateral liberalisation at the WTO while simultaneously pursuing bilateral and regional free trade agreements.

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<sup>194</sup> "Economic reform has produced impressive results but important challenges remain", *WTO Press Release*, April 2006; [www.wto.org/english/tratop\\_e/tpr\\_e/tp262\\_e.htm](http://www.wto.org/english/tratop_e/tpr_e/tp262_e.htm) (poverty = less than \$2/day)

<sup>195</sup> "China's trade policy review highlights economic dynamism, points to challenges", *ICTSD BRIDGES Weekly* 10:14, 26 April 2006

<sup>196</sup> *Ibid*

China has reached trade and related agreements with nine countries accounting for a quarter of total trade.<sup>197</sup> Apart from the closer economic partnership agreements with Hong Kong and Macao, China has also reached agreements with ASEAN, Chile,<sup>198</sup> Thailand and Pakistan. Negotiations towards FTAs with the Gulf Co-operative Council countries, New Zealand and Australia are ongoing, and a trade pact with Brazil or Mercosur (the Common Market of the South) has been mooted.<sup>199</sup>

China's FTA with the ten countries in ASEAN saw some goods tariffs reduced in January 2004 and July 2005. The target for completing the China-ASEAN free trade area is 2010 (2015 for the less developed ASEAN countries).

China has also increased its trade and investment links with African countries. Between 2003 and 2005 the value of total trade (imports plus exports) more than doubled to reach \$39.7 billion (with imports rising faster than exports). While this outpaced growth in China's total trade, trade with Africa still only represents 2.8% of the total by value. The China-Africa trade relationship is seen as mutually beneficial, with Africa a source of necessary raw materials (such as crude oil, steel and cotton) while China can offer relatively cheap industrial products (such as machinery and high-tech products) and clothing. China also recently agreed a strategic oil partnership with Nigeria. China has secured preferential drilling licences, with Nigeria receiving \$4 billion of 'infrastructural investment' in return.<sup>200</sup>

A ministerial level meeting of the Forum on China-Africa Cooperation was held in Addis Ababa, Ethiopia in December 2003. This was the second ministerial after an initial conference in October 2000. China and the 44 African countries present adopted the *China-Africa Cooperation Forum-Addis Ababa Action Plan 2004-2006*.<sup>201</sup> Alongside commitments on debt relief/cancellation and aid, China committed to negotiations with Least Developed Countries in Africa towards preferential zero-tariff access for some of their exports. From the start of 2005, 25 of the 34 LDCs in Africa were granted duty-free access for some 190 product lines.<sup>202</sup>

Earlier this year the Chinese Government's *African Policy Paper* outlined its wish to negotiate free trade agreements with countries or regional organisations in Africa, and boost political, financial, agricultural and transport links with the continent.<sup>203</sup> Cooperation

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<sup>197</sup> "China established nine FTAs in past five years", *People's Daily Online*, 9 February 2006. Available at: [english.people.com.cn/200602/09/eng20060209\\_241390.html](http://english.people.com.cn/200602/09/eng20060209_241390.html)

<sup>198</sup> "China, Chile agree to establish free trade zone", *People's Daily Online*, 19 November 2005. Available at: [http://english.people.com.cn/200511/18/eng20051118\\_222354.html](http://english.people.com.cn/200511/18/eng20051118_222354.html)

<sup>199</sup> "Brazil wins China trade support", *BBC News Online*, 28 May 2004. Available at: [news.bbc.co.uk/1/hi/business/3756635.stm](http://news.bbc.co.uk/1/hi/business/3756635.stm)

<sup>200</sup> "China in move to gain foothold in Nigerian oilfields", *Financial Times*, 27 April 2006 and "China and Nigeria agree oil deal", *BBC News Online*, 26 April 2006. Available at: [news.bbc.co.uk/1/hi/business/4946708.stm](http://news.bbc.co.uk/1/hi/business/4946708.stm)

<sup>201</sup> China-Africa Cooperation Forum, *Addis Ababa Action Plan (2004-2006)*, 3 February 2004. Available at: [et.china-embassy.org/eng/zfhzlt/t61771.htm](http://et.china-embassy.org/eng/zfhzlt/t61771.htm). The Forum's website is available at [www.focac.org/eng/](http://www.focac.org/eng/).

<sup>202</sup> Chinese Embassy in South Africa, "Perspectives on China-Africa Trade and Economic Cooperation", *Presentation by Minister Counselor Liang Guixuan at the 4th Tswalu Dialogue*, 9 May 2005. Available at: [www.chinese-embassy.org.za/eng/znjil/t194633.htm](http://www.chinese-embassy.org.za/eng/znjil/t194633.htm) (see also [UN list of LDCs](#))

<sup>203</sup> Ministry of Foreign Affairs of the People's Republic of China, *China's African Policy*, 12 January 2006. Available at: [www.fmprc.gov.cn/eng/zxxx/t230615.htm](http://www.fmprc.gov.cn/eng/zxxx/t230615.htm)

is conditional on countries' support for the 'one-China policy', and refraining from official diplomatic recognition of Taiwan.<sup>204</sup> While relationships between China and African countries have grown much closer and its voracious demand for resources has pushed up commodity prices, there are concerns that mass Chinese production of goods such as textiles and shoes could undermine Africa's own efforts to industrialise.<sup>205</sup>

China is also building its trade and broader political relationships with Latin American countries. The total value of China-Latin America trade increased by 88% between 2003 and 2005, though this represents only 3.5% of the total, and almost 50% of China's foreign direct investment goes to Latin America.<sup>206</sup> This increasingly important trade relationship has raised security fears in the US, leading to calls for the 'Monroe Doctrine', (historically applied to European nations whose interference in the Western Hemisphere was regarded as a direct threat to US interests) to be updated and applied to China.<sup>207</sup>

In a speech at the September 2005 UN Summit, President Hu announced a development package for poorer countries, including zero tariffs for some exports from the 39 Least Developed Countries with which China has diplomatic relations, more bilateral aid for LDCs, greater funds under the Heavily Indebted Poor Countries (HIPC) initiative and \$10 billion in loans and export credits within three years.<sup>208</sup> China has also offered support to the Pacific island countries, including zero-tariff access for the eight countries which follow the 'One China' policy, debt cancellation, an investment fund and \$375 million of loans.<sup>209</sup>

Details on China's trade and broader relations with other countries are available from the Chinese Ministry of Commerce website.<sup>210</sup>

### 3. Recent Trade Issues involving China

China's rapid economic growth, its increasing competitiveness and its growing goods exports have raised concerns in the EU and the US. A number of specific trade issues – textiles (the infamous 'bra wars'), leather shoes, and car parts, all summarised below – have seen responses from the EU and the US which have been characterised as 'protectionist'.

While divisions over policy responses have been seen between EU Member States and different industries, trade policy is agreed at EU level and reflects compromise positions. The EU Trade Commissioner, Peter Mandelson, has identified China as "the biggest

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<sup>204</sup> Simon Tisdall, "Beijing makes friends and riches in Africa", *The Guardian*, 22 April 2005. Available at: [www.guardian.co.uk/china/story/0,7369,1466000,00.html](http://www.guardian.co.uk/china/story/0,7369,1466000,00.html)

<sup>205</sup> S. Marks, "China in Africa – a new imperialism?", *Pambazuka Newsletter*, No. 244, 3 March 2006 Available at: [www.pambazuka.com](http://www.pambazuka.com). See also "Who makes the shirts?", *Africa Confidential*, 12 May 2006

<sup>206</sup> Humphrey Hawksley, "China's new Latin American revolution", *Financial Times*, 5 April 2006

<sup>207</sup> Ibid

<sup>208</sup> China's Embassy to the US, "US President Bush to visit China in November", 15 September 2005. Available at: [www.china-embassy.org/eng/xw/t212250.htm](http://www.china-embassy.org/eng/xw/t212250.htm). For the full statement, see [www.china-un.org/eng/zt/shnh60/t212916.htm](http://www.china-un.org/eng/zt/shnh60/t212916.htm)

<sup>209</sup> "China vows aid package for South Pacific allies", *Financial Times*, 6 April 2005 (see also the speech by President Hu to the [China-Pacific Island Forum](http://www.china-pacific-island-forum.org), April 2006)

<sup>210</sup> See country links at [english.mofcom.gov.cn/index.shtml](http://english.mofcom.gov.cn/index.shtml)

single challenge of globalisation in the trade field [...] Europe must get China right - as a threat, an opportunity and prospective partner."<sup>211</sup>

Fears of China as a competitor have been most obvious in the US. Individual trade disputes are summarised below; wider bilateral issues and their implications are explored later in this Paper.

**a. Textiles Dispute**

During 2005 both the EU and the US were in dispute with China over textiles imports.

At the start of 2005 remaining global quotas on textiles and clothing were abolished through a 1995 WTO agreement. China was a major beneficiary of quota abolition, with imports of certain products into the EU and the US increasing dramatically in the early months of 2005. These import surges threatened comparatively uncompetitive domestic textiles industries in the EU, as well as those industries that had grown up in developing countries under the quasi-protection of the pre-2005 quota limits.

The first eight months of 2005 saw the value of Chinese textiles exports to the EU up 44% on the same period in 2004. However, as EU textiles imports were up just 2% this suggested that Asian and African countries had been losers, the biggest reduction in exports being from Burma (down 54%) and the Philippines (down 41%), as well as South Korea, Thailand, Pakistan and Bangladesh. Imports from the African, Caribbean and Pacific countries were also down 34%. Also, large falls in exports from Hong Kong (down 54%), Macao (down 53%) and Taiwan were seen, as production switched to goods originating in mainland China.<sup>212</sup>

China's protocol of accession to the WTO included a textile safeguard mechanism that allowed quota restrictions to be reapplied in certain circumstances. EU Member States were divided on the issue: with those characterised as liberal, mainly northern European countries against the more 'protectionist' southern European countries with remaining textile industries in favour. There were also divisions between European industries, with textile producer bodies in favour and groups representing European retailers opposed.

The European Commission, on behalf of EU Member States, and the Chinese Government reached an agreement on 10 June 2005. Quotas would be applied to limit imports of ten categories of textiles and clothing – including T-shirts, pullovers, men's trousers, blouses and brassieres. The quotas would constrain the growth in imports of these products to between 8% and 12.5% a year until the end of 2007.<sup>213</sup>

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<sup>211</sup> Commissioner Mandelson, "Wolfsberg speech on EU trade policy goals in 2006 & beyond", 4 May 2006; [europa.eu.int/comm/commission\\_barroso/mandelson/speeches\\_articles/temp\\_icentre.cfm?temp=sppm096\\_en](http://europa.eu.int/comm/commission_barroso/mandelson/speeches_articles/temp_icentre.cfm?temp=sppm096_en)

<sup>212</sup> "China lifts share of EU textile imports", *Financial Times*, 28 November 2005; see also ILO report October 2005. Available at: [www.ilo.org/public/english/dialogue/sector/techmeet/tmtc-pmfa05/tmtc-pmfa-r.pdf](http://www.ilo.org/public/english/dialogue/sector/techmeet/tmtc-pmfa05/tmtc-pmfa-r.pdf)

<sup>213</sup> Details of the agreement, subsequent events and the US response can be found Library Standard Note SN/EP/3701.

The issue resurfaced in July 2005 when the annual quotas began to be filled. Imports that could not be cleared for entry into the EU began to accumulate at European ports and customs warehouses. As the problem grew, retail bodies and some Member States criticised the quota policy.

Further negotiations between the Commission and China resulted in a new agreement (accepted by Member States on 7 September 2005) to release the blocked imports. This effectively increased the 2005 quotas to allow half of the pending items to enter the EU, while China agreed that much of the remaining half could be counted against its 2006 quotas. The remainder would be counted against quotas for other products that had not yet been filled.

After the US saw similar surges in imports from China,<sup>214</sup> lengthy negotiations ended in November 2005 with a similar, though more wide-ranging agreement, on re-establishing quotas reached in November 2005. Continuing to the end of 2008, the US quotas would limit annual import growth to around 10%. Around 46% of US imports – 34 product lines – would be covered.<sup>215</sup>

### **b. Anti-Dumping Duties on Leather Shoes**

After the textiles case, the imposition by the EU of ‘anti-dumping’ duties on imports of leather shoes from China and Vietnam earlier this year was seen by some as ‘protectionist’.

The European Commission investigates possible cases of dumping raised by an industry or a government. Anti-dumping duties can be applied to imports if their export price to the EU is below their domestic price, and ‘material injury’ to industry occurs or is threatened – subject to the cost of any measures not outweighing the benefits.<sup>216</sup>

The Commission’s investigation “identified clear evidence of disguised subsidies and unfair state intervention”<sup>217</sup> and recommended that duties be levied. Member States were similarly polarised on the shoes issue, between ‘protectionist’ proponents of duties and a more ‘liberal’ grouping.<sup>218</sup> After consulting the Member States the Commission formally adopted provisional measures on 23 March 2006.<sup>219</sup>

<sup>214</sup> The countries with the greatest reductions in textile exports to the US were the poorest (Least Developed Countries) mainly in Asia that are not beneficiaries of US preference programs.

<sup>215</sup> “Beijing agrees to curb clothing exports to US”, *Financial Times*, 9 November 2005

<sup>216</sup> Available at: [europa.eu.int/comm/trade/issues/respectrules/anti\\_dumping/index\\_en.htm](http://europa.eu.int/comm/trade/issues/respectrules/anti_dumping/index_en.htm). See also FAQ at [europa.eu.int/comm/trade/issues/respectrules/anti\\_dumping/faqs.htm](http://europa.eu.int/comm/trade/issues/respectrules/anti_dumping/faqs.htm). Under the ‘lesser duty principle’ anti-dumping duties cannot exceed the lesser of the ‘margin of injury’ – the export price and domestic (EU) price differential – or the ‘margin of dumping’ – the export price and the ‘true’ price differential.

<sup>217</sup> “Commission adopts provisional anti-dumping measures on some Chinese and Vietnamese leather shoes”, *European Commission press release*, 23 March 2006; [europa.eu.int/comm/trade/issues/respectrules/anti\\_dumping/pr230306\\_en.htm](http://europa.eu.int/comm/trade/issues/respectrules/anti_dumping/pr230306_en.htm)

<sup>218</sup> The more free market group included Sweden which reportedly tried to assemble a blocking coalition against the proposals. Sweden’s trade minister, Thomas Ostros, criticised duties as “another sign of European protectionism”. (“Mandelson to defy shoe import furore”, *Financial Times*, 23 February 2006)

<sup>219</sup> Details of the provisional measures are available at: [trade-info.cec.eu.int/doclib/docs/2006/april/tradoc\\_128223 PROV.EN.L98-2006.pdf](http://trade-info.cec.eu.int/doclib/docs/2006/april/tradoc_128223 PROV.EN.L98-2006.pdf)

From 7 April, duties were to be applied gradually over five months,<sup>220</sup> from between 4% and 5% to reach 16.8% and 19.4% on imports from Vietnam and China respectively.<sup>221</sup> Children's and specialist sports shoes are exempt from the duties, although there were some fears that such exclusions could be used to circumvent the new duties.

Further anti-dumping cases under investigation include blank CD imports from China, Hong Kong and Malaysia. An investigation was instigated in August 2005, shortly after a case involving recordable DVDs, and others involving manhole covers, reinforced shoes and plastic bags. Future anti-dumping cases could involve furniture, ceramics, metal chairs, and glassware.<sup>222</sup>

Some have criticised the EU approach. The Director General of the British Retail Consortium, Kevin Hawkins, warned of further 'backlashes' against free trade and of a "permanent protectionist majority" on the EU's Anti-Dumping Committee.<sup>223</sup>

Others have criticised the concept of anti-dumping. The *Financial Times* called anti-dumping measures "inherently dubious", allowing "unilateral and selective trade discrimination" against WTO principles, using "opaque methodology, making them open to unfair manipulation" with poor rules on their use.<sup>224</sup>

China is classed as a non-market economy for the purposes of anti-dumping investigations, which allows the use of estimates of production costs to be used in calculations. Under its accession agreement, WTO members are not required to grant market economy status (MES) to China until 2015. The UK Government has proposed that the EU grant China MES "as soon as possible", but notes that there is "no consensus within the EU".<sup>225</sup>

As the *Financial Times* also noted, anti-dumping measures:

[...] undermine the credibility of US and EU strictures on China's trade conduct and encourage Beijing to follow their bad example. Worse still, anti-dumping excesses damage the American and European economies by choking off or penalising cheap inputs and retarding healthy structural adjustment.<sup>226</sup>

The Commission denied charges of protectionism, arguing that it was acting against unfair practices rather than the comparative advantages of China and Vietnam:

<sup>220</sup> See [europa.eu.int/comm/trade/issues/respectrules/anti\\_dumping/pr230306b\\_en.htm](http://europa.eu.int/comm/trade/issues/respectrules/anti_dumping/pr230306b_en.htm)

<sup>221</sup> Imports of leather shoes (commodity code 6403) into the EU are subject to an 8% duty. Goods from beneficiaries of the EU's Generalised System of Preferences (GSP) – such as Vietnam – are subject to a lower duty of 4.5%. Imports from China are subject to the 8% tariff. The anti-dumping duties are in addition to these tariffs in each case. (See Library Standard Note SN/EP/3369 for details of the GSP).

<sup>222</sup> "EU extends action on Chinese exports to probe of blank CDs", *Financial Times*, 9 August 2005

<sup>223</sup> "Retailers warn of new EU barriers", *The Observer: Business*, 19 March 2006

<sup>224</sup> "Time to stop dumping on China: Trade protection harms its users as much as its targets", *Financial Times*, 6 July 2005

<sup>225</sup> HC Deb 22 May 2006 c1449W; The Commission's criteria for granting MES are summarised in European Commission, *The EU-China Trade Relationship: Facts & Figures*. Available at: [trade-info.cec.eu.int/doclib/docs/2005/november/tradoc\\_125719.pdf](http://trade-info.cec.eu.int/doclib/docs/2005/november/tradoc_125719.pdf)

<sup>226</sup> "Time to stop dumping on China: Trade protection harms its users as much as its targets", *Financial Times*, 6 July 2005

Legitimate low-cost comparative advantages common in developing countries are being topped up in this case with uncompetitive behaviour. The Commission will not act to protect European producers against tough but fair competition. It has a legal duty to act to limit the effects of unfair trade.<sup>227</sup>

Noting that “dumping is contrary to any understanding of what constitutes fair trade”, the Commission distinguished between this case and the previous textiles issue:

The shoes issue is not the textiles issue. The textile issue concerned fairly traded textile imports subject to a dramatic and sudden increase in volume. The European Commission never suggested that Chinese textile exports were unfair or traded illegally. It acted with the Chinese to cushion the impact of a massive shift in global trading patterns in textiles. By 2008 that cushion will be gone. Leather footwear is being state-subsidized and dumped. This is unacceptable under WTO rules and the European Union has a legal right to protect European producers against such practice.<sup>228</sup>

However, the EU’s decision on this and future anti-dumping cases could be challenged at the WTO.<sup>229</sup>

The latest WTO anti-dumping statistics for the second half of 2005 suggest that China had the greatest number of investigations against it (33), but also the most initiations (13) compared with nine for the EU. The EU implemented the most new measures (19, compared with 6 by China), while China had the most implemented against it (22).<sup>230</sup>

### c. **WTO Car Parts Case**

In March 2006 the EU and the US launched WTO disputes over Chinese tariffs on foreign automobile parts.<sup>231</sup>

Both parties allege that China’s local content rules for car parts, which encourage the use of domestic over imported parts, are incompatible with China’s WTO accession agreement and WTO non-discrimination and subsidy rules.<sup>232</sup> The European Commission sees this as “an internal tax on imported goods” which causes particular problems for EU producers based in China using parts produced in plants in the EU.<sup>233</sup> China justifies the measure as preventing avoidance of higher tariffs on whole cars.

<sup>227</sup> “Commission adopts provisional anti-dumping measures on some Chinese and Vietnamese leather shoes”, *EC press release*, 23 March 2006. Available at: [europa.eu.int/comm/trade/issues/respectrules/anti\\_dumping/pr230306\\_en.htm](http://europa.eu.int/comm/trade/issues/respectrules/anti_dumping/pr230306_en.htm)

<sup>228</sup> Ibid

<sup>229</sup> The Chinese Vice-Minister of Commerce has said that a case could be brought. “Vietnam faces EU duties dilemma”, *Financial Times*, 23 February 2006

<sup>230</sup> “WTO Secretariat reports further declines in both new anti-dumping investigations and new final anti-dumping measures”, *WTO Press Release*, 8 May 2006. Available at: [www.wto.org/english/news\\_e/pres06\\_e/pr441\\_e.htm](http://www.wto.org/english/news_e/pres06_e/pr441_e.htm)

<sup>231</sup> Canada launched a case on 13 April 2006; see cases [DS339](#) (EU), [DS340](#) (US) and [DS342](#) (Canada).

<sup>232</sup> The regulations levy a higher import tariff if a car has more than 60% foreign parts. See [US Trade Representative](#) and [European Commission](#) press releases for details, 30 March 2006

<sup>233</sup> See [European Commission](#) press release, 30 March 2006

The EU has called for a negotiated settlement. A WTO dispute settlement panel may be established if the issue cannot be resolved within the ninety day consultation period.<sup>234</sup> China has announced that it will reduce tariffs on cars and parts to 10% from July 2006. A European Commission spokesperson welcomed the move, but noted that it did not resolve the underlying issue.<sup>235</sup>

#### 4. The US-China Trade Relationship: the New Protectionism?

*“The US-China relationship is too big to disregard and too critical to misread”<sup>236</sup>*

China’s expanding global trade has seen large surpluses develop on both goods trade and the current account (including services trade, income and transfers). Within these, US bilateral goods and current account deficits with China have risen. The bilateral trade relationship has been the subject of much heated political debate in the US, amid accusations of exchange rate manipulation and undervaluation of the renminbi (see Part IIIA.3).

Protectionist sentiment has risen in some quarters with the increasing perceived economic threat from China. The reaction of US legislators to the proposed takeover of a US oil company by a Chinese state-owned company (see below) is evidence of growing protectionist sentiment.

##### a. Takeover Issues

A number of recent foreign takeovers of US companies have become major political issues, amid domestic security concerns.

In 2005 the Chinese state-owned oil company CNOOC proposed a takeover of the US Unocal Corporation. Amidst fears that Chinese ownership of a US oil company could pose a threat to US energy security, the CNOOC bid was eventually abandoned due to “unprecedented political opposition” that was called “regrettable and unjustified”.<sup>237</sup> The takeover attempt stimulated attempts to replace or amend long-standing processes for vetting foreign takeovers.<sup>238</sup>

US legislators have argued for increased involvement in the security vetting process for foreign takeovers. A number of proposals are being considered in Congress. One

<sup>234</sup> A previous WTO dispute between the US and China involving favourable taxation terms for Chinese semi-conductor producers was resolved at the consultation stage. (“China ‘win-win’ concessions keep US protectionist demands at bay”, *Financial Times*, 9 November 2005)

<sup>235</sup> “China to cut car import duties”, *Financial Times*, 16 June 2006, p8

<sup>236</sup> Bergsten, C. F. et al, *China: The Balance Sheet: What the World Needs to Know Now About the Emerging Superpower*, Center for Strategic & International Studies/Institute for International Economics, 2006. See p. 1 of [summary chapter](#) (see also [project page](#) with issue briefings and background papers)

<sup>237</sup> “CNOOC Limited to withdraw Unocal bid”, *CNOOC press release*, 2 August 2005. Available at: [www.cnooltd.com/press/channel/press1616.asp](http://www.cnooltd.com/press/channel/press1616.asp)

<sup>238</sup> Domestic security was also a key issue when political opposition resurfaced against the prospective takeover of US ports by Saudi Arabian company Dubai Ports World. The issue was ultimately resolved when the company agreed to establish a US-owned company to manage the US ports.

proposal is to subject all foreign takeovers to a compulsory 75-day investigation by the Committee on Foreign Investments in the United States (CFIUS), the US Treasury-chaired inter-agency committee.<sup>239</sup> Another is to make reviews compulsory for foreign investment in 'critical infrastructure'.<sup>240</sup>

Larger corporations and business leaders have vociferously opposed such reform proposals,<sup>241</sup> and now "politicians on both sides have grown wary of passing laws that would chill foreign investment in the US."<sup>242</sup> Senator Richard Shelby, Chairman of the banking committee, has said that while investment was "vital to our national economic interests, I do not believe it should stand at any cost [...] Everything in this country can't be for sale."<sup>243</sup> The chair of the sub-committee that oversees CFIUS, Deborah Pryce, said at a Congressional hearing that national security concerns could not be allowed to "morph into protectionism".<sup>244</sup>

### **b. Is China Competing Unfairly?**

The issue of the valuation of the Chinese currency (see part IIIA.3 for details) has been the main element of allegations of China competing unfairly against the US, giving China an unfair advantage in goods trade, and threatening indigenous US industry.

Prior to the Chinese President's April 2006 visit to the US, President Bush called for Chinese reassurance of "equity in trade" and a commitment to moving "away from export-led growth."<sup>245</sup> A range of concerns have been raised including: competition from subsidised state-owned Chinese enterprises, protection of intellectual property rights in China, government procurement (including China's timetable for signing up to the WTO Government Procurement Agreement), and regulatory barriers (for example in telecommunications). Although President Hu's US visit saw substantial purchases of Boeing products and software, there appeared to be no major changes in policy.

With such a broad range of issues, the US Trade Representative announced a "top-to-bottom review" of bilateral US-China trade policy in February 2006.<sup>246</sup> A China Enforcement Task Force was subsequently established within the Office of the US Trade Representative (USTR).<sup>247</sup>

The US commerce secretary, Carlos Gutierrez, urged "our colleagues in China to recognise that the voices in the US calling for protectionist policies are real".<sup>248</sup>

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<sup>239</sup> For further details, see [www.ustreas.gov/offices/international-affairs/exon-florio/](http://www.ustreas.gov/offices/international-affairs/exon-florio/).

<sup>240</sup> "Business leaders warning on Cfius", *Financial Times*, 13/14 May 2006

<sup>241</sup> "TABD Letter to Members of Congress on Proposed Changes to the Committee on Foreign Investment in the United States (CFIUS)", 9 May 2006. Available at: [static.tabd.com/gems/CFIUSLetterFINAL.PDF](http://static.tabd.com/gems/CFIUSLetterFINAL.PDF)

<sup>242</sup> "Calls for reform of foreign investment rules fade", *Financial Times*, 9 May 2006

<sup>243</sup> Senator Richard Shelby "Washington digs in against the invaders", *The Guardian*, 4 April 2006

<sup>244</sup> "Bill seeks to tighten security review of foreign investors", *Financial Times*, 28 April 2006

<sup>245</sup> "Bush calls on Hu to outline China's trade position", *Financial Times*, 11 April 2006

<sup>246</sup> [http://www.ustr.gov/assets/Document\\_Library/Reports\\_Publications/2006/asset\\_upload\\_file921\\_8938.pdf](http://www.ustr.gov/assets/Document_Library/Reports_Publications/2006/asset_upload_file921_8938.pdf)

<sup>247</sup> For details see [www.ustr.gov/Document\\_Library/Press\\_Releases/2006/March/USTR\\_Portman\\_Announces\\_Co-Chairs\\_of\\_China\\_Trade\\_Enforcement\\_Task\\_Force.html](http://www.ustr.gov/Document_Library/Press_Releases/2006/March/USTR_Portman_Announces_Co-Chairs_of_China_Trade_Enforcement_Task_Force.html).

<sup>248</sup> "US adds to pressure on China over trade", *Financial Times*, 30 March 2006

Legislation has been considered in Congress which would see punitive 27.5% tariffs levied on Chinese exports to the US for manipulating its currency.<sup>249</sup> While at present this is unlikely to pass into law, it could also be deemed illegal in a WTO dispute case, which could leave China authorised to retaliate. This could set off a damaging trade war. As many commentators have noted, imposing tariff penalties on China could have negative effects on the US due to its reliance on Chinese goods.

US concern about the rise of China reflects broader concerns about globalisation and its consequences. As Edward Luce, Washington correspondent for the *Financial Times*, put it: "If America's angst about globalisation could be reduced to one word it would be 'China'."<sup>250</sup> He also draws parallels between the "rising climate of Chinaphobia" and the 'Japanic' of the 1980s. As an International Institute for Economics (IIE) report put it:

China's rise intensifies the pressure that technological change and globalization have already been bringing to bear for some time on less competitive portions of the American economy, and thus on domestic politics. [...] Chinese competition accelerates the decline already underway in US domestic production and employment.<sup>251</sup>

Some commentators have dismissed the notion that China is the cause of persistent US trade imbalances. The US goods deficit with China as a proportion of its overall current account deficit has increased from 18% in 2000 to 27% in 2005.<sup>252</sup> However, as an IIE briefing notes, the proportion of the bilateral trade imbalance accounted for by other Asian economies (Hong Kong, Taiwan, Korea, and Japan) has fallen from 50% in 1985 to 16% in 2004.<sup>253</sup> The briefing also states that 55% of China's exports are either components or items assembled in China from parts originating in other low-cost economies. These products also make up 65% of total US goods imports from China.<sup>254</sup> The reduction in the US trade deficit with other Asian countries reflects China's "rise as the point of final assembly".<sup>255</sup>

Like some other analyses, the IIE sees the US trade deficit as systemic: reflecting over-consumption and a lack of saving. It suggests that revaluation of the renminbi would see Chinese imports replaced with imports from other competitive countries, and that even a 20% appreciation of a basket of Asian currencies in concert would only reduce the US deficit by around 10%.<sup>256</sup>

An April 2006 *Economist* leader argued exchange rates were not the source of large US current account deficits with China, rather the geographical shift of US imports to it from

<sup>249</sup> This is considered in greater detail in Part III A.3

<sup>250</sup> Edward Luce [comment], "Washington should try to woo Hu rather than boo Hu", *Financial Times*, 13 April 2006

<sup>251</sup> Bergsten et al, 2006, *op. cit.*, pp. 9-10

<sup>252</sup> Edward Luce [comment], "Washington should try to woo Hu rather than boo Hu", *Financial Times*, 13 April 2006

<sup>253</sup> "China: The Balance Sheet: Trade Imbalance", *IIE Briefing Note*, Available at: [http://www.chinabalancesheet.org/Documents/China1pager\\_TradeSurplus.pdf](http://www.chinabalancesheet.org/Documents/China1pager_TradeSurplus.pdf)

<sup>254</sup> Ibid

<sup>255</sup> "China: The Balance Sheet: Trade Imbalance", *IIE Briefing Note*, *op. cit.*.

<sup>256</sup> Ibid

other Asian countries, which has seen deficits with these countries narrow.<sup>257</sup> It argued that renminbi revaluation would not have a significant effect on the US deficit (as noted in part A.3 above). The *Economist* also noted that the US was benefiting from goods produced by China. Chinese imports have also helped keep US inflation and interest rates low, and at the same time Chinese purchasing of US Treasury bonds has kept yields low. Consumers were also benefiting, and trade sanctions would adversely affect them.

The new multilateral surveillance role for the International Monetary Fund agreed at its 2006 spring meeting provides a possible avenue for dealing with the currency issue.<sup>258</sup> The first consultations will involve China, alongside the US, Japan, Saudi Arabia and the Eurozone.<sup>259</sup>

*Financial Times* columnist, Guy de Jonquieres, has dismissed the notion that ‘unfair’ Chinese competition is having severe deleterious effects on US industry and jobs. He wrote that this assertion was “so common it has assumed the status of fact. Yet it is almost entirely false.”<sup>260</sup> He also cites estimates of losses of US manufacturing jobs between 2000 to 2010 of around 500,000, with a shift to service sector employment seen in many other economies. He argues that:

Moving steadily up-market is a natural, indeed inevitable, feature of economic development. The biggest worry for the US – and other rich nations – is not that China will follow the same path but that their own economies will stop doing so. There is no intrinsic reason why that should happen and few signs of it as yet. But if it does happen, they will have only themselves to blame.<sup>261</sup>

Regardless of changing patterns of production and the underlying reasons for the deficit, as the US Commerce Secretary, Carlos Gutierrez, noted in a March 2006 speech:<sup>262</sup>

The trade deficit worries people, and we don't want it to become so big that what happens is that people who want to isolate the U.S. and who want to be protectionist may find a welcoming ear in the American people.

There are fears that unchecked protectionism might unleash a US-China trade war, potentially damaging to both sides. As the *Financial Times* noted, “A trade war would do serious damage to the global trading system without tackling the underlying cause.”<sup>263</sup> One commentator, noting increasing Chinese involvement in Latin America, raised fears of a US-China ‘cold war’:

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<sup>257</sup> For example “China’s exchange rate: Yuan step from the edge”, *The Economist*, 1 April 2006 – this is discussed in Part IIIB.4.b.

<sup>258</sup> “Communiqué of the International Monetary and Financial Committee of the Board of Governors of the IMF”, *IMF press release*, 16 April 2005. Available at: <http://www.imf.org/external/np/cm/2005/041605.htm>

<sup>259</sup> “IMF to Begin Multilateral Consultations with Focus on Global Imbalances”, *IMF Press Release* 06/118, 5 June 2006. Available at: <http://www.imf.org/external/np/sec/pr/2006/pr06118.htm>

<sup>260</sup> Guy de Jonquieres [Comment], “The rise of China has not killed off American factories”, *Financial Times*, 4 April 2006

<sup>261</sup> Ibid

<sup>262</sup> “Gutierrez Calls on China to Open Markets”, Speech at Chongqing University, China, *Yahoo Finance*, 27 March 2006. Available at: [biz.yahoo.com/ap/060327/china\\_us\\_trade.html?.v=2](http://biz.yahoo.com/ap/060327/china_us_trade.html?.v=2)

<sup>263</sup> “Trade war threat China is less likely to revalue when it is threatened”, *Financial Times*, 24 March 2006

Should things get out of hand and cold war fever prevail, there will be a twist. China is one of the biggest owners of US debt, and US stores rely on Chinese goods. The concept of "mutually assured destruction" might be revived - but it will begin with economic, rather than nuclear, holocaust.<sup>264</sup>

As Martin Wolf noted in the *Financial Times*, treating the US-China relationship as bilateral, rather than as multilateral, is dangerous, as then "all disputes become matters of power and prestige."

To "win" is to impose the former; to "lose" is to sacrifice the latter...a series of bruising bilateral conflicts between the two powers will destroy the working relationship on which the world will depend in coming decades."<sup>265</sup>

Stephen King (HSBC) argued that:

The US and China have seen a fusion of economic interests over the past 30 years. Politically, they maybe strange bedfellows but, economically, they have become increasingly dependent on one another. The combination of US capital and Chinese labour has led to huge increases in global output which have made many goods and services cheaper.

A failure to recognise this team effort would have unfortunate consequences for the world economy. Attempts to prise apart US and Chinese economic interests would be damaging or both sides. Separation would be a mistake. In Arsenal's case, Mr Wenger's job is, in part, to ensure that his multinational players talk to one another: perhaps we need stronger multilateral institutions to ensure good communications between America and China.<sup>266</sup>

The 'Chinese model' of rapid economic development is also seen as a potential challenge to existing liberal democratic capitalist orthodoxy, as embodied by the 'Washington Consensus' in the 1990s. The Consensus was a standard set of policy prescriptions for development associated with the US, and applied by the IMF and World Bank in the 1990s. This has had its detractors, particularly over conditions attached to development assistance. Many now argue that these policy prescriptions were misconceived. Despite attempts to address their more apparent failings, opposition remains.

Some see a new 'Beijing Consensus' as a direct challenge to this approach to development, "driven not by a desire to make bankers happy, but by the more fundamental urge for equitable, high-quality growth".<sup>267</sup> The new approach:

[...] turns traditional ideas like privatisation and free trade on their heads ... It does not believe in uniform solutions for every situation. It is defined by a ruthless

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<sup>264</sup> Humphrey Hawksley, "China's new Latin American revolution", *Financial Times*, 5 April 2006

<sup>265</sup> Martin Wolf, "Why Washington and Beijing need strong global institutions", *Financial Times*, 19 April 2006

<sup>266</sup> Stephen King (HSBC Managing Director of Economics), "The US and China have a lot to learn from Arsène Wenger", *The Independent*, 24 April 2006

<sup>267</sup> Ramo J., *The Beijing Consensus*, November 2004. Available at: [fpc.org.uk/fsblob/244.pdf](http://fpc.org.uk/fsblob/244.pdf). See also "China has discovered its own economic consensus", *Financial Times*, 7 May 2004

willingness to innovate and experiment, by a lively defense of national borders and interests, and by the increasingly thoughtful accumulation of tools of asymmetric power projection. ... it is both the product of and defined by a society that is changing so fast that few people, even those inside China, can keep up with it. Change, newness and innovation are the essential words of power in this consensus ... The Beijing Consensus is as much about social change as economic change. It is about using economics and governance to improve society, an original goal of development economics that somehow got lost in the Washington-consensus driven 1990s.<sup>268</sup>

As Joseph Stiglitz has argued:

While much of the rest of the developing world, following the Washington consensus, has been directed at a quixotic quest for higher GDP, China has again made clear that it seeks sustainable and more equitable increases in real living standards.<sup>269</sup>

### **c. A Reverse of 'Globalisation'?**

US fears as encapsulated by the bilateral trade relationship with China reflect the concerns felt in many countries in the face of the practical impact of continuing 'globalisation' of production and trade.

Some have voiced concerns in recent months that increasing protectionism and economic nationalism – in the US, the EU and elsewhere – could damage economies' growth and potentially put 'globalisation' into reverse. IMF Chief Economist, Raghuram Rajan, has criticised recent 'economic patriotism' as:

[...] protectionist old wine in a mislabelled new bottle [...] all the more dangerous in an interconnected world. The beggar-my-neighbour policies being contemplated by some countries ... shielding large portions of their economy from corporate takeovers while encouraging their own companies to take advantage of the continued openness of others, deserves to be roundly condemned.<sup>270</sup>

In a March 2006 speech, the then Secretary of State for Trade and Industry, Alan Johnson, acknowledged concerns regarding globalisation, but said:

The irony of protectionism is that it destroys what it seeks to protect. Free trade is not, and can not be, a one way street.

There can't be one set of rules when your team plays away and a different set of rules when they play at home. Such hypocrisy makes global progress impossible. How can the richest countries in the world lecture others about the gains from liberalisation whilst adding further barriers to entering their own markets?

This can not be right in America, Europe or Japan. [...]

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<sup>268</sup> *Ibid.*, pp. 4-5.; see also a review of this in K. Moller, "The Beijing Bluff: Review Essay", *Survival*, Vol. 48, No. 2, Summer 2006

<sup>269</sup> "[Development in defiance of the Washington consensus](#)", *The Guardian*, 13 April 2006

<sup>270</sup> "Leaders risk taking us back to 1930s, says IMF", *The Guardian*, 20 April 2006

Instead of protectionism, our response to globalisation must be to make it work for our benefit – domestically and across the world.<sup>271</sup>

It is also feared that the ongoing Doha 'Development' Round of World Trade Organisation negotiations, beset by delays and continuing disagreement, could fail, with negative effects for the WTO system as a whole.<sup>272</sup> The Chancellor of the Exchequer, Gordon Brown, and his fellow G7 finance ministers have advocated progress in the Doha Round to counteract signs of resurgent protectionism.<sup>273</sup>

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<sup>271</sup> "The impact of globalisation", *Speech to Transatlantic Business Conference by Alan Johnson MP*, 30 March 2006. Available at: [www.dti.gov.uk/ministers/speeches/johnson-300306.html](http://www.dti.gov.uk/ministers/speeches/johnson-300306.html)

<sup>272</sup> See the Library Standard Note on progress in the Doha Round, SN/EP/2605.

<sup>273</sup> "Chancellor seeks world summit to rescue deadlocked trade talks", *The Guardian*, 23 April 2006 and G7 statement, 21 April 2006. Available at: <http://www.treasury.gov/press/releases/js4199.htm>

## IV Chinese Relations with the UK and the EU<sup>274</sup>

### A. UK-China Relations

#### 1. China's Role in the World

The then Foreign Secretary Jack Straw said in a speech in April 2006 that the UK wants:

China to work together with its key Western partners as a responsible and leading member of the international community, strengthening the international norms and systems which protect our vital interests, and dealing with the common challenges of this century; and internally, we want China to pursue progressive political and economic reforms which should enable it successfully to manage the risks of its extremely rapid development.<sup>275</sup>

He went on to say that China should be a “responsible member of the international community”:

[...] which defines its interests broadly, as being served through sustaining the integrity of the overall international system, rather than narrowly, as being served by securing short-term bilateral advantage. It is a partner which plays by the rules of global business; contributes to international security and stability; looks for co-operative and market-oriented ways to secure energy supplies; and works with others to promote sustainable development and good governance around the globe.<sup>276</sup>

#### 2. Human Rights

Lord Triesman gave the following summary of the overall Government position in February 2006:

My Lords, the United Kingdom Government have serious concerns about a wide range of human rights issues in China. We pursue a policy of critical engagement with the Chinese Government that aims to improve the human rights situation on the ground in China, develop our bilateral relationship and encourage China to play a constructive and responsible role in international affairs.<sup>277</sup>

In May 2006 China was elected to the new UN Human Rights Council, a development that some observers have viewed with concern given its human rights record. Kim

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<sup>274</sup> This section of the Research Paper is not a comprehensive account of UK and EU relations with China. There is insufficient space to provide such an account. Readers should also note that the Foreign Affairs Select Committee is due to bring out a report on East Asia in late June/early July 2006

<sup>275</sup> Jack Straw, “China and International Action”, Speech to the Smith Institute, 26 April 2006. Available at: <http://www.fco.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1007029391629&a=KArticle&aid=1145891234764%20&year=2006&month=2006-04-01&date=2006-04-26>

<sup>276</sup> Ibid

<sup>277</sup> HL Deb 6 February 2006 c422. For a recent statement of the British position on Internet censorship in China, see HC Deb 5 June 2006, c311W

Howells, Minister of State at the FCO, set out the British Government's position in May 2006:

China made voluntary pledges on human rights prior to its election to the UN Human Rights Council (HRC). The HRC is mandated within one year of its first session to set up a system of 'universal periodic review' to assess the fulfilment by each state of its human rights obligations and commitments. The detail of this system of review is not yet determined. However, the Government will expect every member of the HRC, including China, to act fully in accordance with the high standards set by the UN General Assembly resolution which established the HRC, and to take very seriously the responsibility that they will have for the promotion and protection of human rights worldwide.<sup>278</sup>

The UK supports rights-related projects in China, in particular through the Global Opportunities Fund:

The UK believes that constructive engagement with China on human rights means complementing high level dialogues and ministerial activities with practical co-operation at project level. Through the Global Opportunities Fund (GOF), the UK's Foreign and Commonwealth Office funds projects in a number of countries to support action on global issues in areas of strategic importance to the UK.

The GOF Sustainable Development Programme is supporting a number of projects in China which promote sustainable Development, underpinned by democracy, good governance and human rights. We work with Chinese legislative, judicial and law enforcing departments, and non-governmental organisations and academic institutions to implement projects in four priority areas: abolishing the death penalty, combating torture, freedom of expression and rule of law.

In 2006/07, projects include:

- Providing UK expertise on sentencing and facilitating research by Chinese legislative staff in order to promote the reform of the death penalty review system.
- Introducing a human rights-based approach to policing for Chinese police officers.
- Improving the ability of Chinese police departments to draft regulations on criminal case handling.
- Promoting implementation of the UN Convention against Torture and the Optional Protocol in China.
- Exposing Chinese prison supervisors to international prison inspection standards.
- Enhancing human rights in prisons through training prison staff and prison management.
- Providing recommendations to promote respect for prisoners' human rights through the legislative process.
- Promoting judicial justice through reforming criminal trial procedure to comply with ICCPR standards.

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<sup>278</sup> HC Deb 24 May 2006 c1859W. The 47-member HRC replaces its predecessor, the Commission for Human Rights, which was widely viewed as discredited.

- Training journalists to build up their capacities in human rights reporting.<sup>279</sup>

The Great Britain-China Centre (GBCC), a Non-Departmental Public Body sponsored by the FCO through annual grant-in-aid of £300,000, has undertaken programmes to promote human rights, labour reform and strengthening the rule of law in China since 1974. The FCO commissioned a review of the GBCC in 2005. The review endorsed the value of the work it was undertaking but recommended measures to strengthen its financial and management systems.<sup>280</sup>

#### **a. The UK-China Human Rights Dialogue**

The Human Rights Dialogue began in 1997.<sup>281</sup> The FCO describes the Dialogue as follows:

The UK-China Human Rights Dialogue is held twice a year between the British government Foreign and Commonwealth Office and the Chinese Ministry of Foreign Affairs with participants from legislative, judicial and law-enforcement departments. Since its inception in 1997, the dialogue has been successful in opening up the scope of discussion and increasing understanding of human rights issues on both sides.<sup>282</sup>

The following summary of the objectives of the British Government for the UK-China Human Rights Dialogue and the progress made to date is drawn from the FCO's *Human Rights Report 2005*.<sup>283</sup>

Progress on these objectives is described in the report as "mixed."<sup>284</sup>

- *Ratification and Implementation of the International Covenant on Civil and Political Rights (ICCPR)*

China has signed the ICCPR since the Dialogue began but not yet ratified it. China says it continues to work towards ICCPR ratification but "to date China has declined to announce a timetable."<sup>285</sup>

- *Full implementation of the International Covenant on Economic Social and Cultural Rights (ICESCR)*

China ratified the ICESCR in 2001 with a reservation on Article 8.1A, which relates to freedom to organise labour. The British Government has "pressed China to lift its reservation on article 8.1A of the ICESCR and has called upon it to ratify individual ILO conventions on freedom of association and protection of the right to organise (number

<sup>279</sup> HC Deb 24 May 2006 c1859W

<sup>280</sup> HC Deb 24 May 2006 c89WS

<sup>281</sup> There is also an EU-China Human Rights Dialogue

<sup>282</sup> FCO Website, 'China and human rights'

Available at: [http://www.uk.cn/bj/index.asp?menu\\_id=146&artid=1661](http://www.uk.cn/bj/index.asp?menu_id=146&artid=1661)

<sup>283</sup> FCO, *Human Rights Annual Report 2005*, Cm 6606, July 2005, pp. 40-46. The FCO's report for 2006 should be published in the near future.

<sup>284</sup> Ibid, p. 41

<sup>285</sup> Ibid

87) and on the right to organise and collective bargaining (number 98).<sup>286</sup> It has done neither as yet.

- *Increased cooperation with UN mechanisms and agreement on dates for visits by Special Rapporteurs*

The FCO speaks of “modest improvement” in this regard.<sup>287</sup> Following ten years of negotiations, the UN Special Rapporteur on Torture, Manfred Novak, visited China in late November 2005 “at the invitation of the Chinese Ministry of Foreign Affairs”.<sup>288</sup> This was the first ever visit to China by a Special Rapporteur. In his report, he found that “torture remains widespread in China.”<sup>289</sup>

- *Reform of administrative detention measures, including the introduction of judicial process and better protection of a defendant’s right to a fair and impartial trial*

Although the Chinese Government has stated that it has plans to adopt new legislation on Re-education through Labour, including an element of judicial review and a role for defence lawyers, little progress appears to have been made to date.<sup>290</sup>

- *Reduction in the use of the death penalty, leading ultimately to its abolition and the publication of official statistics on the use of the death penalty*

“China remains the largest user of the death penalty in the world [...] There has been no progress on the publication of death penalty statistics.”<sup>291</sup>

- *Respect for fundamental rights of all prisoners including those arrested for non-violent political activity or religious beliefs*

“Although Chinese law prohibits torture, it continues to be a serious problem [...] New regulations were introduced in 2004 to protect better the legal rights of detainees and hold the police legally responsible for the deaths of those detained, including by suicide.”<sup>292</sup>

- *Full and constructive responses to cases of concern*

“We raised 65 individual cases of concern as part of the November [2004] bilateral dialogue round. The Chinese government provided relatively full responses on 46 cases. It released four prisoners during the period of review: Ngawang Gyaltsen, Liu Jingsheng, Sun Xiongying and Rebiya Kadeer, who was released early. We raised 49 cases of concern as part of the June 2005 dialogue round. The Chinese government did not provide a substantive response to this list on the day of the dialogue and instead offered to brief the UK once information became available.”<sup>293</sup>

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<sup>286</sup> FCO, *Human Rights Annual Report 2005*, pp. 40-46

<sup>287</sup> Ibid

<sup>288</sup> *China View Website*, 29 November 2005.

Available at: [http://news.xinhuanet.com/english/2005-11/29/content\\_3853442.htm](http://news.xinhuanet.com/english/2005-11/29/content_3853442.htm)

<sup>289</sup> Report of the UN Special Rapporteur on Torture and other Cruel, Inhuman or Degrading Treatment or Punishment following his visit to China, December 2005

Available at: <http://www.ohchr.org/english/bodies/chr/docs/62chr/ecn4-2006-6-Add6.doc>

<sup>290</sup> FCO, *Human Rights Annual Report 2005*, p. 42

<sup>291</sup> Ibid

<sup>292</sup> Ibid

<sup>293</sup> FCO, *Human Rights Annual Report 2005*, p. 42. In May 2006 the Chinese Government agreed to pay compensation to the family of a 15-year old boy who had died after being beaten in police custody

- *Respect for freedom of religion and belief, both public and private*  
“There has been no progress.”<sup>294</sup>
- *Respect for cultural rights and religious freedoms, including in Tibet and Xinjiang, and access for an independent delegation to Gedhun Choekyi Nyima, the Dalai Lama’s choice as Panchen Lama*  
“We remain very concerned about the human rights situation in Tibet.”<sup>295</sup> Independent access to Gedhun Choeki Nyima has not yet been granted.
- *The human rights situation in Xinjiang*  
“We remain very concerned about the situation in Xinjiang and the suppression of peaceful expression of political, cultural and religious rights.”<sup>296</sup>
- *The end to jamming of the BBC World Service broadcasts in Chinese and blocking of the BBC World Service website*  
“There has been no progress on this issue.”<sup>297</sup>

Another round of talks under the Human Rights Dialogue took place in October 2005. A further round is scheduled for June 2006.<sup>298</sup> The Foreign Affairs Select Committee commented in its report on the FCO’s *Human Rights Report 2005*:

186. We conclude that the UK-China human rights dialogue appears to have made glacial progress. We recommend that the Government set out in its response to this Report what measures it uses to determine whether the dialogue is a success, what it sees as the achievements of the dialogue to date, and why it wishes it to continue.<sup>299</sup>

In its response, the Government accepted that progress has been “slow” but defended the dialogue, pointing to a number of positive developments “to which we believe our engagement [...] has contributed.”<sup>300</sup>

## **b. Tibet**

The British Government’s position on China’s treatment of the independence movement in Tibet was outlined by the Minister for Trade, Ian Pearson, in an adjournment debate on Tibet in June 2005:

[...] Let me speak briefly about the political situation in Tibet. The UK Government believe that a political agreement between the Chinese authorities and the Dalai

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following the Tiananmen massacre in 1989. This was the first known payment of this kind. “China pays for boy, 15, killed after 1989 arrest”, *Guardian*, 1 May 2006

<sup>294</sup> Ibid, p. 43. For a recent statement of the position of the British Government on the treatment of the Falun Gong, see HC Deb 10 May 2006 c349-50W. See also HC Deb 22 May 2006 c1414-5W

<sup>295</sup> Ibid

<sup>296</sup> Ibid

<sup>297</sup> Ibid, p. 44

<sup>298</sup> HC Deb 5 June 2006 c311W

<sup>299</sup> Foreign Affairs Select Committee, *Human Rights Annual Report 2005*, First Report, Session 2005-6, HC574, 23 February 2006, para 186

Available at: <http://www.publications.parliament.uk/pa/cm200506/cmselect/cmcaff/574/57408.htm#a35>

<sup>300</sup> FCO, *Response to the First Report of the Foreign Affairs Committee, Session 2005-6, Annual Report on Human Rights 2005*, Cm 6774, May 2006, paras 114-18

Lama and his representatives is essential, not least as it should help to address some of the human rights issues that the hon. Gentleman and I have mentioned. With that end in mind, UK Ministers and officials have regularly encouraged the Chinese Government to engage in meaningful direct dialogue without pre-conditions with the Dalai Lama and his representatives. We appreciate that reaching a compromise is not easy and likely to require sacrifices and risks on both sides. However, the Dalai Lama has taken a big step in no longer calling for Tibetan independence. Instead, he seeks genuine autonomy for Tibet through his non-violent "middle way approach". We are encouraging the Chinese Government to respond constructively to the Dalai Lama's stance. [...] I want to stress that, in our view, it would be lamentable if the Chinese Government lost the opportunity to negotiate with the Dalai Lama, who has such authority over his people and is in a unique position to agree a lasting and legitimate solution to the benefit of Tibet and China. We sincerely hope that the Chinese Government have the courage to grasp the opportunity that His Holiness offers.<sup>301</sup>

### 3. Hong Kong

Relations with China with regard to Hong Kong have been governed since 1984 by the Sino-British Joint Declaration on the Question of Hong Kong.

Mr. John Battle: The Sino-British Joint Declaration on the Question of Hong Kong is a treaty registered at the United Nations which creates international rights and obligations for both parties to it. The Joint Declaration has no termination date, although China has made an explicit commitment that its basic policies on Hong Kong, which include maintaining Hong Kong's capitalist system and way of life, will remain unchanged for 50 years from 1 July 1997. Under paragraph 7 of the Joint Declaration, China committed herself to abide by all her commitments in the Joint Declaration. Her Majesty's Government will continue to take a close interest in developments in Hong Kong and to report to Parliament on the implementation of the Joint Declaration.<sup>302</sup>

Since the hand-over in 1997, the FCO has presented a biannual report to Parliament on the implementation of the Sino-British Joint Declaration. The two most recent were presented in July 2005 (Cm 6642) and March 2006 (Cm 6751) respectively. Until 1 January 2000, the British and Chinese Governments also operated a Joint Liaison Group under the terms of the Declaration. This was a short-term transitional arrangement to resolve problems in the first years after the hand-over.

There has been agitation in Hong Kong in recent years for the introduction of universal suffrage. Thousands of people marched through the streets of Hong Kong in December 2005 to this end. The UK's Six-Monthly report on Hong Kong for July-December 2005 noted that:

The Constitutional Development Task Force was set up in January 2004 to conduct public consultations and draw up proposals for reform. However, the Task Force's scope for proposing significant change was constrained in April

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<sup>301</sup> HC Deb 28 Jun 2005 c1276-8WH. There have been talks between envoys of the Dalai Lama and members of the Chinese Government in recent years

<sup>302</sup> HC Deb 14 January 1999, c110W

2004 when the Standing Committee of the National People's Congress (NPCSC) issued a "decision" which ruled out universal suffrage for the election of the Chief Executive in 2007, and stated that, for the 2008 Legislative Council elections, the 50-50 balance of legislators elected from geographical and functional constituencies should remain unchanged.<sup>303</sup>

Frustrated by this decision, Hong Kong's pro-democracy parties refused to support modest reforms proposed by the Chief Executive, Sir Donald Tsang.<sup>304</sup> The British Government has not protested publicly to Beijing about the lack of a firm timetable for moving towards universal suffrage. On 19 October 2005 the British Consul General, Stephen Bradley, said:

"We support the Hong Kong Government in making progress towards universal suffrage. Although these proposals will obviously not satisfy those who would like to see universal suffrage in 2007/2008, they are a step in the right direction."<sup>305</sup>

#### 4. Trade

The UK is a member of the EU's Customs Union, with common external tariffs on imports entering from outside the Union. The European Commission represents the EU in trade negotiations. Although the UK's formal bilateral trade relationship with China is therefore determined at the EU level (see below), the UK also seeks to promote bilateral trade with China.

In a speech to the China Association on 14 September 2005, the then Trade Minister Ian Pearson outlined the importance of the bilateral trading relationship for the British Government, and its vision for its future development:

[...] China's impact on our interests is large and growing. And the potential for the development of bilateral relations is correspondingly large [...] I am keen to ensure that the political co-operation between China and UK enhances the prospect of our trading partnership and our economic growth.

All these strands add up to more than the sum of their parts. Deepened political co-operation supports deeper economic co-operation, and vice-versa. Foremost in my mind is the objective 'to secure maximum benefit from the global opportunity of China's emergence to guarantee our long-term future.' [...]

Our bilateral trade with China is growing rapidly. In 2004, we exported over £2.3 billion of goods to China – an increase of twenty three percent over that for the previous year. The UK's exports of services to China exceeded £1 billion for the first time in 2004. The UK is the top EU investor in China and Hong Kong combined, with over 4,000 British invested projects in China alone. Our future prospects are strong.

As China's economy continues to develop, we can expect to see growth in sectors such as communications, high technology and financial services and

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<sup>303</sup> FCO, *Six-monthly Report to Parliament on Hong Kong*, Cm 6751, July-December 2005, p. 1

<sup>304</sup> "Hong Kong on a roll, but all's not well", *Australian*, 29 May 2006

<sup>305</sup> *Ibid*, pp. 2-3

retailing. The UK, with its strong financial and professional services sector and world class science and engineering base and strong retailing sector, is well placed to benefit. In addition, China's economic growth is creating problems where the UK has the expertise to help.

For example:

Environmental technologies developed in the UK are already being used to address the widespread environmental damage caused by China's rapid industrialisation.

We also have among the world's best mining safety expertise, which could be used in improving working conditions in Chinese mines.

And China is working with the UK to learn from our experience in water privatisation with a view to applying the lessons learned to its own privatisation programme.

The Government is playing an active role helping the UK business community to trade and invest with China. We are tackling the tough issues. When Alan Johnson, Sir Digby Jones and myself met Minister of Commerce Bo Xilai, we raised issues of continuing concern to business such as intellectual property rights, the limits on foreign direct investment, planning procedures and China's regulatory framework.

We are implementing a business-led programme across five key sectors - financial services, energy, information and communications technology, healthcare and water.

And we are working on the Chancellor's Asia Task Force initiative to identify the problems that British companies face across the region with a view to tackling barriers where possible and helping business overcome those that remain.

We are also helping UK SMEs to do business with China through an active programme of over 100 UK Trade and Investment supported missions, seminars and trade shows in the current financial year as well as running a proactive programme of awareness-raising roadshows across the UK. And we work closely with the China-Britain Business Council in providing advice and expertise to British companies looking to do business with China.

Last year we secured nearly 40 inward investments from China, making it the 7th largest source of new projects for UK Trade & Investment's Inward Investment Group.

[...] The pace of development is such that, I expect if we will see many more quality companies from China setting up here over the next few years, and China will become increasingly a focus for UKTI inward investment activities.<sup>306</sup>

Mr Pearson provided further information about the British Government's approach to trade with China in a Commons debate in June 2005:

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<sup>306</sup> Ian Pearson, "China and Britain: where next?", Speech to the China Association, 14 September 2005  
Available at:  
<http://www.fco.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1007029391647&a=KArticle&aid=1128331949161>

We are actively encouraging UK businesses to export more to China. We have set a target of doubling exports by 2007 and quadrupling them by 2010. There will be more than 100 UK Trade and Industry-supported trade missions to China this year, and an active programme of awareness raising is taking place throughout the United Kingdom. There is also the UK China Task Force and I should like to acknowledge the valuable work of the China Britain Business Council.<sup>307</sup>

In April 2006 the former Secretary of State for Trade and Industry, Alan Johnson, stated that the new Chief Executive of UK Trade & Investment was working on a five-year strategy, to be published in summer 2006, that will detail plans to increase UK trade with China and India.<sup>308</sup> A bilateral investment treaty between the UK and China was signed in 1986.<sup>309</sup>

## 5. Other Issues

### a. Collagen and Human Organs

*The Guardian* reported in April 2006:

Last December, China's deputy health minister, Huang Jiefu, made the first official admission that the country harvested organs from executed prisoners. He said regulations were needed to "standardise" the practice. Amnesty International estimates China executed 3,400 people in 2004 and sentenced 6,000 to death. According to estimates in the state-run China Daily newspaper, up to 20,000 donor operations are performed in the country each year. China claims all executed organ donors give their consent for the use of their organs, but human rights groups say strong taboos in Chinese culture about being buried with missing organs make it unlikely all donors are consenting.<sup>310</sup>

In April 2006, the British Transplant Society issued a press release that was strongly critical of the use of organs without consent from prisoners executed by the Chinese authorities.<sup>311</sup> The position of the British Government is that it has found "no evidence to substantiate" reports of large-scale organ harvesting in China but "are concerned about the practice of prisoners subject to the death penalty in China donating their organs" and has raised the matter with the Chinese Government. It has welcomed the introduction of a new regulation by China to ban the sale of organs and introduce medical standards for organ transplants.<sup>312</sup> The regulation comes into force on 1 July 2006.<sup>313</sup>

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<sup>307</sup> HC Deb 23 June 2005 c940

<sup>308</sup> Rt. Hon. Alan Johnson MP, "Competitive and International Trade", Speech to BCC Annual Conference, 3 April 2006. Available at: <http://www.dti.gov.uk/pressroom/Speeches/page28141.html>

<sup>309</sup> See Foreign & Commonwealth Office [IPPA's page](#).

<sup>310</sup> "China using prisoner organs for transplants" *Guardian*, 19 April 2006

<sup>311</sup> British Transplant Society Press Release, 19 April 2006. Available at: <http://www.bts.org.uk/Forms/press%20release%20BTS.doc>

<sup>312</sup> HC Deb 12 May 2006 c628W

<sup>313</sup> "New rule to regulate organ transplants", *Chinadaily.com.cn*, 5 May 2006

There have also been concerns about the trade in collagen manufactured from the skin of executed prisoners. In September 2005 *the Guardian* reported that:

MPs on the Commons select health committee are to examine the regulatory system and may launch an investigation and question ministers about the need for immediate new controls. "I am sure that the committee will want to look at this," said Kevin Barron, its Labour chairman. "This is something everyone in society will be very concerned about."<sup>314</sup>

The Health Committee has not yet taken evidence on the issue.<sup>315</sup>

#### **b. The China Task Force**

Political and media interest in the role and functions of the UK-China Task Force has increased in recent months. The Deputy Prime Minister, John Prescott, who chairs the UK side, provided the following statement about the Task Force in May 2006:

The China Task Force was established as a result of my right hon. Friend, the Prime Minister's visit to China in 2003, when he agreed with the Chinese Premier Wen Jiabao that a group should be set up to consider issues of interest to our two countries' bilateral relations. State Counsellor Tang Jiaxuan was nominated to be the chair for the Chinese side and the Prime Minister asked me to represent him. The Task Force's remit covers trade and investment, education, science and technology, health, culture, environment and sustainable development, and development issues. These areas align closely with the areas identified for cross-departmental action being developed in response to the challenges of globalization. The Task Force is recognized and valued by both the UK and Chinese Governments as a high-level contact mechanism for deepening relations in the areas under its remit.<sup>316</sup>

## **B. EU-China Relations**

### **1. EU-China Arms Embargo**

#### **a. Background**

The EU-China arms embargo was imposed by the Madrid European Council on 27 June 1989 in response to the killings around Tiananmen Square in May of that year.<sup>317</sup>

The intention of EU Foreign Ministers to review the embargo was announced at the European Council in December 2003, and raised again at the European Council in December 2004 when the incoming Presidency, Luxembourg, was invited to finalise

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<sup>314</sup> "The beauty products from the skin of executed Chinese prisoners", *Guardian* 13 September 2005

<sup>315</sup> This has also become an issue in Canada. See "Rights advocates probe Chinese organ transplants", *National Post*, 9 May 2006

<sup>316</sup> HC Deb 23 May 2006 c1664W

<sup>317</sup> Details of the embargo are outlined on the FCO website at: <http://www.fco.gov.uk/servlet/Front?pagename=OpenMarket%2FXcelerate%2FShowPage&c=Page&cid=1007029391422&a=KCountry&aid=1013618512413>.

work on the review ahead of a decision on lifting the ban. It had been expected that a change of policy would be achieved under the Luxembourg Presidency in the first half of 2005. Indeed, support for lifting the embargo was widespread with France and Germany the main advocates of a change of policy on the basis that the embargo was no longer relevant to the political climate. The argument was put forward, by the Chinese government in particular, that the continuation of the embargo served as an obstacle to further rapprochement.

The British Government's view at the time was that the embargo was not absolute and as such some dual-use items were already being exported to China under the Consolidated EU and National Arms Export Licensing Criteria, which incorporates the EU Code of Conduct.<sup>318</sup> Therefore the Government supported the Council's review of the embargo and emphasised the use of the EU Code of Conduct as an alternative and credible means of regulating military exports to China.<sup>319</sup>

However, critics claimed that as the EU Code of Conduct is voluntary and not legally binding, it would therefore have less legal force than the current embargo. The US also strongly opposed any lifting of the embargo, citing concerns over the human rights situation in China and the implication of resumed sales of advanced technology to China for both the strategic balance in the region, and for Taiwan specifically, which the US remains committed to defending in the event of Chinese military action against the island.

Consequently, during the course of 2005 the US Congress applied pressure on the administration to oppose any move by the EU to lift the embargo, which initially led several commentators to speculate whether legislative measures restricting future arms sales to Europe, or further "Buy America" provisions in domestic legislation, could be introduced. Indeed, on 2 February 2005 the House of Representatives passed a Resolution urging the EU to maintain the current China arms embargo. Paragraph 4 of that Resolution stated:

the House of Representatives—

(4) declares that such a development in European security policy is inherently inconsistent with the concept of mutual security interests that lies at the heart of United States laws for transatlantic defense cooperation at both the governmental and industrial levels and would necessitate limitations and constraints in these relationships that would be unwelcome on both sides of the Atlantic;<sup>320</sup>

A similar Resolution was introduced in the Senate on 17 February 2005.<sup>321</sup>

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<sup>318</sup> The Consolidated Criteria are set out and examined in House of Commons Library Standard Note SN/IA/2729, *UK Arms Export Control Policy*

<sup>319</sup> HC Deb 1 February 2005 c857-8W

<sup>320</sup> House of Representatives, *Resolution 57 Urging the European Union to Maintain its Arms Embargo on the People's Republic of China*, 2 February 2005

<sup>321</sup> Senate Resolution (S.RES.59 IS), 109<sup>th</sup> Congress

During a visit to Brussels in February 2005 President Bush also hinted that Congress may retaliate with restrictive legislative measures because of concerns over potential technology transfer. He stated:

There is deep concern in our country that a transfer of weapons would be a transfer of technology to China, which would change the balance of relations between China and Taiwan, and that's of concern [...] Congress will be making the decisions as to whether or not -- as to how to react to what will be perceived by some, perhaps, as a technology transfer to China.<sup>322</sup>

**b. Recent Developments**

Discussion on the possibility of lifting of the EU-China arms embargo has stalled over the last year. The lack of progress in determining a way forward has been largely prompted by continued pressure from the US, but also as a result of declining political support following the passage of the Taiwan Anti-Secession Law in March 2005.

Responding to that development the then Secretary of State for Defence, Dr John Reid, confirmed in May 2005 that the British Government would continue to review the situation in light of that legislation:

Another issue that was raised by several Members, including the foreign affairs spokesmen for the Liberals and the Conservatives, was the Chinese arms embargo. Of course, there are concerns about China, particularly about human rights, that do not need to be re-expressed in the House. The EU has agreed to review the embargo, and that review is ongoing. We believe that the embargo is an ineffective means of controlling arms sales to China and that the revised code of conduct would be more effective. However—and I stress this—no date has been set for a decision on lifting the embargo. As my right hon. Friend the Foreign Secretary has previously made clear, China's recent anti-secessionist law has created a very difficult political environment in which to discuss these matters. I fully understand the concerns expressed not only by hon. Members in the House but by the United States, and I agree on the importance of maintaining security as a major factor in our consideration of the east Asia region.<sup>323</sup>

However, an article from the *Associated Press* in July 2005 quoted Javier Solana, the EU High Representative for the Common Foreign and Security Policy, and Secretary-General of the Council of the EU, as saying:

This is not something that has disappeared from the table of the European Union. We want to do it, we want to do it well and we want to do it in a manner that continues the stability in the region.<sup>324</sup>

Significantly, the new German Government under Chancellor Merkel has also refused to support the policy of the previous administration and has stated that it will not back any

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<sup>322</sup> Press conference between President George W. Bush and NATO Secretary General Jaap de Hoop Scheffer, 22 February 2005. Available at: <http://www.whitehouse.gov/news/releases/2005/02/20050222-3.html>

<sup>323</sup> HC Deb 18 May 2005 c247

<sup>324</sup> "EU continues work on lifting 15-year arms embargo against China", *Associated Press*, 26 July 2005

lifting of the embargo.<sup>325</sup> It is now considered unlikely that Germany will push for the embargo issue to be resolved once it assumes the EU Presidency in January 2007.

Following the meeting of the EU-China Ministerial troika in February 2006 the Austrian Foreign Minister, Ursula Plassnik, confirmed that “there was no consensus yet on this topic within the EU”.<sup>326</sup> This view was echoed by the British Government in May 2006.<sup>327</sup>

## 2. Other Issues

During the British Presidency of the EU during the second half of 2005, an EU-China summit was held in Beijing, at which a number of agreements were signed:

[...] a memorandum of understanding on labour, employment and social affairs;  
 a joint statement on cooperation in space exploitation, science and technology development;  
 a memorandum of understanding on China-EU dialogue on energy and transport strategies;  
 a maritime protocol extending the existing maritime agreement to new member states and;  
 two major financing agreements for the China-EU bio-diversity and river basin management programmes.

Furthermore, leaders witnessed the signing of a 500 million Euro loan from the European Investment Bank for the extension of Beijing airport. [...] <sup>328</sup>

A Joint Declaration on Climate Change between China and the EU was also issued, which confirmed the establishment of a China-EU partnership on the issue. Agreement was also reached to open discussions about a new China-EU Partnership and Cooperation Framework Agreement (PCA) on trade and investment. The EU side reaffirmed its adherence to the ‘One China’ policy and expressed its hope for a peaceful resolution of the Taiwan question through dialogue.<sup>329</sup>

In February 2006 the Austrian Presidency issued the following statement after a meeting of the EU Troika with Chinese Government representatives in Vienna:

The Foreign Ministers' Meeting of the EU Troika with China took place in Vienna today. Foreign Minister Ursula Plassnik hosted her Chinese counterpart, Li Zhaoxing, the High Representative of the Common Foreign and Security Policy

<sup>325</sup> “Hu meets Merkel as Germany reaffirms EU ban”, *Deutsche Welle*, 11 November 2005

<sup>326</sup> Website of the Austrian EU Presidency, “Plassnik: ‘A broad array of topics connects China and the EU’”, Press Release, 3 February 2006

Available at: [http://www.eu2006.at/en/News/Press\\_Releases/February/0302TroikaChina.html](http://www.eu2006.at/en/News/Press_Releases/February/0302TroikaChina.html)

<sup>327</sup> HC Deb 15 May 2006 c686W

<sup>328</sup> Website of the UK EU Presidency, Joint Statement of the 8<sup>th</sup> China-EU Summit, Beijing, 5 September 2005. Available at:

<http://www.eu2005.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1107293561746&a=KArticle&aid=1125559849875>

<sup>329</sup> Website of the UK EU Presidency, Joint Statement of the 8<sup>th</sup> China-EU Summit, Beijing, 5 September 2005. Available at:

<http://www.eu2005.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1107293561746&a=KArticle&aid=1125559849875>

Javier Solana, the EU Commissioner for External Relations and European Neighbourhood Policy, Benita Ferrero-Waldner, and the Finnish Foreign Minister, Erkki Tuomioja.

“The EU and China are strategic partners. This partnership is supported by common interests, but also by openness, mutual understanding, and respect. This is also the case for topics on which our opinions differ,” declared Foreign Minister Plassnik.

The EU considers relations with China to be of great significance. After the USA, China is the EU’s second largest trading partner and a very important destination for European investments. “It is now a matter of replacing a more than twenty-year-old trade agreement with a modern, comprehensive Partnership and Cooperation Agreement between the EU and China. This agreement will reflect the complete scope of cooperation between China and the EU and will determine the agenda for our relations for the 21st century. I am confident that we can commence negotiations on this framework agreement during the Austrian Council Presidency,” said Plassnik.

Foreign Minister Plassnik referred to the active cooperation between the EU and China, extending beyond commercial relations, in matters of foreign policy such as in the framework of the nuclear non-proliferation treaty in relation to Iran and North Korea, or in common efforts to support Afghanistan. She also mentioned intensive cooperation on the European satellite navigation system (GALILEO)<sup>330</sup>, in areas of energy and environment, science and technology, as well as in the fight against communicable diseases.

Another topic of the discussions was the situation in Taiwan. The EU repeated its position that all questions ought to be resolved peacefully and that both sides should renounce unilateral actions and declarations that might increase tensions. “The latest remarks of the Taiwanese leader Chen Shui Bian send the wrong signals for progress in mutual relations,” said Plassnik.

On the question of the arms embargo, Plassnik recalled the instruction of the European Council to work toward lifting the embargo, as well as the EU code of conduct on arms export controls in effect since last year. At the same time she pointed out that there was no consensus yet on this topic within the EU. Plassnik also referred to the feelings with regard to this topic in European parliaments.

With regard to human rights in China, the Council Chair explained: “It is an important sign of the quality of our wide-ranging dialogue that we can also speak with complete openness about topics on which our opinions differ. As far as human rights are concerned, we have discussed with our Chinese partners those central areas in which the EU expects further progress, in particular the release of political prisoners who have been in detention since 1989; the ratification of the pact on civil and political rights; and the reform of the so-called re-education camps.” Plassnik added that at the same time, the EU recognizes the progress that has already been made and welcomes especially the fact that the UN

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<sup>330</sup> The GALILEO satellite navigation system is the EU’s planned rival to the US-controlled Global Positioning System. The US has expressed fears that China may use its involvement for military purposes – for example, improving the accuracy of its missiles. “China’s focus on Galileo pinpoints US security fears”, *Financial Times*, 24 February 2005

Special Rapporteur on Torture, Manfred Nowak, was able to visit China last November.<sup>331</sup>

At the 21<sup>st</sup> meeting of the EU-China Human Rights Dialogue in May 2006, the EU expressed concern about the use of torture by the Chinese authorities, the death penalty, media and Internet restrictions, the arrest and intimidation of journalists and the shut-down of newspapers. The two sides also discussed the issue of the harvesting and transplantation of organs from executed prisoners. The EU also expressed concern about freedom of religion and the rights of minorities in Tibet and Xinjiang.<sup>332</sup>

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<sup>331</sup> Website of the Austrian EU Presidency, "Plassnik: 'A broad array of topics connects China and the EU'", Press Release, 3 February 2006

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<sup>332</sup> "EU presses China on death penalty, other human rights issues", *Associated Press*, 26 May 2006



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Appendix 1 - Map of China<sup>334</sup>



<sup>334</sup> Perry-Castaneda Library Map Collection, [University of Texas at Austin](https://www.lib.utexas.edu/maps/)